NAFTNA INDUSTRIJA SRBIJE A.D., Novi Sad

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2012
AND INDEPENDENT AUDITOR'S REPORT

NIS A.D. – Naftna industrija Srbije
Novi Sad

Financial Statements

31 December 2012

Novi Sad, 13 February 2013

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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 (the "Company") which comprise the balance sheet as of 31 December 2012 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 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 the Company as of 31 December 2012, 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 and Note 2 to these financial statements.

Milivoje Nesovic
Licensed Auditor

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o., Belgrade

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Belgrade, 13 February 2013

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Financial statements for the year ended 31 December 2012

(All amounts are in RSD 000 unless otherwise stated)

BALANCE SHEET

ASSETS	Notes	31 December 2012	31 December 2011
Non-current assets			
Intangible assets	6	8,224,678	4,441,599
Property, plant and equipment	7	144,519,040	124,923,027
Investment property	8	1,316,069	1,338,269
Investments in equity instruments	9	7,707,917	2,542,882
Other long-term investments	10	19,130,412	3,376,034
		180,898,116	**136,621,811**
Current assets			
Inventories	11	43,606,986	35,397,598
Non-current assets held for sale		41,746	165,371
Trade and other receivables	12	41,575,163	20,373,239
Short-term financial investments	13	2,433,206	2,413,567
Cash and cash equivalents	15	8,311,264	25,228,726
VAT and prepaid expenses	14	8,778,258	4,626,921
Deferred tax assets	16	9,786,958	7,875,436
		114,533,581	**96,080,858**
Total assets		**295,431,697**	**232,702,669**
Off-balance sheet assets	17	84,451,110	79,279,565
EQUITY AND LIABILITIES			
Equity	18		
Share and other capital	18.1	87,128,024	87,128,024
Reserves		889,424	889,424
Revaluation reserves		12	12
Unrealized gains from securities	18.2	6,918	29,582
Unrealized losses from securities	18.2	(81,446)	(64,090)
Accumulated gain (loss)		49,060,229	(396,287)
		137,003,161	**87,586,665**
Long-term provisions and liabilities			
Long-term provisions	19	12,930,335	13,365,464
Long-term borrowings	20	30,721,339	33,774,543
Other long-term liabilities	21	50,270,312	47,666,041
		93,921,986	**94,806,048**
Short-term liabilities			
Short-term financial liabilities	22	9,359,307	3,444,922
Trade and other payables	23	33,921,648	29,458,654
Other short-term liabilities	24	6,313,605	6,666,892
Liabilities for VAT, other taxes and deferred income	25	12,034,945	8,087,096
Income tax liabilities		512,454	1,491,881
		62,141,959	**49,149,445**
Deferred tax liabilities	16	2,364,591	1,160,511
Total equity and liabilities		**295,431,697**	**232,702,669**
Off-balance sheet liabilities	17	84,451,110	79,279,565

The accompanying notes on pages 9 to 76 are an integral part of these financial statements.

INCOME STATEMENT

	Notes	Year ended 31 December 2012	2011
Operating income			
Sales revenue	5	226,156,906	186,882,958
Work performed by the entity and capitalized		2,063,809	4,478,663
Increase in inventories of finished goods and work in progress		1,665,432	768,451
Other operating income	26	184,677	298,141
		230,070,824	**192,428,213**
Operating expenses			
Cost of goods sold		(26,432,161)	(12,711,852)
Raw material and consumables used	27	(90,416,631)	(95,536,272)
Employee benefits expense	29	(21,247,898)	(21,744,471)
Depreciation, amortisation and provision	28	(7,840,645)	(6,832,271)
Other operating expenses	30	(19,152,732)	(14,534,161)
		(165,090,067)	**(151,359,027)**
Operating profit		**64,980,757**	**41,069,186**
Finance income	31	10,167,157	7,008,996
Finance expenses	32	(15,827,048)	(8,833,569)
Other income	33	4,707,451	7,406,282
Other expenses	34	(12,703,358)	(6,953,521)
Profit before income tax		**51,324,959**	**39,697,374**
Income tax expense			
Current income tax expense	35	(2,575,885)	(2,464,263)
Deferred income tax benefit	16	707,442	3,368,556
Profit for the year		**49,456,516**	**40,601,667**
Earning per share			
- Basic	36	0.303	0.249

The accompanying notes on pages 9 to 76 are an integral part of these financial statements.

Financial statements for the year ended 31 December 2012
(All amounts are in RSD 000 unless otherwise stated)

STATEMENT OF CASH FLOWS

	Year ended 31 December 2012	2011
Cash flows from operating activities		
Sales and advances received	313,174,536	282,802,307
Interest from operating activities	1,895,568	984,664
Other inflow from operating activities	184,674	298,141
Cash inflow from operating activities	315,254,778	284,085,112
Payments and prepayments to suppliers	(143,551,839)	(121,573,195)
Salaries, benefits and other personal expenses	(20,843,165)	(21,599,392)
Interest paid	(3,318,871)	(3,114,515)
Income tax paid	(3,548,460)	(1,591,789)
Payments for other public revenues	(107,185,231)	(101,220,649)
Cash outflow from operating activities	(278,447,566)	(249,099,540)
Net cash from operating activities	**36,807,212**	**34,985,572**
Cash flows from investing activities		
Sale of shares	228	17,103
Proceeds from sale of property, plant and equipment	322,111	278,989
Other financial investments	1,263,068	-
Cash inflow from investing activities	1,585,407	296,092
Purchase of shares (net outflow)	(213)	(26,234)
Purchase of intangible assets, property, plant and equipment	(38,883,079)	(32,509,584)
Other financial investments (net outflow)	(15,807,489)	(2,267,599)
Cash outflow from investing activities	(54,690,781)	(34,803,417)
Net cash used in investing activities	**(53,105,374)**	**(34,507,325)**
Cash flows from financing activities		
Proceeds from long-term and short-term borrowings	6,267,501	23,406,069
Proceeds from other long-term and short-term liabilities	3,818,459	26,002,087
Cash inflow from financing activities	10,085,960	49,408,156
Outflows from long-term, short-term and other liabilities	(11,360,516)	(35,177,068)
Cash outflow from financing activities	(11,360,516)	(35,177,068)
Net cash (used in) from financing activities	**(1,274,556)**	**14,231,088**
(Decrease) Increase in cash and cash equivalents	**(17,572,718)**	**14,709,335**
Cash and cash equivalents at beginning of year	**25,228,726**	**10,595,830**
Currency translation gains on cash and cash equivalents	2,064,138	1,409,520
Currency translation losses on cash and cash equivalents	(1,408,882)	(1,485,959)
Cash and cash equivalents at the end of year	**8,311,264**	**25,228,726**

The accompanying notes on pages 9 to 76 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Share capital	Other capital	Reserves	Revaluation reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated gain (loss)	Total
Balance as at 1 January 2011	81,530,200	5,597,824	889,424	39	48,417	(49,236)	(40,997,954)	47,018,714
Total increase in previous period	-	-	-	-	-	(14,854)	40,601,667	40,567,951
Total decrease in previous period	-	-	-	(27)	(18,835)	-	-	-
Balance as at 31 December 2011	**81,530,200**	**5,597,824**	**889,424**	**12**	**29,582**	**(64,090)**	**(396,287)**	**87,586,665**
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 current period	-	-	-	-	-	(17,356)	49,456,516	49,416,496
Total decrease in current 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**

The accompanying notes on pages 9 to 76 are an integral part of these financial statements.

STATISTICAL ANNEX
For year ended 31 December 2012 and 2011

GENERAL INFORMATION ON COMPANY	2012	2011
1. Number of months of operations	12	12
2. Code identifying the company's size (1 to 3).	3	3
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.	88	241
5. Average number of employees based on employee position as at each months end.	7,577	9,650

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	6,042,551	1,600,952	4,441,599
1.2. Additions (purchases) during the year	4,795,563	-	4,795,563
1.3. Disposals during the year	(265,304)	-	(1,012,484)
1.4. Revaluation	-	-	-
1.5. Balance as at year end	10,572,810	2,348,132	8,224,678
2. Property, Plant and Equipment, and Biological Assets			
2.1. Balance as at beginning of the year	189,358,275	63,096,979	126,261,296
2.2. Additions (purchases) during the year	46,280,120	-	46,280,120
2.3. Disposals during the year	(26,712,249)	-	(26,706,307)
2.4. Revaluation	-	-	-
2.5. Balance as at year end	208,926,146	63,091,037	145,835,109

INVENTORIES	2012	2011
1. Stock of material	22,728,985	18,440,807
2. Work in progress	7,937,015	5,802,756
3. Finished goods	8,079,365	8,548,192
4. Merchandise	4,000,373	2,220,870
5. Non-current assets available–for-sale	41,746	165,371
6. Prepayments	861,248	384,973
Total	43,648,732	35,562,969

EQUITY		
Share capital	81,530,200	81,530,200
- foreign capital	46,029,868	45,999,066
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	5,597,824
Total	87,128,024	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 year ended 31 December 2012 and 2011

	2012	2011

Financial statements for the year ended 31 December 2012

(All amounts are in RSD 000 unless otherwise stated)

RECEIVABLES AND PAYABLES		
1. Receivables from sales (balance at year end)	40,377,659	20,031,038
2. Payables from operations (balance at year end)	33,585,466	29,130,587
3. Receivables from insurance companies for compensation for damage during the year (debit turnover less opening balance)	44,170	74,899
4. VAT – previous tax (annual amount as per tax declarations)	32,734,701	27,246,222
5. Payables from operations (credit turnover less opening balance)	531,220,503	493,575,371
6. Net salaries and fringe benefits payable (credit turnover less opening balance)	13,119,247	13,764,296
7. Tax on salaries and fringe benefits charged to employees payable (credit turnover less opening balance)	1,990,838	2,212,384
8. Contribution on salaries and fringe benefits charged to employees payable (credit turnover less opening balance)	2,241,494	2,473,848
9. Dividends, share in profit and personal earnings of the employer payable (credit turnover less opening balance)	-	-
10. Fees for services rendered by natural persons payable (credit turnover less opening balance)	495,613	530,320
11. VAT liability (annual amount as per tax declarations)	48,993,344	40,024,883
Total	704,803,035	629,063,848
OTHER COSTS AND EXPENSES		
1. Cost of fuel and energy	2,101,698	1,933,667
2. Cost of salaries and fringe benefits (gross)	14,164,878	14,945,910
3. Cost of taxes and contributions on salaries and fringe benefits charged to employer	2,182,650	2,504,933
4. Cost of fees for services rendered by natural persons (gross)	494,722	387,898
5. Cost of fees for members of management and supervisory boards (gross)	35,216	28,545
6. Other personal fees and expenses	4,370,432	3,877,185
7. Production services cost	9,479,315	6,152,554
8. Rental costs	530,893	405,846
9. Rental costs/Land	506	506
10. Research and development costs	951,088	177,971
11. Cost of depreciation	6,273,791	6,655,665
12. Insurance premium costs	215,975	221,165
13. Payment operations costs	206,738	248,925
14. Membership fees	74,500	69,281
15. Taxes	2,135,391	2,822,811
16. Contributions	-	-
17. Interest payable	1,908,662	2,633,575
18. Interest payable and a portion of financial expenses	2,032,887	2,637,411
19. Interest payable on bank loans and loans from other financial organizations	1,753,977	2,472,117
20. Cost of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	32,374	57,150
Total	48,945,693	48,233,115

STATISTICAL ANNEX (continued)

For year ended 31 December 2012 and 2011

	2012	2011
OTHER REVENUE		
1. Sales of merchandise	28,779,473	13,908,808
2. Revenues from premiums, subventions, grants, recourses, compensations and tax returns	14,202	14,875
3. Revenues from conditional donations	-	-
4. Revenues from land-rental fees	1,587	1,229
5. Membership fees	-	-
6. Interest receivable	3,369,599	1,372,323
7. Interest receivable incurring from accounts and deposits with banks and other financial organizations	1,182,767	683,553
8. Revenues from dividends and share in profit	-	-
Total	33,347,628	15,980,788
OTHER INFORMATION		
1. Excise duty liability (as per annual calculation of excise duty)	54,230,522	55,923,060
2. Customs and other import duties calculated (annual total as per calculation)	36,225,772	30,203,662
3. Capital subsidies and other government grants for the construction and purchase of fixed assets and intangible assets	-	-
4. Govermnment grants as premiums, recourses and coverage of running operating costs	-	-
5. Other Government grants	14,202	-
6. Forein 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 enterprener from net profit (to be completed only by enterpreneurs)	-	-
Total	90,470,496	86,126,722

The accompanying notes on pages 9 to 76 are an integral part of these financial statements.

1. GENERAL INFORMATION

NIS a.d. – Naftna Industrija Srbije, Novi Sad (hereinafter "the Company") is an vertically integrated oil company operating predominantly in Serbia. The Company's principal activities include:

- Exploration, production and development of crude oil and gas,
- Production of refined petroleum products,
- Petroleum products and gas trading.

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005 as a successor of five state owned companies of *Javno Preduzece Naftna Industrija Srbije*. On 2 February 2009, OAO Gazprom Neft (''Gazprom Neft'') acquired a 51% of the share capital of NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011, under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%.

The Company is an open joint stock company listed on the Belgrade Stock Exchange, Listing A (Prime Market). The address of the Company's registered office is in Novi Sad, 12 Narodnog fronta Street.

These financial statements have been approved and autorized 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 2011.

2.1. Basis of preparation and presentation of finacial statements

These financial statements for the year ended 31 December 2012 were prepared in accordance with the Law on Accounting and Auditing of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (Nos. 46/2006 and 111/2009), 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 format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 – "Presentation of Financial Statements" requirements.
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.
- Property, plant and equipment were measured at market value by independent appraisal and any revaluation reserves for the excess of fair value against historical value were cancelled against share capital as at 1 January 2006.

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

2.1. Basis of preparation and presentation of finacial statements (continued)

- The Company has not consolidated the financial statements of its subsidiaries as in accordance with the Law of Accounting and Auditing 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.

The preparation of financial statements in conformity with IFRS 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 2012:

- Other revised standards and interpretations effective for the current period. The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these financial statements.

Certain new and amended standards and interpretations have been issued that are mandatory for the first time for the financial year beginning 1 January 2013 or later, and which the Company has not early adopted:

- IFRS 9, Financial Instruments - I: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be 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.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

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

2.2. New accounting standards (continued)

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

- IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.
- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.
- Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two Companies, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Company expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

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

2.2. New accounting standards (continued)

- Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

- Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

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

2.2. New accounting standards (continued)

- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 “Consolidated Financial Statements”. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

- Amendments to IFRS 1 “First-time adoption of International Financial Reporting Standards - Government Loans“ (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.

- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

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 in accordance with new governance structure, that the Company has adopted during 2012 in compliance with the new Company law of the Republic of Serbia is the Board of Directors and the General Manager Advisory Board.

2.4. Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of the Company are measured and presented in Serbian dinars ("RSD"), which is the Company's functional 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'.

2.5. Intangible assets

(a) *Licenses and rights*

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 over the exploration period in accordance with the terms and conditions of the licence.

(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)

2.6. 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)

2.6. 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.

2.7. 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 equipment	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)

2.8. 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.

2.9. Investment property

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property principally comprises petrol stations, business facilities and apartments rented out to current and former Company employees 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) (note 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.

2.10. Construction contracts

A construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset. Contract costs are recognized as expenses in the period in which they are incurred.
When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

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

2.10. Construction contracts (continued)

The Company uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, pre-payments or other assets, depending on their nature.

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.11. Investments in subsidiaries

Investments in subsidiaries are measured using the cost method, whereby these investments are recognized at cost without any changes in the value of investments originating from results. If there are indications that the value of investment has decreased at the reporting date, the assessment of the recoverable value of investment is being performed.

If the recoverable value is less than the book value, the book value is reduced to its recoverable value and impairment loss of investment is recognized as expense.

2.12. 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.

2.12.1. 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)

2.12. Long–term financial assets (continued)

2.12.2. 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).

2.12.3. 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)

2.12. Long–term financial assets (continued)

2.12.3. 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)

2.13. 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).

2.14. 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.

2.15. 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)

2.16. 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.

2.17. 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.

2.18. Share capital

The Company is registered as open joint stock company. Ordinary shares are classified as share capital.

2.19. 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. It was recognized as other capital.

2.20. Reserves

Reserves fully 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.

2.21. 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)

2.22. Provisions

Provisions for environmental restoration, asset retirement obligation, restructuring costs 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.

2.23. 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.

2.24. 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)

2.25. 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.

2.26. 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)

2.26. 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. The new Collective Agreement has been applied as of 1 June 2011.

Jubilee awards

The amount of jubilee awards to be paid is determined as a number of monthly salaries based on the number of completed years of service within the Company, as presented in the table below:

Minimum years of service in the Company	Collective Labour Agreement Number of monthly salaries
10	1
20	1.5
30	2
35	2.5
40	2.5

Retirement benefits

The Company shall pay to employees when they are retiring, retirement benefits equal to a maximum of three average Company's salaries paid in the months preceding the retirement.

The expected costs of these benefits are accrued over the period of employment.

The defined benefit obligation is valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to income over the expected average remaining working lives of the related employees for pension obligations, and charged or credited to income in full amount for jubilee awards and termination benefits.

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

2.26. Employee benefits (continued)

(b) *Employee benefits provided by the Collective Agreement (continued)*

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

(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.

2.27. 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.

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

2.27. Revenue recognition (continued)

(a) *Sales of goods – wholesale (continued)*

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 of 90 days for state owned companies and 60 days for other companies, which is consistent with the market practice.

(b) *Sales of goods – retail*

The Company operates a chain of Petrol Stations. Sales of goods are recognised when the Company sells a product to the customer. Retail sales are usually in cash, fuel coupons or by credit card.

(c) *Sales of services*

The Company sells oil engineering services. These services are provided on a time and material basis or as a fixed price contract, with contract terms generally accepted in the industry.

Revenue from time and material contracts, typically from delivering engineering services, is recognised under the percentage of completion method. Revenue is generally recognized at the contractual rates. For time contracts, the stage of completion is measured on the basis of labour hours determined as a percentage of total hours to be delivered. For material contracts, the stage of completion is measured on the basis of, and direct expenses are incurred as, a percentage of the total expenses to be incurred.

Revenue from fixed-price contracts for delivering engineering services is also recognised under the percentage-of-completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

(d) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the 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.

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

2.27. Revenue recognition (continued)

(e) *Income from work performed by entity and capitalised*

Income from work performed by entity and capitalised relates to the capitalisation of costs of own products and services.

(f) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2.28. Leases

(a) *Leases: Accounting by lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment, acquired under finance leases, are depreciated over the shorter of the useful life of the asset and the lease term.

(b) *Leases: Accounting by lessor*

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

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

2.29. 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.

2.30. 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 AND JUDGMENTS IN APPLYING ACCOUNTIG POLICIES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

(a) *Income taxes*

The Company is subject to income taxes. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities provisions in the period in which such determination is made.

(b) *Revenue recognition*

The Company uses the percentage-of-completion method in accounting for its sales of services. Use of the percentage-of-completion method requires the Company to estimate the services performed to date as a proportion of the total services to be performed.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTIG POLICIES (CONTINUED)

3.1. Critical accounting estimates and assumptions (continued)

(c) *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% (rather than 7.65%) per year, the past service liability (DBO) would have increased by approx. 9.7% for termination benefits and 5.9% for jubilee awards. If the employee salaries were to increase by 7% (rather than 6%) per year, the past service liability (DBO) would increase by approx. 15% for termination benefits and 8.8% for jubilee awards.

(d) *Decommissioning Obligations*

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group’s operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

If the discount rate used to calculate the present value of decommissioning obligations had been 8.65% (rather than 7.65%) per year, the present liability would have increased by approx. RSD 357,251.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTIG POLICIES (CONTINUED)

3.2. Critical judgments in applying accounting policies

(a) *Impairment of available for sale financial assets*

The Company follows the guidance of IAS 39 to determine when an available for sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(b) *Financial crisis*

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.

(a) *Market risk*

a) 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 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**
EUR	22,027,181	13,694,819	65,729,594	58,474,401
JPY	-	-	477,670	514,970
USD	8,715,728	7,699,163	46,651,500	50,272,976
Other	39,898	18	2,238	464

As at 31 December 2012, 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 823,941 (2011: RSD 809,996) 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)

(a) *Market risk (continued)*

b) 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.

c) Cash flow and fair value interest rate risk

As at 31 December 2012, the Company had significant amounts of cash and cash equivalents, i.e. significant interest-bearing assets. The cash was deposited only in banks with which the Company has passive business relationships i.e. loans and credit/documentary lines. Also, RSD and foreign currency fixed term deposits are short term (up to 60 days) and bear fixed interest rates. Based on the above information, the Company's revenues and cash flows are to a great extent independent of changes in market interest rates on fixed term deposits, although the interest rates that the Company can achieve in the market to a great extent depend on the level of basic interest rates at the time when cash has been deposited (Belibor / NBS key policy rate).

Furthermore, in 2012 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 2012 would have been RSD 52,179 (2011: RSD 496) higher/lower.

Borrowings issued 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 2012 would have been RSD 820,669 (2011: RSD 640,891) 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)

(b) *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).

(c) *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 based on the remaining period at the balance sheet to the contractual maturity date.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Financial risk factors (continued)

(c) *Liquidity risk (continued)*

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at 31 December 2012	**Less than 1 month**	**1 - 3 months**	**3 months - 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Borrowings and other long term and short term financial liabilities (long-term and current-portion)	4,231	1,413,061	7,943,224	45,768,162	35,222,280	90,350,958
Liabilities from business operations	16,415,837	17,278,934	226,008	859	10	33,921,648
Other short-term liabilities	5,594,118	75,277	644,210	-	-	6,313,605
Accrued expenses and deferred revenue	2,752,529	22,346	1,566,088	-	-	4,340,963
	24,766,715	**18,789,618**	**10,379,530**	**45,769,021**	**35,222,290**	**134,927,174**

As at 31 December 2011	**Less than 1 month**	**1 - 3 months**	**3 months - 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Borrowings and other long term and short term financial liabilities (long-term and current-portion)	184,787	157,555	3,103,777	45,216,827	36,222,560	84,885,506
Liabilities from business operations	10,924,501	9,484,179	9,049,974	-	-	29,458,654
Other short-term liabilities	6,662,449	1,402	3,041	-	-	6,666,892
Accrued expenses and deferred revenue	2,685,721	-	-	-	-	2,685,721
	20,457,458	**9,643,136**	**12,156,792**	**45,216,827**	**36,222,560**	**123,696,773**

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)

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital employed is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratios as at 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Total borrowings (notes 20, 21 and 22)	90,291,649	84,794,521
Less: cash and cash equivalents (note 15)	(8,311,264)	(25,228,726)
Net debt	**81,980,385**	**59,565,795**
Total capital employed	218,983,546	147,152,460
Gearing ratio	0.37	0.40

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. During 2012, the Company has adopted new governance structure in compliance with the new Company law of the Republic of Serbia. The Board of Directors and the General Manager Advisory Board represent the CODM according to newly adopted structure.

As at 31 December 2012, 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.

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 Srbijagas,
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 2012 are shown in the table below:

	Exploration and Production	Oil Field Services	Refining	Trade	Other	Eliminations	Total
Segment revenue	92,077,341	3,324,029	155,584,039	204,314,212	17,017,464	(242,246,261)	230,070,824
Intersegment	83,074,262	1,217,697	154,020,794	1,108,024	2,825,484	(242,246,261)	-
External	9,003,079	2,106,332	1,563,245	203,206,188	14,191,980	-	230,070,824
Depreciation and amortisation	(2,104,350)	(358,420)	(1,950,957)	(808,683)	(1,051,381)	-	(6,273,791)
Impairment losses	(113,062)	(10,052)	(64,127)	(110,965)	(29,291)	-	(327,497)
Segment profit (loss) from operating activities	**83,790,189**	**(218,880)**	**(9,096,463)**	**559,171**	**(10,053,260)**	**-**	**64,980,757**
Finance income (expenses)	(188,292)	31,981	(761,856)	560,413	(5,302,137)	-	(5,659,891)
Other income (expenses)	(3,286,960)	790,883	166,657	(283,157)	(5,383,330)	-	(7,995,907)
Segment profit (loss) before tax	**80,314,937**	**603,984**	**(9,691,662)**	**836,427**	**(20,738,727)**	**-**	**51,324,959**
Deferred income tax	-	-	-	-	707,442	-	707,442
Income tax expense	-	-	-	-	(2,575,885)	-	(2,575,885)
Segment profit (loss)	**80,314,937**	**603,984**	**(9,691,662)**	**836,427**	**(22,607,170)**	**-**	**49,456,516**

5. SEGMENT INFORMATION (continued)

Reportable segments results for the year ended 31 December 2011 are shown in the table below:

	Exploration and Production	Oil Field Services	Refining	Trade	Other	Eliminations	Total
Segment revenue	78,152,193	6,999,742	136,362,877	168,759,386	199,310	(198,045,295)	192,428,213
Intersegment	59,703,080	2,406,034	135,633,379	302,802	-	(198,045,295)	-
External	18,449,113	4,593,708	729,498	168,456,584	199,310	-	192,428,213
Depreciation and amortisation	(2,067,932)	(856,169)	(2,023,125)	(783,725)	(924,714)	-	(6,655,665)
Impairement losses	(379,934)	(11,233)	(26,397)	(105,766)	(32,458)	-	(555,788)
Segment profit (loss) from operating activities	**65,061,804**	**(634,719)**	**(15,478,960)**	**(943,658)**	**(6,935,281)**	-	**41,069,186**
Finance income (expenses)	(354,107)	10,510	(318,367)	402,740	(1,565,349)	-	(1,824,573)
Other income (expenses)	(21,456)	(1,263,299)	(1,728,714)	3,063,357	402,873	-	452,761
Segment profit (loss) before tax	**64,686,241**	**(1,887,508)**	**(17,526,041)**	**2,522,439**	**(8,097,757)**	-	**39,697,374**
Deferred income tax	-	-	-	-	3,368,556	-	3,368,556
Income tax expense	-	-	-	-	(2,464,263)	-	(2,464,263)
Segment profit (loss)	**64,686,241**	**(1,887,508)**	**(17,526,041)**	**2,522,439**	**(7,193,464)**	**-**	**40,601,667**

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 chanel) is presented in the table below:

	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 od 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**

5. SEGMENT INFORMATION (continued)

	Year ended 31 December 2011		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	4,685,664	4,685,664
Sale of gas	13,288,107	-	13,288,107
Through a retail network	-	-	-
Wholesale activities	*13,288,107*	-	*13,288,107*
Sale od petroleum products	151,222,962	14,315,844	165,538,806
Through a retail network	*43,193,966*	-	*43,193,966*
Wholesale activities	*108,028,996*	*14,315,844*	*122,344,840*
Other sales	2,550,277	820,104	3,370,381
Total Sales	**167,061,346**	**19,821,612**	**186,882,958**
Work performed by the entity and capitalized			4,478,663
Increase in inventories of finished goods and work in progress			768,451
Other operating income			298,141
Total Operating Income			**192,428,213**

6. INTANGIBLE ASSETS

	Research and development	Concessions, patents, licenses and rights	Intangible assets under development	Other intangibles	Total
At 1 January 2011					
Cost	-	878,120	1,843,860	4,721,726	7,443,706
Accumulated amortisation and impairment	-	(184,431)	(1,698,294)	(725,220)	(2,607,945)
Net book amount	**-**	**693,689**	**145,566**	**3,996,506**	**4,835,761**
Year ended 31 December 2011					
Opening net book amount	-	693,689	145,566	3,996,506	4,835,761
Additions	-	-	375,514	-	375,514
Transfer from IA under development	-	-	(246,938)	246,938	-
Transfer to PP&E (note 7)	-	-	-	(74,040)	(74,040)
Amortisation (note 28)	-	(14,971)	-	(660,417)	(675,388)
Impairment (note 34)	-	(1,625)	-	(37,866)	(39,491)
Disposals	-	24,910	(2,499)	(3,168)	19,243
Other transfers	-	(56,549)	30	56,519	-
Closing net book amount	**-**	**645,454**	**271,673**	**3,524,472**	**4,441,599**
As at 31 December 2011					
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 (note 9)	-	(2,291)	-	(134,883)	(137,174)
Transfer from PP&E (note 7)	1,786,149	-	251,012	7,727	2,044,888
Amortisation (note 28)	-	(95,559)	-	(584,630)	(680,189)
Impairment (note 34)	-	-	(86,459)	(691)	(87,150)
Disposals	(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**

Research and development as at 31 December 2012 in the amount of RSD 3,324,085 mostly relate to investments in geological, 2D and 3D seismic explorations on the territory of the Republic of Serbia.

Other intangible assets as at 31 December 2012 amounting to RSD 3,307,688 mostly relate to investments in the SAP system of RSD 2,947,663 (2011: RSD 3,401,832).

Amortisation amounting to RSD 680,189 (2011: RSD 675,388) is included in Operating expenses within the Income statement (note 28).

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investme leased
At 1 January 2011						
Cost	11,274,498	62,752,974	55,498,519	13,801,387	89,938	110
Accumulated depreciation and impairment	(737,373)	(24,160,797)	(29,850,236)	(3,366,233)	(1,426)	(109
Net book amount	**10,537,125**	**38,592,177**	**25,648,283**	**10,435,154**	**88,512**	
Year ended 31 December 2011						
Opening net book amount	10,537,125	38,592,177	25,648,283	10,435,154	88,512	
Additions	1,087	4,747,851	2,485,766	31,239,335	6,986	
Other transfers	(327)	(1,057,977)	726,533	306,068	-	
Disposals and advances paid used	(233)	(77,765)	(47,393)	(67,634)	(2,738)	
Depreciation (note 28)	-	(2,539,748)	(3,440,169)	-	-	
Impairment charge (note 34)	(106)	(24,315)	(41,121)	(255,528)	(4,501)	
Adjustment of assets value for estimated costs of the restoration of natural resources (note 19)	-	(1,035,326)	-	-	-	
Transfer from intangible assets (note 6)	-	-	74,040	-	-	
Transfer to investment property (note 8)	(47,205)	(73,066)	-	-	-	
Closing net book amount	**10,490,341**	**38,531,831**	**25,405,939**	**41,657,395**	**88,259**	
At 31 December 2011						
Cost	11,185,907	62,832,533	60,387,999	44,639,338	93,279	110
Accumulated depreciation and impairment	(695,566)	(24,300,702)	(34,982,060)	(2,981,943)	(5,020)	(110
Net book amount	**10,490,341**	**38,531,831**	**25,405,939**	**41,657,395**	**88,259**	
Year ended 31 December 2012						
Opening net book amount	10,490,341	38,531,831	25,405,939	41,657,395	88,259	
Additions	169,433	26,475,742	35,046,293	(21,277,999)	351	
Transfer to subsidiaries (note 9)	(122,387)	(1,051,431)	(4,599,287)	-	(12,243)	
Other transfers	67,107	(119,164)	46,478	-	-	
Disposals and advances paid used	(1,631)	(65,574)	(29,074)	(659,597)	(722)	
Depreciation (note 28)	-	(2,589,965)	(3,003,277)	-	-	
Impairment charge (note 34)	-	(110,524)	(71,576)	(39,924)	(607)	
Transfer to intangible assets (note 6)	-	-	-	(2,044,888)	-	
Transfer to investment property (note 8)	(56,218)	(8,670)	-	-	-	
Closing net book amount	**10,546,645**	**61,062,245**	**52,795,496**	**17,634,987**	**75,038**	
At 31 December 2012						
Cost	11,239,442	87,204,602	83,980,139	22,573,044	76,173	110
Accumulated depreciation and impairment	(692,797)	(26,142,357)	(31,184,643)	(4,938,057)	(1,135)	(110
Net book amount	**10,546,645**	**61,062,245**	**52,795,496**	**17,634,987**	**75,038**	

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Additions to property, plant and equipment in 2012 amounting to RSD 46,815,580 (2011: RSD 53,108,635) mostly relate to investments in MHC/DHT project (investments in the construction of a Mild Hydrocracking Complex and Hydrofinishing in Pančevo Oil Refinery which was finalised and put in use by the end of 2012) amounting to RSD 19,636,311, construction of hydrogen generation plant of RSD 3,091,637, reconstruction of docks and filling terminals of RSD 2,384,539, exploration rigs of RSD 1,719,628, purchase of transport vehicles of RSD 1,071,985 and reconstruction of gas stations of RSD 835,854. Advances paid to suppliers for the MHC/DHT project as at 31 December 2012 amounted to RSD 559,386.

In 2012, in accordance with revised IAS 23 'Borrowing Costs', the Company capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 1,874,598 (2011: RSD 1,141,090).

Machinery and equipment include the following amounts where the Company is a lessee under a finance lease:

	31 December 2012	31 December 2011
Cost capitalised – finance leases	153,401	170,134
Accumulated depreciation	(48,947)	(46,014)
Net book amount	**104,454**	**124,120**

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 2012, the Company assessed impairment indicators of cash generating units ("CGU") and concluded that no indications of additional impairment or reversals of previously recognized impairment losses had been identified.

In 2012 Company made impairment in amount of RSD 222,631 (2011: RSD 325,571) for demolished or obsolete investments, which carrying value is greater than recoverable amount.

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Oil and gas production assets

	Total - asset under construction (exploration and development expenditure)	Production assets	Other bussines and corporate assets	Total
At 1 January 2011				
Cost	2,133,743	43,991,660	129,620	46,255,023
Accumulated depreciation and impairment	(128,385)	(15,282,939)	(109,917)	(15,521,241)
Net book amount	**2,005,358**	**28,708,721**	**19,703**	**30,733,782**
Year ended 31 December 2011				
Opening net book amount	2,005,358	28,708,721	19,703	30,733,782
Additions	7,977,117	-	-	7,977,117
Transfer from assets other than O&G	-	74,037	-	74,037
Transfer from asset under construction	(4,628,094)	4,627,567	527	-
Other transfers	44,225	522,252	(1,125)	565,352
Impairment	(181,455)	(17,054)	(4,501)	(203,010)
Depreciation	-	(2,846,292)	(360)	(2,846,652)
Transfer to investment property	-	(308)	-	(308)
Adjustment of assets value for estimated costs of the restoration of natural resources (note 19)	-	(1,035,326)	-	(1,035,326)
Disposals	(4,680)	(115,445)	811	(119,314)
Closing net book amount	**5,212,471**	**29,918,152**	**15,055**	**35,145,678**
At 31 December 2011				
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	(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**

Oil and gas production assets comprise aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.6.).

8. INVESTMENT PROPERTY

Investment properties are valued at the reporting date at fair value representing the investment property market value.

Movements on the account were as follows:

	2012	2011
At 1 January	**1,338,269**	**1,393,170**
Fair value losses (note 34)	(17,716)	(190,726)
Transfer from PP&E (note 7)	64,888	120,271
Transfer to non-current assets held for sale	(41,702)	-
Disposals	(27,670)	-
Other	-	15,554
At 31 December	**1,316,069**	**1,338,269**

The following lease amounts have been recognized in the income statement:

	2012	2011
Rental income (note 26)	128,698	120,339

As at 31 December 2012, investment properties amounting to RSD 1,316,069 (31 December 2011: RSD 1,338,269) mainly relate to the petrol stations, business facilities and apartments that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

9. INVESTMENTS IN EQUITY INSTRUMENTS

	31 December 2012	31 December 2011
Investments in subsidiaries	8,703,404	3,490,817
Financial assets available for sale	2,161,005	2,211,557
Less: Provision	(3,156,492)	(3,159,492)
	7,707,917	**2,542,882**

a) *Investments in subsidiaries*

	31 December 2012	31 December 2011
In shares	3,457,576	3,457,576
In stakes	5,245,828	33,241
	8,703,404	3,490,817
Less: Provision	(1,173,167)	(1,173,167)
	7,530,237	**2,317,650**

9. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

a) *Investments in subsidiaries (continued)*

Investments in subsidiaries as at 31 December 2012 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	997	-	997	100%
NIS Petrol SRL, Bucharest, Romania	2,632	-	2,632	100%
NIS Petrol doo, Laktasi, 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%
	8,703,404	**(1,173,167)**	**7,530,237**	

Movements on the account were as follows:

	2012	2011
As at 1 January	3,490,817	3,488,730
New investments in subsidiaries	5,212,587	26,234
Liquidation of NIS Oil Trading, Frankfurt, Germany	-	(24,147)
Less: provision	(1,173,167)	(1,173,167)
As at 31 December	**7,530,237**	**2,317,650**

In 2012, the Company established the following companies:

a. Naftagas-Naftni servisi d.o.o., Novi Sad. As at 31 December 2012 the total registered equity of the new company amounts to RSD 3,579,983 (non-cash contribution RSD 3,579,930).
b. NTC NIS-Naftagas d.o.o., Novi Sad. As at 31 December 2012 the total registered equity of the new company amounts to RSD 321,500 (non-cash contribution RSD 321,447).

9. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

a) *Investments in subsidiaries (continued)*

c. Naftagas-Tehnicki servisi d.o.o., Zrenjanin. As at 31 December 2012 the total registered equity of the new company amounts to RSD 1,044,554 (non-cash contribution RSD 1,044,501).
d. Naftagas-Transport d.o.o., Novi Sad. As at 31 December 2012 the total registered equity of the new company amounts to RSD 327,751 (non-cash contribution RSD 327,695).

In accordance with the Decision on founding and transfer of equity in kind to newly formed subsidiaries (Naftagas-Naftni servisi d.o.o. Novi Sad, Naftagas-Tehnicki servisi d.o.o. Zrenjanin, NTC NIS-Naftagas d.o.o. Novi Sad and Naftagas-Transport d.o.o. Novi Sad), the Company has transferred intangible assets, property, plant and equipment in total of RSD 5,922,522 and inventories of material, tools and other assets in total of RSD 704,943.

For the amount above the subscribed capital the Company has recognized receivable from sales of property, plant, equipment, material and tools. The assets were sold at book value.

b) *Financial assets available for sale*

	31 December 2012	31 December 2011
In shares	2,132,741	2,172,998
In stakes	28,264	31,264
Other	-	7,295
	2,161,005	2,211,557
Less: Provision	(1,983,325)	(1,986,325)
	177,680	**225,232**

Investments in other legal entities as at 31 December 2012 relate to the following companies:

Company	Investment	Impairment	Net book value	Share %
HIP Petrohemija a.d., Pančevo, Serbia	1,682,522	(1,682,522)	-	12.72%
MSK a.d., Kikinda, Serbia	265,507	(265,507)	-	10.10%
Prokons, Subotica, Serbia	91,227	-	91,227	20.15%
Maco nafta, Skopje, Macedonia	47,185	-	47,185	49.00%
Linde Gas Serbia a.d, Bečej, Serbia	4,269	(4,269)	-	12.44%
SPC Pinki, Belgrade, Serbia	174	-	174	46.16%
Other legal entities	70,121	(31,027)	39,094	5.89%
	2,161,005	**(1,983,325)**	**177,680**	

9. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

b) *Financial assets available for sale (continued)*

Available for sale financial assets include the following:

	31 December 2012	31 December 2011
Listed securities, quoted on BELEX:		
- shares	170,550	218,101
Unlisted securities:		
- shares	7,130	7,131
	177,680	**225,232**

Movements on the available for sale financial assets:

	2012	2011
As at 1 January	225,232	186,154
Trasfer	-	61,878
Fair value adjustments	(40,020)	(22,800)
Disposal	(7,159)	-
Other	(373)	-
As at 31 December	**177,680**	**225,232**

Movements on the provision for available for sale financial assets:

	2012	2011
As at 1 January	(1,986,325)	(2,202,985)
Write-off of investment in:		
- Beogradska Banka - in bankruptcy a.d., Belgrade	-	200,057
- Jugobanka - in bankruptcy a.d., Belgrade	-	23,416
- Other	-	455
Transfers and other movements	3,000	(7,268)
As at 31 December	**(1,983,325)**	**(1,986,325)**

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 2012	31 December 2011
Rescheduled receivables	3,371,014	5,601,478
Long-term loans to subsidiaries	16,629,612	2,289,198
Long-term loans to employees	1,259,637	1,052,371
Finance lease receivables	78,190	148,043
Investments in Crni Vrh – O Zone	-	1,616,295
Other long-term financial assets	2,029,677	769,623
	23,368,130	11,477,008
Less provision:		
- rescheduled receivables	(3,371,014)	(5,601,478)
- finance lease receivables	(57,743)	(120,668)
- investments in Crni Vrh – O Zone	-	(1,616,295)
- other long-term financial assets	(808,961)	(762,533)
	(4,237,718)	(8,100,974)
Total – net	**19,130,412**	**3,376,034**

As of 31 December 2012 fully impaired investment in tourist complex “Crni Vrh” based on consortium agreement (signed in August 1995) was transferred to the construction in progress as represent joint venture where all parties jointly control the asset (”jointly control asset”).

a) Rescheduled receivables

Rescheduled receivables as at 31 December 2012 fully relate to:

	Total	Long-term	Current portion
Rescheduled receivables			
- HIP Petrohemija Pancevo	9,643,993	1,944,474	7,699,519
- RTB Bor	1,426,540	1,426,540	-
- JAT	100,110	-	100,110
	11,170,643	3,371,014	7,799,629
Less: provision	(9,191,079)	(3,371,014)	(5,820,065)
Total – net	**1,979,564**	**-**	**1,979,564**

Current portion of rescheduled receivables amounting to RSD 1,979,564 relates to HIP Petrohemija Pancevo current receivables that are secured by a mortgage right over debtor’s fixed assets.

Movements on rescheduled receivables provision:

	2012	2011
As at 1 January	(5,601,478)	(8,040,906)
Foreign exchange gains /losses	108,503	317,467
Transfer to short-term financial investments (note 13)	2,121,961	2,121,961
As at 31 December	**(3,371,014)**	**(5,601,478)**

10. OTHER LONG-TERM INVESTMENTS (continued)

b) Long-term loans to subsidiaries

Long-term loans to subsidiaries denominated in RSD as at 31 December 2012 fully relate to:

	Currency	31 December 2012	31 December 2011
NIS Petrol e.o.o.d., Sofija, Bulgaria	EUR	6,967,916	1,628,514
O Zone a.d., Belgrade, Serbia	EUR	2,672,380	-
NIS Petrol SRL, Bucharest, Romania	EUR	1,657,948	-
Jadran-Naftagas d.o.o., Banja Luka, BiH	EUR	736,414	387,571
NIS Petrol d.o.o., Laktasi, BiH	EUR	4,586,425	273,113
Pannon naftagas Kft, Budapest, Hungary	EUR	8,529	-
		16,629,612	**2,289,198**

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, with a grace period of 5 years. The carrying value of long-term loans is equal to their fair value. 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 2012 amounting to RSD 1,259,637 (31 December 2011: RSD 1,052,371) 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 5.56% (2011: 5.46% 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. None of the loans are overdue or impaired.

11. INVENTORIES

	31 December 2012	31 December 2011
Raw materials	26,875,929	23,272,508
Spare parts	2,138,316	2,783,196
Tools	112,183	137,291
Work in progress	7,937,015	5,802,756
Finished goods	8,079,365	8,548,192
Merchandise	4,050,054	2,270,553
	49,192,862	42,814,496
Advances	1,234,319	764,659
Less provision:		
- for inventories	(6,447,124)	(7,801,869)
- for advances	(373,071)	(379,688)
	(6,820,195)	(8,181,557)
Total inventories – net	**43,606,986**	**35,397,598**

Movement on inventory provision is as follows:

	2012	2011
At 1 January	(8,181,557)	(5,334,979)
Provision for impaired inventories and advances charged for the year (note 34)	(17,771)	(3,495,174)
Provision reversed	332,274	57,603
Write-off	9,235	570,839
Transfer to newly formed subsidiaries	1,037,624	-
Other	-	20,154
At 31 December	**(6,820,195)**	**(8,181,557)**

12. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011
Trade receivables		
- domestic	44,343,991	22,564,614
- foreign	1,048,226	1,054,202
- related parties	8,127,399	2,096,242
	53,519,616	25,715,058
Receivables from specific operations	8,787,798	7,998,971
Receivables from sales of assets to subsidiaries	364,055	-
Interest receivables	6,125,320	4,984,235
Receivables from employees	82,940	86,656
Other receivables	7,444,391	7,428,788
	13,652,651	12,499,679
	76,324,120	**46,213,708**
Less provision:		
- trade receivables	(13,141,957)	(5,684,020)
- receivables from specific operations	(8,418,580)	(7,978,573)
- interest receivables	(5,864,441)	(4,854,318)
- other receivables	(7,323,979)	(7,323,558)
	(34,748,957)	**(25,840,469)**
Total receivables – net	**41,575,163**	**20,373,239**

Trade receivables as at 31 December 2012 amounting to RSD 22,741,353 that are more than 90 days overdue are considered impaired, except for receivables of RSD 9,621,695 (31 December 2011: RSD 269,440) from a number of independent customers for whom there is no recent history of default or they were additionally secured in accordance with Company credit policy.

The ageing of trade receivables is as follows:

	31 December 2012	31 December 2011
Up to 3 months	30,778,263	19,824,325
Over 3 months	22,741,353	5,890,733
	53,519,616	**25,715,058**

As at 31 December 2012, trade receivables of RSD 13,141,957 (31 December 2011: RSD 5,684,020) were impaired and fully provided for. The individually impaired receivables mainly relate to customers and are assessed as uncollectable. The ageing of receivables provided for is as follows:

	31 December 2012	31 December 2011
Up to 3 months	22,299	62,727
Over 3 months	13,119,658	5,621,293
	13,141,957	**5,684,020**

12. TRADE AND OTHER RECEIVABLES (continued)

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	31 December 2012	31 December 2011
RSD	75,014,937	45,056,177
USD	1,038,809	916,156
EUR	269,973	241,141
Other	401	234
	76,324,120	**46,213,708**

Movements on the Company's provision for impairment of trade receivables and other receivables are as follows:

	2012	2011
At 1 January	(25,840,469)	(26,103,846)
Provision for impaired receivables (note 34)	(10,438,927)	(1,035,046)
Written off	567,600	497,706
Unused amounts reversed (note 33)	962,839	741,175
Other	-	59,542
At 31 December	**(34,748,957)**	**(25,840,469)**

Expenses 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 2012	31 December 2011
Short-term loans to employees	34,983	508,887
Short-term loans and investments – related parties	312,851	126
Current portion of long-term investments	7,898,604	4,895,659
Other short-term financial investments	6,974	3,271
	8,253,412	5,407,943
Less: provision	(5,820,206)	(2,994,376)
Total short-term financial investments – net	**2,433,206**	**2,413,567**

13. SHORT-TERM FINANCIAL INVESTMENTS (continued)

Current portions of long-term investments as at 31 December 2012 amounting to RSD 7,898,604 (31 December 2011: RSD 4,895,659) mainly relate to current portion of rescheduled receivables of RSD 7,799,629. They are provided for in the amount of RSD 5,820,065 (2011: RSD 2,994,376) (note 10).

Movements on the provision for short-term financial investments:

	2012	2011
At 1 January	(2,994,376)	(706,158)
Provision for impairment	-	(57,123)
Unused amounts reversed (note 33)	26,668	145,180
Transfer from other long-term investments (note 10a)	(2,121,961)	(2,121,961)
Foreign exchange differences and other movements	(730,537)	(254,314)
At 31 December	**(5,820,206)**	**(2,994,376)**

14. VAT AND PREPAID EXPENSES

	31 December 2012	31 December 2011
Deferred input VAT	3,715,739	1,746,469
Prepaid expenses	135,363	55,361
Accrued revenue	2,342,103	483,920
Prepaid excise duty	1,319,866	1,119,985
Housing loans and other prepayments	1,265,187	1,221,186
	8,778,258	**4,626,921**

Deferred input VAT as at 31 December 2012 amounting to RSD 3,715,739 (31 December 2011: RSD 1,746,469) represents VAT inputs 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 1,319,866 (31 December 2011: RSD 1,119,985) relates to the excise paid to the state for finished products stored in non-excise warehouse.

Accrued revenue as at 31 December 2012 amounting to RSD 2,342,103 (31 December 2011: RSD 483,920) mostly relates to receivables for current period sales of gasoline components in the of amount RSD 1,433,617 and for sales of crude oil in the amount RSD 836,904, that have not been invoiced by the year end.

15. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cash at bank	7,949,139	24,793,781
Cash in hand	287,180	391,896
Other cash equivalents	74,945	43,049
	8,311,264	**25,228,726**

As at 31 December 2012, short term bank deposits amounting to RSD 1,081,515 (31 December 2011: RSD 16,473,646) relate to cash deposits with commercial banks with maturity of up to 30 days and are stated as Cash at bank.

16. DEFERRED TAX ASSETS AND LIABILITIES

	Carrying value vs Tax base
Deferred tax liabilities	
As at 1 January 2011	**(1,458,535)**
Origination and reversal of temporary differences	298,024
As at 31 December 2011	**(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)**

	Provisions	Impairment loss	Investment credit	Total
Deferred tax assets				
As at 1 January 2011	-	-	4,804,904	4,804,904
Origination and reversal of temporary differences	103,534	668,654	2,298,344	3,070,532
As at 31 December 2011	**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**

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 2012 in accordance with tax legislation of the Republic of Serbia.

In 2012 was adopted new income tax law. New income tax rate was introduced (15%), which shall be applied for calculation and payment of tax liabilities starting from 2013. In computation of deferred tax assets (liabilities) Company was applied new income tax rate.

16. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Tax Credit Origination	Tax Credit Reversal	31 December 2012	31 December 2011
2005	2015	-	43,053
2006	2016	425,226	444,137
2007	2017	2,164,224	2,184,630
2008	2018	702,349	710,607
2009	2019	1,228,886	1,311,823
2010	2020	1,294,489	1,308,064
2011	2021	937,460	1,100,934
2012	2022	1,985,166	-
		8,737,800	**7,103,248**

17. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2012	31 December 2011
Issued warranties and bills of exchange	44,671,748	49,650,326
Received warranties and bills of exchange	24,593,773	14,603,725
Properties in ex-Republics of Yugoslavia	5,424,642	5,463,077
Receivables from companies from ex-Yugoslavia	5,290,900	4,964,881
Third party merchandise in NIS warehouses	4,047,706	4,332,583
Assets for oil fields liquidation in Angola	422,341	264,973
	84,451,110	**79,279,565**

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

18. EQUITY

	Share capital	Other capital	Reserves	Revaluation reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated gain (loss)	Total
Balance as at 1 January 2011	**81,530,200**	**5,597,824**	**889,424**	**39**	**48,417**	**(49,236)**	**(40,997,954)**	**47,018,714**
Profit for the year	-	-	-	-	-	-	40,601,667	40,601,667
Losses from securities	-	-	-	-	(18,835)	(14,854)	-	(33,689)
Other	-	-	-	(27)	-	-	-	(27)
Balance as at 31 December 2011	**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**

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

18.1. SHARE CAPITAL

The structure of the share capital as at 31 December 2012 was:

Shareholders	Number of shares	Structure in %
Gasprom Neft	91,565,887	56,15%
Republic of Serbia	48,712,444	29,87%
Unicredit Bank Serbia a.d. - custody account	622,201	0,38%
Unicredit Bank Serbia a.d. - custody account	550,933	0,34%
Unicredit Bank Serbia a.d. - custody account	363,643	0,22%
Erste bank a.d., Novi Sad - custody account	323,669	0,20%
Awll communications d.o.o., Belgrade	155,285	0,10%
Raiffeisen Bank a.d., Belgrade - custody account	134,685	0,08%
Julius Baer Multipartner-Balkan	133,686	0,08%
Vojvodjanska banka a.d., Novi Sad -custody account	128,214	0,08%
Other	20,369,753	12,50%
	163,060,400	**100%**

18.2. UNREALISED GAINS (LOSSES) FROM SECURITIES

Unrealized gains/losses as at 31 December 2012 amounting to RSD 6,918 and RSD 81,446 (2011: RSD 29,582 and RSD 64,090), respectively, represent positive/negative effects of fair value changes of financial assets available for sale that are reflected in equity.

Structure of unrealized gains from securities:

	31 December 2012	31 December 2011
Linde Gas Serbia a.d. Bečej, Serbia	2,338	23,487
Komercijalna bank a.d. Belgrade, Serbia	2,769	4,511
Jubmes bank a.d. Belgrade, Serbia	1,811	1,584
Total	**6,918**	**29,582**

Structure of unrealized losses from securities:

	31 December 2012	31 December 2011
Politika a.d. Belgrade, Serbia	(27,733)	(26,997)
Bank Postanska Stedionica a.d. Belgrade, Serbia	-	(3,171)
Dunav osiguranje a.d.o., Belgrade, Serbia	(5,580)	(4,904)
Luka Dunav a.d. Pančevo, Serbia	(5,825)	(1,229)
SPC Pinki a.d. Zemun, Belgrade, Serbia	(42,308)	(27,789)
Total	**(81,446)**	**(64,090)**

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

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 2011	**8,275,608**	**962,968**	**4,729,374**	**-**	**4,533,590**	**18,501,540**
Charged to Income statement (note 28 and 32)	352,614	176,606	-	-	-	529,220
Adjustments on property, plant and equipment	(1,035,326)	-	-	-	-	(1,035,326)
Release of provision (note 33)	(326,083)	-	(1,140,172)	-	(2,505,737)	(3,971,992)
Settlement	-	(127,474)	(295,108)	-	(235,396)	(657,978)
As at 31 December 2011	**7,266,813**	**1,012,100**	**3,294,094**	**-**	**1,792,457**	**13,365,464**
Charged to Income statement (note 28 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**

(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.

(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 861,383 (2011: RSD 1,012,100) 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 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 2012 the management made an assement of present value of liabilities related to long-term employee incentives in amount of RSD 1,042,855 (note 28).

(d) *Legal claims provisions*

As at 31 December 2012, 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 Division. The Company reversed provision for litigation amounting to RSD 827,582 (2011: RSD 2,505,737) for proceedings which, upon legal consultations, were assessed to have positive 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 2012.

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

19. LONG – TERM PROVISIONS (continued)

(e) *Employee benefits provision*

Employee benefits:

	31 December 2012	31 December 2011
Retirement allowances	622,739	1,035,340
Jubilee awards	1,621,826	2,258,754
	2,244,565	**3,294,094**

The principal actuarial assumptions used were as follows:

	31 December 2012	31 December 2011
Discount rate	7.65%	7.75%
Future salary increases	6%	6%
Future average years of service	19.79	18.79

	Retirement allowances	Jubilee awards	Other benefits	Total
Balances as at 1 January 2011	976,273	3,657,173	95,928	4,729,374
Benefits paid directly and other	(63,544)	(227,562)	(4,002)	(295,108)
Total income recognised in income statement	122,611	(1,170,857)	(91,926)	(1,140,172)
Balances as at 31 December 2011	**1,035,340**	**2,258,754**	**-**	**3,294,094**
Benefits paid directly	(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**

Amounts recognized in income statement:

	Year ended 31 December 2012	2011
Current service cost	210,830	263,841
Interest costs	224,197	241,609
Curtailment gain	(1,043,795)	-
Acturial gain	(278,341)	(1,645,622)
	(887,109)	**(1,140,172)**

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

20. LONG-TERM BORROWINGS

	31 December 2012	31 December 2011
Domestic	14,627,940	17,997,065
Foreign	16,626,865	18,052,130
	31,254,805	36,049,195
Current portion of long-term borrowings (note 22)	(533,466)	(2,274,652)
Total	**30,721,339**	**33,774,543**

The maturity of non-current borrowings was as follows:

	31 December 2012	31 December 2011
Between 1 and 2 years	22,184,094	4,538,604
Between 2 and 5 years	2,405,694	22,487,295
Over 5 years	6,131,551	6,748,644
	30,721,339	**33,774,543**

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	31 December 2012	31 December 2011
USD	19,607,409	25,352,982
EUR	8,889,704	8,900,998
RSD	2,281,108	1,281,436
JPY	476,584	513,779
	31,254,805	**36,049,195**

(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 fulfill its obligations within agreed timeframe.

The carrying amounts of the Company's long-term borrowings as at 31 December 2012 and 31 December 2011 are presented in the table below:

Creditor	Currency	31 December 2012	31 December 2011
Domestic long-term loans			
Erste bank, Novi Sad	USD	301,856	293,057
Erste bank, Novi Sad	EUR	469,403	446,569
Hypo Alpe Adria Bank, Belgrade	EUR	-	280,786
Piraeus bank, Belgrade	USD	-	4,043,310
Bank Postanska stedionica, Belgrade	EUR	236,111	227,822
Bank Postanska stedionica, Belgrade	USD	1,670,920	1,643,661
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,670,317	4,524,125
Government of Republic of Serbia, Agency for deposit assurance	USD	-	566,059
Vojvodjanska bank, Novi Sad	RSD	1,000,000	-
UniCredit bank, Belgrade	USD	4,998,225	4,690,240
UniCredit bank, Belgrade	RSD	1,278,900	1,278,900
Other loans	RSD	2,208	2,536
		14,627,940	**17,997,065**
Foreign long-term loans			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	565,419	553,813
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	476,584	513,779
Erste bank, Holland	EUR	3,411,549	3,139,227
VUB (Bank Intesa), Slovakia	USD	8,617,630	8,086,620
NBG bank, London	USD	6,307	1,432,912
NBG bank, London	EUR	102,324	282,469
Alpha bank, London	USD	1,723,526	4,043,310
Piraeus bank, Great Britain	USD	1,723,526	-
		16,626,865	**18,052,130**
Less current portion of long-term borrowings		(533,466)	(2,274,652)
		30,721,339	**33,774,543**

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

20. LONG-TERM BORROWINGS (continued)

	Currency	Current portion 31 December 2012	Current portion 31 December 2011	Long-term 31 December 2012	Long-term 31 December 2011
Domestic long - term loans					
Erste bank, Novi Sad	USD	11,881	9,802	289,975	283,255
Erste bank, Novi Sad	EUR	18,169	14,635	451,234	431,934
Hypo Alpe Adria Bank, Belgrade	EUR	-	280,786	-	-
Piraeus bank, Belgrade	USD	-	-	-	4,043,310
Bank Postanska stedionica, Belgrade	EUR	12,586	10,558	223,525	217,264
Bank Postanska stedionica, Belgrade	USD	88,550	75,702	1,582,370	1,567,959
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	246,267	226,609	4,424,050	4,297,516
Government of Republic of Serbia, Agency for deposit assurance	USD	-	-	-	566,059
Vojvodjanska bank, Novi Sad	RSD	-	-	1,000,000	-
UniCredit bank, Belgrade	USD	-	-	4,998,225	4,690,240
UniCredit bank, Belgrade	RSD	-	-	1,278,900	1,278,900
Other loans	RSD	390	415	1,818	2,121
		377,843	**618,507**	**14,250,097**	**17,378,558**
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	27,790	23,234	537,629	530,579
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	19,202	17,603	457,382	496,176
Erste bank, Holland	EUR	-	-	3,411,549	3,139,227
VUB (Bank Intesa), Slovakia	USD	-	-	8,617,630	8,086,620
NBG bank, London	USD	6,307	1,426,995	-	5,917
NBG bank, London	EUR	102,324	188,313	-	94,156
Alpha bank, London	USD	-	-	1,723,526	4,043,310
Piraeus bank, Great Britain	USD	-	-	1,723,526	-
		155,623	**1,656,145**	**16,471,242**	**16,395,985**
		533,466	**2,274,652**	**30,721,339**	**33,774,543**

21. OTHER LONG-TERM LIABILITIES

	31 December 2012	31 December 2011
Liabilities to parent company	55,536,844	48,745,326
Finance lease liabilities	57,626	86,186
Other long-term liabilities	1,208	1,210
	55,595,678	48,832,722
Current portion of other long-term liabilities and financial lease (note 22)	(5,325,366)	(1,166,681)
	50,270,312	**47,666,041**

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

21. OTHER LONG-TERM LIABILITIES (continued)

a) Liabilities to parent company

As at 31 December 2012, other long-term liabilities to parent company amounting to RSD 55,536,844 (EUR 500,000,006) 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 by 31 December 2012. The stated liabilities shall be settled in quarterly installments starting from December 2012 until 15 May 2023.

b) Finance lease liabilities

As at 31 December 2012, long-term finance lease liabilities of RSD 21,482 (2011: RSD 53,117) are secured by the lessor's right on ownership over the leased asset until the finance lease has been settled.

Minimum finance lease payments:

	31 December 2012	31 December 2011
Less than one year	38,584	37,894
1-5 years	21,974	56,300
Future finance charges on finance leases	(2,932)	(8,008)
Present value of finance lease liabilities	**57,626**	**86,186**

	31 December 2012	31 December 2011
Less than one year	36,144	33,069
1-5 years	21,482	53,117
Present value of finance lease liabilities	**57,626**	**86,186**

22. SHORT-TERM FINANCIAL LIABILITIES

	31 December 2012	31 December 2011
Short-term loans	3,500,000	-
Current portion of long-term loans (note 20)	533,466	2,274,652
Current portion of finance lease (note 21)	36,144	33,069
Current portion of other long-term liabilities (note 21)	5,289,222	1,133,612
Other short-term liabilities	475	3,589
	9,359,307	**3,444,922**

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

23. TRADE AND OTHER PAYABLES

	31 December 2012	31 December 2011
Advances received	953,509	872,581
Trade payables:		
- domestic	3,084,090	2,724,233
- foreign	2,257,820	6,861,872
Trade payables – parents and subsidiaries	1,223,512	12,505
Trade payables – other related parties	25,995,092	18,587,440
Liabilities from other operations	71,443	71,956
Liabilities from specific operations	336,182	328,067
	33,921,648	**29,458,654**

As at 31 December 2012, payables to other related parties amounting to RSD 25,995,092 (31 December 2011: RSD 18,587,440) mainly relate to liabilities to the supplier Gazprom Neft Trading, Austria for crude oil in the amount of RSD 25,464,826 (31 December 2011: RSD 18,116,245).

24. OTHER SHORT-TERM LIABILITIES

	31 December 2012	31 December 2011
Liabilities for unpaid wages and salaries, gross	1,517,017	1,663,691
Liabilities for interest – domestic	350,859	354,633
Liabilities for dividends	3,772,308	3,772,308
Unused holiday accrual	622,441	714,425
Other liabilities	50,980	161,835
	6,313,605	**6,666,892**

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

25. LIABILITIES FOR VAT, OTHER TAXES AND DEFERRED INCOME

	31 December 2012	31 December 2011
Liabilities for VAT	514,867	1,161,309
Liabilities for excise	2,563,776	2,421,670
Liabilities for taxes and custom duties	4,434,531	1,770,644
Other liabilities for taxes and contributions	180,808	47,752
Accrued liabilities	2,064,135	1,150,705
Other accruals	2,276,828	1,535,016
	12,034,945	**8,087,096**

Accrued liabilities as at 31 December 2012 amounting to RSD 2,064,135 mainly relate to estimated costs of services rendered but not invoiced by suppliers in the year ended 31 December 2012 (31 December 2011: RSD 1,150,705).

Other accruals as at 31 December 2012 amounting to RSD 2,276,828 (31 December 2011: RSD 1,535,016) mainly relate to accrued employee bonuses of RSD 1,418,102 (31 December 2011: RSD 1,154,658).

26. OTHER OPERATING INCOME

	Year ended 31 December 2012	2011
Rental income	128,698	120,339
Other operating income	55,979	177,802
	184,677	**298,141**

27. RAW MATERIAL AND CONSUMABLES USED

	Year ended 31 December 2012	2011
Costs of raw materials	87,756,144	92,716,809
Overheads and other costs	558,789	885,796
Other fuel and energy expenses	2,101,698	1,933,667
	90,416,631	**95,536,272**

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

28. DEPRECIATION, AMORTISATION AND PROVISION

	Year ended 31 December 2012	2011
Depreciation expenses	6,273,791	6,655,665
Provision for:		
- land recultivation and environmental protection (note 19)	523,999	176,606
- long-term incentive program (note 19)	1,042,855	-
	7,840,645	**6,832,271**

29. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December 2012	2011
Wages and salaries (gross)	14,164,878	14,945,910
Taxes and contributions on wages and salaries paid by employer	2,182,650	2,504,933
Costs of special service agreements	454,538	369,894
Cost of other temporary service agreements	40,184	18,004
Fees paid to board of directors and general assembly board	35,216	28,545
Cost for employee termination benefits	3,220,648	2,555,388
Other personal expenses and benefits	1,149,784	1,321,797
	21,247,898	**21,744,471**

Termination costs amounting to RSD 3,220,648 mainly relate to costs incurred in relation to voluntary leave programme. The total number of employees who accepted termination of employment in 2012 was 1,533 (2011: 1,090 employees).

	Year ended 31 December 2012	2011
Average number of employees	7,577	9,650

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

30. OTHER OPERATING EXPENSES

	Year ended 31 December 2012	2011
Cost of production services	2,375,468	1,545,572
Transportation services	2,105,627	1,546,325
Maintenance	2,209,741	1,191,573
Rental costs	512,180	391,926
Fairs	4,459	7,254
Advertising costs	548,005	391,983
Research costs	951,088	177,971
Cost of other services	772,747	899,950
Costs of non production services	3,153,642	2,161,740
Representation costs	121,596	153,602
Insurance premium	215,975	221,165
Bank charges	206,738	248,925
Cost of custom duties, property taxes and other taxes	1,846,874	2,268,699
Fee for emergency situations	288,517	554,112
Mineral extraction tax	2,782,327	2,138,526
Cost of legal and consulting services	101,880	104,800
Administrative and other taxes	176,592	192,216
Other	779,276	337,822
	19,152,732	**14,534,161**

Cost of non-production services for year ended 31 December 2012 amounting to RSD 3,153,642 (2011: RSD 2,161,740) mainly relate to costs of service organizations of RSD 1,816,951, consulting service costs of RSD 416,262, project management costs of RSD 123,092 and certification and supervision costs of RSD 134,385.

31. FINANCE INCOME

	Year ended 31 December 2012	2011
Finance income – parent and subsidiaries	331,964	22,103
Finance income –other related parties	-	5,047
Interest income	3,037,635	1,334,289
Foreign exchange gains	6,796,845	5,646,752
Other finance income	713	805
	10,167,157	**7,008,996**

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

32. FINANCE EXPENSES

	Year ended 31 December	
	2012	**2011**
Finance expenses – parent, subsidiaries and other related parties	124,225	38,034
Interest expenses	1,572,327	2,280,961
Amortization of long-term liabilities	336,335	352,614
Foreign exchange losses	13,794,056	6,159,017
Other finance expenses	105	2,943
	15,827,048	**8,833,569**

33. OTHER INCOME

	Year ended 31 December	
	2012	**2011**
Gains on disposal:		
- property, plant and equipment	134,805	22,444
- materials	14,514	15,898
Surpluses from stock count	379,622	146,955
Payables written off	552,997	340,595
Release of long-term provisions (note 19)	1,762,334	3,971,992
Penalty interest	44,981	48,928
Recovered Elektroprivreda of Montenegro Receivables	-	463,036
Insurance claims received	-	14,404
Reversal of impairment of buildings	-	31,135
Change in bonuses accrual	-	23,093
Adjustment of investments in Angola	64,342	418,982
Reversal of impairment losses on:		
- property, plant and equipment	2,881	349,332
- inventories	322,555	-
- short-term financial investments (note 13)	26,668	145,180
- receivables (note 12)	962,839	741,175
- other properties	9,719	57,603
Other	429,194	615,530
	4,707,451	**7,406,282**

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

34. OTHER EXPENSES

	Year ended 31 December	
	2012	**2011**
Losses on disposal of property, plant and equipment	80,212	25,427
Shortages	779,642	800,655
Write off of receivables	40,598	10,337
Write off of inventories	131,299	19,398
Fines, penalties and damages	22,478	45,370
Humanitarian services and sponsorships	162,698	173,169
Adjustment of investments in Angola	7,856	35,617
Bank charges for sales on debit cards	-	58,751
Service costs	-	36,382
Impairment:		
- intangible assets (note 6)	87,150	39,491
- property, plant and equipment (note 7)	222,631	325,571
- investment property (note 8)	17,716	190,726
- investments in associates	-	4,269
- other long-term investments	2,504	32,475
- inventories (note 11)	5,434	3,474,982
- advances paid (note 11)	12,337	20,192
- short term investments	-	57,123
- receivables(note 12)	10,438,927	1,035,046
Other	691,876	568,540
	12,703,358	**6,953,521**

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

35. INCOME TAXES

Components of income tax expense:

	Year ended 31 December 2012	2011
Income tax for the year	2,575,885	2,464,263
Deferred income tax for the period (note 16)		
Origination and reversal of temporary differences	(901,604)	(3,368,556)
Impact of change in the tax rate	194,162	-
	(707,442)	(3,368,556)
	1,868,443	**(904,293)**

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 2012	2011
Profit before tax	51,324,959	39,697,374
Tax calculated at statutory tax rate – 10%	5,132,496	3,969,737
Tax effect on:		
Expenses not deductible for tax purposes	752,222	(503,214)
Deferred tax credits	(1,634,552)	(2,298,344)
Utilized tax credits	(2,575,885)	(2,257,868)
Impact of change in the tax rate	194,162	-
	(3,264,053)	(5,059,426)
Adjustment in respect of prior years	-	185,396
	1,868,443	**(904,293)**
Average income tax rate	3.64%	-2.28%

36. EARNING PER SHARE

	Year ended 31 December 2012	2011
Profit	49,456,516	40,601,667
Weighted average number of ordinary shares in issue	163,060,400	163,060,400
Basic Earnings per share	**0.303**	**0.249**

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-controling 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 2012 and 2011, 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 2012 and 31 December 2011 the outstanding balances with related parties were as follows:

	Subsidiary	Parent	Other related parties	Total
As at 31 December 2012				
Investments in equity instruments	8,703,404	-	-	8,703,404
Long-term loans issued	16,629,612	-	-	16,629,612
Other long-term investments	1,211,054	-	-	1,211,054
Inventories	64,732	-	22,174,560	22,239,292
Trade and other receivables	1,906,606	-	4,960	1,911,566
Short-term financial investments	312,851	-	-	312,851
VAT and prepaid expenses	73,828	-	20	73,848
Other long-term liabilities	-	(50,247,622)	-	(50,247,622)
Short-term financial liabilities	-	(5,289,222)	-	(5,289,222)
Trade and other payables	(1,265,209)	-	(25,475,054)	(26,740,263)
Other short-term liabilities	-	(115,203)	-	(115,203)
Liabilities for VAT, other taxes and deferred income	(553,497)	-	-	(553,497)
	27,083,381	**(55,652,047)**	**(3,295,514)**	**(31,864,180)**
As at 31 December 2011				
Investments in equity instruments	3,490,817	-	-	3,490,817
Long-term loans issued	2,289,198	-	-	2,289,198
Other long-term investments	1,616,295	-	-	1,616,295
Inventories	1,544	-	17,299,127	17,300,671
Trade and other receivables	310,988	-	3,717	314,705
Short-term financial investments	126	-	-	126
VAT and prepaid expenses	2,398	-	-	2,398
Other long-term liabilities	-	(47,611,714)	-	(47,611,714)
Short-term financial liabilities	-	(1,133,612)	-	(1,133,612)
Trade and other payables	(14,766)	-	(18,121,839)	(18,136,605)
Other short-term liabilities	-	(142,620)	-	(142,620)
Liabilities for VAT, other taxes and deferred income	(748)	-	-	(748)
	7,695,852	**(48,887,946)**	**(818,995)**	**(42,011,089)**

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

37. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

For the year ended 31 December 2012 and 2011 the following transaction occured with related parties:

	Subsidiary	Parent	Other related parties	Total
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)**
Year ended 31 December 2011				
Sales	809,570	-	4,788,484	5,598,054
Other operating income	1,058	-	-	1,058
Raw material and consumables used	-	-	(64,176,762)	(64,176,762)
Employee benefits expense	(140,481)	-	-	(140,481)
Other operating expenses	(46,554)	(139,306)	(3,000)	(188,860)
Finance income	3,837	-	18,266	22,103
Finance expenses	-	(38,034)	-	(38,034)
Other income	-	-	45,956	45,956
Other expenses	(10,106)	(21,250)	(184,029)	(215,385)
	617,324	**(198,590)**	**(59,511,085)**	**(59,092,351)**

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

37. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

Key management compensation

Management compensation paid in 2012 and 2011 is shown in the table below:

	Year ended 31 December 2012	Year ended 31 December 2011
Salaries and other short-term benefits	316,118	156,908
	316,118	156,908

Main transactions with state owned companies

	31 December 2012	31 December 2011
Receivables		
HIP Petrohemija	7,307,595	1,995,294
Srbijagas	23,573,467	7,414,404
	30,881,062	**9,409,698**
Liabilities		
HIP Petrohemija	(523,563)	(471,195)
Srbijagas	(85,682)	(272,661)
	(609,245)	**(743,856)**
Advances received		
HIP Petrohemija	(7,743)	(5,386)
Srbijagas	(12,806)	(12,796)
	(20,549)	**(18,182)**

	Year ended 31 December 2012	Year ended 31 December 2011
Income		
HIP Petrohemija	9,258,368	11,849,584
Srbijagas	17,902,669	9,402,233
	27,161,037	**21,251,817**
Expenses		
HIP Petrohemija	(146,097)	(155,513)
Srbijagas	(1,675,633)	(249,550)
	(1,821,730)	**(405,063)**

38. CONTINGENT LIABILITIES

Transfer of property ownership

As at 31 December 2012, the Company had ownership of 6,066 and the right to use and possess 1,725 properties, which make up 71% and 20% 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 with the NIS Registry of Fixed Assets as at 31 December 2007.

Finance Guarantees

As at 31 December 2012 the total amount of outstanding finance guarantees given by the Company amounted to RSD 3,770,880 mostly related to customs duties in the amount of RSD 2,403,960 (2011: 3,200,000 RSD).

Environmental protection

As at the reporting date, the Company's management made an environmental provison amounting to RSD 861,383 (2011: RSD 1,012,100), based on an internal assestment of compliance with the Republic of Serbia environmental legislation.

Management believes that based on current environmental legislation costs associated with environmental issues will not be significantly higher than the ones already provided for. However, it is possible that these costs will increase significantly in the future, should the legislation become more restrictive.

Other contingent liabilities

As at 31 December 2012, 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 including interest of USD 81 million related to the additional profit oil for the period from 2002 to 2009. Management believes that, based on the concession agreements signed with Angola and an the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit Oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Company's management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed three years ago. Taking all of the above into consideration, the management is of the view that as at 31 December 2012 there was a significant 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 if any.

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

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 2012, 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 2012	31 December 2011
Up to one year	182,024	158,321
Between one and five years	246,461	252,559
Over five year	944	1,010
	429,429	**411,890**

Minimum lease payments under non-cancellable operating lease by lessee:

	31 December 2012	31 December 2011
Up to one year	444,904	188,159
Between one and five years	381,988	64,361
Over five year	-	-
	826,892	**252,520**

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 2012 drilling and exploration works were estimated to 2.3 million USD.

41. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period.

Novi Sad, 13 February 2013

The person responsible for the preparation of financial statements

М.П.

Legal representative

На основу ОДЛУКА NH-040700/ND-od/000177 за 12-02.20
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