



**Naftna industrija Srbije A.D.**

**Interim Condensed Financial Statements**

30 September 2013

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**NIS a.d. Novi Sad**  
**STATEMENT OF FINANCIAL POSITION**  
*(All amounts are in 000 RSD, unless otherwise stated)*

<b>Assets</b>	Notes	<b>30 September 2013</b>	<b>31 December 2012</b>
		<i>(unaudited)</i>	
<b>Current assets</b>			
Cash and cash equivalents	6	3,897,244	8,311,266
Short-term financial assets		1,212,339	527,654
Trade and other receivables	7	56,555,372	45,432,599
Inventories	8	33,481,930	42,745,738
Other current assets	9	4,551,570	6,620,710
Assets classified as held for sale		6,468	41,746
<b>Total current assets</b>		<b>99,704,923</b>	<b>103,679,713</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	163,475,887	146,309,406
Investment property		1,221,227	1,316,069
Other intangible assets	11	3,800,888	4,029,682
Investments in subsidiaries		7,530,236	7,530,236
Trade and other non-current receivables		7,328	9,662
Long-term financial assets	12	29,923,425	18,038,793
Deferred tax assets		9,786,958	9,786,958
Other non-current assets		8,746,553	4,731,177
<b>Total non-current assets</b>		<b>224,492,502</b>	<b>191,751,983</b>
<b>Total assets</b>		<b>324,197,425</b>	<b>295,431,696</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	13	20,253,609	9,630,829
Trade and other payables	14	41,642,090	39,370,624
Other current liabilities	15	3,745,209	4,403,470
Current income tax payable		2,007,685	512,454
Other taxes payable		8,440,036	8,224,581
Provisions for liabilities and charges		2,664,752	2,381,936
<b>Total current liabilities</b>		<b>78,753,381</b>	<b>64,523,894</b>
<b>Non-current liabilities</b>			
Long-term debt	16	71,931,589	80,991,651
Deferred tax liabilities		2,557,879	2,364,591
Provisions for liabilities and charges		11,467,207	10,548,399
<b>Total non-current liabilities</b>		<b>85,956,675</b>	<b>93,904,641</b>
<b>Equity</b>			
Share capital	17	81,530,200	81,530,200
Reserves		(52,773)	814,908
Retained earnings		78,009,942	54,658,053
<b>Total equity</b>		<b>159,487,369</b>	<b>137,003,161</b>
<b>Total liabilities and shareholder's equity</b>		<b>324,197,425</b>	<b>295,431,696</b>

*The accompanying notes are an integral part of these Interim Condensed Financial Statements.*

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

**NIS a.d. Novi Sad**  
**STATEMENT OF COMPREHENSIVE INCOME**

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

	Notes	Nine month period ended 30 September	
		2013	2012
		<i>(unaudited)</i>	<i>(unaudited)</i>
Sales of petroleum products and oil and gas sales		176,925,915	159,153,616
Other revenues		3,242,272	2,925,780
<b>Total revenue from sales</b>	5	<b>180,168,187</b>	<b>162,079,396</b>
Purchases of oil, gas and petroleum products	18	(96,991,350)	(75,634,347)
Production and manufacturing expenses	19	(12,160,943)	(10,385,116)
Selling, general and administrative expenses	20	(16,850,299)	(22,241,050)
Transportation expenses		(791,449)	(471,541)
Depreciation, depletion and amortization		(6,960,889)	(4,639,117)
Taxes other than income tax		(4,174,059)	(5,141,912)
Exploration expenses		(737,803)	(884,164)
<b>Total operating expenses</b>		<b>(138,666,792)</b>	<b>(119,397,247)</b>
Other (expenses) income, net		(875,257)	422,458
<b>Operating profit</b>		<b>40,626,138</b>	<b>43,104,607</b>
Net foreign exchange gain (loss)		847,570	(8,538,511)
Other finance income		1,228,795	1,114,144
Other finance expenses		(2,560,958)	(1,531,648)
<b>Total finance expense</b>		<b>(484,593)</b>	<b>(8,956,015)</b>
<b>Profit before income tax</b>		<b>40,141,545</b>	<b>34,148,592</b>
Current income tax expense		(5,121,663)	(2,093,894)
Deferred income tax (expense) income		(193,288)	141,718
<b>Total income tax</b>		<b>(5,314,951)</b>	<b>(1,952,176)</b>
<b>Profit for the period</b>		<b>34,826,594</b>	<b>32,196,416</b>
<b>Other comprehensive income (loss)</b>			
Gain (loss) on remeasuring financial asset available for sale		21,755	(35,296)
<b>Other comprehensive income (loss) for the period</b>		<b>21,755</b>	<b>(35,296)</b>
<b>Total comprehensive income for the period</b>		<b>34,848,349</b>	<b>32,161,120</b>
<b>Earnings per share attributable to shareholders of Naftna Industrija Srbije</b>			
- Basic earnings (RSD per share)		213.58	197.45
- Weighted average number of ordinary shares in issue (in millions)		163	163

The accompanying notes are an integral part of these Interim Condensed Financial Statements.

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**NIS a.d. Novi Sad****STATEMENT OF CHANGES IN EQUITY**

Nine month period ended 30 September 2013 and 2012

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

<i>(unaudited)</i>	<i>Notes</i>	<b>Share capital</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance as at 1 January 2012</b>		81,530,200	854,928	5,201,537	87,586,665
Profit		-	-	32,196,416	32,196,416
Other comprehensive loss for the period		-	(35,296)	-	(35,296)
<b>Total comprehensive income (loss) for the period</b>		-	(35,296)	32,196,416	32,161,120
<b>Balance as at 30 September 2012</b>		<b>81,530,200</b>	<b>819,632</b>	<b>37,397,953</b>	<b>119,747,785</b>
<b>Balance as at 1 January 2013</b>		81,530,200	814,908	54,658,053	137,003,161
Profit		-	-	34,826,594	34,826,594
Other comprehensive income for the period		-	21,755	-	21,755
<b>Total comprehensive income for the period</b>		-	21,755	34,826,594	34,848,349
Dividend distribution	14	-	-	(12,364,129)	(12,364,129)
Other	2.17.	-	(889,436)	889,424	(12)
<b>Balance as at 30 September 2013</b>		<b>81,530,200</b>	<b>(52,773)</b>	<b>78,009,942</b>	<b>159,487,369</b>

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**NIS a.d. Novi Sad**  
**STATEMENT OF CASH FLOWS**  
*(All amounts are in 000 RSD, unless otherwise stated)*

		<b>Nine month period ended</b>	
		<b>30 September</b>	
Notes	<b>2013</b>	<b>2012</b>	
		<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Cash flows from operating activities</b>			
		40,141,545	34,148,592
Profit before income tax			
Adjustments for:			
		2,560,958	1,531,648
		(1,228,795)	(1,114,144)
		6,960,889	4,639,117
		1,338,111	815,102
		3,463,923	8,519,867
		(141,089)	(440,525)
		118,201	7,709,266
		850,356	801,205
		<u>13,922,554</u>	<u>22,461,536</u>
<b>Changes in working capital:</b>			
		(11,120,657)	(23,976,959)
		9,263,808	205,583
		(2,018,472)	788,919
		3,991,140	(5,142,237)
		261,601	3,450,617
		<u>377,420</u>	<u>(24,674,077)</u>
<b>Cash used in operations</b>			
		(3,672,592)	(3,398,368)
		(2,289,188)	(2,636,978)
		624,612	1,535,384
		<u>(5,337,168)</u>	<u>(4,499,962)</u>
<b>Net cash generated by operating activities</b>		<b><u>49,104,351</u></b>	<b><u>27,436,089</u></b>
<b>Cash flows from investing activities</b>			
		-	(213)
		(10,756,221)	(7,308,979)
		404,734	663,524
		(32,688,036)	(25,557,738)
		145,781	236,698
		-	228
		<u>(42,893,742)</u>	<u>(31,966,480)</u>
<b>Net cash used in investing activities</b>			
<b>Cash flows from financing activities</b>			
		21,696,382	3,818,459
		(20,109,484)	(7,838,425)
		(12,364,129)	-
		<u>(10,777,231)</u>	<u>(4,019,966)</u>
<b>Net cash used in financing activities</b>			
		(4,566,622)	(8,550,357)
		152,600	1,159,229
		<u>8,311,266</u>	<u>25,228,726</u>
<b>Cash and cash equivalents as of the beginning of the period</b>			
<b>Cash and cash equivalents as of the end of the period</b>		<b><u>3,897,244</u></b>	<b><u>17,837,598</u></b>

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**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

**1. GENERAL INFORMATION**

Open Joint Stock Company Naftna Industrija Srbije (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 Government of Republic of Serbia on 7 July 2005. On 2 February 2009 OAO Gazprom Neft (“Gazprom Neft”) acquired a 51% of the share capital of Naftna Industrija Srbije which became a subsidiary of Gazprom Neft. In March 2011 under the Company’s Share Sale and Purchase Agreement, Gazprom Neft acquired an additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%.

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

These Interim Condensed Financial Statements have been approved and authorized for issue by CEO and will be presented to Board of Directors for approval.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**

**2.1. Basis of preparation**

These Interim Condensed Financial Statements for the nine month period ended 30 September 2013 have been prepared in accordance with IAS 34, ‘Interim financial reporting’. The Interim Condensed Financial Statements do not include all disclosure and they should be interpreted in relation with the annual financial statements for the year ended 31 December 2012. These Interim Condensed Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are not the statutory accounts of Company. The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by Serbian legislation. The accompanying Interim Condensed Financial Statements were primarily derived from the Company’s statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (“IFRS”).

These Interim Condensed Financial Statements have been prepared on a historical cost basis, except certain financial assets and liabilities and investment properties measured at fair value.

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

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

**2.1. Basis of preparation (continued)**

The Interim Condensed Financial Statements have been prepared based on the going concern principle, which assumes that the Company will continue to operate in the foreseeable future. In order to assess the reasonability of this assumption, management reviews forecasts of future cash inflows. Based on these reviews, management believes that the Company will be able to continue to operate as a going concern in the foreseeable future and, therefore, this principle should be applied in the preparation of these Interim Condensed Financial Statements.

The preparation of Interim Condensed 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 Interim Condensed Financial Statements are disclosed in note 3.

**2.2. 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, has been identified as the Board of Directors and the General Manager Advisory Board. The main indicator for assessing performance of operating segments is EBITDA, which is regularly reported to the chief operating decision-maker. The information on segment assets and liabilities are not regularly provided to the chief operating decision-maker.

**2.3. Seasonality of Operations**

The Company as a whole is not subject to significant seasonal fluctuations.

**2.4. Foreign currency translation**

*(a) Functional and presentation currency*

The Interim Condensed Financial Statements are presented in RSD, which is the Company's functional and presentation currency.

*(b) Transactions and balances*

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

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and other monetary assets and liabilities are presented in the Interim Condensed Statement of Comprehensive Income within "Net foreign exchange gain / (loss)".

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

### **2.5. Goodwill and Other Intangible Assets**

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

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

### **2.6. Cash and cash equivalents**

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognised based on the cost of acquisition which approximates fair value.

### **2.7. Non-derivative financial assets**

The Company has the following non-derivative financial assets: 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.

#### *(a) Loans and Receivables*

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

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.

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

**2.7. Non-derivative financial assets (continued)**

*(a) Loans and Receivables (continued)*

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 Interim Condensed Statement of Comprehensive Income within 'Selling, general and administrative expenses' (note 20). 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 'Selling, general and administrative expenses' in the Interim Condensed Statement of Comprehensive Income (note 20).

*(b) Available for sale financial assets*

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

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 Interim Condensed Statement of Comprehensive Income as other finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss as other 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 profit and loss.

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

### **2.8. Non-Derivative Financial Liabilities**

The Company initially recognises financial liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date on which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other 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.

### **2.9. 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 tests of inventories i.e. spare parts due to damage or obsolescence is performed once a year. Impairment losses are recognized as production and manufacturing expenses (note 19).

### **2.10. Assets (or disposal groups) held for sale**

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

### **2.11. Intangible assets**

#### *(a) 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.

#### *(b) 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 exceeding 8 years).

### **2.12. 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 Interim Condensed Statement of Comprehensive Income during the financial period in which they are incurred.

Advances made on Property, plant and equipment and Construction in progress are accounted for within other non-current assets as a part of non-current non-financial accounts receivable.

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

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

**2.12. Property, plant and equipment (continued)**

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
Refining assets	
Buildings	10 - 40
Machinery and Equipment	10 - 25
Marketing and distribution assets	
Buildings	10 - 50
Machinery and equipment	5 - 15
Other Assets	5 - 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'Other income/expenses' in the Interim Condensed Statement of Comprehensive Income.

**2.13. Oil and Gas properties**

*(a) Exploration and evaluation expenditure*

The Company follows the successful efforts method of accounting for its exploration and evaluation assets.

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution; and
- Costs of drilling and equipping exploratory wells.

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

### **2.13. Oil and Gas properties (continued)**

#### *(a) Exploration and evaluation expenditure (continued)*

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling costs and dry and bottom hole contributions are temporarily capitalised under the successful effort method and treated as Oil and gas assets within Property, plant and equipment.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are temporarily considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, that may include drilling of further wells, are likely to be developed commercially; then the costs continue to be carried as Oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification.

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

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities.

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 oil and gas assets according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortization are charged during development.

#### *(c) Oil and gas production assets*

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

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

### **2.13. Oil and Gas properties (continued)**

#### *(d) Depreciation/amortization*

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

#### *(e) Impairment – exploration and evaluation assets*

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

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

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

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

### **2.14. Capitalisation of Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. All other borrowing costs are expensed in the period in which they are incurred.

### **2.15. 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 Interim Condensed Statement of Comprehensive Income, Profit or Loss as part of other income/expense.

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

### **2.16. Share capital**

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

### **2.17. 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. In accordance with General Assembly Meeting Decision enacted on 18 June 2013 these reserves were credited to the retained earnings.

### **2.18. 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.

### **2.19. 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 financial expense and charged to Interim Condensed Statement of Comprehensive Income.

### **2.20. Current and deferred income tax**

The tax expense for the year comprises current and deferred tax. Tax is recognized in the Interim Condensed Statement of Comprehensive Income, 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.

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

### **2.20. Current and deferred income tax (continued)**

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 Interim Condensed 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.

### **2.21. Employee benefits**

#### *(a) Pension obligations*

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

#### *(b) Employee benefits provided by Collective Labour Agreement*

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

#### *(c) Bonus plans*

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

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

### **2.22. 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.

### **2.23. Leases**

Leases under the terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Company's Interim Condensed Statement of Financial Position. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

### **2.24. Revenue recognition**

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

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

#### *(a) Sales - 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**

### **2.24. Revenue recognition (continued)**

#### *(b) Sales– retail*

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

#### *(c) Sales of services*

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

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

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

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

#### *(d) Interest income*

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

#### *(e) Income from work performed by the Company and capitalized*

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

#### *(f) Dividend income*

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

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

### **2.25. Transportation Costs**

Transportation expenses recognised in profit and loss represent expenses incurred to transport crude oil and oil products through the pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

### **2.26. Maintenance and Repair**

Costs for maintenance and repair that do not represent significant improvements are expensed when incurred.

Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred.

## **3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS**

Preparing financial statements in accordance with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

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

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

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

### **3.1. Estimation of Oil and Gas Reserves**

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

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

### **3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)**

#### **3.1. Estimation of Oil and Gas Reserves (continued)**

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

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

#### **3.2. Useful Lives of Property, Plant and Equipment**

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

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

#### **3.3. Impairment of Non-Derivative Financial Assets**

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

### **3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)**

#### **3.4. 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.

#### **3.5. 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 Company'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.

#### **3.6. Contingencies**

Certain conditions may exist as of the reporting date are issued that may result in a loss to the Company, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

### **3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)**

#### **3.6. Contingencies (continued)**

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's Interim Condensed Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 22).

#### **3.7. 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 have 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.

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

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

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

#### *Foreign exchange risk*

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

Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign exchange risk arising from future transactions and recognised assets and liabilities, responsible persons in the finance department within the FEPA 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.

#### *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.

#### **4. FINANCIAL RISK MANAGEMENT (continued)**

##### **4.1. Financial risk factors (continued)**

###### *Cash flow and fair value interest rate risk*

As at 30 September 2013 the Company had significant amounts of cash and cash equivalents. 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).

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.

###### *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, 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, only the second criterion is applied. 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.

###### *Liquidity risk*

Cash flow forecasting is performed as aggregated at the Company's level. The FEPA 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.

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**4. FINANCIAL RISK MANAGEMENT (continued)**

**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, revise its investment program, attract new or repay existing loans or sell certain non-core assets.

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

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

	<b>Nine month period ended</b>	
	<b>30 September</b>	
	<b>2013</b>	<b>2012</b>
Long-term debt	71,931,589	80,991,651
Short-term debt and current portion of long-term debt	20,253,609	9,630,829
Less: cash and cash equivalents	(3,897,244)	(8,311,266)
Net debt	88,287,954	82,311,214
EBITDA	48,214,912	48,114,091
<b>Net debt to EBITDA</b>	<b>1.83</b>	<b>1.71</b>

**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.

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**5. SEGMENT INFORMATION**

Presented below is information about the Company's operating segments for nine month period ended 30 September 2013 and 2012. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Company manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Company operations: exploration, development and production of crude oil and natural gas and oil field services (which are formed as separate legal entities during 2012). Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Corporate centre expenses are presented within the Downstream segment.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealized profits, mainly from the sale of crude oil and products, and other adjustments. Intersegment revenues are based upon estimated market prices.

EBITDA represents the Company's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Company's ongoing operating activities, as it reflects the Company's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, other finance income (expenses) net, other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the nine month period ended 30 September 2013 are shown in the table below:

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	67,336,521	176,619,316	(63,787,650)	180,168,187
Intersegment	63,652,547	135,103	(63,787,650)	-
External	3,683,974	176,484,213	-	180,168,187
EBITDA (Segment results)	57,548,497	(9,333,585)	-	48,214,912
Depreciation, depletion and amortization	(1,722,301)	(5,238,588)	-	(6,960,889)
Impairment losses	-	(9,634)	-	(9,634)
Other finance expenses, net	(257,695)	(1,074,468)	-	(1,332,163)
Income tax	(525,892)	(4,789,059)	-	(5,314,951)
Segment profit (loss)	<b>54,567,564</b>	<b>(19,740,970)</b>	-	<b>34,826,594</b>

Reportable segments results for the nine month period ended 30 September 2012 are shown in the table below:

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	73,767,052	154,996,622	(66,684,278)	162,079,396
Intersegment	66,463,418	220,860	(66,684,278)	-
External	7,303,634	154,775,762	-	162,079,396
EBITDA (Segment results)	65,559,534	(17,445,443)	-	48,114,091
Depreciation, depletion and amortization	(1,875,027)	(2,764,090)	-	(4,639,117)
Impairment losses	(19,627)	(102,591)	-	(122,218)
Other finance expenses, net	(244,555)	(172,949)	-	(417,504)
Income tax	(405,632)	(1,546,544)	-	(1,952,176)
Segment profit (loss)	<b>62,960,924</b>	<b>(30,764,508)</b>	-	<b>32,196,416</b>

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

**5. SEGMENT INFORMATION (continued)**

EBITDA for the nine month period ended 30 September 2013 and 2012 is reconciled below:

	<b>Nine month period ended</b>	
	<b>30 September</b>	
	<b>2013</b>	<b>2012</b>
Profit for the period	34,826,594	32,196,416
Income tax expenses	5,314,951	1,952,176
Other finance expenses	2,560,958	1,531,648
Other finance income	(1,228,795)	(1,114,144)
Depreciation, depletion and amortization	6,960,889	4,639,117
Net foreign exchange (gain) loss	(847,570)	8,538,511
Other expense (income), net	875,257	(422,458)
Other non-operating (income) expense, net*	(247,372)	792,825
<b>EBITDA</b>	<b>48,214,912</b>	<b>48,114,091</b>

\*Other non-operating (income) expenses, net mainly relate to finance expenses on decommissioning provision, reversal of litigation provisions and other.

Oil and gas and petroleum products sales comprise the following (based on the country of customer incorporation):

	<b>Nine month period ended 30 September 2013</b>		
	<b>Domestic market</b>	<b>Export and international sales</b>	<b>Total</b>
Sale of crude oil	-	3,548,453	3,548,453
Sale of gas	2,738,764	-	2,738,764
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	2,738,764	-	2,738,764
Sale of petroleum products	147,462,098	23,176,600	170,638,698
<i>Through a retail network</i>	46,549,522	-	46,549,522
<i>Wholesale activities</i>	100,912,576	23,176,600	124,089,176
Other sales	3,236,133	6,139	3,242,272
<b>Total Sales</b>	<b>153,436,995</b>	<b>26,731,192</b>	<b>180,168,187</b>
	<b>Nine month period ended 30 September 2012</b>		
	<b>Domestic market</b>	<b>Export and international sales</b>	<b>Total</b>
Sale of crude oil	-	2,914,185	2,914,185
Sale of gas	13,272,540	-	13,272,540
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	13,272,540	-	13,272,540
Sale of petroleum products	129,999,918	12,966,973	142,966,891
<i>Through a retail network</i>	41,327,316	-	41,327,316
<i>Wholesale activities</i>	88,672,602	12,966,973	101,639,575
Other sales	2,600,997	324,783	2,925,780
<b>Total Sales</b>	<b>145,873,455</b>	<b>16,205,941</b>	<b>162,079,396</b>

Revenue amounted 25,374,764 RSD (2012: 6,674,057 RSD) are derived from a single domestic customer HIP Petrohemija (note 23). These revenues are attributable to wholesale activities within Downstream segment.

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

**6. CASH AND CASH EQUIVALENTS**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Cash in bank and in hand	3,894,580	7,226,572
Deposits with original maturity of less than three months	-	1,081,515
Cash equivalents	2,664	3,179
	<b>3,897,244</b>	<b>8,311,266</b>

**7. TRADE AND OTHER RECEIVABLES**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Trade receivables:		
- related parties	2,819,231	1,737,579
- third parties	71,827,901	60,933,890
	74,647,132	62,671,469
Accrued assets	1,264,488	2,342,103
Other receivables	9,820,029	7,799,629
	85,731,649	72,813,201
Less impairment provision	(29,176,277)	(27,380,602)
<b>Total trade and other receivables</b>	<b>56,555,372</b>	<b>45,432,599</b>

The ageing of trade receivables is as follows:

	<b>30 September 2013</b>	<b>31 December 2012</b>
Up to 3 months	40,287,166	31,143,920
Over 3 months	34,359,966	31,527,549
	<b>74,647,132</b>	<b>62,671,469</b>

Trade receivables as at 30 September 2013 amounting to 34,359,966 RSD that are more than 90 days overdue are considered as impaired, except for receivables of 13,022,074 RSD (31 December 2012: 9,989,315 RSD) from a number of independent customers for whom management believes that will make payments in the near futures or for whom there is no recent history of default.

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**Notes to the Interim Condensed Financial Statements**

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

**7. TRADE AND OTHER RECEIVABLES (continued)**

As at 30 September 2013 trade receivables of 21,351,237 RSD (31 December 2012: 21,560,538 RSD) were assessed as uncollectable and fully provided for. The ageing of receivables provided for is as follows:

	<b>30 September 2013</b>	<b>31 December 2012</b>
Up to 3 months	13,345	22,304
Over 3 months	21,337,892	21,538,234
	<b>21,351,237</b>	<b>21,560,538</b>

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

	<b>30 September 2013</b>	<b>31 December 2012</b>
RSD	72,448,673	61,649,162
EUR	10,112,534	7,895,051
USD	3,170,420	3,268,965
Other	22	23
	<b>85,731,649</b>	<b>72,813,201</b>

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

	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Total</b>
<b>As at 1 January 2012</b>	13,662,593	2,994,249	16,656,842
Provision for receivables impairment (note 20)	8,658,387	-	8,658,387
Unused amounts reversed (note 20)	(403,267)	(22,570)	(425,837)
Transfer from non-current to current part	-	1,591,471	1,591,471
Write off	(187,324)	-	(187,324)
Exchange differences and other	2,074	672,683	674,757
<b>As at 30 September 2012</b>	<b>21,732,463</b>	<b>5,235,833</b>	<b>26,968,296</b>
<b>As at 1 January 2013</b>	21,560,538	5,820,064	27,380,602
Provision for receivables impairment (note 20)	548,992	-	548,992
Unused amounts reversed (note 20)	(757,345)	-	(757,345)
Transfer from non-current to current part	-	1,591,471	1,591,471
Write off	(948)	-	(948)
Exchange differences	-	413,505	413,505
<b>As at 30 September 2013</b>	<b>21,351,237</b>	<b>7,825,040</b>	<b>29,176,277</b>

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the Interim Condensed Statement of Comprehensive Income. The amounts charged to provision for impairment are written off when their collection is not expected.

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

**8. INVENTORIES**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Crude oil	18,700,435	24,064,015
Gas	130,102	-
Petroleum products	14,949,596	17,341,467
Materials and supplies	5,590,003	6,107,234
Other	558,919	1,680,147
Less impairment provision	<u>(6,447,125)</u>	<u>(6,447,125)</u>
	<b><u>33,481,930</u></b>	<b><u>42,745,738</u></b>

**9. OTHER CURRENT ASSETS**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Advances paid	1,063,514	1,234,319
Deferred VAT	1,437,383	3,840,968
Prepaid expenses	208,121	135,363
Prepaid custom duties	53,582	46,267
Prepaid excise	1,303,942	1,419,092
Other current assets	17,693,076	13,506,192
Less impairment provision	<u>(17,208,048)</u>	<u>(13,561,491)</u>
	<b><u>4,551,570</u></b>	<b><u>6,620,710</u></b>

Deferred VAT as at 30 September 2013 amounting to 1,437,383 RSD 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 as at 30 September 2013 amounting to 1,303,942 (31 December 2012: 1,419,092 RSD) relates to the excise paid to the state for finished products stored in non-excise warehouse.

Movements on the Company's provision for impairment of other current assets are as follows:

	<b>Advances paid</b>	<b>Other current assets</b>	<b>Total</b>
<b>As at 1 January 2012</b>	379,688	12,177,876	12,557,564
Provision for other current assets impairment (note 20)	3,685	758,466	762,151
Unused amounts reversed (note 20)	(9,303)	(466,201)	(475,504)
Write off	-	(79,325)	(79,325)
Other	-	(2,075)	(2,075)
<b>As at 30 September 2012</b>	<b><u>374,070</u></b>	<b><u>12,388,741</u></b>	<b><u>12,762,811</u></b>
<b>As at 1 January 2013</b>	373,071	13,188,420	13,561,491
Provision for other current assets impairment (note 20)	12,460	3,778,140	3,790,600
Unused amounts reversed (note 20)	(2,492)	(116,050)	(118,542)
Write off	-	(25,501)	(25,501)
<b>As at 30 September 2013</b>	<b><u>383,039</u></b>	<b><u>16,825,009</u></b>	<b><u>17,208,048</u></b>

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

**10. PROPERTY, PLANT AND EQUIPMENT**

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
<b>As at 1 January 2012</b>						
Cost	48,560,040	47,644,386	24,848,078	13,771,355	44,639,338	179,463,197
Depreciation and impairment	(18,552,391)	(23,301,793)	(12,758,963)	(5,536,543)	(2,981,943)	(63,131,633)
<b>Net book value</b>	<b>30,007,649</b>	<b>24,342,593</b>	<b>12,089,115</b>	<b>8,234,812</b>	<b>41,657,395</b>	<b>116,331,564</b>
<b>Period ended 30 September 2012</b>						
Additions	5,518,703	4,588,033	1,270,011	146,240	19,916,121	31,439,108
Investments in subsidiaries	(5,502,088)	(203,520)	(37,115)	(12,242)	-	(5,754,965)
Impairment	(23,693)	(2,427)	(28,741)	(274)	(22,239)	(77,374)
Depreciation	(1,912,442)	(1,405,381)	(536,764)	(287,438)	-	(4,142,025)
Transfer to intangible assets	(15,252)	-	-	-	-	(15,252)
Transfer to investment property	-	-	(45,731)	-	-	(45,731)
Transfer from assets classified as held for sale	-	-	-	-	146	146
Disposals and write-off	(105,567)	(1,051)	(1,449)	(2,522)	(652,967)	(763,556)
Other transfers	4,653,140	(3,354,606)	141,116	285,275	(1,737,906)	(12,981)
	<b>32,620,450</b>	<b>23,963,641</b>	<b>12,850,442</b>	<b>8,363,851</b>	<b>59,160,550</b>	<b>136,958,934</b>
<b>As at 30 September 2012</b>						
Cost	48,903,319	45,495,118	26,440,719	14,503,769	62,486,589	197,829,514
Depreciation and impairment	(16,282,869)	(21,531,477)	(13,590,277)	(6,139,918)	(3,326,039)	(60,870,580)
<b>Net book value</b>	<b>32,620,450</b>	<b>23,963,641</b>	<b>12,850,442</b>	<b>8,363,851</b>	<b>59,160,550</b>	<b>136,958,934</b>
<b>As at 1 January 2013</b>						
Cost	45,900,639	96,895,807	27,042,790	16,309,345	22,673,221	208,821,802
Depreciation and impairment	(14,457,735)	(23,887,053)	(13,010,240)	(6,841,476)	(4,315,892)	(62,512,396)
<b>Net book value</b>	<b>31,442,904</b>	<b>73,008,754</b>	<b>14,032,550</b>	<b>9,467,869</b>	<b>18,357,329</b>	<b>146,309,406</b>
<b>Period ended 30 September 2013</b>						
Additions	10,886,397	10,119,486	2,872,154	457,665	1,760,591	26,096,293
Impairment	-	-	(8,341)	-	(932)	(9,273)
Depreciation	(1,715,902)	(3,654,588)	(708,565)	(357,902)	-	(6,436,957)
Transfer to intangible assets	(1,840)	-	-	-	(63,191)	(65,031)
Transfer to investment property	-	-	(1,195)	(2,455)	(4,810)	(8,460)
Disposals and write-off	(1,275,482)	(30,956)	(160,406)	(7,934)	(935,313)	(2,410,091)
Other transfers	(333)	(10,132)	4,616	5,849	-	-
	<b>39,335,744</b>	<b>79,432,564</b>	<b>16,030,813</b>	<b>9,563,092</b>	<b>19,113,674</b>	<b>163,475,887</b>
<b>As at 30 September 2013</b>						
Cost	54,934,534	106,418,741	29,438,986	17,145,472	23,407,144	231,344,877
Depreciation and impairment	(15,598,790)	(26,986,177)	(13,408,173)	(7,582,380)	(4,293,470)	(67,868,990)
<b>Net book value</b>	<b>39,335,744</b>	<b>79,432,564</b>	<b>16,030,813</b>	<b>9,563,092</b>	<b>19,113,674</b>	<b>163,475,887</b>

**10. PROPERTY, PLANT AND EQUIPMENT (continued)**

In the nine month period ended 30 September 2013, 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 61,935 RSD (2012: 1,484,512 RSD).

*Oil and gas production assets*

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

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

**10. PROPERTY, PLANT AND EQUIPMENT (continued)**

*Oil and gas production assets (continued)*

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
<b>As at 1 January 2012</b>						
Cost	2,056,678	3,455,790	5,512,468	48,205,627	129,810	53,847,905
Depreciation and impairment	-	(299,997)	(299,997)	(18,287,475)	(114,755)	(18,702,227)
<b>Net book amount</b>	<b>2,056,678</b>	<b>3,155,793</b>	<b>5,212,471</b>	<b>29,918,152</b>	<b>15,055</b>	<b>35,145,678</b>
<b>Period ended 30 September 2012</b>						
Additions	1,783,137	4,884,717	6,667,854	-	-	6,667,854
Transfer from asset under construction	248,154	(4,960,412)	(4,712,258)	4,712,258	-	-
Other transfers	(6,702)	723,667	716,965	129,018	(390)	845,593
Impairment charge	-	-	-	(19,627)	-	(19,627)
Depreciation and depletion	-	-	-	(1,858,944)	(270)	(1,859,214)
Investments in subsidiaries	-	-	-	(5,502,088)	(12,149)	(5,514,237)
Disposals and write-off	(714,755)	(19,095)	(733,850)	2,555	(1)	(731,296)
	3,366,512	3,784,670	7,151,182	27,381,324	2,245	34,534,751
<b>As at 30 September 2012</b>						
Cost	3,373,213	4,082,183	7,455,396	41,292,499	112,786	48,860,681
Depreciation and impairment	(6,701)	(297,513)	(304,214)	(13,911,175)	(110,541)	(14,325,930)
<b>Net book amount</b>	<b>3,366,512</b>	<b>3,784,670</b>	<b>7,151,182</b>	<b>27,381,324</b>	<b>2,245</b>	<b>34,534,751</b>
<b>As at 1 January 2013</b>						
Cost	5,304,044	5,097,738	10,401,782	42,567,439	112,666	53,081,887
Depreciation and impairment	-	(304,214)	(304,214)	(14,450,258)	(110,630)	(14,865,102)
<b>Net book amount</b>	<b>5,304,044</b>	<b>4,793,524</b>	<b>10,097,568</b>	<b>28,117,181</b>	<b>2,036</b>	<b>38,216,785</b>
<b>Period ended 30 September 2013</b>						
Additions	4,586,579	9,806,659	14,393,238	-	-	14,393,238
Transfer from asset under construction	(50,789)	(8,127,687)	(8,178,476)	8,178,476	-	-
Other transfers	(3)	(9,220)	(9,223)	(343)	(46)	(9,612)
Depreciation and depletion	-	-	-	(1,715,725)	-	(1,715,725)
Disposals and write-off	(704,774)	(9,971)	(714,745)	(1,267,973)	-	(1,982,718)
	9,135,057	6,453,305	15,588,362	33,311,616	1,990	48,901,968
<b>As at 30 September 2013</b>						
Cost	9,126,996	6,756,469	15,883,465	48,902,909	110,820	64,897,194
Depreciation and impairment	8,061	(303,164)	(295,103)	(15,591,293)	(108,830)	(15,995,226)
<b>Net book amount</b>	<b>9,135,057</b>	<b>6,453,305</b>	<b>15,588,362</b>	<b>33,311,616</b>	<b>1,990</b>	<b>48,901,968</b>

**NIS a.d. Novi Sad**  
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*(All amounts are in 000 RSD, unless otherwise stated)*

**11. OTHER INTANGIBLE ASSETS**

	Licenses, other than related to O&G activity	Software	IA under development	Other IA	Total
<b>As at 1 January 2012</b>					
Cost	661,396	4,693,975	413,952	59,718	5,829,041
Amortization and impairment	(173,380)	(1,183,366)	(142,279)	(45,855)	(1,544,880)
<b>Net book value</b>	<b>488,016</b>	<b>3,510,609</b>	<b>271,673</b>	<b>13,863</b>	<b>4,284,161</b>
<b>Period ended 30 September 2012</b>					
Additions	46,101	78,898	209,226	-	334,225
Impairment	-	-	(43,867)	-	(43,867)
Amortization	(59,741)	(433,769)	-	(3,582)	(497,092)
Transfer from PPE	-	-	15,252	-	15,252
Disposals	-	-	(186)	-	(186)
Other transfers	(4,876)	(61,759)	(42,592)	2,016	(107,211)
	<b>469,500</b>	<b>3,093,979</b>	<b>409,506</b>	<b>12,297</b>	<b>3,985,282</b>
<b>As at 30 September 2012</b>					
Cost	704,907	4,590,462	638,244	77,780	6,011,393
Amortization and impairment	(235,407)	(1,496,483)	(228,738)	(65,483)	(2,026,111)
<b>Net book value</b>	<b>469,500</b>	<b>3,093,979</b>	<b>409,506</b>	<b>12,297</b>	<b>3,985,282</b>
<b>As at 1 January 2013</b>					
Cost	757,628	4,691,361	429,813	326,313	6,205,115
Amortization and impairment	(259,419)	(1,662,984)	(206,029)	(47,001)	(2,175,433)
<b>Net book value</b>	<b>498,209</b>	<b>3,028,377</b>	<b>223,784</b>	<b>279,312</b>	<b>4,029,682</b>
<b>Period ended 30 September 2013</b>					
Additions	22,585	69,379	144,145	4,696	240,805
Amortization	(77,100)	(388,976)	-	(57,856)	(523,932)
Transfer from PPE	-	-	65,031	-	65,031
Disposals and write-off	-	-	(1,255)	-	(1,255)
Other transfers	-	(56,727)	3	47,281	(9,443)
	<b>443,694</b>	<b>2,652,053</b>	<b>431,708</b>	<b>273,433</b>	<b>3,800,888</b>
<b>As at 30 September 2013</b>					
Cost	780,212	4,751,296	637,737	331,009	6,500,254
Amortization and impairment	(336,518)	(2,099,243)	(206,029)	(57,576)	(2,699,366)
<b>Net book value</b>	<b>443,694</b>	<b>2,652,053</b>	<b>431,708</b>	<b>273,433</b>	<b>3,800,888</b>

**NIS a.d. Novi Sad**  
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*(All amounts are in 000 RSD, unless otherwise stated)*

**12. LONG –TERM FINANCIAL ASSETS**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Long - term loans issued – related parties	27,279,684	16,629,612
Other long term - placements	2,470,218	1,289,244
Available for sale financial assets	2,187,297	2,161,005
Less impairment provision	(2,013,774)	(2,041,068)
	<b>29,923,425</b>	<b>18,038,793</b>

**13. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Short-term loans	-	3,500,000
Interest liabilities	160,355	271,521
Other Short-term financial liabilities	209	474
Current portion of long-term loans (note 16)	20,062,165	5,822,690
Current portion of finance lease liabilities (note 16)	30,880	36,144
	<b>20,253,609</b>	<b>9,630,829</b>

**14. TRADE AND OTHER PAYABLES**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Trade payables		
- related parties	28,524,062	27,290,498
- third parties	9,275,031	8,236,228
Dividends payable	3,772,308	3,772,308
Other accounts payable	70,689	71,590
	<b>41,642,090</b>	<b>39,370,624</b>

As at 30 September 2013 payables to related parties amounting to 28,524,062 RSD (31 December 2012: 27,290,498 RSD) mainly relate to liabilities to the supplier Gazprom Neft Trading, Austria in the amount of 15,960,330 RSD (31 December 2012: 25,464,826 RSD), mostly for the purchase of crude oil.

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

**15. OTHER CURRENT LIABILITIES**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Advances received	991,284	953,509
Payables to employees	2,705,011	3,404,025
Accruals and deferred income	23,559	36,440
Other current non-financial liabilities	25,355	9,496
	<b>3,745,209</b>	<b>4,403,470</b>

**NIS a.d. Novi Sad**  
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*(All amounts are in 000 RSD, unless otherwise stated)*

**16. LONG-TERM DEBT**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Long-term loans - Gazprom Neft	51,971,763	55,536,845
Bank loans	40,020,782	31,254,805
Finance lease liabilities	30,880	57,626
Other long-term borrowings	1,209	1,209
Less Current portion	<u>(20,093,045)</u>	<u>(5,858,834)</u>
	<b><u>71,931,589</u></b>	<b><u>80,991,651</u></b>

*(a) Long-term loans - Gazprom Neft*

As at 30 September 2013 long-term loans - Gazprom Neft amounting to 51,971,763 RSD (453,488,378 EUR), with current portion of 5,330,437 RSD, 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 500 million EUR reconstruction and modernization of the technology complex programme which is finalized during 2012. The stated liabilities shall be settled in quarterly installments starting from December 2012 until 15 May 2023.

*(b) Bank loans*

	<b>30 September 2013</b>	<b>31 December 2012</b>
Domestic	12,311,376	14,627,940
Foreign	27,709,406	16,626,865
	40,020,782	31,254,805
Current portion of long-term loans	<u>(14,731,728)</u>	<u>(533,466)</u>
	<b><u>25,289,054</u></b>	<b><u>30,721,339</u></b>

The maturity of bank loans was as follows:

	<b>30 September 2013</b>	<b>31 December 2012</b>
Between 1 and 2 years	12,599,851	22,184,094
Between 2 and 5 years	7,003,862	2,405,694
Over 5 years	5,685,341	6,131,551
	<b><u>25,289,054</u></b>	<b><u>30,721,339</u></b>

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

	<b>30 September 2013</b>	<b>31 December 2012</b>
USD	30,642,972	19,607,409
EUR	8,700,765	8,889,704
RSD	280,872	2,281,108
JPY	396,173	476,584
	<b><u>40,020,782</u></b>	<b><u>31,254,805</u></b>

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

**16. LONG-TERM DEBT (continued)**

*(b) Bank loans (continued)*

The Company repays for loans in accordance with agreed dynamics, i.e. determined annuity plans. The Company has 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 bank loans as at 30 September 2013 and 31 December 2012 are presented in the table below:

<b>Creditor</b>	<b>Currency</b>	<b>30 September 2013</b>	<b>31 December 2012</b>
<b><i>Domestic long-term loans</i></b>			
Erste bank, Novi Sad	USD	285,814	301,856
Erste bank, Novi Sad	EUR	454,750	469,403
Bank Postanska stedionica, Belgrade	EUR	225,267	236,111
Bank Postanska stedionica, Belgrade	USD	1,558,675	1,670,920
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,582,616	4,670,317
Vojvodjanska bank, Novi Sad	RSD	-	1,000,000
UniCredit bank, Belgrade	USD	4,923,382	4,998,225
UniCredit bank, Belgrade	RSD	278,900	1,278,900
Other loans	RSD	1,972	2,208
		<b>12,311,376</b>	<b>14,627,940</b>
<b><i>Foreign long-term loans</i></b>			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	531,478	565,419
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	396,173	476,584
Erste bank, Holland	EUR	3,438,132	3,411,549
Erste bank, Holland	USD	5,517,584	-
VUB (Bank Intesa), Slovakia	USD	8,488,590	8,617,630
NBG bank, Great Britain	USD	4,244,295	6,307
NBG bank, Great Britain	EUR	-	102,324
Alpha bank, Great Britain	USD	3,395,436	1,723,526
Piraeusbank, Great Britain	USD	1,697,718	1,723,526
		<b>27,709,406</b>	<b>16,626,865</b>
 <i>Less current portion of long-term loans</i>		 (14,731,728)	 (533,466)
		<b>25,289,054</b>	<b>30,721,339</b>

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

**16. LONG-TERM DEBT (continued)**

(b) *Bank loans (continued)*

	Currency	Current portion		Long-term	
		30 September 2013	31 December 2012	30 September 2013	31 December 2012
<b>Domestic long - term loans</b>					
Erste bank, Novi Sad	USD	13,346	11,881	272,468	289,975
Erste bank, Novi Sad	EUR	20,965	18,169	433,785	451,234
Bank Postanska stedionica, Belgrade	EUR	12,144	12,586	213,123	223,525
Bank Postanska stedionica, Belgrade	USD	83,765	88,550	1,474,910	1,582,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	248,186	246,267	4,334,430	4,424,050
Vojvodjanska bank, Novi Sad	RSD	-	-	-	1,000,000
UniCredit bank, Belgrade	USD	679,087	-	4,244,295	4,998,225
UniCredit bank, Belgrade	RSD	-	-	278,900	1,278,900
Other loans	RSD	364	390	1,608	1,818
		<u>1,057,857</u>	<u>377,843</u>	<u>11,253,519</u>	<u>14,250,097</u>
<b>Foreign long-term loans</b>					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	30,836	27,790	500,642	537,629
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	18,595	19,202	377,578	457,382
Erste bank, Holland	EUR	3,438,132	-	-	3,411,549
Erste bank, Holland	USD	-	-	5,517,584	-
VUB (Bank Intesa), Slovakia	USD	8,488,590	-	-	8,617,630
NBG bank, Great Britain	USD	-	6,307	4,244,295	-
NBG bank, Great Britain	EUR	-	102,324	-	-
Alpha bank, Great Britain	USD	-	-	3,395,436	1,723,526
Piraeusbank, Great Britain	USD	1,697,718	-	-	1,723,526
		<u>13,673,871</u>	<u>155,623</u>	<u>14,035,535</u>	<u>16,471,242</u>
		<b><u>14,731,728</u></b>	<b><u>533,466</u></b>	<b><u>25,289,054</u></b>	<b><u>30,721,339</u></b>

**17. SHARE CAPITAL**

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

Share capital as of 30 September 2013 and 31 December 2012 comprise of 163,060,400 of shares.

**18. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS**

	Nine month period ended 30 September	
	2013	2012
Crude oil	86,957,443	51,155,060
Petroleum products	9,527,217	24,479,287
Gas	506,690	-
	<b><u>96,991,350</u></b>	<b><u>75,634,347</u></b>

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

**19. PRODUCTION AND MANUFACTURING EXPENSES**

	Nine month period ended 30 September	
	2013	2012
Employee costs	3,064,359	4,590,220
Materials and supplies (other than purchased oil, petroleum products and gas)	548,829	745,479
Repair and maintenance services	1,995,193	1,189,246
Electricity and utilities	1,121,527	678,774
Safety and security expense	74,679	120,179
Transportation expense	398,058	391,685
Cost of other sales and other expenses	4,958,298	2,669,533
	<b>12,160,943</b>	<b>10,385,116</b>

**20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

	Nine month period ended 30 September	
	2013	2012
Employee costs	9,847,713	9,752,678
Charitable contributions	159,396	129,403
Legal, audit, and consulting services	857,440	531,698
Rent expense	85,285	61,131
Business trips expense	252,861	353,047
Safety and security expense	231,192	280,702
Insurance expense	192,870	136,862
Transportation and storage	925,958	590,360
Allowance for doubtful accounts	3,463,705	8,519,197
Other	833,879	1,885,972
	<b>16,850,299</b>	<b>22,241,050</b>

**21. PERSONNEL COSTS**

	Nine month period ended 30 September	
	2013	2012
Wages and salaries	9,269,644	11,309,436
Employee benefits	652,054	1,216,824
Other costs	2,990,374	1,816,638
Total employee costs	<b>12,912,072</b>	<b>14,342,898</b>
Social security contributions (social taxes)	1,350,602	1,835,660
	<b>14,262,674</b>	<b>16,178,558</b>

## **22. CONTINGENT LIABILITIES**

### *Finance Guarantees*

As at 30 September 2013 the total amount of outstanding guarantees given by the Company amounted to 3,135,869 RSD mostly related to customs duties in the amount of 1,600,000 RSD (31 December 2012: 2,403,960 RSD).

### *Other contingent liabilities*

As at 30 September 2013, the Company did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Company has to pay the difference in tax calculation including interest of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Company's Management believes that, based on the concession agreements signed with Angola and an the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit Oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Company's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed three years ago. Taking all of the above into consideration, the Company's Management is of the view that as at 30 September 2013 outflow of resources embodying economic benefits is remote due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

## **23. RELATED PARTY TRANSACTIONS**

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The second largest shareholder with 29.87% interest is Republic of Serbia, while remaining 13.98% of interest owned by various minority shareholders are traded on the Belgrade Stock Exchange and are owned by various shareholders. Gazprom, Russian Federation is the ultimate owner of the Company.

In the nine month period ended 30 September 2013 and in the same period in 2012, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, geophysical research and interpretation services.

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

**23. RELATED PARTY TRANSACTIONS (continued)**

As at 30 September 2013 and 31 December 2012 the outstanding balances with related parties were as follows:

	<b>Subsidiary</b>	<b>Parent</b>	<b>Entities under common control</b>	<b>Total</b>
<b>As at 30 September 2013</b>				
Short-term financial assets	1,203,231	-	-	1,203,231
Trade and other receivables	2,819,231	-	-	2,819,231
Other current assets	12,823	-	23	12,846
Investments in subsidiaries	8,703,403	-	-	8,703,403
Long-term financial assets	29,706,942	-	-	29,706,942
Other non-current assets	145,565	-	-	145,565
Trade and other payables	(2,732,805)	(9,660,642)	(16,130,615)	(28,524,062)
Other current liabilities	(127)	-	(4,336)	(4,463)
Short-term debt and current portion of long-term debt	-	(5,330,437)	-	(5,330,437)
Long-term debt	-	(46,641,326)	-	(46,641,326)
	<b>40,615,427</b>	<b>(61,632,405)</b>	<b>(16,134,928)</b>	<b>(37,151,906)</b>
<b>As at 31 December 2012</b>				
Short-term financial assets	485,516	-	-	485,516
Trade and other receivables	1,804,049	-	4,960	1,809,009
Other current assets	68,453	-	20	68,473
Investments in subsidiaries	8,703,403	-	-	8,703,403
Long-term financial assets	17,840,666	-	-	17,840,666
Trade and other payables	(1,815,444)	-	(25,475,054)	(27,290,498)
Other current liabilities	(3,261)	-	-	(3,261)
Short-term debt and current portion of long-term debt	-	(5,404,426)	-	(5,404,426)
Long-term debt	-	(50,247,622)	-	(50,247,622)
	<b>27,083,382</b>	<b>(55,652,048)</b>	<b>(25,470,074)</b>	<b>(54,038,740)</b>

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

**23. RELATED PARTY TRANSACTIONS (continued)**

For the nine month period ended 30 September 2013 and 2012 the following transaction occurred with related parties:

	<b>Subsidiary</b>	<b>Parent</b>	<b>Entities under common control</b>	<b>Total</b>
<b>Nine month period ended 30 September 2013</b>				
Petroleum products and oil and gas sales	3,061,555	-	85,602	3,147,157
Other revenues	416,333	-	-	416,333
Purchases of oil, gas and petroleum products	(1,691,634)	-	(77,668,797)	(79,360,431)
Production and manufacturing expenses	(2,316,909)	(3,879)	(14,741)	(2,335,529)
Selling, general and administrative expenses	(719,329)	(28,909)	-	(748,238)
Transportation expenses	(10,273)	-	-	(10,273)
Other expenses, net	(2,483)	(4,437)	(92,329)	(99,249)
Other finance income	935,354	-	-	935,354
Other finance expense	-	(921,464)	-	(921,464)
	<b>(327,386)</b>	<b>(958,689)</b>	<b>(77,690,265)</b>	<b>(78,976,340)</b>
<b>Nine month period ended 30 September 2012</b>				
Petroleum products and oil and gas sales	978,339	-	82,273	1,060,612
Other revenues	193,255	-	-	193,255
Purchases of oil, gas and petroleum products	(15,236)	-	(43,523,410)	(43,538,646)
Production and manufacturing expenses	(844,225)	(3,148)	(10,300)	(857,673)
Selling, general and administrative expenses	(260,671)	(36,312)	-	(296,983)
Other expenses, net	(122)	(4,664)	(45,309)	(50,095)
Other finance income	192,973	-	-	192,973
Other finance expenses	-	(97,373)	-	(97,373)
	<b>244,313</b>	<b>(141,497)</b>	<b>(43,496,746)</b>	<b>(43,393,930)</b>

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

**23. RELATED PARTY TRANSACTIONS (continued)**

*Main balances and transactions with state owned companies:*

	<b>30 September 2013</b>	<b>31 December 2012</b>
<i>Receivables</i>		
HIP Petrohemija	11,727,290	7,307,595
Srbijagas	26,266,621	23,573,467
	<u>37,993,911</u>	<u>30,881,062</u>
<i>Liabilities</i>		
HIP Petrohemija	(1,204,320)	(561,438)
Srbijagas	(113,124)	(554,138)
	<u>(1,317,444)</u>	<u>(1,115,576)</u>
<i>Advances received</i>		
HIP Petrohemija	(6,772)	(7,743)
Srbijagas	(12,798)	(12,806)
	<u>(19,570)</u>	<u>(20,549)</u>
	<b>Nine month period ended 30 September</b>	
	<b>2013</b>	<b>2012</b>
<i>Income from sales of goods</i>		
HIP Petrohemija	25,374,764	6,674,057
Srbijagas	1,606,076	12,217,907
	<u>26,980,840</u>	<u>18,891,964</u>
<i>Cost of purchased raw materials and services</i>		
HIP Petrohemija	(30,317)	(113,494)
Srbijagas	(924,646)	(151,999)
	<u>(954,963)</u>	<u>(265,493)</u>

**24. TAX RISKS**

Tax laws 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. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Company has paid all tax liabilities as of 30 September 2013 .

**NIS a.d. Novi Sad**  
**Notes to the Interim Condensed Financial Statements**

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

**25. EVENTS AFTER THE REPORTING DATE**

No significant events, which required disclosure in these Interim Condensed Financial Statements, occurred after the reporting date.

Subsequent events occurring after 30 September 2013 were evaluated through 25 October 2013, the date these Interim Condensed Financial Statements were authorised for issue.

**Novi Sad, 25 October 2013.**

**The person responsible for  
the preparation of Financial  
Statements**

**M.P.**

**Legal representative**

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