NAFTNA INDUSTRIJA SRBIJE A.D., Novi Sad

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2013
AND INDEPENDENT AUDITOR'S REPORT

pwc

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Naftna Industrija Srbije a.d., Novi Sad which comprise the balance sheet as of 31 December 2013 and the income statement, statement of changes in shareholder's equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes and the statistical annex.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Law on Accounting and Auditing of the Republic of Serbia („Official Gazette RoS" No. 46/2006 and 111/2009) and Law on Accounting of the Republic of Serbia („Official Gazette RoS" No. 61/2013) and Note 2 to these financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Naftna Industrija Srbije a.d., Novi Sad as of 31 December 2013, and of its financial performance and cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia („Official Gazette RoS" No. 46/2006 and 111/2009) and Law on Accounting of the Republic of Serbia („Official Gazette RoS" No. 61/2013) and Note 2 to these financial statements.

Milivoje Nesovic
Licensed Auditor

PricewaterhouseCoopers d.o.o. Beograd pwc

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 13 February 2014

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NIS A.D. – Naftna industrija Srbije
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(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET

ASSETS	Note	31 December 2013	31 December 2012
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
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 on pages 8 to 71 are an integral part of these financial statements.

This version of the financial statements is a translation from the original, which was prepared in the Serbian language. 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 information, views or opinions, the original Serbian language version of the document takes precedence over this translation

Financial statements for the year ended 31 December 2013
(All amounts are in RSD 000 unless otherwise stated)

INCOME STATEMENT

	Note	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 on pages 8 to 71 are an integral part of these financial statements.

Financial statements for the year ended 31 December 2013
(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF CASH FLOWS

	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
Cash inflow from operating activities	388,810,697	315,254,778
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)
Cash outflow from operating activities	(315,485,016)	(278,447,566)
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
Cash inflow from investing activities	1,058,821	1,585,407
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)
Cash outflow from investing activities	(64,024,826)	(54,690,781)
Net cash used in investing activities	**(62,966,005)**	**(53,105,374)**
Cash flows from financing activities		
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
Cash inflow from financing activities	21,996,382	10,085,960
Outflows from long-term, short-term and other liabilities	(23,224,309)	(11,360,516)
Dividend distribution	(12,364,129)	-
Cash outflow from financing activities	(35,588,438)	(11,360,516)
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**

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Financial statements for the year ended 31 December 2013

(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Other capital	Reserves	Revaluation reserves	Unrealised gains from securities	Unrealised losses from securities	Retained earnings (loss)	Total
Balance as at 1 January 2012	81,530,200	5,597,824	889,424	12	29,582	(64,090)	(396,287)	87,586,665
Total increase in previous period	-	-	-	-	-	(17,356)	49,456,516	49,416,496
Total decrease in previous period	-	-	-	-	(22,664)	-	-	-
Balance as at 31 December 2012	**81,530,200**	**5,597,824**	**889,424**	**12**	**6,918**	**(81,446)**	**49,060,229**	**137,003,161**
Balance as at 1 January 2013	81,530,200	5,597,824	889,424	12	6,918	(81,446)	49,060,229	137,003,161
Total increase in current period	-	-	-	-	11,226	-	58,811,617	39,879,532
Total decrease in current period	-	(5,597,824)	(889,424)	(12)	-	3,417	(12,459,468)	-
Balance as at 31 December 2013	**81,530,200**	**-**	**-**	**-**	**18,144**	**(78,029)**	**95,412,378**	**176,882,693**

The accompanying notes on pages 8 to 71 are an integral part of these financial statements.

STATISTICAL ANNEX
For the year ended 31 December 2013 and 2012

GENERAL INFORMATION ON COMPANY	2013	2012
1. Number of months of operations	12	12
2. Code identifying the company's size (1 to 4).	4	4
3. Code identifying the company's ownership structure (1 to 5).	4	4
4. Number of foreign persons, who may be natural persons or legal entities, holding a share in capital.	111	88
5. Average number of employees based on employee position as at each months end.	5,043	7,577

MOVEMENTS WITHIN INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, AND BIOLOGICAL ASSETS/ GROSS	Gross	Accumulated Depreciation	Net
1. Intangible assets			
1.1 Balance as at beginning of the year	10,572,810	2,348,132	8,224,678
1.2. Additions (purchases) during the year	3,917,564	-	3,917,564
1.3. Disposals during the year	357,148	-	835,291
1.4. Revaluation	-	-	-
1.5. Balance as at year end	14,133,226	2,826,275	11,306,951
2. Property, Plant and Equipment, and Biological Assets			
2.1. Balance as at beginning of the year	208,926,146	63,091,037	145,835,109
2.2. Additions (purchases) during the year	53,269,685	-	53,269,685
2.3. Disposals during the year	(17,607,430)	-	(23,022,999)
2.4. Revaluation	-	-	-
2.5. Balance as at year end	**244,588,401**	**68,506,606**	**176,081,795**

INVENTORIES	2013	2012
1. Stock of material	24,007,175	22,728,985
2. Work in progress	4,782,796	7,937,015
3. Finished goods	8,130,379	8,079,365
4. Merchandise	1,489,515	4,000,373
5. Non-current assets available–for-sale	1,272,306	41,746
6. Prepayments	451,726	861,248
Total	**40,133,897**	**43,648,732**

EQUITY		
Share capital	81,530,200	81,530,200
- foreign capital	46,294,058	46,029,868
Stakes of a limited liability company	-	-
- foreign capital	-	-
Stakes of members of a partnership or limited partnership	-	-
- foreign capital	-	-
State owned capital	-	-
Socially owned capital	-	-
Stakes in cooperatives	-	-
Other equity	-	5,597,824
Total	**81,530,200**	**87,128,024**
SHARE CAPITAL		
1. Ordinary Shares		
1.1. Number of ordinary shares	163,060,400	163,060,400
1.2. Face value of ordinary shares - Total	81,530,200	81,530,200
2. Preference shares	-	-
2.1. Number of preference shares	-	-
2.2. Face value of preference shares - Total	-	-
TOTAL – Face value of shares	**81,530,200**	**81,530,200**

STATISTICAL ANNEX (continued)

For the year ended 31 December 2013 and 2012

	2013	2012
RECEIVABLES AND PAYABLES		
1. Receivables from sales (balance at year end)	55,632,285	40,377,659
2. Payables from operations (balance at year end)	49,273,069	33,585,466
3. Receivables from insurance companies for compensation for damage during the year (debit turnover less opening balance)	44,560	44,170
4. VAT – previous tax (annual amount as per tax declarations)	40,588,209	32,734,701
5. Payables from operations (credit turnover less opening balance)	572,228,427	531,220,503
6. Net salaries and fringe benefits payable (credit turnover less opening balance)	11,080,487	13,119,247
7. Tax on salaries and fringe benefits charged to employees payable (credit turnover less opening balance)	1,525,250	1,990,838
8. Contribution on salaries and fringe benefits charged to employees payable (credit turnover less opening balance)	1,848,345	2,241,494
9. Dividends, share in profit and personal earnings of the employer payable (credit turnover less opening balance)	12,364,129	-
10. Fees for services rendered by natural persons payable (credit turnover less opening balance)	567,500	495,613
11. VAT liability (annual amount as per tax declarations)	60,397,711	48,993,344
Total	**805,549,972**	**704,803,035**
OTHER COSTS AND EXPENSES		
1. Cost of fuel and energy	2,290,456	2,101,698
2. Cost of salaries and fringe benefits (gross)	11,300,671	14,164,878
3. Cost of taxes and contributions on salaries and fringe benefits charged to employer	1,647,437	2,182,650
4. Cost of fees for services rendered by natural persons (gross)	671,581	494,722
5. Cost of fees for members of management and supervisory boards (gross)	72,106	35,216
6. Other personal fees and expenses	3,800,240	4,370,432
7. Production services cost	12,112,153	9,479,315
8. Rental costs	894,800	530,893
9. Rental costs/Land	1,201	506
10. Research and development costs	1,322,014	951,088
11. Cost of depreciation	9,422,450	6,273,791
12. Insurance premium costs	298,055	215,975
13. Payment operations costs	209,917	206,738
14. Membership fees	21,559	74,500
15. Taxes	1,662,621	2,135,391
16. Contributions	-	-
17. Interest payable	2,371,952	1,908,662
18. Interest payable and a portion of financial expenses	3,596,607	2,032,887
19. Interest payable on bank loans and loans from other financial organizations	1,853,904	1,753,977
20. Cost of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	59,887	32,374
Total	**53,609,611**	**48,945,693**

STATISTICAL ANNEX (continued)
For the year ended 31 December 2013 and 2012

	2013	2012
OTHER REVENUE		
1. Sales of merchandise	9,666,896	28,779,473
2. Revenues from premiums, subventions, grants, recourses, compensations and tax returns	562	14,202
3. Revenues from conditional donations	-	-
4. Revenues from land-rental fees	463	1,587
5. Membership fees	-	-
6. Interest receivable	6,789,821	3,369,599
7. Interest receivable incurring from accounts and deposits with banks and other financial organizations	398,800	1,182,767
8. Revenues from dividends and share in profit	10,543	-
Total	**16,867,085**	**33,347,628**
OTHER INFORMATION		
1. Excise duty liability (as per annual calculation of excise duty)	81,426,365	54,230,522
2. Customs and other import duties calculated (annual total as per calculation)	29,527,348	36,225,772
3. Capital subsidies and other government grants for the construction and purchase of fixed assets and intangible assets	-	-
4. Government grants as premiums, recourses and coverage of running operating costs	-	-
5. Other Government grants	1	14,202
6. Foreign donations and other non-returnable funds, received either in cash or in kind from foreign legal and/or natural persons	-	-
7. Personal earnings of the entrepreneur from net profit (to be completed only by entrepreneurs)	-	-
Total	**110,953,714**	**90,470,496**

The accompanying notes on pages 8 to 71 are an integral part of these financial statements.

1. GENERAL INFORMATION

NIS a.d. – Naftna Industrija Srbije, Novi Sad (hereinafter "the Company") is a 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.1. Basis of preparation (continued)

- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.2. New accounting standards (continued)

- 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 raise 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.7. Exploration for and evaluation of mineral resources (continued)

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.13. Long–term financial assets (continued)

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;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.13. Long–term financial assets (continued)

2.13.3. Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

- 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.27. Employee benefits (continued)

(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 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.28. Revenue recognition (continued)

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2.29. Leases (continued)

(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 JUDGEMENTS

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. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

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 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. 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.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.4. Decommissioning Obligations (asset retirement obligation and environmental protection) (continued)

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. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

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.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Financial risk factors (continued)

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.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Financial risk factors (continued)

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.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Financial risk factors (continued)

Liquidity risk (continued)

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 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.

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Capital risk management (continued)

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 the 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
Intersegment	84,665,356	-	215,896,466	393,135	5,723,654	(306,678,611)	-
External	3,569,849	158,809	104,142	244,153,357	4,228,572	-	252,214,729
EBITDA (Segment result)	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**

Notes to financial statements for the year ended 31 December 2013
(All amounts are in RSD 000 unless otherwise stated)

5. SEGMENT INFORMATION (continued)

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
Intersegment	90,490,198	1,217,697	154,531,232	218,894	3,062,270	(249,520,291)	-
External	8,905,391	283,501	134,454	202,763,320	14,070,240	-	226,156,906
EBITDA (Segment result)	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
Decrease in inventories of finished goods and work in progress			(3,103,205)
Other operating income			138,858
Total Operating Income			**249,473,842**

5. SEGMENT INFORMATION (continued)

	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
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	-	-	-	12,819	12,819
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).

(All amounts are in RSD 000 unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
At 1 January 2012								
Cost	11,185,907	62,832,533	60,387,999	44,639,338	93,279	110,630	8,770,320	188,020,006
Accumulated depreciation and impairment	(695,566)	(24,300,702)	(34,982,060)	(2,981,943)	(5,020)	(110,270)	(21,418)	(63,096,979)
Net book amount	**10,490,341**	**38,531,831**	**25,405,939**	**41,657,395**	**88,259**	**360**	**8,748,902**	**124,923,027**
Year ended 31 December 2012								
Opening net book amount	10,490,341	38,531,831	25,405,939	41,657,395	88,259	360	8,748,902	124,923,027
Additions	169,433	26,475,742	35,046,293	(21,277,999)	351	-	5,801,412	46,215,232
Transfer to subsidiaries	(122,387)	(1,051,431)	(4,599,287)	-	(12,243)	-	-	(5,785,348)
Other transfers	67,107	(119,164)	46,478	-	-	-	-	(5,579)
Disposals and write-offs	(1,631)	(65,574)	(29,074)	(659,597)	(722)	-	(12,145,685)	(12,902,283)
Depreciation (note 29)	-	(2,589,965)	(3,003,277)	-	-	(360)	-	(5,593,602)
Impairment charge (note 34)	-	(110,524)	(71,576)	(39,924)	(607)	-	-	(222,631)
Transfer to intangible assets (note 6)	-	-	-	(2,044,888)	-	-	-	(2,044,888)
Transfer to investment property (note 8)	(56,218)	(8,670)	-	-	-	-	-	(64,888)
Closing net book amount	**10,546,645**	**61,062,245**	**52,795,496**	**17,634,987**	**75,038**	**-**	**2,404,629**	**144,519,040**
At 31 December 2012								
Cost	11,239,442	87,204,602	83,980,139	22,573,044	76,173	110,630	2,426,047	207,610,077
Accumulated depreciation and impairment	(692,797)	(26,142,357)	(31,184,643)	(4,938,057)	(1,135)	(110,630)	(21,418)	(63,091,037)
Net book amount	**10,546,645**	**61,062,245**	**52,795,496**	**17,634,987**	**75,038**	**-**	**2,404,629**	**144,519,040**
Year ended 31 December 2013								
Opening net book amount	10,546,645	61,062,245	52,795,496	17,634,987	75,038	-	2,404,629	144,519,040
Additions	222,046	16,186,415	11,999,223	13,292,863	-	35,772	11,381,430	53,117,749
Transfer to subsidiaries	-	-	(1,389,997)	-	-	-	159,524	(1,230,473)
Other transfers	-	4,450,270	(4,463,076)	(152)	(14)	-	(79)	(13,051)
Disposals and write-offs	(68,494)	(246,182)	(118,411)	(996,245)	-	-	(9,806,071)	(11,235,403)
Depreciation (note 29)	-	(3,663,672)	(5,036,560)	-	-	(1,789)	-	(8,702,021)
Impairment charge (note 34)	-	(232,285)	(15,856)	(61,826)	(102)	-	(8,402)	(318,471)
Transfer to non-current assets held for sale	-	-	-	(1,272,306)	-	-	-	(1,272,306)
Transfer to intangible assets (note 6)	-	-	-	(149,367)	-	-	-	(149,367)
Transfer from investment property (note 8)	(3,696)	17,689	-	(11,248)	-	-	-	2,745
Closing net book amount	**10,696,501**	**77,574,480**	**53,770,819**	**28,436,706**	**74,922**	**33,983**	**4,131,031**	**174,718,442**
At 31 December 2013								
Cost	11,000,723	110,567,630	84,882,738	32,480,853	76,135	56,038	4,160,931	243,225,048
Accumulated depreciation and impairment	(304,222)	(32,993,150)	(31,111,919)	(4,044,147)	(1,213)	(22,055)	(29,900)	(68,506,606)
Net book amount	**10,696,501**	**77,574,480**	**53,770,819**	**28,436,706**	**74,922**	**33,983**	**4,131,031**	**174,718,442**

7. PROPERTY, PLANT AND EQUIPMENT (continued)

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**

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 318,471 (2012: RSD 222,631) for demolished or obsolete assets, which value is greater than recoverable amount (note 34).

7. PROPERTY, PLANT AND EQUIPMENT (continued)

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).

8. INVESTMENT PROPERTY (continued)

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)
Recurring fair value measurements			
Land and buildings			
– 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: Provision	(1,173,167)	(1,173,167)
	7,556,543	**7,530,237**

9. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

a) *Investments in subsidiaries (continued)*

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, BiH	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, Moscow, Russia	9,856	-	9,856	100%
Jadran-Naftagas d.o.o. Banja Luka, BiH	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**

9. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

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
Less provision:		
- 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 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
Less: provision	(7,827,614)	(1,426,540)	(9,254,154)
Total – net	**1,995,646**	**-**	**1,995,646**

10. OTHER LONG-TERM INVESTMENTS (continued)

a) Rescheduled receivables (continued)

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 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
Less provision:		
- 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**
Less provision:		
- 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 fully provided for. 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**

12. TRADE AND OTHER RECEIVABLES (continued)

The carrying amount 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 (direct provision)	(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**

13. SHORT-TERM FINANCIAL INVESTMENTS (continued)

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
Deferred tax liabilities	
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
Deferred tax assets				
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**

(All amounts are in 000 RSD, unless otherwise stated)

18. EQUITY

	Note	Share capital	Other capital	Reserves	Revaluation reserves	Unrealised gains from securities	Unrealised losses from securities	Retained earnings (loss)	Total
Balance as at 1 January 2012		**81,530,200**	**5,597,824**	**889,424**	**12**	**29,582**	**(64,090)**	**(396,287)**	**87,586,665**
Profit for the year		-	-	-	-	-	-	49,456,516	49,456,516
Losses from securities		-	-	-	-	(22,664)	(17,356)	-	(40,020)
Balance as at 31 December 2012		**81,530,200**	**5,597,824**	**889,424**	**12**	**6,918**	**(81,446)**	**49,060,229**	**137,003,161**
Profit for the year		-	-	-	-	-	-	52,324,369	52,324,369
Gains from securities		-	-	-	-	11,226	3,417	-	14,643
Other transfers	2.20,2.21	-	(5,597,824)	(889,424)	(12)	-	-	6,487,248	(12)
Dividend distribution		-	-	-	-	-	-	(12,364,129)	(12,364,129)
Actuarial loss	19	-	-	-	-	-	-	(95,339)	(95,339)
Balance as at 31 December 2013		**81,530,200**	**-**	**-**	**-**	**18,144**	**(78,029)**	**95,412,378**	**176,882,693**

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.

(All amounts are in 000 RSD, unless otherwise stated)

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.

(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 assement 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).

(All amounts are in 000 RSD, unless otherwise stated)

19. LONG – TERM PROVISIONS (continued)

(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%	6.00%
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 loss	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	Year ended 31 December 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)**

(All amounts are in 000 RSD, unless otherwise stated)

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**

(All amounts are in 000 RSD, unless otherwise stated)

20. LONG-TERM BORROWINGS (continued)

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 fulfil 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
Domestic long-term loans			
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**
Foreign long-term loans			
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**

(All amounts are in 000 RSD, unless otherwise stated)

20. LONG-TERM BORROWINGS (continued)

	Currency	Current portion 31 December 2013	Current portion 31 December 2012	Long-term 31 December 2013	Long-term 31 December 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**

(All amounts are in 000 RSD, unless otherwise stated)

21. OTHER LONG-TERM LIABILITIES (continued)

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 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	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**

(All amounts are in 000 RSD, unless otherwise stated)

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 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**

(All amounts are in 000 RSD, unless otherwise stated)

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**

(All amounts are in 000 RSD, unless otherwise stated)

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	1,378,695	1,149,784
	17,492,035	**21,247,898**

Termination costs amounting to RSD 2,421,545 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 recultivation 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**

(All amounts are in 000 RSD, unless otherwise stated)

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	298,055	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**

(All amounts are in 000 RSD, unless otherwise stated)

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
Effects of valuation of assets:		
- 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**

(All amounts are in 000 RSD, unless otherwise stated)

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
Impairment:		
- 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**

(All amounts are in 000 RSD, unless otherwise stated)

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 – 15% (in 2012 -10%)	8,746,399	5,132,496
Tax effect on:		
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.

(All amounts are in 000 RSD, unless otherwise stated)

37. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

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)**
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)**

(All amounts are in 000 RSD, unless otherwise stated)

37. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

For the year ended 31 December 2013 and 2012 the following transaction occurred with related parties:

	Subsidiary	Parent	Entities under common control	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)**

(All amounts are in 000 RSD, unless otherwise stated)

37. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

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
Receivables - gross		
HIP Petrohemija	12,284,032	7,307,595
Srbijagas	27,124,438	23,573,467
	39,408,470	**30,881,062**
Liabilities		
HIP Petrohemija	(1,534,730)	(523,563)
Srbijagas	(230,099)	(85,682)
	(1,764,829)	**(609,245)**
Advances received		
HIP Petrohemija	(7,112)	(7,743)
Srbijagas	(12,806)	(12,806)
	(19,918)	**(20,549)**

	Year ended 31 December 2013	2012
Operating income		
HIP Petrohemija	35,132,534	9,258,368
Srbijagas	2,176,974	17,902,669
	37,309,508	**27,161,037**
Operating expenses		
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 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

M.P.

"НАФТНА ИНДУСТРИЈА СРБИЈЕ" А.Д. НОВИ САД

Legal representative