



**NIS**

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**GAZPROM NEFT**

**Quarterly  
Report**  
for third quarter  
of 2014

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*The Quarterly Report of NIS j.s.c. Novi Sad for third quarter of 2014 represents a credible review of NIS Group's development and performance in third quarter of 2014, as well as for first nine 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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Nine months of 2014 were difficult for all business entities, both in Serbia and in Balkans, and NIS was not spared the negative economic effects. Moreover, the most important financial indicators - operating and net income, as well as operating cash flow were negatively impacted by debts of public and state-owned companies. Financial results are influenced by the increase in the tax levy, as well as lower crude oil prices on the global market and the significant decline of the dinar against the dollar and the euro compared to the first nine months of 2013.

At the end of the third quarter of 2014, net profit of the company amounted to 21.1 billion dinars, while EBITDA amounted to 47.3 billion dinars, which is at the level of this indicator in the same period last year.

Meanwhile, operating cash flow for the first nine months of 2014 amounted to 19.3 billion dinars. At the same time, NIS remained by far the biggest taxpayer, while liabilities for taxes and other charges continue to grow in the first nine months of this year. At the end of September, the total volume of tax to be paid amounted to 97.9 billion which is 10 percent more than the same period last year.

When it comes to the key operational indicators at the end of the third quarter of 2014, sales volume was 2,253 thousand tonnes, which is 3 percent more than last year during the same period. It should be kept in mind that Serbia and the region records steady long-term decline in living standards and purchasing power of the population. Yet, thanks to good business policy and appropriate marketing activities, sales of NIS' subsidiaries in the region is more than two and a half times higher than at the end of September 2013. Consequently, NIS export has increased, which has straightened its positions of second largest exporter in the country.

When it comes to refining, the volume was increased to 2,252 thousand tons, up 2 percent compared to the same period last year.

Domestic oil and gas production amounted to 1,209 thousand tonnes of oil equivalent. In the same period, the production of domestic oil was 870.7 thousand tons, while the production of domestic gas was 421.5 million cubic meters.

However, despite the decline of key financial indicators and the modest achievements of the operational indicators, NIS continues to invest in its own development.

In the first nine months of 2014 26.9 billion dinars was allocated to finance investments. Major investments were 3D seismic works and drilling exploratory wells and the drilling of development wells in Serbia, investment in concession rights in Hungary and Romania, the start of the project of production of base oils, automation and management in production, as well as in regional transport development in Bulgaria and Romania, and reconstruction of petrol stations in Serbia.

The future will depend on the pace of collection of receivables from state-owned companies. Also, the company's focus in the coming period is moving towards increasing efficiency. Main investments in the medium term (2014-2016) will be directed to environmental projects, projects in the refining, sales and oil and gas production.

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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>1</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>↪ Tender for the restructuring of the banking portfolio closed - banks offered longer maturities (over 3 years) on more favorable terms than the existing terms</li> </ul>

<sup>1</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

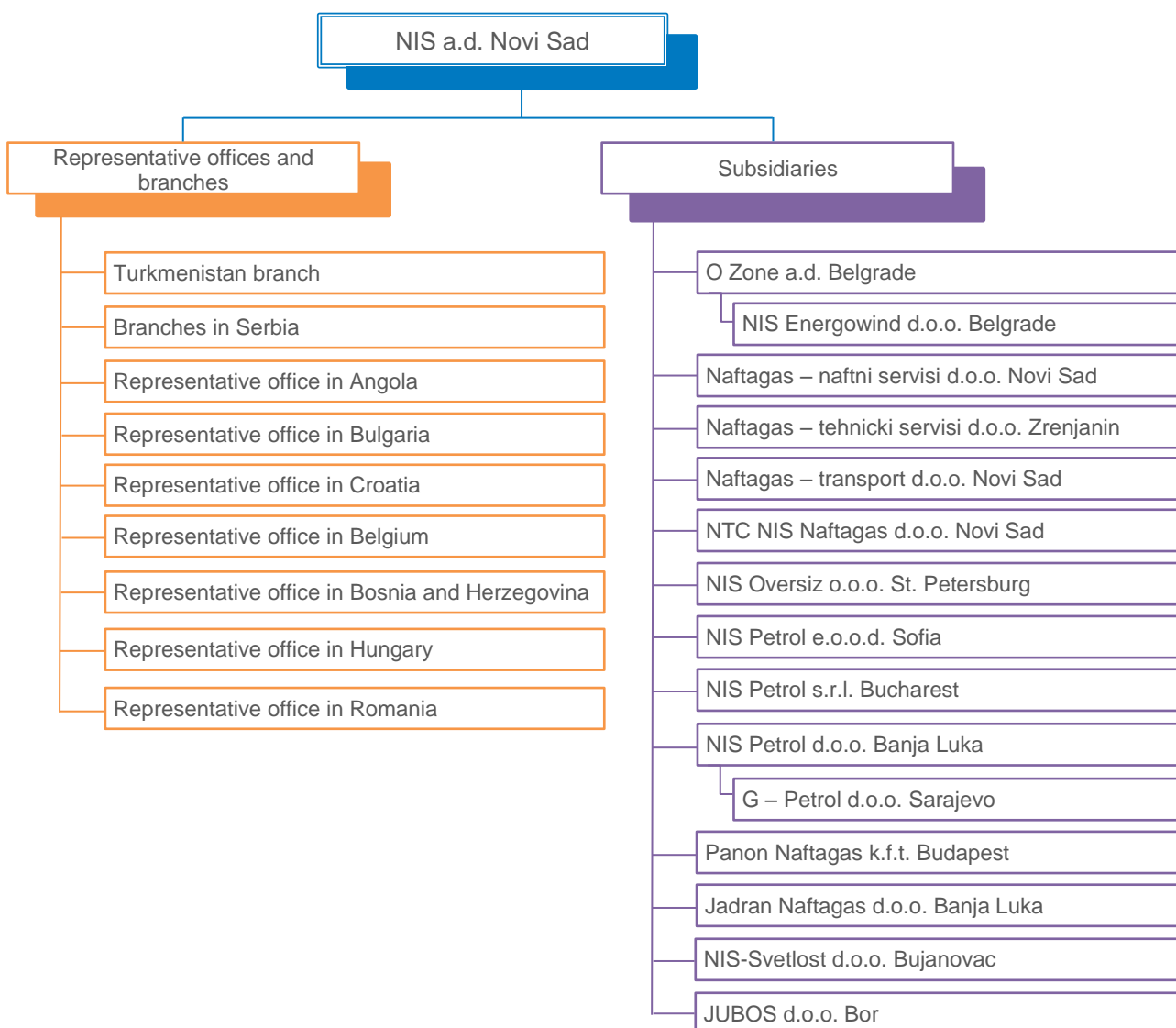
July	August	September
<ul style="list-style-type: none"> <li>↪ Interns from the NIS chance program signed employment contracts</li> <li>↪ NIS signed contracts for projects of social responsibility in Belgrade as part of the “Cooperation for Development”</li> <li>↪ Report on Sustainable Development in 2013 presented and Forum with interested publics was held</li> <li>↪ NIS announced the consolidated results for the first half of 2014</li> <li>↪ Commissioning of cogeneration module to the loading station "Boka" in the municipality Sečanj</li> </ul>	<ul style="list-style-type: none"> <li>↪ On oil and gas field Palic the plant for compressed natural gas put in operations</li> <li>↪ Signing of contracts with scholars to study in the Russian Federation</li> <li>↪ Sale of devices for electronic toll collection (TAG) at gas stations NIS</li> <li>↪ NIS among the most successful companies in Central and Eastern Europe, in the opinion of the world's leading claims insurer "Coface Top 500"</li> <li>↪ Sales of Ultra D, new types of premium Euro diesel</li> </ul>	<ul style="list-style-type: none"> <li>↪ NIS is highest ranked Serbian company on the traditional ranking "Top 500 companies in Central Europe" according to Deloitte</li> <li>↪ New petrol station NIS Petrol on the E75 motorway in Belgrade</li> <li>↪ NIS and the Defense Ministry signed a Memorandum of Understanding in order to increase traffic safety and improve the storage and transportation of hazardous and explosive materials</li> <li>↪ NIS supports creative youth camp designers on energy efficiency and sustainable development</li> </ul>

## 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<sup>2</sup>



<sup>2</sup> Under the provisions of Law on Tourism of the Republic of Serbia, if a company does not perform catering business as its core activity, in order to perform such activities it is obliged to form and register, with the respective registry, a branch or an area outside the headoffice or otherwise establish an organizational unit that is registered in the Registry of Tourism. For this reason, the Company registered all petrol stations, on which catering services are offered, as separate branches. A list of petrol stations registered as branches can be found on following link <http://ir.nis.eu/about-the-company/group-structure-hide/>



## 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 September 30 <sup>th</sup> , 2014	189,184,388,000 RSD
Share capital as of September 30 <sup>th</sup> , 2014	81,530,200,000 RSD
Headcount as of September 30 <sup>th</sup> , 2014	4,255 <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.

In June 2014 signing NIS a.d. Novi Sad became equal owner (50%) in company Rag Kiha Llc., Hungary and in stand-alone and consolidated financial statement this is presented as Joint Operation agreement.

<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 (Official Gazette of RS no. 36/2011, 99/2011 and 83/2014 – other Law), Statute of NIS j.s.c. Novi Sad number 70/SA-od/VI/11a adopted June 30<sup>th</sup> 2014, 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 SEPTEMBER 30<sup>TH</sup> 2014



**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.



**Kirill Albertovich Kravchenko**  
**CEO of NIS j.s.c. Novi Sad**  
**Member of Nomination Committee**  
*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.



**Danica Drašković**  
**Member of Board of Directors of NIS j.s.c. Novi Sad**

Mrs Drasković was born in Kolašin in 1945. She graduated from Faculty of Law, University of Belgrade in 1968. From 1968 to 1990 she worked in the field of Finance in banking sector, in the field of Law and Commerce within economy sector and also as the Belgrade City Magistrate. In 1990 she founded the "Srpska Reč", publishing company, which she owns and where she holds the position of Managing Director. She has written two books in the journalism genre. From april 2009 to 2013 she was a member of NIS Board of Directors and she was reelected member of NIS Board of Directors on June 30<sup>th</sup> 2014.



**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.



**Goran Knežević**  
**Member of Board of Directors of NIS j.s.c. Novi Sad**  
**Chairman of Nomination Committee**

Born on 12.05.1957 in Banatski Karlovac. Graduated from the Faculty of Economy, University of Belgrade. From 1983 to 1990 he worked in "Servo Mihalj" plant in Zrenjanin. From 1990 to 2000 he worked as a General Manager of the Company "Servo MihaljTurist" in Zrenjanin. Since 2000, he was a Chairman of the Executive Board of the City of Zrenjanin and the City Mayor for three mandates. Since 2012 he worked at the position of the Minister of Agriculture of the Republic of Serbia. From 01.10.2013 to 30.06.2014 he worked at the position of a Consultant of the NIS j.s.c. Novi Sad General Director.



**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**  
**Member of Audit Committee**

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.



**Wolfgang Ruttenstorfer**  
**Independent Member of the Board of Directors of NIS j.s.c. Novi Sad**  
**Chairman of Audit Committee**

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**  
*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**  
**Member of Nomination Committee**  
*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 "GPN 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> <li>• JSC "Tomskneft" VNK</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>
Danica Drašković	-
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>
Goran Knežević	-
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 "Gazprom Neft Terminal"</li> <li>• LTD "Gazprom Neft Chelyabinsk"</li> <li>• LTD "Gazprom Neft – regional sales"</li> <li>• JSC "Gazprom Neft – Transport"</li> <li>• LLC "Munay – Mirza"</li> <li>• LTD "Gazprom Neft – South"</li> <li>• LTD "Gazprom Neft – Krasnoyarsk"</li> <li>• LTD "Gazprom Neft – Corporate Sales"</li> </ul>
Nikola Matrinović	-
Wolfgang Rutenstorfer	<ul style="list-style-type: none"> <li>• "CA Immobilien" AG, Vienna, Chairman 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>
Stanislaw 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%

#### THE TOTAL AMOUNT OF REMUNERATIONS PAID TO THE BOD MEMBERS IN FIRST 9M 2014<sup>5</sup>

CEO	16,607,370 RSD
Other BoD members	55,670,574 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 appointed following members of the Committees on August 8<sup>th</sup> 2014:

- Audit Committee:
  - Wolfgang Ruttensdorfer, chairman
  - Alexey Alexandrovich Urusov, member
  - Nikola Martinović, member
- Remuneration Committee:
  - Stanislaw Vladimirovich Shekshnia, chairman
  - Anatoly Moyseyevich Cherner, member
  - Nenad Mijailović, member
- Nomination Committee:
  - Goran Knežević, chairman
  - Kirill Albertovich Kravchenko, member
  - Stanislaw Vladimirovich Shekshnia, member

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.

<sup>5</sup> Net, in RSD

## MEMBERS OF THE SHAREHOLDERS' ASSEMBLY BOARD (SAB) AS OF SEPTEMBER 30TH 2014

**Nenad Mijailović**

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

Born on October 14th 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 he was working at the position of Deputy Minister of Finance of Republic of Serbia, and since August 2014, he serves as Secretary of State in the Ministry of Finance of Republic of Serbia.

**Zoran Grujičić**

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

Born on 28.07.1955 in Čačak. Graduated from the Faculty of Mechanical Engineering, University of Belgrade. From 1980 to 1994 he was General Manager, Technical manager, Production manager and Designing Engineer of the Heat Transfer appliances Plant „Cer“ in Čačak. From May 1994 to February 1998 - Counsellor to the General Manager of „Interkomerc“, Belgrade. From February 1998 to June 2004 he was Managing director of the Company „MNG Group d.o.o.“, Čačak. From June 2004 to February 2007 he was Director of the Trading Company „Agrostroy a.d. Čačak“, Director of the Limited partnership company „Leonardo“ from Čačak and Director of the Vojvodina Highway Centre. Since February 2007 to the present he is employed with NIS j.s.c. Novi Sad and has been working at the following positions: Deputy Director at Logistics Directorate, Jugopetrol; RC Čačak Administrator at the Retail Directorate - Čačak Region; Retail network Development Manager of the Development Directorate, Blok Promet. Since 01.10.2012 to the present he has worked as Counsellor to the Blok Promet Director.

**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). Master in sociology.

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

Nenad Mijailović	-
Zoran Grujičić	-
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
Nenad Mijailović	5	0.000003066%

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

Members of SAB	8,783,283 РСД
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<sup>6</sup> Net, in RSD



## 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 i 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.

## 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 EUR. 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 nine months 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

In late September, the World Bank reduced its estimate of the global economic growth from 2.8 per cent, which was the figure published in June, to 2.6 per cent. The estimates for 2015 and 2016 were also adjusted, so a growth of 3.2 and 3.4 per cent is expected in 2015 and 2016, respectively.

The economies of the USA and EU displayed different trends in the period. The revised data related to the US GDP growth to 4.6 per cent annually in the second quarter of 2014 are the result of greater investment and also a growth in personal consumption. Further action of the Federal Reserve with regard to interest rate trends is awaited.

On the other hand, the trend of low interest rates and low inflation is still predominant in Europe. In early September, the European Central Bank decreased the key policy rate to a historical minimum of 0.05 per cent. The annual inflation rate was 0.3 per cent, so reaching the target inflation rate of 2 per cent still remains a challenge. The announcement of the lowest annual interest rate in the Eurozone in the last five years and the related expectation of introducing additional monetary policy measures had an effect on the EUR/USD exchange rate, which reached a level lower than 1.26 dollars for one euro.

The third quarter of 2014 saw a continuation of geopolitical tensions in Ukraine, as well as in Syria and Iraq. Despite these tensions, the price of oil in the global market had a downward trend. The reason for that lies in the economic growth decrease in Europe and China, which also caused reduced demand for oil. Furthermore, the International Energy Agency (IEA) reduced the expectations of the global oil demand increase in 2014 and 2015.

### SERBIA

In September, the European Bank for Reconstruction and Development (EBRD) adjusted the estimate for this year's Serbia's economic growth, anticipating a negative economic growth of 0.5 per cent. An earlier EBRD estimate anticipated a 1 per cent growth in 2014. A 2 per cent GDP increase is estimated by the EBRD in 2015.

Serbian Minister of Finance Dušan Vujević agrees with the forecast and estimates that the Serbian Gross Domestic Product will decrease by 0.5 per cent this year.

The Government of the Republic of Serbia adopted long-awaited austerity measures, which will certainly result in reduced purchasing power of some Serbian citizens.

This year the inflation has been lower than the target inflation rate ( $4 \pm 1.5$  per cent), but the NBS expects that it will be within the envisaged range by the end of the year. The year-over-year inflation rate was 1.5 per cent in August, ranging below the limit from March to August 2014.

According to the information of the Ministry of Finance, the public debt of the Republic of Serbia in late August<sup>7</sup> was EUR 21.9 billion or nearly 68% per cent of the GDP. In other words, the public debt increased by EUR 1.7 billion from the beginning of the year to the end of August.

According to the seasonally adjusted data of the Statistical Office of the Republic of Serbia, there was a decrease of 0.3% in the industrial production in August, with a decrease of 13.1% compared to the same period last year. Looking at the structure of overall industry, the refining industry recorded a year-over-year decrease of 3.8%, while the sectors of mining and power, gas and steam supply marked a decrease of 23.8% and 39.8%, respectively.

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<sup>7</sup>Information updated on September 24<sup>th</sup> 2014

Trends in USD/RSD and EUR/RSD exchange rate

USD/RSD exchange rate

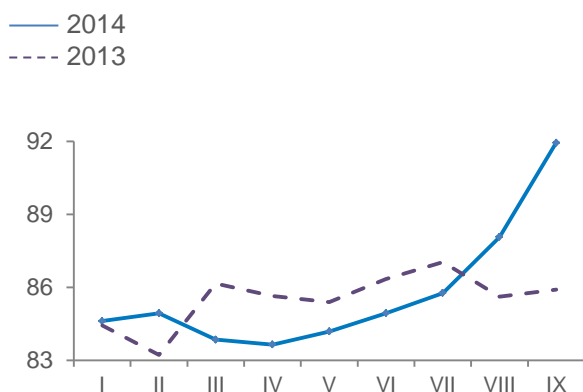


Chart no. 1: USD/RSD exchange rate trend

EUR/RSD exchange rate

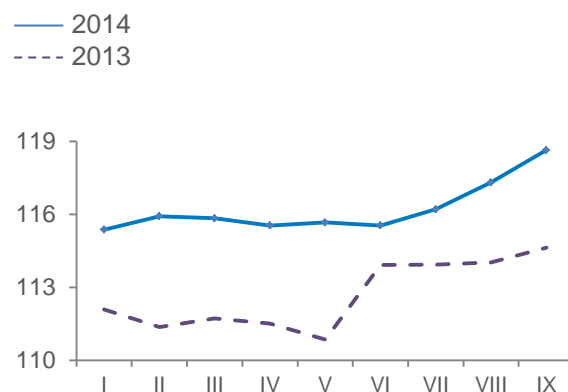


Chart no. 2: EUR/ RSD exchange rate trend

- Increase of USD/RSD exchange rate in first nine months of 2014 was 12.6% or 10.5 RSD (from 83.1282 RSD as of January 1<sup>st</sup>, 2014 to 93.6202 RSD as of September 30<sup>th</sup>, 2014)
- Increase of EUR/RSD exchange rate in first nine months of 2014 was 3.7% or 4.2 RSD (from 114.6421 RSD as of January 1<sup>st</sup>, 2014 to 118.8509 RSD as of September 30<sup>th</sup>, 2014)
- Decrease of USD/RSD exchange rate in first nine months of 2013 was -1.5% or -1.29 RSD (from 86.1763 RSD as of January 1<sup>st</sup>, 2013 to 84.8859 RSD as of September 30<sup>th</sup>, 2013)
- Increase of EUR/RSD exchange rate in first nine months of 2013 was 0.8% or 0.89 RSD (from 113.7183 RSD as of January 1<sup>st</sup>, 2013 to 114.6044 RSD as of September 30<sup>th</sup>, 2013)

Urals crude oil price trends, in USD/bbl.

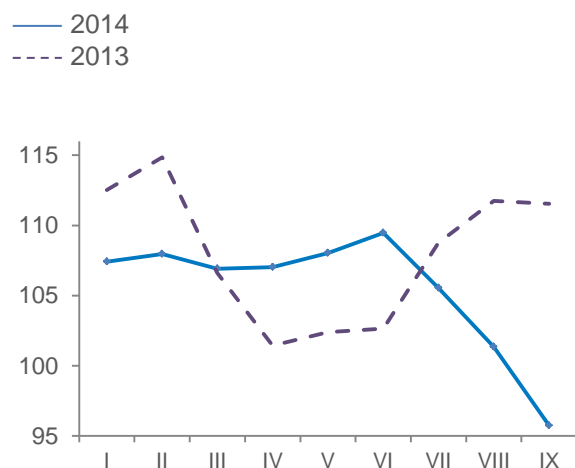


Chart no. 3: Urals crude oil price trends

Brent crude oil price trends, in USD/bbl.

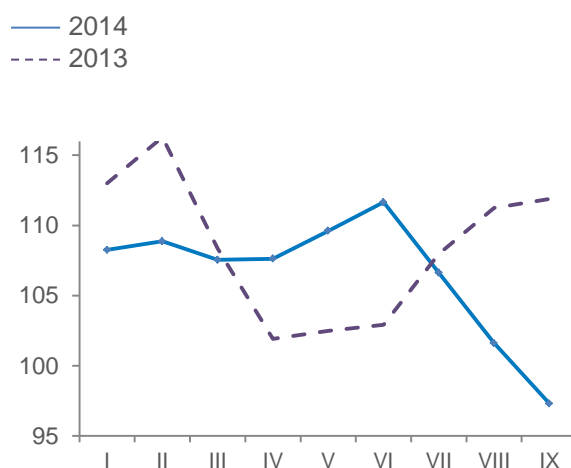


Chart no. 4: Brent crude oil price trends

Average Urals crude oil price in first nine months of 2014 was 105.5 USD/bbl.

## MARKET SHARE

### SERBIAN MARKET

- The consumption of petroleum products is decreasing. Largest drops have been recorded in the consumption of naphtha and LPG, while diesel pool showed modest growth. JET fuel consumption is boosted by increased number of flights of "Air Serbia" carrier and other companies. Increased consumption of bitumen is the result of the continuation of the construction of roads in Serbia and reconstruction after floods.
- NIS' market share remained stable due to active sales, effective price policy and widespread logistics network.
- Retail market is almost unchanged and small overall decrease accrued due to significant drop in auto gas demand. There is also effect of different dynamic of agricultural program that is running continually from April 15 - November 15<sup>th</sup> 2014, instead of two seasons (spring and autumn) in previous years.
- A slight decline in NIS retail market share is related to change in agriculture program mechanics that introduced distribution on all filling stations in the country, unlike one sole distributor system that was applied in previous years.

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

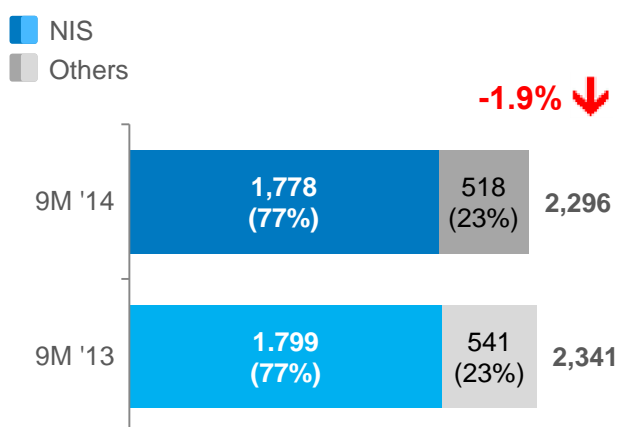


Chart no. 5: The volume of overall petroleum products market in Republic of Serbia<sup>8</sup>

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

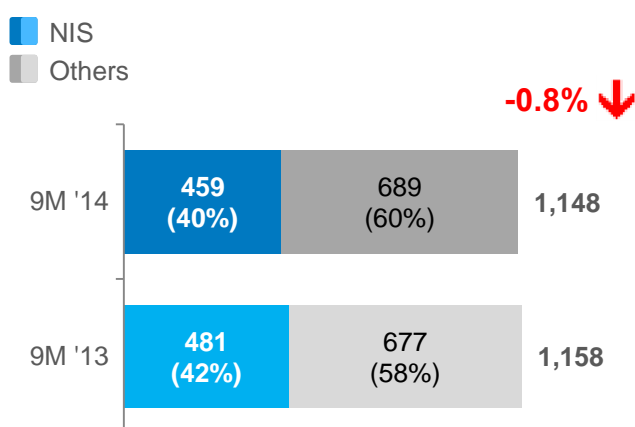


Chart no. 6: The volume of retail market<sup>9</sup> in Republic of Serbia<sup>8</sup>

<sup>8</sup> Data for September 2014 are estimate

<sup>9</sup> NIS and others' sales include motor fuels (gas, motor gasoline, diesel and EL heating oil used as motor fuel), but exclude LPG bottles

## MARKETS OF BOSNIA AND HERZEGOVINA, ROMANIA AND BULGARIA

### BOSNIA AND HERZEGOVINA

- Motor fuel market is decreasing due to slow economy and negative impact of May floods that hit North and East part of the country.
- Due to local legislation change additivated fuels were banned from sales in retail network of Bosnia and Herzegovina that effected mainly international retail chains including NIS.
- NIS owns 35 petrol stations 27 of which operate under Gazprom brand whereas 8 petrol stations operate under NIS brand.
- NIS' estimated share in the market of motor oils in the first 9 months in 2014 is 7%, whereas estimated share in the retail market is 8%.

### BULGARIA

- The gradual market recovery continued in 2014 in Bulgaria. A slight increase in the motor fuels market comes mainly from an increased consumption of diesel, which should be a key driver of further growth also in the long run. There was increase in the consumption of LPG while consumption of motor gasoline has decreased.
- NIS' retail network includes 35 petrol stations. NIS Bulgaria also operates a storage in Kostin brod.
- NIS' estimated share in the market of motor fuels in the first 9 months in 2014 is 2,9%, whereas estimated share in the retail market is 2,5%.

### ROMANIA

- Motor fuel market continued to shrink in third quarter due to impact of higher excise tax implemented from April 1st 2014.
- MOL increased their network in Romania through acquisition of additional 42 stations from ENI, creating total network of 189 stations on this market.
- NIS retail network includes 18 petrol stations under Gazprom brand.
- NIS' estimated share in the market of motor oils in the first 9 months in 2014 is 0,3%, whereas estimated share in the retail market is 0,5%.

## RESULTS ANALYSIS

### KEY INDICATORS<sup>10</sup>

Q3 2013	Q3 2014	Q3 2014 Q3 2013 (%)	Key Indicators	Measurement unit	9M 2014	9M 2013	9M 2014 - 9M 2013 (%)
110.7	100.9	-9%	Urals	\$/bbl.	105.5	108.1	-2%
14.0	4.1	-70%	Net profit	bn RSD	21.1	31.7	-33%
19.6	16.4	-16%	EBITDA <sup>11</sup>	bn RSD	47.3	47.7	-1%
71.7	71.2	-1%	Sales	bn RSD	193.9	185	5%
27.5	17.7	-36%	OCF	bn RSD	19.3	49.6	-61%
34.7	34.6	0%	Accrued taxes and other public revenues <sup>12</sup>	bn RSD	97.9	88.7	10%
409	401	-2%	Domestic oil and gas production <sup>13</sup>	thou. t.o.e.	1,209	1,227	-1%
801	678	-15%	Oil and semi-finished products refining volume	thou. tons	2,252	2,204	2%
833	828	-1%	Total sales of petroleum products	thou. tons	2,253	2,183	3%
24	42	75%	Sales – abroad asset	thou. tons	115	49	135%
705	664	-6%	Petroleum products domestic market sales <sup>14</sup>	thou. tons	1,786	1,812	-1%
167	175	5%	Retail <sup>15</sup>	thou. tons	460	484	-5%
13.8	9.1	-34%	CAPEX <sup>16</sup>	bn RSD	26.9	37.9	-29%
485	744	53%	Total bank indebtedness <sup>17</sup>	m USD	744	485	53%

<sup>10</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>11</sup> EBITDA = Sales (without excise tax) – inventories ( of oil, oil products and other products) – operational expenditure (OPEX) – other costs, which management cannot affect

<sup>12</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 9M 2014 that is to be paid in Serbia amounted to RSD 92.3 billion (9M 2013: 86.4).

<sup>13</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>14</sup> Petroleum products domestic market sales refers to sales to clients from Serbia in Serbia

<sup>15</sup> Besides motor fuels, sales of other petroleum products is included

<sup>16</sup> Financing, without VAT

<sup>17</sup> Total bank indebtedness = Total debt to banks + letters of credit. As of September 30<sup>th</sup> 2014 this amounts to 684.7 millions of USD of total debt to banks and 59.6 millions of USD of letters of credit



FINANCIAL INDICATORS

EBITDA

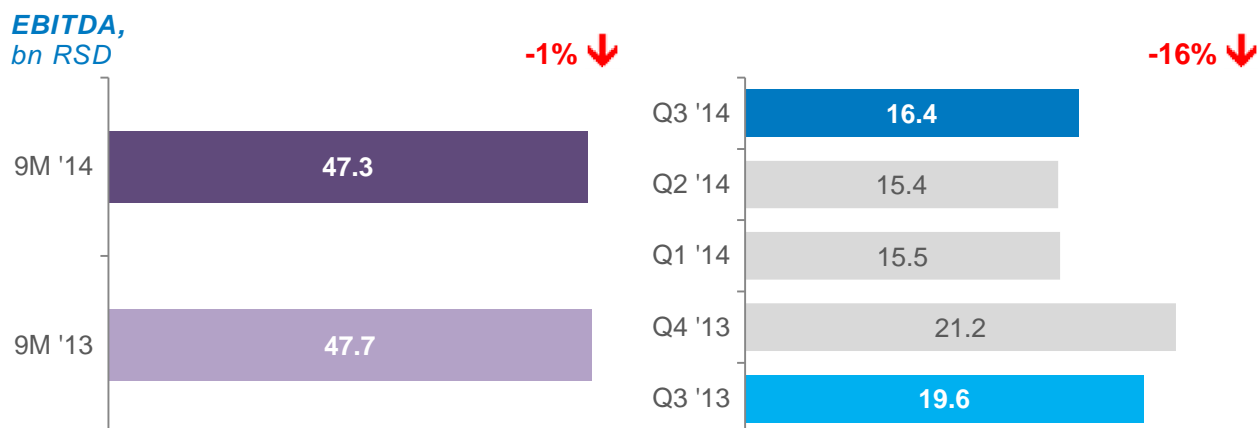


Chart no. 7: EBITDA

EBITDA in first nine months of 2014 is at the same level as same period previous year:

- ✓ Crude oil prices
- ✓ Decrease in domestic oil and gas production
- ✓ Increased petroleum products sales volume

Net profit

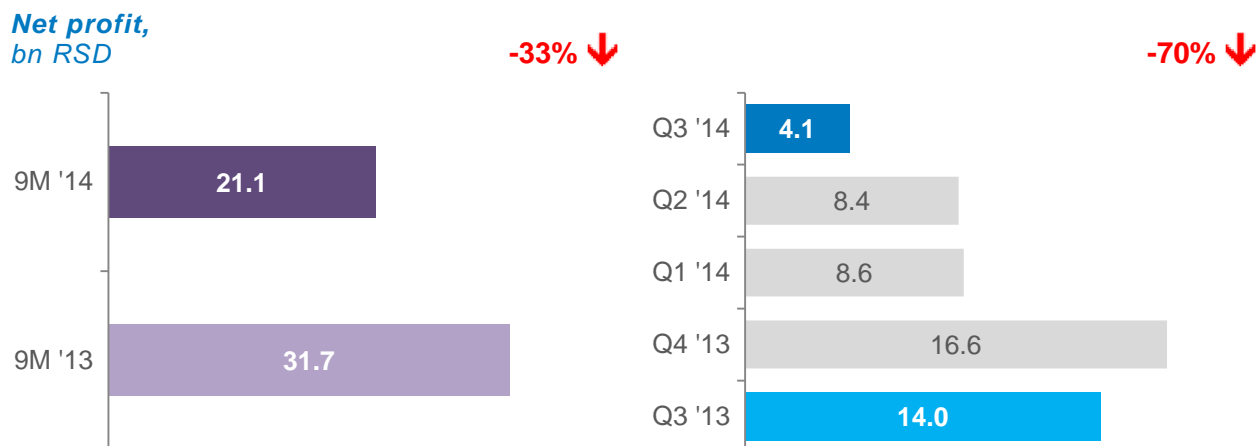


Chart no. 8: Net profit

Net profit decreased by -33% in first nine months of 2014 compared to first nine months of 2013:

- ✓ Negative net FX differences (for 9M 2013 net FX differences were positive)
- ✓ Increased depreciation

## Sales

Sales,  
bn RSD

5% ↑

-1% ↓

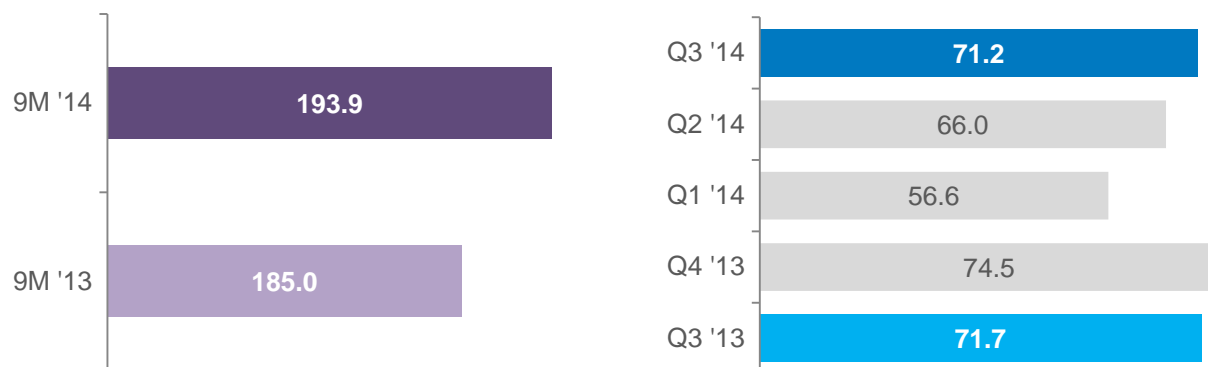


Chart no. 9: Sales

Incline of retail prices of oil derivatives in first nine months of 2014 is app. 1.4% compared to first nine months of 2013:

Changes in retail prices	$\Delta \frac{9M\ 2014}{9M\ 2013}$ (%)
Europremium BMB 95	0.41%
Euro diesel	2.33%

## OCF

OCF,  
bn RSD

-61% ↓

-36% ↓

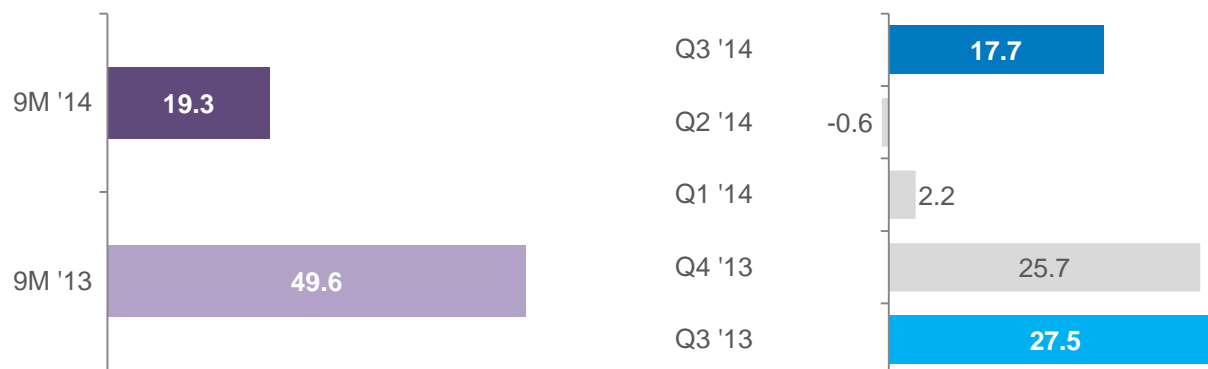


Chart no. 10: OCF

## Decrease of OCF:

- ✓ Increased payments for the purchase of crude oil and petroleum products
- ✓ Increased paid taxes and other duties to the Government (taxes, customs...)
- ✓ Advance payment of gas oil excise tax and delayed return of paid excise tax

OPERATING INDICATORS

Exploration and Production

In first nine months of 2014 domestic oil and gas production was 1,209 thousand of tons of oil equivalent, which is a -1% decrease compared to same period in 2013.

- ✓ Drop in base production
- ✓ Smaller increment from drilling

Domestic oil and gas production<sup>18</sup>,  
thou. t.o.e.

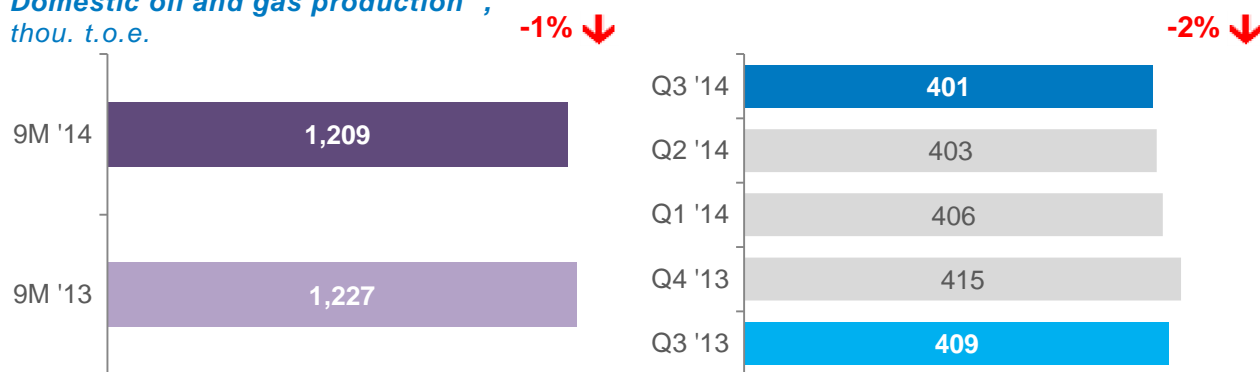


Chart no. 11: Domestic oil and gas production

Domestic oil production<sup>19</sup>,  
thou. tons

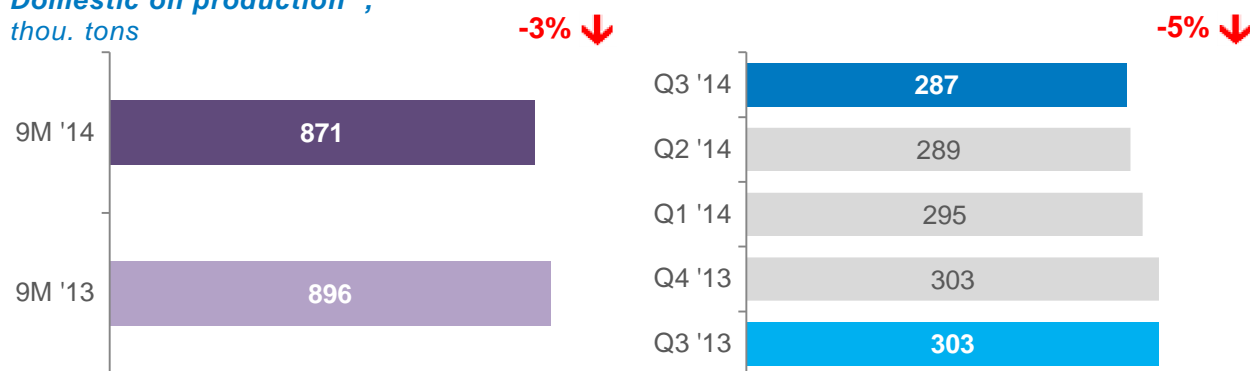


Chart no. 12: Domestic oil production

Oil production in Angola,  
thou. tons

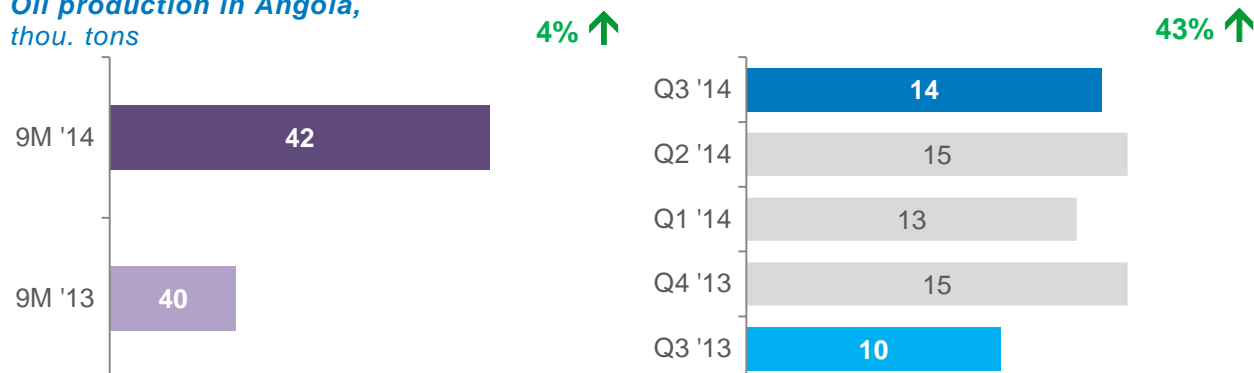


Chart no. 13: Oil production in Angola

<sup>18</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>19</sup> Including gasoline and light condensate

## Refining

In first nine months of 2014 refined crude oil volumes and reprocessing of semi-finished products<sup>20</sup> recorded 2% increase compared to the same period previous year:

- Increase of crude oil refining volumes and increase in volume of reprocessing of semi-finished products
- Oil refining and semi-finished products reprocessing within the operational plans developed to meet market requirements
- Due to overhaul of Refinery in Pančevo in September 2014 refining volumes in Q3 2014 are lower than in Q3 2013

### Refining volume, thou. tons

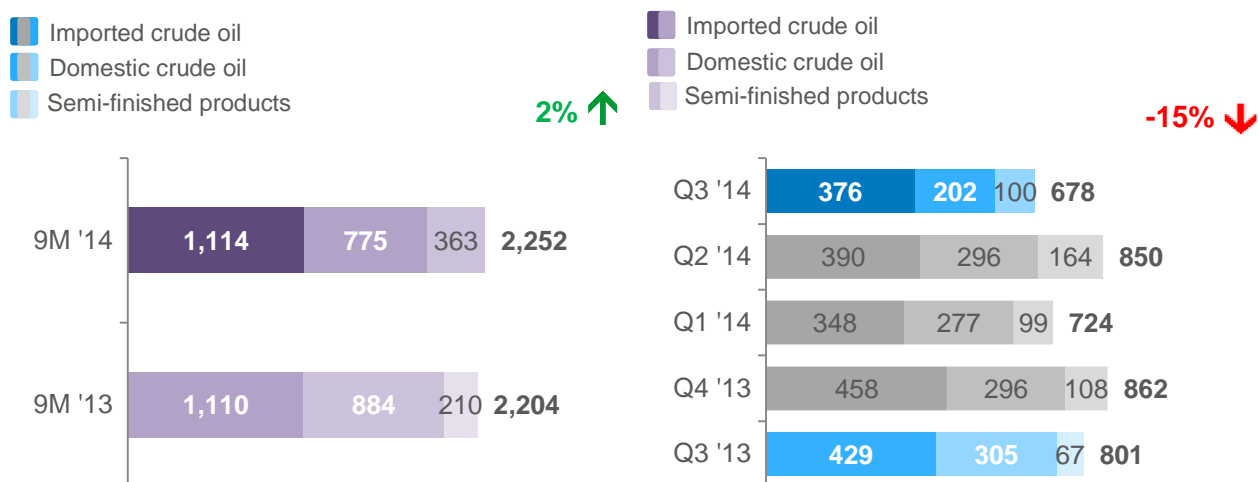


Chart no. 14: Refining volume

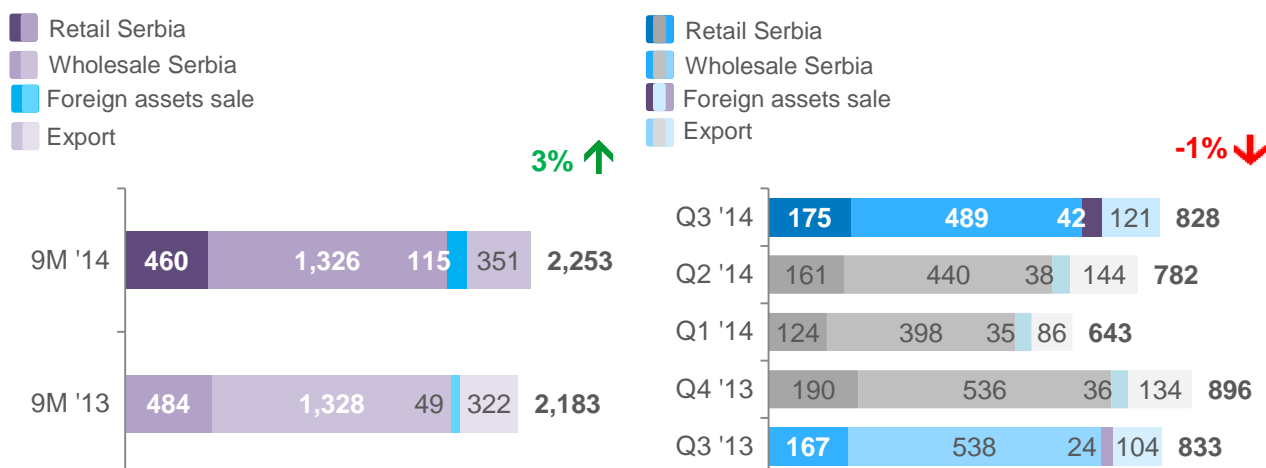
## Sales and Distribution

3% rise in the total oil derivatives sales in first nine months of 2014 compared to same period previous year:

- Retail Serbia – -5% sales decrease:
  - ✓ Change of terms of implementation of the program for farmers in Serbia
- Foreign assets sales – 2x growth:
  - ✓ The larger the number of active of petrol stations
  - ✓ Activated petrol stations are reaching their full capacity
- Wholesale Serbia – at the same level:
  - ✓ Change of terms of implementation of the program for farmers in Serbia
  - ✓ Decreased sales volumes for naphtha
  - ✓ Increased sales volumes of jet fuel on domestic market (AC “Air Serbia”)
- Exports – 9% increase
  - ✓ Increased sales of bitumen

<sup>20</sup>Semi-finished products include internal semi-finished products undergoing further processing or blending, and slop and gas condensate.

### Sales volumes, thou. tons

Chart no. 15: Sales volume<sup>21</sup>

### Sales structure, thou. tons

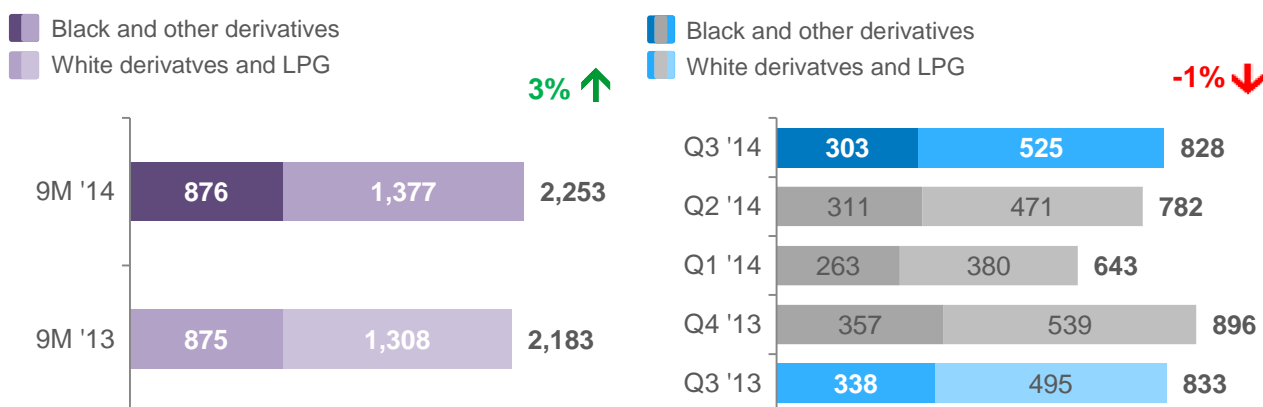


Chart no. 16: Sales structure

### Ratio Indicators

	9M 2014	FY 2013
<b>Return on total capital</b> (Gross profit/total capital)	15%	12%
<b>Net return on equity<sup>22</sup></b> (Net profit/shareholders equity <sup>22</sup> )	26%	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)	97%	94%
<b>Degree of leverage</b> (short term and long term liabilities/ shareholders equity <sup>22</sup> )	211%	195%
<b>1<sup>st</sup> degree liquidity</b> (cash and cash equivalents/short term liabilities)	17%	9%
<b>2<sup>nd</sup> degree liquidity</b> (current assets - inventories/short term liabilities)	96%	74%
<b>Net working fund ratio</b> (current assets – current liabilities/current assets)	17%	13%

<sup>21</sup> Foreign assets sales are quantities sold by NIS' subsidiaries. NIS delivered to its subsidiaries 83 thousand tons in 9M 2014, (Q3: 28), the remaining quantities were delivered by other suppliers

<sup>22</sup> shareholders equity = share capital

## BANK INDEBTEDNESS

Due to the announcement of the introduction of a new round of sanctions, which would lead into question the possibility of financing through foreign loans, available loans from abroad were withdrawn in September.

If the sanctions, that affect NIS a.d. Novi Sad as a subsidiary of Gazprom Neft j.s.c. established outside of the EU, were not introduced – the level of bank indebtedness as of September 30<sup>th</sup> 2014 would be USD 570 million, or USD 115 million less.

### Total bank indebtedness, million USD

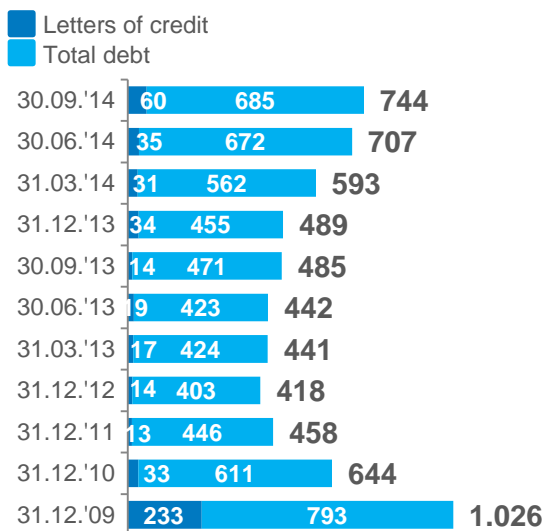


Chart no. 17: Total bank indebtedness

### GPN loan, million EUR

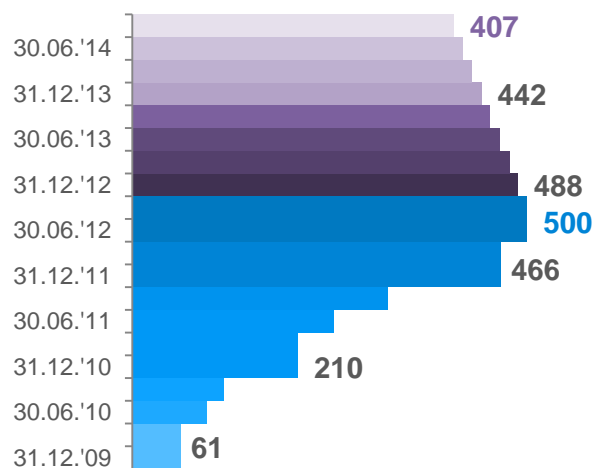


Chart no. 18: GPN loan

### Total debt to banks<sup>23</sup>, m USD

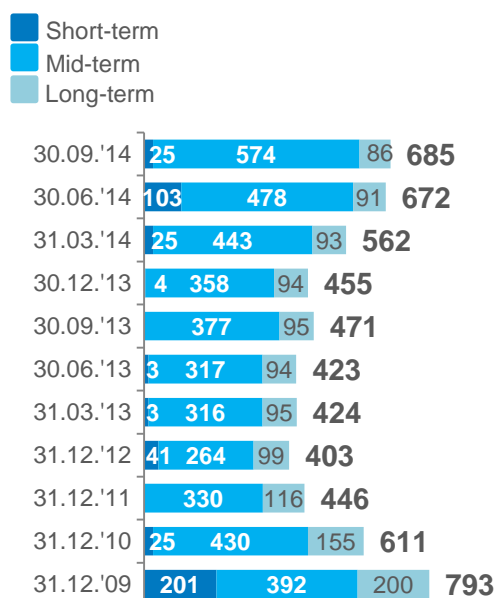


Chart no. 19: Total debt to banks

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

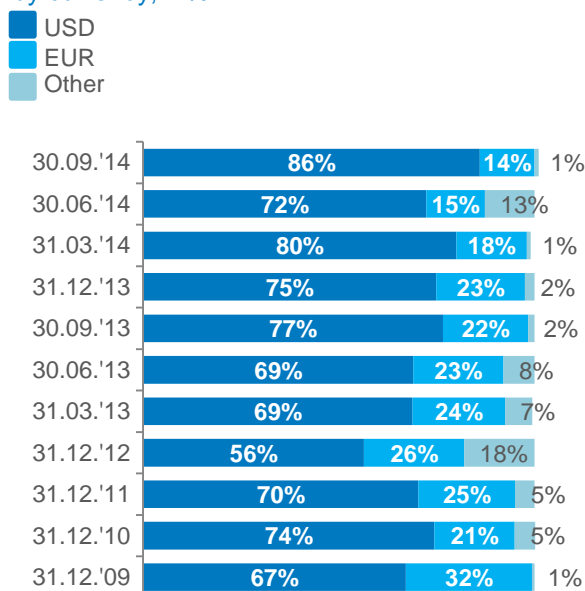


Chart no. 20: Structure of total debt to banks

<sup>23</sup> The structure of debt by maturity is displayed as per agreements signed with the banks, and not according to debt maturity as of September 30<sup>th</sup> 2014.

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

<b>Assets</b>	<b>Change (in %)</b>	<b>Explanation</b>
Goodwill	15%	Increase of goodwill entirely refers to the difference between the fair value of net assets and the sum of the fees transferred for the acquisition of a business combination, as well as translatory reserves based on the evaluation of foreign operations.
Intangible assets	23%	Increase of intangible assets as of September 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 mainly relates to new investments in research and development in the amount of RSD 3,248,951 thousand
Cash and cash equivalents	63%	Increase in cash and cash equivalents as of September 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to the increase in cash on the bank accounts in the amount of RSD 5,926,953 thousand.
VAT and prepaid expenses	-19%	Decrease of VAT and prepaid expenses as of September 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to the decrease in receivables for uninvoiced revenue in the amount of RSD 1,339,931 thousand, the abolition of the deferred tax in the amount of RSD 1,321,951 thousand and, on the other hand, the increase of receivables for excise tax in the amount of RSD 1,504,248 thousand.
Deferred tax assets	-16%	Decrease in deferred tax assets as of September 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 in its entirety relates to the elimination of deferred tax assets formed from previously recognized tax credits for investments.

<b>Liabilities</b>	<b>Change (in %)</b>	<b>Explanation</b>
Unrealized gains from securities	104%	Increase in unrealized gains from securities as of September 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is entirely related to the increase of value of investments in securities available for sale arising from adjustments of investment value to the fair (market) value.
Unrealized losses from securities	244%	Increase in unrealized losses from securities as of September 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 281,352 thousand.
Long-term loans	179%	Increase of long-term loans as of September 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to the withdrawal of the new tranche of loans from Sberbank Europe AG, Vienna and Banca Intesa Serbia.
Trade and other payables	-41%	Decrease in trade and other payables as of September 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to the reduction of liabilities for crude oil in the amount of RSD 18,275,554 thousand
Other short-term liabilities	293%	Increase in other short-term liabilities as of September 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 the General Assembly on the distribution of profit for 2013 in the amount of RSD 13,080,705 thousand.
Liabilities arising from VAT, other taxes payable and deferred revenues	-22%	Decrease in liabilities arising from VAT, other taxes payable and deferred revenues as of September 30 <sup>th</sup> 2014 compared to December 31 <sup>st</sup> 2013 is mainly related to the decrease in excise tax liabilities in the amount of RSD 1,668,876 thousand and liabilities for duty in the amount of RSD 1,572,396 thousand and, on the other hand, the increase of liabilities for VAT in the amount of RSD 900,627 thousand.
Income tax liabilities	-100%	Decrease in liabilities for income tax as of September 30 <sup>th</sup> 2014 is entirely related to the payment of liabilities arising from income tax for 2013.

## MAJOR BUYERS AND SUPPLIERS<sup>24</sup>

Buyer	Turnover in million RSD <sup>25</sup>	Share in total income from buyers
HIP Petrohemija a.d. Pančevo in restructuring	24.225.295	10%
Knez Petrol d.o.o	20.348.927	9%
EKO Serbia a.d.	14.968.620	6%
OMV Srbija d.o.o.	11.117.204	5%
<b>Total:</b>	<b>70.660.046</b>	<b>30%</b>
Other buyers:	165.617.267	70%
<b>Total:</b>	<b>236.277.313</b>	<b>100%</b>

Suppliers	Total debt In million RSD <sup>26</sup>	Share in total liabilities to suppliers
Gazprom Neft Trading Gmbh	19.202.511	63%
Euronova Energies S.A.	810.248	3%
NEC s.r.l.	715.200	2%
CJSC Grasy	316.477	1%
Weatherford Mediterranea SPA	292.781	1%
<b>Total:</b>	<b>21.337.218</b>	<b>70%</b>
Other suppliers:	9.040.262	30%
<b>Total:</b>	<b>30.377.480</b>	<b>100%</b>

### Major buyers

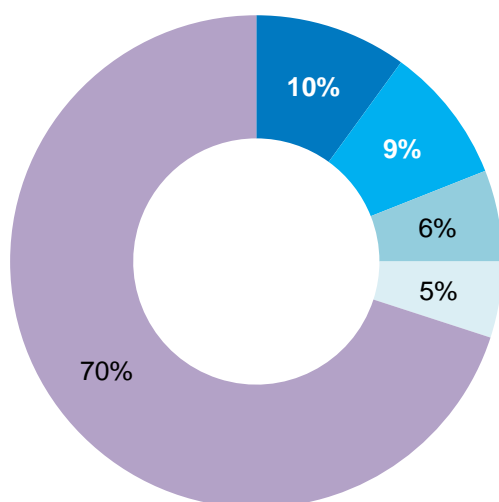


Chart no. 21: Major buyers

### Major suppliers

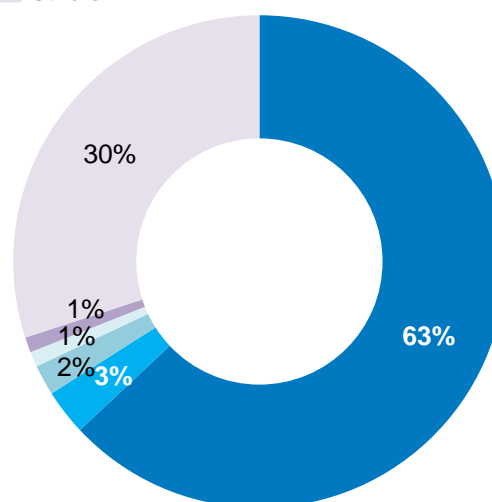
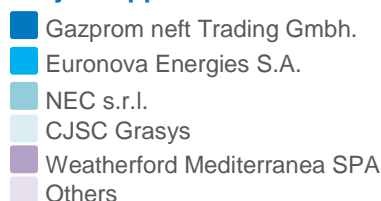


Chart no. 22: Major suppliers

<sup>24</sup> Data for NIS j.s.c Novi Sad

<sup>25</sup> in period from January 1<sup>st</sup> until September 30<sup>th</sup> 2014

<sup>26</sup> As of September 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 September 30<sup>th</sup> 2014, the Group made provisions for approximately 42% 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 540,632 RSD 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 September 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 September 30<sup>th</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>27</sup>

Q3 2013	Q3 2014	Q3 2014. Q3 2013.	NIS j.s.c. Novi Sad	9M 2014	9M 2013	9M 2014. 9M 2013.
0,4	0,4	-7%	Contributions for social insurance paid by the employer	1,2	1,4	-15%
2,1	0,6	-71%	Income tax	3,2	4,6	-30%
6,5	4,8	-26%	VAT	12,4	15,8	-21%
23,0	26,1	13%	Excise tax	71,2	59,4	20%
0,4	0,1	-80%	Custom duty	0,5	0,8	-39%
0,6	0,6	-11%	Royalties	1,8	1,9	-6%
0,4	0,4	0%	Other taxes	0,9	1,0	-13%
<b>33,4</b>	<b>32,9</b>	<b>-1%</b>	<b>Total:</b>	<b>91,2</b>	<b>84,8</b>	<b>8%</b>
<b>NIS subsidiaries in Serbia<sup>28</sup>,</b>						
0,2	0,1	-7%	Contributions for social insurance paid by the employer	0,4	0,5	-17%
0,1	0,0	-82%	Income tax	0,1	0,2	-65%
0,4	0,2	-46%	VAT	0,5	0,8	-42%
0,0	0,0	n/a	Excise tax	0,0	0,0	n/a
0,0	0,0	90%	Custom duty	0,1	0,0	86%
0,0	0,0	n/a	Royalties	0,0	0,0	n/a
0,0	0,0	300%	Other taxes	0,1	0,1	20%
<b>0,6</b>	<b>0,4</b>	<b>-34%</b>	<b>Total:</b>	<b>1,1</b>	<b>1,5</b>	<b>-32%</b>
<b>34,0</b>	<b>33,3</b>	<b>-2%</b>	<b>Total NIS with subsidiaries in Serbia</b>	<b>92,3</b>	<b>86,4</b>	<b>7%</b>
<b>NIS subsidiaries in region and Angola</b>						
0,1	0,0	-56%	Contributions for social insurance paid by the employer	0,1	0,2	-19%
0,3	0,0	-100%	Income tax	0,4	0,5	-30%
-1,1	-0,9	-25%	VAT	0,0	-0,2	-113%
1,3	1,6	22%	Excise tax	3,2	1,6	98%
0,0	0,0	20%	Custom duty	0,0	0,0	20%
0,0	0,0	n/a	Royalties	0,0	0,0	n/a
0,0	0,0	50%	Other taxes	0,1	0,1	80%
<b>0,6</b>	<b>0,8</b>	<b>42%</b>	<b>Total:</b>	<b>3,8</b>	<b>2,1</b>	<b>79%</b>
0,1	0,4	564%	Deferred tax assets (total for Group)	1,8	0,2	789%
<b>34,7</b>	<b>34,6</b>	<b>0%</b>	<b>Total NIS Group<sup>29</sup></b>	<b>97,9</b>	<b>88,7</b>	<b>10%</b>

The total amount of accrued liabilities for public revenues for first nine months of 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 92.3 billion, up by RSD 5.9 billion i.e. 7% more than the same period last year.

Overall amount of accrued liabilities for public revenues for first nine months of 2014 NIS Group pays amounts to RSD 97.9 billion, up by RSD 9.2 billion i.e. 10% more than the same period last year.

<sup>27</sup> In billion RSD

<sup>28</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>29</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 first nine months of 2014 total of 26.94 billion dinars<sup>30</sup> was allocated to finance the investments, which is by 29% less than in the same period in 2013.

The largest investments in oil and gas production in first nine months of 2014 were in:

- Programme of 3D seismic scanning and drilling of exploration wells in the Republic of Serbia
- Drilling of development wells
- Investments in concession rights (Hungary, Romania)
- Separation of CO<sub>2</sub> from natural gas
- Compressor station in the oil and gas field Velebit with supporting infrastructure

Most significant projects in Refining in first nine 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
- Construction of the line for the steam condensate polishing
- Production automation and control

Major capital investments in environmental protection in 9M 2014 in the Pančevo Refinery were:

- Closed drainage system construction project (S-100/ 300/ 400/ 500/ 2100/ 2300/ 2400/ 2500/ 2600)
- Loading Terminal reconstruction
- Construction of a closed system of sampling in the production

Q3 2013	Q3 2014	CAPEX by investment projects <sup>31</sup>	9M 2014	9M 2013
0.64	0.30	Ecology	0.76	1.37
0.19	0.07	Angola	0.16	0.53
9.16	5.83	Projects with direct economic effects	18.25	28.09
3.70	2.65	Projects without direct economic effects	6.72	7.24
0.14	0.31	Project researching activities	1.05	0.65
<b>13.84</b>	<b>9.15</b>	<b>TOTAL:</b>	<b>26.94</b>	<b>37.89</b>

Q3 2013	Q3 2014	CAPEX per segments	9M 2014	9M 2013
6.46	6.00	Exploration and production	17.40	15.68
3.88	1.69	Refining	5.71	8.95
2.82	1.10	Sales and distribution	2.70	11.10
0.13	0.11	Services	0.31	0.82
0.21	0.07	Energy	0.20	0.63
0.33	0.18	Corporate centre	0.62	0.70

<sup>30</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>31</sup> In billion RSD, VAT excluded

### CAPEX by investment projects, bn RSD

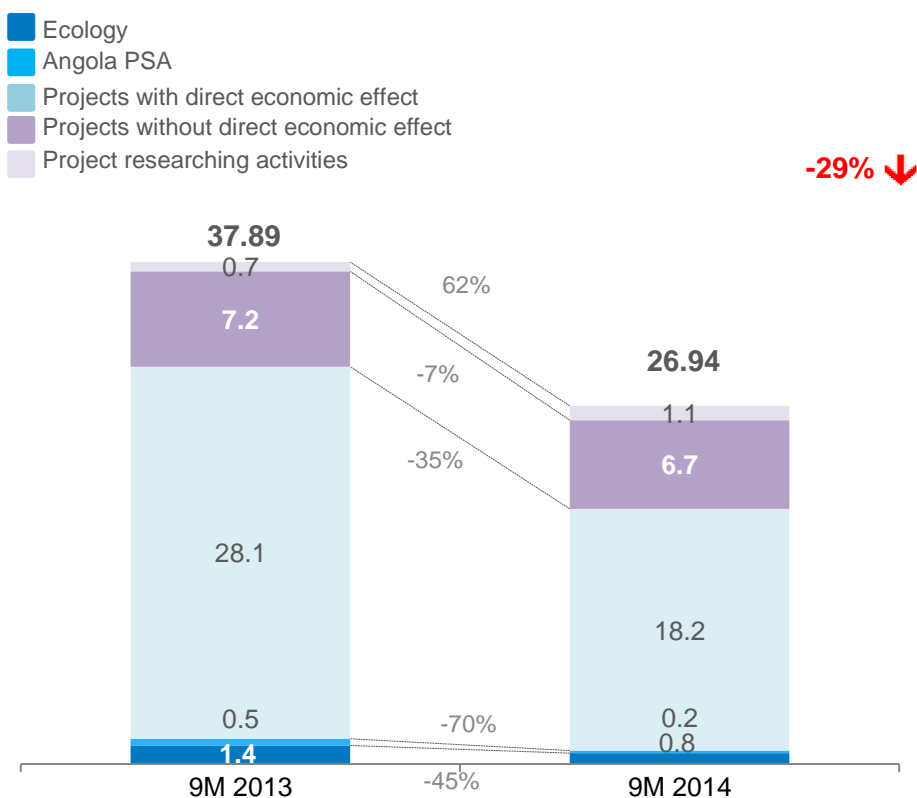


Chart no. 23: CAPEX by investment projects

### 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>• Concession rights</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>• Purchase of "Sava Centar" PS</li> <li>• Reconstruction of petrol stations in Serbia</li> </ul>
<b>Total investments</b>	<b>17.4 RSD billion</b>	<b>5.7 RSD billion</b>	<b>2.7 RSD 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	48,712,029	29.87%
Unicredit Bank Srbija a.d. – custody account	647,426	0.40%
East Capital (Lux) - Balkan Fund	453,989	0.28%
Societe Genera Bank Serbia – custody account	260,553	0.16%
Raiffeisen Bank a.d. Belgrade – custody account	247,181	0.15%
Keramika Jovanović d.o.o. Zrenjanin	202,824	0.12%
UniCredit Bank Srbija a.d. – collective account	202,301	0.12%
Global Macro Capital Opportunities	176,065	0.11%
AWLL Communications d.o.o.	158,056	0.10%
Other shareholders	20,434,089	12.53%
<b>Total number of shareholders as of September 30<sup>th</sup> 2014:</b>		<b>2,242,355</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 (September 30 <sup>th</sup> 2014)	886 RSD
Highest price (June 4 <sup>th</sup> 2014)	950 RSD
Lowest price (June 19 <sup>th</sup> 2014)	845 RSD
Total turnover	1,545,297,406 RSD
Total volume (number of shares)	1,688,840 shares
Total number of transactions	82,210 transactions
Market capitalization as of September 30 <sup>th</sup> 2013	144,471,514,400 RSD
EPS (for period from January 1 <sup>st</sup> until September 30 <sup>th</sup> 2014)	155.66 RSD
Consolidated EPS (for period from January 1 <sup>st</sup> until September 30 <sup>th</sup> 2014)	130.17 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>32</sup>	2.7
Consolidated P/E ratio <sup>33</sup>	3.0
Book value as of September 30 <sup>th</sup> 2014	1,160.21 RSD
Consolidated book value as of September 30 <sup>th</sup> 2014	1,038.77 RSD
P/BV ratio	0.8
Consolidated P/BV ratio	0.8

<sup>32</sup> Price as of September 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>33</sup> Price as of September 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

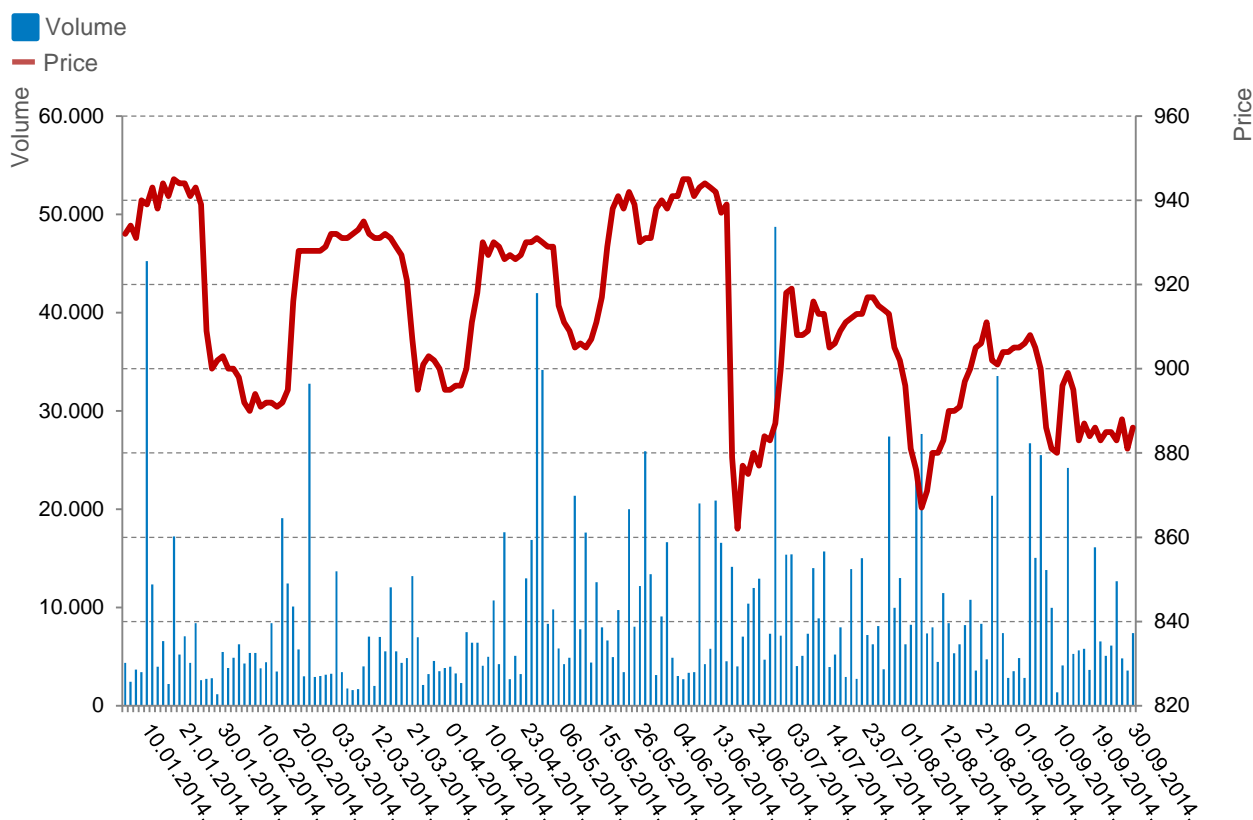


Chart no. 24: Price and volume trends for NIS j.s.c. Novi Sad shares

## 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.

### Dividend payments

<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>34</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. According to the Decision of the Board of Directors on Determining the Date, Procedure and the Manner of Dividend Disbursement for 2013 to NIS j.s.c. Novi Sad Shareholders, the dividend payment will be made to all shareholders at the same time, no later than 30 November 2014. Date of payment of dividend will be determined by the decision of the NIS CEO.

### 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.

<sup>34</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 nine months period ended September 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>35</sup>

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

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<sup>35</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 September 30<sup>th</sup>, 2014 was 4,255, number of employees from servicing organizations as of September 30<sup>th</sup>, 2014 is 3,541, which makes total of employees 7,796. In addition there are 60 more employees who work in representative offices.

Organizational unit	September 30 <sup>th</sup> 2014			September 30 <sup>th</sup> 2013		
	Directly <sup>36</sup>	Servicing organizations	Total	Directly <sup>36</sup>	Servicing organizations	Total
<b>NIS j.s.c. Novi Sad</b>	<b>4,255</b>	<b>3,541</b>	<b>7,796</b>	<b>4,692</b>	<b>3,413</b>	<b>8,105</b>
Exploration and production Block	728	182	910	734	179	913
Refining Block	881	47	928	954	22	976
Sales and Distribution Block	958	2,785	3,743	1,221	2,829	4,050
Services Block	112	14	126	111	5	116
Energy Block	235	13	248	218	5	223
Corporate centre	1,341	500	1,841	1,454	373	1,827
<b>Representative offices</b>	<b>57</b>	<b>3</b>	<b>60</b>	<b>25</b>	<b>0</b>	<b>25</b>
<b>Subsidiaries in Serbia</b>	<b>1,485</b>	<b>1,386</b>	<b>2,871</b>	<b>1,628</b>	<b>1,188</b>	<b>2,816</b>
Naftagas – Naftni servisi	626	546	1,172	655	643	1,298
Naftagas – Tehnicki servisi	429	549	978	518	338	856
Naftagas – Transport	112	256	368	156	197	353
NTC NIS Naftagas	318	35	353	299	10	309
<b>Subsidiaries abroad</b>	<b>291</b>	<b>5</b>	<b>296</b>	<b>453</b>	<b>10</b>	<b>463</b>
NIS Petrol Bulgaria	169	0	169	301	0	301
NIS Petrol Romania	40	2	42	53	6	59
NIS Petrol Bosnia and Herzegovina	68	2	70	85	3	88
Jadran Naftagas B&H	8	0	8	8	0	8
Pannon Naftagas- Hungary	6	1	7	6	1	7
<b>Other subsidiaries</b>	<b>178</b>	<b>192</b>	<b>370</b>	<b>127</b>	<b>14</b>	<b>141</b>
Jubos d.o.o. Bor	0	0	0	0	0	0
O Zone a.d. Belgrade	4	97	101	6	0	6
NIS Oversiz o.o.o. Sankt Petersburg	118	0	118	82	0	82
SP Ranis o.o.o. Chernoglavka	0	0	0	1	0	1
NIS Svetlost d.o.o. Bujanovac	15	7	22	15	7	22
G Petrol d.o.o. Sarajevo	41	88	129	23	7	30
<b>Total:</b>	<b>6,266</b>	<b>5,127</b>	<b>11,393</b>	<b>6,925</b>	<b>4,625</b>	<b>11,550</b>

## GROUNDS FOR TERMINATION OF EMPLOYMENT

During first nine months of 2014, totally 333 employees left the Company.

	9M 2014	
	NIS j.s.c. Novi Sad	NIS j.s.c. Novi Sad and its subsidiaries in Serbia <sup>37</sup>
Retirement	3	2
Consensual termination of employment <sup>38</sup>	138	30
Other	192	43
<b>Total:</b>	<b>333</b>	<b>75</b>

<sup>36</sup> „NIS chance” included, vacancies excluded

<sup>37</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>38</sup> Number includes the number of employees with the formal termination of employment as of September 30<sup>th</sup> 2014 (who were thus employed on September 30<sup>th</sup> 2014, but not employed on October 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 September 2014 (unaudited)	31 December 2013 (unaudited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	11,222,983	5,180,156
Short-term financial assets		3,042,475	2,176,381
Trade and other receivables	6	60,613,604	59,380,882
Inventories	7	34,759,294	38,409,866
Current income tax prepayments		775,661	-
Other current assets	8	8,509,679	5,638,830
Assets classified as held for sale		-	1,272,306
<b>Total current assets</b>		<b>118,923,696</b>	<b>112,058,421</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	194,192,006	178,003,944
Investment property		1,337,367	1,363,353
Other intangible assets		4,045,935	3,890,416
Investments in subsidiaries		7,556,020	7,556,542
Trade and other non-current receivables		2,431,678	2,434,588
Long-term financial assets		33,823,954	29,169,824
Deferred tax assets		8,181,112	9,776,709
Other non-current assets	10	5,012,463	6,247,455
<b>Total non-current assets</b>		<b>256,580,535</b>	<b>238,442,831</b>
<b>Total assets</b>		<b>375,504,231</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	26,689,525	28,054,370
Trade and other payables	12	47,308,526	54,507,915
Other current liabilities	13	3,176,943	2,964,691
Current income tax payable		-	2,626,080
Other taxes payable	14	6,367,593	8,418,130
Provisions for liabilities and charges		2,360,240	2,739,909
<b>Total current liabilities</b>		<b>85,902,827</b>	<b>99,311,095</b>
<b>Non-current liabilities</b>			
Long-term debt	15	85,977,461	60,626,546
Deferred tax liabilities		2,342,564	2,153,482
Provisions for liabilities and charges		12,096,991	11,527,436
<b>Total non-current liabilities</b>		<b>100,417,016</b>	<b>74,307,464</b>
<b>Equity</b>			
Share capital		81,530,200	81,530,200
Reserves		(45,306)	(59,885)
Retained earnings		107,699,494	95,412,378
<b>Total equity</b>		<b>189,184,388</b>	<b>176,882,693</b>
<b>Total liabilities and shareholder's equity</b>		<b>375,504,231</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	Nine month period ended 30 September	
		2014 <i>(unaudited)</i>	2013 <i>(unaudited)</i>
Sales of petroleum products and oil and gas sales		182,340,763	176,925,915
Other revenues		3,987,155	3,242,272
<b>Total revenue from sales</b>	4	<b>186,327,918</b>	<b>180,168,187</b>
Purchases of oil, gas and petroleum products	16	(104,936,181)	(96,991,350)
Production and manufacturing expenses	17	(13,698,318)	(12,160,943)
Selling, general and administrative expenses	18	(14,599,415)	(16,850,299)
Transportation expenses		(805,690)	(791,449)
Depreciation, depletion and amortization		(7,951,604)	(6,960,889)
Taxes other than income tax		(3,786,004)	(4,174,059)
Exploration expenses		(44,394)	(737,803)
<b>Total operating expenses</b>		<b>(145,821,606)</b>	<b>(138,666,792)</b>
Other expenses, net		(205,023)	(875,257)
<b>Operating profit</b>		<b>40,301,289</b>	<b>40,626,138</b>
Net foreign exchange (loss) gain		(8,188,023)	847,570
Finance income		1,392,266	1,228,795
Finance expenses		(2,740,243)	(2,560,958)
<b>Total other expense</b>		<b>(9,536,000)</b>	<b>(484,593)</b>
<b>Profit before income tax</b>		<b>30,765,289</b>	<b>40,141,545</b>
Current income tax expense		(3,612,789)	(5,121,663)
Deferred income tax expense		(1,784,679)	(193,288)
<b>Total income tax expense</b>		<b>(5,397,468)</b>	<b>(5,314,951)</b>
<b>Profit for the period</b>		<b>25,367,821</b>	<b>34,826,594</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		14,579	21,755
<b>Other comprehensive profit for the period</b>		<b>14,579</b>	<b>21,755</b>
<b>Total comprehensive income for the period</b>		<b>25,382,400</b>	<b>34,848,349</b>
<b>Earnings per share attributable to shareholders of Naftna Industrija Srbije</b>			
- Basic earnings (RSD per share)		155.66	213.71
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**

NINE MONTH PERIOD ENDED 30 SEPTEMBER 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	-	-	34,826,594	34,826,594
<b>Other comprehensive income</b>				
Change in value of available-for-sale financial assets	-	21,755	-	21,755
<b>Total comprehensive income for the period</b>	-	21,755	34,826,594	34,848,349
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 September 2013</b>	<b>81,530,200</b>	<b>(52,773)</b>	<b>78,009,942</b>	<b>159,487,369</b>
<b>Balance as at 1 January 2014</b>	81,530,200	(59,885)	95,412,378	176,882,693
Profit for the period	-	-	25,367,821	25,367,821
<b>Other comprehensive income</b>				
Change in value of available-for-sale financial assets	-	14,579	-	14,579
<b>Total comprehensive income loss for the period</b>	-	14,579	25,367,821	25,382,400
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 September 2014</b>	<b>81,530,200</b>	<b>(45,306)</b>	<b>107,699,494</b>	<b>189,184,388</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

	Nine month period ended 30 September	
	2014 (unaudited)	2013 (unaudited)
<b>Cash flows from operating activities</b>		
Profit before income tax	30,765,289	40,141,545
<b>Adjustments for:</b>		
Finance costs	2,740,243	2,560,958
Finance income	(1,392,266)	(1,228,795)
Depreciation, depletion and amortization	7,951,604	6,960,889
Adjustments for other provisions	263,925	1,338,111
Allowance for doubtful accounts	2,540,988	3,463,923
Payables write off	(11,552)	(141,089)
Net unrealised foreign exchange losses , net	6,202,725	118,201
Other non-cash items	26,630	850,356
	18,322,297	13,922,554
<b>Changes in working capital:</b>		
Trade and other receivables	(1,230,766)	(11,120,657)
Inventories	3,650,572	9,263,808
Other current assets	(5,784,995)	(2,018,472)
Trade payables and other current liabilities	(14,564,536)	3,991,140
Other taxes payable	(2,041,233)	261,601
<b>Cash (used in) generated by operations</b>	<b>(19,970,958)</b>	<b>377,420</b>
Income taxes paid	(7,013,139)	(3,672,592)
Interest paid	(2,273,626)	(2,289,188)
Interest received	430,070	624,612
	(8,856,695)	(5,337,168)
<b>Net cash generated by operating activities</b>	<b>20,259,933</b>	<b>49,104,351</b>
<b>Cash flows from investing activities</b>		
Acquisitions of subsidiaries or other business, net of cash acquired	(411,586)	-
Loans issued	(11,430,296)	(10,756,221)
Loan proceeds received	7,733,342	404,734
Capital expenditures	(27,335,971)	(32,688,036)
Proceeds from sale of property, plant and equipment	154,308	145,781
<b>Net cash used in investing activities</b>	<b>(31,290,203)</b>	<b>(42,893,742)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	34,619,297	21,696,382
Repayment of borrowings	(17,899,148)	(20,109,484)
Dividends paid	-	(12,364,129)
<b>Net cash generated by (used in) financing activities</b>	<b>16,720,149</b>	<b>(10,777,231)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>5,689,879</b>	<b>(4,566,622)</b>
Effect of foreign exchange on cash and cash equivalents	352,948	152,600
<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>11,222,983</b>	<b>3,897,244</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 nine month period ended 30 September 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 October 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, November 2013 and July 2014 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 is January 1, 2018. IFRS 9 (2014) supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013), but these standards remain available for application if the relevant date of initial application is before February 1, 2015. 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.

Amendments to **IFRS 11 – Joint Arrangements** (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Amendments to **IAS 16 – Property, Plant and Equipment** and **IAS 38 Intangible Assets** (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on clarification of acceptable methods of depreciation and amortization. In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Company is currently assessing the impact of the amendments on its Financial Statements.

**IFRS 15 – Revenue from Contracts with Customers** (issued in May 2014 and effective for annual periods beginning on or after January 1, 2017). The new standard introduces the core principle that revenue must be recognized when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Company 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. The amendment has no significant impact on Company's Interim Condensed Financial Statements.

#### 4. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the nine month period ended 30 September 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 nine month period ended 30 September 2014 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	63,203,175	184,450,458	(61,325,715)	186,327,918
Intersegment	60,416,223	909,492	(61,325,715)	-
External	2,786,952	183,540,966	-	186,327,918
EBITDA (Segment results)	52,866,753	(4,313,585)	-	48,553,168
Depreciation, depletion and amortization	(2,225,302)	(5,726,302)	-	(7,951,604)
Impairment losses	-	73,687	-	73,687
Finance expenses, net	(221,243)	(1,126,734)	-	(1,347,977)
Net foreign exchange loss	(47,345)	(8,140,678)	-	(8,188,023)
Income tax	(372,967)	(5,024,501)	-	(5,397,468)
<b>Segment profit (loss)</b>	<b>50,004,135</b>	<b>(24,636,314)</b>	<b>-</b>	<b>25,367,821</b>

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	67,336,521	176,619,316	(63,787,650)	180,168,187
Intersegment	63,652,547	135,103	(63,787,650)	-
External	3,683,974	176,484,213	-	180,168,187
EBITDA (Segment results)	57,548,497	(9,333,585)	-	48,214,912
Depreciation, depletion and amortization	(1,722,301)	(5,238,588)	-	(6,960,889)
Impairment losses	-	(9,634)	-	(9,634)
Finance expenses, net	(257,695)	(1,074,468)	-	(1,332,163)
Net foreign exchange (loss) gain	(53,388)	900,958	-	847,570
Income tax	(525,892)	(4,789,059)	-	(5,314,951)
<b>Segment profit (loss)</b>	<b>54,567,564</b>	<b>(19,740,970)</b>	<b>-</b>	<b>34,826,594</b>

EBITDA for the nine month period ended 30 September 2014 and 2013 is reconciled below:

	Nine month period ended 30 September	
	2014	2013
Profit for the period	25,367,821	34,826,594
Income tax expenses	5,397,468	5,314,951
Finance expenses	2,740,243	2,560,958
Finance income	(1,392,266)	(1,228,795)
Depreciation, depletion and amortization	7,951,604	6,960,889
Net foreign exchange loss/(gain)	8,188,023	(847,570)
Other expense, net	205,023	875,257
Other non-operating expense (income), net*	95,252	(247,372)
<b>EBITDA</b>	<b>48,553,168</b>	<b>48,214,912</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):

	Nine month period ended 30 September 2014		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	2,584,262	2,584,262
Sale of gas	3,033,455	-	3,033,455
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	3,033,455	-	3,033,455
Sale of petroleum products	145,749,113	30,973,933	176,723,046
<i>Through a retail network</i>	45,172,122	-	45,172,122
<i>Wholesale activities</i>	100,576,991	30,973,933	131,550,924
Other sales	3,880,140	107,015	3,987,155
<b>Total sales</b>	<b>152,662,708</b>	<b>33,665,210</b>	<b>186,327,918</b>

	Nine month period ended 30 September 2013		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	3,548,453	3,548,453
Sale of gas	2,738,764	-	2,738,764
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	2,738,764	-	2,738,764
Sale of petroleum products	147,462,098	23,176,600	170,638,698
<i>Through a retail network</i>	46,549,522	-	46,549,522
<i>Wholesale activities</i>	100,912,576	23,176,600	124,089,176
Other sales	3,236,133	6,139	3,242,272
<b>Total sales</b>	<b>153,436,995</b>	<b>26,731,192</b>	<b>180,168,187</b>

Out of the amount of 131,550,924 RSD (2013: 124,089,176 RSD) revenue from sale of petroleum products (wholesale), the amount of 20,187,745 RSD (2013: 25,374,764 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

	30 September 2014	31 December 2013
Cash in bank and in hand	10,965,521	4,961,288
Deposits with original maturity of less than three months	11,885	-
Cash equivalents	245,577	218,868
	<b>11,222,983</b>	<b>5,180,156</b>

## 6. TRADE AND OTHER RECEIVABLES

	30 September 2014	31 December 2013
Trade receivables:		
- related parties	6,448,307	3,790,384
- third parties	73,846,161	74,223,194
	80,294,468	78,013,578
Accrued assets	19,937	1,362,235
Other receivables	10,183,896	9,823,260
	90,498,301	89,199,073
Less impairment provision	(29,884,697)	(29,818,191)
<b>Total trade and other receivables</b>	<b>60,613,604</b>	<b>59,380,882</b>

The ageing of trade receivables is as follows:

	30 September 2014	31 December 2013
Up to 3 months	41,681,484	41,334,538
Over 3 months	38,612,984	36,679,040
	<b>80,294,468</b>	<b>78,013,578</b>

As at 30 September 2014 out of 38,612,984 RSD of overdue receivables (31 December 2013: 36,679,040 RSD), trade receivables in amount of 21,769,712 RSD (31 December 2013: 21,990,577 RSD) were fully provided for. The remaining amount of 16,843,272 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:

	30 September 2014	31 December 2013
Up to 3 months	35,282	1,002,942
Over 3 months	21,734,430	20,987,635
	<b>21,769,712</b>	<b>21,990,577</b>

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

	30 September 2014	31 December 2013
RSD	76,787,171	74,910,652
EUR	10,536,422	10,431,944
USD	3,174,687	3,856,453
Other	21	24
	<b>90,498,301</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)	543,421	-	543,421
Unused amounts reversed (note 18)	(757,345)	-	(757,345)
Transfer from non-current to current part	-	1,591,471	1,591,471
Other	4,623	413,505	418,128
<b>As at 30 September 2013</b>	<b>21,351,237</b>	<b>7,825,040</b>	<b>29,176,277</b>
<b>As at 1 January 2014</b>	21,990,577	7,827,614	29,818,191
Provision for receivables impairment (note 18)	268,503	-	268,503
Unused amounts reversed (note 18)	(442,132)	-	(442,132)
Other	(47,236)	287,371	240,135
<b>As at 30 September 2014</b>	<b>21,769,712</b>	<b>8,114,985</b>	<b>29,884,697</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 September 2014	31 December 2013
Crude oil	21,075,854	25,490,951
Gas	174,132	98,558
Petroleum products	13,321,575	12,780,938
Materials and supplies	5,896,131	5,582,457
Other	370,609	593,212
Less impairment provision	(6,079,007)	(6,136,250)
	<b>34,759,294</b>	<b>38,409,866</b>

## 8. OTHER CURRENT ASSETS

	30 September 2014	31 December 2013
Advances paid	414,872	700,072
VAT receivables	-	621,864
Deferred VAT	882,618	2,466,870
Prepaid expenses	203,878	114,807
Prepaid custom duties	58,421	52,378
Prepaid excise	6,488,062	1,431,422
Other current assets	21,013,737	18,198,978
Less impairment provision	(20,551,909)	(17,947,561)
	<b>8,509,679</b>	<b>5,638,830</b>

Deferred VAT as at 30 September 2014 amounting to 882,618 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 September 2014 amounting to 6,488,062 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)	12,460	3,778,140	3,790,600
Unused amounts reversed (note 18)	(2,492)	(116,050)	(118,542)
Other	-	(27,782)	(27,782)
<b>As at 30 September 2013</b>	<b>383,039</b>	<b>16,822,728</b>	<b>17,205,767</b>
<b>As at 1 January 2014</b>	248,347	17,699,214	17,947,561
Provision for other current assets impairment (note 18)	260	2,779,648	2,779,908
Unused amounts reversed (note 18)	(12,073)	(54,171)	(66,244)
Other	(954)	(108,362)	(109,316)
<b>As at 30 September 2014</b>	<b>235,580</b>	<b>20,316,329</b>	<b>20,551,909</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 September 2013</b>						
Additions	8,178,476	10,119,486	2,872,154	458,134	4,468,043	26,096,293
Investments in subsidiaries	(1,273,863)	(30,657)	(15,172)	-	-	(1,319,692)
Impairment	-	-	(8,341)	-	(932)	(9,273)
Depreciation	(1,715,725)	(3,654,588)	(708,565)	(358,079)	-	(6,436,957)
Transfer to investment property	-	-	(1,195)	(2,455)	(4,810)	(8,460)
Disposals and write-off	-	(299)	(145,234)	(7,934)	(942,822)	(1,096,289)
Other transfers	5,547	(10,132)	4,616	5,861	(65,034)	(59,142)
	33,311,614	79,432,564	16,030,813	9,565,037	25,135,859	163,475,887
<b>As at 30 September 2013</b>						
Cost	48,902,906	106,418,740	29,438,986	17,154,915	29,437,390	231,344,876
Depreciation and impairment	(15,591,292)	(26,986,176)	(13,408,173)	(7,589,878)	(4,301,531)	(67,868,989)
<b>Net book value</b>	<b>33,311,614</b>	<b>79,432,564</b>	<b>16,030,813</b>	<b>9,565,037</b>	<b>25,135,859</b>	<b>163,475,887</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 September 2014</b>						
Additions	13,733,106	3,163,601	1,428,015	202,910	6,204,858	24,732,490
Acquisitions through business combinations	-	-	-	-	332,353	332,353
Impairment	-	-	(37,097)	-	(4,142)	(41,239)
Depreciation	(2,194,253)	(3,906,253)	(883,194)	(370,357)	-	(7,354,057)
Transfer from investment property	35,121	9,358	1,377	7,399	-	53,255
Disposals and write-off	(1,095,620)	(47,549)	(48,358)	(38,062)	(184,314)	(1,413,903)
Other transfers	251,322	(585,085)	(136,518)	468,827	(119,383)	(120,837)
	46,321,953	78,645,605	17,588,484	9,690,116	41,945,848	194,192,006
<b>As at 30 September 2014</b>						
Cost	64,768,246	110,233,287	30,692,381	17,624,673	45,983,285	269,301,872
Depreciation and impairment	(18,446,293)	(31,587,682)	(13,103,897)	(7,934,557)	(4,037,437)	(75,109,866)
<b>Net book value</b>	<b>46,321,953</b>	<b>78,645,605</b>	<b>17,588,484</b>	<b>9,690,116</b>	<b>41,945,848</b>	<b>194,192,006</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 September 2013</b>						
Additions	4,586,579	9,806,659	14,393,238	-	-	14,393,238
Transfer from asset under construction	(50,789)	(8,127,687)	(8,178,476)	8,178,476	-	-
Other transfers	(3)	(9,220)	(9,223)	5,547	(46)	(3,722)
Depreciation and depletion	-	-	-	(1,715,725)	-	(1,715,725)
Investments in subsidiaries	-	-	-	(1,273,863)	-	(1,273,863)
Disposals and write-off	(704,773)	(9,971)	(714,744)	-	-	(714,744)
	9,135,058	6,453,305	15,588,363	33,311,614	1,990	48,901,967
<b>As at 30 September 2013</b>						
Cost	9,135,058	6,756,469	15,891,527	48,902,906	110,820	64,905,253
Depreciation and impairment	-	(303,164)	(303,164)	(15,591,292)	(108,830)	(16,003,286)
<b>Net book amount</b>	<b>9,135,058</b>	<b>6,453,305</b>	<b>15,588,363</b>	<b>33,311,614</b>	<b>1,990</b>	<b>48,901,967</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 September 2014</b>						
Additions	3,488,485	13,659,717	17,148,202	-	-	17,148,202
Transfer from asset under construction	(1,950,136)	(11,782,970)	(13,733,106)	13,733,106	-	-
Other transfers	50,654	(26,778)	23,876	251,322	(81)	275,117
Depreciation and depletion	-	-	-	(2,194,253)	-	(2,194,253)
Transfer from investment property	-	-	-	35,121	-	35,121
Disposals and write-off	(102,555)	(198,852)	(301,407)	(1,095,620)	-	(1,397,027)
	11,735,079	13,087,487	24,822,566	46,321,953	1,894	71,146,413
<b>As at 30 September 2014</b>						
Cost	11,735,079	13,325,546	25,060,625	64,768,246	22,203	89,851,074
Depreciation and impairment	-	(238,059)	(238,059)	(18,446,293)	(20,309)	(18,704,661)
<b>Net book amount</b>	<b>11,735,079</b>	<b>13,087,487</b>	<b>24,822,566</b>	<b>46,321,953</b>	<b>1,894</b>	<b>71,146,413</b>

**10. OTHER NON-CURRENT ASSETS**

	<b>30 September 2014</b>	<b>31 December 2013</b>
Advances paid for PPE	2,920,915	4,160,931
Prepaid expenses	981,697	1,033,330
Other assets	1,139,108	1,083,093
Less impairment provision	(29,257)	(29,899)
	<b>5,012,463</b>	<b>6,247,455</b>

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

	<b>30 September 2014</b>	<b>31 December 2013</b>
Short-term loans	2,368,590	300,000
Interest liabilities	189,935	136,403
Current portion of long-term loans (note 15)	24,131,000	27,596,333
Current portion of finance lease liabilities (note 15)	-	21,634
	<b>26,689,525</b>	<b>28,054,370</b>

**12. TRADE AND OTHER PAYABLES**

	<b>30 September 2014</b>	<b>31 December 2013</b>
Trade payables		
- related parties	21,757,662	38,997,863
- third parties	8,628,111	11,667,964
Dividends payable	16,853,013	3,772,308
Other accounts payable	69,740	69,780
	<b>47,308,526</b>	<b>54,507,915</b>

As at 30 September 2014 payables to related parties amounting to 21,757,662 RSD (31 December 2013: 38,715,029 RSD) mainly relate to payables to the supplier Gazprom Neft Trading Austria in the amount of 19,202,511 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 September 2014.

**13. OTHER CURRENT LIABILITIES**

	<b>30 September 2014</b>	<b>31 December 2013</b>
Advances received	952,392	864,997
Payables to employees	2,175,170	2,069,305
Accruals and deferred income	33,986	24,013
Other current non-financial liabilities	15,395	6,376
	<b>3,176,943</b>	<b>2,964,691</b>

**14. OTHER TAXES PAYABLE**

	<b>30 September 2014</b>	<b>31 December 2013</b>
Mineral extraction tax	572,410	522,953
VAT	1,282,617	461,212
Excise tax	2,527,828	4,294,766
Custom duties	51,167	1,623,065
Other taxes	1,933,571	1,516,134
	<b>6,367,593</b>	<b>8,418,130</b>

**15. LONG-TERM DEBT**

	<b>30 September 2014</b>	<b>31 December 2013</b>
Long-term loans - Gazprom Neft	48,369,553	50,655,813
Bank loans	61,737,698	37,565,857
Finance lease liabilities	-	21,634
Other long-term borrowings	1,210	1,209
Less Current portion	(24,131,000)	(27,617,967)
	<b>85,977,461</b>	<b>60,626,546</b>

*Bank loans*

	<b>30 September 2014</b>	<b>31 December 2013</b>
Domestic	9,903,301	12,048,569
Foreign	51,834,397	25,517,288
	61,737,698	37,565,857
Current portion of long-term loans	(18,603,051)	(22,264,141)
	<b>43,134,647</b>	<b>15,301,716</b>

The maturity of bank loans was as follows:

	<b>30 September 2014</b>	<b>31 December 2013</b>
Between 1 and 2 years	6,574,549	2,926,308
Between 2 and 5 years	31,175,453	6,871,962
Over 5 years	5,384,645	5,503,446
	<b>43,134,647</b>	<b>15,301,716</b>

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

	<b>30 September 2014</b>	<b>31 December 2013</b>
USD	52,631,671	28,343,857
EUR	8,731,441	8,579,494
RSD	1,607	280,783
JPY	372,979	361,723
	<b>61,737,698</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 September 2014 and 31 December 2013 are presented in the table below:

<b>Creditor</b>	<b>Currency</b>	<b>30 September 2014</b>	<b>31 December 2013</b>
<b>Domestic long-term loans</b>			
Erste bank, Novi Sad	USD	300,503	279,719
Erste bank, Novi Sad	EUR	449,859	454,900
Bank Postanska stedionica, Belgrade	EUR	221,019	225,341
Bank Postanska stedionica, Belgrade	USD	1,626,671	1,526,400
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,495,036	4,459,990
UniCredit bank, Belgrade	USD	2,808,606	4,821,436
UniCredit bank, Belgrade	RSD	-	278,900
Other loans	RSD	1,607	1,883
		<b>9,903,301</b>	<b>12,048,569</b>
<b>Foreign long-term loans</b>			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	552,156	518,612
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	372,979	361,723
Erste bank, Holland	EUR	3,565,527	3,439,263
Erste bank, Holland	USD	6,085,313	5,403,333
VUB (Bank Intesa), Slovakia	USD	14,043,030	8,312,820
NBG bank, Great Britain	USD	4,681,010	2,493,846
Alpha bank, Great Britain	USD	7,087,049	3,325,128
Piraeus bank, Great Britain	USD	-	1,662,563
Sberbank Europe AG, Vienna, Austria	USD	15,447,333	-
		<b>51,834,397</b>	<b>25,517,288</b>
Less current portion of long-term loans		(18,603,051)	(22,264,141)
		<b>43,134,647</b>	<b>15,301,716</b>

	<b>Currency</b>	<b>Current portion</b>		<b>Long-term</b>	
		<b>30 September 2014</b>	<b>31 December 2013</b>	<b>30 September 2014</b>	<b>31 December 2013</b>
<b>Domestic long - term loans</b>					
Erste bank, Novi Sad	USD	16,822	13,070	283,681	266,649
Erste bank, Novi Sad	EUR	24,934	20,972	424,925	433,928
Bank Postanska stedionica, Belgrade	EUR	12,250	12,148	208,769	213,193
Bank Postanska stedionica, Belgrade	USD	90,161	82,030	1,536,510	1,444,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	257,382	248,267	4,237,654	4,211,723
UniCredit bank, Belgrade	USD	2,808,606	4,821,436	-	-
UniCredit bank, Belgrade	RSD	-	278,900	-	-
Other loans	RSD	350	369	1,257	1,514
		<b>3,210,505</b>	<b>5,477,192</b>	<b>6,692,796</b>	<b>6,571,377</b>
<b>Foreign long-term loans</b>					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	38,287	30,197	513,869	488,415
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	20,673	16,978	352,306	344,745
Erste bank, Holland	EUR	3,565,527	3,439,263	-	-
Erste bank, Holland	USD	-	-	6,085,313	5,403,333
VUB (Bank Intesa), Slovakia	USD	-	8,312,820	14,043,030	-
NBG bank, Great Britain	USD	4,681,010	-	-	2,493,846
Alpha bank, Great Britain	USD	7,087,049	3,325,128	-	-
Piraeus bank, Great Britain	USD	-	1,662,563	-	-
Sberbank Europe AG, Vienna, Austria	USD	-	-	15,447,333	-
		<b>15,392,546</b>	<b>16,786,949</b>	<b>36,441,851</b>	<b>8,730,339</b>
		<b>18,603,051</b>	<b>22,264,141</b>	<b>43,134,647</b>	<b>15,301,716</b>

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

	Nine month period ended 30 September	
	2014	2013
Crude oil	78,342,210	86,957,443
Petroleum products	26,557,090	9,527,217
Other	36,881	506,690
	<b>104,936,181</b>	<b>96,991,350</b>

**17. PRODUCTION AND MANUFACTURING EXPENSES**

	Nine month period ended 30 September	
	2014	2013
Employee costs	2,808,183	3,064,359
Materials and supplies (other than purchased oil, petroleum products and gas)	536,970	548,829
Repair and maintenance services	2,596,568	1,995,193
Electricity and utilities	1,753,767	1,121,527
Safety and security expense	83,904	74,679
Other	5,918,926	5,356,356
	<b>13,698,318</b>	<b>12,160,943</b>

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

	Nine month period ended 30 September	
	2014	2013
Employee costs	6,592,479	9,847,713
Legal, audit, and consulting services	1,208,400	857,440
Rent expense	64,296	85,285
Business trips expense	197,592	252,861
Safety and security expense	322,744	231,192
Insurance expense	196,549	192,870
Transportation and storage	856,702	925,958
Allowance for doubtful accounts	2,540,035	3,463,705
Other	2,620,618	993,275
	<b>14,599,415</b>	<b>16,850,299</b>

**19. BUSINESS COMBINATIONS***Acquisition of petrol stations*

In 2014, as a part of regional expansion, the Company has acquired one petrol stations (PS) in Serbia. As a result of the acquisitions, the Company is expected to further increase its presence in these markets.

Name of acquire	Date of acquisition	Percentage of equity interests acquired
<i>Serbia</i>		
SSG Sava Centar	7/21/2014	100%

The following table summarises the consideration paid for acquired PS in the nine month period ended 30 September 2014, the fair value of assets acquired and liabilities assumed.

	Nine month period ended 30 September 2014	
	Serbia	Total
<b>Purchase consideration:</b>		
Cash paid	332,353	831,588
<b>Total purchase consideration</b>	<b>332,353</b>	<b>831,588</b>
Fair value of net identifiable assets acquired	332,353	789,440
<b>Goodwill</b>	<b>-</b>	<b>42,148</b>

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

	<b>Serbia</b>	<b>Total</b>
Property, plant and equipment	332,353	789,440
<b>Net identifiable assets acquired</b>	<b>332,353</b>	<b>789,440</b>

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

## 20. CONTINGENT LIABILITIES

### *Finance Guarantees*

As at 30 September 2014 the total amount of outstanding finance guarantees given by the Company amounted to 3,371,023 RSD mostly related to customs duties in the amount of 1,608,481 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 540,632 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 September 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 September 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.

## 21. 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 nine month period ended 30 September 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 September 2014 and 31 December 2013 the outstanding balances with related parties were as follows:

	Subsidiary	Parent	Entities under common control	Total
<b>As at 30 September 2014</b>				
Short-term financial assets	3,036,211	-	-	3,036,211
Trade and other receivables	6,389,182	-	59,125	6,448,307
Other current assets	29,167	-	5	29,172
Investments in subsidiaries	8,729,187	-	-	8,729,187
Long-term financial assets	36,018,190	-	-	36,018,190
Other non-current assets	219,525	-	-	219,525
Trade and other payables	(2,663,905)	-	(19,204,236)	(21,868,141)
Other current liabilities	(159)	-	(36,391)	(36,550)
Short-term debt and current portion of long-term debt	-	(5,527,949)	-	(5,527,949)
Long-term debt	-	(42,841,604)	-	(42,841,604)
	<b>51,757,398</b>	<b>(48,369,553)</b>	<b>(19,181,497)</b>	<b>(15,793,652)</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 nine month period ended 30 September 2014 and 2013 the following transaction occurred with related parties:

	Subsidiary	Parent	Entities under common control	Total
<b>Nine month period ended 30 September 2014</b>				
Petroleum products and oil and gas sales	7,670,104	-	1,801,575	9,471,679
Other revenues	369,897	-	-	369,897
Purchases of oil, gas and petroleum products	(103,426)	-	(71,151,887)	(71,255,313)
Production and manufacturing expenses	(2,520,568)	(8,002)	(22,715)	(2,551,285)
Selling, general and administrative expenses	(677,026)	(28,909)	-	(705,935)
Transportation expenses	(15,331)	-	-	(15,331)
Other expenses, net	(1,882)	(4,556)	(1,546)	(7,984)
Other finance income	1,182,016	-	-	1,182,016
Other finance expense	(3,381)	(882,508)	-	(885,889)
	<b>5,900,403</b>	<b>(923,975)</b>	<b>(69,374,573)</b>	<b>(64,398,145)</b>

	Subsidiary	Parent	Entities under common control	Total
<b>Nine month period ended 30 September 2013</b>				
Petroleum products and oil and gas sales	3,061,555	-	85,602	3,147,157
Other revenues	416,333	-	-	416,333
Purchases of oil, gas and petroleum products	(1,691,634)	-	(77,668,797)	(79,360,431)
Production and manufacturing expenses	(2,316,909)	(3,879)	(14,741)	(2,335,529)
Selling, general and administrative expenses	(719,329)	(28,909)	-	(748,238)
Transportation expenses	(10,273)	-	-	(10,273)
Other expenses, net	(2,483)	(4,437)	(92,329)	(99,249)
Other finance income	935,354	-	-	935,354
Other finance expense	-	(921,464)	-	(921,464)
	<b>(327,386)</b>	<b>(958,689)</b>	<b>(77,690,265)</b>	<b>(78,976,340)</b>

## 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 Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Company has paid all tax liabilities as of 30 September 2014.

## 23. 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 September 2014 drilling and exploration works were estimated to 1.2 USD million.

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

In December 2012, the Company 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) RAG Kiha together with Rag Hungary, becoming a 50 % quota holder. With this agreement on newly founded company were tranfered exploration licences in Kelebia area. On 30 September 2014 drilling and exploration works were estimated to 1.12 USD million.



## 24. EVENTS AFTER THE REPORTING DATE

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

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

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**Novi Sad, 22 October 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 September 2014	31 December 2013
		<i>(unaudited)</i>	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	14,178,512	8,707,775
Short-term financial assets		6,371	68,358
Trade and other receivables	6	55,312,077	56,117,886
Inventories	7	37,811,718	40,659,980
Current income tax prepayments		769,220	38,865
Other current assets	8	10,603,280	7,365,761
<b>Total current assets</b>		<b>118,681,178</b>	<b>112,958,625</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	223,785,824	204,932,521
Investment property		1,377,700	1,414,364
Goodwill and other intangible assets		7,325,874	6,678,646
Investments in joint venture		1,008,221	1,008,221
Trade and other non-current receivables		75,834	76,219
Long-term financial assets		233,024	217,081
Deferred tax assets		8,181,112	9,776,756
Other non-current assets	10	5,893,583	8,567,539
<b>Total non-current assets</b>		<b>247,881,172</b>	<b>232,671,347</b>
<b>Total assets</b>		<b>366,562,350</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	26,689,793	28,054,845
Trade and other payables	12	47,599,700	55,276,015
Other current liabilities	13	3,903,474	3,559,331
Current income tax payable		-	2,630,312
Other taxes payable	14	6,953,931	8,701,055
Provisions for liabilities and charges		2,386,348	2,789,910
<b>Total current liabilities</b>		<b>87,533,246</b>	<b>101,011,468</b>
<b>Non-current liabilities</b>			
Long-term debt	15	86,904,733	61,133,878
Deferred tax liabilities		2,581,797	2,337,281
Provisions for liabilities and charges		12,822,141	12,194,243
<b>Total non-current liabilities</b>		<b>102,308,671</b>	<b>75,665,402</b>
<b>Equity</b>			
Share capital		81,530,200	81,530,200
Reserves		(365,012)	(98,174)
Retained earnings		95,696,828	87,564,495
<b>Equity attributable to the Company's owners</b>		<b>176,862,016</b>	<b>168,996,521</b>
Non-controlling interest		(141,583)	(43,419)
<b>Total equity</b>		<b>176,720,433</b>	<b>168,953,102</b>
<b>Total liabilities and shareholder's equity</b>		<b>366,562,350</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	Nine month period ended 30 September	
		2014 (unaudited)	2013 (unaudited)
Sales of petroleum products and oil and gas sales		187,838,453	181,358,805
Other revenues		6,021,479	3,603,962
<b>Total revenue from sales</b>	4	193,859,932	184,962,767
Purchases of oil, gas and petroleum products	16	(109,592,420)	(101,048,663)
Production and manufacturing expenses	17	(13,630,262)	(10,644,677)
Selling, general and administrative expenses	18	(16,422,403)	(18,936,242)
Transportation expenses		(797,381)	(805,000)
Depreciation, depletion and amortization		(9,437,834)	(8,038,736)
Taxes other than income tax		(4,428,659)	(4,870,314)
Exploration expenses		(992,773)	(737,803)
<b>Total operating expenses</b>		(155,301,732)	(145,081,435)
Other expenses, net		(985,884)	(1,076,601)
<b>Operating profit</b>		<b>37,572,316</b>	<b>38,804,731</b>
Net foreign exchange loss		(8,295,100)	753,285
Finance income		214,444	324,346
Finance expenses		(2,864,559)	(2,648,688)
<b>Total other expense</b>		(10,945,215)	(1,571,057)
<b>Profit before income tax</b>		<b>26,627,101</b>	<b>37,233,674</b>
Current income tax expense		(3,671,931)	(5,293,285)
Deferred income tax expense		(1,837,220)	(206,751)
<b>Total income tax expense</b>		(5,509,151)	(5,500,036)
<b>Profit for the period</b>		<b>21,117,950</b>	<b>31,733,638</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		14,579	21,755
Currency translation differences		(284,431)	(21,844)
<b>Other comprehensive (loss) profit for the period</b>		(269,852)	(89)
<b>Total comprehensive income for the period</b>		20,848,098	31,733,549
<b>Profit attributable to:</b>			
- Shareholders of Naftna Industrija Srbije		21,225,763	31,761,618
- Non-controlling interest		(107,813)	(27,980)
<b>Profit for the period</b>		<b>21,117,950</b>	<b>31,733,638</b>
<b>Total comprehensive income attributable to:</b>			
- Shareholders of Naftna Industrija Srbije		20,958,990	31,762,239
- Non-controlling interest		(110,892)	(28,690)
<b>Total comprehensive income for the period</b>		<b>20,848,098</b>	<b>31,733,549</b>
<b>Earnings per share attributable to shareholders of Naftna Industrija Srbije</b>			
- Basic earnings (RSD per share)		130.17	194.78
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**

NINE MONTH PERIOD ENDED 30 SEPTEMBER 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		-	-	31,761,618	31,761,618	(27,980)	31,733,638
<b>Other comprehensive income/(loss)</b>							
Change in value of available-for-sale financial assets		-	21,755	-	21,755	-	21,755
Currency translation differences		-	(21,134)	-	(21,134)	(710)	(21,844)
<b>Total comprehensive income (loss) for the period</b>		-	621	31,761,618	31,762,239	(28,690)	31,733,549
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)	886,564	(2,860)	-	(2,860)
<b>Balance as at 30 September 2013</b>		<b>81,530,200</b>	<b>(94,451)</b>	<b>71,067,268</b>	<b>152,503,017</b>	<b>(45,796)</b>	<b>152,457,221</b>
<b>Balance as at 1 January 2014</b>		81,530,200	(98,174)	87,564,495	168,996,521	(43,419)	168,953,102
Profit/(loss) for the period		-	-	21,225,763	21,225,763	(107,813)	21,117,950
<b>Other comprehensive income/(loss)</b>							
Change in value of available-for-sale financial assets		-	14,579	-	14,579	-	14,579
Currency translation differences		-	(281,352)	-	(281,352)	(3,079)	(284,431)
<b>Total comprehensive income (loss) for the period</b>		-	(266,773)	21,225,763	20,958,990	(110,892)	20,848,098
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)	(12,725)	(12,790)	12,728	(62)
<b>Balance as at 30 September 2014</b>		<b>81,530,200</b>	<b>(365,012)</b>	<b>95,696,828</b>	<b>176,862,016</b>	<b>(141,583)</b>	<b>176,720,433</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

	Nine month period ended 30 September	
	2014 (unaudited)	2013 (unaudited)
<b>Cash flows from operating activities</b>		
Profit before income tax	26,627,101	37,233,674
<b>Adjustments for:</b>		
Finance costs	2,864,559	2,648,688
Finance income	(214,444)	(324,346)
Depreciation, depletion and amortization	9,437,834	8,038,736
Adjustments for other provisions	494,308	1,419,545
Allowance for doubtful accounts	2,562,974	3,471,811
Payables write off	(15,095)	(160,162)
Net unrealised foreign exchange losses (gain), net	6,597,777	89,735
Other non-cash items	891,806	908,412
	22,619,719	16,092,419
<b>Changes in working capital:</b>		
Trade and other receivables	804,206	(10,259,957)
Inventories	2,848,262	8,166,071
Other current assets	(6,170,783)	(2,727,572)
Trade payables and other current liabilities	(16,834,235)	6,111,484
Other taxes payable	(1,737,954)	325,487
<b>Cash (used in) from operations</b>	<b>(21,090,504)</b>	<b>1,615,513</b>
Income taxes paid	(7,031,209)	(3,708,348)
Interest paid	(2,270,244)	(2,291,924)
Interest received	434,265	658,736
	(8,867,188)	(5,341,536)
<b>Net cash generated by operating activities</b>	<b>19,289,128</b>	<b>49,600,070</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries or other business, net of cash acquired	(952,777)	(798,469)
Acquisition of equity accounted investments	-	(1,008,221)
Loan proceeds received	-	32,000
Capital expenditures	(30,414,995)	(42,862,653)
Proceeds from sale of property, plant and equipment	179,649	145,781
Other (outflow) inflow	(1,485)	534,325
<b>Net cash used in investing activities</b>	<b>(31,189,608)</b>	<b>(43,957,237)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	33,851,022	21,696,382
Repayment of borrowings	(16,834,394)	(20,109,484)
Dividends paid	-	(12,364,129)
<b>Net cash generated by (used in) financing activities</b>	<b>17,016,628</b>	<b>(10,777,231)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>5,116,148</b>	<b>(5,134,398)</b>
Effect of foreign exchange on cash and cash equivalents	354,589	140,989
<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>14,178,512</b>	<b>7,076,488</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 legislation in the countries in which it operates (primarily Serbian). 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 nine month period ended 30 September 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 October 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, November 2013 and July 2014 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 January 1, 2018. IFRS 9 (2014) supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013), but these standards remain available for application if the relevant date of initial application is before February 1, 2015. 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.

Amendments to **IFRS 11 – Joint Arrangements** (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on accounting for acquisitions of interests in joint

operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Amendments to **IAS 16 – Property, Plant and Equipment** and **IAS 38 Intangible Assets** (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on clarification of acceptable methods of depreciation and amortization. In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its Consolidated Financial Statements.

**IFRS 15 – Revenue from Contracts with Customers** (issued in May 2014 and effective for annual periods beginning on or after January 1, 2017). The new standard introduces the core principle that revenue must be recognized when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group 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. The amendment has no significant impact on Group's Interim Condensed Consolidated Financial Statements.

#### 4. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the nine month period ended 30 September 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 nine month period ended 30 September 2014 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	63,510,022	191,675,625	(61,325,715)	193,859,932
Intersegment	60,416,223	909,492	(61,325,715)	-
External	3,093,799	190,766,133	-	193,859,932
EBITDA (Segment results)	51,504,503	(4,191,738)	-	47,312,765
Depreciation, depletion and amortization	(3,007,622)	(6,430,212)	-	(9,437,834)
Impairment losses	8	56,512	-	56,520
Net foreign exchange loss	(91,554)	(8,203,546)	-	(8,295,100)
Finance expenses, net	(231,103)	(2,419,012)	-	(2,650,115)
Income tax	(484,651)	(5,024,500)	-	(5,509,151)
<b>Segment profit (loss)</b>	<b>47,374,186</b>	<b>(26,256,236)</b>	<b>-</b>	<b>21,117,950</b>

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	67,815,567	180,934,850	(63,787,650)	184,962,767
Intersegment	63,652,547	135,103	(63,787,650)	-
External	4,163,020	180,799,747	-	184,962,767
EBITDA (Segment results)	58,534,397	(10,876,412)	-	47,657,985
Depreciation, depletion and amortization	(2,479,932)	(5,558,804)	-	(8,038,736)
Impairment losses	(108)	(11,690)	-	(11,798)
Net foreign exchange gain (loss)	(59,139)	812,424	-	753,285
Finance expenses, net	(234,673)	(2,089,669)	-	(2,324,342)
Income tax	(710,976)	(4,789,060)	-	(5,500,036)
<b>Segment profit (loss)</b>	<b>54,436,317</b>	<b>(22,702,679)</b>	<b>-</b>	<b>31,733,638</b>

EBITDA for the nine month period ended 30 September 2014 and 2013 is reconciled below:

	Nine month period ended 30 September	
	2014	2013
Profit for the period	21,117,950	31,733,638
Income tax expenses	5,509,151	5,500,036
Finance expenses	2,864,559	2,648,688
Finance income	(214,444)	(324,346)
Depreciation, depletion and amortization	9,437,834	8,038,736
Net foreign exchange loss	8,295,100	(753,285)
Other expense, net	985,884	1,076,601
Other non-operating expense (income), net*	(683,269)	(262,083)
<b>EBITDA</b>	<b>47,312,765</b>	<b>47,657,985</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):

	Nine month period ended 30 September 2014		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	2,584,262	2,584,262
Sale of gas	3,026,403	-	3,026,403
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	3,026,403	-	3,026,403
Sale of petroleum products	145,749,113	36,478,677	182,227,790
<i>Through a retail network</i>	45,172,122	-	45,172,122
<i>Wholesale activities</i>	100,576,989	36,478,677	137,055,666
Other sales	5,926,361	95,118	6,021,479
<b>Total sales</b>	<b>154,701,875</b>	<b>39,158,057</b>	<b>193,859,932</b>

	Nine month period ended 30 September 2013		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	3,548,453	3,548,453
Sale of gas	2,738,764	-	2,738,764
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	2,738,764	-	2,738,764
Sale of petroleum products	147,675,011	27,396,577	175,071,588
<i>Through a retail network</i>	46,549,522	-	46,549,522
<i>Wholesale activities</i>	101,125,489	27,396,577	128,522,066
Other sales	3,597,823	6,139	3,603,962
<b>Total sales</b>	<b>154,011,598</b>	<b>30,951,169</b>	<b>184,962,767</b>

Out of the amount of 137,055,666 RSD (2013: 128,522,066 RSD) revenue from sale of petroleum products (wholesale), the amount of 20,187,745 RSD (2013: 25,374,764 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 154,701,875 RSD (nine month period ended 30 September 2013: 154,011,598 RSD), and the total of revenue from external customer from other countries is 39,158,057 RSD (nine month period ended 30 September 2013: 30,951,169 RSD). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Nine month period ended 30 September	
	2014	2013
Sale of crude oil	2,584,262	3,548,453
Sale of petroleum products (retail and wholesale)		
Bulgaria	5,247,049	1,861,177
BIH	5,798,904	4,567,156
Romania	2,121,843	1,066,113
All other markets	23,310,881	19,902,131
	36,478,677	27,396,577
Other sales	95,118	6,139
	<b>39,158,057</b>	<b>30,951,169</b>

## 5. CASH AND CASH EQUIVALENTS

	30 September 2014	31 December 2013
Cash in bank and in hand	11,912,182	6,068,422
Deposits with original maturity of less than three months	375,326	769,607
Cash held on escrow account	1,645,429	1,650,878
Cash equivalents	245,575	218,868
	<b>14,178,512</b>	<b>8,707,775</b>

## 6. TRADE AND OTHER RECEIVABLES

	30 September 2014	31 December 2013
Trade receivables:		
- related parties	59,125	3,537
- third parties	74,647,692	74,579,495
	74,706,817	74,583,032
Accrued assets	43,723	1,383,654
Other receivables	10,309,631	9,834,081
	85,060,171	85,800,767
Less impairment provision	(29,748,094)	(29,682,881)
<b>Total trade and other receivables</b>	<b>55,312,077</b>	<b>56,117,886</b>

The ageing of trade receivables is as follows:

	30 September 2014	31 December 2013
Up to 3 months	38,285,745	38,816,285
Over 3 months	36,421,072	35,766,747
	<b>74,706,817</b>	<b>74,583,032</b>

As at 30 September 2014 out of 36,421,072 RSD of overdue receivables (31 December 2013: 35,766,747 RSD), trade receivables in amount of 21,633,109 RSD (31 December 2013: 21,855,267 RSD) were fully provided for. The remaining amount of 14,787,963 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:

	30 September 2014	31 December 2013
Up to 3 months	66,583	1,098,697
Over 3 months	21,566,526	20,756,570
	<b>21,633,109</b>	<b>21,855,267</b>

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

	30 September 2014	31 December 2013
RSD	72,104,483	72,933,102
EUR	10,445,545	10,382,718
USD	1,757,912	2,229,144
Other	752,231	255,803
	<b>85,060,171</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)	554,563	-	554,563
Unused amounts reversed (note 18)	(757,345)	-	(757,345)
Transfer from non-current to current part	-	1,591,471	1,591,471
Other	56,781	413,505	470,286
<b>As at 30 September 2013</b>	<b>21,214,757</b>	<b>7,825,040</b>	<b>29,039,797</b>
<b>As at 1 January 2014</b>	21,855,267	7,827,614	29,682,881
Provision for receivables impairment (note 18)	333,422	-	333,422
Unused amounts reversed (note 18)	(487,566)	-	(487,566)
Other	(68,014)	287,371	219,357
<b>As at 30 September 2014</b>	<b>21,633,109</b>	<b>8,114,985</b>	<b>29,748,094</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 September 2014	31 December 2013
Crude oil	21,075,854	25,490,951
Gas	174,132	98,558
Petroleum products	14,209,054	13,624,136
Materials and supplies	8,540,747	7,617,850
Other	577,775	767,490
Less impairment provision	(6,765,844)	(6,939,005)
	<b>37,811,718</b>	<b>40,659,980</b>

**8. OTHER CURRENT ASSETS**

	<b>30 September 2014</b>	<b>31 December 2013</b>
Advances paid	698,704	799,548
VAT receivables	1,218,684	1,939,549
Deferred VAT	1,359,152	2,681,103
Prepaid expenses	223,577	137,145
Prepaid custom duties	63,584	57,272
Prepaid excise	6,498,616	1,441,590
Other current assets	21,105,345	18,269,246
Less impairment provision	(20,564,382)	(17,959,692)
	<b>10,603,280</b>	<b>7,365,761</b>

Deferred VAT as at 30 September 2014 amounting to 1,359,152 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 September 2014 amounting to 6,498,616 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:

	<b>Advances paid</b>	<b>Other current assets</b>	<b>Total</b>
<b>As at 1 January 2013</b>	373,071	13,193,909	13,566,980
Provision for other current assets impairment (note 18)	12,460	3,778,140	3,790,600
Unused amounts reversed (note 18)	(2,492)	(116,050)	(118,542)
Other	-	(13,306)	(13,306)
<b>As at 30 September 2013</b>	<b>383,039</b>	<b>16,842,693</b>	<b>17,225,732</b>
<b>As at 1 January 2014</b>	253,069	17,706,623	17,959,692
Provision for other current assets impairment (note 18)	260	2,776,371	2,776,631
Unused amounts reversed (note 18)	(12,073)	(54,171)	(66,244)
Other	(780)	(104,917)	(105,697)
<b>As at 30 September 2014</b>	<b>240,476</b>	<b>20,323,906</b>	<b>20,564,382</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 September 2013</b>						
Additions	7,886,593	10,088,829	5,689,888	947,737	6,481,162	31,094,209
Acquisitions through business combinations	-	-	3,815,388	-	257,771	4,073,159
Impairment	-	-	(8,341)	-	(932)	(9,273)
Depreciation	(2,247,737)	(3,654,588)	(1,011,449)	(502,111)	(3,029)	(7,418,914)
Transfer to investment property	-	-	(1,195)	(2,455)	(4,810)	(8,460)
Disposals and write-off	-	(299)	(253,787)	(12,687)	(960,511)	(1,227,284)
Other transfers	5,547	(10,132)	6,686	5,859	(116,073)	(108,113)
Translation differences	23	-	182,325	(4,862)	27,183	204,669
	38,554,029	79,432,563	28,310,609	11,077,168	29,147,189	186,521,558
<b>As at 30 September 2013</b>						
Cost	55,075,809	106,418,740	42,200,499	19,081,284	33,455,696	256,232,028
Depreciation and impairment	(16,521,780)	(26,986,177)	(13,889,890)	(8,004,116)	(4,308,507)	(69,710,470)
<b>Net book value</b>	<b>38,554,029</b>	<b>79,432,563</b>	<b>28,310,609</b>	<b>11,077,168</b>	<b>29,147,189</b>	<b>186,521,558</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 September 2014</b>						
Additions	14,786,627	3,118,838	3,227,828	515,922	6,334,297	27,983,512
Acquisitions through business combinations	-	-	-	-	789,440	789,440
Impairment	-	-	(37,097)	-	(15,200)	(52,297)
Depreciation	(2,742,161)	(3,906,254)	(1,526,809)	(537,883)	(3,975)	(8,717,082)
Transfer from investment property	35,121	9,358	14,768	7,399	-	66,646
Disposals and write-off	(13,708)	(2,785)	(190,646)	(43,995)	(1,296,968)	(1,548,102)
Other transfers	251,340	(585,085)	(170,261)	468,827	(352,681)	(387,860)
Translation differences	123	-	563,072	-	155,851	719,046
	53,036,043	78,645,605	33,824,061	11,548,128	46,731,987	223,785,824
<b>As at 30 September 2014</b>						
Cost	73,114,835	110,233,286	48,105,238	20,115,052	50,797,023	302,365,434
Depreciation and impairment	(20,078,792)	(31,587,681)	(14,281,177)	(8,566,924)	(4,065,036)	(78,579,610)
<b>Net book value</b>	<b>53,036,043</b>	<b>78,645,605</b>	<b>33,824,061</b>	<b>11,548,128</b>	<b>46,731,987</b>	<b>223,785,824</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 September 2013</b>						
Additions	5,367,659	11,222,678	16,590,337	-	-	16,590,337
Transfer to assets other than O&G	-	(6,162)	(6,162)	-	-	(6,162)
Transfer from asset under construction	(50,904)	(8,534,940)	(8,585,844)	8,585,826	18	-
Other transfers	668	(17,466)	(16,798)	(699,576)	(46)	(716,420)
Depreciation and depletion	(2,362)	-	(2,362)	(2,247,735)	-	(2,250,097)
Disposals and write-off	(704,773)	(10,230)	(715,003)	-	-	(715,003)
Translation differences	26,539	-	26,539	5,911	-	32,450
	10,987,441	7,665,064	18,652,505	38,554,029	13,284	57,219,818
<b>As at 30 September 2013</b>						
Cost	10,994,417	7,968,228	18,962,645	55,075,809	122,115	74,160,569
Depreciation and impairment	(6,976)	(303,164)	(310,140)	(16,521,780)	(108,831)	(16,940,751)
<b>Net book amount</b>	<b>10,987,441</b>	<b>7,665,064</b>	<b>18,652,505</b>	<b>38,554,029</b>	<b>13,284</b>	<b>57,219,818</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 September 2014</b>						
Additions	4,534,056	14,532,792	19,066,848	-	-	19,066,848
Transfer from asset under construction	(1,948,341)	(12,838,286)	(14,786,627)	14,786,627	-	-
Other transfers	50,654	(380,606)	(329,952)	251,340	(81)	(78,693)
Depreciation and depletion	(3,517)	-	(3,517)	(2,742,161)	-	(2,745,678)
Transfer from investment property	-	-	-	35,121	-	35,121
Disposals and write-off	(1,081,140)	(366,825)	(1,447,965)	(13,708)	-	(1,461,673)
Translation differences	110,000	-	110,000	123	-	110,123
	14,872,932	14,106,123	28,979,055	53,036,043	13,162	82,028,260
<b>As at 30 September 2014</b>						
Cost	14,887,576	14,344,182	29,231,758	73,114,835	33,472	102,380,065
Depreciation and impairment	(14,644)	(238,059)	(252,703)	(20,078,792)	(20,310)	(20,351,805)
<b>Net book amount</b>	<b>14,872,932</b>	<b>14,106,123</b>	<b>28,979,055</b>	<b>53,036,043</b>	<b>13,162</b>	<b>82,028,260</b>

**10. OTHER NON-CURRENT ASSETS**

	<b>30 September 2014</b>	<b>31 December 2013</b>
Advances paid for PPE	3,802,036	6,481,062
Prepaid expenses	981,697	1,033,330
Other assets	1,139,107	1,083,046
Less impairment provision	(29,257)	(29,899)
	<b>5,893,583</b>	<b>8,567,539</b>

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

	<b>30 September 2014</b>	<b>31 December 2013</b>
Short-term loans	2,368,620	300,029
Interest liabilities	189,934	136,403
Current portion of long-term loans (note 15)	24,131,000	27,596,332
Current portion of finance lease liabilities (note 15)	239	22,081
	<b>26,689,793</b>	<b>28,054,845</b>

**12. TRADE AND OTHER PAYABLES**

	<b>30 September 2014</b>	<b>31 December 2013</b>
Trade payables		
- related parties	19,204,236	37,925,059
- third parties	11,472,332	13,507,743
Dividends payable	16,853,014	3,772,308
Other accounts payable	70,118	70,905
	<b>47,599,700</b>	<b>55,276,015</b>

As at 30 September 2014 payables to related parties amounting to 19,204,236 RSD (31 December 2013: 37,925,059 RSD) mainly relate to payables to the supplier Gazprom Neft Trading Austria in the amount of 19,202,511 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 September 2014</b>	<b>31 December 2013</b>
Advances received	996,012	892,243
Payables to employees	2,848,180	2,636,098
Accruals and deferred income	41,697	24,020
Other current non-financial liabilities	17,585	6,970
	<b>3,903,474</b>	<b>3,559,331</b>

**14. OTHER TAXES PAYABLE**

	<b>30 September 2014</b>	<b>31 December 2013</b>
Mineral extraction tax	572,410	522,953
VAT	1,418,219	517,592
Excise tax	2,643,397	4,312,273
Custom duties	51,618	1,624,014
Other taxes	2,268,287	1,724,223
	<b>6,953,931</b>	<b>8,701,055</b>

**15. LONG-TERM DEBT**

	<b>30 September 2014</b>	<b>31 December 2013</b>
Long-term loans - Gazprom Neft	48,369,553	50,655,813
Bank loans	62,438,831	37,948,303
Finance lease liabilities	151,763	107,689
Other long-term borrowings	75,825	40,486
Less Current portion	(24,131,239)	(27,618,413)
	<b>86,904,733</b>	<b>61,133,878</b>

## Bank loans

	30 September 2014	31 December 2013
Domestic	9,903,301	12,048,569
Foreign	52,535,530	25,899,734
	62,438,831	37,948,303
Current portion of long-term loans	(18,603,051)	(22,264,141)
	<b>43,835,780</b>	<b>15,684,162</b>

The maturity of bank loans was as follows:

	30 September 2014	31 December 2013
Between 1 and 2 years	6,574,549	2,926,308
Between 2 and 5 years	31,876,586	6,871,962
Over 5 years	5,384,645	5,885,892
	<b>43,835,780</b>	<b>15,684,162</b>

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

	30 September 2014	31 December 2013
USD	52,631,671	28,343,857
EUR	9,432,574	8,961,940
RSD	1,607	280,783
JPY	372,979	361,723
	<b>62,438,831</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 September 2014 and 31 December 2013 are presented in the table below:

Creditor	Currency	30 September 2014	31 December 2013
<b>Domestic long-term loans</b>			
Erste bank, Novi Sad	USD	300,503	279,719
Erste bank, Novi Sad	EUR	449,859	454,900
Bank Postanska stedionica, Belgrade	EUR	221,019	225,341
Bank Postanska stedionica, Belgrade	USD	1,626,671	1,526,400
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR		4,459,990
UniCredit bank, Belgrade	USD	2,808,606	4,821,436
UniCredit bank, Belgrade	RSD	-	278,900
Other loans	RSD	1,607	1,883
		<b>9,903,301</b>	<b>12,048,569</b>
<b>Foreign long-term loans</b>			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	552,156	518,612
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	372,979	361,723
Erste bank, Holland	EUR	3,565,527	3,439,263
Erste bank, Holland	USD	6,085,313	5,403,333
VUB (Bank Intesa), Slovakia	USD	14,043,030	8,312,820
NBG bank, Great Britain	USD	4,681,010	2,493,846
Alpha bank, Great Britain	USD	7,087,049	3,325,128
Piraeus bank, Great Britain	USD	-	1,662,563
Sberbank Europe AG, Vienna, Austria	USD	15,447,333	-
NeftgazInKor, Russian Federation	EUR	304,646	-
Neftgazovaja Inovacionnaja Korporacija, Russian Federation	EUR	396,487	382,446
		<b>52,535,530</b>	<b>25,899,734</b>
Less current portion of long-term loans		(18,603,051)	(22,264,141)
		<b>43,835,780</b>	<b>15,684,162</b>



	Currency	Current portion		Long-term	
		30 September 2014	31 December 2013	30 September 2014	31 December 2013
<b>Domestic long - term loans</b>					
Erste bank, Novi Sad	USD	16,822	13,070	283,681	266,649
Erste bank, Novi Sad	EUR	24,934	20,972	424,925	433,928
Bank Postanska stedionica, Belgrade	EUR	12,250	12,148	208,769	213,193
Bank Postanska stedionica, Belgrade	USD	90,161	82,030	1,536,510	1,444,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	257,382	248,267	4,237,654	4,211,723
UniCredit bank, Belgrade	USD	2,808,606	4,821,436	-	-
UniCredit bank, Belgrade	RSD	-	278,900	-	-
Other loans	RSD	350	369	1,257	1,514
		3,210,505	5,477,192	6,692,796	6,571,377
<b>Foreign long-term loans</b>					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	38,287	30,197	513,869	488,415
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	20,673	16,978	352,306	344,745
Erste bank, Holland	EUR	3,565,527	3,439,263	-	-
Erste bank, Holland	USD	-	-	6,085,313	5,403,333
VUB (Bank Intesa), Slovakia	USD	-	8,312,820	14,043,030	-
NBG bank, Great Britain	USD	4,681,010	-	-	2,493,846
Alpha bank, Great Britain	USD	7,087,049	3,325,128	-	-
Piraeus bank, Great Britain	USD	-	1,662,563	-	-
Sberbank Europe AG, Vienna, Austria	USD	-	-	15,447,333	-
NeftgazInKor, Russian Federation	EUR	-	-	304,646	-
Neftgazovaja Inovacionnaja Korporacija, Russian Federation	EUR	-	-	396,487	382,446
		15,392,546	16,786,949	37,142,984	9,112,785
		<b>18,603,051</b>	<b>22,264,141</b>	<b>43,835,780</b>	<b>15,684,162</b>

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

	Nine month period ended 30 September	
	2014	2013
Crude oil	78,342,229	86,958,898
Petroleum products	31,213,311	13,583,076
Other	36,880	506,689
	<b>109,592,420</b>	<b>101,048,663</b>

**17. PRODUCTION AND MANUFACTURING EXPENSES**

	Nine month period ended 30 September	
	2014	2013
Employee costs	5,326,551	5,825,105
Materials and supplies (other than purchased oil, petroleum products and gas)	1,633,922	1,204,996
Repair and maintenance services	2,240,185	1,244,102
Electricity and utilities	2,201,905	1,163,944
Safety and security expense	83,904	113,016
Transportation expense	1,016,155	467,387
Other	1,127,640	626,127
	<b>13,630,262</b>	<b>10,644,677</b>

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

	<b>Nine month period ended 30 September</b>	
	<b>2014</b>	<b>2013</b>
Employee costs	7,410,650	11,380,629
Legal, audit, and consulting services	1,358,962	1,015,933
Rent expense	285,819	273,965
Business trips expense	275,234	331,460
Safety and security expense	397,681	298,038
Insurance expense	199,769	196,458
Transportation and storage	361,904	331,880
Allowance for doubtful accounts	2,556,243	3,469,276
Other	3,576,141	1,638,603
	<b>16,422,403</b>	<b>18,936,242</b>

**19. BUSINESS COMBINATIONS***Acquisition of petrol stations*

In 2014, as a part of regional expansion, the Group has acquired 5 petrol stations (PS), four in Bulgaria and one in Serbia. As a result of the acquisitions, the Group is expected to further increase its presence in these markets.

<b>Name of acquire</b>	<b>Date of acquisition</b>	<b>Percentage of equity interests acquired</b>
<i>Bulgaria</i>		
Bansko	6/6/2014	100%
Čeren Kos	6/4/2014	100%
Ruse	6/16/2014	100%
Haskovo	6/5/2014	100%
<i>Serbia</i>		
SSG Sava Centar	7/21/2014	100%

The following table summarises the consideration paid for acquired PS in the nine month period ended 30 September 2014, the fair value of assets acquired and liabilities assumed.

	<b>Nine month period ended 30 September 2014</b>		
	<b>Bulgaria</b>	<b>Serbia</b>	<b>Total</b>
<b>Purchase consideration:</b>			
Cash paid	499,235	332,353	831,588
<b>Total purchase consideration</b>	499,235	332,353	831,588
Fair value of net identifiable assets acquired	457,087	332,353	789,440
<b>Goodwill</b>	<b>42,148</b>	-	<b>42,148</b>

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

	<b>Bulgaria</b>	<b>Serbia</b>	<b>Total</b>
Property, plant and equipment	457,087	332,353	789,440
<b>Net identifiable assets acquired</b>	<b>457,087</b>	<b>332,353</b>	<b>789,440</b>

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

In same period ended 30 September 2013, Group acquired 3 petrol stations, one in Bulgaria and two in Romania and 100% of the share capital of OMV BH for total consideration paid in amount of 3,939,086 RSD for net identifiable asset acquired in amount of 2,723,006 RSD and goodwill in amount 1,216,080 RSD.

**20. CONTINGENT LIABILITIES***Finance Guarantees*

As at 30 September 2014 the total amount of outstanding finance guarantees given by the Group amounted to 3,672,181 RSD mostly related to customs duties in the amount of 1,909,638 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 540,632 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 September 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 September 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.

**21. GROUP ENTITIES**

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

Subsidiary	Country of incorporation	Share %	
		30 September 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

## 22. 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 nine month period ended 30 September 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 September 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 September 2014</b>				
Trade and other receivables	-	59,125	81,413	140,538
Investments in joint venture	-	-	1,008,221	1,008,221
Trade and other payables	-	(19,204,236)	-	(19,204,236)
Other current liabilities	-	(36,391)	-	(36,391)
Short-term debt and current portion of long-term debt	(5,527,949)	-	-	(5,527,949)
Long-term debt	(42,841,604)	-	-	(42,841,604)
	<b>(48,369,553)</b>	<b>(19,181,502)</b>	<b>1,089,634</b>	<b>(66,461,421)</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 nine month period ended 30 September 2014 and 2013 the following transaction occurred with related parties:

	Parent company	Entities under common control	Joint venture	Total
<b>Nine month period ended 30 September 2014</b>				
Petroleum products and oil and gas sales	-	1,801,575	-	1,801,575
Purchases of oil, gas and petroleum products	-	(71,151,887)	-	(71,151,887)
Production and manufacturing expenses	(8,002)	(22,715)	-	(30,717)
Selling, general and administrative expenses	(28,909)	-	-	(28,909)
Other expenses, net	(4,556)	(1,546)	-	(6,102)
Finance expense	(882,508)	-	-	(882,508)
	<b>(923,975)</b>	<b>(69,374,573)</b>	<b>-</b>	<b>(70,298,548)</b>

	Parent company	Entities under common control	Joint venture	Total
<b>Nine month period ended 30 September 2013</b>				
Petroleum products and oil and gas sales	-	85,602	-	85,602
Purchases of oil, gas and petroleum products	-	(77,668,797)	-	(77,668,797)
Production and manufacturing expenses	(3,879)	(14,741)	-	(18,620)
Selling, general and administrative expenses	(28,909)	-	-	(28,909)
Other expenses, net	(4,437)	(92,329)	-	(96,766)
Finance expense	(921,464)	-	-	(921,464)
	<b>(958,689)</b>	<b>(77,690,265)</b>	<b>-</b>	<b>(78,648,954)</b>

### 23. 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 September 2014.

### 24. 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 September 2014 drilling and exploration works for Block 2 were estimated to 13.0 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 September 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) RAG Kiha, together with Rag Hungary, becoming a 50 % quota holder. With this agreement on newly founded company were tranfered exploration licences in Kelebia area. On 30 September 2014 drilling and exploration works were estimated to 1.12 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 September 2014 drilling and exploration works were estimated to 0.36 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 September 2014 drilling and exploration works were estimated to 0.33 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 September 2014 drilling and exploration works were estimated to 6.2 USD million.

## **25. 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 September 2014 were evaluated through 22 October 2014, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

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**Novi Sad, 22 October 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>39</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>39</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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