2012.

ANNUAL REPORT 2012

NIS

GAZPROM NEFT

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The Annual Report of NIS a.d. Novi Sad for 2012 represents a reliable account of Company's business activity development and results accomplished in 2012. The report discloses data for NIS a.d. Novi Sad, as well as its subsidiaries. If data include subsidiaries this is particularly highlighted.Report,in compliance with the Capital Market Law, comprises three entities: business report, stand-alone and consolidated financial reports, including auditors' reports, as well as the statements of persons responsible for report delivery. Abbreviations and terms used in the Report, as well as the contact data are provided in the Appendix to the Report.

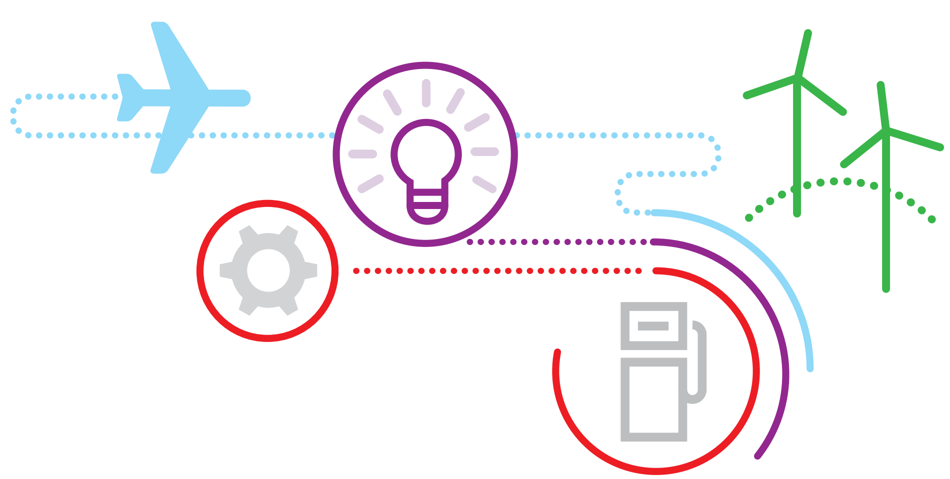
This version of the Annual Report is a translation from the original document prepared in Serbian language. All possible care has been taken to ensure accurate representation of original document. However, in all matters of interpretation of information, views or opinions, the original Serbian language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

Content

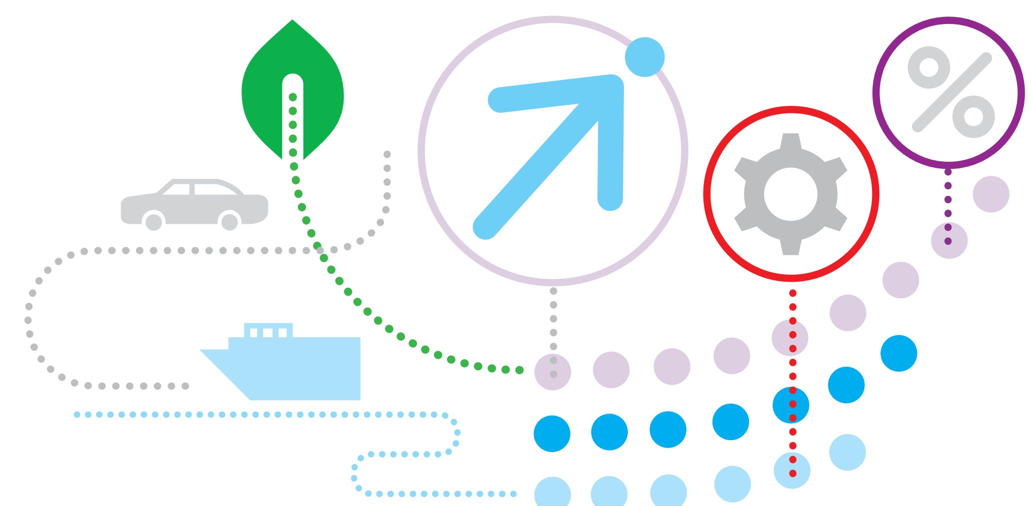
NIS in figures in 2012

Financial indicators	2010	2011	2012	Δ
Net profit , bln. RSD	16.5	40.6	49.5	+22%
EBITDA* , bln. RSD	32.4	52.4	66.5	+27%
Sales (excise tax excluded), bln. RSD	161.2	186.9	226.2	+21%
OCF, bln. RSD	17.8	35	36.8	+5%
CAPEX, bln. RSD	19.7	34.4	50.8	+48%
Total debt to banks, mln. USD	611	446	403	-10%
Total bank indebtedness** , mln. USD	644	458	418	-9%

*EBITDA = Revenues from sales (excise tax excluded) –stock costs (oil, oil products, and other products) – operating costs of business activities (OPEX) – other costs beyond the influence of the management
** Total bank indebtness includes total debt to banks as well as letters of credit



Operational Indicators	2010	2011	2012	Δ
Domestic oil and gas production volume, thou. conditional tons	1,229.4	1,521	1,694	11%
Average daily domestic oil production volume, 000 t/day	2.37	2.77	3.1	11%
Average daily domestic gas production volume, mln. m3/day	1.24	1.67	1.8	10%
Total volume of sales of oil products, thou. tons	2,611.2	2,428	2,395	-1%
Volume of crude refining third parties excluded, thou. tons	2,849.7	2,359	2,142	-9%
Retail, thou. tons	559,6	518,6	596,9	15%
Average daily turnover per PS, tons/day	3.2	3.2	4.5	41%



Regardless of the difficult economic situation, both in Serbia and in the world, we managed to accomplish all set goals and to achieve results we can be proud of. Today, the company is dedicated to the continually growing internal efficiency, with significant potentials for further development.

Last year was one of the most successful in the history of NIS. Regardless of the difficult economic situation, both in Serbia and in the world, we managed to accomplish all set goals and to achieve results we can be proud of. Today, the company is dedicated to the continually growing internal efficiency, with significant potentials for further development.

In 2012 NIS successfully ended up the realization of key investment projects, thus allowing the company to foster its positions on the Balkan energetic market. We have been investing substantial resources in business development, improving the production process, introducing technological innovations, whereby increasing Company's hydrocarbon production and the sale of crude oil derivatives. Our investments in 2012 grew almost twice as much compared to the previous year. I can say that NIS's financial situation has stabilized, representing a secure foundation for the transition to a new level of company's development.

Realization of a long term strategy has already been yielding first concrete results. Last year one of the biggest projects of the company was finished – modernization of NIS refinery capacities. This allowed the Pancevo refinery to launch the production of ecological fuel «Euro 5» and to significantly pin company's competitiveness on the Serbian and the Balkan region markets. The project was completed, amongst others, due to constructive cooperation between the two biggest NIS shareholders – the Government of the Republic of Serbia and JSC «Gazprom Neft». New plants have been put in operation as of 1 November 2012, and the ceremony was attended by the President of the Republic of Serbia, Tomislav Nikolic, and Prime Minister, Ivica Dacic. JSC «Gazprom Neft» has fully settled all liabilities which were undertaken at the purchase of the NIS shares, as regards the modernization of Company's refinery capacities.

Among other successful projects, further development of NIS retail network is the one worth a mention, such as the appearance of Gazprom petrol stations new premium brand, on the European market. That way NIS has already acquired a balanced combination of retail networks which can satisfy demands and requirements of the broadest share of fuel consumers, as well as Company's services.

Another ambitious task has been set before our company, and that is NIS transformation into an energy holding. For that purpose we continue to introduce new technologies and expand our own competencies. Supported by shareholders and according to its strategy, NIS has already started with realization of the project of the wind power plant construction, which will allow the company to use its own gas resources maximally efficiently, representing a huge contribution to the development of Serbia's electrical and energetic system, as well as to the country's supplies in needed energy. Assisted by the majority shareholder, JSC «Gazprom Neft», NIS will continue to actively develop, whereby company's investment program for next two years will be 500 million euros annually. At the same time, capital investments will be redirected to all business fields – from geological research and production, to the development of energetics and services to retail clients.

Vadim Vadislavovich Yakovlev
Chairman of Board of Directors NIS a.d. Novi Sad

I am sure that we have set the strong foundation for successful business and that we are strong and ready for challenges we will face in 2013. A clear objective is ahead of us – a leadership position at the market of South East Europe.

We will remember the year 2012 as the period of great business challenges, economic crisis and local currency fluctuations. In spite of all that, we managed to achieve the best results to date.

We increased our investments to around 50 billion RSD, or by almost 48 per cent. We will make a contribution to the Serbian budget in the amount of over 90 billion RSD, being a considerably higher amount than the last year. We have reduced our debts to banks, and the ratio of our debt and EBITDA is now around 0.5.

In addition, we completed the modernization of Pančevo Oil Refinery which does not mean the beginning of production of Euro quality fuel and better environment only, but it also witnesses that we keep our promises given by signing the acquisition agreement four years ago.

This business success opens new perspectives for us, of course, with the plans for a new phase of modernization of Pančevo Oil Refinery – project for deep refining of petroleum. As of next year, NIS will be able to export the European quality fuel to the regional countries in the amount of 400 million Euro, and by the end of 2015 we will have initiated the operations of 800 petrol stations in 6 regional countries. These petrol stations will sell 2 million tonnes of fuel produces in NIS refinery in Serbia.

We have already acquired around 100 petrol stations and locations in Romania, Bulgaria and Bosnia and Herzegovina. We have entered into agreement on acquisition of 100% ownership of OMV BiH under which we will take over 28 petrol stations and one of the strongest networks in Bosnia and Herzegovina market. Six petrol stations NIS Petrol have been opened for customers in the Republic of Srpska.

Together with the economy brand NIS Petrol, we started to introduce the premium brand – Gazprom. The first petrol stations for customers in search of top quality of services and fuel are opened in Belgrade and in the Romanian city Sibiu. We have ambitious plans to expand the Gazprom network to 100 petrol stations by the end of 2013.

We have rebranded around 200 petrol stations in NIS Petrol Serbia and purchased around 40 modern tank cars by which we completely renewed the Company car fleet. By opening the first two bunkering stations based in Novi Sad and Veliko Gradište, we initiated a new business direction – ship bunkering. We have also modernized the business operations with jet fuel.

We see the preservation of resource base increase trend against petroleum and gas production growth as our big success. Only in 2012 did we invest around 25 million dollars for purchasing equipment, application of the state-of-the-art technologies in Oilfield Services and staff training. I am convinced that we have established firm foundations for future successes and that we are strong and ready to face all the challenges in 2013. We have set a clear goal: NIS will be the leader at the market of South East Europe.

We have a particular interest in the Exploration and Production projects. This is primarily for the purposes of expanding crude oil resources and continuous growth of verified reserves. We already have the first results in Bosnia and Herzegovina – preparations for drilling explorative wells are conducted by the company Jadran-Naftagas and we expect to drill the first quantities of petroleum in 2013. We expect the actual results in Romania and Hungary next year, as we have started the drilling of explorative wells.

We have made our first steps in transforming NIS into an energy company this year. The wind park "Plandište" will be the first wind park in our country to produce over 200 GWh of electrical energy a year. At the same time this will be the first big energy facility to be built in Serbia in the last 25 years. In the area of energy generation we have drawn up the plans for investing in thermal power plant-heating plant (TPP) Novi Sad with the capacity of 4850 MW the reconstruction of which should start next year, as well as project of building the thermal power plant in with 175 megawatts of power which should be commissioned by the end of 2015.

In addition, we have adopted the strategy for base oil production in Novi Sad refinery. In cooperation with the Serbian Government we have completed the first revitalization phase of HIP "Petrohemija", NIS strategic partner. The project is expected to be continued next year with the investment of around 60 million Euros.

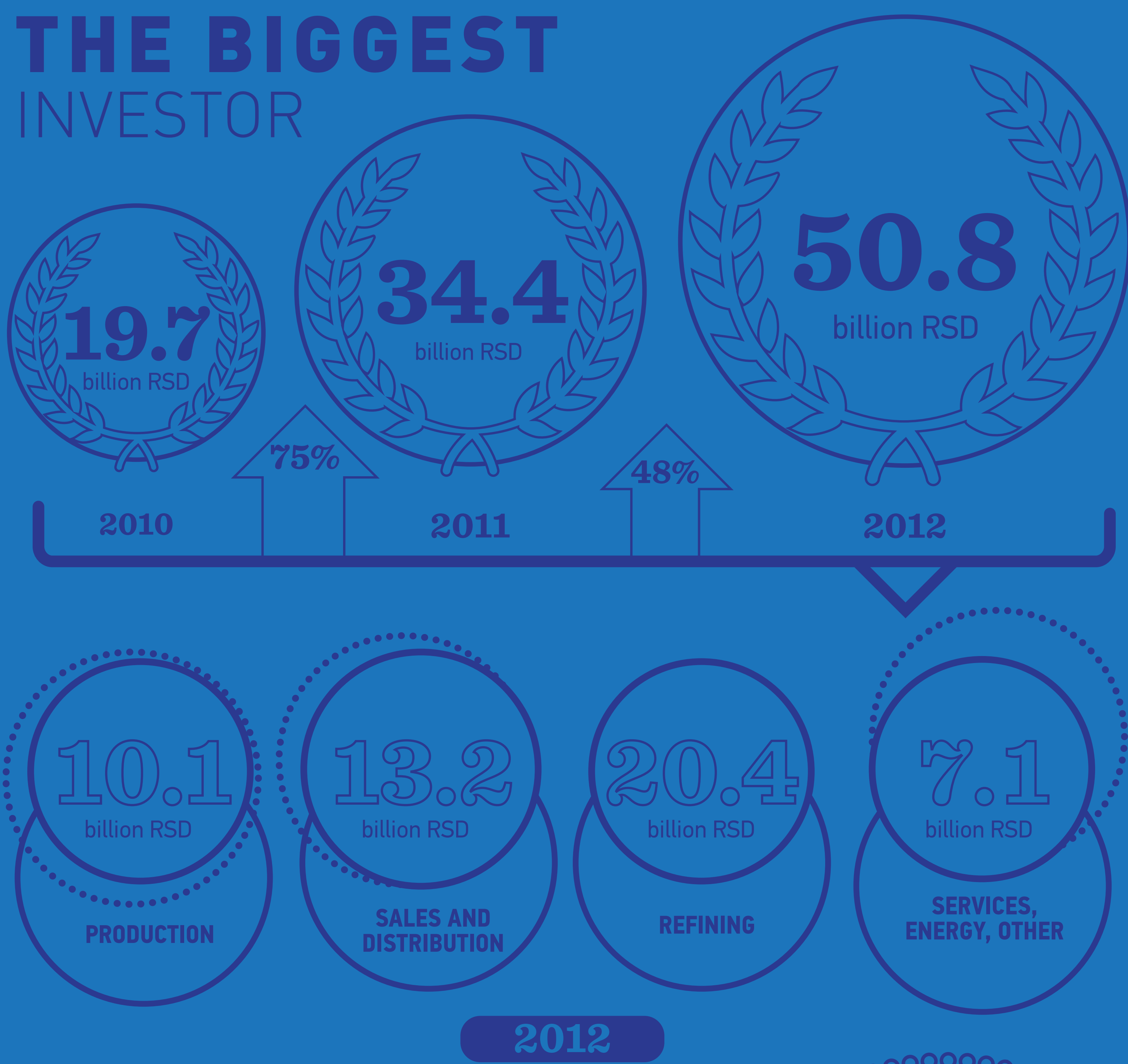
We plan to invest 500 million Euro annually during the period of two years and the significant portion of funds will be invested in human resources. Only in this year did we invest almost double in developing our experts versus 2011. The essence of our success is in the fact that we have gathered the experts from more than 20 countries worldwide. Our investments in staff development were verified by the reward for the best employer in 2012. Like all modern companies, NIS has developed the Code of Business Ethics being the basic rule for any company.

The role of the Company in the area of socially responsible business is the crown of our success. We have supported numerous projects in the area of culture, sports, education this year, as well as humanitarian projects and priority projects of local communities where NIS operates.

I am sure that we have set the strong foundation for successful business and that we are strong and ready for challenges we will face in 2013. A clear objective is ahead of us – a leadership position at the market of South East Europe.

Kirill Albertovich Kravchenko
CEO, NIS a.d. Novi Sad

BUSINESS REPORT



Accelarated technological development was the characteristic of business operation of NIS in 2012. Even though the finalization of the new refinery unit in Pančevo was the biggest technological achievement of the year, at the same time NIS started promptly to introduce new technologies in all areas of business operation.

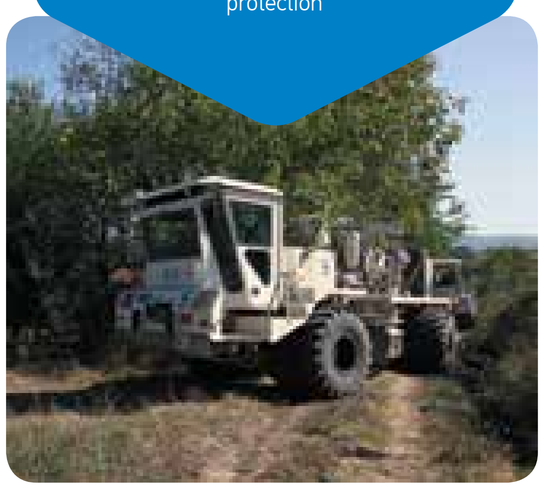
Key Events in 2012

January

- The first fuel station was opened in the new NIS Petrol brand
- The exploratory well Majx-2 was tested and the production test was ran

February

- RAG Hungary Limited and NIS stated drilling of exploratory wells based on the Farm-in Agreement concluded in December 2011
- 3D seismic surveys finished in Zrenjanin exploratory area (Srednji Banat)
- NIS presented the investment program in the field of environmental protection

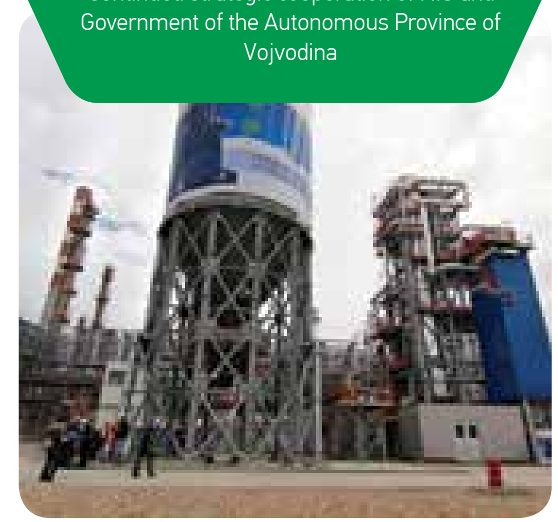


March

- NIS presented its business activity in the field of jet fuel
- The agreement on the exploitation of geothermal potential was signed
- NIS purchased the cutting-edge oil and gas exploration equipment

April

- Cooperation of NIS and Slovak company GGE regarding the TPP project - Novi Sad Thermal and Power Plant modernization
- The new unit (SARU) at RNP was officially started up
- "Gazprom Neft" fulfilled its investor obligations under the contract of purchase of 51% NIS shares
- Continued strategic cooperation of NIS and Government of the Autonomous Province of Vojvodina

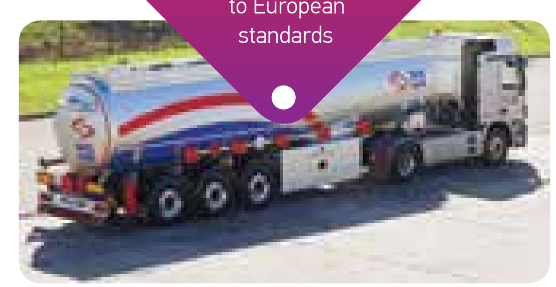


May

- A new independent member of the NIS Board of Directors was nominated - Wolfgang Ruttenstorfer
- Silver championship cup for NIS' oils and heavy fuel oil program at the 79th international agricultural fair in Novi Sad
- NIS Board of Directors approved the base oil production development concept in Novi Sad Refinery

June

- NIS as the most successful company in Serbia according to rating of the Business Registers Agency
- Transportation of petroleum products in NIS according to European standards



July

- NIS' delegation visited the Energy Community of EU
- NIS published the 2011 report on sustainable development in compliance with the international standards
- The web site for investors and shareholders was launched (ir.nis.rs)

August

• NIS Chance 2012" program was initiated
• LPG tank construction completed in Pancevo Oil Refinery

September

• The new NIS web site (www.nispetrol.eu) targeting consumers and corporate clients was launched
• NIS received the award for corporate responsibility
• "NISOTEK" conference brought together experts in the field of lubricants
• Jadran Naftagas presented the first results of oil and gas exploration on the territory of the Republika Srpska

October

• NIS participated in the round table on the issue of oily shale
• NIS and Mercedes Benz signed the Memorandum of Cooperation
• NIS bought the first warehouse in Bulgaria

November

• Gazprom Neft finished the project of production capacity modernization at Pancevo Oil Refinery
• NIS broadens the ship supply station network at the Danube
• NIS invested into oilfield services modernization
• SCC: NIS - an illustration of a good Corporate Governance practice
• For the second time successively, NIS the best in relations with investors
• NIS signed agreement to buy OMV's petrol stations in B&H
• Award for business excellence in areas of leadership, human resources, results – social community

December

• NIS signed an agreement on wind power plant construction in Plandiste
• Successful organization of NIS' first "Investor Day"
• The first fuel station in the GAZPROM brand started operating in Serbia and Romania
• First NIS Petrol fuel stations were opened in the Republika Srpska
• First phase of reconstruction of refining capacities of HIP Petrohemija completed (with consultant and logistic support from NIS)

2013

January

• Officially commissioned NIS Petrol station in Republika Srpska

February

• NIS signed Protocol on cooperation with Fund for young talents of Republic of Serbia
• Business results for 2012 presented
• NIS is the general sponsor of 41st FEST
• NIS presented results for 2012 on Belgrade Stock Exchange
• Financial Statements with independent Auditor's report published

March

• NIS participates in vehicles fair

MISSION

To give the people of Balkan region energy for movement towards better by responsible use of natural resources and modern technology

VISION

Vertically integrated energy company NIS will become a recognized leader in Balkan region in its industry by dynamics of sustainable development and increase of efficiencies, demonstrating high social and ecological responsibility and modern standards of customer service

VALUES OF THE COMPANY

EXPERTISE

Gaining up-to-date knowledge for the goal of constant professional development, and the ability to implement it in an actual business processes

POSITIVISM AND COOPERATION

Readiness to participate in multifunctional groups and projects, eagerness to meet demands of colleagues from other units of the company, willingness to exchange information, ability to work in a team.

INITIATIVE AND RESPONSIBILITY

Finding and suggesting new solutions both in the working environment, and in the sphere of company interests

COLLECTIVE RESULTS

Collective effort in achieving a visible and meaningful result, a desire to succeed and provide each other with needed assistance

Strategy

Company's main strategic goal by 2020 is to become the most efficient, fast-growing and energy efficient company in the Balkan region while maintaining a leadership position in the Serbian market and becoming a leader among the three top companies in South East Europe.

NIS strategy is based on three horizons:

2011 – Verticaly integrated Company on Balkans

The implementation of the transformation and modernization program that will enable a profitable and stable long-term growth.

2013 – Emerging player in the Balkan market

To become vertically integrated oil company with the fastest growth in the Balkans in production of crude oil and gas, production and supply of petroleum products.

2020 – Efficiency leader in the Balkans

To become a leading energy company – a leader among competitors in South European market. To become a regional player with the fastest growth in production, refining and retail sales volume the Balkans.

NIS' main strategic priorities by 2020:

- To increase hydrocarbon production volume
- To increase of resource base
- To increase the volume of European quality fuel production and refining
- Execution of projects in the area of renewable and alternative energy sources
- Regional sales network development
- Development of bunkering, oil storage facilities and aviation services
- Development of gas refining and supply activities
- Base oils and petrochemical production development
- Acquisition of share in power generation market of Serbia and EU in the capacity of power generation company
- Growth of the scope and intense development of existing business operations abroad
- Increase of domestic activities efficiency
- Focusing on innovations and comprehensive power generation development projects

5 million tons of crude and gas produced

- Capacity utilization rate not less than........ 10
- Key player in Panonian Basin
- Broad portfolio of assets beyond Serbia's borders
- Most solid scientific and technological base for development of conventional and unconventional resources
- Gas supply to end user 5 million tons refined

5 million tons refined

- Among five most efficient refineries in SEE
- Less than two per cent heavy still bottoms
- Production of base and industrial oils
- Tight integration with petrochemistry
- Control of raw material delivery infrastructure

5 million tons oil product sold

- Leader in Serbia and neighbouring countries in quality of service and fuel
- 800-1000 petrol station of mass and premium brand in Serbia and Europe. Unchallenged leader of Serbian market in scope of sales
- One of three biggest vertically-integrated companies in the region by scope of retail sales
- One of the region's leaders in production of oils and jet fuel, bunkering and petrochemicals
- Pioneering the use of novel technologies in production of derivatives

Euro 5 standard of process and result

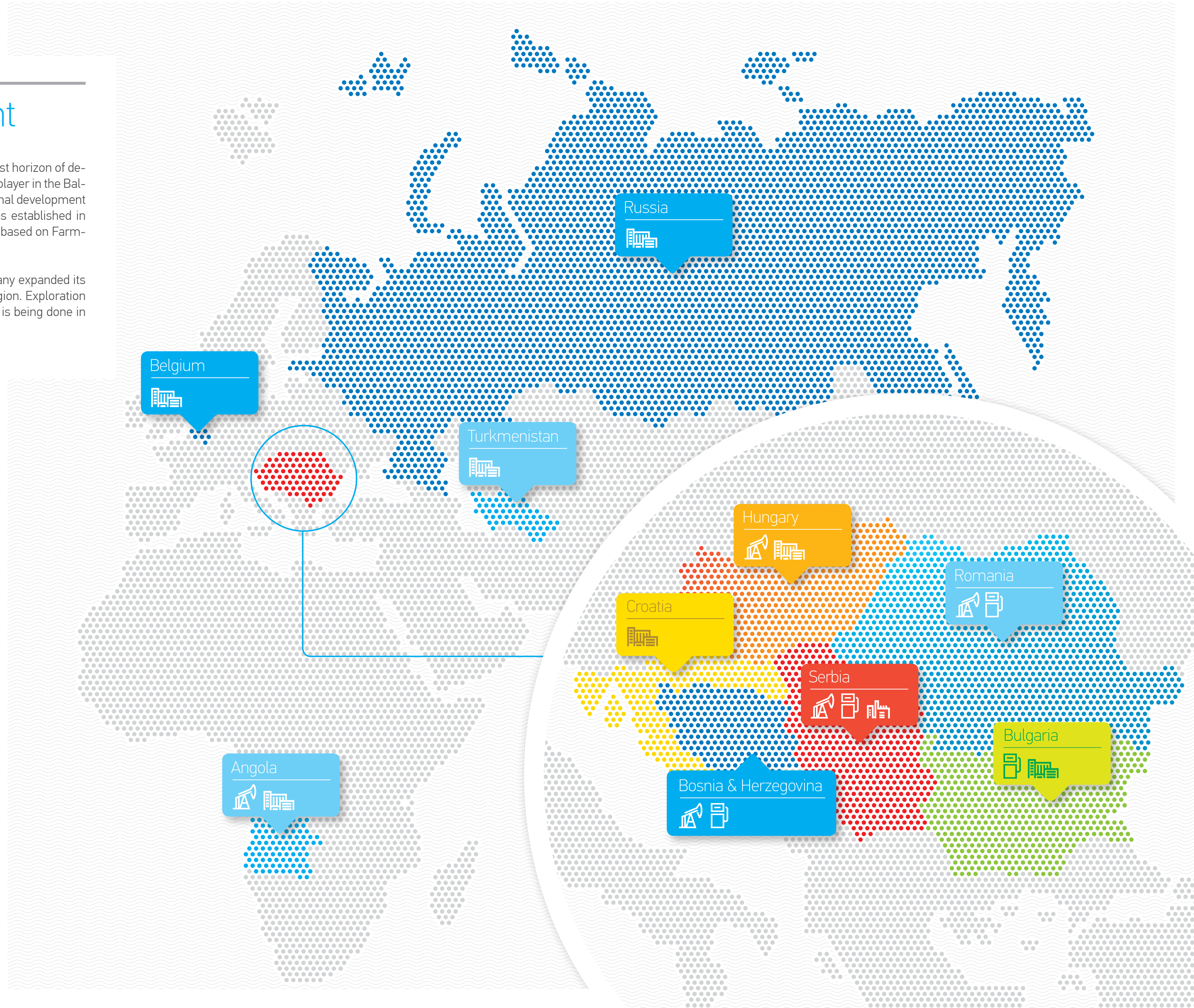
EBPO 5

- European standard products and services
- Leader in the region by international HSE standards compliance
- Introduction of best Europe's management practice in public companies
- High achievements culture and region's best employer
- International standards in corporate social reporting

Regional development

If we consider 2011 to be the first step in reaching the first horizon of development defined for 2013 – which is to become emerging player in the Balkan market, then we can consider 2012 to be a year of regional development and a big step in reaching of this horizon. NIS subsidiaries established in 2011 started their activities in 2012, as well as explorations based on Farm-in and Farm-out agreements signed at the end of 2011.

In 2012 NIS being a vertically integrated energy Company expanded its retail network which now operates in 4 countries of the region. Exploration wells are being drilled in Hungary, and geological research is being done in Romania.



Legend

- Exploration and production
- Sales
- Refining
- Representative offices or branch

Company profile

General Information

Business Name:	NIS a.d. Novi Sad
Company Identity Number:	20084693
Address:	Novi Sad. Narodnog fronta 12
Tax ID:	104052135
Web site:	www.nis.eu
e-mail:	office@nis.eu
Activity:	0610 - exploitation of crude oil
Number and date of registration in BRA:	BD 92142, 29.09.2005
Total equity as of December, 31st 2012	137,003,161,000 RSD
Share capital as of December, 31st 2012	81,530,200,000 RSD
Number of employees as of December, 31st 2012	6,106*
Audit company that audited the last financial report (dated December 31st. 2011):	Pricewaterhouse Coopers d.o.o. Omladinskih brigada 88a Belgrade. Serbia
Organized market where Shares of the Issuer are traded in	Belgrade Stock Exchange Omladinskih brigada 1 Belgrade. Serbia

* Without employees from servicing organizationsand employees from subsidiaries and representative offices

Key Events

1949 Naftagas oil company established, the first gas fields discovered

1951 Gas transportation system improvement launched

1952 First oil fields discovered

1953 Construction of the first petrol stations started

1963 Completion of the first main gas transmission line Mokrin – Kikinda – Elemir – Velika Greda – Pančevo

1968 Novi Sad and Pančevo Oil Refineries started operation. Velebit oil field discovered

1979 Horgoš-Batajnica gas pipeline put on stream

1982 Geological exploration of oil and gas started in Montenegro

1985 Beginning of the Angola crude oil production (concession)

1991 Establishment of the Public Company Naftna industrija Srbije

1999 NATO bombing of NIS facilities

2005 The Company became a joint stock company

2009 51% of NIS acquired by Gazprom Neft; 49% remains under control of the Republic of Serbia. Production modernization project was launched in September

2010

- On 6 January, 19,08% of the shares owned by the Republic of Serbia pass into the ownership of the citizens of Serbia, employees and ex-employees of NIS
- Hydrocracking and hydro treating complex in Pancevo Oil Refinery launched in June that means the beginning of NIS refinery complex modernization
- On June 21, NIS became an open joint stock company
- 23 Belgrade Stock Exchange Commission for listing and quotation decided to accept NIS shares for Listing A Prime Market, while on August 30 shares trading in Belgrade Stock Exchange started

2011

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

2012

- Year of regional expansion
- Year of introducing new technologies in all business areas
- NIS finished the modernization process in Pancevo Oil Refinery and started production of EURO 5

Business Structure Review

NIS j.s.c.

- **Expert Services**
- **Foreign Representative Offices**

Upstream
- Oil and Gas Production
- Oil and Gas Reserve Management
- Oil and Gas Reservoir Engineering Management
- Infrastructure and Operational Support
- Strategy and Complex Projects
- STC NIS - NAFTAGAS*

Oilfield services
- Marketing, Sales and Business Development
- NAFTAGAS – Oilfield Services*
- NAFTAGAS – Technical Services*
- NAFTAGAS - Transport *

Refining
- Oil Refining
- Technological Support
- Reception of raw materials, blending petroleum products and loading transportation means
- Technical Maintenance and Equipment Repair
- Increasing Efficiency in Refining
- Dispatch Operations

Sales & Distribution
- Marketing
- Wholesale
- Retail
- Logistics and Supply
- Production of Lubricants
- Development of the “Sales and Distribution” Business
- “Sales and Distribution” Projects Management
- “Sales and Distribution” Capital Construction

Energy
- Renewable Energy Sources
- Gas and Energy Trade
- Development in the Energy Area
- Thermal Regeneration
- Provision of Energy-Generating Product to “Refining”

* In 2012 individual subsidiary companies were established out of the business structure of the Company

Business Operation

Naftna Industrija Srbije (NIS) is among major vertically-integrated energy companies in the South East Europe for exploration, extraction and refining of crude and natural gas as well as distribution and sale of a wide range of oil products. Company’s HQ and main production facilities are based in the Republic of Serbia, a Balkan hub of trade and investments due to its geographic position. In 2012 NIS distributed its business activities in five blocks:

Five blocks
- Block Upstream
- Block Oilfield Services
- Block Refining
- Block Sales and Distribution
- Block Energy

partly decentralised functions/directorates
- Function for Strategy and Investments
- Function for Finance, Economics Planning and Accounting
- Function for Material and Technical and Service Support and Capital Construction
- Function for Organisational Affairs
- Function for HSE

and centralised functions
- Function for Legal and Corporate Affairs
- Function for Corporate Security
- Function for External and Governmental Relations
- Function for Internal Audit
- Function for Public Relations and Communication

Upstream Block (Exploration and production) operates in the area of exploration and production of oil and gas, including the following activities: exploration, production, infrastructure and operational support, oil and gas reserves management, oil and gas field engineering management, major exploration and production projects, management of processes in the scientific and technological centre. In 2012, NIS entered in 3 production sharing agreements related to crude oil in Angola (PSA, Production Sharing Agreement):
- PSA, Block 3/05
- PSA, Block 3/05A
- PSA, Block 3/91

As of 2010, oil and gas exploration and production activities expanded to the region. Jadran Naftagas, a limited liability company for exploration and production of crude oil, was established in Republika Srpska. This is a joint venture by NIS and Neftegazincor, a Zarubezhneft subsidiary. A seismic survey was conducted in Posavina and Semberija regions in 2012. The joint survey agreement for Kelebija exploration block was signed in 2012 in Hungary with RAG. In 2012, the Romanian government approved the licence for exploration block EX-2 in Romania. The joint survey agreement was signed with Moesia for exploration block EX-12, and an agreement was signed with Zeta Petroleum for field development in Jimbolia.

Oilfield Services Block provides main support in exploration and production in all oil and gas upstream activities, from geophysical services, through drilling and overhaul of wells, to the transportation of the machinery and manpower, machinery maintenance as well as construction and maintenance of oil and gas systems and facilities. Oilfield Services Block expanded its operations into the foreign markets. Contracts were concluded for drilling services in the territory of Turkmenistan; work over of wells in Bosnia-Herzegovina for Jadran Naftagas, pipeline testing and inspection of tank for oil products storage in the territory of Romania.

Refining Block produces petroleum products. NIS produces a full range of petroleum products - engine fuels, raw materials for petrochemical industry, engine oils and other petroleum products. The annual average refining volume in the previous two years was around 2.5 tons of crude oil. The maximum capacity of refining facilities (in Pancevo and Novi Sad) is approximately 7 million tons of crude oil a year.

Sales and Distribution Block covers foreign and domestic trade, wholesale and the retail of all oil derivatives, and accessory merchandise. As of 31.12.2012 NIS has 350 operating retail facilities (338 petrol stations: 333 operational, 1 under reconstruction and 4 internal petrol stations, 6 loading stations for LPG, 6 LPG cylinders sales points, 6 products storages (5 of them in operation: Novi Sad, Smederevo, Belgrade, Nis, Prahovo, and 1 out of operation: Elemir), 6 operational LPG storages (Novi Sad, Belgrade, Zrenjanin, Subotica, Cacak and Nis) and 3 active storage facilities (Cacak, Jakovo and Sabac). NIS’ subsidiary NIS Petrol from Bulgaria (100% owned by NIS) bought product storage for liquefied products in Kostin Brod in Bulgaria in October 2012.

Energy Block was established in 2011 with the goal to produce and sell of electrical and thermal energy from various resources including traditional coal-gas, renewable resources (biomass, wind, geothermal resources) The Energy Block performs analysis and evaluation of investment and preliminary projects in the Serbian energy sector with the goal identifying NIS strategic partnerships.

Products and Services

NIS' refineries produce a wide range of petroleum products, natural gas, and quality of those products is in compliance with the Regulations on technical and other requirements for liquid fuels from oil and Regulations on technical and other requirements for liquefied petroleum gas, international standards and refinery's specifications. Road bitumen 50/70, 70/100 and 160/220 are certified in order to ensure the CE mark, as confirmation of product quality, and to ensure safety and security for consumers and to ensure sales of road bitumen on the European market in accordance with the Construction Products Directive 89/106/EEC (the Construction Products Directive or CPD).

The certificate is issued by a notified body SGS and represents certificate of compliance of control process of production of road bitumen with the requirements of EN 12591:2009 (Bitumen and bituminous binders-Specification for paving grade bitumen):

1. Fuel for internal combustion engines
   - Liquid petroleum gas for motor vehicles
   - Unleaded motor gasoline "EURO Premium" BMB 95
   - Unleaded motor gasoline "Premium" BMB 95
   - Euro Diesel
   - Diesel D2

2. Liquid petroleum gas
   - Propane
   - Mixture of propane&butane in tanks
   - Mixture of propane&butane in cylinders
   - Iso-butane
   - Butane

3. Aviation fuel
4. Jet fuel
   - GM-1 - for jet fuel engines
   - JET A-1 - for jet fuel engines (pursuant to „Defence Standard")

5. Lubricants and grease
   - Motor oil
   - Transmission oil
   - Service liquids
   - Industrial lubricants and grease

6. Fuel oil
   - Fuel oil NSG-s
   - Fuel oil S
   - Fuel oil "Extra Light"

7. Bitumen
   - Road bitumen 50/70
   - Road bitumen 70/100
   - Road bitumen 160/220
   - Polymer modified bitumen Industrial bitumen

8. Petrochemical products (virgin naphtha, propylene)

9. Distillates and raffinates

10. Other products (benzene, toluene, liquefied sulfur, special naphtha)

NIS also produces carbonated and non-carbonated natural spring water in a plant for the production of drinking water "Jazak".

Apart from that, NIS' subsidiaries (NIS Naftni servisi, NIS Tehnicki servisi, NIS Transport and NTC NIS Naftagas), founded in 2012 in order to increase efficiency and provide ample offer of services, among which are toll processing of oil, transport and storage of oil products, conformity assessment services, performed by accredited conformity assessment bodies, such as testing laboratories, calibration laboratories and inspection bodies, laboratory testing and oilfield services (drilling, equipping and overhaul of oil, gas and geothermal wells, geophysical testing and measuring, maintenance and construction of oil and gas production systems, equipment maintenance and repair, construction and maintenance of transport pipelines, drilling, equipping and overhaul of drinking water wells, materials and equipment transportation) and services of Scientific and Technical Centre (projects for geological research, geophysical study and field development, designing and other engineering services).

Corporate Governance

Efficient, responsible and transparent Corporate Governance is one of key factors contributing to the successful corporate operations. It is a prerequisite for a stable and long-term growth, corporate development and further increase of competitiveness.

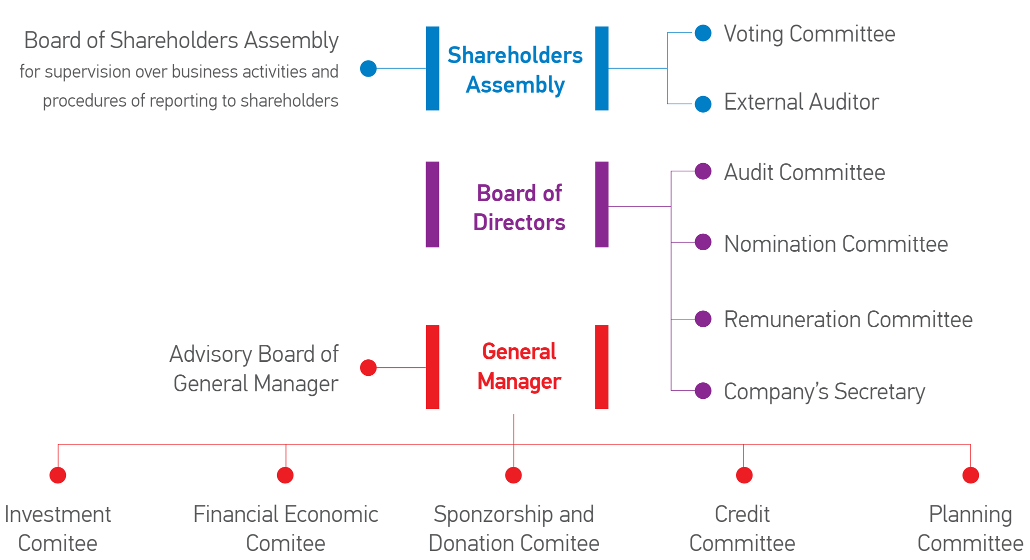
Guided by these principles, NIS has been devoted to the application of the high Corporate Governance standards based on internationally accepted principles and world best practice. Such approach to Corporate Governance includes constant review and further development of current structure and processes. In this way, NIS tries to ensure that the Company is managed responsibly which leads to creation of values for its shareholders and trust of local and foreign investors, business partners, employees and the public in the Company and its management.

Corporate Governance should ensure:

- Efficient exercise and protection of shareholders' rights and Company interests
- Fair and equal treatment of shareholders
- Responsibility of Company bodies towards shareholders
- Transparency in operation and decision-making process of the Company management
- Professionalism and ethics of the corporate bodies
- Timely, complete and accurate reporting and publishing of all significant information
- Efficient control of financial and business activities of the Company to ensure protection of rights and statutory interests of shareholders;
- Development of business ethics and socially responsible business

NIS strategic corporate goals should ensure:

- Professional and responsible management
- Efficiency of corporate bodies operating to the best interests of the Company and its shareholders, in view of increasing Company assets and values and
- A high level of transparency and publicity of corporate operations



Statement on Application of Corporate Governance Code

Commitment to corporate governance principles and NIS' Code of corporate governance

Fundamentals of corporate governance are the rules of law. However, for us corporate governance is much more than simply fulfilling legal obligations and implies aspiration for applying the highest standards in this area. For this reason, based on OECD (Organization for Economic Cooperation and Development) principles of Corporate Governance, as well as based on best practices in this area, NIS has defined its own principles of Corporate Governance which have been incorporated in NIS Corporate Governance Code as of 10 June 2010, as well as in the Company internal deeds, available at the corporate Internet page: www.nis.eu.

In September 2012, the Serbian Chamber of Commerce adopted a new Corporate Governance Code aimed at making improvements to the Corporate Governance systems in profit-making companies in the Republic of Serbia. As a public joint-stock company and a member to the Serbian Chamber of Commerce, NIS has taken into account the recommendations under this Code.

After complying with the new Law on Companies in 2012, NIS has decided to implement the values and principles of corporate governance as a part of the new Code of Corporate Governance which is expected to be adopted in the first half of the 2013. The new Code will in detail elaborate principles and recommendations for further improvement of the corporate governance practices of the Company, whilst taking into account the recommendations of the Serbian Chamber of Commerce's Code of Corporate Governance (SCC Code).

The tasks related to Corporate Governance were performed by the Management Board by 25 June 2012, and/or by the Board of Directors as of 25 June 2012, acting in accordance with the set principles of Corporate Governance to ensure the protection of interests of its shareholders. This management body takes care of the application of principles defined under the Code and monitors its application and compliance of the organization and corporate operations with the Code and the Law.

The application of the principle of balanced recognition of interests of all stakeholders (existing and potential shareholders, creditors, consumers, employees, corporate bodies, government, etc.) is ensured through prescribed decision-making procedures of corporate bodies, as well as by transparent relations and communication between corporate bodies, management, employees, shareholders and the public.

Shareholders and the Shareholders' Assembly

All NIS shares are ordinary shares, i.e. one vote shares in the Shareholders' Assembly.

The status and rights of shareholders are governed by statute, which clearly defines the responsibilities of the Shareholders' Assembly, as well as the relations between the Assembly and other management bodies of the Company. The Shareholders' Assembly of NIS j.s.c. Novi Sad adopted the Rules of Procedure which governs the Issues related to convening and holding meetings and the method of operation and decision-making of the Shareholders' Assembly of NIS j.s.c. Novi Sad.

All the shareholders of the Company listed as the Company shareholders in accordance with Article 8.2 of the Statute are entitled to take part in the activities of the Shareholders' Assembly, which includes their right to vote, the right to participate in discussions addressing agenda items, including the right to put forward proposals, ask questions related to the Shareholders' Assembly agenda items and receive answers thereto, in accordance with the law, Stature and the Rules of Procedure of the Shareholders' Assembly. By taking part in Shareholders' Assembly, shareholders participate in reaching the most important decisions, collection of information on activities of the Company, control of activities and results in former year and creating the structure of other bodies performing functions of management, supervision and conducting business of the Company. With respect to personal participation of a shareholder in the activities of the Shareholders' Assembly, the census of 0.1% has been prescribed for the Company shareholders and their authorized representatives since the Company has a big number of shareholders (around 2.45 million) and the census in such circumstances is required in order to ensure efficiency and rationality with respect to scheduling and holding the sessions of the Shareholders' Assembly.

In accordance with the Law, interim regulations of the company accurately regulate the right of all shareholders to vote in absence (voting in writing without being present at the session) regardless of the number of shares held, as well as the possibility of voting by proxy. All the above forms of voting have the same effect.

All relevant information and explanations related to Shareholders Assembly sessions, agenda, exercise of voting rights and other shareholders' rights, draft decisions and materials for the Shareholders' Assem-

The new website for investors and shareholders provides reliable and prompt information in an easy, efficient and modern manner

FOR A SECOND CONSECUTIVE YEAR NIS IS THE BEST IN THE CATEGORY OF INVESTOR RELATIONS

The Serbian Chamber of Commerce emphasized NIS as a role model of good corporate governance practice bly sessions, including the power of attorney forms and forms for voting by correspondence, timely are available at the Company Internet page, as well as in special Company premises where the materials may be examined. In this way, upon conclusion of the Shareholders' Assembly session, all the decisions of the Shareholders' Assembly, the report of the Voting Committee on voting results, minutes of the meeting, as well as the list of participants and invitees, and the list of present and represented shareholders are made available to shareholders for review.

NIS completely honours the principle of fair and equal treatment of all shareholders. For the purposes of providing adequate and accurate information to minority shareholders, the Company established the offices for minority shareholders' affairs in Belgrade and Novi Sad, and launched the service through which shareholders may ask questions and receive answers thereto by e-mail. In addition, shareholders have the Info Centre/Call Centre at their disposal. During 2012, a part of NIS Internet page dedicated to investors and shareholders was redesigned, making the latest news, corporate bodies' decisions and corporate reports available to shareholders on a timely basis. The Company has set the mechanism for preventing and eliminating potential conflicts between shareholders. Company appointed the five-member Committee for settling claims of minority shareholders which operates in accordance with the Rules of Procedure of the Committee governing the procedures of addressing the Committee, its activities in sessions, obligations and responsibilities of its members and other relevant issues.

Board of Directors

NIS has established one-tier management system with the Board of Directors exercising the central role in the Company management. The Board of Directors sets basic business goals and directions of further development of the Company, as well as controls the efficiency of implementation of corporate business strategy. In accordance with NIS Statute, the Board of Directors is in charge of adopting decisions relating to:

- Convening the sessions of the Shareholders' Assembly, defining agenda and draft decisions to be adopted by the Shareholders' Assembly;
- Defining a business strategy and business goals of the company and managing the corporate operations;
- Defining internal organization of the Company;
- Preparing or approval of the business plan;
- Control of accuracy of corporate financial statements;
- Adoption of periodical financial statements and periodical statements on business performance whose adoption is not under the scope of competence of the Shareholders' Assembly;
- Appointment and relief of duty of a Chief Executive Officer;
- Adoption of Corporate Governance Code of NIS j.s.c.

Efficient, professional and independent Board of Directors is important for implementation of good Corporate Governance practice. The provisions of the Company Statute fully and accurately demarcate the scope of the Board of Directors operation and the scope of operation of the Shareholders' Assembly, CEO and corporate bodies formed by management bodies, while, the Rules of Procedure of the Board of Directors govern the method of its operation.

In view of ensuring quality and efficiency of operation, the Board of Directors has analysed and evaluated its work, as well as the operation of its committees, and it has considered draft measures for operation improvement in the upcoming period, of which it has notified the Shareholders' Assembly of the Company.

The Board of Directors consists of 11 members appointed by the Shareholders' Assembly, and elected members appoint the Chairman of the Board of Directors. Members of the Board of Directors possess required skills and competences as well as experience relevant for the type and scope of activities performed by NIS.

The Board of Directors has executive and non-executive members, the latter being more numerous. Non-executive function heads, who may not be employed by the Company possess, international experience and understand challenges the Company faces, while executive function heads understand well the method the Company applies in its daily operations.

The Board of Directors consists of three non-executive function heads who are also the independent members of the Board.

In accordance with the Rules of Procedure of the Board of Directors and of the Board of Directors Committees, the following committees have been established: Audit Committee, Nomination and Appointment Committee and Reimbursement Committee representing advisory and expert bodies of the Board of Directors. The same deed defines the obligations and responsibilities, appointment criteria, scope of competence and tasks of established committees.

The Shareholders' Assembly adopted the Policy of Reimbursements to the Board of Directors members, as well as the Rulebook on the program of long-term incentives to non-executive function heads. . The policy envisages that the reimbursements should be attractive and competitive to attract, keep, stimulate and motivate the engagement of persons meeting professional and other criteria required by the Company, and that at the same time they would not deviate to a great extent from reimbursements paid to board of directors members in companies performing the same or similar business activity, which are similar to NIS in size or volume of operation.

In order to ensure that the members of the Board of Directors are adequately informed before making decisions and to be able to adequately monitor the Company activities they should receive accurate, complete and timely information on all the activities of the Board and significant issues related to the Company. Therefore, the method of holding sessions has been defined under the Rules of Procedure of the Board of Directors, and the sessions are prepared by the Corporate Secretary and supervised by the Chairman of the Board of Directors, so that any function head may contribute to the operation of the Board of Directors accordingly.

On 31 December 2012, the Company had no appointed members of the Board of Directors committees. The activities within the scope of competence of the Nomination and Appointment Committee and Reimbursement Committee in the second half of 2012 were performed by the Board of Directors in accordance with the Company Law.

On 31 December 2012, the Company published the amount of aggregate fee, other than individual fees of the Board members, since the Reimbursement Policy (adopted on 25 June 2012) did not envisage the publication of such data in the manner recommended by Principle 36 of the SCC Code (adopted in September 2012). For the purpose of ensuring compliance with this principle, the Company plans to amend the Reimbursement Policy in the next regular session of the Shareholders' Assembly.

Management of the Company

The Chief Executive Officer is appointed by the Board of Directors out of executive members of the Board of Directors. In accordance with the best practices in Corporate Governance, the function of Chief Executive Officer and the function of the Chairman of the Board of Directors are separated.

The NIS CEO Advisory Board, as an expert body, assists to the CEO in his work and consideration of issues within its scope of competence. The Advisory Board has the Council consisting of block directors and Deputy CEO for petrochemical operation. The Advisory Board operates under the CEO's management and assists the CEO in relation to Corporate Governance issues.

The Rulebook on Job Organization and Systematization in NIS j.s.c, defines the criteria related to required professional skills and competences of the NIS CEO Advisory Board members.

There is a practice of continuous communication between the management of the Company and the members of the Board of Directors.

The Company has established and implements the procedure for evaluating the performance of the management and of other key function heads of the Company. The above procedure is conducted by the Board of Directors with the expert assistance of the Reimbursement Committee of the Board of Directors.

Control and External Audit Affairs

The company has integrated its internal control in system that ensures greater efficiency of business processes and related risk management across all business processes. Forms of direct control organised by the Company are:

- Internal audit,
- Internal audit of business processes and establishing of management systems, and
- control of health and safety at work measures application.

The results are formed in the reports, based on which the owners of the business processes in the company define measures to eliminate the causes of the observed irregularities or measures to improve the process.

The Company has established a separate Function for internal audit that operates in accordance with the International Professional Practices Framework.

Within the Company an integrated management system is established by use of multiple standards for management systems, depending on the processes that take place in different parts of the organization. Verification of compliance with these standards is conducted by external accredited certification bodies that based on the verification assign certificates on compliance. As part of the management system, which is governed by the internal acts of the Company, all business processes in the Company have been identified and classified, the processes were described by the relevant documents, KPIs (key performance indicators) have been defined and they are regularly measured and monitored, analysed and used are as a basis for defining the programs and measures for process improvement. Business processes are documented by process map, a classifier, of business processes and the processes card. Internal audit of established management systems are carried out by business processes, in accordance with the internal audit programme. Internal audits are systematically planned and conducted once a year for each business process, while extraordinary internal audits are performed if problems or conflict are detected in the process.

Risk management function is performed by management of business processes while internal audit coordinates this process. Measures of risk management are integrated into the business plans of the Company and the risk management process is regulated by a separate internal act of the Company. The key risks are associated with the Company's objectives, and identification is performed by management and approved by the Board of Directors by approval of business plans which are an integral part of the assessment of key risks, management strategy, planned measures to manage risk and resources required for the implementation of the planned measures. The Company established risk register which is defined at corporate level once per year. The Company established an integrated risk management system (IRMS) as a systematic, structured, unified, continuous and on-going process of identification, evaluation, development and monitoring of the implementation of risk management measures.

The company, established control over the compliance of its operations by internal audit, integrated risk management systems and the Committee on compliance assessment. Information on the adopted laws and regulations are distributed to the Company's organizational divisions, and the owners of business processes are required to analyse the impact of changes in laws and regulations and to make the appropriate adjustment by changing the documents that describe the business process. An analysis of compliance with laws and regulations is performed in Blocks of the Company at least once a year, while analysis of compliance with the technical regulations is conducted within the Committee on compliance assessment. The task of the Committee is to monitor the technical regulations defining the technical requirements for products, to analyse the way in which these technical regulations will be implemented within the Company and to establish the necessary instrument of compliance relating to the specific product and which bodies are appointed for compliance assessment.

Transparency and Publicity of Corporate Operations

As the biggest company listed in Belgrade Stock Exchange based on market capital, NIS is aware of its responsibility in terms of example it sets in relationships with investors and shareholders. Therefore we have been applying the highest standards in terms of informing shareholders and investors while ensuring an equal access to all relevant information, in view of building people's trust in our Company. The process of mandatory reporting has been regulated under special corporate deeds governing the method and procedure for publishing information and the submission thereof to competent institutions.

During 2012, a new Internet page was launched and dedicated to investors and shareholders in view of providing reliable, timely and accessible information related to Corporate Governance, general deeds and corporate bodies. Also, in view of providing comprehensive information to shareholders, a new Internet page includes answers to most frequently asked questions and inquiries made during the previous period by shareholders, as well as the information on shares and dividends.

Shareholders and the public are informed on the financial results of the Company and all relevant events related to the Company by public media and NIS Internet page, Belgrade stock Exchange Internet page and Security Committee Internet page on a timely basis.

NIS has made continuous efforts to improve communication and the quality of relations in particular with its minority shareholders and potential investors.

Summary

During 2012, the greatest challenge in the area of Corporate Governance included significant amendments to general deeds and corporate bodies' structure resulting from requirements of harmonization with the new Company Law.

In 2013 we expect to adoption of new Corporate Governance Code in compliance with new Law and CCS and continuous work on activities for improving the Corporate Governance system and increasing the level of corporate culture.

Corporate Bodies

In accordance with the provisions of the Company Law, a new Statute of NIS j.s.c. was adopted at the 4th Regular Session of the Shareholders' Assembly held on

25 June 2012, in order to ensure the compliance with statutory requirements. In accordance with the new Statute, NIS j.s.c Novi Sad has been organized as one-tier Management Company with:

- The Shareholders' Assembly
- Board of Directors and
- Chief Executive Officer

In accordance with NIS j.s.c. Statute, the Company also has:

- The Shareholders' Assembly Board for Monitoring Business Operations and Reporting to Company Shareholders (Shareholders' Assembly Board) and
- The CEO Advisory Board

Shareholders' Assembly

The Shareholders' Assembly is the body exercising the highest competence in NIS j.s.c. Novi Sad, through which shareholders adopt and approve basic corporate decisions.

In 2012, a regular session of the Shareholders' Assembly was held in Belgrade and there were no extraordinary sessions. In accordance with the law, the invitation and materials for the 4th Regular Session of the Shareholders' Assembly were published on 25 May and the session was held on 25 June 2012. The Shareholders' Assembly adopted the financial and consolidated financial reports for 2011 with the audit report and appointed the auditor for 2012. The Shareholders' Assembly adopted also the Annual Report for 2011, Report on the analysis of operation of the Board of Directors and its committees and the Report on operation of the Supervisory Board, Board of Directors members Reimbursement Policy, the Rulebook on the program of long-term incentives to non-executive function heads. Besides this Shareholders Assembly adopted Dividend Policy governing the basic principles in future decision-making regarding profit distribution and Decision on profit allocation and cover of accumulated losses from previous years which now under the exclusive competence of the Shareholders' Assembly

In view of ensuring compliance of the Company and its bodies with the new Company Law, the Shareholders' Assembly adopted new general deeds – Memorandum of Association (which should not be subject to further amendments under the law), a new Statute and appointed the members of the Board of Directors and the members of the Shareholders' Assembly Board. A new corporate Statute defines a new corporate structure of NIS j.s.c. bodies and their competence.

Board of Directors

In accordance with the Company Law new Board of Directors was formed on June 25th 2012 and all members of previous Board of Directors are appointed to be members of Board of Directors in order to ensure the compliance with the statutory requirements.

At the 4th Regular Session of the Shareholders' Assembly held on 25 June 2012, the NIS Board of Directors members to have performed their functions to date were appointed members of the Board. The Board of Directors members are as follows:

- Vadim Vladisavovich Yakovlev (Chairman)
- Kirill Albertovich Kravchenko (member)
- Alexandar Vladimirovich Krilov (member)
- Vladislav Valerievich Barisnjikov (member)
- Cherner Anatoly Moyseyevich (member)
- Igor Konstatinovich Antonov (member)
- Slobodan Milosavljević (member)
- Nikola Martinović (member)
- Danica Drašković (independent member)
- Stanislav Vladimirovich Seksnya (independent member)
- Wolfgang Ruttenstorfer (independent member).

Vadim Vladisavovich Yakovlev

Deputy Chairman of the Executive Board ofj.s.c. "Gazprom Neft", First CEO Deputy, in carge of exploration and production, strategic planning and mergers and aquisitions.

Born on 30th September 1970. In 1993: graduated from Moscow Engineering Physics Institute (in applied nuclear physics). In 1995: graduated from High School of Finance at the International University in Moscow.

As of 1999: qualified as a member of the ACCA (Chartered Association of Certified Accountants). In 2009, he gained a diploma of the British Institute of Directors (ID).

From 1995 to 2000: worked with PricewaterhouseCoopers, starting his career as a consultant and being promoted to audit manager in 2000.

From 2001 - 2002: worked as Deputy Head, Financial and Economics Department, CJSC YUKOS EP. From 2003 to 2004: Financial Director, JSC Yugansk Neftegaz (NK Yukos). From 2005-2006: Deputy General Director, LLC SIBUR-Russian Tyres.

Igor Konstantinovich Antonov

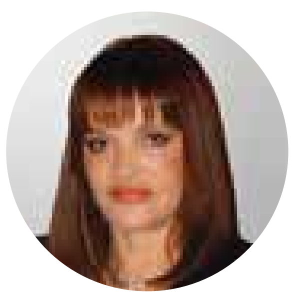
Deputy CEO for Security Affairs j.s.c. "Gazprom Neft"

Born in 1951 in Leningrad where he graduated from Leningrad Institute for Production of Aviation Devices in 1974. He was employed by state security services from 1977 to 1995. From 1995 to 2000 he was the director of information security in JSC "Sankt Petersburg Bank". From 2000 to 2005 he performed the function of the general director of the public enterprise "Informatika" in Sankt Petersburg. From December 2005 he performed the function of a Vice-Chairman for security issues in JSC "Sibneft". As of 2007 onwards he performs the function of a deputy CEO for security affairs in JSC Gazprom Neft.

Vladislav Valerievich Barisnjikov

Member of the Executive Board, Deputy CEO for International Business Development j.s.c. "Gazprom Neft"

Born on 25 March 1965 in Petroyavdsk. In 1987 graduated on the Military Krasnoznamensky Institute. In 2001 graduated from North-Western Academy for Public Administration with the President of the Russian Federation, department "State and Municipality Administration". In the period as of 1991 from 1999 he performed different functions in Lengorispolkome, Committee for Foreign Affairs of Sankt Petersburg. In the period from 1999 to 2000 he was the advisor of the vice-governor of Sankt Petersburg, director of non-commercial partnership "Center for cooperation with the countries of Asian and Pacific region". In the period from 2000 to2002 he worked in the Administration of the President of the Russian Federation as the advisor of the Cabinet of the authorized representative of the President of the Russian Federation in the North-Western Federal District. In the period from December 2002 to April 2009 he performed the function of the director of the Representative Office j.s.c. "Gazprom Neft" in China, regional representative offices in the countries of Asia and Pacific region. As of April 2009 he performs the function of deputy CEO of j.s.c. "Gazprom Neft" for international business development. He is the third category state advisor in the Russian Federation.



Danica Drašković

Independent Member of the Board of Directors of Serbian Petroleum Industry

Born in 1945 in Kolašin. In 1968 she graduated from the Faculty of Law in Belgrade. From 1968 to 1972 she worked as a financial inspector in SDK, and from 1972 to 1974 she worked as a police court magistrate. From 1977 to 1986 she performed the function of a Director of Legal and General Affairs department in the public company "Termovent". She founded the journal "Srpska reč" in 1990, and soon afterwards the publishing house where she performed the function of a director. From April 2009 she is a member of NIS' Board of Directors.

Kirill Albertovich Kravchenko

Deputy CEO for Overseas Asset Management JSC "Gazprom Neft", CEO of NIS j.s.c. Novi Sad, Chairman of NIS j.s.c. Executive Board (by 25 June 2012)

Born on 13th May 1976 in Moscow. In 1998, he graduated from Lomonosov Moscow State University (sociology) with the highest grades. In 2002-2003 he studied at the Open British University (financial management), in 2003-2004 – at IMD Business School. He holds a PhD in Economic Science. Mr Kravchenko worked in consulting until 2000, in 2000-2004 - in YUKOS Company on various positions in Moscow and Western Siberia. Between 2001-2002, Mr Kravchenko was employed with Schlumberger (under partnership program with NK Yukos) in Europe and Latin America. In the period 2004-2007 he performed the function of an administrative director, JSC MHK Eurohim. Mr Kravchenko was elected member to the Board of Directors in different companies several times. In April 2007, he was appointed Vice-Chairman, JSC Gazprom Neft, and in January 2008 – Deputy Chairman of Management Board of JSC Gazprom Neft, Deputy General Manager for Organization. In February 2009 Kirill Kravchenko was appointed CEO of the Serbian Petroleum Company NIS controlled by JSC Gazprom Neft and member of the NIS Board of Directors. As of March 2009, he performs the function of Deputy General Director for Overseas Assets Management in JSC Gazprom Neft.

Alexandar Vladimirovich Krilov

Director of Division for regional sales in JSC Gazprom Neft

Born on 17.03.1971. in Leningrad. In 1992 he graduated from LMU (Saint Petersburg), in 2004 graduated from SpbGU Faculty of Law, and in 2007 Moscow International Business School «MIRBIS» MBA, specializing in: Strategic management and entrepreneurship. From 1994 to 2005 he performed management functions in the area of real estate sales (chief executive officer, chairman) in the following companies: Russian-Canadian SP "Petrobild"; c.j.s.c. "Alpol". From 2005 – 2007 he was deputy director in the Division for implementation in LLC "Sibur". Since April 2007 until present he performs the function of a manager in the Department for the supply of petroleum products, Head of Department for regional sales and Director of Division for regional sales in JSC Gazprom Neft.

Nikola Martinović

Member of the Board of Directors of Serbian Petroleum Industry

Born on 3 December 1947. Mr Martinović holds the MA degree in economics (MA Thesis "Transformation of Tax Administration System in Serbia by applying VAT"). From 1985 to 1990 he performed the function of the CEO of "Solid" company from Subotica, and from 1990 to 1992 he performed the function of Assistant Minister of Internal Affairs of the Republic of Serbia. From 1992 to 2000 he performed the function of Assistant CEO of the Serbian Petroleum Industry in charge of financial affairs, and as CEO of "Naftagas promet" from 1996 to 2000. As of 2005, Mr Martinović performs the function of a special advisor in NIS j.s.c. He was a member of NIS j.s.c. BoD from 2004 to 2008 and re-appointed to the function in February 2009. He currently performs the function of a member of the NBS Governor Council.

Slobodan Milosavljević

Member of the Board of Directors of Serbian Petroleum Industry

Slobodan Milosavljevic Ph.D., was born in 1965 in Belgrade. He graduated from the Faculty of Economics in Belgrade in 1990, where he also received a PhD in macroeconomics and management in 2001.

As of 1991 he has been employed at the Market Research Institute in Belgrade where he has managed numerous market research projects, ownership, market and organizational restructuring of the companies, creation of the business image and company marketing strategy. In 1996 he performed the function of the Director of the Market Research and Analysis Centre. In the period from January 2001 until March 2004 he was Minister of Trade, Tourism and Services in the first Serbian democratic government. In December 2004 he was elected Chairman of the Serbian Chamber of Commerce, as well as President of the National Committee of the International Chamber of Commerce. He is also engaged as a professor at the Belgrade Business School where he teaches the courses "trade and trade policy". He was elected Minister of Agriculture, Forestry and Water Management in May 2007 and he performed the function until 2009 when was elected Minister of Trade and Services. He performed the function until March 2011 when he was elected member of NIS j.s.c. Board of Directors. He currently performs the function of the advisor in the Serbian Chamber of Commerce as a member of "International Advisory Board UniCredit bank" Rome, Italy .

Wolfgang Ruttenstorfer

Independent Member of the Board of Directors of Serbian Petroleum Industry

Born on 15th October 1950 in Vienna, Austria. His career started in the Austrian company OMV. In 1985 he was transferred to the Planning and Control Department and in 1989 he assumed the responsibility for the strategic development of OMV Group. Since he was appointed Marketing Manager in 1990, he assumed the function of a member of the Executive Board in 1992 in charge of finance and chemical products.

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

Anatoly Moyseyevich Cherner

Deputy Chairman of the Executive Board, Deputy CEO for logistics, refining and sales JSC "Gazprom Neft"

Born on 27 August 1954. Graduated from Groznyy Oil Institute in 1976 with a degree in chemical oil and gas engineering. In the same year he was employed at the Sheripov Groznyy Refinery, starting as an operator to become refinery director in 1993. In 1996, he joined SlavNeft as Head of the Oil and Oil Products Trading Department and was later appointed Vice-Chairman of the company. He joined SibNeft (from June 2006 – Gazprom Neft') as Vice-Chairman for refining and marketing in April 2006.

Stanislav Vladimirovich Seksnya

Professor teaching the course in entrepreneur leadership at the International Business School INSEAD

He was born on 29 May 1964. Chief of practice in the Talent Performance and Leadership Development Consulting department. Director of Talent Equity Institute. Senior partner in the company Ward Howell. Professor teaching the course "Entrepreneur Leadership" at the International Business School INSEAD. He has more than 10 years of practical experience in management. He performed the following functions: CEO of Alfa Telecom, chairman and CEO of Millicom International Cellular, Russia and ZND, Chief Operational Director of Vimpelkom, Director of Personnel Management in OTIS Elevator, Central and East Europe. Currently, he is the Chairman of the Board for Personnel and Rewards of the DTEK Supervisory Board (Ukraine), he has been a member of LLC SUEK and c.j.s.c. Vimpelkom-R Boards of Directors.

Number and % of NIS shares owned by BD members

Name and Surname	Number of shares	% share in total number of shares
Nikola Martinović	224	0.0001%

	Membership in Board of Directors or Supervisory Boards of other companies
Vadim Vladislavovich Yakovlev	• JSC NGK «Slavneft» • JSC «SN.-MNG» • LTD «Gazprom Neft Razvoj» • LTD «Sever Energija» and its affiliates; • JSC «Gazprom Neft-NNG» • LTD «Gazprom Neft-Istok» • LTD «Gazprom Neft-Hantos» • LTD «Gazprom Neft -NTS» • LLC «Gazprom Neft-Angara» • o.j.s.c. «NK «Magma» • c.j.s.c. « Gazprom Neft-Orenburg» • Salim Petroleum Development N.V. (member of the Supervisory Board)
Kirill Albertovich Kravchenko	• Member of Club Council of FC Red Star • Vice-Chairman of the National Petroleum Committee of the Republic of Serbia • Serbian Tennis Federation BoD member
Alexandar Vladimirovich Krilov	• c.j.s.c. «Gazprom Neft Kuzbass» • JSC «Gazprom Neft Novosibirsk» • JSC «Gazprom Neft Omsk» • JSC «Gazprom Neft Tumen» • JSC «Gazprom Neft Ural» • JSC «Gazprom Neft Jaroslavlye» • c.j.s.c. «Gazprom Neft –Severo-zapad» • LTD «Gazprom Neft Asia» • LTD «Gazprom Neft Tajikistan» • LTD «Gazprom Neft Kazachstan» • LTD «Gazprom Neft – Centre» • LTD «MTK» • LTD «Gazprom Neft – Terminal»
Vladislav Valerievich Barisnikov	• LTD «Gazprom Neft Razvoj»

	Membership in Board of Directors or Supervisory Boards of other companies
Anatoly Moyseyevich Cherner	• JSC NGK «Slavneft» • JSC «Gazprom Neft-ONPZ» • JSC «Slavneft-JANOS » • JSC «Gazprom Neft –MNPZ» • C.J.S.C. «Gazprom Neft-Aero» • C.J.S.C. «St. Petersburg's international commodities and resources exchange» • FLLC «GazpromNeft-Belnefteprodukt » • LTD «Gazprom Neft –SM» • LTD «Gazprom Neft Marin Bunker» • LTD «Gazprom Neft – Logistics» • JSC «Mozirski NPZ»
Nikola Martinović	-
Danica Drašković	-
Stanislav Vladimirovich Seksnya	-
Slobodan Milosavljevic	-
Wolfgant Ruttenstorfer	• «CA Immobilien» AG, Vienna, Chairman of the Supervisory Board • «Vienna Insurance Group» AG, Vienna, Chairman of the Supervisory Board • «Telekom Austria» AG, Vienna, member of the Supervisory Board • «Flughafen Wien» AG, Vienna, member of the Supervisory Board • «RHI» AG, Vienna, member of the Supervisory Board

Total reimbursements paid to members of Board of Directors (net), in RSD	
CEO	19,941,710
Other BoD members	28,557,781

Activities of Board of Directors

By 25/06/2012 there were 3 regular and 16 correspondence sessions of the Board of Directors. Apart from regular activities on analysis of the NIS Business Report, Financial Reports and Consolidated Financial Reports for 2011, and the adoption of periodical (quarterly) reports in 2012, Board of Directors devoted special attention to establishment of new subsidiaries in the Republic of Serbia, and matters on internal organization and business expansion to other countries in the region in accordance with NIS strategy.

The Board of Directors considered the "Base Oils Production" project; made a decision to restructure Oilfield Services and Scientific and Technological Centre and establish subsidiaries 100%-owned by NIS j.s.c. Novi Sad; made a decision to shut down the branch office in the Russian Federation and open a NIS branch office in Croatia; approved NIS participation in Wind farm Construction Project in the Republic of Serbia; approved purchase of 100% share of OMV BH d.o.o.

In order to reach the planned Company objectives and assess the Company performance and quality of Corporate Governance, the Board of Directors analysed its activities and the activities of its committees; and prepared the Report for the IV Regular NIS Shareholders' Assembly. Key performance indicators of the CEO and top management in 2011 were analysed, and the key performance indicators for the CEO and top management were set for 2012. The Board of Directors also analysed the Staff Development System for top management positions, NIS Candidate Pool, and nominations for NIS representatives in NIS subsidiaries' bodies.

Apart from this, other significant activities of the Board of Directors included harmonization of Articles of Association with the new Companies Law; scheduling the IV Regular NIS Shareholders' Assembly and confirmation of decisions proposed by the Assembly; adoption of the new Rulebook on Board Activities, re-election of the Board of Directors Chairman and the CEO of the Company; analysis of the NIS Corporate Code and the 2013 Business Plan.

In 2012 Board of Directors made 90 decisions, monitored via periodical reports.

Supervisory Board (until 25/06/2012)

Until harmonization of the Company Statute and bodies with the Companies Law at the IV Regular NIS j.s.c. Novi Sad Shareholders' Assembly held on 25/06/2012, the Board of Directors was an internal supervisory body responsible for control of financial and accounting activities, as well as for monitoring laws and other regulations, and reporting on these matters to the Shareholders' Assembly. Members of the Supervisory Board reported to the Shareholders' Assembly. The Supervisory Board reported to the Shareholders' Assembly on the competence and independence of the NIS Auditor and on the agreements entered into by NIS with related parties and with the members of the Board of Directors. The Supervisory Board communicated with the Board of Directors and the Auditor on the accuracy and completeness of financial reports; proposed profit sharing and other shareholders' liabilities; accuracy and completeness of financial and other reports to the shareholders; harmonization of the organization and activities with the Corporate Governance Code; suitability of NIS business policy and its harmonization with the legislation; activities regarding remarks by shareholders', NIS bodies and others; appointment and salary of the Auditor.

Until 25/06/2012, the Supervisory Board included the following persons, appointed by the III Annual Shareholders' Assembly, held on 21 June 2011:

- Milivoje Cvetanović (chairman),
- Božo Stanišić (member),
- Maxim Victorovich Shakhov (member)

Activities of the Supervisory Board

From 01/01 to 25/206/2012 the Supervisory Board held 6 regular sessions.

In the area of its competence, in 2012 the Supervisory Board analysed the 2011 Inventory Report on Assets and Liabilities, 2011 Business Report, financial reports and Consolidated Financial Reports for 2011 and Q1 2012. Apart from this, the Supervisory Board activities included analysis of Report by Independent Auditor on audit of financial and consolidated financial reports for 2011; analysis of Decision of Profit Sharing and Covering Losses for 2011, and the decision to shut down the NIS branch office in the Russian Federation. Additionally, the Supervisory Board monitored the activities and audit procedures for audit of financial reports; evaluated auditor's services and the audit of 2011 financial reports, in connection with which the Supervisory Board prepared its report for the IV Regular Shareholders' Assembly.

The Supervisory Board made 20 decisions from 01/01/ to 25/06/2012.

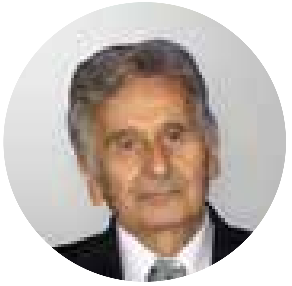
Shareholders' Assembly Board for supervision of business activities and the reporting procedure (from 25/06/2012)

With the adoption of the new NIS Statute on 25/06/2012, the Shareholders' Assembly Board for supervision of business activities and the reporting procedure was established, operating as supervisory and expert body of NIS j.s.c. Novi Sad Shareholders' Assembly, assisting with its activities and analysing matters within its scope of activities. Members of the Shareholders' Assembly Board report to the Shareholders' Assembly.

In accordance with duties defined in the Statute, the Shareholders' Assembly Board for supervision of business activities and the reporting procedure passes opinions on the following matters: reporting to Shareholders' Assembly on the application accounting and financial reporting practices in the Company and its subsidiaries; reporting to Shareholders' Assembly on accuracy and completeness of reports on major issues; proposed methods of profit sharing and other forms of payment to the Company's shareholders; procedures in independent audit of Company financial reports; activities of internal audit and evaluation of internal audit; proposals for establishment and dissolution of subsidiaries and branch offices; proposals for purchase and sales of Company's shares in other companies; evaluation of activities regarding remarks made by Company shareholders.

The following members were appointed to the Shareholders' Assembly Board for supervision of business activities and the reporting procedure at the IV Regular Shareholders' Assembly on 25 June 2012:

- Milivoje Cvetanović (chairman),
- Božo Stanišić (member)
- Alexey AlexandrovichUrusov (member)



Milivoje Cvetanović

Born on 1 December 1941. He graduated from the Faculty of Economics, University of Belgrade in 1963, where he received his master's diploma in 1973 as well. Authorized auditor. Retired partner at Deloitte Central Europe. After his retirement from the partnership, he now works as a consultant for application of MSFI, creation and implementation of client information systems, including internal control systems. Member of the Chamber of Authorized Auditors of Republic of Serbia, and a member of the testing committee for "Audit and Professional Ethics" course in the authorized auditor certificate programme. Internal auditor in Dipos d.o.o. Belgrade and authorized auditor in NDP Audit & Consulting, Belgrade. He has a vast work experience in Central and Eastern Europe: in Russia, Ukraine, Moldavia and Macedonia.

Božo Stanišić

18 February 1966 in Užice. He graduated from the Technological Operation Department at the Technological and Metallurgy Faculty. He worked in Rekord, Rakovica, and Pančevo Oil Refinery as Chief Gasoline Engineer. In 1999 he was responsible for infrastructural construction at the Refinery as the Director of Sector for Commercial Affairs. Member and coordinator of various committees. Board member in HIP Petrohemija, Pančevo, and Board member responsible for application of government measures in Magnohrom, Kraljevo. From 01/ 11/ 2006 to 30/ 09/ 2009 he works at a privately-owned Petrobart d.o.o. as Deputy CEO. From 12/ 10/ 2009 he is appointed as the advisor of the Chairman of the Chamber of Commerce of Republic of Serbia. Currently he is employed at Silikoni l.l.c. Baric as technical director.

Alexey Alexandrovich Urusov

Director of Economics and Corporate Planning Department in JSC Gazprom Neft

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

From 2006 to 2008 He worked as executive deputy chairman for planning and business management in the Integra Group. From 2002 to 2006 he worked in TNK-BP as CFO in TNK-BP Ukraine. From 2009 to 2012 He was employed at NIS j.s.c. Novi Sad (Serbia) as CFO

Number and % of NIS shares owned by SB/SAB members		
First and last name	Number of shares	% in total number of shares
Božo Stanišić	149	0.0001%

	Member of the BoD or SB/SAB in other legal entities
Milivoje Cvetanović	• Independent Member of the BoD - Energoprojekt arhitektura i urbanizam d.o.o. Belgrade and Energoprojekt industrija d.o.o. Belgrade • Member of the Audit Committee Energoprojekt Holding a.d. Belgrade
Božo Stanišić	• Vice-chairman of Board of Directors at Industrija mašina i traktora (IMT) Novi Beograd; • Chairman of the Board of Directors at the "Trka kroz Srbiju" cycling association
Alexey Urusov	/

Total reimbursements paid to members of Supervisory Board/Shareholders' Assembly Board (net), in RSD	
Members of SAB, i.e. SB	8,191,558

Activities of the Shareholders' Assembly

У From 25/06 to 31/12/2012 The Shareholders' Assembly held 9 sessions.

At its first session, the Shareholders' Assembly Board adopted the Rules of Procedure, by which sessions in 2012 were held and matters were discussed, such as periodical reports of the Company: Quarterly report, quarterly financial and consolidated financial reports for the I and II quarter 2012. Quarterly report by the CEO on contracts above EUR 5,000,000.00 for the I, II and III quarter 2012. Also, the Shareholders' Assembly Board activities focused on issues of NIS j.s.c. Novi Sad branch offices in Croatia; NIS participation in Wind farm Construction Project in Republic of Serbia; analysis of the 2013 NIS Business Plan, and the purchase of 100% share of OMV BH d.o.o.

From 25/06 to 31/12/2012 The Shareholders' Assembly made 23 conclusions.

The CEO

The CEO coordinates the activities of members of the Board of Directors and organizes Company activities. The CEO also performs activities related to daily management and is authorized to make decisions on issues not within the competence of the Shareholders' Assembly and the Board of Directors.

The CEO is a legally authorized representative of NIS. NIS CEO is Kirill Albertovich Kravchenko.

The Executive Board (by 25/06/2012)

У As by the previous Companies Law and before the harmonization of the Statute with the NIS governing bodies at the IV Regular Shareholders' Assembly on 25/06/2012, the Executive Board was accountable for implementation of the Board of Directors decisions. The Executive Board was responsible for issues of daily management and current business activities of NIS. The Executive Board prepared and implemented the NIS Development Strategy.

Members of the Executive Board, by 25/06/2012:
- Kirill Albertovich Kravchenko, chairman
- Nicolaus Constantine Petri, member
- Predrag Radanović, member
- Igor Dmitryevich Tarasov, member
- Alexey Alexandrovich Urusov, member

Executive Board activities (until 25.06.2012)

Besides the members of the Executive Board stated in the previous part, members who participated in the Executive Board sessions were the Blocks' and the Functions' directors:
- Deputy CEO – Director of Legal and Corporate Affairs
- Deputy CEO – Director of Organizational Affairs
- Deputy CEO – Director of Business Development and External Relations
- Deputy CEO – Director of Public Relations and Communications
- Deputy CEO – Director of MTSS and CC
- Director of Function for internal audit
- Director of „Exploration and Production"
- Director of „Sales and Distribution"
- Director of „Refining"
- Director of „Oilfield Services"
- Director of „Energy"
- HR Director

The Executive Board sessions were held once a week as a rule, where the priority business areas were regularly considered on a monthly level, like financial reports and plans, reports on investments' plans and realization, as well as the measures for improvement of occupational protection and safety. The Executive Board also considered reports on other aspects of business regarding organizational and strategic scope of operation, thus fulfilling the Decisions of the Managing Board or preparing the materials for the NIS Managing Board.

Advisory Board of the CEO (from 26.06.2012)

Based on the new Statute, NIS' CEO Decision no. 01/25/11/654 from 26.06.2012.the Advisory Board of the CEO was established as a professional body that helps in the work of the CEO and considers issues from his scope of activities.

Besides the issues referring to the current business activities of the Company (monthly and quarterly results of business activities, annual business plans, monthly investment plans), the Advisory Board also deals with issues related to strategy and development policy whose bases are established by the Shareholders' Assembly and the Board of Directors.

The Advisory Board members were appointed by the CEO's Decision, so that now, it is comprised of directors of Blocks and Functions and also the Deputy CEO for large projects and the Deputy CEO for petrochemical operations.

The Advisory Board of NIS includes:
- Deputy CEO – Director of Strategy and Investments
- Deputy CEO – Director of Corporate Security
- Deputy CEO – Director of Finances, Economics, Planning and Accounting
- Deputy CEO – Director of Legal and Corporate Affairs
- Deputy CEO – Director of Organizational Affairs
- Deputy CEO – Director of External and Governmental Relations
- Deputy CEO - Director of Function for Public Relations and Communications
- Deputy CEO – Director of MTSS and CC
- Deputy CEO for petrochemical operations
- Deputy CEO for large projects
- Director of Function for Internal Audit
- Director of Function for HSE
- Director of „Upstream" Block
- Director of „Sales and Distribution" Block
- Director of „Refining" Block
- Director of „Oilfield Services" Block
- Director of „Energy" Block

The Advisory Board has a Council made by the NIS j.s.c. Novi Sad Blocks' Directors and the Deputy CEO for petrochemical operations.

As of December 31st 2012 Council of Advisory Board of CEO is consisted of:

Rishat Fagimovich Islamov

Director of Exploration and Production Block

Rishat Islamov was born in 1968. He graduated from Ufa Oil Institute and acquired the title of a Mining Engineer. He completed the training of MBA Programme, i.e. "International Business in Oil and Gas Industry" at Moscow State Institute for International Relations. From 1995 to 2008, there was a rise in his career from an Expert for Oil and Gas Production to the Deputy Manager of the Board for Oil and Gas Production in "Udmurtneft" company. From 2008 to 2011 he worked in "Rosneft-Krasnodarneftegas" company performing the function of a chief engineer, and then he assumed the function of the Acting CEO of the enterprise.

Aleksandar Georgyevich Malanin

Director of Sales and Distribution Block

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

Alexey Anatolyevich Belov

Director of Energy Block

Born in 1972, the town of Kstovo in Gorkovski region. He graduated from two faculties: in 1995 he graduated at Nizhni Novgorod State Technical University, majoring in Nuclear Power Plants and Installations. In 2001 he graduated from Tolyatin Management Academy within the program of the management training for Russian Federation state authorities. In December 2007 A.A.Belov was awarded an academic title of Master of Technical Sciences. From 1994 to 1997 he worked as an energy facilities engineer in AOOT Nizhegorodnefteorgsintez, ZAO „Neftehim NHZ" and o.j.s.c. NORSI. From 1997 to 2007 he worked as deputy chief engineer for thermal energy, i.e., energy facilities engineer for thermal energy supply, as well as the deputy chief engineer for thermal energy supply management in o.j.s.c. LUKOIL- Nizhegorodnefteorgsintez. In 2007 he worked as the supervisor of the gas legislation sector in LLC LUKOIL-ENERGOGAS. From January 2008 until September 2010 he worked as the general director of LUKOIL Energy and Gas Bulgaria". From October 2010 until overtaking a new function in NIS he was the general director of LLC LUKOIL-EKOENERGO, which by 06.12.2010. was known as LLC JGK TGK-8.

Viktor Nickolayevich Slavin

Director of Refining Block

Born on 9.05.1975. in the town Kstovo, in Gorjkovska region. He graduated from the State academy of oil and gas I.M. Gubkin in Moscow, as well as from the State university in Nizhny Novgorod. He graduated in chemical engineering of natural energy and carbon materials, and in finance and loans. He started his career as the shift supervisors at the unit for gasoline catalytic reforming in the company Nizegorodnefteorgsintez. He worked in different parts of the company Lukoil Nizhny Novgorod and Odessa. From 2003 to 2006 he was the manager of bitumen production, deputy chief engineer in charge of new technologies and deputy chief engineer of deep crude processing in o.j.s.c. Lukoil–Nizegorodnefteorgsintez. Afterwards, he worked as the deputy chief engineer for reconstruction and development in o.j.s.c. Lukoil– Odessa Refinery, and subsequently as the chief engineer. Since 22.08.2011. he occupies the position of the executive director of Refining Block in NIS. He participated in the Seventh International Conference on Intensification of Petrochemical Processes - Petrochemistry–2005. During his being engaged in the area of crude refining and with his direct involvement in the process, the following process units were started: unit for production of road and construction bitumen, unit for catalytic reforming of gasoline with continuous regeneration, (CCR), isomerization unit, unit for production airplane kerosene, visbreaking unit, as well as other refinery process units. He is married and has two children.

John Small
Director of Oil Field Services

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

Goran Stojilković
Deputy CEO for Petrochemistry Business

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

Other members of Advisory Board of CEO as of December 31st 2012 are:

Nikolas Constantine Petri
Deputy CEO,
Head of Function for Investment and Development

In charge of investment planning and analysis, project control and strategic planning of investments. He graduated in 2002 from Harvard University with BA in natural sciences and philosophy. From 2002 to 2003 he worked as an analyst in "Bain Capital" in London and Boston. From 2003 to 2006 he was a senior consultant in the company "McKinsey & Co". From 2006 to 2009 in the company "SIBUR" he was Director of Investment.

Igor DimiryevichTarasov
Deputy CEO,
Director of Function for Corporate Security
In charge of economic and information security management and security issues management

Born on 2 July 1952 in Moscow. He has a 38 year long work experience in state security services. He was employed in the Embassy of Russian Federation in Belgrade during two tenures: from 1994 to 1999 and from 2001 to 2006.

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

He was born in 1973 in Saratovo region, Russian Federation. He graduated at the state Academy for economics, specializing in national economy and law. In 2010 he graduates at MBA Finance. From 1997 to 2005 he worked in the oil company Yuganskneftegas, subsidiary of the company Rosneft. After that he worked as the director of finance in the company Sibur and in Moscow Refinery. For two years he worked in business center of Gazprom Neft. He is married and has two sons.

Sergey Alexandrovich Fomynih
Deputy CEO,
Director of Function for Legal and Corporate Affairs

Born on 4th January, 1979. Graduated from the Faculty of Law at the Mari State University and Central European University in Budapest in the field of jurisprudence and finished post graduate studies at the Moscow Financial and Legal Academy. For more than seven years he worked as an associated in international legal consulting firms. In 2009 he joined the NIS management team as the Director of the Division for Legal Monitoring. In November 2010 he was appointed the Director of the Function for Legal and Corporate Affairs.

Dmitry Valentinovich Fomenko

Deputy CEO,
Head of Function for Organization Issues

Born in Moscow in 1967. After finishing the Moscow Faculty for metals and mixtures, he launched his own business in the area of HR services, where he successfully implemented several projects in the area of providing HR support to large Russian and international corporations. In 2008 he starts working for Gazprom Neft as the Manager of Organization Project Office. Later he takes the position of Deputy CEO for Organization Issues in the Sibir Energy Group, oil company jointly owned by Gazprom Neft and Russian Government.

Eugene Eugeneyevich Kudinov

Deputy CEO for External connections and relationships with government agencies

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

Svetlana Valyarevna Vycherova

Deputy CEO,
Director of Function for PR and Communications

Born on 6 October 1982. She graduated from the Faculty of International Affairs at Moscow State University. She began her career in 2005 in the Function for Public Relation info the Russian - British Oil Company TNK-VR. From 2006 to 2009 she worked in the Sector of Political Information in o.j.s.c. Gazprom Neft. In April 2009 she was invited to assume the position of the Director of the Internal Communications Division in NIS. In July 2011 she has been appointed Director of Function for PR and Communications.

Dmitry Radifovich Mirsaitov

Deputy CEO,
Director of Function of Material, Technical and Service Procurement

Born on 10 March 1974 in Chelyabinsk region. In 1993 he graduated from Chelyabinsk College of Economy, Department of Organization of Material and Technical Supply and Trade in Industrial and Commercial Companies; in 1995 at the Moscow Commercial University of RF Trade Committee, at the Department of Economy and Organization of Commercial Business he specializes in marketing; in 2001 he graduated from South Ural State University, Department of Jurisprudence; in May 2011 he starts to work in the Republic of Serbia, as the Director of Function for Material, Technical and Service Procurement. Previously, from 2010 to 2011 he worked as the Deputy CEO for the Supply System Management and Implementation in the state owned corporation Rosatom, feedstock department in o.j.s.c. Priargun Production Mining-Chemical Association.2009-2010 he worked in the company group THK-BP o. j.s.c. Samotlorneftegaz, as a Director of Material and Technical Support and Transport department.2008 - 2009 he worked as Deputy Director of Material and Technical Support – MTS Department Manager in the company group THK-BP o.j.s.c. Samotlorneftegaz. 2004-2008 in the company group THK-BP o.j.s.c. Samotlorneftegaz, Samotlor department for the production of oil and gas No2 he worked as a Deputy Director of services and Material and Technical Support – MTS Department Manager

Vadim Valentinovich Smirnov

Director of Function for Internal Audit

In charge of internal auditing and Auditing Committee. Born in Kazakhstan on 10 October, 1963. In 1985 he obtained University degree in Finance and Auditing. Besides that, he graduated from Diplomatic Academy (1994, in Moscow) and Moscow High Commercial School (1999, in Moscow). From 1985 till 1991 he worked in his profession in Russian Far East companies. From 1991 till 1998 he worked in MFA (The Ministry of Foreign Affairs of the Russian Federation), including long term business trips to Balkan region countries. From 1998 till 2009 he worked in JSC "Aeroflot" on different positions, including the position of the company representative for the Balkans (6 years) and manager of Department for control of foreign representative offices foreign-exchange business (2 years). Since 2010 he has been working in the field of economic security provision in Gazprom Group companies, and, since February 2012, he has been Director of Internal audit Function in "NIS a.d. Novi Sad" company.

David Allison

Director of Function for HSE

Born on 3 May 1962 in UK. Graduated from the Polytechnic University of Kingston, in Kingston, Surrey, United Kingdom. He began his career by working for an oilfield services company Schlumberger in different countries in Africa. In 2008 he starts working in the company Petrom Romania. At first as a Senior Advisor for services in the field of exploration and production, however the same year he was appointed director of HSEQ for Exploration and Production. In January 2011 he was appointed the Head of corporate security function in OMV Group. He is married and has three children.

Branko Radujko

Deputy CEO for Major Projects

Born in 1974. Graduated from law in 1998, at the State University of Montenegro. Worked in a law office in Belgrade specialized in commercial law, and in the international humanitarian sector, as a manager of regional projects of United Nations repatriation. Since 2002, by 2008, he worked in the government sector, as an advisor and Chief of Staff of the Prime Minister, and the Secretary-General of the President of the Republic. He was a board member of several companies and institutions in the restructuring. Since February 2008, by September 2012, the CEO of Telekom Serbia AD, one of the leading companies in the country and the region. He was the first president of the Summit 100 of the business leaders of southeast Europe. Fluent in English, completed his MBA studies at the Faculty of Economics, Finance and Administration in Belgrade. Married with Aleksandra, sons Stefan and Aleksa.

Advisory Board activities

During 2012, the topics discussed at the Company's Board of Directors sessions, the j.s.c. "Gazprom neft" Executive Board sessions as well as at the j.s.c. "Gazprom neft" Management Board sessions were also considered at the CEO's Advisory Board.

The CEO's Advisory Board had also considered the issues related to development strategy of exploration and production projects, as well as sales and distribution in the countries in the region.

Besides the issues relating to expansion of business and activities of the Company outside the borders of the Republic of Serbia, the Advisory Board also dealt with development of projects of interest within the country, and the issues of internal organizational structure of the Company.

Committees of the Board of Directors

The NIS Board of Directors established the following committees:

- Audit Committee;
- Nominations Committee;
- Remunerations Committee.

Besides the committees prescribed by the law, the Board of Directors may establish other permanent or ad hoc committees relating to relevant matters for Board of Directors activities. Decision to establish other permanent or ad hoc committees are made by the Board of Directors based on the requirement for a better and more efficient management and resolution of complex issues within its area of competence.

The Audit Committee

The most important matters that fall within the competence of the Audit Committee are the following:

- preparation, proposal and control of implementation of accounting policies and risk management policies;
- proposal to Board of Directors on appointment and dissolution of staff at positions of internal audit and control of internal audit in the Company;
- control of application of accounting standards in preparation of financial reports and evaluation of the financial reports;
- Implementation of the selection procedure for the Auditor and nomination of candidates for the Auditor, including opinions on his expertise and independence relating to the Company, as well as the control of the audit process.

The Nominations Committee

Scope of activities of the Committee is the following:

- proposal of candidates for the Board of Directors, including opinions and recommendations;
- proposal of requirements for potential members of the Board of Directors, and the appointment procedure for the Board of Directors;
- at least once a year, preparation of a report on the number and suitability of the members of the Board of Directors, as well as giving recommendations on the matter;
- Analysis of the human resource policy of the Company regarding nominations to management positions within the Company.

The Remunerations Committee

The Remunerations Committee operates within the following areas:

- preparation of a draft decision on the remuneration policy for members of the Board of Directors;
- proposal on the amount and the structure for each member of the Board of Directors, and proposal of remunerations for the Auditor;
- at least once a year it prepares a report for the Shareholders' Assembly on the evaluation of the amount and structure of remunerations for each member of the Board of Directors; proposal to executive members of the Board of Directors regarding the amount and structure of remunerations management positions in the Company;

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New specialized road vehicles and multi-compartment aluminium tanks are constructed according to the highest European standards.

Through the installation of cutting-edge technology in the field of measurement and safety equipment, a jet is supplied with energy in a matter of 5 to 7 minutes.

EXPRESS JET FUEL SUPPLY SYSTEM

Business environment

World Economy

A high level of debt and slow development are the main characteristics of the world economy in 2012. The Euro Zone crisis continued in 2012 as well, and weakened financial institutions and inadequate policies in main developed economies additionally worsened negative results.

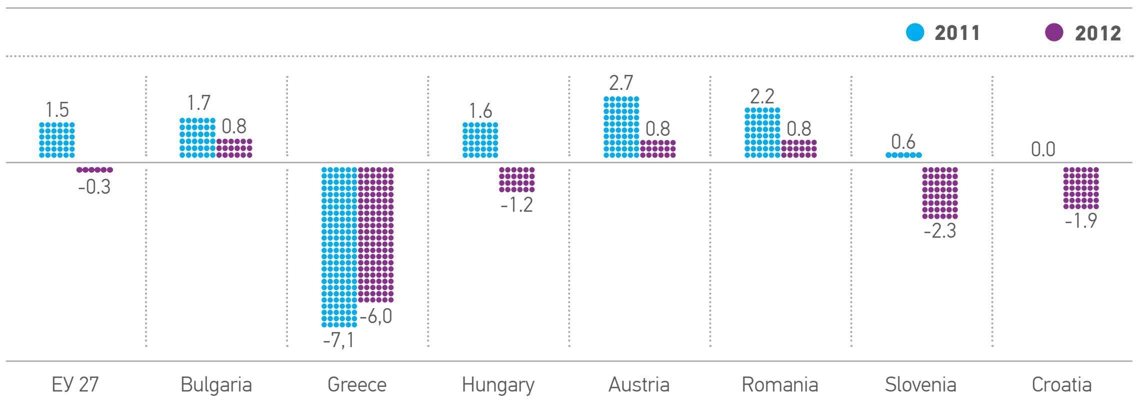
The Euro Zone crisis is the greatest threat to the world economy. The economic catastrophe, in particular in the European Union, was avoided by Greek debt restructuring. Unemployment has been increased in many countries worldwide. Unemployment in France has reached the level of 10.3%, representing the minimum level of unemployment in the last 13 years. The Euro Zone crisis will continue in 2013 as well, with the possibility that one or more countries leave the Euro Zone. The active continuation of reforms and recovery of economy are required primarily in the countries facing a deep economic crisis, and/or in: Greece, Spain, Portugal and Italy.

On the other hand, the world economic situation depends to a great extent on the economic situation of the USA where a certain economic growth has been identified. The unemployment rate in the USA has dropped to the lowest level in the last four years, real estate market has been stabilized and financial markets operate with sufficient cash. Based on the assessment of analytic experts, the USA economy has not recovered as strongly as it has been expected.

GDP movement in EU countries, region and Serbia

A drop in economic activity and BDP growth has been established in almost all countries in the world. As assessed by the Statistical Office of the EU (Eurostat), a drop in GDP growth at the level of the European Union in 2012 will amount to 0.3%.

GDP Growth Rate in 2011 and its estimate in 2012 , in %, Eurostat

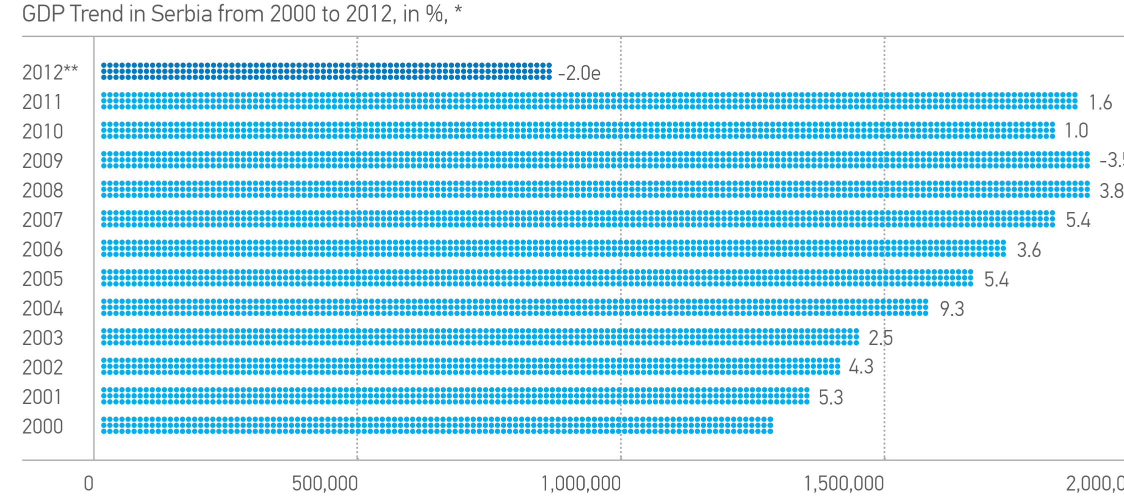


* Source: Eurostat, national statistical offices

The year 2012 in Serbia was marked, in particular, with a high inflation rate, drop in the economic activity and a high unemployment rate. A drop of economic activity in Italy and other countries, important partners to Serbia in foreign trade, reflected on the drop of export demand and local investments. Due to extremely bad agricultural season and increase of production costs, food products prices have made the greatest increase. The increase of general VAT rate from 18% and 20% and excise tax increase effective as of 1 October 2012 resulted in the price increase of a great number of products and services.

Based on the World Bank's estimates, the GDP in Serbia will drop by 2% in 2012 which is one of the lowest scores made in the South East European region. A real drop of GDP in 2012 results from the decrease of the total local private demand, both in the area of fast moving consumer goods, as well as in the area of investment consumption. The GDP increase of 2% is expected in 2013, mainly due to the acceleration of Fiat exports and its suppliers, as well as due to the increase of agricultural production.

GDP Trend in Serbia from 2000 to 2012, in %, *

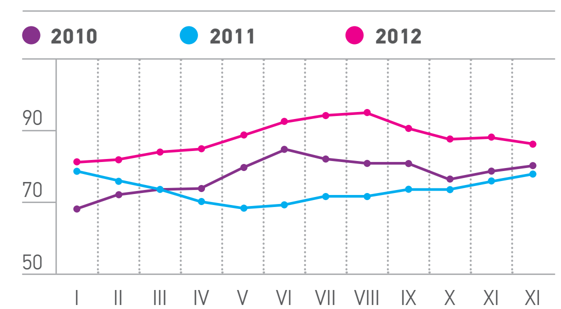


* GDP for the first two quarters in 2012
** Amount in million RSD

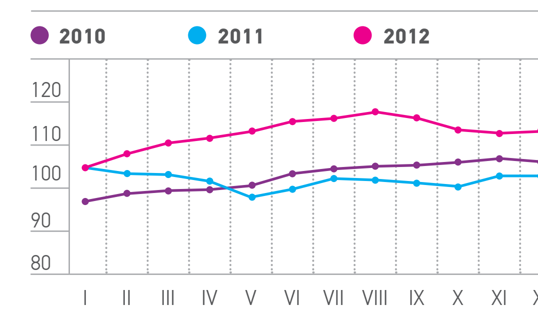
Amount in million RSD

USD/RSD and EUR/RSD exchange rate trends

USD/RSD

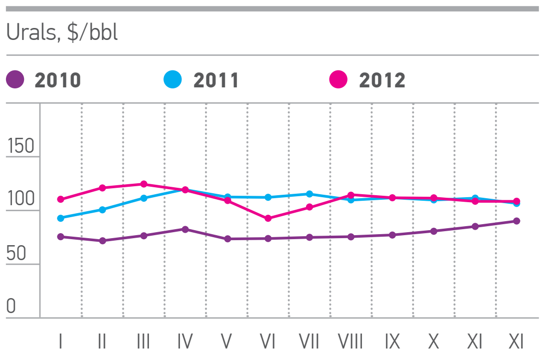


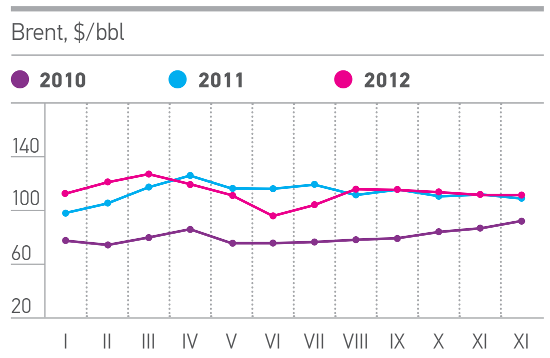
EUR/RSD



- Incline of USD/RSD rate was 6,6% or 5,31 RSD (USD/RSD rate changed from 80,8662 RSD as of January 1st; 2012.; to 86,1763 RSD as of December 31st; 2012)
- Incline of EUR/RSD rate in 2012 was 9% or 9,077 RSD (EUR/RSD rate changed from 104,6409 RSD as of January 1st; 2012.; to 113,7183 RSD as of December 31st; 2012)
- Incline of USD/RSD rate in 2011 was 2% or 1,59 RSD (USD/RSD rate changed from 79,2802 RSD as of January 1st; 2011 , to 80,8662 RSD as of December 31st; 2011)
- Decline of EUR/RSD rate in 2011 was 0,8% or 0,86 RSD (EUR/RSD rate changed from 105,4982 RSD as of January 1st; 2011 , to 104,6409 RSD as of December 31st; 2011.)

Oil price trends





Average Urals crude oil price in 2012 was 111 USD/bbl.

Legislation Change

A host of regulation packages compliant with European Union legislation bring about liberalisation to energy sources and power generation market as endorsed by the Republic of Serbia, on the one hand, while on the other pieces of legislation are being adopted, which increase the current and introduce new deductions from the revenues made by the country's companies. The apparent reason for the nominal/percentage increase of deductions, as well as new withholdings is the planned budget deficit of the country. Special risk comes from changes in Mining Law and changes of royalties from 3% to 7% with a possibility for further changes despite the fact that the Energy Agreement between Russia and Serbia does not stipulate any increase of the sort until the Pančevo Refinery modernization reaches the break-even point.

In the previous period NIS manage to avoid negative effects of the liberalised imports of crude and its products, as well as price liberalisation in that power generation segment, however, there is much to be desired and done in the regulation of market. To that end a string of by-laws concerning crude oil products market and its control by competent state agencies has been endorsed (Rule Book on Technical and Other Requirements for Liquid Fuels Originating in Crude Oil, Rule Book on Minimal Technical Conditions for Trade in Crude Oil and Products etc.). NIS played significant role in drafting of these by-laws, with the specific intention to create a fair competition in Serbia's market. Ordinance on Marking Fuel, which has been drafted in 2012, to be enacted early 2013, will be of great importance.

VAT rate went from 18% to 20%, and tax on legal entities profit increased from 10% to 15%, which will all affect the final business result of companies including NIS.

On many occasions over the course of 2012 changes were being made to the regulations specifying the country's excise duty policy, which resulted in the boost of the nominal amounts of excise duties on crude oil products, which sent their prices up. Excise duty was introduced to fuel oil, which stamped out a major part of the illegal market of this commodity, which greatly affects the volume of legal sales of oil products, by first and foremost reducing the sales of medium distillates (diesel fuels). NIS had a pivotal role in these activities by offering its suggestions whenever changes were made to regulations related to excise duties in Serbia.

Based on the provisions of Power Generation Legislation a dozen by-laws were passed, which are of great importance for the operation of our Block Energy, which developed a methodology for pricing the access to networks for transport of electricity and natural gas. This methodology, in turn, shall produce respective rules to be adopted by state agencies in exclusive charge of this (system operators). Block Energy has long benefited from Power Generation Law, including the investments into renewable energy, being a pivotal objective of respective EU Directives.

In the second half of 2012, when there was an anticipation of a host of by-laws related to the current Law on Mining and Geological Exploration, Mining Ministry issued a new Draft Law on Geological Exploration and Mining, which regulates our core activities altogether differently. However, the area to be regulated by these by-laws remained unregulated due to the anticipation of the endorsement of a new Law. By participating in the process of creation of new Law NIS significantly improved the existing revisions of this important regulation. Together with this new Law it is expected that the Republic of Serbia will endorse Mineral Resources Management Strategy by 2030.

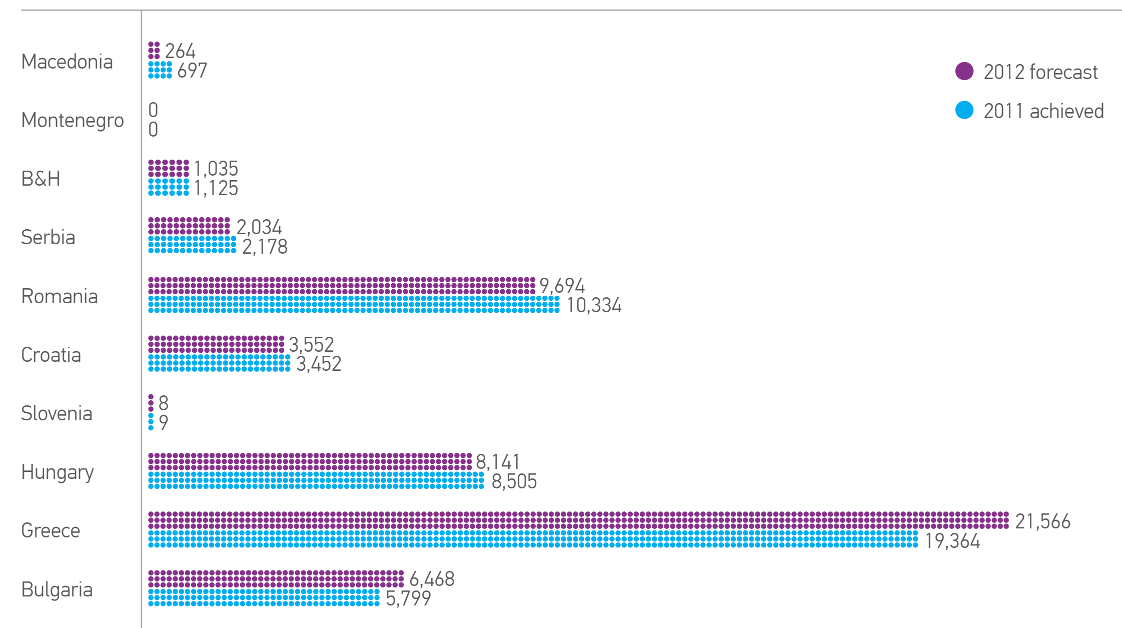
Furthermore, some other pieces of legislation are being drafted, and they will significantly affect NIS business operation (Law on Compensation for Utilisation of Public Goods, Law on Republican Government Reserves, Law on Emergencies, and Law on Energy Efficiency...).

NIS shall invariably strive to make its unceasing contribution to the creation of business environment in Serbia.

The changed business environment, mainly due to the expected increase of deductions from income, shall invariably affect the potential NIS profitability, which in turn, shall affect the quotation of NIS shares at Belgrade Stock Exchange in 2013, when these laws will be fully endorsed. By taking an active part in drafting legislation, as well as by undertaking various other development activities NIS will strive to cushion the effects of such trends, while maintaining its good business results. It goes without saying that all these activities are related to further implementation of capital investment projects similar to the modernisation of the Petrochemical Plant in the city of Pančevo, construction of Base Oils Production Plant III in Novi Sad, construction of a number of electricity generating plant by Block Energy, as well as oil and gas project in the country and abroad (Romania, Hungary, Bosnia-Herzegovina etc.)

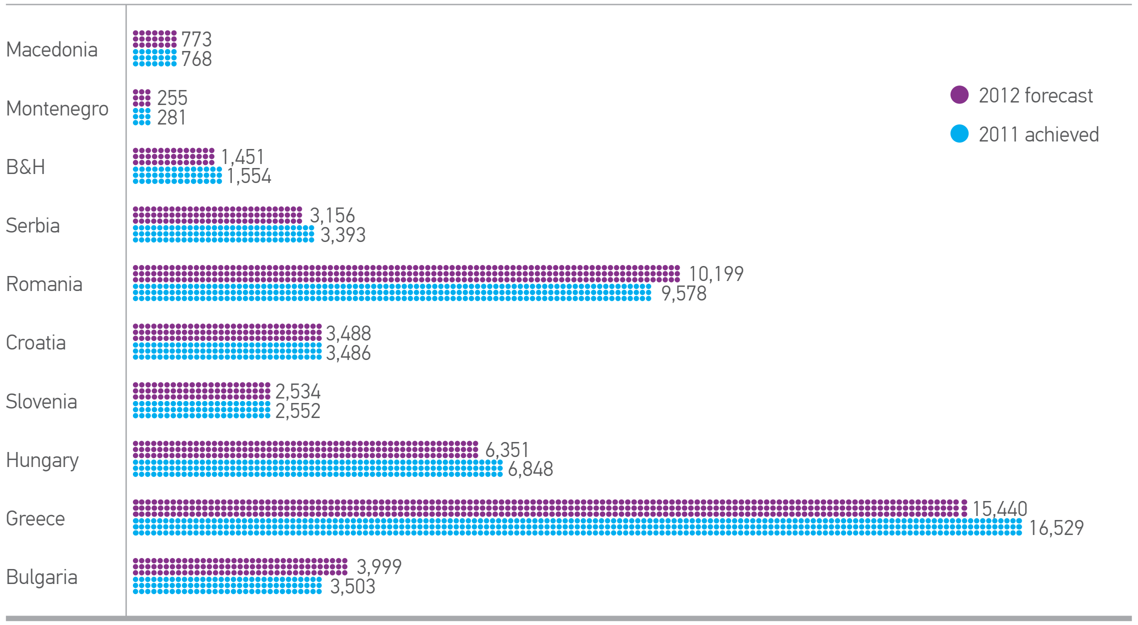
Oil Products production and consumption in the Region

Oil Products Production in Serbia and in the Region*



* Sources: Eurostat (Romania, Croatia, Slovenia, Hungary, Greece and Bulgaria), energy balances (Macedonia, Montenegro and B&H) and NIS (Serbia)

Oil product consumption in Serbia and surrounding countries*



* Sources: Eurostat (Romania, Croatia, Slovenia, Hungary, Greece and Bulgaria), energy balances (Macedonia, Montenegro and B&H) and NIS (Serbia)

Risk Management

Company's objectives in the field of risk management

In 2010 the Company defined objectives in the field of risk management and established an Integrated Risk Management System (IRMS). IRMS is a system, orderly, unified, continuous and on-going process of identification, assessment, defining and monitoring of the implementation of the risk management measures. The basic principle of this system is that the responsibility for managing the various risks was assigned to different management levels depending on the estimated financial impact of the risk. In 2011 the Standard of "Risk Management" was adopted. It defines the principles of risk management in order to increase the efficiency and effectiveness of the Company's activities in the short and long term perspective.

The objective of the Company in the field of risk management is to provide additional guarantees for the achievement of the strategic objectives of the Company through timely identification / risk prevention, definition of effective measures and the provision of maximum effectiveness of risk management.

Risk management has become an integral part of the Company's internal environment, by the implementation of the following processes.

- adopting the risk-oriented approach in all aspects of production and management activities;
- a systematic analysis of the identified risks;
- establishing the risk control system and monitoring the effectiveness of risk management measures;
- informing all employees of the Company about the basic principles and approaches to risk management adopted by the Company;
- providing the necessary regulatory and methodological support;
- the distribution of authorities and responsibilities for risk management between the organizational units of the Company.

Industrial risks

The main areas of the Company's business operations include the oil and gas production, oil refining and the sale of petroleum products, which makes the Company exposed to the risks specific to the oil and gas industry. As the main business activity of the Company is production, refining and sales and distribution of petroleum products - The Company is particularly exposed to the risks caused by:

- potential changes in prices of oil and petroleum products;
- risks in the area of exploration and production of oil.

Risks associated with potential changes in prices of oil and petroleum products

Due to its primary activity, the Company is exposed to risks of changes in prices of crude oil and petroleum products which affect the value of the stock; and the margins in oil refining, which further affect the future cash flows. Fluctuations in the prices of oil and petroleum products are not under the control of the Company but depend on external factors such as global and changes in RS and the balance of supply and demand, the volume of consumption of these markets and the activities of the regulatory authorities.

In order to reduce the potential negative impact of these risks the Company implements the following activities:

- annual planning scenario-based approach, monitoring of plans and timely correction of crude oil procurement plans;
- regular sessions of the Commission for the procurement of crude oil;
- daily monitoring of publications for crude oil "URAL (RCMB) and Brent DTD, as well as the contacts with international partners.

The above measures allow the Company to reduce these risks to the acceptable level.

Risks in the area of exploration and production of oil

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

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

The Company has extensive experience in conducting geological and exploratory works, it conducts the expertise of the program for geological and exploratory works internally and by the largest shareholder and uses the state-of-the-art methods of exploration, which all contributes to reduced probability of this risk.

Financial risks

Business activities of the Company are exposed to various financial risks: market risk (including currency risk, price risk and interest rate risk), loan risk, and liquidity risk. Risk management in the Company is directed to the efforts to bring down to the minimum potential negative effects of the volatile situation in financial markets on financial operations of the Company.

Market Risk

Currency risk - The Company conducts business on the international level and it exposed to the foreign currency exchange risk coming from conducting business with various currencies involved, USD and EUR in the first place. The risk comes from future trade transactions and acknowledged funds and commitments.

Price Change Risk - Due to its basic business activities the Company is exposed to price change risks, specifically, the crude oil and oil product price, affecting the stock value; and oil refining margins, which further affects future money flow.

Interest Rate Risk - The Company makes cash investments. Cash funds are invested only with the core banks with which Company have loans and credit/documentary lines. Funds are invested as fixed-term investments, in RSD and foreign currency, on a short-term basis (up to 90 days) at fixed interest rates for such fixed-term investments. Therefore, the income of the Company and cash flows are largely independent from the changes in market interest rates, for short-term investments, although interest rates that can be achieved in the market by the Company depend a lot on basic interest rates at the time of investment (Belibor / The NBS reference interest rate).

In 2012, the Company granted subordinated loans to foreign companies where the Company is the majority shareholder, as a way of financing business activities abroad. Loans granted for these purposes were given at changeable interest rates (Euribor).

Loans given at changeable interest rates expose the Company to the cash flow interest rate risk, Depending on net indebtedness in a certain period of time any change of the basic interest rate (EURIBOR or LIBOR) has an impact on the Company results.

Loan risk

Loan risk management is established at corporate level. Loan risk occurs in relation to: the cash and cash equivalents, deposits in banks and financial institutions, intercompany loans granted to foreign and domestic subsidiaries, as well as to the exposure to risk in wholesale and retail trade, including outstanding receivables and undertaken commitments.

In terms of credit limits banks are rankedaccording to approved methodologies for core and other banks, and for purpose of agreeing on collaterals. The Company has corrected receivables from buyers who have exceeded their credit limits, or who have problems with liquidity.

Liquidity risk

The Company continuously checks liquidity so as to provide enough cash for the business purposes, while maintaining the level of unused credit lines so as not to allow a credit limit overdraft with banks or breaking terms of loan agreements. Such projections take into consideration the Company plans concerning debt settlement, compliance with terms of agreements, compliance with internal targets, and, if applicable, external legislative or legal requirements – e.g. currency restriction.

Market position

Market position and NIS share in overall consumption

A decrease in industrial activity had a significant effect on consumption of petroleum products, while the rate of devaluation of the national currency had a proportional impact on the purchasing powers which lead to a lower consumption of petroleum products by citizens. VAT and excise duty increase for diesel and LPG passed on October 1 had a negative impact on fuel consumption.

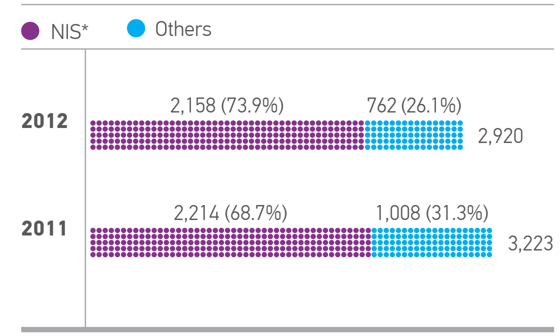
The largest fall in consumption (more than 50%) was recorded for naphtha, as a result of cease of production in HIP Petrohemija.

Additional pressure on purchasing power was made by the growing unemployment rate, which reached a record-high of 27% and by devaluation of the national currency compared to the euro, which was more than eight per cent.

The retail market is -3% smaller than the previous year. NIS share was increased for around +6% compared to 2011.

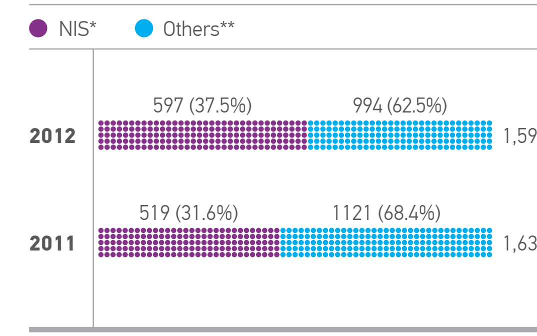
In 2012, the average number of active petrol stations was reduced by 72. Around 230 petrol stations were rebranded to the new NIS tricolour brand, nine petrol stations were revamped and one was bought (Dunav PS). A new brand of restaurants and shops was included in the rebranding programme.

RS market volumes, in thousand tonnes **-9%**

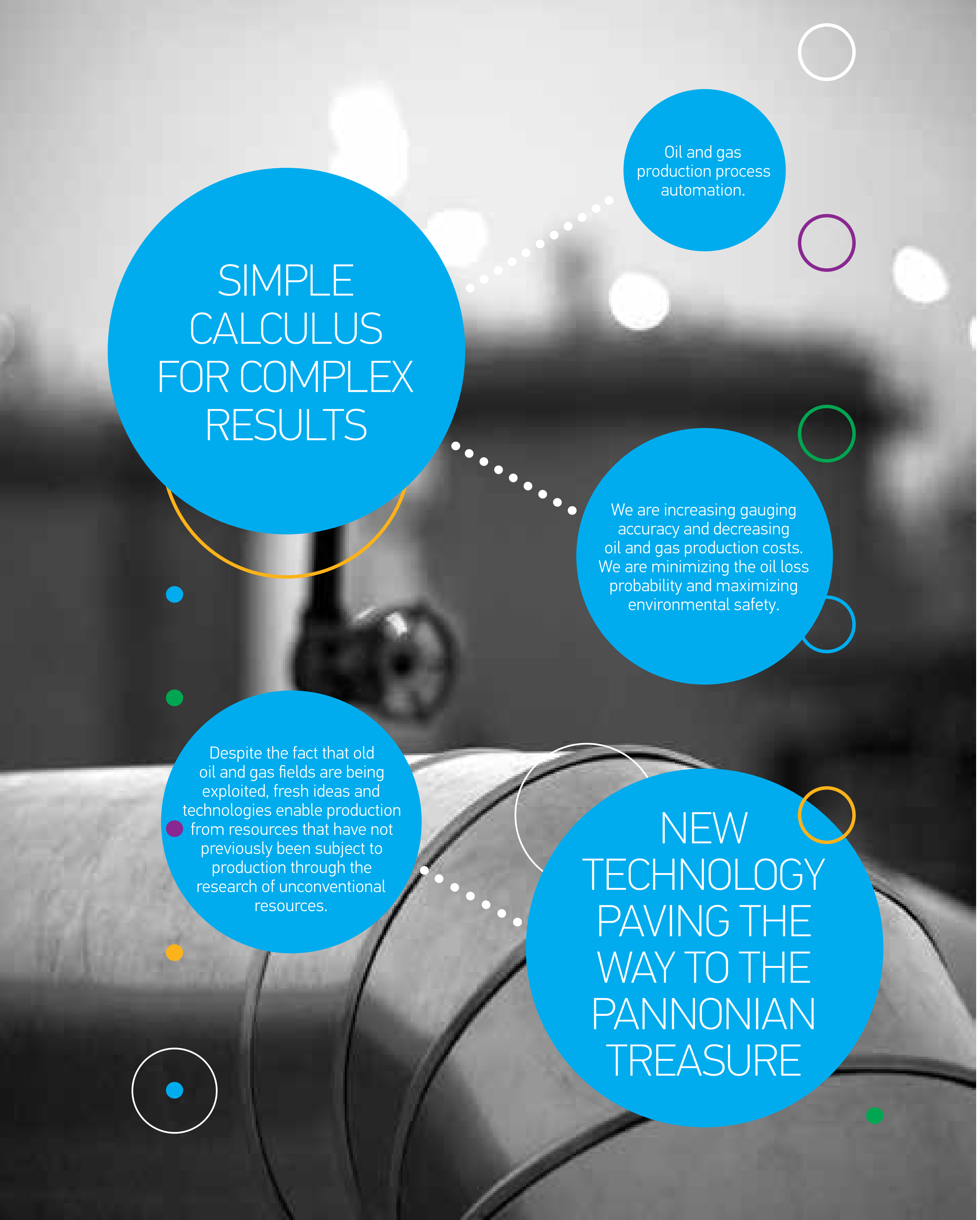


* The oil product market of Serbia is shown without products not produced by NIS (Euro BMB 98, fuel oil Euro EL, oil coke, base oils, vazeline, paraphine,various solvents, etc.)

RS retail market volumes, in thousand tonnes **-3%**



* The sale of LPG cyllinders, auto gas, motor gasoline is shown under NIS. The source of information: the Ministry of Infrastructure and Energy, the Chamber of Trade of Serbia and the Ministry of Finance
** The sale of auto gas, motor gasolines, diesel and EL is shown under „others"



Business results analysis

Key indicators

Q4 2011	Q4 2012	Δ	Key indicators	2011	2012	Δ
109.07	109.27	0.2%	Urals, $/bbl	109.6	110.65	1%
18.4	15.7	-15%	Net profit (loss) before FX differences, billions of RSD	41.1	56.5	37%
-5.0	1.6	-132%	Net FX differences, billions of RSD	-0.5	-7.0	1267%
13.5	17.3	28%	Net profit, billions of RSD	40.6	49.5	22%
20.1	18.4	-8%	EBITDA*, billions of RSD	52.4	66.5	27%
53.9	64.2	19%	Sales (without excise tax), billions of RSD	186.9	226.2	21%
17.6	9.4	-47%	OCF, billions of RSD	35.0	36.8	5.2%
409.4	438.1	7%	Domestic oil and gas production, thou. cond. tons**	1,520.6	1,693.6	11%
272.6	291.2	7%	Domestic oil production (without gasoline), thousand tons	1,020.5	1,124.8	10%
604.7	682,3	13%	Oil refining volume, thousand tons	2,359.0	2,142.3	-9%
629.3	688.4	9%	Total sales of oil products, thousand tons	2,428.3	2,394.9	-1%
592.5	600,6	1%	Oil products local market sales , thousand tons	2,182.0	2,121.6	-3%
129.5	174.1	34%	Retail, thousand tons	518.6	596.9	15%
441.7	455	3%	Light oil products sales, thousand tons	1.687	1,662	-1%
84.9	17.83	-79%	CAPEX from GPN loan*** , millions of EUR	201.3	127.5	-37%
466	488	5%	Inflow of funds from GPN (cumulative from 2009.), millions of EUR	466	488	5%
6.85	18.09	164%	CAPEX from OCF (NIS projects), billions of RSD	13,9	36.36	163%
446	403	-10%	Total debt to banks, millions of USD	446	403	-10%
458	418	-9%	Total bank indebtedness**** , millions of USD	458	418	-9%

Any possible deviations in percentages and overall values may occur as a result of rounding off Percentage amounts are calculated based on the amounts expressed in million RSD. Amounts for CAPEX from GPN loan and CAPEX from OCF are given without VAT
* EBITDA = Revenues from sales (excise tax excluded) – stock costs (oil, oil products, and other products) – operating costs of business activities (OPEX) – other costs beyond the influence of the management
** 1.256 m3 gas = 1 ton of oil equivalent
*** Pursuant to the share purchase Agreement for the purchase of shares of NIS a.d. Novi Sad (point 8.1.2) Gazprom Neft (GPN) shall provide NIS a.d. Novi Sad with the amount of 500 million EUR through special purpose loans for the revamp program of the refining complex of NIS a.d. Novi Sad. CAPEX from GPN loan does not include letters of credit
**** Total bank indebtedness (total indebtedness) = total debt to banks + letters of credit

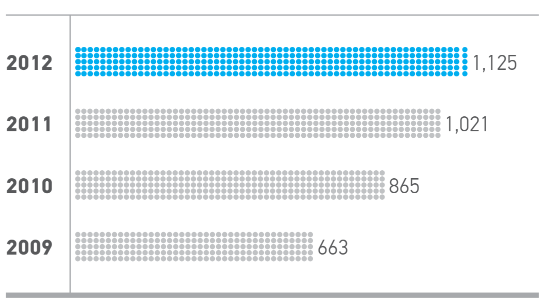
Oil and gas production

Results achieved in the segment of production

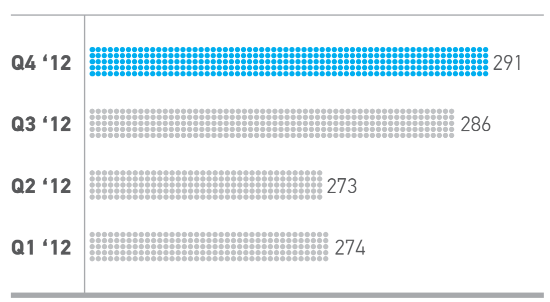
The total production of crude oil and gas in 2012 amounts to 1,693.6 tons of oil equivalent, which is by 11% more as compared to 2011. Natural gas production was also increased: gas production in 2012 amounted to 672.1 million m3, which is by 9% more as compared to 2011.

	2011	2012	Δ
Domestic oil and gas production, thousand conditional tons	1,520.6	1,693.6	11% ↑
Domestic oil production (excl. gasolene), thousand tons	1,020.5	1,124.8	10% ↑
Gas production, million m^3	616.4	672.1	9% ↑

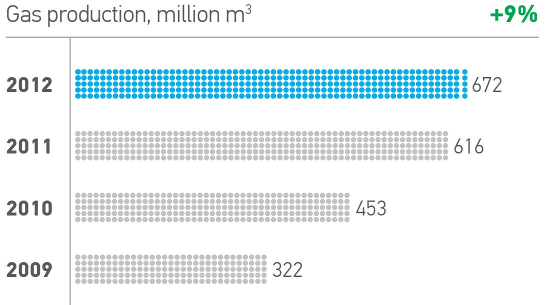
Domestic oil production (excl. gasolene), thousand tons **+10%**



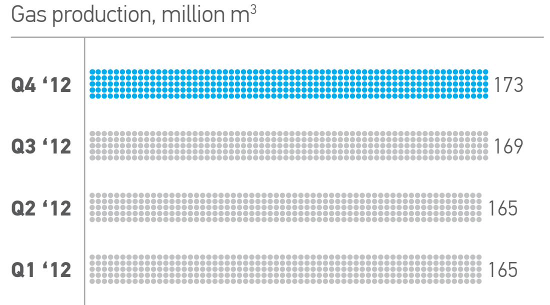
Domestic oil production (excl. gasolene), thousand tons



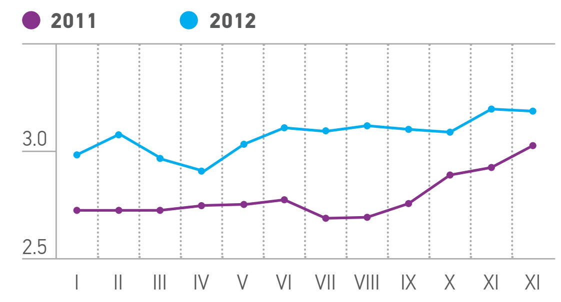
Gas production, million m^3 **+9%**



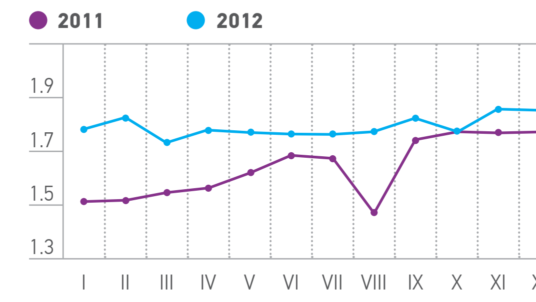
Gas production, million m^3



Oil production dynamics, thou. tons/day



Gas production dynamics, million m3/day



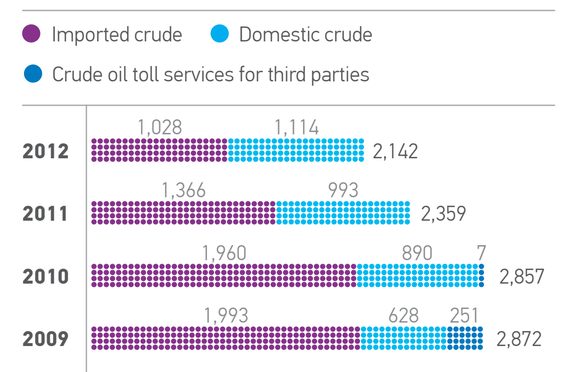
Refining

Results achieved in the refining segment

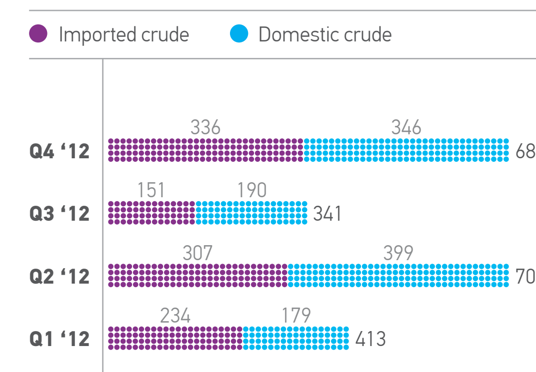
In 2012, there was a drop in refining volume by 9% in comparison with the previous year: 2,142 thou. tons were refined in 2012, as opposed to 2,359 thou. tons in 2011.

- Planned overhauls of Pancevo Refinery were realized in following periods:
  - February 22nd – April 2nd 2012
  - June 21st – July 16th 2012
  - August 30th – October 2nd 2012
- Finalizing and testing before commissioning new MHC/DHT facility in Pancevo Refinery
- Refining in 2012 is in line with operational plans formed according to market demand for oil and oil derivatives which is also reason for decrease in refining

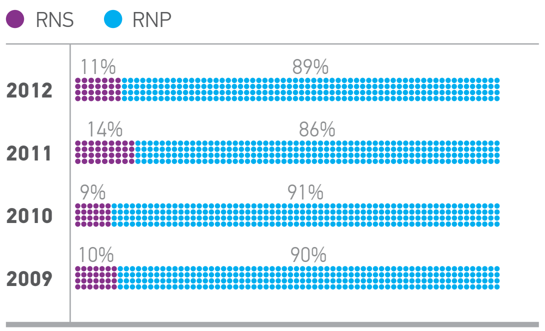
Oil processing including third parties, in thousand tons **-9%**



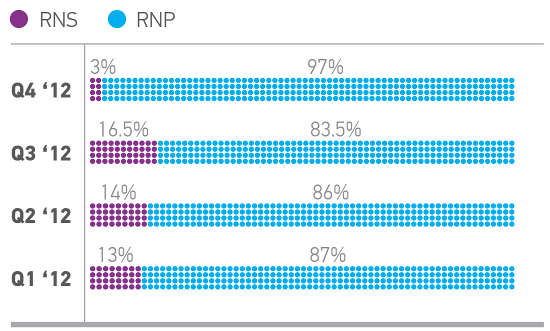
Oil processing including third parties, in thousand tons



Oil processing per refinery



Oil processing per refinery



Sales and Distribution

Results achieved in the Sales and Distribution

There was a drop in sales by 1% in 2012 in comparison with the previous year, so that the total sales amounted to 2,395thousand tons.

Sales decline has been recorded in wholesale (-2%), while retail and export have increased by 15%, i.e.; 9%.

Retail - retail volume increase by 15%

- Sales increase is recorded for all petroleum products except BMB-95. The growth in sales of diesel fuel D-2 is affected by the realisation of Agreement between NIS and Ministry of Agriculture, and starting from May also by the increase in prices of "extra light" fuel oil due to rising the excise tax, as well as corrections of VAT from October
- Expanding the network of PS that sell LPG

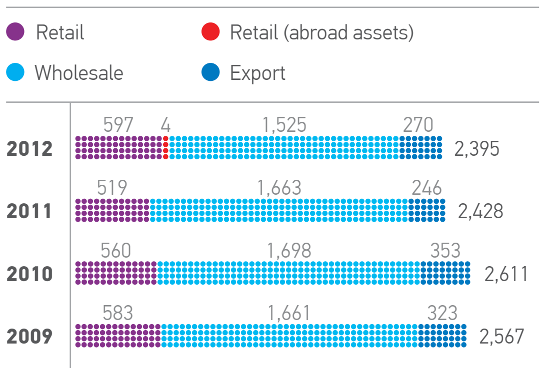
Wholesale - decrease by 8.3%

- Reduced fuel consumption BMB 95
- Reduced sales of D2 due to transfer of these amounts in the retail channel and import of "extra light" heating oil by competitors

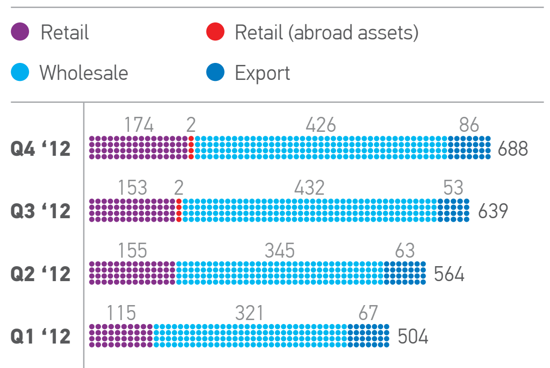
Export - an increase of 10%

- Increased demand for fuel oil in the domestic market and reduction of discount given to traders in the international market at the same time, has led to a reduction in the volume of export deliveries and to their higher efficiency as compared to last year. However, despite the reduction of export deliveries of fuel oil total exports have increased due to the increase of exports of other products.

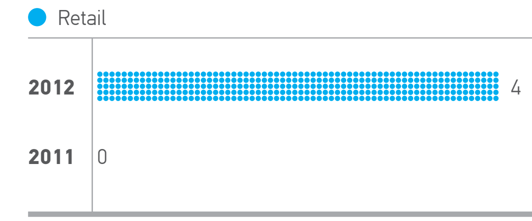
Oil derivatives sales, in thousand tons **-1%**



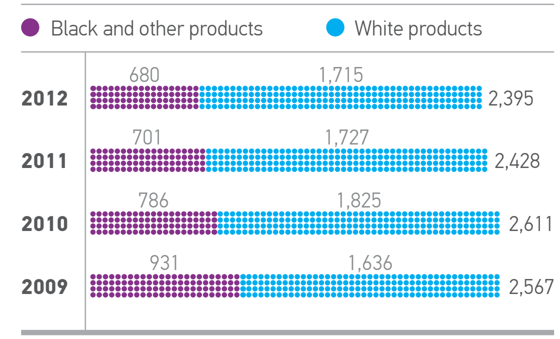
Oil derivatives sales, in thousand tons



Retail – abroad assets, in thousand tons **100%**



Sales structure per oil derivatives, in thousand tons **-1%**



Sales structure per oil derivatives, in thousand tons

Number of petrol stations	2010	2011	2012
Operational petrol stations*	465	399	338
Reconstructed petrol stations	7	10	9
New petrol stations	1	2	1
New LPG facilities	11	28	11
Petrol stations on lease	0	69	82

* as of December 31st excluding LPG retail points (cylinders shops, loading stations). Number of operational petrol stations for 2012 includes 4 internal petrol stations and does not 58 closed petrol stations.

Number of petrol station in the region	2012		
	Romania	Bulgaria	B&H
Operational petrol stations	1	14	6
Reconstructed petrol stations	1	-	4
New petrol stations	-	-	2
New LPG facilities	-	-	-
Petrol stations on lease	-	-	-

Ratios

	2009	2010	2011	2012	Δ (2012/2011)
Return on total capital (Gross profit/total capital)	-122%	26%	45%	37%	-17%
Net return on equity* (Net profit/shareholders equity**)	-43%	19%	47%	57%	21%
Operating net profit (operating profit/net sales income)	-2%	17%	24%	33%	36%
Degree of leverage (short term and long term liabilities/ total capital)	108%	126%	149%	104%	-30%
Degree of leverage (short term and long term liabilities/ shareholders equity***)	291%	234%	150%	164%	10%
1st degree liquidity (cash and cash equivalents/short term liabilities)	16%	17%	51%	13%	-74%
2nd degree liquidity (working assets/stocks/short term liabilities)	48%	57%	107%	98%	-8%
Net working fund ratio (current assets – current liabilities/ current assets)	-10%	11%	44%	41%	-8%

* equity = share capital + other capital
** shareholders equity = share capital + other capital
*** shareholders equity = share capital + other capital

Bank indebtedness

Debt structure

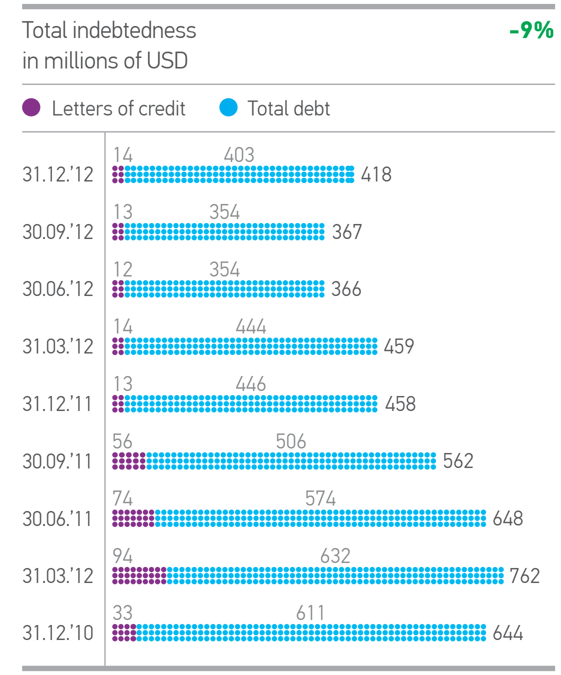
10%

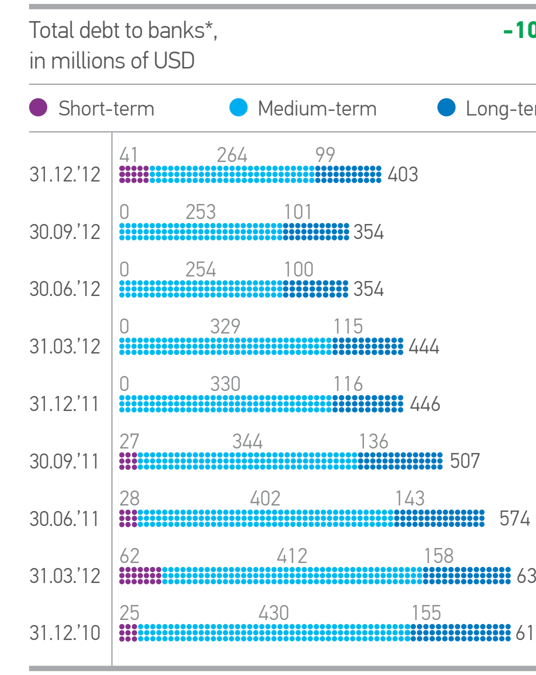
total debt to banks reduced

At the end of 2012, total indebtedness to banks was USD 418 million.

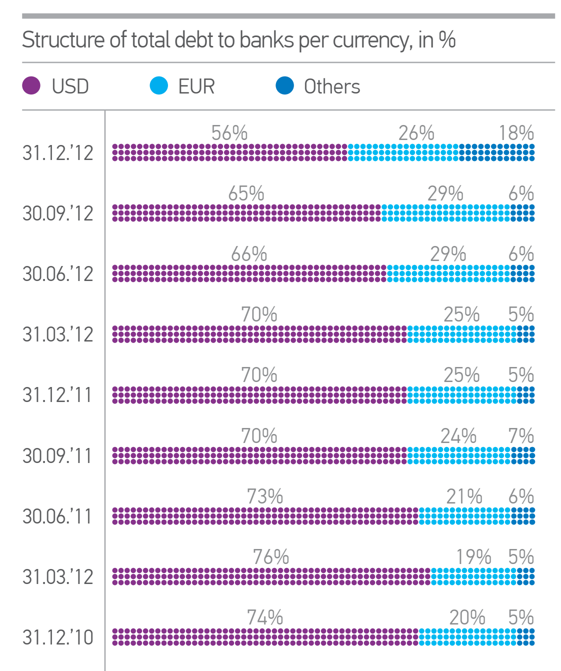
In comparison to total indebtedness at the end of 2011, the amount is reduced by USD 40 million.

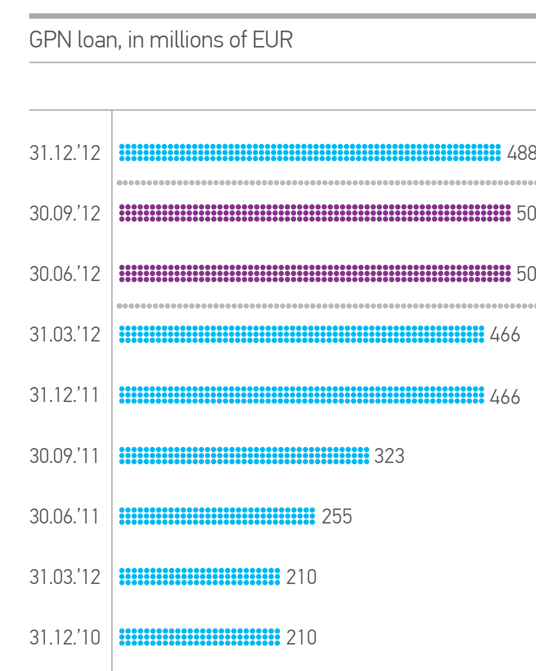
Total debt of NIS to banks in 2012 was reduced by 10%, from USD 446 million at the end of 2011 to USD 403 million at the end of 2012, while the amount of letters of credit increased by 10%, from USD 13 million to USD 14 million. At the end of 2012, the structure of bank loans is as follows: 10% are short-term, 65.5% are mid-term loans and 24.5% are long-term loans.





* Term structure of the debt to banks is shown according to Contract terms and not by maturity of the debt as of December 31st 2012.





Changes of more than 10% on assets, liabilities and net profit

Assets	Change (in %)	Explanation
Intangible assets	85%	The increase of intangible assets as of December 31st 2012 compared to December 31st 2011 mostly is related to new investments in research and development in the amount of RSD 1,645,694 thousand and RSD 1,786,149 thousand investment in research and development, which are transferred to property, plant and equipment. In addition, during 2012 Company has made an investment in obtaining contractual rights to explore and produce hydrocarbons in Kiskunhalas Areas in Hungary amounted to 722,342 RSD based on the Farm-in agreement with RAG Hungary Limited.
Property, plant and equipment	16%	The increase of Property, plant and equipment as at December 31st 2012 compared to December 31st 2011 mostly related to: new investments in the MHC/DHT project (investment in plant for mild hydrocracking and hydrotreating which was constructed and put into operation at the end of 2012) in the amount of RSD 19,636,311 thousand, construction of plants for the production of hydrogen in the amount of RSD 3,091,637 thousand, and the reconstruction of the peer and filling station in the amount of RSD 2,384,539 thousand, an exploratory wells in the amount of RSD 1,719,628 thousand, purchase of transport vehicles in the amount of RSD 1,071,985 thousand and reconstruction of petrol stations in the amount of RSD 835,854 thousand.
Investments in equity instruments	203%	Increase of investments in equity instruments as of December 31st 2012 compared to December 31st 2011 in general refers to the establishment of the following companies: 1) Naftagas Naftni Servisi d.o.o., Novi Sad (total registered capital of the newly formed subsidiary as of December 31st 2012 amounts to RSD 3,579,983 thousand, out of which the intangible investment is RSD 3,579,930 thousand), 2) NTC NIS Naftagas d.o.o., Novi Sad (total registered capital of the newly formed subsidiary as of December 31st 2012 amounts to RSD 321,500 thousand, out of which the intangible investment is RSD 321,447 thousand), 3) Naftagas Tehnicki Servisi d.o.o. Zrenjanin (total registered capital of the newly formed subsidiary as of December 31st 2012 amounts to RSD 1,044,554 thousand, out of which the intangible investment is RSD 1,044,501 thousand RSD), 4) Naftagas Transport d.o.o. Novi Sad (total registered capital of the newly formed subsidiary as of December 31st 2012 amounts to RSD 327,751 thousand, out of which the intangible investment is RSD 327,695 thousand). Based on Decision on the establishment and entering non-financial investment in the capital of newly established subsidiaries (Naftagas – Naftni Servisi d.o.o. Novi Sad, Naftagas – Tehnicki Servisi d.o.o. Zrenjanin, NTC NIS - Nafatagas d.o.o. Novi Sad and Naftagas - Transport d.o.o. Novi Sad) Company transferred the intangible assets, property, plant and equipment in the amount of RSD 5,922,522 thousand and material, tools and other assets in the amount of RSD 704,943 thousand. For amount over subscribed capital was formed receivable from sale of property, plant, equipment and inventories of materials and tools. Sale of assets is carried at book value.

Assets	Change (in %)	Explanation
Other long-term investments	467%	Increase in other long-term investments as of 31 December 2012 compared to 31 December 2011 mostly is related to the granting of long-term loans to subsidiaries in the amount of RSD 16,629,612 thousand. Long-term loans to subsidiaries are given at the variable interest rates (3M Euribor + 7.5% and 3M Euribor + 5%) for a period of 7 years from the date of payment of the last installment, with a grace period of 5 years. The carrying value of long-term loans corresponds with their fair value.
Inventories	23%	The increase of inventories as at 31 December 2012 compared to 31 December 2011 mostly is related to the increase in crude oil inventories in the amount of RSD 2,566,135 thousand and increase in inventories of petroleum products in the amount of RSD 2,914,898 thousand.
Non-current assets held for sale	-75%	Decrease of non-current assets held for sale as of December 31 December 2012 compared to 31 December 2011 mostly relates with the sale of petrol stations Trn 2 Laktaši to subsidiary NIS Petrol Bosnia and Herzegovina.
Trade and other receivables	104%	The increase of trade and other receivables as at 31 December 2012. compared to 31 December 2011, and related sales increase in 2012 as a whole is related to increase in sales of products and services, extending maturities of receivables and an increase in receivables from Srbijagas, Novi Sad and Petrohemija, Pancevo (amounting to RSD 7,474 million and RSD 5,312 million).
Cash and cash equivalents	-67%	Decrease in cash and cash equivalents as of December 31 December 2012 compared to 31 December 2011 mostly is related to the decrease in short-term bank deposits with a maturity up to 90 days in the amount of RSD 15,392,131 thousand.
VAT and prepaid expenses	90%	Increase in VAT and prepaid expenses of 31 December 2012 compared to 31 December 2011 is mostly related with the increase of deferred tax in the amount of RSD 1,969,270 thousand and increase in not-invoiced income in the amount of RSD 1,858,183 thousand.
Deferred tax assets	24%	The increase in deferred tax assets as of December 31 December 2012. Year compared to 31 December 2011. mostly is related to carry forward tax credits and recognized on the basis of a five-year business plan and certainty regarding their utilization. The tax credit has been used up to 20% of committed capital investment by 31 December 2011. in accordance with the tax laws of the Republic of Serbia.

Equity and liabilities	Change (in %)	Explanation
Unrealized gains from securities	-77%	Decrease of unrealized gains on securities as of December 31st 2012 compared to December 31st 2011 as a whole relates to the decline in the value of investments in securities available for sale and the adjustments to their fair (market) value (Linde Gas Serbija a.d. Becej Komercijalna banka a.d. Belgrade; Jubmes Banka a.d. Belgrade)
Unrealized losses from securities	27%	Decrease of unrealized losses on securities as of December 31st 2012 compared to December 31st 2011 as a whole relates to the decline in the value of investments in securities available for sale and adjustments to the fair (market) value (Politika a.d. Belgrade, Dunav osiguranje a.d.o. Belgrade; Luka Dunav a.d. Pancevo, SPC Pinki a.d. Belgrade)
Accumulated gain	22%	Retained earnings as of December 31 2012 in whole relates to the result for the period ended on 31 December 2012.
Loss	-99%	Under a Decision of Shareholders' Assembly as of 25 June 2012 profit distribution for the year 2011 in the amount of RSD 40,601,667 thousand was performed for the coverage of losses from previous years.

Equity and liabilities	Change (in %)	Explanation
Short-term financial liabilities	172%	Increase of short-term financial liabilities as at 31 December 2012 compared to 31 December 2011 mostly is related to the transfer of part of the short-term liabilities from long-term loans to the parent company.
Trade and other payables	15%	Increase in trade and other payables as of December 31st 2012 compared to December 31st 2011 mostly is related to the increase in liabilities for crude oil to the supplier Gazprom Neft Trading, Austria (up to 7,349 million USD).
Liabilities for VAT, other taxes and deferred income	49%	Increase in liabilities for VAT, other taxes and deferred income as of December 31st 2012 compared to December 31st 2011 mostly is related to the increase of liabilities for other taxes and duties (in the amount of RSD 2,663,887 thousand) and accrued liabilities increase (in the amount of RSD 913,430 thousand)
Income tax liabilities	-66%	Decrease in liabilities for income taxes as of December 31st 2012 compared to December 31st 2011 mostly is related to the settlement of obligations arising from income tax for 2011
Deferred tax liabilities	104%	Increase in deferred tax liabilities as at 31 December 2012 compared to 31 December 2011. refers to the temporary differences arising from depreciation calculated for accounting purposes and the depreciation recognized for tax purposes.
Result	**Change (in %)**	**Explanation**
Net profit*	22%	Increase in profitability is primarily related to increased efficiency of core business, reducing of production costs and expenditure, investment in the growth of resource base and increase of market share in the domestic oil and petroleum products market. In 2012 Company recorded profit growth of 58% over the previous year. However, the weakening of the dinar and the growth of negative foreign exchange differences (amounting to USD 7,635 million, net) and an increase in expenditures for impairment of receivables (the amount of USD 9,404 million) mainly led to the increase in net profit by 22% compared to the same period last year.

*Compared to December 31st 2011

Major Byers and Suppliers

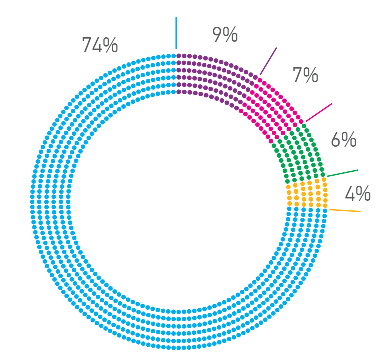
Byers	Turnover in millions RSD[1]	Share in total income
Knez Petrol d.o.o.	23,662	9%
Srbijagas Novi Sad	19,385	7%
OMV Serbia d.o.o.	16,248	6%
Petrobart d.o.o.	11,502	4%
Total:	70,797	26%
Other byers	199,156	74%
Total:	269,953	100%

From January 1st – December 31st 2012

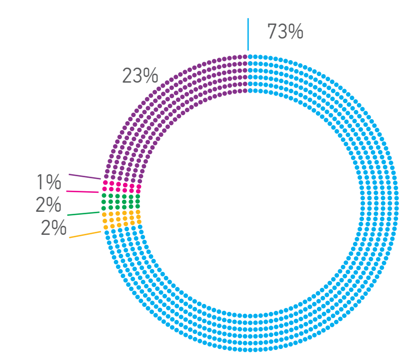
Suppliers	Total debt in mln. RSD*	Share in the total liabilities to suppliers
Gazprom Neft Trading Gmbh	25,465	73%
HIP Petrohemija	562	2%
Srbijagas Novi Sad	554	2%
ELPETRA ENERGY S.A.	386	1%
Total:	26,967	77%
Other byers	8,071	23%
Total:	35,038	100%

* as of December 31st 2012

Major Byers



Major suppliers



A RELIABLE SYSTEM WHICH DOES NOT MISS ANYTHING OUT

The Electronic Management System enables the transfer of data about petrol stations to the company server while the modern gauge systems monitor all the characteristics of fuel in tanks.

MODERN TANK TRUCKS FOR A MORE EFFICIENT AND SECURE TRANSPORT

The steady supply of vessels and shipbuilding companies with fuel on all major navigable routes in Serbia has opened up a new horizon for NIS' business operations.

NIS Petrol brand got a modern visual design – a tricolor logo combining the colors of the Russian and Serbian flags. Thus in 2012 a large campaign of modernization and rebranding of NIS Petrol retail network was initiated, in compliance with the most advanced ecological and technologocial standards.

DEVELOPMENT OF RETAIL NETWORK

Transfer prices

Transfer prices in 2012 are stipulated in:

- „Transfer Prices Calculation Methodology for domestically-produced crude oil and natural gas in NIS j.s.c Novi Sad as required by management accounting", and
- „Transfer Prices Calculation Methodology for domestically-produced oil products and natural gas products in NIS j.s.c Novi Sad as required by management accounting" effective as of 01.01.2012 .

The 2012 transfer prices calculation methodologies conform to „market principle", as well as the principle „one product, one transfer price".

Principle „one product, one transfer price" means that the „movement" of one product between different profit centres within NIS was valued according to one transfer price, regardless of profit centres between which this movement took place.

Transfer prices used to generate internal revenue between NIS business entities are defined in such a way to maintain the market position of each of these business entities.

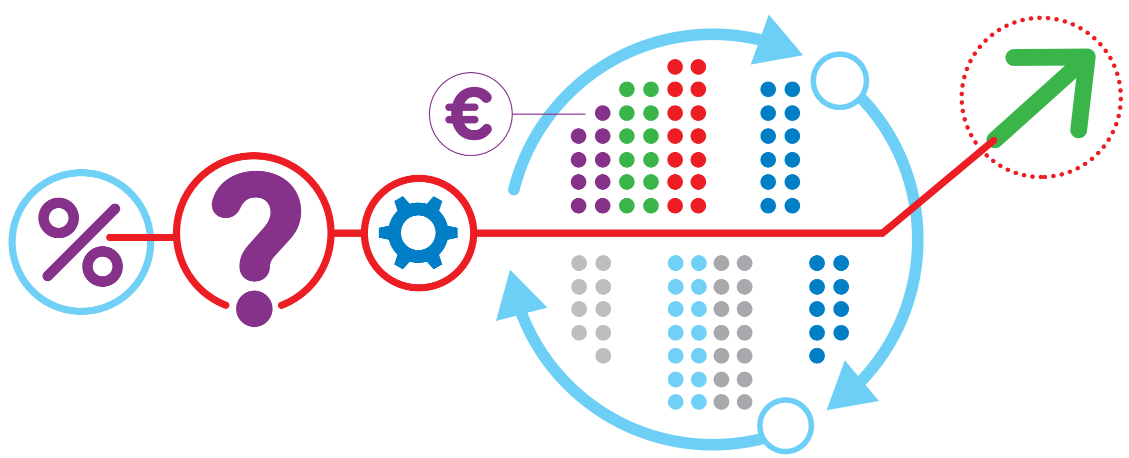
There are transfer prices of the following types:

1) Transfer price of domestic crude, (between Exploration and Production and Refining Blocks) defined pursuant to the so called „export terms".

2) Natural gas transfer price (between Exploration and Production and Refining Blocks) equal to the natural gas selling price at which NIS sells the natural gas to the state-run Srbijagas company

3) Oil products and natural gas products transfer price (between Refining and Sales and Distribution and between Exploration and Production and Sales and Distribution Blocks) are defined pursuant to the following principles:

- Import terms - principle used to calculate transfer prices of freely-imported oil products and those oil products, which serve as their direct substitutes
- Export terms apply to oil products, which are either completely or partially exported.
- Remaining crude oil products comprise those oil products not falling into either of these two groups according to their characteristics (import terms, export terms). These crude oil products are characteristic for being purchased by a limited number of known buyers, their selling prices being stipulated by annual or even longer term contracts or they are alternative to the production of other oil products (straight-run naphtha, jet fuel, rafinatte, propylene).



Cases of uncertainty (uncertainty of collection)

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

Trade receivables are initially recognized as per their fair value. Provisions for decrease in value of receivables are determined when based on objective evidence the Company will not be able to collect all the receivables in accordance with the original terms.

For the first-class clients (clients representing 80% of total receivables by the total amount as at balance sheet date), receivables collectability risk is evaluated taking into consideration indicators of decrease in receivables' purchase value including as follows: receivables' age structure, estimated client debt collectability in accordance with his financial capabilities and existing history of late payments. In accordance with the previously stated, provisions for decrease in value of receivables are made and/or corrections of provisions charged to the expense of the relevant period.

For the second-class clients (clients representing 20% of total receivables by the total amount as at balance sheet date), receivables collectability risk is evaluated taking into consideration late payments thus corrections of provisions for these clients are made if the payment is not settled within sixty (60) days as of the maturity date and/or date of foreign currency influx in the country and/or within ninety (90) days as of the receivables maturity date for liquefied petroleum gas, delivered goods/energy to domestic consumers in the category «remote heating systems» (heating plants), trade receivables-clients financed from the budget (army, police, health service, educational service, railroads etc.).

The book value of receivables is decreased through provisions while the decreased value is recorded in the profit and loss account within the position 'other expenses'. When a receivable cannot be collected, it is written off and charged to the provisions for receivables. As at December 31st 2012, the Company made provisions for approximately 46% of gross value of total receivables.

The Company management evaluated and made provisions for environment protection as at balance sheet date in the amount of RSD 861.383 RSD based on internal evaluation on the Company's compliance with the legislation of the Republic of Serbia. The management believes that, based on the existing legislation, expenses related to environmental protection are not significantly higher compared to the provisions made. However, the stated expenses could significantly increase in the future period in case the legislation becomes more restrictive.

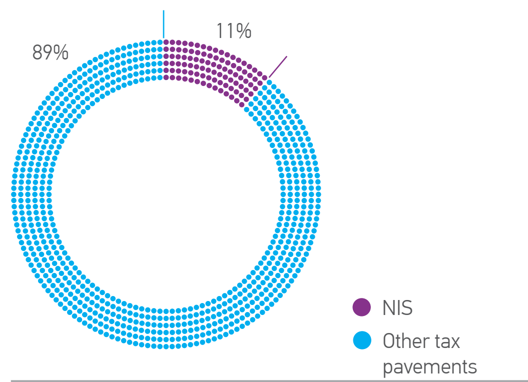
As at December 31st 2012, the Company made provisions for potential loss which could emerge from tax liabilities evaluation by the Ministry of Finances of Angola to which the Company is to pay the difference in tax assessment including interest in the amount of 80 million USD related to additional profit oil for the period from 2002 to 2007. The management believes that, based on the terms set forth in the concession contracts with Angola and the opinions of legal consultants from Angola, such a request is not in accordance with the valid legal framework in Angola due to the fact that the government did not make correct oil profit calculations and that oil profit is a contractual obligation towards the national concessionaire which is opposite to the opinion of the Ministry of Finances of Angola. The management will file a complaint against any action of enforced tax collection by the Ministry of Finances of Angola and take all the necessary steps in order to postpone the collection of tax until the court in Angola reaches a final decision regarding the issue. Based on the experience of other concessionaires, the court in Angola has not yet reached a decision related to their complaints against the decision of the Ministry of Finances even though the complaints were filed three years ago. Taking all the previously stated into consideration, the Company management believes that as at December 31st 2012, there is a significant level of uncertainty as regards the time required to settle the request of the Ministry of Finances of Angola and the amount of additional tax on profit oil, if any.

Taxes

The planned government revenue for 2012 was RSD 829.6 billion (Source of information: Law amending the 2012 Budget Law of Republic of Serbia) NIS contribution to the government budget was around RSD 91,4 billion.

billions RSD as budget income

NIS share in total public revenues in 2012



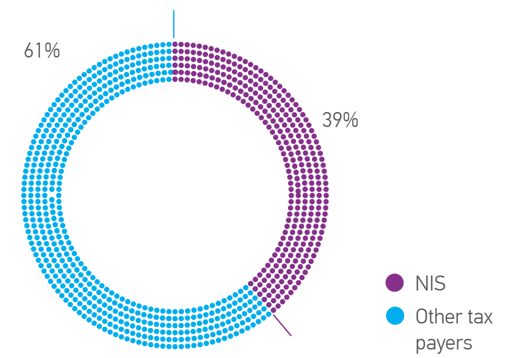
Liabilities related to government revenue	2011	2012
Excise	62.4	65.4
Excise	13.1	16.3
Custom duty	1.2	0.4
Royalties	2.1	2.8
Income tax	1.6	2.6
Income tax	2.5	2.2
Other tax expenditure	1.8	1.7
Total	84.7	91.4

Also, payments to public revenues of NIS a subsidiary companies in 2012. will amount to over 1 billion in taxes and other obligations.

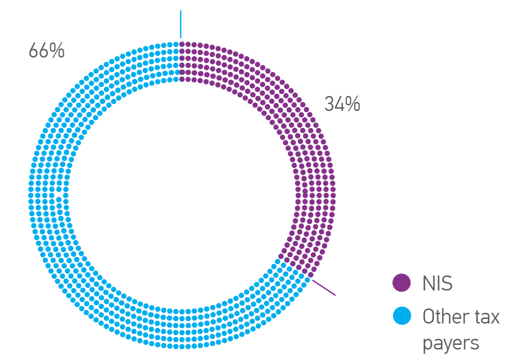
The 2011 and 2012 Budget Law define the excise duty as a significant source of financing of the Republic of Serbia, with 22.85% share in 2011 and 23.16% share in 2012. Around 50% of total excise duty revenue of the Republic of Serbia comes from charging excise duty for petroleum products. After the analysis of liabilities relating to excise duty, NIS had a major share in the planned revenue.

Government revenue-related liabilities	2011	2012
NIS share in the government revenue of the Republic of Serbia, excise duty	38.6%	34.0%
NIS share in the government revenue of the Republic of Serbia, excise duty for petroleum products	82.9%	72.8%

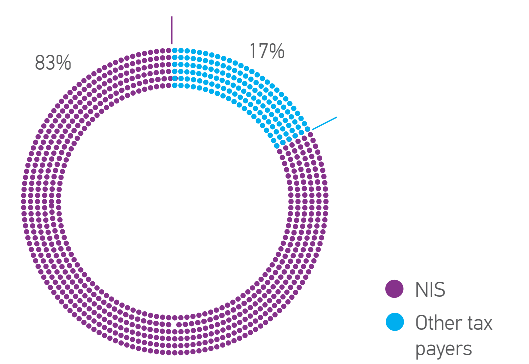
NIS share in the government revenue of the Republic of Serbia, excise duty in 2011



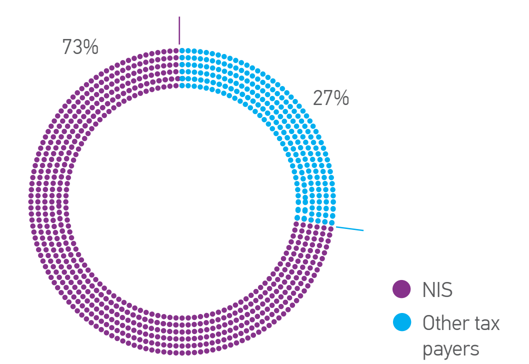
NIS share in the government revenue of the Republic of Serbia, excise duty in 2012



NIS share in the government revenue of the Republic of Serbia, excise duty for petroleum products in 2011



NIS share in the government revenue of the Republic of Serbia, excise duty for petroleum products in 2012



A DEEPER INSIGHT AND A CLEARER IMAGE

Modern equipment for geophysical explorations of oil and gas guarantees high quality and comprehensive survey data. Five new machines - vibrators, a modern system for unifying seismic data and software for the control of quality improve the quality of our research.

DEVICES PROGRAMMED FOR SAFETY

New workover units are equipped with devices for the control of all safety parameters whereas the new generations of engines enable substantial progress in minimising exhaust gases.

TOP DRIVE DRILLING RIG EQUIPMENT FOR TOP EFFICIENCY

Applying safer, more productive and more competitive standards.

STRICT ENVIRONMENTAL STANDARDS AND ENVIRONMENTAL FRIENDLINESS

Modernisation does not jeopardise ecology. Investments into the so called "dry locations" drilling will completely prevent any soil pollution.

Investments

Investment projects

The business plan and mid-term investment program were adopted at the 44th session of the Board of Directors held on 11 November 2011 (hereinafter referred to as: MIP) and the investment plan for CAPEX during the period 2012-2014 was presented.

Based on MIP, the main investment directions in 2012 will include the implementation of the following group of projects - MHC/DHT+H2, environmental projects, refining-related projects, sales projects, oil and gas production-related projects, as well as a certain number of projects in professional units.

In 2012 50.8 billion RSD was spent on investments, which is by 48% more than compared to the same period in 2011.

The most significant investments in oil and gas production in 2012 were made within the following projects:

- Investments in concession rights (RAG (Hungary))
- Geological explorations in the area of Vojvodina
- Development drilling
- GTM projects (GRP, ESP...)
- Infrastructure reconstruction
- Geological explorations in the area of inner Serbia

The most significant capital investments in 2012 related to environmental issues were made in Pančevo refinery within the following projects:

- Construction of the Sulphuric Acid Recovery Unit
- Reconstruction and modernization of RNP wharf at the river Danube
- Reconstruction and modernization of the Tank Car Filling Station
- Reconstruction and modernization of LPG fuel transfusion station
- FCC reconstruction – reduction of emission of solid particles into atmosphere

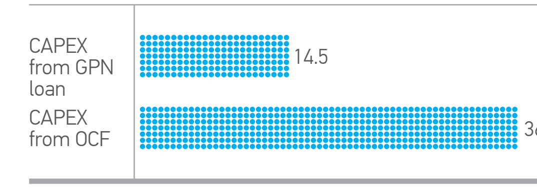
Sources of investment funding	2011	2012
CAPEX under GPN loan	20.49	14.47
Ecology	2.15	2.50
MHC/DHT	18.33	11.97
CAPEX under OCF (NIS funds)**	13.90	36.36
Ecology	0.26	0.74
MHC/DHT	1.24	1.89
Angola	0.19	0.40
Projects with direct economic effects	9.44	26.24**
Projects without direct economic effects	2.71	6.65
PIW	0.06	0.43
Total:	34.39	50.83

* For NIS group (NIS and its subsidiaries founded in 2012)
** Including letters of credit for drilling facility of 9 million USD

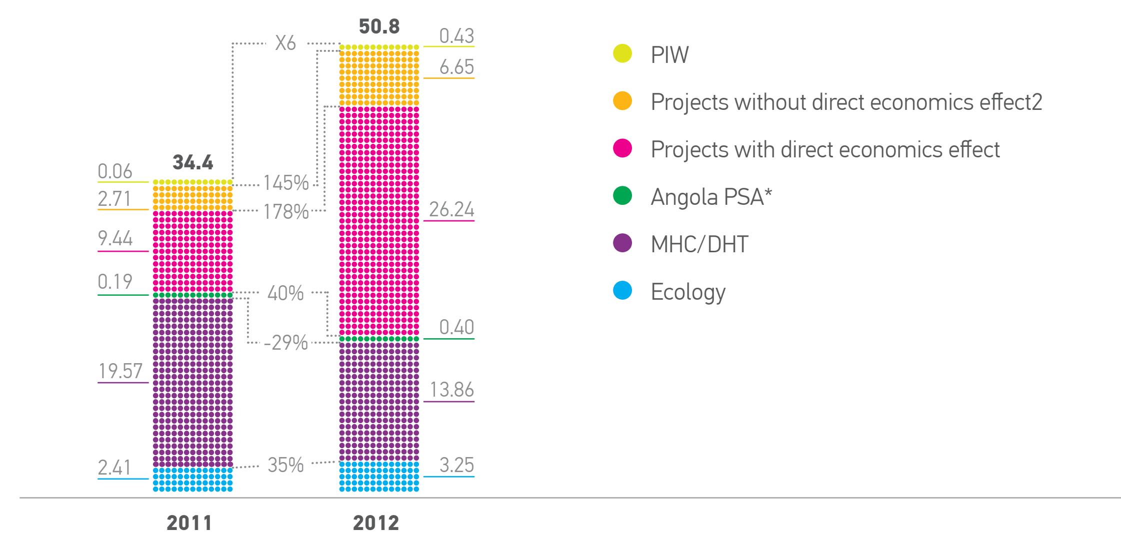
50.8

billions RSD for investments

CAPEX from GPN loan and CAPEX from OCF in 2012, in bln. RSD



CAPEX by investment projects, in bln. RSD **+48%**



*PSA - Production Sharing Agreement

Investments in other significant projects

Apart from investments in capacities for performing business activities, NIS made significant investments in development and improvements of the information system during 2012.

The greatest investments were made in the improvement of server and storage - Cloud infrastructure worth of 149 million RSD, in view of improving the performance of all systems whose operation relies on the existing EVA4400 storage system for the purpose of preventing performance degradation in case of faults on system parts and ensuring minute response.

The SAP solution has been implemented in subsidiaries. The data and reporting among countries and entities in the region have been consolidated and standard business processes and procedures have been implemented for the purpose of achieving operational efficiency, integration with the parent company and compliance with the regulations of countries in which the said solution is implemented. These investments are worth of 73.4 million RSD.

The modernization of Oilfield Services has been initiated by making investments in procurement of equipment for drilling platforms, procurement of a new drilling platform and modernization of car fleet.

The Energy Block has taken over 50% of share in the project for construction of the wind park in Plandište.

Investments in security equipment have also been increased in the amount of 0.15 billion RSD.

Investment by segments	2011	2012
Exploration and production	7	10.1
Refining	22.7	20.4
Sales and distribution	3.4	13.2
Oilfield services	0.5	3.2
Energy	0	3.1
NIS Corporate centre	0.7	0.8

The most significant investments in explorations and production, refining and sales and distribution in 2012

EXPLORATION AND PRODUCTION
10.14 BLN. RSD

Oil and gas production increase
Increase of reserves

- Geological explorations in the area of Vojvodina
- Geological explorations in the area of BiH
- Investments in concession rights
- Well fracturing
- Drilling new development wells
- Production automation
- Installation of electrical submersible pumps

REFINING
20.36 bln RSD

Reconstruction and modernizatio of RNP
Environmental projects

- Construction of MHC/DHT plant and hydrogen plant
- Construction of SARU plant
- Reconstruction of the wharf in Pančevo
- Reconstruction of tank car filling station in Pančevo
- Reconstruction of LPG transfusion station in Pančevo

SALES AND DISTRIBUTION
13.18 bln RSD

Retail Network Development

- Total reconstruction – 9 petrol stations
- LPG installation – 11 devices
- Bought new petrol stations – 1 petrol stations
- PS Rebranding - 231 petrol stations (56 under CAPEX program and 175 under OPEX program)
- Regional development of sales and distribution in Bulgaria and Bosnia and Romania (acquisition of storage facilities in Bulgaria, agreement on buying OMV retail network in Bosnia as well a spurchase of other objects in region)

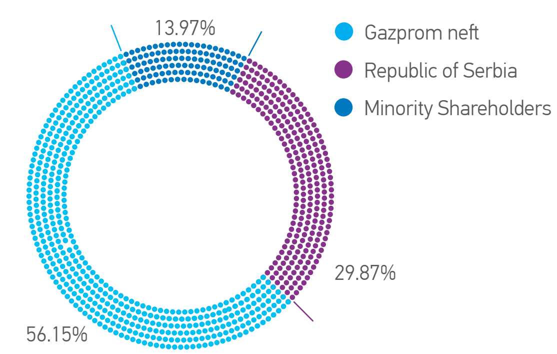
Shares

Changes in equity structure

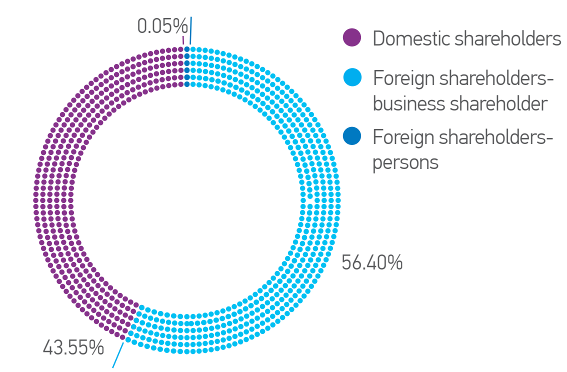
During 2012, there were no significant changes in the structure of shareholder equity. Gazprom Neft, the majority owner, is still in possession of more than 56% of the total of issued shares, the Republic of Serbia owns approximately 30% of shares while the remaining 14% is in the ownership of minority shareholders.

The consolidation of property during 2012 was slower compared to 2011 and the total number of shareholders as at December 31st, 2012 was 2,478,386 out of which the majority included domestic physical entities due to the method of distribution of free shares to employees, ex-employees as well as citizens of the Republic of Serbia. The foreign and domestic entities' share in the Company's shareholder capital as at December 31st, 2012 is shown in picture below.

Equity structure as of December 31st,2012



Domestic and foreign shareholders structure as of December 31st 2012



Shareholders

Custody accounts are dominant in the structure of the first ten shareholders.

Business name (Name and family name)	Number of shares	Interest in the share capital (%)
Gazprom net	91,565,887	56.15458%
Republic of Serbia	48,712,444	29.87387%
UniCredit Bank Srbija a.d. – custody account	622,201	0.38158%
UniCredit Bank Srbija a.d. – custody account	550,933	0.33787%
UniCredit Bank Srbija a.d. – custody account	363,643	0.22301%
Erste Bank a.d. Novi Sad - custody account	323,669	0.19850%
AWL Communications d.o.o. Beograd	155,285	0.09523%
Raiffeisenbank a.d. Beograd – custody account	134,685	0.08260%
Julius Baer Multipartner-Balka	133,686	0.08199%
Vojvodjanska banka a.d. Novi Sad - custody account	128,214	0.07863%
Other shareholders	20,369,753	12.49215%
Total number of shareholders as of 31.12.2012.		2,478,386

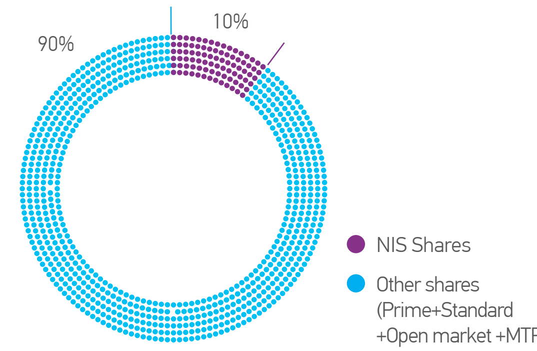
Information about shares	
Total number of ordinary shares:	163,060,400
Nominal value:	500.00 РСД
CFI:	ESVUFR
ISIN:	RSNISHE79420
Ticker	NISHAK9420
Listing	Prime Listing, Belgrade Stock Exchange a.d. Belgrade

The Listing and Quotation Committee of the Belgrade Stock Exchange passed the Decision on inclusion of NIS shares into the Listing A-Prime Market on August 23rd 2010, while the first day of trading shares of NIS was August 31, 2010. From the beginning of trading till December 31, 2012, the following was realized:

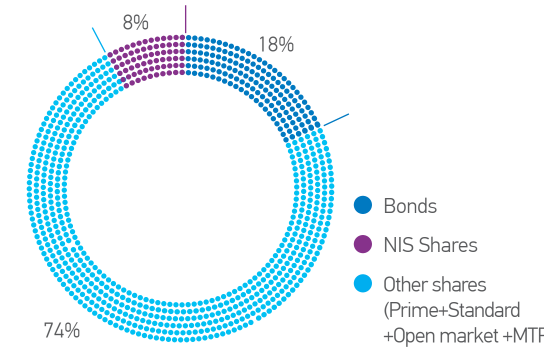
- Turnover of 9,233,439,548.00 RSD;
- Volume of 16,405,281 shares;
- 2,219,994 transactions.

The contribution of NIS shares in the total turnover at the Belgrade Stock Exchange Market was 8% thus accounting for approximately 15% of the market capitalisation of the entire stock exchange market where shares of approximately 1,000 issuers are traded with.

NIS participation in total turnover on Belgrade Stock Exchange in 2012

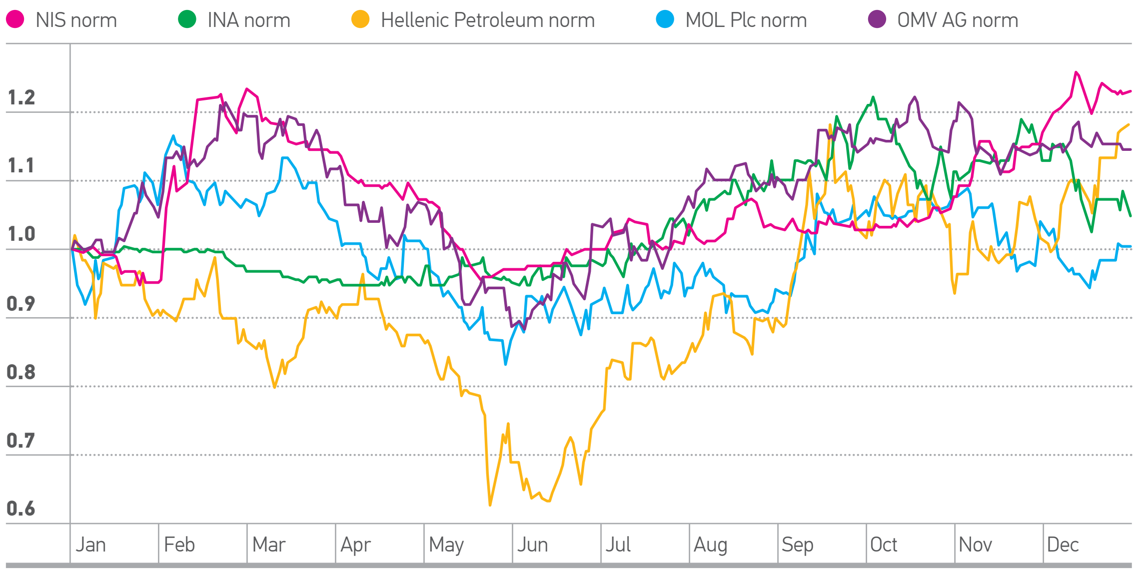


NIS participation in shares turnover on Belgrade Stock Exchange in 2012



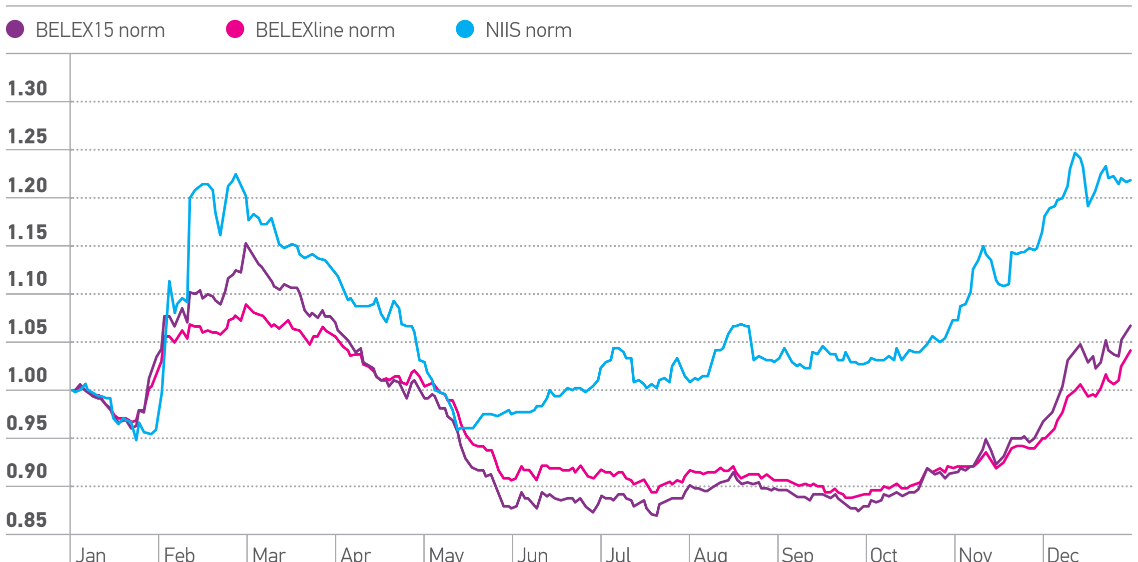
Per share indicators in period from January 1st 2012 to December 31st 2012	
Last price	736.00 РСД
High	760.00 РСД
Low	532.00 РСД
Total turnover	2,004,632,102.00 РСД
Total volume	3,075,178
% Of total number of issued shares	1.89%
% Of total number of issued shares owned by minority shareholders	13.5%
Total number of transactions	218,349
Market capitalization as of December, 31st 2012	120,012,454,400.00 РСД
EPS for period January 1st – December 31st 2012	303.3 РСД
P/E ratio	2.43
Book value as of December, 31st 2012	840.2 РСД
P/BV	0.88

Price trends of NIS shares and price trends of the peer companies from the region*



* In order to facilitate comparability of trends of NIS shares price and indices of Belgrade, London and Moscow Stock exchange all values were normalized and brought down to same initial value of 1 (or 100%)

Price trends NIS shares and trends of the Belgrade Stock Exchange indices*



* In order to facilitate comparability of trends of NIS shares price and indices of Belgrade, London and Moscow Stock exchange all values were normalized and brought down to same initial value of 1 (or 100%)

Activities of the Investor Relations Department

During 2012, NIS was dedicated to accomplishing its goal of ensuring a high level of transparency and openness in business operations and providing timely, accurate and complete information to NIS shareholders and investors. In order to achieve this goal, NIS provided the shareholders and investors with additional information in addition to financial statements prepared in line with legal regulations and published before legally prescribed deadlines as well as enabled a direct communication with the Company's management. After each quarter, Company business results were presented by the management and in press conferences. Also, upon investors' requests, one-on-one meetings were organized while NIS also took part in investor conferences.

In July 2012, a new website for investors and shareholders was launched providing an easy, quick and up-to-date access to all relevant information.

NIS Investor Day was organized for the first time in the Pančevo Oil Refinery where the steps NIS had made towards the modernization of refinery processing were presented as well as business plans for the following three years, which would fully strengthen the Company's leading position in the oil business in the region of Southeast Europe. After the successful presentation and open dialogue between NIS management representatives and guests, all the participants visited the refinery where they could see the newly-built plants of the MHC/DHT complex and a number of other facilities of the refinery infrastructure.

On the 11th International Conference of the Belgrade Stock Exchange Market named "UPGRADE IN BELGRADE 2012", NIS was awarded with the title of the best domestic company in terms of investor relations for the second consecutive year. The Awarding Committee assessed the activities related to investor relations of nominated companies according to 50 criteria classified in three categories. The final rank list, based on which the best company was declared, was set up based on data on compliance with reporting obligations, transparency of information at the corporate website as well as based on a questionnaire conducted by the Belgrade Stock Exchange Market among investors. The Committee's explanation stated that NIS had extended boundaries in the area of investor relations again in 2012 by its continuous work and enhancing these relations.

Dividends

If the Company made profit, it is distributed in accordance with the Law, Articles of Association and in compliance with the provisions of Article 8.1.3 of The Agreement of Sale and Purchase of Shares of Naftna Industrija Srbije j.s.c. Novi Sad. In the case of a Decision on the approval of the payment of dividends is made by shareholders' Assembly, the amount of dividend will be distributed and the day on which the list of shareholders who are entitled to the dividend is established, are also defined in the Decision.

The Companies Law prescribes that the profit from the adopted financial reports be first allocated to covering losses from previous years. In 2012 no dividends for 2011 were paid out due to accumulated loss from previous years.

NIS j.s.c. Novi Sad Dividend Policy was adopted at the IV Regular Shareholders' Assembly held on 25 June 2012 NIS long term dividend policy is to declare dividends totalling at least 15 per cent of net profit. NIS dividend policy is based on balanced approach that takes into account the need to retain earnings for the purpose of financing future investments as well as the return on equity and dividend pay-out ratio.

When proposing dividends, the Company's Board of Directors takes into consideration a range of factors, including the financial position, investment plans for the upcoming period, loan repayment schedules, macroeconomic environment and legal requirements.

Any of these factors alone or combined, if significant enough, may influence the proposed dividend payment if any. Dividends will be declared annually and in Serbian Dinar (RSD).

Information about dividends paid out	
2008	Company recorded loss and no dividend was paid out.
2009	Company recorded loss and no dividend was paid out.
2010	Company reported net profit. On July 27th 2011 Board of Directors reached the Decision on allocation of profit and/or coverage of accumulated losses for 2010 and according to decision entire net profit was used to cover accumulated losses and therefore no dividend was paid out.
2011	Company reported net profit. On July 25th 2012 Shareholders Assembly reached the Decision on allocation of profit and/or coverage of accumulated losses for 2011 and according to decision entire net profit was used to cover accumulated losses and therefore no dividend was paid out.
2012	Company reported net profit. Decision on allocation of profit will be discussed at next regular session of shareholders' Assembly.

* In accordance with NIS' Articles of Association in force at the time Decision on the allocation of profit and/or coverage of accumulated losses was in the competence of the Board of Directors

Rating

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

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

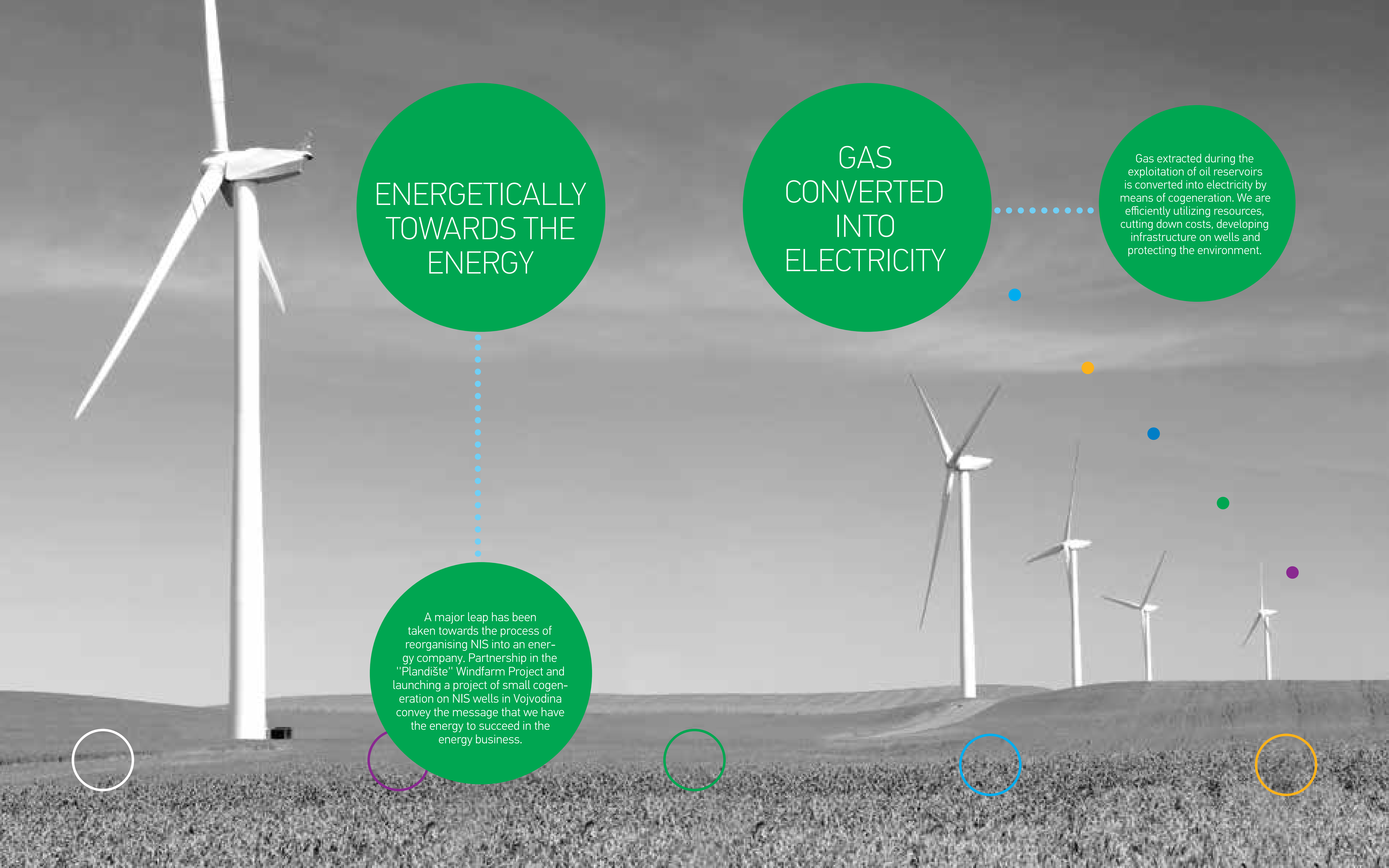
In Serbia the official Solvency Report data base is maintained as of January 1, 2010 with the Register of Financial Statements and Solvency Information of Legal Entities and Entrepreneurs of the Business Registers Agency of the Republic of Serbia (www.apr.gov.rs). The Business Registers Agency also gives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

Rating assigned by	Member of Group	Previous rating assessment		Rating assessment	
		Rating assessment	Date	Rating assessment	Date
Solvent Rating d.o.o. Belgrade Serbia	*Bisnode AB, Stockholm, Sweden*	A1	15.12.2011	A1	28.01.2013
Rating d.o.o. Belgrade Serbia	*Dun&Breadstreet Short Hills New Jersey, USA*	5A3 Fair Up	27.07.2011	5A2 Good Up	02.07.2012
Business Registry Agency Republic of Serbia	-	CC good solvency	13.02.2012	CC good solvency	28.01.2013

The solvency assessment firm Rating d.o.o. Belgrade applies the methodology and tools of the company Dun&Bradstreet. The assessment assigned to NIS a.d. Novi Sad by Rating d.o.o. comprises financial strength indicators and risk factors. The financial strength indicator of NIS a.d. is the highest - 5A, while the risk factor value is 2on the scale ranging from 1 to 4 (where 1 is the best result) which is an improvement comparing to last year.

Solvent Rating d.o.o. Belgrade uses the methodology applied by the Swedish Company Bisnode AB. According to the assessment of the Solvent Rating d.o.o., NIS a.d. Novi Sad business was excellent with low probability of failures in the future. The Company did not have serious liquidity issues and at the same time it generated high yields.

The scoring assigned by the Business Registers Agency encompasses the period between 2007 – 2011 and is also improved compared to last year.



ENERGETICALLY TOWARDS THE ENERGY

A major leap has been taken towards the process of reorganising NIS into an energy company. Partnership in the "Plandište" Windfarm Project and launching a project of small cogeneration on NIS wells in Vojvodina convey the message that we have the energy to succeed in the energy business.

GAS CONVERTED INTO ELECTRICITY

Gas extracted during the exploitation of oil reservoirs is converted into electricity by means of cogeneration. We are efficiently utilizing resources, cutting down costs, developing infrastructure on wells and protecting the environment.

Subsidiary Companies and Transactions with Affiliates

Information on subsidiaries

Business name	% of interest in the capital of the subsidiary held by the parent company
Joint-Stock Company for Hotel Management and Tourism O ZONE Belgrade	100.00%
Naftagas – naftni servisi d.o.o. Novi Sad	100.00%
Naftagas – tehnicki servisi d.o.o. Zrenjanin	100.00%
NTC NIS – Naftagas d.o.o. Novi Sad	100.00%
Naftagas-Transport d.o.o. Novi Sad	100.00%
NIS Oversiz o.o.o. Moscow, Russian Federation	100.00%
„NIS Petrol“ EOOD, Sofia, Bulgaria	100.00%
„NIS Petrol“ S.R.L., Bucharest, Romania	100.00%
„NIS Petrol“ d.o.o. Bosnia and Herzegovina	100.00%
Pannon Naftagas Kft, Budapest, Hungary	100.00%
Jadran–naftagas d.o.o., Banja Luka, Republic of Srpska, B&H	66.00%
NIS– Svetlost d.o.o. Bujanovac	51.32%
JUBOS d.o.o, Bor	51.00%
LLC „SP Ranis“, Chernoglavka, Russian Federation	51.00%

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

Joint-Stock Company for Hotel Management and Tourism O ZONE a.d, Belgrade				
General information	Company ID	20094630		
	Tax ID	104104443		
	Head office	3-5 Marsala Birjuzova str., Belgrade, Serbia		
	Date of registration	31.10.2005		
	Web site	www.ozone-hotels.com		
	e-mail	office@ozone-hotels.com		
	Activity	5510 – Hotels and similar accommodation		
	% of interest in the capital of the subsidiary company held by the parent company	100%		
	% of participation of the parent company in decision making	100%		
	Share capital	40,402,170.00 EUR		
	Management	Dmitry Omelcenko, CEO Dmitry Fomenko, chairman of BoD Sergey Fominikh, member of BoD		
Financial indicators (in ,000 RSD)		2010	2011	2012.
Total assets		5.072.036	4.811.354	7,484,466
Noncurrent assets		5,032,987	4,699,328	4,774,891
Current assets		39,049	112,026	2,709,575
Total equity		2,271,521	2,361,596	2,369,902
Net profit/loss		(150,262)	90,076	468,229
Sales		254,475	232,546	89,441

NAFTAGAS – NAFTNI SERVISI d.o.o. Novi Sad

General information	Company ID	20801786
	Tax ID	107435822
	Head office	9 Put Sajskaskog odreda str., Novi Sad, Serbia
	Date of registration	8.2.2012
	Web site	/
	e-mail	NGS.Naftniservisi@nis.eu
	Activity	0910 - Services related to exploration and exploitation of oil and gas
	% of interest in the capital of the subsidiary company held by the parent company	100%
	% of participation of the parent company in decision making	100%
	Share capital	Registered and paid-in monetary capital 52.581,30 RSD Registered and brought-in non-monetary capital 3,579,930,000.00 RSD
	Management	Goran Stojkovski, CEO

Financial indicators (in ,000 RSD)	2010	2011	2012
Total assets	-	-	5,931,904
Noncurrent assets	-	-	3,834,602
Current assets	-	-	2,097,303
Total equity	-	-	3,208,861
Net profit/loss	-	-	(371,122)
Sales	-	-	3,569,455

NAFTAGAS – TEHNICKI SERVISI d.o.o. Zrenjanin

General information	Company ID	20801794
	Tax ID	107435919
	Head office	26 Beogradska str., Zrenjanin, Serbia
	Date of registration	8.2.2012
	Web site:	/
	e-mail:	NGS.Tehnickiservisi@nis.eu
	Activity:	3312 - repair of machinery
	% of interest in the capital of the subsidiary company held by the parent company	100%
	% of participation of the parent company in decision making	100%
	Share capital	Registered and paid-in monetary capital 52.581,30 RSD Brought-in non-monetary capital 9.973.788,39 EUR Brought-in non-monetary capital 983.300.055,63 RSD
	Management	Oskar Toth, CEO

Financial indicators (in ,000 RSD)	2010	2011	2012
Total assets	-	-	1,716,034
Noncurrent assets	-	-	789,225
Current assets	-	-	926,809
Total equity	-	-	670,456
Net profit/loss	-	-	(347,098)
Sales	-	-	1,476,389

NTC NIS – NAFTAGAS d.o.o. Novi Sad

General information	Company ID	20802421
	Tax ID	107438656
	Head office	12, Narodnog fronta str., Novi Sad, Serbia
	Date of registration	10.2.2012
	Web site:	/
	e-mail:	ngs.ntc@nis.eu
	Activity:	0910 - Services related to exploration and exploitation of oil and gas
	% of interest in the capital of the subsidiary company held by the parent company	100%
	% of participation of the parent company in decision making	100%
	Share capital	Registered and paid-in monetary capital 52,883.70 RSD Registered and brought-in non-monetary capital 321.446.999,01 RSD
	Management	Alexandr Kulagin, CEO

Financial indicators (in ,000 RSD)	2010	2011	2012
Total assets	-	-	1,001,479
Noncurrent assets	-	-	605,519
Current assets	-	-	395,960
Total equity	-	-	244,847
Net profit/loss	-	-	(76,653)
Sales	-	-	707,226

Naftagas Transport d.o.o. Zrenjanin

General information	Company ID	20829923
	Tax ID	107579980
	Head office	12, Narodnog fronta str., Novi Sad, Serbia
	Date of registration	22.5.2012
	Web site:	/
	e-mail:	NGS.Transport@nis.eu
	Activity:	4941 - Road transport of cargo
	% of interest in the capital of the subsidiary company held by the parent company	100%
	% of participation of the parent company in decision making	100%
	Share capital	Registered and paid-in monetary capital 55,369.00 RSD Registered and brought-in non-monetary capital 327,695,662.79 RSD
	Management	Dragan Radovic, CEO

Financial indicators (in ,000 RSD)	2010	2011	2012
Total assets	-	-	1,114,163
Noncurrent assets	-	-	518,911
Current assets	-	-	593,970
Total equity	-	-	252,398
Net profit/loss	-	-	(75,353)
Sales	-	-	1,055,067

LLC “NIS OVERSIZ” Moscow, Russian Federation

General information	Company ID	Main State Registration Number 5067746792306		
	Tax ID	7702619027		
	Head office	Bolshoy galovin pereulok 12, floor 2, Moscow, RF (until 14.1.2013) Nevsky Prospect 95, Saint Petersburg, RF (from 14.1.2013.)		
	Founded	25.09.2006		
	Web site:	Extraction of crude oil and gas		
	e-mail:	/		
	Activity:	/		
	% of interest in the capital of the subsidiary company held by the parent company	100%		
	% of participation of the parent company in decision making	100%		
	Share capital	550.000 RUB		
	Management	Dmitry Fomenko, CEO		

Financial indicators (in ,000 RSD)	Dmitry Fomenko, CEO	2011	2012
Total assets	2,783	7,409	7,206
Noncurrent assets	-	-	-
Current assets	2,783	7,409	7,206
Total equity	1,748	4,536	1,590
Net profit/loss	-	6,324	(493)
Sales	-	-	38,827

NIS PETROL EOOD. Sofia, Bulgaria

General information	Company ID	201703950
	Tax ID	
	Head office	51a Bul. Nikola Vapcarov, IV floor, Lozanec district, Sofia Bulgaria
	Founded	213.09.2011
	Web site:	/
	e-mail:	/
	Activity:	Trade in oil, liquefied petroleum gas (LPG) and oil products (wholesale and retail), import-export operations
	% of interest in the capital of the subsidiary company held by the parent company	100%
	% of participation of the parent company in decision making	100%
	Share capital	50.000 BGN
	Management	Srdjan Bosnjakovic, Director (until 4.1.2013) Jasna Radovanović-Utornik, Director Jelena Pavlović, Director Valery Pavlovich Gruzdov, Director

Financial indicators (in ,000 RSD)	2010	2011	2012
Total assets	-	1,631,223	6,798,880
Noncurrent assets	-	1,303,997	5,998,573
Current assets	-	327,226	800,307
Total equity	-	(49,068)	(641,686)
Net profit/loss	-	(51,743)	(585,495)
Sales	-	-	640,629

NIS PETROL S.R.L., Bucharest, Romania

General information	Company ID	29111546
	Tax ID	RO29111546
	Head office	Barbu Vacarescu 241a., 5th and 6th floor, District 2, Bucharest, Romania
	Founded	16.09.2011
	Web site:	/
	e-mail:	/
	Activity:	4730- Retail sale of motor fuel in specialized stores
	% of interest in the capital of the subsidiary company held by the parent company	100%
	% of participation of the parent company in decision making	100%
	Share capital	41,000 RON
	Management	Corbu Mihai, Director Zeljko Kirin, Director

Financial indicators (in ,000 RSD)	2010	2011	2012
Total assets	-	1,027	1,396,339
Noncurrent assets	-	-	1,186,501
Current assets	-	1,027	209,838
Total equity	-	1,027	(443,110)
Net profit/loss	-	-	(440,797)
Sales	-	-	2,179

NIS PETROL d.o.o. Banja Luka, Bosnia and Herzegovina

General information	Company ID	11081932
	Tax ID	4403359860007
	Head office	Mladena Stojanovica 29, Banja Luka, Republic of Srpska, Bosnia and Herzegovina
	Founded	13.09.2011
	Web site:	/
	e-mail:	/
	Activity:	46.71 - wholesale of solid, liquid and gaseous fuels and related products
	% of interest in the capital of the subsidiary company held by the parent company	100%
	% of participation of the parent company in decision making	100%
	Share capital	20,000 BAM
	Management	Alexey Sabasov, Director

Financial indicators (in ,000 RSD)	2010	2011	2012
Total assets	-	273,553	4,571,738
Noncurrent assets	-	104.641	4,414,467
Current assets	-	168,912	157,271
Total equity	-	(271)	(221,932)
Net profit/loss	-	(1,307)	(220,941)
Sales	-	-	4,590

Pannon Naftagas Kft, Budapest, Hungary

General information	Company ID	01-09-969323
	Tax ID	23516946-2-43
	Head office	1093 Budapest, Hungary, Kozraktar u., 30-32
	Founded	03.10.2011
	Web site:	/
	e-mail:	hun.pannon-naftagas@nis.eu
	Activity:	0610'08 Extraction of crude oil
	% of interest in the capital of the subsidiary company held by the parent company	100%
	% of participation of the parent company in decision making	100%
	Share capital	500.000 HUF
	Management	Slavko Pecanac, CEO

Financial indicators (in ,000 RSD)	2010	2011	2012
Total assets	-	168	2.010
Noncurrent assets	-	-	-
Current assets	-	168	2.010
Total equity	-	168	(7.091)
Net profit/loss	-	-	(7.011)
Sales	-	-	-

Jadran-Naftagas d.o.o. Banja Luka

General information	Company ID	11072046
	Tax ID	4403248440009
	Head office	7 Ivana Franje Jukica str., Banja Luka, Republic of Srpska, B&H
	Founded	23.12.2010
	Web site:	/
	e-mail:	/
	Activity:	06.10 crude oil extraction
	% of interest in the capital of the subsidiary company held by the parent company	66%
	% of participation of the parent company in decision making	66%
	Share capital	2,000 BAM
	Management	Predrag Radanovic, CEO

Financial indicators (in ,000 RSD)	2010	2011	2012
Total assets	108	542,741	1,175,947
Noncurrent assets	-	265,962	974,310
Current assets	108	276,779	201,637
Total equity	108	(24,480)	(89,487)
Net profit/loss	-	(23,958)	(62,469)
Sales	-	-	-

NIS-SVETLOST BUJANOVAC

General information	Company ID	20125535
	Tax ID	104234551
	Head office	nn Industijska zona, Bujanovac, Serbia
	Founded	19.1.2006
	Web site:	/
	e-mail:	/
	Activity:	4671 – wholesale of solid, liquid and gaseous fuels and related products
	% of interest in the capital of the subsidiary company held by the parent company	51.32%
	% of participation of the parent company in decision making	51.32%
	Share capital	Registered and paid-in monetary capital 43,587.90 RSD Registered non-monetary capital 546,080.00 EUR
	Management	Davor Jančić, Director

Financial indicators (in ,000 RSD)	2010	2011	2012
Total assets	82,707	137,628	96,411
Noncurrent assets	42,215	40,794	39,456
Current assets	40,492	96,834	56,995
Total equity	54,526	56,054	59,147
Net profit/loss	974	1,528	3,093
Sales	572,557	547,105	910,894

JUBOS d.o.o., Bor

General information	Company ID	20133597
	Tax ID	104288627
	Head office	29 Djordja Vajferta str., Bor, Serbia
	Founded	16.1.2006
	Web site:	/
	e-mail:	/
	Activity:	2444 – Copper production
	% of interest in the capital of the subsidiary company held by the parent company	51%
	% of participation of the parent company in decision making	51%
	Share capital	Registered and paid-in monetary capital 1.743.704,00 RSD
	Management	Snezana Djukic, chairman BOD Katarina Vukmirovic, member BOD Olivera Basta, member BOD Dragan Bojovic, member BOD Borivoje Stojadinovic, member BOD

Financial indicators (in ,000 RSD)	2010	2011	2012
Total assets	1,744	1,744	1,744
Noncurrent assets	-	-	-
Current assets	1,744	1,744	1,744
Total equity	1,744	1,744	1,744
Net profit/loss	-	-	-
Sales	-	-	-

LLC «Joint Venture RANIS», Moscow Region, Chernogolovka, Russian Federation				
General information	Company ID	Main State Registration Number 1045006116198		
	Tax ID	INN – identification number of the taxpayer 5031030808		
	Head office	Institutski prospect 14, Moscow district, Russian Federation		
	Founded	08.04.1997		
	Web site:	/		
	e-mail:	/		
	Activity:	Scientific research and development in the field of natural and technical sciences		
	% of interest in the capital of the subsidiary company held by the parent company	51%		
	% of participation of the parent company in decision making	51%		
	Share capital	76,000 RUB		
	Management	Bozidar Djukic, CEO (until 20.09.2012) Maxim Voiscev, CEO (from 20.09.2012)		
Financial indicators (in ,000 RSD)		2010	2011	2012
Total assets		34.395	841	842
Noncurrent assets		-	-	-
Current assets		34,395	841	842
Total equity		4,297	(25,976)	(25,976)
Net profit/loss		-	(29,805)	-
Sales		-	-	-

Transactions with Affiliates

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company.

The Company was engaged in business transactions with its related entities during 2012 and 2011. The most significant transactions with related parties in the afore-mentioned periods related to supply/delivery of crude oil, geophysical research and interpretation services.

Activities in which the personal interest is involved are subject to the approval of the Board of Directors.

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

Human Resources

Human resources management policy

The purpose of the policy

People represent the most important resource of our Company. By realization of their personal and professional potential, the employees contribute to realization of the organizational objectives. Therefore, highly qualified and top-quality employees are one of the most significant priorities of NIS. The purpose of this policy is establishment of human resources management principle and facilitating of understanding of the HR role (HR – Human Resource) in NIS.

The human resources management policy, together with the other related internal documents/enactments, establishes the rules, methods and conditions of employment of personnel, work conditions, earnings of employees, and training and development of employees. The human resources management policy defines the standards of personnel management which are implemented by all managers within the Company. Furthermore, this policy sets the rules which should be obeyed by all the employees.

Goal

Human resources management implies all activities which are related to employment of new personnel as well as the training and development, rewarding, motivation, monitoring/evaluation and cessation of the employees' employment. The goal is to successfully manage the human capital, to attract, to win, develop, keep and reward the right people who shall fulfil the set tasks and follow the Company's strategy.

NIS wishes to be recognized as the "employer of the right choice" in a real/profit sector by, among the other things, being a successful company in the field of human resources management. NIS is dedicated to development of full potential of all employees and creation of the climate in which equal opportunities are realistic both in the position towards, and the practice of employment itself.

NIS management is dedicated to the principle of equality in employment, not only in the way prescribed by the law, but also pursuant to the principles of the Company's mission and vision, i.e. in accordance with the corporate values, advocated by the Company.

Equal opportunities

NIS is an employer of equal opportunities, which in practice means that not even one candidate or an employee is discriminated in relation to gender, age, marital status, invalidity, religion, race, ethnic origin, nationality, etc. As an employer, NIS tends to use the talent and resources of all employees to its full, as well as to ensure that no candidate is favoured when compared to the other one.

General statement on personnel behaviour

The Company's reputation and status within the community are, first of all, formed upon the appearance, behaviour, value and ethical standards of its management and the employees. NIS recognizes the human resources management concept as a very important aspect of modern business and strives to gain good reputation in this domain as well. Therefore, the Company expects the highest standards of professional behaviour at all times from all of its employees.

Responsibilities and HR organization

HR is a centralized unit, responsible for the human resources management in accordance with all NIS standards, i.e. the mission and the strategy of the Company. A main role of the HR is coordination of the employment process, planning and conduction of trainings, initiative and development of employees' development programs, rewarding and sanctioning, motivation and labor payment, monitoring/evaluation of employees, and realization of conclusion and termination of the employment.

Scope of work of the HR sections includes:

- Recruitment, selection, reception and orientation of newly employed;
- Exercise of labour rights and personnel (employees) administration;
- Training and development of employees;
- Organization of the professional exams;
- Organization and implementation of scholarships for children of the killed and the deceased workers;

SUCCESSFUL PERFORMANCE BRINGS BONUSES

The new motivation system enables employees to get quarterly and annual bonuses, as well as the bonuses for special achievements and participation in investment projects.

PERFECTIONISM THROUGH TRAINING

Continual professional development of employees is our imperative which we are achieving through specific training programs, by acquiring new skills and by improving the Russian and English languages.

SUPPORTING THE NEW GENERATION OF EXPERTS

Development of the science potential, providing scholarships to talented students, lectures given by the Company experts at faculties and exchange of the most advanced knowledge are only a few of the best international practicies whic we are applying by our programs "The Science and Young Talents“, Cooperation with Universities, Internship and NIS CHANCE .

- Aid in personnel planning;
- Aid in referral of individuals in other organizational units;
- Assessment of successfulness of workers and managers;
- Compensations,benefits and labor payment;
- Protection of material and social position of employees; Coordination of processes of initiation and cessation of engagement of employees through service organizations.

HR ensures that the rules, procedures and processes are consistently implemented at all times by all of those who are included in human resources management.

Like any successful company, NIS views its employees as the most important and the most valuable resource. Investing in human resources in NIS is the basis and a prerequisite for achieving efficiency in operations as well as the status of the most respectable companies in the Balkans in the production and sale of oil and oil products.

8.543

number of employees in NIS and its subsidiaries

Number of employees' trend

Total number of employees on 31.12.2012 was 6,106(in relation to 9,076 of employees at the end of 2011). Number of employees from servicing organizations as of December 31st 2012 is 2,377 (2011: 1,611), wich makes total of 8,433 employees of NIS.

In addition there are 8 more employees who work in representative offices.

In second quarter of 2012 newly formed subsidiaries (Naftagas Naftni Servisi, Naftagas Tehnicki servisi, Naftagas Transport and NTC NIS Naftagas) started their operations. These subsidiaries were formed in order to boost efficiency, modern operations and activities, lower the levels of management and expand to new markets. Part of NIS' employees moved to these subsidiaries.

In subsidiaries in Serbia, which are formed in 2012, there were 2,069 employees as of December 31st 2012, and 797 employees from servicing organizations which makes total of 2,866 employees.

In subsidiaries formed in the region in 2011 and 2012 there are 338 employees.

Besides this, in other subsidiaries that are included in consolidated financial statements there are 32 employees.

Organizational part	Directly	Servicing organizations	Total
NIS a.d. Novi Sad	6,106	2,337	8,443
Upstream Block	872	86	958
Refining Block	1,098	28	1,126
Sales and Distribution Block	2,373	2,010	4,383
Oilfield Services Block	83	8	91
Energy Block	205	2	207
Corporate centre	1,475	203	1,678
Representative offices	30	0	30
Subsidiaries in Serbia	2,069	797	2,866
Naftagas – Naftni servisi	783	593	1,376
Naftagas – Tehnicki servisi	703	118	821
Naftagas – Transport	268	73	341
NTC NIS Naftagas	315	13	328
Subsidiaries abroad	338	4	342
NIS Petrol Bulgaria	198	2*	200
NIS Petrol Romania	42	2	44
NIS Petrol Bosnia and Herzegovina	90	0	90
Jadran Naftagas Bosnia and Herzegovina	8	0	8
Panon Naftagas Hungary	0	0	0

* Without one employee at Service Contract

Qualification structure of NIS' employees as of December 31st 2012

Organizational part	Dr.Sc.	M.Sc.	BSc	ABSc	HS	ES	Highly skilled workers	Skilled workers	Semi-skilled workers	Un-skilled	Total:
NIS Corporate centre	3	97	770	128	344	7	58	62	1	5	1,475
Block Upstream	1	18	221	35	250	4	11	324	3	5	872
Block Oilfield services		1	43	10	18		2	9			83
Block Refining		18	252	66	656		52	54			1,098
Block Sales and Distribution		26	455	243	877	19	386	360	6	1	2,373
Block Energy		7	53	7	107		21	10			205
Total:	4	167	1,794	489	2252	30	530	819	10	11	6,106

INTERNATIONAL CAREER THROUGH ROTATIONS

Through the rotation programs NIS employees have an opportunity to expand their careers in Russia, particularly in Gazprom. However in the near future the same opportunity will be provided for the most important positions in other countries, as well.

THE BEST COLLECTIVE AGREEMENT IN THE REGION

COMPETENCE LEADS TO THE TOP

Each of the programs is dedicated to the development of comptencies of certain employee groups, with the aim to enable them to fulfill long term ambitious goals of the Company. Employees with high leadership potential are getting prepared for higher positions through a structured program named «Candidate Pool».

Age structure of NIS' employees as of December 31st 2012							
Organizational part	Below 20	20-30	30-40	40-50	50-60	above 60	Total:
NIS Corporate centre	-	206	453	445	346	25	1,475
Block Upstream	3	80	228	335	218	8	872
Block Oilfield services	-	15	18	30	19	1	83
Block Refining	4	216	306	365	202	5	1,098
Block Sales and Distribution	-	215	765	929	455	9	2,373
Block Energy	-	23	69	64	48	1	205
Total:	7	755	1,839	2,168	1,288	49	6106

Grounds for termination of employment

During 2012, totally 2,054 employees left the Company, 105 employees of whom were retired, 1, 697 left the Company upon consensual termination of employment, and for 252 employees, the basis for termination of employment was of some other nature (cancellation of the agreement on employment, termination of employment upon the employee's request, death of an employee, etc.).

	2011	2012*
Retirement	95	105
Consensual termination of employment	1,090	1,697
Other	116	252
Total:	1,301	2,054

* Data includes number of employees from NIS as well as from subsidiaries formed in Serbia in 2012

Social responsibility

NIS employees are provided with a high level of social protection which is regulated by the Collective Agreement and the Social Program.

The Collective Agreement and the Social Program regulate some specific benefits of NIS employees:

- Special protection for work related disability in case of professional diseases, as well as preventive recovery for employees who work on positions with special working conditions and jobs in which insurance coverage is calculated at an accelerated rate, in order to prevent occupational disease and disability
- The right to solidarity aid
- Compensation for damage suffered by the employee due to the destruction or damage of residential property caused by natural disasters and other emergency situations
- Scholarships in the formal education for children of deceased employees
- The collective supplementary health insurance of employees in the event of serious illness and surgery
- Addressing the housing needs of employees by awarding subsidies for housing loans

Sports' activities team

At the beginning of 2012, NIS j.s.c. as a socially responsible company, initiated a project in order to increase the efficiency and productivity through culture which evaluates, supports and improves health and welfare of employees. The project is in accordance with the Policy of healthy way of living of employees, whose basic elements are: health preventive activities, recreational activities, competitive activities and cooperation with the sports' institutions.

Preventive health activities for the purpose of improvement of the employees' health condition

- 5000 brochures "NIS vision of healthy life" were printed and distributed
- More than 30 texts were published in the printed and the electronic, both internal and external media, with topics which support the slogan "I live healthy"
- Activities for the purpose of education of employees on healthy way of living (a seminar on healthy life, degustation of healthy food, medical control tests, group picnics in nature)

Recreational activities for the purpose of creation of better team cooperation and positive work environment

- Recreational activities are provided in 8 cities with more than 80% of employees living in them
- The activities are realized with more than 30 contracts with various service providers
- Recreational activities are realized in more than 10 sports
- For the first nine months, nearly 20% of employees got involved

Sports competitions were organized for the purpose of creation of a team spirit among the employees and the promotion of the Company values

- At four international competitions in Russia and Serbia, more than 300 employees participated with significant results
- At three internal competitions of the organizational units, nearly 800 employees were engaged
- NIS sport teams participated in 2 local swimming competitions, skiing cup, handball tournament and the trade union sport competition
- NIS employees were also engaged in external business leagues in several cities throughout Serbia in the following sports: football, basketball, sport shooting, bowling and table tennis

Improvement of the image of a socially responsible company through cooperation with the sports' institutions

- Cooperation with the Provincial institution for sports and sports medicine through various educational activities
- Cooperation with the Basketball Club Partizan, Football Club Crvena Zvezda and Volleyball Club Vojvodina for the purpose of promotion of sports
- Cooperation with corporate clubs for the purpose of education of employees through various activities and promotion of sports

Safety and health of employees

The nature of business activities in oil industry requires a high degree of occupational health and safety protection and represents one of the priorities and prerequisites for the Company's success. For realization of as efficient as possible and top-quality protection of employees at work, the Board for health and safety of employees was formed within NIS, and the appropriate internal acts were adopted, which enabled easier implementation of the Collective Agreement in this area of business activities. Continual elevation of the safety level and regular monitoring of health of employees is, among other, enabled through systematic examinations and constant health control of workers working at activities under the special working conditions.

Personnel selection

Personnel selection is a process which, together with the change of management and the ownership structure of the Company, is established upon completely new conceptual bases, with the primary goal to be in correlation with the new mission and strategy of NIS, and to contribute their realization. With significant investments for realization of the highly set objectives, NIS also needs highly qualified personnel, which has sufficient knowledge and experience in special technologies regarding production, refining and sales of oil and oil derivatives. Due to this, the personnel selection is a process which is constantly revised and improved. New rules of personnel selection are implemented for all positions within the Company, from the managing personnel to the positions far lower at the hierarchy ladder. A special attention is given to the fact that the quality of young specialists, coming to NIS, should be at the highest possible level. One of the key projects of provision of young high-quality experts is the project of cooperation with the Universities.

„NIS chance 2012"

Within its corporate social responsibility, in 2012, by realization of its own program "NIS chance 2012", NIS had continued the tradition of young people employment programs, initiated in 2010, whose scope is getting greater in time. The purpose of the program is employment of young people graduating from the University or a secondary vocational school, without any work experience in a given profession, who shall, by their knowledge, energy and ideas, as well as by their readiness for constant learning and improvement, strengthen our Company, who shall give them the opportunity to gain the first work experiences, to improve themselves and acquire knowledge from older and more experienced colleagues.

During 2012, the program was realized in two phases during which 323 apprentices had signed the employment agreement with NIS j.s.c. Our partners in co-financing of the project were the Autonomous Province of Vojvodina and local self-governments of Pancevo, Novi Sad, Kikinda, Zrenjanin and Novi Becej.

All participant of the "NIS chance 2012" program were chosen by special selection which included a series of tests and knowledge checks, analysis of the average marks during education, as well as an interview with future mentors within the Company. During the selection, NIS cooperated with municipalities, Faculties and the National Employment Service.

Project „NIS chance 2012“	
Profession	Apprentices
University degree	
B.Sc. in Mining Engineering	20
B. Sc. in Geological Engineering	8
B. Sc. in Mechanical Engineering	16
B. Sc. in Electronics Engineering and Computer Science	26
B. Sc. in Technological Engineering	20
B. Sc. in Economy	54
B. Sc. in Civil Engineering	16
B. Sc. in Engineering Management	27
B. Sc. in Traffic Engineering	7
B. Sc. in Environment Protection Engineering	9
Other	13
Total	**216**
Secondary school degree	
Mechanical technicians	38
Chemical technicians	6
Electricians	39
Locksmiths	24
Total	**107**
Total	**323**

Professional development of employees

NIS actively invests in development on knowledge and skills of its employees. By construction of the system of high-quality and continual training, NIS wishes to ensure that its employees are provided with the opportunity to gain training and acquire high qualifications which correspond to European and international standards Employees' training and development plan was designed to meet the needs of the Company's business processes, as well as to be in line with the corporate culture, which NIS wishes to develop.

Training and Development Sector deals with organization of various kinds of trainings and programs, such as:

- Technical trainings (professional trainings from the specific business area – handling of specific equipment, etc.), within which, we wish to point out the «Operator 2013» through which, 60 employees were trained in the Pancevo Refinery.
- Non-technical trainings intended for development of managerial and leader skills (so-called Soft skills), (seminars, conferences, symposia...),
- Foreign languages (pursuant to the business requirements), which included 532 employees
- Legally mandatory trainings, licenses and other.

Training and Development Sector pays great attention to development of specific training programs for employees, and especially to the inheritance programs. For the purpose of further personnel development, and in accordance with the Company's strategy, special programs of "inheritance" are developed, which, as a set goal, have training, education and development of personnel who should, in the following period, take up the responsible and managerial positions within the Company. The most significant program from this field is the project "Personnel reserve", which, in 2012, included 451 employees. The "Leader 2013" program was also successfully realized for 27 employees.

Furthermore, great attention is paid to the program of development of the «Investment project managers» intended for employees who shall be, or who already are the leaders of significant projects within the Company (total of 72 participants).

Each of these programs is intended for development of competencies of certain groups of employees and their common goal is training of employees for fulfilment of the long term ambitious goals of the Company.

Great attention is dedicated to cooperation with the Belgrade and Novi Sad Universities, within which the following programs were created:

- Specialist studies «European integrations» (total of 16 participants) for the purpose of development of expertise necessary for work in Europe, for employees who, within the Company, are already at, or shall, in a very near future, take the positions which require such expertise
- MBA studies (total of 13) for the purpose of development of expertise necessary for more successful work at current or future managing positions.

For the purpose of personnel development but also the career management, the program "Young specialists" was initiated, with 120 employees included. This program is intended for the youngest colleagues, employed in the Company, for the purpose of development of their professional, expert and leader competencies, in order to support their career management from the beginning of employment within the Company, which thus, contributes a long-term realization of the strategic goals.

Besides this, within the project of cooperation with the Universities and other educational institutions, realization of the following projects was initiated:

1) A Memorandum of cooperation with the Faculty of Mining and Geology, Belgrade University was signed (25.12.2012) for the purpose of creation of conditions for establishment and successful realization of all forms of scientific and expert cooperation in the area of education of highly qualified staff, trained for work regarding geological and mining explorations, refining and distribution of oil and oil derivatives. Under the Memorandum on cooperation, realization of two projects was initiated: adaptation and equipping of the classroom at the Faculty of Mining and Geology, which shall ensure better and more modern conditions for work and studying and creation/modification and preparation for accreditation of new modules, i.e. study programs at the basic, i.e. master academic studies, with the purpose of education of highly expert personnel, trained for work at geological and mining explorations, refining and distribution of oil and oil derivatives.

2) Realization of the Olympics Knowledge project was initiated. A Memorandum on cooperation with the Association of Mathematicians of Serbia and the Association of Physicists of Serbia was signed (19.12.2012). NIS shall support the organization and realization of all levels of competition regarding mathematics and physics: school, municipal and regional, republic (state), as well as the prestige international competition and it shall specially participate in preparation and realization of the Serbian Mathematics Olympics and the Serbian Physics Olympics for high-school students. After finishing of the competitions, NIS shall organize a summer camp in Becici for 30 best participants of each Olympics and their professors-lecturers. Furthermore, a project of support and organization of competition in Russian language and popularization of Russian language in the educational institutions in the Republic of Serbia was initiated.

3) The Memorandums on cooperation with the Faculty of Economy, Belgrade University and Faculty of Organizational Sciences, Belgrade University were signed. The basic goal of this cooperation is rendering of an opportunity to the most successful students to realize their careers in NIS. At the same time, the goal is a general improvement of knowledge and informing of student on business processes in NIS, as well as rendering of an opportunity of more successful development of their competencies in direct contact with practice, even before finishing of their studies. The cooperation shall be realized through the following activities: professor recommendations for inclusion of the best students in the practice programs in NIS chance, giving presentations on the Company and guest lectures as support to educational programs at the Faculties, support at preparation of students' research and graduation papers, promotion of Russian language studying and, where there is an actual basis for it, introduction of Russian as the first or the optional foreign language.

4) Presentations on the Company and the programs intended for the students were given at 7 Faculties of the Belgrade University (Faculty of Philology, Faculty of Electrical Engineering and Technical Sciences, Faculty of Economy, Faculty of Technology and Metallurgy, Faculty of Mining and Geology, Faculty of Traffic Engineering, Faculty of Mechanical Engineering) and 3 faculties of the Novi Sad University (Faculty of Technical Sciences, Faculty of Technology, Faculty of Natural Sciences and Mathematics). A guest lecture was held in the area of marketing at the Faculty of Organizational Sciences.

5) The cooperation with the Ministry of Youth and Sport, Fund for young talents "Dositej" which provides scholarships for 1000 best students of the final years of studies in the Republic of Serbia is initiated.

NIS also gives chance to talented students for acquiring of experience through work in a successful company within the framework of the program «Summer practice», «10-hours-a-week practice», «Mandatory practice» in which, in 2012, over 100 students were included.

Besides the personnel development program of the Company and attraction of the talented students, a realization of the program «NIS-class» was started through cooperation with 2 secondary schools (Geological and Hydro meteorological from Belgrade and Technical from Zrenjanin). The purpose of this cooperation is a contribution in forming of the expert personnel necessary to NIS, through education of experts with secondary school degree, as well as preparation of the secondary school students and their motivation for enrolling the Faculties which give the professional personnel required by NIS.

Furthermore, we organize the «on-boarding/introductory» training for all newly employed colleagues. Thus, through group or individual training, our new colleagues are given the basic information on the Company.

In the framework of cooperation with these schools NIS:

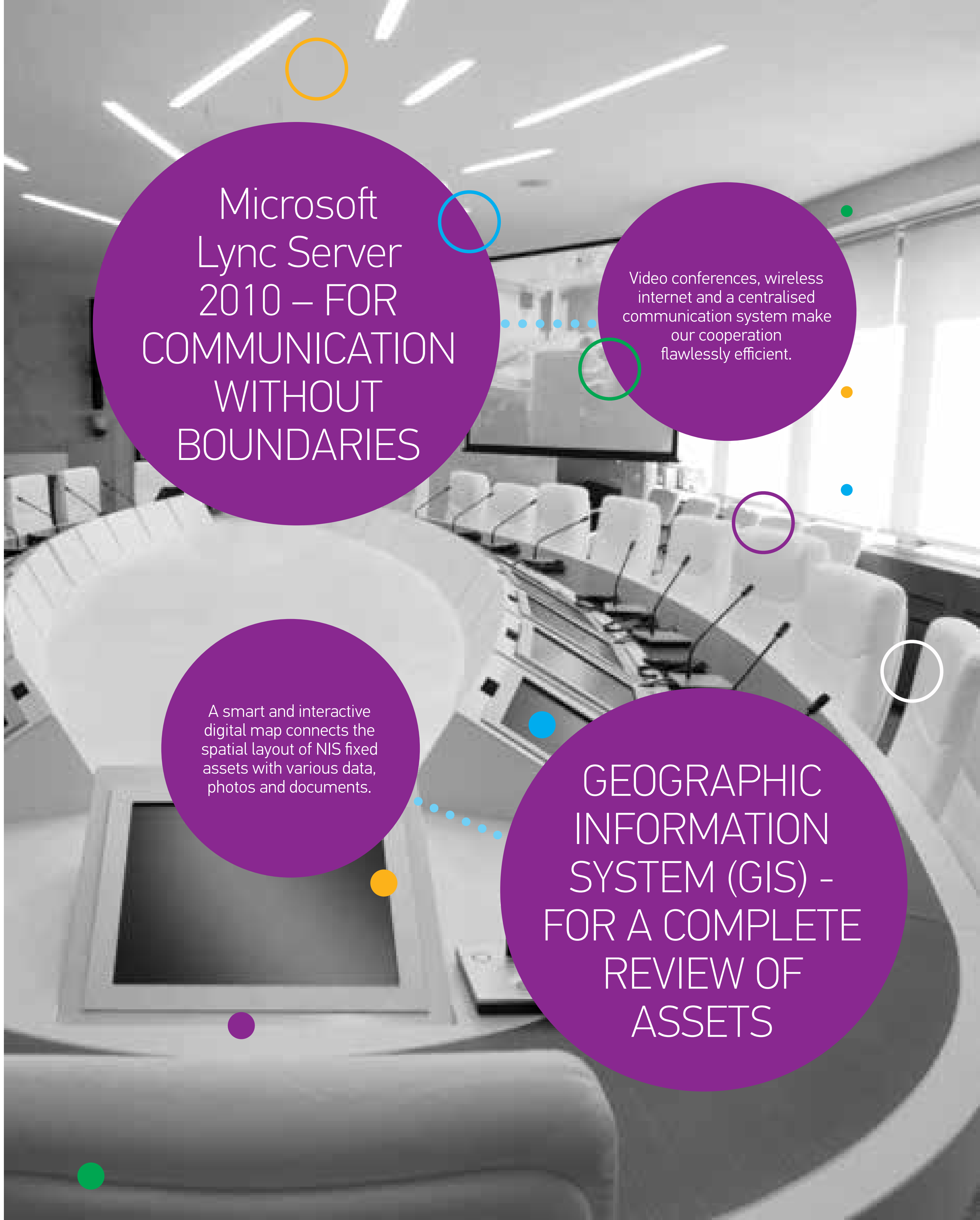
- Signed contracts and annexes on strategic cooperation.
- set Information booths at the premises of the School to inform studens of NIS and of the program of mutual cooperation.
- NIS experts held the two lectures for students.

A significant activity dealt by the Training and Development is testing, i.e. assessment of potential newly employed.

Besides the stated activities, the Training and Development Sector's scope of activities also includes some other development activities of employees, such as, for example, organization of team buildings for a Block, Function, Department, etc.

During 2012, NIS allocated about 238 million RSD to professional development of employees.

Training costs (in millions of RSD)	2008	2009	2010	2011	2012
Professional training costs	130	45	72	109	209
Counselling costs	35	5	9	35	23
Business association membership costs	1	1	1	2	5.8
Total	166	50	81	146	238



Environmental Protection, Industrial and Occupational Safety

The Company objectives in HSE are:

- continuous reduction of occupational injuries, occupational diseases, accidents and negative impact on the environment;
- compliance with the requirements of national legislation in the area of environmental protection, industrial and occupational safety, international standards, Gazprom Neft standards and in-house Company Standards;
- establishment of the Contractor and Third Party Management System in the area of HSE which would allow Company to effectively manage and control activities during the presence of contractors and third parties at the site;
- development of HSE culture by improving HSE employee motivation systems in the Company;
- HSE performance improvement by improving working condition and ensuring safe workplaces;
- reduction of HSE-related court proceedings;
- systematic directing of all production activities and technological processes in view of minimizing the negative impacts of Company core activities on all environmental aspects.
- rational use of natural resources and energy in line with sustainable development principles
- fulfilment of all obligations prescribed by the legislation of the Republic of Serbia in the field of environmental protection and safety and compliance of the Company business activities with the EU regulations,

The fulfilment of specified objectives will be reached through:

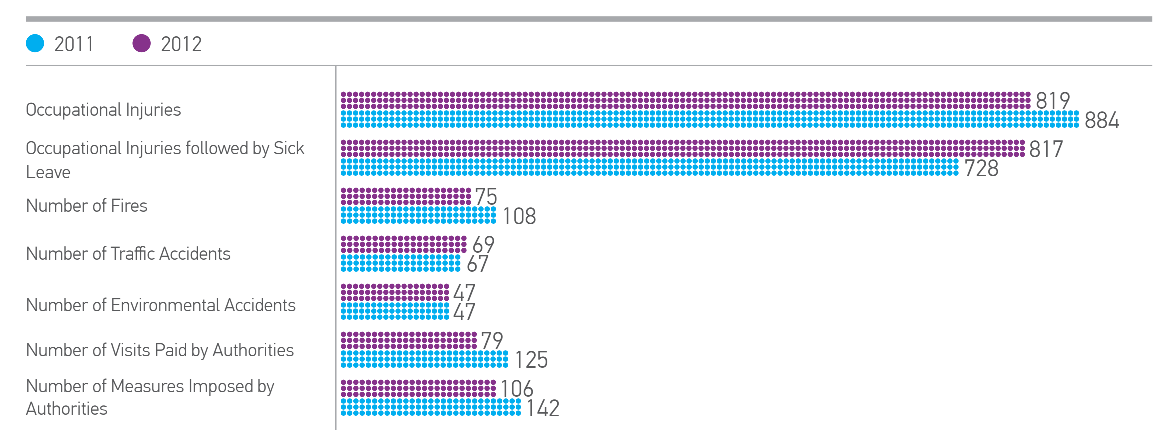
- Establishing of centralized system of planning and reporting (corporate level);
- Development and implementation of software solutions for managing HSE system - process automation;
- Unification and improve the management NMD in HSE;
- Improvements of HSE control - control of process management;
- Improvements of HSE training system;
- Improvements of HSE motivation and
- Realization of the "NSE Leadership" training in order to improve the HSE culture

In 2013 optimization of normative methodological documents if field of HSE will be performed as well as establishing of centralized system of making NMDs which will facilitate the control of HSE activities.

Occupational Injuries and Prevention of Accidents

In 2012,106 occupational injuries took place. This figure is considerably lower than in the same period in 2011 when the number of occupational injuries amounted to 142. 2012-2015 Company Strategy targets at reducing the lost time injury frequency rates (LTIF) in line with the defined objectives. The reduced number of adverse events in 2012 resulted from campaigns implemented in view of improving safe working conditions and raising staff awareness.

Occupational Injuries	2011	2012
Occupational injuries	142	106
Occupational Injuries Followed by Sick Leave	125	79
Number of Fires	47	47
Number of Traffic Accidents	67	69
Number of Environmental Accidents	108	75
Number of Visits Paid by Authorities	728	817
Number of Measures Imposed by Authorities	884	819



Figures in the diagram show a downward trend of all observed events. The increased number of visits paid by authorities is the only notable increase in 2012 vs. 2011.

HSE VISION

HSE shall become a natural and integrated part of the NIS culture. We will strive to prevent all injuries, occupational diseases, unsafe activities , process lossess and to mitigate the impacts of business activities upon the environment.

Traffic Safety

The introduction of Global Positioning Systems (GPS) resulted in the improved control of vehicle speed and reduced number of offenders and thus, reduced risks associated with speeding.

Plans for 2013 are:

1. Organization of training for safe driving in NAVAK, in order to identify categories of drivers and the level of risk, and to choose driver training based on this;
2. Procurement of equipment for testing the mental and physical abilities driver, which establishes a preference of drivers to enter the risky traffic situations;
3. Changing of Company's Standard: Safe driving means of transport by road in the NIS, in terms of improving the planning and risk assessment of the road (prior to departure).

Contractor and Third Party Management

In 2012, the Company Standard: "The Method of Managing Contractors and Third Parties in Terms of HSE was enforced. This Standard defines:

- pre-qualification of potential Contractors (the process is repeated every two years)
- selection of pre-qualified Contractors and signing of the main HSE Annex to the Contract
- Contractor management during the activities
- performance efficiency analysis and assessment of Contractors in terms of HSE

The Contractor and Third Party Management are performed by an employee in charge of contractor supervisions as a person responsible for the direct implementation of the specific activity and Contractor's HSE person.

The training was attended by 492 employees who have been identified as the persons responsible for the implementation of this standard.

In 2012 the number of qualified contractors, in terms of HSE, is 276 potential suppliers of services.

Personal Protective Equipment (PPE)

Personal Protective Equipment means equipment which aims at protecting employees against injuries and occupational diseases and/or hazards which cannot be eliminated from the working environment. The proper use of PPE during work, the risk of employee injuries is significantly lower.

In view of ensuring adequate protection, employees in the Company are provided with contemporary and high-quality personal protective equipment which complies with the standards of the Republic of Serbia and international standards. For this purpose, the PPE catalogues which comprise all technical Company requirements in terms of quality, appearance and functionality have been drafted.

in 2013 The planned centralization of storage of personal protective equipment, in the so-called consignment stock is planned in the NIS. This will allow that at all times employees will be provided with appropriate personal protective equipment in sufficient quantities.

Use of HSE Notice Boards and Signs

In 2012, the Company Standard: "Use of HSE Notice Boards and Signs in NIS j.s.c. Novi Sad Facilities" was enforced. The Standard defines the type, size, number, place and setup level and zone of notice boards and signs as well as the HSE-related rights and duties regarding the placement of notice boards and signs arising from the Company Policy, laws of the Republic of Serbia in the area of HSE as well as requirements of international standards.

In 2013 according to plans every branch will complete the set of HSE designation in accordance with the requirements of the above mentioned Company's standards, and the practice of leaflet distribution on entry to the facilities and the location of the Company to third parties will be established.

Environmental Protection

The strategic concept of NIS j.s.c. Novi Sad as a socially responsible company is running business in line with the adopted NIS j.s.c. Novi Sad HSE Policy as well as sustainable development principles by minimizing negative impacts on the environment and human health as well as continuous improvement and efficient environmental protection system management.

NIS allocated and expended substantial funds for the implementation of environmental projects aimed at equipment modernization and reduction of emission of pollutants into environment, remediation and rehabilitation of contaminated locations (historical contamination), environmental monitoring etc.

By the completion and start-up of the MHC/DHT units, NIS completely switched to the production of motor fuels (gasoline and diesel) which meet the requirements of Euro 5 quality standard.

In addition to projects with a direct environmental effect, 2010 – 2015 investment programmes has been defined. The investment program also covers infrastructure projects with significant environmental effect (pipeline and sewage system replacement projects, modernization of units, flare etc.), reconstruction and modernization of petrol stations, energy efficiency and risk reduction projects.

In 2012, the following sums as at December 31st, 2012 were invested for projects directly targeted at environmental protection:

Block	2012	
	RSD	EUR
Exploration and Production	50,975,471	424,796
Refining	3,180,409,322	26,503,411
Sales and Distribution	9,630,273	80,252
Oilfield Services	9,308,312	77,569
Total:	3,250,323,378	27,086,028

Projects ended in 2012

Block	Project	Total investment until 31/12/2012
Exploration and Production	Procurement of Geoelectric Surveying Equipment for the Purposes of Environmental Researches	(RSD)
Refining	Regeneration of Spent Sulphuric Acid	1,454,718,056
	Revitalization of S-1000 Gas Flare Recovery Unit	85,872,299
	Replacement of Safety Valves in Block 5	26,368,792
	Reconstruction and Modernization of LPG Loading/Unloading Installations	342,752,984
	Reconstruction of HPV facility	224,299,412
Sales and Distribution	Installation of Separators at 9 PSs	9,630,273
Oilfield Services	Reconstruction of the Waste Water Treatment System of the Biodisk at location Šangaj	9,308,312
TOTAL:		2,160,719,160

RETURN TO EARTH WHAT BELONGS TO IT

Advanced HSE management of the recovery process of soil polluted in the past will contribute to a cleaner and healthier environment in the present.

ZERO-ORIENTED RISK

Advanced HSE management

In addition to the already undertaken measures to reduce emission of pollutants (installation of fixed roofs with the floating membrane on tanks, reconstruction of the tank and rail loading terminals, installation of the vapour recovery system), the activities are targeted at the implementation of projects aimed at the reduction of nitrogen oxide emission in flue gases in Refineries, in particular, implementation of the water-heavy fuel oil emulsion production and combustion system.

The hydrogen sulphide (H2S) emission is planned to be reduced by increasing the hydrogen sulphide conversion percentage at the existing Klaus unit from the current 95% to 99.9% at the new Klaus waste gas treatment unit within the construction of MHC/DHT units in Pančevo Oil Refinery. The construction of new unit will result in gases being transferred from the existing Klaus unit to the new unit, where the conversion will amount to 99.9%. In 2012, the oily wastewater treatment separators were installed at 9 petrol stations. The ultimate expected effects are treated wastewaters free of the hydrocarbon phase and solid particles released into recipients. The completed first phase of the reconstruction of oily sewage in Novi Sad Refinery primarily prevents further soil and groundwater contamination and significantly affects the efficiency of the operation of wastewater treatment units and its quality.

In Pančevo Oil Refinery, the project-related activities ultimately targeted at the reduction of pollutants into wastewaters have been launched. The project involves the construction of the closed drainage system in the production and closed sampling system in the production.

Block	Project	Estimated Investment Value (RSD)	Actual Start-up Date	Total paid sum in 2012
Exploration and production	Rehabilitation of Historical Soil Contamination – HSE 2012	108,900,000	31.10.2013.	23,674,727
	OSH, FP and EP Equipment, 2012	16,000,000	31.01.2013.	8,904,092
	Construction of the Fluid Collection and Burning System (LPG)	109,000,000	31.12.2013.	0
Refining	Reconstruction of B11 Tank – Preparation	64,937,000	31.12.2013.	335,961
	Rehabilitation and Reconstruction of the Waste Water Treatment Plant	45,000,000	30.04.2013.	8,446,404
	Rehabilitation and Reconstruction of Oily Sewage	178,470,000	31.01.2013.	47,912,832

	Project	Estimated Investment Value (RSD)	Actual Start-up Date	Total paid sum in 2012
Refining	Construction of the Closed Sampling System in the Production	117,900,000	31.01.2013.	16,925,243
	Construction of the Closed Drainage System (S-100/ 300/ 400/ 500/ 2100/ 2300/ 2400/ 2500/ 2600)	418,800,000	28.02.2013.	32,399,861
	Klaus S-2450 Performance Improvement Project	25,000,000	28.02.2013.	5,441,974
	Reconstruction and Modernisation of the Wharf in Pančevo Oil Refinery, Danube	3,393,600,000	22.02.2013.	1,489,021,970
	Remediation of Contamination at the Wharf	53,300,000	02.08.2012.	35,708,040
	Oil Sludge and Oily Soil Treatment Mobile Plant	345,000,000	31.10.2013.	0
	Reconstruction of the Rail Loading Terminal – Metering Systems	144,616,125	28.02.2013.	15,270,730
	Reconstruction of the Truck Loading Terminal	1,029,000,000	19.02.2013	659,591,168
	FCC – Reconstruction of DC-2301 Reactor	2,177,000,000	30.11.2013.	120,953,539
	Closed Drainage System and Flare Vessel Flow FA–1000 and Gas Meter FA -1000	48,085,000	14.02.2013.	47,472,823
	S-2600 Neutralization of Acid Sewage	12,300,000	31.10.2013.	2,269,156
	Reduction of NOx Emission in Flue Gases Exhausted from the Energy Plant	30,000,000	31.01.2014.	0
	Reconstruction of the Boiler Soot Blowers in the Energy Plant	49,500,000	23.07.2013.	103,222
		8,366,408,125		2,514,431,742

NIS proceeded with the activities related to soil and groundwater remediation at facilities at which contamination has been identified. Both soil and ground water remediation measures and additional researches in view of preventing and reducing contamination have been planned and implemented at the contaminated locations.

In view of defining contaminated areas of groundwater at the locations of the Sales and Distribution, Smederevo Warehouse and Belgrade Warehouse, the geoelectric surveys (geoelectric surveying) have been conducted. The surveys have been implemented in cooperation with the Geophysics Sector- Scientific and Technological Centre and Geophysical Services – Oilfield Services. The geoelectric surveying method is completely non-destructive and non-invasive method cheaper than exploratory drilling and allows the development of 2D electrical resistivity models for different geological environments (2D ground resistivity model).

The Exploration and Production Block continued the implementation of the Historical Soil Contamination Remediation Project. In 2012, the remediation of 10 primary oily mud pits was initiated (Turija Oilfield).

Environmental Protection Costs

For the impact produced on environmental media (water, air and soil), NIS j.s.c. Novi Sad pays different fees. The units which must have integrated permits (Pančevo Oil Refinery, Novi Sad Oil Refinery and Oil and Gas Preparation and Transportation Unit, Elemir) pay a fee for the emission of SO2, NOx and particulate matters as well as for the disposal of hazardous and non-hazardous waste to the Environmental Protection Fund of the Republic of Serbia.

Fee	Amount 2011	Amount 2012
Environmental Protection Fee	(RSD)	(RSD)
Ecology Fee	6,263,158	129,192
Costs of Environmental Taxes	86,909,541	94,154,787
Costs of Wastewater Treatment Services	148,026,517	94,698,181
OTHER	15,609,564	72,000,000
Total:	321,449,658	320,248,263

As a socially responsible company with clearly defined strategic objectives, in 2012, NIS focused its activities on solving problems related to hazardous oily waste. By hiring authorized companies holding integral hazardous waste management licenses, large waste amounts have been permanently disposed.

In Pančevo Oil Refinery, the problem of spent sulphuric acid, pyralene transformers has been completely solved. The problem of oil sludge and sludge containers the Pančevo Oil Refinery have been solved to a considerable extent as well as the problem of the separator, tank sludge and other oily waste in the Sales and Distribution Block. In 2012, the funds in the amount of 121 millions RSD have been invested for the disposal of hazardous waste.

Social responsibility

Key Social Responsibility Projects in 2012

The social responsibility is a part of NIS' strategic activity. NIS undertakes its sponsor and donor activities based on the document titled "Sponsorship and Donation Policy" setting forth objectives and principles for the aforementioned activities, key donation and sponsorship trends, as well as the rules for selection of donation and sponsorship projects.

The priority trends very depending on the program: *Culture without limits, Sports Energy, Science and Young Talents, Humanitarian Projects, and Cooperation in Order to Achieve Development*. This year, for the first time, within the program Cooperation in Order to Achieve Development, one portion of funds was allocated by means of the public tender, thus making the program even more transparent. Furthermore, the campaign NIS Philanthropy was conducted in the Company, where the employees themselves collected humanitarian aid for people in need.

This year, NIS received the main prize for socially responsible conduct in Serbia, within the framework of "Serbia Has Quality" Quality Festival and Campaign. This action was organized by "My Serbia" Association, with the support of the Chamber of Commerce of Belgrade. This award was presented for NIS' outstanding contribution to the development of society in which it performs its business activity.

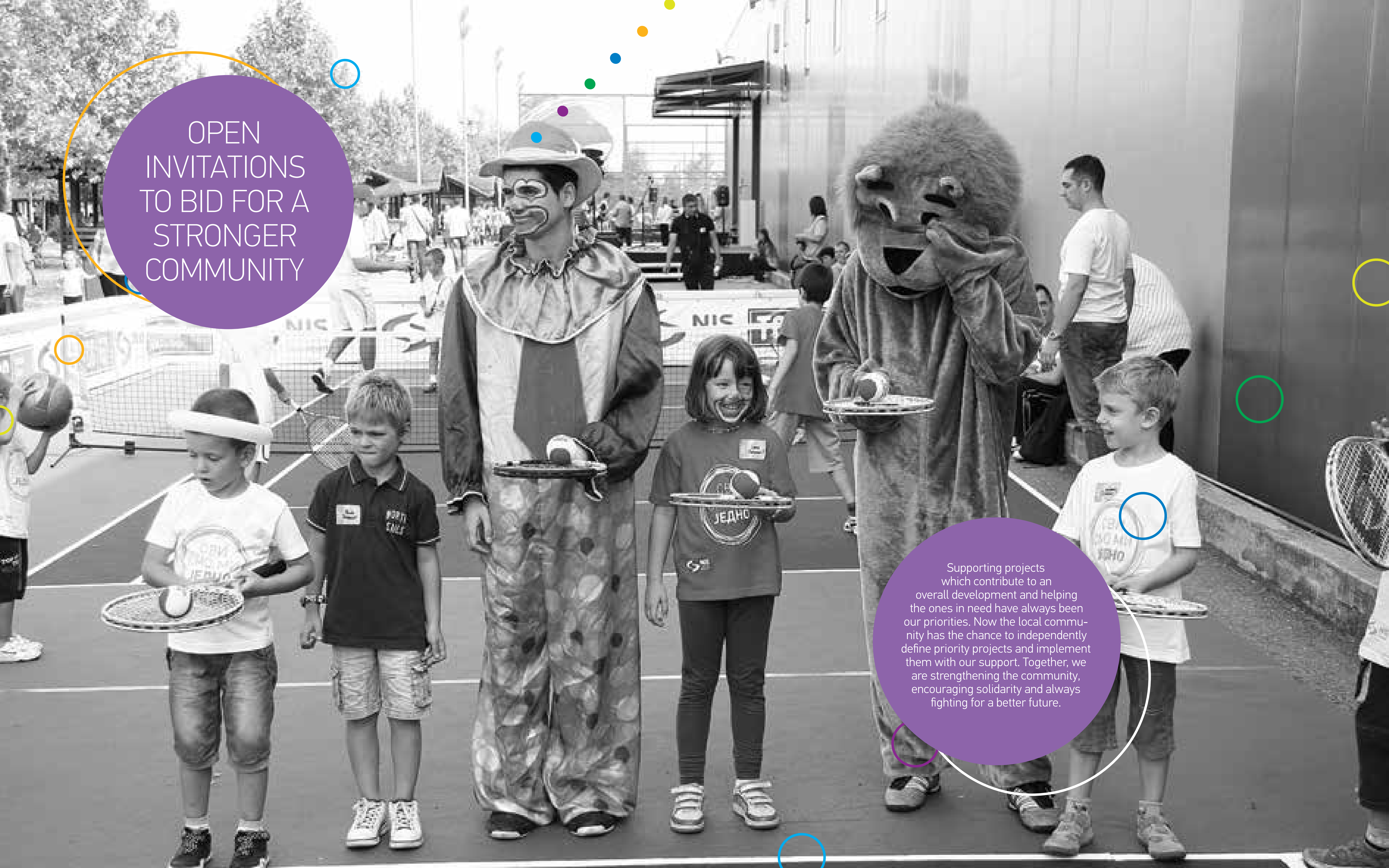
The objective of the "Sports Energy" program is a support to professional sports and sports for children, including wellness promotion.

- This year, NIS has become the major sponsor of the Tennis Association of Serbia, thus extending cooperation with this organization, implying approach to the youngest population, support to junior players, development tennis camps and schools, joint participation in humanitarian activities. As a part of this cooperation, "NIS Open Tennis School" was organized at the Republic Square, a manifestation intended for children who had the opportunity to learn the first steps in tennis. Traditionally, NIS supports the best tennis players of Serbia who compete in the Davis and FED Cup, thus promoting the highest sports values, team spirit, and excellent results.
- The 25th Belgrade Marathon was supported, which gathered a record number of participants - more than 2,300 contestants from 35 countries in marathon and semi-marathon disciplines, as well as more than 20,000 racers in the pleasure race.
- Traditionally, NIS supported the "Bike Rock Mission", a humanitarian caravan organized by the Harley Davidson Club of Serbia. The bikers' caravan started at the NIS PETROL fuel station in Belgrade this year as well, and headed in the direction of Kosovska Mitrovica, where a rock concert with participation of well-known rock bands was held at the end of the day.
- Support provided to "Partizan" Basketball Club and the Bicycle Association of Serbia. Special attention was given to the development of children's and youth sport, adequate growth of young generation, and promotion of new talents.

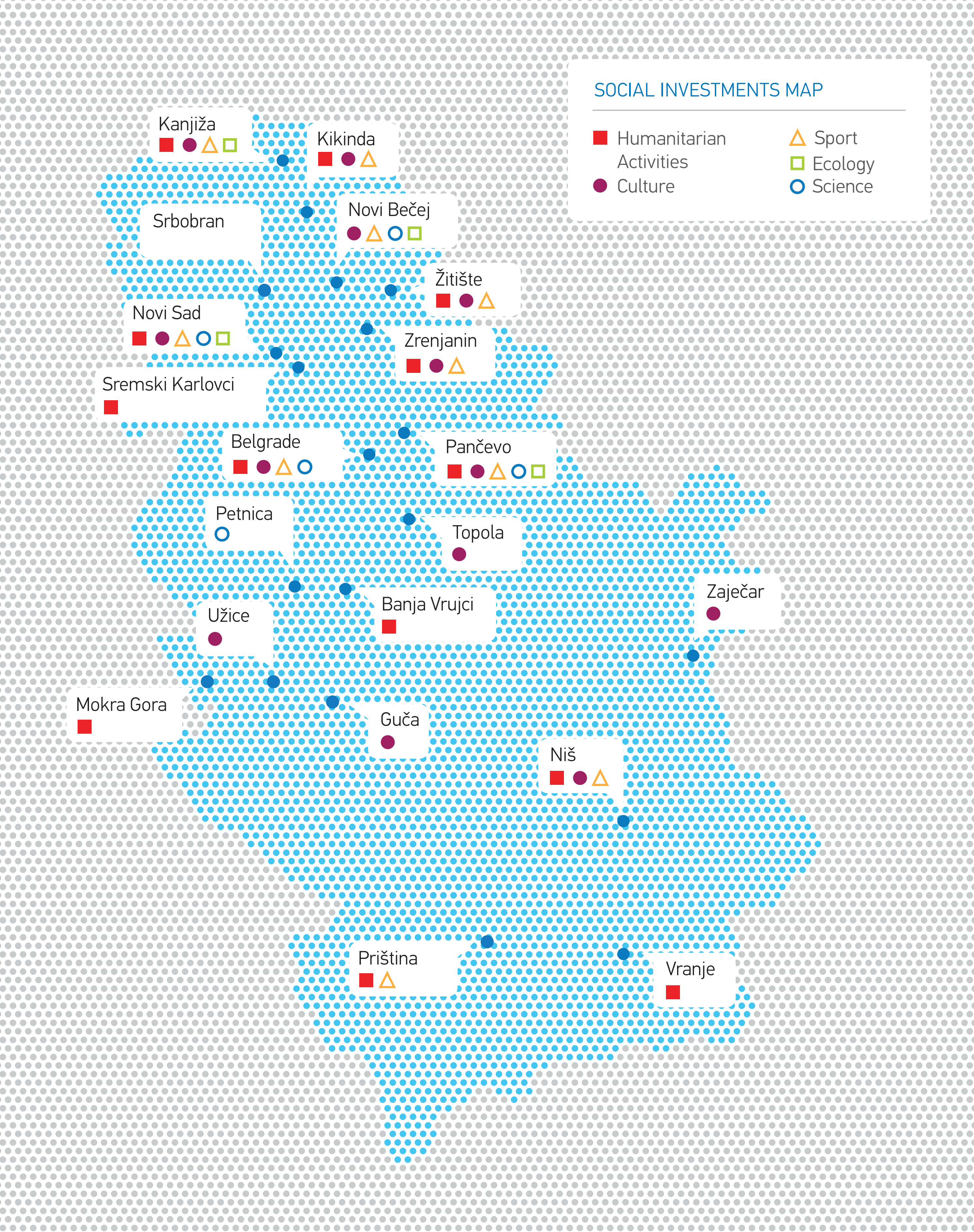
The "Culture without Limits" Program relates to cultural institutions and festivals of local, national, and international significance, as well as the Serbian-Russian cooperation projects.

- FEST - the greatest international film festival in Serbia supported for the fourth time in sequence. With regard to the 40th jubilee FEST, a reward competition "Visiting FEST with NIS" for the best short film on free topic, recorded with a mobile phone. The winner, "Way to Success", by author Lazar Bogojevic, was rated by means of voting on the NIS' Facebook page and it was played on the last FEST night. Activities were organized for the audience under the title "Like in Film".
- International gathering of children "Joy of Europe" continued for the fourth successive year. Over 700 kids

OPEN INVITATIONS TO BID FOR A STRONGER COMMUNITY



Supporting projects which contribute to an overall development and helping the ones in need have always been our priorities. Now the local community has the chance to independently define priority projects and implement them with our support. Together, we are strengthening the community, encouraging solidarity and always fighting for a better future.



from 19 countries enjoyed numerous performances, concerts, and sports and recreational activities.

- NIS supported Dragacevo Assembly for the fourth successive time. With the aim of promoting the music tradition and folk creation in Serbia, and, accordingly, tourism, culture, and customs, NIS sponsored "Trumpet Virtuosos" concert, staged by the best Serbian trumpeters and led by Dejan Petrovic and Dejan Lazarevic.
- "Belgradization of Belgrade" manifested through numerous programs. During the summer, it was organized in Terazije replica from the thirties of the last century. The Belgrade graduating pupils also participated in the manifestation.
- NIS received credit for excellent organization of "Sterijino pozorje" - the most significant Serbian drama and theatre festival. This year as well, several performances were staged at NIS theatre stage in the Novi Sad Business Center.
- International children's folklore festival "Licidersko srce" was held in Uzice, Kosjericu, Nova Varos, Zlatibor, and Visegrad. The audience enjoyed in the dance of 800 performers and more than 20 folklore assemblies from Spain, Poland, Turkey, Greece, Hungary, Canada, Belorussia, Republika Srpska, and Serbia.

The aim of "Science and Young Talents" program represents a support to scientific and research activities, as well as to the development of the scientific potential and talented students.

- Cooperation with the two largest universities in Serbia - in Belgrade and Novi Sad, for the purpose of unifying of scientific theory, research, and business practice. The cooperation includes scholarships for the most successful students, apprenticeship in the Company, further improvement of Company employees, acquisition of new knowledge and implementation of joint scientific and research projects.
- Pursuant to the Cooperation Agreement between NIS and the Belgrade University, the Memorandum on Cooperation between NIS and the Faculty of Organizational Sciences was signed. The common interest and potential of partnership reflects improved access to information and student knowledge on business processes, as well as an improved contact through practice and opening possibilities to the most successful student to continue their career at NIS. The new aspect of cooperation and continuous communication with students will enable practice for students in the Company. Concurrently, guest lectures of NIS experts will be arranged, as well as assistance for preparation of research and diploma thesis, training programs, and joint projects.
- For four successive years, NIS has been a financial sponsor for program activities of the Research Station Petnica, taking into account its relevance for development of the scientific and cultural literacy, education in Serbia. During previous years, over 100 programs with more than 2000 applicants were successfully implemented in Petnica, such as: seminars, caps, summer schools, including "One Step into the Science" Research Work Conference.

Humanitarian projects represent one category which implies assistance and support to people in need.

- The Long-Term Cooperation Protocol was signed with the Serbian Orthodox Church, implying implementation of humanitarian projects. This cooperation will enable NIS to assist preservation of Orthodox churches in Serbia, which have a cultural and historical significance, and thus support preservation of tradition and spiritual values in this region. NIS assumed the obligation to give the Serbian Orthodox Church a part of the territory of Pancevo Oil Refinery where Vojlovica Monastery is situated.
- In the Easter action "Love Heals", the funds were collected for NAPCC - National Association of Parents of Children with Cancer. The funds will be used for adoption and furnishing of the parents' house in Nis, which is to serve as the home for children treated against the difficult illness, as well as to their parents for the period they are staying with their children in the city. This action belongs to philanthropy actions, due to the majority response of employees who donated monetary contributions.

Projects within "Cooperation for the Purpose of Development" aim to strengthening of partner relationship with the regions where NIS performs its business activity.

- The annual agreement on the strategic cooperation with the Autonomous Province of Vojvodina was signed, covering also activities in the field of ecology, economic development, improvement of the investment climate, and resolution of social problems in the local community. Within the scope of the Agreement with the Autonomous Province of Vojvodina, the supplementary agreements were signed with the following cities/towns and municipalities: Novi Sad, Pancevo, Kikinda, Zrenjanin, Novi Becej, Kanjiza, and Zitiste. Based on these supplementary agreements, NIS supported over 100 projects in the humanitarian sphere, as well as in the domain of culture and sport.

• In 2012, NIS introduced a new concept of support to activities which aid local community development, by allocating one half of funds through a public tender. The contest was intended for associations, foundations, humanitarian, non-governmental, and other organizations, as well as individuals - young talents from municipalities and cities which a cooperation agreement with NIS. In this manner, NIS wants to motivate and support creativity and responsibility of organizations and individuals, thus contributing to a better future and more humane society through a joint action.

• Area of employment - new cooperation direction between NIS and AP Vojvodina. NIS seeks to contribute to the employment committee in Vojvodina actively, due to the reason of which a special agreement was signed with the Secretariat for Labor, Employment, and Equality of Sexes. This agreement obliges NIS, for the period of one year, by means of a public contest, to employ 250 persons with university education who are currently registered with the National Employment Agency on the territory of Vojvodina.

In addition, the "Cooperation for the Purpose of Development" program included the following:

• "Nisville" International Jazz Festival - the most significant manifestation of this type on the Balkans, which gathers leading international and local jazz groups and artists

• "Exit" Music Festival. The campaign "Yes, We Can Press" in order to raise awareness on the need of recycling

• "Zmaj Children Games". As a significant partner, the Company has received the "Great dragon" blanquettes - the friend of the games, for several successive years.

• "Mamutfest", children's manifestation in Kikinda, which was visited by several thousand guests this year.

Key Indicators – Historical Data (2009-2012)[1]

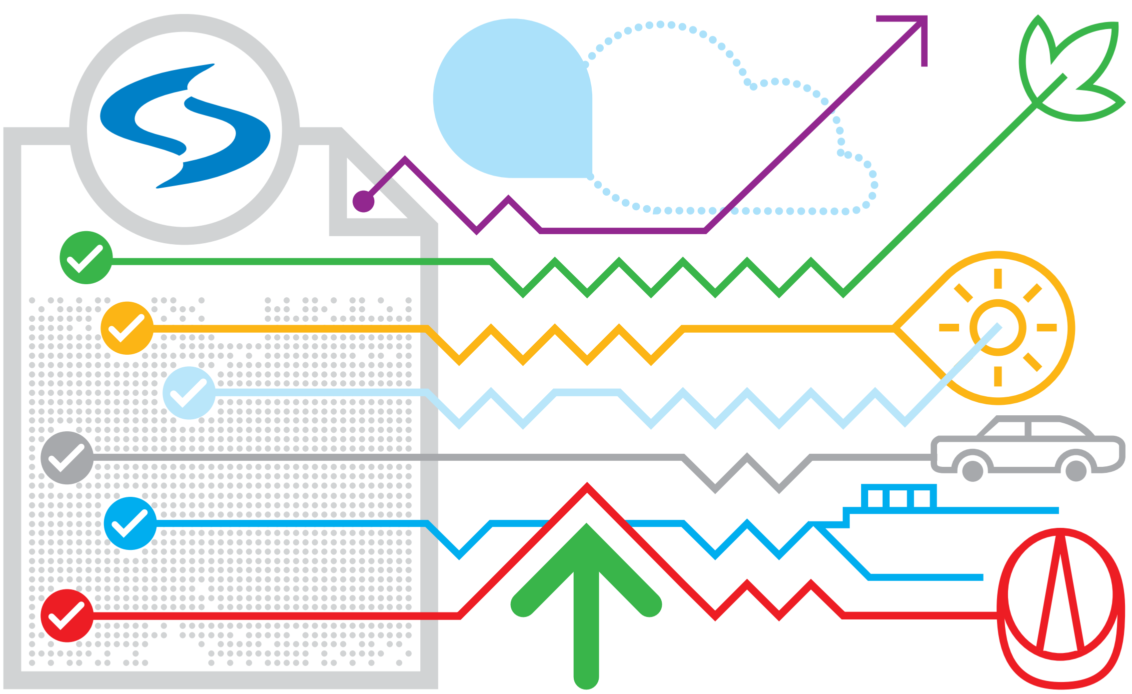
	2009	2010	2011	2012
Total income	135,255	181,056	206,843	244,945
Total expenditure	174,774	169,018	167,146	193,620
Net profit (loss)	(4,444)*	16,484	40,602	49,456
Sales	118,376	161,149	186,883	226,157
OCF	17,619	17,791	34,986	36,807
EBITDA	10,4* bln. RSD	32,4 bln. RSD	52,4 bln. RSD	66,5 bln. RSD
Non-current assets	95,734	108,326	136,622	180,898
Current assets	48,317	68,801	96,081	114,534
Total assets	144,051	177,127	232,703	295,432
Total equity	32,283	47,019	87,587	137,003
Long-term provisions	16,040	18,502	13,365	12,930
Long-term liabilities	40,654	48,927	81,441	80,992
Short-term liabilities	53,141	61,221	49,149	62,142
Total liabilities	144,051	177,127	232,703	295,432

* In million RSD, unless otherwise specified
** Current assets inclusive of deferred tax assets

1 In million RSD, unless otherwise specified

Bussines Plan

On its session held on November 27th 2012 NIS' Board of Directors business plan for 2013. The plan foresees not only increase of all key indicators but also substantial increase in corporate investment programs. In 2013 NIS plans to preserve the current level of investments and to invest in business development in the amount of at least 50 billion RSD. A substantial part of the investments will be directed towards development of retail network and exploration of oil and gas. NIS' goal in 2013 is the development of resource base and its increase by 10%. Also, in 2013, the volumes of oil refining in Company's refineries will be increased to approximately 3.4 million tons of oil. In addition, the NIS' starting from 2013 and thanks to the modernization of Pancevo Refinery, NIS will increase production of motor fuel with Euro 5 standard of quality. NIS' Business Plan for 2013 envisages a substantial increase in sales in the Serbian market. It is expected that continuous implementation of the program of modernization of the retail network and increase of the efficiency of Company's marketing policy will have serious stimulating effects on sales. Besides the development of the domestic sales of oil products, NIS' Business Plan for 2013 envisages active increase of sales in the markets of neighbouring countries - Bulgaria, Romania, and Bosnia and Herzegovina. By the end of 2013, there will be at least 100 active NIS' petrol stations in the markets of these countries.



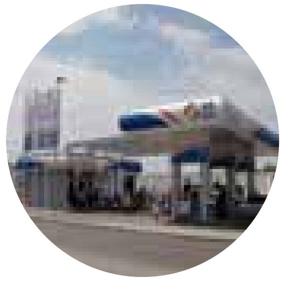
Main development trends

Exploration and Production

- Project development in Serbia, Hungary, Romania, and Bosnia and Herzegovina

Refining and Sales and Distribution

- Continued modernization of Pancevo Oil Refinery - botom-of-the-barrel project
- Base oil production
- Market development in the Balkans region

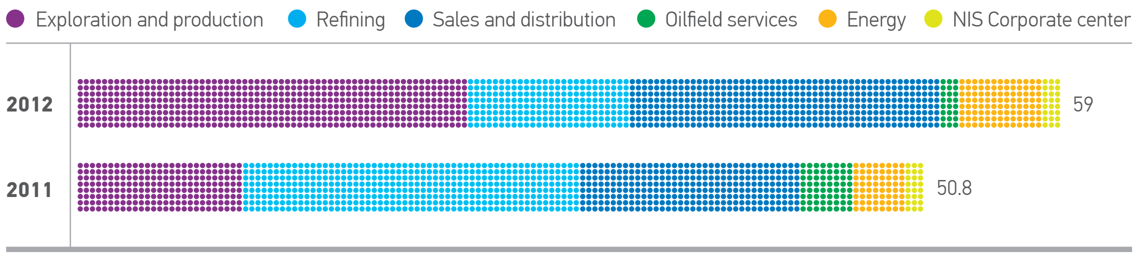


Energy

- Energy developement in the field of renewable energy sources
- Gas monetization

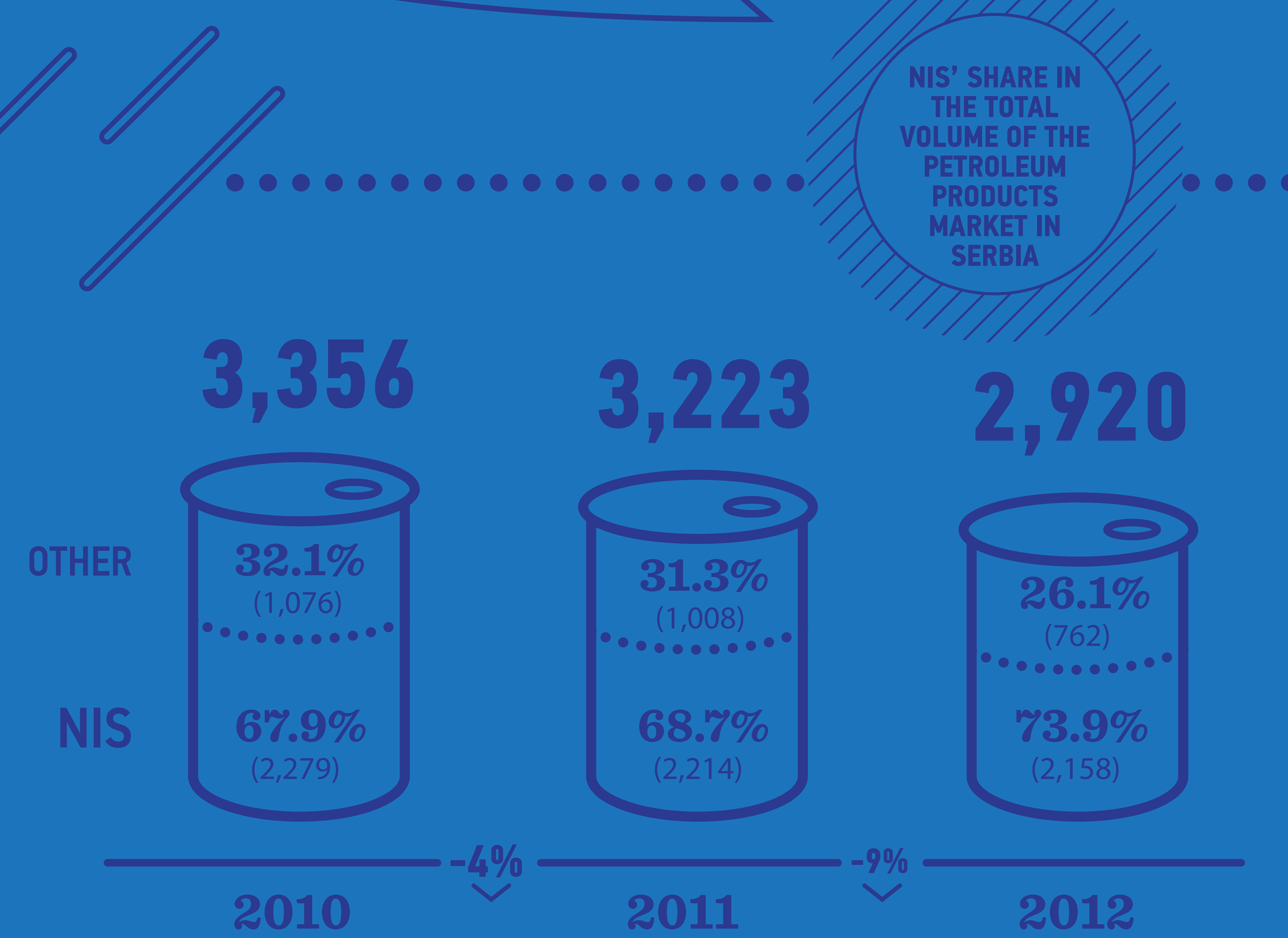
Planned investments per business segments

Planned investments per business segments in million RSD +16%



FINANCIAL REPORTS AND AUDITOR'S REPORTS

Oil and gas production in thousands of tons equivalents



Auditor's report on stand-alone financial report

pwc

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Naftna Industrija Srbije a.d., Novi Sad (the "Company") which comprise the balance sheet as of 31 December 2012 and the income statement, statement of changes in shareholder's equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes and the statistical annex.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Law on Accounting and Auditing of the Republic of Serbia and Note 2 to these financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2012, and of its financial performance and cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia and Note 2 to these [redacted]

Milivoje N[redacted]
Licensed Auditor

PricewaterhouseCoopers [redacted].o., Belgrade

Belgrade, 13 February 2013

PricewaterhouseCoopers d.o.o., Omladinskih brigada 88a, 11070 Belgrade, Republic of Serbia
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This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Financial report (stand-alone)

Balance Sheet (stand-alone)

	Notes	31st December 2012	31st December 2011
ASSETS			
Non-current assets			
Intangible assets	6	8,224,678	4,441,599
Property, plant and equipment	7	144,519,040	124,923,027
Investment property	8	1,316,069	1,338,269
Investments in equity instruments	9	7,707,917	2,542,882
Other long-term investments	10	19,130,412	3,376,034
		180,898,116	**136,621,811**
Current assets			
Inventories	11	43,606,986	35,397,598
Non-current assets held for sale		41,746	165,371
Trade and other receivables	12	41,575,163	20,373,239
Short-term financial investments	13	2,433,206	2,413,567
Cash and cash equivalents	14	8,778,258	4,626,921
VAT and prepaid expenses	15	8,311,264	25,228,726
Deferred tax assets	16	9,786,958	7,875,436
		114,533,581	**96,080,858**
Total assets		**295,431,697**	**232,702,669**
Off-balance sheet assets	17	84,451,110	79,279,565

EQUITY AND LIABILITIES			
Equity	18		
Share and other capital	18,1	87,128,024	87,128,024
Reserves		889,424	889,424
Revaluation reserves		12	12
Unrealized gains from securities	18,2	6,918	29,582
Unrealized losses from securities	18,2	(81,446)	(64,090)
Accumulated gain (loss)		49,060,229	(396,287)
		137,003,161	**87,586,665**
Long-term provisions and liabilities			
Long-term provisions	19	12,930,335	13,365,464
Long-term borrowings	20	30,721,339	33,774,543
Other long-term liabilities	21	50,270,312	47,666,041
		93,921,986	**94,806,048**
Short-term liabilities			
Short-term financial liabilities	22	9,359,307	3,444,922
Trade and other payables	23	33,921,648	29,458,654
Other short-term liabilities	24	6,313,605	6,666,892
Liabilities for VAT, other taxes and deferred income	25	12,034,945	8,087,096
Income tax liabilities		512,454	1,491,881
		62,141,959	**49,149,445**
Deferred tax liabilities	16	2,364,591	1,160,511
Total equity and liabilities		**295,431,697**	**232,702,669**
Off-balance sheet liabilities	17	84,451,110	79,279,565

The accompanying notes are an integral part of these financial statements

Income Statement (stand-alone)

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

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows (stand-alone)

	Year ended 31st December	
	2012	2011
Cash flows from operating activities		
Sales and advances received	313,174,536	282,802,307
Interest from operating activities	1,895,568	984,664
Other inflow from operating activities	184,674	298,141
Cash inflow from operating activities	*315,254,778*	*284,085,112*
Payments and prepayments to suppliers	(143,551,839)	(121,573,195)
Salaries, benefits and other personal expenses	(20,843,165)	(21,599,392)
Interest paid	(3,318,871)	(3,114,515)
Income tax paid	(3,548,460)	(1,591,789)
Payments for other public revenues	(107,185,231)	(101,220,649)
Cash outflow from operating activities	*(278,447,566)*	*(249,099,540)*
Net cash from operating activities	**36,807,212**	**34,985,572**
Cash flows from investing activities		
Sale of shares	228	17.103
Proceeds from sale of property, plant and equipment	322,111	278,989
Other financial investments	1,263,068	-
Cash inflow from investing activities	*1,585,407*	*296,092*
Purchase of shares (net outflow)	(213)	(26,234)
Purchase of intangible assets, property, plant and equipment	(38,883,079)	(32,509,584)
Other financial investments (net outflow)	(15,807,489)	(2,267,599)
Cash outflow from investing activities	*(54,690,781)*	*(34,803,417)*
Net cash used in investing activities	**(53,105,374)**	**(34,507,325)**

	Year ended 31st December	
	2012	2011
Cash flows from financing activities		
Proceeds from long-term and short-term borrowings	6,267,501	23,406,069
Proceeds from other long-term and short-term liabilities	3,818,459	26,002,087
Cash inflow from financing activities	*10,085,960*	*49,408,156*
Outflows from long-term, short-term and other liabilities	(11,360,516)	(35,177,068)
Cash outflow from financing activities	*(11,360,516)*	*(35,177,068)*
Net cash (used in) from financing activities	**(1,274,556)**	**14,231,088**
(Decrease) Increase in cash and cash equivalents	**(17,572,718)**	**14,709,335**
Cash and cash equivalents at beginning of year	**25,228,726**	**10,595,830**
Currency translation gains on cash and cash equivalents	2,064,138	1,409,520
Currency translation losses on cash and cash equivalents	(1,408,882)	(1,485,959)
Cash and cash equivalents at the end of year	**8,311,264**	**25,228,726**

The accompanying notes are an integral part of these financial statements

Statement of Changes in Equity (stand-alone)

	Share capital	Other Capital	Reserves	Revaluation reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated gain (loss)	Total
Balance as at 1 January 2011	**81,530,200**	**5,597,824**	**889,424**	**39**	**48,417**	**(49,236)**	**(40,997,954)**	**47,018,714**
Total increase in current period	-	-	-	-	-	(14,854)	40,601,667	40,567,951
Total decrease in current period	-	-	-	(27)	(18,835)	-	-	-
Balance as at 31 December 2011	**81,530,200**	**5,597,824**	**889,424**	**12**	**29,582**	**(64,090)**	**(396,287)**	**87,586,665**
Balance as at 1 January 2012	**81,530,200**	**5,597,824**	**889,424**	**12**	**29,582**	**(64,090)**	**(396,287)**	**87,586,665**
Total increase in current period	-	-	-	-	-	(17,356)	49,456,516	49,416,496
Total decrease in current period	-	-	-	-	(22,664)	-	-	-
Balance as at 31 December 2012	**81,530,200**	**5,597,824**	**889,424**	**12**	**6,918**	**(81,446)**	**49,060,229**	**137,003,161**

The accompanying notes are an integral part of these financial statements

NOTES TO STAND ALONE FINANCIAL STATEMENTS

Notes to Stand Alone Financial Statements

1. GENERAL INFORMATION

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the financial statements for the year ended 31 December 2011.

2.1. Basis of preparation and presentation of financial statements

These financial statements for the year ended 31 December 2012 were prepared in accordance with the Law on Accounting and Auditing of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (Nos. 46/2006 and 111/2009), which requires full scope of International Financial Reporting Standards (IFRS) to be applied, and the regulations issued by the Ministry of Finance of the Republic of Serbia. Due to the difference between these two regulations, these financial statements differ from IFRS in the following respects:

- The financial statements are prepared in format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 – "Presentation of Financial Statements" requirements.
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.
- Property, plant and equipment were measured at market value by independent appraisal and any revaluation reserves for the excess of fair value against historical value were cancelled against share capital as at 1 January 2006.
- The Company has not consolidated the financial statements of its subsidiaries as in accordance with the Law of Accounting and Auditing of the Republic of Serbia the consolidated financial statements for the current year are required to be filed up to the end of April the following year. Under International Financial Reporting Standards, stand-alone financial statements of a Company which has subsidiaries are only allowed if consolidated financial statements are also prepared and issued at the same time.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2.2. New accounting standards

The following new standards and interpretations became effective for the Company from 1 January 2012:

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

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

- IFRS 9, Financial Instruments - I: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

  While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.
- IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.
- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.
- Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two Companies, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Company expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.
- Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.
- Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.
- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.
- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.
- Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of

IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.

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

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments in accordance with new governance structure that the Company has adopted during 2012 in compliance with the new Company law of the Republic of Serbia is the Board of Directors and the General Manager Advisory Board.

2.4. Foreign currency translation

(1) Functional and presentation currency

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

(2) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost".

2.5. Intangible assets

(1) Licenses and rights

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

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

(2) 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).

2.6. Exploration for and evaluation of mineral resources

(1) 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.

(2) 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.

(3) 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.

(4) 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.

(5) 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.

(6) Impairment – proved oil and gas properties and intangible assets

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

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

2.7. Property, plant and equipment

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

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

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

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

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

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

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

2.8. Impairment of non-financial assets

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

2.9. Investment property

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

Investment property principally comprises petrol stations, business facilities and apartments rented out to current and former Company employees for a period exceeding one year.

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

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

2.10. Construction contracts

A construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset. Contract costs are recognized as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

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

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

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

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

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

2.11. Investments in subsidiaries

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

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

2.12. Long–term financial assets

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

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

2.12.1. Financial assets classification

(1) Loans and receivables

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

(2) 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.

2.12.2. Recognition and measurement

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

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

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Company's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to finance income (expense) in profit or loss for the year (notes 31 and 32).

2.12.3. Impairment of financial assets

(1) Assets carried at amortised cost

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

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

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

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

The Company first assesses whether objective evidence of impairment exists.

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

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

(2) Assets classified as available for sale

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

2.13. Inventories

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

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

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

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

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

2.15. Trade receivables

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

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

2.16. Cash and cash equivalents

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

2.17. Off-balance sheet assets and liabilities

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

2.18. Share capital

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

2.19. Other capital

Other capital in total refers to the Company's capital above the amount of estimated and registered non-monetary capital as at 31 May 2005. It was recognized as other capital.

2.20. Reserves

Reserves fully relate to the reserves established in the past in accordance with the previous Law on Enterprises. In accordance with this Law, the Company was required to allocate 5% of profits until the reserve equals the amount defined by Company's Act, and at least 10% of the share capital.

2.21. Earnings per share

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

2.22. Provisions

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

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

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

2.23. Borrowings

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

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

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

2.24. Trade payables

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

2.25. Current and deferred income tax

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

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

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

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.26. Employee benefits

(1) Pension obligations

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

(2) Employee benefits provided by the Collective Agreement

The Company provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period. The new Collective Agreement has been applied as of 1 June 2011.

Jubilee awards

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

Minimum years of service in the Company	Collective Labour Agreement Number of monthly salaries
10	1
20	1,5
30	2
35	2,5
40	2,5

Retirement benefits

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

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

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

Termination benefits

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

(3) Bonus plans

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

2.27. Revenue recognition

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

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

(1) Sales of goods – wholesale

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

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of 90 days for state owned companies and 60 days for other companies, which is consistent with the market practice.

(2) Sales of goods – retail

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

(3) Sales of services

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

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

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

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

(4) Interest income

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

(5) 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.

(6) Dividend income

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

2.28. Leases

(1) Leases: Accounting by lessee

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

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

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

(2) Leases: Accounting by lessor

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

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

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

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

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

2.29. Dividend distribution

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

2.30. Capitalisation of borrowing costs

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTIG POLICIES

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

3.1. Critical accounting estimates and assumptions

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

(1) Income taxes

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

(2) Revenue recognition

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

(3) Employee benefits

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

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

If the discount rate used to calculate the present value of employee benefit obligations had been 7% (rather than 7.65%) per year, the past service liability (DBO) would have increased by approx. 9.7% for termination benefits and 5.9% for jubilee awards. If the employee salaries were to increase by 7% (rather than 6%) per year, the past service liability (DBO) would increase by approx. 15% for termination benefits and 8.8% for jubilee awards.

(4) Decommissioning Obligations

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

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

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

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

3.2. Critical judgments in applying accounting policies

(1) Impairment of available for sale financial assets

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

(2) Financial crisis

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

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

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

Impact on liquidity:

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

Impact on customers/ borrowers:

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

4. FINANCIAL RISK MANAGEMENT

4.1. Financial risk factors

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

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

(1) Market risk

a) Foreign exchange risk

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

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

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

As at 31 December 2012, if the currency had weakened/strengthened by 10% against the EUR, USD and JPY with all other variables held constant, prior-tax profit for the year would have been RSD 823,941 (2011: RSD 809,996) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR and USD denominated intercompany loans, trade receivables, trade payables and foreign exchange losses/gains on translation of EUR, USD and JPY denominated borrowings.

b) Commodity Price risk

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

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

c) Cash flow and fair value interest rate risk

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

Furthermore, in 2012 the Company approved to its majority-owned foreign subsidiaries subordinated loans as a means of financing business activities abroad. These loans were approved with the variable interest rate (Euribor). If the interest rates on approved loans had been 1% higher/lower with all other parameters unchanged, net result before tax for the year 2012 would have been RSD 52,179 (2011: RSD 496) higher/lower.

Borrowings issued at variable interest rates expose the Company to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Company to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (EURIBOR or LIBOR) has a proportionate impact on the Company's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2012 would have been RSD 820,669 (2011: RSD 640,891) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(2) Credit risk

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

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

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

The Company has provided for receivables from customers who have exceeded their credit limits or are undergoing liquidity problems (note 12).

(3) Liquidity risk

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

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

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

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

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

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

4.2. Capital risk management

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

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

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

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

	31 December 2012	31 December 2011
Total borrowings (Notes 20, 21 and 22)	90,291,649	84,794,521
Less: cash and cash equivalents (note 15)	(8,311,264)	(25,228,726)
Net debt	**81,980,385**	**59,565,795**
Total capital employed	218,983,546	147,152,460
Gearing ratio	**0,37**	**0,40**

4.3. Fair value estimation

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

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

5. SEGMENT INFORMATION

Operating segments, are segments whose operating results are regularly reviewed by the Chief Operating Decision Maker („CODM") of the Company. During 2012, the Company has adopted new governance structure in compliance with the new Company law of the Republic of Serbia. The Board of Directors and the General Manager Advisory Board represent the CODM according to newly adopted structure.

As at 31 December 2012, business activities of the Company are organized into five operating segments:

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

Reportable segments derive their revenue from the following activities:

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

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

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

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

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

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

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

	Year ended 31 December 2012		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	4,917,362	4,917,362
Sale of gas	17,814,542	-	17,814,542
Through a retail network	-	-	-
Wholesale activities	17,814,542	-	17,814,542
Sale of petroleum products	180,660,306	18,633,906	199,294,212
Through a retail network	58,062,240	-	58,062,240
Wholesale activities	122,598,066	18,633,906	141,231,972
Other sales	3,765,950	364,840	4,130,790
Total Sales	**202,240,798**	**23,916,108**	**226,156,906**
Work performed by the entity and capitalized			2,063,809
Increase in inventories of finished goods and work in progress			1,665,432
Other operating income			184,677
Total Operating Income			**230,070,824**

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

6. INTANGIBLE ASSETS

	Research and development	Concessions, patents, licenses and rights	Intangible assets under development	Other intangibles	Total
As at 1 January 2011					
Cost	-	878,120	1,843,860	4,721,726	7,443,706
Accumulated amortisation and impairment	-	(184,431)	(1,698,294)	(725,220)	(2,607,945)
Net book amount	**-**	**693,689**	**145,566**	**3,996,506**	**4,835,761**
Year ended 31 December 2011					
Opening net book amount	-	693,689	145,566	3,996,506	4,835,761
Additions	-	-	375,514	-	375,514
Transfer from IA under development	-	-	(246,938)	246,938	-
Transfer to PP&E (note 7)	-	-	-	(74,040)	(74,040)
Amortisation (note 28)	-	(14,971)	-	(660,417)	(675,388)
Impairment (note 34)	-	(1,625)	-	(37,866)	(39,491)
Disposals	-	24,910	(2,499)	(3,168)	19,243
Other transfers	-	(56,549)	30	56,519	-
Closing net book amount	**-**	**645,454**	**271,673**	**3,524,472**	**4,441,599**
As at 31 December 2011					
Cost	-	874,906	413,952	4,753,693	6,042,551
Accumulated amortisation and impairment	-	(229,452)	(142,279)	(1,229,221)	(1,600,952)
Net book amount	**-**	**645,454**	**271,673**	**3,524,472**	**4,441,599**
Year ended 31 December 2012					
Opening net book amount	-	645,454	271,673	3,524,472	4,441,599
Additions	1,645,694	-	1,104,981	-	2,750,675
Transfer from IA under development	-	821,165	(1,324,740)	503,575	-
Transfer to subsidiaries (note 9)	-	(2,291)	-	(134,883)	(137,174)
Transfer to PP&E (note 7)	1,786,149	-	251,012	7,727	2,044,888
Amortisation (note 28)	-	(95,559)	-	(584,630)	(680,189)
Impairment (note 34)	-	-	(86,459)	(691)	(87,150)
Disposals	(107,758)	-	(213)	-	(107,971)
Other transfers	-	353	7,529	(7,882)	-
Closing net book amount	**3,324,085**	**1,369,122**	**223,783**	**3,307,688**	**8,224,678**
As at 31 December 2012					
Cost	3,431,843	1,693,480	429,813	5,017,674	10,572,810
Accumulated amortisation and impairment	(107,758)	(324,358)	(206,030)	(1,709,986)	(2,348,132)
Net book amount	**3,324,085**	**1,369,122**	**223,783**	**3,307,688**	**8,224,678**

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

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

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

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Construction in progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
At 1 January 2011								
Cost	11,274,498	62,752,974	55,498,519	13,801,387	89,938	110,630	12,787,121	156,315,067
Accumulated depreciation and impairment	(737,373)	(24,160,797)	(29,850,236)	(3,366,233)	(1,426)	(109,910)	(74,701)	(58,300,676)
Net book amount	**10,537,125**	**38,592,177**	**25,648,283**	**10,435,154**	**88,512**	**720**	**12,712,420**	**98,014,391**
Year ended 31 December 2011								
Opening net book amount	10,537,125	38,592,177	25,648,283	10,435,154	88,512	720	12,712,420	98,014,391
Additions	1,087	4,747,851	2,485,766	31,239,335	6,986	-	14,627,610	53,108,635
Other transfers	(327)	(1,057,977)	726,533	306,068	-	-	-	(25,703)
Disposals and advances paid used	(233)	(77,765)	(47,393)	(67,634)	(2,738)	-	(18,591,128)	(18,786,891)
Depreciation (note 28)	-	(2,539,748)	(3,440,169)	-	-	(360)	-	(5,980,277)
Impairment charge (note 34)	(106)	(24,315)	(41,121)	(255,528)	(4,501)	-	-	(325,571)
Adjustment of assets value for estimated costs of the restoration of natural resources (note 19)	-	(1,035,326)	-	-	-	-	-	(1,035,326)
Transfer from intangible assets (note 6)	-	-	74,040	-	-	-	-	74,040
Transfer to investment property (note 8)	(47,205)	(73,066)	-	-	-	-	-	(120,271)
Closing net book amount	**10,490,341**	**38,531,831**	**25,405,939**	**41,657,395**	**88,259**	**360**	**8,748,902**	**124,923,027**
As at 31 December 2011								
Cost	11,185,907	62,832,533	60,387,999	44,639,338	93,279	110,630	8,770,320	188,020,006
Accumulated depreciation and impairment	(695,566)	(24,300,702)	(34,982,060)	(2,981,943)	(5,020)	(110,270)	(21,418)	(63,096,979)
Net book amount	**10,490,341**	**38,531,831**	**25,405,939**	**41,657,395**	**88,259**	**360**	**8,748,902**	**124,923,027**
As at 31 December 2012								
Opening net book amount	10,490,341	38,531,831	25,405,939	41,657,395	88,259	360	8,748,902	124,923,027
Additions	169,433	26,475,742	35,046,293	(21,277,999)	351	-	5,801,412	46,215,232
Transfer to subsidiaries (note 9)	(122,387)	(1,051,431)	(4,599,287)	-	(12,243)	-	-	(5,785,348)
Other transfers	67,107	(119,164)	46,478	-	-	-	-	(5,579)
Disposals and advances paid used	(1,631)	(65,574)	(29,074)	(659,597)	(722)	-	(12,145,685)	(12,902,283)
Depreciation (note 28)	-	(2,589,965)	(3,003,277)	-	-	(360)	-	(5,593,602)
Impairment charge (note 34)	-	(110,524)	(71,576)	(39,924)	(607)	-	-	(222,631)
Transfer from intangible assets (note 6)	-	-	-	(2,044,888)	-	-	-	(2,044,888)
Transfer to investment property (note 8)	(56,218)	(8,670)	-	-	-	-	-	(64,888)
Closing net book amount	**10,546,645**	**61,062,245**	**52,795,496**	**17,634,987**	**75,038**	**-**	**2,404,629**	**144,519,040**
As at 31 December 2012								
Cost	11,239,442	87,204,602	83,980,139	22,573,044	76,173	110,630	2,426,047	207,610,077
Accumulated depreciation and impairment	(692,797)	(26,142,357)	(31,184,643)	(4,938,057)	(1,135)	(110,630)	(21,418)	(63,091,037)
Net book amount	**10,546,645**	**61,062,245**	**52,795,496**	**17,634,987**	**75,038**	**-**	**2,404,629**	**144,519,040**

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

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

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

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

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

As at 31 December 2012, the Company assessed impairment indicators of cash generating units ("CGU") and concluded that no indications of additional impairment or reversals of previously recognized impairment losses had been identified.

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

Oil and gas production assets

	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
At 1 January 2011				
Cost	2,133,743	43,991,660	129,620	46,255,023
Accumulated depreciation and impairment	(128,385)	(15,282,939)	(109,917)	(15,521,241)
Net book amount	**2,005,358**	**28,708,721**	**19,703**	**30,733,782**
Year ended 31 December 2011				
Opening net book amount	2,005,358	28,708,721	19,703	30,733,782
Additions	7,977,117	-	-	7,977,117
Transfer from assets other than O&G	-	74,037	-	74,037
Transfer from asset under construction	(4,628,094)	4,627,567	527	-
Other transfers	44,225	522,252	(1,125)	565,352
Impairment	(181,455)	(17,054)	(4,501)	(203,010)
Depreciation	-	(2,846,292)	(360)	(2,846,652)
Transfer to investment property	-	(308)	-	(308)
Adjustment of assets value for estimated costs of the restoration of natural resources (note 19)	-	(1,035,326)	-	(1,035,326)
Disposals	(4,680)	(115,445)	811	(119,314)
Closing net book amount	**5,212,471**	**29,918,152**	**15,055**	**35,145,678**
At 31 December 2011				
Cost	5,512,468	48,205,627	129,810	53,847,905
Accumulated depreciation and impairment	(299,997)	(18,287,475)	(114,755)	(18,702,227)
Net book amount	**5,212,471**	**29,918,152**	**15,055**	**35,145,678**
Year ended 31 December 2012				
Opening net book amount	5,212,471	29,918,152	15,055	35,145,678
Additions	10,990,790	-	-	10,990,790
Transfer from assets other than O&G	676,646	-	-	676,646
Transfer to subsidiaries	-	(5,524,735)	(12,149)	(5,536,884)
Transfer from asset under construction	(6,070,889)	6,070,889	-	-
Other transfers	28,953	130,684	(510)	159,127
Impairment	(6,702)	(73,796)	-	(80,498)
Depreciation	-	(2,401,543)	(360)	(2,401,903)
Disposals	(733,701)	(2,470)	-	(736,171)
Closing net book amount	**10,097,568**	**28,117,181**	**2,036**	**38,216,785**
At 31 December 2012				
Cost	10,401,782	42,567,439	112,666	53,081,887
Accumulated depreciation and impairment	(304,214)	(14,450,258)	(110,630)	(14,865,102)
Net book amount	**10,097,568**	**28,117,181**	**2,036**	**38,216,785**

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

8. INVESTMENT PROPERTY

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

Movements on the account were as follows:

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

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

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

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

9. INVESTMENTS IN EQUITY INSTRUMENTS

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

(1) Investments In subsidiaries

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

Investments in subsidiaries as at 31 December 2012 relate to the following companies:

Company	Investment	Impairment	Net book value	Share %
O Zone a.d. Belgrade, Serbia	3,457,576	(1,172,263)	2,285,313	100%
NIS Petrol e.o.o.d., Sofija, Bulgaria	997	-	997	100%
NIS Petrol SRL, Bucharest, Romania	2,632	-	2,632	100%
NIS Petrol doo, Laktasi, BiH	1,030	-	1,030	100%
Pannon naftagas Kft, Budapest, Hungary	184	-	184	100%
NTC NIS-Naftagas d.o.o., Novi Sad, Serbia	321,500	-	321,500	100%
Naftagas-Tehnicki servisi d.o.o., Zrenjanin, Serbia	983,353	-	983,353	100%
Naftagas-Naftni servisi d.o.o., Novi Sad, Serbia	3,579,983	-	3,579,983	100%
Naftagas-Transport d.o.o., Novi Sad, Serbia	327,751	-	327,751	100%
NIS Oversiz, Moscow, Russia	9,856	-	9,856	100%
Jadran-Naftagas d.o.o. Banja Luka, BiH	71	-	71	66%
Svetlost, Bujanovac, Serbia	17,045	-	17,045	51%
Ranis, Moscow region, Russia	522	-	522	51%
Jubos, Bor, Serbia	904	(904)	-	51%
	8,703,404	**(1,173,167)**	**7,530,237**	

Movements on the account were as follows:

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

In 2012, the Company established the following companies:

- Naftagas-Naftni servisi d.o.o., Novi Sad. As at 31 December 2012 the total registered equity of the new company amounts to RSD 3,579,983 (non-cash contribution RSD 3,579,930).
- NTC NIS-Naftagas d.o.o., Novi Sad. As at 31 December 2012 the total registered equity of the new company amounts to RSD 321,500 (non-cash contribution RSD 321,447).
- Naftagas-Tehnicki servisi d.o.o., Zrenjanin. As at 31 December 2012 the total registered equity of the new company amounts to RSD 1,044,554 (non-cash contribution RSD 1,044,501).
- Naftagas-Transport d.o.o., Novi Sad. As at 31 December 2012 the total registered equity of the new company amounts to RSD 327,751 (non-cash contribution RSD 327,695).

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

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

(2) Financial assets available for sale

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

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

Company	Investment	Impairment	Net book value	Share %
HIP Petrohemija a.d., Pančevo, Serbia	1,682,522	(1,682,522)	-	12,72%
MSK a.d., Kikinda, Serbia	265,507	(265,507)	-	10,10%
Prokons, Subotica, Serbia	91,227	-	91,227	20,15%
Maco nafta, Skopje, Macedonia	47,185	-	47,185	49,00%
Linde Gas Serbia a.d, Bečej, Serbia	4,269	(4,269)	-	12,44%
SPC Pinki, Belgrade, Serbia	174	-	174	46,16%
Other legal entities	70,121	(31,027)	39,094	5,89%
	2,161,005	**(1,983,325)**	**177,680**	

Available for sale financial assets include the following:

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

Movements on the available for sale financial assets:

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

Movements on the provision for available for sale financial assets:

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

Fair value of other investments traded in an active market is determined based on the current market value at the reporting date.

10. OTHER LONG-TERM INVESTMENTS

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

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

(1) Rescheduled receivables

Rescheduled receivables as at 31 December 2012 fully relate to:

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

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

Movements on rescheduled receivables provision:

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

(2) Long-term loans to subsidiaries

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

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

Long-term loans to subsidiaries are approved at the variable interest rates (3M and 6M Euribor + 7.5% and 3M Euribor + 5%), for a period of 7 years from the date of payment of the last tranche, with a grace period of 5 years. The carrying value of long-term loans is equal to their fair value. The carrying value of long-term loans is equal to their fair value.

(3) Long-term loans to employees

Loans to employees as at 31 December 2012 amounting to RSD 1,259,637 (31 December 2011: RSD 1,052,371) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly instalments.

The fair value of loans to employees is based on the cash flows discounted at market interest rate at which the Company could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 5.56% (2011: 5.46% p.a.).

The maximum exposure to credit risk at the reporting date is the nominal value of loans given to employees. This credit risk exposure is limited, as the monthly instalments of these loans are withheld from employees' salaries. None of the loans are overdue or impaired.

11. INVENTORIES

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

Movement on inventory provision is as follows:

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

12. TRADE AND OTHER RECEIVABLES

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

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

The ageing of trade receivables is as follows:

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

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

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

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

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

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

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

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

13. SHORT-TERM FINANCIAL INVESTMENTS

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

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

Movements on the provision for short-term financial investments:

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

14. VAT AND PREPAID EXPENSES

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

Deferred input VAT as at 31 December 2012 amounting to RSD 3,715,739 (31 December 2011: RSD 1,746,469) represents VAT inputs claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty amounting to RSD 1,319,866 (31 December 2011: RSD 1,119,985) relates to the excise paid to the state for finished products stored in non-excise warehouse.

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

15. CASH AND CASH EQUIVALENTS

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

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

16. DEFERRED TAX ASSETS AND LIABILITIES

	Carrying value vs. Tax base
Deferred tax liabilities	
As at 1 January 2011	**(1,458,535)**
Origination and reversal of temporary differences	298,024
As at 31 December 2011	**(1,160,511)**
Origination and reversal of temporary differences	(623,824)
Impact of change in the tax rate	(580,256)
As at 31 December 2012	**(2,364,591)**

	Provisions	Impairment loss	Investment credit	Total
Deferred tax assets				
As at 1 January 2011	**-**	**-**	**4,804,904**	**4,804,904**
Origination and reversal of temporary differences	103,534	668,654	2,298,344	3,070,532
As at 31 December 2011	**103,534**	**668,654**	**7,103,248**	**7,875,436**
Origination and reversal of temporary differences	94,538	(203,662)	1,634,552	1,525,428
Impact of change in the tax rate	51,767	334,327	-	386,094
As at 31 December 2012	**249,839**	**799,319**	**8,737,800**	**9,786,958**

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

Investment credits represent 20% qualifying of capital investments made up to 31 December 2012 in accordance with tax legislation of the Republic of Serbia.

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

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

17. OFF BALANCE SHEET ASSETS AND LIABILITIES

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

18. EQUITY

	Share capital	Other capital	Reserves	Revaluation reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated gain (loss)	Total
Balance as at 1 January 2011	**81,530,200**	**5,597,824**	**889,424**	**39**	**48,417**	**(49,236)**	**(40,997,954)**	**47,018,714**
Profit for the year	-	-	-	-	-	-	40,601,667	40,601,667
Losses from securities	-	-	-	-	(18,835)	(14,854)	-	(33,689)
Other	-	-	-	(27)	-	-	-	(27)
Balance as at 31 December 2011	**81,530,200**	**5,597,824**	**889,424**	**12**	**29,582**	**(64,090)**	**(396,287)**	**87,586,665**
Profit for the year	-	-	-	-	-	-	49,456,516	49,456,516
Losses from securities	-	-	-	-	(22,664)	(17,356)	-	(40,020)
Balance as at 31 December 2012	**81,530,200**	**5,597,824**	**889,424**	**12**	**6,918**	**(81,446)**	**49,060,229**	**137,003,161**

18.1. Share Capital

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

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

18.2. Unrealised Gains (Losses) From Securities

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

Structure of unrealized gains from securities:

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

Structure of unrealized losses from securities:

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

19. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Asset retirement obligation	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2011	**8,275,608**	**962,968**	**4,729,374**	**-**	**4,533,590**	**18,501,540**
Charged to Income statement (note 28 and 32)	352,614	176,606	-	-	-	529,220
Adjustments on property, plant and equipment	(1,035,326)	-	-	-	-	(1,035,326)
Release of provision (note 33)	(326,083)	-	(1,140,172)	-	(2,505,737)	(3,971,992)
Settlement	-	(127,474)	(295,108)	-	(235,396)	(657,978)
As at 31 December 2011	**7,266,813**	**1,012,100**	**3,294,094**	**-**	**1,792,457**	**13,365,464**
Charged to Income statement (note 28 and 32)	836,334	24,000	-	1,042,855	-	1,903,189
Adjustments on property, plant and equipment	(82,397)	-	-	-	-	(82,397)
Release of provision (note 33)	(47,643)	-	(887,109)	-	(827,582)	(1,762,334)
Settlement	(1,021)	(174,717)	(162,420)	-	(155,429)	(493,587)
As at 31 December 2012	**7,972,086**	**861,383**	**2,244,565**	**1,042,855**	**809,446**	**12,930,335**

(1) 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.

(2) Environmental protection

In accordance with the applicable laws, the Company has to comply with environmental protection regulations. At the reporting date Company recorded provision for environmental protection of RSD 861,383 (2011: RSD 1,012,100) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(3) Long-term incentive program

In 2011, the Company started setting-up a long-term incentive program for Company managers. Following the program's approval, cash incentives will be paid out based on the Key Performance Indicators ("KPI") reached over a three-year period. As at 31 December 2012 the management made an assessment of present value of liabilities related to long-term employee incentives in amount of RSD 1,042,855 (note 28).

(4) Legal claims provisions

As at 31 December 2012, the Company assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses based on the information provided by the Legal Division. The Company reversed provision for litigation amounting to RSD 827,582 (2011: RSD 2,505,737) for proceedings which, upon legal consultations, were assessed to have positive outcome. The Company estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2012.

(5) Employee benefits provision

Employee benefits:

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

The principal actuarial assumptions used were as follows:

	31 December 2012	31 December 2011
Discount rate	7,65%	7,75%
Future salary increases	6%	6%
Future average years of service	19,79	18,79

	Retirement allowances	Jubilee awards	Other benefits	Total
Balances as at 1 January 2011	**976,273**	**3,657,173**	**95,928**	**4,729,374**
Benefits paid directly and other	(63,544)	(227,562)	(4,002)	(295,108)
Total income recognised in income statement	122,611	(1,170,857)	(91,926)	(1,140,172)
Balances as at 31 December 2011	**1,035,340**	**2,258,754**	**-**	**3,294,094**
Benefits paid directly	(65,080)	(97,340)	-	(162,420)
Total income recognised in income statement	(347,521)	(539,588)	-	(887,109)
Balances as at 31 December 2012	**622,739**	**1,621,826**	**-**	**2,244,565**

Amounts recognized in income statement:

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

20. LONG-TERM BORROWINGS

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

The maturity of non-current borrowings was as follows

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

The fair value of non-current borrowings and their carrying amounts are equal.

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

The fair value of non-current borrowings and their carrying amounts are equal.

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

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

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

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

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

21. OTHER LONG-TERM LIABILITIES

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

(1) Liabilities to parent company

As at 31 December 2012, other long-term liabilities to parent company amounting to RSD 55,536,844 (EUR 500,000,006) relate to borrowings from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares concluded on 24 December 2008. Under this agreement, Gazprom Neft shall grant loans for financing a EUR 500 million reconstruction and modernization of the technology complex programme by 31 December 2012. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(2) Finance lease liabilities

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

Minimum finance lease payments:

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

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

22. SHORT-TERM FINANCIAL LIABILITIES

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

23. TRADE AND OTHER PAYABLES

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

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

24. OTHER SHORT-TERM LIABILITIES

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

25. LIABILITIES FOR VAT, OTHER TAXES AND DEFERRED INCOME

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

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

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

26. OTHER OPERATING INCOME

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

27. RAW MATERIAL AND CONSUMABLES USED

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

28. DEPRECIATION, AMORTISATION AND PROVISION

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

29. EMPLOYEE BENEFITS EXPENSE

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

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

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

30. OTHER OPERATING EXPENSES

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

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

31. FINANCE INCOME

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

32. FINANCE EXPENSES

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

33. OTHER INCOME

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

34. OTHER EXPENSES

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

35. INCOME TAXES

Components of income tax expense:

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

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

	Year ended 31 December	
	2012	**2011**
Profit before tax	**51,324,959**	**39,697,374**
Tax calculated at statutory tax rate – 10%	5,132,496	3,969,737
Tax effect on:		
Expenses not deductible for tax purposes	752,222	(503,214)
Deferred tax credits	(1,634,552)	(2,298,344)
Utilized tax credits	(2,575,885)	(2,257,868)
Impact of change in the tax rate	194,162	-
	(3,264,053)	**(5,059,426)**
Adjustment in respect of prior years	-	185,396
	1,868,443	**(904,293)**
Average income tax rate	3,64%	-2,28%

36. EARNING PER SHARE

	Year ended 31 December	
	2012	**2011**
Profit	49,456,516	40,601,667
Weighted average number of ordinary shares in issue	163,060,400	163,060,400
Basic Earnings per share	0,303	0,249

37. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

During 2012 and 2011, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to the supply/delivery of crude oil, geophysical research and interpretation services.

As of 31 December 2012 and 31 December 2011 the outstanding balances with related parties were as follows:

	Subsidiary	Parent	Other related parties	Total
As at 31 December 2012				
Investments in equity instruments	8,703,404	-	-	8,703,404
Long-term loans issued	16,629,612	-	-	16,629,612
Other long-term investments	1,211,054	-	-	1,211,054
Inventories	64,732	-	22,174,560	22,239,292
Trade and other receivables	1,906,606	-	4,960	1,911,566
Short-term financial investments	312,851	-	-	312,851
VAT and prepaid expenses	73,828	-	20	73,848
Other long-term liabilities	-	(50,247,622)	-	(50,247,622)
Short-term financial liabilities	-	(5,289,222)	-	(5,289,222)
Trade and other payables	(1,265,209)	-	(25,475,054)	(26,740,263)
Other short-term liabilities	-	(115,203)	-	(115,203)
Liabilities for VAT, other taxes and deferred income	(553,497)	-	-	(553,497)
	27,083,381	**(55,652,047)**	**(3,295,514)**	**(31,864,180)**

	Subsidiary	Parent	Other related parties	Total
As at 31 December 2011				
Investments in equity instruments	3,490,817	-	-	3,490,817
Long-term loans issued	2,289,198	-	-	2,289,198
Other long-term investments	1,616,295	-	-	1,616,295
Inventories	1,544	-	17,299,127	17,300,671
Trade and other receivables	310,988	-	3,717	314,705
Short-term financial investments	126	-	-	126
VAT and prepaid expenses	2,398	-	-	2,398
Other long-term liabilities	-	(47,611,714)	-	(47,611,714)
Short-term financial liabilities	-	(1,133,612)	-	(1,133,612)
Trade and other payables	(14,766)	-	(18,121,839)	(18,136,605)
Other short-term liabilities	-	(142,620)	-	(142,620)
Liabilities for VAT, other taxes and deferred income	(748)	-	-	(748)
	7,695,852	**(48,887,946)**	**(818,995)**	**(42,011,089)**

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

	Subsidiary	Parent	Other related parties	Total
Year ended 31 December 2012				
Sales	1,581,731	-	124,793	1,706,524
Other operating income	17,261	-	-	17,261
Cost of goods sold	(1,426)	-	(12,625)	(14,051)
Raw material and consumables used	-	-	(67,725,252)	(67,725,252)
Employee benefits expense	(234,232)	-	-	(234,232)
Other operating expenses	(2,212,890)	(52,068)	-	(2,264,958)
Finance income	331,964	-	-	331,964
Finance expenses	-	(124,225)	-	(124,225)
Other income	32	-	119,192	119,224
Other expenses	(8,039)	(4,664)	(264,904)	(277,607)
	(525,599)	**(180,957)**	**(67,758,796)**	**(68,465,352)**
Year ended 31 December 2011				
Sales	809,570	-	4,788,484	5,598,054
Other operating income	1,058	-	-	1,058
Raw material and consumables used	-	-	(64,176,762)	(64,176,762)
Employee benefits expense	(140,481)	-	-	(140,481)
Other operating expenses	(46,554)	(139,306)	(3,000)	(188,860)
Finance income	3,837	-	18,266	22,103
Finance expenses	-	(38,034)	-	(38,034)
Other income	-	-	45,956	45,956
Other expenses	(10,106)	(21,250)	(184,029)	(215,385)
	617,324	**(198,590)**	**(59,511,085)**	**(59,092,351)**

Key management compensation

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

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

Main transactions with state owned companies

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

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

38. CONTINGENT LIABILITIES

Transfer of property ownership

As at 31 December 2012, the Company had ownership of 6,066 and the right to use and possess 1,725 properties, which make up 71% and 20% of the total Company properties (buildings and land), respectively.

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

Finance Guarantees

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

Environmental protection

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

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

Other contingent liabilities

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

39. TAX RISKS

Tax laws of Republic of Serbia are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. The tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years from the transaction date. As at 31 December 2012, Management assessed that the Company had paid all tax liabilities.

40. COMMITMENTS

Leases

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

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

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

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

Farm-in agreement with RAG Hungary limited

In December 2011, the Company entered into a Farm-in agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kiskunhalas area in Hungary. Under the contract, the Company committed to finance 50% of total exploration costs on at least three oil wells in the area covered by the exploration license. Depending on success of the exploration, the Company will be entitled to 50% of total production volume of hydrocarbons. Under the Joint Operation Agreement signed with RAG Hungary Limited, RAG will act as the Operator and will be in charge of and shall conduct all Joint Operations. On 31 December 2012 drilling and exploration works were estimated to 2.3 million USD.

41. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period.

Novi Sad, 13 February 2013

Auditor's report on consolidated financial report

pwc

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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 2012 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 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 [redacted] 2 to these consolidated financial statements, and for such internal control [redacted] is necessary to enable the preparation of financial statements that are free [redacted], 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012, 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 and Note 2 to these consolidated financial statements

Milivoje N[redacted]
Licensed Auditor

Pricewa[redacted] d.o.o., Beograd

Belgrade, 25 February 2013

[redacted] d.o.o., Omladinskih brigada 88a, 11070 Belgrade, Republic of Serbia
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This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Financial report (consolidated)

Consolidated Balance Sheet

	Notes	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Goodwill		968,940	-
Intangible assets	6	9,400,590	4,708,964
Property, plant and equipment	7	157,611,799	129,217,516
Investment property	8	1,367,378	1,338,269
Investments in equity instruments	9	177,680	225,232
Other long-term investments	10	1,290,057	1,087,147
		170,816,444	**136,577,128**
Current assets			
Inventories	11	44,741,588	35,403,205
Non-current assets held for sale		57,983	181,608
Trade and other receivables	12	40,010,284	20,345,343
Short-term financial investments	13	5,785,975	2,416,899
Cash and cash equivalents	14	12,069,897	25,832,354
VAT and prepaid expenses	15	9,598,891	4,922,034
Deferred tax assets	16	9,788,287	7,875,479
		122,052,905	**96,976,922**
Total assets		**292,869,349**	**233,554,050**
Off-balance sheet assets	17	84,582,742	79,279,565

	Notes	31 December 2012	31 December 2011
EQUITY AND LIABILITIES			
Equity	18		
Share and other capital	18,1	87,148,630	87,148,630
Reserves		867,866	884,217
Unrealized gains from securities	18,2	6,918	29,582
Unrealized losses from securities	18,2	(81,446)	(64,090)
Accumulated gain (loss)		45,148,692	(386,999)
Total equity		**133,090,660**	**87,611,340**
Long-term provisions and liabilities			
Long-term provisions	19	13,690,890	13,371,651
Long-term borrowings	20	31,100,703	33,774,543
Other long-term liabilities	21	50,283,107	48,278,469
		95,074,700	**95,424,663**
Short-term liabilities			
Short-term financial liabilities	22	9,359,358	3,445,250
Trade and other payables	23	33,366,219	29,621,937
Other short-term liabilities	24	6,962,356	6,694,698
Liabilities for VAT, other taxes and deferred income	25	12,087,988	8,098,259
Income tax liabilities		505,827	1,493,849
		62,281,748	**49,353,993**
Deferred tax liabilities	16	2,422,241	1,164,054
Total equity and liabilities		**292,869,349**	**233,554,050**
Off-balance sheet liabilities	17	84,582,742	79,279,565

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Income Statement

		Year ended 31 December	
	Notes	**2012**	**2011**
Operating income			
Sales	5	226,605,585	187,069,899
Work performed by the entity and capitalized		5,614,382	4,511,530
Increase in inventories of finished goods and work in progress		1,664,825	768,451
Other operating income	26	198,683	300,309
		234,083,475	**192,650,189**
Operating expenses			
Cost of goods sold		(26,621,606)	(12,711,852)
Raw material and consumables used	27	(91,646,458)	(95,575,854)
Employee benefits expense	29	(24,922,733)	(21,987,012)
Depreciation, amortisation and provision	28	(9,212,485)	(6,854,507)
Other operating expenses	30	(18,311,703)	(14,793,918)
		(170,714,985)	**(151,923,143)**
Operating profit		**63,368,490**	**40,727,046**
Finance income	31	9,964,434	7,014,939
Finance expenses	32	(15,974,288)	(8,838,821)
Other income	33	4,759,628	7,823,562
Other expenses	34	(14,648,732)	(7,009,260)
Profit before income tax		**47,469,532**	**39,717,466**
Income tax expense			
Current income tax expense	35	(2,591,542)	(2,466,758)
Deferred income tax benefit	16	654,621	3,365,056
Profit for the year		**45,532,611**	**40,615,764**
Net loss attributable to non-controlling interests	18	(19,734)	(22,006)
Net profit attributable to owners of parent	18	45,552,345	40,637,770
Earnings per share			
- Basic	36	0.279	0.249

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement Of Cash Flows

	Year ended 31st December	
	2012	**2011**
Cash flows from operating activities		
Sales and advances received	312,802,874	282,619,560
Interest from operating activities	1,903,267	984,664
Other inflow from operating activities	192,320	300,309
Cash inflow from operating activities	*314,898,461*	*283,904,533*
Payments and prepayments to suppliers	(139,319,224)	(121,617,940)
Salaries, benefits and other personal expenses	(23,671,657)	(21,859,725)
Interest paid	(3,318,871)	(3,114,515)
Income tax paid	(3,572,576)	(1,591,951)
Payments for other public revenues	(107,726,495)	(101,229,604)
Cash outflow from operating activities	*(277,608,823)*	*(249,413,735)*
Net cash from operating activities	**37,289,638**	**34,490,798**
Cash flows from investing activities		
Sale of shares	228	17,103
Proceeds from sale of property, plant and equipment	155,088	592,285
Cash inflow from investing activities	*155,316*	*609,388*
Purchase of intangible assets, property, plant and equipment	(47,212,914)	(34,059,150)
Other financial investments	(3,759,084)	-
Cash outflow from investing activities	*(50,971,998)*	*(34,059,150)*
Net cash used in investing activities	**(50,816,682)**	**(33,449,762)**

	Year ended 31st December	
	2012	**2011**
Cash flows from financing activities		
Proceeds from long-term and short term borrowings	6,651,461	23,406,069
Proceeds from other long-term and short-term liabilities	3,818,459	26,002,087
Cash inflow from financing activities	*10,469,920*	*49,408,156*
Outflows from long-term, short-term and other liabilities	(11,360,516)	(35,177,068)
Cash outflow from financing activities	*(11,360,516)*	*(35,177,068)*
Net cash (used in) from by financing activities	**(890,596)**	**14,231,088**
(Decrease) Increase in cash and cash equivalents	**(14,417,640)**	**15,272,124**
Cash and cash equivalents at beginning of year	**25,832,354**	**10,636,669**
Currency translation gains on cash and cash equivalents	2,064,732	1,409,520
Currency translation losses on cash and cash equivalents	(1,409,549)	(1,485,959)
Cash and cash equivalents at the end of year	**12,069,897**	**25,832,354**

The accompanying notes 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	Accumulated gain (loss)	Total
Balance as at 1 January 2011	**81,550,757**	**5,597,873**	**889,672**	**48,417**	**(49,236)**	**(41,004,743)**	**47,032,740**
Total increase in current period	-	-	-	-	(14,854)	40,615,764	40,578,600
Total decrease in current period	-	-	(5,455)	(18,835)	-	1,980	-
Balance as at 31 December 2011	**81,550,757**	**5,597,873**	**884,217**	**29,582**	**(64,090)**	**(386,999)**	**87,611,340**
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 current period	-	-	-	-	(17,356)	45,532,611	45,479,320
Total decrease in current 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**

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENS

Notes to Consolidated Financial Statements

1. GENERAL INFORMATION

NIS a.d. – Naftna Industrija Srbije, Novi Sad (the Parent) and its subsidiaries (together "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 Parent was established in accordance with the Decision of Government of Republic of Serbia on 7 July 2005 as the successor of five state owned companies of "Javno Preduzece Naftna Industrija Srbije''. On 2 February 2009 OAO Gazprom Neft (''Gazprom Neft'') acquired a 51% of the share capital of NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011 under the Parent'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 Parent is an open joint stock company, listed on the Belgrade Stock Exchange, Listing A (Prime Market).

The address of the Group's registered office is in Novi Sad, no.12 Narodnog fronta Street.

These consolidated financial statements have been approved and autorized for issue by CEO and will be presented to shareholders on the General meeting for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the consolidated financial statements for the year ended 31 December 2011.

2.1. Basis of preparation and presentation of finacial statements

These consolidated financial statements for the year ended 31 December 2012 were prepared in accordance with the Law on Accounting and Auditing of the Republic of Serbia published in Official Gazette of the Republic of Serbia (no. 46/2006 and 111/2009), which requires full scope of International Finacial 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, 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 – "Presentation of Financial Statements" requirements.
- "Off-balance sheet assets and liabilities" are recorded on the face of the consolidated balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.
- Property, plant and equipment were measured at market value by independent appraisal and any revaluation reserves for the excess of fair value against historical value were cancelled against share capital as at 1 January 2006

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2.2. New accounting standards

The following new standards and interpretations became effective for the Group from 1 January 2012:

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

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

- IFRS 9, Financial Instruments - I: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

  While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.
- IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.
- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.
- Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two Companies, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group's Management expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.
- Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.
- Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of the Group's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.
- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements.
- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.
- Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or

investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments in accordance with new governance structure that the Parent has adopted during 2012 in compliance with the new Company law of the Republic of Serbia, are the Parent's Board of Directors and the General Manager Advisory Board.

2.4. Consolidation

(1) Subsidiaries

Subsidiaries are all entities over which the Group 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 Group 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) Non-controlling interests

In consolidated financial statements, non-controlling interests in subisidiaries are presented separatly from Group equity as non-controlling interests (note 18).

(3) Associates

Associates are all entities over which the Parent has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Associates are all entities where the Parent performs common control determined by contract, and where consensus decides on operating and financial policies.

Investments in associates are accounted for using the equity method.

2.5. Foreign currency translation

(1) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency'). The consolidated financial statements are presented in RSD, which is the Group's presentation currency.

(2) 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 the end of the period exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Income Statement.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and other monetary assets and liabilities are presented in the Consolidated Income Statement within "financial income or expenses".

(3) Group Entities

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

- assets and liabilities are translated into the RSD using the exchange rate as at the date of that Consolidated Balance Sheet;
- income and expenses are transleted at average exchange rates and all resulting foreign exchange differences are rocognized in reserves as separate items in equity.

2.6. 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. 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.

2.7. 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 Consolidated Income Statement, after the Group's 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 Consolidated Income Statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

2.8. Intangible assets

(1) Licenses and rights

Separately acquired licenses are presented 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 exploration rights, which are amortised over the exploration period in accordance with the terms and conditions of the licence.

(2) Computer software

These include primarily the costs of implementation the (SAP) computer software program. Acquired computer software licenses are capitalised 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 exceed 8 years).

2.9. Exploration for and evaluation of mineral resources

(1) 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.

(2) 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 amortization are charged during development.

(3) 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.

(4) 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.

(5) 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.

(6) 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.

2.10. 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 Consolidated 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 asset's 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).

2.11. 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.

2.12. Investment property

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

Investment property principally comprises petrol stations, business facilities and apartments rented out to current and former Group employees for a period exceeding one year.

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

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the 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.

2.13. Construction contracts

A construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset. Contract costs are recognized as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

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

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

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

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

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

2.14. 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.

2.14.1 Financial assets classification

(1) 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"

(2) 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.

2.14.2 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 the Group 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 Consolidated Income Statement for the year as finance income. Dividends on available-for-sale equity instruments are recognised in Consolidated Income Statement 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. All other elements of changes in the fair value are recognised in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to finance income (expenses) in Consolidated Income Statement for the year (notes 31 and 32).

2.14.3 Impairment of financial assets

(1) Assets carried at amortised cost

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

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

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

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

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the Consolidated 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 Consolidated Income Statement.

(2) 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 Consolidated Income Statement — is removed from equity and recognised in the Consolidated Income Statement. Impairment losses recognised in the Consolidated Income Statement on equity instruments are not reversed through the Consolidated 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 Consolidated Income Statement, the impairment loss is reversed through the Consolidated Income Statement.

2.15. 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).

2.16. 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.

2.17. 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).

2.18. 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.

2.19. 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.

2.20. Share capital

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

2.21. Other capital

Other capital refers to non-registered share capital of the Parent, arisen at the date of the foundation of the Parent.

2.22. Reserves

Reserves fully relate to the reserves established in the past in accordance with the previous Law on Enterprises. In accordance with this Law, the Group 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. Additionaly, translation reserves are recorded in this line.

2.23. 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).

2.24. Provisions

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

2.25. 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 Consolidated 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.

2.26. 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.

2.27. Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in Serbia, where the 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.

2.28. Employee benefits

(1) 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) Employee benefits provided by Collective Labour 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. The new Collective Labour Agreement has been applied as of 1 June 2011.

Jubilee awards

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

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

Retirement benefits

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

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

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

Termination benefits

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

(3) 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.

2.29. 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 Group 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.

(1) Sales - wholesale

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

(2) 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.

(3) 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.

(4) 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.

(5) Income from work performed by the Group and capitalized

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

(6) Dividend income

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

2.30. Leases

(1) Leases: Accounting by lessee

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

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

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

(2) 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.

2.31. 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.

2.32. 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 AND JUDGMENTS IN APPLYING ACCOUNTIG POLICIES

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

3.1. Critical accounting estimates and assumptions

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

(1) Income tax

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

(2) Revenue recognition

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

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

(4) Decommissioning Obligations

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

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

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

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

3.2. Critical judgments in applying accounting policies

(1) Impairment of available for sale financial assets

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

(2) Financial crisis

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

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Serbian financial and corporate sectors. The Group's 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. The Group's 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 refinance 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 factorss

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.

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

(1) Market risk

a) 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.

The Group's 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 negotiate the best possible exchange rates for the purchase of foreign currency to be contracted on a daily basis based on the exchange rate applicable on the day the purchase is made. The total amounts of carrying values of financial assets and liabilities denominated in foreign currencies are shown in the table below:

	Financial Assets		Financial Liabilities	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
EUR	9,162,749	13,938,466	66,177,922	58,537,300
USD	8,741,594	7,699,163	46,654,185	50,272,976
JPY	-	-	477,670	514,970
Other	946,740	184,669	712,125	98,823

As at 31 December 2012, if the currency had weakened/strengthened by 10% against the EUR, USD and JPY with all other variables held constant, post-tax profit for the year would have been RSD 975,131 (2011: RSD 809,993) lower/ higher, mainly as a result of foreign exchange losses/gains on translation of EUR and USD denominated intercompany loans, trade receivables, trade payables and foreign exchange losses/gains on translation of EUR, USD and JPY denominated borrowings.

b) 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.

c) Cash flow and fair value interest rate risk

As at 31 December 2012 the Group had significant amounts of cash and cash equivalents. The cash was deposited only in banks with which the Group has passive business relationships i.e. loans and credit/documentary lines. Also, RSD and foreign currency fixed term deposits are short term (up to 90 days) and bear fixed interest rates. Based on the above information, the Group's revenues and cash flows are to a great extent independent of changes in market interest rates on fixed term deposits, although the interest rates that the Group can achieve in the market to a great extent depend on the level of basic interest rates at the time when cash has been deposited (Belibor / NBS key policy rate).

Borrowings issued 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 2012 would have been RSD 820,669 (2011: RSD 640,891) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(2) 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.

The Group has provided for receivables from customers who have exceeded their credit limits or are undergoing liquidity problems (note 12).

(3) Liquidity risk

Cash flow forecasting is performed as aggregated at the Group's level. The Parent'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 over and above balance required for working capital management is 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 reporting date to the contractual maturity date.

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

As at 31 December 2012	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Borrowings and other long term and short term financial liabilities (long-term and current-portion)	4,281	1,413,061	7,943,224	45,780,957	35,601,645	90,743,168
Liabilities from business operations	15,859,713	17,279,162	227,334	-	10	33,366,219
Other short-term liabilities	6,051,982	75,277	835,097	-	-	6,962,356
Accrued expenses and deferred revenue	2,359,137	22,426	1,792,862	-	-	4,174,425
	24,275,113	**18,789,926**	**10,798,517**	**45,780,957**	**35,601,655**	**135,246,168**

As at 31 December 2011	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Borrowings and other long term and short term financial liabilities (long-term and current-portion)	760,201	157,555	3,098,980	45,258,966	36,222,560	85,498,262
Liabilities from business operations	11,087,784	9,484,179	9,049,974	-	-	29,621,937
Other short-term liabilities	6,690,255	1,402	3,041	-	-	6,694,698
Accrued expenses and deferred revenue	2,693,884	-	-	-	-	2,693,884
	21,232,124	**9,643,136**	**12,151,995**	**45,258,966**	**36,222,560**	**124,508,781**

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.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the Consolidated Balance Sheet) less cash and cash equivalents.

Total capital employed is calculated as 'equity' as shown in the Consolidated Balance Sheet plus net debt.

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

	31 December 2012	31 December 2011
Total borrowings (notes 20, 21 and 22)	90,671,013	84,794,521
Less: cash and cash equivalents (note 14)	(12,069,897)	(25,832,354)
Net debt	**78,601,116**	**58,962,167**
Total capital employed	211,691,776	146,573,507
Gearing ratio	**0.37**	**0.40**

4.3. Fair value estimation

The fair value of financial instruments traded in an active market (such as available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the 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 Parent. During 2012, the Parent has adopted new governance structure in compliance with the new Company law of the Republic of Serbia. The Parent's Board of Directors and the General Manager Advisory Board represent the CODM according to newly adopted structure.

As at 31 December 2012 business activities of the 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 – Administration and Energy.

The reportable segments derive their revenue from the following activities:

(1) Exploration and Production of Oil and Natural Gas – production and sale of crude oil and natural gas,

(2) Oil Field Services – drilling services, construction works and geophysical measurement and transportation services,

(3) Refining – refining of crude oil and sale of petroleum products to NIS trade segment,

(4) Trading Oil and Petroleum Products – retail and wholesale activities consistent with the policy.

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

	Exploration and Production	Oil Field Services	Refining	Trade	Other	Eliminations	Total
Segment revenue	92,091,398	9,078,394	155,584,039	205,877,574	18,381,644	(246,929,571)	234,083,478
Intersegment	83,074,073	4,074,978	154,020,794	1,958,959	3,800,767	(246,929,571)	-
External	9,017,325	5,003,416	1,563,245	203,918,615	14,580,874	-	234,083,475
Depreciation and amortisation	(2,107,908)	(761,748)	(1,950,957)	(883,997)	(1,153,652)	-	(6,858,262)
Impairment losses	(113,062)	(18,331)	(64,127)	(427,966)	(1,339,322)	-	(1,962,808)
Segment profit (loss) from operating activities	83,736,516	(949,907)	(9,096,463)	(117,541)	(10,204,115)	-	63,368,490
Finance income (expenses)	(201,024)	4,126	(761,856)	277,555	(5,328,655)	-	(6,009,854)
Other income (expenses)	(3,289,756)	789,843	166,657	(567,351)	(6,988,497)	-	(9,889,104)
Segment profit (loss) before tax	**80,245,736**	**(155,938)**	**(9,691,662)**	**(407,337)**	**(22,521,267)**	**-**	**47,469,532**
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)	**80,245,455**	**(217,889)**	**(9,691,662)**	**(407,714)**	**(24,395,579)**	**-**	**45,532,611**

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

	Exploration and Production	Oil Field Services	Refining	Trade	Other	Eliminations	Total
Segment revenue	78,152,193	6,999,742	136,362,877	168,759,386	421,286	(198,045,295)	192,650,189
Intersegment	59,703,080	2,406,034	135,633,379	302,802	-	(198,045,295)	-
External	18,449,113	4,593,708	729,498	168,456,584	421,286	-	192,650,189
Depreciation and amortisation	(2,068,783)	(856,169)	(2,023,125)	(783,755)	(946,069)	-	(6,677,901)
Impairment losses	(379,934)	(11,233)	(26,397)	(126,253)	(32,458)	-	(576,275)
Segment profit (loss) from operating activities	65,042,473	(634,719)	(15,478,960)	(973,979)	(7,227,769)	-	40,727,046
Finance income (expenses)	(355,085)	10,510	(318,367)	400,497	(1,561,437)	-	(1,823,882)
Other income (expenses)	(25,105)	(1,263,299)	(1,728,714)	3,042,871	788,549	-	814,302
Segment profit (loss) before tax	**64,662,283**	**(1,887,508)**	**(17,526,041)**	**2,469,389**	**(8,000,657)**	**-**	**39,717,466**
Deferred income tax	-	-	-	-	3,365,056	-	3,365,056
Income tax expense	-	-	-	-	(2,466,758)	-	(2,466,758)
Segment profit (loss)	**64,662,283**	**(1,887,508)**	**(17,526,041)**	**2,469,389**	**(7,102,359)**	**-**	**40,615,764**

Intersegment revenues 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 customer incorporation and sales chanel) is presented in the table below:

	Year ended 31 December 2012		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	4,917,362	4,917,362
Sale of gas	17,814,542	-	17,814,542
Through a retail network	-	-	-
Wholesale activities	17,814,542	-	17,814,542
Sale od petroleum products	180,236,111	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**

	Year ended 31 December 2011		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	4,685,664	4,685,664
Sale of gas	13,288,107	-	-
Through a retail network	-	-	-
Wholesale activities	13,288,107	-	-
Sale od petroleum products	152,219,473	14,315,844	14,315,844
Through a retail network	43,193,966	-	-
Wholesale activities	109,025,507	14,315,844	14,315,844
Other sales	1,740,707	820,104	820,104
Total Sales	**167,248,287**	**19,821,612**	**19,821,612**
Work performed by the entity and capitalized			4,511,530
Increase in inventories of finished goods and work in progress			768,451
Other operating income			300,309
Total Operating Income			**192,650,189**

6. INTANGIBLE ASSETS

	Research and development	Concessions, patents, licenses and rights	Intangible assets under development	Other intangibles	Total
As at 1 January 2011					
Cost	-	878,120	1,843,860	4,732,177	7,454,157
Accumulated depreciation and impairment	-	(184,432)	(1,698,294)	(730,013)	(2,612,739)
Net book amount	**-**	**693,688**	**145,566**	**4,002,164**	**4,841,418**
Year ended 31 December 2011					
Opening net book amount	-	693,688	145,566	4,002,164	4,841,418
Additions	182,322	81,886	375,514	-	639,722
Transfer from IA under development	-	-	(246,938)	246,938	-
Transfer to PP&E (note 7)	-	-	-	(74,037)	(74,037)
Amortisation (note 28)	-	(15,702)	-	(661,754)	(677,456)
Impairment (note 34)	-	(1,625)	-	(37,866)	(39,491)
Disposals	-	24,911	(2,499)	(3,377)	19,035
Other transfers	-	(56,549)	30	56,292	(227)
Closing net book amount	**182,322**	**726,609**	**271,673**	**3,528,360**	**4,708,964**
As at 31 December 2011					
Cost	182,322	956,792	413,952	4,760,097	6,313,163
Accumulated depreciation and impairment	-	(230,183)	(142,279)	(1,231,737)	(1,604,199)
Net book amount	**182,322**	**726,609**	**271,673**	**3,528,360**	**4,708,964**
Year ended 31 December 2012					
Opening net book amount	182,322	726,609	271,673	3,528,360	4,708,964
Additions	2,297,802	-	1,227,969	-	3,525,771
Transfer from IA under development	-	943,983	(1,447,558)	503,575	-
Transfer from PP&E (note 7)	1,786,149	-	251,012	8,465	2,045,626
Amortisation (note 28)	-	(98,928)	-	(598,925)	(697,853)
Impairment (note 34)	-	-	(86,459)	(691)	(87,150)
Disposals	(107,758)	-	(212)	-	(107,970)
Other transfers	-	62,694	7,529	(81,882)	(11,659)
Translation reserves	16,004	8,839	-	18	24,861
Closing net book amount	**4,174,519**	**1,643,197**	**223,954**	**3,358,920**	**9,400,590**
As at 31 December 2012					
Cost	4,174,519	1,973,896	429,983	5,190,478	11,768,876
Accumulated depreciation and impairment	-	(330,699)	(206,029)	(1,831,558)	(2,368,286)
Net book amount	**4,174,519**	**1,643,197**	**223,954**	**3,358,920**	**9,400,590**

Research and development as at 31 December 2012 in the amount of 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 intangibles as at 31 December 2012 in the amount of RSD 3,358,920 mostly relate to investment in the SAP system in the amount of RSD 2,947,663 (2011: RSD 3,401,832).

Amortisation amounting to RSD 697,853 (2011: RSD 677,456) is included in Operating expenses within the Consolidated Income Statement (note 28).

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
As at 1 January 2011								
Cost	11,505,502	63,318,757	55,614,069	15,994,254	94,782	129,318	12,828,807	159,485,489
Accumulated depreciation and impairment	(737,373)	(24,278,791)	(29,939,778)	(3,366,233)	(1,356)	(120,887)	(116,387)	(58,560,805)
Net book amount	**10,768,129**	**39,039,966**	**25,674,291**	**12,628,021**	**93,426**	**8,431**	**12,712,420**	**100,924,684**
Year ended 31 December 2011								
Opening net book amount	10,768,129	39,039,966	25,674,291	12,628,021	93,426	8,431	12,712,420	100,924,684
Additions	1,001,309	4,898,941	2,495,520	31,513,740	6,986	-	14,627,610	54,544,106
Other transfers	(327)	(1,057,980)	726,471	306,070	84	2	-	(25,680)
Disposals and advances paid used	(232)	(77,761)	(56,067)	(67,635)	(4,707)	-	(18,591,128)	(18,797,532)
Depreciation (note 28)	-	(2,550,701)	(3,446,732)	-	-	(3,012)	-	(6,000,445)
Impairment charge (note 34)	(106)	(32,357)	(53,566)	(255,528)	(4,501)	-	-	(346,058)
Adjustment of assets value for estimated costs of the restoration of natural resources (note 19)	-	(1,035,326)	-	-	-	-	-	(1,035,326)
Transfer from intangible assets (note 6)	-	-	74,037	-	-	-	-	74,037
Transfer to investment property (note 8)	(47,205)	(73,065)	-	-	-	-	-	(120,270)
Closing 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**
As at 31 December 2011								
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	**2,342,264**	**28,849,580**	**35,990,372**	**(22,712,907)**	**351**	**-**	**6,020,653**	**50,490,313**
Acquisitions through business combinations (note 38)	-	-	-	2,503,391	-	-	-	2,503,391
Other transfers	67,107	(117,352)	56,325	-	-	-	-	6,080
Disposals and advances paid used	(1,631)	(361,368)	(40,369)	(1,670,441)	(722)	-	(12,314,738)	(14,389,269)
Depreciation (note 28)	-	(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 reserves	90,868	5,605	3,612	(126,217)	-	118	(10,011)	(36,025)
Closing net book amount	**14,163,958**	**64,700,819**	**57,844,197**	**18,365,307**	**90,301**	**2,411**	**2,444,806**	**157,647,824**
As at 31 December 2012								
Cost	14,856,754	91,713,066	95,863,682	22,681,199	91,447	129,318	2,466,224	227,801,690
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	**14,163,958**	**64,700,819**	**57,844,197**	**18,365,307**	**90,301**	**2,411**	**2,444,806**	**157,611,799**

Additions to property, plant and equipment in 2012 amounting to RSD 50,490,313 (2011: RSD 54,544,106) mostly relate to investments in MHC/DHT project (investments in the construction of a Mild Hydrocracking Complex and Hydrofinishing in Pančevo Oil Refinery which was finalised and put in use by the end of 2012) amounting to RSD 19,636,311, construction of hydrogen generation plant of RSD 3,091,637, reconstruction of docks and filling terminals of RSD 2,384,539, exploration rigs of RSD 1,719,628, purchase of transport vehicles of RSD 1,071,985 and reconstruction of gas stations of RSD 835,854. Advances paid to suppliers for the MHC/DHT project as at 31 December 2012 amounted to RSD 559,386.

In 2012, in accordance with revised IAS 23 'Borrowing Costs', the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 1,879,931 (2011: RSD 1,141,090).

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

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

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

In 2012, the Group made impairment of PP&E in the amount of RSD 1,857,942 (2011: RSD 346,058) which is mainly related to impairment of jointly controlled investment in tourist complex "Crni Vrh" in amount of RSD 1,616,295 and impairment of demolished or obsolete investments (note 34).

Oil and gas production assets

	Total – asset under construction (exploration and development expenditure)	Production assets	Other bussines and corporate assets	Total
As at 1 January 2011				
Cost	2,133,743	43,991,660	129,620	46,255,023
Accumulated depreciation and impairment	(128,385)	(15,282,939)	(109,917)	(15,521,241)
Net book amount	**2,005,358**	**28,708,721**	**19,703**	**30,733,782**
Year ended 31 December 2011				
Opening net book amount	2,005,358	28,708,721	19,703	30,733,782
Additions	8,241,325	-	-	8,241,325
Transfer from assets other than O&G	-	74,037	-	74,037
Transfer from asset under construction	(4,628,094)	4,627,567	527	-
Other transfers	44,225	525,193	(1,128)	568,290
Impairment charge	(181,455)	(18,342)	(4,501)	(204,298)
Depreciation	(709)	(2,846,435)	(360)	(2,847,504)
Transfer to investment property	-	(308)	-	(308)
Adjustment of assets value for estimated costs of the restoration of natural resources (note 19)	-	(1,035,326)	-	(1,035,326)
Disposals	(4,702)	(114,470)	814	(118,358)
Closing net book amount	**5,475,948**	**29,920,637**	**15,055**	**35,411,640**
As at 31 December 2011				
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	(733,702)	(2,499)	-	(736,201)
Translation reserves	24,837	249	-	25,086
Closing net book amount	**11,361,798**	**32,909,604**	**13,312**	**44,284,714**
As 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**

Oil and gas production assets comprise aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.9.).

8. INVESTMENT PROPERTY

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

Movements on the account were as follows:

	2012	2011
As at 1 January	**1,338,269**	**1,393,170**
Fair value losses (note 34)	(17,716)	(190,726)
Transfer from PP&E (note 7)	116,230	120,270
Transfer to non-current assets held for sale	(41,702)	-
Disposals	(27,670)	-
Other	(33)	15,555
As at 31 December	**1,367,378**	**1,338,269**

The following amounts relating to leasing activites have been recognized in the Consolidated Income Statement:

	Year ended 31 December	
	2012	2011
Rental income (note 26)	116,483	120,553

As at 31 December 2012 investment properties amounting to RSD 1,367,378 (31 December 2011: RSD 1,338,269) mainly relate to the petrol stations, business facilities and apartments that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

9. INVESTMENTS IN EQUITY INSTRUMENTS

	31 December 2012	31 December 2011
Financial assets available for sale	2,161,005	2,211,557
Less: Provision	(1,983,325)	(1,986,325)
	177,680	**225,232**

Financial assets available for sale

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

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

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

Available for sale financial assets include the following:

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

Movements on the available for sale financial assets:

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

Movement on the provision for available for sale financial assets:

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

Fair value of other investments traded in an active market is determined based on the current market value at the close of business at the reporting date.

10. OTHER LONG-TERM INVESTMENTS

	31 December 2012	31 December 2011
Rescheduled receivables	3,371,014	5,601,478
Long-term loans to employees	1,259,637	1,052,371
Finance lease receivables	78,190	148,043
Other long-term financial assets	818,933	769,934
	5,527,774	7,571,826
Less provision:		
- rescheduled receivables	(3,371,014)	(5,601,478)
- finance lease receivables	(57,743)	(120,668)
- other long-term financial assets	(808,960)	(762,533)
	(4,237,717)	(6,484,679)
Total – net	**1,290,057**	**1,087,147**

(1) Rescheduled receivables

Rescheduled receivables as at 31 December 2012 fully relate to:

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

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

Movements on rescheduled receivables provision:

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

(2) Long-term loans to employees

Loans to employees as at 31 December 2012 amounting to RSD 1,259,637 (31 December 2011: RSD 1,052,371) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly installments.

The fair value of loans to employees is based on the cash flows discounted at market interest rate at which the Group could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 5.56% (2011: 5.46% p.a.).

The maximum exposure to credit risk at the reporting date is the nominal value of loans given to employees. This credit risk exposure is limited, as the monthly installments of these loans are withheld from employees' salaries. None of the loans are overdue or impaired.

11. INVENTORIES

	31 December 2012	31 December 2011
Raw materials	27,662,411	23,275,562
Spare parts	3,189,108	2,783,196
Tools	171,435	137,703
Work in progress	7,941,977	5,808,325
Finished goods	8,079,365	8,548,192
Merchandise	4,244,958	2,272,222
	51,289,254	42,825,200
Advances	1,220,357	764,590
Less provision:		
- for inventories	(7,394,952)	(7,806,896)
- for advances	(373,071)	(379,689)
	(7,768,023)	(8,186,585)
Total inventories – net	**44,741,588**	**35,403,205**

Movement on inventory provision is as follows:

	2012	2011
As at 1 January	**(8,186,585)**	**(5,335,000)**
Provision for impaired inventories and advances charged for the year (note 34)	(17,771)	(3,500,373)
Provision reversed (note 33)	332,274	57,603
Write-off	9,235	570,839
Other	94,824	20,346
As at 31 December	**(7,768,023)**	**(8,186,585)**

12. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011
Trade receivables		
- domestic	44,432,556	22,616,484
- foreign	1,071,568	1,055,870
- related parties	7,312,560	1,999,116
	52,816,684	25,671,470
Receivables from specific operations	8,234,410	7,787,863
Interest receivables	5,954,781	4,984,493
Receivables from employees	84,788	87,281
Other receivables	7,474,290	7,461,184
	13,513,859	12,532,958
	74,564,953	**45,992,291**
Less provision:		
- trade receivables	(13,153,084)	(5,695,782)
- receivables from specific operations	(8,207,674)	(7,767,667)
- intrest receivables	(5,865,999)	(4,856,030)
- other receivables	(7,327,912)	(7,327,469)
	(34,554,669)	**(25,646,948)**
Total receivables – net	**40,010,284**	**20,345,343**

Trade receivables as at 31 December 2012 amounting to RSD 22,720,559 that are more than 90 days overdue are considered as impaired, except for receivables of RSD 9,617,981 (31 December 2011: RSD 269,440) from a number of independent customers for whom there is no recent history of default or they were additionally secured in accordance with Group credit policy.

The ageing of trade receivables is as follows:

	31 December 2012	31 December 2011
Up to 3 months	30,096,125	19,780,737
Over 3 months	22,720,559	5,890,733
	52,816,684	**25,671,470**

As at 31 December 2012 trade receivables of RSD 13,153,084 (31 December 2011: RSD 5,695,782) were assessed as uncollectable and fully provided for. The ageing of receivables provided for is as follows

	31 December 2012	31 December 2011
Up to 3 months	50,506	74,489
Over 3 months	13,102,578	5,621,293
	13,153,084	**5,695,782**

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

	31 December 2012	31 December 2011
RSD	73,392,968	44,834,760
USD	1,035,605	916,156
EUR	99,483	241,141
Other	36,897	234
	74,564,953	**45,992,291**

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

	2012	2011
As at 1 January	**(25,646,948)**	**(25,848,300)**
Provision for impaired receivables (note 34)	(10,440,076)	(1,068,701)
Written off	568,939	469,338
Reversal of provision (note 33)	962,839	741,175
Other	577	59,540
As at 31 December	**(34,554,669)**	**(25,646,948)**

Expenses 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 2012	31 December 2011
Short-term loans to employees	35,913	512,943
Current portion of long-term investments	7,898,604	4,895,659
Other short-term financial investments	3,672,397	3,420
	11,606,914	5,412,022
Less: provision	(5,820,939)	(2,995,123)
Total short-term financial investments – net	**5,785,975**	**2,416,899**

Other short-term financial investments as at 31 Decembar 2012 amounting to RSD 3,672,397, mainly relate to the part of consideration paid to VIVA International Marketing und Handles GMBH Austria in the amount of RSD 3,665,424 for acquisition of OMV BH. According to Share Purchase Agreement, signed on 30 November 2012, the Group will obtain control over OMV BH on 1 March 2013, when the Group will settle the remaining part of consideration.

Current portion of long-term investments as at 31 December 2012 amounting to RSD 7,898,604 (31 December 2011: RSD 4,895,659), mainly relate to current portion of rescheduled receivables of RSD 7,799,629. They are provided for in the amount of RSD 5,820,065 (31 December 2011: RSD 2,994,249) (note 10a).

Movements on the provision for short-term financial investments:

	2012	2011
As at 1 January	**(2,995,123)**	**(707,033)**
Provision for impairment (note 34)	-	(57,011)
Reversal of provision (note 33)	26,668	145,180
Transfer from other long-term investments (note 10a)	(2,121,961)	(2,121,961)
Foreign exchange diferences and other movements	(730,523)	(254,298)
As at 31 December	**(5,820,939)**	**(2,995,123)**

14. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cash at bank	9,027,943	25,397,340
Cash on hand	288,987	391,963
Restricted cash	2,678,075	-
Other cash eqivalents	74,892	43,051
	12,069,897	**25,832,354**

As at 31 December 2012 short term bank deposits amounting to RSD 1,151,718 (31 December 2011: RSD 16,634,152) relate to cash deposits with commercial banks with maturity of up to 30 days and are presented in line Cash at bank.

Restiricted cash as of 31 December 2012 in amount RSD 2,678,075 relates to cash deposited on escrow account. Withdrawal of deposited funds are conditioned with covenants defined in joint venture agreement with Energowind LLC for construction wind park in Serbia.

15. VAT AND PREPAID EXPENSES

	31 December 2012	31 December 2011
Deferred input VAT	4,617,873	2,027,935
Prepaid expenses	100,557	56,682
Accrued revenue	2,272,918	484,112
Prepaid excise duty	1,319,866	1,119,985
Housing loans and other prepayments	1,287,677	1,233,320
	9,598,891	**4,922,034**

Deferred input VAT as at 31 December 2012 amounting to RSD 4,617,873 (31 December 2011: RSD 2,027,935) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise duty amounting to RSD 1,319,866 (31 December 2011: RSD 1,119,985) relates to the excise paid to the state for finished products stored in non-excise warehouse.

Accrued revenue as at 31 December 2012 amounting to RSD 2,272,918 (31 December 2011: RSD 484,112) mostly relates to receivables for current period sales of gasoline components in the of amount RSD 1,433,617 and for sales of crude oil in the amount RSD 836,904, that have not been invoiced by the year end.

16. DEFERRED TAX ASSETS AND LIABILITIES

	PPE - carrying value vs Tax base
Deferred tax liabilities	
As at 1 January 2011	**(1,458,535)**
Origination and reversal of temporary differences	294,481
As at 31 December 2011	**(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)**

	Provisions and other differences	Impairment loss	Investment credit	Total
Deferred tax assets				
As at 1 January 2011	**-**	**-**	**4,804,904**	**4,804,904**
Origination and reversal of temporary differences	103,534	668,654	2,298,387	3,070,575
As at 31 December 2011	**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**

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

Investment credits represent 20% qualifying of capital investments made up to 31 December 2012 in accordance with tax legislation of the Republic of Serbia.

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

Tax Credit Origination	Tax Credit Reversal	31 December 2012	31 December 2011
2005	2015	-	43,053
2006	2016	425,226	444,137
2007	2017	2,164,224	2,184,630
2008	2018	702,349	710,607
2009	2019	1,228,886	1,311,823
2010	2020	1,294,489	1,308,064
2011	2021	937,507	1,100,934
2012	2022	1,985,166	-
		8,737,847	**7,103,248**

17. OFF BALANCE SHEET ASSET AND LIABILITIES

	31 December 2012	31 December 2011
Issued warranties and bills of exchange	44,671,748	49,650,326
Received warranties and bills of exchange	24,593,773	14,603,725
Properties in ex-Republics of Yugoslavia	5,424,642	5,463,077
Receivables from companies from ex-Yugoslavia	5,290,900	4,964,881
Third party merchandise in NIS warehouses	4,179,338	4,332,583
Assets for oil fields liquidation in Angola	422,341	264,973
	84,582,742	**79,279,565**

18. EQUITY

	Equity attributable to owners of the Group							
	Share capital	Other capital	Reserves	Unrealised gains (losses) from securities	Accumulated gain (loss)	Total	Non-controlling interest	Total equity
Balance as at 1 January 2011	**81,530,200**	**5,597,873**	**888,587**	**(819)**	**(41,009,046)**	**47,006,795**	**25,945**	**47,032,740**
Profit for the period	-	-	-	-	40,637,770	40,637,770	(22,006)	40,615,764
Losses from securities	-	-	-	(33,689)	-	(33,689)	-	(33,689)
Decrease in ownership	-	-	(1,789)	-	(7,619)	(9,408)	-	(9,408)
Other	-	-	(2,430)	-	8,811	6,381	(448)	5,933
Balance as at 31 December 2011	**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**

*Loss attributable to the minority shareholders for the year ended 31 December 2012 in the amount of RSD 19,734 (2011: RSD 22,006) isn't presented in the Consolidated Income Statement because of the limitation in the format of prescribed Consolidated Financial Statements.

18.1. Share Capital

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

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

18.2. Unrealised Gains (Losses) from Securities

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

Structure of unrealized gains from securities:

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

Structure of unrealized losses from securities:

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

19. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Asset retirement obligation	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2011	**8,275,608**	**962,968**	**4,746,001**	**-**	**4,590,075**	**18,574,652**
Charged to Consolidated Income Statement (note 28 and 32)	352,614	176,606	-	-	-	529,220
Adjustments on property, plant and equipment	(1,035,326)	-	-	-	-	(1,035,326)
Release of provision (note 33)	(326,083)	-	(1,155,212)	-	(2,556,637)	(4,037,932)
Settlement	-	(127,474)	(295,108)	-	(236,381)	(658,963)
As at 31 December 2011	**7,266,813**	**1,012,100**	**3,295,681**	**-**	**1,797,057**	**13,371,651**
Charged to Consolidated Income Statement (note 28 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**

(1) Asset retirement obligation

The Group's Management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells based on previous experience in similar projects.

(2) 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 861,383 (2011: RSD 1,012,100) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(3) 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 2012 the management made an assement of present value of liabilities related to long-term employee incentives in amount of RSD 1,042,855 (note 28).

(4) Legal claims provisions

As at 31 December 2012, 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 Division. The Group reversed provision for litigation amounting to RSD 827,581 (2011: RSD 2,556,637) for proceedings which, upon legal consultations, were assessed to have positive 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 2012.

(5) Employee benefits provision

Employee benefits:

	31 December 2012	31 December 2011
Retirement allowances	836,998	1,036,927
Jubilee awards	2,163,522	2,258,754
	3,000,520	**3,295,681**

The principal actuarial assumptions used were as follows:

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

	Retirement allowances	Jubilee awards	Other benefits	Tota
Balances as at 1 January 2011	**992,900**	**3,657,173**	**95,928**	**4,746,001**
Benefits paid directly and other	(63,544)	(227,562)	(4,002)	(295,108)
Total net income recognised in Consolidated Income Statement	107,571	(1,170,857)	(91,926)	(1,155,212)
Balances as at 31 December 2011	**1,036,927**	**2,258,754**	**-**	**3,295,681**
Benefits paid directly	(74,023)	(121,398)	-	(195,421)
Total net income recognised in Consolidated Income Statement	(125,906)	26,166	-	(99,740)
Balances as at 31 December 2012	**836,998**	**2,163,522**	**-**	**3,000,520**

Amounts recognized in Consolidated income statement:

	Year ended 31 December	
	2012	2011
Current service cost	247,621	263,841
Interest costs	235,246	241,609
sPast service cost	488,948	-
Curtailment gain	(843,615)	-
Acturial gain	(227,940)	(1,660,662)
	(99,740)	**(1,155,212)**

20. LONG-TERM BORROWINGS

	31 December 2012	31 December 2011
Domestic	14,627,940	17,997,065
Foreign	17,006,229	18,052,130
	31,634,169	36,049,195
Current portion of long-term borrowings (note 22)	(533,466)	(2,274,652)
Total	**31,100,703**	**33,774,543**

	31 December 2012	31 December 2011
Between 1 and 2 years	22,184,094	4,538,604
Between 2 and 5 years	2,405,694	22,487,295
Over 5 years	6,510,915	6,748,644
	31,100,703	**33,774,543**

The maturity of non-current borrowings was as follows:

	31 December 2012	31 December 2011
USD	19,607,409	25,352,982
EUR	9,269,068	8,900,998
RSD	2,281,108	1,281,436
JPY	476,584	513,779
	31,634,169	**36,049,195**

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 fulfill its obligations within agreed timeframe.

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

Creditor	Currency	31 December 2012	31 December 2011
Domestic long-term loans			
Erste bank, Novi Sad	USD	301,856	293,057
Erste bank, Novi Sad	EUR	469,403	446,569
Hypo Alpe Adria Bank, Belgrade	EUR	-	280,786
Piraeus bank, Belgrade	USD	-	4,043,310
Bank Postanska stedionica, Belgrade	EUR	236,111	227,822
Bank Postanska stedionica, Belgrade	USD	1,670,920	1,643,661
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,670,317	4,524,125
Government of Republic of Serbia, Agency for deposit assurance	USD	-	566,059
Vojvodjanska bank, Novi Sad	RSD	1,000,000	-
UniCredit bank, Belgrade	USD	4,998,225	4,690,240
UniCredit bank, Belgrade	RSD	1,278,900	1,278,900
Other loans	RSD	2,208	2,536
		14,627,940	**17,997,065**
Foreign long-term loans			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	565,419	553,813
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	476,584	513,779
Erste bank, Holland	EUR	3,411,549	3,139,227
VUB (Bank Intesa), Slovakia	USD	8,617,630	8,086,620
NBG bank, London	USD	6,307	1,432,912
NBG bank, London	EUR	102,324	282,469
Alpha bank, London	USD	1,723,526	4,043,310
Piraeus bank, Great Britain	USD	1,723,526	-
Neftegazovaja Inovacionnaja Korporacija, Rusija	EUR	379,364	-
		17,006,229	**18,052,130**
Less current portion of long-term borrowings		(533,466)	(2,274,652)
		31,100,703	**33,774,543**

		Current portion		Long-term	
	Currency	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Domestic long - term loans					
Erste bank, Novi Sad	USD	11,881	9,802	289,975	283,255
Erste bank, Novi Sad	EUR	18,169	14,635	451,234	431,934
Hypo Alpe Adria Bank, Belgrade	EUR	-	280,786	-	-
Piraeus bank, Belgrade	USD	-	-	-	4,043,310
Bank Postanska stedionica, Belgrade	EUR	12,586	10,558	223,525	217,264
Bank Postanska stedionica, Belgrade	USD	88,550	75,702	1,582,370	1,567,959
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	246,267	226,609	4,424,050	4,297,516
Government of Republic of Serbia, Agency for deposit assurance	USD	-	-	-	566,059
Vojvodjanska bank, Novi Sad	RSD	-	-	1,000,000	-
UniCredit bank, Belgrade	USD	-	-	4,998,225	4,690,240
UniCredit bank, Belgrade	RSD	-	-	1,278,900	1,278,900
Other loans	RSD	390	415	1,818	2,121
		377,843	**618,507**	**14,250,097**	**17,378,558**
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	27,790	23,234	537,629	530,579
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	19,202	17,603	457,382	496,176
Erste bank, Holland	EUR	-	-	3,411,549	3,139,227
VUB (Bank Intesa), Slovakia	USD	-	-	8,617,630	8,086,620
NBG bank, London	USD	6,307	1,426,995	-	5,917
NBG bank, London	EUR	102,324	188,313	-	94,156
Alpha bank, London	USD	-	-	1,723,526	4,043,310
Piraeus bank, Great Britain	USD	-	-	1,723,526	-
Neftegazovaja Inovacionnaja Korporacija, Rusija	EUR	-	-	379,364	-
		155,623	1,656,145	16,850,606	16,395,985
		533,466	**2,274,652**	**31,100,703**	**33,774,543**

21. OTHER LONG-TERM LIABILITIES

	31 December 2012	31 December 2011
Liabilities to Gazprom Neft	55,536,844	48,745,326
Finance lease liabilities	57,626	86,186
Other long-term liabilities	14,003	613,638
	55,608,473	49,445,150
Current portion of other long-term liabilities and financial lease (note 22)	(5,325,366)	(1,166,681)
	50,283,107	**48,278,469**

(1) Liabilities to Gazprom Neft

As at 31 December 2012, other long-term liabilities to Gazprom Neft amounting to RSD 55,536,844 (EUR 500,000,006) relate to borrowings from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares concluded on 24 December 2008. Under this agreement, Gazprom Neft shall grant loans for financing a EUR 500 million reconstruction and modernization of the technology complex programme by 31 December 2012. The stated liabilities shall be settled in quarterly installments starting from December 2012 until 15 May 2023.

(2) Finance lease liabilities

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

Minimum finance lease payments

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

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

22. SHORT-TERM FINANCIAL LIABILITIES

	31 December 2012	31 December 2011
Short-term loans	3,500,000	-
Current portion of long-term loans (note 20)	533,466	2,274,652
Current portion of finance lease (note 21)	36,144	33,069
Current portion of other long-term liabilities (note 21)	5,289,222	1,133,612
Other short-term liabilities	526	3,917
	9,359,358	**3,445,250**

23. TRADE AND OTHER PAYABLES

	31 December 2012	31 December 2011
Trade payables:		
- domestic	3,182,614	2,702,845
- foreign	2,859,806	7,060,646
Trade payables – other related parties	25,995,092	18,587,440
Liabilities from other operations	71,852	71,956
Liabilities from specific operations	294,221	327,923
	33,366,219	**29,621,937**

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

24. OTHER SHORT-TERM LIABILITIES

	31 December 2012	31 December 2011
Liabilities for unpaid wages and salaries, gross	1,962,078	1,690,264
Liabilities for interest – domestic	350,859	354,633
Liabilities for dividends	3,772,308	3,772,308
Unused holiday accrual	813,329	714,425
Other liabilities	63,782	163,068
	6,962,356	**6,694,698**

25. LIABILITIES FOR VAT, OTHER TAXES AND DEFERRED INCOME

	31 December 2012	31 December 2011
Liabilities for VAT	580,897	1,161,428
Liabilities for excise	2,563,776	2,422,037
Liabilities for taxes and custom duties	4,548,742	1,772,130
Other liabilities for taxes and contributions	220,147	48,780
Accrued liabilities	1,590,555	1,149,958
Other accruals	2,583,871	1,543,926
	12,087,988	**8,098,259**

Accrued liabilities as at 31 December 2012 amounting to RSD 1,590,555 mainly relate to estimated costs of services rendered but not invoiced by suppliers in the year ended 31 December 2012 (31 December 2011: RSD 1,149,958).

Other accruals as at 31 December 2012 amounting to RSD 2,583,871 (31 December 2011: RSD 1,543,926) mainly relate to accrued employee bonuses of RSD 1,418,102 (31 December 2011: RSD 1,154,658).

26. OTHER OPERATING INCOME

	Year ended 31 December	
	2012	2011
Rental income (note 8)	116,483	120,553
Other operating income	82,200	179,756
	198,683	**300,309**

27. RAW MATERIAL AND CONSUMABLES USED

	Year ended 31 December	
	2012	2011
Costs of raw materials	88,092,425	92,737,629
Overheads and other costs	770,566	892,630
Other fuel and energy expenses	2,783,467	1,945,595
	91,646,458	**95,575,854**

28. DEPRECIATION, AMORTISATION AND PROVISION

	Year ended 31 December	
	2012	2011
Depreciation expenses	6,858,262	6,677,901
Provision for:		
- land recultivation and environmental protection (note 19)	523,999	176,606
- employees benefits (note 19)	787,369	-
- long-term incentive program (note 19)	1,042,855	-
	9,212,485	**6,854,507**

29. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December	
	2012	2011
Wages and salaries (gross)	16,789,491	15,094,120
Taxes and contributions on wages and salaries paid by employer	2,618,554	2,521,657
Costs of special service agreements	485,606	389,672
Cost of other temporary service agreements	44,758	19,071
Fees paid to board of directors and general assembly board	35,216	28,545
Cost for employee termination benefits	3,642,744	2,705,653
Other personal expenses and benefits	1,306,364	1,228,294
	24,922,733	**21,987,012**

Termination costs amounting to RSD 3,642,744 mainly relate to costs incurred in relation to voluntary leave programme. The total number of employees who accepted termination of employment in 2012 was 1,701 (2011: 1,192 employees).

	Year ended 31 December	
	2012	2011
Average number of employees	9,004	9,787

30. OTHER OPERATING EXPENSES

	Year ended 31 December	
	2012	2011
Cost of production services	1,971,608	1,545,572
Transportation services	1,711,607	1,550,334
Maintenance	1,442,374	1,209,111
Rental costs	662,895	570,132
Fairs	4,459	7,754
Advertising costs	550,570	392,337
Research costs	759,226	177,971
Cost of other services	965,822	907,376
Costs of non-production services	3,427,917	2,163,354
Representation costs	125,626	144,761
Insurance premium	225,371	222,566
Bank charges	214,311	253,537
Cost of custom duties, property taxes and other taxes	1,973,586	2,281,147
Fee for emergency situations	288,517	554,112
Mineral extraction tax	2,782,327	2,138,526
Cost of legal and consulting services	128,911	105,011
Administrative and other taxes	193,630	192,229
Other	882,946	378,088
	18,311,703	**14,793,918**

Cost of non-production services for year ended 31 December 2012 amounting to RSD 3,427,917 (2011: RSD 2,163,354) mainly relate to costs of service organizations of RSD 2,065,898, consulting service costs of RSD 453,601, project management costs of RSD 119,592 and certification and supervision costs of RSD 165,097.

31. FINANCE INCOME

	Year ended 31 December	
	2012	2011
Finance income – Gazprom Neft	-	18,266
Interest income	3,051,043	1,337,998
Foreign exchange gains	6,903,746	5,652,820
Other finance income	9,645	5,855
	9,964,434	**7,014,939**

32. FINANCE EXPENSES

	Year ended 31 December	
	2012	2011
Finance expenses – Gazprom Neft	124,225	38,034
Interest expenses	1,604,224	2,281,059
Amortization of long-term liabilities	336,335	352,614
Foreign exchange losses	13,906,949	6,163,777
Other finance expenses	2,555	3,337
	15,974,288	**8,838,821**

33. OTHER INCOME

	Year ended 31 December	
	2012	2011
Gains on disposal:		
- property, plant and equipment	136,304	80,410
- materials	14,514	15,898
Surpluses from stock count	382,164	146,960
Payables written off	558,983	632,986
Release of long-term provisions (note 19)	1,762,333	4,037,932
Penalty interest	46,889	48,928
Recovered Elektroprivreda of Montenegro Receivables	-	463,036
Insurance claims received	-	14,404
Reversal of impairment of buildings	-	31,135
Change in bonuses accrual	-	23,093
Adjustment of investments in Angola	64,342	418,982
Reversal of impairment losses on:		
- property, plant and equipment	2,881	349,332
- inventories	322,555	-
- short-term financial investments (note 13)	26,668	145,180
- receivables (note 12)	962,839	741,175
- advances paid	9,719	57,603
- other properties	8,646	-
Other	460,791	616,508
	4,759,628	**7,823,562**

34. OTHER EXPENSES

	Year ended 31 December	
	2012	2011
Losses on disposal of property, plant and equipment	386,882	25,427
Shortages	786,415	800,655
Write off of receivables	40,621	10,337
Write off of inventories	131,407	19,404
Fines, penalties and damages	22,529	49,471
Humanitarian services and sponsorships	162,704	173,169
Adjustment of investments in Angola	7,856	35,617
Bank charges for sales on debit cards	-	58,751
Service costs	-	36,382
Impairment:		
- intangible assets (note 6)	87,150	39,491
- property, plant and equipment (note 7)	1,857,942	346,058
- investment property (note 8)	17,716	190,726
- investments in associates	-	4,269
- other long-term investments	2,504	32,475
- inventories (note 11)	5,434	3,480,181
- advances paid (note 11)	12,337	20,192
- short term investments (note 13)	-	57,011
- receivables(note 12)	10,440,076	1,068,701
Other	687,159	560,943
	14,648,732	**7,009,260**

35. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2012	2011
Income tax for the year	2,591,542	2,466,758
Deferred income tax for the period (note 16)		
Origination and reversal of temporary differences	(848,783)	(3,365,056)
Impact of change in the tax rate	194,162	-
	(654,621)	(3,365,056)
	1,936,921	**(898,298)**

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

	Year ended 31 December	
	2012	2011
Profit before tax	**47,469,532**	**39,717,466**
Tax calculated at statutory tax rate – 10%	4,746,953	3,971,747
Tax effect on:		
Expenses not deductible for tax purposes	966,676	(499,186)
Deferred tax credits	(1,634,556)	(2,298,387)
Tax losses for which no deferred income tax asset was recognised	240,728	-
Utilized tax credits	(2,577,042)	(2,257,868)
Impact of change in the tax rate	194,162	-
Adjustment in respect of prior years	-	185,396
	1,936,921	**(898,298)**
Average income tax rate	4.08%	-2.26%

36. EARNING PER SHARE

	Year ended 31 December	
	2012	2011
Profit	45,552,345	40,637,770
Weighted average number of ordinary shares in issue	163,060,400	163,060,400
Basic Earnings per share	**0.279**	**0.249**

37. GROUP ENTITIES

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

Subsidiary	Country of incorporation	Share % 31 December 2012	Share % 31 December 2011
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
Jadran - Naftagas d.o.o., Banja Luka	Bosnia and Herzegovina	66	66
Ranis, Moscow region	Russia	51	51
Jubos, Bor	Serbia	51	51
Svetlost, Bujanovac, Serbia	Serbia	51	51

In 2012, the Parent established following companies:

- Naftagas-Naftni servisi d.o.o., Novi Sad. As at 31 December 2012 the total registered equity of the new company amounts to RSD 3,579,983 (non-cash contribution RSD 3,579,930).
- NTC NIS-Naftagas d.o.o., Novi Sad. As at 31 December 2012 the total registered equity of the new company amounts to RSD 321,500 (non-cash contribution RSD 321,447).
- Naftagas-Tehnicki servisi d.o.o., Zrenjanin. As at 31 December 2012 the total registered equity of the new company amounts to RSD 1,044,554 (non-cash contribution RSD 1,044,501).
- Naftagas-Transport d.o.o., Novi Sad. As at 31 December 2012 the total registered equity of the new company amounts to RSD 327,751 (non-cash contribution RSD 327,695).

38. 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 Parent. The total of 29.87% shares of the Parent (from the remaining 43.85%) are owned by the Republic of Serbia, while 13.98% are owned by non-controling shareholders and are quoted on the Belgrade Stock Exchange. Gazprom, Russian Federation is the ultimate owner of the Group.

During 2012 and 2011, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to the supply/delivery of crude oil, geophysical research and interpretation services.

As of 31 December 2012 and 31 December 2011 the outstanding balances with related parties were as follows:

	Gazprom Neft	Other related parties	Total
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)**
As at 31 December 2011			
Inventories	-	17,299,127	17,299,127
Trade and other receivables	-	3,717	3,717
Other long-term liabilities	(47,611,714)	-	(47,611,714)
Short-term financial liabilities	(1,133,612)	-	(1,133,612)
Trade and other payables	-	(18,121,839)	(18,121,839)
Other short-term liabilities	(142,620)	-	(142,620)
	(48,887,946)	**(818,995)**	**(49,706,941)**

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

	Gazprom Neft	Other related parties	Total
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)**	**(68,473,526)**
Year ended 31 December 2011			
Sales	-	4,788,484	4,788,484
Raw material and consumables used	-	(64,176,762)	(64,176,762)
Other operating expenses	(139,306)	(3,000)	(142,306)
Finance income	-	18,266	18,266
Finance expenses	(38,034)	-	(38,034)
Other income	-	45,956	45,956
Other expenses	(21,250)	(184,029)	(205,279)
	(198,590)	**(59,511,085)**	**(59,709,675)**

Key management compensation

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

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

Main transactions with state owned companies

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

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

39. BUSINESS COMBINATIONS

In 2012, as a part of regional expansion the Group has acquired 20 petrol and gas stations (P&G station): 11 in Bulgaria, 5 in Romania and 4 in Bosnia and Herzegovina. As a result of the aquisitions, the Group is expected to further increase its presence in these markets.

Name of acquiree	Date of acquisition	Percentage of equity interests acquired
Bulgaria		
P&G station Tsvetan Lazarov	25/01/2012	100%
P&G station Blagoevgrad	17/02/2012	100%
P&G station Priseltsi	14/03/2012	100%
P&G station Kardjali	17/05/2012	100%
P&G station Veliko Tarnovo	21/05/2012	100%
P&G station Smolian	22/06/2012	100%
P&G station Pazardjik	26/06/2012	100%
P&G station Plovdiv	29/06/2012	100%
P&G station Asenovgrad	21/09/2012	100%
P&G station Bourgas	15/10/2012	100%
P&G Station Meden Rudnik (Burgas)	18/12/2012	100%
Romania		
P&G station Petroliv	18/06/2012	100%
P&G station Alpha	05/07/2012	100%
P&G station XXL Oil	31/07/2012	100%
P&G station D&C Oil	31/07/2012	100%
P&G station Eso Oil	31/07/2012	100%
Bosnia and Herzegovina		
P&G station Bijeljina	17/09/2012	100%
P&G station Foča	17/09/2012	100%
P&G station Janja	17/09/2012	100%
P&G station Rogatica	17/09/2012	100%

The following table summarises the consideration paid for acquired P&G stations, the fair value of assets acquired and liabilities assumed:

	Bulgaria	Romania	BIH	Total
Purchase consideration:				
Cash paid	1,618,147	980,836	338,607	2,937,590
Additional consideration	42,660	-	958	43,618
Total purchase consideration	**1,660,807**	**980,836**	**339,565**	**2,981,208**
Fair value of net identifiable assets acquired (see below)	1,174,892	980,836	348,456	2,504,184
Goodwill	**485,915**	**-**	**-**	**485,915**
Gain on bargain purchase	**-**	**-**	**(8,891)**	**(8,891)**
Amounts recognized as at acquisition date for each major class of assets acquired and liabilities assumed				
Inventories	-	793	-	793
Property, plant and equipment	1,174,892	980,043	348,456	2,503,391
Net identifiable assets acquired	**1,174,892**	**980,836**	**348,456**	**2,504,184**

Aquisition related costs of RSD 51,194 have been charged to expenses in the Consolidated Income Statement for year ended 31 December 2012.

The gain on bargain purchase of RSD 8,891 is included in other income within Consolidated Income Statement.

The aquisition agreements include only acquisition of properties of P&G stations and do not contain any contingent consideration.

As of 31 December 2012 Group has obtain all information about facts and circumstances that existed as of P&G acquisition date which allowed to finalise provisonal amounts previously recognised for business combination. Above has resulted in additional goodwill recognition in balance sheet in amount of RSD 483,025.

40. CONTINGENT LIABILITIES

Transfer of property ownership

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

Finance Guarantees

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

Environmental protection

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

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

Other contingent liabilities

As at 31 December 2012, the 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 Parent has to pay the difference in tax calculation including interest of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Group's Management believes that, based on the concession agreements signed with Angola and an the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit Oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The 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 2012 there was a significant level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil if any.

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 2012, 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 2012	31 December 2011
Up to one year	186,118	158,321
Between one and five years	247,826	252,559
Over five year	944	1,010
	434,888	**411,890**

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

	31 December 2012	31 December 2011
Up to one year	460,388	188,159
Between one and five years	387,249	64,361
Over five year	-	-
	847,637	**252,520**

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 2013 exploration licence for Block 2 was ratified by Romania Government. Preparation for exploration activities is underway. On 31 December 2012 drilling and exploration works for Block 2 were estimated to USD 14.3 million.

Farm-in agreement with RAG Hungary limited

In December 2011, the Group entered into a Farm-in agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kiskunhalas area in Hungary. Under the contract, the Group committed to finance 50% of total exploration costs on at least three oil wells in the area covered by the exploration license. Depending on success of the exploration, the Group will be entitled to 50% of total production volume of hydrocarbons. Under the Joint Operation Agreement signed with RAG Hungary Limited, RAG will act as the Operator and will be in charge of and shall conduct all Joint Operations. On 31 December 2012 drilling and exploration works were estimated to USD 2.3 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. By 31 December 2012, there were no exploration activities with respect to the Agreement. Preparatory works are underway.

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 sunc 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 2012 drilling and exploration works were estimated to a USD 4.7 million.

43. EVENTS AFTER THE REPORTING PERIOD

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. Cost of drilling and exploration were estimated to USD 20 million. Depending on success of the exploration, the Group will be entitled to 50% of any net production revenue from the three wells. Drilling preparation is underway and Group's expectation is to commence first drilling by the end of March 2013 and by the end of September 2013 for second and third wells.

Novi Sad, 25 February 2013

STATEMENT OF PERSONS RESPONSIBLE FOR PREPARING OF ANNUAL REPORT

We hereby state that, to our best knowledge, the annual report has been made by applying the appropriate international financial reporting standards, and also in accordance with the Law on Accounting and Auditing of the Republic of Serbia published in Official Gazette of the Republic of Serbia (no. 46/2006 and 111/2009), which requires full scope of IFRS to be applied, and the regulations issued by the Ministry of Finance of the Republic of Serbia[1] and that they show true and objective data on the property, obligations and financial position and business, profits and losses, cash flows and changes in the capital of the public company, including subsidiaries encompassed by the consolidated statements.

Kirill Kravchenko
CEO, NIS a.d. Novi Sad

1 Due to the difference between these two regulations, these financial statements differ from IFRS in the following respects:
- The financial statements are prepared in format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 – "Presentation of Financial Statements" requirements.
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.
- Property, plant and equipment were measured at market value by independent appraisal and any revaluation reserves for the excess of fair value against historical value were cancelled against share capital as at 1 January 2006.

APPENDICES

Glossary

$/bbl	Dollars per barrel
ABSc	Associate of bachelor Sciences
ACCA	Chartered Association of Certified Accountants
B&H	Bosnia and Herzegovina
B.Sc or Bsc	Bachelor of Science
BAM	Bosnian mark
BGN	Bulgarian Lev
bln.	Billion
BoD	Board of Directors
c.j.s.c.	Closed Joint Stock Company
CAPEX	Capital expenditure
CE	Conformite Europeenne
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Dr.Sc	Doctor of Science
EB	Executive Board
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortization
EPS	Earnings per share
ES	Elementary School
ESP	Electrical submersible pumps
EU	European Union
EUR	Euro
FC	Football club
FCC	Fluid catalytic cracker
FEST	International Film Festival in Serbia
FX	Foreign Exchange
GDP	Gross Domestic Product
GPN	Gazprom Neft
GPS	General Positioning System
GRI	Global Reporting Initiative
GRP	hydraulic fracturing
GTM	Geological and Technological Measures

GWh	Gig watt hour
HR	Human Resources
HS	High School
HSE	Health, Security and Environment
HUF	Hungarian forint
IFC	International Finance Corporation
IRMS	Integrated Risk Management System
ISO	International Organization for Standardization
j.s.c. or JSC or a.d.	Joint Stock Company
LLC, or l.l.c, or d.o.o.	Limited Liability Company
LPG	Liquefied Petroleum Gas
LTIF	Lost Time Injury Frequency
M.Sc	Master of Science
m3	Cubic meter
MHC/DHT	Mild hydro cracking and hydrotreating
mln.	Million
MTSS and CC	Material, Technical and Service Support and Capital Construction
NBS	National Bank of Serbia
NIS	Naftna industrija Srbije a.d. Novi Sad
NTC	stands for Naucno tehnicki Centar i.e. Scientific and Technical Centre
o.j.s.c	Open Joint Stock Company
OCF	Operating Cash Flow
OPEX	Operating Expenditure
P/BV	Price to Book Value
P/E	Price Earnings
Ph.D.	Doctor of philosophy
PPE	Personal Protective Equipment
PR	Public Relations
PS	Petrol Station
PSA	Production Sharing Agreement

RF	Russian federation
RNP	Refinery Pancevo
RNS	Refinery Novi Sad
RON	Romanian New Leu
RS	Republic of Serbia
RSD	Serbian dinar
RUR	Russian Rubble
SAB	Shareholders' Assembly Board
SARU	Sulphuric Acid Regeneration Unit
SB	Supervisory Board
SCC	Serbian Chamber of Commerce
SEE	South East Europe
thou.	Thousand
TPP	Thermal Power Plant
UK	United Kingdom
USA	United States of America
USD	American Dollar
VAT	Value Added Tax
BELEX15	Index of the most liquid securities on Belgrade Stock Exchange
BELEXline	General index of Belgrade Stock Exchange
OHSAS	Occupational Health and Safety Management System
OECD	Organization for Economic Cooperation and Development

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