

2013

ANNUAL REPORT



2013

ANNUAL REPORT





CONTENTS

NIS Group in Figures	4
Foreword of the Chairman of the Board of Directors.....	6
Foreword of the Chief Executive Officer	8

BUSINESS REPORT

• Auditor's Report on Compliance of the Business Report with the Financial Statements for 2013	12
• Key Events	14
• Mission, Vision and Values.....	18
• Strategy.....	20
• Five years of quality.....	24
• NIS Group Profile.....	27
• Corporate Governance.....	35
• Business Environment.....	72
• Risk Management.....	79
• Market Share	84
• Results Analysis.....	87
• Bank Indebtedness	96
• Changes on assets, liabilities and results of more than 10%.....	100
• Major buyers and suppliers	102
• Intersegment Prices.....	106
• Cases of Uncertainty (uncertainty of collection)	107
• Taxes and other public revenues.....	110
• Investments.....	111
• Securities	114
• Rating.....	124
• Subsidiaries and transactions with subsidiaries	128
• Human Resources	145

• Environmental Protection, Industrial Safety and Occupational Health and Safety	155
• Research and Development.....	167
• Corporate Social Responsibility	168
• Historical Data 2009-2013	173
• Further Development	174

FINANCIAL STATEMENTS WITH AUDITOR'S REPORTS.....

• Auditor's report on stand-alone financial statements	178
• Stand-alone Financial Statements	179
• Balance Sheet (stand-alone).....	179
• Income Statement (stand-alone)	181
• Statement of Cash Flows (stand-alone)	182
• Statement of Changes in Equity (stand-alone)	184
• Notes to Stand-alone Financial Statements	186
• Auditor's report on consolidated financial statements	236
• Consolidated financial statements	237
• Consolidated Balance Sheet.....	237
• Consolidated Income Statement	239
• Consolidated Statement Of Cash Flows	240
• Consolidated Statement of Changes in Equity	242
• Notes to Consolidated Financial Statements.....	244

STATEMENTS OF PERSONS RESPONSIBLE FOR PREPARATION OF ANNUAL REPORT

APPENDICES

• Glossary	302
• Contacts	306

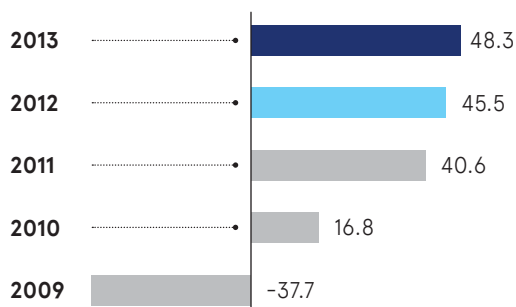


NIS GROUP IN FIGURES

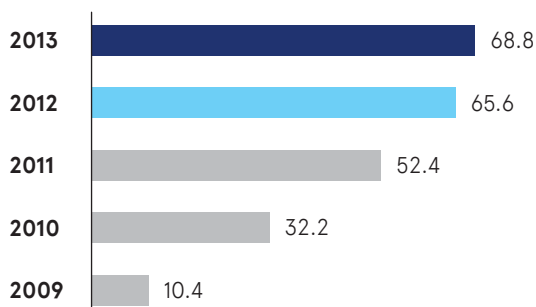
Financial Indicators	2011	2012	2013	Δ
Net profit, bn RSD	40.4	45.5	48.3	6%
EBITDA, bn RSD	52.4	65.6	68.8	5%
CAPEX, bn RSD	34.4	50.8	55.6	9%

* Financing, VAT excluded

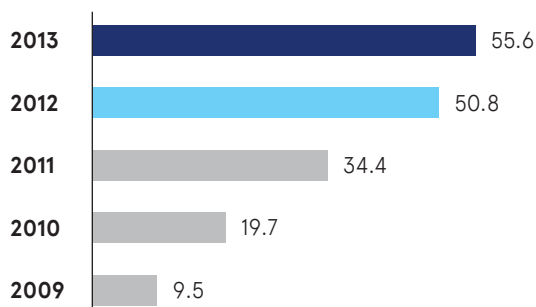
Net profit, bn RSD 6%



EBITDA, bn RSD 5%

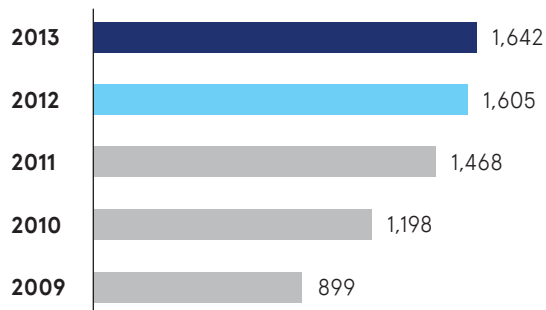


CAPEX, bn RSD 9%

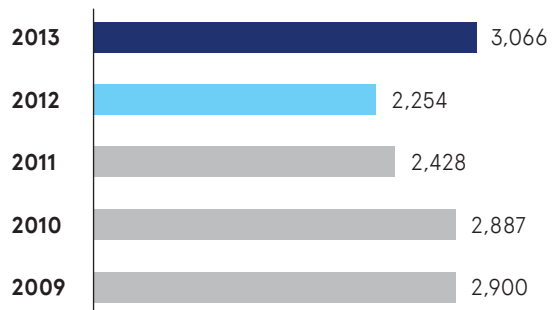


Operating indicators	2011	2012	2013	Δ
Domestic oil and gas production volume, thousands of t.o.e.	1,468	1,605	1,642	2%
Crude oil and semi-finished products refining volume, thousand tons	2,428	2,254	3,066	36%
Oil derivatives sales volume, thousand tons	2,428	2,395	3,079	29%

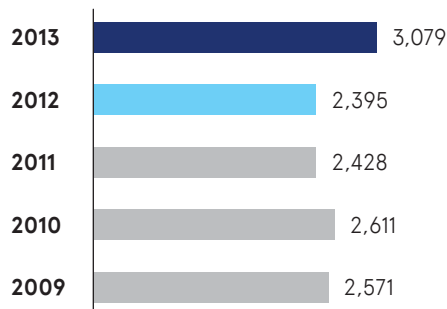
Domestic oil and gas production volume, thou. t.o.e. **2%**



Crude oil and semi-finished products refining volume, thou. tons **36%**



Oil derivatives sales volume, thou. tons **29%**





Last year, NIS recorded success in almost all business areas, as well as in corporate governance. We received as many as two acknowledgements from investors for complying with high international criteria in that area. This was already third year in a row that investors from the Belgrade Stock Exchange assessed us as the best to cooperate with. We have improved informativeness and completeness of the reports we publish, as well as the relationship of the employees in the company with investment community. We got the highest grades according to the criteria of presence in public, data available online, number of meetings with investors. Last year, NIS shares were the most liquid on the domestic stock exchange. In addition to that, our second largest minority shareholder East Capital awarded NIS as the company that has made significant improvement in corporate governance over the past five years by introducing transparent communication with minority shareholders and a clear dividend policy. Such acknowledgements prove that the professional community recognizes NIS' achievements in improving corporate governance in the previous period, since all innovations we have introduced in this area are

in accordance with the current global trends and standards of corporate governance.

In the middle of 2013 new members of the Board of Directors were appointed, both from the Russian and the Serbian side, as well as the new Chairman of the Shareholders' Assembly which, I can freely say, has improved the process of decision-making in the Company. Two independent members of Board of Directors strengthen the role of the body. The existence of independent members in composition of Board of Directors is a step towards adapting the Company to the European requirements; since they, among other things, represent the interests of minority shareholders and help us to balance their interests and those of majority shareholders.

During the last year, we adopted a series of very important decisions, for both the short-term and the long-term development of NIS, among which the most important one is the decision to pay dividends to shareholders from the profit generated in 2012. The amount of over RSD 12 billion is the highest dividend payment by any company listed in Belgrade Stock

During the last year, we adopted a series of very important decisions, for both the short-term and the long-term development of NIS, among which the most important one is the decision to pay dividends to shareholders from the profit generated in 2012. The amount of over RSD 12 billion is the highest dividend payment by any company listed in Belgrade Stock Exchange.

Exchange. Last year we also adopted the decision to implement the project of base oils in Novi Sad Refinery, which, after the modernization of the Refinery's production unit in Pančevo, is the next phase in the modernization of NIS refining capacities.

We continued to invest in the development of the Company at unabated pace; modernization of the retail network in the country and abroad, ecologically advanced projects in refining and elaboration of projects in exploration and production. In that way we have nearly reinvested the profit generated in 2012, and the amount of investments in the next two years will not be less than in 2013.



Vadim Yakovlev
Chairman of BoD
NIS j.s.c. Novi Sad



Competitiveness as a stability factor during crisis

Last year was a test of endurance for our Company. NIS operated in rather complex macroeconomic conditions. Countries in the Balkans are still undergoing crisis which primarily affects the companies in the real economy. We were forced to struggle for our clients. Apart from the continuing negative trend in the purchasing power, including petroleum product consumption, the main focus of our development was also on retail network modernisation, client service improvement and introduction of new marketing policy elements. NIS share in the Serbian market rose by 10 percent compared to 2012. Our network of Gazprom-branded petrol stations in Bulgaria, Romania and Bosnia and Herzegovina started operating at full capacity. The total sales increased by 29 percent.

Oil and gas production increased, with hydrocarbon reserves exceeding the exploitation; refining volumes increased by third.

Stable shareholders' income

It is crucial that production development is sustained by stable financial indicators. EBITDA has been

increased by 5 percent. The OCF was doubled, reaching 75 billion dinars. Despite greater tax burden, we have managed to keep the Group's profit at the last year level. State duties through direct and indirect taxes and other public revenues have exceeded 120 billion dinars, which is by 32 percent more than the 2012 payments into the state budget.

Over the five years of operation within "Gazprom Neft" group, NIS has become a reliable partner to Serbian Government and an important factor in EU-integrations, contributing to the budget substantially, providing employment to experts in various business areas and increasing the standard of living throughout the country.

Investing into technology

Owing to the business and production efficiency improvement programme and a strict cost control, we continued investing into the modernisation of refining and distribution capacities, development of oil production technologies, introduction of new energy efficiency solutions. NIS' CAPEX investments in 2013 totalled 55.6 billion dinars. I regard it as a success that NIS managed to finance its investment programme ful-

ly from its own resources for the first time in 5 years. The key criterion in planning 2013 investment projects was to introduce the latest production and management technologies. I would like to add that we have launched activities aimed at NIS technological development, which will certainly continue in the years to come.

Power generation and green energy development

Another direction of NIS efficiency improvement scheme is to develop the Company's electricity generation projects. In 2013 we launched the construction of Plandište wind farm. Four small-scale power plants were put into operation and equipment was delivered for another five small-scale power plants at our combined heat and power plants. In this area, we planned minimum one major project for 2014, namely the construction of a 200 megawatt facility in Pančevo. "Gazprom Electroholding", the company running Gazprom Group's power generation facilities became our partner in this project.

Professional expertise and young talents

Nowadays, NIS is a regional hub of innovation development in the oil and energy sector. We have a team of experts from more than 20 countries from around the world, each of them investing their own expertise and experience with the aim to achieve a common goal. We continuously work on professional training of young personnel and talent development. NIS hired over 200 young experts in 2013. Our intensive cooperation with Serbian universities continues, both regarding the education of new generations of

young oil workers and development of specialised programmes to improve our staff qualifications. In 2013, we invested 290 million dinars in training and development of our personnel reserve.

Focus on efficiency

We will remember 2013 as a year of hard work and solid results, which could not have been possible without joint efforts from our Company shareholders, "Gazprom Neft" j.s.c. and the Government of the Republic of Serbia in making decisions on NIS strategic development and upholding the Company's endeavours to make technological advances.

NIS stepped into the year of 2014 as a stable company able to withstand volatile macroeconomic environment, constantly working to increase its efficiency. Taking into account various expert forecasts, we expect this year to be a complex one. Nevertheless, our intention is to keep the scope of investment within the adopted mid-term development programmes, striving to improve the Company's performance, reduce expenditures and apply strict cost control. The Company now has stable performance indicators and we will strive to keep the positive trends in business development despite the continuing negative macroeconomic factors.



Kirill Kravchenko
CEO,
NIS j.s.c. Novi Sad

BUSINESS REPORT



Consumers recognize us for our superior service and products.

Constant increase of internal efficiency, progressive development dynamics and the use of advanced technologies in all business areas , make us a modern and contemporary Company. We are recognized as a successful international company, since we comply with the highest standards and business ethics. Care for the environment and community we operate in demonstrates a high level of our social responsibility. Quality is present in all aspects. This is the course that we are taking.



Business success is reflected
in the quality.





**AUDITOR'S REPORT ON
COMPLIANCE OF THE BUSINESS
REPORT WITH THE FINANCIAL
STATEMENTS FOR 2013**



INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT

To the Shareholders and Board of Directors of Naftna Industrija Srbije a.d.

We have audited the separate financial statements of Naftna Industrija Srbije a.d. ("the Company") for the year ended 31 December 2013 disclosed in the annual report on pages 179 to 235 and issued the opinion dated 13 February 2014 and disclosed on page 178. We have also audited the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2013 disclosed in the annual report on pages 237 to 299 and issued the opinion dated 18 February 2014 and disclosed on page 236 (hereinafter collectively referred to as "the financial statements").

Report on Annual Report

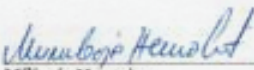
We have verified that the other information included in the annual report of the Company for the year ended 31 December 2013 is consistent with the financial statements referred to above. The Board of Directors is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

Auditor's Responsibility

We conducted our verification procedures in accordance with the International Standards on Auditing. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2013 is consistent, in all material respects, with the financial statements.


Milivoje Nesovic
Licensed auditor



Belgrade, 8 April 2014

This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of indication, views or opinions, the original language version of our report takes precedence over this translation.



KEY EVENTS

2013



January

- Ceremonial opening of a NIS Petrol filling station in Banja Luka, which marked the beginning in the development of the retail network in B&H
- NIS' Chief Executive Officer, Kirill Kravchenko selected the most powerful foreigner in Serbia according to the poll of the daily newspaper "Blic"

February

- Release of the financial results, according to which 2012 was the most successful year in the history of NIS
- Signing of the Protocol on Cooperation with the Republic Foundation for Young Talents in order to provide support to talented pupils and students
 - NIS CHANCE 2013 programme started
 - 41st FEST held with the support of NIS as a general sponsor
- Continued cooperation with Dušan Borković, the most successful Serbian car racer in NIS Petrol Racing Team



March

- NIS took over 28 OMV petrol stations in B&H
- NIS awarded The Best of Serbia prize for 2012 in the corporate brand category
- Continuation of the strategic cooperation with the Universities in Belgrade and Novi Sad
- NIS and "Auto Čačak", the official Skoda cars distributor, signed a Memorandum of Cooperation
- NIS won a public tender to supply farmers with fuel
- Alexei Miller, Chairmen of Board of Directors of "Gazprom" visited Refinery in Pančevo



April

- NIS announced invitation for a public competition in local communities
- NIS presented the Strategic Plan of Exploration by 2020 at a gathering of geologists of "Gazprom Neft" j.s.c., subsidiary companies and partner companies
- NIS announced the best corporate brand of Serbia in the area of energy according to the Corporate Superbrands Serbia
- NIS is the general sponsor of the festival „Balkan Trafik“ in Brussels

May

- NIS and the Autonomous Province of Vojvodina signed the Agreement on Implementing the NIS Chance project
- NIS and the Canadian oil company Falcon Oil&Gas started drilling the first exploration well in south-eastern Hungary
- Small gas reservoirs discovered in Vojvodina as a result of application of the new technology
- "Super Kartica", the programme of rewarding buyers, was launched in NIS Petrol filling stations and in IDEA supermarkets
- Jadran-Naftagas started drilling the first exploration well Ob-2 in the territory of the Republic of Srpska



June

- NIS is the most successful domestic company as assessed by the Serbian Business Registers Agency
- NIS and the Faculty of Security in Belgrade signed a Memorandum of Cooperation
- The Shareholders' Assembly made a decision on distribution of the Company's profits for 2012 and paying dividends
- NIS and Falcon Oil&Gas started drilling an exploration well in Hungary
- As a part of the B92 campaign "Battle for Maternity Wards", NIS handed over equipment for the hospitals in Kikinda, Subotica and Vranje
- Ceremonial opening of the GAZPROM branded petrol station in Romania





July

- The first GAZPROM branded petrol station opened in Bulgaria
- As a part of the gas resources efficient usage project, the first co-generation module put into operation at the gathering and dispatch station Sirakovo
- NIS received a certificate for the performing oil-field services in the European Union
 - Contract signed with the Hungarian company Acoustic Geophysical Services (AGS) on performing 3D and 2D seismic testing in Romania
- The best projects selected within the public announcement "Together for the Community"
- Report on the Sustainable Development of NIS for 2012 presented
- The Programme of Summer Student Internship launched

September

- The construction of the first wind farm in Serbia started in Plandište
- NIS and "Gazprom Energoholding" Ltd. signed the Memorandum on the Construction of Steam-Gas Power Plant in Pančevo
- NIS first-ranked in terms of the total income and profit for 2012 according to the "Top 500" publication
- NIS and basketball club "Partizan" signed the Strategic Partnership Agreement
- NIS celebrated the Day of the Company

August

- NIS paid RSD 12.4 billion to its shareholders as dividends
- Finalisation of the additional modernisation in the Pančevo Refinery comprising the modernisation of the pier, loading facility and FCC complex

October

- 6th Energy Arena on the European Union Energy Policy held with the support of NIS
- Cogeneration facility "Kikinda gornje" put in operation
- NIS presented the concept of introducing new technologies and innovations at the International Energy Fair
 - GAZPROM retail network for B&H donated medical equipment to the hospital in Bihać as a part of the "Battle for Babies" campaign
 - On the occasion of NIS Investors' Day, consolidated financial results for nine months presented to the investment community
- NIS started producing Euro BMB 98, a new type of Euro quality motor fuel with a higher octane number
- Günther Oettinger, EU Commissioner for Energy visited Refinery in Pančevo
- „Gazprom Neft" j.s.c., the majority shareholder of NIS was the general sponsor of the festival of classical music in Mečavnik - „Bolshoy festival"



November

- NIS was the first energy company in the Balkans and the first Serbian company to receive the prestigious East Capital award in the "Discovery of the Year" category
- NIS started exporting Euro diesel blended with biodiesel which is produced in the Pančevo Refinery
- A Protocol on Cooperation signed with Sberbank and Telenor, the new partners in the loyalty programme Super Kartica
- The Government of Romania approved the Agreement on Performing Geological and Exploratory Works for the Concession Blocks Baile Felix, Periam and Biled in Romania
- NIS received the Oscar of Quality – business excellence award
- NIS received the Best Investor Relations Award of the Belgrade Stock Exchange



December

- The first horizontal well with real time monitoring drilled in the "Kikinda varoš" oil field by applying new technologies
- Minister of Energy in the Russian Federation visited the NIS' Refinery in Pančevo
- Cogeneration module set up at the gathering station "Velebit" ("Velebit 1" and "Velebit 2")
- NIS received consumers' award "My Choice" – NIS Petrol petrol stations chosen the most favourite ones
- NIS received the award of the Serbian Association of Managers for the best regional project
- NIS and the Ministry of Education, Science and Technological Development signed the Memorandum of Cooperation

2014

January

- Kirill Kravchenko, CEO of NIS, Serbia's most powerful foreigner according to traditional survey of the daily newspaper "Blic"
- Signed agreements with 78* young people under the "NIS chance"
- Chain of NIS' petrol stations won first place according to the votes of Serbian consumers in the survey for "Best Buy" Award
- NIS won Virtus Award for Corporate Philanthropy
- Signed agreements for scholarships of high school students and students of Mining and Geology Faculty
- First "cash pooling" system successfully started operating in Serbia. The system includes NIS j.s.c. Novi Sad and its subsidiaries in Serbia**. The system provides better management of Group's funds (lower borrowing rates, higher return on invested funds)

* This number is not included in number of new coming employees as part of NIS Chance program in 2013

** "NTC NIS Naftagas" d.o.o. Novi Sad, "Naftagas – Naftni servisi" d.o.o. Novi Sad, "Naftagas – Tehnički servisi" d.o.o. Zrenjanin and "Naftagas – Transport" d.o.o. Novi Sad



February

- NIS started implementation of new method of drilling by applying the principle of "dry locations"
- NIS employees presented the donation to Institute for health protection of children and youth as part of "Love heals" humanitarian action

VISION

NIS will become a recognized leader among energy companies of the Balkan region, showing a high level of social and ecological responsibility and providing modern services to clients

Professionalism

Acquisition of modern knowledge in view of continuous improvement of expertise, and ability to apply it in work processes

Positivity and cooperation

Readiness to participate in multifunctional groups and projects, meet requests of colleagues from other parts of the Company, exchange information and be a part of a team.



Initiative and responsibility

Searching for and proposing new solutions, both in the domain of work obligations and wider, in the sphere of the Company's interests

Shared results

Joint venture in view of accomplishing visible and recognizable results, striving towards success while providing assistance to each another.

MISSION

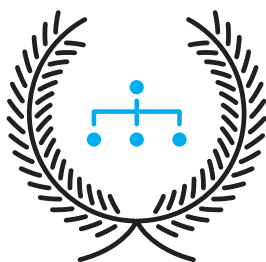
By responsible exploitation of natural resources and modern technologies, we provide energy to the Balkan population for striving towards success



STRATEGY

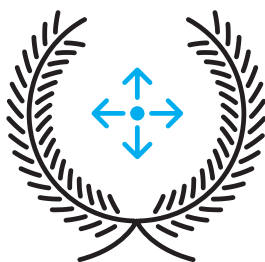
Strategic goal of NIS by 2020 is to become the most efficient, fast growing energy company in the Balkans region. The goal of the company is to remain the leader at the domestic market and to be one of the three biggest energy companies in the region of Southeast Europe

Three strategic development directions:



2011

Vertically integrated company
in the Balkans



2013

Emerging player
in the Balkan market



2020

Efficiency leader
in the Balkans

Strategic plans by 2020:

- Increased oil and gas production volume
 - Increased resource base
 - Increased volume of European quality fuel production and refining
 - Implementation of the projects of renewable and alternative energy sources
 - Expansion of the sales and distribution network in the region
 - Development of bunkering, oil storages and aviation service
 - Development of gas refining and supply activities
 - Increase of a share in the Serbian and the EU energy market
 - Intensive development of projects abroad
 - Internal efficiency increase
 - Focus on innovations and complex development projects in energy generation
-



- Resources utilization factor in line with best international practice
- Key player in the Pannonian Basin
- Broad portfolio of activities outside Serbia
- The strongest scientific and technical base in the development of conventional and unconventional resources
- Sale of gas to end users



- One of the five most efficient refineries in Southeast Europe
- Less than 2% of heavy still bottoms
- Production of base and industrial oils
- Control of raw material delivery infrastructure



- Leader in Serbia and neighbouring countries in terms of quality of fuel and service
- Network of petrol stations of the mass brand NIS Petrol and the premium brand GAZPROM in Serbia and Europe. The leader in the domestic market in terms of sales volume
- One of the three biggest vertically integrated companies in the region in terms of retail sales volume
- One of the leaders in the region in terms of oil and jet fuel production and bunkering
- A pioneer in use of new technologies and in production of derivatives



- Services and products in compliance with European standards
- Leader in the region in the area of international HSE standards
- Introduction of the best European practice of management in public companies
- High achievement culture and the best employer in the region
- International standards of corporate social reporting

Activities Related to Strategy Implementation, undertaken in 2013

In 2013 NIS worked intensively to achieve the set strategic goals.

As regards oil and gas exploration and production, the total output was 1.6 million tonnes of oil equivalent, which is a 2% increase compared to the previous year.

The application of slim-hole drilling technology was successfully launched and drilling of the horizontal well with real time monitoring commenced also with success. In 2013 nine exploration wells were drilled, a number of 2D and 3D seismic exploration projects were carried out and the drilling of first well for exploration of unconventional resources in Serbia commenced.

Seismic exploration was completed in Hungary, Romania and Bosnia and Herzegovina, and exploration drilling is approaching completion as well. Towards the end of the year, the remaining three perimeters (EX-3 Baile Felix, EX-7 Periam and EX-8 Biled¹) were ratified by the Romanian Government.

Commissioning of the modernized Pančevo Oil Refinery in early November 2012 resulted in a significant increase in the crude oil and semi-finished product refining volumes. During 2013, more than 3 million ton of oil and semi-finished product was refined, exceeding the volumes refined and reprocessed in 2012 by 36%.

In 2013, production of Euro BMB 98 began, the new type of high-octane value Euro-quality motor fuel, and the biodiesel production started in Pančevo Refinery as well.

In 2013, oil refining and semi-finished products reprocessing were aligned with the operating plans, created in accordance with the market demand. Pančevo Refinery is ready for an increase of refining volumes, in case of growing demand and increase of the market share.

Last year, it was decided to implement the base oils project in Novi Sad Refinery and, following the modernization of the refinery in Pančevo, this will be the next phase of modernization of NIS refining capacities.

In 2013, NIS recorded positive results in the sales sector. The total sale of petroleum products rose by 29% compared to the last year, and slightly exceeds 3 million ton. For one thing, the sales growth was stimulated by the expansion of the petrol station network in Bosnia and Herzegovina, Romania and Bulgaria. At the end of 2013, NIS operated 80 operational petrol stations in these countries. Efficient rebranding of local petrol stations resulted in increase in retail in Serbia, along with the wholesale and export increase. The range of products for export has been extended with eurodiesel blended with biodiesel, which is produced in Pančevo Refinery.

1 In cooperation with East West Petroleum



FIVE YEARS OF QUALITY

For five years already, NIS has been a member of the "Gazprom Neft" group. Over the course of this period, the quality has substantially changed in all business areas. Today, NIS is a dependable source of income for the shareholders, attractive to investment public, provides Balkans consumers with high-quality petroleum products and services ensuring full compliance with the European standards within two petrol station networks. The company is currently implementing a major investment programme, which enables it to take the charge by stepping into the leadership role owing to the pace of business innovations introduced into the region



- JSC "Gazprom Neft" becomes the majority shareholder.
- Therefining complex modernization started in September.



- Citizens of the Republic of Serbia, along with current and former employees become shareholders in NIS j.s.c. Novi Sad.
- Start of construction of Mild Hydro-Cracking and Distillate Hydro-Treating Complex (MHC/DHT) complex in the Pančevo Refinery, marking the beginning of the refining complex modernization NIS ventures into.
- NIS j.s.c. Novi Sad becomes an open joint-stock company listed in the Belgrade Stock Exchange .



- Adoption of the Long-term Development Strategy 2020
- NIS begun to expand into the region – cooperation with East West Petroleum Corp, TXM Oil&Gas Exploration Kft, daughter company of a Canadian company Falcon Oil&Gas Ltd, RAG Hungary Kft, Budapest (RAG)
- Subsidiaries established in the Republic of Srpska, Romania, Hungary and Bulgaria.



- Year of implementation of new technologies in all business areas
- Completion of the first phase of Pančevo Refinery modernization and start of production of fuel in Euro 5 standard of quality
- Year of NIS' regional expansion



- Payment of 2012 dividend in the total amount of 12.4 billion RSD which appears to be the highest amount of dividend payout that any company listed in Belgrade Stock Exchange ever paid
- Start of NIS transformation into energy company
- Production of BMB 98 launched in Pančevo Refinery – introduced as new petroleum product in line with Euro 5 standard of quality





NIS GROUP PROFILE

NIS Group is one of the largest vertically integrated energy systems in South-East Europe. It engages in the exploration, production, refining and sales and distribution of crude oil and natural gas, petroleum products and natural gas products. The Group's headquarters and its basic production capacities are located in the Republic of Serbia which is the centre of trade and investments in the Balkans owing to its geographic position.

In accordance with the long-term development strategy envisaging the expansion of business activities outside Serbian borders, the parent company within NIS Group started the activities in that respect in 2011. Subsidiary companies were established in Bosnia and Herzegovina, Bulgaria, Hungary and Romania, and a representative office was established in Brussels as a support to the European integrations of Serbia. NIS representative offices operate in Russia, Angola, Bulgaria, Hungary, Bosnia and Herzegovina and Croatia.

NIS j.s.c. Novi Sad



Representative and branch offices

- Turkmenistan Branch Office
- Russian Federation Representative Office
- Angola Representative Office
- Bulgaria Representative Office
- Croatia Representative Office
- Belgium Representative Office
- Bosnia&Herzegovina Representative Office
- Hungary Representative Office

Subsidiaries

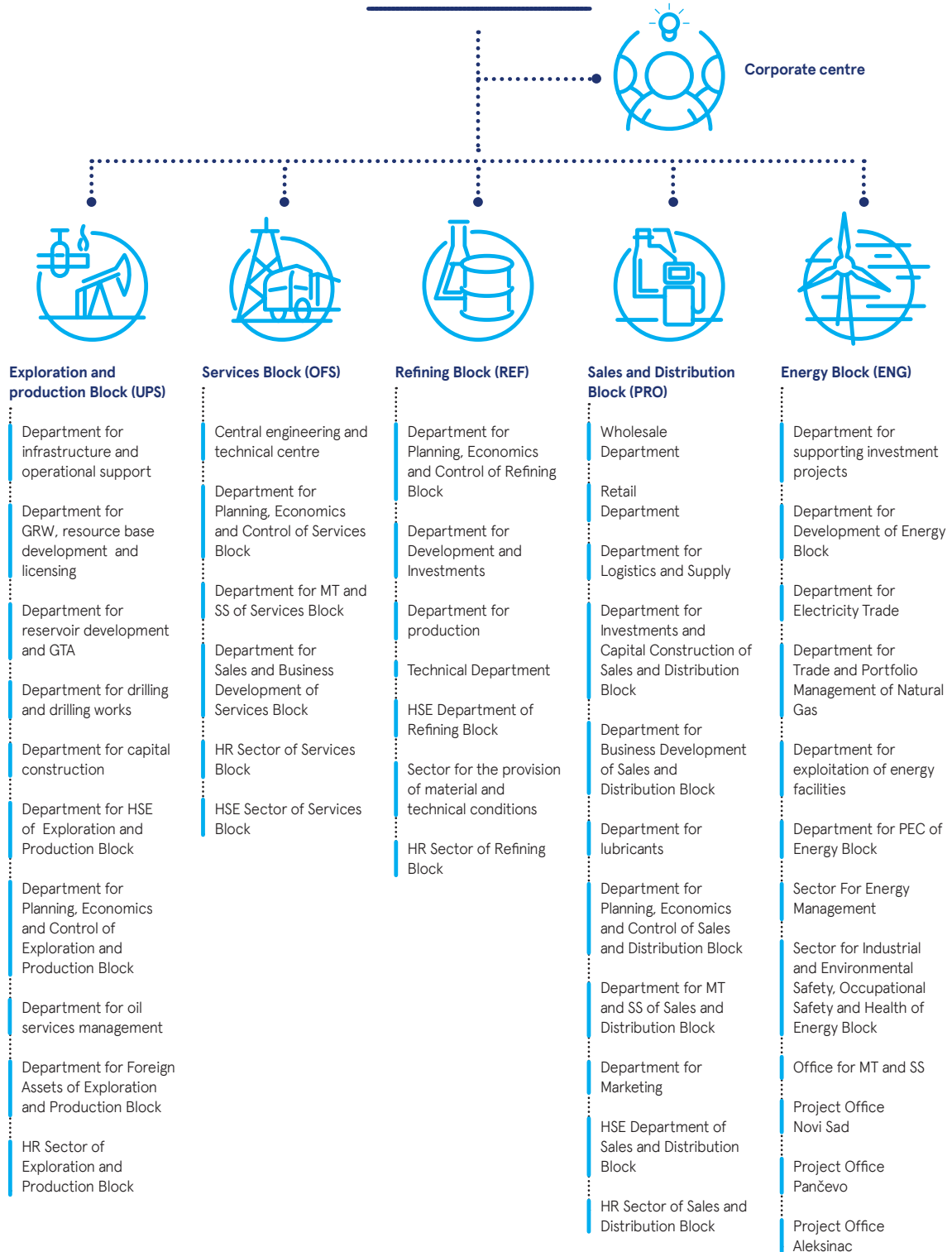
- O Zone d.o.o. Belgrade
 - NIS Energowind d.o.o. Belgrade
- Naftagas – Naftni servisi d.o.o. Novi Sad
- Naftagas – Tehnicki servisi d.o.o. Zrenjanin
- Naftagas – Transport d.o.o. Novi Sad
- NTC NIS Naftagas d.o.o. Novi Sad
- NIS Oversiz o.o.o. Saint Peterburg
- NIS Petrol e.o.o.d. Sofia
- NIS Petrol s.r.l. Bucharest
- NIS Petrol d.o.o. Banja Luka
 - G Petrol d.o.o. Sarajevo
- Pannon Naftagas k.f.t. Budapest
- Jadran Naftagas d.o.o. Banja Luka
- NIS Svetlost d.o.o. Bujanovac
- JUBOS d.o.o. Bor
- SP "Ranis" Chemogolovka*

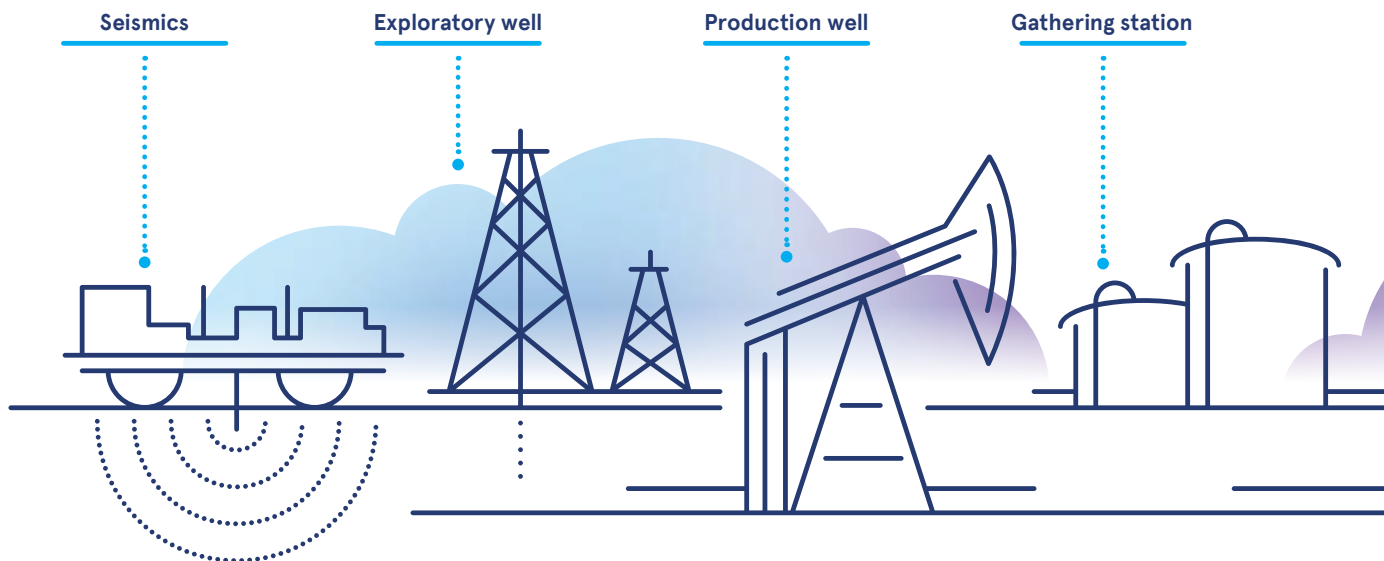
* The company deleted Unified State Register of Legal Entities of the Russian Federation on January 14th 2014

General information on NIS j.s.c. Novi Sad

Business name:	NIS j.s.c. Novi Sad
Company ID No.:	20084693
Address:	Novi Sad, 12 Narodnog fronta St.
Tax identification number:	104052135
Web site:	www.nis.eu
e-mail address:	office@nis.eu
Business activity:	0610 - crude oil exploitation
Number and date of registration within SBRA:	BD 92142, 29.09.2005
Total capital as at 31.12.2013.	176,882,693,000 RSD
Share capital as at 31.12.2013.	81,530,200,000 RSD
Headcount as at 31.12.2013.	4,266*
Auditing Company to have audited the last financial statement (of 31.12.2013.):	PricewaterhouseCoopers d.o.o. 88a Omladinskih brigada St., Novi Beograd
Organized market for trading with issuers' shares	Beogradska berza a.d. Belgrade 1 Omladinskih brigada St. 11070 Novi Beograd

**Without staff engaged through leasing companies and employees in subsidiaries and representative offices*





NIS Group Activity

The business activities of NIS Group in 2013 are organized within the parent company NIS j.s.c. Novi Sad through:

Five blocks

- "Exploration and Production" Block
- "Services" Block
- "Refining" Block
- "Sales and Distribution" Block
- "Energy" Block

Partially decentralized functions

- Function for Strategy and Investments
- Function for Finance, Economics, Planning and Accounting
- Function for Material-Technical and Service Support and Capital Construction
- Function for Organizational Affairs
- Function for HSE

And centralized functions

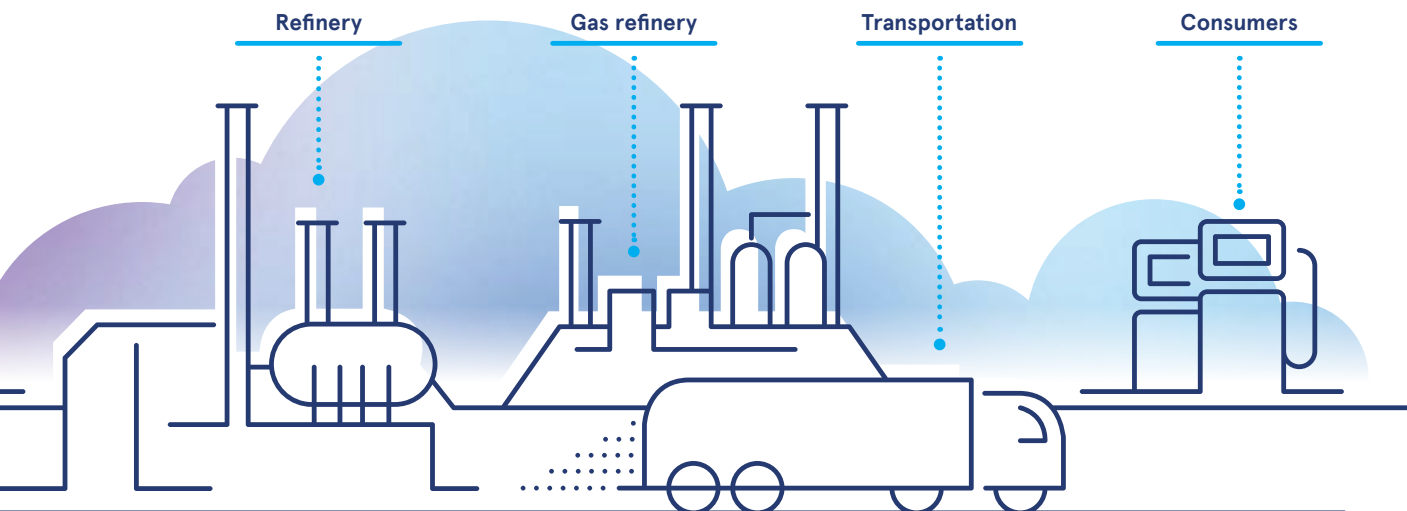
- Function for Legal and Corporate Affairs
- Function for Corporate Security
- Function for External Connections and Government Relations
- Function for Internal Audit
- Function for Public Relations and Communications

"Exploration and Production" Block conducts the activities in the area of exploration and production of oil and gas, including exploration, production, infrastructure and operational support to production, oil and gas reserves management, oil and gas reservoirs development management, major projects in the area of exploration and production. The first steps in expanding the activities in the region were taken in 2011, by implementing the projects of hydrocarbon exploration and production in the Republic of Srpska ("Jadran Naftagas" d.o.o. Banja Luka), Hungary ("Panon Naftagas" Kft, Budapest) and Romania ("NIS Petrol" SRL Bucharest). NIS conducts business operations in Angola since 1980, while oil exploitation activities in this country started in 1985. In 2013 NIS j.s.c. Novi Sad entered into two contracts on crude oil production sharing in the Republic of Angola (PSA, Production Sharing Agreement):

- PSA, Block 3/05
- PSA, Block 3/05A

The affiliated company "NTC NIS Naftagas" d.o.o. Novi Sad was established in order to provide scientific and technical support in relation to core activities of the parent company and ensure the development and innovation within its operations. It is intended to be a regional base and meet the demands of NIS, "Gazprom Neft" j.s.c. and its subsidiaries, as well as to provide external services to third parties outside NIS and Serbia.

"Services" Block provide main support to exploration and production in all processes of oil and



gas exploration and production, from geophysical services, drilling and well workover, transportation of resources and crews, equipment maintenance, and construction and maintenance of oil and gas systems and facilities.

The Block has expanded into foreign markets. Agreements for the provision of drilling services in Turkmenistan and in Bosnia and Herzegovina for well workover services in Bosnia and Herzegovina for “Jadran naftagas” d.o.o., for product pipeline testing and petroleum product tanks inspection in Romania were concluded.

“Refining” Block engages in production of petroleum products (euro standard of quality). NIS produces a wide range of petroleum products: motor fuel, raw materials for petrochemical industry, motor oils and other petroleum products. The maximum capacity of refining facilities of both refineries (in Pančevo and Novi Sad) amounts to over 5¹ million tons of crude oil on the annual basis.

“Sales and Distribution” Block includes foreign and domestic trade, wholesale trade, retail trade of petroleum products and related goods. As of December 31st, 2013, NIS Group owned the following facilities in the Republic of Serbia: 335 active retail facilities (328 petrol stations – 323 public (11 of which GAZPROM branded) and 5 internal petrol stations, 4 LPG filling stations, 3 shops of LPG bottles), 4 operational petroleum products warehouses (Novi Sad,

Smederevo, Belgrade and Niš), 5 active warehouses for liquid petroleum gas (Novi Sad, Belgrade, Zrenjanin, Čačak and Niš) and 2 active petroleum products warehouses (Čačak and Jakovo)².

There are 30 active petrol stations in Bulgaria (18 under GAZPROM brand and 12 “white” branded). The warehouse in Kostin Brod operates since April 2013. There are 14 active GAZPROM branded petrol stations in Romania. There are 36 active petrol stations in B&H, 8 of which NIS Petrol branded and 28 of which GAZPROM branded (after acquisition of retail network of 28 OMV petrol stations, they were rebranded in GAZPROM brand in June and July).

“Energy” Block engages in the production of electricity and thermal energy from traditional and renewable energy sources, trading of gas, electricity trade, development and implementation of energy projects of strategic importance, development and implementation of projects for energy efficiency improvement.

“Energy” Block develops and implements energy projects within NIS Group, analyses and evaluates investment and preliminary design projects in the energy sector in Serbia in view of providing grounds for NIS’ participation in strategic partnerships.

¹ Capacity of RNP is 4.8 million tons per year, while capacity of RNS is 0.5 million tons per year

² NIS uses one warehouse that is leased (Pozega). The warehouse is owned by Directorate for Commodity Reserves of RS

Products and services

1. Fuels for internal combustion engines

- Liquid petroleum gas – autogas
- Unleaded motor gasoline Euro premium BMB 98
- Unleaded motor gasoline Euro premium BMB 95
- Unleaded motor gasoline premium BMB 95
- Euro diesel
- Euro diesel B7
- Diesel fuel D2
- Diesel fuel gas oil 0,1

2. Liquid Petroleum Gas

- Liquid petroleum gas propane-butane compound PBS
- Liquid petroleum gas – propane PN
- Liquid petroleum gas – butane BN
- Isobutane

3. Aviation gasoline

4. Jet fuels

- Jet fuel JET A-1
- Jet fuel GM -1

5. Oil and lubricants

- Motor oils
- Transmission oils
- Service liquids
- Industrial oils and lubricants

6. Heating oils

- Heating oil – low sulphur fuel – NSG-S
- Heating oil "Medium S"
- Gas oil " Euro Extra light"
- Gas oil "Extra light"

7. Bitumens

- Bitumen for roads 50/70
- Bitumen for roads 70/100
- Bitumen for roads 160/220
- Polymer-modified bitumen (PMB)
- Industrial bitumen

8. Petrochemical products (primary gasoline, propylenes)

9. Raffinates and distillates

10. Other products (kerosene, benzene, toluene, liquid sulphur, special gasolines)

Regional development

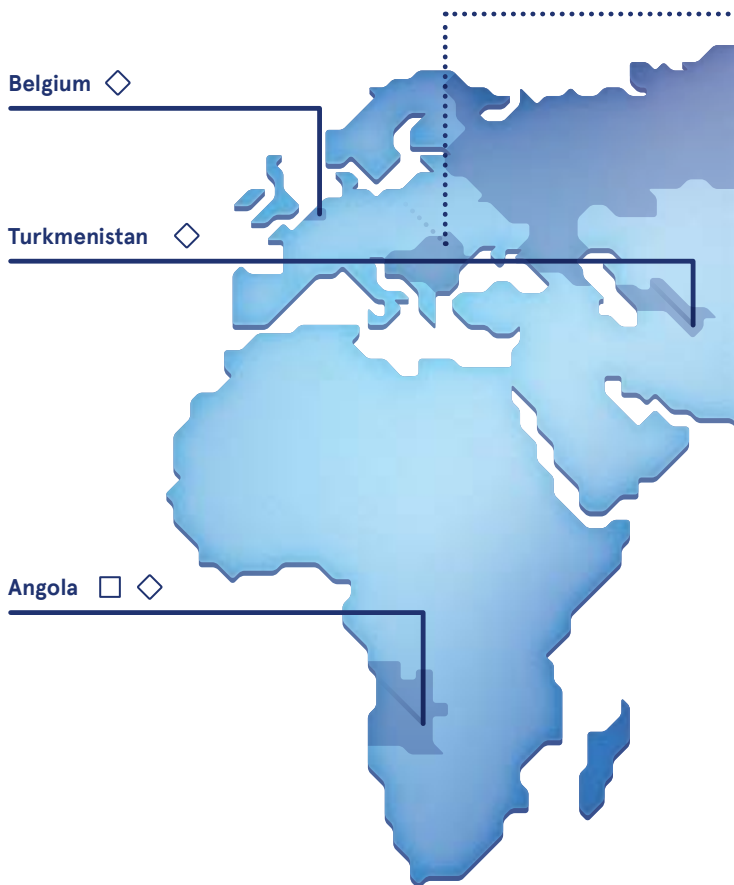
In 2011, regional expansion started in two business segments:

- Exploration of oil and gas in Bosnia and Herzegovina, Hungary and Romania
- Development of retail network in Bosnia and Herzegovina, Romania and Bulgaria

A significant progress in accomplishing this strategic objective was made during 2012 and 2013.

Petrol stations network was expanded to include three regional countries, apart from Serbia – Bosnia and Herzegovina, Romania and Bulgaria. At the end of 2013, the retail network included around 400 operational petrol stations in Serbia and the region.

In the area of oil and gas exploration, seismic explorations were initiated in three regional countries: Bosnia and Herzegovina, Romania and Bulgaria.





NIS partners in the area of oil and gas explorations are:

Hungary □ ◇

- Falcon, Canadian company, specialized for exploration and production
- RAG, one of the biggest European operators for gas storage, specialized for exploration and production in Austria, Germany, Hungary and Poland

Romania □ ○

- East West Petroleum, Canadian company focused on conventional oil wells
- Moesia Oil and Gas, Irish company for exploration and production focusing on South-East Europe
- Zeta Petroleum, British company for oil and gas exploration focusing on Romania and East Europe

Bosnia and Herzegovina □ ○

- NIS has established a joint venture company for exploration and production, Jadran-Naftagas, with the company OAO NaftegasInKor

◇ Russia

LEGEND

□ Exploration and Production

○ Sales and Distribution

△ Refining

◇ Representative office or branch

Sustainable development

The vision of sustainable development is focused on the responsibility for future generations. As a modern group whose activities require special and constant attention to ensure a healthy, safe and secure environment, NIS Group develops solid and clear procedures and standards, application of new clean technologies and partnerships with stakeholders.

A sustainable development is one of business priorities. This principle relies on transparency in business, confidence in the partnerships, investing in employees' health, safety and development, responsible attitude to the environment, investments in the society, its needs and values.

Its strategic goal – business responsibility towards society and the community, is presented in the Sustainable Development Report, which is prepared in accordance with the internationally renowned of the Global Reporting Initiative (GRI) guidelines. NIS published its first verified report on sustainable development and also the first report of this kind in Serbia in 2010. Since then, the report is published on the annual basis. Annual progress in terms of reporting shows NIS' efforts to ensure a responsible approach to the environment and community in which it operates.

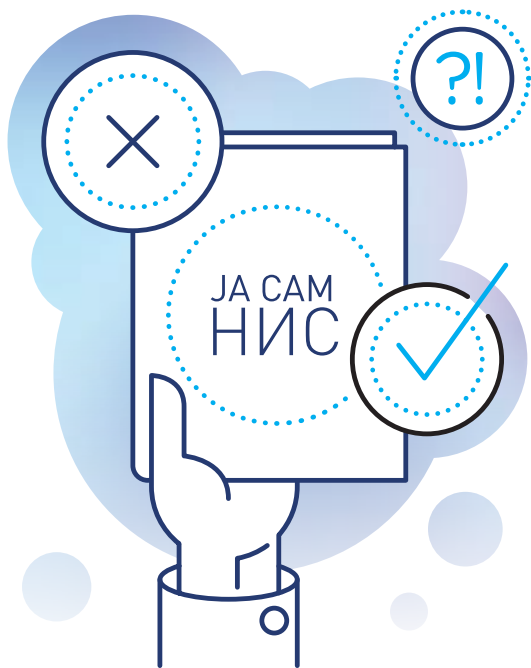




CORPORATE GOVERNANCE

Statement on the Application of the Corporate Governance Code

Pursuant to Article 368 of the Company Law (hereinafter: the "Law") NIS j.s.c. Novi Sad hereby states that it implements the NIS j.s.c. Novi Sad Corporate Governance Code (hereinafter: "Code") which is available at the NIS j.s.c. Novi Sad website. The Statement contains a detailed and comprehensive overview of the corporate governance practices implemented by the Company.

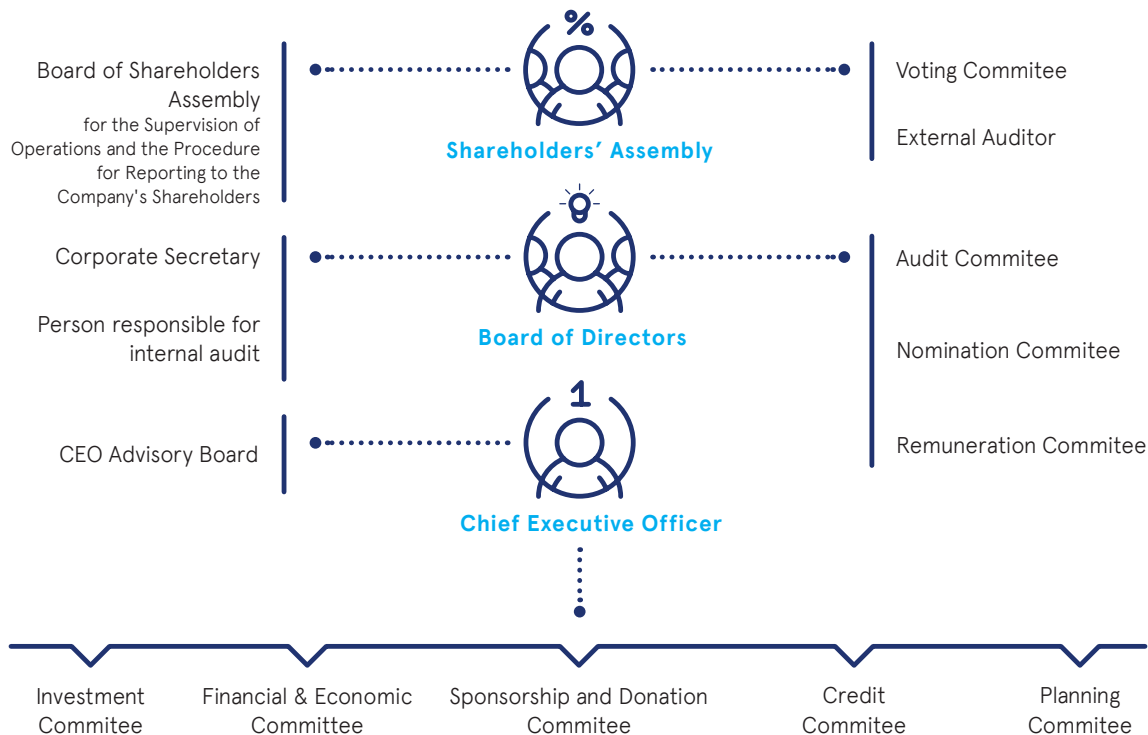


In order to establish good business practices and set high standards in the field of corporate governance, apart from local legal requirements, the Company has implemented internationally accepted best practice of corporate governance in the Company's Code and applies them consistently. Such practice enables balancing of influence among persons responsible for corporate governance within the Company. Also, it ensures consistency of system of controls. All above results in increase of trust among shareholders, investors and other stakeholders and lead to long term and sustainable development of the Company.

The Code supplements the rules contained in the Law and NIS j.s.c. Novi Sad Articles of Association (hereinafter: the "Articles of Association"), according to which holders of Corporate Governance must adhere. The Company Board of Directors oversees the implementation of the principles established by the Code, monitors its implementation and compliance of the organisation and activities of the Company with the Code and the Law.

Company Management System

The Company has established one-tier management system with the Board of Directors exercising the central role in the company management and is responsible for realization of set goals and achievement of results, while shareholders exercise their rights and control through Shareholders' Assembly in first line. Members of the Board of Directors are appointed by Shareholders' Assembly. Provisions of the Articles of Association fully and accurately demarcate the scope of the Board of Directors operation in relation to the scope of operation of the Shareholders' Assembly, Company's CEO and corporate bodies established by the Company management bodies.



Shareholders' Assembly and the Shareholders' Rights

The Shareholders' Assembly as the body exercising the highest competence in the Company comprise all shareholders. All NIS j.s.c. Novi Sad shares are classified as ordinary shares providing the owners with the same rights, while each share carries the right to one vote. By taking part in Shareholders' Assembly, shareholders participate in adopting the most important decisions, control of activities and results in previous year and creating the structure of other bodies performing functions of management, supervision and conducting business of the Company.

The Shareholders' Assembly adopts decisions on all issues defined within their scope of competence under the Articles of Association and the Law, among which are the following: adoption of the Annual Report including the financial statements, appointment and dismissal of members of the Board of Directors, adopting decisions on profit distribution, decision on the appointment of the external auditor, the adoption of amendments to the Articles of Association, the increase and decrease of Company's capital, the acquisition and disposition of assets of great value,

status changes and changes in legal form, remuneration to members of the Board of Directors that is rules for their determination.

Sessions of the Shareholders' Assembly can be regular or extraordinary. A regular session of the Shareholders' Assembly is convened by the Board of Directors and it is held not later than 6 months after the completion of the business year. Extraordinary sessions are convened by the Board of Directors based on their decision or at the request of the shareholders who own at least 5% of Company shares.

The Rules which regulate issues regarding the method of convening the session, method of work and decision making at Shareholders' Assembly sessions, and in particular issues related to the exercise of rights of shareholders in connection with the Shareholders' Assembly are prescribed and contained in Rules of Procedure of the Shareholders' Assembly (herein after: "Rules of Procedure"), which are publicly available and thus available to all shareholders.

The invitation to the Shareholders' Assembly session is announced on the Company's website (www.nis.eu), Business Registers Agency website (www.apr.gov.rs) and the website of the regulated market (www.belex.rs) at least 30 days prior to the date

scheduled for holding the regular session, or at least 21 days prior to the date for holding the extraordinary session. Along with posting the invitations to the Shareholders' Assembly session on the Company's website, materials required for the Shareholders' Assembly session are also accessible for perusal by each shareholder upon his/her request or his/her proxy's request at the Company's registered office until the date of the session.

In addition to the information on the venue and time of the session and the agenda, the Invitation to the Shareholders' Assembly's session contains the information on the session materials available to the Shareholders, explanations on the shareholders' rights, method and deadlines for their execution and information on the Record Date. Furthermore, the invitation is accompanied by Power of Attorney Forms and Voting Forms (correspondence voting), which are also available at the Company's registered office.

All the decisions adopted by the Shareholders' Assembly are posted on the Company's website along with the Voting Committee's Report on the voting results, Minutes of the Shareholders' Assembly session, as well as the List of Attendees and Invitees and the List of present and represented Company shareholders.

The invitation and the materials for the Shareholders' Assembly session, as well as the adopted decisions and other documents published after the Shareholders' Assembly session has been held are available in Serbian, Russian and English.

Special Shareholders' rights

The Agreement of Sale and Purchase of Shares of NIS j.s.c. Novi Sad concluded between "Gazprom Neft" j.s.c. and the Republic of Serbia on December 24th, 2008 stipulates that as long as the Parties are shareholders of NIS j.s.c. Novi Sad, neither party shall sell, transfer or otherwise dispose of ownership of shares, in part or in entirety to any third party, unless it has previously offered to the other Party to acquire shares under the same terms and conditions as offered by such third party.

In accordance with Article 4.4.1 of the same Agreement, as long as the Republic of Serbia is shareholder of the Company with no less than 10 % equity interest in the share capital, it shall be entitled to have such number of members elected to the Board of Directors, as is proportional to its equity interest in the share capital.

The right to participate in the Shareholders' Assembly Session

The right to participate in activities of the Shareholders' Assembly session and the voting right are granted to all shareholders holding NIS j.s.c. Novi Sad shares on the Record Date, which falls on the tenth day prior to the date scheduled for the Shareholders' Assembly session, based on the records of the Central Securities Depository and Clearing House.

The right to participate in activities of the Shareholders' Assembly implies that the shareholders are entitled to vote, participate in the discussion on the items of the Agenda of the Shareholders' Assembly, put forward motions, make inquiries referring to the Agenda of the Shareholders' Assembly and obtain replies, in line with the Law, Articles of Association and the Rules of Procedure of the Shareholders' Assembly which closely regulate the procedures for exercising these rights.

Pursuant to the Company Articles of Association, the right to personal participation in the activities of the Shareholders' Assembly is granted to the Company shareholder holding at least 0.1% of the total number of Company shares, i.e. the proxy representing at least 0.1% of the total number of Company shares. Shareholders holding individually less than 0.1% of the total number of Company shares, have the right to participate in the activities of the Shareholders' Assembly through the joint proxy or to vote in absence regardless of the number of shares they own. All the above voting methods are of equal effect. The census for personal participation is a prerequisite since the Company has a very large number of shareholders (approximately 2.3 million) and in such circumstances the census is a necessity in order to ensure the efficiency and rationality in terms of scheduling and holding the Shareholders' Assembly sessions.

Proposing amendments to the agenda

In accordance with the Articles of Association and the Law, one or more Company shareholders holding at least 5% of shares with the right to vote may present the Board Directors with the proposal containing additional Agenda items to be discussed at the Shareholders' Assembly session, as well as additional items proposed to be decided by the Shareholders' Assembly. The proposal shall be explained, while in the case of proposing additional items for decision making, the wording of the proposed decision shall also be submitted.

Majority Vote

As a rule, decisions of the Shareholders' Assembly are adopted by a simple majority of votes of the present Company shareholders entitled to vote on the subject matter, unless the Law or the Articles of Association or other regulations pertaining to certain issues do not prescribe a greater number of votes. However, as long as the Republic of Serbia holds at least 10% of the stake in the nominal capital of the Company, positive vote of the Republic of Serbia is required in order for the Shareholders' Assembly to reach decisions on the following matters: adoption of the financial statements and the auditor's report, amendments to the Articles of Association, increase and decrease in capital, status changes, acquisition and disposal of the Company major assets, changes in the core business and the Company's registered office and termination of the Company.

Activities of the Shareholders' Assembly in 2013

In 2013, 5th regular session of the Shareholders' Assembly was held in Belgrade, in the NIS Business centre, Milentija Popovica 1, Belgrade, on June 18th, 2013, while the extraordinary session was not held. Shareholders holding shares as of June 8th, 2013 (Record Date) were entitled to participate in the Shareholders' Assembly session.

In the said session, the Shareholders' Assembly adopted the financial and consolidated financial statements of the Company for 2012 including the auditors' opinion and appointed auditors for 2013 (PricewaterhouseCoopers j.s.c. Belgrade). In addition, Company's Annual Report for 2012 was adopted; Report on the evaluation of activities of the Board of Directors, Report on the activities of the Shareholders' Assembly Board, as well as the new Remuneration Policy for the members of the Board of Directors and members of the Company's Board of Directors Committees. Furthermore, the Shareholders' Assembly adopted the decision on profit distribution for 2012, dividend payment and the determination of the total amount of retained earnings of the Company, which established that 25% of the net profits earned in the 2012 should be allocated for dividend payment, i.e. the total of RSD 12.36 billion or the gross amount of RSD 75.83 per share shall be paid to Company shareholders. More information on paid dividend for the 2012 can be found in the part of the Annual Report: Business Report > Securities > Dividends.

The Shareholders' Assembly also dismissed and appointed members of the Board of Directors and the

Chairman and members of the Shareholders' Assembly Board for the Supervision of Operations and the Procedure for Reporting to the Company's Shareholders.

The Shareholders' Assembly is chaired by the Chairman of the Shareholders' Assembly who is elected at the beginning of the session. Ms Zorana Mihajlović, Minister of Energy, Development and Environmental Protection of Republic of Serbia was elected Chairman of the 5th Regular Shareholders' Assembly.

Relationship with the Shareholders and Providing Information to Shareholders

The Company has developed a two-way communication with shareholders and investors, who can obtain all the necessary information about the Company operations and their rights through the Office for minority shareholders in Novi Sad and Belgrade, special call centre, e-mail service each shareholder may ask questions and receive answers electronically, and through the Investor Relations activities. In addition, the Company holds special presentation for shareholders and investors in connection with the most important events and participates in meetings with representatives of the investor community. More information on Investor Relation activities can be found in part of Annual Report: Business Report > Securities > Investor Relation activities.

NIS j.s.c. Novi Sad endeavours to honour the highest standards in the domain of informing by applying the principle of equal treatment of all information users and ensuring that the published information are equally and easily accessible to all interested parties in the shortest possible time, and for this purpose Company greatly uses its web site. The process of mandatory reporting is regulated by special Company bylaws regulating the manner and method of publishing information and submitting them to the relevant authorities.

Shareholders and the public are timely informed on the Company financial results and all relevant events related to the Company by public media and NIS j.s.c. Novi Sad website, Belgrade Stock Exchange website and Securities Exchange Commission website.

The Company has set mechanisms to prevent and resolve potential conflicts arising between minority shareholders and the Company. The Company appointed the five-member Committee for settling claims of minority shareholders which operates in accordance with the Rules of Procedure of the Committee governing the procedures of addressing the Committee, its activities in sessions, obligations and responsibilities of its members and other relevant issues. The Rules of Procedures are available at the Company website .

Board of Directors

The Board of Directors plays a central role in the corporate governance system and is collectively responsible for the long-term success of the Company. The Board of Directors sets basic business goals and directions of further development of the Company, as well as controls the efficiency of implementation of the corporate business strategy.

The Board of Directors strives to ensure that the Company gains profit, while respecting the interests of the Company shareholders, investors, employees, creditors, customers, other stakeholders, and the public interest.

Additionally, the Board of Directors is responsible for making decisions related to:

- Convening the sessions of the Shareholders' Assembly, defining agenda and draft decisions to be adopted by the Shareholders' Assembly,
- Defining the internal organization of the Company,
- Defining or approving of the Company business plan,
- Control of the accuracy of financial statements,
- Adoption of periodic financial statements and periodic business reports whose adoption is not within the competence of the Shareholders' Assembly,
- Performing internal audit of the Company business operations,
- Execution of the Shareholders' Assembly decisions,
- Appointment and relieving of duties of the CEO,
- Adoption of the NIS j.s.c. Novi Sad Corporate Governance Code.

Members of the Board of Directors

The Board of Directors consists of eleven members appointed by the Shareholders' Assembly. Elected members appoint Chairman of the Board of Directors, and the position of Chairman of the Board of Directors and Chief Executive Officer are separated. Members of the Board of Directors have the required knowledge and experiences relevant to the type and scope of activities performed by NIS j.s.c. Novi Sad.

Candidates for the Board of Directors are proposed by the Nomination Committee or by the Company shareholders holding, separately or jointly, at least 5% of shares of the Company

The Board of Directors has executive and non-executive members. Board of Directors consists of one executive and 10 non-executive members, out of which two non-executive members are at the same time independent members of the Board of Directors.

Out of 11 members of Board of Director, 6 of them are Russian citizens, 3 of them are Serbian citizens, one is French and one is Austrian citizen.

Members of the Board of Directors must comply with requirements prescribed by the Law, as well as special requirements prescribed by the Articles of Association and they give statement on fulfilling these requirements at the beginning of the mandate with an obligation to notify the Company of any changes in their status, in particular if they are no longer eligible for election to the Board of Directors, or if there is a conflict of interest or breach of the duty non-competition.

In addition to the conditions required by the Law for non-executive and independent directors, the members of the Board of Directors must also hold appropriate business and life experiences relevant to management and administration of the Company. They shall also possess crucial knowledge, skills and professional experience necessary to successfully perform activities contained in the Board of Directors' scope of work and shall not directly or indirectly engage in the activities of another competitive company at the time of appointment to the Board of Directors, as well as during his/her mandate in the Board of Directors, unless it has been approved by the Company.

Independence criteria

The independent director is a person who is not related to the directors in terms of the Law, and who in the past two years was not an executive director or employee of the Company, or any other company related to the Company in terms of the law, was not the owner of more than 20% of the nominal capital, employed or otherwise engaged in another company which achieved more than 20% of annual income from the Company in the mentioned period, did not receive from the company, nor from persons affiliated with the company in terms of the Law, payments i.e. did not make claims from these entities amounts worth more than 20% of their annual revenue in that period, was not the owner of more than 20% of the nominal capital of the company affiliated to the Company in terms of this Law and was not engaged in the audit of the Company financial statements, according to the criteria prescribed by the Law.

The best relations and the highest marks

3

years in a row, awarded by the Belgrade Stock
Exchange for the best relations with investors

Increased informativeness
and completeness of reports,
as well as relations with the
investment public





25%

of the profit earmarked for
the payment of the dividend

12

billion dinars – the biggest amount ever
paid as dividend by a company listed on the
belgrade stock exchange

Term of Office of the Board of Directors' Members

The term of office of the Board of Directors' members shall terminate at the first subsequent regular session of the Shareholders' Assembly, except in the case of co-optation when the term of office of co-opted members of the Board of Directors lasts until the next session of the Shareholders' Assembly. Each member of the Board of Directors may be reappointed without limitation.

Board of the Directors Sessions

The Rules of Procedure of the Board of Directors the Board of Directors' Committee's (herein after "The Rules of Procedure of BoD") regulate the Board of Directors' and the Board of Directors' Committee's activities, including the procedure of convening and holding sessions.

Sessions shall be convened by the Chairman of the Board of Directors, who shall also propose the agenda of the session. Members of the Board of the Shareholders' Assembly are invited to attend the Board of Directors session, while based on the decision of the Board of Directors Chairman, members of the Board of Directors' Committees may be invited to the session if the agenda of the Board of Directors session addresses the issues within the scope of responsibilities of the respective Committee. Other experts may also be invited to discuss specific items on the agenda, if required.

The Board of Directors makes decisions by a simple majority vote of the total number of the Board of Directors members, except for the co-optation decision which is made by a simple majority vote of the members present and decisions which require a different type of majority as prescribed by the Law and/or Articles of Association.

Providing Information to the Board of Directors Members

In order to provide adequate information to the members of the Board of Directors and enable them to make decisions and participate in the activities of the Company, it is necessary to timely obtain accurate and complete information that may affect decision making on issues within their jurisdiction.

Therefore, the Rules of Procedure of the Board of Directors devote special attention to the issue of informing members of the Board of Directors and convening and holding sessions.

The Company has created a separate web-portal where all documents necessary to members of Board of Directors are available.

Non-executive members of the Board of Directors are regularly informed by the Company CEO on all issues affecting the business, financial position and potential risks of the Company through appropriate forms of management reporting (quarterly and annual financial and consolidated financial statements, quarterly and annual statements of the Company, reports on the analysis of business and business forecasts for the upcoming period, reports on implementation of the decisions and instructions of the Board of Directors, etc.). Upon request, the CEO and the Company management provide members of the Board of Directors with the relevant information in the appropriate scope and time frame.

Remuneration to the Members of the Board of Directors and Committees

On the 5th regular session held on June 18th, 2013, the Shareholders' Assembly adopted the amended Policy on Remuneration for the Board of Directors members and members of the Board of Directors' Committees which had been prepared on the basis of the external consultant's Report on the analysis of market remuneration of non-executive members of the Board of Directors of the selected reference group. The Policy stipulates that remunerations should be attractive and competitive to attract and retain persons in the capacity of the member of the Board of Directors and of the Board of Directors' Committees, who meet professional and other criteria required by the Company, and at the same time they would not deviate to a great extent from the remunerations paid to the Board of Directors members and members of Board of Directors' Committees in other Companies performing business activities, which are the same or similar to NIS j.s.c. Novi Sad activities in size and volume of operations.

The Remuneration Policy stipulates that remuneration fees to the executive directors are to be determined by the Employment Contract i.e. by the Engagement Contract of each Company executive director, while they do not receive the remuneration fee for membership in the Board of Directors and Board of Directors' Committees, except in the part regarding the compensation of costs and liability insurance related to the membership and work in the Board of Directors and Committees.

The Remuneration Policy envisages that the remuneration consists of:

- fixed (constant) part;
- reimbursement of costs; and
- liability insurance for the members of Board of Directors and Board of the Directors' Committees.

Fixed (constant) part of the remuneration fee for the members consists of the annual fixed part of the remuneration fee for the membership in the Board of Directors and the annual fixed remuneration fee for the participation in the work in the Committees of the Board of Directors. This remuneration method represents compensation for the time spent and effort of the Board of Directors' member made in connection with his/her

function and is related to the preparation and active participation in the meetings of the Board of Directors, since members of the Board of Directors are required to study the documents in advance, attend and actively participate in the Board of Directors' sessions.

In order to maintain the appropriate level of remuneration fee and to comply with the needs, abilities and interests of the Company, as well as with chang-

The total amount of remunerations paid to the Board of Directors members, in net RSD

CEO	21,566,232
Other BoD members	45,869,702

es in other determining criteria, remuneration policy is subject to periodic reviews and analysis. The recommendations of Remuneration Committee related to the remuneration policy are addressed to Shareholders Assembly.

Long-term Incentive Programme intended for the non-executive members of the Board of Directors is closely regulated by a separate Rule of Procedure on the Long-term Incentives Programme for non-executive directors.

Analysis of the Board of Director's Activities

The Board of Directors conduct the analysis of its work and the work of the Committees in order to identify potential problems and propose measures for the improvement of Board of Directors' work.

The Work Analysis is conducted on the basis of the questionnaires filled out by the Board of Directors members, which contains two sets of key questions required for the assessment of the Board of Directors' work. The first set contains the criteria for the assessment of the Board of Directors' work - objectives, tasks and responsibilities of the Board of Directors, while the other set contains the criteria for the assessment of Procedures applied in the Board of Directors' work.

The assessment results based on the responses of the Board of Directors' members received via completed surveys are presented to the Shareholder' Assembly in the form of a special report.

Business Induction, Trainings and Education of the Board of Directors' Members

After being appointed, members of the Board of Directors are introduced to the Company operations, allowing them to quickly become actively involved in the

work of the Board of Directors. This involves, among other things, becoming familiar with the internal Company by-laws, providing basic information about the Company, Company management, and persons appointed to managerial positions, information on the Company operations, business strategy, business plans, objectives, and other information necessary to perform their duties.

In addition, if required by the members of the Board of Directors, the Company shall organize special additional training programmes, i.e. provide special funds for this purpose.

Strategic Sessions

The Board of Directors participates in strategic sessions which enable the Board members to have a better overview of the Company business and allow them to review and reconsider the priority Company development trends and forecasts and key performance indicators, as well as the assumptions for the long-term development of the Company.

Changes in the Board of Directors Composition in 2013

At the 5th regular session of NIS j.s.c. Novi Sad Shareholders' Assembly held on June 18th, 2013, the following members of the BoD were relieved of duty: Igor Konstantinovich Antonov, Slobodan Milosavljević and Danica Drašković, and new members were appointed: Alexey Viktorovich Yankevich, Nenad Mijailović and Negica Rajakov.

On July 5th, 2013, Mr Vladislav Valeryevich Baryshnikov resigned from office, and on July 22nd, 2013, Mr Alexander Arturovich Bobkov was appointed member of the Board of Directors in NIS j.s.c. Novi Sad (by co-opting).



Vadim Vladisavovich Yakovlev

Chairman of the Board of Directors of NIS j.s.c. Novi Sad

*Deputy Chairman of the Executive Board of „Gazprom Neft” j.s.c.
First CEO Deputy, in charge of exploration and production, strategic planning and mergers and acquisitions*

He was born on September 30th, 1970.

He graduated from Moscow Engineering Physics Institute (in applied nuclear physics) in 1993. From High School of Finance at the International University in Moscow he graduated in 1995. As of 1999, he qualified as a member of the ACCA (Chartered Association of Certified Accountants). In 2009, he gained a diploma of the British Institute of Directors (ID). From 1995 to 2000 he worked with PricewaterhouseCoopers, starting his career as a consultant and being promoted to audit manager in 2000. From 2001 – 2002 he worked as Deputy Head, Financial and Economics Department, CJSC YUKOS EP. From 2003 to 2004 he was Financial Director, JSC Yugansk Neftegaz (NK Yukos). From 2005 – 2006 he was Deputy General Director, LLC SIBUR–Russian Tyres.



Kirill Albertovich Kravchenko

CEO of NIS j.s.c. Novi Sad

Member of Nomination Committee

Deputy CEO for Overseas Asset Management of “Gazprom Neft” j.s.c.

He was born on May 13th, 1976 in Moscow.

He graduated in sociology from Moscow State University “M.V. Lomonosov” with the highest grades in 1998, and received post-graduate education at the same university. From 2002 to 2004 he studied at the Open British University (financial management), and at IMD Business School. He holds a PhD in Economic Science, professor. He worked in consulting until 2000, and until 2004 he worked in YUKOS Company on various positions in Moscow and Western Siberia. From 2001 to 2002, he was employed with Schlumberger (under partnership program with NK Yukos) in Europe and Latin America. In the period 2004-2007 he performed the function of an administrative director at JSC MHK Eurohim. He was elected member to the Board of Directors several times in major Russian and international companies (“Slavneft”, “Tomsneft”, “Lifosa”, “M Alliance”, “ITSK”, etc). In 2007, he was appointed Vice-Chairman, “Gazprom Neft” j.s.c., and from 2008 – Deputy Chairman of Management Board of “Gazprom Neft” j.s.c., Deputy General Manager for Organization. In February 2009 he was appointed CEO of the NIS j.s.c. Novi Sad controlled by “Gazprom Neft” j.s.c. and member of the NIS j.s.c. Novi Sad Board of Directors. As of March 2009, he performs the function of Deputy General Director for Overseas Assets Management in “Gazprom Neft” j.s.c.. He is professor in the department “International Institute of Logistics and International Informatics” of RHTU “D. I. Mendeleev”, at the University of Mining and Geology of oil and gas “I. M. Gubkin”, at the University of Novi Sad, and he is an associate professor in the School of International Businesses in Bled, Slovenia.



Alexander Arturovich Bobkov

Member of the Board of Directors of NIS j.s.c. Novi Sad

Advisor of CEO of „Gazprom Neft” j.s.c.

Born on October 18th 1966 in the city of Vinnica.

He graduated in the field of politic economy in 1988 from the “Zhdanov” Leningrad State University. On 17.06.2001 he obtained PhD degree in Economy and on 16.06.2006 he obtained MBA degree in Economy. From 1991 to 2010 he worked at managing positions in the following fields: civil engineering, production, real estate and sales with the Leningrad Centre of Business Co-operation “Perekryostok”, «Proxima» j.s.c., “General Civil Engineering Corporation” Ltd. From 2010 to the present he is working as Executive director of Public Business Centre “Okhta” c.j.s.c. and from 2012 to the present he is an Advisor to CEO of “Gazprom Neft” j.s.c.



Alexey Victorovich Yankevich

Member of the Board of Directors of NIS j.s.c. Novi Sad

Deputy CEO for Economics and Finance „Gazprom Neft” j.s.c.

Born on December 19th 1973. In 1997 he graduated from Saint-Petersburg State Electrical Engineering University (“LETI”), majoring in optical and electronic instruments and systems. In 1998 he completed a course at LETI-Lovanium International School of Management in Saint-Petersburg. From 1998 to 2001 he worked at CARANA, a consulting company. From 2001 to 2005 he has performed the function of Deputy Head of Planning, Budgeting and Controlling Department at YUKOS RM (business unit responsible for logistics and downstream operations). In 2004 he became a Certified Management Accountant (CMA). From 2005 to 2007 he worked as deputy CFO at LLK-International (production and sale of lubricants and special petroleum products; part of the LUKOIL group). From 2007 to 2011 he has performed the function of Head of Budgeting and Planning Department, Head of Economics and Corporate Planning Directorate at “Gazprom Neft” j.s.c.. Since August 2011 he is acting Deputy CEO for Economics and Finance at “Gazprom Neft” j.s.c.. Since March 2012 he is a member of the Management Board of “Gazprom Neft” j.s.c. and Deputy CEO for Economics and Finance.



Alexander Vladimirovich Krilov

Member of the Board of Directors of NIS j.s.c. Novi Sad

Director of Division for regional sales in „Gazprom Neft” j.s.c.

Born on March 17th 1971. in Leningrad.

In 1992 he graduated from LMU (Saint Petersburg), in 2004 graduated from Sp-bGU Faculty of Law, and in 2007 Moscow International Business School „MIRBIS” MBA, specializing in: Strategic management and entrepreneurship. From 1994 to 2005 he performed management functions in the area of real estate sales (chief executive officer, chairman) in the following companies: Russian-Canadian SP “Petrobild”; c.j.s.c. “Alpol”. From 2005 – 2007 he was deputy director in the Division for implementation in LLC “Sibur”. Since April 2007 until present he performs the function of a manager in the Department for the supply of petroleum products, Head of Department for regional sales and Director of Division for regional sales in „Gazprom Neft” j.s.c.



Nikola Martinović

Member of the Board of Directors of NIS j.s.c. Novi Sad

Chairman of Nomination Committee

Born on December 3rd 1947.

He completed primary education in Feketic, and secondary in Srbobran. Graduated from Faculty of Economics in Subotica, where he also defended his Master Thesis titled “Transformation of Tax System in Serbia by implementing VAT”. From 1985 to 1990 he performed the function of the CEO of “Solid” company from Subotica, and from 1990 to 1992 he performed the function of Assistant Minister of Internal Affairs of the Republic of Serbia. From 1992 to 2000 he performed the function of Assistant CEO of the Serbian Petroleum Industry in charge of financial affairs, and as CEO of “Naftagas promet” from 1996 to 2000. As of 2005, until 31 August 2013 Mr Martinović performs the function of a special advisor in NIS j.s.c. Novi Sad. From 1 September he performs a function of special advisor of CEO of O Zone j.s.c. He was a member of NIS j.s.c. Novi Sad BoD from 2004 to 2008 and re-appointed to the function in February 2009. He currently performs the function of a member of the NBS Governor Council.



Nenad Mijailović

Member of the Board of Directors of NIS j.s.c. Novi Sad
Member of Audit Committee

Born on October 14th 1980 in Čačak.

In 2003 graduated from the Faculty of Economy, University of Belgrade, in 2007 obtained MBA degree from the University of Lausanne, Switzerland. In 2010 started doctorate studies at the Faculty of Economy, University of Belgrade. As from 2011, he holds an international CFA license in the field of Finance. From 2003 to 2009 he worked as consultant and manager in the field of finance and banking in the following companies: Deloitte, Belgrade, AVS Fund de Compensation, Geneva, JP Morgan, London, KBC Securities Corporate Finance, Belgrade. From December 2009 to August 2012 he worked at the position of Minister Consultant in the Ministry of Economy and Regional Development, Department of Economy and Privatization. Since August 2012 to the present is working at the position of Deputy Minister of Finance and Economy of Republic of Serbia.



Negica Rajakov

Member of the Board of Directors of NIS j.s.c. Novi Sad
Member of Remuneration Committee

Born on February 4th, 1969 in Pančevo.

She graduated from Faculty for electrical engineering of Belgrade University in 1994 (master of electrical engineering). She started the career as teaching assistant at the Department of Electrical Machinery at the Faculty of Electrical Engineering in Belgrade. Her professional work started in 1996 on the post of Electrical Engineer –trainee in JP Elektrovojvodina, ED Pančevo. From 1997 to the present day she works in HIP Petrohemija a.d. Pančevo on the following posts: Engineer for Technical Safety, Chief Engineer of Technical Safety, Manager of Occupational Safety Department in OU Safety, Department Manager in OU Kibernetika, Director and Deputy Director of OU Electricity Supply. Since 2010 until present she is Assistant Director of OU HIP-Petrohemija, a.d. Pančevo. Since 2011 she is a Court expert in the field of Electrical Engineering.



Wolfgang Ruttenstorfer

***Independent Member of the Board of Directors of NIS j.s.c. Novi Sad
Chairman of Audit Committee***

Born on October 15th 1950 in Vienna, Austria.

His career started in the Austrian company OMV in 1976. In 1985 he was transferred to the Planning and Control Department and in 1989 he assumed the responsibility for the strategic development of OMV Group. Since he was appointed Marketing Manager in 1990, he assumed the function of a member of the Executive Board in 1992 in charge of finance and chemical products.

He was a member in OMV EB by early 1997, when he assumed the function of Deputy Minister of Finance. On 1 January 2000 he was re-appointed to the function of a member to OMV EB in charge of finance, which function he performed by April 2002. He was in charge of gas affairs by December 2006. During the period from 1.1.2002. to 31.3.2011. he performed the function of Chairman of the Executive Board of OMV Group.



Anatoly Moyseyevich Cherner

***Member of Board of Directors of NIS j.s.c. Novi Sad
Member of Remuneration Committee***

Deputy Chairman of the Executive Board, Deputy CEO for logistics, refining and sales in j.s.c. "Gazprom Neft"

Born in 1954.

Graduated from Grozny Oil Institute in 1976 with a degree in chemical oil and gas engineering. In the same year he was employed at the Sheripov Grozny Refinery, starting as an operator to become refinery director in 1993. In 1996, he joined SlavNeft as Head of the Oil and Oil Products Trading Department and was later appointed Vice-Chairman of the company. He joined SibNeft (from June 2006 – "Gazprom Neft" j.s.c.) as Vice-Chairman for refining and marketing in April 2006.



Stanislav Vladimirovich Shekshnia

Independent Member of the Board of Directors of NIS j.s.c. Novi Sad

Chairman of Remuneration Committee

Member of Nomination Committee

Professor at the International Business School INSEAD

He was born on May 29th, 1964. He is French citizen.

Chief of practice in the Talent Performance and Leadership Development Consulting department. Director of Talent Equity Institute. Senior partner in the company Ward Howell. Professor teaching the course "Entrepreneur Leadership" at the International Business School INSEAD. He has more than 10 years of practical experience in management. He performed the following functions: CEO of Alfa Telecom, chairman and CEO of Millicom International Cellular, Russia and ZND, Chief Operational Director of Vimpelkom, Director of Personnel Management in OTIS Elevator, Central and East Europe. He has been a member of LLC SUEK and c.j.s.c. Vimpelkom-R Boards of Directors.

COMPOSITION OF BOD AND BOD'S COMMITTEES

Function	Name and Surname	Date of first appointment in the BoD	Executive director
Chairman of BoD	Vadim Vladislavovich Yakovlev	10.02.2009.	
CEO	Kirill Albertovich Kravchenko	10.02.2009.	X
Member of BoD	Alexander Arturovich Bobkov (co-optation)	22.07.2013.	
Member of BoD	Alexey Victorovich Yankevich	18.06.2013.	
Member of BoD	Alexander Vladimirovich Krilov	21.06.2011.	
Member of BoD	Nikola Martinović	24.09.2005.*	
Member of BoD	Nenad Mijailović	18.06.2013.	
Member of BoD	Negica Rajakov	18.06.2013.	
Member of BoD	Wolfgang Ruttendorfer	20.04.2012.	
Member of BoD	Anatoly Moyseyevich Cherner	10.02.2009.	
Member of BoD	Stanislav Vladimirovich Shekshnia	21.06.2010.	

Members of BoD's Committees who are not members of BoD

Member of Audit Committee	Alexey Alexandrovich Urusov
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Nikola Martinovic was a member of the Board of Directors of NIS j.s.c. Novi Sad during the period from September 24th, 2005 until February 29th 2008, and was re-elected member as of September 30th 2008. Prior to his appointment to the Board of Directors of NIS j.s.c. Novi Sad, he was a member of the Board of Directors of the Public Company NIS – Petroleum Industry of Serbia from April 1st 2004 until September 23rd 2005.

	Non-executive director	Independent director	Audit Committee	Nomination Committee	Remuneration Committee	Citizenship
	X					Russian
				Member		Russian
	X					Russian
	X					Russian
	X					Russian
	X			Chairman		Serbian
	X		Member			Serbian
	X				Member	Serbian
	X	X	Chairman			Austrian
	X				Member	Russian
	X	X		Member	Chairman	French
			Member			Russian

Membership in the Board of Directors or Supervisory Boards of other companies

Vadim Vladislavovich Yakovlev

- JSC NGK "Slavneft"
- JSC "SN-MNG"
- LTD "Gazprom Neft Development"
- JSC "Gazprom Neft-NNG"
- LTD "Gazprom Neft-East"
- LTD "Gazprom Neft-Hantos"
- LTD "Gazprom Neft-NTC"
- LTD "Gazprom Neft-Angara"
- FLLC "NK Magma"
- FLLC "Gazprom Neft-Orenburg"
- LTD "Gazprom Neft-Sahalin"
- Salim Petroleum Development N.V. (Supervisory Board member)

Kirill Albertovich Kravchenko

- Member of FC Red Star Club Council
- Vice-Chairman of the National Oil Committee of the Republic of Serbia
- Serbian Tennis Federation BoD Member
- SAM BoD Member – Serbian Association of Managers

Alexandar Arturovich Bobkov

- LLC "Social Business Centre Okhta"

Alexey Viktorovich Yankevich

- JSC "NGK Slavneft"
- LLC "Gazprom Neft – Aero"
- LTD "Gazprom Neft – SM"
- LTD "Gazprom Neft Biznis-Servis"
- "Gazprom Neft Lubricants" Italy
- LTD "Gazprom Neft Marin Bunker"
- FLLC "Gazprom Neft – Orenburg"

Alexander Vladimirovich Krilov

- FLLC "Gazprom Neft Kuzbas"
- JSC "Gazprom Neft Novosibirsk"
- JSC "Gazprom Neft Omsk"
- JSC "Gazprom Neft Tumen"
- JSC "Gazprom Neft Ural"
- JSC "Gazprom Neft Yaroslavl"
- LLC "Gazprom Neft Northwest"
- LTD "Gazprom Neft Asia"
- LTD "Gazprom Neft Tajikistan"
- LTD "Gazprom Neft Kazakhstan"
- LTD "Gazprom Neft Centre"
- LTD "MTK"
- LTD "Gazprom Neft Terminal"
- LTD "Gazprom Neft Chelyabinsk"
- LTD "Gazprom Neft – regional sales"

Nikola Matrinović

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Nenad Mijailović

-

Negica Rajakov

-

Wolfgang Rутtenstorfer	<ul style="list-style-type: none"> • "CA Immobilien" AG, Vienna, Chairman of the Supervisory Board • "Vienna Insurance Group" AG, Vienna, Chairman of the Supervisory Board • "Telekom Austria" AG, Vienna, Member of the Supervisory Board • "Flughafen Wien" AG, Vienna, Member of the Supervisory Board • "RHI" AG, Vienna, Member of the Supervisory Board
Anatoly Moyseyevich Cherner	<ul style="list-style-type: none"> • JSC NGK "Slavneft" • JSC "Gazprom Neft-ONPZ" • JSC "Slavneft-JANOS" • JSC "Gazprom Neft –MNPZ" • C.J.S.C. "Gazprom Neft-Aero" • C.J.S.C. "St. Petersburg's international commodities and resources Exchange" • LLC "GazpromNeft-Belnefteprodukt" • LTD "Gazprom Neft –SM" • LTD "Gazprom Neft Marin Bunker" • LTD "Gazprom Neft – Logistics" • JSC "Mozirski NPZ"
Stanislav Vladimirovich Shekshnia	<ul style="list-style-type: none"> • Member of the Strategy Committee in the JSC "ROSNANO" Board of Directors

Board of Directors Activities

In 2013, the Board of Directors held four sessions attended by BoD members in person and 18 correspondence meetings. The attendance rate at the BoD sessions was 98% in average, while the lowest attendance rate was 83%.

Apart from regular activities relating to reviewing the NIS j.s.c. Novi Sad Annual Report, Financial Reports and Consolidated Financial Reports for 2012 and the adoption of interim (quarterly) reports in 2013, the Board of Directors paid special attention to the issues of organization of management of subsidiaries in the Republic of Serbia and abroad, and issues of internal organization and business expansion to other countries in the region in accordance with the strategy.

In relation to the above, the Board of Directors approved the implementation of the project "Base Oils Production in NIS j.s.c. Novi Sad on Novi Sad Refinery site", approved share capital increase of "NIS Petrol" EOOD, Bulgaria and several proposals for dismissal and appointment of NIS j.s.c. Novi Sad representatives in NIS j.s.c. Novi Sad subsidiaries' management bodies.

For the purpose of accomplishing projected goals of the Company, reviewing the Company's performance and corporate governance quality, the Board of Directors has reviewed the quarterly reports' analysis of business operations during the reporting period, with estimates of NIS j.s.c. Novi Sad business performance by the end of 2013. Also, for the purpose of

reviewing its own performance, the Board of Directors has analysed its own activities and submitted a report in that respect to be reviewed at the 5th Regular Session of NIS j.s.c. Novi Sad Shareholders' Assembly. The Board of Directors has also reviewed the results of the fulfilment of the key performance indicators for the CEO and the Company's management staff in 2012, as well as the reward system for key performance indicators for the CEO and the Company's management staff for 2013. The Board of Directors has reviewed the information in relation to development of personnel for top management positions and the system for developing NIS j.s.c. Novi Sad personnel reserve. In the second half of 2013, the Board of Directors appointed a member of the Board of Directors by co-opting to fill a vacancy in the composition of the Board of Directors and adopted the decision on the appointment of members of the Company's Board of Directors' Committees.

In addition, the significant activities of the Board of Directors included convening of the 5th Regular Session of the Shareholders' Assembly, drafting decisions to be adopted by the Shareholders' Assembly, including the draft decision on profit distribution for 2012, dividend payment and the determination of the total amount of NIS j.s.c. Novi Sad retained earnings. Based on this decision adopted by the Shareholders' Assembly, NIS j.s.c. Novi Sad shareholders, after a long period, were paid dividends in the total gross amount of RSD 12,364,129,000. Also, the Board of Directors

drafted and put forward amended Board of Directors' Members and Members of Board of Directors' Committees Remuneration Policy to the Shareholders' Assembly for adoption, prepared based on the analysis of market fees paid to non-executive Board of Directors' members in the selected reference group, made by an external consultant.

The control of the procedure of drafting Development Strategy by 2030 and the review of 2014 Business Plan were among the most important issues reviewed by the NIS j.s.c. Novi Sad Board of Directors in 2013.

During 2013, the Board of Directors adopted 71 decisions whose enforcement is monitored by means of periodical reports on enforcement of the Board of Directors' decisions and orders.

ATTENDANCE AT THE BOARD OF DIRECTORS AND BOD COMMITTEES' SESSIONS

BoD Member	Board of Directors		Audit Committee		Remuneration Committee		Nomination Committee	
	Attendance rate	Number of sessions	Attendance rate	Number of sessions	Attendance rate	Number of sessions	Attendance rate	Number of sessions
Vadim Vladislavovich Yakovlev <i>Chairman of BoD</i>	100%	22/22	-	-	-	-	-	-
Kirill Albertovich Kravchenko <i>CEO</i>	100%	22/22	-	-	-	-	-	-
Igor Konstatninovich Antonov*	100%	12/12	-	-	-	-	-	-
Alexandar Arturovich Bobkov	100%	8/8	-	-	-	-	-	-
Vladislav Valeryevich Baryshnikov**	100%	12/12	-	-	-	-	-	-
Danica Drašković*	83%	10/12	-	-	-	-	-	-
Alexey Viktorovich Yankevich	100%	10/10	-	-	-	-	-	-
Alexander Vladimirovich Krilov	95%	21/22	-	-	-	-	-	-
Nikola Martinović	100%	22/22	-	-	-	-	-	-
Nenad Mijailović	100%	10/10	100%	2/2	-	-	-	-
Slobodan Milosavljević*	100%	12/12	-	-	-	-	-	-
Negica Rajakov	100%	10/10	-	-	100%	1/1	-	-
Wolfgang Rutenstorfer <i>Independent member</i>	100%	22/22	100%	2/2	-	-	-	-
Anatoly Moyseyevich Cherner	100%	22/22	-	-	100%	1/1	-	-
Stanislav Vladimirovich Shekshnia <i>Independent member</i>	100%	22/22	-	-	100%	1/1	-	-
Members of BoD Committee's which are not Members of BoD								
Alexey Alexandrovich Urusov	-	-	100%	2/2	-	-	-	-

* Member of Board of Directors until June 18th 2013

** Member of Board of directors until July 5th, 2013

Board of Directors Committees

In order to ensure fast and efficient performance of its activities, the Board of Directors has established 3 standing committees as its advisory and expert bodies providing assistance to its work, especially in terms of deliberating on issues within its scope of competence, preparation and monitoring of enforcement of decisions and acts it adopts and to perform certain specialized tasks for the Board of Directors' needs.

The Board of Directors has established:

- Audit Committee,
- Remuneration Committee and
- Nomination Committee,

As appropriate, the Board of Directors may establish other standing or ad hoc committees to deal with the issues relevant for the activities of the Board of Directors.

Each of the committees has 3 members appointed and relieved of duty by the Board of Directors. The Board of Directors appoints one of its members as a chairman to manage the activities of a committee, prepare, convene and chair its sessions and perform other activities required for performing the activities within its scope of competence.

Most of the members of each committee are non-executive directors and at least one member must be an independent director of the Company. The Board of Directors may appoint persons without managerial functions but holding relevant skills and competences and work experience to perform the Committee's activities. The Company has met all the requirements under the law in terms of the composition of the Board of Directors' committees.

The role, scope of competence and responsibilities of the Committees are defined by the law and the Rules of Procedure of the Board of Directors, which also regulates the composition, requirements for appointment and the number of members, term of office, dismissal, method of work and other relevant issues related to the activities of the Board of Directors' committees.

At least on the annual basis, the committees prepare and submit reports to the Board of Directors on issues within their scope of competence, and the Board of Directors may require the submission of reports on all or some issues within their scope of competence or in shorter time intervals.

The Board of Directors and its committees may require professional advice of independent experts when necessary to perform their obligations efficiently.

In accordance with the Law, the activities within the scope of competence of the Nomination Committee and Remuneration Committee were performed by the Board of Directors until September 13th 2013 when the Board of Directors appointed members of these committees.

Audit Committee

In addition to the general requirements regarding the composition of the Board of Directors, the function of the Chairman of the Audit Committee must be held by an independent director of the Company, while at least one member must be an independent certified auditor or a person holding relevant skills and competences and experience in the area of finance and accounting, not employed by the Company.

The Audit Committee's members are as follows:

- Wolfgang Rutenstorfer, Chairman of the Audit Committee,
- Alexey Aleksandrovich Urusov, member of the Audit Committee and
- Nenad Mijailović, member of the Audit Committee.

Wolfgang Rutenstorfer and Nenad Mijailović were appointed members of the Audit Committee under the decision of the Board of Directors adopted on September 13th, 2013, while Alexey Yankevich was appointed third member of the committee. On October 24th 2013, Alexey Urusov was appointed third member of the committee instead of Mr Yankevich.

The Audit Committee prepares, puts forward motions and verifies the implementation of accounting policies and risk management policies and puts forward motions to the Board of Directors for appointment and dismissal of persons authorized to perform the internal audit function in the Company and supervises the operation of internal audit in the Company. The Audit Committee also reviews the application of accounting standards in the preparation of financial statements and assesses the contents of the financial statements. With regard to external control, the Audit Committee appoints auditors and proposes candidates for that function, and provides the opinion on his/her competence and independence in relation to the Company and supervises the auditing process, identifies key issues which should be subject to audit and verification of impartiality and objectivity of the auditor.

During 2013, the Audit Committee held one session attended by members in person and one correspondence session. The Committee drafted and put

forward the motion to the Board of Directors for the appointment of a person in charge of internal audit of NIS j.s.c. Novi Sad business operations, reviewed the contents of stand-alone financial statements and consolidated financial statements for 9 months of 2013 as well as the NIS j.s.c. Novi Sad Quarterly Report for the third quarter of 2013. On that occasion, the Committee made appropriate recommendations to the Board of Directors in that respect.

Remuneration Committee

The Remuneration Committee members are as follows:

- Stanislav Vladimirovich Shekshnia, Chairman of the Remuneration Committee,
- Anatoly Moyseyevich Cherner, Member of the Remuneration Committee
- Negica Rajakov, Member of the Remuneration Committee

All the members of the Remuneration Committee are appointed by the decision of the Board of Directors adopted on September 13th 2013.

The Remuneration Committee drafts decisions on the BoD executive member remuneration policy and puts forward motions on the remuneration amount and structure for each executive member of the Board of Directors and for the auditor. In addition, at least on the annual basis, the Remuneration Committee prepares a report for the Shareholders' Assembly on the evaluation of the remuneration amount and structure for each member of the Board of Directors and makes recommendations to the executive members of the Board of Directors on the remuneration amount and structure to persons performing managerial functions in the Company.

During 2013, the Remuneration Committee held one session attended by members in person. On that occasion, the Committee discussed the preliminary results of the fulfilment of the key performance indicators for the remuneration to the Chief Executive Officer, block and function directors for 2013, as well as a preliminary assessment system and indicators for remuneration to the Chief Executive Director, block and function directors for 2014 and made appropriate recommendations to the Board of Directors in that respect.

Nomination Committee

The Nomination Committee members are as follows:

- Nikola Martinović, Chairman of the Nomination Committee,

- Kirill Albertovich Kravchenko, Member of the Nomination Committee and
- Stanislav Vladimirovich Shekshnia, Member of the Nomination Committee.

All the Committee members were appointed by the decision of the Board of Directors dated September 13th 2013.

The main task of the Nomination Committee is to propose candidates for the Board of Directors' members and provide its opinion and recommendation in that respect, as well as to propose the criteria which must be met by a candidate for the Board of Directors' member function and the procedure for appointing members to the Board of Directors. At least on the annual basis, the Committee prepares the report on the appropriateness of the composition of the Board of Directors and the number of the Board of Directors members and makes recommendations in this respect. The Nomination Committee also considers the proposals for members of the subsidiaries' bodies and bodies of other companies in which the Company holds a share in equity. In addition, the Nomination Committee reviews the personnel policy of the Company regarding recruitment of personnel for managerial functions in the Company and performs other activities related to personnel policy assigned by the Board of Directors.

The Nomination Committee did not meet during 2013.

Shareholders' Assembly Board

The Shareholders' Assembly Board for the Supervision of Operations and the Procedure for Reporting to the Company's Shareholders (hereinafter Shareholders' Assembly Board) is an advisory and expert body of the NIS j.s.c. Novi Sad Shareholders' Assembly, which provides assistance to the Shareholders' Assembly in its activities and deliberation on issues within its scope of competence. The members of the Shareholders' Assembly Board are accountable to the Shareholders' Assembly which appoints them to and dismisses them from their function.

In accordance with the powers under the Articles of Association, the Shareholders' Assembly Board reviews, among other things, the reporting process to the Shareholders' Assembly concerning the application of accounting practices, financial reporting practices of the Company and its subsidiaries; reporting process to the Shareholders' Assembly concerning the credibility and completeness of reporting to the shareholders on relevant facts, proposed methods for profit distri-

bution and other payments to Company shareholders, procedures for performing an independent audit of the financial statements, internal audit activities within the Company and assessment of internal audit activities in the Company, proposals for the establishment or liquidation of companies in which the Company holds a share in equity, and the Company's subsidiaries; proposals for acquisition and sale of shares, stakes and/or other interests the Company holds in other companies, and on the assessment of handling complaints made by the Company's shareholders.

Members of the Shareholders' Assembly Board (SAB)

At the 5th Regular Meeting of NIS j.s.c. Novi Sad Shareholders' Assembly held on June 18th 2013, Mr Milivoje Cvetanović and Mr Božo Stanišić were relieved of duty of a member of the Shareholders' Assembly Board, and new members were appointed as follows: Mr Ljubomir Aksentijević and Mr Radoslav Striković. Therefore, the Board consists of the following members:

- Ljubomir Aksentijević (Chairman)
- Radoslav Striković (Member)
- Alexey Aleksandrovich Urusov (Member)



Ljubomir Aksentijević

Chairman of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad

Born on July 9th, 1940 in Belgrade.

Graduated from the Faculty of Economics, Belgrade University in 1963. In the period from 1964 – 1997 he worked at various positions in the field of trading and banking, in the following companies: Interexport, Belgrade; Societe Generale bank Paris, Representative Office for former Yugoslavia; Societe Generale Yugoslav Bank, Belgrade, Commercial Director. In the period from 1997-2005 he was Representative of Societe Generale Bank, Paris, in Alma-Aty, Kazakhstan; Director of Societe Generale Bank, Paris, Representative Office in Baku, Azerbaijan. From 2005 – 2009 – Investment banking development Director for Southeast Europe, Societe Generale Bank, Paris, and Counsellor to CEO Societe Generale bank Srbija a.d. As from May 2010 to September 2011 – Counsellor to Deputy Prime Minister of Republic of Serbia for economics and international finance issues. From 2012 – Special Counsellor for development and finance issues to the Minister of energy, development and environmental protection of Republic of Serbia.



Radoslav Striković

Member of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad

Born on October 7th, 1956 in Crvenka.

In 1980, graduated from the Faculty of Economy in Subotica, University of Novi Sad. Since 1982 to 1987 worked as an economist for plan and analysis in the area of economics and finance in RZZP, in Metalelektro, Agrovodina. In the period 1987 – 1989 Mr Strikovic was the CFO on Tehnicka Roba, Agrovodina, and during 1989 – 2000, General Manager of D.D. ShiponS, Agrovodina. He was also a member of City Council of the city of Novi Sad from 2004 – 2006, and from 2006 – 2008 he was the chief expert in the area of industry in the city of Novi Sad. From 2008 to 2012 he was a member of the government of Vojvodina as the Secretary for Energy and Mineral Resources.



Alexey Alexandrovich Urusov

Member of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad

Member of Audit Committee

Director of Economics and Corporate Planning Department in "Gazprom Neft"-j.s.c.

Born on November 17th 1974. He graduated from the Tyumen State Oil and Gas University (major in finance and loans) and the University of Wolver Hampton in the United Kingdom (major in business administration).

From 2006 to 2008 he worked as executive vice-president for planning and business management in the Integra Group. From 2002 to 2006 he worked in TNK-VR. From 2002 to 2003 he is a member of TNK BoD's Group for monitoring and control, and in period from 2004 to 2006 he worked as CFO in TNK-VR Ukraine. From 2009 to 2012 he was employed at NIS j.s.c. Novi Sad as CFO

Membership in the Board of Directors or Supervisory Boards of Other Companies

Ljubomir Aksentijević	-
Radoslav Striković	-
Alexey Alexandrovich Urusov	Supervisory Board member in Gazpromneft Marine Bunker Balkan S.A.

Total amount of fees paid to SAB members, net RSD

Members of SAB	24,759,471
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Activities of the Shareholders' Assembly Board

In 2013, the Shareholders' Assembly Board held eleven sessions attended by members in person and one correspondence session.

The Shareholders' Assembly Board held sessions and reviewed the issues within its scope of competence, such as interim financial statements of the Company: quarterly reports, quarterly financial and consolidated financial statements for 1st, 2nd and 3rd quarter of 2013, quarterly reports of the Company's CEO on all signed contracts worth of more than EUR 5 million for 1st, 2nd and 3rd quarter of 2013. In addition, the Shareholders' Assembly Board discussed the issue of share capital increase of "NIS Petrol" EOOD, Bulgaria, as well as Business Plan for 2014.

The Shareholders' Assembly Board adopted 40 conclusions in 2013.

Chief Executive Officer

Chief Executive Officer is appointed by the Board of Directors out of its executive members. Chief Executive Officer coordinates the work of the executive members of the Board of Directors and organizes the Company's activities, performs daily management activities and decides on matters which do not fall within the competence of the Shareholders' Assembly and the Board of Directors. Chief Executive Officer is a legal representative of the NIS j.s.c. Novi Sad.

Mr Kirill Albertovich Kravchenko is the Chief Executive Officer of NIS j.s.c Novi Sad.

CEO's Advisory Board

The NIS j.s.c. Novi Sad CEO's Advisory Board as an expert body provides assistance to the CEO in his activities and consideration of issues within its scope of competence. Composition of CEO's Advisory Board is determined by the CEO's decision and it is composed of directors of all blocks and functions within the Company, CEO's deputy for petrochemical business and regional directors of NIS j.s.c. Novi Sad for Romania and Adriatic. The Advisory Board has a Council composed of block directors and Deputy CEO in charge of petrochemical affairs. The CEO Advisory Board is managed by the CEO and provides him assistance in relation to the issues concerning the Company's business operations management.

In addition to issues concerning the Company's current operations (monthly and quarterly operating results, annual business plans, monthly investment plans), the Advisory Board deals with issues of strategy and policy development whose basic principles are defined by the Shareholders' Assembly and the Company's Board of Directors.

Members of the CEO Advisory Board

Members of Council of CEO's Advisory Board as of December 31st, 2013 are



Rishat Fagimovich Islamov

Director of Exploration and Production Block

Rishat Islamov was born in 1968. He graduated from Ufa Oil Institute and acquired the title of a Mining Engineer. He completed the training of MBA Programme, i.e. "International Business in Oil and Gas Industry" at Moscow State Institute for International Relations. From 1992 to 2008, there was a rise in his career from an Expert for Oil and Gas Production to the Deputy Manager of the Board for Oil and Gas Production in "Udmurtneft" company. From 2008 to 2011 he worked in "Rosneft-Krasnodarneftegas" company performing the function of a chief engineer, and then he assumed the function of the Acting CEO of the enterprise.



Anatoly Anatolyevich Skoromec

Acting director of Refining Block

He was born on September 24th 1976. He graduated in Chemical Technology of organic substances from the Russian University of Chemical Technology "D. I. Mendelyev". He began his career in the "Ryazan" Refinery, as operator of the technological process. Later, he was appointed chief technologist at the same company. In 2008, joined the team of "TNK-BP Management" where he worked as the director of refining and was responsible for the control of five refineries in "TNK-BP" system. In October 2010, he was appointed general manager of "Ryazan" Refinery. His career in NIS j.s.c. Novi Sad began at 2013.



Aleksandar Georgyevich Malanin

Director of Sales and Distribution Block

Born on January 13th 1976 in the town of Pushkin in Moscow region. Graduated from the Faculty of International Economic Relations, "Plekhanov" in Moscow, and from the School of Commercial Management (WHU) in Koblenz, Germany. From 1995 to 1998 he worked as a financial manager in Moscow representative offices of the companies "Uni-Baltic Ltd Oy" and "Roskan Shipping AB" dealing with foreign trade operations in the oil sector of the Russian economy. In 1999 he started working in "Lukoil", group in the field of development of downstream activities abroad. In 2007 he was appointed the General Manager of the company, Teboil OY AB / Oy Suomen Petrooli, a Lukoil subsidiary in Finland. Since August 2011 he is the Director of the Sales and Distribution Blok in NIS j.s.c. Novi Sad. He speaks German and English.



Alexey Anatolyevich Belov

Director of Energy Block

Born in 1972, the town of Kstovo in Gorkovski region.

He graduated from two faculties: in 1995 he graduated at Nizhni Novgorod State Technical University, majoring in Nuclear Power Plants and Installations. In 2001 he graduated from Tolyatin Management Academy within the program of the management training for Russian Federation state authorities. In December 2007 A.A.Belov was awarded an academic title of Master of Technical Sciences from post-graduate studies at NPO CKTI in Sankt Petersburg. From 1994 to 1997 he worked as an energy facilities engineer in AOOT Nizhegorodnefteorgsintez, ZAO „Neftehim NHZ” and o.j.s.c. NORSI. From 1997 to 2007 he worked as deputy chief engineer for thermal energy, i.e., energy facilities engineer for thermal energy supply, as well as the deputy chief engineer for thermal energy supply management in o.j.s.c. LUKOIL- Nizhegorodnefteorgsintez. In 2007 he worked as the supervisor of the gas legislation sector in LLC LUKOIL-ENERGOGAS. From January 2008 until September 2010 he worked as the general director of LUKOIL Energy and Gas Bulgaria”. From October 2010 until overtaking a new function in NIS he was the general director of LLC LUKOIL-EKOENERGO, which by 06.12.2010. was known as LLC JGK TGK-8.



John Small¹

Director of Oil Field Services

John Small is a physicist by profession, and has a long and huge experience in oil business. He worked on onshore and offshore projects in the countries of the former USSR for more than 10 years. From 1999 to 2004, he performed various managerial positions in "Schlumberger" company in Azerbaijan, Russia, Kazakhstan and Turkmenistan. From 2006 to 2008, he performed the function of the Production Director of Burren Resources Petroleum Limited company. Prior to his engagement in NIS, he worked in "Schlumberger" company as the Director for Planning, Supervision and Coordination of Work of this company with TNK-BP client. In NIS j.s.c. he is responsible for the management of "Oil Field Services" consisting of Oil Field Services, Technical Services and Transportation.

¹ Mr John Small was appointed as CEO's Advisor for Oilfield Services on February 1st 2014



Goran Stojilkovic

Deputy CEO for Petrochemical Operations

Born on September 13th 1968 in Leskovac. He graduated Chemical Engineering at the Faculty of Technology in Belgrade in 1995. He started his career in the company Zdravlje Actavis Serbia, as a chemical engineer in the laboratory for organic chemistry. Afterwards, he worked as a specialist on a pilot plant and then as a technical director of the Chemistry department. In 2003 he was appointed Deputy CEO and in December 2004 he became the CEO of the Company. In 2007 he was named the manager of the year by the Serbian Chamber of Commerce. He has 9 years of experience working in a multinational Pharmaceutical company. From April 2009 until arrival to NIS j.s.c. Novi Sad he was the CEO of the company Operations Actavis UK Ltd. Since 2012 he is employed by NIS j.s.c. Novi Sad as Deputy CEO for Petrochemical Operations. He is elected member of Supervisory Board in HIP "Petrohemija" in March 2013. He is married and has two children.

The other members of CEO's Advisory Board as of December 31st, 2013 are:



Srdjan Bosnjakovic

Deputy CEO, Director of Function for Strategy and Investments

Born on July 7th, 1969. in Novi Sad.

He graduated and acquired master degree in Mechanical Engineering from Faculty of Technical Sciences in Novi Sad.

He began his career in 1995 at "NIS - Gas", as an engineer for transport and distribution of natural gas. After several years as a manager of the transportation and distribution of natural gas he became Managing Director of the company in 2002. Three years later he became the Executive Director of the "NIS LPG", and in 2006 he was elected Executive Director of "NIS -Petrol" and Director General of NIS j.s.c. Novi Sad. After spending two years in this position, he was elected Chairman of the Board. In 2008 he was appointed Regional Director of Development of Refining Block. Since 2008 he was director of the project office in Sofia, Bulgaria, and later he became General Manager of "NIS Petrol" EOOD in Bulgaria. From January 2013 he is one of the Deputy CEO in NIS j.s.c. Novi Sad, as well as the Director of Function for Strategy and Investments.

He is member of the International Gas Union (IGU) and the European and the World Association of vehicles powered by natural gas (ENGVA and IANGV).



Igor Dimiryevich Tarasov

Deputy CEO, Director of Function for Corporate Security

Born on July 2nd 1952 in Moscow.

He is in charge of economic and information security management and security issues. He has a 38 year long work experience in state security services. He was employed in the Embassy of Russian Federation in Belgrade during two tenures: from 1994 to 1999 and from 2001 to 2006.



Anton Yuryevich Fyodorov

Deputy CEO, Director of Function for Finance, Economics, Planning and Accounting (CFO)

He was born in 1973 in Saratovo region, Russian Federation.

He graduated at the state Academy for economics in Samara, specializing in national economy and law. In 2001 he graduated from second University and acquired law degree, and in 2011 he acquired MBA diploma at Academy of national economics with Russian Federation Government.

From 1997 to 2005 he worked at "Yuganskneftegas" on various positions including position of CFO at "NGDU Yuganskneft". From 2005 to 2007 he worked in "Sibur" as the CFO of "Yaroslav Tire Factory". In 2007 he joined "Gazprom neft" j.s.c. as project manager for development of sites in Western Siberia and he led the implementation of project of Novoport's oil and gas deposit. From 2009 to 2012 he worked as CFO of Moscow Refinery.

He is married and has two sons.



Sergey Alexandrovich Fominykh

Deputy CEO, Director of Function for Legal and Corporate Affairs

Born on January 4th, 1979.

Graduated from the Faculty of Law at the Mari State University and Central European University in Budapest in the field of jurisprudence and finished post graduate studies at the Moscow Financial and Legal Academy. He passed management training programmes at Moscow Management School Skolkovo and Judge Business School at Cambridge University. For more than seven years he worked as an associated in international legal consulting firms. In 2009 he joined the NIS j.s.c. Novi Sad management team as the Director of the Division for Legal Monitoring. In November 2010 he was appointed the Director of the Function for Legal and Corporate Affairs. In Company, he is in charge of team responsible for the legal support to the Company, Corporate Governance and management of real estate property.



Dmitry Valentinovich Fomenko¹

Deputy CEO, Head of Function for Organization Issues

Born in Moscow in 1967.

After finishing the Moscow Faculty for metals and mixtures, he launched his own business in the area of HR services, where he successfully implemented several projects in the area of providing HR support to large Russian and international corporations. In 2008 he starts working for "Gazprom Neft" j.s.c. as the Manager of Organization Project Office. Later he takes the position of Deputy CEO for Organization Issues in the Sibir Energy Group, oil company jointly owned by "Gazprom Neft" j.s.c. and Russian Government.

¹ Mr Fomenko was Deputy CEO, Head of Function for Organization Issues until February 1st 2014, when he was appointed Deputy CEO, Director of Oil Field Services



Eugene Eugeneyevich Kudinov

Deputy CEO for External Connections and Government Relations

He graduated in Economics from the Moscow State University "M.V. Lomonosov" as a regular student. His professional engagement began in the USSR State Committee for foreign economic relations. Before engaging in NIS j.s.c. Novi Sad he was positioned on a series of positions in USSR and RF trade missions in Serbia, on the position of Commercial Director in companies Interslavija and Sever; from 2000 to 2001 he worked at the Ministry of Economic Development and Trade of RF. In 2007 by the decision of the Government of RF he was appointed to the position of RF Trade Representative in Serbia, and he stayed on this position until 2011 when he started his engagement in NIS j.s.c. Novi Sad.



Svetlana Valeryevna Vycherova

Deputy CEO, Director of Function for PR and Communications

Born on October 6th, 1982.

She graduated from the Faculty of International Affairs at Moscow State University. She began her career in 2005 in the Function for Public Relation into the Russian - British Oil Company "TNK-BP". From 2006 to 2009 she worked in the Sector of Political Information in o."Gazprom Neft" j.s.c. . In April 2009 she was invited to assume the position of the Director of the Internal Communications Division in NIS j.s.c. Novi Sad. In July 2011 she has been appointed Director of Function for PR and Communications. From 2013 she is member of European Association of Communication Directors (EACD).



Maxim Alexandrovich Kozlovskiy

Deputy CEO, Director of Function for material-technical and service support and capital construction

Maxim Kozlovskiy was born in Russia in 1976.

He graduated from the Tyumen State University in the field of Finance and Credit as well as from the Tyumen State Oil and Gas University in the field of exploration and production of oil and gas fields. Prior to his engagement at NIS j.s.c. Novi Sad, he worked at „Rosat“ as Deputy Director for General Affairs, and „TNK-BP“ as Deputy Director of material-technical and service support Department, and later as Director of material-technical and service support Department. From 2011 to 2013 he worked at NIS j.s.c. Novi Sad as Deputy Director of Function for material-technical and service support, and from November 2013 he is engaged as Deputy CEO, Director of Function for material-technical and service support and capital construction.

He is married and has three children.



Aleksandra Samardzic

Director of Function for Internal Audit

She was born on July 21st, 1979.

She graduated from the Faculty of Economics at University of Belgrade in 2002. Since 2009 she possesses the ACCA license. She is member of the Serbian Chamber of Certified Auditors and she is certified and authorized external and certified internal auditor. Currently attending EMBA at CITY College at the University of Sheffield. During the 2003 she worked in the audit firm BDO BC Excel, and from 2004 to 2012 in audit firm Ernst & Young, holding several different positions the last of which was Senior Manager. From February 2012 she worked as Director of the Department for Corporate Audit at NIS j.s.c. Novi Sad, and in April 2013 she was appointed Director of Function for Internal Audit.



David Allison

Director of Function for HSE

Born on May 3th, 1962 in UK.

Graduated from the Polytechnic University of Kingston, in Kingston, Surrey, United Kingdom. He began his career by working for an oilfield services company Schlumberger in different countries in Africa. In 2008 he starts working in the company Petrom Romania. At first as a Senior Advisor for services in the field of exploration and production, however the same year he was appointed director of HSEQ for Exploration and Production. In January 2011 he was appointed the Head of corporate security function in OMV Group.

He is married and has three children.



Vadim Valentinovich Smirnov

Regional Director for Romania

Born in Kazakhstan on October 10th, 1963.

In 1985 he obtained University degree in Finance and Auditing. Besides that, he graduated from Diplomatic Academy (1994, in Moscow) and Moscow High Commercial School (1999, in Moscow). From 1985 till 1991 he worked in his profession in Russian Far East companies. From 1991 till 1998 he worked in MFA (The Ministry of Foreign Affairs of the Russian Federation), including long term business trips to Balkan region countries. From 1998 till 2009 he worked in JSC "Aeroflot" on different positions, including the position of the company representative for the Balkans (6 years) and manager of Department for control of foreign representative offices foreign-exchange business (2 years). Since 2010 he has been working in the field of economic security provision in Gazprom Group companies, and, since February 2012, he has been Director of Internal audit Function in NIS j.s.c. Novi Sad. Currently he is on position of Regional Director for Romania at NIS j.s.c. Novi Sad.



Branko Radujko

Regional Director for Adriatic

Born in 1974.

Graduated from law in 1998, at the State University of Montenegro. He graduated from master studies (MBA) at Faculty for Economics, Finance and Administration in Belgrade. Worked in a law office in Belgrade specialized in commercial law, and in the international humanitarian sector, as a manager of regional projects of United Nations repatriation. Since 2002, by 2008, he worked in the government sector, as an advisor and Chief of Staff of the Prime Minister, and the Secretary-General of the President of the Republic. He was a board member of several companies and institutions in the restructuring. Since February 2008, by September 2012, the CEO of Telekom Serbia AD, one of the leading companies in the country and the region. He was the first president of the Summit 100 of the business leaders of southeast Europe. Fluent in English. Married and has two sons.

Activities of the CEO's Advisory Board

In 2013 the CEO Advisory Board discussed the issues of importance to the operative and long-term planning of the Company's business activities.

In addition to regular business reports, management presented plans and reports on increase of the efficiency for certain organizational units, projects and various corporate boards. As in previous years, CEO Advisory Committee once a month reviewed the results and plans of subsidiaries in the region (projects in Romania, Bulgaria, Bosnia and Herzegovina and Hungary), as well as opportunities for business development in Kosovo and Metohija.

Management Succession Planning

In order to reduce potential risks for the Company and increase efficiency, specific systems and processes are in place within the Company aimed at ensuring the filling of vacant positions when it comes to the highest level of operational management of the Company. This involves the implementation of specific training programs so as to ensure long-term reduction of potential risks related to key managerial functions in the Company by continuous investment in the development of skills and competencies.

The methodology implies the existence of an analytical description of the characteristics of each position particularly in relation to areas of responsibility, potential changes which are expected and required

experience, knowledge and skills for performance of appropriate tasks. In addition, potential successors are assessed and lists of potential successors are prepared to include their names and surnames, their current positions and development plans.

The existence of a defined succession plan for key management positions is an important factor in the development of managerial personnel and preserving continuity of successful corporate governance.

Acquisition and disposal of the Company's shares by managers and related persons

In accordance with Article 84 of the Law on Capital Market and the Rulebook on handling NIS j.s.c. Novi Sad insider information, all persons performing managerial functions in the Company and persons related to them are obliged to report any acquisition or disposal of the Company's shares for their own account to the Securities Committee and to the Company within 5 days if individual acquisition or disposal of shares exceeds the amount of RSD 100,000, and also if the sum of the individual acquisition or disposal during the calendar year exceeds the amount of 500,000 RSD.

During 2013, the Company received no information about the acquisition or disposal of the Company's shares by members of Corporate Bodies or persons related to them.

Number and % of NIS j.s.c. Novi Sad shares owned by the Board of Directors members

Name and surname	Number of shares	% in total number of shares
Nikola Martinović	224	0.0001%
Negica Rajakov	5	0.000003066%
Nenad Mijailović	5	0.000003066%

Number and % of NIS j.s.c. Novi Sad shares owned by the Board of Directors members

Name and surname	Number of shares	% in total number of shares
Ljubomir Aksentijević	5	0.000003066%

Supervision and Internal Audit Affairs

The Company has established internal audit procedures as the basic form of internal control over the performance of key processes, activities and procedures, which are integrated in the system in view of ensuring as high efficiency of business processes and risk control as possible.

Apart from the internal audit system, the Company has established the following forms of supervision and control:

- Audit Committee
- Internal Audit
- Integrated Risk Management System
- Internal Controls of Business Processes and Established Management Systems
- Health and Safety Measures Implementation Control.

The Audit Committee has been established by the Board of Directors. The Committee deals with the issues of internal audit and in particular it engages in the assessment of internal audit systems, risk management processes and business processes harmonization, assessment of appropriateness of financial reporting and issues related to external audit.

The Company has established a separate internal audit function with the aim of providing independent and objective assurance of the adequacy of the corporate governance process, risk management and internal controls, adding value to and contributing to the overall efficiency and the improvement of the Company's business. Internal Audit operates in accordance with the International Professional Practices Framework and the normative and methodological documents in the area of internal audit, adopted at the Company level.

The Company has established the Integrated Risk Management System (IRMS), which is a system-structured, unified, continuous and continuous process of identification, evaluation, development and monitoring of the implementation of risk management measures. The risk management function is performed by the management staff per business process while the Risk Assessment Section within the Internal Audit Function, coordinates the process. Risk management measures are integrated into business plans and risk management process is regulated by an internal act of the Company. The key risks are associated with the Company's objectives, their identification is performed by the management, and the Board of Directors adopts the objectives

by adopting the Company's business plan. The assessment of key risks, management strategy and required resources for the implementation of planned risk management measures constitute an integral part of the business plan. The Company keeps the risk registry which is defined at the corporate level for each year.

Within the Company an integrated management system is established with the use of several standards for management systems, depending on the processes that take place in different organizational units. The verification of compliance with the prescribed standards is performed externally by accredited certification bodies which issue corresponding certificates based on performed certification. Within the management system regulated by the Company's normative-methodological documents, business processes are defined in the Company, classification has been made and processes have been described under appropriate documents. Key performance indicators (KPIs) have been defined, and they are measured and monitored on regular basis, analysed and used for defining programs and measures for process improvement. Internal audits of established management systems are performed per business process in accordance with internal audit program. Internal audits are performed based on a schedule, on the annual basis for each business process, while extraordinary internal audits are performed in case problems or process non-compliance has been identified.

The results of these controls are formed as reports based on which the Company's business process owners define measures for elimination of causes of identified non-compliance or measures for process improvement.

External Auditor

Financial Statements Audit

In accordance with the law and the Articles of Association, the Company auditors are appointed by the Shareholders' Assembly based on the motion of the Board of Directors. The auditor is elected at each regular meeting of the Shareholders' Assembly, in accordance with the Law on Capital Market, taking into account that NIS j.s.c. Novi Sad is a public joint-stock company. A legal entity performing the audit can perform up to five consecutive annual audits of financial statements.

The report on performed audit of financial statements and consolidated financial statements of the Company for 2012 prepared by the auditing company were adopted on 18 June 2013 at the 5th regular session

of the Shareholders' Assembly attended by the auditor of the Company, Pricewaterhouse Coopers Ltd. Belgrade, who is invited to the regular session of the Shareholders' Assembly in accordance with the law. The auditor has provided a written statement confirming his/her independence from the Company.

At the same meeting, the Shareholders' Assembly adopted the Decision on the appointment of PricewaterhouseCoopers Ltd. as the auditor of financial statements and consolidated financial statements for 2013. PricewaterhouseCoopers Ltd. Belgrade performed the audit of the annual financial statements of the Company for 2009, 2010, 2011 and 2012.

Based on the concluded agreement with the Company auditor, the auditor should perform the audit of the following subsidiaries: "O zone" a.d. Beograd, "Naftagas-Naftni Servisi" d.o.o. Novi Sad, "Naftagas - Tehnicki servisi" d.o.o. Zrenjanin, "Naftagas-Transport" d.o.o. Novi Sad and "NTC-NIS Naftagas" d.o.o. Novi Sad. Also, audit of the subsidiaries in the region is performed by subsidiaries within the PricewaterhouseCoopers Group based in Hungary, Romania, Bulgaria and Bosnia and Herzegovina.

Other Auditor Services

In addition to auditing financial statements and consolidated financial statements, PricewaterhouseCoopers Ltd or its affiliates provided other services to NIS j.s.c. Novi Sad during 2013. In providing these services, taking into account required knowledge and experience, the engagement of PricewaterhouseCoopers Ltd other than any other third party was considered to be more effective, or in some cases necessary. The provision of these services did not result in the conflict of interest and did not affect the auditor's impartiality. Other services (in addition to audit services) were related to the analysis of specific remuneration programs success, benchmarking of salaries and benefits, support on legal and tax issues, organization of IAS training for certain employees, etc.

Transactions involving personal interest and insider information

A person with special duties towards the Company is obliged to immediately inform the Board of Directors of the existence of personal interests (or the interests of a person related to him/her) in a legal transaction entered

into by the Company, and/or legal action undertaken by the Company.

By entering the Agreement on regulation of mutual rights and obligations with the Company, the members of the Board of Directors are familiarized with the obligation to notify the Company in case of potential conclusion of a legal transaction with the Company as well as with the obligation to eliminate competition and other special duties of the members of the Board of Directors.

The Company identifies legal transactions and legal actions with affiliated persons to ensure their occurrence only if they are not harmful to the Company. Legal transactions and legal actions with affiliated persons are approved by the Board of Directors in accordance with the law. The Board of Directors reports to the Shareholders' Assembly on the approval of entering into transactions involving personal interest at the regular session of the Shareholders' Assembly on the annual basis.

In case of legal transactions and legal actions with affiliated persons concluded within a group of affiliated companies (with a parent or subsidiary company), both companies must take care of their own interests, but also of the interests of another company, taking into account their economic relations and mutual risks.

The law stipulates that if there is a personal interest of directors in certain legal transaction, during the approval process by the Board of Directors, the decision is adopted by the majority of votes of all directors who have no personal interest in the transaction, i.e., the director whose personal interest has been identified does not take part in voting.

In addition, in order to monitor potential competition, the Company surveys the members of the Board of Directors on quarterly basis regarding the circumstances of their current engagement, as well as regarding their memberships in the board of directors and supervisory boards of other companies.

Insider Information

Trading with shares by using insider information is strictly prohibited under penalty envisaged by the Law on Capital Market. For this reason, the Company requires that all persons who permanently or temporarily have access to such information fully comply with the provisions of laws, bylaws and corporate deeds regulating insider information and confidential data.

The criteria based on which certain persons act in the capacity of insiders, their rights and obligations,

the obligations of the Company in view of ensuring the confidentiality of insider information, the procedure of insider information publication as well as the rules relating to the preparation, keeping and updating of the list of insiders are included in the Rulebook on handling NIS j.s.c. Novi Sad Insider Information.

In accordance with its legal obligations, the Company keeps a separate list of persons who work for the company under the employment contract or otherwise, and who have regular or occasional access to insider information which is directly or indirectly related to the Company. The list of insiders is updated regularly, and all the persons who are included in the list are familiarized with the concept and importance of insider information, obligations they have with regard to such information, as well as on the consequences of non-compliance with the prescribed obligations and misuse of such information.

Code of Business Ethics

The Code of Business Ethics governs ethical norms in all areas of business and formulates detailed rules and standards of behaviour regulating relationships with colleagues, clients, business partners, governmental authorities and local government authorities, public and competitors.

The principles contained in the Code provide clear recommendations for making ethically balanced decisions in different situations. The Code defines the norms and rules of behaviour, which are based on corporate values

and the observance of which the Company expects from all employees.

The Code of Business Ethics is available on the Company's website¹.

Relationships with stakeholders and socially responsible business

Information on identifying and developing relationships with key stakeholders, as well as the application of principles relating to corporate social responsibility, are available in the section of the Annual Report: Annual Report > Corporate Social Responsibility.

Sustainable Development

NIS has a long-term strategic commitment to nurturing and improving the principles of sustainable development and social responsibility. More information on sustainable development is available on the Company's website and in the Report on Sustainable Development², and in Annual Report: Business Report > Sustainable Development

1 <http://www.nis.eu/en/about-us/company-information/code-of-conduct>

2 <http://www.nis.eu/en/sustainable-development>





BUSINESS ENVIRONMENT

Global

After a faster growth of developing countries when compared to developed countries over the past five years, this trend was reversed in 2013. Declining domestic demand in developing countries such as Brazil and India was followed by falling exports.

The USA reports a recovery of the real estate market as well as a reduction in the employment rate. Having reduced interest rates in an attempt to accelerate recovery, the Euro-zone has come very close to emerging from the recession.

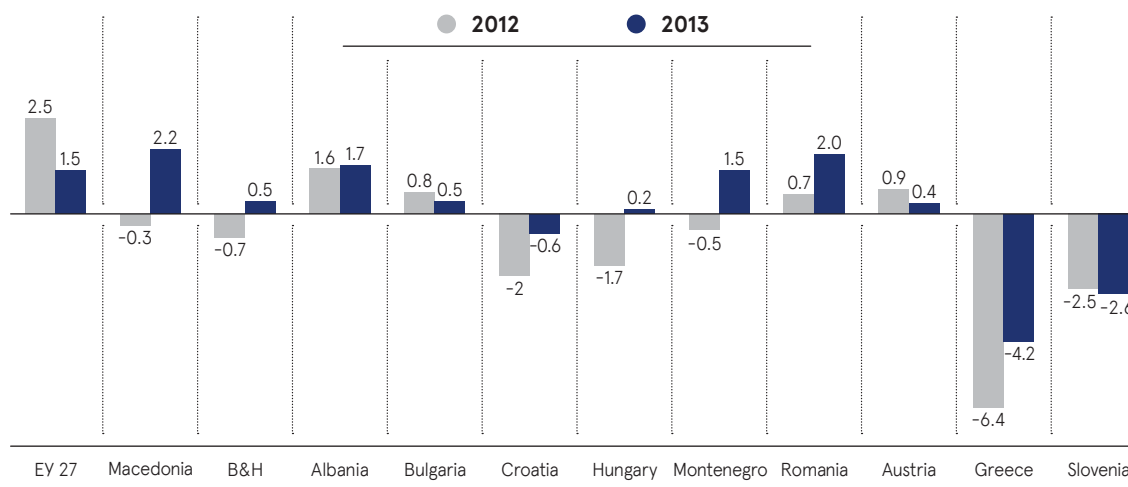
The global economy in general was reinvigorated towards the end of 2013, and the International Monetary Fund forecasts a 3.6% growth in the global production in 2014 against the projected 2.9% for 2013.

Average price of Urals crude oil in 2013.

108,3

USD/bbl

2012 GDP growth rate (in constant prices) and 2013 estimate, in %*



Source: IMF, October 2013; for EU 27 - Eurostat

Serbia

The National Statistics Office of Republic of Serbia has estimated that overall economic activities in 2013, measured by real GDP, achieved the actual growth of 2.4% compared to the previous year. The highest GDP growth rate was recorded in agriculture, forestry and fishing industry, power, gas and steam supply, and manufacturing.

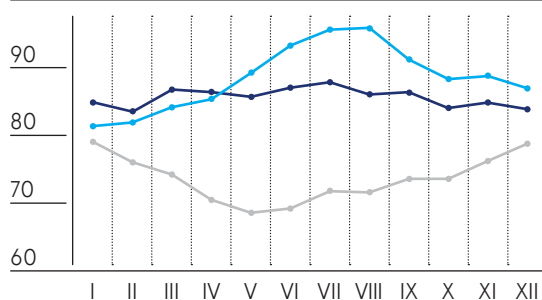
The annual inflation rate has also been estimated to reach 2.3%.

The most significant negative trend in 2013 is a rise in the public debt, which accounted for more than 60% of Serbia's GDP at the close of 2013. Also, unemployment rate is still very high. According to data from International Monetary Fund the unemployment rate for 2013 is 21%.

In the forthcoming period the GDP will mainly be influenced by a growth in exports-oriented industries, implementation of financial consolidation measures and speed of the Euro-zone's recovery.

USD/RSD exchange rate

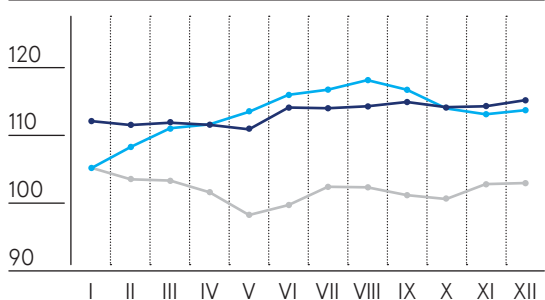
● 2011 ● 2012 ● 2013



- Decrease of USD/RSD exchange rate in 2013 was -3.5% or -3.0481 RSD (USD/RSD exchange rate changed from 86.1763 RSD as of January 1st, 2013 to 83.1282 RSD as of December 31st, 2013)
- Increase of USD/RSD exchange rate in 2012 was 6.6% or 5.31 RSD (USD/RSD exchange rate changed from 80.8662 RSD as of January 1st, 2012 to 86.1763 RSD as of December 31st, 2012)

EUR/RSD exchange rate

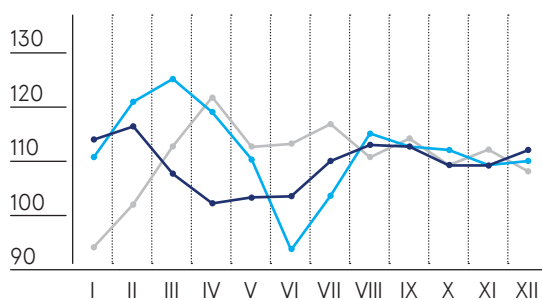
● 2011 ● 2012 ● 2013



- Increase of EUR/RSD exchange rate in 2013 was 0.8% or 0.9238 RSD (EUR/RSD exchange rate changed from 113.7183 RSD as of January 1st, 2013 to 114.6421 RSD as of December 31st, 2013)
- Increase of EUR/RSD exchange rate in 2012 was 9% or 9.077 RSD (EUR/RSD exchange rate changed from 104.6409 RSD as of January 1st, 2012 to 113.7183 RSD as of December 31st, 2012)

Urals crude oil price trends, in USD/bbl.

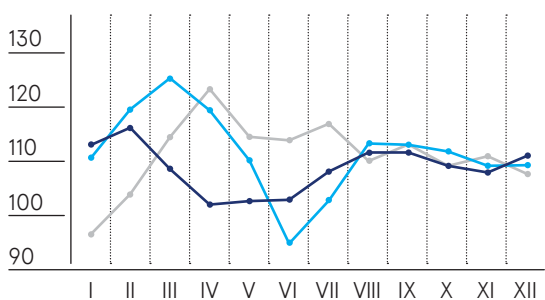
● 2011 ● 2012 ● 2013



Average Urals crude oil price in 2013 was 108.3 USD/bbl.

Brent crude oil price trends, in USD/bbl.

● 2011 ● 2012 ● 2013



An aerial photograph of a vast mountain range. The foreground shows lush green hills with a winding road. The middle ground features rolling green hills and valleys. The background consists of distant, hazy mountain peaks under a blue sky with scattered white clouds. The overall scene is bright and scenic.

**Top quality on
all levels**

**We listen to the needs
of the market**

**We provide highest standards
of quality**

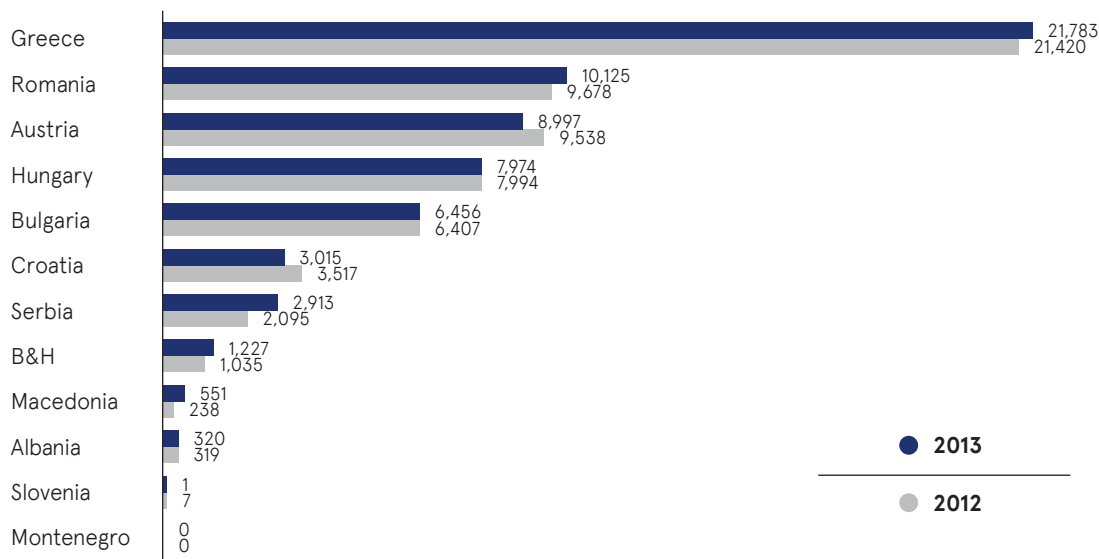
**All the petroleum products that
we make in the refineries are
compliant with the international
ISO quality standards**

An aerial photograph of a winding asphalt road through a lush green valley. The road curves through fields and dense forests. In the background, there are rolling hills and mountains under a blue sky with light clouds. The overall scene is vibrant and scenic.

We have met the needs of new generations of consumers and vehicles by launching a new, domestic, premium-quality petrol – Euro BMB 98

We have expanded our offer to include high-octane fuel, and we monitor the quality of all the products from exploitation to delivery

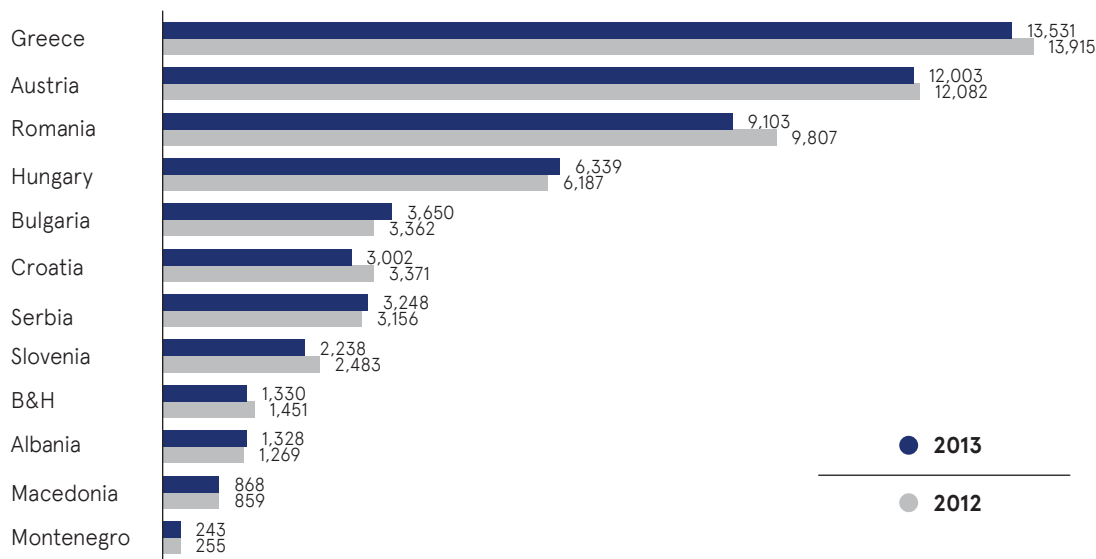
Oil derivatives production and consumption in Serbia* and the region**



* For Serbia, production of petroleum products includes commodity production of Refining Block, production of refinery in Elemir (gasoline and LPG), as well as the production of "Standard gas". Semi-finished products are not included.

** Sources: Eurostat (Romania, Austria, Hungary, Croatia, Slovenia), PFC Energy (Greece, Bulgaria, Albania, Macedonia), Energy balance (B&H, Montenegro) and NIS (Serbia)

Oil derivatives production and consumption in Serbia and the region**



** Sources: Eurostat (Romania, Austria, Hungary, Croatia, Slovenia), PFC Energy (Greece, Bulgaria, Albania, Macedonia), Energy balance (B&H, Montenegro) and NIS (Serbia)

Changes in Legislation in 2013

In 2013, changes in the legislation of the Republic of Serbia significant for NIS primarily concerned the continuation of harmonization with the European Union regulations in sector of energy and environment, as well as the commitments which the Republic of Serbia assumed having signed the South Eastern European Energy Community Treaty. This is a step forward towards further liberation of the energy and energy-generating products market, drafting of relevant by-laws governing protection of environment and natural resources, etc. However, the current economic situation both in the country and in neighbouring countries affects the legislative activities, imposing new duties on the economy and population, by the state's raising the existing and introducing new taxes.

In 2013, a number of by-laws were adopted, crucial for proper operations and control of the petroleum product market in Serbia, and, among them, one of the most essential is the Decree on Petroleum Products Marking, which is to enable control of motor fuel circulation in Serbia (LPG, gasoline, and Diesel) and to reduce smuggling and other malpractice. A new Rulebook on the Minimal Technical Requirements Applied in Petroleum Products and Biodiesel Trade, introducing the permitting obligation for biodiesel storage and blending, was adopted, as well as the Decree on Technical Requirements Related to Fire and Explosion Safety of Liquid Fuel Loading Terminal for Ships and Operational Vessels, for the first time regulating this market segment. Also, Serbian Government adopted a decree on the enforcement of laws on excise taxes in the territory of Kosovo and Metohija during the validity of UN Security Council Resolution no. 1244, which will allow the distribution of petroleum products in the territory of Kosovo and Metohija without paying double the excise tax. In addition, the first "National Renewable Energy Action Plan of the Republic of Serbia" was adopted, introducing blending of biodiesel into diesels as of 2015. The Commodity Reserve Law was adopted at the end of 2013, which, among other things, defines the obligation of keeping oil and petroleum product reserves, including that a number of by-laws stipulating this important matter in detail is expected to shortly follow. The fees to be paid by energy entities in connection with the introduction of petroleum product making and statutory reserve keeping obligation will represent yet another tax on the petroleum product price already burdened by ex-

cise and other taxes for end customers. Given the importance of the above mentioned regulations, and in order to establish a loyal competition on the market of Serbia, NIS played a lead role in creating the aforesaid documents.

The fiscal policy in the Republic of Serbia is subject to frequent amendments, due to an inability to create a budget balance. By the same token, based on the Government proposal, as of 1 January 2014, the lower-rate VAT (8%) has been increased to 10% also for natural gas, thermal energy for heating, passenger transport and waste water treatment, thus impacting NIS' business operations in the coming year. According to the Excise Law, the nominal excise amount on fuel, gaseous oils, LPG and biofuel has gone up from January 1st 2014, resulting in the growth of petroleum product prices. Also, at the end of year the Parliament adopted the Law on Amendments to the Law on Corporate Income Tax, by which the Article that provided tax credits to taxpayers who make investments in their own assets was deleted. This will affect NIS as the taxpayer of income tax of legal entities with regard to new investments in own assets, which will be implemented in 2014 and onwards.

In 2013, numerous by-laws pertaining to the Energy Law were adopted, and some of them – decrees stipulating provisions on the privileged power generating companies – have immense significance for the Energy Block. At the end of the year, the Serbian Government also adopted the Energy Development Strategy of the Republic of Serbia by year 2025, including assumptions by year 2030. NIS was and is providing an input to the aforesaid regulations, in order to make them more realistic and suitable to the requirements of energy generating companies on the market. The Energy Block has set out to grasp the opportunities created by the provisions of these regulations, notably when it comes to the issue of investments into the renewable energy sources, being one of prime targets regulated by the European Union directives, and also stipulated by the draft Energy Development Strategy of the Republic of Serbia by 2025.

The height of royalties paid by NIS, is regulated in accordance with the provisions of the Energy Agreement between Russia and Serbia, according to which the amount of this fee will not be changed before the MHC/DHT Pančevo Refinery Project becomes profitable. It is necessary to bear in mind that in 2013 the Law on Fees for the Use of Public Goods was drafted, and it is expected that the issue of fees will be regulated by this systemic regulation. The Geological Research Law bears a major significance for NIS, notably the by-laws that will ensue from it. In this regard, NIS

has been actively involved in improving the draft Law on Geological Research and Mining, which had several versions in 2013. It is expected that the Strategy on Mineral Resources Management of Republic of Serbia until 2030, the draft of which was published in January 2012, will be enacted.

The 2013–2018 Consumer Protection Strategy was adopted.

At the end of 2013, the Law on Facility Legalization was enacted, affecting NIS' property and its final registration, whereas the laws on privatization, bankruptcy, mediation in the resolution of disputes, labour, etc. are in the phase of drafting. All these laws bear a great relevance for the Company's further development, in terms of its employees' status, as

well as the receivables and funds invested into certain legal entities, targeted by the provisions of the aforesaid legislation. Other regulations are in preparation, which have a significant financial effect on NIS' business activity (Law on Fees for the Use of Public Goods, Law on Spatial Planning and Civil Engineering, Emergency Law, Law on Flammable Fluids and Gases, Law on Explosive Substances, Labour Law...), as well as on the state of the market of petroleum products, natural gas, and energy in general.

NIS will keep striving to maximally influence the positive creation of the changing business environment in Serbia, and especially draw attention to the need to harmonize the regulations and strategies as to make their application feasible and unobstructed.





RISK MANAGEMENT

Development of Integrated Risk Management System

In 2010, the Group defined objectives in the area of risk management and established an integrated risk management system (IRMS). IRMS is a systematic, structured, unified, continuous and uninterrupted process of identifying, evaluating, defining and monitoring the implementation of risk management measures. The basic principle of this system is that the responsibility for various risks management has been assigned to different management levels depending on the estimated financial impact of the risk.

Risk Management Standard was adopted in 2011. It defines the risk management principles in view of increasing the Company's business efficiency in short-term and long-term perspective.

In parallel with the regional expansion, all relevant subsidiary companies have joined the risk management process. The consolidated risk registry has been prepared and includes significant risk-related events of subsidiary companies.

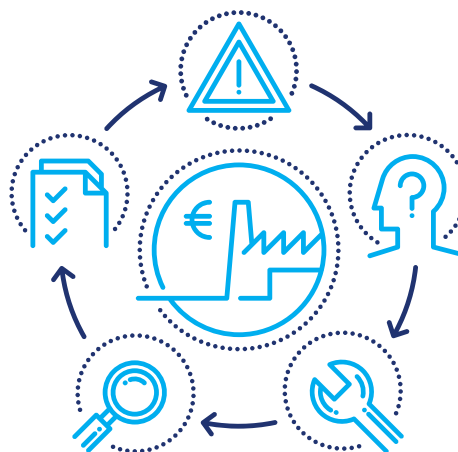
Risk Assessment Section was established in 2013 to coordinate and develop this process on a continuous basis.

The objective in the area of risk management is to provide additional guarantees for the achievement of strategic objectives by timely identification/risk prevention, definition of effective measures and ensuring maximum efficiency of risk management measures.

Risk management has become an integral part of internal environment owing to the implementation of the following processes:

- Adoption of the approach focused on risks in all aspects of management activity
- Systematic analysis of identified risks

- Establishment of the risk control system and monitoring the efficiency of risk management measures
- Introducing all employees with adopted basic principles and approaches in risk management process
- Ensuring required normative and methodological support
- Distribution of authorizations and responsibilities in risk management among organizational parts.



IRMS Integration in Business Planning Process

Risk assessment is an integral part of the business planning process and information on key risks constitute an integral part of business plans.

Risks are identified and assessed in parallel with the business planning process. Management strategy is defined for key risks as well as measures for risk management, required financial resources for the im-

plementation of measures and persons responsible for their implementation.



Industrial risks

Since the main area of business is production, refining and sales and distribution of oil and gas, the Group is particularly exposed to risks in the area of oil exploration and production.

Risks in the area of oil exploration and production

One of the important goals of NIS Group is the increase in the resource base of the Group by intensifying the exploration. This largely depends on the success of geological and exploratory activities aimed at the development of oil well fund in the country and abroad.

The main risk in the field of exploration and production is the non-confirmation of estimated reserves and consequently failure to achieve the planned increase in the resource base.

NIS Group has extensive experience in conducting geological and exploratory works, it conducts the expertise of the program for geological and exploratory works internally and by the largest shareholder and uses the state-of-the-art methods of exploration, which all contributes to reduced probability of this risk. In order to increase the efficiency and quality of geological exploration works, fleet of drilling rigs has been further modernized.



Financial risks

The Group is exposed to various financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. Risk management in the Group ensures that the potential

negative impacts on the Group's financial performance due to the unpredictability of financial markets are minimized.

Market risk

Foreign exchange risk – NIS Group operates internationally and is exposed to foreign exchange risk arising from transactions in different currencies, primarily USD and EURO. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. The portion of risk relating to the impact of the national currency exchange rate against USD is neutralized through natural hedging of petroleum products sales price which adapts to changes in the exchange rate. Risk management instruments are also used and include forward foreign exchange transactions on the market which contribute to the reduction of currency losses in case of depreciation of the national currency against USD or EURO.

Price change risk – Due to its basic business activities, NIS Group is exposed to the risk of changes in price of crude oil and petroleum products, which affects the value of inventories and margins in the refining of oil, which further affects future cash flows. A portion of these risks is eliminated through petroleum products sales price adjustments to these price changes of crude oil and petroleum products. Until 2013, legal regulations of the Republic of Serbia did not allow the use of non-deliverable petroleum products for hedging the prices of oil and other goods, but this was made possible as of mid-2013. The needs for using certain goods hedging instruments for subsidiaries within the group are assessed at the level of Gazprom Neft Group, including NIS j.s.c. Novi Sad as a subsidiary. Additionally, in order to reduce the potential negative impact of the above risks, the following activities are carried out:

- annual planning approach based on scenarios, plans monitoring and timely adjustments to operational plans for the procurement of crude oil
- regular sessions of the Committee for crude oil procurement
- tendency to enter into long-term contracts for crude oil procurement at favourable market and commercial terms, with longer payment deadlines based on open account, daily monitoring of publications crude oil, and contacts with foreign partners.

Interest rate risk – NIS Group is exposed to interest rate change risk both from the aspect of taking loans from banks and from the aspect of investing assets. NIS j.s.c. Novi Sad takes loans from commercial banks at variable interest rates and performs the sensitivity analysis for interest rate changes and assesses whether loans at fixed interest rates should be taken to a certain extent. Furthermore, investments in cash assets are also made. Cash assets are invested only with key commercial banks that have granted loans, and/or credit/documentary lines to NIS j.s.c. Novi Sad. Also, assets deposited for a fixed term in RSD or foreign currency, are deposited for a short period of time (up to 90 days) at fixed interest rates. Based on the foregoing, the Group's income and cash flows are substantially independent of changes in market interest rates on invested funds in the form of time deposits, although the level of interest rates that the Group could realize in the market depends largely on the amount of the basic interest rate at the time of depositing (Belibor, which is NBS reference interest rate).

During 2013, NIS j.s.c. Novi Sad granted subordinated loans to foreign subsidiary companies in the majority ownership of the Company (members of NIS Group), as a method for financing business activities abroad. Loans granted for this purpose have been granted at variable interest rates (Euribor).

Loans granted at variable rates expose the Group to cash flow interest rate risk.

Depending on the net debt at certain period of time, any change in the basic interest rate (Euribor or Libor) has a proportional impact on the performance of the Group.

Credit Risk

Credit risk is managed on the Group level. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, intercompany loans granted to foreign and domestic affiliated legal persons, as well as due to exposure to the wholesale and retail trade, including outstanding receivables and assumed liabilities.


As regards credit limits, banks are ranked based on defined methodologies for key and other banks in view of compliance of security instruments.

As regards receivables from clients, there is a developed methodology of credit limits based on which the exposure level towards certain clients is defined depending on their financial indicators.

Liquidity Risk


NIS Group continuously monitors liquidity to ensure sufficient cash to meet operational needs while maintaining a level of unused credit lines, so as not to exceed the allowed credit limit from banks or the terms of the loan.

This design takes into consideration the Group's plans with respect to the settlement of debts, compliance with contractual terms, compliance with internally set goals, and is based on daily forecasts of cash flows for the whole NIS Group based on which decisions on potential additional loans are adopted for which appropriate bank funding sources are provided within the restrictions set by "Gazprom Neft" j.s.c..



Modern technologies for new triumphs

At NIS, introduction and
efficient use of new technologies
is a development priority in all
business areas



We attain them by continuous modernization of the oil and gas business, by introducing new methods of oil and gas exploitation, building new refining facilities, automating business operations, and modernizing the retail network

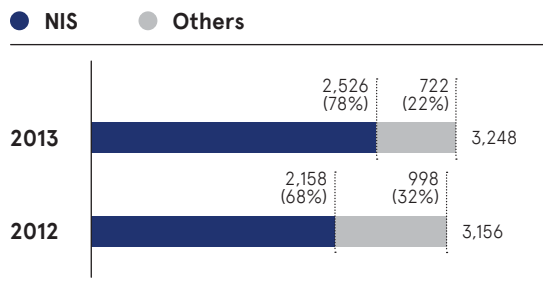


MARKET SHARE

Serbian market

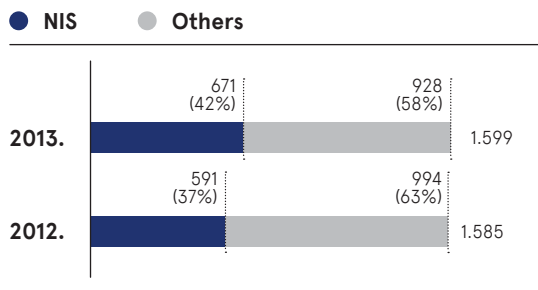
- The naphtha consumption increase is the basic reason for the consumption increase at the rate of 2.9% in the overall petroleum products market in the RS, while there is simultaneously a decrease in consumption of motor fuels, fuel oil, bitumen and coke
- In 2013, economic activities in the country did not recover sufficiently fast, influx of foreign direct investments was slightly over EUR 500 million and there was a delay in big investment projects implementation. The growth of real GDP of 2.4% resulted predominantly from the development of a small number of big export oriented companies, while the largest number of firms was affected by the big crisis.
- The reasons for a significant increase in market share of NIS j.s.c. Novi Sad lie in the fact that the larger portion of imported "extra light" heating oil, naphtha and Euro Diesel was substituted with domestic products from Pančevo refinery, as well as in active sale, efficient pricing policy, supply of petroleum products through the network of depots, etc.
- The retail market in the Republic of Serbia saw a slight increase owing to the transfer of a part of volume from the wholesale channel to the retail channel in the segment of corporate clients, but also due to the lower base consumption by natural persons last year, which was already at a low level.
- The reasons for the market share increase lie in the continuous process of petrol stations' modernization, improved service, active sale and positive effects of rebranding and marketing activities (loyalty program "Super kartica").

The volume of overall petroleum products market in Republic of Serbia*, in thousand tons 2.9%



* Source: Serbian Chamber of Commerce, National Oil Committee of Serbia, reports from Sales and Distribution Blok

Retail market* in Republic of Serbia*, in thousand tons 0.9%



* Source: Serbian Chamber of Commerce, National Oil Committee of Serbia, reports from Sales and Distribution Blok

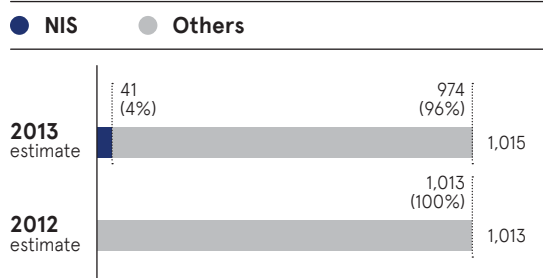
** Sales for NIS include motor fuels and heating oil EL, and for others motor fuels, heating oil EL and euro EL

Markets of Bosnia and Herzegovina, Romania and Bulgaria

Bosnia and Herzegovina

- Retail and overall motor fuel market is at the last year's level.
- The country is still highly dependent on international aid, while its trade deficit largely

The volume of overall motor fuel market in Bosnia and Herzegovina, in thousand tons **0.2%**

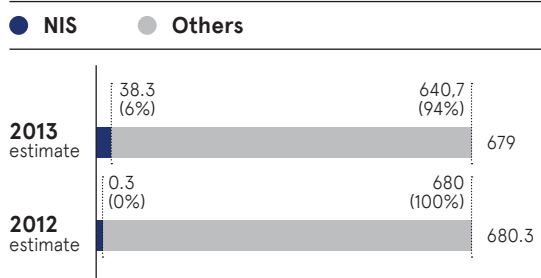


* Source: Reports of Sales and Distribution Block and PFC Downstream Monitoring Service – Europe, 2013

prevents the implementation of development and infrastructure projects which would contribute to better economic performance. Low purchasing power of the population and very high unemployment rate together with weak economic performance negatively affect the movements in the retail and overall motor fuel market.

- In 2013, with 36 petrol stations and two brands, NIS managed to ascertain its stable market position and to create excellent prospects for further growth and development.

Retail market in Bosnia and Herzegovina, in thousand tons **-0.2%**



* Source: Reports of Sales and Distribution Block and PFC Downstream Monitoring Service – Europe, 2013

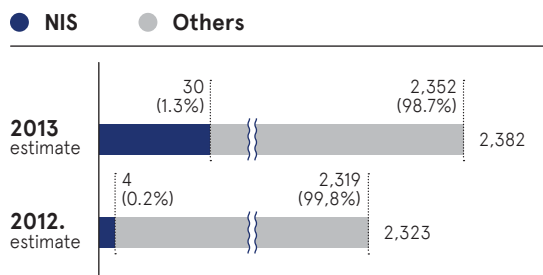
Bulgaria

- Global crisis has deepened already pronounced organizational problems in the country although long term prospects remain positive taking into account great unused potentials for further development
- Bulgaria's motor fuel market has recorded a significant decline since global economic crises started. Gradual market recovery began during the last year owing to the increase in consumption of diesel which should be the key support for further growth. The market has been significantly liberalized. In addition to the expected economic performance improvement, the motor fuel market has been significantly strengthened with the transfer of the volume from grey market to the legal framework.
- With 30 petrol stations, NIS positioned itself successfully in the market in 2013. Further development of its sales network and further

investments in the growth and development in the Bulgarian market guarantee a stable basis for sustainable development and strengthening of market position in the next period.

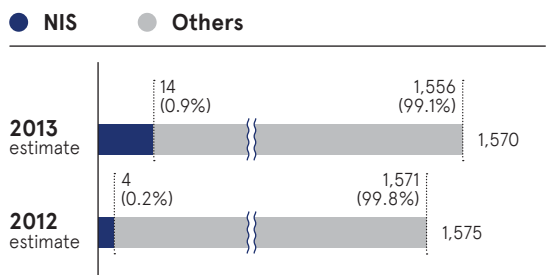


The volume of overall motor fuel market in Bulgaria, in thousand tons 2.5%



* NIS sales includes motor fuels, eurdiesel, heating oil EL and autogas.
Source: Reports of Sales and Distribution Block and PFC Downstream Monitoring Service – Europe, 2013

Retail market in Bulgaria, in thousand tons -0.3%



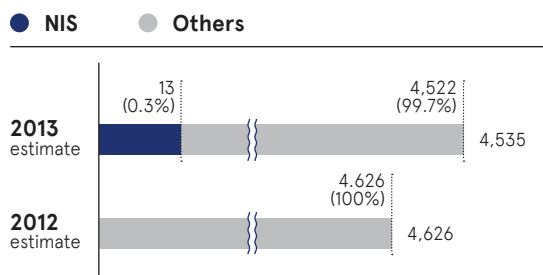
* NIS sales includes motor fuels, eurdiesel, heating oil EL and autogas.
Source: Reports of Sales and Distribution Block and PFC Downstream Monitoring Service – Europe, 2013

Romania

- Retail and motor fuel market recovery is expected during 2014 with a gradual improvement in economic performances
- Global recession has deepened already pronounced structural weaknesses of Romanian economy. Austerity measures which are being implemented should result in the improvement of macroeconomic performances. Demand for staple products in the oil derivatives market is deeply influenced by pricing pressures and growth in the oil derivatives grey market.

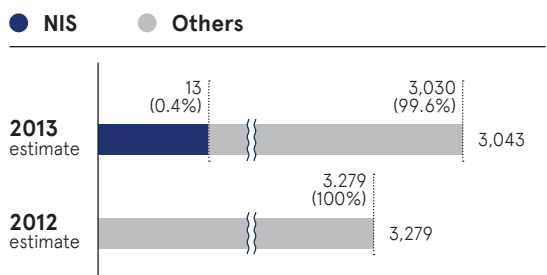
- The growth in motor fuel market should be influenced mostly by the increase in diesel and LPG consumption. Prospects for retail market recovery remain fairly solid.
- In 2013, with its retail network consisting of 14 petrol stations under the GAZPROM brand, NIS established a fairly solid basis for further development and development in the Romanian market.

The volume of overall motor fuel market in Romania, in thousand tons -2%



* NIS sales includes motor fuels, eurdiesel, heating oil EL and autogas.
Source: Reports of Sales and Distribution Block and PFC Downstream Monitoring Service – Europe, 2013

Retail market in Romania, in thousand tons -7.2%



* NIS sales includes motor fuels, eurdiesel, heating oil EL and autogas.
Source: Reports of Sales and Distribution Block and PFC Downstream Monitoring Service – Europe, 2013



RESULTS ANALYSIS

KEY INDICATORS¹

Q4 2013	Q4 2012	(%) ²	Key Indicators	Measurement unit	2013	2012	(%) ²
109.0	109.3	0%	Urals	\$/bbl.	108.3	110.6	-2%
16.6	14.8	12%	Net profit	bn RSD	48.3	45.5	6%
21.2	18.3	16%	EBITDA ³	bn RSD	68.8	65.6	5%
74.5	64.4	16%	Sales	bn RSD	259.4	226.6	14%
25.7	9.5	171%	OCF	bn RSD	75.3	37.3	102%
31.8	29.1	9%	Accrued taxes and other public revenues (Serbia) ⁴	bn RSD	121.9	92.4	32%
415	416	0%	Domestic oil and gas production ⁵	thou. t.o.e.	1,642	1,605	2%
303	300	1%	Domestic oil production ⁶	thou. tons	1,200	1,158	4%
862	736	17%	Oil and semi-finished products refining volume	thou. tons	3,066	2,254	36%
896	688	30%	Total sales of oil products	thou. tons	3,079	2,395	29%
36	2	1,700%	Sales – abroad asset	thou. tons	84	4	2,000%
716	601	19%	Oil products domestic market sales	thou. tons	2,497	2,122	18%
190	174	9%	Retail	thou. tons	674	597	13%
597	455	31%	Light oil products sales	thou. tons	2,154	1,662	30%
0.0	17.8	-100%	CAPEX from GPN loan ⁷	m EUR	0.0	127.5	-100%
17.8	18.1	-2%	CAPEX from NIS funds	bn RSD	55.6	36.4	53%
489	418	17%	Total bank indebtedness ⁸	m USD	489	418	17%

1 Results, financial and operational indicators are shown for NIS group

2 All possible discrepancies in percentage values and total values are due to rounding errors

3 EBITDA = Sales (without excise tax) – inventories (of oil, oil products and other products) – operational expenditure (OPEX) – other costs, which management cannot affect

4 Accrued taxes and other public revenues includes taxes, duties, fees and other public revenues for reporting period. The review includes NIS j.s.c. Novi Sad and its subsidiaries: „NTC NIS Naftagas” d.o.o., „Naftagas – Transport” d.o.o., „Naftagas – Tehnicki servisi” d.o.o. and „Naftagas – naftni servisi” d.o.o. The review does not include „O Zone” a.d., „NIS Svetlost” d.o.o. and „JUBOS” d.o.o.

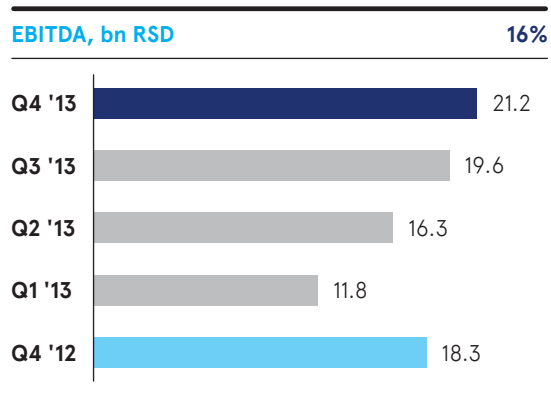
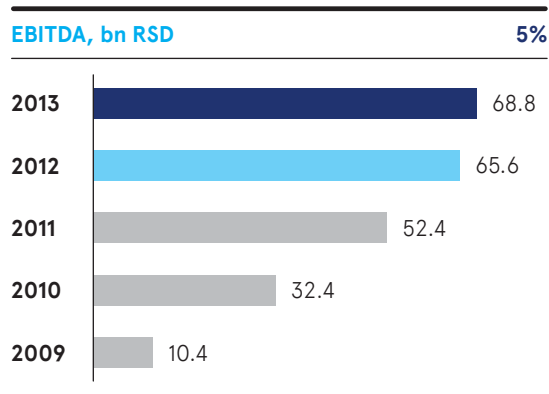
5 Due to changes in methodology domestic oil production includes gazoline and light condensate, and for gas production commodity production of gas is used.

6 With gazoline and light condensate

7 Under the Agreement of sale and purchase of shares of NIS j.s.c. Novi Sad, clause 8.1.2, “Gazprom Neft” j.s.c. (GPN) has an obligation to provide EUR 500 million to NIS j.s.c. Novi Sad by way of special purpose loans in order to implement NIS j.s.c. Novi Sad technological complex reconstruction and modernization program. All obligations of “Gazprom Neft” j.s.c. under the acquisition agreement were fully met in April 2012 and in the second half of 2012 NIS started with loan repayment. Values for CAPEX from GPN loan and CAPEX from OCF are without VAT

8 Total bank indebtedness = Total debt to banks + letters of credit As of December 31st 2013 this amounts to 455 millions of USD of total debt to banks and 34 millions of USD of letters of credit

Financial indicators

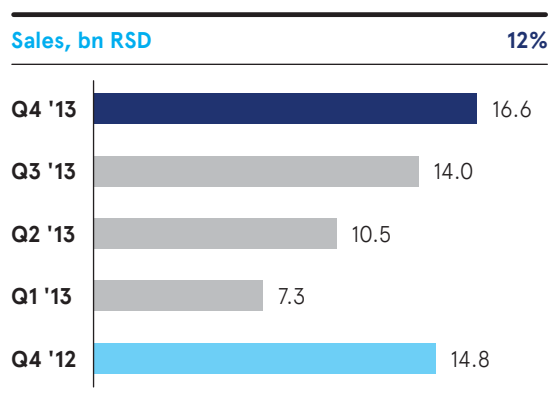
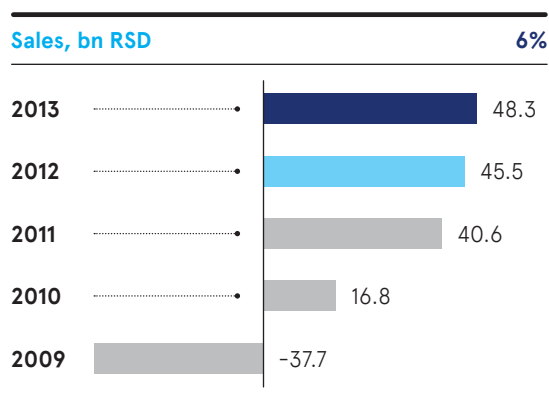


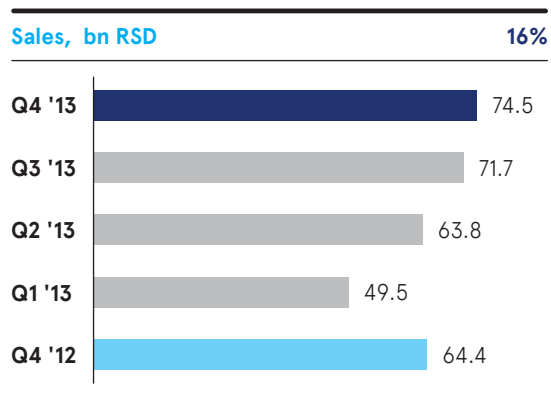
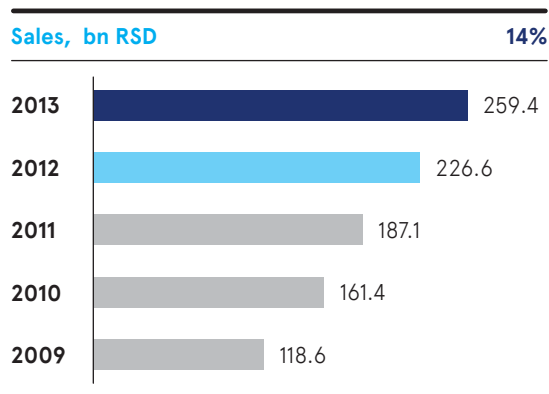
EBITDA increased by 5% in 2013 compared to 2012:

- MHC/DHT put in operation
- Increased volumes of refining and sales
- Increased business efficiency

Net profit increased by 6% in 2013 compared to 2012:

- MHC/DHT put in operation
- Increased volumes of refining and sales
- Increased business efficiency

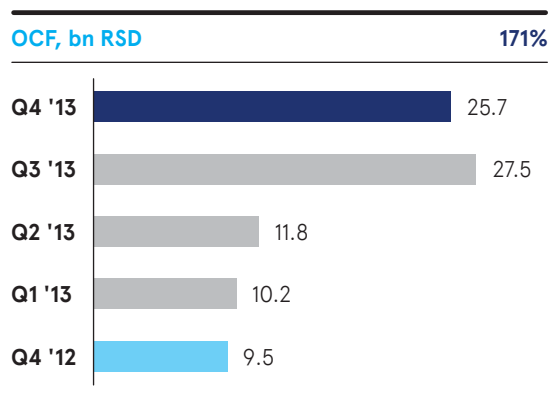
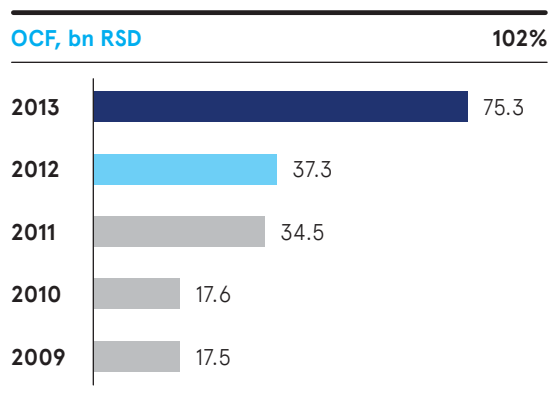




Incline of retail prices of oil derivatives in 2013 is app. 0.5% compared to 2012:

Changes in retail prices	(%)
BMB 95	0.24%
Euro premium BMB 95	-2.50%
D2*	4.33%
Euro diesel	0.16%

* Given that D2 is no longer on sale since October 2013, the price ratio is the retail price of D2 from January through October 2013 against the retail price of D2 from January through December 2012.



Increase of OCF:

- Improved collection of receivables despite problems in collection from the public sector

Operating indicators

Exploration and Production

In 2013 domestic oil and gas production is 1,642 thousand of tons of oil equivalent, which is a 2% rise compared to 2012:

- Increased production of domestic oil due to additional geological and technical activities
- Gas production dropped by 1% against 2012 due to compressor station overhaul and a higher pressure in the main gas pipeline

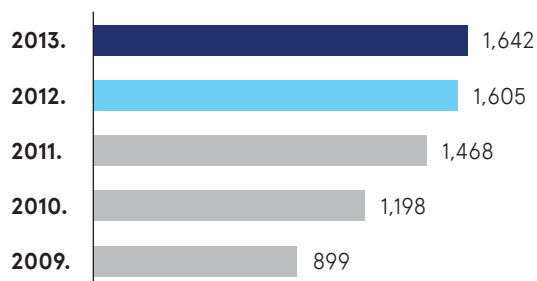


	2012	2013	Δ
Domestic oil and gas production*, thou. t.o.e.	1,605.2	1,642.1	2%
Domestic oil production**, thou. tons	1,158.4	1,199.7	4%
Domestic gas commodity production, m ³	556.4	551.0	-1%

* Due to changes in methodology domestic oil production includes gasoline and light condensate, and for gas production commodity production of gas is used.

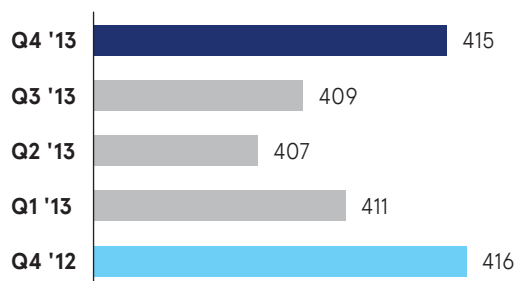
** Including gasoline and light condensate

Domestic oil and gas production*, thou. t.o.e. 2%



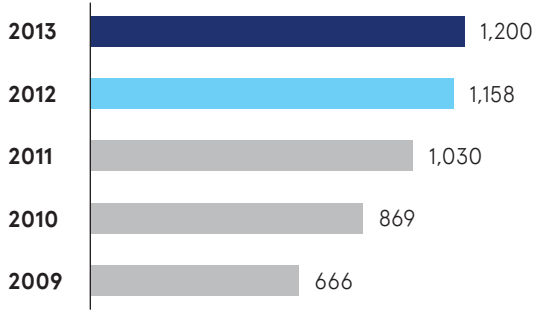
* Due to changes in methodology domestic oil production includes gasoline and light condensate, and for gas production commodity production of gas is used.

Domestic oil and gas production*, thou. t.o.e. 0%



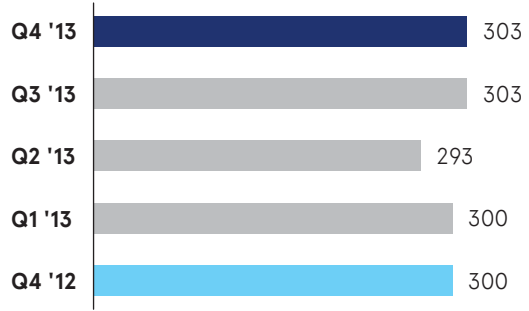
* Due to changes in methodology domestic oil production includes gasoline and light condensate, and for gas production commodity production of gas is used.

Domestic oil production*, thou. tons 4%



* Including gasoline and light condensate

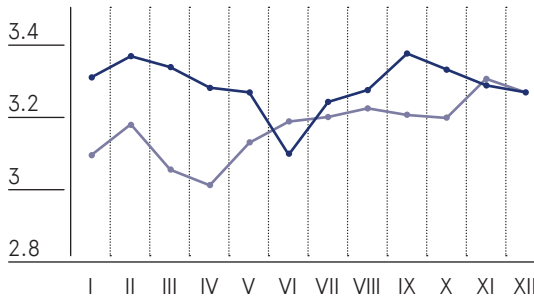
Domestic oil production*, thou. tons 1%



* Including gasoline and light condensate

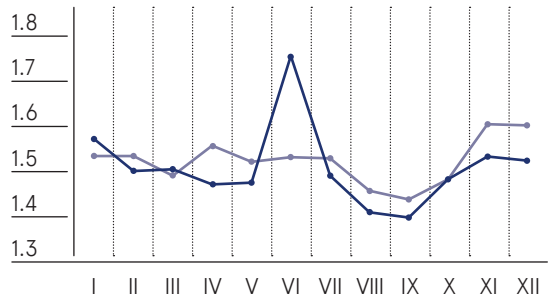
Domestic oil production dynamics, thou. tons per day

● 2012 ● 2013



Domestic oil production dynamics, thou. tons per day

● 2012 ● 2013



Refining

In 2013, 36% rise in refined oil volumes and reprocessing of semi-finished products was recorded compared to the previous year, the refining and semi-finished products¹ reprocessing volumes totalling 3,066 thousand tons in 2013, whereas in 2012 the refining and reprocessing volumes reached 2,254 thousand tons:

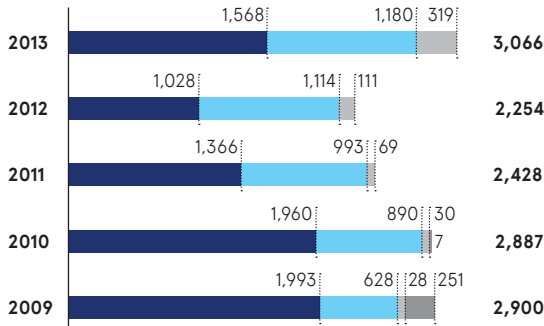
- Increase of crude oil refining volumes
- No capital overhauls in 2013, only commercial delays or halts due to investment projects
- Oil refining and semi-finished products reprocessing within the operational plans developed to meet market requirements
- MHC/DHT plant operation in 2013 brought about a positive change not only in the refining and reprocessing volumes, but also in the product structure



1 Semi-finished products include internal semi-finished products undergoing further processing or blending, and slop and gas condensate.

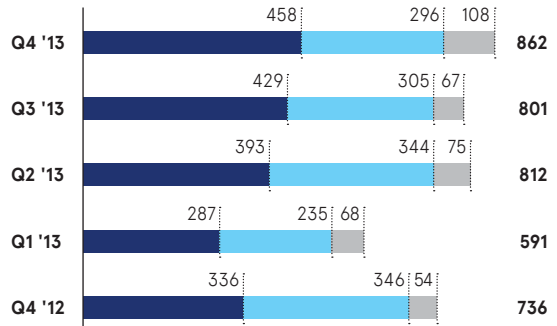
Refining volume, thou. tons 36%

- Imported crude oil
- Domestic crude oil
- Semi-finished products
- Crude oil toll services for third persons



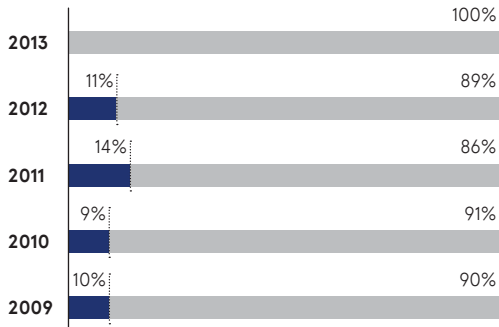
Refining volume, thou. tons 17%

- Imported crude oil
- Domestic crude oil
- Semi-finished products



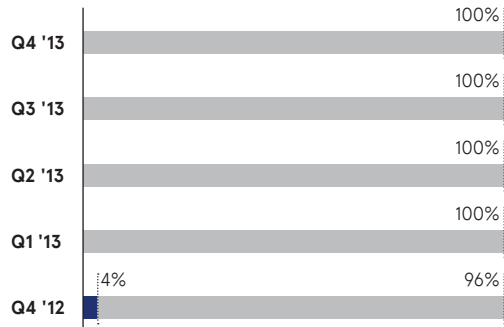
Refining per refineries, thou. tons

- RNS
- RNP



Refining per refineries, thou. tons

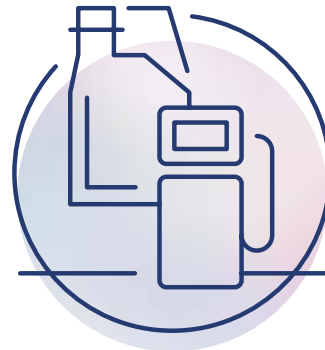
- RNS
- RNP



Sales and Distribution

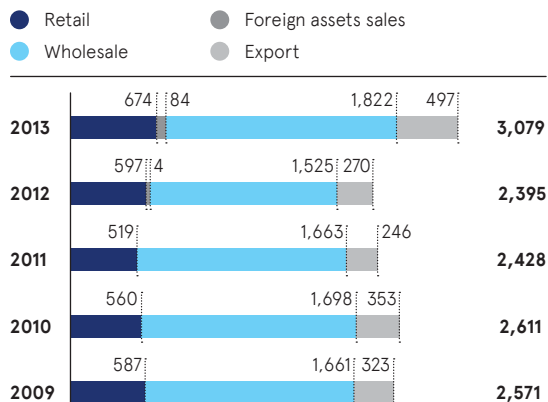
29% rise in the total oil derivatives sales against 2012:

- **Retail – 13% sales increase:**
 - Increase in Euro-quality petroleum product sales
- **Foreign assets sales – 21x growth**
 - Foreign sales were insignificant in 2012
- **Wholesale – 19% growth:**
 - Diesel fuel sales increase due to improved sales of domestically-produced Euro Diesel
 - Lower sales of heavy fuel oil due to favourable weather conditions
 - Lower gasoline sales due to falling consumption in Serbia and single-source supplies due to transfer to Euro-gasoline.

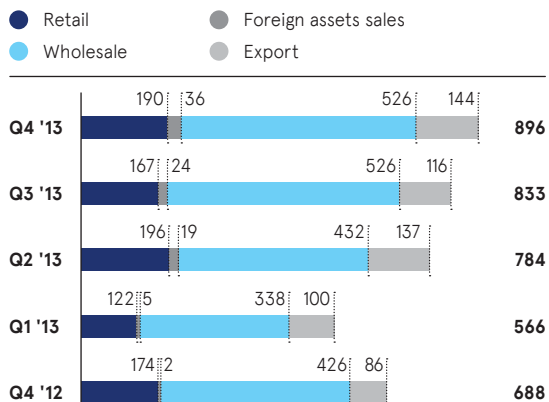


- **Exports – 84% growth:**
 - Growth in sales of heavy fuel oil and gasoline components
- **Larger share of white products**

Sales volumes*, thou. tons 29%

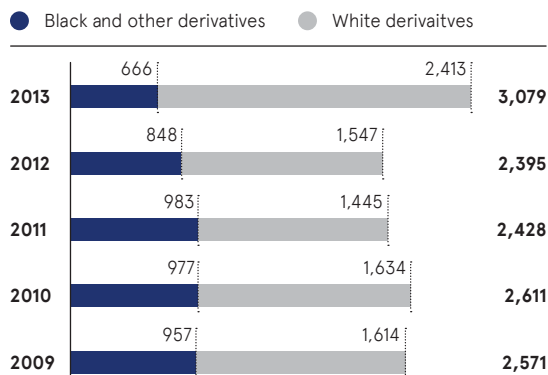


Sales volumes*, thou. tons 30%

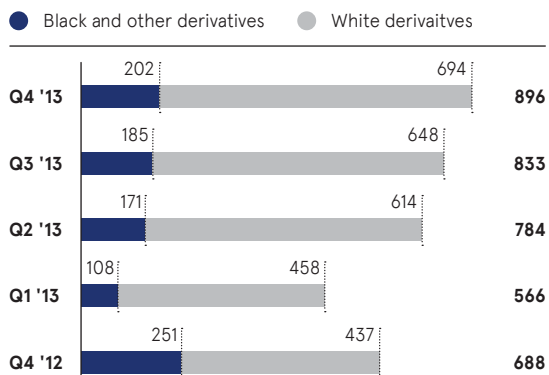


* Foreign assets sales are quantities sold by NIS' subsidiaries. NIS delivered to its subsidiaries 27 thousand tons in Q4 2013 and 55 thousand tons in 2013, the rest quantities were delivered by other suppliers

Sales structure, thou. tons



Sales structure, thou. tons



Number of petrol stations in Serbia in 2013*

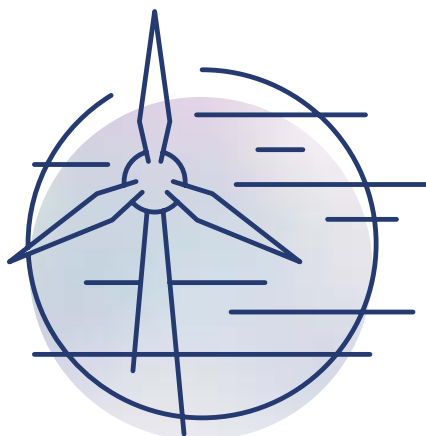
Operational petrol stations	328
Reconstructed petrol stations	9
New petrol stations	1
New LPG facilities	2
Petrol stations on lease	80

* As of December 31st, 2013

Number of petrol stations in the region in 2013*

	Romania	Bulgaria	B&H
Operational petrol stations	14	30	36
Reconstructed petrol stations	6	3	2
New petrol stations	8	1	0
Rebranded petrol stations	0	26	34

* As of December 31st, 2013



Energy

In 2013 NIS started the implementation of project of construction of Plandište Wind Farm – first of its kind in Serbia.

- NIS launched the gas resources efficiency programme through the development of small-scale cogeneration plants.
- Reducing the dependency on “Srbijagas” through reduced supply of natural gas
- “Gazprom Energoholding” and NIS signed the Memorandum on Construction of Steam and Gas PP in Pančevo.



Oilfield Services

A rise is recorded in the drilling services provided in 2013 against 2012 due to the extended scope of exploratory and development drilling.

- Physical scope of 3D seismic was exceeded nearly threefold, which largely compensated for the conducted 2D seismic (nearly 70% less than in 2012).
- More well service operations
- NIS j.s.c. Novi Sad subsidiary “Naftagas - Naftni Servisi” d.o.o. has certified its equipment for EU operations.

RATIO INDICATORS

	2013	2012
Return on total capital (Gross profit/total capital)	32%	36%
Net return on equity* (Net profit/shareholders equity*)	59%	52%
Operating net profit (operating profit/net sales income)	22%	32%
Degree of leverage (short term and long term liabilities/equity)	94%	108%
Degree of leverage (short term and long term liabilities/ shareholders equity*)	195%	165%
1st degree liquidity (cash and cash equivalents/short term liabilities)	9%	19%
2nd degree liquidity (current assets - inventories/short term liabilities)	74%	108%
Net working fund ratio (current assets – current liabilities/current assets)	6%	21%

* shareholders equity = share capital

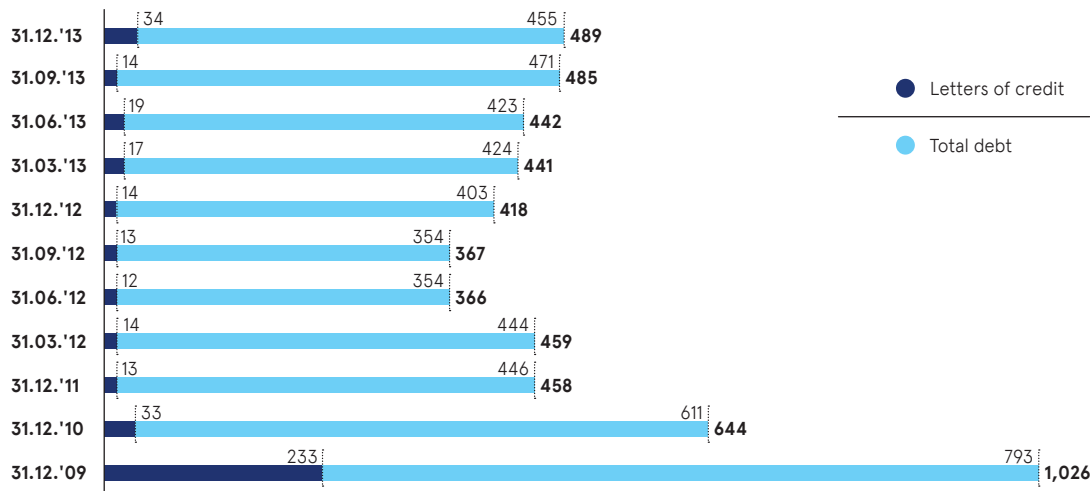




BANK INDEBTEDNESS

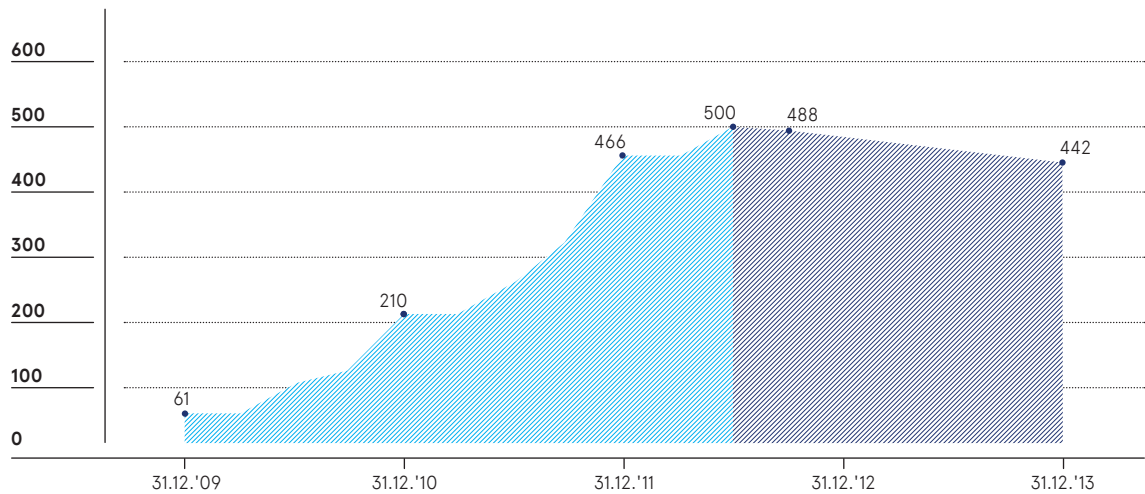
Total bank indebtedness, million USD

17%



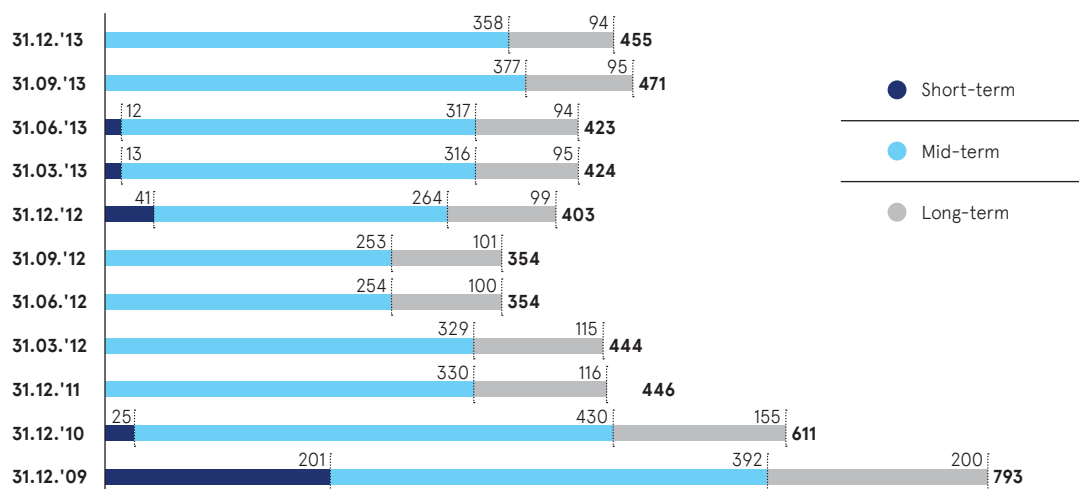
GPN loan, million EUR

-9%

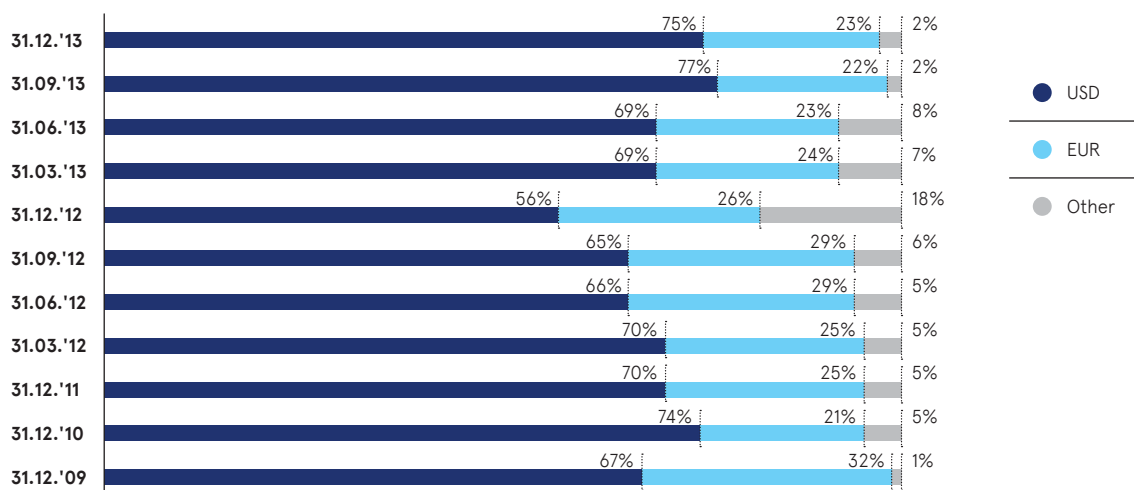



Total debt to banks, m USD

13%



Structure of total debt to banks, by currency, in%



A woman with long brown hair, wearing a dark green backpack, is seen from behind, looking out over a city skyline. She is standing on a grassy hill. The background shows a city with several buildings, including a prominent tower, under a bright, hazy sky. The foreground is filled with tall green grass.


**More than
discharging duties**

121,9

**billion dinars – the amount
of calculated duties based on
public revenues that NIS pays
in Serbia**

32%

**more than in the same
period last year**

A woman wearing a light-colored hat and a blue shirt is seen from behind, looking towards a large, light-colored building in a park-like setting. The scene is bathed in warm, golden light, suggesting late afternoon or early morning. The background is filled with tall, thin trees and green grass.

3,7

**billion dinars paid into the budget of the
Republic of Serbia as dividend**

**For the duties based
on public revenues, NIS
regional subsidiaries have
allocated twice as much
compared to last year**



CHANGES ON ASSETS, LIABILITIES AND RESULTS OF MORE THAN 10%

Assets	Change (in %)	Explanation
Intangible assets	50%	The increase in intangible assets as of December 31st, 2013 in comparison with the December 31st 2012 refers mainly to new investments in research and development in the amount of 4,623,209 thousand RSD.
Goodwill	34%	The increase in goodwill in general refers to difference between the net assets and the sum of the compensation transferred for the acquisition of a business combination (petrol station in the amount of RSD 108,760 thousand and acquisition of OMV BH 434,697 thousand RSD, valued at the exchange rate at the reporting date).
Property, plant and equipment	29%	The increase in property, plant and equipment as of December 31st, 2013 in comparison with December 31st, 2012 is mainly related to new investments in exploration and production of oil and gas, modernization of Pančevo Refinery and reconstruction of petrol stations in Serbia and abroad.
Investments in equity instruments	580%	In 2013 the Group acquired 50% stake in the joint venture Energowind Ltd which is intended to manage the operations of the future wind farm „Plandište” of total power of 102 MW and installed 34 wind turbines. Controls over “Energowind” d.o.o. have both the Group and Asporta Limited, Cyprus. As of the date of consolidated financial statements, there are no business activities. The carrying value of the investment as of December 31st, 2013 was 1,008,221 thousand RSD.
Non-current assets held for sale and assets of discontinued operations	-100%	Decrease in non-current assets held for sale as of December 31st, 2013 in comparison with December 31st, 2012 is mainly related to the sale of an office building in Sredačka Street in Belgrade.
Receivables	33%	The increase in receivables as of December 31st, 2013 in comparison with December 31st, 2012 is mainly related to the extended maturities of receivables and an increase in receivables from HIP Petrohemija, Pančevo (4,976 million RSD), Directorate for commodity reserves of RS (2,683 million RSD), Air Serbia (1,329 million RSD) and other buyers.
Short-term financial investments	-63%	On February 28th, 2013 the Group acquired ownership and control of 100% of the company OMV B&H for the amount of 3,623,811 RSD. The payment was recognized as short-term investments in financial statements for 2012.
Cash and cash equivalents	-28%	Decrease in cash and cash equivalents as of December 31st, 2013 in comparison with the December 31st, 2012 is mainly related to the decrease in cash on a special purpose accounts in the banks used for the purchase of foreign currency in the amount of 2,564,353 thousand RSD and funds in the escrow account in the amount of 1,026,976 thousand RSD.

Assets	Change (in %)	Explanation
Reserves	-100%	Decrease in reserves as of December 31st, 2013 in comparison with the December 31st, 2012 in general refers to the abolition of the reserves in compliance with the Decision of the Shareholders' Assembly on profit distribution for 2012, dividend payment and determination of the total amount of retained earnings. The distribution of reserves which no longer had a purpose was performed in favour of retained earnings.
Unrealized gains from securities	162%	Increase of the unrealized gains from securities as of December 31st, 2013 in comparison with December 31st, 2012 completely relates to the increase in the value of investment in securities available for sale on the basis of reducing the value of the investment at fair (market) value.
Retained earning	92%	The net increase in retained earnings as of December 31st, 2013 is mainly related to the realized gain over a period of twelve months that ended on December 31st 2013 in the amount of RSD 48,347,696 thousand, distribution of reserves (amounting to RSD 889,424 thousand) and other capital (amounting to RSD 5,597,873 thousand) as retained earnings and on the other hand the distribution of dividends (in the amount of 12,364,129 thousands of RSD) and covering of losses from previous years (in the amount of RSD 396,287 thousand) at the expense of retained earnings, in compliance with the Shareholders' Assembly's decision on the profit distribution for 2012, dividend payment and determination of the total amount of retained earnings.
Loss	-100%	Decrease in loss as of December 31st, 2013 in comparison with the December 31st, 2012 in general refers to covering the loss by the Shareholders' Assembly's decision on profit distribution for 2012, dividend payment and determination of the total amount of retained earnings. Loss coverage is performed in favour of retained earnings.
Long-term borrowings	-50%	Net decrease in long-term borrowings as of December 31st, 2013 in comparison with the December 31st 2012 is mainly related to allocation of current portion of long-term borrowings.
Short-term financial liabilities	198%	Net increase in short-term financial liabilities as of December 31st 2013 in comparison with the December 31st 2012 is mainly related to the exclusion of current portion of long-term borrowings (most significantly VUB (Banca Intesa), Slovakia in the amount of 8,312,820 thousand RSD; Erste Bank Netherlands in the amount of 3,439,263 thousand RSD and UniCredit Bank, in the amount of Belgrade of 5,100,336 thousand RSD) and on the other side to the repayment of short-term borrowings taken from UniCredit Bank in the amount of 2,500,000 thousand RSD and Vojvodjanska Bank in the amount of 1,000,000 thousand RSD.
Other short-term liabilities	-29%	Decrease in other short-term liabilities as of December 31st, 2013 in comparison with the December 31st, 2012 in its entirety refers to decrease in liabilities to employees in the amount of 1,905,967 thousand RSD.
Income tax liabilities	412%	Income tax liabilities as of December 31st, 2013 in its entirety relate to liabilities for income tax for 2013.



MAJOR BUYERS AND SUPPLIERS¹

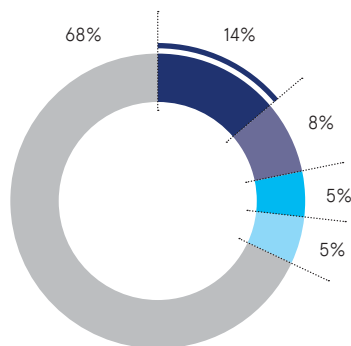
Buyer	Turnover in million RSD *	Share in total income from buyers
HIP Petrohemija a.d. Pančevo in restructuring	42,159	14%
Knez Petrol d.o.o.	24,172	8%
OMV Serbia d.o.o.	16,072	5%
Petrobart d.o.o.	15,475	5%
Total:	97,878	32%
Other buyers:	207,410	68%
Total**:	305,288	100%

* in period from January 1st until December 31st 2013

** including excise

Major buyers

- HIP Petrohemija
- Petrobart
- Knez Petrol
- Others
- OMV Serbia



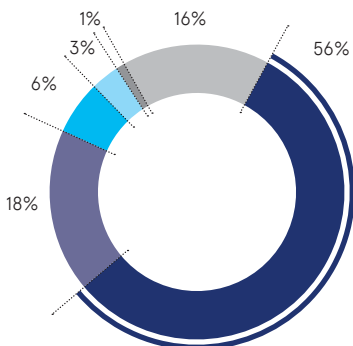
1 Data for NIS j.s.c Novi Sad

Suppliers	Total debt In million RSD*	Share in total liabilities to suppliers
Gazprom neft Trading Gmbh.	28,567	56%
Gazprom neft	9,338	18%
Directorate for commodity reserves of RS	2,794	6%
HIP Petrohemija a.d. Pančevo in restructuring	1,535	3%
Branch office TDE Field Services Kft.	680	1%
Total:	42,914	84%
Other suppliers:	7,689	16%
Total:	50,603	100%

* As of December 31st 2013

Major suppliers

- Gazprom neft Trading Gmbh.
- Gazprom neft
- Directorate for commodity reserves RS
- HIP Petrohemija
- TDE Field Services Kft.
- Others



Quality in all the colours

325

NIS Petrol stations
in Serbia and the region

71

Gazprom petrol stations
in Serbia and the region

The largest retail network in
Serbia and continued expansion
of retail sales in Bulgaria, Bosnia
and Herzegovina, and Romania



NIS PETROL

a mass consumer brand
intended for buyers who value
accessible prices in addition to
the quality of service

GAZPROM

a premium brand offering
additional services on top of quality
fuel a shop, restaurant, café,
wireless internet, exchange office,
carwash, and children's playground





INTERSEGMENT PRICES

Intersegment prices are defined in accordance with:

- Methodology of prices calculation for crude oil and natural gas domestically produced in NIS j.s.c. Novi Sad for the purposes of management accounting.
- Methodology of prices calculation for petroleum products and natural gas products domestically produced in NIS j.s.c. Novi Sad for the purposes of management accounting.

The intersegment price methodology concept is based on the market principle and principle "one product, one price".

The principle "one product, one price" means that the "movement" of one product between different profit centres within NIS has been valued at one price, irrespective of between which profit centres the movement has taken place.

Intersegment prices used for generating internal income between NIS business segments have been determined to reflect the market position of each business segment.

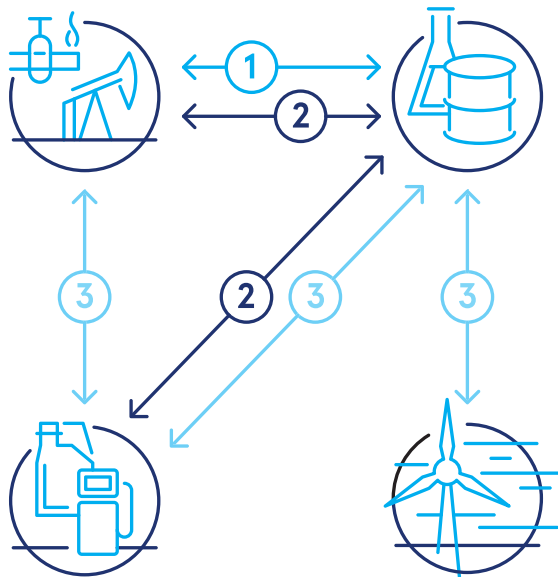
The intersegment prices are as follows:

1) Intersegment price for domestic oil (between Exploration and Production Block and Refining Block) which is determined based on the so-called "export parity"

2) Natural gas intersegment price (between Exploration and Production Block and Refining Block and between Exploration and Production Block and Energy Block) which is equal to natural gas sales price at which NIS j.s.c. Novi Sad sells natural gas to "Srbijagas"

3) Intersegment prices of petroleum products and natural gas products (between Refining Block and Sales and Distribution Block, between Exploration and Production Block and Sales and distribution Block and between Refining Block and Energy Block) are defined based on the following principles:

- Import parity – principle used in intersegment prices of petroleum products subject to free import and products which are their direct substitutes
- Export parity is used for products subject to exports or whose certain quantities are exported
- Other petroleum products include the products which do not fall within these two groups (import parity, export parity). These products are usually sold to a small number of recognized clients whose sales prices are defined under annual or long-term contracts or are alternative to other products production (primary gasoline, jet fuel, raffinates, propylene).





CASES OF UNCERTAINTY (UNCERTAINTY OF COLLECTION)

As a part of the financial reports, the NIS Group management makes accounting estimates and assumptions related to the future. As a rule, the resulting estimations will hardly correspond to the accomplished results. The most significant estimations and assumptions are the estimated provisions for decrease in value of trade receivables, provisions for expected effects of negative litigation outcomes as well as provisions for environment protection.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'other expenses'.

The book value of receivables is decreased through provisions while the decreased value is recorded in the profit and loss account within the position 'other expenses'. When a receivable cannot be collected, it is written off and charged to the provisions for receivables. As at December 31st 2013, the Group made provisions for approximately 43% of gross value of total receivables.

In compliance with valid legislation, the Group has liabilities in respect of environmental protection. At balance sheet date the Group has made provisions on that basis in the amount of RSD 690,094 thousand. (2012: 861,383 thousand RSD) based on management's estimates of the amount necessary costs of cleaning and remediation of contaminated sites of the Group.

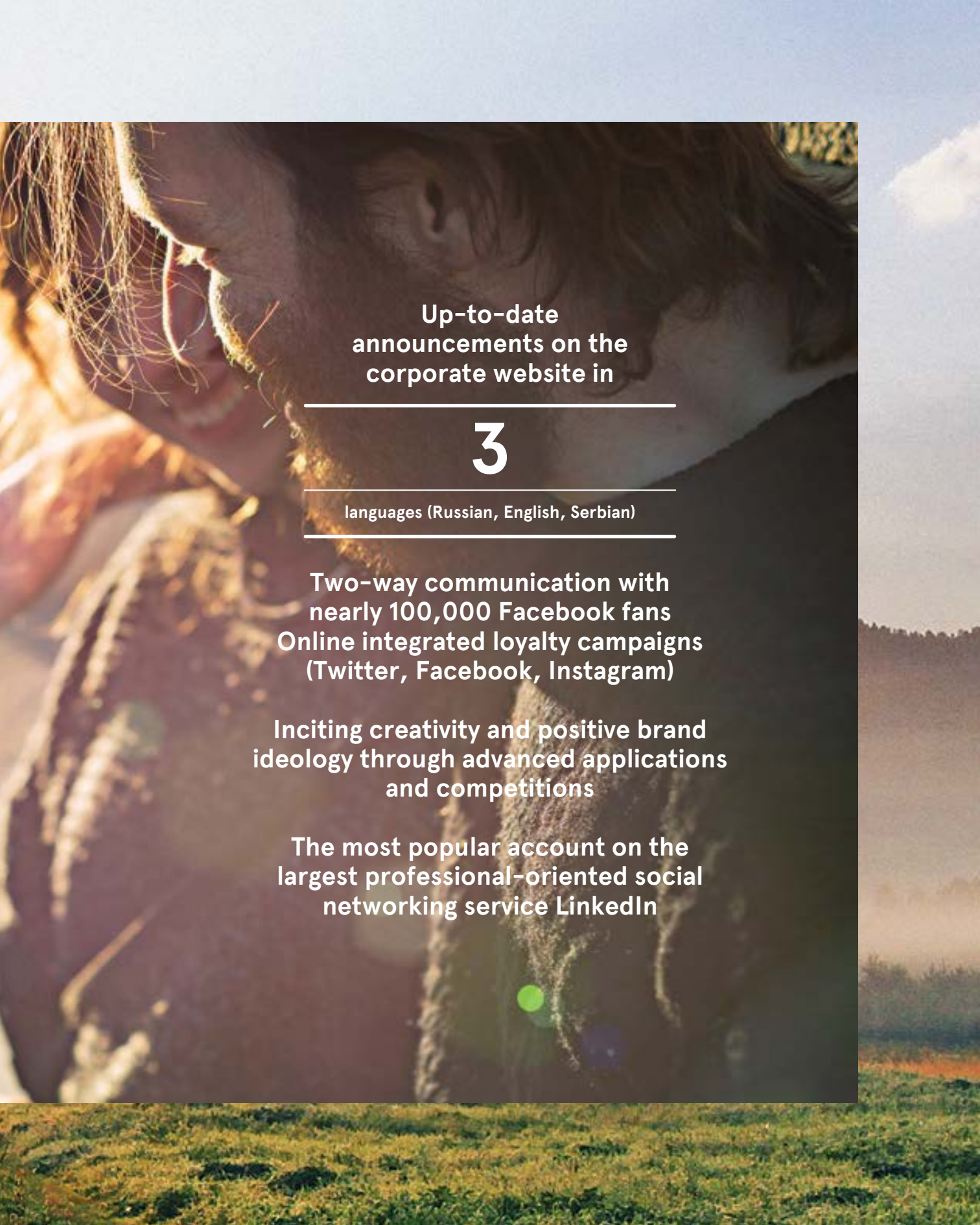
As at December 31st 2013, the Group did not make provisions for potential loss which could emerge from tax liabilities evaluation by the Ministry of Finances of Angola to which the Group is to pay the difference in tax assessment including interest in the amount of 81 million USD related to additional profit oil for the period from 2002 to 2009. The management believes that, based on the terms set forth in the concession contracts with Angola and the opinions of legal consultants from Angola, such a request is not in accordance with the valid legal framework in Angola due to the fact that the government did not make correct oil profit calculations and that oil profit is a contractual obligation towards the national concessionaire which is opposite to the opinion of the Ministry of Finances of Angola. The management will file a complaint against any action of enforced tax collection by the Ministry of Finances of Angola and take all the necessary steps in order to postpone the collection of tax until the court in Angola reaches a final decision regarding the issue. Based on the experience of other concessionaires, the court in Angola has not yet reached a decision related to their complaints against the decision of the Ministry of Finances even though the complaints were filed three years ago. Taking all the previously stated into consideration, the management believes that as at December 31st 2013, there is a significant level of uncertainty as regards the time required to settle the request of the Ministry of Finances of Angola and the amount of additional tax on profit oil, if any.

Most transparent communication

"The most cooperative company in the energy sector," according to the results of the annual opinion polls conducted with media representatives

Timely press releases

Providing complete, high-quality, and useful information in response to media questions in the shortest possible time



**Up-to-date
announcements on the
corporate website in**

3

languages (Russian, English, Serbian)

**Two-way communication with
nearly 100,000 Facebook fans
Online integrated loyalty campaigns
(Twitter, Facebook, Instagram)**

**Inciting creativity and positive brand
ideology through advanced applications
and competitions**

**The most popular account on the
largest professional-oriented social
networking service LinkedIn**



TAXES AND OTHER PUBLIC REVENUES

ANALYTICAL OVERVIEW OF ACCRUED LIABILITIES FOR TAXES AND OTHER PUBLIC REVENUES*

NIS j.s.c. Novi Sad	2013	2012	(%)
Contributions for social insurance paid by the employer	1.6	2.0	-16%
Income tax	6.2	2.6	140%
VAT	19.8	16.3	22%
Excise tax	83.8	65.4	28%
Custom duty	1.2	0.4	183%
Royalties	2.5	2.8	-11%
Paid out dividends	3.7	0	100%
Other taxes	1.4	1.6	-14%
NIS j.s.c. Novi Sad	120.2	91.0	32%
NIS subsidiaries in Serbia ,			
Contributions for social insurance paid by the employer	0.6	0.6	-4%
Income tax	0.0	0.0	-40%
VAT	1.0	0.6	57%
Excise tax	-	-	-
Custom duty	0.1	0.0	301%
Royalties	-	-	-
Other taxes	0.1	0.1	-39%
Total:	1.7	1.4	23%
Total NIS with subsidiaries in Serbia	121.9	92.4	32%

* In billion RSD

** Subsidiaries include: "NTC NIS Naftagas" d.o.o., "Naftagas - Transport" d.o.o., "Naftagas - Tehnički servisi" d.o.o. and "Naftagas - Naftni servisi" d.o.o., and do not include the "O Zone" a.d., "NIS Svetlost" d.o.o. and "Jubos" d.o.o..

The total amount of accrued liabilities for public revenues for 2013 that NIS j.s.c. Novi Sad with its subsidiaries originating from NIS j.s.c. Novi Sad¹ organizational structure pays in Serbia amounts to 121,9 billion, up by 29.5 billion i.e. 32% more than the same period last year.

In form of dividend NIS j.s.c. Novi Sad has paid in the central budget of the Republic of Serbia 3.7 billion RSD, as non-tax revenue from the property.

NIS Group is also taxpayer for its operations in Angola where accrued liabilities related to public revenues amounted to 0.5 billion RSD for 2013 (2012: 0.7 billion RSD).

Accrued liabilities related to public revenues of NIS subsidiaries in the region totalled over 2 billion RSD (2012: 0.9 billion RSD).

1 Subsidiaries include: "NTC NIS Naftagas" d.o.o., "Naftagas - Transport" d.o.o., "Naftagas - Tehnički servisi" d.o.o. and "Naftagas - Naftni servisi" d.o.o., and do not include the "O Zone" a.d., "NIS Svetlost" d.o.o. and "Jubos" d.o.o..



INVESTMENTS

Investment projects

The Business Plan of NIS j.s.c. Novi Sad for 2013 and the Mid-term Investment Plan (hereinafter: the MIP) which laid down planned CAPEX investments in 2013 – 2015 were adopted at the Board of Directors' 2nd session held on November 27th 2012.

According to the MIP, main investments in 2013 will be aimed at implementing the following groups of projects: environmental projects, projects in refining, sales and distribution, oil and gas production and a number of projects in corporate units.

In 2013 total of 55.6¹ billion dinars was allocated to finance the investments, which is by 9% more than in the same period in 2012.

The largest investments in oil and gas production in 2013 were in:

- Investments in concession rights (Hungary, Romania)
- Geological research in Vojvodina
- 3D seismic explorations in Serbia
- Development drilling
- CO₂ separation from natural gas
- Geological – technical measures projects

Major capital investments in environmental protection in 2013 were in the Pančevo Refinery through the following projects:

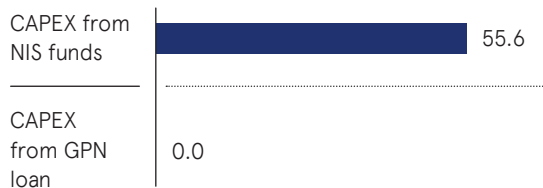
- A mobile unit for treatment of oil sludge, oil residue and oily soil
- Reducing NO_x emissions from the Energy Plant fuel gas
- Closed drainage system construction project
- Loading Terminal reconstruction
- Reconstruction and modernisation of jetties
- Blending of diesel fuel with biodiesel

1 NIS j.s.c. Novi Sad with subsidiaries, excluding "Jubos" d.o.o. Bor, "NIS Oversiz" o.o.o., Sankt Petersburg, "SP Ranis" o.o.o. Chernogolavka and "NIS Svetlost" d.o.o., Bujanovac.

Sources of investment financing*	2012	2013
CAPEX from GPN loan	14.47	0
Ecology	2.50	0
MHC/DHT	11.97	0
CAPEX from NIS funds	36.36	55.62
Ecology	0.74	2.07
MHC/DHT	1.89	3.00
Angola	0.40	0.60
Projects with direct economic effects	26.24	36.93
Projects without direct economic effects	6.65	12.21
Project researching activities	0.43	0.81
Total:	50.83	55.62

* VAT excluded

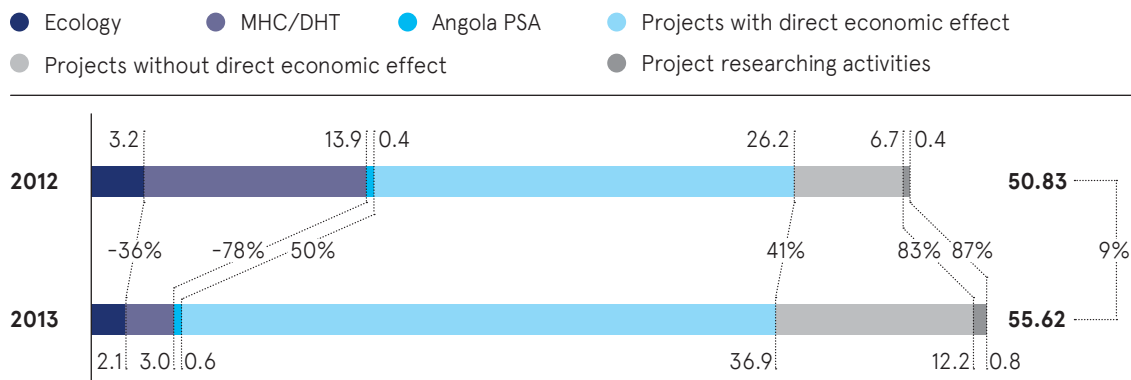
Sources of investment funding, bn RSD



55.6

billion RSD allocated to finance the investments

CAPEX by investment projects, bn RSD



Investments in other relevant projects

Apart from investing into operations, in 2013 NIS also invested substantially in the information system development and upgrade.

Major investments went to successfully completed business transitions between OMV in Bosnia and Herzegovina and NIS – RSD 141 million. As part of this project, the transition of IT applications, databases and infrastructure was prepared and successfully conducted.

Investments in an efficient and effective management of NIS-client relations, customer loyalty improvement and attracting of new clients have commenced and were carried out in stages through the project of Customer Relationship Management System – RSD 95 million. Two levels (stages) were set up with the aim to establish the CRM system and

achieve fast results of the sales force by creating a uniform base of current and prospective clients.

Activities continued to upgrade the SAP system both in Serbia and the region. Investment module was implemented in Bulgaria and Bosnia and Herzegovina and a solution for wholesale and petroleum product transportation in Romania. For all NIS customers projects were launched and implemented in stages for automation of business trip and absence management in NIS. These investments total RSD 53 million.

Through an SAP solution, investments were initiated with the aim to improve the processes of procurement planning and inventory management, to form a uniform codebook of materials and services, increase the quality of materials and services master data, upgrade the SAP system so as to improve the warehouse management processes in place through the projects of MRP (Material Requirements Planning) system centralisation and implementation of solution for materials and services master data

management. These investments in 2013 totalled RSD 174 million.

44 million dinars were earmarked for improvement and modernisation of communication infrastructure in Serbia.

In the previous year, significant efforts were made regarding the business process maintenance and support to the Scientific and Technological Centre's projects, where 330 million RSD were invested in the IT component.

Modernisation of the Services continued in 2013 with investments for purchasing a new drilling rig, dry location equipment and replacing outdated tools and equipment. The Continental Emsco drilling rig is currently undergoing repair.

Major investments of the Energy are in cogeneration plants construction totalling 0.91 billion dinars.

Investments were also increased in security systems in the amount of 0.22 billion dinars.

Investments by segments	2012	2013
Exploration and production	10.1	25.3
Refining	20.4	11.5
Sales and Distribution	13.2	13.3
Services	3.2	2.9
Energy	3.1	1.2
Corporate centre	0.8	1.4

Segment	Exploration and Production	Refining	Sales and Distribution
Main targets	<ul style="list-style-type: none"> Oil and gas production increase Increasing reserves 	<ul style="list-style-type: none"> Reconstruction and modernisation of RNP Base oil production Environmental projects 	<ul style="list-style-type: none"> Retail network development
The biggest investments	<ul style="list-style-type: none"> Geological research in Vojvodina 3D seismic explorations in Serbia investments in concession rights Drilling new and additional development wells Geological and technical measures Projects of development infrastructure and support to base production 	<ul style="list-style-type: none"> Construction of MHC/DHT plant and hydrogen plant Production of industrial base oils Reconstruction of tanks for oil transportation in NSR Mobile unit for treatment of oil sludge, oil residue and oily soil Reducing NOx emissions from Energy Plant flue gases 	<ul style="list-style-type: none"> Petrol station reconstructions in Serbia – nine petrol stations Construction of petrol stations in Serbia – one petrol station Petrol station rebranding – 52 petrol stations (42 from CAPEX programme and 10 from OPEX programme) Regional development of sales in Bulgaria, Bosnia and Herzegovina and Romania
Total investments	RSD 25.3 billion	RSD 11.5 billion	RSD 13.3 billion



SECURITIES

Share Capital Structure

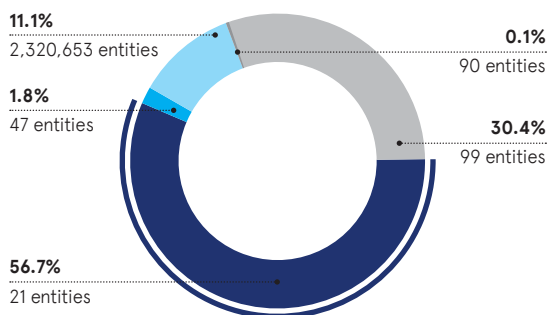
NIS j.s.c. Novi Sad share capital in the amount of 81.5 billion RSD is distributed in 163,060,400 shares of nominal value of 500 RSD per share. All shares are dematerialized and registered within the Central Securities Depository and Clearing House of the Republic of Serbia with the CFI code ESVUFR and ISIN number RSNISHE79420.

During 2013 there were no significant changes in the share capital structure. "Gazprom Neft" j.s.c. is the majority shareholder holding 56.15% of shares, while the Republic of Serbia is the second majority shareholder holding 29.87% of share capital. The remaining 13.98% of shares are held by minority shareholders – custody and collective accounts, local and foreign, legal and natural persons.

On December 31st 2013, NIS j.s.c. Novi Sad had the total of 2,320,910 shareholders which was reduced by 30,890 year-over-year. The shareholder structure analysis has shown that domestic persons still account for the highest number of shareholders (natural and legal entities, including the Republic of Serbia) amounting to 2,320,752, in possession of 41.4% i.e.

Shareholder structure per type of entity, in % and number of entities

- Foreign legal entities
- Domestic physical entities
- Custody and collective accounts
- Foreign physical entities
- Domestic legal entities



67,557,195 of NIS j.s.c. Novi Sad shares. NIS j.s.c. Novi Sad ownership structure comprises 111 foreign persons who owned the total of 92,588,117 of NIS shares accounting for 56.8% as of December 31st 2013, while 2,915,088 shares or 1.8% was owned by 44 custody accounts and 3 collective accounts.

Shareholders possessing:

Number of shareholders

1 to 5 shares	2,295,639
6 to 1,000 shares	24,713
1,001 to 100,000 shares	543
100,001 to 1,000,000 shares	13
over 1,000,000 shares	2

Custody accounts dominate the structure of the first 10 shareholders.

Shareholders	Number of shares	% in share capital
Gazprom Neft	91,565,887	56.15%
Republic of Serbia	48,712,199	29.87%
Unicredit Bank Srbija a.d. – custody account	663,274	0.41%
East Capital (Lux) – Balkan Fund	405,143	0.25%
Raiffeisen Bank a.d. Belgrade – custody account	279,841	0.17%
Unicredit Bank Srbija a.d. – custody account	235,648	0.14%
Erste Bank – custody account	185,804	0.11%
Keramika Jovanović d.o.o. Zrenjanin	166,456	0.10%
Unicredit Bank Srbija a.d. – collective account	165,820	0.10%
AWLL Communications d.o.o.	158,056	0.10%
Other shareholders	20,522,272	12.59%
Total number of shareholders as of December 31st 2013:		2,320,910

The Company did not acquire its own shares (treasury shares).

Share trading

NIS j.s.c. Novi Sad shares are traded with at Belgrade Stock Exchange and listed within the Prime Listing and they are constituent of the leading index – BELEX15, which describes price trends of the most liquid Serbian shares.

The shares of more than 1,000 issuers are traded with at Belgrade Stock Exchange, of which shares of 91 issuers are traded with at the regulated part of the market, while the shares of another four issuers are listed in the Prime Listing together with NIS j.s.c. Novi Sad shares.

NIS j.s.c. Novi Sad shares were the most attractive shares at Belgrade Stock Exchange in 2013, in particular due to dividend payment. NIS j.s.c. Novi Sad shares accounted for 10% of total turnover of shares in

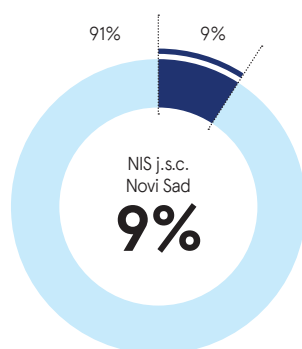
Belgrade Stock Exchange, and 9% in total turnover which includes all types of securities listed in Belgrade Stock Exchange. As regards market capitalization – NIS j.s.c. Novi Sad market capitalization accounts for 20% of total capitalization of Belgrade Stock Exchange.

2.320.910

**the total number of shareholders as of
31 December 2013**

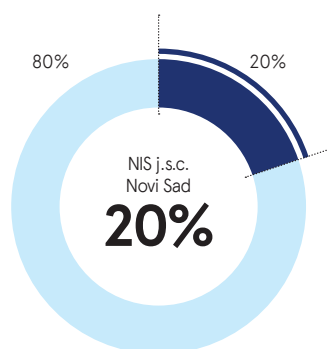
NIS j.s.c. Novi Sad share in shares turnover, in %

● NIS ● Other securities



NIS j.s.c. Novi Sad share in market capitalization, in %

● NIS ● Other securities



Trading with NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in 2013

Last price (December 31st 2013)	927 RSD
Highest price (April 25th 2013)	1,020 RSD
Lowest price (January 3rd 2013)	737 RSD
Total turnover	2,800,437,435 RSD
Total volume (number of shares)	3,206,065 shares
Total number of transactions	158,006 transactions
Market capitalization as of December 31st 2013	151,156,990,800 RSD
EPS	320.89 RSD
Consolidated EPS	296.50 RSD
P/E ratio	2.9
Consolidated P/E ratio	3.1
Book value as of December 31st 2013	1,084.77 RSD
Consolidated book value as of December 31st 2013	1,036.14 RSD
P/BV ratio	0.9
Consolidated P/BV ratio	0.9

"NIS j.s.c. Novi Sad share recorded the growth of 25.95% in 2013. The total turnover amounted to RSD 2.8 billion, which accounts for the increase of 39.7% compared to last year owing to which NIS j.s.c. share was the share with the highest turnover on Belgrade Stock Exchange in 2013. Since the beginning of the year, the share price had an upward trend in general until early June when it was subject to minor adjust-

ments as the balance date for dividend payment expired. However, the share price had an upward trend from mid-June until the end of the year due to good business results of which the Company informed its investors."

Bojan Kozoder
Raiffeisen bank a.d. Belgrade

Price and volume for NIS j.s.c. Novi Sad shares in 2013, In RSD and number of shares

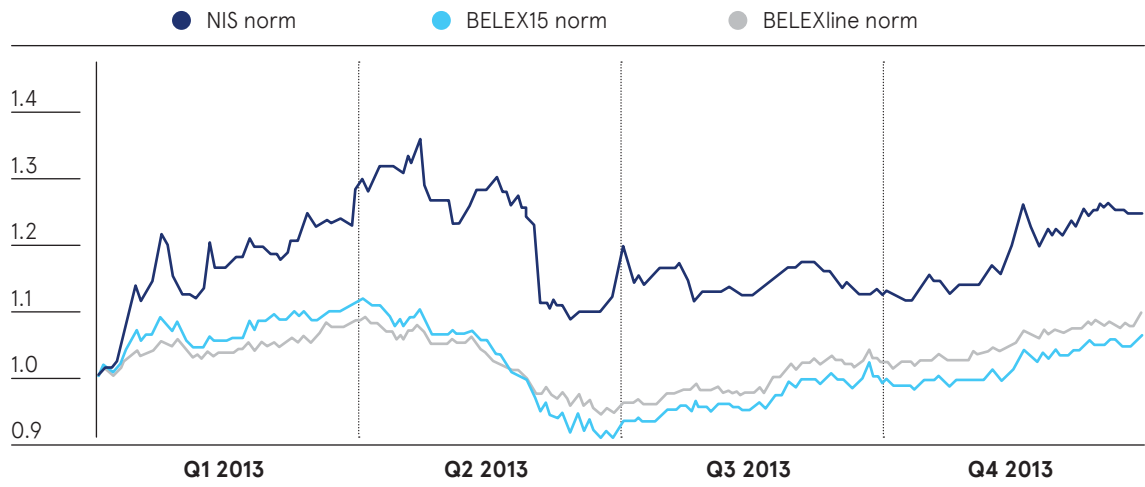


"During 2013, NIS j.s.c. Novi Sad shares were the most liquid and most traded shares on Belgrade Stock Exchange accounting for 9.28 % of the total turnover, 9.83% in shares trade and 52.21 % of shares in the Prime Listing. The total trading value amounted to RSD 2,800.00 million or approximately EUR 24.75 million, while 3,206,065 shares changed their owners in 2013, which accounts for around 1.97% of the total number of issued shares. Since the beginning of 2013, NIS share price recorded a steady growth to reach historically the highest price of RSD 1,020 on April 25th due to increased investor

interest in acquiring NIS shares before the Record Date. During a short period of time from the Record Date to the Shareholders' Assembly Meeting on June 18th, 2013, NIS j.s.c. Novi Sad share value amounted to RSD 798 and took an upward trend after the meeting, with minor oscillations, and at the end of the year amounted to RSD 927 with the annual increase of 25.95%, accounting for the growth of 4.5% compared to 2012".

Andrija Sofijanić
M&V Investments a.d. Novi Sad

NIS j.s.c. Novi Sad shares price trend vs. Belgrade Stock Exchange indices





The biggest deserve the best

The most attractive stocks
on the Belgrade Stock
Exchange in 2013

20%

share of NIS j.s.c. Novi Sad
in the total market capitalization of
the Belgrade Stock Exchange



Growth of stock price
of about

26%

in 2013

The benchmark market index
(Belex15) surpassed by nearly
30 percentage points

"The global shares market in 2013 marked a significant increase of leading indices. Such trend was upheld by expansion activities of central banks and declining yields of government bonds. The dynamics of the index growth at the so-called "emerging" and "frontier" markets to which Serbian capital market belongs, is somewhat weaker and this is due to certain specifics of less developed markets.

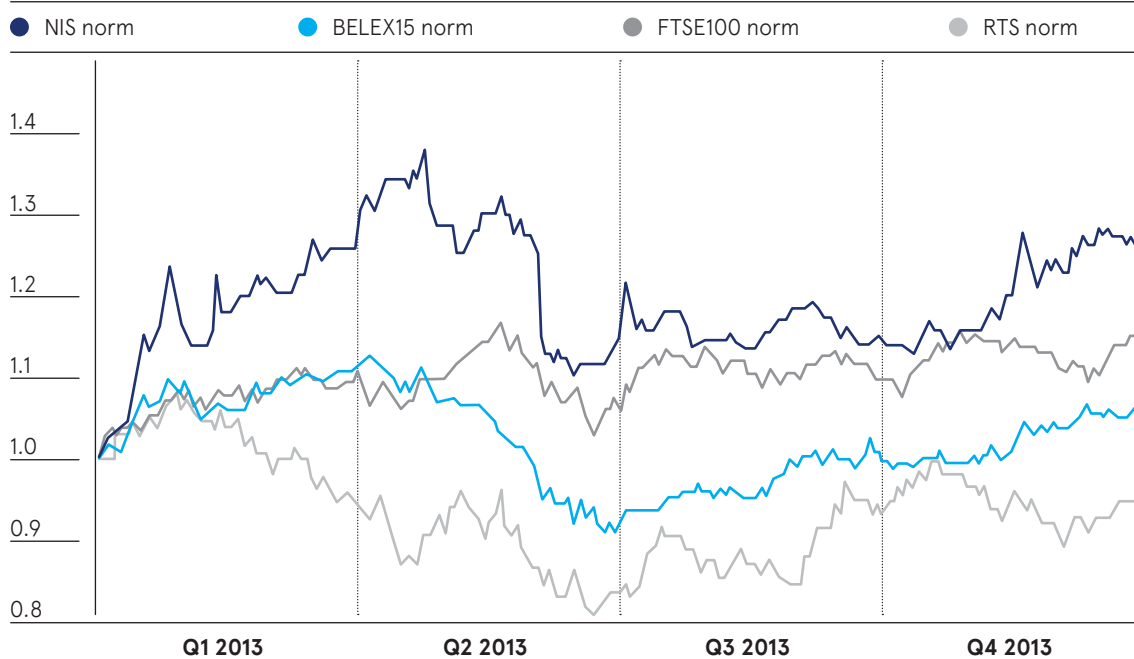
In these circumstances, the growth rate of NIS j.s.c. Novi Sad shares of 26% in 2013 is more than remarkable and multiple compared to regional indices for monitoring the oil and gas sector. The strategic commitment of the Company towards continuous improvement of its business performance, efficiency, innovation and regional development accounts for the increase in market value. Investors were additional-

ly encouraged by the decision on dividend payment for 2012 on grounds of distribution of higher than expected percentage of generated profit in 2012 as dividends.

It was expected that due to the high market capitalization of NIS j.s.c. Novi Sad and the trade of the Company's shares accounted for the largest share in trading on Belgrade Stock Exchange. However, it should be noted that the activities in the field of investor relations in which NIS j.s.c. Novi Sad is one of the best companies in the region, significantly contributed to attracting a large number of institutional and individual investors."

Mladen Dodig
Erste bank a.d. Novi Sad

NIS j.s.c. Novi Sad shares price trend vs. Belgrade, London and Moscow Stock Exchange indices

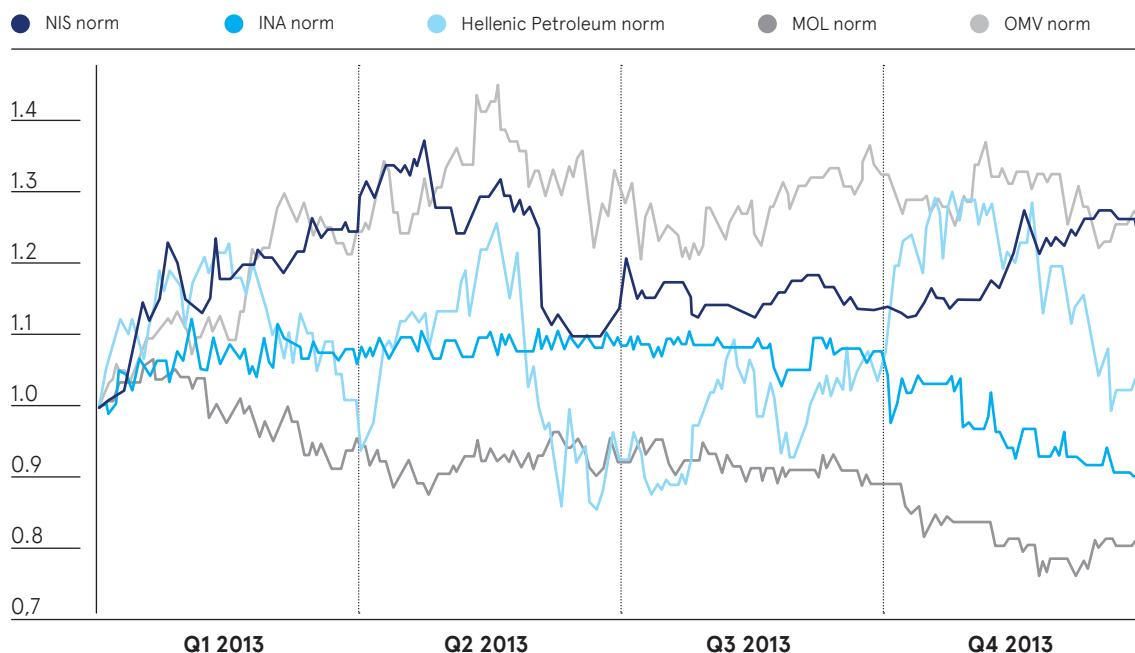


"During the last year, NIS j.s.c. Novi Sad shares were the major quality of the local capital market. Not only because their turnover of RSD 2.8 billion was the highest, but primarily due to the implementation of corporate governance standards by the Company's management, which were at the European level last year as well. NIS shares growth by the end of 2013 was nearly 26% and if dividend payment is taken into account, they exceeded the benchmark

market index, Belex15 by almost 30%. This is perhaps the best proof of the supremacy of the securities in the whole market due to whose anomalies NIS j.s.c. Novi Sad shares are still undervalued compared to their counterparts in the region and the world."

Nenad Gujančić
Wise Broker a.d. Belgrade

NIS j.s.c. Novi Sad shares' price trend vs. shares' price trend of peers from the region



Dividends

NIS j.s.c. Novi Sad dividend policy stipulates a long-term dividend payment in the amount of at least 15% of net profit. The dividend policy is based on a balanced approach which takes into account the need to retain earnings for future investments funding as well as the rate of return on invested capital and the amount of dividend payments.

Dividend policy stipulates that when drafting motions for profit distribution and dividend payment, the Company management should take into account a number of factors, including the financial standing, investment plans, loan repayment obligations, macro-economic environment and legal regulations.

Decisions on profit distribution and dividend payment are passed by the Shareholders' Assembly at regular annual sessions, and dividend is paid on the annual basis in RSD.

Out of net profit generated during 2012, the Company covered the accumulated loss from previous years by which legal requirements were met for dividend payment.

At the 5th Regular Meeting of NIS j.s.c. Novi Sad Shareholders' Assembly held on June 18th 2013, the

decision on profit distribution for 2012, dividend payment and determination of the total amount of retained earnings of NIS j.s.c. Novi Sad was adopted. The decision stipulates that the dividend should be paid to shareholders in cash assets in the gross amount of RSD 12,364,129,000, i.e., RSD 75.83 gross per share. In accordance with this decision, the shareholders in possession of NIS shares on the Record Date (June 8th 2013) were entitled to dividend payment based on the number of shares owned at the date.

In accordance with the Decision of the Chief Executive Officer on the date of dividend payment, the dividend for 2012 was paid to shareholders on August 20th 2013.

26%

growth of share price in 2013

Dividend payments

2008	The Company operated with loss and there was no dividend payment.
2009	The Company operated with loss and there was no dividend payment.
2010	The Parent company operated with profit. On July 27th 2011, the Board of Directors adopted the Decision on Profit Distribution and loss coverage for 2010, based on which the whole generated profit should be distributed for covering losses transferred from previous years, therefore there was no dividend payment.
2011	The Parent company operated with profit. On June 25th 2012, the Shareholders' Assembly adopted the Decision on Profit Distribution and loss coverage for 2011, based on which the whole generated profit should be distributed for covering losses transferred from previous years, therefore there was no dividend payment.
2012	The Parent company operated with profit. On June 18th 2013, the Shareholders' Assembly adopted the Decision on Profit Distribution for 2012, dividend payment and determination of the total amount of retained earnings of NIS j.s.c. Novi Sad, stipulating the dividend payment in the gross amount of 25% of net profit generated in 2012, which amounts to 12.36 bn RSD and/or 75.83 RSD gross per share. The dividend for 2012 was paid on August 20th 2013.

** In accordance with NIS j.s.c. Novi Sad Memorandum of Association effective at the moment of adoption of the Decision, the decision on profit distribution and loss coverage was within the scope of competence of the Board of Directors*

Relations with investors

The Company has an active communication with investors through regular quarterly presentations of results ensuring a direct communication of stakeholders with the Company's management. Also, 1:1 meetings with investors are held upon investors' requests. NIS j.s.c. Novi Sad participates in investor conferences and all the information intended for investors is published within a special section of the corporate site intended for investors and shareholders – <https://ir.nis.eu>.

Within the presentation of NIS j.s.c. Novi Sad Sustainable Development Report for 2012, NIS j.s.c. Novi Sad traditionally organized the forum for all stakeholders when five parallel roundtables were organized to address the most important issues related to the Company's development. One of the roundtable discussions addressed the topic "NIS in the stock market – a reliable partner to investors and shareholders". The roundtable discussion was participated by: representatives of Belgrade Stock Exchange, Securities Commission, the brokerage companies and banks. One of the conclusions of the roundtable discussion was that transparency was a key to confi-

dence. A special emphasis was made on NIS impact on raising quality in the area of reporting. In addition to the statutory minimum of information provided, NIS j.s.c. Novi Sad publishes all other relevant information which is readily available on its website.

In accordance with the principle of transparent business and implementation of new standards of corporate management in Serbia, NIS j.s.c. Novi Sad continues its practice of "opening the Company's doors" to banks, brokerage companies, investment funds' representatives and to financial analysts this year as well, thus informing the investment public of all relevant aspects of its business. After the presentation of financial results and open and constructive dialogue between NIS j.s.c. Novi Sad representatives and investment public, the participants were presented the Company's plans related to the construction of a modern centre for production of base oils in Novi Sad Refinery.

In early November 2013, NIS j.s.c. Novi Sad received a prestigious award by the Swedish company "East Capital", specialized in investing in emerging markets, for the accomplishment of outstanding business results. NIS j.s.c. Novi Sad is the first energy company in the Balkans and the first Serbian company to have received this prestigious award in the category of "Discovery of the Year". "Modernization, introduction of new technologies and improvement

of business processes have converted NIS j.s.c. Novi Sad, the company which has operated with losses, into a highly profitable company with generated profit of \$ 500 million in 2012. At the same time, NIS has made tremendous progress in corporate governance. With a transparent communication with minority shareholders, introduction of a transparent dividend policy, NIS j.s.c. Novi Sad has established new standards of corporate governance among companies in Serbia", reads the statement of award.

In 2013, NIS j.s.c. Novi Sad received the award of Belgrade Stock Exchange for the best Investor Relations. Compared to the last year, Belgrade Stock Exchange expert committee concluded that NIS j.s.c. Novi Sad had improved information quality and completeness of reports to be published as well as the attitude of its employees related to investment public. Among the companies listed in Belgrade Stock Exchange, NIS j.s.c. Novi Sad received the highest overall score based on the criteria of presence in the public, information available on the Internet, number

of meetings with investors and other criteria. This is the third year in a row that NIS j.s.c. Novi Sad receives the award for best Investor Relations.

Description of financial instruments used by the Group

Due to exposure to currency risk, NIS Group uses forward transactions at foreign exchange market as an instrument for managing this type of risk.

As the parent company for the entire Gazprom Neft Group within which NIS j.s.c. Novi Sad with its subsidiaries operates, "Gazprom Neft" j.s.c. manages commodity hedging instruments at the level of Gazprom Neft Group and evaluates whether it is necessary to use appropriate instruments of commodity hedging.





RATING

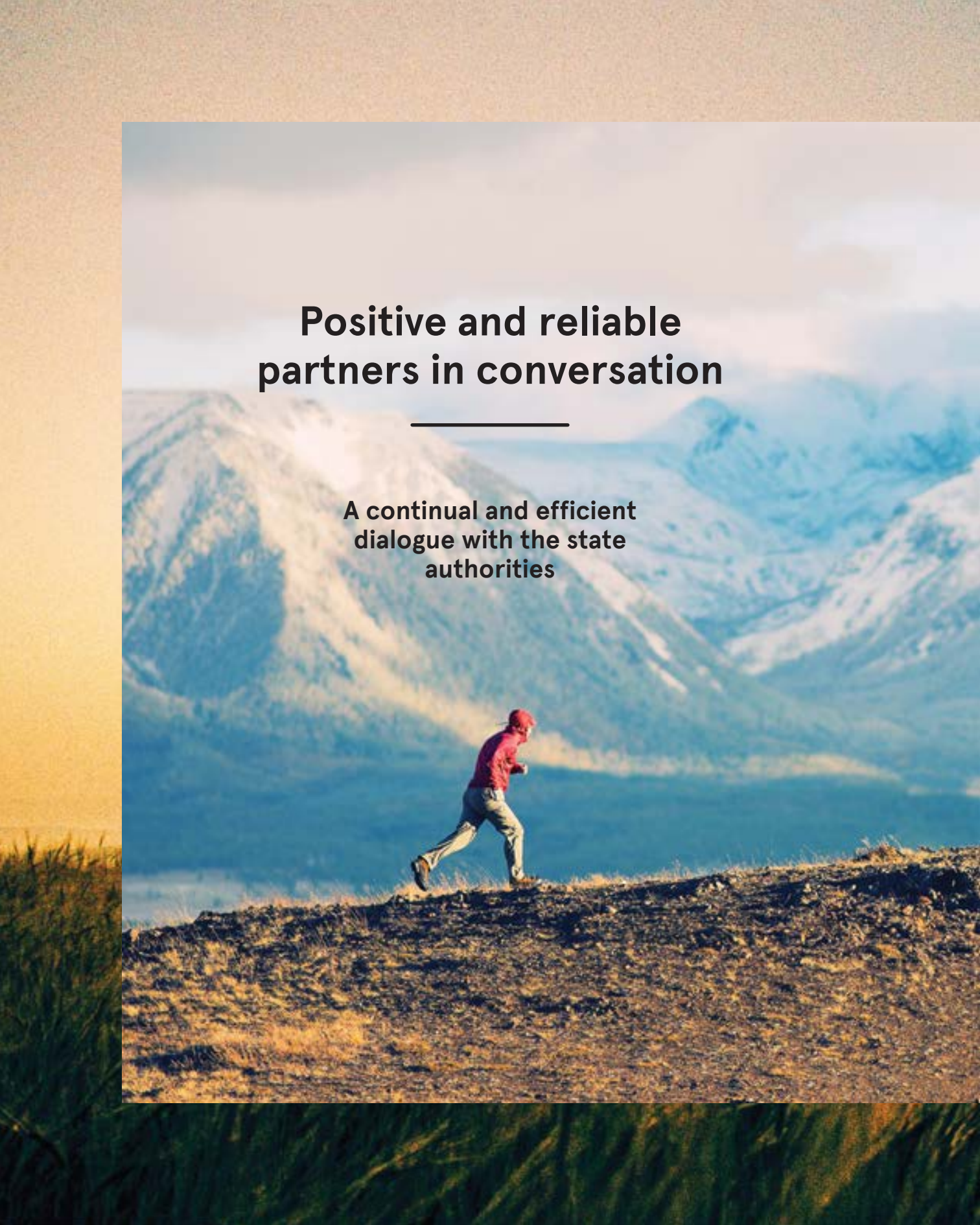
Rating of a company is the assessment of the business ability and market ranking of the company and it encompasses all the features of the company – position, assets, businesses and prospects.

However, the rating of a company also depends on the rating of the country in which it conducts its business activities, and is closely tied to the assessment of risks of investing in the country concerned. The rating is assigned by specialized rating agencies, among which the most notable are Moody's, Standard&Poor and Fitch. These rating agencies do not have a rating for NIS.

In Serbia the official Solvency Report data base is maintained as of January 1st, 2010 with the Register of Financial Statements and Solvency Information of Legal Entities and Entrepreneurs of the Business Registers Agency of the Republic of Serbia (www.apr.gov.rs). The Business Registers Agency also gives a scoring as a form for the opinion on the solvency established on the basis of information from financial statements, by applying the method of quantitative financial analysis and statistical monitoring. The scoring assigned by the Business Registers Agency encompasses the period from 2008 to 2012.

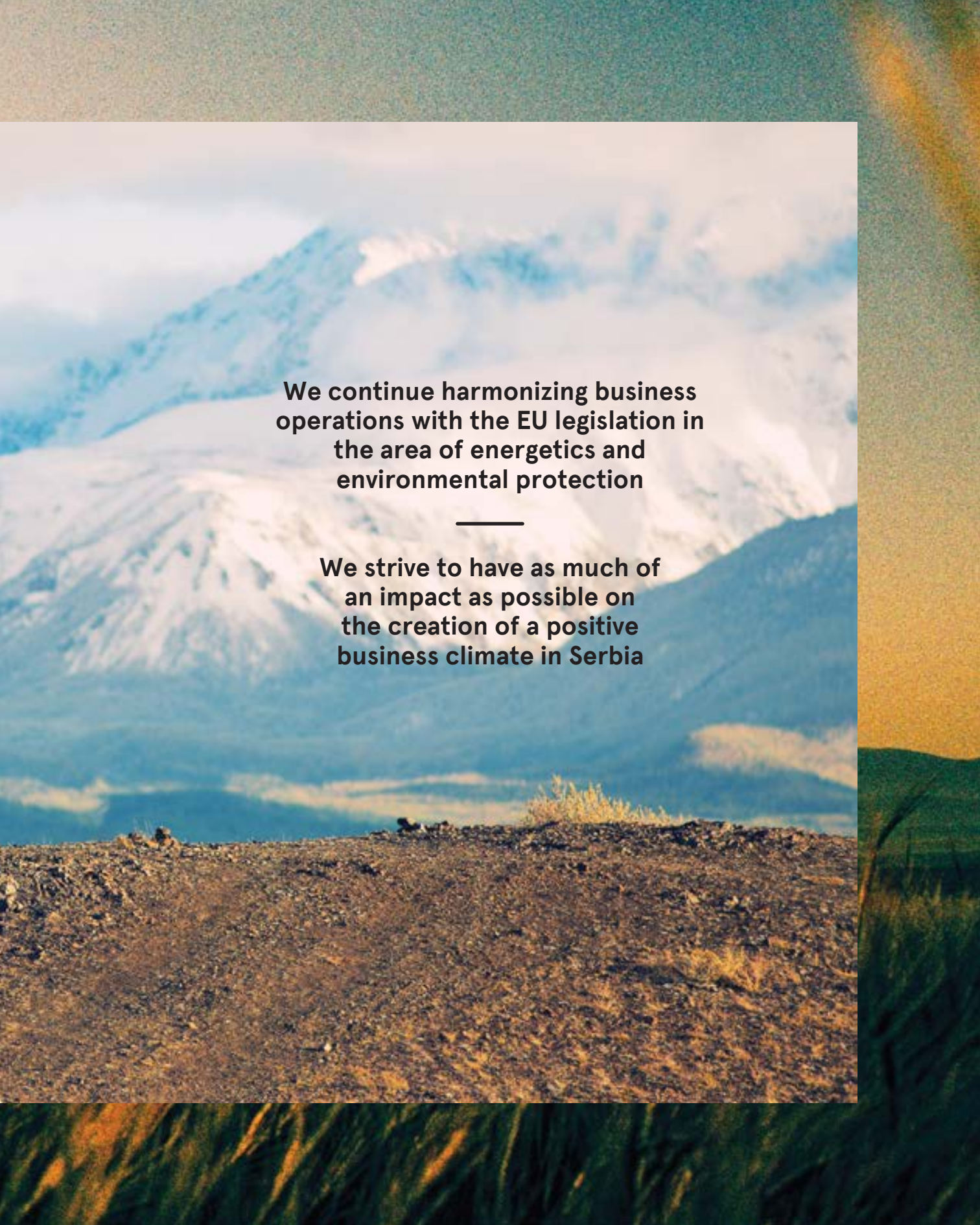
	Member of Group	Previous rating assessment		Rating assessment	
		Rating assessment	Date	Rating assessment	Date
Business Registry Agency Republic of Serbia	-	CC Good	28.01.2013.	CC Good	29.01.2014.
Rating d.o.o. Belgrade Serbia	Dun&Breadstreet Short Hills New Jersey, USA	5A2 Good Up	02.07.2012.	5A2 Good Up	20.06.2013.
Solvent Rating d.o.o. Belgrade Serbia	Bisnode AB, Stockholm, Sweden	A1	28.01.2013.	A1	17.01.2014



A person in a red jacket and grey pants is running on a dark, rocky mountain ridge. The background features large, snow-capped mountains under a blue sky with light clouds. The foreground shows some green grass on the left side.

Positive and reliable partners in conversation

**A continual and efficient
dialogue with the state
authorities**



We continue harmonizing business operations with the EU legislation in the area of energetics and environmental protection

We strive to have as much of an impact as possible on the creation of a positive business climate in Serbia



SUBSIDIARIES AND TRANSACTIONS WITH SUBSIDIARIES

DATA ON SUBSIDIARIES

Subsidiary's name	% of interest in the capital of the subsidiary held by the parent company
"O Zone" a.d., Belgrade	100.00%
"Naftagas – Naftni servisi" d.o.o., Novi Sad	100.00%
"Naftagas – Tehnicki servisi" d.o.o., Zrenjanin	100.00%
"NTC NIS – Naftagas" d.o.o., Novi Sad	100.00%
"Naftagas – Transport" d.o.o., Novi Sad	100.00%
OOO "NIS Oversiz", Sankt Petersburg, Russian Federation	100.00%
"NIS Petrol" e.o.o.d., Sofia, Bulgaria	100.00%
„NIS Petrol" s.r.l. Bucharest, Romania	100.00%
„NIS Petrol" d.o.o. Banja Luka, Bosnia and Herzegovina	100.00%
„Pannon Naftagas" Kft, Budapest, Hungary	100.00%
"Jadran Naftagas" d.o.o. Banja Luka, Bosnia and Herzegovina	66.00%
"NIS Svetlost" Bujanovac	51.32%
"JUBOS" d.o.o. Bor	51.00%
OOO "SP Ranis", Chernogolovka, Russian Federation	51.00%

The company is deleted from the Unified State Register of Legal Entities of the Russian Federation as of January 14th 2014

NIS j.s.c. Novi Sad has ownership stakes of less than 51% in subsidiaries other than stated, but due to the fact that these stakes are not materially relevant they are not included in the consolidated financial statements.

In accordance with International Financial Reporting Standards (IFRS) in the consolidated financial statements include data for the company G-Petrol d.o.o. Sarajevo, Bosnia and Herzegovina, whose parent com-

pany is NIS Petrol d.o.o. Banja Luka, Bosnia and Herzegovina with 100% participation in the capital.

In 2013 the Group has acquired 50% of interest in a joint venture, Energowind d.o.o. which is intended to be used as a vehicle for operation of future wind farm "Plandiste". The control over Energowind is divided equally between NIS Group and Asporta Limited, Cyprus, and in consolidated financial statements it is represented as joint-venture

"O Zone" a.d., Belgrade

Company ID	20094630
TAX ID	104104443
Head office	3-5 Marsala Birjuzova str., Belgrade, Serbia
Date of registration	31.10.2005.
Web site	www.ozone-hotels.com
E-mail address	office@ozone-hotels.com
Name and code core business activity	5510 – Hotels and similar accommodation
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Share capital	Registered and paid-in monetary capital 1,985,170 EUR Registered and brought-in non-monetary capital 38,417,000 EUR
Management	Dmitry Omelcenko, CEO and member of BoD Dmitry Fomenko, chairman of BoD Sergey Fominikh, member of BoD

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	2,965,394	3,371,146	3,360,709
Non-current assets	2,854,166	660,117	1,643,523
Current assets	111,185	2,710,982	1,717,186
Total equity	508,642	448,751	273,273
Sales	284,483	159,464	19,600
Net profit/loss	113,059	(59,960)	(186,127)

"Naftagas – Naftni servisi" d.o.o., Novi Sad

Company ID	20801786
TAX ID	107435822
Head office	9 Put Sajskaskog odreda str., Novi Sad, Serbia
Date of registration	8.2.2012.
Web site	/
E-mail address	NGS.Naftniservisi@nis.eu
Name and code core business activity	0910 - Services related to exploration and exploitation of oil and gas
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Share capital	Registered and paid-in monetary capital 52,581.30 RSD
Management	Goran Stojkovski, CEO

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	-	5,931,904	7,065,741
Noncurrent assets	-	3,834,602	5,231,639
Current assets	-	2,097,303	1,834,102
Total equity	-	3,208,861	3,365,404
Sales	-	3,569,455	7,589,036
Net profit/loss	-	(371,122)	164,225

"Naftagas – Tehnicki servisi" d.o.o., Zrenjanin

Company ID	20801794
TAX ID	107435919
Head office	26 Beogradska str., Zrenjanin, Serbia
Date of registration	8.2.2012.
Web site	/
E-mail address	NGS.Tehnickiservisi@nis.eu
Name and code core business activity	3312 – repair of machinery
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Share capital	Registered and paid-in monetary capital 52,581.30 RSD Registered non-monetary capital 1,044,501,000.00 RSD Brought-in non-monetary capital 983,300,055.63 RSD
Management	Oskar Toth, CEO

Financial indicators (in ,000.00 RSD)	2011	2011	2013
Total assets	-	1,716,034	1,691,397
Noncurrent assets	-	789,225	727,899
Current assets	-	926,809	963,498
Total equity	-	670,456	399,660
Sales	-	1,476,389	2,787,652
Net profit/loss	-	(347,098)	(205,354)

"NTC NIS – Naftagas" d.o.o., Novi Sad

Company ID	20802421
TAX ID	107438656
Head office	12, Narodnog fronta str., Novi Sad, Serbia
Date of registration	10.2.2012.
Web site	/
E-mail address	ngs.ntc@nis.eu
Name and code core business activity	0910 - Service activities related to the exploration and exploitation of oil and gas
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Share capital	Registered and paid-in monetary capital 52,883.70 RSD Registered and brought-in non-monetary capital 321,446,999.01 RSD
Management	Alexandr Kulagin, CEO until 22.04.2013 Nikolay Zalevski, CEO from 22.04.2013

**Financial indicators
(in ,000.00 RSD)**

	2011	2012	2013
Total assets	-	1,001,479	1,246,414
Noncurrent assets	-	605,519	958,395
Current assets	-	395,960	288,019
Total equity	-	244,847	333,394
Sales	-	707,226	1,212,088
Net profit/loss	-	(76,653)	94,159

"Naftagas – Transport" d.o.o., Novi Sad

Company ID	20829923
TAX ID	107579980
Head office	12, Narodnog fronta str., Novi Sad, Serbia
Date of registration	22.5.2012
Web site	/
E-mail address	NGS.Transport@nis.eu
Name and code core business activity	4941 - Road transport of cargo
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Share capital	Registered and paid-in monetary capital 55,369.00 RSD Registered and brought-in non-monetary capital 327,695,662.79 RSD
Management	Dragan Radović, CEO

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	-	1,114,163	1,999,190
Noncurrent assets	-	518,911	1,432,571
Current assets	-	593,970	566,619
Total equity	-	252,398	91,872
Sales	-	1,055,067	1,861,042
Net profit/loss	-	(75,353)	(158,982)

OOO "NIS Oversiz", Sankt Petersburg, Russian Federation

Company ID	5067746792306
TAX ID	7702619027
Head office	Bolshoy galovin pereulok 12, floor 2, Moscow, RF (until 14.1.2013) Nevsky Prospect 95, letter A, 11H, Saint Petersburg, RF (from 14.1.2013)
Date of registration	25.09.2006.
Web site	Extraction of crude oil and oil gas
E-mail address	/
Name and code core business activity	/
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Share capital	550,000 RUB
Management	Dmitry Fomenko, CEO

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	7,409	7,206	7,206
Noncurrent assets	-	-	-
Current assets	7,409	7,206	7,206
Total equity	4,536	1,590	1,591
Sales	-	38,827	-
Net profit/loss	6,324	(493)	-

"NIS Petrol" e.o.o.d., Sofia, Bulgaria

Company ID	201703950
Head office	51a Bul. Nikola Vapcarov, IV floor, Lozanec district, Sofia Bulgaria
Date of registration	13.09.2011.
Web site	/
E-mail address	/
Name and code core business activity	Trade in oil, liquefied petroleum gas (LPG) and oil products (wholesale and retail), import-export operations
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Share capital	500,000 BGN
Management	Srdjan Bosnjakovic, Director until 4.01.2012 Jasna Radovanovic – Utornik, Director from 4.01.2013 Jelena Pavlovic, Director from 4.01.2013 Valery Pavlovich Gruzdov, Director from 4.01.2013

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	1,631,223	6,798,880	8,678,769
Noncurrent assets	1,303,997	5,998,573	7,518,954
Current assets	327,226	800,307	1,159,815
Total equity	(49,068)	(641,686)	(1,682,238)
Sales	-	640,629	3,576,719
Net profit/loss	(51,743)	(585,495)	(1,048,703)

„NIS Petrol“ s.r.l. Bucharest, Romania

Company ID	29111546
TAX ID	RO29111546
Head office	Barbu Vacarescu 241a., 5th and 6th floor, District 2, Bucharest, Romania
Date of registration	16.09.2011.
Web site	/
E-mail address	rou.office-ds@nis.eu
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Share capital	41,000 RON
Management	Corbu Mihai, Director until 14.03.2013 Željko Kirin, Director until 14.03.2013 Vadim Smirnov, Director from 14.03.2013

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	1,027	1,396,339	7,413,386
Noncurrent assets	-	1,186,501	5,795,554
Current assets	1,027	209,838	1,617,832
Total equity	1,027	(443,110)	(1,640,275)
Sales	-	2,179	2,117,575
Net profit/loss	-	(440,797)	(1,201,422)

„NIS Petrol“ d.o.o. Banja Luka, Bosnia and Herzegovina

Company ID	11081932
TAX ID	4403359860007
Head office	Mladena Stojanovica 29, Banja Luka, Republic of Srpska, Bosnia and Herzegovina
Date of registration	13.09.2011.
Web site	/
E-mail address	bih.petrol@nis.eu
Name and code core business activity	46.71 - wholesale of solid, liquid and gaseous fuels and related products
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Share capital	20,000 BAM
Management	Alexey Shabashov, Director until 18.03.2013 Branko Radujko, Direktor from 18.03.2013

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	273,553	4,571,738	6,932,924
Noncurrent assets	104,641	4,414,467	6,725,111
Current assets	168,912	157,271	207,813
Total equity	(271)	(221,932)	(915,315)
Sales	-	4,590	1,409,581
Net profit/loss	(1,307)	(220,941)	(595,216)

„Pannon Naftagas” Kft, Budapest, Hungary

Company ID	01-09-969323
TAX ID	23516946-2-43
Head office	1093 Budapest, Hungary, Kozraktar u., 30-32
Date of registration	03.10.2011.
Web site	/
E-mail address	hun.pannon-naftagas@nis.eu
Name and code core business activity	0610'08 - Extraction of crude oil
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Share capital	500,000 HUF
Management	Slavko Pećanac, CEO

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	168	2,010	710,280
Noncurrent assets	-	-	664,542
Current assets	168	2,010	45,738
Total equity	168	(7,091)	(122,685)
Sales	-	-	-
Net profit/loss	-	(7,011)	(114,446)

"Jadran Naftagas" d.o.o. Banja Luka, Bosnia and Herzegovina

Company ID	11072046
TAX ID	4403248440009
Head office	7 Ivana Franje Jukica str., Banja Luka, Republic of Srpska, B&H
Date of registration	23.12.2010.
Web site	/
E-mail address	/
Name and code core business activity	06.10 - crude oil extraction
% of interest in the capital of the subsidiary company held by the parent company	66%
% of participation of the parent company in decision making	66%
Share capital	2,000 BAM
Management	Predrag Radanović, CEO

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	542,741	1,175,947	2,029,788
Noncurrent assets	265,962	974,310	1,815,890
Current assets	276,779	201,637	213,898
Total equity	(24,480)	(89,487)	(166,878)
Sales	-	-	-
Net profit/loss	(23,958)	(62,469)	(75,093)

"NIS Svetlost" Bujanovac

Company ID	20125535
TAX ID	104234551
Head office	nn Industrijska zona, Bujanovac, Serbia
Date of registration	19.1.2006
Web site	/
E-mail address	/
Name and code core business activity	4671 – wholesale of solid, liquid and gaseous fuels
% of interest in the capital of the subsidiary company held by the parent company	51.32%
% of participation of the parent company in decision making	51.32%
Share capital	Registered and paid-in monetary capital 43,587.90 RSD
Management	Davor Jančić, Director

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	137,628	96,411	63,990
Noncurrent assets	40,794	39,456	38,129
Current assets	96,834	56,995	25,861
Total equity	56,054	59,147	42,221
Sales	547,105	910,894	211,599
Net profit/loss	1,528	3,093	(16,927)

"JUBOS" d.o.o. Bor

Company ID	20133597
TAX ID	104288627
Head office	29 Djordja Vajferta str., Bor, Serbia
Date of registration	16.1.2006
Web site	/
E-mail address	/
Name and code core business activity	2444 – Copper production
% of interest in the capital of the subsidiary company held by the parent company	51%
% of participation of the parent company in decision making	51%
Share capital	Registered and paid-in monetary capital 1,743,704.00 RSD
Management	Snezana Djukic, chairman BOD

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	1,744,	1,744,	1,744
Noncurrent assets	-,	-,	-
Current assets	1,744,	1,744,	1,744
Total equity	1,744,	1,744,	1,744
Sales	-	-	-
Net profit/loss	-	-	-

OOO "SP Ranis", Chernogolovka, Russian Federation*

Company ID	Main State Registration Number 1045006116198
TAX ID	INN – identification number of the tax payer 5031030808
Head office	Institutski prospect 14, Moscow district, Russian Federation
Date of registration	08.04.1997.
Web site	/
E-mail address	/
Name and code core business activity	Scientific R&D in the field of natural and technical sciences
% of interest in the capital of the subsidiary company held by the parent company	51%
% of participation of the parent company in decision making	51%
Share capital	76,000 RUB
Management	Maxim Voiscev, CEO

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	841	842	842
Noncurrent assets	-	-	-
Current assets	841	842	842
Total equity	(25,976)	(25,976)	(25,976)
Sales	-	-	-
Net profit/loss	(29,805)	-	-

* The company is deleted from the Unified State Register of Legal Entities of the Russian Federation as of January 14th 2014

"G-Petrol" d.o.o. Sarajevo, Bosnia and Herzegovina

Company ID	65-01-0638-11
TAX ID	4209277550009
Head office	Fra Andjela Zvizdovica 1, Sarajevo, Bosnia and Herzegovina
Date of registration	/
Web site	/
E-mail address	/
Name and code core business activity	/
% of interest in the capital of the subsidiary company held by the parent company	100% "NIS Petrol" d.o.o. Banja Luka, Bosnia and Herzegovina
% of participation of the parent company in decision making	100% "NIS Petrol" d.o.o. Banja Luka, Bosnia and Herzegovina
Share capital	13,734,108.00 BAM
Management	Branko Radujko, CEO

Financial indicators (in ,000.00 RSD)	2011	2012	2013
Total assets	-	-	5,982,484
Noncurrent assets	-	-	5,269,159
Current assets	-	-	713,325
Total equity	-	-	2,857,094
Sales	-	-	5,356,893
Net profit/loss	-	-	(418,356)

"NIS Energowind" d.o.o. Belgrade

Company ID	20107901
TAX ID	104183426
Head office	Boulevard of Mihailo Pupin 115v VI
Date of registration	05.12.2005.
Web site	/
E-mail address	/
Name and code core business activity	3511 – Electricity production
% of interest in the capital of the subsidiary company held by the parent company	50% "O Zone" a.d. Belgrade
% of participation of the parent company in decision making	50% "O Zone" a.d. Belgrade
Share capital	Registered and paid-in monetary capital 224,574,591.93 RSD
Management	Goran Novakovic, director (restrictions to countersign with Ilya Kutyaev) Ilya Kutyaev, director (restrictions to countersign with Goran Novakovic)

Transactions with Affiliates

The majority owner of the NIS group is "Gazprom Neft" j.s.c., St Petersburg, Russian Federation, with 56.15% shares of NIS j.s.c. Novi Sad. The second largest shareholder with 29.87% interest is Republic of Serbia, while remaining 13.98% of interest is owned by various minority shareholders. "Gazprom" j.s.c., Russian Federation is the ultimate owner of 56.15% of NIS Group.

In the period ended December 31st 2013 and in the same period in 2012, the Group entered into busi-

ness transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, geophysical research and interpretation services.

Activities in which the personal interest is involved are subject to the approval of the NIS j.s.c. Novi Sad's Board of Directors¹.

The overview of transactions with the affiliates is shown in the notes to the financial statements.

¹ Board of Directors of NIS j.s.c. Novi Sad approves only transactions that NIS j.s.c. Novi Sad concludes with shareholders (GPN), or their related parties, and not other transactions concluded by affiliates of NIS group



HUMAN RESOURCES

Professional Development of Employees

NIS¹ actively invests in development of skills and competencies of its employees. By establishing the system of quality and continuous training, NIS provides its employees with the opportunity to receive training and high qualifications to meet the European and international standards. The training and development plan has been designed to meet the Company's business process needs and the requirement of the corporate culture NIS wishes to develop.

The Training and Development Sector deals with the organization of different types of training and programs. These include:

- Technical training (vocational training sessions in specific business area – handling specific equipment, etc.), which includes vocational trainings delivered by eminent experts from Russian universities (Russian State University of oil and gas I.M. Gubkin and Samara State Technical University) for NIS employees; establishment of the modern Employee Training Centre in the Sales and Distribution, one of the kind in the region
- Trainings designed for developing managerial and leadership skills (i.e., soft skills)
- Seminars, conferences, symposiums...
- Foreign language courses (in accordance with business needs), attended by 452 employees
- Serbian language courses for expatriates, attended by 60 employees
- Statutory mandatory trainings, licenses, etc.

The Training and Development Sector pays great attention to the development of specific training programs for employees as well, in particular to inheritance programs. In view of ensuring further development of human resources and in accordance with the strategy, special "inheritance" programs have been designed aimed at training and development of staff who should assume responsibilities and managerial positions in future. The most important programs in this field include "personnel reserve" projects attended by 486 employees in 2013 and successfully launched project "2014 Leader" for 20 employees. Each of these programs is aimed at developing competences of certain groups of employees, while a common goal is the training of employees to meet the ambitious long-term goals of NIS.

Great attention has been paid to the cooperation with Belgrade and Novi Sad University within which specialist studies "European integrations" (16 participants in total) program have been designed with aim at developing expertise required for working in the European Union, for employees who will soon assume the positions in NIS requiring such expertise.

In view of ensuring personnel development and career management, the program "Young Specialists" is implemented which was joined by 108 employees during 2013. This program was designed for developing professional, vocational and leadership competencies of the youngest colleagues in the Company, to provide them with the support in career management from the moment they start to work for the Company, which should contribute to the achievement of strategic objectives in the long-run.

NIS provides talented students with the opportunity to gain experience in working for a successful company within the program "Summer Practice" attended by 115 students in 2013, while more than 190 students have made one-day professional visit to NIS.

NIS also organizes "on boarding", i.e., induction trainings for all newly employed colleagues. New col-

¹ NIS j.s.c. Novi Sad with subsidiaries formed in 2012 originating from NIS j.s.c. Novi Sad organizational structure ("NTC NIS Naftagas" d.o.o., „Naftagas – Transport“ d.o.o., "Naftagas – tehnički servisi" d.o.o. and "Naftagas – naftni servisi" d.o.o.)

leagues receive basic information about NIS by way of group or individual trainings.

Apart from the above listed activities, the Training and Development Sector engages in other development activities, such as e.g., organizing team building sessions at block, function, department level, etc.

290

million RSD invested in employee professional development

Training costs (in million RSD)	2009	2010	2011	2012	2013 *
Costs of professional education	45	72	109	209	265
Costs of symposiums	5	9	35	23	23
Costs of business association membership fees	1	1	2	5.8	2
Total	50	81	146	238	290

* Training costs for 2013 are given without "Energy of Knowledge" Project costs

"Energy of Knowledge" Project

The concept of "Energy of Knowledge" Project includes the partnership with leading educational institutions in the country, universities, colleges, high schools and professional scientific societies, by investing in the education system, pupils and students achieving the best results during educational cycles, in order to provide highly skilled experts required for the NIS' operations.

"Energy of Knowledge" project focuses on strategic cooperation with universities, not only in the segment of scientific research, but also on the program cooperation aimed at improving the curriculum, creation of more modern working conditions by reconstructing and equipping classrooms and laboratories and modification and adaptation of study programs to labour market needs. Annexes on cooperation with the University of Belgrade and University of Novi Sad have been entered into in the field of cooperation with universities and the following projects have been implemented:

1) Signed memorandums of cooperation with four faculties in Belgrade: Faculty of Security Studies, Faculty of Philology, Faculty of Medicine, Faculty of Physics, 6 faculties of the University of Novi Sad: Academy of Arts, Faculty of Economics, Faculty of Technology,

Technical Faculty "Mihajlo Pupin" in Zrenjanin, Faculty of Mathematics and Natural Sciences, Faculty of Sports and Physical Education and the Faculty of Mathematics and Natural Sciences of the University of Niš. In accordance with the Memorandum, NIS has had a classroom renovated and equipped with furniture and computer equipment at the Faculty of Technology in Novi Sad, while laboratories for experimental physics are currently equipped at the Faculty of Mathematics and Natural Sciences in Belgrade, Novi Sad and Niš.

2) Two significant projects were implemented under the Memorandum of cooperation with the Faculty of Mining and Geology of Belgrade University:

- renovation, equipping and official opening (March 13th, 2013) of NIS classroom for remote learning at the Faculty of Mining and Geology by which better and modern conditions for work and permanent education of students were ensured, as well as for monitoring of trends and the state-of-the-art achievements in the area of oil and gas engineering;
- new modules and/or study programs for graduate and master studies have been designed and accredited in view of educating highly qualified personnel for engaging in geological and mining explorations, refining and distribution of oil and petroleum products, such as: study program "Oil and Gas Engineering" within graduate stud-

ies and the study module "Oil and Gas Geology" within master studies program;

3) NIS experts have delivered visiting lectures to students at 4 faculties of Belgrade University (Faculty of Organizational Sciences - 3 lectures, Faculty of Security Studies - 1 lecture, Faculty of Technology - 1 lecture, Faculty of Mining and Geology - 6 lectures) and at 3 faculties of the University of Novi Sad (Faculty of Technology, Faculty of Economics, Faculty of Technical Sciences "Mihajlo Pupin").

4) NIS participated in competitions in resolving case studies: "Belgrade Business International Case Competition" organized by the Faculty of Organizational Sciences during the period from 2 to 7 April 2013 and in "Case Study Show" organized by the Faculty of Organizational Sciences and student organization ESTI-EM in the period from 28 to 30 March 2013. As a partner in the project NIS assigned a case study in English language to students with the topic: "Customer satisfaction – creating, development and improvement of services at Gazprom Petrol Stations". Four teams presented their solutions to the case study in front of an expert jury, after which NIS organized a creative workshop for its student teams. Within the project NIS also participated in the activities "Case speed dating" and "Case creative room", when Belgrade University students could discuss and present their ideas to the Company's representatives.

In the area of high school education, NIS entered into memorandums of cooperation with the Serbian Society of Physicists, Serbian Mathematical Society and Serbian Chemists Society in order to provide its support to organizing competitions and national Olympic Games in mathematics and physics. Knowledge Olympic Games were organized in NIS premises:

- Serbian Olympic Games in mathematics - 30 finalists – 5th and 6th of April 2013.
- Serbian Olympic Games in physics - 30 finalists – 18th and 19th of May 2013.

NIS was also a partner to national teams which represented our country in International Olympic Games in mathematics (Columbia, 18th – 28th of July 2013), physics (Copenhagen, 7th – 15th of July 2013) and chemistry (Moscow, 14th – 24th of July 2013).

Special attention has been paid to Russian language. In view of reaffirmation and popularization of the Russian language, in cooperation with the Serbian Society of Slavists and Russian Centre of "Russian Peace" Fund, NIS organized and hosted 80 finalists of the first Olympic Games in Russian language in its premises on May 25th 2013.

After Olympic Games in Knowledge, for the first time this year, NIS organized the student camp in Bečići in period from 10th – 19th of August. More than 120 high school students, participants in the Olympic Games and selected holders of the Fund for Young Talents scholarships had the opportunity to improve their knowledge by receiving lectures from prominent professors – lecturers in mathematics, physics and Russian language, as well as visiting lecturers from Serbia and Russia.

Within the project "Energy of Knowledge", NIS cooperates closely also with secondary vocational schools:

- Technical High School in Zrenjanin – establishment of the Technical Training Centre
- Mathematical Grammar School in Belgrade – renovation, equipping and official opening (November 13th 2013) of NIS classroom

Within the project "Energy of Knowledge", NIS continued to implement the scholarship program for the most successful students of Belgrade and Novi Sad University. For the first time this year, in collaboration with the Ministry of Education, Science and Technological Development of Republic of Serbia and the Government of the Russian Federation NIS has granted scholarships to five high school students for pursuing studies in the Russian Federation (three scholarships for Gubkin University in Moscow and two scholarships for the University of Gornj, St. Petersburg). NIS has entered into agreements for granting scholarships to the most successful participants of the "Energy of Knowledge" project, winners of the Olympic Games in mathematics, physics and Russian language. As of school-year 2013/2014, NIS will include the most successful high school students in its scholarship program, as well as the students of newly accredited study program "Oil and Gas Engineering" and the students of the master module in oil and gas geology with the best performance results during the selection process.

115

**students have taken part in the
"Summer Practice" programme**

Team for Sport Activities

By promoting healthy lifestyles and improving employees' health, a special importance is given to corporate health. During 2013, NIS continued to implement its policy of healthy lifestyle, in order to improve mental, physical and emotional health of employees and create a positive work environment which has contributed to fostering and improving the Company's image.

The main components of Healthy Lifestyle Policy implemented last year were:

- Educational activities aimed at ensuring a transparent and timely support to employees during the process of improving their health status.
- The standard on sports activities management was adopted - rights and obligations of employees during the implementation of the Healthy Lifestyle Policy.
- More than 30 articles in the print and electronic media were published addressing the issues of healthy lifestyle through proper diet and exercise.
- Activities related to a healthy lifestyle were implemented - seminars on healthy eating, presentations on the impact of physical activity on health improvement were delivered.
- Integral flour products were introduced in canteens.
- Prevention activities - sports and diagnostic examinations have contributed to defining the health status of employees and thus helped to the improvement of health status.
- More than 2,000 brochures on the project NIS fitness program with the slogan "Exercise for Health" were created and distributed.
- Nearly 1,700 employees were examined and based on individual test results assigned physical activity plans and healthy diet for 6 months, after which the level of their physical fitness was determined.
- More than 10 "Open Door Meetings" were held with staff and more than 300 personal contacts of employees with medical experts were made in view of pursuing appropriate individual exercise programs and diets.

Recreational activities as the most popular element among employees have contributed to the establishment of a better team cooperation:

- Recreational activities have been initiated in 9 cities in which more than 80% of employees live, and employees have engaged in more than 10 sports by 40% more than in 2012.
- Activities have been carried out with more than 40 contracts with various service providers.
- Sports competitions were organized in order to create a competitive spirit among employees, promote the Company's values and care for family members.
- Nearly 150 employees took part in three international sport competitions in Russia and Serbia and accomplished significant results.
- NIS mini sport league was organized for the first time and almost 400 employees from more than 10 different cities participated in three internal competitions.
- NIS sport teams have participated and won prizes in 4 local swimming competitions, skiing cup and inter-company business leagues in several cities throughout Serbia in football, basketball, volleyball, shooting, bowling.
- Employee family members took part in 2 sport family events

The cooperation with sports institutions improved the image of a socially responsible company:

- Cooperation with the Centre for Health, Exercise and Sport Sciences in view of improving employee health and the Company's productivity resulted in the preparation of educational materials.
- Cooperation with the Serbian Basketball Association and Association Mini-Basket, employees' children had the opportunity to attend schools of basketball in 7 cities. The attendance rate of children up to 10 years of age was high in Pančevo and therefore Mini-basket NIS Team was gathered.
- Cooperation with FC Red Star from Rusko Selo in view of sport promotion in local municipalities and the cooperation with Children's Home "Veternik" in view of providing support to the International Day of Disabled Persons.
- Owing to cooperation with sports clubs to promote the sport, more than 500 tickets for handball matches were distributed and provided participation in various activities.

Healthy Lifestyle Policy supports high involvement of employees in all its elements, where employees have a chance to win "coins" in the rewarding

system, as defined by specific awards intended for a number of employees.

Social security

With respect of social security, NIS provides to employees more than its prescribed by Labor law under the Collective Agreement and NIS official documents.

The benefits provided by the Collective Agreement and NIS official documents are:

- Special security for occupational disability and professional illness and preventive rehabilitation of employees performing duties in special working conditions and the positions subject to retirement benefits scheme, for the purpose of prevention of professional illnesses and disability
- Solidarity fund
- Compensation for damages incurred to employees by destruction of or damage to housing facilities due to natural disasters and other emergencies
- Scholarships during formal schooling to children of deceased employees
- Collective health insurance of employees against severe illnesses and surgical interventions
- Collective insurance of employees against injuries
- Resolving housing needs of employees through housing loan subsidies
- Organising the HR portal with the aim to inform the staff about all benefits and eligibility terms and conditions.

Non-material Motivation

In the last year's final quarter NIS introduced non-material motivation (various vouchers, diplomas, business lunches...) as a new type of staff motivation. Non-material motivation serves to reward employees appropriately, according to their achievement.

Personnel Selection

NIS with a modern approach to business pays special attention to its employees, who are the most important factor of its success and acquired status of the most respected company in the Balkans.

As part of the "NIS Chance" programme,

177

best young graduates and technicians got their first job

A policy has been defined with the aim to attract, develop, keep and reward the best personnel who will be able to fulfil set tasks and by achieving their personal and professional potentials contribute to meeting corporate targets.

Talent selection and acquisition in our Company are conducted through the process of collecting and analysing applications, interviewing and testing the selected candidates so as to hire the person who meets the requirements of the job. As a result of such approach and synergy of the Talent Acquisition Sector staff, more than 2,800 were hired in 2013.

NIS Chance 2013

Youth employment programmes are of particular interest to NIS j.s.c. Such programmes commenced with the Company's participation in the Republic of Serbia's programme First Chance. Since 2010, a chance to work, learn and develop into experienced professionals has been given to nearly 600 young persons so far. The majority are graduate economists, graduate technology engineers, graduate mining and geology engineers, graduate management engineers, graduate electrical engineers as well as young mechanical technicians, electrical and chemical technicians.

New energy, ideas and knowledge have refreshed and invigorated NIS, and guided by this good practice we continued with the programme in 2013. The best 177 young graduates and technicians found their first employment this way.



**A strong team of
successful individuals**

300

million dinars for employee
professional development

**We have been actively developing
the skills and know-how through
training for newly appointed staff,
through development programmes
and practice, and by raising
awareness of HSE and
healthy lifestyles**



**We invest in the
quality of life**

**Concern with the health and
safety of our employees,
as well as non-material
motivation stand to confirm
how much we appreciate
their achievements**

2013 NIS CHANCE PROGRAMME

Secondary education

Automotive Mechanic	6
Sheet metal Worker	3
Electric Technician	14
Chemical Technician	4
Sheet Metal Worker	2
Mechanical Technician	18
Mechanic	2
Computer Management Technician	4
other	3
Total	56

University degree

Graduate Ecologist	2
Graduate Economist	48
Graduate Engineer of Architecture	2
Graduate in Electrical Engineering and Computer Engineering	5
Graduate Geology Engineer	2
Graduate Civil Construction Engineer	4
Graduate Mechanical Engineer	3
Graduate Management Engineer	13
Graduate Engineer in Organisational Sciences	4
Graduate Mining Engineer	7
Graduate Engineer in traffic	2
Graduate Technology Engineer	12
Graduate Environmental Protection Engineer	2
Graduate in Mathematics	4
Graduate in Law	6
other	5
Total	121
Total	177

Number of employees

Total number of employees of NIS j.s.c. Novi Sad as of December 31st, 2013 was 4,266, number of employees from servicing organizations as of

December 31st, 2013 is 3,628, which makes total of 7,894 employees. In addition there are 28 more employees who work in representative offices.

Organizational unit	December 31 st 2013			December 31 st 2012		
	Directly	Servicing organizations	Total	Directly ⁵²	Servicing organizations	Total
NIS j.s.c. Novi Sad	4,266	3,628	7,894	6,106	2,340	8,446
Exploration and production Block	716	196	912	872	86	958
Refining Block	904	48	952	1,098	28	1,126
Sales and Distribution Block	1,035	2,940	3,975	2,373	2,012	4,385
Services Block	106	8	114	83	8	91
Energy Block	225	7	232	205	2	207
Corporate centre	1,280	429	1,709	1,475	204	1,679
Representative offices	28	0	28	30	0	30
Subsidiaries in Serbia	1,481	1,416	2,897	2,069	797	2,866
Naftagas – Naftni servisi	630	706	1,336	783	593	1,376
Naftagas – Tehnicki servisi	452	447	899	703	118	821
Naftagas – Transport	115	236	351	268	73	341
NTC NIS Naftagas	284	27	311	315	13	328
Subsidiaries abroad	199	10	209	337	2	339
NIS Petrol Bulgaria	44	-	44	198	-	198
NIS Petrol Romania	58	6	64	41	2	43
NIS Petrol Bosnia and Herzegovina	83	3	86	90	-	90
Jadran Naftagas B&H	8	-	8	8	-	8
Pannon Naftagas- Hungary	6	1	7	-	-	0
Other subsidiaries	132	13	145	93	7	100
Jubos d.o.o. Bor	-	-	0	-	-	0
O Zone a.d. Belgrade	4	-	4	9	-	9
NIS Oversiz o.o.o. Sankt Petersburg	91	-	91	67	-	67
SP Ranis o.o.o. Chernoglavka	-	-	0	1	-	1
NIS Svetlost d.o.o. Bujanovac	15	7	22	16	7	23
G Petrol d.o.o. Sarajevo	22	6	28	-	-	0
Total:	6,106	5,067	11,173	8,635	3,146	11,781

„NIS chance“ included, vacancies excluded

Qualification structure of NIS j.s.c. Novi Sad's employees as of December 31st 2013

Organizational unit	D.Sc.	M.Sc.	BSc	ABSc	HS	ES	HSW	SW	SSW	US	Total:
NIS – Corporate centre	5	89	731	102	263	3	32	55	0	0	1,280
Exploration and production Block	1	17	226	29	194	0	10	239	0	0	716
Services Block	0	5	78	11	11	0	1	0	0	0	106
Refining Block	0	13	233	57	538	0	37	26	0	0	904
Sales and Distribution Block	1	23	443	135	232	1	73	127	0	0	1,035
Energy Block	0	11	71	7	107	0	21	8	0	0	225
Total:	7	158	1,782	341	1,345	4	174	455	0	0	4,266

Age structure of NIS j.s.c. Novi Sad's employees as of December 31st 2013

Organizational unit	< 20	20–30	30–40	40–50	50–60	> 60	Total:
NIS – Corporate centre	0	179	436	382	256	27	1,280
Exploration and production Block	0	90	197	277	145	7	716
Services Block	0	23	30	31	19	3	106
Refining Block	0	144	249	302	205	4	904
Sales and Distribution Block	0	130	337	341	215	12	1,035
Energy Block	0	28	69	70	56	2	225
Total:	0	594	1,318	1,403	896	55	4,266

NIS j.s.c. Novi Sad employs 2,989 male and 1,277 female employees.

Grounds for termination of employment

During 2013, totally 2,270 employees left the Company – 5 employees of whom was retired, 1,700 left

the Company upon consensual termination of employment, and for 565 employees, the basis for termination of employment was of some other nature (cancellation of the agreement on employment, termination of employment upon the employee's request, death of an employee, etc.)

	NIS j.s.c. Novi Sad	NIS j.s.c. Novi Sad and its subsidiaries in Serbia *
Retirement	5	1
Consensual termination of employment	1,700	558
Other	565	32
Total:	2,270	591

* NIS j.s.c. Novi Sad with subsidiaries formed in 2012 originating from NIS j.s.c. Novi Sad organizational structure ("NTC NIS Naftagas" d.o.o., „Naftagas – Transport“ d.o.o., "Naftagas – tehnički servisi" d.o.o. and "Naftagas – naftni servisi" d.o.o.)

** Number includes the number of employees who accepted voluntary departure program in the 2013 with the formal termination of employment as of December 31st 2013 (who are thus employed on December 31st 2013, but not employed on January 1st 2014), and the number of employees who accepted voluntary departure program in the 2012, with who formally terminated on January 1st 2013.



ENVIRONMENTAL PROTECTION, INDUSTRIAL SAFETY AND OCCUPATIONAL HEALTH AND SAFETY

NIS¹ continued to conduct its business operations in accordance with the adopted Environmental Protection, Industrial Safety and Occupational Health and Safety Policy in 2013.

The Company's objectives in the area of HSE are:

- continuous reduction of the number of injuries, occupational diseases, negative impact on the environment, the number of fire cases, emergencies and events as regards business processes safety;
- implementation of an efficient and automated reporting systems, recording of actual and potential events, and HSE processes management;
- reduction of the number of inspection bodies' orders in the area of HSE, by conducting the analysis of ordered measures with proposed preventive measures;
- compliance with the national legislation requirements in the area of environmental protection, industrial and occupational health and safety, international standards, "Gazprom Neft" j.s.c. and the internal standards;
- establishment of the industrial safety management system;
- developing HSE culture through improved programs of HSE employee motivation programs;
- reducing the number of court proceedings in the area of HSE;

- systematically directing all production activities and technological processes in order to minimize negative impacts of the NIS' activities on all environmental media;
- rational use of natural resources and energy in accordance with the principles of sustainable development;
- fulfilment of all the obligations stipulated under the legislation of the Republic of Serbia in the area of environmental protection, industrial safety and compliance of the NIS' business operations with the EU regulations.

The above objectives will be accomplished by:

- establishment of a unique information management and reporting HSE system;
- ensuring transparency and accessibility of HSE indicators by adequate exchange of information, good and bad practices and dialogue with all stakeholders;
- creation of working conditions in which every employee has accepted the responsibility for his/her safety and that of their environment, while being entitled to terminate and/or refuse to perform the activities that threaten his/her life and health or the environment;
- activities based on the analysis conducted with the aim of improving employees' health;
- implementation of specific campaigns aimed at reducing the total number of days of sick leave;
- identification of high-risk work activities and preparation of instructions for safe operations;
- implementation of new practices of events in vestigation, including high-risk events;

¹ NIS j.s.c. Novi Sad with subsidiaries formed in 2012 originating from NIS j.s.c. Novi Sad organizational structure ("NTC NIS Naftagas" Ltd., "Naftagas - Transport" d.o.o., "Naftagas - tehnicki servisi" Ltd. and "Naftagas - naftni servisi" d.o.o.)

- implementation, support and continuous improvement of effective HSE management system in accordance with the requirements of SRPS ISO 14001:2005-2010 and SRPS OHSAS 18001:2008, as well as standards of "Gazprom Neft" j.s.c. and internal company standards;
- consistent implementation of preventive measures to reduce the probability of adverse events as a result of the awareness of the management and employees of the hazards and risks that exist in the work processes within the oil industry, and the impact that it has on the environment;
- implementation of new HSE training practices (modular approach), centralization of the planning and implementation processes;
- centralization of the process of HSE officers' competence improvement and identification of internal HSE trainers;
- improving the system of HSE staff motivation;
- centralization of the process of cooperation with the inspection authorities (area of HSE) and creation of single Registries of measures;
- full implementation of contractors and third parties management systems in accordance with the HSE standard, "Management of contractors and third parties in relation to the issues of industrial and environmental safety and occupational health and safety" and improvement of the existing practice of preparing HSE annexes to contractual documents;
- implementation of new practices/contractor management process segments: auditing of contractors (on their site) and educational forums (active participation of contractors);
- continuous improvement of working conditions by risks elimination, replacement of equipment and working tools, engineering measures, adjusting work processes and workplace conditions to employee;
- implementation of systems of process safety, fire and explosion protection and emergency situations management;
- development and implementation of Industrial Safety management system (principles of best global practices and the Seveso Directive);
- improvement of the organization, competence and renovation of fire and rescue units resources;
- implementation of new practices for emergency response, active involvement of line management;
- implementation of the lock-out and tag-out system (LOTO) in accordance with the requirements of the world's best practices;
- technological improvement of production processes and the implementation of best available techniques (BAT – Best Available Techniques) in order to reduce the emission of pollutants in the environment;
- monitoring process improvement by increasing the number and quality of environmental indicators;
- waste management centralization process;
- rehabilitation of degraded areas of the environment caused by plants' operation and historical pollution;
- strategic partnerships with national institutions of the Republic of Serbia.

The process of the HSE system normative-methodological documents centralization was initiated in 2013 by which documentation was arranged more efficiently and HSE activities control facilitated. 21 standards, 27 instructions and 69 instructions for safe operation were adopted and amended. In addition, 37 instructions and 29 instructions for safe operation were revoked or amended to apply at corporate level.

The adopted standard for cooperation with state authorities defines a uniform procedure of cooperation with the state authorities in the area of HSE, internal communication and coordination of activities of all stakeholders in the organization and implementation of inspection visits in the area of HSE, keeping a register of prescribed measures, method of preparation, compliance and distribution of evidence for termination of imposed measures and the analysis of ordered measures with the proposal of preventive measures for reducing the number of inspection bodies' orders. The introduced practice has enabled a better insight into ordered measures, and/or in terms of implementation and required evidence. The results of this work are reflected in the fact that all the prescribed measures in the area of fire protection with expired implementation dates were implemented by the end of 2013.

The practice of internal corporate monitoring of implementation of HSE measures has been continued. The process is performed in all organizational units of NIS and covers the activities conducted by employees, visitors and contractors as well as the activities related to the equipment and tools used during work and other activities. The aim of the process is to ensure efficient operation and continuous improvement of the implementation of HSE measures system by identifying irreg-

ularities, defining, developing and implementing corrective and preventive actions.

During supervisory visits, HSE improvement measures have been proposed. The implementation of measures and timelines for implementation has been statistically monitored through a registry of actual/potential non-conformities, corrective/preventive measures and improvement measures.

Since the beginning of introduction of the process (March 2011) until the end of 2013, 111 completed supervisory visits were completed in NIS during which 2,071 measures were ordered, and 1,640 measures (79%) were implemented by December 31st 2013. The number of supervisory visits, inspected facilities, responsible persons and HSE officers' participation during 2013 is provided in the table below.

Ref. No.	Organisational unit	No. of inspection visits	No. of observed facilities/sites	No. of interviewed responsible persons	No. of days at facilities/sites	No. of HSE officers in supervisory visits
1.	Exploration and Production Block	4	14	41	10	24
2.	Refining Block	4	6	32	10	20
3.	Sales and Distribution Block	4	15	34	10	20
4.	Services Block	4	3	14	4	23
5.	Energy Block	4	7	19	6	19
6.	Other Functions within NIS j.s.c. Novi Sad	6	13	29	12	21
Regular visits		26	58	169	52	127
1.	Subsidiaries*	12	16	31	21	36
Emergency visit		12	16	31	21	36
Total		38	74	200	73	163

* NIS j.s.c. Novi Sad with subsidiaries formed in 2012 originating from NIS j.s.c. Novi Sad organizational structure ("NTC NIS Naftagas" d.o.o., „Naftagas – Transport“ d.o.o., „Naftagas – tehnički servisi“ d.o.o. and “Naftagas – naftni servisi“ d.o.o.)

Training of employees in the field of HSE

During 2013, new standard was adopted: training of employees in the area of HSE in NIS j.s.c. Novi Sad and the Training Program by which a new concept of training of staff, contractors and visitors was defined in the area of occupational health and safety, fire protection and environmental protection. The elements defined by the Standard and Training Program

in the area of HSE include: HSE Training Catalogue, HSE Training Matrix, Personnel Training Plan, educational materials, statistics and analysis. The objective of the Standard is to ensure that all employees receive systematic HSE training courses and manuals in accordance with workplace requirements.

The HSE Training Catalogue combines and defines all the training sessions in the area of HSE at NIS level. The Training Program is divided into 4 modules: M-1 Induction Training, M-2 On-the-Job Training, M-3 Training in HSE management systems and M-4 External Training.

Induction courses (M-1) represent the group of trainings for new employees in NIS or for employees changing jobs, and trainings performed periodically in accordance with the law. On-the-Job Training (M-2) is a set of training courses aimed at familiarizing an employee with work processes, specific risks and measures for their elimination or reduction at the employee's workplace. These trainings include practical examples of safe work at a workplace for which employees are trained and which are organized by function heads. The HSE Management System Training (M-3) include the trainings for employees in managerial positions and other key employees who should have certain knowledge for the purposes of control or practical application of HSE standards. External HSE trainings (M-4) is a group training sessions conducted by specially trained persons or specialized institutions in order to improve the skills and knowledge for specific jobs - specialist training. These trainings include legally prescribed trainings in the area of HSE training for certain occupations or job positions.

HSE training matrix is a document which defines the list of required HSE trainings for a particular job specified under job systematization, and/or for reference/generic job positions of persons engaged for performance of certain tasks.

The Training Plan systematically defines the dynamics of HSE trainings implementation during a calendar period.

Instructions for HSE trainings defining the scope and contents of trainings are prepared for all M1, M2 and M3 training modules as well as time required for employee training, the list of laws and regulations of the Republic of Serbia, and/or normative-methodological documents of the Company and other technical documentation containing the requirements in the area of HSE, which should be processed, reviewed or presented during the process of HSE training.

The project "HSE Leadership" was implemented during 2013. It covered measuring of HSE culture and training managers in the field of HSE. The training program was attended by 486 managers of all levels. Two-day courses were aimed at training managers in HSE integration and HSE management in their work processes.

The Company implemented two projects in the area of traffic safety promotion: safe vehicle operation trainings and procurement of console for testing psycho-physical condition of drivers in view of preventing traffic accidents. The training in safe vehicle operation was conducted in cooperation with the National Drivers Academy (NAVAK) in Subotičke poly-

gon. Several types of trainings were implemented for professional drivers of passenger and freight vehicles, and for drivers who occasionally operate passenger vehicles. The program for safe vehicle operation was delivered to 753 persons by December 31st, 2013.

During 2013, several trainings aimed at improving HSE officers' competence were organized. The programs included preparatory sessions for vocational examination, and different vocational seminars for 1,462 persons by December 31st 2013. In addition, internal auditor trainings in occupational health and safety management systems were organized for 23 employees (OHSAS 18001).

The Company implemented 18 different campaigns aimed at raising awareness in the area of occupational health and safety, environmental protection and fire protection during 2013. Also, the campaign aimed at customers/clients at NIS petrol stations was conducted in two period ("Initial Fire on Vehicles"). Campaigns were conducted through discussions of experts with employees, visitors, contractors in our company, as well as by way of distributing educational leaflets.

The programs scheduled for 2014 in view of raising the level of employees' competences include:

- training of management staff in high-risk activities management;
- training of employees in isolation and control of hazardous energy forms;
- continuation of programs/trainings in safe vehicle operation;
- preparation of educational materials which will be used during trainings at workplace and employee trainings;
- internal HSE trainers' competences development program;
- 16 campaigns for promoting occupational health and safety, fire protection and environmental protection.

HSE Indicators

The percentage of reported events, and/or transparency was considerably increased in 2013 (112%). As a result, there is a significant increase of reported minor events (155%).

In accordance with defined objectives, the Corporate Strategy for 2013 – 2018 prescribes continuous reduction of number of injuries and consequential reduction of number of injuries and lost time injury frequency coefficient (LTIF).

	2012	2013
Work related injuries*	106	89
Work related injuries – with sick leave	79	58
Number of fire events	36**	43***
Number of traffic accidents	69	64****
Number of environmental accidents	75	89
Number of inspection authorities' visits	817	774
Number of inspection authorities' orders	819	692

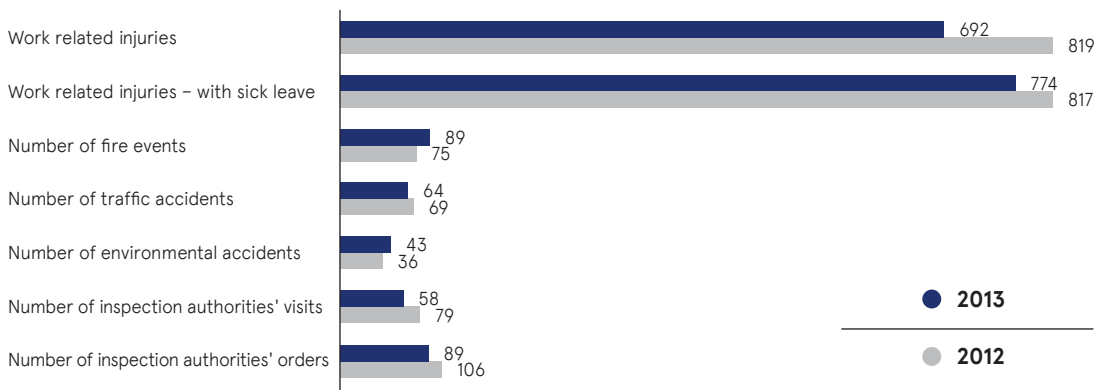
*Including fatalities

** Fire on clients' vehicles is not included in 2012 figures (11 vehicles)

*** Fire on clients' vehicles is not included in 2013 figures (39 vehicles)

**** Events from "Traffic" category (Railway and agricultural/construction machinery accidents) are not included (4 in 2013.)

HSE Indicators



Occupational Health and Safety

Contractors and Third Parties Management

During 2013, the Standard "Management of contractors and third parties in relation to the issues of industrial and environmental safety and occupational health and safety" (hereinafter referred to as: the Standard) was amended to include the series of activities in which HSE Function employees and HSE officers in blocks participate.

- by December 31st 2013, 924 companies became pre-qualified, many of which raised the safety level in their operations in accordance with the Standard requirements;

- field visits were made to 75 contractors in locations in which they were engaged. The inspection activities included the assessment of implementation of risk management tools in such companies, suggestions and support by expert teams performing audits;
- 2 contractor forums were organized, which were attended by contractors in different areas of expertise, starting from traffic to civil engineering. The feedback from forum participants was very positive, while improvements in the application of HSE measures were observed in several contractors' operations after the forum.
- Contractor dossiers were prepared in the electronic format and made available to all internal stakeholders. The dossiers are filled in with data ensuring better information on contractor's

profile and risk management related to their engagement.

- Contractors were evaluated from the aspect of HSE by HSE officers and persons in charge of supervision. In this way additional value was created for procurement department which ensures additional inputs in future selection of suppliers.

Employees trainings in the area of contractors management were continued, as well as trainings for overall improvement and raising employees awareness on HSE.

Personal Protective Equipment (PPE)

Personal protective equipment means any equipment (asset, device, equipment, accessories, etc.) carried or held by a user for his/her own protection against one or more risks to health and safety, as well as:

- 1) equipment consisting of multiple devices, accessories, assets or other components a manufacturer has assembled during construction, or connected to make a functional unit to protect the user of such equipment from one or more potentially simultaneous risks;
- 2) a protective device, accessory or device which is fixed or removable connected to, or linked to other personal equipment which is not protective equipment and which a user carries or holds while performing certain work activities;
- 3) interchangeable PPE components which are essential for its correct and proper functioning and used exclusively for such equipment.

By a proper use of PPE during work, risk of employee injuries has been significantly reduced.

In order to ensure adequate protection, employees of the Company are provided with modern and quality PPE in accordance with the standards of the Republic of Serbia and international standards.

For this purpose, a multidisciplinary group has been established within the HSE Function, Function for MT SS and CC, Department of Corporate Marketing, HSE officers in organizational parts, Occupational health and safety Committee and the Union for the development of single - KT 9:01:03 Catalogue of Personal Protective Equipment in NIS j.s.c. Novi Sad, Version 3, which contains all the technical requirements of the Company in relation to quality, appearance and functionality and which applies at the Company level. Single PPE Catalogue consists of two parts:

- the first part contains complete visualisation of each piece of PPE and working clothes - Department of Corporate Marketing is in charge of updating thereof;
- the second part contains the specification of the PPE and working clothes - the HSE Function and HSE units in organizational parts.

The PPE Catalogue was revised in November 2013 and Version 4 was prepared.

The Single Index of PPE Material Codes was prepared at the Company level.

PPE Standard was procured and made available in a folder shared through network so that all blocks could use it.

The line management in NIS conducts the following activities:

- controls the possession of PPE by employees and the proper use of PPE;
- delivers practical training of employees in cooperation with HSE officers;
- ensures compliance with all the rules for PPE use, by giving an example to their subordinates;
- terminates work process and starts the process of determining the responsibility of employees who have violated the HSE rules and instructions regarding the use of PPE;
- initiates the procedure of sanctioning employees who have violated the HSE rules and instructions;
- has no right to require from employees to perform their obligations in the case the employee has not been provided with the PPE (in accordance with the list of PPE);
- distributes PPE based on submitted plans and requirements;
- initiates the procedure of issuance of other PPE in case of loss or alteration of PPE quality so that employees could safely continue their work;
- in cooperation with the HSE officer defines safe zones for the facility he/she is in charge of;
- controls the use of PPE in the workplace in terms of wearing, functionality and completeness of the PPE by observation;
- initiates the procedure for taking over the PPE.

Two normative-methodological documents have been prepared:

- SD-09.01.01 Company Standard on providing employees with the PPE in NIS j.s.c. Novi Sad
- UR.09.01.01-001 Instructions for planning and distribution of the PPE for use in NIS j.s.c. Novi Sad

Upon application of the above two NMDs and the PPE Catalogue, block NMDs in this area have been revoked which has significantly contributed to the reduction of the number of NMDs.

Market has been continuously monitored by delivering PPE presentations.

Use of HSE designations

The implementation of the Company Standard: Use of HSE Designations in NIS j.s.c. Novi Sad Facilities was continued in 2013. The Standard defines the types, size, number and place of installation, levels and zones of HSE designations placement.

During the third quarter of 2013, the existing standard was replaced by a new Company Standard: HSE designations in NIS j.s.c. Novi Sad, while new designations were added to the HSE Catalogue. A new standard simplifies the process of making designations, while obligations and responsibilities of process participants remained the same.

In accordance with the requirements of the Standard, visitor HSE brochures were prepared for 88 facilities in NIS (refining installations, gathering and dispatching stations, storage facilities ...).

Industrial Safety

In 2013, the system of industrial safety was established at corporate level, including three business processes which belong to this discipline: process safety, fire protection and emergency situations. Each business process is defined by the standards developed in accordance with good industry practice.

Fire Protection

During 2013, the concept of fire brigades centralization was defined in order to optimize resources and increase efficiency. For the purposes of concept implementation, the implementation road map was prepared which envisaged the project implementation by the end of 2014.

Organizational change was implemented in 2013 under which all fire brigades were transferred from blocks to the HSE function. The centralization project covers two aspects:

- Technical aspect - the reconstruction of the existing and procurement of new fire fighting vehicles as well as procurement of fire fighting equipment are scheduled for 2014.

- Organizational aspect - finalization of organization and implementation of fire brigades trainings .

The Standard - Fire Protection and Explosion Management System was adopted in 2013. The Standard is the foundation for the standardization of this business process. The implementation of the system and preparation of supporting documents is scheduled for 2014.

Process Safety

The Standard - Process Safety Management System which represents the foundation of this business process was prepared during 2013. The implementation of the system and preparation of supporting documents is scheduled for 2014 by engaging international experts in this area.

As regards obligations in terms of SEVECO Directive requirements, existing documents were amended and new documents drafted during 2013. Approvals of the competent ministry should be obtained in 2014.

Emergency Situations

The Standard - Emergency Situations Management System was adopted in 2013. The Standard is the foundation for the standardization of this business process. The implementation of the system and preparation of supporting documents is scheduled for 2014.

As regards obligations in terms of requirements of the law on emergency situations, the preparation of documents started in 2013. The preparation of documents required by the law should be completed during 2014.

Environmental Protection

in 2013 NIS continued to conduct its business operations in accordance with the adopted policy of environmental protection, industrial safety and occupational health and safety as well as with the principles of sustainable development by minimizing negative impacts on environment and human health, as well as continuous improvement and efficient environmental protection management system.

During 2013, NIS continued to allocate significant financial resources for the implementation of projects in the area of environmental protection, aimed at modern-



For business without injuries

We develop the HSE culture
through motivation and raising the
employees' awareness

We improve the safety
procedures and reduce negative
HSE parameters

We bring our business operations
in line with the requirements of
the national legislation, standards
of the OAD Gazprom Neft", and
internal standards



**We have efficient and
automated reporting in place**

**We are establishing a system
for managing industrial safety**

**We utilize natural resources
and energy rationally, in line
with the principle of sustainable
development**

We have invested

265,9

**million dinars in environmental protection
and equipment modernization**

izing the equipment and reducing emissions of pollutants in the environment, remediation and re-cultivation of contaminated sites (historical pollution), monitoring of environmental conditions, etc.

Projects initiated in previous years were completed, while a significant number of environmental projects are on-going and their implementation will have a positive impact on the environment.

Projects completed in 2013

Block	Name of the project	Total investment by 31.12.2013. (in RSD)
Exploration and production	Restoration of historic pollution in 2012	123,424,792
	Restoration and reconstruction of oil sewage phase 1 and phase 2 in RNS	23,831,350
	The project of building a closed drainage and overflow system from the torch vessel and gas meter FA -1000	18,163,210
Refining	Reconstruction and modernization of the pier in RNP	129,291,979
	Mobile plant for the treatment of oil sludge, oil sediments and oily land	354,900,373
	Reconstruction of the FCC facility in order to reduce emissions of solid particles in the atmosphere	377,574
Sales and distribution	installation of separators	11,517,507
Total		661,506,785

A mobile plant for processing oily sediments and oily soil in reservoirs (Mega Macs) in the Refining Block was procured in 2013. By commissioning the plant during November in RNP - all environmental and economic benefits of the acquired modern facility for cleaning the tank were successfully demonstrated. Faster cleaning of reservoirs has been ensured by the procurement of a new plant. Oily sludge treatment significantly reduces the amount of oily waste (hazardous waste), which leads to the reduction of treatment costs of oily waste and a significant reduction of space for waste disposal. The operation of this facility resolves the problem of storage, transport and treatment of hazardous waste - oily sludge from the bottom of a tank.

Processing of oily sludge ensures the recovery of over 60% of crude oil which is returned to the refining process. From the economic point of view, this is the investment with the payback period of less than two years.

During 2013, other projects were successfully implemented in the Refining resulting in a significant reduction in emissions of pollutants to air, water and soil. The reconstruction of the plan and the installation of modern equipment and filters as part of the

reconstruction of FCC in the RNP resulted in reducing emissions of solid particles into the atmosphere. The project of construction of the closed system of drainage and overflow from the flare vessels and gas metering device FA -1000 was completed in 2013, which resulted in the reduction of emissions of carcinogenic and toxic substances in the atmosphere and volume of waste waters, thus reducing the costs of wastewater treatment. The first phase of the project of rehabilitation and separation of the oil and storm sewage water was completed in view of reducing negative impacts on the environment and volume of waste waters, and thus the cost of waste water treatment.

"The historical pollution 2012" project was completed in the Exploration and Production and it included the rehabilitation of 4 primary oily mud pits. The activities were continued in 2013 and 3 more oily mud pits were rehabilitated. The totals of 105 (clean and oily) primary mud pits have been rehabilitated to date. Under the historical pollution project, the area of app. 75,000 m² was rehabilitated for primary purpose of use (farming land), and the risks to health of employees, local population and potential pollution of underground waters and air were eliminated.

The reconstruction of petrol stations in the Sales and Distribution Block was continued in 2013. The reconstruction project included the completion of installation of double-shell reservoirs, separators for oily waste waters, phase II system for collection of

gasoline steam in accordance with the latest European standards. This project ensures the elimination of risks to health of employees, local population and potential pollution of underground waters.

On-going projects

Block	Project	Investment value (RSD)	Start-up Date	Total paid in 2013 (RSD)
Exploration and Production	Construction of the system for fluid collection and burning (LPG)	109,000,000	15.04.2014.	148,585,106
	Rehabilitation of historically polluted soil – HSE 2013	108,900,000	13.10.2014.	76,078,416
RNS Refining	Rehabilitation and reconstruction of the waste water treatment plant	45,000,000		29,914,244
RNP Refining	Construction of the closed sampling system in Production II and III phase	117,900,000	31.07.2014.	70,754,144
	Reconstruction of the filling station	1,029,000,000	01.04.2015.	134,045,491
	Reduction of emission of NOx in flue gases from the Energy plant	285,300,000	29.12.2014.	330,994,945
	Modernization of installations for loading/unloading of bitumen t, incineration of waste gases from tanks and installation of radar stirrers and temperature probes in reservoirs		31.12.2015.	5,016,805
	Blending bio components with diesel fuel in RNP	583,000,000	30.11.2015.	109,303,460
	Ejector gas washing in S-2200 (reduction of emission of SOx)	49,400,000	31.10.2014.	2,953,788
	Temporary storage of hazardous waste in RNP	59,350,000	30.11.2014.	1,745,991
	Installation of measuring systems and on-line analysers in crude oil unloading points in RNP	40,510,000	30.04.2014.	44,613,046
	Reconstruction of the soot blower boiler on Energy plant			32,276,073
	Construction of the closed drainage system (S-100/ 300/ 400/ 500/ 2100/ 2300/ 2400/ 2500/ 2600)	535,050,000	30.09.2015.	205,711,108
Sales and distribution	Installation of separators			3,991,518
	Retarded payments for projects implemented in 2012			215,636,873
Total				1,411,621,010

The projects initiated in 2013 are also aimed at reducing the negative impact on the environment and making significant financial savings.

The project of modernization of installations for loading/unloading bitumen to rail and road loading terminals, incineration of waste gases from tanks and installation of radar stirrer and temperature probe in the tank was initiated in RNP. After the implementation of the project, bitumen loading terminals will be modernized by loading arms which will ensure the return of gaseous phase and the control of fuel level in tanks subject to shipment. Emissions of air pollutants are expected to be reduced. The level of fire safety will be increased by the modernization of installations.

The project of construction of a closed drainage system (S-100/300/400/500/2100/2300/2400/2500/2600) in the RNP will enable direct feeding of hydrocarbons in the slope tank, resulting in a reduction of

emissions of carcinogenic and toxic gases into the atmosphere. This project will reduce the load on the API separator, which will result in a lower consumption of chemicals for water separation of hydrocarbons as well as a lower volume of waste water subject to treatment, and thus reduce the costs of wastewater treatment.

Costs of Environmental Protection

NIS allocates significant financial assets for settling statutory fees on grounds of environmental impact on - water, air and soil.

The plants which must hold integrated licenses (Pančevo Oil Refinery - RNP, Novi Sad Refinery and Oil and Gas Transport Preparation Plant, Elemir), pay fees for emitting SO₂, NO_x and powdery matters, as well as for disposal of hazardous and non-hazardous waste.

Fees	Water fees	Environmental fees
	2013 sum (RSD)	2013 sum (RSD)
NIS j.s.c.	58,754,153	201,728,320
Subsidiaries *	669,043	1,079,070
Total	59,423,196	202,807,389
Total - fees		262,230,585

* NIS j.s.c. Novi Sad with subsidiaries formed in 2012 originating from NIS j.s.c. Novi Sad organizational structure ("NTC NIS Naftagas" d.o.o., "Naftagas - Transport" d.o.o., "Naftagas - tehnicki servisi" d.o.o. and "Naftagas - naftni servisi" d.o.o.)

The table below presents environmental protection costs which are related to monitoring (air pollutant emission, immission, measurement data processing, groundwater and waste water treatment), waste management (hazardous waste disposal, waste clas-

sification, bioremediation), waste water purification, while other data refers to aggregate costs of preparing environmental assessment studies, watercourse development, well legalisation, receiving weather forecast data etc.).

Environmental protection costs	2013 sum (RSD)
Monitoring	13,264,238
Waste management	48,907,019
Waste water treatment	187,612,710
Other data	16,076,470
Total	265,860,437



RESEARCH AND DEVELOPMENT

Introduction and efficient use of new technologies is the priority of NIS development in 2013 in all areas of business operations, from production and refining to human resources. Modernisation of equipment, innovative approach and application of cutting-edge technologies are prerequisite to progress, competitiveness and regional leadership. NIS business operations undergo modernisation in terms of oil and gas business, new oil and gas exploitation methods are introduced and improved, new refining plants are build up, operation automated and retail network developed and modernised.

As regards research and development, NIS has adopted NIS j.s.c. Novi Sad Rulebook on Planning, Application and Monitoring of Innovation, Science and Research, Development and Technology Studies (SR&D), the Science and Technical Council was set up within NIS j.s.c. CEO Office which convenes quarterly, whereas the Research and Development Section was established within the Scientific and Technological Centre to monitor the coordination and execution of science and research projects.

Goals of expanding NIS innovation and science and research activities are:

- Supporting the implementation of 2020 Strategy

- Achieving competitive edge so as to ensure regional leadership
- Supporting the image of NIS as an innovation company.

In NIS Group, research and development is organised within its subsidiary "NTC NIS Naftagas" d.o.o. Novi Sad which in synergy with "Gazprom Neft" j.s.c., using resources and technology of the parent company, has a dual role::

- acts as science and research coordinator, and
 - acts as science and research executor
- closely cooperates with "Gazprom Neft" j.s.c. and uses the resources and technologies of the In 2013, activities were conducted in the following projects:
- Adaptation and testing of slim hole drilling technology
 - exploration of unconventional hydrocarbon resources:
 - the pilot wells drilled to test the possibilities of exploitation of shale gas, and
 - drilling of the well in order to contouring and testing of heavy oil deposit "Gaj"
 - Drilling of horizontal well by applying the technique of real time monitoring





CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is a part of NIS strategic operations and is implemented through five programs: Culture without Borders, Energy of Sport, Energy of Knowledge, Humanitarian projects and Cooperation for Development.

“Culture without Borders”

The program "Culture without Borders" is aimed at supporting cultural institutions and festivals of local, national and international importance, as well as the projects of Russian-Serbian cooperation.

NIS j.s.c. Novi Sad supported the International Film Festival FEST in order to contribute to the quality of cultural and artistic production, preservation of cultural heritage and to encourage new ideas and initiatives. During the event, the photo contest was organized under the slogan "Like in a movie - NIS-ION IMPOSSIBLE 2" in the spirit of the blockbuster "Mission Impossible".

NIS j.s.c. Novi Sad sponsored significant music events this year as well, such as Dragačevo Trumpet Festival, the manifestation promoting music tradition and Serbian folklore and jazz festival "Nišvil" to promote cultural values and the development of art.

The support to children's creativity was provided by sponsoring the largest and most important event of this kind in Serbia - European Children's Gathering "Joy of Europe", International Children's Folklore Festival "Licidersko srce" and "Zmajevе dečje igre".

Within the traditional support to Sterija Theatre Festival, the most important festival of Serbian drama and theatre, the Company actively participated in the Festival by performing the play "The Wizard" in NIS business centre Novi Sad.

Great attention was paid to the exhibition "Polet" on the aesthetics of advertisements published in the weekly magazine "Ekonomska politika" in former Yugoslavia. Besides Belgrade and Novi Sad, the

exhibition supported by NIS was presented to the participants Weekend Media Festival in Rovinj.

Energy of Sport

The program "Energy of Sport" is aimed at supporting professional and children's sports, as well as promoting a healthy lifestyle. Special attention was paid to proper development of children and youth and promotion of new talents.

NIS j.s.c. Novi Sad supported Mini Basketball League this year as well, organized by the Basketball Federation of Serbia. The competition was attended by more than 7,000 students from over 200 schools and clubs. The competition "Kobajagi evropsko prvenstvo (Virtual European Championship)" in front of NIS Business Premises in Novi Beograd. On this occasion, young talents were supported by the players of the basketball club "Partizan".

In 2013 NIS became a strategic partner of the Basketball Club "Partizan" Belgrade with the aim to promote the highest sport values, team spirit and excellent results as well as to support the club's offspring, familiarize children with basketball and participate in joint humanitarian actions.

NIS is the general sponsor of the Serbian Tennis Association and supports the best Serbian tennis players competing in the Davis and Fed Cup. Within this cooperation, for the second year in a row, NIS and the Serbian Tennis Association organized "Open School of Tennis" for children throughout Serbia to make them familiar with the game of tennis.

The support to motorsport and top sports achievements was achieved through cooperation with the European champion Dušan Borković, member of NIS Petrol Racing team who has been successful and achieved great results by fair play and exceptional team spirit.

The support provided to the Serbian population in Kosovo as part of the event "Bike Rock Mission" - hu-

manitarian caravan, "Harley Davidson Club of Serbia" was sponsored by NIS this year as well.

Energy of Knowledge

The program includes the support to scientific and research activities and the development of scientific potential and talented pupils and students.

The concept of the project includes the partnership with the University of Belgrade and Novi Sad for the development and training of young talents.

In 2013 the Protocol of Cooperation was entered into with the Ministry of Youth and Sports in view of providing support to talented high school and university students holding scholarships of the National Fund for Young Talents.

In 2013 NIS continued the cooperation with Petnica Science Centre as a sponsor of program activities taking into account its significance for development of science and education in Serbia and promotion of science among youth.

As one of the largest energy companies in the region which relies on scientific and technical activities, use of new technology and innovation in all areas of business, NIS supported the "Festival of Science" in Belgrade for the second year in a row. NIS also took an active part and the visitors were presented an interactive exhibition on fossil fuels "NIS reveals a great secret - From the Earth to Earth". The exhibition was prepared in cooperation with the School of Hydrogeology and Hydrometeorology "Milutin Milanković".

Cooperation for Development

The program aims at enhancing partnerships with the regions in which the Company operates, local authorities and population.

This year, the support was provided to projects awarded through the competition called "Together to the Community". The competition was attended by non-profit institutions from ten cities NIS has entered into cooperation agreements with: Novi Sad, Niš, Pančevo, Zrenjanin, Kikinda, Novi Bečej, Žitište, Kanjiža, Srbobran and the first time this year, the city of Čačak. 145 projects were awarded in public competition and their implementation contributed to the improvement of the overall social and investment climate.

The most significant projects

Sports – "Park for All" - unique open training and exercise site in Niš, adapted to the needs of disabled persons; construction of tennis courts in the Elemen-


tary School "Branislav Petrović" in Slatina near Čačak; "Choose sport- live a healthy lifestyle" - the project for the popularization of sports among children to engage in bowling, sport which enhances motor skills, concentration and balance in Zrenjanin; "Sport in schools and kindergartens" - establishing minimum conditions for pre-school and school children in Žitište to engage in sports.

Culture – International music festival "EXIT" in Novi Sad - the promotion of multiculturalism and the richness of diversity through music as a universal medium, "Mammoth fest" in Kikinda - an event dedicated to children of primary school age marking the anniversary of the discovery of one of the most significant remains of a mammoth in the world; "Velikogospojinski dani" in Novi Bečej - promotion and development of tourism industry which is in the municipality of Novi Bečej recognized as one of the greatest development potential; international film festival "Cinema City" in Novi Sad - the festival which through quality program animates and educates a wider audience on artistic values and importance and creates the opportunity for young film artists to realize their ideas, International festival of student theatres "Urban Fest 2013" in Niš - affirms and promotes the popularization of domestic and international student alternative theatre scene.

Ecology – construction of the "mobile park" - movable green oasis in Kikinda, "Healthy school - a healthy environment" - arranging the school yard of Medical School "Stevica Jovanović" in Pančevo, land afforestation with nectar tree Evodia in Elemir, Zrenjanin to improve biodiversity; "Establishment of Recycling Schoolyards" in Zrenjanin - raising the environmental awareness of school children in view of ensuring an organized collection of waste paper for recycling, "Solar Tree" in Kanjiža - a project of solar power to LED lighting within the Technical School "Besedeš Jozef".

Science – "My Step into Science" in Zrenjanin - establishment of the Centre for creative research and its presentation on the website, workshops for children and young scientists - researchers, "Automation of agricultural production in enclosed spaces, application of new technology - robots in agriculture" in Novi Sad - installation of automatic control of agricultural production in confined spaces and application of robotics, "Vertical wind turbine" in Pančevo - a device for electricity generation by use of wind energy, "Geek 2 Weeks" - Pančevo Science Festival to host the play "Naukomagija" addressing scientific experiments.

Humanitarian activities – "The effects of the program of swimming and water exercise in children with cerebral palsy" in Niš - inclusion of children with cerebral palsy in sports and recreational activities, in-

An aerial photograph of a basketball court. In the foreground, a red basketball is partially visible, attached to a black hoop. Three young children are on the court: a girl in a pink shirt and dark shorts, a boy in an orange shirt and light shorts, and a girl in a blue shirt and light shorts. They are all looking towards the camera with playful expressions. The court surface is grey asphalt with some faint lines. The background shows a blurred green field under a clear sky.


Together for the community

The program of strengthening partner relationships with the regions in which we conduct our business

Improving everyday life through the development of sports, science, and culture, environmental protection, and providing help to the disadvantaged groups

118

million dinars invested in the local community development programme



**Interest expressed by
non-profit institutions from**

10

towns and cities

**Novi Sad, Niš, Pančevo,
Zrenjanin, Kikinda, Novi Bečej,
Žitište, Kanjiža,
Srbobran, Čačak**

145

**projects supported through
the open competition system**

creased levels of motor functional status; "Assistance Call Centre" in Nis - telephone assistance services for elderly persons and persons with disabilities; "Plug for handicap" in Zrenjanin - the project of collection of PET corks within which funds were collected for procurement of orthopaedic aids; procurement of vehicles for transport of patients with chronic renal failure in Kikinda for timely transportation of patients .

Humanitarian Projects

Several significant projects were implemented in 2013 within the program of assistance and support to vulnerable categories of population.

Socializing activities were organized within the "Open School of Tennis" for Zvečanska Centre children in view of increasing solidarity and empathy

"Open School of Tennis" and the members of Davis Cup team led by Novak Đoković played tennis with children who have overcome cancer. On that occasion, the Parents Association (National Association of Parents of Children Ill with Cancer - NURDOR) was presented with donation in the form of fuel card to cover the costs of transportation of children to cities and medical centres in which they are treated.

Within humanitarian projects, the Company conducts annual philanthropic campaigns aimed at involving employees and encouraging solidarity and humanity. The participation of employees providing

donations gives a new dimension to the meaning of corporate social responsibility.

Within the campaign "Battle for babies", together with the Fund B92, the Company and employees raised the funds for the procurement of CTG devices for 18 healthcare facilities in 16 cities in Serbia as well as equipment for medical facilities in Bihać and Prijedor (Bosnia and Herzegovina). This philanthropic action was conducted in order to give a chance for a new life and support the battle for premature babies.

NIS employees showed their humanity also within the philanthropic campaign called "Love cures", in cooperation with the National Association of Parents of Children Ill with Cancer (NURDOR). The funds raised are intended to help institutions where children ill with cancer are treated in Belgrade, Novi Sad and Niš.

These funds will be used to purchase medical equipment for the treatment and accessory equipment that will facilitate the hospital treatments of children. In addition to voluntary contributions from employees, the Company donates funds equal to the total amount collected by employees.

The assistance is intended for the Institute for Oncology and Radiology of Serbia, Vojvodina Institute for Children and Youth Healthcare, Clinic for Paediatric Internal Medicine in Niš, University Children's Hospital and Institute for Maternal and Children Healthcare "Dr Vukan Čupić".



HISTORICAL DATA 2009 – 2013¹

	2009	2010	2011	2012	2013
Total income	135.7	181.3	207.5	248.8	277.4
Total expenses	175.4	169.0	167.8	201.3	223.0
Net profit (loss)	(37.8)	16.7	40.6	45.5	48.3
Sales	118.6	161.4	187.1	226.6	259.4
OCF	17.5	17.6	34.5	37.3	75.3
EBITDA	10.4	32.2	52.4	65.5	68.8
Non-current assets*	96.4	113.7	145.6	181.7	231.6
Current assets	48.3	64.4	88.0	111.2	114.0
Total assets	144.7	178.1	233.6	292.9	345.6
Equity	32.0	47.0	87.6	133.1	169.0
Long-term provisions	16.1	18.6	10.4	11.3	15.0
Long-term liabilities**	43.3	51.1	83.2	83.8	63.5
Short-term liabilities	53.3	61.4	52.3	64.7	98.2
Total equity and liabilities	144.7	178.1	233.6	292.9	345.6

* Non-current assets include deferred tax assets

** Long term liabilities include deferred tax liabilities

1 Consolidated



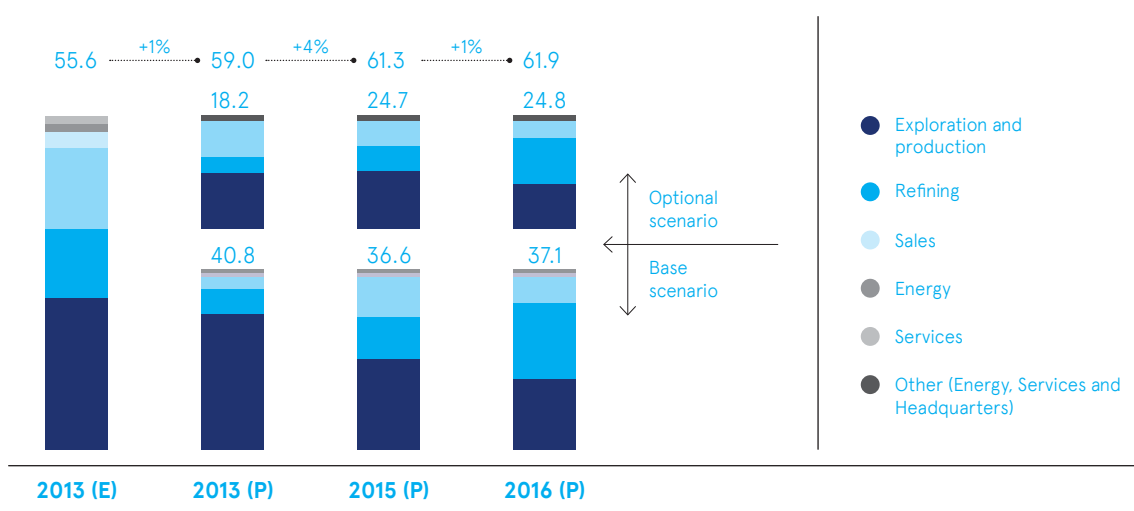
FURTHER DEVELOPMENT

2014 Business Plan was adopted at the NIS j.s.c. Novi Sad Board of Directors session held on December 10th 2013. The main task for the following year set forth in the document is to retain the leadership position in Serbia and stabilise investment activities at the 2013 level, all with the aim to resume the upgrade of technological and technical capacities and further business developments in the region.

One of the priorities highlighted in the adopted Business Plan is to uphold the profitability of business opera-

tions and key financial performance indicators at the level of 2013. The scope of investments will remain at the 2013 level. A comprehensive campaign has been planned for 2014 aimed at increasing energy efficiency, and also new investments for the Services and Exploration and Production, modernisation of process capacities in the Pančevo and Novi Sad Refineries and completion of on-going energy project including Serbia's first wind park Plandište, a joint project of TPP Pančevo with Gazprom Energoholding, the cogeneration network development etc.

CAPEX, in bn RSD





One of the key 2014 tasks of the Exploration and Production is to reinforce the upward trend in proven oil and gas reserves. A demanding project – development of a digitalised database of geological data on existing and potential hydrocarbon deposits in Serbia, Romania and Hungary – has also been planned for the upcoming year. To achieve the strategic goals for oil and gas production in 2014, it is needed not only to fulfil the plans at the existing foreign deposits in Bosnia, Romania and Hungary, but also to launch new projects which are currently at their initial stages.



The main task of the Refining in 2014 is to fully exploit the capacities of modernised Pančevo Refineries, primarily to increase production volumes for higher margin products as well as to raise the level of crude oil refining. Efforts will also be invested in improving energy efficiency, reducing costs and losses in production, professional development and retraining of the staff. Modernisation of the refining capacities will continue in 2014 and tens of million euros of investments are expected in the second stage of the modernisation of refining capacities.



Improvements in the refining process and larger petroleum product scope require further expansion of the retail networks both in Serbia and abroad and increase in wholesale. The Sales and Distribution's priorities for the upcoming year are to raise retail volumes in both NIS networks, NIS Petrol and Gazprom, augmenting the share in the Serbian market and taking up leading positions in the markets of Romania, Bulgaria and Bosnia. It is also needed to expand into new businesses such as bunkering not only in Serbia but in other Danube countries, to participate actively in jet fuel markets, to assume the role of a coordinator in selling the products of HIP Petrohemija which has been a strategic partner of NIS since 2011.

FINANCIAL STATEMENTS WITH AUDITOR'S REPORTS



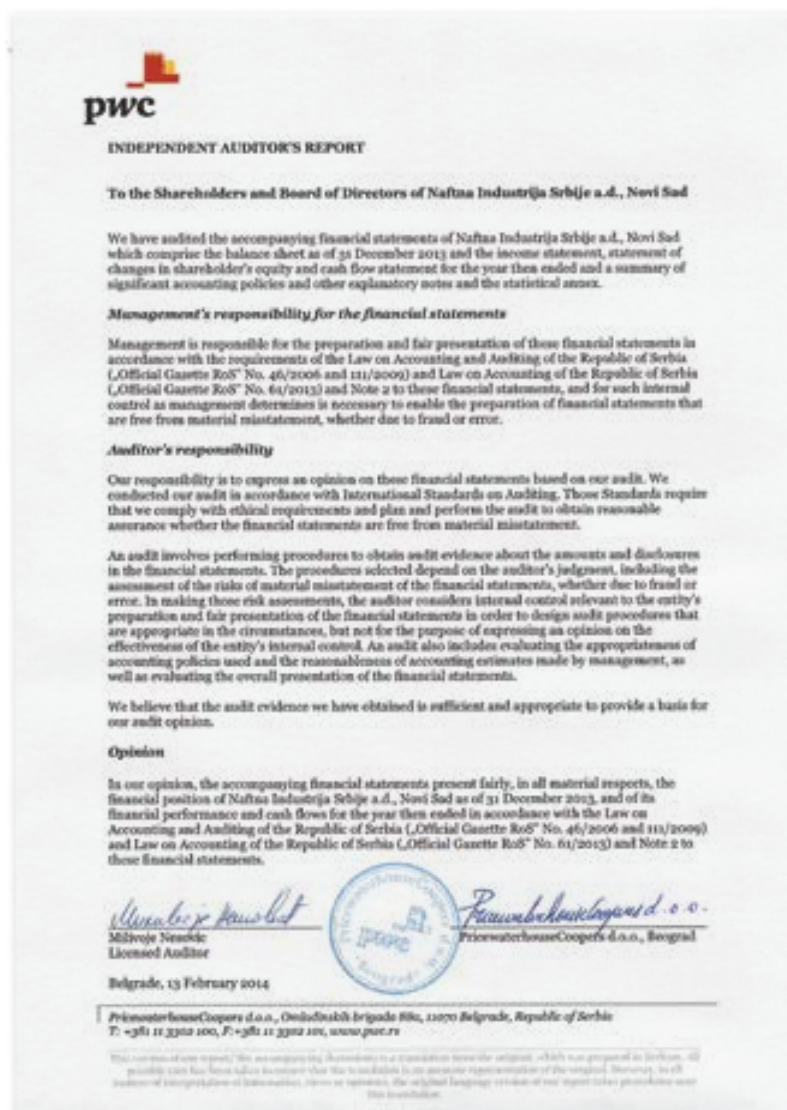
Implementation of adequate financial standards and responsible and transparent business operations are integral part of our business policy.



The commitment to be a leader and energy to change the environment for the better shall remain our main driving force in 2014.



AUDITOR'S REPORT ON STAND-ALONE FINANCIAL STATEMENTS





STAND-ALONE FINANCIAL STATEMENTS

Balance Sheet (stand-alone)

	Notes	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Intangible assets	6	11,306,951	8,224,678
Property, plant and equipment	7	174,718,442	144,519,040
Investment property	8	1,363,353	1,316,069
Investments in equity instruments	9	7,757,203	7,707,917
Other long-term investments	10	31,259,393	19,130,412
		226,405,342	180,898,116
Current assets			
Inventories	11	38,861,591	43,606,986
Non-current assets held for sale		1,272,306	41,746
Trade and other receivables	12	57,165,316	41,575,163
Short-term financial investments	13	4,533,030	2,433,206
Cash and cash equivalents	14	5,180,154	8,311,264
VAT and prepaid expenses	15	7,306,804	8,778,258
Deferred tax assets	16	9,776,709	9,786,958
		124,095,910	114,533,581
Total assets		350,501,252	295,431,697
Off-balance sheet assets	17	91,777,781	84,451,110

The accompanying notes are an integral part of these financial statements

in ,000.00 RSD

Balance Sheet (stand-alone)

	Notes	31 December 2013	31 December 2012
EQUITY AND LIABILITIES			
Equity	18		
Share and other capital	18.1, 2.20	81,530,200	87,128,024
Reserves	2.21	-	889,424
Revaluation reserves		-	12
Unrealized gains from securities		18,144	6,918
Unrealized losses from securities		(78,029)	(81,446)
Retained earnings	18	95,412,378	49,060,229
		176,882,693	137,003,161
Long-term provisions and liabilities			
Long-term provisions	19	14,267,344	12,930,335
Long-term borrowings	20	15,301,716	30,721,339
Other long-term liabilities	21	45,324,831	50,270,312
		74,893,891	93,921,986
Short-term liabilities			
Short-term financial liabilities	22	27,917,966	9,359,307
Trade and other payables	23	49,580,305	33,921,648
Other short-term liabilities	24	4,709,467	6,313,605
Liabilities for VAT, other taxes and deferred income	25	11,737,368	12,034,945
Income tax liabilities		2,626,080	512,454
		96,571,186	62,141,959
Deferred tax liabilities	16	2,153,482	2,364,591
Total equity and liabilities		350,501,252	295,431,697
Off-balance sheet liabilities	17	91,777,781	84,451,110

The accompanying notes are an integral part of these financial statements

in ,000.00 RSD

Income Statement (stand-alone)

	Notes	Year ended 31 December	
		2013	2012
Operating income			
Sales revenue	5	252,214,729	226,156,906
Work performed by the entity and capitalized		223,460	2,063,809
(Decrease) increase in inventories of finished goods and work in progress		(3,103,205)	1,665,432
Other operating income	26	138,858	184,677
		249,473,842	230,070,824
Operating expenses			
Cost of goods sold		(9,390,494)	(26,432,161)
Raw material and consumables used	27	(132,566,455)	(90,416,631)
Employee benefits expense	28	(17,492,035)	(21,247,898)
Depreciation, amortisation and provision	29	(10,693,445)	(7,840,645)
Other operating expenses	30	(22,501,606)	(19,152,732)
		(192,644,035)	(165,090,067)
Operating profit		56,829,807	64,980,757
Finance income	31	9,179,971	10,167,157
Finance expenses	32	(4,033,406)	(15,827,048)
Other income	33	4,349,567	4,707,451
Other expenses	34	(8,016,611)	(12,703,358)
Profit before income tax		58,309,328	51,324,959
Income tax expense			
Current income tax expense	35	(6,185,819)	(2,575,885)
Deferred income tax benefit	16.35	200,860	707,442
Profit for the year		52,324,369	49,456,516
Earnings per share			
- Basic	36	0.321	0.303

The accompanying notes are an integral part of these financial statements

in ,000.00 RSD

Statement of Cash Flows (stand-alone)

	Year ended 31 December	
	2013	2012
Cash flows from operating activities		
Sales and advances received	387,768,902	313,174,536
Interest from operating activities	902,936	1,895,568
Other inflow from operating activities	138,859	184,674
<i>Cash inflow from operating activities</i>	<i>388,810,697</i>	<i>315,254,778</i>
Payments and prepayments to suppliers	(154,525,550)	(143,551,839)
Salaries, benefits and other personal expenses	(18,782,016)	(20,843,165)
Interest paid	(2,944,779)	(3,318,871)
Income tax paid	(4,072,193)	(3,548,460)
Payments for other public revenues	(135,160,478)	(107,185,231)
<i>Cash outflow from operating activities</i>	<i>(315,485,016)</i>	<i>(278,447,566)</i>
Net cash from operating activities	73,325,681	36,807,212
Cash flows from investing activities		
Sale of shares	-	228
Proceeds from sale of property, plant and equipment	204,087	322,111
Other financial investments	854,734	1,263,068
<i>Cash inflow from investing activities</i>	<i>1,058,821</i>	<i>1,585,407</i>
Purchase of shares (net outflow)	(26,306)	(213)
Purchase of intangible assets, property, plant and equipment	(50,466,441)	(38,883,079)
Other financial investments (net outflow)	(13,532,079)	(15,807,489)
<i>Cash outflow from investing activities</i>	<i>(64,024,826)</i>	<i>(54,690,781)</i>
Net cash used in investing activities	(62,966,005)	(53,105,374)

	Year ended 31 December	
	2013	2012
<i>Cash flows from financing activities</i>		
Proceeds from long-term and short-term borrowings	21,996,382	6,267,501
Proceeds from other long-term and short-term liabilities	-	3,818,459
<i>Cash inflow from financing activities</i>	<i>21,996,382</i>	<i>10,085,960</i>
Outflows from long-term, short-term and other liabilities	(23,224,309)	(11,360,516)
Dividend distribution	(12,364,129)	-
<i>Cash outflow from financing activities</i>	<i>(35,588,438)</i>	<i>(11,360,516)</i>
Net cash used in financing activities	(13,592,056)	(1,274,556)
Decrease in cash and cash equivalents	(3,232,380)	(17,572,718)
Cash and cash equivalents at the beginning of year	8,311,264	25,228,726
Currency translation gains on cash and cash equivalents	711,333	2,064,138
Currency translation losses on cash and cash equivalents	(610,063)	(1,408,882)
Cash and cash equivalents at the end of the year	5,180,154	8,311,264

The accompanying notes are an integral part of these financial statements

in ,000.00 RSD

Statement of Changes in Equity (stand-alone)

	Share	Other Capital	Reserves
Balance as at 1 January 2012	81,530,200	5,597,824	889,424
Total increase in previous period	-	-	-
Total decrease in previous period	-	-	-
Balance as at 31 December 2012	81,530,200	5,597,824	889,424
Balance as at 1 January 2013	81,530,200	5,597,824	889,424
Total increase in current period	-	-	-
Total decrease in current period	-	(5,597,824)	(889,424)
Balance as at 31 December 2013	81,530,200	-	-

The accompanying notes are an integral part of these financial statements

Revaluation reserves	Unrealised gains from securities	Unrealised losses from securities	Retained earnings (loss)	Total
12	29,582	(64,090)	(396,287)	87,586,665
-	-	(17,356)	49,456,516	49,416,496
-	(22,664)	-	-	-
12	6,918	(81,446)	49,060,229	137,003,161
12	6,918	(81,446)	49,060,229	137,003,161
-	11,226	-	58,811,617	39,879,532
(12)	-	3,417	(12,459,468)	
-	18,144	(78,029)	95,412,378	176,882,693

in ,000.00 RSD



NOTES TO STAND-ALONE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

NIS a.d. – Naftna Industrija Srbije, Novi Sad (hereinafter “the Company”) is an vertically integrated oil company operating predominantly in Serbia. The Company’s principal activities include:

- Exploration, production and development of crude oil and gas,
- Production of refined petroleum products,
- Petroleum products and gas trading.

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005 as a successor of five state owned companies of Javno Preduzece Naftna Industrija Srbije. On 2 February 2009, OAO Gazprom Neft (“Gazprom Neft”) acquired a 51% of the share capital of NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011, under the Company’s Share Sale and Purchase Agreement, Gazprom Neft acquired additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%.

The Company is an open joint stock company listed on the Belgrade Stock Exchange, Listing A (Prime Market). The address of the Company’s registered office is in Novi Sad, 12 Narodnog fronta Street.

These financial statements have been approved and authorized for issue by CEO and will be presented to shareholders on the General meeting for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the financial statements for the year ended 31 December 2012.

2.1. Basis of preparation

These financial statements for the year ended 31 December 2013 were prepared in accordance with the Law on Accounting and Law on Auditing of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (Nos. 46/2006, 111/2009, 61/2013 and 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied, and the regulations issued by the Ministry of Finance of the Republic of Serbia. Due to the difference between these two regulations, these financial statements differ from IFRS in the following respects:

- The financial statements are prepared in the format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 (revised) – “Presentation of Financial Statements” requirements and IAS 7 – “Statement of cash flows”.
- “Off-balance sheet assets and liabilities” are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

- The Company has not consolidated the financial statements of its subsidiaries as in accordance with the Law of Accounting of the Republic of Serbia the consolidated financial statements for the current year are required to be filed up to the end of April the following year. Under International Financial Reporting Standards, stand- alone financial statements of a Company which has subsidiaries are only allowed if consolidated financial statements are also prepared and issued at the same time.
- Property, plant and equipment were measured at market value by an independent appraisal and any revaluation reserves for the excess of fair value against historical value were cancelled against share capital as at 1 January 2006.

The preparation of financial statements in conformity with the Law on Accounting of the Republic of Serbia requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2.2. New accounting standards

The following new standards and interpretations became effective for the Company from 1 January 2013:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to Company items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).
- IAS 19, 'Employee benefits' was revised in June 2011. The changes on the Company's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).
- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
- IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint ventures is no longer permitted.
- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The standard is not mandatory for the Company until 1 January 2014; however the Company has decided to early adopt the standard as of 1 January 2013.
- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.
- IAS 27 (revised 2011), 'Separate financial statements' includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Company until 1 January 2014, however the Company has decided to early adopt the amendment as of 1 January 2013.

Certain new and amended standards and interpretations have been issued that are mandatory for the first time for the financial year beginning 1 January 2014 or later, and which the Company has not been adopted:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.
- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments is the Board of Directors and the General Manager Advisory Board. The information on segment assets and liabilities are not regularly provided to the chief operating decision-maker.

2.4. Seasonality of Operations

The Company as a whole is not subject to significant seasonal fluctuation.

2.5. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The Financial Statements are presented in Serbian dinars ("RSD"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'.

2.6. Intangible assets

(a) Licenses and rights (concessions)

Separately acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

Licenses and rights include Oil and Gas Upstream Exploration Rights, which are amortised in accordance with the terms and conditions of the rights.

(b) Computer software

Costs associated with computer software primarily include the cost of the implementation of SAP software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised over their estimated useful lives (not to exceed 8 years).

2.7. Exploration for and evaluation of mineral resources

(a) Exploration and evaluation expenditure

During the exploration period, costs of exploration and evaluation of oil and natural gas are capitalized until it is proven that oil and gas reserves will not suffice to justify exploration costs. Geological and geophysical costs as well as costs directly associated with exploration are capitalized as incurred. The costs of obtaining exploration rights are capitalised either as part of property, plant and equipment or intangible assets depending on the type of cost. When commercial reserves have been discovered, subsequent to exploration and development investment impairment testing, they are transferred to development of assets either within property, plant and equipment or intangible assets. No depreciation and/or amortisation are charged during the exploration and evaluation phase.

(b) Development costs of fixed and intangible assets

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized within construction in progress according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortisation are charged during development.

(c) Oil and gas production assets

Oil and gas production assets comprise exploration and evaluation tangible assets as well as development costs associated with the production of proved reserves.

(d) Depreciation/amortization

Oil and gas properties/intangible assets are depleted using the unit-of-production method. The unit-of production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

(e) Impairment – exploration and evaluation assets

Exploration property leasehold acquisition costs are assessed for impairment when there are indications of impairment. For the purpose of impairment testing, exploration property leasehold acquisition costs subject to impairment testing are grouped with existing cash-generating units (CGUs) of related production fields located in the same geographical region.

(f) Impairment – proved oil and gas properties and intangible assets

Proven oil and gas properties and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.8. Property, plant and equipment

As of the date of establishment, the Company's property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and works of art are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Description	Useful lives
Buildings	10 - 50
Machinery and Equipment:	
- Production equipment	7 - 25
- Furniture	5 - 10
- Vehicles	7 - 20
- Computers	5 - 10
Other PP&E	3 - 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 34).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/expenses" in the income statement (notes 33 and 34).

2.9. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10. Investment property

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property principally comprises of petrol stations and business facilities rented out for a period exceeding one year.

Investment property is carried at fair value, representing open market value based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the income statement as part of other income (expenses) (notes 33 and 34).

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Company and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.11. Investments in subsidiaries

Investments in subsidiaries are measured using the cost method, whereby these investments are recognized at cost without any changes in the value of investments originating from results. If there are indications that the value of investment has decreased at the reporting date, the assessment of the recoverable value of investment is being performed.

If the recoverable value is less than the book value, the book value is reduced to its recoverable value and impairment loss of investment is recognized as expense.

2.12. Joint arrangements

The Company has applied IFRS 11 to all joint arrangements from 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. Company has assessed the nature of its joint arrangements and determined them to be joint operations where joint operator accounts for its share of the assets, liabilities, revenue and expenses.

2.13. Long-term financial assets

The Company classifies its financial assets in the following categories: long-term loans and receivables and available for sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2.13.1. Financial assets classification

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables'.

(b) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date, in which case they are classified as current assets.

2.13.2. Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Company's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to finance income (expense) in profit or loss for the year (notes 31 and 32).

2.13.3. Impairment of financial assets

(a) Assets carried at amortised cost

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - Adverse changes in the payment status of borrowers in the portfolio; and
 - National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(b) Assets classified as available for sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria referred to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.14. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises cost of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Spare parts for equipment used in production are stated at cost. The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed once a year. Impairment losses are recognized as other expenses (note 34).

2.15. Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower

of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through a continuing use. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Company's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the sales plan will be made or that the plan will be withdrawn.

2.16. Trade receivables

Trade receivables are amounts due from customers for products and merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Alternatively, trade receivables are stated as long-term.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'other expenses' (note 34). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to 'other income' in the income statement (note 33).

2.17. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, cash in banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.18. Off-balance sheet assets and liabilities

Off-balance sheet assets/liabilities include: consignment stock, material received from third parties for further processing and other assets not owned by the Company, as well as receivables/payables relating to collaterals received/given such as guarantees and other warrants.

2.19. Share capital

The Company is registered as open joint stock company. Ordinary shares are classified as share capital.

2.20. Other capital

Other capital in total refers to the Company's capital above the amount of estimated and registered non-monetary capital as at 31 May 2005. In accordance with General Assembly Meeting Decision enacted on 18 June 2013 these other capital were credited to the retained earnings.

2.21. Reserves

Reserves relate to the reserves established in the past in accordance with the previous Law on Enterprises. In accordance with this Law, the Company was required to allocate 5% of profits until the reserve equals the amount

defined by Company's Act, and at least 10% of the share capital. In accordance with General Assembly Meeting Decision enacted on 18 June 2013 these reserves were credited to the retained earnings.

2.22. Earnings per share

The Company calculates and discloses the basic earnings per share. Basic earnings per share is calculated by dividing the net income that belongs to shareholders, the owners of ordinary shares of the Company, by the weighted average number of ordinary shares issued during the period (note 36).

2.23. Provisions

Provisions for environmental restoration, asset retirement obligation and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as cost of provision and charged to income statement.

2.24. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.25. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.26. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case deferred tax liability is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in Serbia, where the Company operates and generates taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.27. Employee benefits

(a) Pension obligations

The Company operates a defined contribution pension plan. The Company pays contributions to publicly administered pension insurance plans on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Employee benefits provided by the Collective Agreement

The Company provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period.

(c) Bonus plans

The Company recognises a liability and an expense for bonuses and profit-sharing based on an Individual performance assessment. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.28. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts after eliminating sales within the Company.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activi-

ties as describe below. The amount of the revenue is not considered to be reliably measurable until all contingences relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods – wholesale

The Company manufactures and sells oil, petrochemical products and liquified natural gas in the wholesale market. Sales of goods are recognised when the Company has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term consistent with the market practice.

(b) Sales – retail

The Company operates a chain of Petrol Stations. Sales of goods are recognised when the Company sells a product to the customer. Retail sales are usually in cash, fuel coupons or by credit card.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Income from work performed by entity and capitalised

Income from work performed by entity and capitalised relates to the capitalisation of costs of own products and services.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.29. Leases

(a) Leases: Accounting by lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment, acquired under finance leases, are depreciated over the shorter of the useful life of the asset and the lease term.

(b) Leases: Accounting by lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

2.30. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

2.31. Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and take a substantial time to get ready for their intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

Preparing financial statements required Management to make estimates and assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and other facts that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimates is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In addition to judgments involving estimations, Managements also makes other judgments in the process of applying the accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

3.1. Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Company estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Accounting measures such as depreciation, depletion and amortization charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the Financial Statements, most notably depreciation, depletion and amortization as well as impairment expenses.

Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

3.2. Useful Lives of Property, Plant and Equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located.

Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the year.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2013 would be to increase/decrease it by RSD 870,202 (2012: RSD 559,360).

3.3. Employee benefits

The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to calculate the present value of estimated future cash outflows which are expected to be required to settle the employee benefits obligations. In determining the appropriate discount rate, the Company takes into consid-

eration the interest rates of high-quality corporate bonds which are denominated in the currency in which pension liabilities will be settled and whose maturity dates approximate the maturity date of the related pension liability.

If the discount rate used to calculate the present value of employee benefit obligations had been 7.30% (rather than 6.30%) per year, the past service liability (DBO) would decrease by approx. 13.2% for retirement indemnity and 8.2% for jubilee awards. If the employee salaries were to increase by 6.5% (rather than 5.5%) per year, the past service liability (DBO) would increase by approx. 15.4% for retirement indemnity and 9% for jubilee awards.

3.4. Decommissioning Obligations (asset retirement obligation and environmental protection)

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

If the discount rate used to calculate the present value of decommissioning obligations had been 7.30% (rather than 6.30%) per year, the present liability would have decreased by approx. RSD 418,137.

3.5. Contingencies

Certain conditions may exist as of the date of these Financial Statements are issued that may result in a loss to the Company, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 38).

3.6. Operational environment

The Republic of Serbia displays certain characteristics of an emerging market. The tax, currency and customs legislation is subject to varying interpretations which contribute to the challenges faced by companies operating in Serbia.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Serbian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Republic of Serbia is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Company's business in the current business and economic environment.

Impact on liquidity:

The volume of wholesale financing has significantly reduced since September 2008. Such circumstances may affect the ability of the Company to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Impact on customers/ borrowers:

Debtors of the Company may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers [or borrowers] may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

4. FINANCIAL RISK MANAGEMENT

4.1. Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses financial instruments to hedge certain risk exposures.

Risk management is carried out by the finance department within the Function for Economics, Finance and Accounting (further „FEPA“) under policies approved by the Board of Directors. The Company's finance department identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units.

In the normal course of its operations the Company has exposure to the following financial risks:

- a) market risk (including foreign exchange risk, interest rate risk and commodity price risk);
- b) credit risk; and
- c) liquidity risk.

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and EUR. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign exchange risk arising from future transactions and recognised assets and liabilities, responsible persons in the finance department within the FEPA Function negotiate the best possible exchange rates for the purchase of foreign currency to be contracted on a daily basis based on the exchange rate applicable on the day

the purchase is made. The total amounts of carrying values of financial assets and liabilities denominated in foreign currencies are shown in the table below:

	Financial Assets		Financial Liabilities	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
EUR	34,902,307	22,027,181	59,800,170	65,729,594
JPY	-	-	362,449	477,670
USD	7,422,261	8,715,728	67,703,503	46,651,500
Other	61,759	39,898	4,849	2,238

As at 31 December 2013, if the currency had weakened/strengthened by 10% against the EUR, USD and JPY with all other variables held constant, prior-tax profit for the year would have been RSD 786,570 (2012: RSD 823,941) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR and USD denominated intercompany loans, trade receivables, trade payables and foreign exchange losses/gains on translation of EUR, USD and JPY denominated borrowings.

Commodity Price risk

The Company's primary activity expose it to the following commodity price risks: crude oil and oil derivatives price levels which affect the value of inventory; and refining margins which in turn affect the future cash flows of the business.

In the case of price risk, the level of exposure is determined by the amount of priced inventory carried at the end of the reporting period. In periods of sharp price decline, as the Company policy is to report its inventory at the lower of historic cost and net realisable value, the results are affected by the reduction in the carrying value of the inventory. The extent of the exposure relates directly to the level of stocks and the rate of price decrease.

Cash flow and fair value interest rate risk

As at 31 December 2013, the Company approved to its majority-owned foreign subsidiaries subordinated loans as a means of financing business activities abroad. These loans were approved with the variable interest rate (Euribor). If the interest rates on approved loans had been 1% higher/lower with all other parameters unchanged, net result before tax for the year 2013 would have been RSD 221,636 (2012: RSD 52,179) higher/lower.

Borrowings withdrawn at variable interest rates expose the Company to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Company to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (Euribor or Libor) has a proportionate impact on the Company's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2013 would have been RSD 833,518 (2012: RSD 820,669) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

Credit risk is managed on the Company's level basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, intercompany loans issued to overseas and to domestic subsidiaries, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Banks are rated only in the case of collateralised receivables on various grounds, as well as based on the banks total exposure to the Company. For domestic banks, if it is bank with who the Company has passive activities the second criterion is applied and if it is a bank with who Company doesn't have cooperation, credit limits are determined based on the defined methodology.

Sales to retail customers are settled in cash or using credit cards.

The Company has provided for receivables from customers who have exceeded their credit limits or are undergoing liquidity problems (note 12).

Liquidity risk

Cash flow forecasting is performed as aggregated at the Company's level. The Company's finance function monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the Company over and above balance required for working capital management are invested as surplus cash in time deposits.

The table below analyses the Company's financial liabilities into relevant maturity groupings at the balance sheet.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at 31 December 2013	Less than 1 year	1- 5 years	Over 5 years	Total
Borrowings and other long term and short term financial liabilities (long-term and current-portion)	27,917,966	31,128,243	29,498,304	88,544,513
Liabilities from business operations	49,580,305	-	-	49,580,305
Other short-term liabilities	4,709,467	-	-	4,709,467
Accrued expenses and deferred revenue	3,854,672	-	-	3,854,672
	86,062,410	31,128,243	29,498,304	146,688,957

As at 31 December 2012	Less than 1 year	1- 5 years	Over 5 years	Total
Borrowings and other long term and short term financial liabilities (long-term and current-portion)	9,359,307	45,769,371	35,222,280	90,350,958
Liabilities from business operations	33,920,779	859	10	33,921,648
Other short-term liabilities	6,313,605	-	-	6,313,605
Accrued expenses and deferred revenue	4,340,963	-	-	4,340,963
	53,934,654	45,770,230	35,222,290	134,927,174

4.2. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

On the Company level capital is monitored on the basis of the net debt to EBITDA ratio. Net debt to EBITDA is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, other finance income (expenses) net, other non-operating income (expenses).

The Company's net debt to EBITDA ratios at the end of reporting periods were as follows:

	31 December 2013	31 December 2012
Total borrowings (Notes 20, 21 and 22)	88,521,670	90,291,649
Less: cash and cash equivalents (note 14)	(5,180,154)	(8,311,264)
Net debt	83,341,516	81,980,385
EBITDA	69,417,878	66,507,593
Net debt to EBITDA	1.20	1.23

4.3. Fair value estimation

The fair value of financial instruments traded in an active market (such as available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date.

5. SEGMENT INFORMATION

Operating segments are segments whose operating results are regularly reviewed by the Chief Operating Decision Maker („CODM”) of the Company. According to adopted governance structure, the Board of Directors and the General Manager Advisory Board represent the CODM.

As at 31 December 2013, business activities of the Company are organized into five operating segments:

1. Exploration and Production of Oil and Natural Gas,
2. Oil Field Services,
3. Refining,
4. Oil and Oil Products Trading,
5. Other – NIS Administration and Energy.

Exploration and production of oil and natural gas and Oil field services together comprise Upstream while Refining, Oil and Oil products Trading and Other operating segments together comprise Downstream group.

Reportable segments derive their revenue from the following activities:

1. Exploration and Production of Oil and Natural Gas – the sale of crude oil and gas to refineries and to other buyers on open market,
2. Oil Field Services – drilling services, construction works and geophysical measurement and transportation services,
3. Refining – the sale of refinery products to NIS trade segment,
4. Oil and Oil Products Trading – retail and wholesale activities consistent with the policy.

Reportable segment results for the year ended 31 December 2013 are shown in the table below:

	Exploration and production	Oil Field Services	Refining	Trade	Other	Eliminations	Total
Sales	88,235,205	158,809	216,000,608	244,546,492	9,952,226	(306,678,611)	252,214,729
<i>Intersegment</i>	84,665,356	-	215,896,466	393,135	5,723,654	(306,678,611)	-
<i>External</i>	3,569,849	158,809	104,142	244,153,357	4,228,572	-	252,214,729
EBITDA (Segment results)	77,164,720	(639,626)	(2,747,057)	5,330,084	(11,085,072)	1,394,829	69,417,878
Depreciation and amortisation (note 29)	(2,383,053)	(13,510)	(4,682,370)	(976,738)	(1,366,779)	-	(9,422,450)
Impairment losses (note 34)	(106,653)	(1)	(18,657)	(71,998)	(145,509)	-	(342,818)
Finance income (expenses)	(453,300)	11,781	936,489	753,464	3,898,131	-	5,146,565
Deferred income tax	-	-	-	-	200,860	-	200,860
Income tax expense	-	-	-	-	(6,185,819)	-	(6,185,819)
Segment profit (loss)	73,309,289	(588,660)	(6,371,102)	4,071,720	(19,491,707)	1,394,829	52,324,369

Reportable segments results for the year ended 31 December 2012 are shown in the table below:

	Exploration and production	Oil Field Services	Refining	Trade	Other	Eliminations	Total
Sales	99,395,589	1,501,198	154,665,686	202,982,214	17,132,510	(249,520,291)	226,156,906
<i>Intersegment</i>	90,490,198	1,217,697	154,531,232	218,894	3,062,270	(249,520,291)	-
<i>External</i>	8,905,391	283,501	134,454	202,763,320	14,070,240	-	226,156,906
EBITDA (Segment results)	83,855,363	900,198	(6,482,066)	2,211,735	(13,468,346)	(509,291)	66,507,593
Depreciation and amortisation (note 29)	(2,104,350)	(358,420)	(1,950,957)	(808,683)	(1,051,381)	-	(6,273,791)
Impairment losses (note 34)	(113,062)	(10,052)	(64,127)	(110,965)	(29,291)	-	(327,497)
Finance income (expenses)	(188,292)	31,981	(761,856)	560,413	(5,302,137)	-	(5,659,891)
Deferred income tax	-	-	-	-	707,442	-	707,442
Income tax expense	-	-	-	-	(2,575,885)	-	(2,575,885)
Segment profit (loss)	80,306,222	603,984	(9,180,502)	824,619	(22,588,516)	(509,291)	49,456,516

Intersegment sales are performed in accordance with the transfer pricing policy.

The analysis of the Company's revenue from the main products and services (based on the country of a customer incorporation and sales channel) is presented in the table below:

Year ended 31 December 2013			
	Domestic market	Export and international sales	Total
Sale of crude oil	-	3,550,090	3,550,090
Sale of gas	3,918,192	-	3,918,192
Through a retail network	-	-	-
Wholesale activities	3,918,192	-	3,918,192
Sale of petroleum products	206,159,963	34,007,648	240,167,611
Through a retail network	65,049,672	-	65,049,672
Wholesale activities	141,110,291	34,007,648	175,117,939
Other sales	4,504,711	74,125	4,578,836
Total Sales	214,582,866	37,631,863	252,214,729
Work performed by the entity and capitalized			223,460
Increase in inventories of finished goods and work in progress			(3,103,205)
Other operating income			138,858
Total Operating Income			249,473,842

Year ended 31 December 2012			
	Domestic market	Export and international sales	Total
Sale of crude oil	-	4,917,362	4,917,362
Sale of gas	17,814,542	-	17,814,542
Through a retail network	-	-	-
Wholesale activities	17,814,542	-	17,814,542
Sale of petroleum products	180,660,306	18,633,906	199,294,212
Through a retail network	58,062,240	-	58,062,240
Wholesale activities	122,598,066	18,633,906	141,231,972
Other sales	3,765,950	364,840	4,130,790
Total Sales	202,240,798	23,916,108	226,156,906
Work performed by the entity and capitalized			2,063,809
Increase in inventories of finished goods and work in progress			1,665,432
Other operating income			184,677
Total Operating Income			230,070,824

Out of 175,117,939 RSD (31. December 2012: 141,231,972 RSD) revenue from sale of petroleum products (wholesale), the revenue in amount 35,132,534 RSD (2012: 9,258,368 RSD) are derived from a single domestic customer HIP Petrohemija in restructuring (note 37). These revenues are attributable to wholesale activities within Downstream segment.

6. INTANGIBLE ASSETS

	Research and development	Concessions, patents, licenses and rights	Intangible assets under development	Other intangibles	Total
As at 1 January 2012					
Cost	-	874,906	413,952	4,753,693	6,042,551
Accumulated amortisation and impairment	-	(229,452)	(142,279)	(1,229,221)	(1,600,952)
Net book amount	-	645,454	271,673	3,524,472	4,441,599
Year ended 31 December 2012					
Opening net book amount	-	645,454	271,673	3,524,472	4,441,599
Additions	1,645,694	-	1,104,981	-	2,750,675
Transfer from IA under development	-	821,165	(1,324,740)	503,575	-
Transfer to subsidiaries	-	(2,291)	-	(134,883)	(137,174)
Transfer from PP&E (note 7)	1,786,149	-	251,012	7,727	2,044,888
Amortisation (note 29)	-	(95,559)	-	(584,630)	(680,189)
Impairment (note 34)	-	-	(86,459)	(691)	(87,150)
Disposals and write-offs	(107,758)	-	(213)	-	(107,971)
Other transfers	-	353	7,529	(7,882)	-
Closing net book amount	3,324,085	1,369,122	223,783	3,307,688	8,224,678
As at 31 December 2012					
Cost	3,431,843	1,693,480	429,813	5,017,674	10,572,810
Accumulated amortisation and impairment	(107,758)	(324,358)	(206,030)	(1,709,986)	(2,348,132)
Net book amount	3,324,085	1,369,122	223,783	3,307,688	8,224,678
Year ended 31 December 2013					
Opening net book amount	3,324,085	1,369,122	223,783	3,307,688	8,224,678
Additions	3,381,767	-	373,611	-	3,755,378
Transfer from IA under development	-	35,733	(358,489)	322,756	-
Transfer to subsidiaries	-	-	-	(9,446)	(9,446)
Transfer from PP&E (note 7)	(68,610)	-	217,977	-	149,367
Amortisation (note 29)	-	(115,017)	-	(605,412)	(720,429)
Impairment (note 34)	-	-	(24,347)	-	(24,347)
Disposals and write-offs	(79,813)	-	(1,256)	-	(81,069)
Other transfers	-	-	-	-	-
Closing net book amount	6,557,429	1,289,838	431,279	3,028,405	11,306,951
As at 31 December 2013					
Cost	6,557,429	1,729,213	519,377	5,327,207	14,133,226
Accumulated amortisation and impairment	-	(439,375)	(88,098)	(2,298,802)	(2,826,275)
Net book amount	6,557,429	1,289,838	431,279	3,028,405	11,306,951

Research and development as at 31 December 2013 in the amount of RSD 6,557,429 mostly relate to investments in geological, 2D and 3D seismic explorations on the territory of the Republic of Serbia (2012: RSD 3,324,085).

Other intangible assets as at 31 December 2013 amounting to RSD 3,028,405 mostly relate to investments in the SAP system of RSD 2,563,713 (2012: RSD 2,947,663).

Amortisation amounting to RSD 720,429 (2012: RSD 680,189) is included in Operating expenses within the Income statement (note 29).

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment
At 1 January 2012			
Cost	11,185,907	62,832,533	60,387,999
Accumulated depreciation and impairment	(695,566)	(24,300,702)	(34,982,060)
Net book amount	10,490,341	38,531,831	25,405,939
Year ended 31 December 2012			
Opening net book amount	10,490,341	38,531,831	25,405,939
Additions	169,433	26,475,742	35,046,293
Transfer to subsidiaries	(122,387)	(1,051,431)	(4,599,287)
Other transfers	67,107	(119,164)	46,478
Disposals and write-offs	(1,631)	(65,574)	(29,074)
Depreciation (note 29)	-	(2,589,965)	(3,003,277)
Impairment charge (note 34)	-	(110,524)	(71,576)
Transfer to intangible assets (note 6)	-	-	-
Transfer to investment property (note 8)	(56,218)	(8,670)	-
Closing net book amount	10,546,645	61,062,245	52,795,496
As at 31 December 2012			
Cost	11,239,442	87,204,602	83,980,139
Accumulated depreciation and impairment	(692,797)	(26,142,357)	(31,184,643)
Net book amount	10,546,645	61,062,245	52,795,496
As at 31 December 2013			
Opening net book amount	10,546,645	61,062,245	52,795,496
Additions	222,046	16,186,415	11,999,223
Transfer to subsidiaries	-	-	(1,389,997)
Other transfers	-	4,450,270	(4,463,076)
Disposals and write-offs	(68,494)	(246,182)	(118,411)
Depreciation (note 29)	-	(3,663,672)	(5,036,560)
Impairment charge (note 34)	-	(232,285)	(15,856)
Transfer to non-current assets held for sale	-	-	-
Transfer to intangible assets (note 6)	-	-	-
Transfer to investment property (note 8)	(3,696)	17,689	-
Closing net book amount	10,696,501	77,574,480	53,770,819
As at 31 December 2013			
Cost	11,000,723	110,567,630	84,882,738
Accumulated depreciation and impairment	(304,222)	(32,993,150)	(31,111,919)
Net book amount	10,696,501	77,574,480	53,770,819

In 2013, the Company capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 91,300 (2012: RSD 1,874,598).

Machinery and equipment include the following amounts where the Company is a lessee under a finance lease:

	31 December 2013	31 December 2012
Cost capitalised – finance leases	149,696	153,401
Accumulated depreciation	(62,373)	(48,947)
Net book amount	87,323	104,454

	Construction in progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
	44,639,338	93,279	110,630	8,770,320	188,020,006
	(2,981,943)	(5,020)	(110,270)	(21,418)	(63,096,979)
	41,657,395	88,259	360	8,748,902	124,923,027
	41,657,395	88,259	360	8,748,902	124,923,027
	(21,277,999)	351	-	5,801,412	46,215,232
	-	(12,243)	-	-	(5,785,348)
	-	-	-	-	(5,579)
	(659,597)	(722)	-	(12,145,685)	(12,902,283)
	-	-	(360)	-	(5,593,602)
	(39,924)	(607)	-	-	(222,631)
	(2,044,888)	-	-	-	(2,044,888)
	-	-	-	-	(64,888)
	17,634,987	75,038	-	2,404,629	144,519,040
	22,573,044	76,173	110,630	2,426,047	207,610,077
	(4,938,057)	(1,135)	(110,630)	(21,418)	(63,091,037)
	17,634,987	75,038	-	2,404,629	144,519,040
	17,634,987	75,038	-	2,404,629	144,519,040
	13,292,863	-	35,772	11,381,430	53,117,749
	-	-	-	159,524	(1,230,473)
	(152)	(14)	-	(79)	(13,051)
	(996,245)	-	-	(9,806,071)	(11,235,403)
	-	-	(1,789)	-	(8,702,021)
	(61,826)	(102)	-	(8,402)	(318,471)
	(1,272,306)	-	-	-	(1,272,306)
	(149,367)	-	-	-	(149,367)
	(11,248)	-	-	-	2,745
	28,436,706	74,922	33,983	4,131,031	174,718,442
	32,480,853	76,135	56,038	4,160,931	243,225,048
	(4,044,147)	(1,213)	(22,055)	(29,900)	(68,506,606)
	28,436,706	74,922	33,983	4,131,031	174,718,442

The management of the Company assesses at each reporting date whether there is an indication that the recoverable amount of property, plant and equipment fell below its book value.

As at 31 December 2013, the Company assessed impairment indicators of cash generating units ("CGU") and concluded that no indications of impairment or reversals of previously recognized impairment losses had been identified, except for physically demolished/obsolete assets.

In 2013 Company made impairment in amount of RSD 318,470 (2012: RSD 222,631) for demolished or obsolete assets, which value is greater than recoverable amount (note 34).

Oil and gas production assets

	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
At 1 January 2012				
Cost	5,512,468	48,205,627	129,810	53,847,905
Accumulated depreciation and impairment	(299,997)	(18,287,475)	(114,755)	(18,702,227)
Net book amount	5,212,471	29,918,152	15,055	35,145,678
Year ended 31 December 2012				
Opening net book amount	5,212,471	29,918,152	15,055	35,145,678
Additions	10,990,790	-	-	10,990,790
Transfer from assets other than O&G	676,646	-	-	676,646
Transfer to subsidiaries	-	(5,524,735)	(12,149)	(5,536,884)
Transfer from asset under construction	(6,070,889)	6,070,889	-	-
Other transfers	28,953	130,684	(510)	159,127
Impairment	(6,702)	(73,796)	-	(80,498)
Depreciation	-	(2,401,543)	(360)	(2,401,903)
Disposals and write-offs	(733,701)	(2,470)	-	(736,171)
Closing net book amount	10,097,568	28,117,181	2,036	38,216,785
At 31 December 2012				
Cost	10,401,782	42,567,439	112,666	53,081,887
Accumulated depreciation and impairment	(304,214)	(14,450,258)	(110,630)	(14,865,102)
Net book amount	10,097,568	28,117,181	2,036	38,216,785
Year ended 31 December 2013				
Opening net book amount	10,097,568	28,117,181	2,036	38,216,785
Additions	24,945,188	-	-	24,945,188
Transfer from assets other than O&G	13,050	-	-	13,050
Transfer to subsidiaries	-	(1,344,168)	-	(1,344,168)
Transfer from asset under construction	(11,236,612)	11,236,612	-	-
Other transfers	(13,029)	3,814	(60)	(9,275)
Impairment	(29,547)	(77,107)	-	(106,654)
Depreciation	-	(2,343,846)	-	(2,343,846)
Disposals and write-offs	(819,311)	(207)	(1)	(819,519)
Closing net book amount	22,957,307	35,592,279	1,975	58,551,561
At 31 December 2013				
Cost	23,195,366	51,949,129	22,241	75,166,736
Accumulated depreciation and impairment	(238,059)	(16,356,850)	(20,266)	(16,615,175)
Net book amount	22,957,307	35,592,279	1,975	58,551,561

Oil and gas production assets comprise of aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.7).

8. INVESTMENT PROPERTY

Investment properties are valued at the reporting date at fair value representing the investment property market value.

Movements on the account were as follows:

	2013	2012
At 1 January	1,316,069	1,338,269
Fair value gains (note 33)	151,936	-
Fair value losses (note 34)	-	(17,716)
Transfer (to) from PP&E (note 7)	(2,745)	64,888
Transfer to non-current assets held for sale	-	(41,702)
Disposals	(102,059)	(27,670)
Other	152	-
At 31 December	1,363,353	1,316,069

As at 31 December 2013, investment properties amounting to RSD 1,363,353 (31 December 2012: RSD 1,316,069) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

The following lease amounts have been recognized in the income statement:

	2013	2012
Rental income (note 26)	135,834	128,698

Fair value of investment properties

Valuation of the Company's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2013 and 2012. The revaluation surplus was credited to other income. (note 33).

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value measurements at 31 December 2013 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Recurring fair value measurements</i>			
<i>Land and buildings</i>			
- Shops and other facilities for rents	-	721,941	-
- Flats	-	131,513	-
- Gas stations	-	-	509,899
Total	-	853,454	509,899

Valuation techniques used to derive level 2 fair values

Level 2 fair values of shops, flats and other facilities for rent have been derived using the sales comparison approach. Sales prices of comparable facilities in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

Fair value measurements using significant unobservable inputs (Level 3)

Level 3 fair values of gas stations have been derived using value-in-use approach where fair value of gas station is determined as the present value of future net benefits which will belong to the Company based on concluded long-term rental contracts. The most significant input into this valuation approach is rental price per gas station.

The key assumptions used for value-in-use calculations:

	2013	2012
Long term growth rate	0%	0%
Discount rate	12%	15%

9. INVESTMENTS IN EQUITY INSTRUMENTS

	31 December 2013	31 December 2012
Investments in subsidiaries	8,729,710	8,703,404
Financial assets available for sale	1,946,146	2,161,005
Less: Provision	(2,918,653)	(3,156,492)
	7,757,203	7,707,917

(a) Investments in subsidiaries

	31 December 2013	31 December 2012
In shares	3,457,576	3,457,576
In stakes	5,272,134	5,245,828
	8,729,710	8,703,404
Less: Provisions	(1,173,167)	(1,173,167)
	7,556,543	7,530,237

Investments in subsidiaries as at 31 December 2013 relate to the following companies:

Company	Investment	Impairment	Net book value	Share %
O Zone a.d. Belgrade, Serbia	3,457,576	(1,172,263)	2,285,313	100%
NIS Petrol e.o.o.d., Sofija, Bulgaria	28,938	-	28,938	100%
NIS Petrol SRL, Bucharest, Romania	997	-	997	100%
NIS Petrol doo, Banja Luka, B&H	1,030	-	1,030	100%
Pannon naftagas Kft, Budapest, Hungary	184	-	184	100%
NTC NIS-Naftagas d.o.o., Novi Sad, Serbia	321,500	-	321,500	100%
Naftagas-Tehnicki servisi d.o.o., Zrenjanin, Serbia	983,353	-	983,353	100%
Naftagas-Naftni servisi d.o.o., Novi Sad, Serbia	3,579,983	-	3,579,983	100%
Naftagas-Transport d.o.o., Novi Sad, Serbia	327,751	-	327,751	100%
NIS Oversiz, Sankt Petersburg, Russia	9,856	-	9,856	100%
Jadran-Naftagas d.o.o. Banja Luka, B&H	71	-	71	66%
Svetlost, Bujanovac, Serbia	17,045	-	17,045	51%
Ranis, Moscow region, Russia	522	-	522	51%
Jubos, Bor, Serbia	904	(904)	-	51%
	8,729,710	(1,173,167)	7,556,543	

Movements on the account were as follows:

	2013	2012
As at 1 January	8,703,404	3,490,817
New investments in subsidiaries	26,306	5,212,587
Less: provision	(1,173,167)	(1,173,167)
As at 31 December	7,556,543	7,530,237

(b) *Financial assets available for sale*

	31 December 2013	31 December 2012
In shares	1,922,151	2,132,741
In stakes	23,995	28,264
	1,946,146	2,161,005
Less: Provision	(1,745,486)	(1,983,325)
	200,660	177,680

Fair value of other investments traded in an active market is determined based on the current market value at the reporting date.

10. OTHER LONG-TERM INVESTMENTS

	31 December 2013	31 December 2012
Rescheduled receivables	1,426,540	3,371,014
Long-term loans to subsidiaries	28,771,008	16,629,612
Long-term interest receivables from subsidiaries	181,736	-
Long-term receivables from sales of assets to subsidiaries	1,199,807	-
Long-term loans to employees	1,083,093	1,259,637
Finance lease receivables	38,221	78,190
Other long-term financial assets	794,628	2,029,677
	33,495,033	23,368,130
<i>Less provision:</i>		
- rescheduled receivables	(1,426,540)	(3,371,014)
- finance lease receivables	(26,789)	(57,743)
- other long-term financial assets	(782,311)	(808,961)
	(2,235,640)	(4,237,718)
Total – net	31,259,393	19,130,412

(a) Rescheduled receivables

Rescheduled receivables as at 31 December 2013 fully relate to:

	Current portion	Long-term	Total
Rescheduled receivables			
- HIP Petrohemija Pancevo in restructuring	9,722,337	-	9,722,337
- RTB Bor	-	1,426,540	1,426,540
- AIR Serbia	100,923	-	100,923
	9,823,260	1,426,540	11,249,800
<i>Less: provision</i>	(7,827,614)	(1,426,540)	(9,254,154)
Total – net	1,995,646	-	1,995,646

Carrying value of rescheduled receivables in amount of RSD 1,995,646 totally relates to HIP Petrohemija Pancevo in restructuring that are secured by a mortgage right over debtor's fixed assets.

Movements on rescheduled receivables provision:

	2013	2012
As at 1 January	(3,371,014)	(5,601,478)
Foreign exchange gains	353,003	108,503
Transfer to short-term financial investments (note 13)	1,591,471	2,121,961
As at 31 December	(1,426,540)	(3,371,014)

(b) Long-term loans to subsidiaries

Long-term loans to subsidiaries denominated in RSD as at 31 December 2013 fully relate to:

	Currency	31 December 2013	31 December 2012
NIS Petrol e.o.o.d., Sofija, Bulgaria	EUR	8,635,174	6,967,916
NIS Petrol SRL, Bucharest, Romania	EUR	7,981,430	1,657,948
NIS Petrol d.o.o., Banja Luka, BiH	EUR	7,093,978	4,586,425
O Zone a.d. Belgrade, Serbia	EUR	2,694,089	2,672,380
Jadran-Naftagas d.o.o., Banja Luka, BiH	EUR	1,589,830	736,414
Pannon naftagas Kft, Budapest, Hungary	EUR	776,507	8,529
		28,771,008	16,629,612

Long-term loans to subsidiaries are approved at the variable interest rates (3M and 6M Euribor + 7.5% and 3M Euribor + 5%), for a period of 7 years from the date of payment of the last tranche. The carrying value of long-term loans is equal to their fair value.

(c) Long-term loans to employees

Loans to employees as at 31 December 2013 amounting to RSD 1,083,093 (31 December 2012: RSD 1,259,637) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly installments.

The fair value of loans to employees is based on the cash flows discounted at market interest rate at which the Company could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 5.62% (2012: 5.56% p.a.).

The maximum exposure to credit risk at the reporting date is the nominal value of loans given to employees. This credit risk exposure is limited, as the monthly installments of these loans are withheld from employees' salaries.

11. INVENTORIES

	31 December 2013	31 December 2012
Raw materials	27,896,775	26,875,929
Spare parts	2,089,701	2,138,316
Tools	96,471	112,183
Work in progress	4,782,796	7,937,015
Finished goods	8,130,379	8,079,365
Merchandise	1,549,993	4,050,054
	44,546,115	49,192,862
Advances	700,073	1,234,319
<i>Less provision:</i>		
- for inventories	(6,136,250)	(6,447,124)
- for advances	(248,347)	(373,071)
	(6,384,597)	(6,820,195)
Total inventories – net	38,861,591	43,606,986

Movement on inventory provision is as follows:

	2013	2012
At 1 January	(6,820,195)	(8,181,557)
Provision for impaired inventories and advances charged for the year (note 34)	(155,623)	(17,771)
Provision reversed (note 33)	459,911	332,274
Write-off	131,230	9,235
Transfer to newly formed subsidiaries	-	1,037,624
Other	80	-
At 31 December	(6,384,597)	(6,820,195)

12. TRADE AND OTHER RECEIVABLES

	31 December 2013	31 December 2012
Trade receivables		
- domestic	51,597,365	44,343,991
- foreign	960,102	1,048,226
- related parties	15,613,788	8,127,399
	68,171,255	53,519,616
Receivables from specific operations	9,478,268	8,787,798
Receivables from sales of assets to subsidiaries	364,055	364,055
Interest receivables	11,294,510	6,125,320
Receivables from employees	84,140	82,940
Other receivables	7,462,879	7,444,391
	18,841,529	13,652,651
	96,855,107	76,324,120
<i>Less provision:</i>		
- trade receivables	(12,538,970)	(13,141,957)
- receivables from specific operations	(9,451,607)	(8,418,580)
- interest receivables	(10,368,846)	(5,864,441)
- other receivables	(7,330,368)	(7,323,979)
	(39,689,791)	(34,748,957)
Total receivables – net	57,165,316	41,575,163

The ageing of trade receivables is as follows:

	31 December 2013	31 December 2012
Up to 3 months	40,200,005	30,778,263
Over 3 months	27,971,250	22,741,353
	68,171,255	53,519,616

As at 31 December 2013, out of RSD 27,971,250 of overdue receivables (31 December 2012: RSD 22,741,353), trade receivables in amount of RSD 12,538,970 (31 December 2012: RSD 13,141,957) were impaired and fully provided for, in accordance with accounting policy (note 2.16). The remaining amount of RSD 15,432,280 (31 December 2012: RSD 9,599,396) relates to a number of independent customers for whom management believes that will make payments in the near future. The ageing of receivables provided for is as follows:

	31 December 2013	31 December 2012
Up to 3 months	30,360	22,299
Over 3 months	12,508,610	13,119,658
	12,538,970	13,141,957

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	31 December 2013	31 December 2012
RSD	92,852,524	75,014,937
USD	2,542,284	1,038,809
EUR	1,459,922	269,973
Other	377	401
	96,855,107	76,324,120

Movements on the Company's provision for impairment of trade receivables and other receivables are as follows:

	2013	2012
At 1 January	(34,748,957)	(25,840,469)
Provision for impaired receivables (note 34)	(5,270,438)	(10,438,927)
Written off	145,587	567,600
Unused amounts reversed (note 33)	1,156,966	962,839
Other	(972,949)	-
At 31 December	(39,689,791)	(34,748,957)

Receivables that have been provided for or written off are included in other expenses/other income within the income statement (notes 33 and 34). The amounts charged to provision for impairment are written off when their collection is not expected.

13. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2013	31 December 2012
Short-term loans to employees	2,019	34,983
Short-term loans and investments – related parties	2,384,555	312,851
Current portion of long-term investments	9,913,994	7,898,604
Other short-term financial investments	60,202	6,974
	12,360,770	8,253,412
Less: provision	(7,827,740)	(5,820,206)
Total short-term financial investments – net	4,533,030	2,433,206

Current portions of long-term investments as at 31 December 2013 amounting to RSD 9,913,994 (31 December 2012: RSD 7,898,604) mainly relate to current portion of rescheduled receivables of RSD 9,823,260. They are provided for in the amount of RSD 7,827,614 (2012: RSD 5,820,065) (note 10).

Movements on the provision for short-term financial investments:

	2013	2012
At 1 January	(5,820,206)	(2,994,376)
Unused amounts reversed (note 33)	-	26,668
Transfer from other long-term investments (note 10a)	(1,591,471)	(2,121,961)
Foreign exchange differences and other movements	(416,063)	(730,537)
At 31 December	(7,827,740)	(5,820,206)

14. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Cash at bank	4,503,675	7,949,139
Cash in hand	369,241	287,180
Other cash equivalents	307,238	74,945
	5,180,154	8,311,264

15. VAT AND PREPAID EXPENSES

	31 December 2013	31 December 2012
Deferred input VAT	2,970,621	3,715,739
Prepaid expenses	114,807	135,363
Accrued revenue	1,354,225	2,342,103
Prepaid excise duty	1,364,295	1,319,866
Housing loans and other prepayments	1,502,856	1,265,187
	7,306,804	8,778,258

Deferred input VAT as at 31 December 2013 amounting to RSD 2,970,621 (31 December 2012: RSD 3,715,739) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty amounting to RSD 1,364,295 (31 December 2012: RSD 1,319,866) relates to the excise paid to the state for finished products stored in non-excise warehouse.

Accrued revenue as at 31 December 2013 amounting to RSD 1,354,225 (31 December 2012: RSD 2,342,103) mostly relates to receivables for current period sales of petroleum products in amount of RSD 1,353,844 that have not been invoiced by the year end.

16. DEFERRED TAX ASSETS AND LIABILITIES

	Carrying value of PPE vs. Tax base
<i>Deferred tax liabilities</i>	
As at 1 January 2012	(1,160,511)
Origination and reversal of temporary differences	(623,824)
Impact of change in the tax rate	(580,256)
As at 31 December 2012	(2,364,591)
Origination and reversal of temporary differences	(211,109)
As at 31 December 2013	(2,153,482)

	Provisions	Impairment loss	Investment credit	Total
<i>Deferred tax assets</i>				
As at 1 January 2012	103,534	668,654	7,103,248	7,875,436
Origination and reversal of temporary differences	94,538	(203,662)	1,634,552	1,525,428
Impact of change in the tax rate	51,767	334,327	-	386,094
As at 31 December 2012	249,839	799,319	8,737,800	9,786,958
Origination and reversal of temporary differences	58,450	(36,441)	(32,258)	(10,249)
As at 31 December 2013	308,289	762,878	8,705,542	9,776,709

The recognition of deferred tax assets was based on a five-year business plan of the Company and the actual results achieved to date which have given the management strong indications that the income tax credits carried forward will be utilised.

Investment credits represent 20% qualifying of capital investments made up to 31 December 2013 in accordance with tax legislation of the Republic of Serbia, which can be utilized in 10 years period as presented in table below.

Tax Credit Origination	Tax Credit Reversal	31 December 2013	31 December 2012
2006	2016	-	425,226
2007	2017	2,149,894	2,164,224
2008	2018	783,750	702,349
2009	2019	1,325,566	1,228,886
2010	2020	1,207,276	1,294,489
2011	2021	1,091,070	937,460
2012	2022	1,634,551	1,985,166
2013	2023	513,435	-
		8,705,542	8,737,800

17. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2013	31 December 2012
Issued warranties and bills of exchange	43,781,876	44,671,748
Received warranties and bills of exchange	32,580,486	24,593,773
Properties in ex-Republics of Yugoslavia	5,357,690	5,424,642
Receivables from companies from ex-Yugoslavia	5,103,758	5,290,900
Third party merchandise in NIS warehouses	4,315,685	4,047,706
Assets for oil fields liquidation in Angola	638,286	422,341
	91,777,781	84,451,110

18. EQUITY

	Note	Share capital	Other capital
Balance as at 1 January 2012		81,530,200	5,597,824
Profit for the year			
Losses from securities		-	-
Balance as at 31 December 2012		81,530,200	5,597,824
Profit for the year		-	-
Gains from securities		-	-
Other transfers	2.20.2.21	-	(5,597,824)
Dividend distribution		-	-
Actuarial loss	19	-	-
Balance as at 31 December 2013		81,530,200	-

A dividend in respect of the year ended 31 December 2012 of RSD 75.83 per share, amounting to a total dividend of RSD 12,364,129 is approved by the General Assembly Meeting and settled during August 2013.

18.1. Share capital

Share capital represents share capital of the Company, which is listed on Belgrade Stock Exchange. Par value per share is 500 RSD.

Share capital as of 31 December 2013 and 31 December 2012 comprise of 163,060,400 of ordinary shares.

19. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Asset retirement obligation	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2012	7,266,813	1,012,100	3,294,094	-	1,792,457	13,365,464
Charged to Income statement (note 29 and 32)	836,334	24,000	-	1,042,855	-	1,903,189
Adjustments on property, plant and equipment	(82,397)	-	-	-	-	(82,397)
Release of provision (note 33)	(47,643)	-	(887,109)	-	(827,582)	(1,762,334)
Settlement	(1,021)	(174,717)	(162,420)	-	(155,429)	(493,587)
As at 31 December 2012	7,972,086	861,383	2,244,565	1,042,855	809,446	12,930,335
Charged to Income statement (note 29 and 32)	589,424	195,000	-	521,427	319,787	1,625,638
Actuarial loss	-	-	95,339	-	-	95,339
Adjustments on property, plant and equipment	962,855	-	-	-	-	962,855
Release of provision (note 33)	(303,653)	(112,396)	(348,948)	-	-	(764,997)
Settlement	(157,674)	(253,894)	(90,200)	(42,201)	(37,857)	(581,826)
As at 31 December 2013	9,063,038	690,093	1,900,756	1,522,081	1,091,376	14,267,344

(a) Asset retirement obligation

Management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells based on previous experience in similar projects. Based on changes in estimate, additional provision for asset retirement of active wells for the year ended 31 December 2013 in amount of RSD 962,855 is recognised against property, plant and equipment.

Reserves	Revaluation reserves	Unrealised gains from securities	Unrealised losses from securities	Retained earnings (loss)	Total
889,424	12	29,582	(64,090)	(396,287)	87,586,665
-	-	-	-	49,456,516	49,456,516
889,424	12	6,918	(81,446)	49,060,229	137,003,161
-	-	-	-	52,324,369	52,324,369
-	-	11,226	3,417	-	14,643
(889,424)	(12)	-	-	6,487,248	(12)
-	-	-	-	(12,364,129)	(12,364,129)
-	-	-	-	(95,339)	(95,339)
-	-	18,144	(78,029)	95,412,378	176,882,693

(b) Environmental protection

In accordance with the applicable laws, the Company has to comply with environmental protection regulations. At the reporting date Company recorded provision for environmental protection of RSD 690,093 (2012: RSD 861,383) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) Long-term incentive program

In 2011, the Company started setting-up a long-term incentive program for Company's managers. Following the program's approval, cash incentives will be paid out based on the Key Performance Indicators ("KPI") reached over a three-year period. As at 31 December 2013 the management made an assessment of present value of liabilities related to long-term employee incentives in amount of RSD 1,522,081 (2012: RSD 1,042,855) (note 29).

(d) Legal claims provisions

As at 31 December 2013, the Company assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses based on the information provided by the Legal department. The Company charged provision for litigation amounting to RSD 319,787 (reversed in 2012: RSD 827,582) for proceedings which, were assessed to have negative outcome. The Company estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2013.

(e) Employee benefits provision

Employee benefits:

	31 December 2013	31 December 2012
Retirement allowances	533,180	622,739
Jubilee awards	1,367,576	1,621,826
	1,900,756	2,244,565

The principal actuarial assumptions used were as follows:

	31 December 2013	31 December 2012
Discount rate	6.30%	7.65%
Future salary increases	5.50%	6%
Future average years of service	14.84	19.79

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2012	1,035,340	2,258,754	3,294,094
Benefits paid directly and other	(65,080)	(97,340)	(162,420)
Total income recognised in income statement	(347,521)	(539,588)	(887,109)
Balances as at 31 December 2012	622,739	1,621,826	2,244,565
Benefits paid directly	(18,081)	(72,119)	(90,200)
Actuarial losses	95,339	-	95,339
Total income recognised in income statement	(166,817)	(182,131)	(348,948)
Balances as at 31 December 2013	533,180	1,367,576	1,900,756

Amounts recognized in income statement:

	Year ended 31 December	
	2013	2012
Current service cost	181,210	210,830
Interest costs	166,769	224,197
Curtailment gain	-	(1,043,795)
Actuarial loss	(425,333)	(278,341)
Amortisation of past service cost	(271,594)	-
	(348,948)	(887,109)

20. LONG-TERM BORROWINGS

	31 December 2013	31 December 2012
Domestic	12,048,569	14,627,940
Foreign	25,517,288	16,626,865
	37,565,857	31,254,805
Current portion of long-term borrowings (note 22)	(22,264,141)	(533,466)
Total	15,301,716	30,721,339

The maturity of non-current borrowings was as follows:

	31 December 2013	31 December 2012
Between 1 and 2 years	2,926,308	22,184,094
Between 2 and 5 years	6,871,962	2,405,694
Over 5 years	5,503,446	6,131,551
	15,301,716	30,721,339

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	31 December 2013	31 December 2012
USD	28,343,857	19,607,409
EUR	8,579,494	8,889,704
RSD	280,783	2,281,108
JPY	361,723	476,584
	37,565,857	31,254,805

The fair value of non-current borrowings and their carrying amounts are equal.

The Company repays borrowings in accordance with agreed dynamics, i.e. determined annuity plans. The Company agreed both fixed and floating interest rates with the creditors. Floating interest rates are connected with Euribor and Libor.

Management expects that the Company will be able to fulfill its obligations within agreed timeframe.

The carrying amounts of the Company's long-term borrowings as at 31 December 2013 and 31 December 2012 are presented in the table below:

Creditor	Currency	31 December 2013	31 December 2012
<i>Domestic long-term loans</i>			
Erste bank, Novi Sad	USD	279,719	301,856
Erste bank, Novi Sad	EUR	454,900	469,403
Bank Postanska stedionica, Belgrade	EUR	225,341	236,111
Bank Postanska stedionica, Belgrade	USD	1,526,400	1,670,920
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,459,990	4,670,317
Vojvodjanska bank, Novi Sad	RSD	-	1,000,000
UniCredit bank, Belgrade	USD	4,821,436	4,998,225
UniCredit bank, Belgrade	RSD	278,900	1,278,900
Other loans	RSD	1,883	2,208
		12,048,569	14,627,940
<i>Foreign long-term loans</i>			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	518,612	565,419
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	361,723	476,584
Erste bank, Holland	EUR	3,439,263	3,411,549
Erste bank, Holland	USD	5,403,333	-
VUB (Bank Intesa), Slovakia	USD	8,312,820	8,617,630
NBG bank, London	USD	2,493,846	6,307
NBG bank, London	EUR	-	102,324
Alpha bank, London	USD	3,325,128	1,723,526
Piraeus bank, Great Britain	USD	1,662,563	1,723,526
		25,517,288	16,626,865
Less current portion of long-term borrowings		(22,264,141)	(533,466)
		15,301,716	30,721,339

	Currency	Current portion		Long-term	
		31 December	31 December	31 December	31 December
		2013	2012	2013	2012
Domestic long-term loans					
Erste bank, Novi Sad	USD	13,070	11,881	266,649	289,975
Erste bank, Novi Sad	EUR	20,972	18,169	433,928	451,234
Bank Postanska stedionica, Belgrade	EUR	12,148	12,586	213,193	223,525
Bank Postanska stedionica, Belgrade	USD	82,030	88,550	1,444,370	1,582,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	248,267	246,267	4,211,723	4,424,050
Vojvodjanska bank, Novi Sad	RSD	-	-	-	1,000,000
UniCredit bank, Belgrade	USD	4,821,436	-	-	4,998,225
UniCredit bank, Belgrade	RSD	278,900	-	-	1,278,900
Other loans	RSD	369	390	1,514	1,818
		5,477,192	377,843	6,571,377	14,250,097
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	30,197	27,790	488,415	537,629
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	16,978	19,202	344,745	457,382
Erste bank, Holland	EUR	3,439,263	-	-	3,411,549
Erste bank, Holland	USD	-	-	5,403,333	-
VUB (Bank Intesa), Slovakia	USD	8,312,820	-	-	8,617,630
NBG bank, London	USD	-	6,307	2,493,846	-
NBG bank, London	EUR	-	102,324	-	-
Alpha bank, London	USD	3,325,128	-	-	1,723,526
Piraeus bank, Great Britain	USD	1,662,563	-	-	1,723,526
		16,786,949	155,623	8,730,339	16,471,242
		22,264,141	533,466	15,301,716	30,721,339

21. OTHER LONG-TERM LIABILITIES

	31 December 2013	31 December 2012
Liabilities to parent company	50,655,813	55,536,844
Finance lease liabilities	21,634	57,626
Other long-term liabilities	1,209	1,208
	50,678,656	55,595,678
Current portion of other long-term liabilities and financial lease (note 22)	(5,353,825)	(5,325,366)
	45,324,831	50,270,312

(a) Liabilities to parent company

As at 31 December 2013, other long-term liabilities to parent company amounting to RSD 50,655,813 (EUR 441,860,471) relate to borrowings from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares concluded on 24 December 2008. Under this agreement, Gazprom Neft shall grant loans for financing a EUR 500 million reconstruction and modernization of the technology complex in Refinery Pancevo programme which is finalized during 2012. The stated liabilities shall be settled in quarterly installments starting from December 2012 until 15 May 2023.

(b) Finance lease liabilities

Minimum finance lease payments:

	31 December 2013	31 December 2012
Less than one year	22,107	38,584
1-5 years	-	21,974
Future finance charges on finance leases	(473)	(2,932)
Present value of finance lease liabilities	21,634	57,626

	31 December 2013	31 December 2012
Less than one year	21,634	36,144
1-5 years	-	21,482
Present value of finance lease liabilities	21,634	57,626

22. SHORT-TERM FINANCIAL LIABILITIES

	31 December 2013	31 December 2012
Short-term loans	300,000	3,500,000
Current portion of long-term loans (note 20)	22,264,141	533,466
Current portion of finance lease (note 21)	21,634	36,144
Current portion of other long-term liabilities (note 21)	5,332,191	5,289,222
Other short-term liabilities	-	475
	27,917,966	9,359,307

23. TRADE AND OTHER PAYABLES

	31 December 2013	31 December 2012
Advances received	864,997	953,509
Trade payables:		
- domestic	6,280,346	3,084,090
- foreign	1,594,813	2,257,820
Trade payables - parents and subsidiaries	10,366,727	1,223,512
Trade payables - other related parties	30,096,552	25,995,092
Liabilities from other operations	69,634	71,443
Liabilities from specific operations	307,236	336,182
	49,580,305	33,921,648

As at 31 December 2013 payables to other related parties amounting to RSD 30,096,552 (31 December 2012: RSD 25,995,092) mainly relate to liabilities to the supplier Gazprom Neft Trading, Austria for supplying of crude oil in the amount of RSD 28,139,826 (31 December 2012: RSD 25,464,826).

24. OTHER SHORT-TERM LIABILITIES

	31 December 2013	31 December 2012
Liabilities for unpaid wages and salaries, gross	2,552	1,517,017
Liabilities for interest – domestic	520,438	350,859
Liabilities for dividends	3,772,308	3,772,308
Unused holiday accrual	405,268	622,441
Other liabilities	8,901	50,980
	4,709,467	6,313,605

25. LIABILITIES FOR VAT, OTHER TAXES AND DEFERRED INCOME

	31 December 2013	31 December 2012
Liabilities for VAT	461,212	514,867
Liabilities for excise	4,294,766	2,563,776
Liabilities for taxes and custom duties	3,009,684	4,434,531
Other liabilities for taxes and contributions	117,034	180,808
Accrued liabilities	1,906,797	2,064,135
Other accruals	1,947,875	2,276,828
	11,737,368	12,034,945

Accrued liabilities as at 31 December 2013 amounting to RSD 1,906,797 mainly relate to estimated costs of services rendered but not invoiced by suppliers (31 December 2012: RSD 2,064,135).

Other accruals as at 31 December 2013 amounting to RSD 1,947,875 (31 December 2012: RSD 2,276,828) mainly relate to accrued employee bonuses of RSD 1,507,805 (31 December 2012: RSD 1,418,102).

26. OTHER OPERATING INCOME

	Year ended 31 December	
	2013	2012
Rental income	135,834	128,698
Other operating income	3,024	55,979
	138,858	184,677

27. RAW MATERIAL AND CONSUMABLES USED

	Year ended 31 December	
	2013	2012
Costs of raw materials	129,843,587	87,756,144
Overheads and other costs	432,412	558,789
Other fuel and energy expenses	2,290,456	2,101,698
	132,566,455	90,416,631

28. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December	
	2013	2012
Wages and salaries (gross)	11,300,671	14,164,878
Taxes and contributions on wages and salaries paid by employer	1,647,437	2,182,650
Costs of special service agreements	608,161	454,538
Cost of other temporary service agreements	63,420	40,184
Fees paid to board of directors and general assembly board	72,106	35,216
Termination costs	2,421,545	3,220,648
Other personal expenses and benefits	1,378,695	1,149,784
	17,492,035	21,247,898

Termination costs amounting to RSD 2,421,545 mainly relate to costs incurred for voluntary leave programme. The total number of employees who voluntarily left the Company in 2013 was 1,367 (2012: 1,533 employees).

	Year ended 31 December	
	2013	2012
Average number of employees	5,043	7,577

29. DEPRECIATION, AMORTISATION AND PROVISION

	Year ended 31 December	
	2013	2012
Depreciation expenses	9,422,450	6,273,791
Provision for:		
- land reclamation and environmental protection (note 19)	429,781	523,999
- long-term incentive program (note 19)	521,427	1,042,855
- provision for legal cases	319,787	-
	10,693,445	7,840,645

30. OTHER OPERATING EXPENSES

	Year ended 31 December	
	2013	2012
Cost of production services	2,006,984	2,375,468
Transportation services	3,230,895	2,105,627
Maintenance	3,082,595	2,209,741
Rental costs	875,026	512,180
Fairs	5,909	4,459
Advertising costs	655,583	548,005
Research costs	1,322,014	951,088
Cost of other services	933,147	772,747
Costs of non production services	4,822,204	3,153,642
Representation costs	143,157	121,596
Insurance premium	98,055	215,975
Bank charges	209,917	206,738
Cost of custom duties, property taxes and other taxes	1,662,621	1,846,874
Fee for emergency situations	-	288,517
Mineral extraction tax	2,472,792	2,782,327
Cost of legal and consulting services	121,385	101,880
Administrative and other taxes	219,982	176,592
Other	439,340	779,276
	22,501,606	19,152,732

Cost of non-production services for the year ended 31 December 2013 amounting to RSD 4,822,204 (2012: RSD 3,153,642) mainly relate to costs of service organizations of RSD 2,992,596, consulting service costs of RSD 612,027, project management costs of RSD 292,545 and certification and supervision costs of RSD 155,279.

31. FINANCE INCOME

	Year ended 31 December	
	2013	2012
Finance income – subsidiaries	1,338,481	331,964
Interest income	5,451,340	3,037,635
Foreign exchange gains	2,376,032	6,796,845
Other finance income	14,118	713
	9,179,971	10,167,157

32. FINANCE EXPENSES

	Year ended 31 December	
	2013	2012
Finance expenses – parent	1,224,655	124,225
Interest expenses	2,017,309	1,572,327
Amortization of long-term liabilities	354,643	336,335
Foreign exchange losses	436,754	13,794,056
Other finance expenses	45	105
	4,033,406	15,827,048

33. OTHER INCOME

	Year ended 31 December	
	2013	2012
Gains on disposal:		
- property, plant and equipment	87,604	134,805
- materials	20,118	14,514
Surpluses from stock count	350,100	379,622
Payables written off	226,727	552,997
Release of long-term provisions (note 19)	764,997	1,762,334
Penalty interest	517,978	44,981
<i>Effects of valuation of assets:</i>		
- property, plant and equipment	143	2,881
- investment property (note 8)	151,936	-
- inventories (note 11)	450,252	322,555
- short-term financial investments (note 13)	-	26,668
- receivables (note 12)	1,156,966	962,839
- other properties	200,288	9,719
Other	422,458	493,536
	4,349,567	4,707,451

34. OTHER EXPENSES

	Year ended 31 December	
	2013	2012
Losses on disposal of property, plant and equipment	437,232	80,212
Shortages	1,008,424	779,642
Write off of receivables	11,692	40,598
Write off of inventories	73,725	131,299
Fines, penalties and damages	47,301	22,478
Humanitarian services and sponsorships	178,460	162,698
<i>Impairment:</i>		
- intangible assets (note 6)	24,347	87,150
- property, plant and equipment (note 7)	318,471	222,631
- investment property (note 8)	-	17,716
- other long-term investments	6,493	2,504
- inventories (note 11)	139,379	5,434
- advances paid (note 11)	16,244	12,337
- receivables (note 12)	5,270,438	10,438,927
Other	484,405	699,732
	8,016,611	12,703,358

35. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2013	2012
Income tax for the year	6,185,819	2,575,885
Deferred income tax for the period (note 16)		
Origination and reversal of temporary differences	200,860	(901,604)
Impact of change in the tax rate	-	194,162
	200,860	(707,442)
	5,984,959	1,868,443

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Company's profits as follows:

	Year ended 31 December	
	2013	2012
Profit before tax	58,309,328	51,324,959
Tax calculated at statutory tax rate – 10%	8,746,399	5,132,496
<i>Tax effect on:</i>		
Expenses not deductible for tax purposes	139,421	752,222
Deferred tax credits	-	(1,634,552)
Utilized tax credits	(2,998,604)	(2,575,885)
Impact of change in the tax rate	-	194,162
	(2,859,183)	(3,264,053)
Adjustment in respect of prior years	97,743	-
	5,984,959	1,868,443
Effective income tax rate	10.26%	3.64%

36. EARNINGS PER SHARE

	Year ended 31 December	
	2013	2012
Profit	52,324,369	49,456,516
Weighted average number of ordinary shares in issue	163,060,400	163,060,400
Basic Earnings per share	0.321	0.303

37. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The total of 29.87% shares of the Company (from the remaining 43.85%) are owned by the Republic of Serbia, while 13.98% are owned by non-controlling shareholders and are quoted on the Belgrade Stock Exchange. Gazprom, Russian Federation is the ultimate owner of the Company.

During 2013 and 2012, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to the supply/delivery of crude oil, geophysical research and interpretation services.

As of 31 December 2013 and 31 December 2012 the outstanding balances with related parties were as follows:

	Subsidiary	Parent	Entities under common control	Total
As at 31 December 2013				
Advances paid for PPE	159,524	-	-	159,524
Investments in equity instruments	8,729,710	-	-	8,729,710
Long-term loans issued	28,771,008	-	-	28,771,008
Other long-term investments	1,381,543	-	-	1,381,543
Inventories	8,529	-	24,219,102	24,227,631
Trade and other receivables	4,663,714	-	3,537	4,667,251
Short-term financial investments	2,384,555	-	-	2,384,555
VAT and prepaid expenses	84,009	-	-	84,009
Other long-term liabilities	-	(45,323,622)	-	(45,323,622)
Short-term financial liabilities	-	(5,332,191)	-	(5,332,191)
Trade and other payables	(1,063,718)	(9,338,240)	(28,585,094)	(38,987,052)
Liabilities for VAT, other taxes and deferred income	(9,249)	-	(1,725)	(10,974)
	45,109,625	(59,994,053)	(4,364,180)	(19,248,608)

	Subsidiary	Parent	Other related parties	Total
As at 31 December 2012				
Investments in equity instruments	8,703,404	-	-	8,703,404
Long-term loans issued	16,629,612	-	-	16,629,612
Other long-term investments	1,211,054	-	-	1,211,054
Inventories	64,732	-	22,174,560	22,239,292
Trade and other receivables	1,906,606	-	4,960	1,911,566
Short-term financial investments	312,851	-	-	312,851
VAT and prepaid expenses	73,828	-	20	73,848
Other long-term liabilities	-	(50,247,622)	-	(50,247,622)
Short-term financial liabilities	-	(5,289,222)	-	(5,289,222)
Trade and other payables	(1,265,209)	-	(25,475,054)	(26,740,263)
Other short-term liabilities	-	(115,203)	-	(115,203)
Liabilities for VAT, other taxes and deferred income	(553,497)	-	-	(553,497)
	27,083,381	(55,652,047)	(3,295,514)	(31,864,180)

For the year ended 31 December 2013 and 2012 the following transaction occurred with related parties:

	Subsidiary	Parent	Other related parties	Total
Year ended 31 December 2013				
Sales	5,932,497	-	92,553	6,025,050
Other operating income	32,789	-	-	32,789
Decrease in inventories of finished goods	(5,319,630)	-	-	(5,319,630)
Cost of goods sold	(145,451)	-	(17,245)	(162,696)
Raw material and consumables used	-	-	(114,209,629)	(114,209,629)
Employee benefits expense	(79,384)	-	-	(79,384)
Other operating expenses	(3,617,754)	(45,889)	-	(3,663,643)
Finance income	1,338,481	-	-	1,338,481
Finance expenses	-	(1,224,655)	-	(1,224,655)
Other income	10	-	297,244	297,254
Other expenses	(2,484)	(4,437)	(634,721)	(641,642)
	(1,860,926)	(1,274,981)	(114,471,798)	(117,607,705)
Year ended 31 December 2012				
Sales	1,581,731	-	124,793	1,706,524
Other operating income	17,261	-	-	17,261
Cost of goods sold	(1,426)	-	(12,625)	(14,051)
Raw material and consumables used	-	-	(67,725,252)	(67,725,252)
Employee benefits expense	(234,232)	-	-	(234,232)
Other operating expenses	(2,212,890)	(52,068)	-	(2,264,958)
Finance income	331,964	-	-	331,964
Finance expenses	-	(124,225)	-	(124,225)
Other income	32	-	119,192	119,224
Other expenses	(8,039)	(4,664)	(264,904)	(277,607)
	(525,599)	(180,957)	(67,758,796)	(68,465,352)

Key management compensation

Management compensation paid in 2013 and 2012 is shown in the table below:

	Year ended 31 December	
	2013	2012
Salaries and other short-term benefits	404,298	316,118
	404,298	316,118

Main transactions with state owned companies

	31 December 2013	31 December 2012
<i>Receivables - gross</i>		
HIP Petrohemija	12,284,032	7,307,595
Srbijagas	27,124,438	23,573,467
	39,408,470	30,881,062
<i>Liabilities</i>		
HIP Petrohemija	(1,534,730)	(523,563)
Srbijagas	(230,099)	(85,682)
	(1,764,829)	(609,245)
<i>Advances received</i>		
HIP Petrohemija	(7,112)	(7,743)
Srbijagas	(12,806)	(12,806)
	(19,918)	(20,549)

	Year ended 31 December	
	2013	2012
<i>Operating income</i>		
HIP Petrohemija	35,132,534	9,258,368
Srbijagas	2,176,974	17,902,669
	37,309,508	27,161,037
<i>Operating expenses</i>		
HIP Petrohemija	(30,266)	(146,097)
Srbijagas	(1,080,394)	(1,675,633)
	(1,110,660)	(1,821,730)

38. CONTINGENT LIABILITIES

Transfer of property ownership

As at 31 December 2013, the Company had ownership of 6,731 properties and the right to use and possess 1,145 properties, which represent 83% and 14% of the total Company properties (buildings and land), respectively.

The Republic of Serbia being the seller shall be obliged, under the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., to provide a written consent to make the transfer of the Company's total immovable property registered within the NIS Registry of Fixed Assets as at 31 December 2007.

Finance Guarantees

As at 31 December 2013 the total amount of outstanding finance guarantees given by the Company amounted to RSD 3,406,797 mostly related to customs duties in the amount of RSD 2,192,400 (2012: RSD 2,403,960).

Other contingent liabilities

As at 31 December 2013, the Company did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Company has to pay the difference in tax calculation of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Company's

Management believes that, based on the concession agreements signed with Angola and an the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit Oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Company's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed three years ago. Taking all of the above into consideration, the Company's Management is of the view that as at 31 December 2013 outflow of resources embodying economic benefits is remote due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

39. TAX RISKS

Tax laws of Republic of Serbia are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. The tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years from the transaction date. As at 31 December 2013, Management assessed that the Company had paid all tax liabilities.

40. COMMITMENTS

Leases

Minimum lease payments under non-cancellable operating lease by lessor:

	31 December 2013	31 December 2012
Less than one year	199,402	182,024
1-5 years	239,269	246,461
Over five years	138,591	944
	577,262	429,429

Minimum lease payments under non-cancellable operating lease by lessee:

	31 December 2013	31 December 2012
Less than one year	418,361	444,904
1-5 years	7,945	381,988
Over five years	-	-
	426,306	826,892

Farm-in agreement with RAG Hungary limited

In December 2011, the Company entered into a Farm-in agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kiskunhalas area in Hungary. Under the contract, the Company committed to finance 50% of total exploration costs on at least three oil wells in the area covered by the exploration license. Depending on success of the exploration, the Company will be entitled to 50% of total production volume of hydrocarbons. Under the Joint Operation Agreement signed with RAG Hungary Limited, RAG will act as the Operator

and will be in charge of and shall conduct all Joint Operations. On 31 December 2013 drilling and exploration works were estimated to 1.2 million USD.

Call Option agreement with RAG Hungary limited

In December 2012, the Company entered into a Call Option agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kelebia area in Hungary. Under the agreement NIS has an option to become equal owner in a jointly owned company (JOC) together with Rag Hungary, Rag Kiha, which will hold the Kelebia Licence by becoming a 50% quota holder in the JOC. On 31 December 2013 drilling and exploration works were estimated to 1.45 USD million.

41. EVENTS AFTER THE REPORTING PERIOD

No significant events, which required disclosure in these Financial Statements, occurred after the reporting date.

Subsequent events occurring after 31 December 2013 were evaluated through 13 February 2014, the date these Financial Statements were authorised for issue.

Novi Sad, 13 February 2014

**The person responsible for the preparation
of financial statements**

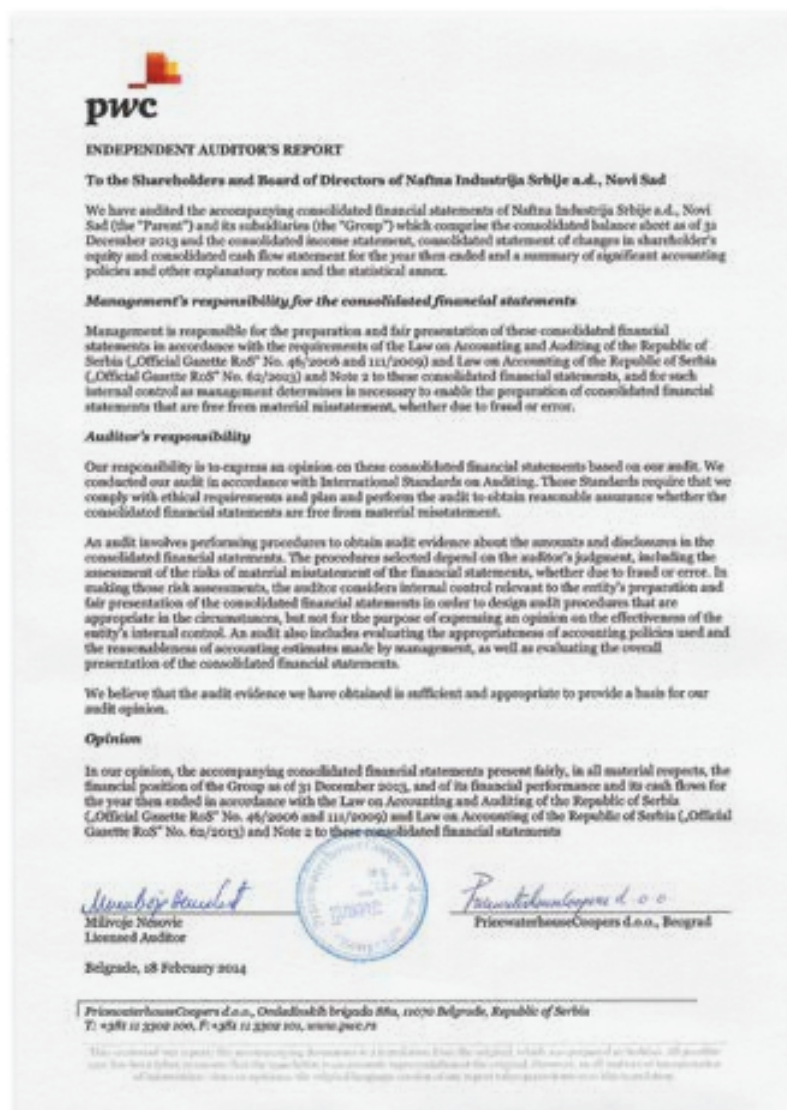
Anton Fyodorov

Legal representative

Kirill Kravchenko



AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS





CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

	Notes	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Goodwill	6	1,962,138	1,464,063
Intangible assets	6	14,095,763	9,400,590
Property, plant and equipment	7	202,004,431	157,116,676
Investment property	8	1,414,364	1,367,378
Investments in equity instruments	9	1,208,882	177,680
Other long-term investments	10	1,175,732	1,290,057
		221,861,310	170,816,444
Current assets			
Inventories	11	41,206,459	44,741,588
Non-current assets held for sale		-	57,983
Trade and other receivables	12	53,036,792	40,010,284
Short-term financial investments	13	2,154,738	5,785,975
Cash and cash equivalents	14	8,707,774	12,069,897
VAT and prepaid expenses	15	8,847,278	9,598,891
Deferred tax assets	16	9,776,756	9,788,287
		123,729,797	122,052,905
Total assets		345,591,107	292,869,349
Off-balance sheet assets	17	94,164,460	84,582,742

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Income Statement

	Notes	31 December 2013	31 December 2012
ASSETS			
Equity	18		
Share and other capital	18.1, 2.22, 2.23	81,550,757	87,148,630
Reserves	2.24	-	867,866
Unrealized gains from securities		18,144	6,918
Unrealized losses from securities		(118,114)	(81,446)
Retained earning	18	87,502,311	45,148,692
		168,953,098	133,090,660
Long-term provisions and liabilities			
Long-term provisions	19	14,984,152	13,690,890
Long-term borrowings	20	15,684,162	31,100,703
Other long-term liabilities	21	45,449,716	50,283,107
		76,118,030	95,074,700
Short-term liabilities			
Short-term financial liabilities	22	27,918,442	9,359,358
Trade and other payables	23	49,927,085	33,366,219
Other short-term liabilities	24	4,933,210	6,962,356
Liabilities for VAT, other taxes and deferred income	25	12,812,513	12,087,988
Income tax liabilities		2,591,447	505,827
		98,182,697	62,281,748
Deferred tax liabilities	16	2,337,282	2,422,241
Total equity and liabilities		345,591,107	292,869,349
Off-balance sheet liabilities	17	94,164,460	84,582,742

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Income Statement

	Notes	Year ended 31 December	
		2013	2012
Operating income			
Sales revenue	5	259,421,798	226,605,585
Work performed by the entity and capitalized	5	7,981,686	5,614,382
(Decrease) Increase in inventories of finished goods and work in progress	5	(3,102,098)	1,664,825
Other operating income	5, 26	134,455	198,683
		264,435,841	234,083,475
Operating expenses			
Cost of goods sold		(15,449,511)	(26,621,606)
Raw material and consumables used	27	(135,558,990)	(91,646,458)
Employee benefits expense	28	(23,612,684)	(24,922,733)
Depreciation, amortisation and provision	29	(12,221,792)	(9,212,485)
Other operating expenses	30	(23,023,033)	(18,311,703)
		(209,866,010)	(170,714,985)
Operating profit		54,569,831	63,368,490
Finance income	31	8,295,680	9,964,434
Finance expenses	32	(4,673,958)	(15,974,288)
Other income	33	4,635,944	4,759,628
Other expenses	34	(8,437,074)	(14,648,732)
Profit before income tax		54,390,423	47,469,532
Income tax expense			
Current income tax expense	35	(6,195,055)	(2,591,542)
Deferred income tax benefit	16,35	152,328	654,621
Profit for the year		48,347,696	45,532,611
Profit attributable to Non-controlling interest	18	-	-
Profit attributable to shareholders of naftna industrija Srbije	18	48,347,696	45,532,611
Earnings per share			
- Basic	36	0.297	0.279

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statement Of Cash Flows

	Year ended 31 December	
	2013	2012
Cash flows from operating activities		
Sales and advances received	396,553,219	312,802,874
Interest from operating activities	950,931	1,903,267
Other inflow from operating activities	134,455	192,320
<i>Cash inflow from operating activities</i>	<i>397,638,605</i>	<i>314,898,461</i>
Payments and prepayments to suppliers	(152,436,633)	(139,319,224)
Salaries, benefits and other personal expenses	(25,262,051)	(23,671,657)
Interest paid	(2,947,527)	(3,318,871)
Income tax paid	(4,122,711)	(3,572,576)
Payments for other public revenues	(137,584,263)	(107,726,495)
<i>Cash outflow from operating activities</i>	<i>(322,353,185)</i>	<i>(277,608,823)</i>
Net cash from operating activities	75,285,420	37,289,638
Cash flows from investing activities		
Sale of shares	542,617	228
Proceeds from sale of property, plant and equipment	238,812	155,088
Other financial investments	32,000	-
<i>Cash inflow from investing activities</i>	<i>813,429</i>	<i>155,316</i>
Purchase of intangible assets, property, plant and equipment	(64,897,780)	(47,212,914)
Other financial investments (net outflow)	(1,060,118)	(3,759,084)
<i>Cash outflow from investing activities</i>	<i>(65,957,898)</i>	<i>(50,971,998)</i>
Net cash used in investing activities	(65,144,469)	(50,816,682)

	Year ended 31 December	
	2013	2012
Cash flows from financing activities		
Proceeds from long-term and short term borrowings	21,996,382	6,651,461
Proceeds from other long-term and short-term liabilities	-	3,818,459
<i>Cash inflow from financing activities</i>	<i>21,996,382</i>	<i>10,469,920</i>
Outflows from long-term, short-term and other liabilities	(23,224,309)	(11,360,516)
Dividend distribution	(12,364,129)	-
<i>Cash outflow from financing activities</i>	<i>(35,588,438)</i>	<i>(11,360,516)</i>
Net cash used in financing activities	(13,592,056)	(890,596)
Decrease in cash and cash equivalents	(3,451,105)	(14,417,640)
Cash and cash equivalents at the beginning of year	12,069,897	25,832,354
Currency translation gains on cash and cash equivalents	803,737	2,064,732
Currency translation losses on cash and cash equivalents	(714,755)	(1,409,549)
Cash and cash equivalents at the end of year	8,707,774	12,069,897

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statement of Changes in Equity

	Share capital	Other Capital	Reserves
Balance as at 1 January 2012	81,550,757	5,597,873	884,217
Total increase in current period	-	-	-
Total decrease in current period	-	-	(16,351)
Balance as at 31 December 2012	81,550,757	5,597,873	867,866
Balance as at 1 January 2013	81,550,757	5,597,873	867,866
Total increase in current period	-	-	-
Total decrease in current period	-	(5,597,873)	(867,866)
Balance as at 31 December 2013	81,550,757	-	-

The accompanying notes are an integral part of these consolidated financial statements.

Unrealised gains from securities	Unrealised losses from securities	Accumulated gain (loss)	Total
29,582	(64,090)	(386,999)	87,611,340
-	(17,356)	45,532,611	45,479,320
(22,664)	-	3,080	-
6,918	(81,446)	45,148,692	133,090,660
6,918	(81,446)	45,148,692	133,090,660
11,226	(36,668)	54,834,993	35,862,438
-	-	(12,481,374)	-
18,144	(118,114)	87,502,311	168,953,098

in ,000.00 RSD



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") and its subsidiaries (together refer to as the "Group") is a vertically integrated oil company operating predominantly in Serbia. The Group's principal activities include:

- Exploration, production and development of crude oil and gas,
- Production of refined petroleum products,
- Petroleum products and gas trading.

The Company was established in accordance with the Decision of Government of Republic of Serbia on 7 July 2005. On 2 February 2009 OAO Gazprom Neft ("Gazprom Neft") acquired a 51% of the share capital of Naftna Industrija Srbije which became a subsidiary of Gazprom Neft. In March 2011 under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired an additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%.

The Company is an open joint stock company, listed on the Prime market on the Belgrade Stock Exchange.

These Consolidated Financial Statements have been approved and authorized for issue by CEO and will be presented to shareholders on the General meeting for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the Consolidated Financial Statements for the year ended 31 December 2012.

2.1. Basis of preparation

These Consolidated Financial Statements for the year ended 31 December 2013 were prepared in accordance with the Law on Accounting and Law on Auditing of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (Nos. 46/2006, 111/2009, 61/2013 and 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied, and the regulations issued by the Ministry of Finance of the Republic of Serbia. Due to the difference between these two regulations, these Consolidated Financial Statements differ from IFRS in the following respects:

- The Consolidated Financial Statements are prepared in format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 (revised) – "Presentation of Financial Statements" requirements and IAS 7 – "Statement of cash flows".
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

- Property, plant and equipment of the Company were measured at market value by independent appraisal and any revaluation reserves for the excess of fair value against historical value were cancelled against share capital as at 1 January 2006.

The preparation of Consolidated Financial Statements in conformity with the Law on Accounting of the Republic of Serbia requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 3.

2.2. New accounting standards

The following new standards and interpretations became effective for the Group from 1 January 2013:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to Group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).
- IAS 19, 'Employee benefits' was revised in June 2011. The changes on the Group's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).
- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
- IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint ventures is no longer permitted.
- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The standard is not mandatory for the Group until 1 January 2014; however the Group has decided to early adopt the standard as of 1 January 2013.
- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.
- IAS 27 (revised 2011), 'Separate financial statements' includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Group until 1 January 2014, however the Group has decided to early adopt the amendment as of 1 January 2013.

Certain new and amended standards and interpretations have been issued that are mandatory for the first time for the financial year beginning 1 January 2014 or later, and which the Group has not early adopted:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.
- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's Consolidated Financial Statements.

2.3. Comparative figures

	31 December 2012	Reclassification <i>Fair value measurement of business combinations</i>	31 December 2012 <i>(Adjusted)</i>
Goodwill	968,940	495,123	1,464,063
Property, plant and equipment	157,611,799	(495,123)	157,116,676
Net assets	158,580,739	-	158,580,739

As of 31 December 2013 Group was obtained all information about facts and circumstances that existed as of PS station acquisition date (PS Petroliv, XXL Oil and Eso Oil) which allowed to finalise provisional amounts previously recognised as business combination. Above has resulted in additional goodwill recognition in the consolidated balance sheet in amount of 495,123 RSD and decrease in value of PPE in the same amount.

2.4. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, is the Board of Directors and the General Manager Advisory Board. The information on segment assets and liabilities are not regularly provided to the chief operating decision-maker.

2.5. Seasonality of Operations

The Group as a whole is not subject to significant seasonal fluctuation.

2.6. Foreign currency translation

(a) Functional and presentation currency

Items included in the Consolidated Financial Statements of the Group are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The Consolidated Financial Statements are presented in RSD, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost/expenses'.

(c) Group's Companies

The result and financial position of all group companies whose functional currency is different from the Group's presentation currency are calculated as follows:

- I. assets and liabilities are translated into the RSD using the exchange rate as at the date of that Consolidated Statement of Financial Position;
- II. income and expenses are translated at average exchange rates and all resulting foreign exchange differences are recognized in reserves as separate items in equity.

2.7. Principles of consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Company has power to govern the financial and operating policies in order to make profit from their activity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date that control ceases.

Inter-group transactions, balances and unrealized gains on transactions between Group companies are eliminated during the preparation of Consolidated Financial Statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Investments in Associates and Joint Ventures (Equity Accounted Investees)

Investments in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The Consolidated Financial Statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

(c) Non-controlling interests

In Consolidated Financial Statements, non-controlling interests in subsidiaries are presented separately from Group equity as non-controlling interests.

2.8. Business combinations

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group and recognised goodwill or a gain from a bargain purchase. The

consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

2.9. Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ('bargain purchase') is recognized in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, that the Group incurs in connection with a business combination are expensed as incurred.

2.10. Intangible assets

(a) Licenses and rights (concessions)

Separately acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

Licenses and rights include Oil and Gas Upstream Exploration Rights, which are amortised in accordance with the terms and conditions of the rights.

(b) Computer software

Costs associated with computer software primarily include the cost of the implementation of SAP software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised over their estimated useful lives (not to exceed 8 years).

2.11. Exploration for and evaluation of mineral resources

(a) Exploration and evaluation expenditure

During the exploration period, costs of exploration and evaluation of oil and natural gas are capitalized until it is proven that oil and gas reserves will not suffice to justify exploration costs. Geological and geophysical costs as well as costs directly associated with exploration are capitalized as incurred. The costs of obtaining exploration rights are capitalised either as part of property, plant and equipment or intangible assets depending on the type of cost. When commercial reserves have been discovered, subsequent to exploration and development investment impairment testing, they are transferred to development of assets either within property, plant and equipment or intangible assets. No depreciation and/or amortisation are charged during the exploration and evaluation phase.

(b) Development costs of fixed and intangible assets

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized within construction in progress according

to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortisation are charged during development.

(c) Oil and gas production assets

Oil and gas production assets comprise exploration and evaluation tangible assets as well as development costs associated with the production of proved reserves.

(d) Depreciation/amortization

Oil and gas properties/intangible assets are depleted using the unit-of-production method. The unit-of-production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

(e) Impairment – exploration and evaluation assets

Exploration property leasehold acquisition costs are assessed for impairment when there are indications of impairment. For the purpose of impairment testing, exploration property leasehold acquisition costs subject to impairment testing are grouped with existing cash-generating units (CGUs) of related production fields located in the same geographical region.

(f) Impairment – proved oil and gas properties and intangible assets

Proven oil and gas properties and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.12. Property, plant and equipment

As of the date of establishment, the Group's property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and works of art are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Description	Useful lives
Buildings	10 - 50
Machinery and Equipment:	
- Production equipment	7 - 25
- Furniture	5 - 10
- Vehicles	7 - 20
- Computers	5 - 10
Other PP&E:	3 - 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 34).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/expenses" in the consolidated income statement (notes 33 and 34).

2.13. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14. Investment property

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property principally comprises of petrol stations and business facilities rented out for a period exceeding one year.

Investment property is carried at fair value, representing open market value based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the consolidated income statement as part of other income (expenses) (notes 33 and 34).

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.15. Joint arrangements

The Group has applied IFRS 11 to all joint arrangements from 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and

obligations each investor. Group has assessed the nature of its joint arrangements and determined them to be joint operations where joint operator accounts for its share of the assets, liabilities, revenue and expenses.

2.16. Long-term financial assets

The Group classifies its financial assets in the following categories: long-term loans and receivables and available for sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2.16.1. Financial assets classification

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables'.

(b) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date, in which case they are classified as current assets.

2.16.2. Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected.

2.16.3. Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset

(a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - Adverse changes in the payment status of borrowers in the portfolio; and
 - National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.17. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises cost of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Spare parts for equipment used in production are stated at cost. The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed once a year. Impairment losses are recognized as other expenses (note 34).

2.18. Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through a continuing use. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the sales plan will be made or that the plan will be withdrawn.

2.19. Trade receivables

Trade receivables are amounts due from customers for products and merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Alternatively, trade receivables are stated as long-term.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'other expenses' (note 34). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to 'other income' in the consolidated income statement (note 33).

2.20. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, cash in banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet.

2.21. Off-balance sheet assets and liabilities

Off-balance sheet assets/liabilities include: consignment stock, material received from third parties for further processing and other assets not owned by the Group, as well as receivables/payables relating to collaterals received/given such as guarantees and other warrants.

2.22. Share capital

The Company is registered as open joint stock company. Ordinary shares are classified as share capital.

2.23. Other capital

Other capital in total refers to the Company's capital above the amount of estimated and registered non-monetary capital as at 31 May 2005. In accordance with General Assembly Meeting Decision enacted on 18 June 2013 these other capital were credited to the retained earnings.

2.24. Reserves

Reserves relate to the reserves established in the past in accordance with the previous Law on Enterprises. In accordance with this Law, the Company was required to allocate 5% of profits until the reserve equals the amount defined by Group's Act, and at least 10% of the share capital. In accordance with General Assembly Meeting Decision enacted on 18 June 2013 these reserves were credited to the retained earnings.

2.25. Earnings per share

The Group calculates and discloses the basic earnings per share. Basic earnings per share is calculated by dividing the net income that belongs to shareholders, the owners of ordinary shares of the Group, by the weighted average number of ordinary shares issued during the period (note 36).

2.26. Provisions

Provisions for environmental restoration, asset retirement obligation and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as cost of provision and charged to consolidated income statement.

2.27. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.28. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.29. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case deferred tax liability is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in Serbia and other countries, where the Group operates and generates taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.30. Employee benefits

(a) Pension obligations

The Group operates a defined contribution pension plan. The Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Employee benefits provided by the Collective Agreement

The Group provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on an Individual performance assessment. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.31. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as describe below. The amount of the revenue is not considered to be reliably measurable until all contingences relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods – wholesale

The Group produces and sells oil, petrochemical products and liquified natural gas in the wholesale market. Sales of goods are recognised when the Group has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term consistent with the market practice.

(b) Sales – retail

The Group operates a chain of Petrol Stations. Sales of goods are recognised when the Group sells a product to the customer. Retail sales are usually in cash, fuel coupons or by credit card.

(c) Sales of services

The Group sells oil engineering services. These services are provided on a time and material basis or as a fixed price contract, with contract terms generally accepted in the industry.

Revenue from time and material contracts, typically from delivering engineering services, is recognised under the percentage of completion method. Revenue is generally recognized at the contractual rates. For time contracts, the stage of completion is measured on the basis of labour hours determined as a percentage of total hours to be delivered. For material contracts, the stage of completion is measured on the basis of, and direct expenses are incurred as, a percentage of the total expenses to be incurred.

Revenue from fixed-price contracts for delivering engineering services is also recognised under the percentage-of-completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Income from work performed by entity and capitalised

Income from work performed by entity and capitalised relates to the capitalisation of costs of own products and services.

(f) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.32. Leases

(a) Leases: Accounting by lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment, acquired under finance leases, are depreciated over the shorter of the useful life of the asset and the lease term.

(b) Leases: Accounting by lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

When assets are leased out under an operating lease, the asset is included in the consolidated balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

2.33. Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the period in which the dividends are approved by the Group's shareholders.

2.34. Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and take a substantial time to get ready for their intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Preparing Consolidated Financial Statements required Management to make estimates and assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and other facts that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimates is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In addition to judgments involving estimations, Managements also makes other judgments in the process of applying the accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

3.1. Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Accounting measures such as depreciation, depletion and amortization charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities

and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the Consolidated Financial Statements, most notably depreciation, depletion and amortization as well as impairment expenses.

Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

3.2. Useful Lives of Property, Plant and Equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located.

Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the year.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2013 would be to increase/decrease it by RSD 1,007,041 (2012: RSD 616,041).

3.3. Employee benefits

The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to calculate the present value of estimated future cash outflows which are expected to be required to settle the employee benefits obligations. In determining the appropriate discount rate, the Group takes into consideration the interest rates of high-quality corporate bonds which are denominated in the currency in which pension liabilities will be settled and whose maturity dates approximate the maturity date of the related pension liability.

If the discount rate used to calculate the present value of employee benefit obligations had been 7.30% (rather than 6.30%) per year, the past service liability (DBO) would decrease by approx. 9.5% for retirement indemnity and 5.8% for jubilee awards. If the employee salaries were to increase by 6.5% (rather than 5.5%) per year, the past service liability (DBO) would increase by approx. 15.4% for retirement indemnity and 8.9% for jubilee awards.

3.4. Decommissioning Obligations (asset retirement obligation and environmental protection)

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

If the discount rate used to calculate the present value of decommissioning obligations had been 7.30% (rather than 6.30%) per year, the present liability would have decreased by approx. RSD 418,137.

3.5. Contingencies

Certain conditions may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 40).

3.6. Operational environment

The Republic of Serbia and countries in which the Group operates displays certain characteristics of an emerging market. The tax, currency and customs legislation is subject to varying interpretations which contribute to the challenges faced by companies operating in Serbia and region.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Serbian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Republic of Serbia is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Impact on liquidity:

The volume of wholesale financing has significantly reduced since September 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Impact on customers/ borrowers:

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers [or borrowers] may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

4. FINANCIAL RISK MANAGEMENT

4.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses financial instruments to hedge certain risk exposures.

Risk management is carried out by the finance department within the Function for Economics, Finance and Accounting (further „FEPA“) under policies approved by the Board of Directors. The Group's finance department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

In the normal course of its operations the Group has exposure to the following financial risks:

- a) market risk (including foreign exchange risk, interest rate risk and commodity price risk);
- b) credit risk; and
- c) liquidity risk.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and EUR. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign exchange risk arising from future transactions and recognised assets and liabilities, responsible persons in the finance department within the FEPA Function negotiate the best possible exchange rates for the purchase of foreign currency to be contracted on a daily basis based on the exchange rate applicable on the day the purchase is made. The total amounts of carrying values of financial assets and liabilities denominated in foreign currencies are shown in the table below:

	Financial Assets		Financial Liabilities	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
EUR	8,262,519	9,162,749	60,788,973	66,177,922
USD	6,040,267	8,741,594	67,745,867	46,654,185
JPY	-	-	362,450	477,670
Other	3,272,328	946,740	1,370,816	712,125

As at 31 December 2013, if the currency had weakened/strengthened by 10% against the EUR, USD and JPY with all other variables held constant, prior-tax profit for the year would have been RSD 1,115,151 (2012: RSD 975,131) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR and USD denominated trade

receivables, trade payables and foreign exchange losses/gains on translation of EUR, USD and JPY denominated borrowings.

Commodity Price risk

The Group's primary activity expose it to the following commodity price risks: crude oil and oil derivatives price levels which affect the value of inventory; and refining margins which in turn affect the future cash flows of the business.

In the case of price risk, the level of exposure is determined by the amount of priced inventory carried at the end of the reporting period. In periods of sharp price decline, as the Group policy is to report its inventory at the lower of historic cost and net realisable value, the results are affected by the reduction in the carrying value of the inventory. The extent of the exposure relates directly to the level of stocks and the rate of price decrease.

Cash flow and fair value interest rate risk

Borrowings withdrawn at variable interest rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (EURIBOR or LIBOR) has a proportionate impact on the Group's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2013 would have been RSD 833,518 (2012: RSD 820,669) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

Credit risk is managed on the Group's level basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Banks are rated only in the case of collateralised receivables on various grounds, as well as based on the banks total exposure to the Group. For domestic banks, if it is bank with who the Group has passive activities the second criterion is applied and if it is a bank with who Group doesn't have cooperation, credit limits are determined based on the defined methodology.

Sales to retail customers are settled in cash or using credit cards.

Liquidity risk

Cash flow forecasting is performed as aggregated at the Group's level. The Group's finance function monitors rolling forecasts of the Group's liquidity requirements to ensure It has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the Group over and above balance required for working capital management are invested as surplus cash in time deposits.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date.

The amounts disclosed in the table are the contractual cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at 31 December 2013	Less than 1 month	1 – 5 years	Over 5 years	Total
Borrowings and other long term and short term financial liabilities (long-term and current-portion)	27,918,442	31,515,200	29,618,678	89,052,320
Liabilities from business operations	49,927,085	8,211	-	49,935,296
Other short-term liabilities	4,933,210	161	-	4,933,371
Accrued liabilities and other accruals (note 25)	4,721,572	-	-	4,721,572
	87,500,309	31,523,572	29,618,678	148,642,559

As at 31 December 2012	Less than 1 month	1 – 5 years	Over 5 years	Total
Borrowings and other long term and short term financial liabilities (long-term and current-portion)	9,359,358	45,780,957	35,601,645	90,743,168
Liabilities from business operations	33,366,209	-	10	33,366,219
Other short-term liabilities	6,962,356	-	-	6,962,356
Accrued liabilities and other accruals (note 25)	4,174,426	-	-	4,174,426
	53,862,349	45,780,957	35,601,655	135,244,961

4.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio. Net debt to EBITDA is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, liabilities to parent company less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, other finance income (expenses) net, other non-operating income (expenses).

The Groups's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	31 December 2013	31 December 2012
Total borrowings (notes 20, 21 and 22)	88,904,116	90,671,013
Less: cash and cash equivalents (note 14)	(8,707,774)	(12,069,897)
Net debt	80,196,347	78,601,116
EBITDA	68,845,801	65,562,067
Net debt to EBITDA	1.16	1.20

4.3. Fair value estimation

The fair value of financial instruments traded in an active market (such as available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt.

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date.

5. SEGMENT INFORMATION

Operating segments, are segments whose operating results are regularly reviewed by the Chief Operating Decision Maker („CODM”) of the Group. According to adopted governance structure, the Board of Directors and the General Manager Advisory Board represent the CODM.

As at 31 December 2013, business activities of the Group are organized into five operating segments:

1. Exploration and Production of Oil and Natural Gas,
2. Oil Field Services,
3. Refining,
4. Oil and Oil Products Trading,
5. Other – NIS Administration and Energy.

Exploration and production of oil and natural gas and Oil field services together comprise Upstream while Refining, Oil and Oil products Trading and Other operating segments together comprise Downstream group.

Reportable segments derive their revenue from the following activities:

1. Exploration and Production of Oil and Natural Gas – the sale of crude oil and gas to refineries and to other buyers on open market,
2. Oil Field Services – drilling services, construction works and geophysical measurement and transportation services,
3. Refining – the sale of refinery products to NIS trade segment,
4. Oil and Oil Products Trading – retail and wholesale activities consistent with the policy.

Reportable segment results for the year ended 31 December 2013 are shown in the table below:

	Exploration and Production	Oil Field Services	Refining	Trade	Other	Eliminations	Total
Segment revenue	88,685,790	10,886,371	216,000,608	249,433,963	11,243,238	(316,828,172)	259,421,798
Intersegment	84,666,712	10,234,373	215,896,466	647,835	5,382,786	(316,828,172)	-
External	4,019,078	651,998	104,142	248,786,128	5,860,452		259,421,798
EBITDA (Segment result)	77,106,235	810,922	(2,747,057)	4,291,564	(11,114,989)	499,126	68,845,801
Depreciation and amortisation (note 29)	(2,387,040)	(734,185)	(4,682,370)	(1,497,309)	(1,571,083)	-	(10,871,987)
Impairment losses (note 34)	(110,269)	(1)	(18,657)	(114,664)	(145,508)	-	(389,099)
Finance (expenses) income	(504,848)	9,989	936,489	(537,278)	3,769,030	(51,660)	3,621,722
Deferred income tax	(278)	(47,712)	-	741	199,577	-	152,328
Income tax expense	-	(9,236)	-	-	(6,185,819)	-	(6,195,055)
Segment profit (loss)	73,025,419	(88,325)	(6,371,102)	1,012,055	(19,677,817)	447,466	48,347,696

Reportable segments results for the year ended 31 December 2012 are shown in the table below:

	Exploration and Production	Oil Field Services	Refining	Trade	Other	Eliminations	Total
Segment revenue	99,805,606	8,692,004	154,665,686	203,631,057	16,184,486	(256,373,254)	226,605,585
Intersegment	90,490,198	8,057,252	154,531,232	232,302	3,062,270	(256,373,254)	-
External	9,315,408	634,752	134,454	203,398,755	13,122,216	-	226,605,585
EBITDA (Segment result)	83,725,215	623,349	(6,482,066)	1,668,647	(13,468,347)	(504,731)	65,562,067
Depreciation and amortisation (note 29)	(2,107,908)	(761,748)	(1,950,957)	(883,997)	(1,153,652)	-	(6,858,262)
Impairment losses (note 34)	(113,062)	(18,331)	(64,127)	(427,966)	(1,339,322)	-	(1,962,808)
Finance (expenses) income	(201,338)	4,126	(761,856)	277,555	(5,292,344)	(35,997)	(6,009,854)
Deferred income tax	(275)	(53,827)	-	-	708,723	-	654,621
Income tax expense	(6)	(8,124)	-	(377)	(2,583,035)	-	(2,591,542)
Segment profit (loss)	80,149,624	(216,077)	(9,180,502)	(350,290)	(24,329,416)	(540,728)	45,532,611

Intersegment sales are performed in accordance with the transfer pricing policy.

The analysis of the Group's revenue from the main products and services (based on the country of a customer incorporation and sales channel) is presented in the table below:

	Year ended 31 December 2013		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	3,553,732	3,553,732
Sale of gas	3,918,192	-	3,918,192
Through a retail network	-	-	-
Wholesale activities	3,918,192	-	3,918,192
Sale of petroleum products	206,159,963	42,031,098	248,191,061
Through a retail network	65,049,672	-	65,049,672
Wholesale activities	141,110,291	42,031,098	183,141,389
Other sales	3,684,688	74,125	3,758,813
Total Sales	213,762,843	45,658,955	259,421,798
Work performed by the entity and capitalized			7,981,686
Increase in inventories of finished goods and work in progress			(3,102,098)
Other operating income			134,455
Total Operating Income			264,435,841

Year ended 31 December 2012

	Domestic market	Export and international sales	Total
Sale of crude oil	-	4,917,362	4,917,362
Sale of gas	17,814,542	-	17,814,542
Through a retail network	-	-	-
Wholesale activities	17,814,542	-	17,814,542
Sale of petroleum products	180,236,111	19,506,780	199,742,891
Through a retail network	58,062,240	-	58,062,240
Wholesale activities	122,173,871	19,506,780	141,680,651
Other sales	3,765,950	364,840	4,130,790
Total Sales	201,816,603	24,788,982	226,605,585
Work performed by the entity and capitalized			5,614,382
Increase in inventories of finished goods and work in progress			1,664,825
Other operating income			198,683
Total Operating Income			234,083,475

Out of 183,141,389 RSD (31. December 2012: 141,680,651 RSD) revenue from sale of petroleum products (wholesale), the revenue in amount 35,132,534 RSD (2012: 9,258,368 RSD) are derived from a single domestic customer HIP Petrohemija in restructuring (note 39). These revenues are attributable to wholesale activities within Downstream segment.

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 213,762,843 (2012: RSD 201,816,603), and the total of revenue from external customer from other countries is RSD 45,658,955 (2012: RSD 24,788,982). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

Year ended 31 December

	2013	2012
Sale of crude oil	3,553,732	4,917,362
Sale of petroleum products (retail and wholesale)		
Romania	2,211,160	1,772
Bulgaria	3,588,807	636,603
BIH	6,766,474	4,590
All other markets	29,563,657	18,863,815
	42,031,098	19,506,780
Other sales	74,125	364,840
	45,658,955	24,788,982

6. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Research and development	Concessions, patents, licenses and rights	Intangible assets under development	Other intangibles	Total
As at 1 January 2012						
Cost	440,874	182,322	956,792	413,952	4,761,744	6,755,684
Accumulated amortization and impairment	-	-	(230,183)	(142,279)	(1,233,384)	(1,605,846)
Net book amount	440,874	182,322	726,609	271,673	3,528,360	5,149,838
Year ended 31 December 2012						
Opening net book amount	440,874	182,322	726,609	271,673	3,528,360	5,149,838
Additions	-	2,297,802	943,983	(219,589)	503,575	3,525,771
Acquisition through business combinations (note 37)	976,838	-	-	-	-	976,838
Transfer to PP&E (note 7)	-	1,786,149	-	251,012	8,465	2,045,626
Amortisation (note 29)	-	-	(98,928)	-	(598,925)	(697,853)
Impairment (note 34)	-	-	-	(86,459)	(691)	(87,150)
Disposals and write-offs	-	(107,758)	-	(212)	-	(107,970)
Other transfers	-	-	62,694	7,529	(81,882)	(11,659)
Translation differences	46,351	16,004	8,839	-	18	71,212
Closing net book amount	1,464,063	4,174,519	1,643,197	223,954	3,358,920	10,864,653
As at 31 December 2012						
Cost	1,464,063	4,174,519	1,973,896	429,983	5,190,478	13,232,939
Accumulated amortization and impairment	-	-	(330,699)	(206,029)	(1,831,558)	(2,368,286)
Net book amount	1,464,063	4,174,519	1,643,197	223,954	3,358,920	10,864,653
Year ended 31 December 2013						
Opening net book amount	1,464,063	4,174,519	1,643,197	223,954	3,358,920	10,864,653
Additions	-	4,617,256	192,340	(25,175)	599,472	5,383,893
Acquisition through business combinations (note 37)	543,457	-	36,932	-	258,671	839,060
Transfer from PP&E (note 7)	-	(68,610)	-	239,576	(7,481)	163,485
Amortisation (note 29)	-	-	(125,145)	-	(676,436)	(801,581)
Impairment (note 34)	(42,290)	-	-	(24,347)	-	(66,637)
Disposals and write-offs	-	(79,813)	-	(1,255)	-	(81,068)
Other transfers	-	(290,229)	(122,061)	66,013	77,259	(269,018)
Translation differences	(3,092)	17,367	427	110	10,302	25,114
Closing net book amount	1,962,138	8,370,490	1,625,690	478,876	3,620,707	16,057,901
As at 31 December 2013						
Cost	2,004,284	8,370,490	2,079,662	566,974	6,008,732	19,030,142
Accumulated amortization and impairment	(42,146)	-	(453,972)	(88,098)	(2,388,025)	(2,972,241)
Net book amount	1,962,138	8,370,490	1,625,690	478,876	3,620,707	16,057,901

Goodwill acquired through business combinations has been allocated to Downstream in amount RSD 543,457 related CGUs.

Research and development as at 31 December 2013 in the amount of RSD 8,370,490 (31. December 2012: RSD 4,174,519) mostly relate to investments in geological, 2D and 3D seismic explorations in the Balkan region and on the territory of the Republic of Serbia.

Other intangible assets as at 31 December 2013 amounting to RSD 3,620,707 mostly relate to investments in the SAP system of RSD 2,563,713 (2012: RSD 2,947,663).

Amortisation amounting to RSD 801,581 (2012: RSD 697,853) is included in Operating expenses within the Consolidated Income statement (note 29).

Impairment tests for goodwill

Goodwill is monitored by the management on an individual CGU basis. The recoverable amount of each CGUs has been determined by independent appraisal based on higher of value-in-use and fair value less cost to disposed calculations. The impairment charge of RSD 42,290 is recognized as expense in consolidated income statement (note 34). No class of asset other than goodwill was impaired except for physically demolished/obsolete assets.

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment
At 1 January 2012			
Cost	12,417,133	63,546,775	60,477,344
Accumulated depreciation and impairment	(695,565)	(24,435,060)	(35,063,390)
Net book amount	11,721,568	39,111,715	25,413,954
Year ended 31 December 2012			
Opening net book amount	11,721,568	39,111,715	25,413,954
Additions	2,290,754	28,442,115	35,954,224
Acquisitions through business combinations (note 37)	-	-	-
Other transfers	67,107	(117,352)	56,325
Disposals and write-offs	(1,631)	(361,368)	(40,369)
Depreciation (note 29)	-	(2,666,295)	(3,490,986)
Impairment charge (note 34)	-	(112,396)	(88,711)
Transfer to intangible assets (note 6)	-	-	-
Transfer to investment property (note 8)	(56,218)	(8,670)	-
Translation differences	90,868	5,605	3,612
Closing net book amount	14,112,448	64,293,354	57,808,049
At 31 December 2012			
Cost	14,805,244	91,305,601	95,827,534
Accumulated depreciation and impairment	(692,796)	(27,012,247)	(38,019,485)
Net book amount	14,112,448	64,293,354	57,808,049
Year ended 31 December 2013			
Opening net book amount	14,112,448	64,293,354	57,808,049
Additions	1,419,006	17,960,710	14,778,704
Acquisitions through business combinations (note 37)	1,497,423	2,218,078	630,849
Other transfers	-	4,448,114	(5,850,915)
Disposals and write-offs	(68,494)	(324,791)	(273,330)
Depreciation (note 29)	-	(3,932,662)	(6,132,465)
Impairment charge (note 34)	-	(232,661)	(15,856)
Transfer to intangible assets (note 6)	1,906	850,131	157,179
Transfer from investment property (note 8)	(3,696)	17,689	-
Translation differences	75,894	85,729	23,932
Closing net book amount	17,034,487	85,383,691	61,126,147
At 31 December 2013			
Cost	17,338,709	118,861,914	93,865,422
Accumulated depreciation and impairment	(304,222)	(33,478,223)	(32,739,275)
Net book amount	17,034,487	85,383,691	61,126,147

In 2013, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 111,522 (2012: RSD 1,879,931).

Machinery and equipment include the following amounts where the Group is a lessee under a finance lease:

	31 December 2013	31 December 2012
Cost capitalised - finance leases	149,696	153,401
Accumulated depreciation	(62,373)	(48,947)
Net book amount	87,323	104,454

Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
47,106,611	96,308	129,318	8,770,320	192,543,809
(2,981,943)	(5,020)	(123,897)	(21,418)	(63,326,293)
44,124,668	91,288	5,421	8,748,902	129,217,516
44,124,668	91,288	5,421	8,748,902	129,217,516
(22,217,784)	351	-	6,020,653	50,490,313
2,040,326	-	-	-	2,040,326
-	-	-	-	6,080
(1,670,441)	(722)	-	(12,314,738)	(14,389,269)
-	-	(3,128)	-	(6,160,409)
(1,656,219)	(616)	-	-	(1,857,942)
(2,045,626)	-	-	-	(2,045,626)
(51,342)	-	-	-	(116,230)
(158,275)	-	118	(10,011)	(68,083)
18,365,307	90,301	2,411	2,444,806	157,116,676
22,681,199	91,447	129,318	2,466,224	227,306,567
(4,315,892)	(1,146)	(126,907)	(21,418)	(70,189,891)
18,365,307	90,301	2,411	2,444,806	157,116,676
18,365,307	90,301	2,411	2,444,806	157,116,676
13,913,211	19	35,772	13,921,611	62,029,033
233,757	-	-	-	4,580,107
1,638,733	(14)	-	26,474	262,392
(1,021,574)	(26)	-	(9,931,133)	(11,619,348)
-	-	(5,279)	-	(10,070,406)
(65,442)	(101)	-	(8,402)	(322,462)
(1,173,216)	-	515	-	(163,485)
(11,248)	-	-	-	2,745
(790)	-	6,607	(2,193)	189,179
31,878,738	90,179	40,026	6,451,163	202,004,431
35,926,546	91,391	81,375	6,481,062	272,646,419
(4,047,808)	(1,212)	(41,349)	(29,899)	(70,641,988)
31,878,738	90,179	40,026	6,451,163	202,004,431

The management of the Group assesses at each reporting date whether there is an indication that the recoverable amount of property, plant and equipment fell below its book value.

As at 31 December 2013, the Group assessed impairment indicators of cash generating units ("CGU") and concluded that no indications of impairment or reversals of previously recognized impairment losses had been identified, except for physically demolished/obsolete assets.

In 2013 Group made impairment in amount of RSD 322,462 (2012: RSD 1,857,942) for demolished or obsolete assets, which value is greater than recoverable amount (note 34).

Oil and gas production assets

	Total – asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
At 1 January 2012				
Cost	5,776,676	48,208,255	129,810	54,114,741
Accumulated depreciation and impairment	(300,728)	(18,287,618)	(114,755)	(18,703,101)
Net book amount	5,475,948	29,920,637	15,055	35,411,640
Year ended 31 December 2012				
Opening net book amount	5,475,948	29,920,637	15,055	35,411,640
Additions	11,864,273	252	-	11,864,525
Transfer from assets other than O&G	794,081	-	-	794,081
Transfer from asset under construction	(6,082,728)	6,082,728	-	-
Other transfers	28,952	(216,715)	(1,374)	(189,137)
Impairment charge	(6,702)	(82,066)	(9)	(88,777)
Depreciation	(3,161)	(2,792,982)	(360)	(2,796,503)
Disposals and write-offs	(733,702)	(2,499)	-	(736,201)
Translation differences	24,837	249	-	25,086
Closing net book amount	11,361,798	32,909,604	13,312	44,284,714
At 31 December 2012				
Cost	11,669,985	53,371,094	123,953	65,165,032
Accumulated depreciation and impairment	(308,187)	(20,461,490)	(110,641)	(20,880,318)
Net book amount	11,361,798	32,909,604	13,312	44,284,714
Year ended 31 December 2013				
Opening net book amount	11,361,798	32,909,604	13,312	44,284,714
Additions	27,665,024	-	-	27,665,024
Transfer from asset under construction	(11,633,293)	11,633,274	19	-
Other transfers	(16,040)	(892,723)	(60)	(908,823)
Impairment	(33,163)	(77,107)	-	(110,270)
Depreciation	(3,160)	(3,031,956)	-	(3,035,116)
Disposals and write-offs	(819,569)	(2,106)	(27)	(821,702)
Translation differences	28,372	14	-	28,386
Closing net book amount	26,549,969	40,539,000	13,244	67,102,213
At 31 December 2013				
Cost	26,798,895	57,981,672	33,510	84,814,077
Accumulated depreciation and impairment	(248,926)	(17,442,672)	(20,266)	(17,711,864)
Net book amount	26,549,969	40,539,000	13,244	67,102,213

Oil and gas production assets comprise aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.11.).

8. INVESTMENT PROPERTY

Investment properties are valued at the reporting date at fair value representing the investment property market value.

Movements on the account were as follows:

	2012	2011
At 1 January	1,367,378	1,338,269
Fair value gains (note 33)	151,936	-
Fair value losses (note 34)	-	(17,716)
Transfer (to) from PP&E (note 7)	(2,745)	116,230
Transfer to non-current assets held for sale	6,424	(41,702)
Disposals	(108,483)	(27,670)
Other	(146)	(33)
At 31 December	1,414,364	1,367,378

As at 31 December 2013, investment properties amounting to RSD 1,414,364 (31 December 2012: RSD 1,367,378) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

The following lease amounts have been recognized in the income statement:

	Year ended 31 December	
	2013	2012
Rental income (note 26)	108,671	116,483

Fair value of investment properties

Valuation of the Group's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2013 and 2012. The revaluation surplus was credited to other income (note 33).

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value measurements at 31 December 2013 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Recurring fair value measurements</i>			
<i>Land and buildings</i>			
- Shops and other facilities for rents	-	772,952	-
- Flats	-	131,513	-
- Gas stations	-	-	509,899
Total	-	904,465	509,899

Valuation techniques used to derive level 2 fair values

Level 2 fair values of shops, flats and other facilities for rent have been derived using the sales comparison approach. Sales prices of comparable facilities in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

Fair value measurements using significant unobservable inputs (Level 3)

Level 3 fair values of gas stations have been derived using value-in-use approach where fair value of gas station is determined as the present value of future net benefits which will belong to the Group based on concluded long-term rental contracts. The most significant input into this valuation approach is rental price per gas station.

The key assumptions used for value-in-use calculations:

	2013	2012
Long term growth rate	0%	0%
Discount rate	12%	15%

9. INVESTMENTS IN EQUITY INSTRUMENTS

	31 December 2013	31 December 2012
Investments in joint venture	1,008,221	-
Financial assets available for sale	1,946,146	2,161,005
Less: Provision of financial assets available for sale	(1,745,485)	(1,983,325)
	1,208,882	177,680

Investments in joint venture in amount of RSD 1,008,221 relates to 50% of interest in Energowind doo, that Group has acquired in 2013 and which is intended to be used as a vehicle for operation of future wind farm "Plandiste" with installation of 34 wind generator with total capacity of 102 MW. The control over Energowind is divided equally between Group and Asporta Limited, Cyprus. On the date of the issuance of these Consolidated Financial Statements there were no business activities.

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

10. OTHER LONG-TERM INVESTMENTS

	31 December 2013	31 December 2012
Rescheduled receivables	1,426,540	3,371,014
Long-term loans to employees	1,083,093	1,259,637
Finance lease receivables	38,221	78,190
Other long-term financial assets	863,518	818,933
	3,411,372	5,527,774
<i>Less provision:</i>		
- rescheduled receivables	(1,426,540)	(3,371,014)
- finance lease receivables	(26,789)	(57,743)
- other long-term financial assets	(782,311)	(808,960)
	(2,235,640)	(4,237,717)
Total - net	1,175,732	1,290,057

(a) Rescheduled receivables

Rescheduled receivables as at 31 December 2013 relate to:

	Current portion	Long-term	Total
Rescheduled receivables			
- HIP Petrohemija Pancevo in restructuring	9,722,337	-	9,722,337
- RTB Bor	-	1,426,540	1,426,540
- Air Serbia	100,923	-	100,923
	9,823,260	1,426,540	11,249,800
<i>Less: provision</i>	(7,827,614)	(1,426,540)	(9,254,154)
Total - net	1,995,646	-	1,995,646

Carrying value of rescheduled receivables in amount of RSD 1,995,646 relates to HIP Petrohemija Pancevo in restructuring that are secured by a mortgage right over debtor's fixed assets.

Movements on rescheduled receivables provision:

	2013	2012
As at 1 January	(3,371,014)	(5,601,478)
Foreign exchange gains	353,003	108,503
Transfer to short-term financial investments (note 13)	1,591,471	2,121,961
As at 31 December	(1,426,540)	(3,371,014)

(b) Long-term loans to employees

Loans to employees as at 31 December 2013 amounting to RSD 1,083,093 (31 December 2012: RSD 1,259,637) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly installments.

The fair value of loans to employees is based on the cash flows discounted at market interest rate at which the Group could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 5.62% (2012: 5.56% p.a.).

The maximum exposure to credit risk at the reporting date is the nominal value of loans given to employees. This credit risk exposure is limited, as the monthly installments of these loans are withheld from employees' salaries.

11. INVENTORIES

	31 December 2013	31 December 2012
Raw materials	28,703,362	27,662,411
Spare parts	3,284,776	3,189,108
Tools	155,232	171,435
Work in progress	4,787,759	7,941,977
Finished goods	8,131,485	8,079,365
Merchandise	2,536,370	4,244,958
	47,598,984	51,289,254
Advances	799,547	1,220,357
<i>Less provision:</i>		
- for inventories	(6,939,003)	(7,394,952)
- for advances	(253,069)	(373,071)
	(7,192,072)	(7,768,023)
Total inventories - net	41,206,459	44,741,588

Movement on inventory provision is as follows:

	2013	2012
At 1 January	(7,768,023)	(8,186,585)
Provision for impaired inventories and advances charged for the year (note 34)	(155,623)	(17,771)
Provision reversed (note 33)	464,733	332,274
Write-off	131,230	9,235
Other	135,611	94,824
At 31 December	(7,192,072)	(7,768,023)

12. TRADE AND OTHER RECEIVABLES

	31 December 2013	31 December 2012
Trade receivables		
- domestic	51,741,406	44,432,556
- foreign	1,174,094	1,071,568
- related parties	12,274,150	7,312,560
	65,189,650	52,816,684
Receivables from specific operations	9,404,203	8,234,410
Interest receivables	10,419,050	5,954,781
Receivables from employees	87,210	84,788
Other receivables	7,498,570	7,474,290
	18,004,830	13,513,859
	92,598,683	74,564,953
<i>Less provision:</i>		
- trade receivables	(12,614,566)	(13,153,084)
- receivables from specific operations	(9,240,701)	(8,207,674)
- interest receivables	(10,368,122)	(5,865,999)
- other receivables	(7,338,502)	(7,327,912)
	(39,561,891)	(34,554,669)
Total receivables – net	53,036,792	40,010,284

The ageing of trade receivables is as follows:

	31 December 2013	31 December 2012
Up to 3 months	37,826,451	30,096,125
Over 3 months	27,363,199	22,720,559
	65,189,650	52,816,684

As at 31 December 2013 out of RSD 27,363,199 of overdue receivables (31 December 2012: RSD 22,720,559), trade receivables in amount of RSD 12,614,566 (31 December 2012: RSD 13,153,084) were fully provided for. The remaining amount of RSD 14,748,633 (31 December 2012: RSD 9,567,475) relates to a number of independent customers for whom management believes that will make payments in the near future. The ageing of receivables provided for is as follows:

	31 December 2013	31 December 2012
Up to 3 months	126,261	50,506
Over 3 months	12,488,305	13,102,578
	12,614,566	13,153,084

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

	31 December 2013	31 December 2012
RSD	90,829,534	73,392,968
USD	915,892	1,035,605
EUR	570,298	99,483
Other	282,959	36,897
	92,598,683	74,564,953

Movements on the Group's provision for impairment of trade receivables and other receivables are as follows:

	2013	2012
At 1 January	(34,554,669)	(25,646,948)
Provision for impaired receivables (note 34)	(5,279,291)	(10,440,076)
Written off	151,764	568,939
Unused amounts reversed (note 33)	1,157,773	962,839
Acquisition of subsidiary (note 37)	(74,294)	-
Other (direct provision)	(963,174)	577
At 31 December	(39,561,891)	(34,554,669)

Receivables that have been provided for or written off are included in other expenses/other income within the consolidated income statement (notes 33 and 34). The amounts charged to provision for impairment are written off when their collection is not expected.

13. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2013	31 December 2012
Short-term loans to employees	2,375	35,913
Current portion of long-term investments	9,913,994	7,898,604
Other short-term financial investments	66,430	3,672,397
	9,982,799	11,606,914
Less: provision	(7,828,061)	(5,820,939)
Total short-term financial investments – net	2,154,738	5,785,975

Current portions of long-term investments as at 31 December 2013 amounting to RSD 9,913,994 (31 December 2012: RSD 7,898,604) mainly relate to current portion of rescheduled receivables of RSD 9,823,260. They are provided for in the amount of RSD 7,827,614 (2012: RSD 5,820,065) (note 10).

Movements on the provision for short-term financial investments:

	2013	2012
At 1 January	(5,820,939)	(2,995,123)
Unused amounts reversed (note 33)	-	26,668
Transfer from other long-term investments (note 10a)	(1,591,471)	(2,121,961)
Foreign exchange differences and other movements	(415,651)	(730,523)
At 31 December	(7,828,061)	(5,820,939)

14. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Cash at bank	6,265,386	9,027,943
Cash in hand	463,191	288,987
Cash held on escrow account	1,651,099	2,678,075
Other cash equivalents	328,098	74,892
	8,707,774	12,069,897

15. VAT AND PREPAID EXPENSES

	31 December 2013	31 December 2012
Deferred input VAT	4,500,540	4,617,873
Prepaid expenses	136,118	100,557
Accrued revenue	1,375,644	2,272,918
Prepaid excise duty	1,364,295	1,319,866
Housing loans and other prepayments	1,470,681	1,287,677
	8,847,278	9,598,891

Deferred input VAT as at 31 December 2013 amounting to RSD 4,500,540 (31 December 2012: RSD 4,617,873) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty amounting to RSD 1,364,295 (31 December 2012: RSD 1,319,866) relates to the excise paid to the state for finished products stored in non-excise warehouse.

Accrued revenue as at 31 December 2013 amounting to RSD 1,375,644 (31 December 2012: RSD 2,272,918) mostly relates to receivables for current period sales of petroleum products in amount of RSD 1,353,844 that have not been invoiced by the year end.

16. DEFERRED TAX ASSETS AND LIABILITIES

	Carrying value of PP&E - vs Tax base
<i>Deferred tax liabilities</i>	
As at 1 January 2012	(1,164,054)
Origination and reversal of temporary differences	(677,931)
Impact on change in the tax rate	(580,256)
As at 31 December 2012	(2,422,241)
Origination and reversal of temporary differences	163,859
Acquisition of subsidiary (note 37)	(76,798)
Translation difference	(2,102)
As at 31 December 2012	(2,337,282)

	Provisions	Impairment loss	Investment credit	Total
<i>Deferred tax assets</i>				
As at 1 January 2012	103,534	668,654	7,103,291	7,875,479
Origination and reversal of temporary differences	95,820	(203,662)	1,634,556	1,526,714
Impact of change in the tax rate	51,767	334,327	-	386,094
As at 31 December 2012	251,121	799,319	8,737,847	9,788,287
Origination and reversal of temporary differences	57,168	(36,441)	(32,258)	(11,531)
As at 31 December 2013	308,289	762,878	8,705,589	9,776,756

The recognition of deferred tax assets was based on a five-year business plan of the Group and the actual results achieved to date which have given the management strong indications that the income tax credits carried forward will be utilised.

Investment credits represent 20% qualifying of capital investments made up to 31 December 2013 in accordance with tax legislation of the Republic of Serbia, which can be utilized in 10 years period as presented in below table.

Tax Credit Origination	Tax Credit Reversal	31 December 2013	31 December 2012
2006	2016	-	425,226
2007	2017	2,149,894	2,164,224
2008	2018	783,750	702,349
2009	2019	1,325,566	1,228,886
2010	2020	1,207,276	1,294,489
2011	2021	1,091,070	937,507
2012	2022	1,634,551	1,985,166
2013	2023	513,482	-
		8,705,589	8,737,847

17. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2013	31 December 2012
Issued warranties and bills of exchange	44,546,397	44,671,748
Received warranties and bills of exchange	34,202,644	24,593,773
Properties in ex-Republics of Yugoslavia	5,357,690	5,424,642
Receivables from companies from ex-Yugoslavia	5,103,758	5,290,900
Third party merchandise in NIS warehouses	4,315,685	4,179,338
Assets for oil fields liquidation in Angola	638,286	422,341
	94,164,460	84,582,742

18. EQUITY

		Equity attributable to		
	Note	Share capital	Other capital	Reserves
Balance as at 1 January 2012		81,530,200	5,597,873	884,368
Profit for the period		-	-	-
Losses from securities		-	-	-
Other		-	-	(15,488)
Balance as at 31 December 2012		81,530,200	5,597,873	868,880
Profit for the year		-	-	-
Gains from securities		-	-	-
Other transfers	2.23,2.24	-	(5,597,873)	(889,424)
Dividend distribution		-	-	-
Actuarial losses	19	-	-	-
Other		-	-	(17,746)
Balance as at 31 December 2013		81,530,200	-	(38,290)

*Neither the loss attributable to the minority shareholders in the amount of RSD 25,534 (2012: RSD 19,734) is presented in the Consolidated Income Statement nor the amount of the translation reserves in the Consolidated Statement of Changes in Equity due to limitations in prescribed format of Consolidated Financial Statements.

A dividend in respect of the year ended 31 December 2012 of RSD 75.83 per share, amounting to a total dividend of RSD 12,364,129 is approved by the General Assembly Meeting and settled during August 2013.

18.1. Share Capital

Share capital represents share capital of the Company, which is listed on Belgrade Stock Exchange. Par value per share is 500 RSD.

Share capital as of 31 December 2013 and 31 December 2012 comprise of 163,060,400 of ordinary shares.

owners of the Group

Unrealised gains (losses) from securities	Retained Earnings (loss)	Total	Non-controlling interest	Total equity
(34,508)	(370,084)	87,607,849	3,491	87,611,340
-	45,552,345	45,552,345	(19,734)	45,532,611
(40,020)	-	(40,020)	-	(40,020)
-	3,080	(12,408)	(863)	(13,271)
(74,528)	45,185,341	133,107,766	(17,106)	133,090,660
-	48,373,230	48,373,230	(25,534)	48,347,696
14,643	-	14,643	-	14,643
-	6,487,297	-	-	-
-	(12,364,129)	(12,364,129)	-	(12,364,129)
-	(114,418)	(114,418)	-	(114,418)
-	(2,830)	(20,576)	(778)	(21,354)
(59,885)	87,564,491	168,996,516	(43,418)	168,953,098

19. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Asset retirement obligation	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2012	7,266,813	1,012,100	3,295,681	-	1,797,057	13,371,651
Charged to Income statement (note 29 and 32)	836,334	24,000	787,369	1,042,855	-	2,690,558
Adjustments on property, plant and equipment	(82,397)	-	-	-	-	(82,397)
Release of provision (note 33)	(47,643)	-	(887,109)	-	(827,581)	(1,762,333)
Settlement	(1,021)	(174,717)	(195,421)	-	(155,430)	(526,589)
As at 31 December 2012	7,972,086	861,383	3,000,520	1,042,855	814,046	13,690,890
Charged to Income statement (note 29 and 32)	589,423	195,000	17,535	521,427	381,063	1,704,448
Actuarial loss (note 18)	-	-	114,418	-	-	114,418
Adjustments on property, plant and equipment	962,855	-	-	-	-	962,855
Release of provision (note 33)	(303,653)	(112,395)	(451,170)	-	-	(867,218)
Settlement	(157,673)	(253,894)	(135,497)	(42,201)	(37,857)	(627,122)
Other	-	-	5,881	-	-	5,881
As at 31 December 2013	9,063,038	690,094	2,551,687	1,522,081	1,157,252	14,984,152

(a) *Asset retirement obligation*

Management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells based on previous experience in similar projects. Based on changes in estimate, additional provision for asset retirement of active wells for the year ended 31 December 2013 in amount of RSD 962,855 is recognised against property, plant and equipment.

(b) Environmental protection

In accordance with the applicable laws, the Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 690,094 (2012: RSD 861,383) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) Long-term incentive program

In 2011, the Group started setting-up a long-term incentive program for Group managers. Following the program's approval, cash incentives will be paid out based on the Key Performance Indicators ("KPI") reached over a three-year period. As at 31 December 2013 the management made an assessment of present value of liabilities related to long-term employee incentives in amount of RSD 1,522,081 (2012: RSD 1,042,855) (note 29).

(d) Legal claims provisions

As at 31 December 2013, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses based on the information provided by the Legal department. The Group charged provision for litigation amounting to RSD 381,062 (reversed in 2012: RSD 827,581) for proceedings which were assessed to have negative outcome. The Group estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2013.

(e) Employee benefits provision

Employee benefits:

	31 December 2013	31 December 2012
Retirement allowances	703,726	836,998
Jubilee awards	1,847,961	2,163,522
	2,551,687	3,000,520

The principal actuarial assumptions used were as follows:

	31 December 2013	31 December 2012
Discount rate	6.30%	7.65%
Future salary increases	5.50%	6.00%
Future average years of service	14.84	19.79

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2012	1,036,927	2,258,754	3,295,681
Benefits paid directly	(74,023)	(121,398)	(195,421)
Charged (credited) to the income statement	(125,906)	26,166	(99,740)
Balances as at 31 December 2012	836,998	2,163,522	3,000,520
Benefits paid directly	(59,174)	(76,323)	(135,497)
Actuarial loss charged directly to equity (note 18)	114,418	-	114,418
Credited to the income statement	(194,397)	(239,238)	(433,635)
Acquisition of new subsidiary (note 37)	4,722	-	4,722
Exchange differences	1,159	-	1,159
Balances as at 31 December 2013	703,726	1,847,961	2,551,687

The amounts recognized in the Consolidate Income Statement are as follows:

	Year ended 31 December	
	2013	2012
Current service cost	230,536	247,621
Interest costs	220,805	235,246
Curtailment gain	(357,007)	488,948
Actuarial losses	-	(843,615)
Amortization of past service cost	(527,969)	(227,940)
	(433,635)	(99,740)

20. LONG-TERM BORROWINGS

	31 December 2013	31 December 2012
Domestic	12,048,569	14,627,940
Foreign	25,899,734	17,006,229
	37,948,303	31,634,169
Current portion of long-term borrowings (note 22)	(22,264,141)	(533,466)
Total	15,684,162	31,100,703

The maturity of non-current borrowings was as follows:

	31 December 2013	31 December 2012
Between 1 and 2 years	2,926,308	22,184,094
Between 2 and 5 years	6,871,962	2,405,694
Over 5 years	5,885,892	6,510,915
	15,684,162	31,100,703

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	31 December 2013	31 December 2012
USD	28,343,857	19,607,409
EUR	8,961,940	9,269,068
RSD	280,783	2,281,108
JPY	361,723	476,584
	37,948,303	31,634,169

The fair value of non-current borrowings and their carrying amounts are equal.

The Group repays borrowings in accordance with agreed dynamics, i.e. determined annuity plans. The Group agreed both fixed and floating interest rates with the creditors. Floating interest rates are connected with Euribor and Libor.

Management expects that the Group will be able to fulfil its obligations within agreed timeframe.

The carrying amounts of the Group's long-term borrowings as at 31 December 2013 and 31 December 2012 are presented in the table below:

Creditor	Currency	31 December 2013	31 December 2012
<i>Domestic long-term loans</i>			
Erste bank, Novi Sad	USD	279,719	301,856
Erste bank, Novi Sad	EUR	454,900	469,403
Postanska stedionica, Belgrade	EUR	225,341	236,111
Postanska stedionica, Belgrade	USD	1,526,400	1,670,920
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,459,990	4,670,317
Vojvodjanska bank, Novi Sad	RSD	-	1,000,000
UniCredit bank, Belgrade	USD	4,821,436	4,998,225
UniCredit bank, Belgrade	RSD	278,900	1,278,900
Other loans	RSD	1,883	2,208
		12,048,569	14,627,940
<i>Foreign long-term loans</i>			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	518,612	565,419
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	361,723	476,584
Erste bank, Holland	EUR	3,439,263	3,411,549
Erste bank, Holland	USD	5,403,333	-
VUB (Bank Intesa), Slovakia	USD	8,312,820	8,617,630
NBG bank, London	USD	2,493,846	6,307
NBG bank, London	EUR	-	102,324
Alpha bank, London	USD	3,325,128	1,723,526
Piraeus bank, Great Britain	USD	1,662,563	1,723,526
Neftegazovaja Inovacionnaja Korporacija, Rusija	EUR	382,446	379,364
		25,899,734	17,006,229
Less current portion of long-term borrowings		(22,264,141)	(533,466)
		15,684,162	31,100,703

	Currency	Current portion			Long-term
		31 December	31 December	31 December	31 December
		2013	2012	2013	2012
Domestic long-term loans					
Erste bank, Novi Sad	USD	13,070	11,881	266,649	289,975
Erste bank, Novi Sad	EUR	20,972	18,169	433,928	451,234
Postanska stedionica, Belgrade	EUR	12,148	12,586	213,193	223,525
Postanska stedionica, Belgrade	USD	82,030	88,550	1,444,370	1,582,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	248,267	246,267	4,211,723	4,424,050
Vojvodjanska bank, Novi Sad	RSD	-	-	-	1,000,000
UniCredit bank, Belgrade	USD	4,821,436	-	-	4,998,225
UniCredit bank, Belgrade	RSD	278,900	-	-	1,278,900
Other loans	RSD	369	390	1,514	1,818
		5,477,192	377,843	6,571,377	14,250,097
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	30,197	27,790	488,415	537,629
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	16,978	19,202	344,745	457,382
Erste bank, Holland	EUR	3,439,263	-	-	3,411,549
Erste bank, Holland	USD	-	-	5,403,333	-
VUB (Bank Intesa), Slovakia	USD	8,312,820	-	-	8,617,630
NBG bank, London	USD	-	6,307	2,493,846	-
NBG bank, London	EUR	-	102,324	-	-
Alpha bank, London	USD	3,325,128	-	-	1,723,526
Piraeus bank, Great Britain	USD	1,662,563	-	-	1,723,526
Neftegazovaja Inovacionnaja Korporacija, Rusija	EUR	-	-	382,446	379,364
		16,786,949	155,623	9,112,785	16,850,606
		22,264,141	533,466	15,684,162	31,100,703

21. OTHER LONG-TERM LIABILITIES

	31 December 2013	31 December 2012
Liabilities to Gazprom Neft	50,655,813	55,536,844
Finance lease liabilities	107,689	57,626
Other long-term liabilities	40,486	14,003
	50,803,993	55,608,473
Current portion of other long-term liabilities and financial lease (note 22)	(5,354,272)	(5,325,366)
	45,449,716	50,283,107

(a) Liabilities to Gazprom Neft

As at 31 December 2013, other long-term liabilities to Gazprom Neft amounting to RSD 50,655,813 (EUR 441,860,471) relate to borrowings from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares concluded on 24 December 2008. Under this agreement, Gazprom Neft shall grant loans for financing a EUR 500 million reconstructions and modernization of the technology complex programme in Refinery Pančevo which is finalized during 2012. The stated liabilities shall be settled in quarterly installments starting from December 2012 until 15 May 2023.

(b) Finance lease liabilities

Minimum finance lease payments:

	31 December 2013	31 December 2012
Less than one year	43,614	38,584
1-5 years	97,277	21,974
More than 5 years	382,499	-
Future finance charges on finance leases	(415,701)	(2,932)
Present value of finance lease liabilities	107,689	57,626

	31 December 2013	31 December 2012
Less than one year	22,081	36,144
1-5 years	13,697	21,482
More than 5 years	71,911	-
Present value of finance lease liabilities	107,689	57,626

22. SHORT-TERM FINANCIAL LIABILITIES

	31 December 2013	31 December 2012
Short-term loans	300,000	3,500,000
Current portion of long-term loans (note 20)	22,264,141	533,466
Current portion of finance lease (note 21)	22,081	36,144
Current portion of other long-term liabilities (note 21)	5,332,191	5,289,222
Other short-term liabilities	29	526
	27,918,442	9,359,358

23. TRADE AND OTHER PAYABLES

	31 December 2013	31 December 2012
Advances received	892,243	962,634
Trade payables:		
- domestic	6,569,216	3,182,614
- foreign	2,627,565	2,859,806
Trade payables - Gazprom Neft	9,338,240	-
Trade payables - other related parties	30,096,552	25,995,092
Liabilities from other operations	70,757	71,852
Liabilities from specific operations	332,512	294,221
	49,927,085	33,366,219

As at 31 December 2013 payables to other related parties amounting to RSD 30,096,552 (31 December 2012: RSD 25,995,092) mainly relate to liabilities to Gazprom Neft Trading, Austria for supplying of crude oil in the amount of RSD 28,139,826 (31 December 2012: RSD 25,464,826).

24. OTHER SHORT-TERM LIABILITIES

	31 December 201	31 December 2012
Liabilities for unpaid wages and salaries, gross	56,111	1,962,078
Liabilities for interest – domestic	520,438	350,859
Liabilities for dividends	3,772,308	3,772,308
Unused holiday accrual	572,420	813,329
Other liabilities	11,933	63,782
	4,933,210	6,962,356

25. LIABILITIES FOR VAT, OTHER TAXES AND DEFERRED INCOME

	31 December 2013	31 December 2012
Liabilities for VAT	517,592	580,897
Liabilities for excise	4,312,273	2,563,776
Liabilities for taxes and custom duties	3,050,302	4,548,742
Other liabilities for taxes and contributions	210,774	220,147
Accrued liabilities	2,361,412	1,590,555
Other accruals	2,360,160	2,583,871
	12,812,513	12,087,988

Accrued liabilities as at 31 December 2013 amounting to RSD 2,361,412 mainly relate to estimated costs of services rendered but not invoiced by suppliers (31 December 2012: RSD 1,590,555).

Other accruals as at 31 December 2013 amounting to RSD 2,360,160 (31 December 2012: RSD 2,583,871) mainly relate to accrued employee bonuses of RSD 1,652,748 (31 December 2012: RSD 1,418,102).

26. OTHER OPERATING INCOME

	Year ended 31 December	
	2013	2012
Rental income	108,671	116,483
Other operating income	25,784	82,200
	134,455	198,683

27. RAW MATERIAL AND CONSUMABLES USED

	Year ended 31 December	
	2013	2012
Costs of raw materials	131,065,580	88,092,425
Overheads and other costs	1,197,051	770,566
Other fuel and energy expenses	3,296,359	2,783,467
	135,558,990	91,646,458

28. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December	
	2013	2012
Wages and salaries (gross)	15,349,007	16,789,491
Taxes and contributions on wages and salaries paid by employer	2,394,753	2,618,554
Costs of special service agreements	666,003	485,606
Cost of other temporary service agreements	65,641	44,758
Fees paid to board of directors and general assembly board	72,666	35,216
Termination cost	3,375,478	3,642,744
Other personal expenses	1,689,136	1,306,364
	23,612,684	24,922,733

Termination costs amounting to RSD 3,642,744 mainly relate to costs incurred in relation to voluntary leave programme. The total number of employees who accepted termination of employment in 2012 was 1,701 (2011: 1,192 employees).

	Year ended 31 December	
	2012	2011
Average number of employees	7,629	9,004

29. DEPRECIATION, AMORTISATION AND PROVISION

	Year ended 31 December	
	2013	2012
Depreciation expenses (notes 6 and 7)	10,871,987	6,858,262
Provision for:		
- land reclamation and environmental protection (note 19)	429,780	523,999
- employee benefits and long-term incentive program (note 19)	538,962	1,830,224
- provision for legal cases (note 19)	381,063	-
	12,221,792	9,212,485

30. OTHER OPERATING EXPENSES

	Year ended 31 December	
	2013	2012
Cost of production services	1,839,254	1,971,608
Transportation services	2,519,454	1,711,607
Maintenance	2,072,722	1,442,374
Rental costs	1,190,167	662,895
Fairs	5,917	4,459
Advertising costs	755,081	550,570
Research costs	786,216	759,226
Cost of other services	1,327,188	965,822
Costs of non-production services	6,074,329	3,427,917
Representation costs	152,509	125,626
Insurance premium	305,264	225,371
Bank charges	254,017	214,311
Cost of custom duties, property taxes and other taxes	1,808,706	1,973,586
Fee for emergency situations	-	288,517
Mineral extraction tax	2,472,792	2,782,327
Cost of legal and consulting services	136,640	128,911
Administrative and other taxes	263,500	193,630
Other	1,059,277	882,946
	23,023,033	18,311,703

Cost of non-production services for the year ended 31 December 2013 amounting to RSD 6,074,329 (2012: RSD 3,427,917) mainly relate to costs of service organizations of RSD 4,028,730, consulting service costs of RSD 557,920, project management costs of RSD 246,218 and certification and supervision costs of RSD 177,860.

31. FINANCE INCOME

	Year ended 31 December	
	2013	2012
Interest income	5,539,711	3,051,043
Foreign exchange gains	2,741,841	6,903,746
Other finance income	14,128	9,645
	8,295,680	9,964,434

32. FINANCE EXPENSES

	Year ended 31 December	
	2013	2012
Finance expenses – Gazprom Neft	1,224,655	124,225
Interest expenses	2,163,134	1,604,224
Amortization of long-term liabilities	354,643	336,335
Foreign exchange losses	931,479	13,906,949
Other finance expenses	47	2,555
	4,673,958	15,974,288

33. OTHER INCOME

	Year ended 31 December	
	2013	2012
Gains on disposal:		
- property, plant and equipment	109,012	136,304
- materials	20,118	14,514
Surpluses from stock count	385,145	382,164
Payables written off	274,630	558,983
Release of long-term provisions (note 19)	867,218	1,762,333
Penalty interest	523,261	46,889
Effects of valuation of assets		
- property, plant and equipment	143	2,881
- investment property (note 8)	151,936	-
- inventories (note 11)	455,074	322,555
- advances paid	9,659	9,719
- short-term financial investments (note 13)	-	26,668
- receivables (note 12)	1,157,773	962,839
- other properties	190,629	8,646
Other	491,346	525,133
	4,635,944	4,759,628

34. OTHER EXPENSES

	Year ended 31 December	
	2013	2012
Losses on disposal of property, plant and equipment	647,458	386,882
Shortages	1,074,362	786,415
Write off of receivables	26,790	40,621
Write off of inventories	79,550	131,407
Fines, penalties and damages	50,340	22,529
Humanitarian services and sponsorships	180,473	162,704
<i>Impairment:</i>		
- intangible assets (note 6)	66,637	87,150
- property, plant and equipment (note 7)	322,462	1,857,942
- investment property (note 8)	-	17,716
- other long-term investments	6,493	2,504
- inventories (note 11)	139,379	5,434
- advances paid (note 11)	16,244	12,337
- receivables (note 12)	5,279,291	10,440,076
Other	547,595	695,015
	8,437,074	14,648,732

35. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2013	2012
Income tax for the year	6,195,055	2,591,542
Deferred income tax for the period (note 16)		
Origination and reversal of temporary differences	(152,328)	(848,783)
Impact of change in the tax rate	-	194,162
	(152,328)	(654,621)
	6,042,727	1,936,921

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Group's profits as follows:

	Year ended 31 December	
	2013	2012
Profit before tax	54,390,423	47,469,532
Tax calculated at domestic tax rates applicable to profits in the respective countries	8,793,869	4,746,953
<i>Tax effect on:</i>		
Expenses not deductible for tax purposes	154,030	966,676
Deferred tax credits	9,701	(1,634,556)
Tax losses for which no deferred income tax asset was recognised	-	240,728
Utilized tax credits	(3,012,616)	(2,577,042)
Impact of change in the tax rate	-	194,162
	5,944,984	1,936,921
Adjustment in respect of prior years	97,743	-
	6,042,727	1,936,921
Effective income tax rate	11.11%	4.08%

36. EARNINGS PER SHARE

	Year ended 31 December	
	2013	2012
Profit attributable to shareholders of Naftna Industrija Srbije	48,373,230	45,552,345
Weighted average number of ordinary shares in issue	163,060,400	163,060,400
Basic Earnings per share	0.297	0.279

37. BUSINESS COMBINATIONS

Acquisition of petrol stations

In 2013, as a part of regional expansion the Group has acquired 3 petrol stations (PS), one in Bulgaria and two in Romania. As a result of the acquisitions, the Group is expected to further increase its presence in these markets.

Name of acquiree	Date of acquisition	Percentage of equity interests acquired
<i>Bulgaria</i>		
PS Lovech	07/03/2013	100%
<i>Romania</i>		
PS Arad	26/04/2013	100%
PS Ovidiu SA	30/07/2013	100%

The following table summarises the consideration paid for acquired PS in the year ended 31 December 2013, the fair value of assets acquired and liabilities assumed.

	Year ended 31 december 2013		
	Bulgaria	Romania	Total
Purchase consideration:			
Cash paid	122,626	189,810	312,436
Additional consideration	2,839	-	2,839
Total purchase consideration	125,465	189,810	315,275
Fair value of net identifiable assets acquired	115,153	91,362	206,515
Goodwill	10,312	98,448	108,760

Amounts recognized as at acquisition date for each major class of assets acquired and liabilities assumed:

	Bulgaria	Romania	Total
Inventory	-	231	231
Property, plant and equipment	115,153	91,131	206,284
Net identifiable assets acquired	115,153	91,362	206,515

The acquisition agreements include only acquisition of properties of PS and do not contain any contingent consideration.

The following table summarises the consideration paid for acquired PS in the year ended 31 December 2012, the fair value of assets acquired and liabilities assumed:

	Year ended 31 december 2013			
	Bulgaria	Romania	BIH	Total
Purchase consideration:				
Cash paid	1,618,147	1,008,286	338,607	2,965,040
Additional consideration	42,660	-	958	43,618
Total purchase consideration	1,660,807	1,008,286	339,565	3,008,658
Fair value of net identifiable assets acquired	1,174,892	517,363	348,456	2,040,711
Goodwill	485,915	490,923	-	976,838
Gain on bargain purchase	-	-	(8,891)	(8,891)

Amounts recognized as at acquisition date for each major class of assets acquired and liabilities assumed

	Bulgaria	Romania	BIH	Total
Inventory	-	385	-	385
Property, plant and equipment	1,174,892	516,978	348,456	2,040,326
Net identifiable assets acquired	1,174,892	517,363	348,456	2,040,711

Acquisitions of OMV BH

On 28 February 2013, the Group acquired 100% of the share capital and obtain control of OMV BH for 3,623,811 RSD, which operates through chain of 28 PS in Bosnia and Hercegovina. As a result of the acquisition, the Group is expected to increase it's presence in this market.

The following table summarises the consideration paid for OMV BH, the fair value of assets acquired and liabilities assumed at the acquisition date.

	As at the acquisition date (28 February 2013)	
Assets		
Current assets		1,013,302
Property, plant and equipment		4,373,823
Intangible assets other than goodwill		295,603
Other non-current assets		66,912
Total assets acquired		5,749,640
Liabilities		
Current liabilities		(314,252)
Non-current liabilities		(2,246,274)
Total liabilities assumed		(2,560,526)
Total identifiable net assets		3,189,114
Total consideration transferred in cash		3,623,811
Goodwill		434,697

38. GROUP ENTITIES

The financial statements of below listed subsidiaries are consolidated as at 31 December 2013 and 31 December 2012:

Subsidiary	Country of incorporation	Share %	
		31 December 2013	31 December 2012
O Zone a.d. Belgrade	Serbia	100	100
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	100	100
NIS Petrol SRL, Bucharest	Romania	100	100
Pannon naftagas Kft, Budapest	Hungary	100	100
NIS Oversiz, Sankt Petersburg	Russia	100	100
Naftagas-naftni servisi d.o.o., Novi Sad	Serbia	100	100
NTC NIS-Naftagas d.o.o., Novi Sad	Serbia	100	100
Naftagas-tehnicki servisi d.o.o., Zrenjanin	Serbia	100	100
Naftagas-Transport d.o.o., Novi Sad	Serbia	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	100	-
Jadran - Naftagas d.o.o., Banja Luka	Bosnia and Herzegovina	66	66
Ranis, Moscow region (in liquidation)	Russia	51	51
Jubos, Bor	Serbia	51	51
Svetlost, Bujanovac, Serbia	Serbia	51	51

39. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The majority owner of the Group is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Group. The total of 29.87% shares of the Group (from the remaining 43.85%) are owned by the Republic of Serbia, while 13.98% are owned by non-controlling shareholders and are quoted on the Belgrade Stock Exchange. Gazprom, Russian Federation is the ultimate owner of the Group.

During 2013 and 2012, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to the supply/delivery of crude oil, geophysical research and interpretation services.

As of 31 December 2013 and 31 December 2012 the outstanding balances with related parties were as follows:

	Joint venture	Parent	Entities under common control	Total
As at 31 December 2013				
Investment in equity instruments	1,008,221	-	-	1,008,221
Inventories	-	-	24,219,102	24,219,102
Trade and other receivables	11,385	-	3,537	14,922
Other long-term liabilities	-	(45,323,622)	-	(45,323,622)
Short-term financial liabilities	-	(5,332,191)	-	(5,332,191)
Trade and other payables	-	(9,338,240)	(28,585,094)	(37,923,334)
Liabilities for VAT, other taxes and deferred income	-	-	(1,725)	(1,725)
	1,019,606	(59,994,053)	(4,364,180)	(63,338,627)
As at 31 December 2012				
Inventories	-	-	22,174,560	22,174,560
Trade and other receivables	-	-	4,960	4,960
VAT and prepaid expenses	-	-	20	20
Other long-term liabilities	-	(50,247,622)	-	(50,247,622)
Short-term financial liabilities	-	(5,289,222)	-	(5,289,222)
Trade and other payables	-	-	(25,475,054)	(25,475,054)
Other short-term liabilities	-	(115,203)	-	(115,203)
	-	(55,652,047)	(3,295,514)	(58,947,561)

For the year ended 31 December 2013 and 2012 the following transaction occurred with related parties:

	Joint venture	Parent	Entities under common control	Total
Year ended 31 December 2013				
Sales	-	-	92,553	92,553
Cost of goods sold	-	-	(17,245)	(17,245)
Raw material and consumables used	-	-	(114,209,629)	(114,209,629)
Other operating expenses	-	(45,889)	-	(45,889)
Finance expenses	-	(1,224,655)	-	(1,224,655)
Other income	-	-	297,244	297,244
Other expenses	-	(4,437)	(634,721)	(639,158)
	-	(1,274,981)	(114,471,798)	(115,746,779)
Year ended 31 December 2012				
Sales	-	-	124,793	124,793
Costs of goods sold	-	-	(12,625)	(12,625)
Raw material and consumables used	-	-	(67,725,252)	(67,725,252)
Other operating expenses	-	(52,068)	-	(52,068)
Finance expenses	-	(124,225)	-	(124,225)
Other income	-	-	119,192	119,192
Other expenses	-	(4,664)	(264,904)	(269,568)
	-	(180,957)	(67,758,796)	(67,939,753)

Key management compensation

Management compensation paid in 2013 and 2012 is shown in the table below:

	Year ended 31 December	
	2013	2012
Salaries and other short-term benefits	404,298	316,118
	404,298	316,118

Main transactions with state owned companies

	31 December 2013	31 December 2012
<i>Receivables - gross</i>		
HIP Petrohemija in restructuring	12,284,032	7,307,595
Srbijagas	27,124,438	23,573,467
	39,408,470	30,881,062
<i>Liabilities</i>		
HIP Petrohemija in restructuring	(1,534,730)	(523,563)
Srbijagas	(230,099)	(85,682)
	(1,764,829)	(609,245)
<i>Advances received</i>		
HIP Petrohemija in restructuring	(7,112)	(7,743)
Srbijagas	(12,806)	(12,806)
	(19,918)	(20,549)

	Year ended 31 December	
	2013	2012
<i>Operating income</i>		
HIP Petrohemija in restructuring	35,132,534	9,258,368
Srbijagas	2,176,974	17,902,669
	37,309,508	27,161,037
<i>Operating expenses</i>		
HIP Petrohemija in restructuring	(30,266)	(146,097)
Srbijagas	(1,080,394)	(1,675,633)
	(1,110,660)	(1,821,730)

40. CONTINGENT LIABILITIES

Transfer of property ownership

As at 31 December 2013, the Company had ownership of 6,731 properties and the right to use and possess 1,145 properties, which represent up 83% and 14% of the total Company properties (buildings and land), respectively.

The Republic of Serbia being the seller shall be obliged, under the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., to provide a written consent to make the transfer of the Group's total immovable property registered within the NIS Registry of Fixed Assets as at 31 December 2007.

Finance Guarantees

As at 31 December 2013 the total amount of outstanding finance guarantees given by the Group amounted to RSD 3,406,797 mostly related to customs duties in the amount of RSD 2,192,400 (2012: RSD 2,403,960).

Other contingent liabilities

As at 31 December 2013, the Group did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Group has to pay the difference in tax calculation of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Group's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit Oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Group's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed three years ago. Taking all of the above into consideration, the Group's Management is of the view that as at 31 December 2013 outflow of resources embodying economic benefits is remote due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

41. TAX RISKS

Tax laws of Republic of Serbia are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. The tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years from the transaction date. As at 31 December 2013, Management assessed that the Group had paid all tax liabilities.

42. COMMITMENTS

Leases

Minimum lease payments under non-cancellable operating lease by lessor:

	31 December 2013	31 December 2012
Less than one year	230,006	186,118
1-5 years	349,778	247,826
Over five years	484,875	944
	1,064,659	434,888

Minimum lease payments under non-cancellable operating lease by lessee:

	31 December 2013	31 December 2012
Less than one year	588,323	460,388
1-5 years	719,661	387,249
Over five years	489,029	-
	1,797,013	847,637

Farm-out agreement with East West Petroleum Corporation, Canada

In October 2011, the Group entered into a Farm-out agreement with East West Petroleum Corporation, Canada for exploration and production of hydrocarbons in the Timisoara region in Romania. Under the Contract, the Group shall finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, the Group will be entitled to 85% of the total production volume of hydrocarbons. Moreover, under the Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Group will act as the Operator and will be in charge of and shall conduct all Joint Operations. In December 2012 exploration licence for Block 2 was ratified by Romania Government. Exploration activities are underway. On 31 December 2013 drilling and exploration works for Block 2 were estimated to 13,68 USD million.

Farm-in agreement with RAG Hungary limited

In December 2011, the Group entered into a Farm-in agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kiskunhalas area in Hungary. Under the contract, the Group committed to finance 50% of total exploration costs on at least three oil wells in the area covered by the exploration license. Depending on success of the exploration, the Group will be entitled to 50% of total production volume of hydrocarbons. Under the Joint Operation Agreement signed with RAG Hungary Limited, RAG will act as the Operator and will be in charge of and shall conduct all Joint Operations. On 31 December 2013 drilling and exploration works were estimated to 1.2 USD million.

Call Option agreement with RAG Hungary limited

In December 2012, the Group entered into a Call Option agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kelebia area in Hungary. Under the agreement NIS has an option to become equal owner in a jointly owned company (JOC) together with Rag Hungary, Rag Kiha, which will hold the Kelebia Licence by becoming a 50 % quota holder in the JOC. On 31 December 2013 drilling and exploration works were estimated to 1.45 USD million.

Farm-out agreement with Zeta Petroleum S.R.L. Romania

In August 2012, the Group has entered into Farm-out agreement with Zeta Petroleum S.R.L Romania for exploration and production of hydrocarbons in Timis region in Romania. According to the Contract, the Group is committed to finance 51% of total exploration costs in the area covered by the exploration license. Depending on the success of exploration, the Group will be entitled to 51% of total production volume of hydrocarbons. Exploration activities are underway. On 31 December 2013 drilling and exploration works were estimated to 1 USD million.

Farm-out agreement with Moesia Oil and Gas PLC Ireland

In June 2012, the Group has entered into a Farm-out agreement with Moesia Oil and Gas PLC Ireland for exploration and production of hydrocarbons in Romania. According to the Contract, the Group is committed to finance sunk costs and 75% of total exploration costs of Phase 1 of the Programme. Depending on the success of exploration, the Group will be entitled to 50% of total production volume of hydrocarbons and committed to finance 50% of further exploration and production costs. Exploration activities were started in November 2012. On 31 December 2013 drilling and exploration works were estimated to 0.64 USD million.

Oil field service contract with Falcon Oil & Gas LTD

In January 2013, the Group entered into a Multi-well drilling exploration program with Falcon Oil & Gas Ltd. to target the shallower Algyö Formation in Hungary. Under the contract, the Group committed to drill three exploration wells targeting the shallow 'Algyö Play' reservoir covered by the Mako trough production license in the Pannonian Basin held by Falcon Oil & Gas limited, Hungary. Depending on success of the exploration, the Group will be entitled to

50% of any net production revenue from the three wells. On 31 December 2013 drilling and exploration works were estimated to 14.42 USD million.

43. EVENTS AFTER THE REPORTING PERIOD

During 2014 subsidiary Ranis, Moscow region is liquidated.

Subsequent events occurring after 31 December 2013 were evaluated through 18 February 2014, the date these Consolidated Financial Statements were authorised for issue.

Novi Sad, 18 February 2014

**The person responsible for the preparation
of financial statements**

Anton Fyodorov

Legal representative

Kirill Kravchenko



STATEMENTS OF PERSONS RESPONSIBLE FOR PREPARATION OF ANNUAL REPORT

We hereby state that, to our best knowledge, the annual report has been prepared in compliance with the applicable international financial reporting standards, and also in compliance with the Law on Accounting and Auditing of the Republic of Serbia published in Official Gazette of the Republic of Serbia (no. 46/2006, 111/2009, 99/2011 – other law and 62/2013 – other law), which requires full scope of IFRS to be applied as well as the regulations issued by the Ministry of Finance of the Republic of Serbia¹ and that they show true and objective information on the property, obligations and financial position and operations, profits and losses, cash flows and changes in the equity of the public company, including subsidiaries encompassed by the consolidated statements.

Kirill Kravchenko
CEO
NIS j.s.c. Novi Sad

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- 1 Due to the difference between these two regulations, these financial statements differ from IFRS in the following respects:
- The financial statements are prepared in format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 – “Presentation of Financial Statements” requirements.
 - “Off-balance sheet assets and liabilities” are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.
 - Property, plant and equipment were measured at market value by independent appraisal and any revaluation reserves for the excess of fair value against historical value were cancelled against share capital as at 1 January 2006.

APPENDICES





GLOSSARY

2D	two-dimensional
3D	three-dimensional
ABSc	Assitant bachelor of Science
B&H	Bosnia and Herzegovina
BAM	Bosnian mark
bbl.	barrel
BGN	Bulgarian lev
Blic	Serbian daily newspaper
bn	billion
BoD	Board of Directors
BSc	Bachelor of Science
C.J.S.C	Closed joint-stock company
CAPEX	Capital expenditures
CEO	Chief Executive Officer
CFI	Clasification of Financial Instruments
CRM	Customer Relationship Management
D.Sc.	Doctor of Science
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EPS	Earnings per share
ES	Elementary school
EU	European Union
EUR	Euro
FC	Football club
FCC	Fluid catalytic cracker
FEST	Serbian Film Festival

GDP	Gross domestic product
GPN	"Gazprom Neft" j.s.c.
HS	High school
HSE	Health, Safety and Environment
HSW	Highly skilled worker
HUF	Hungarian forint
IMF	International Monetary Fund
IRMS	Integrated Risk Management System
ISIN	International Securities Identification Number
ISO	International Organization for standardization
IT	Information technology
JSC or j.s.c.	Joint-stock company
LLC or Llc.	Limited liabilities company
LPG	Liquid petroleum gas
LTD or Ltd.	Limited
m	million
M.Sc.	Master of Science
MHC/DHC	Mild hydrocracking and hydro treating
MIP	Mid-term Investmen Plan
MRP	Material requirement Planning
MT SS and CC	Material-technical ans service support and capital construction
MW	Mega watts
NBS	National Bank of Serbia
NMD	Normative metodological documents
NURDOR	National Association of Parents of Children with Cancer
o.j.s.c.	Open joint-stock company
OCF	Operating Cash Flow
OHSAS	Occupational Health & Safety Advisory Services
OPEX	Operating expenditures
P/BV	Price/Book Value
P/E	Price/EPS
PPE	Personal Protective Equipment
PSA	Production Sharing Agreement

PSA	Production Sharing Agreement
R&D	Research and development
RNP	Pančevo Refinery
RNS	Novi Sad Refinery
RON	Romanian new leu
RS	Republic of Serbia
RSD	Serbian dinar
RUB	Russian ruble
SAB	Shareholders' Assembly Board
SAM	Serbian Association of Managers
SBRA	Serbian Business Registries Agency
SEVESO	HSE Directive
SRPS	Designation of Standards and related documents issued by the Institute for Standardization of Serbia
SSW	Semi-skilled worker
SW	Skilled worker
t.o.e.	tons of oil equivalent
thou.	thousand
TPP	termal power plant
US	Unskilled worker
USA	United States of America
USD	US Dollar
VAT	Value added tax



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The information in this Annual Report includes forward-looking statements. These forward-looking statements include all matters that are not historical facts, statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, the Company's results of operations, financial condition, liquidity, prospects, growth, strategies, and the industry in which the Company operates. By their nature, forward-looking statements involve risks and uncertainties, including, without limitation, the risks and uncertainties to be set in other publicly available documents, because they relate to events and depend on circumstances that may or may not occur in the future. The Company cautions you that forward looking statements are not guarantees of future performance and that its actual results of operations, financial condition and liquidity and the development of the industry in which the Company operates may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if the Company's results of operations, financial condition and liquidity and the development of the industry in which the Company operates are consistent with the forward-looking statements contained in this presentation, those results or developments may not be indicative of results or developments in future periods. The information and opinions contained in this presentation are provided as at the date of this presentation and are subject to change without notice.



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