



**NIS**

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**GAZPROM NEFT**

# Quarterly Report

for second quarter  
of 2014

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*The Quarterly Report of NIS j.s.c. Novi Sad for second quarter of 2014 represents a credible review of NIS Group's development and performance in second quarter of 2014, as well as for first six months of 2014. The report includes and discloses information about NIS Group, which is consisted of NIS j.s.c. Novi Sad and its subsidiaries. If information in this report refers to specific subsidiar(y)ies or just NIS j.s.c. Novi Sad itself that is particularly indicated in the report. The terms "NIS j.s.c. Novi Sad" and "The Company" are used to designate parent company NIS j.s.c. Novi Sad, while the terms "NIS", "NIS Group" and "the Group" refer to the NIS j.s.c. Novi Sad with its subsidiaries. Report, in compliance with the Law on Capital Markets, comprises of three chapters: business report, financial statements (stand-alone and consolidated) with accompanying notes and the statement of persons responsible for preparation of the report.*

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## FOREWORD

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Increase in the internal operational efficiency and introduction of new technologies in all business processes remained the strategic goals of NIS development in the first 6 months of 2014. It is essential since it is the only way the company can develop and achieve results in the business environment which is still facing the economic crisis and unfavourable trends. Moreover, just as the entire Serbian and regional economy, NIS was also affected by the adverse weather conditions, i.e. floods that befell our country in May. On the other hand, the RSD exchange rate was relatively stable which had a positive impact on the business operation in the first six months of this year.

EBITDA, or the Company profit before interest, taxes, depreciation and amortization, amounted to RSD 30.9 billion, which is by 10 % greater when compared to the last year's RSD 28.1 billion. This was attributed to the increase in the refining and sales volume, improved business efficiency, as well as the plant in Pančevo Refinery which has been modernized and achieves excellent results enabling the production of fuel that meets the European quality standards.

The Company Net profit amounted to RSD 17 billion, while capital expenditures, i.e. investments amounted to RSD 17.8 billion. Of which, 11.4 billion was invested in exploration and production, four billion in refining, and RSD 1.6 billion were invested in the development of the retail network in Serbia and the region. It should be noted that in the first six months of 2014 NIS invested RSD 448million in environmental projects, which is by 2 % more than the foreseen amount of 438 million. Sales revenue reached RSD 122,6 billion, which is by 8 % more than 113.2 billion in the first six months of 2013. Results accomplished in the first six months were attributed to the fact that the NIS continued to focus on the expansion of the product range, as well as further improvement of the gas station operation.

Sales volume increased. Therefore, the overall sales of petroleum products in all markets where NIS operates increased by 6 % and reached 1,425 thousand tons. Petroleum products sales in the domestic market<sup>1</sup> marked modest growth of 1 % and reached a volume of 1,100 thousand tons. These results are mainly a reflection of a visible slight market recovery in the region and the gradual healing of economy, which has led to an increase in the consumption of diesel. However, in Serbia, noticeable negative economic trends are still present, in particular low purchasing power and high unemployment rate, which are the main causes of the reduced fuel consumption as compared to the countries in the region.

Domestic oil and gas production amounts to 809 thousand toe. The volume of oil and semi products refining reached 1,574 thousand tons, which is by 12 % more than last year.

It is important to note that earnings of our shareholders have not declined despite the challenging business environment. Namely, the Shareholders' Assembly adopted a Decision on profit Distribution for 2013. 25% of NIS a.d, Novi Sad net profit from 2013 in the amount of RSD 13.1 billion will be distributed as dividend. Gross amount per share amounts to RSD 80.22.

By the end of this year, the company plans to continue to further improve internal efficiency, additionally modernize production and refining, and keep fostering good relations with customers in the sales. Therefore, the emphasis will remain on programmes dedicated to retail and wholesale customers. All these efforts will help NIS to mitigate any adverse impacts of the crisis-ridden business environment and to perform well. Of course, corporate social responsibility and caring for our employees, the entire community and the environment shall remain a permanent commitment of NIS.

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<sup>1</sup> Petroleum products sales in the domestic market refers to sales to clients from Serbia in Serbia

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## **BUSINESS REPORT**

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## KEY EVENTS

2014

January	February	March
<ul style="list-style-type: none"> <li>↪ Chain of NIS' petrol stations won first place according the votes of Serbian consumers in the survey for "Best Buy" Award, conducted by the Swiss organization ICERTIAS (International Certification Association)</li> <li>↪ NIS won Virtus Award for Corporate Philanthropy - main VIRTUS award for contribution at national level.</li> <li>↪ Kirill Kravchenko, CEO of NIS, Serbia's most powerful foreigner according to traditional survey of the daily newspaper "Blic"</li> <li>↪ First "cash pooling" system successfully started operating in Serbia. The system includes NIS j.s.c. Novi Sad and its subsidiaries in Serbia<sup>2</sup>. The system provides better management of Group's funds (lower borrowing rates, higher return on invested funds)</li> <li>↪ Liquidation of the subsidiary SP Ranis, Moscow region.</li> </ul>	<ul style="list-style-type: none"> <li>↪ 2013 business results announced</li> <li>↪ NIS was the general sponsor of FEST</li> <li>↪ Introduction of a new drilling method, applying the principle of "dry locations"</li> </ul>	<ul style="list-style-type: none"> <li>↪ Cooperation agreement signed with local communities and a public competition announced for the best projects of the associations of citizens in the 11 municipalities in which NIS conducts its business operations</li> <li>↪ NIS participated at the Car Fair and awarded for the best fair presentation</li> <li>↪ A GAZPROM petrol station opened in Arad as the 15th petrol station in Romania managed by NIS</li> <li>↪ NIS opened a modernized petrol station in Sremska Mitrovica</li> </ul>
April	May	June
<ul style="list-style-type: none"> <li>↪ NIS is the signatory to the regional youth employment initiative</li> <li>↪ Consolidated business results of a group of companies in the first quarter of 2014 were published</li> <li>↪ State-of-the-art automation system of production wells has been introduced</li> <li>↪ Sale of gasoil 0.1 at NIS petrol stations under regressive rates has started</li> <li>↪ NIS has won The Best of Serbia award for the GAZPROM petrol stations.</li> <li>↪ NIS has procured the equipment for seismic data processing worth RSD 150 million</li> </ul>	<ul style="list-style-type: none"> <li>↪ NIS No.1 among 200 greatest budget contributors</li> <li>↪ DDOR Novi Sad has become a new partner in the Super Card Programme and thus joins NIS, IDEA, Sberbank and Telenor.</li> <li>↪ NIS has supported the musical spectacle Balkan Traffic in Brussels for the second consecutive year.</li> <li>↪ Students from Serbia supported by NIS won 5 medals at the Balkan Mathematical Olympiad. Of five won medals, 3 were gold and two were bronze medals.</li> </ul>	<ul style="list-style-type: none"> <li>↪ VI regular session of the NIS Shareholders' Assembly was held</li> <li>↪ NIS supported the International Film Festival CINEMA CITY</li> <li>↪ NIS laboratory at the Faculty of Medicine in Belgrade opened</li> <li>↪ NIS participated in the World Petroleum Congress in Moscow</li> <li>↪ Summer practice in Russia supported by NIS</li> <li>↪ As part of the Together for the Community project, NIS has provided funds for 164 projects in 2014</li> <li>↪ Restructured banking portfolio for period of 5 years with more favourable financing terms and new core banks were selected</li> </ul>

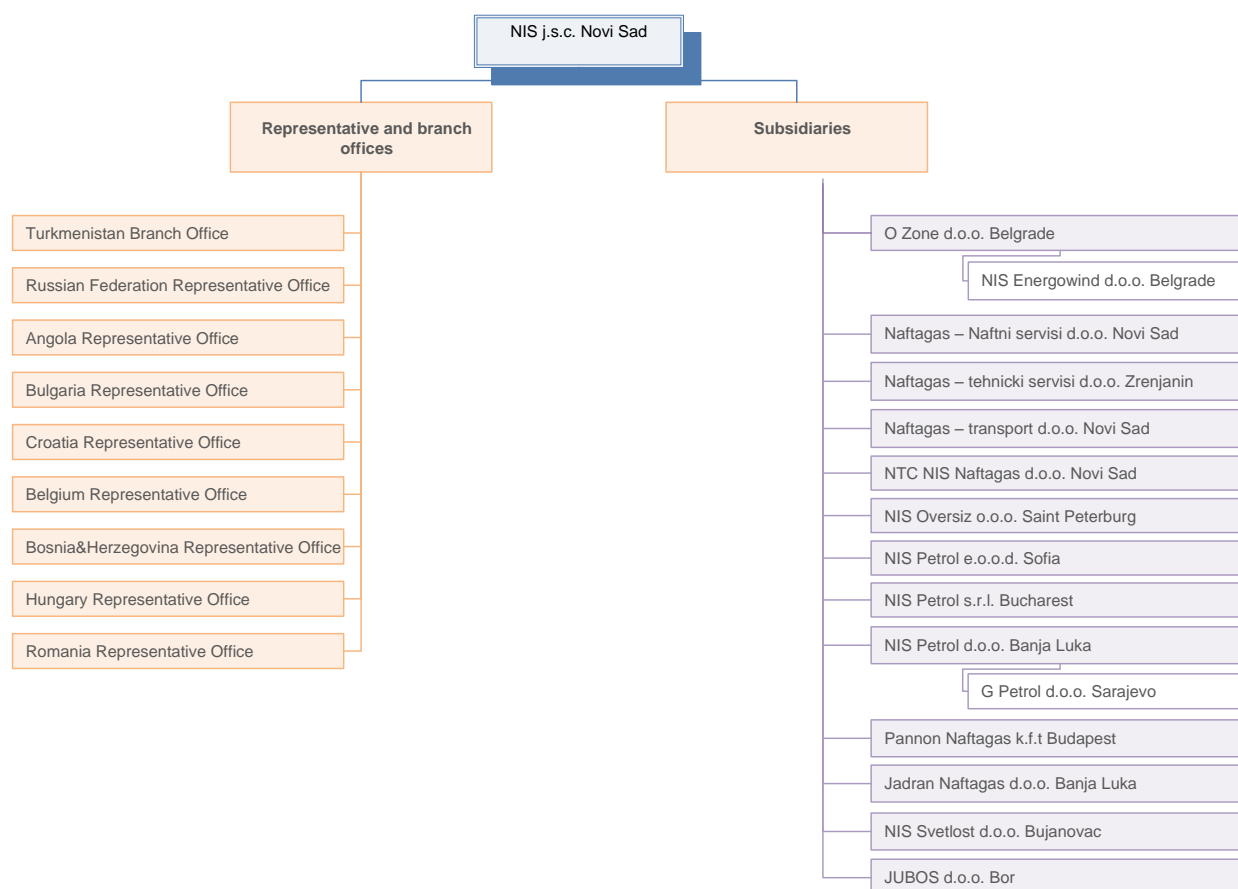
<sup>2</sup> "NTC NIS Naftagas" d.o.o. Novi Sad, "Naftagas – Naftni servisi" d.o.o. Novi Sad, "Naftagas – Tehnički servisi" d.o.o. Zrenjanin and "Naftagas – Transport" d.o.o. Novi Sad

## NIS GROUP PROFILE

NIS Group is one of the largest vertically integrated energy systems in South-East Europe. Group's main activities are the exploration, production, refining and sales and distribution of crude oil and natural gas, petroleum products and natural gas products. The Group's headquarters and its basic production capacities are located in the Republic of Serbia which is the centre of trade and investments in the Balkans owing to its geographic position.

In accordance with the long-term development strategy envisaging the expansion of business activities outside Serbian borders, the parent company within NIS Group started the activities in that respect in 2011. Subsidiary companies were established in Bosnia and Herzegovina, Bulgaria, Hungary and Romania, and a representative office was established in Brussels as a support to the European integrations of Serbia. NIS representative offices operate in Russia, Angola, Bulgaria, Hungary, Bosnia and Herzegovina and Croatia.

## NIS GROUP STRUCTURE



## GENERAL INFORMATION ON NIS J.S.C. NOVI SAD

Business name:	NIS j.s.c. Novi Sad
Company ID No.:	20084693
Address:	Novi Sad, 12 Narodnog fronta St.
Tax identification number:	104052135
Web site:	<a href="http://www.nis.eu">www.nis.eu</a>
e-mail address:	<a href="mailto:office@nis.eu">office@nis.eu</a>
Business activity:	0610 - crude oil exploitation
Number and date of registration within SBRA:	BD 92142, 29.09.2005
Total capital as of June 30 <sup>th</sup> , 2014	RSD
Share capital as of June 30 <sup>th</sup> , 2014	81,530,200,000 RSD
Headcount as of June 30 <sup>th</sup> , 2014	4,311 <sup>3</sup>
Auditing Company to have audited the last financial statement (of 31.12.2013.):	PricewaterhouseCoopers d.o.o. 88a Omladinskih brigada St., Novi Beograd
Organized market for trading with issuers' shares	Beogradska berza a.d. Belgrade 1 Omladinskih brigada St. 11070 Novi Beograd

## DATA ON SUBSIDIARIES

Subsidiary's name	% of interest in the capital of the subsidiary held by the parent company
"O Zone" a.d., Belgrade	100.00%
"Naftagas – Naftni servisi" d.o.o., Novi Sad	100.00%
"Naftagas – Tehnicki servisi" d.o.o., Zrenjanin	100.00%
"NTC NIS – Naftagas" d.o.o., Novi Sad	100.00%
"Naftagas – Transport" d.o.o., Novi Sad	100.00%
OOO "NIS Oversiz", Sankt Petersburg, Russian Federation	100.00%
"NIS Petrol" e.o.o.d., Sofia, Bulgaria	100.00%
„NIS Petrol“ s.r.l. Bucharest, Romania	100.00%
„NIS Petrol“ d.o.o. Banja Luka, Bosnia and Herzegovina	100.00%
„Pannon Naftagas“ Kft, Budapest, Hungary	100.00%
"Jadran Naftagas" d.o.o. Banja Luka, Bosnia and Herzegovina	66.00%
"NIS Svetlost" Bujanovac	51.32%
"JUBOS" d.o.o. Bor	51.00%

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

G-Petrol d.o.o. Sarajevo, Bosnia and Herzegovina, whose parent company (with 100% participation in the capital) is NIS Petrol d.o.o. Banja Luka, Bosnia and Herzegovina is consolidated in Group's financial statements in accordance with International Financial Reporting Standards (IFRS)..

"O Zone" a.d., Belgrade as member of NIS Group owns 50% of interest in a joint venture, Energowind d.o.o. which is intended to be used as a vehicle for operation of future wind farm "Plandište". The control over Energowind is divided equally between NIS Group and Asporta Limited, Cyprus, and in consolidated financial statements it is represented as joint-venture

<sup>3</sup> Without staff engaged through leasing companies and employees in subsidiaries and representative offices



## NIS GROUP ACTIVITY

The business activities of NIS Group are organized within the parent company NIS j.s.c. Novi Sad as: five blocks

- Exploration and Production
- Services
- Refining
- Sales and Distribution
- Energy

partially decentralized functions

- Function for Strategy and Investments
- Function for Finance, Economics, Planning and Accounting
- Function for Material-Technical and Service Support and Capital Construction
- Function for Organizational Affairs
- Function for HSE

and centralized functions

- Function for Legal and Corporate Affairs
- Function for Corporate Security
- Function for External Connections and Government Relations
- Function for Internal Audit
- Function for Public Relations and Communications

**Exploration and Production** conducts the activities in the area of exploration and production of oil and gas, including exploration, production, infrastructure and operational support to production, oil and gas reserves management, oil and gas reservoirs development management, major projects in the area of exploration and production.

**Services** provide main support to exploration and production in all processes of oil and gas exploration and production, from geophysical services, drilling and well workover, transportation of resources and crews, equipment maintenance, and construction and maintenance of oil and gas systems and facilities.

**Refining** engages in production of petroleum products (euro standard of quality). NIS produces a wide range of petroleum products: motor fuel, raw materials for petrochemical industry, motor oils and other petroleum products. The maximum capacity of refining facilities of both refineries (in Pančevo and Novi Sad) amounts to over 5<sup>4</sup> million tons of crude oil on the annual basis.

**Sales and Distribution** includes foreign and domestic trade, wholesale trade, retail trade of petroleum products and related goods.

**Energy** engages in the production of electricity and thermal energy from traditional and renewable energy sources, trading of gas, electricity trade, development and implementation of energy projects of strategic importance, development and implementation of projects for energy efficiency improvement.

## PRODUCTS AND SERVICES

1. Fuels for internal combustion engines
2. Liquid Petroleum Gas
3. Aviation gasoline
4. Jet fuels
5. Oil and lubricants
6. Heating oils
7. Bitumen
8. Raffinates and distillates
9. Petrochemical products (primary gasoline, propylene)
10. Other products (kerosene, benzene, toluene, liquid sulphur, special gasoline)

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<sup>4</sup> Capacity of RNP is 4.8 million tons per year, while capacity of RNS is 0.5 million tons per year

## COMPANY MANAGEMENT SYSTEM

In accordance with the provisions of the Company Law, a new Statute of NIS j.s.c. was adopted at the 4th Regular Session of the Shareholders' Assembly held on 25 June 2012, in order to ensure the compliance with statutory requirements. In accordance with the new Statute, NIS j.s.c. Novi Sad has been organized as one-tier Management Company with:

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

The Company also has:

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

## SHAREHOLDERS' ASSEMBLY

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

## BOARD OF DIRECTORS

The Board of Directors plays a central role in the corporate governance system and is collectively responsible for the long-term success of the Company. The Board of Directors sets basic business goals and directions of further development of the Company, as well as controls the efficiency of implementation of the corporate business strategy.

The Board of Directors consists of eleven members appointed by the Shareholders' Assembly. Elected members appoint Chairman of the Board of Directors, and the position of Chairman of the Board of Directors and Chief Executive Officer are separated. Members of the Board of Directors have the required knowledge and experiences relevant to the type and scope of activities performed by NIS j.s.c. Novi Sad.

## MEMBERS OF BOARD OF DIRECTORS AS OF JUNE 30<sup>TH</sup> 2014<sup>5</sup>



**Vadim Vladisavovich Yakovlev,**  
**Chairman of the Board of Directors of NIS j.s.c. Novi Sad**  
*Deputy Chairman of the Executive Board of „Gazprom Neft” j.s.c.*  
*First CEO Deputy, in charge of exploration and production, strategic planning and mergers and acquisitions*

He was born on September 30<sup>th</sup>, 1970.

He graduated from Moscow Engineering Physics Institute (in applied nuclear physics) in 1993. From High School of Finance at the International University in Moscow he graduated in 1995. As of 1999 he qualified as a member of the ACCA (Chartered Association of Certified Accountants). In 2009, he gained a diploma of the British Institute of Directors (ID). From 1995 to 2000 he worked with PricewaterhouseCoopers, starting his career as a consultant and being promoted to audit manager in 2000. From 2001 – 2002 he worked as Deputy Head of Financial and Economics Department, CJSC YUKOS EP. From 2003 to 2004 he was Financial Director in JSC Yugansk Neftegaz (NK Yukos). From 2005 – 2006 he was Deputy General Director, LLC SIBUR-Russian Tyres.

<sup>5</sup> At 6<sup>th</sup> ordinary annual Shareholders Assembly Meeting held on June 30<sup>th</sup> 2014, Ms Negica Rajakov and Mr Nenad Mijailovic were relieved of duties as Members of BoD and Ms Danica Drašković and Mr Goran Knežević were appointed as new Members of BoD.



**Kirill Albertovich Kravchenko**  
**CEO of NIS j.s.c. Novi Sad**  
**Member of Nomination Committee<sup>6</sup>**  
*Deputy CEO for Overseas Asset Management of "Gazprom Neft" j.s.c.*

He was born on May 13<sup>th</sup>, 1976 in Moscow.

He graduated in sociology from Moscow State University "M.V. Lomonosov" with the highest grades in 1998. In 2001 he received post-graduate education at the same university. From 2002 to 2003 he studied at the Open British University (financial management), and from 2003 to 2004 at IMD Business School. He holds a PhD in Economic Science, professor. Mr Kravchenko worked in consulting until 2000, and from 2000 to 2004 he worked in YUKOS Company on various positions in Moscow and Western Siberia. From 2001 to 2002, Mr Kravchenko was employed with Schlumberger (under partnership program with NK Yukos) in Europe and Latin America. In the period 2004-2007 he performed the function of an administrative director at JSC MHK Eurohim. Mr Kravchenko was elected member to the Board of Directors several times in major Russian and international companies like "Slavneft", "Tomskneft", "Lifosa", "M Alliance", "ITSK", etc... In April 2007, he was appointed Vice-Chairman, "Gazprom Neft" j.s.c., and in January 2008 – Deputy Chairman of Management Board of "Gazprom Neft" j.s.c., Deputy General Manager for Organization. In February 2009 Kirill Kravchenko was appointed CEO of the Serbian petroleum company NIS j.s.c. Novi Sad controlled by "Gazprom Neft" j.s.c. and member of the NIS j.s.c. Novi Sad Board of Directors. As of March 2009, he performs the function of Deputy General Director for Overseas Assets Management in "Gazprom Neft" j.s.c.. He is professor in the department "International Institute of Logistics and International Informatics" of Russian Chemical Technology (RHTU) University "D. I. Mendeleev". He is professor at the University of Mining and Geology of oil and gas "I. M. Gubkin", and a professor at the University of Novi Sad. He is an associate professor in the School of International Businesses in Bled, Slovenia.



**Alexander Arturovich Bobkov**  
**Member of the Board of Directors of NIS j.s.c. Novi Sad**  
*Advisor of CEO of „Gazprom Neft” j.s.c.*

Born on October 18<sup>th</sup> 1966 in the city of Vinnica.

He graduated in the field of politic economy in 1988 from the "Zhdanov" Leningrad State University. On 17.06.2011 he obtained PhD degree in Economy and on 16.06.2006 he obtained MBA degree in Economy. From 1991 to 2010 he worked at managing positions in the following fields: civil engineering, production, real estate and sales with the Leningrad Centre of Business Co-operation "Perekryostok", "Proxima" j.s.c., "General Civil Engineering Corporation" Ltd.

From 2010 to the present he is working as Executive director of Public Business Centre "Okhta" c.j.s.c. and from 2012 to the present he is an Advisor to CEO of "Gazprom Neft" j.s.c.



**Alexey Viktorovich Yankevich**  
**Member of the Board of Directors of NIS j.s.c. Novi Sad**  
*Deputy CEO for Economics and Finance „Gazprom Neft” j.s.c.*

Born on December 19<sup>th</sup> 1973. In 1997 he graduated from Saint-Petersburg State Electrical Engineering University ("LETI"), majoring in optical and electronic instruments and systems. In 1998 he completed a course at LETI-Lovanium International School of Management in Saint-Petersburg. From 1998 to 2001 he worked at CARANA, a consulting company. From 2001 to 2005 he has performed the function of Deputy Head of Planning, Budgeting and Controlling Department at YUKOS RM (business unit responsible for logistics and downstream operations). In 2004 he became a Certified Management Accountant (CMA).

From 2005 to 2007 he worked as deputy CFO at LLK-International (production and sale of lubricants and special petroleum products; part of the LUKOIL group).

From 2007 to 2011 he has performed the function of Head of Budgeting and Planning Department, Head of Economics and Corporate Planning Directorate at "Gazprom Neft" j.s.c.. Since August 2011 he is acting Deputy CEO for Economics and Finance at "Gazprom Neft" j.s.c.. Since March 2012 he is a member of the Management Board of "Gazprom Neft" j.s.c. and Deputy CEO for Economics and Finance.

<sup>6</sup> The mandate of members of NIS' BoD Committees (Audit Committee, Remuneration Committee and Nomination Committee) expired on June 30<sup>th</sup> 2014.



**Alexander Vladimirovich Krilov**  
**Member of the Board of Directors of NIS j.s.c. Novi Sad**  
**Director of Division for regional sales in „Gazprom Neft” j.s.c.**

Born on March 17<sup>th</sup> 1971 in Leningrad.

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



**Nikola Martinović**  
**Member of the Board of Directors of NIS j.s.c. Novi Sad**  
**Chairman of Nomination Committee<sup>5</sup>**

Born on December 3<sup>rd</sup> 1947.

He completed primary education in Feketić, and secondary in Srbobran. Graduated from Faculty of Economics in Subotica, where he also defended his Master Thesis titled “Transformation of Tax System in Serbia by implementing VAT”. From 1985 to 1990 he performed the function of the CEO of “Solid” company from Subotica, and from 1990 to 1992 he performed the function of Assistant Minister of Internal Affairs of the Republic of Serbia. From 1992 to 2000 he performed the function of Assistant CEO of the Serbian Petroleum Industry in charge of financial affairs, and as CEO of “Naftagas promet” from 1996 to 2000. As of 2005, until 31 August 2013 Mr Martinović performs the function of a special advisor in NIS j.s.c. Novi Sad. From 1 September until 15 December 2013 he performed a function of special advisor of CEO of O Zone j.s.c. Belgrade, and from 15 December 2013 he performs a function of an advisor of CEO of NTC NIS Naftagas Ltd. Novi Sad He was a member of NIS j.s.c. Novi Sad BoD from 2004 to 2008 and re-appointed to the function in February 2009. He currently performs the function of a member of the NBS Governor Council.



**Nenad Mijailović**  
**Member of the Board of Directors of NIS j.s.c. Novi Sad**  
**Member of Audit Committee<sup>5</sup>**

Born on October 14<sup>th</sup> 1980 in Čačak.

In 2003 graduated from the Faculty of Economy, University of Belgrade, in 2007 obtained MBA degree from the University of Lausanne, Switzerland. In 2010 started doctorate studies at the Faculty of Economy, University of Belgrade. As from 2011, he holds an international CFA license in the field of Finance. From 2003 to 2009 he worked as consultant and manager in the field of finance and banking in the following companies: Deloitte, Belgrade, AVS Fund de Compensation, Geneva, JP Morgan, London, KBC Securities Corporate Finance, Belgrade. From December 2009 to August 2012 he worked at the position of Minister Consultant in the Ministry of Economy and Regional Development, Department of Economy and Privatization. Since August 2012 to the present is working at the position of Deputy Minister of Finance and Economy of Republic of Serbia.



**Negica Rajakov**  
**Member of the Board of Directors of NIS j.s.c. Novi Sad**  
**Member of Remuneration Committee<sup>5</sup>**

Born on February 4<sup>th</sup>, 1969 in Pančevo.

She graduated from Faculty for electrical engineering of Belgrade University in 1994 (master of electrical engineering). She started the career as teaching assistant at the Department of Electrical Machinery at the Faculty of Electrical Engineering in Belgrade. Her professional work started in 1996 on the post of Electrical Engineer –trainee in JP Elektrovojvodina, ED Pančevo. From 1997 to the present day she works in HIP Petrohemija a.d. Pančevo on the following posts: Engineer for Technical Safety, Chief Engineer of Technical Safety, Manager of Occupational Safety Department in OU Safety, Department Manager in OU Kibernetika, Director and Deputy Director of OU Electricity Supply. Since 2010 until March 28<sup>th</sup> 2014 she was Assistant Director of OU Elektrosnabdevanje HIP-Petrohemija, a.d. Pančevo. Since 2011 she is a Court expert in the field of Electrical Engineering. Since 2012 she attends doctoral studies in Management of natural resources at Megatrend University.



**Wolfgang Ruttenstorfer**  
**Independent Member of the Board of Directors of NIS j.s.c. Novi Sad**  
**Chairman of Audit Committee<sup>5</sup>**

Born on October 15<sup>th</sup> 1950 in Vienna, Austria.

His career started in the Austrian company OMV in 1976. In 1985 he was transferred to the Planning and Control Department and in 1989 he assumed the responsibility for the strategic development of OMV Group. Since he was appointed Marketing Manager in 1990, he assumed the function of a member of the Executive Board in 1992 in charge of finance and chemical products.

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



**Anatoly Moyseyevich Cherner**  
**Member of Board of Directors of NIS j.s.c. Novi Sad**  
**Member of Remuneration Committee<sup>5</sup>**

*Deputy Chairman of the Executive Board, Deputy CEO for logistics, refining and sales in j.s.c. "Gazprom Neft"*

Born in 1954.

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



**Stanislaw Vladimirovich Shekshnia**  
**Independent Member of the Board of Directors of NIS j.s.c. Novi Sad**  
**Chairman of Remuneration Committee<sup>5</sup>**  
**Member of Nomination Committee<sup>5</sup>**

*Professor at the International Business School INSEAD*

He was born on May 29<sup>th</sup>, 1964. He is French citizen.

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

## MEMBERSHIP IN THE BOARD OF DIRECTORS OR SUPERVISORY BOARDS OF OTHER COMPANIES

Vadim Vladislavovich Yakovlev	<ul style="list-style-type: none"> <li>• JSC NGK "Slavneft"</li> <li>• JSC "SN-MNG"</li> <li>• LTD "Gazprom Neft Development"</li> <li>• JSC "Gazprom Neft-NNG"</li> <li>• LTD "Gazprom Neft-East"</li> <li>• LTD "Gazprom Neft-Hantos"</li> <li>• LTD "Gazprom Neft-NTC"</li> <li>• LTD "Gazprom Neft-Angara"</li> <li>• FLLC "NK Magma"</li> <li>• FLLC "Gazprom Neft-Orenburg"</li> <li>• LTD "Gazprom Neft-Sahalin"</li> <li>• Salim Petroleum Development N.V. (Supervisory Board member)</li> </ul>
Kirill Albertovich Kravchenko	<ul style="list-style-type: none"> <li>• Vice-Chairman of the National Oil Committee of the Republic of Serbia</li> <li>• Serbian Tennis Federation BoD Member</li> <li>• SAM BoD Member – Serbian Association of Managers</li> </ul>
Alexandar Arturovich Bobkov	<ul style="list-style-type: none"> <li>• LLC "Social Business Centre Okhta"</li> </ul>



Alexey Viktorovich Yankevich	<ul style="list-style-type: none"> <li>• JSC "NGK Slavneft"</li> <li>• LLC "Gazprom Neft – Aero"</li> <li>• LTD "Gazprom Neft – SM"</li> <li>• LTD "Gazprom Neft Biznis-Servis"</li> <li>• "Gazprom Neft Lubricants" Italy</li> <li>• LTD "Gazprom Neft Marin Bunker"</li> <li>• FLLC "Gazprom Neft – Orenburg"</li> </ul>
Alexander Vladimirovich Krilov	<ul style="list-style-type: none"> <li>• FLLC "Gazprom Neft Kuzbas"</li> <li>• JSC "Gazprom Neft Novosibirsk"</li> <li>• JSC "Gazprom Neft Omsk"</li> <li>• JSC "Gazprom Neft Tumen"</li> <li>• JSC "Gazprom Neft Ural"</li> <li>• JSC "Gazprom Neft Yaroslavl"</li> <li>• LLC "Gazprom Neft Northwest"</li> <li>• LTD "Gazprom Neft Asia"</li> <li>• LTD "Gazprom Neft Tajikistan"</li> <li>• LTD "Gazprom Neft Kazakhstan"</li> <li>• LTD "Gazprom Neft Centre"</li> <li>• LTD "MTK"</li> <li>• LTD "Gazprom Neft Terminal"</li> <li>• LTD "Gazprom Neft Chelyabinsk"</li> <li>• LTD "Gazprom Neft – regional sales"</li> </ul>
Nikola Matrinović	-
Nenad Mijailović	-
Negica Rajakov	-
Wolfgang Ruttendorfer	<ul style="list-style-type: none"> <li>• "CA Immobilien" AG, Vienna, Chairman of the Supervisory Board</li> <li>• "Telekom Austria" AG, Vienna, Member of the Supervisory Board</li> <li>• "Flughafen Wien" AG, Vienna, Member of the Supervisory Board</li> <li>• "RHI" AG, Vienna, Member of the Supervisory Board</li> </ul>
Anatoly Moyseyevich Cherner	<ul style="list-style-type: none"> <li>• JSC NGK "Slavneft"</li> <li>• JSC "Gazprom Neft-ONPZ"</li> <li>• JSC "Slavneft-JANOS"</li> <li>• JSC "Gazprom Neft –MNPZ"</li> <li>• C.J.S.C. "Gazprom Neft-Aero"</li> <li>• C.J.S.C. "St. Petersburg's international commodities and resources Exchange"</li> <li>• LLC "GazpromNeft-Belnefteprodukt"</li> <li>• LTD "Gazprom Neft –SM"</li> <li>• LTD "Gazprom Neft Marin Bunker"</li> <li>• LTD "Gazprom Neft – Logistics"</li> <li>• JSC "Mozirski NPZ"</li> </ul>
Stanislav Vladimirovich Shekshnia	-

#### NUMBER AND % OF NIS J.S.C. NOVI SAD SHARES OWNED BY THE BOD MEMBERS

Name and surname	Number of shares	% in total number of shares
Nikola Martinović	224	0.0001%
Negica Rajakov	5	0.00003066%
Nenad Mijailović	5	0.00003066%

#### THE TOTAL AMOUNT OF REMUNERATIONS PAID TO THE BOD MEMBERS IN FIRST 6M 2014<sup>7</sup>

CEO	11,324,844
Other BoD members	39,094,389

<sup>7</sup> Net, in RSD

## BOARD OF DIRECTORS COMMITTEES

In order to ensure fast and efficient performance of its activities, the Board of Directors has established 3 standing committees as its advisory and expert bodies providing assistance to its work, especially in terms of deliberating on issues within its scope of competence, preparation and monitoring of enforcement of decisions and acts it adopts and to perform certain specialized tasks for the Board of Directors' needs.

The Board of Directors has established:

- Audit Committee,
- Remuneration Committee and
- Nomination Committee.

As appropriate, the Board of Directors may establish other standing or ad hoc committees to deal with the issues relevant for the activities of the Board of Directors.

## SHAREHOLDERS' ASSEMBLY BOARD

The Shareholders' Assembly Board for the Supervision of Operations and the Procedure for Reporting to the Company's Shareholders (hereinafter Shareholders' Assembly Board) is an advisory and expert body of the NIS j.s.c. Novi Sad Shareholders' Assembly, which provides assistance to the Shareholders' Assembly in its activities and deliberation on issues within its scope of competence.

### MEMBERS OF THE SHAREHOLDERS' ASSEMBLY BOARD (SAB) AS OF JUNE 30<sup>TH</sup> 2014<sup>8</sup>



#### **Ljubomir Aksentijević**

**Chairman of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad**

Born on July 9<sup>th</sup>, 1940 in Belgrade.

Graduated from the Faculty of Economics, Belgrade University in 1963. In the period from 1964 – 1997 he worked at various positions in the field of trading and banking, in the following companies: Interexport, Belgrade; Societe Generale bank Paris, Representative Office for former Yugoslavia; Societe Generale Yugoslav Bank, Belgrade, Commercial Director.

In the period from 1997-2005 he was Representative of Societe Generale Bank, Paris, in Alma-Aty, Kazakhstan; Director of Societe Generale Bank, Paris, Representative Office in Baku, Azerbaijan. From 2005 - 2009 - Investment banking development Director for Southeast Europe, Societe Generale Bank, Paris, and Counsellor to CEO Societe Generale bank Srbija a.d.

As from May 2010 to September 2011 - Counsellor to Deputy Prime Minister of Republic of Serbia for economics and international finance issues. Since 2012 - Special Counsellor for development and finance issues to the Minister of energy, development and environmental protection of Republic of Serbia. Currently he is Counsellor to Deputy Prime Minister and Minister of Construction, Transport and Infrastructure of the Republic of Serbia for development and finance Minister.



#### **Radoslav Striković**

**Member of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad**

Born on October 7<sup>th</sup>, 1956 in Crvenka.

In 1980 graduated from the Faculty of Economy in Subotica, University of Novi Sad. Since 1982 to 1987 worked as an economist for plan and analysis in the area of economics and finance in RZZP, in Metalelektro, Agrovjvodina. In the period 1987 – 1989 Mr Striković was the CFO on Tehnicka Roba, Agrovjvodina, and during 1989 – 2000, General Manager of D.D. ShiponS, Agrovjvodina. He was also a member of City Council of the city of Novi Sad from 2004 – 2006, and from 2006 – 2008 he was the chief expert in the area of industry in the city of Novi Sad. From 2008 to 2012 he was a member of the government of Vojvodina as the Secretary for Energy and Mineral Resources.

<sup>8</sup> At 6<sup>th</sup> ordinary annual Shareholders Assembly Meeting held on June 30<sup>th</sup> 2014, Mr Ljubomir Aksentijević and Mr Radoslav Striković were relieved of duties as Members of SAB and Mr Nenad Mijailović and Mr Zoran Grujčić were appointed as new Members of SAB.



**Alexey Alexandrovich Urusov**  
**Member of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad**  
**Member of Audit Committee<sup>5</sup>**  
*Director of Economics and Corporate Planning Department in "Gazprom Neft" j.s.c.*

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

From 2006 to 2008 he worked as executive vice-president for planning and business management in the Integra Group. From 2002 to 2006 he worked in TNK-VR. From 2002 to 2003 he is a member of TNK BoD's Group for monitoring and control, and in period from 2004 to 2006 he worked as CFO in TNK-VR Ukraine. From 2009 to 2012 he was employed at NIS j.s.c. Novi Sad as CFO.

#### MEMBERSHIP IN THE BOARD OF DIRECTORS OR SUPERVISORY BOARDS OF OTHER COMPANIES

Ljubomir Aksentijević	-
Radoslav Striković	-
Alexey Alexandrovich Urusov	• Supervisory Board member in Gazpromneft Marine Bunker Balkan S.A.

#### NUMBER AND % OF NIS J.S.C. NOVI SAD SHARES OWNED BY THE SAB MEMBERS

Name and surname	Number of shares	% in total number of shares
Ljubomir Aksentijević	5	0.000003066%

#### TOTAL AMOUNT OF FEES PAID TO SAB MEMBERS<sup>9</sup> IN FIRST 6M 2014

Members of SAB	4,627,161
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#### CHIEF EXECUTIVE OFFICER

Chief Executive Officer is appointed by the Board of Directors out of its executive members. Chief Executive Officer coordinates the work of the executive members of the Board of Directors and organizes the Company's activities, performs daily management activities and decides on matters which do not fall within the competence of the Shareholders' Assembly and the Board of Directors. Chief Executive Officer is a legal representative of the NIS j.s.c. Novi Sad.

Mr Kirill Albertovich Kravchenko is the Chief Executive Officer of NIS j.s.c. Novi Sad.

#### CEO'S ADVISORY BOARD

The NIS j.s.c. Novi Sad CEO's Advisory Board as an expert body provides assistance to the CEO in his activities and consideration of issues within its scope of competence. Composition of CEO's Advisory Board is determined by the CEO's decision and it is composed of directors of all blocks and functions within the Company, CEO's deputy for petrochemical business and regional directors of NIS j.s.c. Novi Sad for Romania and Adriatic. The Advisory Board has a Council composed of block directors and Deputy CEO in charge of petrochemical affairs. The CEO Advisory Board is managed by the CEO and provides him assistance in relation to the issues concerning the Company's business operations management.

In addition to issues concerning the Company's current operations (monthly and quarterly operating results, annual business plans, monthly investment plans), the Advisory Board deals with issues of strategy and policy development whose basic principles are defined by the Shareholders' Assembly and the Company's Board of Directors.

<sup>9</sup> Net, in RSD



## RISK MANAGEMENT

The objective in the area of risk management is to provide additional guarantees for the achievement of strategic objectives by timely identification/risk prevention, definition of effective measures and ensuring maximum efficiency of risk management measures.

Risk management has become an integral part of internal environment owing to the implementation of the following processes:

- Adoption of the approach focused on risks in all aspects of management activity
- Systematic analysis of identified risks
- Establishment of the risk control system and monitoring the effectiveness and efficiency of risk management measures
- Introducing all employees with adopted basic principles and approaches in risk management process
- Ensuring required normative and methodological support
- Distribution of authorizations and responsibilities in risk management among organizational parts.

Risk assessment is an integral part of the business planning process and information on key risks constitute an integral part of business plans. Risks are identified and assessed in parallel with the business planning process. Management strategy is defined for key risks as well as measures for risk management, required financial resources for the implementation of measures and persons responsible for their implementation.

## INDUSTRIAL RISKS

Since the main area of business is production, refining and sales and distribution of oil and gas, the Group is particularly exposed to risks in the area of oil exploration and production.

### RISKS IN THE AREA OF OIL EXPLORATION AND PRODUCTION

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

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

NIS Group has extensive experience in conducting geological and exploratory works, it conducts the expertise of the program for geological and exploratory works internally and by the largest shareholder and uses the state-of-the-art methods of exploration, which all contributes to reduced probability of this risk. In order to increase the efficiency and quality of geological exploration works, fleet of drilling rigs has been further modernized.

## FINANCIAL RISKS

The Group is exposed to various financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. Risk management in the Group ensures that the potential negative impacts on the Group's financial performance due to the unpredictability of financial markets are minimized.

### MARKET RISK

**Foreign exchange risk** – NIS Group operates internationally and is exposed to foreign exchange risk arising from transactions in different currencies, primarily USD and EURO. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. The portion of risk relating to the impact of the national currency exchange rate against USD is neutralized through natural hedging of petroleum products sales price which adapts to changes in the exchange rate. Risk management instruments are also used and include forward foreign exchange transactions on the market which contribute to the reduction of currency losses in case of depreciation of the national currency against USD or EUR.

**Price change risk** – Due to its basic business activities, NIS Group is exposed to the risk of changes in price of crude oil and petroleum products, which affects the value of inventories and margins in the refining of oil, which further affects future cash flows. A portion of these risks is eliminated through petroleum products sales price adjustments to these price changes of crude oil and petroleum products. Until 2013, legal regulations of the Republic of Serbia did not allow the use of non-deliverable petroleum products for hedging the prices of oil and other goods, but this was made possible as of mid-2013. The needs for using certain goods hedging instruments for subsidiaries within the group are assessed at the level of Gazprom Neft Group, including NIS j.s.c. Novi Sad as a subsidiary. Additionally, in order to reduce the potential negative impact of the above risks, the following activities are carried out:

- annual planning approach based on scenarios, plans monitoring and timely adjustments to operational plans for the procurement of crude oil
- regular sessions of the Committee for crude oil procurement
- tendency to enter into long-term contracts for crude oil procurement at favourable market and commercial terms, with longer payment deadlines based on open account, daily monitoring of publications crude oil, and contacts with foreign partners.

**Interest rate risk** – NIS Group is exposed to interest rate change risk both from the aspect of taking loans from banks and from the aspect of investing assets. NIS j.s.c. Novi Sad takes loans from commercial banks at variable interest rates and performs the sensitivity analysis for interest rate changes and assesses whether loans at fixed interest rates should be taken to a certain extent. Furthermore, investments in cash assets are also made. Cash assets are invested only with key commercial banks that have granted loans, and/or credit/documentary lines to NIS j.s.c. Novi Sad. Also, assets deposited for a fixed term in RSD or foreign currency, are deposited for a short period of time (up to 90 days) at fixed interest rates. Based on the foregoing, the Group's income and cash flows are substantially independent of changes in market interest rates on invested funds in the form of time deposits, although the level of interest rates that the Group could realize in the market depends largely on the amount of the basic interest rate at the time of depositing (Belibor, which is NBS reference interest rate).

During first half of 2014, NIS j.s.c. Novi Sad granted subordinated loans to foreign subsidiary companies in the majority ownership of the Company (members of NIS Group), as a method for financing business activities abroad. Loans granted for this purpose have been granted at variable interest rates (Euribor). Loans granted at variable rates expose the Group to cash flow interest rate risk. Depending on the net debt at certain period of time, any change in the basic interest rate (Euribor or Libor) has a proportional impact on the performance of the Group.

## CREDIT RISK

Credit risk is managed on the Group level. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, intercompany loans granted to foreign and domestic affiliated legal persons, as well as due to exposure to the wholesale and retail trade, including outstanding receivables and assumed liabilities. As regards credit limits, banks are ranked based on defined methodologies for key and other banks in view of compliance of security instruments.

As regards receivables from clients, there is a developed methodology of credit limits based on which the exposure level towards certain clients is defined depending on their financial indicators.

## LIQUIDITY RISK

NIS Group continuously monitors liquidity to ensure sufficient cash to meet operational needs while maintaining a level of unused credit lines, so as not to exceed the allowed credit limit from banks or the terms of the loan. This design takes into consideration the Group's plans with respect to the settlement of debts, compliance with contractual terms, compliance with internally set goals, and is based on daily forecasts of cash flows for the whole NIS Group based on which decisions on potential additional loans are adopted for which appropriate bank funding sources are provided within the restrictions set by "Gazprom Neft" j.s.c..

## BUSINESS ENVIRONMENT

### WORLD

After a modest 0.3-per cent growth in the first trimester of 2014, the EUROSTAT forecasts indicate that the increase of European Union's GDP will be at 1.6 per cent this year, and 2 per cent in 2015. The growth of business activities in the Eurozone in May, as against April (indicated by the 'Composite PMI') is a positive signal. On the other hand, the 0.5-per cent inflation rate has been a contributing factor in the European Central Bank's initiation of a number of measures aimed to stimulate the growth of prices and strengthen the European economy, as it was of the opinion that inflation should be about 2 per cent. However, despite the fact that low inflation is a cause for concern, European Central Bank does not expect that the Eurozone will slip into deflation.

The IMF also forecasts the recovery of the EU economy, while at the same time pointing out the risks in the form of unfinished reforms and low inflation. In the Eurozone countries, a great reduction in the fiscal restraint rate should stimulate growth. In the peripheral countries of the Eurozone, net exports and the stabilization of domestic demand should contribute to growth.

The UN conference on trade and development (UNCTAD) has announced that direct foreign investments have almost reverted to the level from before the financial crisis, and that Spain and Italy have regained the trust of foreign companies.

The fluctuations of oil prices in the world market have been impacted the most by the renewed tensions in the Middle East, where the jihadists have proclaimed The Islamic State of Iraq and the Levant. There is also concern over poor domestic demand in the largest economy of the world, which grew in May by as little as 0.2 per cent, after stagnating in the previous month. The economy of the US, the biggest oil consumer in the world, has a key impact on the price fluctuations of this energy source.

On the other hand, the price of gas depended mostly on the situation in Ukraine and the fears over the escalation of conflict in this country. Ukraine is a transit route for one quarter of the gas imported by Europe from Russia. An interruption in the delivery of oil would lead to a steep increase in the price of this energy source.

### SERBIA

In April, the credit rating agency Standard&Poors's affirmed its long-term local and foreign currency sovereign credit rating on Serbia at "BB-", with a negative outlook. At the same time, Serbia's short-term credit rating was affirmed at "B". The rationale stated that the rating was impacted by risks arising from high fiscal and external deficits, moderate GDP per capita, and the limited flexibility of the monetary policy due to highly euroized economy. The ratings are supported by Serbia's long-term economic growth potential. The agency believes that the Government will release this potential only through the reforms of the labour market, the business environment, and public administration.

Heavy rainfall in Serbia in May, which caused the worst floods in 100 years, has resulted in the postponement of the adoption of the announced measures by the Government.

The preliminary assessments of the Ministry of Finance of the Republic of Serbia related to Serbia's economic growth range between negative 0.5 per cent and zero per cent.

The official data of the Statistical Office have shown that the GDP growth in Q1 of 2014 was 0.1 per cent, a quarter of the original assessment. Industrial production in the period January-May 2014, as compared to the same period last year, has risen by 0.2 per cent, while the industrial production in May this year was 7 per cent less than in May 2013. Consumer prices in May 2014 were on average 0.1 per cent higher compared to April of the same year. Consumer prices in May 2014 were 2.1 per cent higher compared to the same month last year, and 1.8 per cent higher compared to December 2013.

Trends in USD/RSD and EUR/RSD exchange rate

USD/RSD exchange rate

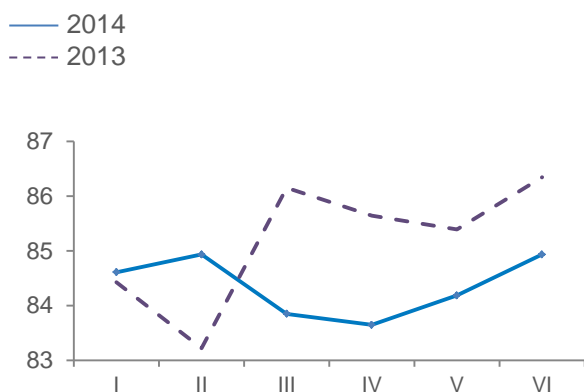


Chart no. 1: USD/RSD exchange rate trend

EUR/RSD exchange rate

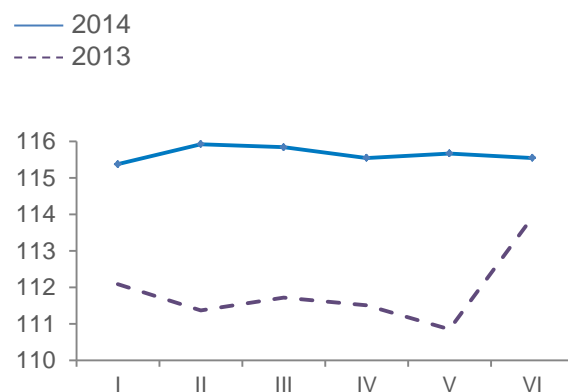


Chart no. 2: EUR/ RSD exchange rate trend

- Increase of USD/RSD exchange rate in first six months of 2014 was 2,07% or 1,72 RSD (from 83.1282 RSD as of January 1<sup>st</sup>, 2014 to 84.8493 RSD as of June 30<sup>th</sup>, 2014)
- Increase of EUR/RSD exchange rate in first six months of 2014 was 1% or 1,14 RSD (from 114.6421 RSD as of January 1<sup>st</sup>, 2014 to 115.7853 RSD as of June 30<sup>th</sup>, 2014)
- Increase of USD/RSD exchange rate in first six months of 2013 was 1.44% or 1.24RSD (from 86.1763 RSD as of January 1<sup>st</sup>, 2013 to 87.4141 RSD as of June 30<sup>th</sup>, 2013)
- Increase of EUR/RSD exchange rate in first six months of 2013 was 0,340% or -0,45 RSD (from 113.7183 RSD as of January 1<sup>st</sup>, 2013 to 114.1715RSD as of June 30<sup>th</sup>, 2013)

Urals crude oil price trends, in USD/bbl.

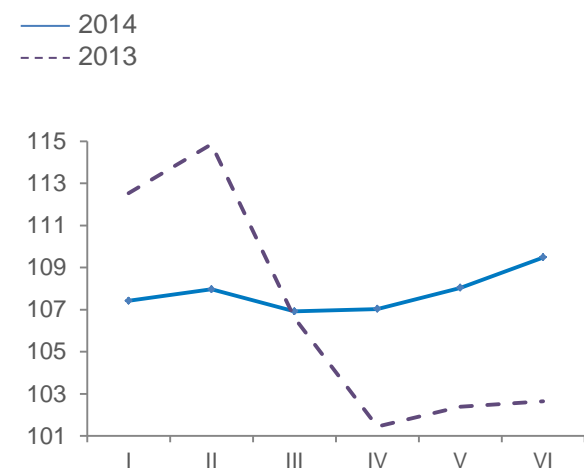


Chart no. 3: Urals crude oil price trends

Brent crude oil price trends, in USD/bbl.

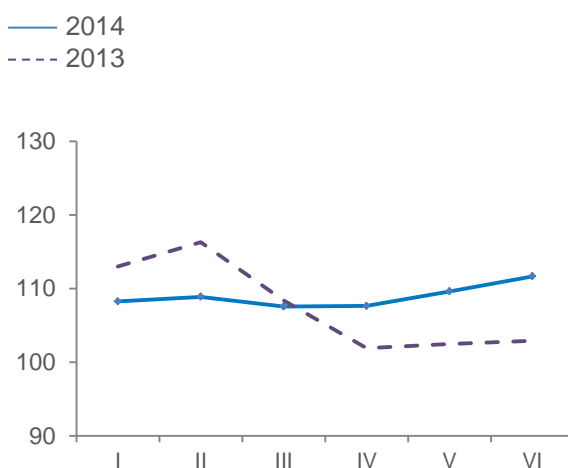


Chart no. 4: Brent crude oil price trends

Average Urals crude oil price in first six months of 2014 was 107.80 USD/bbl.

## MARKET SHARE

### SERBIAN MARKET

- Consumption of petroleum products has been facing an overall stagnation. Growth was marked in the consumption of coke, aviation fuel and bitumen.
- The consumption of motor fuel is slightly less than last year, while the greatest decline was marked in the LPG consumption. Aviation fuel consumption is greater than last year due to the increase in the number of flights of Air Serbia and other air companies. The increased bitumen consumption is the result of the continuation of the construction of road corridors through Serbia.
- NIS market share is marking a slight increase owing to the fact that imported products are being replaced with the domestic product from the Refinery, efficient pricing policy and a widespread logistic network.
- The main reason for the estimated decline in the retail market is the reduced consumption of diesel caused by delayed start of the agricultural programme and its seasonal changeability, as well as by the floods which paralyzed a significant part of the country in the second half of May. Additional reason is the reduction of LPG consumption due to the reduced purchasing power and high unemployment rate.
- A slight decline in the share is attributed to the delayed agricultural programme and large base share in 2013 when NIS used to sell D2 and BMB 95.

**The volume of overall petroleum products market in Republic of Serbia, in thousand tons**

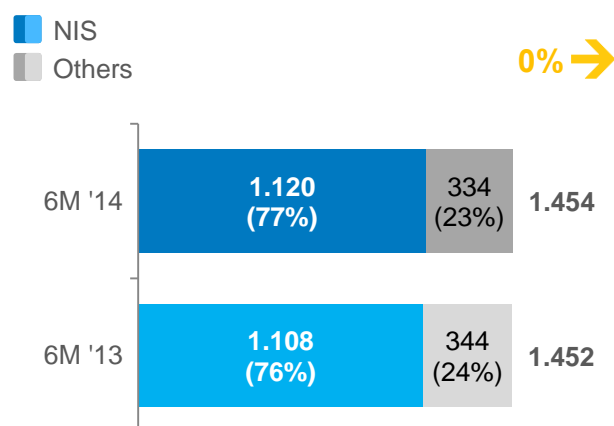


Chart no. 5: The volume of overall petroleum products market in Republic of Serbia<sup>10</sup>

**Retail market in Republic of Serbia, in thousand tons**

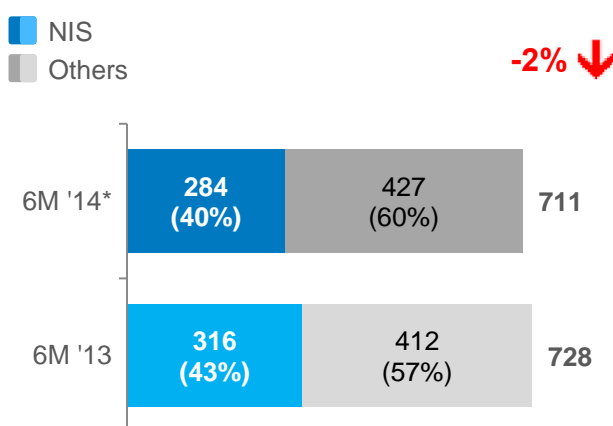


Chart no. 6: The volume of retail market<sup>11</sup> in Republic of Serbia<sup>10</sup>

<sup>10</sup> Data for June 2014 are estimate

<sup>11</sup> NIS and others' sales include motor fuels (auto gas, gasoline, diesel and heating oil EL as motor fuel), and besides sales to clients from Serbia in Serbia data include sales to clients from abroad in Serbia

## MARKETS OF BOSNIA AND HERZEGOVINA, ROMANIA AND BULGARIA

### BOSNIA AND HERZEGOVINA

- Motor oil market has marked a slight decline. Prospects of the market recovery in this year will mainly depend on the level of economic development, but also on the speed of the recovery from the floods in May.
- NIS has 36 petrol stations, of which 28 is under the GAZPROM brand, while 8 are under the NIS brand.
- The estimated NIS share in the motor fuel market in the first six months of 2014 amounts to 8%, while the estimated share in the retail market amounts to 9%.

### BULGARIA

- Gradual market recovery begun last year and has continued in the first half of this year. A slight increase in the motor fuel market share has been caused mainly by the increased diesel consumption, which in the long run should be the main reason of further growth. In accordance with the available data, the LPG consumption shows growth, while the consumption of motor fuel has experienced a decline (approximately by 10%).
- NIS retail network includes 33 petrol stations – of which, 23 are under the GAZPROM brand and 10 petrol stations under the temporary GAZPROM brand. NIS owns a warehouse in Kostin brod.
- The estimated NIS share in the motor fuel market in the first six months of 2014 amounts to 3.2%, while the estimated share in the retail market amounts to 2.2%.

### ROMANIA

- Motor fuel market is recovering following the increase in the consumption of diesel and LPG. Consumption of motor fuel is slightly higher than last year. As of 1 April additional excise duty in the amount of 7 Euros per litres of diesel and gasoline has been introduced affecting the spending trends in the second quarter.
- NIS retail network comprises 17 petrol stations under the GAZPROM brand.
- The estimated NIS share in the motor fuel market in the first six months of 2014 amounts to 0.3%, while the estimated share in the retail market amounts to 0.5%.

## RESULTS ANALYSIS

### KEY INDICATORS<sup>12</sup>

Q2 2013	Q2 2014	Q2 2014 - Q2 2013 (%)	Key Indicators	Measurement unit	6M 2014	6M 2013	6M 2014 - 6M 2013 (%)
102.16	<b>108.18</b>	6%	Urals	\$/bbl.	<b>107.80</b>	106.75	1%
10.5	<b>8.4</b>	-20%	Net profit	bn RSD	<b>17.0</b>	17.7	-5%
16.3	<b>15.4</b>	-5%	EBITDA <sup>13</sup>	bn RSD	<b>30.9</b>	28.1	10%
63.8	<b>66.0</b>	4%	Sales	bn RSD	<b>122.6</b>	113.2	8%
11.8	<b>-0.6</b>	-105%	OCF	bn RSD	<b>1.6</b>	22.1	-93%
34.4	<b>38.4</b>	11%	Accrued taxes and other public revenues <sup>14</sup>	bn RSD	<b>63.6</b>	54.5	17%
407	<b>403</b>	-1%	Domestic oil and gas production <sup>15</sup>	thou. t.o.e.	<b>809</b>	818	-1%
812	<b>850</b>	5%	Oil and semi-finished products refining volume	thou. tons	<b>1,574</b>	1,403	12%
784	<b>782</b>	0%	Total sales of petroleum products	thou. tons	<b>1,425</b>	1,350	6%
19	<b>38</b>	97%	Sales – abroad asset	thou. tons	<b>73</b>	24	198%
628	<b>588</b>	-6%	Petroleum products domestic market sales <sup>16</sup>	thou. tons	<b>1,100</b>	1,089	1%
196	<b>161</b>	-18%	Retail <sup>17</sup>	thou. tons	<b>285</b>	318	-10%
567	<b>525</b>	-7%	Light oil products sales	thou. tons	<b>972</b>	963	1%
11.9	<b>8.2</b>	-31%	CAPEX <sup>18</sup>	bn RSD	<b>17.8</b>	24.1	-26%
442	<b>707</b>	60%	Total bank indebtedness <sup>19</sup>	m USD	<b>707</b>	442	60%

<sup>12</sup> Results, financial and operational indicators are shown for NIS group. All possible discrepancies in percentage values and total values are due to rounding errors.

<sup>13</sup> EBITDA = Sales (without excise tax) – inventories ( of oil, oil products and other products) – operational expenditure (OPEX) – other costs, which management cannot affect

<sup>14</sup> Accrued taxes and other public revenues includes taxes, duties, fees and other public revenues for reporting period. The review includes NIS j.s.c. Novi Sad and its subsidiaries in Serbia („NTC NIS Naftagas” d.o.o., „Naftagas – Transport” d.o.o., „Naftagas – Tehnicki servisi” d.o.o. and „Naftagas – naftni servisi” d.o.o.) and in region, as well as deferred tax assets. The tax for 6M 2014 that is to be paid in Serbia amounted to RSD 59 billion (6M 2013: 52.4).

<sup>15</sup> Due to changes in methodology domestic oil production includes gasoline and light condensate, and for gas production commodity production of gas is used.

<sup>16</sup> Petroleum products domestic market sales refers to sales to clients from Serbia in Serbia

<sup>17</sup> Besides motor fuels, sales of other petroleum products is included

<sup>18</sup> Financing, without VAT

<sup>19</sup> Total bank indebtedness = Total debt to banks + letters of credit. As of June 30<sup>th</sup> 2014 this amounts to 672 millions of USD of total debt to banks and 35 millions of USD of letters of credit



## FINANCIAL INDICATORS

## EBITDA

EBITDA,  
bn RSD

10% ↑

-5% ↓

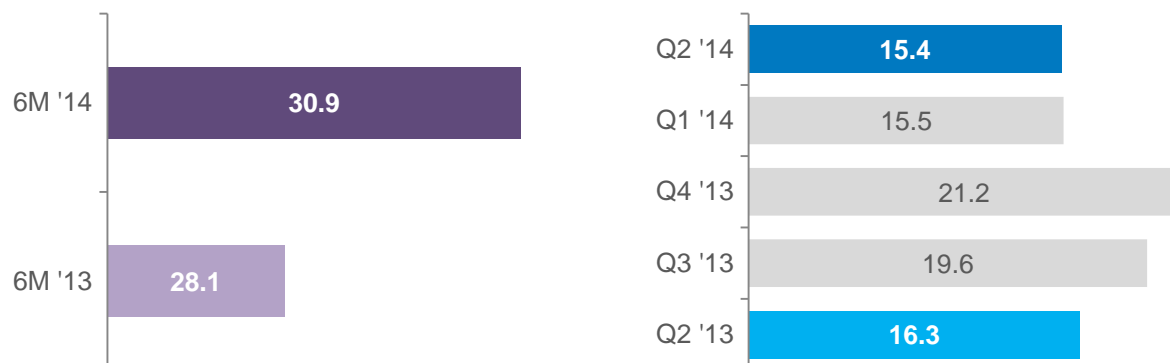


Chart no. 7: EBITDA

EBITDA increased by 10% in 6M 2014 compared to same period previous year:

- ✓ Increased volumes of refining and sales
- ✓ Increased business efficiency

## Net profit

Net profit,  
bn RSD

-5% ↓

-20% ↓

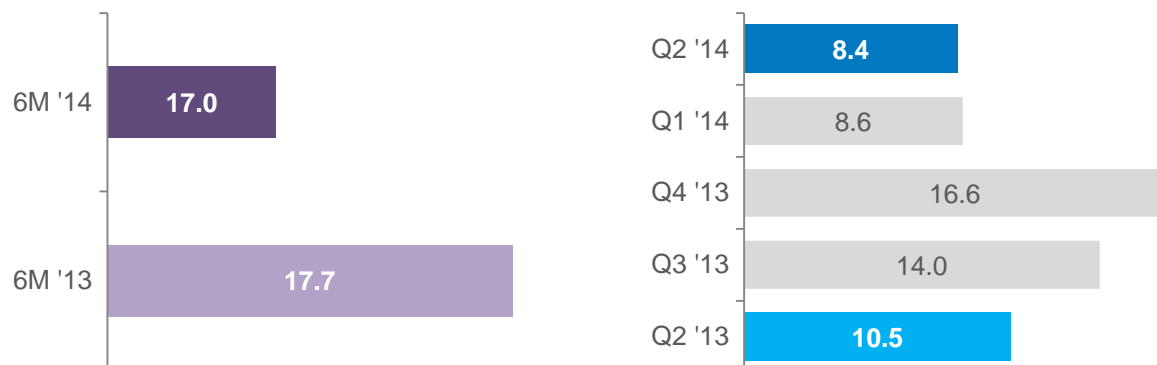


Chart no. 8: Net profit

Net profit decreased by 4% in 6M 2014 compared to 6M 2013. Positive effect from operating profit was offset by:

- ✓ Increased accrued taxes
- ✓ Increased depreciation (MHC/DHT)



## Sales

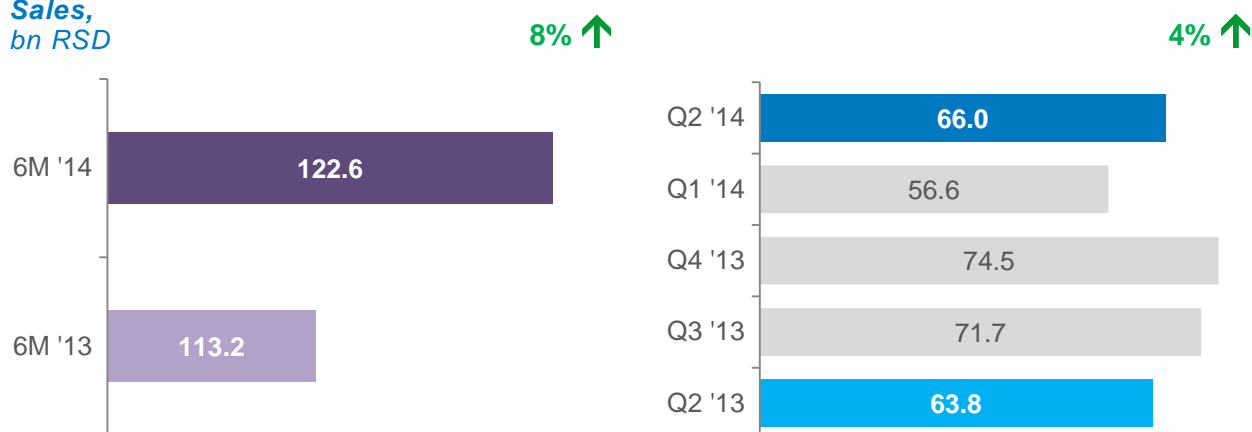
Sales,  
bn RSD

Chart no. 9: Sales

Incline of retail prices of oil derivatives in 6M 2014 is app. 1.2% compared to 6M 2013:

Changes in retail prices	$\Delta \frac{6M\ 2014}{6M\ 2013}$ (%)
Europremium BMB 95	0.07%
Euro diesel	2.29%

## OCF

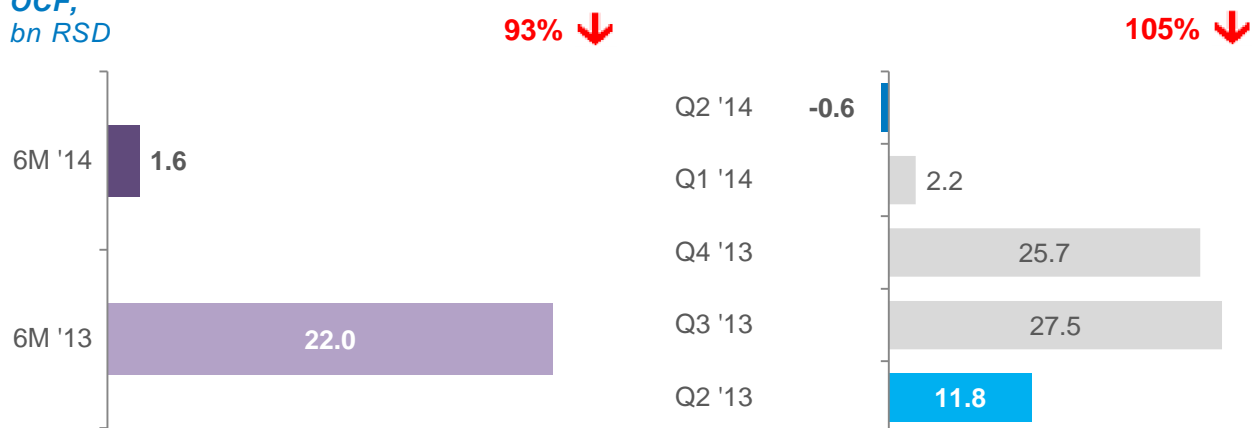
OCF,  
bn RSD

Chart no. 10: OCF

## Decrease of OCF:

- ✓ Increased paid taxes and other duties to the Government (taxes, customs...)
- ✓ Increased payments for the purchase of crude oil and petroleum products

## OPERATING INDICATORS

Exploration and Production

In first six months of 2014 domestic oil and gas production was 809 thousand of tons of oil equivalent, which is a 1% decrease compared to same period in 2013.

- ✓ Change in drilling dynamics
- ✓ Drop in base production

**Domestic oil and gas production<sup>20</sup>,**  
thou. t.o.e.

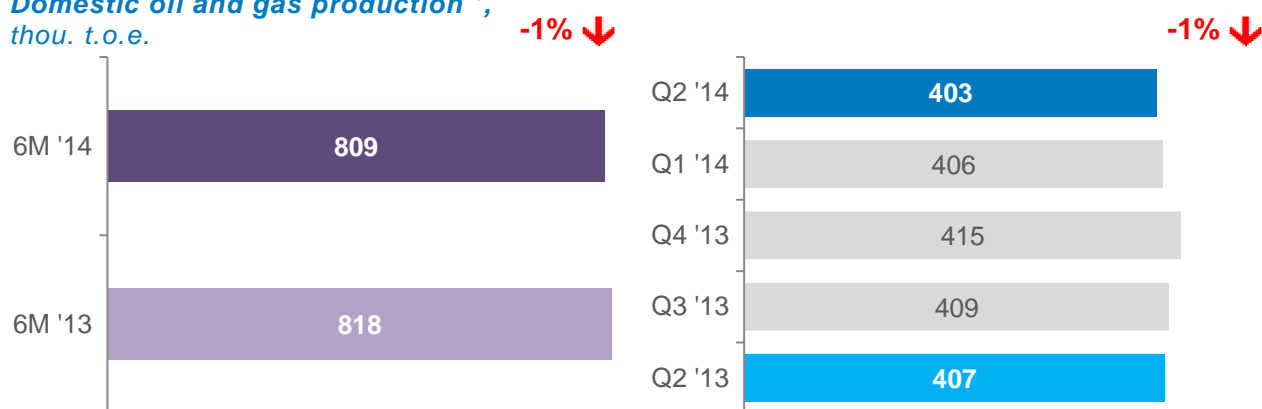


Chart no. 11: Domestic oil and gas production

**Domestic oil production<sup>21</sup>,**  
thou. tons

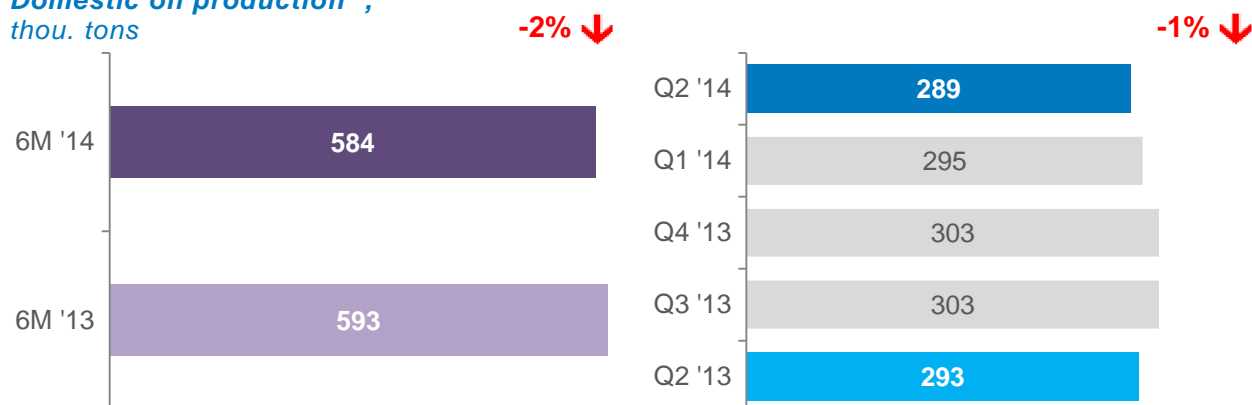


Chart no. 12: Domestic oil production

Refining

In 6M 2014 refined crude oil volumes and reprocessing of semi-finished products<sup>22</sup> recorded 12% increase compared to the previous year:

- Increase of crude oil refining volumes and increase in volume of reprocessing of semi-finished products
- Continuous operation of the MHC/DHT (in 2013 there was a short delay due to overhaul in the operation of this plant)
- Oil refining and semi-finished products reprocessing within the operational plans developed to meet market requirements

<sup>20</sup> Due to changes in methodology domestic oil production includes gasoline and light condensate, and for gas production commodity production of gas is used.

<sup>21</sup> Including gasoline and light condensate

<sup>22</sup> Semi-finished products include internal semi-finished products undergoing further processing or blending, and slop and gas condensate.

**Refining volume,  
thou. tons**

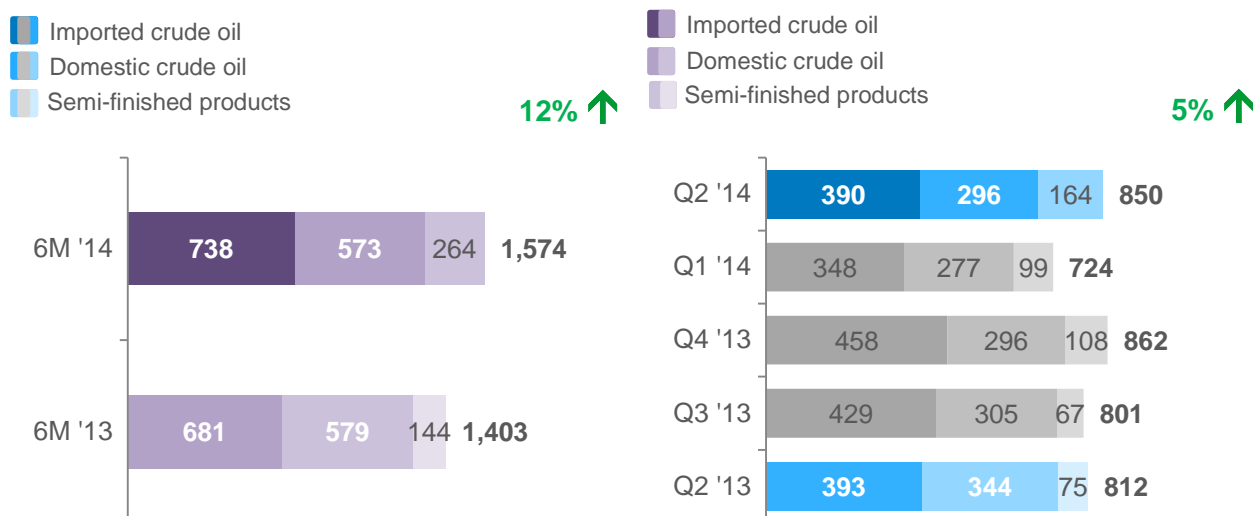


Chart no. 13: Refining volume

**Sales and Distribution**

6% rise in the total oil derivatives sales in 6M 2014 compared to same period previous year:

- Retail – -10% sales decrease:
  - ✓ Change of terms of implementation of the program for farmers in Serbia
  - ✓ Decrease in retail sales due to natural disaster (flooding)
- Foreign assets sales – 3x growth
  - ✓ The larger the number of active of petrol stations
- Wholesale – 6% growth:
  - ✓ Increase in sales of diesel fuel, LPG and gasoline and change of terms of implementation of the program for farmers in Serbia
- Exports – 6% increase
  - ✓ Active sales of bitumen

**Sales volumes,  
thou. tons**

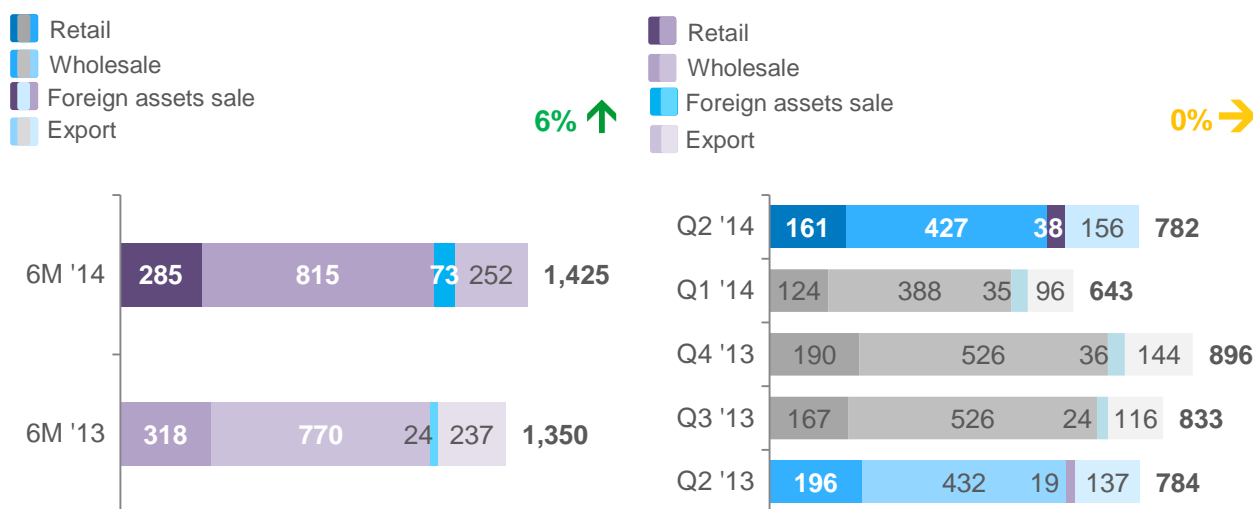


Chart no. 14: Sales volume<sup>23</sup>

<sup>23</sup> Foreign assets sales are quantities sold by NIS' subsidiaries. NIS delivered to its subsidiaries 56 thousand tons in 6M 2014, (Q2: 29), the remaining quantities were delivered by other suppliers

### Sales structure, thou. tons

Black and other derivatives  
White derivatives

6% ↑

Black and other derivatives  
White derivatives

0% →

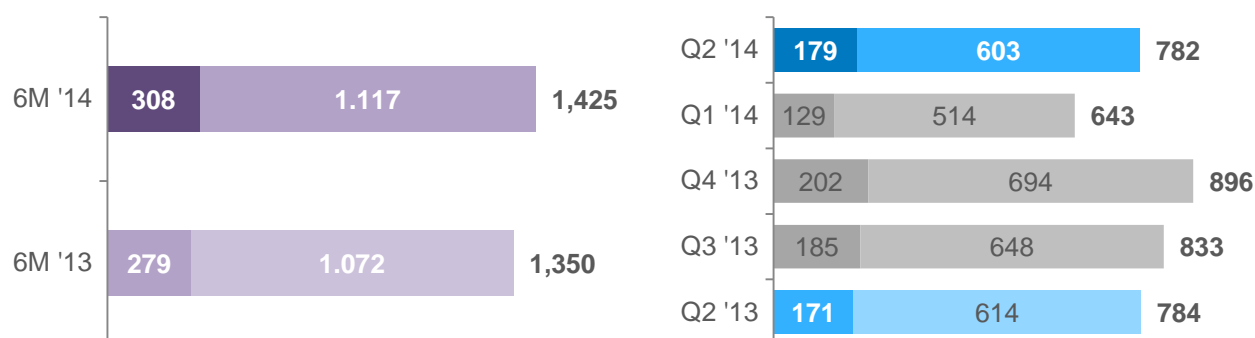


Chart no. 15: Sales structure

### Ratio Indicators

	6M 2014	FY 2013
<b>Return on total capital</b> (Gross profit/total capital)	12%	12%
<b>Net return on equity<sup>24</sup></b> (Net profit/shareholders equity <sup>21</sup> )	21%	22%
<b>Operating net profit</b> (operating profit/net sales income)	21%	22%
<b>Degree of leverage</b> (short term and long term liabilities/equity)	100%	94%
<b>Degree of leverage</b> (short term and long term liabilities/ shareholders equity <sup>21</sup> )	211%	195%
<b>1<sup>st</sup> degree liquidity</b> (cash and cash equivalents/short term liabilities)	5%	9%
<b>2<sup>nd</sup> degree liquidity</b> (current assets - inventories/short term liabilities)	66%	74%
<b>Net working fund ratio</b> (current assets – current liabilities/current assets)	10%	13%

<sup>24</sup> shareholders equity = share capital

## BANK INDEBTEDNESS

**Total bank indebtedness,**  
million USD

■ Letters of credit  
■ Total debt

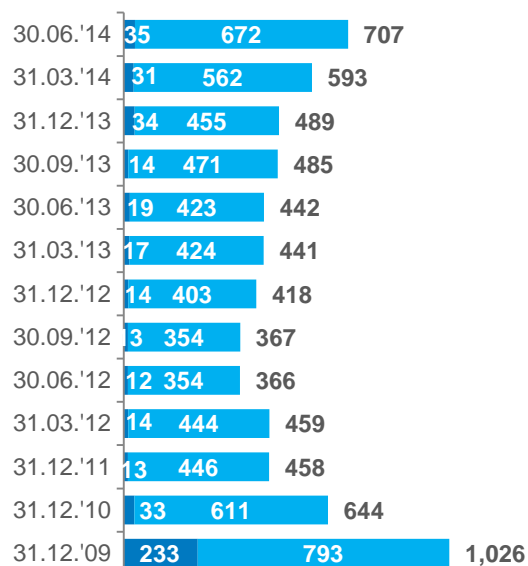


Chart no. 16: Total bank indebtedness

**GPN loan,**  
million EUR

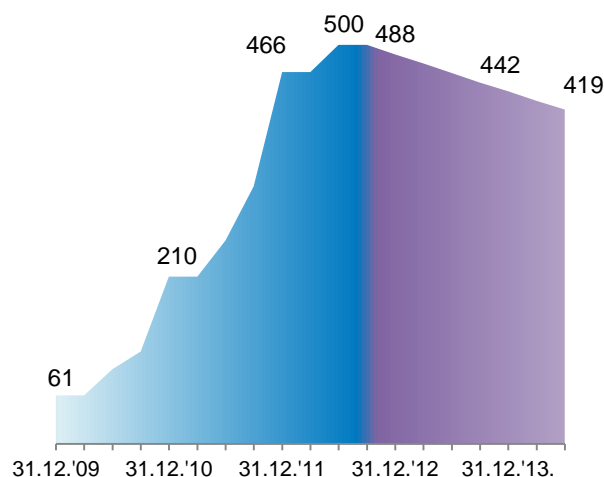


Chart no. 17: GPN loan

**Total debt to banks<sup>25</sup>,**  
m USD

■ Short-term  
■ Mid-term  
■ Long-term

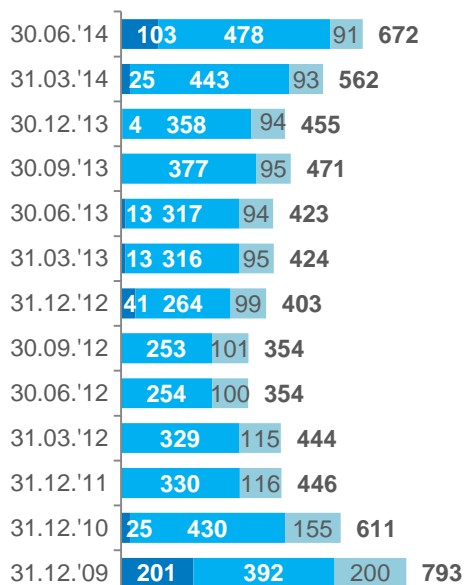


Chart no. 18: Total debt to banks

**Structure of total debt to banks,**  
by currency, in%

■ USD  
■ EUR  
■ Other

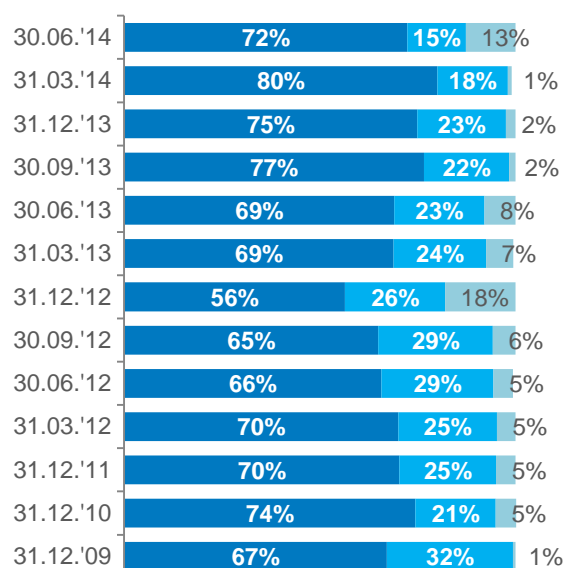


Chart no. 19: Structure of total debt to banks

<sup>25</sup> The structure of debt by maturity is displayed as per agreements signed with the banks, and not according to debt maturity as of June 30<sup>th</sup> 2014.

## CHANGES ON ASSETS AND LIABILITIES OF MORE THAN 10%

Assets	Change (in %)	Explanation
Intangible assets	19%	The increase in intangible assets as of June 30 <sup>th</sup> 2014, compared to December 31 <sup>st</sup> 2013 are mainly related to new investments in research and development in the amount of RSD 2,635,864 thousand.
Inventories	21%	Increase in inventories as of June 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to the increase in crude oil inventories in the amount of RSD 1,875,721 thousand and petroleum products inventories in the amount of RSD 6,550,578 thousand.
Cash and cash equivalents	-33%	Decrease in cash and cash equivalents as of June 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to the decrease in cash on bank accounts in the amount of RSD 3,051,234 thousand.
VAT and prepaid expenses	32%	The increase in value added tax and prepaid expenses as of June 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to the accrued excise tax for reimbursement in the amount of RSD 4,062,749 thousand.
Deferred tax assets	-13%	Decrease in deferred tax assets as of June 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 entirely relates to the abolition of deferred tax assets originating from previously recognized tax credits for investments.

Liabilities	Change (in %)	Explanation
Unrealized gains from securities	66%	The increase in unrealized gains on securities as of June 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is entirely related to the increase in value of investments in securities available for sale on the basis of reducing the value of the investment at fair (market) value.
Unrealized losses from securities	62%	The increase in unrealized losses on securities as of June 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to losses arising from translation of financial statements of foreign operations in the amount of RSD 68,266 thousand.
Long-term borrowings	27%	The increase in long-term borrowings and accompanied increase in short-term financial liabilities as of June 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to the allocation of current maturities of long-term liabilities and the withdrawal of new loans.
Short-term financial liabilities	55%	The increase in long-term borrowings and accompanied increase in short-term financial liabilities as of June 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to the allocation of current maturities of long-term liabilities and the withdrawal of new loans. Additionally, the increase of short-term financial liabilities in the same period is the result of rising short-term loans.
Trade and other payables	-34%	The decrease in trade and other payables as of June 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to decrease of liabilities for crude oil in the amount of RSD 13,509,231 thousand.
Other short-term liabilities	295%	The increase in other short-term liabilities as of June 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to the increase in liabilities arising from the distribution of dividends in accordance with the Decision of Shareholders Assembly on distribution of dividend in amount of RSD 13,080,705 thousand.
Income tax liabilities	-97%	The decrease in income tax liabilities as of June 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is entirely related to the payment of income tax for 2013 in full and payment of income tax for the six months ended June 30 <sup>th</sup> 2014 in total amount of RSD 5,162,561 thousand.

## MAJOR BUYERS AND SUPPLIERS<sup>26</sup>

Buyer	Turnover in million RSD <sup>27</sup>	Share in total income from buyers
HIP Petrohemija a.d. Pančevo in restructuring	18,411	12%
Knez Petrol d.o.o	12,503	8%
EKO Serbia a.d.	9,284	6%
Petrobart d.o.o.	6,822	5%
<b>Total:</b>	<b>47,020</b>	<b>31%</b>
Other buyers:	102,442	69%
<b>Total:</b>	<b>149,462</b>	<b>100%</b>

Suppliers	Total debt In million RSD <sup>28</sup>	Share in total liabilities to suppliers
Gazprom Neft Trading Gmbh	15,175,306	44%
Lukoil Oil Company – Litasco SA	9,220,935	27%
HIP Petrohemija a.d. Pančevo in restructuring	1,135,967	3%
Daxin Petroleum PTE Ltd	455,324	1%
Branch office of TDE Field Services Kft.	409,324	1%
<b>Total:</b>	<b>26,396,857</b>	<b>77%</b>
Other suppliers:	8,007,472	23%
<b>Total:</b>	<b>34,404,330</b>	<b>100%</b>

### Major buyers

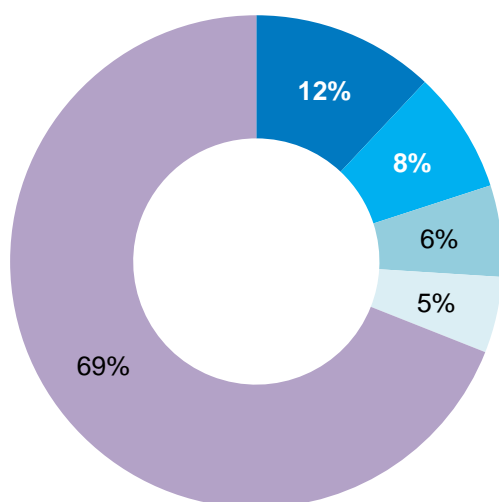


Chart no. 20: Major buyers

### Major suppliers

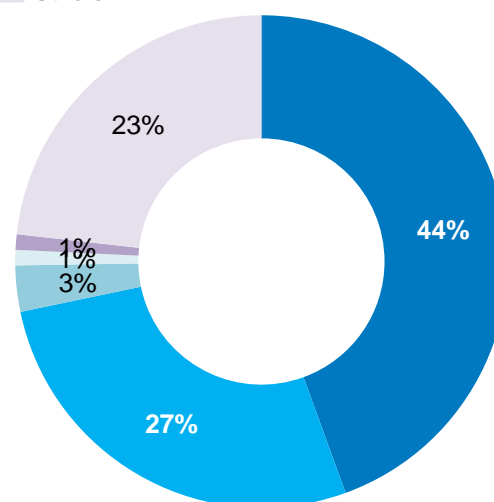


Chart no. 21: Major suppliers

<sup>26</sup> Data for NIS j.s.c Novi Sad

<sup>27</sup> in period from January 1<sup>st</sup> until June 30<sup>th</sup> 2014

<sup>28</sup> As of June 30<sup>th</sup> 2014

## INTERSEGMENT PRICES

Intersegment prices are defined in accordance with:

- Methodology of prices calculation for crude oil and natural gas domestically produced in NIS j.s.c. Novi Sad for the purposes of management accounting.
- Methodology of prices calculation for petroleum products and natural gas products domestically produced in NIS j.s.c. Novi Sad for the purposes of management accounting.

The intersegment price methodology concept is based on the market principle and principle "one product, one price".

The principle "one product, one price" means that the "movement" of one product between different profit centres within NIS has been valued at one price, irrespective of between which profit centres the movement has taken place.

Prices used for generating internal income between NIS business segments have been determined to reflect the market position of each business segment.

The intersegment prices are as follows:

- Price for domestic oil (between Exploration and Production Block and Refining Block) which is determined based on the so-called "export parity"
- Natural gas price (between Exploration and Production Block and Refining Block and between Exploration and Production Block and Energy Block) which is equal to natural gas sales price at which NIS j.s.c. Novi Sad sells natural gas to "Srbijagas"
- Prices of petroleum products and natural gas products (between Refining Block and Sales and Distribution Block, between Exploration and Production Block and Sales and distribution Block and between Refining Block and Energy Block) are defined based on the following principles:
  - Import parity – principle used in prices of petroleum products subject to free import and products which are their direct substitutes
  - Export parity is used for products subject to exports or whose certain quantities are exported
  - Other petroleum products include the products which do not fall within these two groups (import parity, export parity). These products are usually sold to a small number of recognized clients whose sales prices are defined under annual or long-term contracts or are alternative to other products production (primary gasoline, jet fuel, raffinates, propylene).



## CASES OF UNCERTAINTY (UNCERTAINTY OF COLLECTION)

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

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

The book value of receivables is decreased through provisions while the decreased value is recorded in the profit and loss account within the position 'other expenses'. When a receivable cannot be collected, it is written off and charged to the provisions for receivables. As of June 30<sup>th</sup> 2014, the Group made provisions for approximately 44% of gross value of total receivables.

In compliance with valid legislation, the Group has liabilities in respect of environmental protection. At balance sheet date the Group has made provisions on that basis in the amount of RSD 555,878 thousand. (December 31<sup>st</sup> 2013: 690,094 thousand RSD) based on management's estimates of the amount necessary costs of cleaning and remediation of contaminated sites of the Group.

As at June 30<sup>th</sup> 2014, the Group made provisions for potential loss which could emerge from tax liabilities evaluation by the Ministry of Finances of Angola to which the Group is to pay the difference in tax assessment including interest in the amount of 81 million USD related to additional profit oil for the period from 2002 to 2009. The management believes that, based on the terms set forth in the concession contracts with Angola and the opinions of legal consultants from Angola, such a request is not in accordance with the valid legal framework in Angola due to the fact that the government did not make correct oil profit calculations and that oil profit is a contractual obligation towards the national concessionaire which is opposite to the opinion of the Ministry of Finances of Angola. The management will file a complaint against any action of enforced tax collection by the Ministry of Finances of Angola and take all the necessary steps in order to postpone the collection of tax until the court in Angola reaches a final decision regarding the issue. Based on the experience of other concessionaires, the court in Angola has not yet reached a decision related to their complaints against the decision of the Ministry of Finances even though the complaints were filed three years ago. Taking all the previously stated into consideration, the management believes that as at March 31<sup>st</sup> 2014, there is a significant level of uncertainty as regards the time required to settle the request of the Ministry of Finances of Angola and the amount of additional tax on profit oil, if any.

## TAXES AND OTHER PUBLIC REVENUES

### Analytical overview of accrued liabilities for taxes and other public revenues<sup>29</sup>

Q2 2013	Q2 2014	Q2 2014. Q2 2013.	NIS j.s.c. Novi Sad	6M 2014	6M 2013	6M 2014. 6M 2013.
0.45	0.34	-24%	Contributions for social insurance paid by the employer	0.76	0.93	-19%
1.40	1.36	-2%	Income tax	2.62	2.48	6%
7.13	5.06	-29%	VAT	7.68	9.33	-18%
21.40	26.71	25%	Excise tax	45.14	36.37	24%
0.26	0.13	-48%	Custom duty	0.43	0.46	-7%
0.59	0.59	1%	Royalties	1.18	1.24	-4%
0.35	0.27	-23%	Other taxes	0.52	0.75	-30%
<b>31.58</b>	<b>34.48</b>	<b>9%</b>	<b>Total:</b>	<b>58.33</b>	<b>51.55</b>	<b>13%</b>
			NIS subsidiaries in Serbia <sup>30</sup> ,			
0.16	0.12	-23%	Contributions for social insurance paid by the employer	0.26	0.33	-22%
0.07	0.04	-47%	Income tax	0.04	0.07	-36%
0.39	0.15	-62%	VAT	0.28	0.46	-39%
0.00	0.00	-	Excise tax	0.00	0.00	-
0.01	0.02	19%	Custom duty	0.04	0.02	82%
0.00	0.00	-	Royalties	0.00	0.00	-
0.01	0.01	16%	Other taxes	0.02	0.03	-50%
0.64	0.33	-48%	<b>Total:</b>	<b>0.63</b>	<b>0.90</b>	<b>-30%</b>
<b>32.22</b>	<b>34.81</b>	<b>8%</b>	<b>Total NIS with subsidiaries in Serbia</b>	<b>58.96</b>	<b>52.46</b>	<b>12%</b>
			NIS subsidiaries in region and Angola			
0.04	0.05	14%	Contributions for social insurance paid by the employer	0.09	0.07	27%
0.23	0.17	-26%	Income tax	0.37	0.24	58%
1.06	0.75	-30%	VAT	0.88	0.93	-5%
0.71	1.82	156%	Excise tax	1.82	0.77	138%
0.00	0.00	-	Custom duty	0.00	0.00	-
0.00	0.00	-	Royalties	0.00	0.00	-
0.02	0.04	82%	Other taxes	0.06	0.03	79%
2.07	2.82	36%	<b>Total:</b>	<b>3.22</b>	<b>2.03</b>	<b>93%</b>
0.14	0.74	430%	Deferred tax assets (total for Group)	1.41	0.14	890%
<b>34.42</b>	<b>38.37</b>	<b>11%</b>	<b>Total NIS Group<sup>31</sup></b>	<b>63.60</b>	<b>54.54</b>	<b>17%</b>

The total amount of accrued liabilities for public revenues for 6M 2014 that NIS j.s.c. Novi Sad with its subsidiaries originating from NIS j.s.c. Novi Sad organizational structure pays in Serbia amounts to RSD 58.96 billion, up by RSD 6.5 billion i.e. 12% more than the same period last year.

Overall amount of accrued liabilities for public revenues for 6M 2014 NIS Group pays amounts to RSD 63.60 billion, up by RSD 9.06 billion i.e. 17% more than the same period last year.

<sup>29</sup> In billion RSD

<sup>30</sup> Subsidiaries include: "NTC NIS Naftagas" d.o.o., "Naftagas – Transport" d.o.o., "Naftagas – Tehnički servisi" d.o.o. and "Naftagas – Naftni servisi" d.o.o., and do not include the "O Zone" a.d., "NIS Svetlost" d.o.o. and "Jubos" d.o.o..

<sup>31</sup> Including taxes and other public revenues for subsidiaries in region, income tax for Angola and deferred tax assets

## INVESTMENTS

### INVESTMENT PROJECTS

The Business Plan of NIS j.s.c. Novi Sad for 2014 and the Mid-term Investment Plan (hereinafter: the MIP) which laid down planned CAPEX investments in 2014 – 2016 were adopted at the Board of Directors' 2<sup>nd</sup> session held on December 10<sup>th</sup> 2013.

According to the MIP, main investments in 2014 will be aimed at implementing the following groups of projects: environmental projects, projects in refining, sales and distribution, oil and gas production and a number of projects in corporate units.

In 6M 2014 total of 17.8 billion dinars<sup>32</sup> was allocated to finance the investments, which is by 26% less than in the same period in 2013.

The largest investments in oil and gas production in Q1 2014 were in:

- Programme of 3D seismic scanning and drilling of exploration wells in the Republic of Serbia
- Geological exploration of unconventional gas
- Drilling of development wells
- Separation of CO<sub>2</sub> from natural gas
- Project of hydraulic fracturing (oil)
- Compressor station in the oil and gas field Velebit with supporting infrastructure

Most significant projects in Refining in first six months of 2014 were:

- Production of industrial base oils
- Reconstruction of reservoirs and technological systems for oil transport
- Connecting of distributive transformer power station and revitalization processing transformer power stations
- Installation of system for stationary vibration measurements on rotating equipment

Major capital investments in environmental protection in 6M 2014 in the Pančevo Refinery were:

- Loading Terminal reconstruction
- Closed drainage system construction project (S-100/ 300/ 400/ 500/ 2100/ 2300/ 2400/ 2500/ 2600)
- Blending of diesel fuel with biodiesel

Q2 2013	Q2 2014	CAPEX by investment projects <sup>33</sup>	6M 2014	6M 2013
0.36	<b>0.26</b>	Ecology	<b>0.46</b>	0.73
0.13	<b>0.04</b>	Angola	<b>0.10</b>	0.34
9.05	<b>5.91</b>	Projects with direct economic effects	<b>12.42</b>	18.93
2.12	<b>1.85</b>	Projects without direct economic effects	<b>4.08</b>	3.54
0.23	<b>0.11</b>	Project researching activities	<b>0.74</b>	0.51
<b>11.88</b>	<b>8.16</b>	TOTAL:	<b>17.79</b>	<b>24.045</b>

Q2 2013	Q2 2014	CAPEX per segments	6M 2014	6M 2013
4.90	<b>5.36</b>	Exploration and production	<b>11.40</b>	9.23
2.47	<b>1.45</b>	Refining	<b>4.02</b>	5.07
4.04	<b>0.98</b>	Sales and distribution	<b>1.60</b>	8.28
0.20	<b>0.10</b>	Services	<b>0.20</b>	0.68
0.12	<b>0.06</b>	Energy	<b>0.13</b>	0.42
0.15	<b>0.22</b>	Corporate centre	<b>0.43</b>	0.37

<sup>32</sup> NIS j.s.c. Novi Sad with subsidiaries, excluding "Jubos" d.o.o. Bor, "NIS Oversiz" o.o.o., Sankt Petersburg, "SP Ranis" o.o.o., Chernogolavka and "NIS Svetlost" d.o.o., Bujanovac.

<sup>33</sup> In billion RSD, VAT excluded

**CAPEX by investment projects,  
bn RSD**

- Ecology
- Angola PSA
- Projects with direct economic effect
- Projects without direct economic effect
- Project researching activities

**-26% ↓**

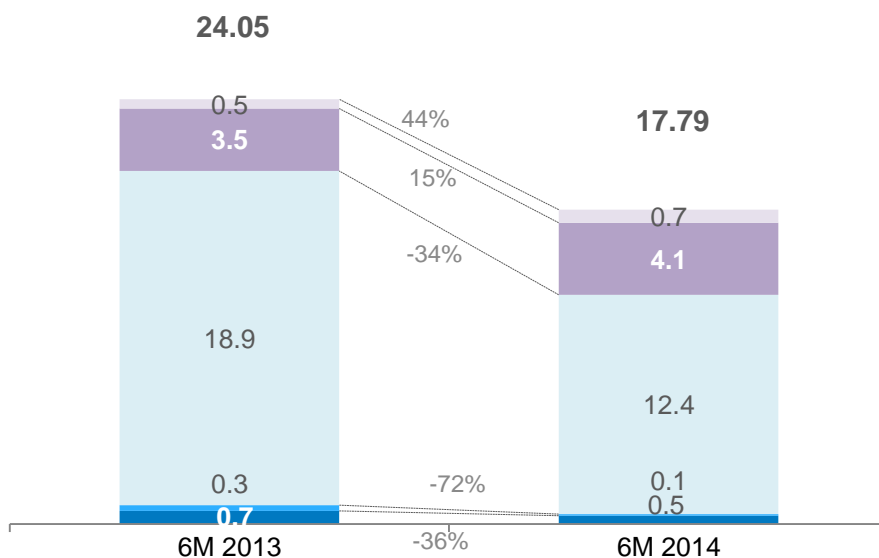


Chart no. 22: CAPEX by investment projects

**THE MOST SIGNIFICANT INVESTMENTS IN EXPLORATION AND PRODUCTION, REFINING AND SALES AND DISTRIBUTION**

Segment	Exploration and Production	Refining	Sales and Distribution
<b>Main targets</b>	<ul style="list-style-type: none"> <li>↪ Seismic scanning</li> <li>↪ Oil and gas production increase</li> </ul>	<ul style="list-style-type: none"> <li>↪ Base oil production</li> </ul>	<ul style="list-style-type: none"> <li>↪ Retail network development</li> </ul>
<b>The biggest investments</b>	<ul style="list-style-type: none"> <li>• 3D seismic scanning and drilling of exploration wells in the Republic of Serbia</li> <li>• Drilling of wells</li> <li>• Separation of CO<sub>2</sub> from natural gas</li> </ul>	<ul style="list-style-type: none"> <li>• Base oils production</li> <li>• Reconstruction of the reservoir for oil in the RNS</li> <li>• System of stationary vibration measurements on rotating equipment in the RNP</li> </ul>	<ul style="list-style-type: none"> <li>• Regional Sales Development in Bulgaria and Romania</li> <li>• Reconstruction of petrol stations in Serbia</li> </ul>
<b>Total investments</b>	<b>RSD 11.4 billion</b>	<b>RSD 4 billion</b>	<b>RSD 1.6 billion</b>

## SECURITIES

### SHARE CAPITAL STRUCTURE

NIS j.s.c. Novi Sad share capital in the amount of 81.5 billion RSD is distributed in 163,060,400 shares of nominal value of 500 RSD per share. All shares are dematerialized and registered within the Central Securities Depository and Clearing House of the Republic of Serbia with the CFI code ESVUFR and ISIN number RSNISHE79420.

Custody accounts dominate the structure of the first 10 shareholders.

Shareholders	Number of shares	% in share capital
Gazprom Neft	91,565,887	56.15%
Republic of Serbia	48,712,064	29.87%
Unicredit Bank Srbija a.d. – custody account	664,704	0.41%
East Capital (Lux) - Balkan Fund	428,989	0.26%
Raiffeisen Bank a.d. Belgrade – custody account	266,831	0.16%
Societe Genera Bank Serbia – custody account	260,553	0.16%
UniCredit Bank Srbija a.d. – collective account	201,801	0.12%
Keramika Jovanović d.o.o. Zrenjanin	199,100	0.12%
AWLL Communications d.o.o.	158,056	0.10%
Julius Baer Multipartner - Balkan	150,000	0.09%
Other shareholders	20,452,415	12.54%
<b>Total number of shareholders as of June 30<sup>th</sup> 2014:</b>		<b>2,262,221</b>

The Company did not acquire its own shares (treasury shares).

### SHARE TRADING

NIS j.s.c. Novi Sad shares are traded with at Belgrade Stock Exchange and listed within the Prime Listing and they are constituent of the leading index - BELEX15, which describes price trends of the most liquid Serbian shares.

Trading with NIS j.s.c. Novi Sad shares at Belgrade Stock Exchange in 2014	
Last price (June 30 <sup>th</sup> 2014)	887 RSD
Highest price (June 4 <sup>th</sup> 2014)	950 RSD
Lowest price (June 19 <sup>th</sup> 2014)	845 RSD
Total turnover	1,160,821,471 RSD
Total volume (number of shares)	1,260,096 shares
Total number of transactions	61,483 transactions
Market capitalization as of June 30 <sup>th</sup> 2013	144,634,574,800 RSD
EPS (for period from January 1 <sup>st</sup> until June 30 <sup>th</sup> 2014)	125.14 RSD
Consolidated EPS (for period from January 1 <sup>st</sup> until June 30 <sup>th</sup> 2014)	104.13 RSD
EPS (for period from January 1 <sup>st</sup> until December 31 <sup>st</sup> 2013)	320.89 RSD
Consolidated EPS (for period from January 1 <sup>st</sup> until December 31 <sup>st</sup> 2013)	296.50 RSD
P/E ratio <sup>34</sup>	2.8
Consolidated P/E ratio <sup>35</sup>	3.0
Book value as of June 30 <sup>th</sup> 2014	1,129.73 RSD
Consolidated book value as of June 30 <sup>th</sup> 2014	1,060.52 RSD
P/BV ratio	0.8
Consolidated P/BV ratio	0.8

<sup>34</sup> Price as of June 30<sup>th</sup> 2014 compared to EPS for period from January 1<sup>st</sup> 2013 until December 31<sup>st</sup> 2013

<sup>35</sup> Price as of June 30<sup>th</sup> 2014 compared to consolidated EPS for period from January 1<sup>st</sup> 2013 until December 31<sup>st</sup> 2013

### Price and volume for NIS j.s.c. Novi Sad shares in 2013, In RSD and number of shares

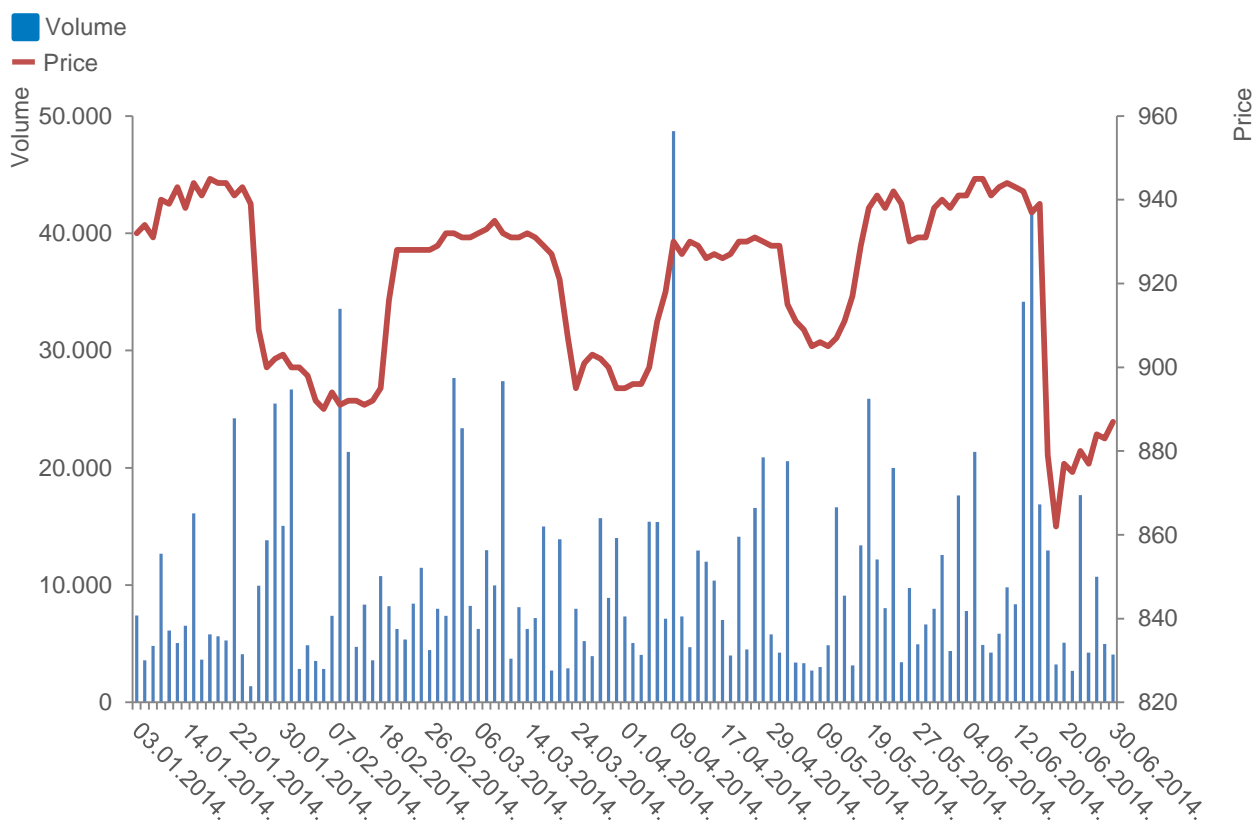


Chart no. 23: Price and volume trends for NIS j.s.c. Novi Sad shares

## DIVIDENDS

NIS j.s.c. Novi Sad dividend policy stipulates a long-term dividend payment in the amount of at least 15% of net profit. The dividend policy is based on a balanced approach which takes into account the need to retain earnings for future investments funding as well as the rate of return on invested capital and the amount of dividend payments.

Dividend policy stipulates that when drafting motions for profit distribution and dividend payment, the Company management should take into account a number of factors, including the financial standing, investment plans, loan repayment obligations, macroeconomic environment and legal regulations.

Decisions on profit distribution and dividend payment are passed by the Shareholders' Assembly at regular annual sessions, and dividend is paid on the annual basis in RSD.

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### Dividend payments

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<b>2008</b>	The Company operated with loss and there was no dividend payment.
<b>2009</b>	The Company operated with loss and there was no dividend payment.
<b>2010</b>	The Parent company operated with profit. On July 27 <sup>th</sup> 2011, the Board of Directors <sup>36</sup> adopted the Decision on Profit Distribution and loss coverage for 2010, based on which the whole generated profit should be distributed for covering losses transferred from previous years, therefore there was no dividend payment.
<b>2011</b>	The Parent company operated with profit. On June 25 <sup>th</sup> 2012, the Shareholders' Assembly adopted the Decision on Profit Distribution and loss coverage for 2011, based on which the whole generated profit should be distributed for covering losses transferred from previous years, therefore there was no dividend payment.
<b>2012</b>	The Parent company operated with profit. On June 18th 2013, the Shareholders' Assembly adopted the Decision on Profit Distribution for 2012, dividend payment and determination of the total amount of retained earnings of NIS j.s.c. Novi Sad, stipulating the dividend payment in the gross amount of 25% of net profit generated in 2012, which amounts to 12.36 bn RSD and/or 75.83 RSD gross per share. The dividend for 2012 was paid on August 20th 2013.
<b>2013</b>	The Parent company operated with profit. . On June 30 <sup>th</sup> 2014, the Shareholders' Assembly adopted the Decision on Profit Distribution for 2013, dividend payment and determination of the total amount of retained earnings of NIS j.s.c. Novi Sad, stipulating the dividend payment in the gross amount of 25% of net profit generated by NIS j.s.c. Novi Sad in 2013, which amounts to 13.08 bn RSD and/or 80.22 RSD gross per share.

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### DESCRIPTION OF FINANCIAL INSTRUMENTS USED BY THE GROUP

Due to exposure to currency risk, NIS Group uses forward transactions at foreign exchange market as an instrument for managing this type of risk.

As the parent company for the entire Gazprom Neft Group within which NIS j.s.c. Novi Sad with its subsidiaries operates, "Gazprom Neft" j.s.c. manages commodity hedging instruments at the level of Gazprom Neft Group and evaluates whether it is necessary to use appropriate instruments of commodity hedging.

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<sup>36</sup> in accordance with NIS j.s.c. Novi Sad memorandum of association effective at the moment of adoption of the decision, the decision on profit distribution and loss coverage was within the scope of competence of the board of directors

## TRANSACTIONS WITH AFFILIATES

The majority owner of the NIS j.s.c. Novi Sad is "Gazprom Neft" j.s.c., St Petersburg, Russian Federation, with 56.15% shares of NIS j.s.c. Novi Sad. The second largest shareholder with 29.87% interest is Republic of Serbia, while remaining 13.98% of interest is owned by various minority shareholders. "Gazprom" j.s.c., Russian Federation is the ultimate owner of 56.15% of NIS Group.

In the period ended June 30<sup>th</sup> 2014 and in the same period in 2013, the Group 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.

Activities in which the personal interest is involved are subject to the approval of the NIS j.s.c. Novi Sad's Board of Directors.<sup>37</sup>

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

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<sup>37</sup> Board of Directors of NIS j.s.c. Novi Sad approves only transactions that NIS j.s.c. Novi Sad concludes with shareholders (GPN), or their related parties, and not other transactions concluded by affiliates of NIS group



## NUMBER OF EMPLOYEES

Total number of employees of NIS j.s.c. Novi Sad as of June 30<sup>th</sup>, 2014 was 4,311, number of employees from servicing organizations as of June 30<sup>th</sup>, 2014 is 3,540, which makes total of 7,851 employees. In addition there are 55 more employees who work in representative offices.

Organizational unit	June 30 <sup>th</sup> 2014			June 30 <sup>th</sup> 2013		
	Directly <sup>38</sup>	Servicing organizations	Total	Directly <sup>35</sup>	Servicing organizations	Total
<b>NIS j.s.c. Novi Sad</b>	<b>4,311</b>	<b>3,540</b>	<b>7,851</b>	<b>5,034</b>	<b>3,113</b>	<b>8,147</b>
Exploration and production Block	731	186	917	717	182	899
Refining Block	900	50	950	1,029	25	1,054
Sales and Distribution Block	1,038	2,849	3,887	1,730	2,650	4,380
Services Block	135	15	150	97	5	102
Energy Block	235	7	242	215	2	217
Corporate centre	1,272	433	1,705	1,246	249	1,495
<b>Representative offices</b>	<b>55</b>	<b>0</b>	<b>55</b>	<b>25</b>	<b>1</b>	<b>26</b>
<b>Subsidiaries in Serbia</b>	<b>1,461</b>	<b>1,326</b>	<b>2,787</b>	<b>1,810</b>	<b>920</b>	<b>2,730</b>
Naftagas – Naftni servisi	616	548	1,164	687	578	1,265
Naftagas – Tehnicki servisi	422	483	905	598	202	800
Naftagas – Transport	111	258	369	229	127	356
NTC NIS Naftagas	312	37	349	296	13	309
<b>Subsidiaries abroad</b>	<b>314</b>	<b>5</b>	<b>319</b>	<b>512</b>	<b>5</b>	<b>517</b>
NIS Petrol Bulgaria	188	0	188	369	0	369
NIS Petrol Romania	45	2	47	41	4	45
NIS Petrol Bosnia and Herzegovina	68	2	70	88	0	88
Jadran Naftagas B&H	7	0	7	8	0	8
Pannon Naftagas- Hungary	6	1	7	6	1	7
<b>Other subsidiaries</b>	<b>170</b>	<b>97</b>	<b>267</b>	<b>119</b>	<b>7</b>	<b>126</b>
Jubos d.o.o. Bor	0	0	0	0	0	0
O Zone a.d. Belgrade	4	0	4	5	0	5
NIS Oversiz o.o.o. Sankt Petersburg	112	0	112	75	0	75
SP Ranis o.o.o. Chernoglavka	0	0	0	1	0	1
NIS Svetlost d.o.o. Bujanovac	15	7	22	16	0	16
G Petrol d.o.o. Sarajevo	39	90	129	22	7	29
<b>Total:</b>	<b>6,311</b>	<b>4,968</b>	<b>11,279</b>	<b>7,500</b>	<b>4,046</b>	<b>11,546</b>

## GROUNDS FOR TERMINATION OF EMPLOYMENT

During first 6M of 2014, totally 172 employees left the Company.

	6M 2014	
	NIS j.s.c. Novi Sad	NIS j.s.c. Novi Sad and its subsidiaries in Serbia <sup>39</sup>
Retirement	1	1
Consensual termination of employment <sup>40</sup>	99	25
Other	72	28
<b>Total:</b>	<b>172</b>	<b>54</b>

<sup>38</sup> „NIS chance” included, vacancies excluded

<sup>39</sup> NIS j.s.c. Novi Sad with subsidiaries formed in 2012 originating from NIS j.s.c. Novi Sad organizational structure (“NTC NIS Naftagas” d.o.o., „Naftagas – Transport” d.o.o., “Naftagas – tehnicki servisi” d.o.o. and “Naftagas – naftni servisi” d.o.o.)

<sup>40</sup> Number includes the number of employees with the formal termination of employment as of June 30<sup>th</sup> 2014 (who were thus employed on June 30<sup>th</sup> 2014, but not employed on July 1<sup>st</sup> 2014).

## RESEARCH AND DEVELOPMENT

Introduction and efficient use of new technologies is the priority of NIS development in all areas of business operations, from production and refining to human resources. Modernisation of equipment, innovative approach and application of cutting-edge technologies are prerequisite to progress, competitiveness and regional leadership. NIS business operations undergo modernisation in terms of oil and gas business, new oil and gas exploitation methods are introduced and improved, new refining plants are build up, operation automated and retail network developed and modernised.

As regards research and development, NIS has adopted NIS j.s.c. Novi Sad Rulebook on Planning, Application and Monitoring of Innovation, Science and Research, Development and Technology Studies (SR&D), the Science and Technical Council was set up within NIS j.s.c. CEO Office which convenes quarterly, whereas the Research and Development Section was established within the Scientific and Technological Centre to monitor the coordination and execution of science and research projects.

Goals of expanding NIS innovation and science and research activities are:

- Supporting the implementation of 2020 Strategy
- Achieving competitive edge so as to ensure regional leadership
- Supporting the image of NIS as an innovation company.

In NIS Group, research and development is organised within its subsidiary "NTC NIS Naftagas" d.o.o. Novi Sad which in synergy with "Gazprom Neft" j.s.c., using resources and technology of the parent company, has a dual role:

- acts as research and development coordinator, and
- acts as research and development executor.

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## FINANCIAL STATEMENTS

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## STAND-ALONE FINANCIAL STATEMENTS

### STATEMENT ON FINANCIAL POSITION

	Notes	30 June 2014 (unaudited)	31 December 2013 (unaudited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	2,815,502	5,180,156
Short-term financial assets		2,869,686	2,176,381
Trade and other receivables	6	60,321,195	59,380,882
Inventories	7	46,508,817	38,409,866
Other current assets	8	8,114,678	5,638,830
Assets classified as held for sale		866,009	1,272,306
<b>Total current assets</b>		<b>121,495,887</b>	<b>112,058,421</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	187,649,932	178,003,944
Investment property		1,276,733	1,363,353
Other intangible assets		4,051,307	3,890,416
Investments in subsidiaries		7,556,020	7,556,542
Trade and other non-current receivables		2,434,616	2,434,588
Long-term financial assets		32,696,904	29,169,824
Deferred tax assets		8,488,033	9,776,709
Other non-current assets	10	5,086,562	6,247,455
<b>Total non-current assets</b>		<b>249,240,107</b>	<b>238,442,831</b>
<b>Total assets</b>		<b>370,735,994</b>	<b>350,501,252</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	11	43,462,713	28,054,370
Trade and other payables	12	51,339,140	54,507,915
Other current liabilities	13	2,864,242	2,964,691
Current income tax payable		185,655	2,626,080
Other taxes payable	14	9,679,826	8,418,130
Provisions for liabilities and charges		2,519,494	2,739,909
<b>Total current liabilities</b>		<b>110,051,070</b>	<b>99,311,095</b>
<b>Non-current liabilities</b>			
Long-term debt	15	62,265,074	60,626,546
Deferred tax liabilities		2,302,242	2,153,482
Provisions for liabilities and charges		11,903,140	11,527,436
<b>Total non-current liabilities</b>		<b>76,470,456</b>	<b>74,307,464</b>
<b>Equity</b>			
Share capital		81,530,200	81,530,200
Reserves		(52,651)	(59,885)
Retained earnings		102,736,919	95,412,378
<b>Total equity</b>		<b>184,214,468</b>	<b>176,882,693</b>
<b>Total liabilities and shareholder's equity</b>		<b>370,735,994</b>	<b>350,501,252</b>

All amounts are in 000 RSD, unless otherwise stated

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

## STATEMENT ON PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six month period ended 30 June	
		2014 <i>(unaudited)</i>	2013 <i>(unaudited)</i>
Sales of petroleum products and oil and gas sales		116,024,175	108,660,431
Other revenues		2,442,279	2,033,428
<b>Total revenue from sales</b>	4	<b>118,466,454</b>	<b>110,693,859</b>
Purchases of oil, gas and petroleum products	16	(64,754,392)	(59,328,762)
Production and manufacturing expenses	17	(8,792,742)	(8,222,238)
Selling, general and administrative expenses	18	(9,485,694)	(11,306,434)
Transportation expenses		(526,862)	(501,473)
Depreciation, depletion and amortization		(5,239,699)	(4,509,568)
Taxes other than income tax		(2,460,111)	(2,810,586)
Exploration expenses		(36,018)	(119,571)
<b>Total operating expenses</b>		<b>(91,295,518)</b>	<b>(86,798,632)</b>
Other expenses, net		(90,572)	(397,200)
<b>Operating profit</b>		<b>27,080,364</b>	<b>23,498,027</b>
Net foreign exchange loss		(1,533,155)	(541,056)
Finance income		1,010,195	741,807
Finance expenses		(1,724,170)	(1,706,636)
<b>Total other expense</b>		<b>(2,247,130)</b>	<b>(1,505,885)</b>
<b>Profit before income tax</b>		<b>24,833,234</b>	<b>21,992,142</b>
Current income tax expense		(2,990,552)	(2,714,754)
Deferred income tax expense		(1,437,436)	(133,425)
<b>Total income tax expense</b>		<b>(4,427,988)</b>	<b>(2,848,179)</b>
<b>Profit for the period</b>		<b>20,405,246</b>	<b>19,143,963</b>
<b>Other comprehensive income:</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Change in value of available-for-sale financial assets		7,234	26,519
<b>Other comprehensive profit for the period</b>		<b>7,234</b>	<b>26,519</b>
<b>Total comprehensive income for the period</b>		<b>20,412,480</b>	<b>19,170,482</b>
<b>Earnings per share attributable to shareholders of Naftna Industrija Srbije</b>			
- Basic earnings (RSD per share)		125.14	117.40
Weighted average number of ordinary shares in issue (in millions)		163	163

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

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

**STATEMENT OF CHANGES IN EQUITY**

THREE MONTH PERIOD ENDED 30 JUNE 2014 AND 2013

<i>(unaudited)</i>	Share capital	Reserves	Retained earnings	Total
<b>Balance as at 1 January 2013</b>	81,530,200	814,908	54,658,053	137,003,161
Profit for the period	-	-	19,143,963	19,143,963
<b>Other comprehensive income</b>				
Change in value of available-for-sale financial assets	-	26,519	-	26,519
<b>Total comprehensive income for the period</b>	-	26,519	19,143,963	19,170,482
Dividend distribution	-	-	(12,364,129)	(12,364,129)
<b>Total transaction with owners, recorded in equity</b>	-	-	(12,364,129)	(12,364,129)
Other	-	(889,436)	889,424	(12)
<b>Balance as at 30 June 2013</b>	<b>81,530,200</b>	<b>(48,009)</b>	<b>62,327,311</b>	<b>143,809,502</b>
<b>Balance as at 1 January 2014</b>	81,530,200	(59,885)	95,412,378	176,882,693
Profit for the period	-	-	20,405,246	20,405,246
<b>Other comprehensive income</b>				
Change in value of available-for-sale financial assets	-	7,234	-	7,234
<b>Total comprehensive income loss for the period</b>	-	7,234	20,405,246	20,412,480
Dividend distribution	12	-	(13,080,705)	(13,080,705)
<b>Total transaction with owners, recorded in equity</b>	-	-	(13,080,705)	(13,080,705)
<b>Balance as at 30 June 2014</b>	<b>81,530,200</b>	<b>(52,651)</b>	<b>102,736,919</b>	<b>184,214,468</b>

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

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

## STATEMENT OF CASH FLOWS

	Six month period ended 30 June	
	2014 (unaudited)	2013 (unaudited)
<b>Cash flows from operating activities</b>		
Profit before income tax	<b>24,833,234</b>	<b>21,992,142</b>
<b>Adjustments for:</b>		
Finance costs	1,724,170	1,706,636
Finance income	(1,010,195)	(741,807)
Depreciation, depletion and amortization	5,239,699	4,509,568
Adjustments for other provisions	343,970	705,050
Allowance for doubtful accounts	1,680,000	2,636,203
Payables write off	(648)	-
Net unrealised foreign exchange losses , net	1,488,205	751,696
Other non-cash items	(82,318)	98,481
	<b>9,382,883</b>	<b>9,665,827</b>
<b>Changes in working capital:</b>		
Trade and other receivables	(941,295)	(5,911,507)
Inventories	(8,098,951)	3,480,852
Other current assets	(4,444,482)	(826,741)
Trade payables and other current liabilities	(12,079,658)	(5,688,997)
Other taxes payable	1,252,969	3,039,855
	<b>(24,311,417)</b>	<b>(5,906,538)</b>
Income taxes paid	(5,428,389)	(2,700,940)
Interest paid	(1,392,402)	(1,557,292)
Interest received	289,608	365,084
	<b>(6,531,183)</b>	<b>(3,893,148)</b>
<b>Net cash generated by operating activities</b>	<b>3,373,517</b>	<b>21,858,283</b>
<b>Cash flows from investing activities</b>		
Loans issued	(7,507,855)	(7,714,236)
Loan proceeds received	4,162,603	164,734
Capital expenditures	(18,050,682)	(20,000,179)
Proceeds from sale of property, plant and equipment	124,148	118,636
<b>Net cash used in investing activities</b>	<b>(21,271,786)</b>	<b>(27,431,045)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	21,725,677	7,422,848
Repayment of borrowings	(6,118,824)	(8,248,506)
<b>Net cash generated by (used in) financing activities</b>	<b>15,606,853</b>	<b>(825,658)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,291,416)</b>	<b>(6,398,420)</b>
Effect of foreign exchange on cash and cash equivalents	(73,238)	257,166
<b>Cash and cash equivalents as of the beginning of the period</b>	<b>5,180,156</b>	<b>8,311,266</b>
<b>Cash and cash equivalents as of the end of the period</b>	<b>2,815,502</b>	<b>2,170,012</b>

All amounts are in 000 RSD, unless otherwise stated

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



## NOTES TO FINANCIAL STATEMENTS

### 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

#### Basis of preparation

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).

The Interim Condensed Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting. IAS 34 for interim financial reporting does not require all disclosures that would be necessarily required by IFRS.

The Company does not disclose information which would substantially duplicate the disclosures contained in its audited Financial Statements for 2013, such as significant accounting policies, significant estimates and judgements, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Company believes that the disclosures in these Interim Condensed Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Financial Statements are read in conjunction with the Company's Financial Statements for 2013.

The results for the six month period ended 30 June 2014 are not necessarily indicative of the results expected for the full year.

#### Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Financial Statements are consistent with those applied during the preparation of Financial Statements as of and for the year ended 31 December 2013, except for those described in Application of new IFRS paragraph.

#### Application of new IFRS

A number of amendments to current IFRS and new IFRIC became effective for the periods beginning on or after 1 January 2014:

- amendments regarding set off rules to IAS 32 Financial Instruments,
- amendments in respect of Investment entities to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other entities and IAS 27 Separate Financial Statements,
- amendments to IAS 36 Impairment of Assets, regarding additional disclosure
- amendments to IAS 39 Financial Instruments: Recognition and Measurement regarding novation of derivatives and hedge accounting,

- IFRIC 21 – Levies, Annual improvements 2013.

The Company has initially applied amended standards and new IFRIC while preparing these Interim Condensed Financial statements. It has no significant impact on the Company's Interim Condensed Financial statements.

### 3. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after July 1, 2014 or later, and that the Company has not early adopted.

**IFRS 9, Financial Instruments** Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 and November 2013 to address the classification and measurement of financial liabilities. Key features of the standard:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The amendment made to IFRS 9 in November 2013 allows an entity to continue to measure its financial instruments in accordance with IAS 39 but at the same time to benefit from the improved accounting for own credit in IFRS 9.
- A substantial overhaul of hedge accounting was introduced that will enable entities to better reflect their risk management activities in their financial statements. In particular amendments to IFRS 9 increase the scope of hedged items eligible for hedge accounting (risk components of non-financial items may be designated provided they are separately identifiable and reliable measurable; derivatives may be included as part of the hedged item; groups and net positions may be designated hedged items, etc). The amendments to IFRS 9 also increase eligibility of hedging instruments allowing financial instruments at fair value through profit or loss to be designated as hedging instruments. A fundamental difference to the IAS 39 hedge accounting model is the lack of the 80-125 per cent bright line threshold for effective hedges and the requirement to perform retrospective hedge effectiveness testing. Under the IFRS 9 model, it is necessary for there to be an economic relationship between the hedged item and hedging instrument, with no quantitative threshold.
- Increased disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the financial statements.

The mandatory effective date of IFRS 9 is to be determined once the standard is complete. The standard is available for early adoption. The Company does not plan to adopt the standard before the mandatory effective date and is currently assessing the impact of the new standard on its Financial Statements.

The amendments to IAS 19 – Employee Benefits (issued in November 2013 and effective for annual periods beginning on or after July 1, 2014) on contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service.

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

#### 4. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the six month period ended 30 June 2014 and 2013. 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. 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 amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the six month period ended 30 June 2014 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,252,674	116,128,848	(40,915,068)	118,466,454
Intersegment	40,537,560	377,508	(40,915,068)	-
External	2,715,114	115,751,340	-	118,466,454
EBITDA (Segment results)	36,373,083	(3,924,771)	-	32,448,312
Depreciation, depletion and amortization	(1,429,767)	(3,809,932)	-	(5,239,699)
Reversal of impairment	-	45,223	-	45,223
Finance expenses, net	(143,909)	(570,066)	-	(713,975)
Income tax	(373,926)	(4,054,062)	-	(4,427,988)
<b>Segment profit (loss)</b>	<b>34,043,147</b>	<b>(13,637,901)</b>	<b>-</b>	<b>20,405,246</b>

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,532,832	108,969,660	(41,808,633)	110,693,859
Intersegment	41,724,655	83,978	(41,808,633)	-
External	1,808,177	108,885,682	-	110,693,859
EBITDA (Segment results)	37,046,615	(9,139,591)	-	27,907,024
Depreciation, depletion and amortization	(1,119,196)	(3,390,372)	-	(4,509,568)
Impairment losses	-	(476)	-	(476)
Finance expenses, net	(169,392)	(795,437)	-	(964,829)
Income tax	(236,823)	(2,611,356)	-	(2,848,179)
<b>Segment profit (loss)</b>	<b>35,733,793</b>	<b>(16,589,830)</b>	<b>-</b>	<b>19,143,963</b>

EBITDA for the six month period ended 30 June 2014 and 2013 is reconciled below:

	Six month period ended 30 June	
	2014	2013
Profit for the period	20,405,246	19,143,963
Income tax expenses	4,427,988	2,848,179
Finance expenses	1,724,170	1,706,636
Finance income	(1,010,195)	(741,807)
Depreciation, depletion and amortization	5,239,699	4,509,568
Net foreign exchange loss	1,533,155	541,056
Other expense, net	90,572	397,200
Other non-operating expense (income), net*	37,677	(497,771)
<b>EBITDA</b>	<b>32,448,312</b>	<b>27,907,024</b>

\*Other non-operating expenses (income), net mainly relate to fines and penalties.

Total revenue from sales comprise the following (based on the country of customer incorporation):

	Six month period ended 30 June 2014		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	2,592,771	2,592,771
Sale of gas	2,097,035	-	2,097,035
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	2,097,035	-	2,097,035
Sale of petroleum products	91,606,220	19,728,149	111,334,369
<i>Through a retail network</i>	27,718,400	-	27,718,400
<i>Wholesale activities</i>	63,887,820	19,728,149	83,615,969
Other sales	2,389,161	53,118	2,442,279
<b>Total sales</b>	<b>96,092,416</b>	<b>22,374,038</b>	<b>118,466,454</b>

	Six month period ended 30 June 2013		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,714,952	1,714,952
Sale of gas	2,446,360	-	2,446,360
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	2,446,360	-	2,446,360
Sale of petroleum products	89,462,715	15,036,404	104,499,119
<i>Through a retail network</i>	30,102,833	-	30,102,833
<i>Wholesale activities</i>	59,359,882	15,036,404	74,396,286
Other sales	2,029,846	3,582	2,033,428
<b>Total sales</b>	<b>93,938,921</b>	<b>16,754,938</b>	<b>110,693,859</b>

Out of the amount of 83,615,969 RSD (2013: 74,396,286 RSD) revenue from sale of petroleum products (wholesale), the amount of 15,342,789 RSD (2013: 15,956,769 RSD) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

**5. CASH AND CASH EQUIVALENTS**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Cash in bank and in hand	2,028,483	4,961,288
Deposits with original maturity of less than three months	550,000	-
Cash equivalents	237,019	218,868
	<b>2,815,502</b>	<b>5,180,156</b>

**6. TRADE AND OTHER RECEIVABLES**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Trade receivables:		
- related parties	5,722,736	3,790,384
- third parties	73,002,397	74,223,194
	78,725,133	78,013,578
Accrued assets	1,361,068	1,362,235
Other receivables	9,921,216	9,823,260
	90,007,417	89,199,073
Less impairment provision	(29,686,222)	(29,818,191)
<b>Total trade and other receivables</b>	<b>60,321,195</b>	<b>59,380,882</b>

The ageing of trade receivables is as follows:

	<b>30 June 2014</b>	<b>31 December 2013</b>
Up to 3 months	42,470,722	41,334,538
Over 3 months	36,254,411	36,679,040
	<b>78,725,133</b>	<b>78,013,578</b>

As at 30 June 2014 out of 36,254,411 RSD of overdue receivables (31 December 2013: 36,679,040 RSD), trade receivables in amount of 21,780,552 RSD (31 December 2013: 21,990,577 RSD) were fully provided for. The remaining amount of 14,473,859 RSD (31 December 2013: 14,688,463 RSD) relates to a number of independent customers for whom management believes that will be recovered in the near future.

The ageing of trade receivables provided for is as follows:

	<b>30 June 2014</b>	<b>31 December 2013</b>
Up to 3 months	27,262	1,002,942
Over 3 months	21,753,290	20,987,635
	<b>21,780,552</b>	<b>21,990,577</b>

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

	<b>30 June 2014</b>	<b>31 December 2013</b>
RSD	74,910,204	74,910,652
EUR	10,386,247	10,431,944
USD	4,710,944	3,856,453
Other	22	24
	<b>90,007,417</b>	<b>89,199,073</b>

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

	Trade receivables	Other receivables	Total
<b>As at 1 January 2013</b>	21,560,538	5,820,064	27,380,602
Provision for receivables impairment (note 18)	378,320	-	378,320
Unused amounts reversed (note 18)	(420,064)	-	(420,064)
Transfer from non-current to current part	-	1,060,981	1,060,981
Write off	(948)	-	(948)
Other	-	263,696	263,696
<b>As at 30 June 2013</b>	<b>21,517,846</b>	<b>7,144,741</b>	<b>28,662,587</b>
<b>As at 1 January 2014</b>	21,990,577	7,827,614	29,818,191
Provision for receivables impairment (note 18)	216,596	-	216,596
Unused amounts reversed (note 18)	(398,446)	-	(398,446)
Write off	(28,175)	-	(28,175)
Other	-	78,056	78,056
<b>As at 30 June 2014</b>	<b>21,780,552</b>	<b>7,905,670</b>	<b>29,686,222</b>

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

## 7. INVENTORIES

	30 June 2014	31 December 2013
Crude oil	27,366,672	25,490,951
Gas	82,617	98,558
Petroleum products	18,627,294	12,780,938
Materials and supplies	6,136,544	5,582,457
Other	382,029	593,212
Less impairment provision	(6,086,339)	(6,136,250)
	<b>46,508,817</b>	<b>38,409,866</b>

## 8. OTHER CURRENT ASSETS

	30 June 2014	31 December 2013
Advances paid	422,631	700,072
VAT receivables	-	621,864
Deferred VAT	1,115,659	2,466,870
Prepaid expenses	204,150	114,807
Prepaid custom duties	61,932	52,378
Prepaid excise	6,196,538	1,431,422
Other current assets	19,837,217	18,198,978
Less impairment provision	(19,723,449)	(17,947,561)
	<b>8,114,678</b>	<b>5,638,830</b>

Deferred VAT as at 30 June 2014 amounting to 1,115,659 RSD (31 December 2013: 2,466,870 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 June 2014 amounting to 6,196,538 RSD (31 December 2013: 1,431,422 RSD) relates to the excise paid to the State for finished products stored in non-excise warehouse and imported excise goods used in further production.

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 2013</b>	373,071	13,188,420	13,561,491
Provision for other current assets impairment (note 18)	40,795	2,708,961	2,749,756
Unused amounts reversed (note 18)	(1,093)	(70,836)	(71,929)
Other	-	(24,647)	(24,647)
<b>As at 30 June 2013</b>	<b>412,773</b>	<b>15,801,898</b>	<b>16,214,671</b>
<b>As at 1 January 2014</b>	248,347	17,699,213	17,947,560
Provision for other current assets impairment (note 18)	3,091	1,919,981	1,923,072
Unused amounts reversed (note 18)	(9,979)	(52,197)	(62,176)
Other	7	(85,014)	(85,007)
<b>As at 30 June 2014</b>	<b>241,466</b>	<b>19,481,983</b>	<b>19,723,449</b>



## 9. 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 2013</b>						
Cost	42,567,439	96,895,807	27,042,790	16,318,460	25,997,306	208,821,802
Depreciation and impairment	(14,450,260)	(23,887,053)	(13,010,240)	(6,848,950)	(4,315,892)	(62,512,395)
<b>Net book value</b>	<b>28,117,179</b>	<b>73,008,754</b>	<b>14,032,550</b>	<b>9,469,510</b>	<b>21,681,414</b>	<b>146,309,407</b>
<b>Period ended 30 June 2013</b>						
Additions	3,318,960	6,200,718	829,857	223,863	4,539,506	15,112,904
Impairment	-	-	(120)	-	(356)	(476)
Depreciation	(1,114,699)	(2,407,464)	(412,313)	(226,692)	-	(4,161,168)
Transfer to Intangible assets	-	-	-	-	(77,478)	(77,478)
Disposals and write-off	(877,652)	(4,426)	(107,903)	(5,761)	(230,745)	(1,226,487)
Other transfers	916	67,046	(12,686)	(65,109)	(7)	(9,840)
	<b>29,444,704</b>	<b>76,864,628</b>	<b>14,329,385</b>	<b>9,395,811</b>	<b>25,912,334</b>	<b>155,946,862</b>
<b>As at 30 June 2013</b>						
Cost	44,460,545	102,718,595	27,541,926	16,791,684	30,215,021	221,727,771
Depreciation and impairment	(15,015,841)	(25,853,967)	(13,212,541)	(7,395,873)	(4,302,687)	(65,780,909)
<b>Net book value</b>	<b>29,444,704</b>	<b>76,864,628</b>	<b>14,329,385</b>	<b>9,395,811</b>	<b>25,912,334</b>	<b>155,946,862</b>
<b>As at 1 January 2014</b>						
Cost	51,949,129	108,204,314	29,704,322	16,939,009	39,760,624	246,557,398
Depreciation and impairment	(16,356,852)	(28,192,781)	(12,440,063)	(7,519,610)	(4,044,148)	(68,553,454)
<b>Net book value</b>	<b>35,592,277</b>	<b>80,011,533</b>	<b>17,264,259</b>	<b>9,419,399</b>	<b>35,716,476</b>	<b>178,003,944</b>
<b>Period ended 30 June 2014</b>						
Additions	9,116,037	1,343,872	1,206,739	147,298	3,999,048	15,812,994
Impairment	-	-	(37,097)	-	(442)	(37,539)
Depreciation	(1,420,745)	(2,600,213)	(588,641)	(247,527)	-	(4,857,126)
Transfer to Intangible assets	-	-	-	-	(92,944)	(92,944)
Transfer from investment property	35,121	9,358	28,439	7,399	-	80,317
Disposals and write-off	(1,023,021)	(45,087)	(43,105)	(35,805)	(112,209)	(1,259,227)
Other transfers	254,857	(585,232)	(111,470)	441,351	7	(487)
	<b>42,554,526</b>	<b>78,134,231</b>	<b>17,719,124</b>	<b>9,732,115</b>	<b>39,509,936</b>	<b>187,649,932</b>
<b>As at 30 June 2014</b>						
Cost	60,238,601	108,841,615	30,619,801	17,527,298	43,547,654	260,774,969
Depreciation and impairment	(17,684,075)	(30,707,384)	(12,900,677)	(7,795,183)	(4,037,718)	(73,125,037)
<b>Net book value</b>	<b>42,554,526</b>	<b>78,134,231</b>	<b>17,719,124</b>	<b>9,732,115</b>	<b>39,509,936</b>	<b>187,649,932</b>

## Oil and gas production assets

	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 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)	(14,450,260)	(110,630)	(14,865,104)
<b>Net book amount</b>	<b>5,304,044</b>	<b>4,793,524</b>	<b>10,097,568</b>	<b>28,117,179</b>	<b>2,036</b>	<b>38,216,783</b>
<b>Period ended 30 June 2013</b>						
Additions	2,703,736	5,818,381	8,522,117	-	-	8,522,117
Transfer from asset under construction	(29,682)	(3,289,278)	(3,318,960)	3,318,960	-	-
Other transfers	(3)	(4,417)	(4,420)	916	(16)	(3,520)
Depreciation and depletion	-	-	-	(1,114,699)	-	(1,114,699)
Disposals and write-off	(12,333)	(3,751)	(16,084)	(877,652)	-	(893,736)
	<b>7,965,762</b>	<b>7,314,459</b>	<b>15,280,221</b>	<b>29,444,704</b>	<b>2,020</b>	<b>44,726,945</b>
<b>As at 30 June 2013</b>						
Cost	7,965,762	7,617,623	15,583,385	44,460,545	110,850	60,154,780
Depreciation and impairment	-	(303,164)	(303,164)	(15,015,841)	(108,830)	(15,427,835)
<b>Net book amount</b>	<b>7,965,762</b>	<b>7,314,459</b>	<b>15,280,221</b>	<b>29,444,704</b>	<b>2,020</b>	<b>44,726,945</b>
<b>As at 1 January 2014</b>						
Cost	10,248,631	11,674,429	21,923,060	51,949,129	22,241	73,894,430
Depreciation and impairment	-	(238,059)	(238,059)	(16,356,852)	(20,266)	(16,615,177)
<b>Net book amount</b>	<b>10,248,631</b>	<b>11,436,370</b>	<b>21,685,001</b>	<b>35,592,277</b>	<b>1,975</b>	<b>57,279,253</b>
<b>Period ended 30 June 2014</b>						
Additions	2,873,356	8,256,500	11,129,856	-	-	11,129,856
Transfer from asset under construction	(1,934,990)	(7,181,047)	(9,116,037)	9,116,037	-	-
Other transfers	50,654	(23,118)	27,536	254,857	(81)	282,312
Depreciation and depletion	-	-	-	(1,420,745)	-	(1,420,745)
Transfer from investment property	-	-	-	35,121	-	35,121
Disposals and write-off	(14,303)	(222,000)	(236,303)	(1,023,021)	-	(1,259,324)
	<b>11,223,348</b>	<b>12,266,705</b>	<b>23,490,053</b>	<b>42,554,526</b>	<b>1,894</b>	<b>66,046,473</b>
<b>As at 30 June 2014</b>						
Cost	11,223,348	12,504,764	23,728,112	60,238,601	22,203	83,988,916
Depreciation and impairment	-	(238,059)	(238,059)	(17,684,075)	(20,309)	(17,942,443)
<b>Net book amount</b>	<b>11,223,348</b>	<b>12,266,705</b>	<b>23,490,053</b>	<b>42,554,526</b>	<b>1,894</b>	<b>66,046,473</b>

**10. OTHER NON-CURRENT ASSETS**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Advances paid for PPE	3,020,079	4,160,931
Prepaid expenses	1,004,514	1,033,330
Other assets	2,095,740	1,083,093
Less impairment provision	(1,033,771)	(29,899)
	<b>5,086,562</b>	<b>6,247,455</b>

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

	<b>30 June 2014</b>	<b>31 December 2013</b>
Short-term loans	8,746,687	300,000
Interest liabilities	224,200	136,403
Current portion of long-term loans (note 15)	34,485,104	27,596,333
Current portion of finance lease liabilities (note 15)	6,722	21,634
	<b>43,462,713</b>	<b>28,054,370</b>

**12. TRADE AND OTHER PAYABLES**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Trade payables		
- related parties	17,565,678	38,997,863
- third parties	16,851,114	11,667,964
Dividends payable	16,853,013	3,772,308
Other accounts payable	69,335	69,780
	<b>51,339,140</b>	<b>54,507,915</b>

As at 30 June 2014 payables to related parties amounting to 17,565,678 RSD (31 December 2013: 38,715,029 RSD) mainly relate to payables to the supplier Gazprom Neft Trading Austria in the amount of 15,175,306 RSD (31 December 2013: 28,139,826 RSD), mostly for the purchase of crude oil.

A dividend in respect of the year ended 31 December 2013 of 80.22 RSD per share, amounting to a total dividend of 13,080,705 RSD was approved by the General Assembly Meeting held on 30 June 2014.

**13. OTHER CURRENT LIABILITIES**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Advances received	857,087	864,997
Payables to employees	1,963,485	2,069,305
Accruals and deferred income	13,314	24,013
Other current non-financial liabilities	30,356	6,376
	<b>2,864,242</b>	<b>2,964,691</b>

**14. OTHER TAXES PAYABLE**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Mineral extraction tax	593,082	522,953
VAT	2,214,623	461,212
Excise tax	4,468,031	4,294,766
Custom duties	531,337	1,623,065
Other taxes	1,872,753	1,516,134
	<b>9,679,826</b>	<b>8,418,130</b>

**15. LONG-TERM DEBT**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Long-term loans - Gazprom Neft	48,468,266	50,655,813
Bank loans	48,280,704	37,565,857
Finance lease liabilities	6,722	21,634
Other long-term borrowings	1,208	1,209
Less Current portion	(34,491,826)	(27,617,967)
	<b>62,265,074</b>	<b>60,626,546</b>

## Bank loans

	30 June 2014	31 December 2013
Domestic	12,040,967	12,048,569
Foreign	36,239,737	25,517,288
	48,280,704	37,565,857
Current portion of long-term loans	(29,099,741)	(22,264,141)
	<b>19,180,963</b>	<b>15,301,716</b>

The maturity of bank loans was as follows:

	30 June 2014	31 December 2013
Between 1 and 2 years	5,966,904	2,926,308
Between 2 and 5 years	7,907,109	6,871,962
Over 5 years	5,306,950	5,503,446
	<b>19,180,963</b>	<b>15,301,716</b>

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

	30 June 2014	31 December 2013
USD	39,103,654	28,343,857
EUR	8,522,539	8,579,494
RSD	280,602	280,783
JPY	373,909	361,723
	<b>48,280,704</b>	<b>37,565,857</b>

The Company repays 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, Belibor 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 June 2014 and 31 December 2013 are presented in the table below:

Creditor	Currency	30 June 2014	31 December 2013
<b>Domestic long-term loans</b>			
Erste bank, Novi Sad	USD	279,053	279,719
Erste bank, Novi Sad	EUR	449,194	454,900
Bank Postanska stedionica, Belgrade	EUR	220,693	225,341
Bank Postanska stedionica, Belgrade	USD	1,511,073	1,526,400
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,379,093	4,459,990
UniCredit bank, Belgrade	USD	4,921,259	4,821,436
UniCredit bank, Belgrade	RSD	278,900	278,900
Other loans	RSD	1,702	1,883
		<b>12,040,967</b>	<b>12,048,569</b>
<b>Foreign long-term loans</b>			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	514,386	518,612
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	373,909	361,723
Erste bank, Holland	EUR	3,473,559	3,439,263
Erste bank, Holland	USD	5,515,205	5,403,333
VUB (Bank Intesa), Slovakia	USD	8,484,930	8,312,820
NBG bank, Great Britain	USD	4,242,465	2,493,846
Alpha bank, Great Britain	USD	6,423,092	3,325,128
Piraeus bank, Great Britain	USD	848,493	1,662,563
Sberbank Europe AG, Vienna, Austria	USD	6,363,698	-
		<b>36,239,737</b>	<b>25,517,288</b>
Less current portion of long-term loans		(29,099,741)	(22,264,141)
		<b>19,180,963</b>	<b>15,301,716</b>

	Currency	Current portion		Long-term	
		30 June 2014	31 December 2013	30 June 2014	31 December 2013
<b>Domestic long - term loans</b>					
Erste bank, Novi Sad	USD	14,261	13,070	264,792	266,649
Erste bank, Novi Sad	EUR	22,682	20,972	426,512	433,928
Bank Postanska stedionica, Belgrade	EUR	11,144	12,148	209,549	213,193
Bank Postanska stedionica, Belgrade	USD	76,302	82,030	1,434,771	1,444,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	250,743	248,267	4,128,350	4,211,723
UniCredit bank, Belgrade	USD	4,921,259	4,821,436	-	-
UniCredit bank, Belgrade	RSD	278,900	278,900	-	-
Other loans	RSD	358	369	1,344	1,514
		<b>5,575,649</b>	<b>5,477,192</b>	<b>6,465,318</b>	<b>6,571,377</b>
<b>Foreign long-term loans</b>					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	32,672	30,197	481,714	488,415
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	18,881	16,978	355,028	344,745
Erste bank, Holland	EUR	3,473,559	3,439,263	-	-
Erste bank, Holland	USD	-	-	5,515,205	5,403,333
VUB (Bank Intesa), Slovakia	USD	8,484,930	8,312,820	-	-
NBG bank, Great Britain	USD	4,242,465	-	-	2,493,846
Alpha bank, Great Britain	USD	6,423,092	3,325,128	-	-
Piraeus bank, Great Britain	USD	848,493	1,662,563	-	-
Sberbank Europe AG, Vienna, Austria	USD	-	-	6,363,698	-
		<b>23,524,092</b>	<b>16,786,949</b>	<b>12,715,645</b>	<b>8,730,339</b>
		<b>29,099,741</b>	<b>22,264,141</b>	<b>19,180,963</b>	<b>15,301,716</b>

## 16. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Six month period ended 30 June	
	2014	2013
Crude oil	52,576,228	53,593,030
Petroleum products	12,141,284	5,211,279
Other	36,880	524,453
	<b>64,754,392</b>	<b>59,328,762</b>

## 17. PRODUCTION AND MANUFACTURING EXPENSES

	Six month period ended 30 June	
	2014	2013
Employee costs	1,847,096	2,290,689
Materials and supplies (other than purchased oil, petroleum products and gas)	350,951	306,628
Repair and maintenance services	1,666,414	1,276,666
Electricity and utilities	1,174,307	707,779
Safety and security expense	48,874	77,064
Transportation expense	276,930	266,108
Other	3,428,170	3,297,304
	<b>8,792,742</b>	<b>8,222,238</b>

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

	<b>Six month period ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Employee costs	4,464,614	6,637,576
Legal, audit, and consulting services	735,877	542,213
Rent expense	40,841	60,869
Business trips expense	132,157	184,817
Safety and security expense	201,899	193,737
Insurance expense	133,389	123,357
Transportation and storage	567,493	607,813
Allowance for doubtful accounts	1,679,046	2,636,083
Other	1,530,378	319,969
	<b>9,485,694</b>	<b>11,306,434</b>

**19. CONTINGENT LIABILITIES***Finance Guarantees*

As at 30 June 2014 the total amount of outstanding finance guarantees given by the Company amounted to 2,868,440 RSD mostly related to customs duties in the amount of 1,600,531 RSD (31 December 2013: 2,192,400 RSD).

*Environmental protection*

As at the reporting date, the Company's management made an environmental provision amounting to 555,878 RSD (31 December 2013: 690,094 RSD), based on an internal assessment of compliance with the Republic of Serbia environmental legislation.

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

*Other contingent liabilities*

As at 30 June 2014, the Company did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Company has to pay the difference in tax calculation of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Company's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Company's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed four years ago. Taking all of the above into consideration, the Company's Management is of the view that as at 30 June 2014 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.

**20. RELATED PARTY TRANSACTIONS**

For the purpose of these Interim Condensed Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operational decision as defined by IAS 24 Related Party disclosure.

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 six month period ended 30 June 2014 and in the same period in 2013, 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 and petroleum products.

As at 30 June 2014 and 31 December 2013 the outstanding balances with related parties were as follows:

	Subsidiary	Parent	Other related parties	Total
<b>As at 30 June 2014</b>				
Short-term financial assets	2,807,484	-	-	2,807,484
Trade and other receivables	5,722,736	-	-	5,722,736
Other current assets	8,702	-	-	8,702
Investments in subsidiaries	8,729,187	-	-	8,729,187
Long-term financial assets	34,899,752	-	-	34,899,752
Other non-current assets	65,898	-	-	65,898
Trade and other payables	(2,426,072)	(7,350,182)	(15,181,024)	(24,957,278)
Other current liabilities	(139)	-	(16,358)	(16,497)
Short-term debt and current portion of long-term debt	-	(5,385,363)	-	(5,385,363)
Long-term debt	-	(43,082,903)	-	(43,082,903)
	<b>49,807,548</b>	<b>(55,818,448)</b>	<b>(15,197,382)</b>	<b>(21,208,282)</b>
<b>As at 31 December 2013</b>				
Short-term financial assets	2,114,286	-	-	2,114,286
Trade and other receivables	3,786,847	-	3,537	3,790,384
Other current assets	12,222	-	-	12,222
Investments in subsidiaries	8,729,709	-	-	8,729,709
Long-term financial assets	31,380,003	-	-	31,380,003
Other non-current assets	159,524	-	-	159,524
Trade and other payables	(1,072,804)	(9,338,240)	(28,586,819)	(38,997,863)
Other current liabilities	(163)	-	-	(163)
Short-term debt and current portion of long-term debt	-	(5,332,191)	-	(5,332,191)
Long-term debt	-	(45,323,622)	-	(45,323,622)
	<b>45,109,624</b>	<b>(59,994,053)</b>	<b>(28,583,282)</b>	<b>(43,467,711)</b>



For the six month period ended 30 June 2014 and 2013 the following transaction occurred with related parties:

	Subsidiary	Parent	Other related parties	Total
<b>Six month period ended 30 June 2014</b>				
Petroleum products and oil and gas sales	5,091,408	-	1,364,867	6,456,275
Other revenues	235,450	-	-	235,450
Purchases of oil, gas and petroleum products	(5,109,270)	-	(45,784,488)	(50,893,758)
Production and manufacturing expenses	(1,783,811)	(5,177)	(166,878)	(1,955,866)
Selling, general and administrative expenses	(472,033)	(18,069)	-	(490,102)
Transportation expenses	(8,794)	-	-	(8,794)
Other expenses, net	(7,086)	(4,556)	(37,581)	(49,223)
Finance income	883,926	-	-	883,926
Finance expense	(3,381)	(596,758)	-	(600,139)
	<b>(1,173,591)</b>	<b>(624,560)</b>	<b>(44,624,080)</b>	<b>(46,422,231)</b>

	Subsidiary	Parent	Other related parties	Total
<b>Six month period ended 30 June 2013</b>				
Petroleum products and oil and gas sales	1,336,025	-	84,307	1,420,332
Other revenues	284,830	-	-	284,830
Purchases of oil, gas and petroleum products	(949,699)	-	(48,479,223)	(49,428,922)
Production and manufacturing expenses	(1,455,354)	(2,312)	-	(1,457,666)
Selling, general and administrative expenses	(467,613)	(18,080)	-	(485,693)
Transportation expenses	(7,281)	-	-	(7,281)
Exploration expenses	(83,250)	-	-	(83,250)
Other expenses, net	(2,484)	(4,437)	(73,533)	(80,454)
Finance income	565,356	-	-	565,356
Finance expense	-	(610,848)	-	(610,848)
	<b>(779,470)</b>	<b>(635,677)</b>	<b>(48,468,449)</b>	<b>(49,883,596)</b>

## 21. 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 June 2014.

## 22. COMMITMENTS

### *Farm-in agreement with RAG Hungary limited*

In December 2011, the Company entered into a Farm-in agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kiskunhalas area in Hungary. Under the contract, the Company committed to finance 50% of total exploration costs on at least three oil wells in the area covered by the exploration license. Depending on success of the exploration, the Company will be entitled to 50% of total production volume of hydrocarbons. Under the Joint Operation Agreement signed with RAG Hungary Limited, RAG will act as the Operator and will be in charge of and shall conduct all Joint Operations. On 30 June 2014 drilling and exploration works were estimated to 1.2 USD million.

### *Joint Operation agreement with RAG Hungary limited*

In December 2012, the Group entered into a Call Option agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kelebia area in Hungary. Under the previous agreement NIS has an option which has exercised during June 2014 signing Joint Operation agreement based on which NIS has become equal owner in a jointly owned company (JOC) together with Rag Hungary, Rag Kiha, which is holding the Kelebia Licence becoming a 50 % quota holder. On 30 June 2014 drilling and exploration works were estimated to 1.45 USD million.

## 23. 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 June 2014 were evaluated through 22 July 2014, the date these Interim Condensed Financial Statements were authorised for issue.

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**Novi Sad, 22 July 2014**

**Kirill Kravchenko**

**CEO**

**Anton Fyodorov**

**CEO Deputy,  
Head of Function for Finance, Economics,  
Planning and Accounting**

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT ON FINANCIAL POSITION

	Notes	30 June 2014 (unaudited)	31 December 2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	5,815,572	8,707,775
Short-term financial assets		62,204	68,358
Trade and other receivables	6	55,784,335	56,117,886
Inventories	7	49,738,304	40,659,980
Current income tax prepayments		-	38,865
Other current assets	8	10,107,854	7,365,761
<b>Total current assets</b>		<b>121,508,269</b>	<b>112,958,625</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	216,415,234	204,932,521
Investment property		1,327,892	1,414,364
Goodwill and other intangible assets		7,111,611	6,678,646
Investments in joint venture		1,008,221	1,008,221
Trade and other non-current receivables		76,933	76,219
Long-term financial assets		224,412	217,081
Deferred tax assets		8,488,033	9,776,756
Other non-current assets	10	6,377,901	8,567,539
<b>Total non-current assets</b>		<b>241,030,237</b>	<b>232,671,347</b>
<b>Total assets</b>		<b>362,538,506</b>	<b>345,629,972</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	11	43,463,146	28,054,845
Trade and other payables	12	51,552,918	55,276,015
Other current liabilities	13	3,553,133	3,559,331
Current income tax payable		175,187	2,630,312
Other taxes payable	14	10,232,294	8,701,055
Provisions for liabilities and charges		2,551,136	2,789,910
<b>Total current liabilities</b>		<b>111,527,814</b>	<b>101,011,468</b>
<b>Non-current liabilities</b>			
Long-term debt	15	63,155,460	61,133,878
Deferred tax liabilities		2,460,407	2,337,281
Provisions for liabilities and charges		12,605,658	12,194,243
<b>Total non-current liabilities</b>		<b>78,221,525</b>	<b>75,665,402</b>
<b>Equity</b>			
Share capital		81,530,200	81,530,200
Reserves		(158,552)	(98,174)
Retained earnings		91,556,721	87,564,495
<b>Equity attributable to the Company's owners</b>		<b>172,928,369</b>	<b>168,996,521</b>
Non-controlling interest		(139,202)	(43,419)
<b>Total equity</b>		<b>172,789,167</b>	<b>168,953,102</b>
<b>Total liabilities and shareholder's equity</b>		<b>362,538,506</b>	<b>345,629,972</b>

All amounts are in 000 RSD, unless otherwise stated

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

## CONSOLIDATED STATEMENT ON PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six month period ended 30 June	
		2014 <i>(unaudited)</i>	2013 <i>(unaudited)</i>
Sales of petroleum products and oil and gas sales		118,895,528	110,782,278
Other revenues		3,746,368	2,442,337
<b>Total revenue from sales</b>	4	<b>122,641,896</b>	<b>113,224,615</b>
Purchases of oil, gas and petroleum products	16	(67,270,837)	(60,903,777)
Production and manufacturing expenses	17	(8,673,790)	(7,677,135)
Selling, general and administrative expenses	18	(10,679,187)	(12,232,118)
Transportation expenses		(520,655)	(511,321)
Depreciation, depletion and amortization		(6,189,727)	(5,160,863)
Taxes other than income tax		(2,885,577)	(3,275,054)
Exploration expenses		(979,511)	(36,321)
<b>Total operating expenses</b>		<b>(97,199,284)</b>	<b>(89,796,589)</b>
Other expenses, net		(922,862)	(550,017)
<b>Operating profit</b>		<b>24,519,750</b>	<b>22,878,009</b>
Net foreign exchange loss		(1,409,455)	(636,303)
Finance income		128,726	195,914
Finance expenses		(1,815,490)	(1,769,462)
<b>Total other expense</b>		<b>(3,096,219)</b>	<b>(2,209,851)</b>
<b>Profit before income tax</b>		<b>21,423,531</b>	<b>20,668,158</b>
Current income tax expense		(3,032,782)	(2,781,250)
Deferred income tax expense		(1,411,016)	(142,532)
<b>Total income tax expense</b>		<b>(4,443,798)</b>	<b>(2,923,782)</b>
<b>Profit for the period</b>		<b>16,979,733</b>	<b>17,744,376</b>
<b>Other comprehensive loss:</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Change in value of available-for-sale financial assets		7,234	26,519
Currency translation differences		(68,138)	(863)
<b>Other comprehensive (loss) profit for the period</b>		<b>(60,904)</b>	<b>25,656</b>
<b>Total comprehensive income for the period</b>		<b>16,918,829</b>	<b>17,770,032</b>
<b>Profit attributable to:</b>			
- Shareholders of Naftna Industrija Srbije		17,074,886	17,763,277
- Non-controlling interest		(95,153)	(18,901)
<b>Profit for the period</b>		<b>16,979,733</b>	<b>17,744,376</b>
<b>Total comprehensive income attributable to:</b>			
- Shareholders of Naftna Industrija Srbije		17,014,573	17,789,433
- Non-controlling interest		(95,744)	(19,401)
<b>Total comprehensive income for the period</b>		<b>16,918,829</b>	<b>17,770,032</b>
<b>Earnings per share attributable to shareholders of Naftna Industrija Srbije</b>			
- Basic earnings (RSD per share)		104.72	108.94
Weighted average number of ordinary shares in issue (in millions)		163	163

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

SIX MONTH PERIOD ENDED 30 JUNE 2014 AND 2013

<i>(unaudited)</i>	Note	Equity attributable to the Company's owners			Total	Non-controlling interest	Total
		Share capital	Reserves	Retained earnings			
<b>Balance as at 1 January 2013</b>		81,530,200	794,352	50,783,215	133,107,767	(17,106)	133,090,661
Profit/(loss) for the period		-	-	17,763,277	17,763,277	(18,901)	17,744,376
<b>Other comprehensive income/(loss)</b>							
Change in value of available-for-sale financial assets		-	26,519	-	26,519	-	26,519
Currency translation differences		-	(363)	-	(363)	(500)	(863)
<b>Total comprehensive income (loss) for the period</b>		-	26,156	17,763,277	17,789,433	(19,401)	17,770,032
Dividend distribution		-	-	(12,364,129)	(12,364,129)	-	(12,364,129)
<b>Total transaction with owners, recorded in equity</b>		-	-	(12,364,129)	(12,364,129)	-	(12,364,129)
Other		-	(889,424)	886,484	(2,940)	-	(2,940)
<b>Balance as at 30 June 2013</b>		<b>81,530,200</b>	<b>(68,916)</b>	<b>57,068,847</b>	<b>138,530,131</b>	<b>(36,507)</b>	<b>138,493,624</b>
<b>Balance as at 1 January 2014</b>		<b>81,530,200</b>	<b>(98,174)</b>	<b>87,564,495</b>	<b>168,996,521</b>	<b>(43,419)</b>	<b>168,953,102</b>
Profit/(loss) for the period		-	-	17,074,886	17,074,886	(95,153)	16,979,733
<b>Other comprehensive income/(loss)</b>							
Change in value of available-for-sale financial assets		-	7,234	-	7,234	-	7,234
Currency translation differences		-	(67,547)	-	(67,547)	(591)	(68,138)
<b>Total comprehensive income (loss) for the period</b>		-	(60,313)	17,074,886	17,014,573	(95,744)	16,918,829
Dividend distribution	12	-	-	(13,080,705)	(13,080,705)	-	(13,080,705)
<b>Total transaction with owners, recorded in equity</b>		-	-	(13,080,705)	(13,080,705)	-	(13,080,705)
Other		-	(65)	(1,955)	(2,020)	(39)	(2,059)
<b>Balance as at 30 June 2014</b>		<b>81,530,200</b>	<b>(158,552)</b>	<b>91,556,721</b>	<b>172,928,369</b>	<b>(139,202)</b>	<b>172,789,167</b>

All amounts are in 000 RSD, unless otherwise stated

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Six month period ended 30 June	
	2014 (unaudited)	2013 (unaudited)
<b>Cash flows from operating activities</b>		
Profit before income tax	21,423,531	20,668,158
<b>Adjustments for:</b>		
Finance costs	1,815,490	1,769,462
Finance income	(128,726)	(195,914)
Depreciation, depletion and amortization	6,189,727	5,160,863
Adjustments for other provisions	393,646	760,340
Allowance for doubtful accounts	1,697,995	2,644,785
Payables write off	(5,531)	(3,347)
Net unrealised foreign exchange losses (gain), net	1,461,252	416,228
Other non-cash items	921,833	132,100
	12,345,686	10,684,517
<b>Changes in working capital:</b>		
Trade and other receivables	330,851	(5,809,812)
Inventories	(9,078,324)	2,528,899
Other current assets	(4,730,168)	(906,089)
Trade payables and other current liabilities	(13,583,910)	(4,414,159)
Other taxes payable	1,584,312	2,640,537
	(25,477,239)	(5,960,624)
Income taxes paid	(5,577,618)	(2,156,696)
Interest paid	(1,389,020)	(1,560,040)
Interest received	292,066	387,586
	(6,674,572)	(3,329,150)
<b>Net cash generated by operating activities</b>	<b>1,617,406</b>	<b>22,062,901</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries or other business, net of cash acquired	(535,143)	(572,391)
Acquisition of equity accounted investments	-	(1,008,221)
Loan proceeds received	-	31,728
Capital expenditures	(19,939,109)	(27,273,160)
Proceeds from sale of property, plant and equipment	132,214	118,636
Other (outflow) inflow	(992)	537,226
<b>Net cash used in investing activities</b>	<b>(20,343,030)</b>	<b>(28,166,182)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	20,957,402	7,422,848
Repayment of borrowings	(5,054,069)	(8,248,506)
<b>Net cash generated by financing activities</b>	<b>15,903,333</b>	<b>(825,658)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,822,291)</b>	<b>(6,928,939)</b>
Effect of foreign exchange on cash and cash equivalents	(69,912)	250,597
<b>Cash and cash equivalents as of the beginning of the period</b>	<b>8,707,775</b>	<b>12,069,897</b>
<b>Cash and cash equivalents as of the end of the period</b>	<b>5,815,572</b>	<b>5,391,555</b>

All amounts are in 000 RSD, unless otherwise stated

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

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

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

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

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

These Interim Condensed Consolidated 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

#### Basis of preparation

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by Serbian legislation. The accompanying Interim Condensed Consolidated Financial Statements were primarily derived from the Group's statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (IFRS).

The Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting. IAS 34 for interim financial reporting does not require all disclosures that would be necessarily required by IFRS.

The Group does not disclose information which would substantially duplicate the disclosures contained in its audited Consolidated Financial Statements for 2013, such as significant accounting policies, significant estimates and judgements, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Group believes that the disclosures in these Interim Condensed Consolidated Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Consolidated Financial Statements are read in conjunction with the Group's Consolidated Financial Statements for 2013.

The results for the six month period ended 30 June 2014 are not necessarily indicative of the results expected for the full year.

#### Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Consolidated Financial Statements are consistent with those applied during the preparation of Consolidated Financial Statements as of and for the year ended 31 December 2013, except for those described in Application of new IFRS paragraph.

#### Application of new IFRS

A number of amendments to current IFRS and new IFRIC became effective for the periods beginning on or after 1 January 2014:

- amendments regarding set off rules to IAS 32 Financial Instruments,
- amendments in respect of Investment entities to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other entities and IAS 27 Separate Financial Statements,
- amendments to IAS 36 Impairment of Assets, regarding additional disclosure



- amendments to IAS 39 Financial Instruments: Recognition and Measurement regarding novation of derivatives and hedge accounting,
- IFRIC 21 – Levies, Annual improvements 2013.

The Group has initially applied amended standards and new IFRIC while preparing these Interim Condensed Consolidated Financial statements. It has no significant impact on the Group's Interim Condensed Consolidated Financial Statements.

### 3. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after July 1, 2014 or later, and that the Group has not early adopted.

**IFRS 9, Financial Instruments** Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 and November 2013 to address the classification and measurement of financial liabilities. Key features of the standard:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The amendment made to IFRS 9 in November 2013 allows an entity to continue to measure its financial instruments in accordance with IAS 39 but at the same time to benefit from the improved accounting for own credit in IFRS 9.
- A substantial overhaul of hedge accounting was introduced that will enable entities to better reflect their risk management activities in their financial statements. In particular amendments to IFRS 9 increase the scope of hedged items eligible for hedge accounting (risk components of non-financial items may be designated provided they are separately identifiable and reliable measurable; derivatives may be included as part of the hedged item; groups and net positions may be designated hedged items, etc). The amendments to IFRS 9 also increase eligibility of hedging instruments allowing financial instruments at fair value through profit or loss to be designated as hedging instruments. A fundamental difference to the IAS 39 hedge accounting model is the lack of the 80-125 per cent bright line threshold for effective hedges and the requirement to perform retrospective hedge effectiveness testing. Under the IFRS 9 model, it is necessary for there to be an economic relationship between the hedged item and hedging instrument, with no quantitative threshold.
- Increased disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the financial statements.

The mandatory effective date of IFRS 9 is to be determined once the standard is complete. The standard is available for early adoption. The Group does not plan to adopt the standard before the mandatory effective date and is currently assessing the impact of the new standard on its Consolidated Financial Statements.

The amendments to IAS 19 – Employee Benefits (issued in November 2013 and effective for annual periods beginning on or after July 1, 2014) on contributions from employees or third parties to defined



benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service.

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

#### 4. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the six month period ended 30 June 2014 and 2013. 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 Group manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development and production of crude oil and natural gas and oil field services. 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 Group's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Group's ongoing operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the six month period ended 30 June 2014 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,439,390	120,117,575	(40,915,068)	122,641,897
Intersegment	40,537,560	377,508	(40,915,068)	-
External	2,901,830	119,740,067	-	122,641,897
EBITDA (Segment results)	34,874,165	(3,976,140)	-	30,898,025
Depreciation, depletion and amortization	(1,923,286)	(4,266,441)	-	(6,189,727)
Impairment losses	8	24,183	-	24,191
Finance expenses, net	(150,742)	(1,536,022)	-	(1,686,764)
Income tax	(389,734)	(4,054,064)	-	(4,443,798)
<b>Segment profit (loss)</b>	<b>32,079,878</b>	<b>(15,100,144)</b>		<b>16,979,734</b>

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,908,855	111,124,393	(41,808,633)	113,224,615
Intersegment	41,724,655	83,978	(41,808,633)	-
External	2,184,200	111,040,415	-	113,224,615
EBITDA (Segment results)	37,648,591	(9,566,870)	-	28,081,721
Depreciation, depletion and amortization	(1,579,521)	(3,581,342)	-	(5,160,863)
Impairment losses	-	(476)	-	(476)
Finance expenses, net	(180,050)	(1,393,498)	-	(1,573,548)
Income tax	(312,426)	(2,611,356)	-	(2,923,782)
<b>Segment profit (loss)</b>	<b>35,234,135</b>	<b>(17,489,759)</b>		<b>17,744,376</b>

EBITDA for the six month period ended 30 June 2014 and 2013 is reconciled below:

	Six month period ended 30 June	
	2014	2013
Profit for the period	16,979,733	17,744,376
Income tax expenses	4,443,798	2,923,782
Finance expenses	1,815,490	1,769,462
Other finance income	(128,726)	(195,914)
Depreciation, depletion and amortization	6,189,727	5,160,863
Net foreign exchange loss	1,409,455	636,303
Other expense, net	922,862	550,017
Other non-operating expense (income), net*	(734,314)	(507,168)
<b>EBITDA</b>	<b>30,898,025</b>	<b>28,081,721</b>

\*Other non-operating expenses (income), net mainly relate to fines and penalties.

Total revenue from sales comprise the following (based on the country of customer incorporation):

	Six month period ended 30 June 2014		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	2,592,771	2,592,771
Sale of gas	<b>2,089,983</b>	-	<b>2,089,983</b>
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	2,089,983	-	2,089,983
Sale of petroleum products	<b>91,606,218</b>	<b>22,606,556</b>	<b>114,212,774</b>
<i>Through a retail network</i>	27,718,400	-	27,718,400
<i>Wholesale activities</i>	63,887,818	22,606,556	86,494,374
Other sales	3,702,463	43,905	3,746,368
<b>Total sales</b>	<b>97,398,664</b>	<b>25,243,232</b>	<b>122,641,896</b>

	Six month period ended 30 June 2013		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,714,952	1,714,952
Sale of gas	<b>2,473,659</b>	-	<b>2,473,659</b>
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	2,473,659	-	2,473,659
Sale of petroleum products	<b>89,289,414</b>	<b>17,304,253</b>	<b>106,593,667</b>
<i>Through a retail network</i>	30,102,833	-	30,102,833
<i>Wholesale activities</i>	59,186,581	17,304,253	76,490,834
Other sales	2,438,755	3,582	2,442,337
<b>Total sales</b>	<b>94,201,828</b>	<b>19,022,787</b>	<b>113,224,615</b>

Out of the amount of 86,494,374 RSD (2013: 76,490,834 RSD) revenue from sale of petroleum products (wholesale), the amount of 15,342,789 RSD (2013: 15,956,769 RSD) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 97,398,664 RSD (six month period ended 30 June 2013: 94,201,828 RSD), and the total of revenue from external customer from other countries is 25,243,232 RSD (six month period ended 30 June 2013: 19,022,787 RSD). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	<b>Six month period ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Sale of crude oil	2,592,771	1,714,952
Sale of petroleum products (retail and wholesale)		
Bulgaria	3,332,887	1,028,075
BIH	3,506,902	2,076,660
Romania	1,122,974	353,136
All other markets	14,643,793	13,686,854
	22,606,556	17,144,725
Other sales	43,905	3,582
	<b>25,243,232</b>	<b>18,863,259</b>

## 5. CASH AND CASH EQUIVALENTS

	<b>30 June 2014</b>	<b>31 December 2013</b>
Cash in bank and in hand	2,907,732	6,068,422
Deposits with original maturity of less than three months	1,034,877	769,607
Cash held on escrow account	1,635,944	1,650,878
Cash equivalents	237,019	218,868
	<b>5,815,572</b>	<b>8,707,775</b>

## 6. TRADE AND OTHER RECEIVABLES

	<b>30 June 2014</b>	<b>31 December 2013</b>
Trade receivables:		
- related parties	-	3,537
- third parties	73,929,814	74,579,495
	73,929,814	74,583,032
Accrued assets	1,374,770	1,383,654
Other receivables	10,023,206	9,834,081
	85,327,790	85,800,767
Less impairment provision	(29,543,455)	(29,682,881)
<b>Total trade and other receivables</b>	<b>55,784,335</b>	<b>56,117,886</b>

The ageing of trade receivables is as follows:

	<b>30 June 2014</b>	<b>31 December 2013</b>
Up to 3 months	39,610,831	38,816,285
Over 3 months	34,318,983	35,766,747
	<b>73,929,814</b>	<b>74,583,032</b>

As at 30 June 2014 out of 34,318,983 RSD of overdue receivables (31 December 2013: 35,766,747 RSD), trade receivables in amount of 21,637,785 RSD (31 December 2013: 21,855,267 RSD) were fully provided for. The remaining amount of 12,681,198 RSD (31 December 2013: 13,911,480 RSD) relates to a number of independent customers for whom management believes that will be recovered in the near future.

The ageing of trade receivables provided for is as follows:

	<b>30 June 2014</b>	<b>31 December 2013</b>
Up to 3 months	84,771	1,098,697
Over 3 months	21,553,014	20,756,570
	<b>21,637,785</b>	<b>21,855,267</b>

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

	<b>30 June 2014</b>	<b>31 December 2013</b>
RSD	71,023,652	72,933,102
EUR	10,371,404	10,382,718
USD	3,073,283	2,229,144
Other	859,451	255,803
	<b>85,327,790</b>	<b>85,800,767</b>

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

	Trade receivables	Other receivables	Total
<b>As at 1 January 2013</b>	21,360,758	5,820,064	27,180,822
Provision for receivables impairment (note 18)	386,649	-	386,649
Unused amounts reversed (note 18)	(420,030)	-	(420,030)
Transfer from non-current to current part	-	1,060,981	1,060,981
Other	56,474	263,696	320,170
<b>As at 30 June 2013</b>	<b>21,383,851</b>	<b>7,144,741</b>	<b>28,528,592</b>
<b>As at 1 January 2014</b>	21,855,267	7,827,614	29,682,881
Provision for receivables impairment (note 18)	257,025	-	257,025
Unused amounts reversed (note 18)	(422,269)	-	(422,269)
Other	(52,238)	78,056	25,818
<b>As at 30 June 2014</b>	<b>21,637,785</b>	<b>7,905,670</b>	<b>29,543,455</b>

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

## 7. INVENTORIES

	30 June 2014	31 December 2013
Crude oil	27,366,672	25,490,951
Gas	82,617	98,558
Petroleum products	20,174,714	13,624,136
Materials and supplies	8,366,710	7,617,850
Other	591,589	767,490
Less impairment provision	(6,843,998)	(6,939,005)
	<b>49,738,304</b>	<b>40,659,980</b>

## 8. OTHER CURRENT ASSETS

	30 June 2014	31 December 2013
Advances paid	565,532	799,548
VAT receivables	1,424,452	1,939,549
Deferred VAT	1,433,505	2,681,103
Prepaid expenses	226,597	137,145
Prepaid custom duties	66,876	57,272
Prepaid excise	6,206,803	1,441,590
Other current assets	19,919,757	18,269,246
Less impairment provision	(19,735,668)	(17,959,692)
	<b>10,107,854</b>	<b>7,365,761</b>

Deferred VAT as at 30 June 2014 amounting to 1,433,505 RSD (31 December 2013: 2,681,103 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 June 2014 amounting to 6,206,803 RSD (31 December 2013: 1,441,590 RSD) relates to the excise paid to the State for finished products stored in non-excise warehouse and imported excise goods used in further production.

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

	Advances paid	Other current assets	Total
<b>As at 1 January 2013</b>	373,071	13,193,909	13,566,980
Provision for other current assets impairment (note 18)	40,795	2,708,961	2,749,756
Unused amounts reversed (note 18)	(1,093)	(70,836)	(71,929)
Other	(1)	(12,506)	(12,507)
<b>As at 30 June 2013</b>	<b>412,772</b>	<b>15,819,528</b>	<b>16,232,300</b>
<b>As at 1 January 2014</b>	253,069	17,706,623	17,959,692
Provision for other current assets impairment (note 18)	3,091	1,916,720	1,919,811
Unused amounts reversed (note 18)	(9,979)	(52,197)	(62,176)
Other	54	(81,713)	(81,659)
<b>As at 30 June 2014</b>	<b>246,235</b>	<b>19,489,433</b>	<b>19,735,668</b>

## 9. 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 2013</b>						
Cost	53,376,416	96,895,806	33,016,407	18,938,910	27,786,293	230,013,832
Depreciation and impairment	(20,466,813)	(23,887,053)	(13,125,313)	(8,293,223)	(4,319,865)	(70,092,267)
<b>Net book value</b>	<b>32,909,603</b>	<b>73,008,753</b>	<b>19,891,094</b>	<b>10,645,687</b>	<b>23,466,428</b>	<b>159,921,565</b>
<b>Period ended 30 June 2013</b>						
Additions	3,550,654	6,200,718	2,468,380	709,402	5,445,346	18,374,500
Acquisitions through business combinations	-	-	3,814,159	-	265,857	4,080,016
Impairment	-	-	(120)	-	(356)	(476)
Depreciation	(1,429,042)	(2,407,464)	(594,064)	(322,739)	(1,890)	(4,755,199)
Transfer (to) from intangible assets	-	-	2,070	-	(80,594)	(78,524)
Disposals and write-off	(62)	(299)	(149,313)	(10,390)	(240,260)	(400,324)
Other transfers	(876,672)	62,919	5,060	(65,109)	860,365	(13,437)
Translation differences	(4)	-	140,118	(4,860)	20,314	155,568
	34,154,477	76,864,627	25,577,384	10,951,991	29,735,210	177,283,689
<b>As at 30 June 2013</b>						
Cost	49,885,542	102,718,595	39,147,010	18,713,999	34,043,481	244,508,627
Depreciation and impairment	(15,731,065)	(25,853,968)	(13,569,626)	(7,762,008)	(4,308,271)	(67,224,938)
<b>Net book value</b>	<b>34,154,477</b>	<b>76,864,627</b>	<b>25,577,384</b>	<b>10,951,991</b>	<b>29,735,210</b>	<b>177,283,689</b>
<b>As at 1 January 2014</b>						
Cost	58,161,373	108,204,314	44,958,981	19,127,652	45,176,238	275,628,558
Depreciation and impairment	(17,442,672)	(28,192,781)	(13,015,775)	(7,989,794)	(4,055,015)	(70,696,037)
<b>Net book value</b>	<b>40,718,701</b>	<b>80,011,533</b>	<b>31,943,206</b>	<b>11,137,858</b>	<b>41,121,223</b>	<b>204,932,521</b>
<b>Period ended 30 June 2014</b>						
Additions	8,629,858	1,299,117	2,179,203	251,714	5,606,537	17,966,429
Acquisitions through business combinations	-	-	-	-	461,219	461,219
Impairment	-	-	(37,097)	-	(15,366)	(52,463)
Depreciation	(1,759,518)	(2,600,214)	(1,006,820)	(359,267)	(164)	(5,725,983)
Transfer from investment property	35,121	9,358	28,439	7,399	-	80,317
Disposals and write-off	(13,706)	(323)	(58,335)	(38,241)	(1,091,450)	(1,202,055)
Other transfers	254,674	(585,232)	(105,211)	441,351	(313,828)	(308,246)
Translation differences	60	-	205,794	-	57,641	263,495
	47,865,190	78,134,239	33,149,179	11,440,814	45,825,812	216,415,234
<b>As at 30 June 2014</b>						
Cost	66,972,093	108,841,622	47,052,666	19,815,615	49,887,202	292,569,198
Depreciation and impairment	(19,106,903)	(30,707,383)	(13,903,487)	(8,374,801)	(4,061,390)	(76,153,964)
<b>Net book value</b>	<b>47,865,190</b>	<b>78,134,239</b>	<b>33,149,179</b>	<b>11,440,814</b>	<b>45,825,812</b>	<b>216,415,234</b>

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## Oil and gas production assets

	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 2013</b>						
Cost	6,354,587	5,315,398	11,669,985	53,376,416	123,953	65,170,354
Depreciation and impairment	(3,973)	(304,214)	(308,187)	(20,466,813)	(110,641)	(20,885,641)
<b>Net book amount</b>	<b>6,350,614</b>	<b>5,011,184</b>	<b>11,361,798</b>	<b>32,909,603</b>	<b>13,312</b>	<b>44,284,713</b>
<b>Period ended 30 June 2013</b>						
Additions	3,676,864	5,964,036	9,640,900	-	-	9,640,900
Transfer from assets other than O&G	-	(5,250)	(5,250)	-	-	(5,250)
Transfer from asset under construction	(29,682)	(3,115,446)	(3,145,128)	3,145,110	18	-
Other transfers	2,316	(198)	2,118	(471,126)	(16)	(469,024)
Depreciation and depletion	(1,564)	-	(1,564)	(1,429,042)	-	(1,430,606)
Disposals and write-off	(12,333)	(4,008)	(16,341)	(62)	-	(16,403)
Translation differences	14,707	-	14,707	(6)	-	14,701
	10,000,922	7,850,318	17,851,240	34,154,477	13,314	52,019,031
<b>As at 30 June 2013</b>						
Cost	10,006,506	8,153,482	18,159,988	49,885,542	122,154	68,167,684
Depreciation and impairment	(5,584)	(303,164)	(308,748)	(15,731,065)	(108,840)	(16,148,653)
<b>Net book amount</b>	<b>10,000,922</b>	<b>7,850,318</b>	<b>17,851,240</b>	<b>34,154,477</b>	<b>13,314</b>	<b>52,019,031</b>
<b>As at 1 January 2014</b>						
Cost	13,222,087	13,397,107	26,619,194	58,161,373	33,510	84,814,077
Depreciation and impairment	(10,867)	(238,059)	(248,926)	(17,442,672)	(20,267)	(17,711,865)
<b>Net book amount</b>	<b>13,211,220</b>	<b>13,159,048</b>	<b>26,370,268</b>	<b>40,718,701</b>	<b>13,243</b>	<b>67,102,212</b>
<b>Period ended 30 June 2014</b>						
Additions	3,625,962	8,749,013	12,374,975	-	-	12,374,975
Transfer from asset under construction	(2,049,374)	(6,628,600)	(8,677,974)	8,629,858	(66,268)	(114,384)
Other transfers	50,118	(278,488)	(228,370)	254,674	66,187	92,491
Depreciation and depletion	(2,265)	-	(2,265)	(1,759,518)	-	(1,761,783)
Transfer from investment property	-	-	-	35,121	-	35,121
Disposals and write-off	(1,015,931)	(242,981)	(1,258,912)	(13,706)	-	(1,272,618)
Translation differences	32,293	-	32,293	60	-	32,353
	13,852,023	14,757,992	28,610,015	47,865,190	13,162	76,488,367
<b>As at 30 June 2014</b>						
Cost	13,865,228	14,996,051	28,861,279	66,972,093	33,472	95,866,844
Depreciation and impairment	(13,205)	(238,059)	(251,264)	(19,106,903)	(20,310)	(19,378,477)
<b>Net book amount</b>	<b>13,852,023</b>	<b>14,757,992</b>	<b>28,610,015</b>	<b>47,865,190</b>	<b>13,162</b>	<b>76,488,367</b>



**10. OTHER NON-CURRENT ASSETS**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Advances paid for PPE	4,311,418	6,481,062
Prepaid expenses	1,004,514	1,033,330
Other assets	1,091,226	1,083,046
Less impairment provision	(29,257)	(29,899)
	<b>6,377,901</b>	<b>8,567,539</b>

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

	<b>30 June 2014</b>	<b>31 December 2013</b>
Short-term loans	8,746,717	300,029
Interest liabilities	224,195	136,403
Current portion of long-term loans (note 15)	34,485,104	27,596,332
Current portion of finance lease liabilities (note 15)	7,130	22,081
	<b>43,463,146</b>	<b>28,054,845</b>

**12. TRADE AND OTHER PAYABLES**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Trade payables		
- related parties	15,184,066	37,925,059
- third parties	19,446,406	13,507,743
Dividends payable	16,853,014	3,772,308
Other accounts payable	69,432	70,905
	<b>51,552,918</b>	<b>55,276,015</b>

As at 30. June 2014 payables to related parties amounting to 15,184,066 RSD (31 December 2013: 37,925,059 RSD) mainly relate to payables to the supplier Gazprom Neft Trading Austria in the amount of 15,175,306 RSD (31 December 2013: 28,139,826 RSD), mostly for the purchase of crude oil.

A dividend in respect of the year ended 31 December 2013 of 80.22 RSD per share, amounting to a total dividend of 13,080,705 RSD was approved by the General Assembly Meeting held on 30 June 2013.

**13. OTHER CURRENT LIABILITIES**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Advances received	891,478	892,243
Payables to employees	2,608,510	2,636,098
Accruals and deferred income	21,997	24,020
Other current non-financial liabilities	31,148	6,970
	<b>3,553,133</b>	<b>3,559,331</b>

**14. OTHER TAXES PAYABLE**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Mineral extraction tax	593,082	522,953
VAT	2,318,895	517,592
Excise tax	4,579,084	4,312,273
Custom duties	533,242	1,624,014
Other taxes	2,207,991	1,724,223
	<b>10,232,294</b>	<b>8,701,055</b>

**15. LONG-TERM DEBT**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Long-term loans - Gazprom Neft	48,468,266	50,655,813
Bank loans	48,963,750	37,948,303
Finance lease liabilities	155,395	107,689
Other long-term borrowings	60,283	40,486
Less Current portion	(34,492,234)	(27,618,413)
	<b>63,155,460</b>	<b>61,133,878</b>

## Bank loans

	30 June 2014	31 December 2013
Domestic	12,040,967	12,048,569
Foreign	36,922,783	25,899,734
Current portion of long-term loans	48,963,750	37,948,303
	(29,099,741)	(22,264,141)
	<b>19,864,009</b>	<b>15,684,162</b>

The maturity of bank loans was as follows:

	30 June 2014	31 December 2013
Between 1 and 2 years	5,966,904	2,926,308
Between 2 and 5 years	7,907,109	6,871,962
Over 5 years	5,989,996	5,885,892
	<b>19,864,009</b>	<b>15,684,162</b>

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

	30 June 2014	31 December 2013
USD	39,103,654	28,343,857
EUR	9,205,585	8,961,940
RSD	280,602	280,783
JPY	373,909	361,723
	<b>48,963,750</b>	<b>37,948,303</b>

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

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

The carrying amounts of the Group's bank loans as at 30 June 2014 and 31 December 2013 are presented in the table below:

Creditor	Currency	30 June 2014	31 December 2013
<b>Domestic long-term loans</b>			
Erste bank, Novi Sad	USD	279,053	279,719
Erste bank, Novi Sad	EUR	449,194	454,900
Bank Postanska stedionica, Belgrade	EUR	220,693	225,341
Bank Postanska stedionica, Belgrade	USD	1,511,073	1,526,400
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,379,093	4,459,990
UniCredit bank, Belgrade	USD	4,921,259	4,821,436
UniCredit bank, Belgrade	RSD	278,900	278,900
Other loans	RSD	1,702	1,883
		<b>12,040,967</b>	<b>12,048,569</b>
<b>Foreign long-term loans</b>			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	514,386	518,612
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	373,909	361,723
Erste bank, Holland	EUR	3,473,559	3,439,263
Erste bank, Holland	USD	5,515,205	5,403,333
VUB (Bank Intesa), Slovakia	USD	8,484,930	8,312,820
NBG bank, Great Britain	USD	4,242,465	2,493,846
Alpha bank, Great Britain	USD	6,423,092	3,325,128
Piraeus bank, Great Britain	USD	848,493	1,662,563
Sberbank Europe AG, Vienna, Austria	USD	6,363,698	-
Neftegazovaja Inovacionnaja Korporacija, Russian Federation	EUR	683,046	382,446
		36,922,783	25,899,734
Less current portion of long-term loans		(29,099,741)	(22,264,141)
		<b>19,864,009</b>	<b>15,684,162</b>

	Currency	Current portion		Long-term	
		30 June 2014	31 December 2013	30 June 2014	31 December 2013
<b>Domestic long - term loans</b>					
Erste bank, Novi Sad	USD	14,261	13,070	264,792	266,649
Erste bank, Novi Sad	EUR	22,682	20,972	426,512	433,928
Bank Postanska stedionica, Belgrade	EUR	11,144	12,148	209,549	213,193
Bank Postanska stedionica, Belgrade	USD	76,302	82,030	1,434,771	1,444,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)		250,743		4,128,350	
Agency for deposit assurance (IBRD)	EUR		248,267		4,211,723
UniCredit bank, Belgrade	USD	4,921,259	4,821,436	-	-
UniCredit bank, Belgrade	RSD	278,900	278,900	-	-
Other loans	RSD	358	369	1,344	1,514
		5,575,649	5,477,192	6,465,318	6,571,377
<b>Foreign long-term loans</b>					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	32,672		481,714	
NLB Nova Ljubljanska bank d.d., Slovenia		18,881	30,197	355,028	488,415
Erste bank, Holland	EUR	3,473,559	3,439,263		
Erste bank, Holland	USD			5,515,205	5,403,333
VUB (Bank Intesa), Slovakia	USD	8,484,930	8,312,820		
NBG bank, Great Britain	USD	4,242,465			2,493,846
Alpha bank, Great Britain	USD	6,423,092	3,325,128		
Piraeus bank, Great Britain	USD	848,493	1,662,563		
Sberbank Europe AG, Vienna, Austria	USD			6,363,698	
Neftegazovaja Inovacionnaja Korporacija, Russian Federation	EUR			683,046	
		23,524,092	16,786,949	13,398,691	9,112,785
		<b>29,099,741</b>	<b>22,264,141</b>	<b>19,864,009</b>	<b>15,684,162</b>

## 16. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Six month period ended 30 June	
	2014	2013
Crude oil	52,576,237	53,593,220
Petroleum products	14,657,719	6,786,104
Other	36,881	524,453
	<b>67,270,837</b>	<b>60,903,777</b>

## 17. PRODUCTION AND MANUFACTURING EXPENSES

	Six month period ended 30 June	
	2014	2013
Employee costs	3,474,138	4,272,323
Materials and supplies (other than purchased oil, petroleum products and gas)	880,282	1,245,158
Repair and maintenance services	1,251,787	693,213
Electricity and utilities	1,473,063	747,471
Safety and security expense	48,874	121,054
Transportation expense	663,982	304,174
Other	881,664	293,742
	<b>8,673,790</b>	<b>7,677,135</b>

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

	<b>Six month period ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Employee costs	5,045,196	7,355,392
Legal, audit, and consulting services	843,193	626,693
Rent expense	193,149	168,645
Business trips expense	168,907	231,219
Safety and security expense	250,529	225,914
Insurance expense	135,640	125,925
Transportation and storage	222,641	207,261
Allowance for doubtful accounts	1,692,391	2,644,446
Other	2,127,541	646,623
	<b>10,679,187</b>	<b>12,232,118</b>

**19. CONTINGENT LIABILITIES***Finance Guarantees*

As at 30 June 2014 the total amount of outstanding finance guarantees given by the Group amounted to 2,868,440 RSD mostly related to customs duties in the amount of 1,600,531 RSD (31 December 2013: 2,192,400 RSD).

*Environmental protection*

As at the reporting date, the Group's management made an environmental provision amounting to 555,878 RSD (31 December 2013: 690,094 RSD), based on an internal assessment of compliance with the Republic of Serbia environmental legislation.

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

*Other contingent liabilities*

As at 30 June 2014, the Group did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Group has to pay the difference in tax calculation of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Group's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Group's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed four years ago. Taking all of the above into consideration, the Group's Management is of the view that as at 30 June 2014 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.

## 20. GROUP ENTITIES

The financial statements of below listed subsidiaries are consolidated as at 30 June 2014 and 31 December 2013:

Subsidiary	Country of incorporation	Share %	
		30 June 2014	31 December 2013
O Zone a.d., Belgrade	Serbia	100	100
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	100	100
NIS Petrol SRL, Bucharest	Romania	100	100
Pannon naftagas Kft, Budapest	Hungary	100	100
NIS Oversiz, St Petersburg	Russia	100	100
Naftagas-naftni servisi d.o.o., Novi Sad	Serbia	100	100
NTC NIS-Naftagas d.o.o., Novi Sad	Serbia	100	100
Naftagas-tehnicki servisi d.o.o., Zrenjanin	Serbia	100	100
Naftagas-Transport d.o.o., Novi Sad	Serbia	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	100	100
Jadran - Naftagas d.o.o., Banja Luka	Bosnia and Herzegovina	66	66
Jubos, Bor	Serbia	51	51
Svetlost, Bujanovac, Serbia	Serbia	51	51

## 21. RELATED PARTY TRANSACTIONS

For the purpose of these Interim Condensed Consolidated Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operational decision as defined by IAS 24 Related Party disclosure.

The majority owner of the Group 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 Group.

In the six month period ended 30 June 2014 and in the same period in 2013, the Group 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 and petroleum products.

As at 30 June 2014 and 31 December 2013 the outstanding balances with related parties were as follows:

	Parent company	Entities under common control	Joint venture	Total
<b>As at 30 June 2014</b>				
Trade and other receivables	-	-	81,107	81,107
Investments in joint venture	-	-	1,008,221	1,008,221
Trade and other payables	(7,350,182)	(15,181,024)	-	(22,531,206)
Other current liabilities	-	(16,358)	-	(16,358)
Short-term debt and current portion of long-term debt	(5,385,363)	-	-	(5,385,363)
Long-term debt	(43,082,903)	-	-	(43,082,903)
	<b>(55,818,448)</b>	<b>(15,197,382)</b>	<b>1,089,328</b>	<b>(69,926,502)</b>
<b>As at 31 December 2013</b>				
Trade and other receivables	-	3,537	11,385	14,922
Investments in joint venture	-	-	1,008,221	1,008,221
Trade and other payables	(9,338,240)	(28,586,819)	-	(37,925,059)
Short-term debt and current portion of long-term debt	(5,332,191)	-	-	(5,332,191)
Long-term debt	(45,323,622)	-	-	(45,323,622)
	<b>(59,994,053)</b>	<b>(28,583,282)</b>	<b>1,019,606</b>	<b>(87,557,729)</b>

For the six month period ended 30 June 2014 and 2013 the following transaction occurred with related parties:

	Parent company	Entities under common control	Joint venture	Total
<b>Six month period ended 30 June 2014</b>				
Petroleum products and oil and gas sales	-	1,364,867	-	1,364,867
Purchases of oil, gas and petroleum products	-	(45,784,488)	-	(45,784,488)
Production and manufacturing expenses	(5,177)	(166,878)	-	(172,055)
Selling, general and administrative expenses	(18,069)	-	-	(18,069)
Other expenses, net	(4,556)	(37,581)	-	(42,137)
Finance expense	(596,758)	-	-	(596,758)
	<b>(624,560)</b>	<b>(44,624,080)</b>	<b>-</b>	<b>(45,248,640)</b>

	Parent company	Entities under common control	Joint venture	Total
<b>Six month period ended 30 June 2013</b>				
Petroleum products and oil and gas sales	-	84,307	-	84,307
Purchases of oil, gas and petroleum products	-	(48,479,223)	-	(48,479,223)
Production and manufacturing expenses	(2,312)	-	-	(2,312)
Selling, general and administrative expenses	(18,080)	-	-	(18,080)
Other expenses, net	(4,437)	(73,533)	-	(77,970)
Finance expense	(610,848)	-	-	(610,848)
	<b>(635,677)</b>	<b>(48,468,449)</b>	<b>-</b>	<b>(49,104,126)</b>



## 22. 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 Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. 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 Group has paid all tax liabilities as of 30 June 2014.

## 23. COMMITMENTS

### *Farm-out agreement with East West Petroleum Corporation, Canada*

In October 2011, the Group entered into a Farm-out agreement with East West Petroleum Corporation, Canada for exploration and production of hydrocarbons in the Timisoara region in Romania. Under the Contract, the Group shall finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, the Group will be entitled to 85% of the total production volume of hydrocarbons. Moreover, under the Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Group will act as the Operator and will be in charge of and shall conduct all Joint Operations. In December 2012 exploration licence for Block 2 was ratified by Romania Government. Exploration activities are underway. On 30 June 2014 drilling and exploration works for Block 2 were estimated to 13.41 USD million.

### *Farm-in agreement with RAG Hungary limited*

In December 2011, the Group entered into a Farm-in agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kiskunhalas area in Hungary. Under the contract, the Group committed to finance 50% of total exploration costs on at least three oil wells in the area covered by the exploration license. Depending on success of the exploration, the Group will be entitled to 50% of total production volume of hydrocarbons. Under the Joint Operation Agreement signed with RAG Hungary Limited, RAG will act as the Operator and will be in charge of and shall conduct all Joint Operations. On 30 June 2014 drilling and exploration works were estimated to 1.2 USD million.

### *Joint Operation agreement with RAG Hungary limited*

In December 2012, the Group entered into a Call Option agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kelebia area in Hungary. Under the agreement NIS has an option which has exercised during June 2014 signing Joint Operations agreement based on which NIS has become equal owner in a jointly owned company (JOC) together with Rag Hungary, Rag Kiha, which is holding the Kelebia Licence becoming a 50 % quota holder. On 30 June 2014 drilling and exploration works were estimated to 1.45 USD million.

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

In August 2012, the Group has entered into Farm-out agreement with Zeta Petroleum S.R.L Romania for exploration and production of hydrocarbons in Timis region in Romania. According to the Contract, the Group is committed to finance 51% of total exploration costs in the area covered by the exploration license. Depending on the success of exploration, the Group will be entitled to 51% of total production volume of hydrocarbons. Exploration activities are underway. On 30 June 2014 drilling and exploration works were estimated to 0.87 USD million.

### *Farm-out agreement with Moesia Oil and Gas PLC Ireland*

In June 2012, the Group has entered into a Farm-out agreement with Moesia Oil and Gas PLC Ireland for exploration and production of hydrocarbons in Romania. According to the Contract, the Group is committed to finance sunk costs and 75% of total exploration costs of Phase 1 of the Programme. Depending on the success of exploration, the Group will be entitled to 50% of total production volume of hydrocarbons and committed to finance 50% of further exploration and production costs. Exploration activities were started in November 2012. On 30 June 2014 drilling and exploration works were estimated to 0.59 USD million.



#### *Oil field service contract with Falcon Oil & Gas LTD*

In January 2013, the Group entered into a Multi-well drilling exploration program with Falcon Oil & Gas Ltd. to target the shallower Algyö Formation in Hungary. Under the contract, the Group committed to drill three exploration wells targeting the shallow 'Algyö Play' reservoir covered by the Mako through production license in the Pannonian Basin held by Falcon Oil & Gas limited, Hungary. Depending on success of the exploration, the Group will be entitled to 50% of any net production revenue from the three wells. On 30 June 2014 drilling and exploration works were estimated to 8.17 USD million.

#### **24. EVENTS AFTER THE REPORTING DATE**

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

Subsequent events occurring after 30 June 2014 were evaluated through 22 July 2014, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

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**Novi Sad, 22 July 2014**

**Kirill Kravchenko**

**CEO**

**Anton Fyodorov**

**CEO Deputy,  
Head of Function for Finance, Economics,  
Planning and Accounting**

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## STATEMENTS OF PERSONS RESPONSIBLE FOR PREPARATION OF QUARTERLY REPORT

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We hereby state that, to our best knowledge, the interim financial reports have been prepared in compliance with the applicable international financial reporting standards, and also in compliance with the Law on Accounting and Auditing of the Republic of Serbia published in Official Gazette of the Republic of Serbia (no. 46/2006, 111/2009, 99/2011 – other law and 62/2013 – other law), which requires full scope of IFRS to be applied as well as the regulations issued by the Ministry of Finance of the Republic of Serbia<sup>41</sup> and that they show true and objective information on the assets, liabilities, profit and loss, financial position and operations of the Company, including subsidiaries encompassed by the consolidated statements.

Anton Fyodorov

Deputy CEO,  
Head of Function for Finance, Economics,  
Planning and Accounting  
NIS j.s.c. Novi Sad

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<sup>41</sup> Due to the difference between these two regulations, these financial statements differ from IFRS in the following respects:

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

The report contains statements about uncertain future events. The statements of uncertain future events include the statements that are not historical facts, statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, results of business operations, financial standing, liquidity, prospects, growth, strategies and the industry in which the Company operates. For reasons which relate to events and depend on circumstances that may or may not be realized in the future, the statements about uncertain future events by their nature involve risks and uncertainties, including but not limited to, risks and uncertainties that the Company has identified in other publicly available documents. The Company cautions that there is no guarantee that the statements on future uncertain events will become true in future and that the actual results of business operations, financial standing and liquidity and the development of the industry in which the Company operates may significantly differ from those made or assumed in statements on uncertain future events. In addition, even if the results of the Company's business, financial standing and liquidity and the development of the industry in which the Company operates are consistent with the statements on uncertain future events contained herein, those results or developments may not be indicative of the results or developments in future periods. The information contained in this report are provided on the date of this Report and are subject to change without notice.

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