NAFTNA INDUSTRIJA SRBIJE A.D., Novi Sad

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

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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 consolidated financial statements of Naftna Industrija Srbije a.d., Novi Sad (the "Parent") and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2013 and the consolidated income statement, consolidated statement of changes in shareholder's equity and consolidated 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the requirements of the Law on Accounting and Auditing of the Republic of Serbia („Official Gazette RoS" No. 46/2006 and 111/2009) and Law on Accounting of the Republic of Serbia („Official Gazette RoS" No. 62/2013) and Note 2 to these consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia („Official Gazette RoS" No. 46/2006 and 111/2009) and Law on Accounting of the Republic of Serbia („Official Gazette RoS" No. 62/2013) and Note 2 to these consolidated financial statements

Milivoje Nesovic
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 18 February 2014

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NIS A.D. – Naftna industrija Srbije
Novi Sad

Consolidated Financial Statements

31 December 2013

Novi Sad, 18 February 2014

C O N T E N T S:

Consolidated Financial Statements for the year ended 31 December 2013

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED BALANCE SHEET

ASSETS	Note	31 December 2013	31 December 2012
Non-current assets			*(adjusted)*
Goodwill	6	1,962,138	1,464,063
Intangible assets	6	14,095,763	9,400,590
Property, plant and equipment	7	202,004,431	157,116,676
Investment property	8	1,414,364	1,367,378
Investments in equity instruments	9	1,208,882	177,680
Other long-term investments	10	1,175,732	1,290,057
		221,861,310	**170,816,444**
Current assets			
Inventories	11	41,206,459	44,741,588
Non-current assets held for sale		-	57,983
Trade and other receivables	12	53,036,792	40,010,284
Short-term financial investments	13	2,154,738	5,785,975
Cash and cash equivalents	14	8,707,774	12,069,897
VAT and prepaid expenses	15	8,847,278	9,598,891
Deferred tax assets	16	9,776,756	9,788,287
		123,729,797	**122,052,905**
Total assets		**345,591,107**	**292,869,349**
Off-balance sheet assets	17	94,164,460	84,582,742
EQUITY AND LIABILITIES			
Equity	18		
Share and other capital	18.1, 2.22, 2.23	81,550,757	87,148,630
Reserves	2.24	-	867,866
Unrealized gains from securities		18,144	6,918
Unrealized losses from securities		(118,114)	(81,446)
Retained earnings	18	87,502,311	45,148,692
		168,953,098	**133,090,660**
Long-term provisions and liabilities			
Long-term provisions	19	14,984,152	13,690,890
Long-term borrowings	20	15,684,162	31,100,703
Other long-term liabilities	21	45,449,716	50,283,107
		76,118,030	**95,074,700**
Short-term liabilities			
Short-term financial liabilities	22	27,918,442	9,359,358
Trade and other payables	23	49,927,085	33,366,219
Other short-term liabilities	24	4,933,210	6,962,356
Liabilities for VAT, other taxes and deferred income	25	12,812,513	12,087,988
Income tax liabilities		2,591,447	505,827
		98,182,697	62,281,748
Deferred tax liabilities	16	2,337,282	2,422,241
Total equity and liabilities		**345,591,107**	**292,869,349**
Off-balance sheet liabilities	17	94,164,460	84,582,742

The accompanying notes on pages 8 to 74 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements for the year ended 31 December 2013

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2013	2012
Operating income			
Sales revenue	5	259,421,798	226,605,585
Work performed by the entity and capitalized	5	7,981,686	5,614,382
(Decrease) increase in inventories of finished goods and work in progress	5	(3,102,098)	1,664,825
Other operating income	5, 26	134,455	198,683
		264,435,841	234,083,475
Operating expenses			
Cost of goods sold		(15,449,511)	(26,621,606)
Raw material and consumables used	27	(135,558,990)	(91,646,458)
Employee benefits expense	28	(23,612,684)	(24,922,733)
Depreciation, amortisation and provision	29	(12,221,792)	(9,212,485)
Other operating expenses	30	(23,023,033)	(18,311,703)
		(209,866,010)	(170,714,985)
Operating profit		54,569,831	63,368,490
Finance income	31	8,295,680	9,964,434
Finance expenses	32	(4,673,958)	(15,974,288)
Other income	33	4,635,944	4,759,628
Other expenses	34	(8,437,074)	(14,648,732)
Profit before income tax		54,390,423	47,469,532
Income tax expense			
Current income tax expense	35	(6,195,055)	(2,591,542)
Deferred income tax benefit	16,35	152,328	654,621
Profit for the year		**48,347,696**	**45,532,611**
Profit attributable to:			
- Non-controlling interest	18	-	-
- Shareholders of Naftna Industrija Srbije	18	48,347,696	45,532,611
Earnings per share			
- Basic	36	0.297	0.279

The accompanying notes on pages 8 to 74 are an integral part of these Consolidated Financial Statements.

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

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2013	2012
Cash flows from operating activities		
Sales and advances received	396,553,219	312,802,874
Interest from operating activities	950,931	1,903,267
Other inflow from operating activities	134,455	192,320
Cash inflow from operating activities	397,638,605	314,898,461
Payments and prepayments to suppliers	(152,436,633)	(139,319,224)
Salaries, benefits and other personal expenses	(25,262,051)	(23,671,657)
Interest paid	(2,947,527)	(3,318,871)
Income tax paid	(4,122,711)	(3,572,576)
Payments for other public revenues	(137,584,263)	(107,726,495)
Cash outflow from operating activities	(322,353,185)	(277,608,823)
Net cash from operating activities	**75,285,420**	**37,289,638**
Cash flows from investing activities		
Sale of shares	542,617	228
Proceeds from sale of property, plant and equipment	238,812	155,088
Other financial investments	32,000	-
Cash inflow from investing activities	813,429	155,316
Purchase of intangible assets, property, plant and equipment	(64,897,780)	(47,212,914)
Other financial investments (net outflow)	(1,060,118)	(3,759,084)
Cash outflow from investing activities	(65,957,898)	(50,971,998)
Net cash used in investing activities	**(65,144,469)**	**(50,816,682)**
Cash flows from financing activities		
Proceeds from long-term and short-term borrowings	21,996,382	6,651,461
Proceeds from other long-term and short-term liabilities	-	3,818,459
Cash inflow from financing activities	21,996,382	10,469,920
Outflows from long-term, short-term and other liabilities	(23,224,309)	(11,360,516)
Dividend distribution	(12,364,129)	-
Cash outflow from financing activities	(35,588,438)	(11,360,516)
Net cash used in financing activities	**(13,592,056)**	**(890,596)**
Decrease in cash and cash equivalents	(3,451,105)	(14,417,640)
Cash and cash equivalents at the beginning of year	**12,069,897**	**25,832,354**
Currency translation gains on cash and cash equivalents	803,737	2,064,732
Currency translation losses on cash and cash equivalents	(714,755)	(1,409,549)
Cash and cash equivalents at the end of year	**8,707,774**	**12,069,897**

The accompanying notes on pages 8 to 74 are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Other capital	Reserves	Unrealised gains from securities	Unrealised losses from securities	Retained earnings (loss)	Total
Balance as at 1 January 2012	**81,550,757**	**5,597,873**	**884,217**	**29,582**	**(64,090)**	**(386,999)**	**87,611,340**
Total increase in previous period	-	-	-	-	(17,356)	45,532,611	45,479,320
Total decrease in previous period	-	-	(16,351)	(22,664)	-	3,080	-
Balance as at 31 December 2012	**81,550,757**	**5,597,873**	**867,866**	**6,918**	**(81,446)**	**45,148,692**	**133,090,660**
Balance as at 1 January 2013	**81,550,757**	**5,597,873**	**867,866**	**6,918**	**(81,446)**	**45,148,692**	**133,090,660**
Total increase in current period	-	-	-	11,226	(36,668)	54,834,993	35,862,438
Total decrease in current period	-	(5,597,873)	(867,866)	-	-	(12,481,374)	-
Balance as at 31 December 2013	**81,550,757**	**-**	**-**	**18,144**	**(118,114)**	**87,502,311**	**168,953,098**

The accompanying notes on pages 8 to 74 are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATISTICAL ANNEX
For year ended 31 December 2013 and 2012

GENERAL INFORMATION ON COMPANY	2013	2012
1. Number of months of operations	12	12
2. Code identifying the company's size (1 to 4).	4	4
3. Code identifying the company's ownership structure (1 to 5).	4	4
4. Number of foreign persons, who may be natural persons or legal entities, holding a share in capital.	111	88
5. Average number of employees based on employee position as at each months end.	7,629	9,004

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	13,232,939	2,368,286	10,864,653
1.2. Additions (purchases) during the year	6,411,552	-	6,411,552
1.3. Disposals during the year	(614,349)	-	(1,218,304)
1.4. Revaluation	-	-	-
1.5. Balance as at year end	**19,030,142**	**2,972,241**	**16,057,901**
2. Property, Plant and Equipment, and Biological Assets	-	-	-
2.1. Balance as at beginning of the year	228,673,945	70,189,891	158,484,054
2.2. Additions (purchases) during the year	67,023,468	-	67,023,468
2.3. Disposals during the year	(21,636,630)	-	(22,088,727)
2.4. Revaluation	-	-	-
2.5. Balance as at year end	**274,060,783**	**70,641,988**	**203,418,795**

INVENTORIES	Current year	Previous year
1. Stock of material	25,264,845	23,677,683
2. Work in progress	4,787,759	7,941,977
3. Finished goods	8,131,485	8,079,365
4. Merchandise	2,475,891	4,195,276
5. Non-current assets available–for-sale	-	57,983
6. Prepayments	546,479	847,287
Total	**41,206,459**	**44,799,571**

EQUITY		
Share capital	81,530,200	81,530,200
- foreign capital	46,294,058	46,029,868
Stakes of a limited liability company	20,557	20,557
- foreign capital	120	120
Stakes of members of a partnership or limited partnership	-	-
- foreign capital	-	-
State owned capital	-	-
Socially owned capital	-	-
Stakes in cooperatives	-	-
Other equity	-	5,597,873
Total	**81,550,757**	**87,148,630**
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**

CONSOLIDATED STATISTICAL ANNEX (continued)

For year ended 31 December 2013 and 2012

	2013	2012
RECEIVABLES AND PAYABLES		
1. Receivables from sales (balance at year end)	52,575,084	39,663,600
2. Payables from operations (balance at year end)	49,594,573	33,071,998
3. Receivables from insurance companies for compensation for damage during the year (debit turnover less opening balance)	44,655	46,090
4. VAT – previous tax (annual amount as per tax declarations)	45,591,665	34,227,364
5. Payables from operations (credit turnover less opening balance)	632,201,192	557,941,446
6. Net salaries and fringe benefits payable (credit turnover less opening balance)	15,407,263	15,229,063
7. Tax on salaries and fringe benefits charged to employees payable (credit turnover less opening balance)	2,169,276	2,331,875
8. Contribution on salaries and fringe benefits charged to employees payable (credit turnover less opening balance)	2,694,305	2,657,829
9. Dividends, share in profit and personal earnings of the employer payable (credit turnover less opening balance)	12,364,129	-
10. Fees for services rendered by natural persons payable (credit turnover less opening balance)	630,858	571,690
11. VAT liability (annual amount as per tax declarations)	64,754,006	50,494,207
Total	**878,027,006**	**736,235,162**
OTHER COSTS AND EXPENSES		
1. Cost of fuel and energy	3,296,359	2,783,467
2. Cost of salaries and fringe benefits (gross)	15,349,007	16,789,491
3. Cost of taxes and contributions on salaries and fringe benefits charged to employer	2,394,753	2,618,554
4. Cost of fees for services rendered by natural persons (gross)	731,644	530,364
5. Cost of fees for members of management and supervisory boards (gross)	72,666	35,216
6. Other personal fees and expenses	5,064,614	4,949,108
7. Production services cost	10,495,999	8,068,561
8. Rental costs	1,209,941	681,608
9. Rental costs/Land	14,958	1,002
10. Research and development costs	786,216	759,226
11. Cost of depreciation	10,871,987	6,858,262
12. Insurance premium costs	305,264	225,371
13. Payment operations costs	254,017	214,311
14. Membership fees	41,285	83,837
15. Taxes	1,808,706	2,262,103
16. Contributions	12	144
17. Interest payable	2,517,777	1,940,559
18. Interest payable and a portion of financial expenses	3,742,259	2,064,784
19. Interest payable on bank loans and loans from other financial organizations	1,853,904	1,753,977
20. Cost of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	59,887	32,374
Total	**60,871,255**	**52,652,319**

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED STATISTICAL ANNEX (continued)

For year ended 31 December 2013 and 2012

	2013	2012
OTHER REVENUE		
1. Sales of merchandise	21,851,148	30,004,293
2. Revenues from premiums, subventions, grants, recourses, compensations and tax returns	806	15,496
3. Revenues from conditional donations	-	-
4. Revenues from land-rental fees	6,089	1,587
5. Membership fees	-	-
6. Interest receivable	5,539,711	3,051,045
7. Interest receivable incurring from accounts and deposits with banks and other financial organizations	434,742	1,196,010
8. Revenues from dividends and share in profit	10,543	-
Total	**27,843,039**	**34,268,431**
OTHER INFORMATION		
1. Excise duty liability (as per annual calculation of excise duty)	82,780,616	54,230,522
2. Customs and other import duties calculated (annual total as per calculation)	30,396,785	36,242,650
3. Capital subsidies and other government grants for the construction and purchase of fixed assets and intangible assets	-	-
4. Government grants as premiums, recourses and coverage of running operating costs	-	-
5. Other Government grants	57	15,497
6. Foreign donations and other non-returnable funds, received either in cash or in kind from foreign legal and/or natural persons	-	-
7. Personal earnings of the entrepreneur from net profit (to be completed only by entrepreneurs)	-	-
Total	**113,177,458**	**90,488,669**

The accompanying notes on pages 8 to 74 are an integral part of these Consolidated Financial Statements.

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") and its subsidiaries (together refer to as the "Group") is a vertically integrated oil company operating predominantly in Serbia. The Group's principal activities include:

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

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

The Company is an open joint stock company, listed on the Prime market on the Belgrade Stock Exchange.

These Consolidated Financial Statements have been approved and authorized for issue by CEO and will be presented to shareholders on the General meeting for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the Consolidated Financial Statements for the year ended 31 December 2012.

2.1. Basis of preparation

These Consolidated Financial Statements for the year ended 31 December 2013 were prepared in accordance with the Law on Accounting and Law on Auditing of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (Nos. 46/2006, 111/2009, 61/2013 and 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied, and the regulations issued by the Ministry of Finance of the Republic of Serbia. Due to the difference between these two regulations, these Consolidated Financial Statements differ from IFRS in the following respects:

- The Consolidated Financial Statements are prepared in format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 (revised) – "Presentation of Financial Statements" requirements and IAS 7 – "Statement of cash flows".
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.
- Property, plant and equipment of the Company were measured at market value by independent appraisal and any revaluation reserves for the excess of fair value against historical value were cancelled against share capital as at 1 January 2006.

The preparation of Consolidated Financial Statements in conformity with the Law on Accounting of the Republic of Serbia requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 3.

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

2.2. New accounting standards

The following new standards and interpretations became effective for the Group from 1 January 2013:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to Group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).
- IAS 19, 'Employee benefits' was revised in June 2011. The changes on the Group's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).
- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
- IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint ventures is no longer permitted.
- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The standard is not mandatory for the Group until 1 January 2014; however the Group has decided to early adopt the standard as of 1 January 2013.
- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.
- IAS 27 (revised 2011), 'Separate financial statements' includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

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

2.2. New accounting standards (continued)

- Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Group until 1 January 2014, however the Group has decided to early adopt the amendment as of 1 January 2013.

Certain new and amended standards and interpretations have been issued that are mandatory for the first time for the financial year beginning 1 January 2014 or later, and which the Group has not early adopted:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.
- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives raise to pay a levy and when should a liability be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's Consolidated Financial Statements.

2.3. Comparative figures

		Reclassification	
	31 December 2012	*Fair value measurement of business combinations*	**31 December 2012** *(Adjusted)*
Goodwill	968,940	495,123	1,464,063
Property, plant and equipment	157,611,799	(495,123)	157,116,676
Net assets	**158,580,739**	**-**	**158,580,739**

As of 31 December 2013 Group was obtained all information about facts and circumstances that existed as of PS station acquisition date (PS Petroliv, XXL Oil and Eso Oil) which allowed to finalise provisional amounts previously recognised as business combination. Above has resulted in additional goodwill recognition in the consolidated balance sheet in amount of 495,123 RSD and decrease in value of PPE in the same amount.

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

2.4. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, is the Board of Directors and the General Manager Advisory Board. The information on segment assets and liabilities are not regularly provided to the chief operating decision-maker.

2.5. Seasonality of Operations

The Group as a whole is not subject to significant seasonal fluctuation.

2.6. Foreign currency translation

(a) *Functional and presentation currency*

Items included in the Consolidated Financial Statements of the Group are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The Consolidated Financial Statements are presented in RSD, which is the Company’s functional and the Group’s presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within ‘finance income or expenses’.

(c) *Group’s Companies*

The result and financial position of all group companies whose functional currency is different from the Group's presentation currency are calculated as follows:

I. assets and liabilities are translated into the RSD using the exchange rate as at the date of that Consolidated Statement of Financial Position;
II. income and expenses are translated at average exchange rates and all resulting foreign exchange differences are recognized in reserves as separate items in equity.

2.7. Principles of consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Company has power to govern the financial and operating policies in order to make profit from their activity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date that control ceases.

Inter-group transactions, balances and unrealized gains on transactions between Group companies are eliminated during the preparation of Consolidated Financial Statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.7. Principles of consolidation (continued)

b) Investments in Associates and Joint Ventures (Equity Accounted Investees)

Investments in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The Consolidated Financial Statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

c) Non-controlling interests

In Consolidated Financial Statements, non-controlling interests in subsidiaries are presented separately from Group equity as non-controlling interests.

2.8. Business combinations

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group and recognised goodwill or a gain from a bargain purchase. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

2.9. Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ('bargain purchase') is recognized in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, that the Group incurs in connection with a business combination are expensed as incurred.

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

2.10. Intangible assets

(a) *Licenses and rights (concessions)*

Separately acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

Licenses and rights include Oil and Gas Upstream Exploration Rights, which are amortised in accordance with the terms and conditions of the rights.

(b) *Computer software*

Costs associated with computer software primarily include the cost of the implementation of SAP software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised over their estimated useful lives (not to exceed 8 years).

2.11. Exploration for and evaluation of mineral resources

(a) *Exploration and evaluation expenditure*

During the exploration period, costs of exploration and evaluation of oil and natural gas are capitalized until it is proven that oil and gas reserves will not suffice to justify exploration costs. Geological and geophysical costs as well as costs directly associated with exploration are capitalized as incurred. The costs of obtaining exploration rights are capitalised either as part of property, plant and equipment or intangible assets depending on the type of cost. When commercial reserves have been discovered, subsequent to exploration and development investment impairment testing, they are transferred to development of assets either within property, plant and equipment or intangible assets. No depreciation and/or amortisation are charged during the exploration and evaluation phase.

(b) *Development costs of fixed and intangible assets*

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized within construction in progress according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortisation are charged during development.

(c) *Oil and gas production assets*

Oil and gas production assets comprise exploration and evaluation tangible assets as well as development costs associated with the production of proved reserves.

(d) *Depreciation/amortization*

Oil and gas properties/intangible assets are depleted using the unit-of-production method. The unit-of production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

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

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

(e) *Impairment – exploration and evaluation assets*

Exploration property leasehold acquisition costs are assessed for impairment when there are indications of impairment. For the purpose of impairment testing, exploration property leasehold acquisition costs subject to impairment testing are grouped with existing cash-generating units (CGUs) of related production fields located in the same geographical region.

(f) *Impairment – proved oil and gas properties and intangible assets*

Proven oil and gas properties and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.12. Property, plant and equipment

As of the date of establishment, the Group's property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and works of art are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Description	Useful lives
Buildings	10 - 50
Machinery and Equipment:	
- Production equipment	7 - 25
- Furniture	5 - 10
- Vehicles	7 - 20
- Computers	5 - 10
Other PP&E	3 - 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 34).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/expenses" in the consolidated income statement (notes 33 and 34).

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

2.13. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14. Investment property

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

Investment property principally comprises of petrol stations and business facilities rented out for a period exceeding one year.

Investment property is carried at fair value, representing open market value based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the consolidated income statement as part of other income (expenses) (notes 33 and 34).

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.15. Joint arrangements

The Group has applied IFRS 11 to all joint arrangements from 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. Group has assessed the nature of its joint arrangements and determined them to be joint operations where joint operator accounts for its share of the assets, liabilities, revenue and expenses.

2.16. Long–term financial assets

The Group classifies its financial assets in the following categories: long-term loans and receivables and available for sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

2.16.1. Financial assets classification

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables'.

(b) *Available for sale financial assets*

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date, in which case they are classified as current assets.

2.16.2. Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected.

2.16.3. Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

2.16. Long–term financial assets (continued)

2.16.3. Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - Adverse changes in the payment status of borrowers in the portfolio; and
  - National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

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

2.17. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises cost of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Spare parts for equipment used in production are stated at cost. The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed once a year. Impairment losses are recognized as other expenses (note 34).

2.18. Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through a continuing use. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the sales plan will be made or that the plan will be withdrawn.

2.19. Trade receivables

Trade receivables are amounts due from customers for products and merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Alternatively, trade receivables are stated as long-term.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'other expenses' (note 34). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to 'other income' in the consolidated income statement (note 33).

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

2.20. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, cash in banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet.

2.21. Off-balance sheet assets and liabilities

Off-balance sheet assets/liabilities include: consignment stock, material received from third parties for further processing and other assets not owned by the Group, as well as receivables/payables relating to collaterals received/given such as guarantees and other warrants.

2.22. Share capital

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

2.23. Other capital

Other capital in total refers to the Company's capital above the amount of estimated and registered non-monetary capital as at 31 May 2005. In accordance with General Assembly Meeting Decision enacted on 18 June 2013 these other capital were credited to the retained earnings.

2.24. Reserves

Reserves relate to the reserves established in the past in accordance with the previous Law on Enterprises. In accordance with this Law, the Company was required to allocate 5% of profits until the reserve equals the amount defined by Group's Act, and at least 10% of the share capital. In accordance with General Assembly Meeting Decision enacted on 18 June 2013 these reserves were credited to the retained earnings.

2.25. Earnings per share

The Group calculates and discloses the basic earnings per share. Basic earnings per share is calculated by dividing the net income that belongs to shareholders, the owners of ordinary shares of the Group, by the weighted average number of ordinary shares issued during the period (note 36).

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

2.26. Provisions

Provisions for environmental restoration, asset retirement obligation and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as cost of provision and charged to consolidated income statement.

2.27. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.28. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

2.29. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case deferred tax liability is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in Serbia and other countries, where the Group operates and generates taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit 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.

2.30. Employee benefits

(a) *Pension obligations*

The Group operates a defined contribution pension plan. The Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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

2.30. Employee benefits (continued)

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

The Group provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period.

(c) *Bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing based on an Individual performance assessment. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.31. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as describe below. The amount of the revenue is not considered to be reliably measurable until all contingences relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sales of goods – wholesale*

The Group produces and sells oil, petrochemical products and liquified natural gas in the wholesale market. Sales of goods are recognised when the Group has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term consistent with the market practice.

(b) *Sales – retail*

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

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

2.31. Revenue recognition (continued)

(c) *Sales of services*

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

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

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

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

(d) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

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

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

(f) *Dividend income*

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

2.32. Leases

(a) *Leases: Accounting by lessee*

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

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

2.32. Leases (continued)

(a) *Leases: Accounting by lessee (continued)*

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

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

(b) *Leases: Accounting by lessor*

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

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

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

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

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

2.33. Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the period in which the dividends are approved by the Group's shareholders.

2.34. Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and take a substantial time to get ready for their intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Preparing Consolidated Financial Statements required Management to make estimates and assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and other facts that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimates is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In addition to judgments involving estimations, Managements also makes other judgments in the process of applying the accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

3.1. Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Accounting measures such as depreciation, depletion and amortization charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the Consolidated Financial Statements, most notably depreciation, depletion and amortization as well as impairment expenses.

Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

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

3.2. Useful Lives of Property, Plant and Equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located.

Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the year.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2013 would be to increase/decrease it by RSD 1,007,041 (2012: RSD 616,041).

3.3. Employee benefits

The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to calculate the present value of estimated future cash outflows which are expected to be required to settle the employee benefits obligations. In determining the appropriate discount rate, the Group takes into consideration the interest rates of high-quality corporate bonds which are denominated in the currency in which pension liabilities will be settled and whose maturity dates approximate the maturity date of the related pension liability.

If the discount rate used to calculate the present value of employee benefit obligations had been 7.30% (rather than 6.30%) per year, the past service liability (DBO) would decrease by approx. 9.5% for retirement indemnity and 5.8% for jubilee awards. If the employee salaries were to increase by 6.5% (rather than 5.5%) per year, the past service liability (DBO) would increase by approx. 15.4% for retirement indemnity and 8.9% for jubilee awards.

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

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

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

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

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

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

If the discount rate used to calculate the present value of decommissioning obligations had been 7.30% (rather than 6.30%) per year, the present liability would have decreased by approx. RSD 418,137.

3.5. Contingencies

Certain conditions may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 40).

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

3.6. Operational environment

The Republic of Serbia and countries in which Group operates displays certain characteristics of an emerging market. The tax, currency and customs legislation is subject to varying interpretations which contribute to the challenges faced by companies operating in Serbia and region.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Serbian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Republic of Serbia is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group’s business in the current business and economic environment.

Impact on liquidity:

The volume of wholesale financing has significantly reduced since September 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Impact on customers/ borrowers:

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers [or borrowers] may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

4. FINANCIAL RISK MANAGEMENT

4.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses financial instruments to hedge certain risk exposures.

Risk management is carried out by the finance department within the Function for Economics, Finance and Accounting (further „FEPA") under policies approved by the Board of Directors. The Group's finance department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

In the normal course of its operations the Group has exposure to the following financial risks:

a) market risk (including foreign exchange risk, interest rate risk and commodity price risk);
b) credit risk; and
c) liquidity risk.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and EUR. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign exchange risk arising from future transactions and recognised assets and liabilities, responsible persons in the finance department within the FEPA Function negotiate the best possible exchange rates for the purchase of foreign currency to be contracted on a daily basis based on the exchange rate applicable on the day the purchase is made. The total amounts of carrying values of financial assets and liabilities denominated in foreign currencies are shown in the table below:

	Financial Assets		**Financial Liabilities**	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
EUR	8,262,519	9,162,749	60,788,973	66,177,922
USD	6,040,267	8,741,594	67,745,867	46,654,185
JPY	-	-	362,450	477,670
Other	3,272,328	946,740	1,370,816	712,125

As at 31 December 2013, if the currency had weakened/strengthened by 10% against the EUR, USD and JPY with all other variables held constant, prior-tax profit for the year would have been RSD 1,115,151 (2012: RSD 975,131) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR and USD denominated trade receivables, trade payables and foreign exchange losses/gains on translation of EUR, USD and JPY denominated borrowings.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Financial risk factors (continued)

Commodity Price risk

The Group's primary activity expose it to the following commodity price risks: crude oil and oil derivatives price levels which affect the value of inventory; and refining margins which in turn affect the future cash flows of the business.

In the case of price risk, the level of exposure is determined by the amount of priced inventory carried at the end of the reporting period. In periods of sharp price decline, as the Group policy is to report its inventory at the lower of historic cost and net realisable value, the results are affected by the reduction in the carrying value of the inventory. The extent of the exposure relates directly to the level of stocks and the rate of price decrease.

Cash flow and fair value interest rate risk

Borrowings withdrawn at variable interest rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (EURIBOR or LIBOR) has a proportionate impact on the Group's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2013 would have been RSD 833,518 (2012: RSD 820,669) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

Credit risk is managed on the Group's level basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Banks are rated only in the case of collateralised receivables on various grounds, as well as based on the banks total exposure to the Group. For domestic banks, if it is bank with who the Group has passive activities the second criterion is applied and if it is a bank with who Group doesn't have cooperation, credit limits are determined based on the defined methodology.

Sales to retail customers are settled in cash or using credit cards.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Financial risk factors (continued)

Liquidity risk

Cash flow forecasting is performed as aggregated at the Group's level. The Group's finance function monitors rolling forecasts of the Group's liquidity requirements to ensure It has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the Group over and above balance required for working capital management are invested as surplus cash in time deposits.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date.

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

As at 31 December 2013	**Less than 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Borrowings and other long term and short term financial liabilities (long-term and current-portion)	27,918,442	31,515,200	29,618,678	89,052,320
Liabilities from business operations	49,927,085	8,211	-	49,935,296
Other short-term liabilities	4,933,210	161	-	4,933,371
Accrued liabilities and other accruals (note 25)	4,721,572	-	-	4,721,572
	87,500,309	**31,523,572**	**29,618,678**	**148,642,559**

As at 31 December 2012	**Less than 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Borrowings and other long term and short term financial liabilities (long-term and current-portion)	9,359,358	45,780,957	35,601,645	90,743,168
Liabilities from business operations	33,366,209	-	10	33,366,219
Other short-term liabilities	6,962,356	-	-	6,962,356
Accrued liabilities and other accruals (note 25)	4,174,426	-	-	4,174,426
	53,862,349	**45,780,957**	**35,601,655**	**135,244,961**

4.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Capital risk management (continued)

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio. Net debt to EBITDA is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, liabilities to parent company less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, other finance income (expenses) net, other non-operating income (expenses).

The Groups's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	31 December 2013	**31 December 2012**
Total borrowings (notes 20, 21 and 22)	88,904,116	90,671,013
Less: cash and cash equivalents (note 14)	(8,707,774)	(12,069,897)
Net debt	**80,196,347**	**78,601,116**
EBITDA	68,845,801	65,562,067
Net debt to EBITDA	**1.16**	**1.20**

4.3. Fair value estimation

The fair value of financial instruments traded in an active market (such as available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date.

5. SEGMENT INFORMATION

Operating segments, are segments whose operating results are regularly reviewed by the Chief Operating Decision Maker („CODM“) of the Group. According to adopted governance structure, the Board of Directors and the General Manager Advisory Board represent the CODM.

As at 31 December 2013, business activities of the Group are organized into five operating segments:

1. Exploration and Production of Oil and Natural Gas,
2. Oil Field Services,
3. Refining,
4. Oil and Oil Products Trading,
5. Other – NIS Administration and Energy.

Exploration and production of oil and natural gas and Oil field services together comprise Upstream while Refining, Oil and Oil products Trading and Other operating segments together comprise Downstream group.

Reportable segments derive their revenue from the following activities:

1. Exploration and Production of Oil and Natural Gas – the sale of crude oil and gas to refineries and to other buyers on open market,
2. Oil Field Services – drilling services, construction works and geophysical measurement and transportation services,
3. Refining - the sale of refinery products to NIS trade segment,
4. Oil and Oil Products Trading – retail and wholesale activities consistent with the policy.

Reportable segment results for the year ended 31 December 2013 are shown in the table below:

	Exploration and Production	Oil Field Services	Refining	Trade	Other	Eliminations	Total
Segment revenue	88,685,790	10,886,371	216,000,608	249,433,963	11,243,238	(316,828,172)	259,421,798
Intersegment	84,666,712	10,234,373	215,896,466	647,835	5,382,786	(316,828,172)	-
External	4,019,078	651,998	104,142	248,786,128	5,860,452		259,421,798
EBITDA (Segment result)	77,106,235	810,922	(2,747,057)	4,291,564	(11,114,989)	499,126	68,845,801
Depreciation and amortisation (note 29)	(2,387,040)	(734,185)	(4,682,370)	(1,497,309)	(1,571,083)	-	(10,871,987)
Impairment losses (note 34)	(110,269)	(1)	(18,657)	(114,664)	(145,508)	-	(389,099)
Finance(expenses) income	(504,848)	9,989	936,489	(537,278)	3,769,030	(51,660)	3,621,722
Deferred income tax	(278)	(47,712)	-	741	199,577	-	152,328
Income tax expense	-	(9,236)	-	-	(6,185,819)	-	(6,195,055)
Segment profit (loss)	**73,025,419**	**(88,325)**	**(6,371,102)**	**1,012,055**	**(19,677,817)**	**447,466**	**48,347,696**

5. SEGMENT INFORMATION (continued)

Reportable segments results for the year ended 31 December 2012 are shown in the table below:

	Exploration and Production	Oil Field Services	Refining	Trade	Other	Eliminations	Total
Segment revenue	99,805,606	8,692,004	154,665,686	203,631,057	16,184,486	(256,373,254)	226,605,585
Intersegment	90,490,198	8,057,252	154,531,232	232,302	3,062,270	(256,373,254)	-
External	9,315,408	634,752	134,454	203,398,755	13,122,216	-	226,605,585
EBITDA (Segment result)	83,725,215	623,349	(6,482,066)	1,668,647	(13,468,347)	(504,731)	65,562,067
Depreciation and amortisation (note 29)	(2,107,908)	(761,748)	(1,950,957)	(883,997)	(1,153,652)	-	(6,858,262)
Impairment losses(note 34)	(113,062)	(18,331)	(64,127)	(427,966)	(1,339,322)	-	(1,962,808)
Finance (expenses) income	(201,338)	4,126	(761,856)	277,555	(5,292,344)	(35,997)	(6,009,854)
Deferred income tax	(275)	(53,827)	-	-	708,723		654,621
Income tax expense	(6)	(8,124)	-	(377)	(2,583,035)	-	(2,591,542)
Segment profit (loss)	**80,149,624**	**(216,077)**	**(9,180,502)**	**(350,290)**	**(24,329,416)**	**(540,728)**	**45,532,611**

Intersegment sales are performed in accordance with the transfer pricing policy.

The analysis of the Group's revenue from the main products and services (based on the country of a customer incorporation and sales channel) is presented in the table below:

	Year ended 31 December 2013		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	3,553,732	3,553,732
Sale of gas	3,918,192	-	3,918,192
Through a retail network	-	-	-
Wholesale activities	3,918,192	-	3,918,192
Sale of petroleum products	206,159,963	42,031,098	248,191,061
Through a retail network	65,049,672	-	65,049,672
Wholesale activities	141,110,291	42,031,098	183,141,389
Other sales	3,684,688	74,125	3,758,813
Total Sales	**213,762,843**	**45,658,955**	**259,421,798**
Work performed by the entity and capitalized			7,981,686
Decrease in inventories of finished goods and work in progress			(3,102,098)
Other operating income			134,455
Total Operating Income			**264,435,841**

5. SEGMENT INFORMATION (continued)

	Year ended 31 December 2012		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	4,917,362	4,917,362
Sale of gas	17,814,542	-	17,814,542
Through a retail network	-	-	-
Wholesale activities	17,814,542	-	17,814,542
Sale of petroleum products	180,236,111	19,506,780	199,742,891
Through a retail network	58,062,240	-	58,062,240
Wholesale activities	122,173,871	19,506,780	141,680,651
Other sales	3,765,950	364,840	4,130,790
Total Sales	**201,816,603**	**24,788,982**	**226,605,585**
Work performed by the entity and capitalized			5,614,382
Increase in inventories of finished goods and work in progress			1,664,825
Other operating income			198,683
Total Operating Income			**234,083,475**

Out of 183,141,389 RSD (31. December 2012: 141,680,651 RSD) revenue from sale of petroleum products (wholesale), the revenue in amount 35,132,534 RSD (2012: 9,258,368 RSD) are derived from a single domestic customer HIP Petrohemija in restructuring (note 39). These revenues are attributable to wholesale activities within Downstream segment.

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 213,762,843 (2012: RSD 201,816,603), and the total of revenue from external customer from other countries is RSD 45,658,955 (2012: RSD 24,788,982). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2013	2012
Sale of crude oil	3,553,732	4,917,362
Sale of petroleum products (retail and wholeasle)	3,588,807	636,603
Romania	1,409,581	4,590
Bulgaria	5,356,893	-
BIH	2,112,160	1,772
All other markets	29,563,657	18,863,815
	42,031,098	19,506,780
Other sales	74,125	364,840
	45,658,955	**24,788,982**

6. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Research and development	Concessions, patents, licenses and rights	Intangible assets under development	Other intangibles	Total
At 1 January 2012						
Cost	440,874	182,322	956,792	413,952	4,761,744	6,755,684
Accumulated amortisation and impairment	-	-	(230,183)	(142,279)	(1,233,384)	(1,605,846)
Net book amount	**440,874**	**182,322**	**726,609**	**271,673**	**3,528,360**	**5,149,838**
Year ended 31 December 2012						
Opening net book amount	440,874	182,322	726,609	271,673	3,528,360	5,149,838
Additions	-	2,297,802	943,983	(219,589)	503,575	3,525,771
Acquisition through business combinations(note 37)	976,838	-	-	-	-	976,838
Transfer from PP&E (note 7)	-	1,786,149	-	251,012	8,465	2,045,626
Amortisation (note 29)	-	-	(98,928)	-	(598,925)	(697,853)
Impairment (note 34)	-	-	-	(86,459)	(691)	(87,150)
Disposals and write-offs	-	(107,758)	-	(212)	-	(107,970)
Other transfers	-	-	62,694	7,529	(81,882)	(11,659)
Translation differences	46,351	16,004	8,839	-	18	71,212
Closing net book amount	**1,464,063**	**4,174,519**	**1,643,197**	**223,954**	**3,358,920**	**10,864,653**
As at 31 December 2012						
Cost	1,464,063	4,174,519	1,973,896	429,983	5,190,478	13,232,939
Accumulated amortisation and impairment	-	-	(330,699)	(206,029)	(1,831,558)	(2,368,286)
Net book amount	**1,464,063**	**4,174,519**	**1,643,197**	**223,954**	**3,358,920**	**10,864,653**
Year ended 31 December 2013						
Opening net book amount	1,464,063	4,174,519	1,643,197	223,954	3,358,920	10,864,653
Additions	-	4,617,256	192,340	(25,175)	599,472	5,383,893
Acquisition through business combinations(note 37)	543,457	-	36,932	-	258,671	839,060
Transfer from PP&E (note 7)	-	(68,610)	-	239,576	(7,481)	163,485
Amortisation (note 29)	-	-	(125,145)	-	(676,436)	(801,581)
Impairment (note 34)	(42,290)	-	-	(24,347)	-	(66,637)
Disposals and write-offs	-	(79,813)	-	(1,255)	-	(81,068)
Other transfers	-	(290,229)	(122,061)	66,013	77,259	(269,018)
Translation differences	(3,092)	17,367	427	110	10,302	25,114
Closing net book amount	**1,962,138**	**8,370,490**	**1,625,690**	**478,876**	**3,620,707**	**16,057,901**
As at 31 December 2013						
Cost	2,004,284	8,370,490	2,079,662	566,974	6,008,732	19,030,142
Accumulated amortisation and impairment	(42,146)	-	(453,972)	(88,098)	(2,388,025)	(2,972,241)
Net book amount	**1,962,138**	**8,370,490**	**1,625,690**	**478,876**	**3,620,707**	**16,057,901**

6. GOODWILL AND INTANGIBLE ASSETS (continued)

Goodwill acquired through business combinations has been allocated to Downstream in amount RSD 543,457 related CGUs.

Research and development as at 31 December 2013 in the amount of RSD 8,370,490 (31, December 2012: RSD 4,174,519) mostly relate to investments in geological, 2D and 3D seismic explorations in the Balkan region and on the territory of the Republic of Serbia.

Other intangible assets as at 31 December 2013 amounting to RSD 3,620,707 mostly relate to investments in the SAP system of RSD 2,563,713 (2012: RSD 2,947,663).

Amortisation amounting to RSD 801,581 (2012: RSD 697,853) is included in Operating expenses within the Consolidated Income statement (note 29).

Impairment tests for goodwill

Goodwill is monitored by the management on an individual CGU basis The recoverable amount of each CGUs has been determined by independent appraisal based on higher of value-in-use and fair value less cost to disposed calculations. The impairment charge of RSD 42,290 is recognized as expense in consolidated income statement (note 34). No class of asset other than goodwill was impaired except for physically demolished/obsolete assets.

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
At 1 January 2012								
Cost	12,417,133	63,546,775	60,477,344	47,106,611	96,308	129,318	8,770,320	192,543,809
Accumulated depreciation and impairment	(695,565)	(24,435,060)	(35,063,390)	(2,981,943)	(5,020)	(123,897)	(21,418)	(63,326,293)
Net book amount	**11,721,568**	**39,111,715**	**25,413,954**	**44,124,668**	**91,288**	**5,421**	**8,748,902**	**129,217,516**
Year ended 31 December 2012								
Opening net book amount	11,721,568	39,111,715	25,413,954	44,124,668	91,288	5,421	8,748,902	129,217,516
Additions	2,290,754	28,442,115	35,954,224	(22,217,784)	351	-	6,020,653	50,490,313
Acquisition through business combinations(note 37)	-			2,040,326	-	-	-	2,040,326
Other transfers	67,107	(117,352)	56,325	-	-	-	-	6,080
Disposals and write-offs	(1,631)	(361,368)	(40,369)	(1,670,441)	(722)	-	(12,314,738)	(14,389,269)
Depreciation (note 29)	-	(2,666,295)	(3,490,986)	-	-	(3,128)	-	(6,160,409)
Impairment charge (note 34)	-	(112,396)	(88,711)	(1,656,219)	(616)	-	-	(1,857,942)
Transfer to intangible assets (note 6)	-	-	-	(2,045,626)	-	-	-	(2,045,626)
Transfer to investment property (note 8)	(56,218)	(8,670)	-	(51,342)	-	-	-	(116,230)
Translation differences	90,868	5,605	3,612	(158,275)	-	118	(10,011)	(68,083)
Closing net book amount	14,112,448	64,293,354	57,808,049	18,365,307	90,301	2,411	2,444,806	157,116,676
At 31 December 2012								
Cost	14,805,244	91,305,601	95,827,534	22,681,199	91,447	129,318	2,466,224	227,306,567
Accumulated depreciation and impairment	(692,796)	(27,012,247)	(38,019,485)	(4,315,892)	(1,146)	(126,907)	(21,418)	(70,189,891)
Net book amount	**14,112,448**	**64,293,354**	**57,808,049**	**18,365,307**	**90,301**	**2,411**	**2,444,806**	**157,116,676**
Year ended 31 December 2013								
Opening net book amount	14,112,448	64,293,354	57,808,049	18,365,307	90,301	2,411	2,444,806	157,116,676
Additions	1,419,006	17,960,710	14,778,704	13,913,211	19	35,772	13,921,611	62,029,033
Acquisition through business combinations (note 37)	1,497,423	2,218,078	630,849	233,757	-	-	-	4,580,107
Other transfers	-	4,448,114	(5,850,915)	1,638,733	(14)	-	26,474	262,392
Disposals and write-offs	(68,494)	(324,791)	(273,330)	(1,021,574)	(26)	-	(9,931,133)	(11,619,348)
Depreciation (note 29)	-	(3,932,662)	(6,132,465)	-	-	(5,279)	-	(10,070,406)
Impairment charge (note 34)	-	(232,661)	(15,856)	(65,442)	(101)	-	(8,402)	(322,462)
Transfer to intangible assets (note 6)	1,906	850,131	157,179	(1,173,216)	-	515	-	(163,485)
Transfer from investment property (note 8)	(3,696)	17,689	-	(11,248)	-	-	-	2,745
Translation differences	75,894	85,729	23,932	(790)	-	6,607	(2,193)	189,179
Closing net book amount	17,034,487	85,383,691	61,126,147	31,878,738	90,179	40,026	6,451,163	202,004,431
At 31 December 2013								
Cost	17,338,709	118,861,914	93,865,422	35,926,546	91,391	81,375	6,481,062	272,646,419
Accumulated depreciation and impairment	(304,222)	(33,478,223)	(32,739,275)	(4,047,808)	(1,212)	(41,349)	(29,899)	(70,641,988)
Net book amount	**17,034,487**	**85,383,691**	**61,126,147**	**31,878,738**	**90,179**	**40,026**	**6,451,163**	**202,004,431**

7. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2013, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 111,522 (2012: RSD 1,879,931).

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

	31 December 2013	31 December 2012
Cost capitalised – finance leases	149,696	153,401
Accumulated depreciation	(62,373)	(48,947)
Net book amount	**87,323**	**104,454**

The management of the Group assesses at each reporting date whether there is an indication that the recoverable amount of property, plant and equipment fell below its book value.

As at 31 December 2013, the Group assessed impairment indicators of cash generating units ("CGU") and concluded that no indications of impairment or reversals of previously recognized impairment losses had been identified, except for physically demolished/obsolete assets.

In 2013 Group made impairment in amount of RSD 322,462 (2012: RSD 1,857,942) for demolished or obsolete assets, which value is greater than recoverable amount (note 34).

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Oil and gas production assets

	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
At 1 January 2012				
Cost	5,776,676	48,208,255	129,810	54,114,741
Accumulated depreciation and impairment	(300,728)	(18,287,618)	(114,755)	(18,703,101)
Net book amount	**5,475,948**	**29,920,637**	**15,055**	**35,411,640**
Year ended 31 December 2012				
Opening net book amount	5,475,948	29,920,637	15,055	35,411,640
Additions	11,864,273	252	-	11,864,525
Transfer from assets other than O&G	794,081	-	-	794,081
Transfer from asset under construction	(6,082,728)	6,082,728	-	-
Other transfers	28,952	(216,715)	(1,374)	(189,137)
Impairment charge	(6,702)	(82,066)	(9)	(88,777)
Depreciation	(3,161)	(2,792,982)	(360)	(2,796,503)
Disposals and write-off	(733,702)	(2,499)	-	(736,201)
Translation differences	24,837	249	-	25,086
Closing net book amount	**11,361,798**	**32,909,604**	**13,312**	**44,284,714**
At 31 December 2012				
Cost	11,669,985	53,371,094	123,953	65,165,032
Accumulated depreciation and impairment	(308,187)	(20,461,490)	(110,641)	(20,880,318)
Net book amount	**11,361,798**	**32,909,604**	**13,312**	**44,284,714**
Year ended 31 December 2013				
Opening net book amount	11,361,798	32,909,604	13,312	44,284,714
Additions	27,665,024	-	-	27,665,024
Transfer from asset under construction	(11,633,293)	11,633,274	19	-
Other transfers	(16,040)	(892,723)	(60)	(908,823)
Impairment	(33,163)	(77,107)	-	(110,270)
Depreciation	(3,160)	(3,031,956)	-	(3,035,116)
Disposals and write-offs	(819,569)	(2,106)	(27)	(821,702)
Translation differences	28,372	14	-	28,386
Closing net book amount	**26,549,969**	**40,539,000**	**13,244**	**67,102,213**
At 31 December 2013				
Cost	26,798,895	57,981,672	33,510	84,814,077
Accumulated depreciation and impairment	(248,926)	(17,442,672)	(20,266)	(17,711,864)
Net book amount	**26,549,969**	**40,539,000**	**13,244**	**67,102,213**

Oil and gas production assets comprise aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.11.).

8. INVESTMENT PROPERTY

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

Movements on the account were as follows:

	2013	2012
At 1 January	1,367,378	1,338,269
Fair value gains (note 33)	151,936	-
Fair value losses (note 34)	-	(17,716)
Transfer (to) from PP&E (note 7)	(2,745)	116,230
Transfer to non-current assets held for sale	6,424	(41,702)
Disposals	(108,483)	(27,670)
Other	(146)	(33)
At 31 December	**1,414,364**	**1,367,378**

As at 31 December 2013, investment properties amounting to RSD 1,414,364 (31 December 2012: RSD 1,367,378) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

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

	2013	2012
Rental income (note 26)	108,671	116,483

Fair value of investment properties

Valuation of the Group’s investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2013 and 2012. The revaluation surplus was credited to other income (note 33).

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

8. INVESTMENT PROPERTY (continued)

Fair value measurements at 31 December 2013 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings			
− Shops and other facilities for rents	-	772,952	-
− Flats	-	131,513	-
− Gas stations	-	-	509,899
Total	-	**904,465**	**509,899**

Valuation techniques used to derive level 2 fair values

Level 2 fair values of shops, flats and other facilities for rent have been derived using the sales comparison approach. Sales prices of comparable facilities in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

Fair value measurements using significant unobservable inputs (Level 3)

Level 3 fair values of gas stations have been derived using value-in-use approach where fair value of gas station is determined as the present value of future net benefits which will belong to the Group based on concluded long-term rental contracts. The most significant input into this valuation approach is rental price per gas station.

The key assumptions used for value-in-use calculations:

	2013	2012
Long term growth rate	0%	0%
Discount rate	12%	15%

9. INVESTMENTS IN EQUITY INSTRUMENTS

	31 December 2013	31 December 2012
Investments in joint venture	1,008,221	-
Financial assets available for sale	1,946,146	2,161,005
Less: Provision of financial assets available for sale	(1,745,485)	(1,983,325)
	1,208,882	**177,680**

Investments in joint venture in amount of RSD 1,008,221 relates to 50% of interest in Energowind doo, that Group has acquired in 2013 and which is intended to be used as a vehicle for operation of future wind farm ''Plandiste'' with installation of 34 wind generator with total capacity of 102 MW. The control over Energowind is divided equally between Group and Asporta Limited, Cyprus. On the date of the issuance of these Consolidated Financial Statements there were no business activities.

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

10. OTHER LONG-TERM INVESTMENTS

	31 December 2013	31 December 2012
Rescheduled receivables	1,426,540	3,371,014
Long-term loans to employees	1,083,093	1,259,637
Finance lease receivables	38,221	78,190
Other long-term financial assets	863,518	818,933
	3,411,372	5,527,774
Less provision:		
- rescheduled receivables	(1,426,540)	(3,371,014)
- finance lease receivables	(26,789)	(57,743)
- other long-term financial assets	(782,311)	(808,960)
	(2,235,640)	(4,237,717)
Total – net	**1,175,732**	**1,290,057**

a) Rescheduled receivables

Rescheduled receivables as at 31 December 2013 relate to:

	Current portion	Long-term	Total
Rescheduled receivables			
- HIP Petrohemija Pancevo in restructuring	9,722,337	-	9,722,337
- RTB Bor	-	1,426,540	1,426,540
- AIR Serbia	100,923	-	100,923
	9,823,260	1,426,540	11,249,800
Less: provision	(7,827,614)	(1,426,540)	(9,254,154)
Total – net	**1,995,646**	**-**	**1,995,646**

Carrying value of rescheduled receivables in amount of RSD 1,995,646 relates to HIP Petrohemija Pancevo in restructuring, that are secured by a mortgage right over debtor's fixed assets.

10. OTHER LONG-TERM INVESTMENTS (continued)

a) *Rescheduled receivables (continued)*

Movements on rescheduled receivables provision:

	2013	2012
As at 1 January	(3,371,014)	(5,601,478)
Foreign exchange gains	353,003	108,503
Transfer to short-term financial investments (note 13)	1,591,471	2,121,961
As at 31 December	**(1,426,540)**	**(3,371,014)**

b) *Long-term loans to employees*

Loans to employees as at 31 December 2013 amounting to RSD 1,083,093 (31 December 2012: RSD 1,259,637) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly installments.

The fair value of loans to employees is based on the cash flows discounted at market interest rate at which the Group could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 5.62% (2012: 5.56% p.a.).

The maximum exposure to credit risk at the reporting date is the nominal value of loans given to employees. This credit risk exposure is limited, as the monthly installments of these loans are withheld from employees' salaries.

11. INVENTORIES

	31 December 2013	31 December 2012
Raw materials	28,703,362	27,662,411
Spare parts	3,284,776	3,189,108
Tools	155,232	171,435
Work in progress	4,787,759	7,941,977
Finished goods	8,131,485	8,079,365
Merchandise	2,536,370	4,244,958
	47,598,984	51,289,254
Advances	799,547	1,220,357
Less provision:		
- for inventories	(6,939,003)	(7,394,952)
- for advances	(253,069)	(373,071)
	(7,192,072)	(7,768,023)
Total inventories – net	**41,206,459**	**44,741,588**

Movement on inventory provision is as follows:

	2013	2012
At 1 January	(7,768,023)	(8,186,585)
Provision for impaired inventories and advances charged for the year (note 34)	(155,623)	(17,771)
Provision reversed (note 33)	464,733	332,274
Write-off	131,230	9,235
Other	135,611	94,824
At 31 December	**(7,192,072)**	**(7,768,023)**

12. TRADE AND OTHER RECEIVABLES

	31 December 2013	31 December 2012
Trade receivables		
- domestic	51,741,406	44,432,556
- foreign	1,174,094	1,071,568
- related parties	12,274,150	7,312,560
	65,189,650	52,816,684
Receivables from specific operations	9,404,203	8,234,410
Interest receivables	10,419,050	5,954,781
Receivables from employees	87,210	84,788
Other receivables	7,498,570	7,474,290
	18,004,830	13,513,859
	92,598,683	**74,564,953**
Less provision:		
- trade receivables	(12,614,566)	(13,153,084)
- receivables from specific operations	(9,240,701)	(8,207,674)
- interest receivables	(10,368,122)	(5,865,999)
- other receivables	(7,338,502)	(7,327,912)
	(39,561,891)	(34,554,669)
Total receivables – net	**53,036,792**	**40,010,284**

The ageing of trade receivables is as follows:

	31 December 2013	31 December 2012
Up to 3 months	37,826,451	30,096,125
Over 3 months	27,363,199	22,720,559
	65,189,650	**52,816,684**

As at 31 December 2013 out of RSD 27,363,199 of overdue receivables (31 December 2012: RSD 22,720,559), trade receivables in amount of RSD 12,614,566 (31 December 2012: RSD 13,153,084) were fully provided for. The remaining amount of RSD 14,748,633 (31 December 2012: RSD 9,567,475) relates to a number of independent customers for whom management believes that will make payments in the near future. The ageing of receivables provided for is as follows:

	31 December 2013	31 December 2012
Up to 3 months	126,261	50,506
Over 3 months	12,488,305	13,102,578
	12,614,566	**13,153,084**

12. TRADE AND OTHER RECEIVABLES (continued)

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

	31 December 2013	31 December 2012
RSD	90,829,534	73,392,968
USD	915,892	1,035,605
EUR	570,298	99,483
Other	282,959	36,897
	92,598,683	**74,564,953**

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

	2013	2012
At 1 January	(34,554,669)	(25,646,948)
Provision for impaired receivables (note 34)	(5,279,291)	(10,440,076)
Written off	151,764	568,939
Unused amounts reversed (note 33)	1,157,773	962,839
Acquisition of subsidiary (note 37)	(74,294)	-
Other (direct provision)	(963,174)	577
At 31 December	**(39,561,891)**	**(34,554,669)**

Receivables that have been provided for or written off are included in other expenses/other income within the consolidated income statement (notes 33 and 34). The amounts charged to provision for impairment are written off when their collection is not expected.

13. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2013	31 December 2012
Short-term loans to employees	2,375	35,913
Current portion of long-term investments	9,913,994	7,898,604
Other short-term financial investments	66,430	3,672,397
	9,982,799	11,606,914
Less: provision	(7,828,061)	(5,820,939)
Total short-term financial investments – net	**2,154,738**	**5,785,975**

13. SHORT-TERM FINANCIAL INVESTMENTS (continued)

Current portions of long-term investments as at 31 December 2013 amounting to RSD 9,913,994 (31 December 2012: RSD 7,898,604) mainly relate to current portion of rescheduled receivables of RSD 9,823,260. They are provided for in the amount of RSD 7,827,614 (2012: RSD 5,820,065) (note 10).

Movements on the provision for short-term financial investments:

	2013	2012
At 1 January	(5,820,939)	(2,995,123)
Unused amounts reversed (note 33)	-	26,668
Transfer from other long-term investments (note 10a)	(1,591,471)	(2,121,961)
Foreign exchange differences and other movements	(415,651)	(730,523)
At 31 December	**(7,828,061)**	**(5,820,939)**

14. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Cash at bank	6,265,386	9,027,943
Cash in hand	463,191	288,987
Cash held on escrow account	1,651,099	2,678,075
Other cash equivalents	328,098	74,892
	8,707,774	**12,069,897**

15. VAT AND PREPAID EXPENSES

	31 December 2013	31 December 2012
Deferred input VAT	4,500,540	4,617,873
Prepaid expenses	136,118	100,557
Accrued revenue	1,375,644	2,272,918
Prepaid excise duty	1,364,295	1,319,866
Housing loans and other prepayments	1,470,681	1,287,677
	8,847,278	**9,598,891**

Deferred input VAT as at 31 December 2013 amounting to RSD 4,500,540 (31 December 2012: RSD 4,617,873) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty amounting to RSD 1,364,295 (31 December 2012: RSD 1,319,866) relates to the excise paid to the state for finished products stored in non-excise warehouse.

Accrued revenue as at 31 December 2013 amounting to RSD 1,375,644 (31 December 2012: RSD 2,272,918) mostly relates to receivables for current period sales of petroleum products in amount of RSD 1,353,844 that have not been invoiced by the year end.

16. DEFERRED TAX ASSETS AND LIABILITIES

	Carrying value of PP&E vs Tax base
Deferred tax liabilities	
As at 1 January 2012	(1,164,054)
Origination and reversal of temporary differences	(677,931)
Impact of change in the tax rate	(580,256)
As at 31 December 2012	**(2,422,241)**
Origination and reversal of temporary differences	163,859
Acquisition of subsidiary (note 37)	(76,798)
Translation difference	(2,102)
As at 31 December 2013	**(2,337,282)**

	Provisions	Impairment loss	Investment credit	Total
Deferred tax assets				
As at 1 January 2012	103,534	668,654	7,103,291	7,875,479
Origination and reversal of temporary differences	95,820	(203,662)	1,634,556	1,526,714
Impact of change in the tax rate	51,767	334,327	-	386,094
As at 31 December 2012	**251,121**	**799,319**	**8,737,847**	**9,788,287**
Origination and reversal of temporary differences	57,168	(36,441)	(32,258)	(11,531)
As at 31 December 2013	**308,289**	**762,878**	**8,705,589**	**9,776,756**

The recognition of deferred tax assets was based on a five-year business plan of the Group and the actual results achieved to date which have given the management strong indications that the income tax credits carried forward will be utilised.

Investment credits represent 20% qualifying of capital investments made up to 31 December 2013 in accordance with tax legislation of the Republic of Serbia, which can be utilized in 10 years period as presented in below table.

Tax Credit Origination	Tax Credit Reversal	31 December 2013	31 December 2012
2006	2016	-	425,226
2007	2017	2,149,894	2,164,224
2008	2018	783,750	702,349
2009	2019	1,325,566	1,228,886
2010	2020	1,207,276	1,294,489
2011	2021	1,091,070	937,507
2012	2022	1,634,551	1,985,166
2013	2023	513,482	-
		8,705,589	**8,737,847**

17. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2013	31 December 2012
Issued warranties and bills of exchange	44,546,397	44,671,748
Received warranties and bills of exchange	34,202,644	24,593,773
Properties in ex-Republics of Yugoslavia	5,357,690	5,424,642
Receivables from companies from ex-Yugoslavia	5,103,758	5,290,900
Third party merchandise in NIS warehouses	4,315,685	4,179,338
Assets for oil fields liquidation in Angola	638,286	422,341
	94,164,460	**84,582,742**

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

18. EQUITY

		Equity attributable to owners of the Group							
	Note	Share capital	Other capital	Reserves	Unrealised gains (losses) from securities	Retained earnings (loss)	Total	Non-controlling interest	Total equity
Balance as at 1 January 2012		**81,530,200**	**5,597,873**	**884,368**	**(34,508)**	**(370,084)**	**87,607,849**	**3,491**	**87,611,340**
Profit for the period		-	-	-	-	45,552,345	45,552,345	(19,734)	45,532,611
Losses from securities		-	-	-	(40,020)	-	(40,020)	-	(40,020)
Other		-	-	(15,488)	-	3,080	(12,408)	(863)	(13,271)
Balance as at 31 December 2012		**81,530,200**	**5,597,873**	**868,880**	**(74,528)**	**45,185,341**	**133,107,766**	**(17,106)**	**133,090,660**
Profit for the year		-	-	-	-	48,373,230	48,373,230	(25,534)	48,347,696
Gains from securities		-	-	-	14,643	-	14,643	-	14,643
Other transfers	2.23,2.24	-	(5,597,873)	(889,424)	-	6,487,297	-	-	-
Dividend distribution		-	-	-	-	(12,364,129)	(12,364,129)	-	(12,364,129)
Actuarial losses	19	-	-	-	-	(114,418)	(114,418)	-	(114,418)
Other		-	-	(17,746)	-	(2,830)	(20,576)	(778)	(21,354)
Balance as at 31 December 2013		**81,530,200**	-	**(38,290)**	**(59,885)**	**87,564,491**	**168,996,516**	**(43,418)**	**168,953,098**

*Neither the loss attributable to the minority shareholders in the amount of RSD 25,534 (2012: RSD 19,734) is presented in the Consolidated Income Statement, nor the amount of translation reserves in the Consolidated Statement of Changes in Equity due to limitations in prescribed format of Consolidated Financial Statements.

A dividend in respect of the year ended 31 December 2012 of RSD 75.83 per share, amounting to a total dividend of RSD 12,364,129 is approved by the General Assembly Meeting and settled during August 2013.

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

18.1. SHARE CAPITAL

Share capital represents share capital of the Company, which is listed on Belgrade Stock Exchange. Par value per share is 500 RSD.

Share capital as of 31 December 2013 and 31 December 2012 comprise of 163,060,400 of ordinary shares.

19. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Asset retirement obligation	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2012	**7,266,813**	**1,012,100**	**3,295,681**	**-**	**1,797,057**	**13,371,651**
Charged to Income statement (note 29 and 32)	836,334	24,000	787,369	1,042,855	-	2,690,558
Adjustments on property, plant and equipment	(82,397)	-	-	-	-	(82,397)
Release of provision (note 33)	(47,643)	-	(887,109)	-	(827,581)	(1,762,333)
Settlement	(1,021)	(174,717)	(195,421)	-	(155,430)	(526,589)
As at 31 December 2012	**7,972,086**	**861,383**	**3,000,520**	**1,042,855**	**814,046**	**13,690,890**
Charged to Income statement (note 29 and 32)	589,423	195,000	17,535	521,427	381,063	1,704,448
Actuarial loss (note 18)	-	-	114,418	-	-	114,418
Adjustments on property, plant and equipment	962,855	-	-	-	-	962,855
Release of provision (note 33)	(303,653)	(112,395)	(451,170)	-	-	(867,218)
Settlement	(157,673)	(253,894)	(135,497)	(42,201)	(37,857)	(627,122)
Other	-	-	5,881	-	-	5,881
As at 31 December 2013	**9,063,038**	**690,094**	**2,551,687**	**1,522,081**	**1,157,252**	**14,984,152**

(a) *Asset retirement obligation*

Management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells based on previous experience in similar projects. Based on changes in estimate, additional provision for asset retirement of active wells for the year ended 31 December 2013 in amount of RSD 962,855 is recognised against property, plant and equipment.

(b) *Environmental protection*

In accordance with the applicable laws, the Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 690,094 (2012: RSD 861,383) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) *Long-term incentive program*

In 2011, the Group started setting-up a long-term incentive program for Group managers. Following the program's approval, cash incentives will be paid out based on the Key Performance Indicators ("KPI") reached over a three-year period. As at 31 December 2013 the management made an assessment of present value of liabilities related to long-term employee incentives in amount of RSD 1,522,081 (2012: RSD 1,042,855) (note 29).

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

19. LONG – TERM PROVISIONS (continued)

(d) *Legal claims provisions*

As at 31 December 2013, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses based on the information provided by the Legal department. The Group charged provision for litigation amounting to RSD 381,062 (reversed in 2012: RSD 827,581) for proceedings which were assessed to have negative outcome. The Group estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2013.

(e) *Employee benefits provision*

Employee benefits:

	31 December 2013	31 December 2012
Retirement allowances	703,726	836,998
Jubilee awards	1,847,961	2,163,522
	2,551,687	**3,000,520**

The principal actuarial assumptions used were as follows:

	31 December 2013	31 December 2012
Discount rate	6.30%	7.65%
Future salary increases	5.50%	6.00%
Future average years of service	14.84	19.79

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2012	1,036,927	2,258,754	3,295,681
Benefits paid directly	(74,023)	(121,398)	(195,421)
Charged(credited) to the income statement	(125,906)	26,166	(99,740)
Balances as at 31 December 2012	**836,998**	**2,163,522**	**3,000,520**
Benefits paid directly	(59,174)	(76,323)	(135,497)
Actuarial loss charged directly to equity (note 18)	114,418	-	114,418
Credited to the income statement	(194,397)	(239,238)	(433,635)
Acquisition of new subsidiary (note 37)	4,722	-	4,722
Exchange differences	1,159	-	1,159
Balances as at 31 December 2013	**703,726**	**1,847,961**	**2,551,687**

The amounts recognized in the Consolidate Income Statement are as follows:

	Year ended 31 December 2013	2012
Current service cost	230,536	247,621
Interest costs	220,805	235,246
Curtailment gain	(357,007)	488,948
Actuarial losses	-	(843,615)
Amortisation of past service cost	(527,969)	(227,940)
	(433,635)	**(99,740)**

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

20. LONG-TERM BORROWINGS

	31 December 2013	31 December 2012
Domestic	12,048,569	14,627,940
Foreign	25,899,734	17,006,229
	37,948,303	31,634,169
Current portion of long-term borrowings (note 22)	(22,264,141)	(533,466)
Total	**15,684,162**	**31,100,703**

The maturity of non-current borrowings was as follows:

	31 December 2013	31 December 2012
Between 1 and 2 years	2,926,308	22,184,094
Between 2 and 5 years	6,871,962	2,405,694
Over 5 years	5,885,892	6,510,915
	15,684,162	**31,100,703**

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

	31 December 2013	31 December 2012
USD	28,343,857	19,607,409
EUR	8,961,940	9,269,068
RSD	280,783	2,281,108
JPY	361,723	476,584
	37,948,303	**31,634,169**

(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 Group repays borrowings in accordance with agreed dynamics, i.e. determined annuity plans. The Group agreed both fixed and floating interest rates with the creditors. Floating interest rates are connected with Euribor and Libor.

Management expects that the Group will be able to fulfil its obligations within agreed timeframe.

The carrying amounts of the Group's long-term borrowings as at 31 December 2013 and 31 December 2012 are presented in the table below:

Creditor	Currency	31 December 2013	31 December 2012
Domestic long-term loans			
Erste bank, Novi Sad	USD	279,719	301,856
Erste bank, Novi Sad	EUR	454,900	469,403
Postanska stedionica, Belgrade	EUR	225,341	236,111
Postanska stedionica, Belgrade	USD	1,526,400	1,670,920
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,459,990	4,670,317
Vojvodjanska bank, Novi Sad	RSD	-	1,000,000
UniCredit bank, Belgrade	USD	4,821,436	4,998,225
UniCredit bank, Belgrade	RSD	278,900	1,278,900
Other loans	RSD	1,883	2,208
		12,048,569	**14,627,940**
Foreign long-term loans			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	518,612	565,419
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	361,723	476,584
Erste bank, Holland	EUR	3,439,263	3,411,549
Erste bank, Holland	USD	5,403,333	-
VUB (Bank Intesa), Slovakia	USD	8,312,820	8,617,630
NBG bank, London	USD	2,493,846	6,307
NBG bank, London	EUR	-	102,324
Alpha bank, London	USD	3,325,128	1,723,526
Piraeus bank, Great Britain	USD	1,662,563	1,723,526
Neftegazovaja Inovacionnaja Korporacija, Rusija	EUR	382,446	379,364
		25,899,734	**17,006,229**
Less current portion of long-term borrowings		(22,264,141)	(533,466)
		15,684,162	**31,100,703**

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

20. LONG-TERM BORROWINGS (continued)

	Currency	Current portion 31 December 2013	Current portion 31 December 2012	Long-term 31 December 2013	Long-term 31 December 2012
Domestic long - term loans					
Erste bank, Novi Sad	USD	13,070	11,881	266,649	289,975
Erste bank, Novi Sad	EUR	20,972	18,169	433,928	451,234
Postanska stedionica, Belgrade	EUR	12,148	12,586	213,193	223,525
Postanska stedionica, Belgrade	USD	82,030	88,550	1,444,370	1,582,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	248,267	246,267	4,211,723	4,424,050
Vojvodjanska bank, Novi Sad	RSD	-	-	-	1,000,000
UniCredit bank, Belgrade	USD	4,821,436	-	-	4,998,225
UniCredit bank, Belgrade	RSD	278,900	-	-	1,278,900
Other loans	RSD	369	390	1,514	1,818
		5,477,192	**377,843**	**6,571,377**	**14,250,097**
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	30,197	27,790	488,415	537,629
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	16,978	19,202	344,745	457,382
Erste bank, Holland	EUR	3,439,263	-	-	3,411,549
Erste bank, Holland	USD	-	-	5,403,333	
VUB (Bank Intesa), Slovakia	USD	8,312,820	-	-	8,617,630
NBG bank, London	USD	-	6,307	2,493,846	-
NBG bank, London	EUR	-	102,324	-	-
Alpha bank, London	USD	3,325,128	-	-	1,723,526
Piraeus bank, Great Britain	USD	1,662,563	-	-	1,723,526
Neftegazovaja Inovacionnaja Korporacija, Rusija	EUR	-	-	382,446	379,364
		16,786,949	155,623	9,112,785	16,850,606
		22,264,141	**533,466**	**15,684,162**	**31,100,703**

21. OTHER LONG-TERM LIABILITIES

	31 December 2013	31 December 2012
Liabilities to Gazprom Neft	50,655,813	55,536,844
Finance lease liabilities	107,689	57,626
Other long-term liabilities	40,486	14,003
	50,803,993	55,608,473
Current portion of other long-term liabilities and financial lease (note 22)	(5,354,272)	(5,325,366)
	45,449,716	**50,283,107**

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

21. OTHER LONG-TERM LIABILITIES (continued)

a) Liabilities to Gazprom Neft

As at 31 December 2013, other long-term liabilities to Gazprom Neft amounting to RSD 50,655,813 (EUR 441,860,471) relate to borrowings from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares concluded on 24 December 2008. Under this agreement, Gazprom Neft shall grant loans for financing a EUR 500 million reconstruction and modernization of the technology complex programme in Refinery Pančevo which is finalized during 2012. The stated liabilities shall be settled in quarterly installments starting from December 2012 until 15 May 2023.

b) Finance lease liabilities

Minimum finance lease payments:

	31 December 2013	31 December 2012
Less than one year	43,614	38,584
1-5 years	97,277	21,974
More than 5 years	382,499	-
Future finance charges on finance leases	(415,701)	(2,932)
Present value of finance lease liabilities	**107,689**	**57,626**

	31 December 2013	31 December 2012
Less than one year	22,081	36,144
1-5 years	13,697	21,482
More than 5 years	71,911	-
Present value of finance lease liabilities	**107,689**	**57,626**

22. SHORT-TERM FINANCIAL LIABILITIES

	31 December 2013	31 December 2012
Short-term loans	300,000	3,500,000
Current portion of long-term loans (note 20)	22,264,141	533,466
Current portion of finance lease (note 21)	22,081	36,144
Current portion of other long-term liabilities (note 21)	5,332,191	5,289,222
Other short-term liabilities	29	526
	27,918,442	**9,359,358**

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

23. TRADE AND OTHER PAYABLES

	31 December 2013	31 December 2012
Advances received	892,243	962,634
Trade payables:		
- domestic	6,569,216	3,182,614
- foreign	2,627,565	2,859,806
Trade payables – Gazprom Neft	9,338,240	-
Trade payables – other related parties	30,096,552	25,995,092
Liabilities from other operations	70,757	71,852
Liabilities from specific operations	332,512	294,221
	49,927,085	**33,366,219**

As at 31 December 2013 payables to other related parties amounting to RSD 30,096,552 (31 December 2012: RSD 25,995,092) mainly relate to liabilities to Gazprom Neft Trading, Austria for supplying of crude oil in the amount of RSD 28,139,826 (31 December 2012: RSD 25,464,826).

24. OTHER SHORT-TERM LIABILITIES

	31 December 2013	31 December 2012
Liabilities for unpaid wages and salaries, gross	56,111	1,962,078
Liabilities for interest – domestic	520,438	350,859
Liabilities for dividends	3,772,308	3,772,308
Unused holiday accrual	572,420	813,329
Other liabilities	11,933	63,782
	4,933,210	**6,962,356**

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

25. LIABILITIES FOR VAT, OTHER TAXES AND DEFERRED INCOME

	31 December 2013	31 December 2012
Liabilities for VAT	517,592	580,897
Liabilities for excise	4,312,273	2,563,776
Liabilities for taxes and custom duties	3,050,302	4,548,742
Other liabilities for taxes and contributions	210,774	220,147
Accrued liabilities	2,361,412	1,590,555
Other accruals	2,360,160	2,583,871
	12,812,513	**12,087,988**

Accrued liabilities as at 31 December 2013 amounting to RSD 2,361,412 mainly relate to estimated costs of services rendered but not invoiced by suppliers (31 December 2012: RSD 1,590,555).

Other accruals as at 31 December 2013 amounting to RSD 2,360,160 (31 December 2012: RSD 2,583,871) mainly relate to accrued employee bonuses of RSD 1,652,748 (31 December 2012: RSD 1,418,102).

26. OTHER OPERATING INCOME

	Year ended 31 December	
	2013	2012
Rental income	108,671	116,483
Other operating income	25,784	82,200
	134,455	**198,683**

27. RAW MATERIAL AND CONSUMABLES USED

	Year ended 31 December	
	2013	2012
Costs of raw materials	131,065,580	88,092,425
Overheads and other costs	1,197,051	770,566
Other fuel and energy expenses	3,296,359	2,783,467
	135,558,990	**91,646,458**

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

28. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December	
	2013	**2012**
Wages and salaries (gross)	15,349,007	16,789,491
Taxes and contributions on wages and salaries paid by employer	2,394,753	2,618,554
Costs of special service agreements	666,003	485,606
Cost of other temporary service agreements	65,641	44,758
Fees paid to board of directors and general assembly board	72,666	35,216
Termination costs	3,375,478	3,642,744
Other personal expenses	1,689,136	1,306,364
	23,612,684	**24,922,733**

Termination costs amounting to RSD 3,375,478 relate to costs incurred for voluntary leave programme. The total number of employees who voluntarily left the Group in 2013 was 1,828 (2012: 1,701 employees).

	Year ended 31 December	
	2013	**2012**
Average number of employees	7,629	9,004

29. DEPRECIATION, AMORTISATION AND PROVISION

	Year ended 31 December	
	2013	**2012**
Depreciation expenses (notes 6 and 7)	10,871,987	6,858,262
Provision for:		
- land recultivation and environmental protection (note 19)	429,780	523,999
- employee benefits and long-term incentive program (note 19)	538,962	1,830,224
- provision for legal cases (note 19)	381,063	-
	12,221,792	**9,212,485**

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

30. OTHER OPERATING EXPENSES

	Year ended 31 December	
	2013	**2012**
Cost of production services	1,839,254	1,971,608
Transportation services	2,519,454	1,711,607
Maintenance	2,072,722	1,442,374
Rental costs	1,190,167	662,895
Fairs	5,917	4,459
Advertising costs	755,081	550,570
Research costs	786,216	759,226
Cost of other services	1,327,188	965,822
Costs of non-production services	6,074,329	3,427,917
Representation costs	152,509	125,626
Insurance premium	305,264	225,371
Bank charges	254,017	214,311
Cost of custom duties, property taxes and other taxes	1,808,706	1,973,586
Fee for emergency situations	-	288,517
Mineral extraction tax	2,472,792	2,782,327
Cost of legal and consulting services	136,640	128,911
Administrative and other taxes	263,500	193,630
Other	1,059,277	882,946
	23,023,033	**18,311,703**

Cost of non-production services for the year ended 31 December 2013 amounting to RSD 6,074,329 (2012: RSD 3,427,917) mainly relate to costs of service organizations of RSD 4,028,730, consulting service costs of RSD 557,920, project management costs of RSD 246,218 and certification and supervision costs of RSD 177,860.

31. FINANCE INCOME

	Year ended 31 December	
	2013	**2012**
Interest income	5,539,711	3,051,043
Foreign exchange gains	2,741,841	6,903,746
Other finance income	14,128	9,645
	8,295,680	**9,964,434**

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

32. FINANCE EXPENSES

	Year ended 31 December 2013	2012
Finance expenses – Gazprom Neft	1,224,655	124,225
Interest expenses	2,163,134	1,604,224
Amortization of long-term liabilities	354,643	336,335
Foreign exchange losses	931,479	13,906,949
Other finance expenses	47	2,555
	4,673,958	**15,974,288**

33. OTHER INCOME

	Year ended 31 December 2013	2012
Gains on disposal:		
- property, plant and equipment	109,012	136,304
- materials	20,118	14,514
Surpluses from stock count	385,145	382,164
Payables written off	274,630	558,983
Release of long-term provisions (note 19)	867,218	1,762,333
Penalty interest	523,261	46,889
Effects of valuation of assets:		
- property, plant and equipment	143	2,881
- investment property (note 8)	151,936	-
- inventories (note 11)	455,074	322,555
- advances paid (note 11)	9,659	9,719
- short-term financial investments (note 13)	-	26,668
- receivables (note 12)	1,157,773	962,839
- other properties	190,629	8,646
Other	491,346	525,133
	4,635,944	**4,759,628**

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

34. OTHER EXPENSES

	Year ended 31 December	
	2013	2012
Losses on disposal of property, plant and equipment	647,458	386,882
Shortages	1,074,362	786,415
Write off of receivables	26,790	40,621
Write off of inventories	79,550	131,407
Fines, penalties and damages	50,340	22,529
Humanitarian services and sponsorships	180,473	162,704
Impairment:		
- intangible assets (note 6)	66,637	87,150
- property, plant and equipment (note 7)	322,462	1,857,942
- investment property (note 8)	-	17,716
- other long-term investments	6,493	2,504
- inventories (note 11)	139,379	5,434
- advances paid (note 11)	16,244	12,337
- receivables(note 12)	5,279,291	10,440,076
Other	547,595	695,015
	8,437,074	**14,648,732**

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

35. INCOME TAXES

Components of income tax expense:

	Year ended 31 December 2013	2012
Income tax for the year	6,195,055	2,591,542
Deferred income tax for the period (note 16)		
Origination and reversal of temporary differences	(152,328)	(848,783)
Impact of change in the tax rate	-	194,162
	(152,328)	(654,621)
	6,042,727	**1,936,921**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Group's profits as follows:

	Year ended 31 December 2013	2012
Profit before tax	54,390,423	47,469,532
Tax calculated at domestic tax rates applicable to profits in the respective countries	8,793,869	4,746,953
Tax effect on:		
Expenses not deductible for tax purposes	154,030	966,676
Deferred tax credits	9,701	(1,634,556)
Tax losses for which no deferred income tax asset was recognised	-	240,728
Utilized tax credits	(3,012,616)	(2,577,042)
Impact of change in the tax rate	-	194,162
	5,944,984	1,936,921
Adjustment in respect of prior years	97,743	-
	6,042,727	**1,936,921**
Effective income tax rate	11.11%	4.08%

36. EARNINGS PER SHARE

	Year ended 31 December 2013	2012
Profit attributable to shareholders of Naftna Industrija Srbije	48,373,230	45,552,345
Weighted average number of ordinary shares in issue	163,060,400	163,060,400
Basic Earnings per share	**0.297**	**0.279**

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

37. BUSINESS COMBINATIONS

Acquisition of petrol stations

In 2013, as a part of regional expansion the Group has acquired 3 petrol stations (PS), one in Bulgaria and two in Romania. As a result of the acquisitions, the Group is expected to further increase its presence in these markets.

Name of acquiree	Date of acquisition	Percentage of equity interests acquired
Bulgaria		
PS Lovech	07/03/2013	100%
Romania		
PS Arad	26/04/2013	100%
PS Ovidiu SA	30/07/2013	100%

The following table summarises the consideration paid for acquired PS in the year ended 31 December 2013, the fair value of assets acquired and liabilities assumed.

	Year ended 31 December 2013		
	Bulgaria	**Romania**	**Total**
Purchase consideration:			
Cash paid	122,626	189,810	312,436
Additional consideration	2,839	-	2,839
Total purchase consideration	125,465	189,810	315,275
Fair value of net identifiable assets acquired	115,153	91,362	206,515
Goodwill	**10,312**	**98,448**	**108,760**

Amounts recognized as at acquisition date for each major class of assets acquired and liabilities assumed:

	Bulgaria	**Romania**	**Total**
Inventory	-	231	231
Property, plant and equipment	115,153	91,131	206,284
Net identifiable assets acquired	**115,153**	**91,362**	**206,515**

The acquisition agreements include only acquisition of properties of PS and do not contain any contingent consideration.

The following table summarises the consideration paid for acquired PS in the year ended 31 December 2012, the fair value of assets acquired and liabilities assumed:

	Year ended 31 December 2012			
	Bulgaria	**Romania**	**BIH**	**Total**
Purchase consideration:				
Cash paid	1,618,147	1,008,286	338,607	2,965,040
Additional consideration	42,660	-	958	43,618
Total purchase consideration	**1,660,807**	**1,008,286**	**339,565**	**3,008,658**
Fair value of net identifiable assets acquired	1,174,892	517,363	348,456	2,040,711
Goodwill	**485,915**	**490,923**	**-**	**976,838**
Gain on bargain purchase	**-**	**-**	**(8,891)**	**(8,891)**

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

37. BUSINESS COMBINATIONS (continued)

Amounts recognized as at acquisition date for each major class of assets acquired and liabilities assumed

	Bulgaria	Romania	BIH	Total
Inventory	-	385	-	385
Property, plant and equipment	1,174,892	516,978	348,456	2,040,326
Net identifiable assets acquired	**1,174,892**	**517,363**	**348,456**	**2,040,711**

Acquisitions of OMV BH

On 28 February 2013, the Group acquired 100% of the share capital and obtain control of OMV BH for 3,623,811 RSD, which operates through chain of 28 PS in Bosnia and Hercegovina. As a result of the acquisition, the Group is expected to increase it's presence in this market.

The following table summarises the consideration paid for OMV BH, the fair value of assets acquired and liabilities assumed at the acquisition date.

		As at the acquisition date (28 February 2013)
Assets		
	Current assets	1,013,302
	Property, plant and equipment	4,373,823
	Intangible assets other than goodwill	295,603
	Other non-current assets	66,912
	Total assets acquired	5,749,640
Liabilities		
	Current liabilities	(314,252)
	Non-current liabilities	(2,246,274)
	Total liabilities assumed	(2,560,526)
	Total identifiable net assets	**3,189,114**
	Total consideration transferred in cash	3,623,811
	Goodwill	434,697

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

38. GROUP ENTITIES

The financial statements of below listed subsidiaries are consolidated as at 31 December 2013 and 31 December 2012:

		Share %	
Subsidiary	**Country of incorporation**	**31 December 2013**	**31 December 2012**
O Zone a.d., Belgrade	Serbia	100	100
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	100	100
NIS Petrol SRL, Bucharest	Romania	100	100
Pannon naftagas Kft, Budapest	Hungary	100	100
NIS Oversiz, Moscow	Russia	100	100
Naftagas-naftni servisi d.o.o., Novi Sad	Serbia	100	100
NTC NIS-Naftagas d.o.o., Novi Sad	Serbia	100	100
Naftagas-tehnicki servisi d.o.o., Zrenjanin	Serbia	100	100
Naftagas-Transport d.o.o., Novi Sad	Serbia	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	100	-
Jadran - Naftagas d.o.o., Banja Luka	Bosnia and Herzegovina	66	66
Ranis, Moscow region (in liquidation)	Russia	51	51
Jubos, Bor	Serbia	51	51
Svetlost, Bujanovac, Serbia	Serbia	51	51

39. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The majority owner of the Group is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Group. The total of 29.87% shares of the Group (from the remaining 43.85%) are owned by the Republic of Serbia, while 13.98% are owned by non-controlling shareholders and are quoted on the Belgrade Stock Exchange. Gazprom, Russian Federation is the ultimate owner of the Group.

During 2013 and 2012, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to the supply/delivery of crude oil, geophysical research and interpretation services.

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

39. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

As of 31 December 2013 and 31 December 2012 the outstanding balances with related parties were as follows:

	Joint venture	Parent	Entities under common control	Total
As at 31 December 2013				
Investments in equity instruments	1,008,221	-	-	1,008,221
Inventories	-	-	24,219,102	24,219,102
Trade and other receivables	11,385	-	3,537	14,922
Other long-term liabilities	-	(45,323,622)	-	(45,323,622)
Short-term financial liabilities	-	(5,332,191)	-	(5,332,191)
Trade and other payables	-	(9,338,240)	(28,585,094)	(37,923,334)
Liabilities for VAT, other taxes and deferred income	-	-	(1,725)	(1,725)
	1,019,606	**(59,994,053)**	**(4,364,180)**	**(63,338,627)**
As at 31 December 2012				
Inventories	-	-	22,174,560	22,174,560
Trade and other receivables	-	-	4,960	4,960
VAT and prepaid expenses	-	-	20	20
Other long-term liabilities	-	(50,247,622)	-	(50,247,622)
Short-term financial liabilities	-	(5,289,222)	-	(5,289,222)
Trade and other payables	-	-	(25,475,054)	(25,475,054)
Other short-term liabilities	-	(115,203)	-	(115,203)
	-	**(55,652,047)**	**(3,295,514)**	**(58,947,561)**

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

39. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

	Joint venture	Parent	Entities under common control	Total
Year ended 31 December 2013				
Sales	-	-	92,553	92,553
Cost of goods sold	-	-	(17,245)	(17,245)
Raw material and consumables used	-	-	(114,209,629)	(114,209,629)
Other operating expenses	-	(45,889)	-	(45,889)
Finance expenses	-	(1,224,655)	-	(1,224,655)
Other income	-	-	297,244	297,244
Other expenses	-	(4,437)	(634,721)	(639,158)
	-	**(1,274,981)**	**(114,471,798)**	**(115,746,779)**
Year ended 31 December 2012				
Sales	-	-	124,793	124,793
Cost of goods sold	-	-	(12,625)	(12,625)
Raw material and consumables used	-	-	(67,725,252)	(67,725,252)
Other operating expenses	-	(52,068)	-	(52,068)
Finance expenses	-	(124,225)	-	(124,225)
Other income	-	-	119,192	119,192
Other expenses	-	(4,664)	(264,904)	(269,568)
	-	**(180,957)**	**(67,758,796)**	**(67,939,753)**

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

39. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

Key management compensation

Management compensation paid in 2013 and 2012 is shown in the table below:

	Year ended 31 December 2013	2012
Salaries and other short-term benefits	404,298	316,118
	404,298	**316,118**

Main transactions with state owned companies

	31 December 2013	31 December 2012
Receivables – gross		
HIP Petrohemija in restructuring	12,284,032	7,307,595
Srbijagas	27,124,438	23,573,467
	39,408,470	**30,881,062**
Liabilities		
HIP Petrohemija in restructuring	(1,534,730)	(523,563)
Srbijagas	(230,099)	(85,682)
	(1,764,829)	**(609,245)**
Advances received		
HIP Petrohemija in restructuring	(7,112)	(7,743)
Srbijagas	(12,806)	(12,806)
	(19,918)	**(20,549)**

	Year ended 31 December 2013	2012
Operating income		
HIP Petrohemija in restructuring	35,132,534	9,258,368
Srbijagas	2,176,974	17,902,669
	37,309,508	**27,161,037**
Operating expenses		
HIP Petrohemija in restructuring	(30,266)	(146,097)
Srbijagas	(1,080,394)	(1,675,633)
	(1,110,660)	**(1,821,730)**

40. CONTINGENT LIABILITIES

Transfer of property ownership

As at 31 December 2013, the Company had ownership of 6,731 properties and the right to use and possess 1,145 properties, which represent up 83% and 14% of the total Company properties (buildings and land), respectively.

The Republic of Serbia being the seller shall be obliged, under the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., to provide a written consent to make the transfer of the Company's total immovable property registered within the NIS Registry of Fixed Assets as at 31 December 2007.

Finance Guarantees

As at 31 December 2013 the total amount of outstanding finance guarantees given by the Group amounted to RSD 3,406,797 mostly related to customs duties in the amount of RSD 2,192,400 (2012: RSD 2,403,960).

Other contingent liabilities

As at 31 December 2013, the Group did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Group has to pay the difference in tax calculation of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Group's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit Oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Group's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed three years ago. Taking all of the above into consideration, the Group's Management is of the view that as at 31 December 2013 outflow of resources embodying economic benefits is remote due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

41. TAX RISKS

Tax laws of Republic of Serbia are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. The tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years from the transaction date. As at 31 December 2013, Management assessed that the Group had paid all tax liabilities.

42. COMMITMENTS

Leases

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

	31 December 2013	31 December 2012
Less than one year	230,006	186,118
1-5 years	349,778	247,826
Over five year	484,875	944
	1,064,659	**434,888**

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

	31 December 2013	31 December 2012
Less than one year	588,323	460,388
1-5 years	719,661	387,249
Over five years	489,029	-
	1,797,013	**847,637**

Farm-out agreement with East West Petroleum Corporation, Canada

In October 2011, the Group entered into a Farm-out agreement with East West Petroleum Corporation, Canada for exploration and production of hydrocarbons in the Timisoara region in Romania. Under the Contract, the Group shall finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, the Group will be entitled to 85% of the total production volume of hydrocarbons. Moreover, under the Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Group will act as the Operator and will be in charge of and shall conduct all Joint Operations. In December 2012 exploration licence for Block 2 was ratified by Romania Government. Exploration activities are underway. On 31 December 2013 drilling and exploration works for Block 2 were estimated to 13,68 USD million.

42. COMMITMENTS (continued)

Farm-in agreement with RAG Hungary limited

In December 2011, the Group entered into a Farm-in agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kiskunhalas area in Hungary. Under the contract, the Group committed to finance 50% of total exploration costs on at least three oil wells in the area covered by the exploration license. Depending on success of the exploration, the Group will be entitled to 50% of total production volume of hydrocarbons. Under the Joint Operation Agreement signed with RAG Hungary Limited, RAG will act as the Operator and will be in charge of and shall conduct all Joint Operations. On 31 December 2013 drilling and exploration works were estimated to 1.2 USD million.

Call Option agreement with RAG Hungary limited

In December 2012, the Group entered into a Call Option agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kelebia area in Hungary. Under the agreement NIS has an option to become equal owner in a jointly owned company (JOC) together with Rag Hungary, Rag Kiha, which will hold the Kelebia Licence by becoming a 50 % quota holder in the JOC. On 31 December 2013 drilling and exploration works were estimated to 1.45 USD million.

Farm-out agreement with Zeta Petroleum S.R.L. Romania

In August 2012, the Group has entered into Farm-out agreement with Zeta Petroleum S.R.L Romania for exploration and production of hydrocarbons in Timis region in Romania. According to the Contract, the Group is committed to finance 51% of total exploration costs in the area covered by the exploration license. Depending on the success of exploration, the Group will be entitled to 51% of total production volume of hydrocarbons. Exploration activities are underway. On 31 December 2013 drilling and exploration works were estimated to 1 USD million.

Farm-out agreement with Moesia Oil and Gas PLC Ireland

In June 2012, the Group has entered into a Farm-out agreement with Moesia Oil and Gas PLC Ireland for exploration and production of hydrocarbons in Romania. According to the Contract, the Group is committed to finance sunk costs and 75% of total exploration costs of Phase 1 of the Programme. Depending on the success of exploration, the Group will be entitled to 50% of total production volume of hydrocarbons and committed to finance 50% of further exploration and production costs. Exploration activities were started in November 2012. On 31 December 2013 drilling and exploration works were estimated to 0.64 USD million.

Oil field service contract with Falcon Oil & Gas LTD

In January 2013, the Group entered into a Multi-well drilling exploration program with Falcon Oil & Gas Ltd. to target the shallower Algyö Formation in Hungary. Under the contract, the Group committed to drill three exploration wells targeting the shallow ‘Algyö Play’ reservoir covered by the Mako trough production license in the Pannonian Basin held by Falcon Oil & Gas limited, Hungary. Depending on success of the exploration, the Group will be entitled to 50% of any net production revenue from the three wells. On 31 December 2013 drilling and exploration works were estimated to 14.42 USD million.

43. EVENTS AFTER THE REPORTING PERIOD

During 2014 subsidiary Ranis, Moscow region is liquidated.

Subsequent events occurring after 31 December 2013 were evaluated through 18 February 2014, the date these Consolidated Financial Statements were authorised for issue.

Novi Sad, 18 February 2014

The person responsible for the preparation of Consolidated Financial Statements	M.P.	Legal representative