

**Q2
2015**



NIS

GAZPROM NEFT

QUARTERLY REPORT



The Quarterly Report of NIS j.s.c. Novi Sad for second quarter of 2015 represents a comprehensive review of NIS Group's development and performance in second quarter of 2015, as well as for first six months of 2015. The report includes and presents data on NIS Group, which includes NIS j.s.c. Novi Sad and its subsidiaries. If the data refers only to certain subsidiaries or only to NIS j.s.c. Novi Sad, this has been pointed out in the report. The terms "NIS j.s.c. Novi Sad" and "Company" refer to the parent company NIS j.s.c. Novi Sad, whereas the terms "NIS" and "NIS Group" refer to NIS j.s.c. Novi Sad with its subsidiaries.

In accordance with the Law on Capital Market, the Report consists of three parts: the business report, financial statements (stand-alone and consolidated), and the statement of the persons responsible for the preparation of the Report.

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FOREWORD

In the second quarter of 2015, owing to increased internal efficiency and consistent implementation of the saving programme in all business areas, NIS managed to not only mitigate the negative trends from first quarter of 2015, but to also overcome them and record positive results. The support and commitment of all employees have certainly contributed to this, as well as the reliance upon internal resources in successfully dealing with the current economic crisis.

Despite unfavourable macroeconomic indicators and crude oil prices, which dropped by nearly 50% in the global market compared to the same period last year, the total petroleum product sales rose by 3% in the first six months compared to the first half-year of 2014. NIS continued to invest in its own development – the first six months of 2015 saw 12.5 billion dinars worth of investments.

In the area of energy, an agreement was signed between Centroenergoholding (part of the Gazprom Energoholding Group) and NIS on the establishment of the company Serbskaya Generaciya, which will implement the project of construction of a thermal power plant in Pančevo, with the total capacity of 140 MWt, expandable to 208 MWt. In addition, in first 6M 2015 four small-scale electricity generating plants were put into operation – Bradarac, Velebit 3, Turija, and Sirakovo 2. In Sales and Distribution, Belgrade saw the opening of the first petrol stations under the GAZRPOM brand. In Exploration and Production, trial exploitation started of the wells Kiha-003 in the Kishkunhalash Block in Hungary, and Obudovac-2 in the exploration block in Bosnia and Herzegovina. Oil and gas production stood at 795 thousand toe, which is a one per cent increase compared to the business plan. At the 7th Ordinary Meeting of the NIS Shareholders Assembly, a decision was passed on the payment of dividends to NIS shareholders in the amount of 25 per cent of last year's net profits. Specifically, the total gross figure of 7.6 billion dinars was set aside for the payment of dividends, i.e. 46.85 dinars gross per share.

Nonetheless, unfavourable macroeconomic indicators, resulting from low oil prices and effects of exchange rate losses, adversely affected the EBITDA indicator, which stands at 21 billion dinars for the first six months of 2015 – a 32% drop compared to the same period last year. In addition, the realized net profit amounting to 5 billion dinars is less than last year's. Still, the results are an improvement compared to Q1, when we had net losses in the amount of 4.7 billion dinars.

The company plans to maintain the trend of increasing operational efficiency. The estimated effect of measures for the whole of 2015 is 9.24 billion dinars, with 2.76 billion realized in the six months. Moreover, the development and modernization of the retail network and further introduction of innovation in business will continue. As part of the promotion of corporate social responsibility values that the company is committed to, and in line with its slogan "Future At Work", NIS will continue to conduct its business being mindful of the community's interests, the protection of the environment, and its employees, who are major contributors to the company's business successes through the successful performance of their duties.

BUSINESS REPORT

KEY EVENTS

January

- The Quality of Aviation Fuel Produced in Pančevo Oil Refinery Recognized by the World's Companies
- NIS BoD adopted the Business Plan for 2015
- Respectful Acknowledgement by the Basketball Federation of Serbia to NIS
- NIS Rewarded for Support to the International Minibasket Festival
- According to the survey conducted by "Blic" daily newspaper, the Chief Executive Officer of NIS, Kirill Kravchenko, was elected the most powerful foreign national in Serbia in 2014 for the sixth consecutive year
- Small power plants were put into operation at Bradarac and Velebit oil fields
- Extraordinary session of the Shareholders' Assembly

February

- Operations concerning the compressed natural gas production unit started at Novi Sad petrol station - the first NIS' petrol station with CNG installations
- Small power plant Turija started operating
- NIS awarded with prestigious "SAP Quality Award 2014"

March

- NIS released audited consolidated financial statements for 2014
- NIS supports 43rd International Film Festival (FEST)
- Signing the Strategic Cooperation Agreement marks the continuation of cooperation between NIS and the University of Novi Sad

April

- In collaboration with the Serbian Embassy in Belgium and the Energy Charter Secretariat, NIS organised a round-table meeting entitled "Serbia and the EU: Challenges and Opportunities Ahead" in a congress centre in Brussels.
- For the third consecutive year, NIS supported Balkan Trafik Festival, a music festival aimed at promoting the Balkan culture and art.
- NIS-supported project Employment through Education was completed; the project was aimed at providing education for specific professions which are deficient in the Company

May

- As part of the public competition Together for the Community, NIS is funding 152 projects in 2015 which are aimed at improving the living standards in the local communities in which it operates and promoting their development.
- Board of Directors of NIS reviewed the Company's Annual Report for 2014 and the Quarterly Report for First Quarter of 2015.
- NIS published its consolidated financial statements for the first quarter of 2015
- NIS opened the first Gazprom-branded petrol station "Avalski put" in Belgrade

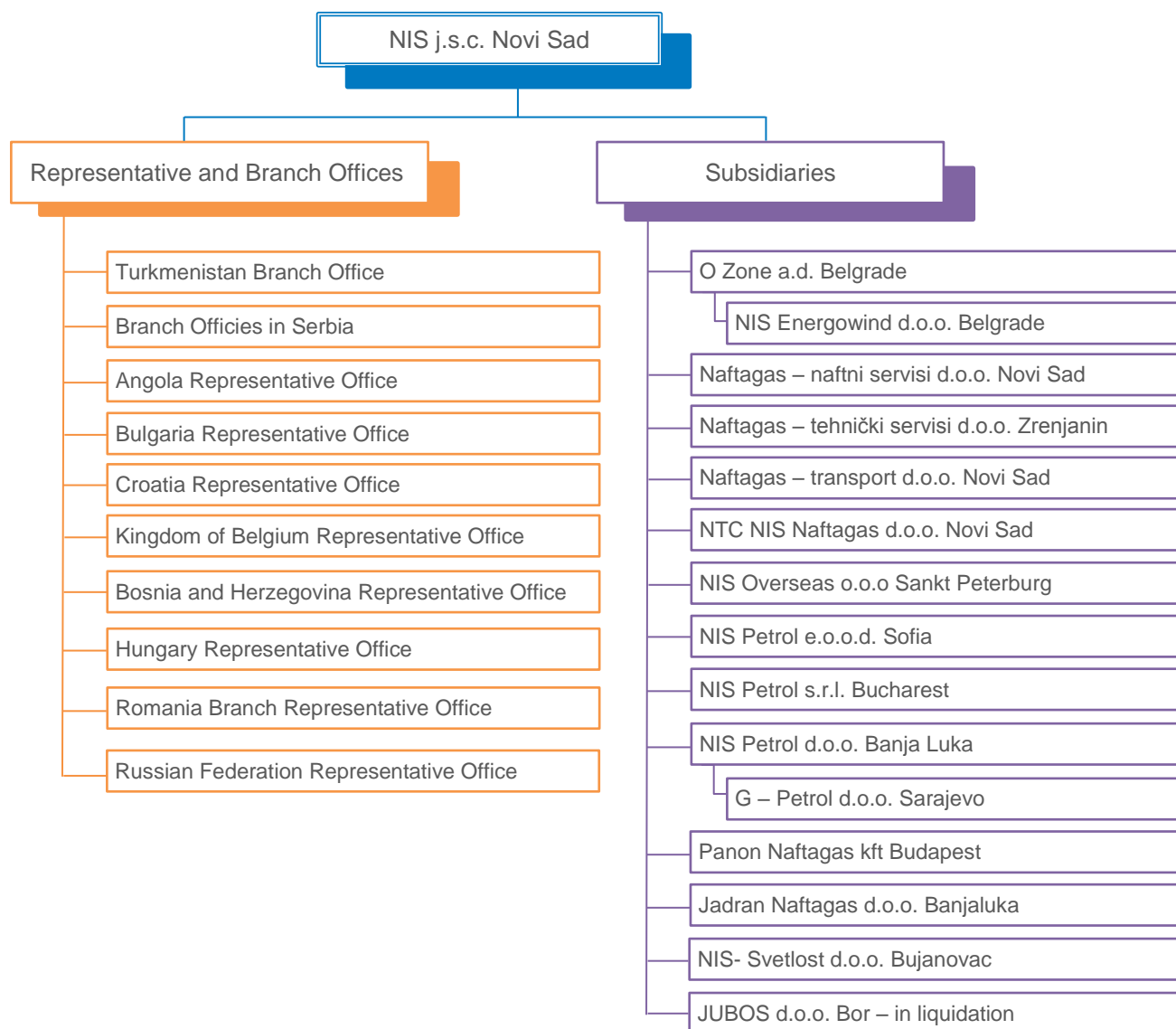
June

- NIS received the Best of Serbia Award 2014 for corporate brand.
- CentroEnergoHolding OJSC and NIS signed an agreement to establish Serbskaya Generaciya LLC Novi Sad that will implement the project for the construction of a thermal power plant in Pančevo.
- NIS held its 7th Shareholders' Meeting and adopted the Decision on 2014 Profit Distribution, Dividend Payment and Determination of the Total Amount of Retained Earnings of the Company.
- Modernisation of the Pančevo Oil Refinery continued this year through four investments – completion of the third stage of loading terminal modernisation, closed drainage system for process equipment, implementation of diesel fuel production increase programme and Closed Sampling System Project

NIS GROUP PROFILE

NIS Group is one of the largest vertically-integrated energy systems in South East Europe. With administrative offices in Novi Sad and Belgrade and major facilities distributed throughout Serbia, NIS is engaged in research, production and refining of crude oil and natural gas, transport of a wide range of petroleum and gas products, and the implementation of projects in the field of energy. NIS is an international company with an international team of experts and it operates in ten countries.

NIS GROUP'S BUSINESS STRUCTURE¹



¹According to the Law on Tourism of the Republic of Serbia, if a company does not operate a hospitality business as a core activity, in order to perform these activities, the company is obliged to form a branch, i.e. with premises outside its business seat, and register it in the appropriate registry, or otherwise establish an appropriate organizational unit that is recorded in the Tourism Registry. For this reason, the Company registered all petrol stations where it operates a hospitality business as separate branches. The list of petrol stations which are registered as branches is posted on the website: <http://ir.nis.eu/about-the-company/group-structure-hide/>

Liquidation of JUBOS d.o.o. Bor was initiated on 21 April 2015

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

Business Name:	NIS a.d. Novi Sad
Company Identity Number::	20084693
Address	Novi Sad. Narodnog fronta 12
Tax ID:	104052135
Web site:	www.nis.eu
e-mail:	office@nis.eu
Activity:	0610 - exploitation of crude oil
Number and date of registration in BRA:	БД 92142, 29.09.2005
Total equity as at June, 30 th 2015	193,391,933,000 RSD
Share capital as at June, 30 th 2015	81,530,200,000 RSD
Number of employees as at June, 30 th 2015	3,938 ²
Audit company that audited the last financial report (dated December 31 st 2014.):	KPMG d.o.o. Belgrade 11, Kraljice Natalije Str., Belgrade
Organized market where Shares of the Issuer are traded in	Belgrade Stock Exchange 1, Omladinskih brigada Str. Belgrade. Serbia

BUSINESS ACTIVITIES

NIS Group's business activities are organized within the parent company NIS j.s.c. Novi Sad in:

Five Blocks

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

Partially de-centralized Functions

- Function for Finance, Economics, Planning and Accounting
- Function for Strategy and Investments
- 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 Affairs and Government Relations
- Function for Public Relations and Communications
- Function for Internal Audit³

Although not singled out as a separate function, one of the CEO's Deputies is in charge of the petrochemical business.

Exploration and Production Block covers the area of exploration and production of crude oil and gas, namely: exploration, production, infrastructure and operational support for the production and

² Without the employees outsourced via service companies and without the employees of subsidiary companies and representative offices

³ Function for Internal Audit is subordinate to the CEO, but also reports to the Audit Committee of the Board of Directors

management of oil and gas reserves, management and development of oil and gas deposits and major projects in the field of exploration and production.

Oil and gas exploitation is currently performed in the northern part of the Republic of Serbia, in Vojvodina. In Angola, NIS operates since 1980, and in 1985 it began oil production in the country. NIS is conducting oil and gas exploration projects in the Republic of Srpska (Jadran Naftagas d.o.o. Banja Luka), Hungary (Pannon Naftagas Kft, Budapest) and Romania (NIS Petrol s.r.l. Bucharest).

The facility for LPG production in Elemir operates within the Exploration and Production Block. Total projected capacity of this facility is 63,000 tons of LPG and natural gasoline (gazolin) per annum.

Through its subsidiary Scientific and Technological Centre (NTC) NIS Naftagas d.o.o. Novi Sad, NIS provides scientific and technical support to the prevailing activity of the parent company and ensures development and innovation within its business operations. As a regional base, this subsidiary should meet the needs of NIS, OJSC "Gazprom Neft" and its subsidiaries, but also provide external services to third parties outside NIS and Serbia.

Services Block provides major support for exploration and production in all processes of exploration and production of oil and gas from geophysical services, drilling and workover of wells, to the process of transportation of assets, maintenance of work equipment and construction and maintenance of oil and gas systems and facilities. Services Block also provides service of transportation of employees.

Refining Block is engaged in the production of petroleum products (of Euro-quality standard). NIS produces a full range of petroleum products: motor fuels, raw materials for the petrochemicals industry, motor oils and other petroleum products. NIS' refining complex comprises two production units in Pančevo and Novi Sad, and the maximum design capacity of the processing plants within both refineries (Pančevo and Novi Sad) exceeds seven million tons of crude oil a year. Pančevo Oil Refinery, with projected annual capacity of 4.8 million tons, is in operation; Novi Sad Oil Refinery is in the process of conservation, so its projected annual capacity of 2.5 million tons has not been put to use yet.

Sales and Distribution Block includes external and internal trade, wholesale trade, retail trade in petroleum products and related goods. NIS operates the largest retail network in Serbia. In the territory of Serbia and the region, NIS operates in the market with two brands: NIS Petrol and Gazprom. As separate business lines, NIS is developing the supply of jet fuel, bunkering, lubricants and bitumen sales.

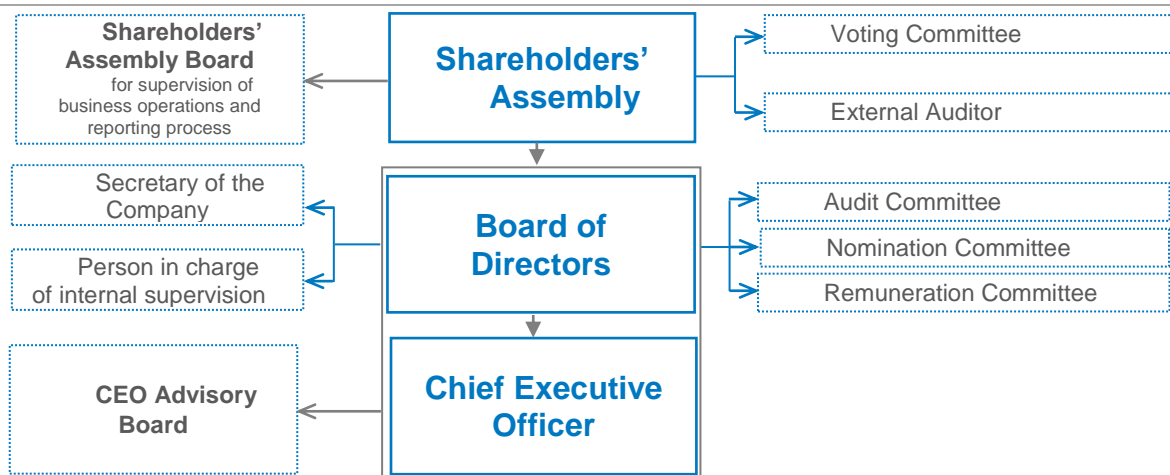
Energy Block is engaged in the production of electricity and heat from traditional and renewable sources of energy, gas trade, electricity trade, development and implementation of energy projects of strategic importance and development and implementation of projects to improve energy efficiency.

Energy Block develops and implements energy projects within NIS Group; it performs analysis and evaluation of investment projects as well as conceptual projects in the energy sector in Serbia, with the aim of committing to participate in a strategic partnership.

COMPANY MANAGEMENT SYSTEM

The Company has established a one-tier management system where the Board of Directors holds the central role in the Company management. The Board of Directors is responsible for the accomplishment of set goals and achievement of results, while shareholders exercise their rights and control primarily through the Shareholders' Assembly.

NIS j.s.c. Novi Sad Corporate Bodies' Structure



SHAREHOLDERS' ASSEMBLY

As the highest authority of the Company, the Shareholders' Assembly is made up of all shareholders.

BOARD OF DIRECTORS

The Board of Directors has a central role in the management of the Company and it is collectively responsible for the long-term success of the Company and for setting up basic business goals and guiding the directions of the Company's further development, as well as identification and control of the effectiveness of the Company's business strategy.

The Board of Directors consists of 11 members appointed by the Shareholders' Assembly. The members elect the Board of Directors' Chair; the functions of the Board of Directors' Chair and the Chief Executive Officer are separate.

BOARD OF DIRECTOR MEMBER⁴ AS OF JUNE 30TH 2015



Vadim Yakovlev
Chairman of NIS j.s.c. Novi Sad Board of Directors

Deputy Chairman of the Executive Board of OJSC "Gazprom Neft" j.s.c., First CEO Deputy, in charge of exploration and production, strategic planning and mergers and acquisitions

Born on September 30, 1970 in Sharkan, Udmurtskaya ASSR.

In 1993, Mr Yakovlev graduated from the Moscow Engineering Physics Institute, Department of Applied Nuclear Physics. Mr Yakovlev graduated from the Faculty of Finance at the International University in Moscow in 1995. Since 1999, he has been a qualified member of the ACCA (Chartered Association of Certified Accountants). In 2009, he earned a degree from the British Institute of Directors (IoD). During his employment with PricewaterhouseCoopers from 1995 to 2000, Mr Yakovlev held various positions, starting from a Consultant to being promoted to Audit Manager. In the period from 2001 to 2002, he served as Deputy Head of Financial and Economics Department, YUKOS EP c.j.s.c. From 2003 to 2004, he was Financial Director of Yugansk Neftegaz, NK Yukos. From 2005 to 2006, Mr Yakovlev held the position of Deputy General Director in charge of economy and finance at SIBUR-Russian Tyres.

Mr Yakovlev was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 10.02.2009. and he was elected Chairman of the NIS j.s.c. Novi Sad Board of Directors as of 31.07.2009

⁴ Members of Board of Directors as of 30 June, 2015



Kirill Kravchenko
CEO of NIS j.s.c. Novi Sad
Member of NIS j.s.c. Novi Sad Board of Directors
Member of Appointment and Government Commission⁵
Deputy CEO for Overseas Asset Management of "Gazprom Neft" j.s.c.

Born on May 13, 1976 in Moscow, USSR.

In 1998, Mr Kravchenko graduated with honours from Lomonosov Moscow State University with a degree in Sociology. He completed postgraduate studies at the same university. He continued his studies at the Open British University (Financial Management) and IMD Business School. He holds a PhD in Economics. Mr Kravchenko worked in consulting until 2000, and from 2000 to 2004 he held various positions in YUKOS in Moscow and Western Siberia and with Schlumberger (under partnership program with NK Yukos) in Europe and Latin America. In the period 2004 to 2007 he was Administrative Director at JSC MHK EuroChem Mineral and Chemical Company. Mr Kravchenko was elected member to the Board of Directors several times in major Russian and international companies. In April 2007, he was appointed Vice-Chairman, OJSC "Gazprom Neft" j.s.c., and in January 2008 he was made Deputy Chairman of Management Board of "Gazprom Neft" j.s.c., as well as Deputy General Director for Organizational Affairs. Since February 2009, he was appointed CEO of the Serbian petroleum company NIS a.d. Novi Sad, and member of the NIS Board of Directors. As of March 2009, he holds the position of Deputy CEO for Overseas Assets Management in OJSC "Gazprom Neft".

Mr Kravchenko was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 10.02.2009.



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

Born on October 18, 1966 in Vinnica, USSR.

Mr Bobkov graduated from "Zhdanov" Leningrad State University, Department of politic economy, in 1988. On 16.06.2006, Mr Bobkov received his Master's Degree in Economics and attained his PhD in Economics on 17.06.2011. From 1991 to 2010 he held various 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. and "General Civil Engineering Corporation" Ltd. Since 2010, Mr Bobkov has served as Executive Director of "Okhta" o.j.s.c. Public Business Centre (presently "Lakhta Center" Multifunctional complex j.s.c.) and in 2012, he was appointed Advisor to the "Gazprom Neft" j.s.c. CEO.

Mr. Bobkov was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 22.07.2013.



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

Born on November 14, 1945 in Kolašin, Montenegro.

Ms Drašković graduated from the Faculty of Law, University of Belgrade in 1968. From 1968 to 1990, she worked in the field of finance in the banking sector, and in the field of law and commerce within the economy sector, and as a Belgrade City Magistrate. Ms Drašković is the owner of the publishing house "Srpska reč", founded in 1990. She is the author of two books written in the opinion journalism style.

From 01.04.2009 to 18.06.2013, Ms Danica Drašković was a member of the NIS j.s.c. Novi Sad Board of Directors, being re-elected on 30.06.2014.



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

Born on December 19, 1973 in Leningrad, USSR.

In 1997, Mr. Yankevich 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. Mr. Yankevich was employed with CARANA, a consulting company from 1998 to 2001. In the period from 2001 to 2005 he served as Deputy Head of Planning, Budgeting and Controlling Department at YUKOS RM o.j.s.c. (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 held the post of Head of the Planning and Budgeting Department, and was Head of Economics and Corporate Planning Department at OJSC "Gazprom Neft". Since August 2011 he has served as acting Deputy CEO for Economics and Finance at OJSC "Gazprom Neft". Mr. Yankevich has been a member of the Management Board of OJSC "Gazprom Neft" and Deputy CEO OJSC "Gazprom Neft" j.s.c. for Economics and Finance Since March 2012.

⁵ Mandate period of the NIS j.s.c. Novi Sad Board of Directors Commissions members has expired on 23.06.2015.

Mr. Yankevich was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 18.06.2013.



Goran Knežević
Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of Appointment and Government Commission⁶

Born on May 12, 1957 in Banatski Karlovac, Serbia.

Mr Knežević graduated from the Faculty of Economics, University of Belgrade. He worked at "Servo Mihalj" in Zrenjanin from 1983 to 1990. Mr. Knežević served as General Manager at "Servo Mihalj Turist" from 1990 to 2000. Since 2000, he has been the Executive Committee Chairman of the city of Zrenjanin and the City Mayor holding office for three consecutive terms. Mr Knežević was appointed Minister of Agriculture of the Republic of Serbia in 2012. From 01 October 2013 to 30 June 2014, he was Advisor to the NIS j.s.c. Novi Sad CEO.

Mr Knežević was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 30.06.2014.



Alexander Krylov
Member of NIS j.s.c. Novi Sad Board of Directors
Director of Division for regional sales in Gazprom Neft j.s.c.

Born on March 17, 1971 in Leningrad, USSR.

In 1992, Mr. Krylov graduated from LMU (Leningrad) and graduated from the Faculty of Law of Saint Petersburg State University in 2004. In 2007, he earned MBA degree from Moscow International Business School MIRBIS, specializing in Strategic management and Entrepreneurship. From 1994 to 2005 Mr. Krylov held managerial positions in the field of real estate sales (Chief Executive Officer, Chairman) in the following companies: Russian-Canadian SP "Petrobilde"; c.j.s.c. "Alpol". From 2005 – 2007 he was deputy director in the Division for implementation in "Sibur" Ltd. In April 2007, Mr. Krylov was appointed Head of the Division for Petroleum Product Supply, head of the Regional Sales Division and Director of the Regional Sales Department at OJSC "Gazprom Neft".

Mr. Krylov was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 29.11.2010.



Nikola Martinović
Member of NIS j.s.c. Novi Sad Board of Directors
Member of Audit Commission⁷

Born on December 3, 1947 in Feketić, Serbia.

Mr. Martinović completed his primary education in Feketić, and secondary in Srbobran. He graduated from the Faculty of Economics in Subotica, where he also defended his Master's Thesis, titled "Transformation of Tax System in Serbia by implementing VAT". From 1985 to 1990, he was the CEO of "Solid" company from Subotica, and from 1990 to 1992, he served as Assistant Minister of the Interior of the Republic of Serbia. From 1992 to 2000, Mr. Martinović held the position of Assistant CEO of the Serbian Petroleum Industry in charge of financial affairs, and was CEO of "Naftagas promet" from 1996 to 2000. From 2005 until 31.08.2013, Mr Martinović worked as a Special Advisor at NIS j.s.c. Novi Sad. On 01.09.2013, he was appointed Special Advisor to the CEO of O Zone j.s.c. Belgrade, and from 15.12.2013 to 17.11.2014, he was performing the duties of the Advisor to the Director of STC NIS-Naftagas Ltd. Novi Sad. Furthermore, he currently serves as member of the National Bank of Serbia Governor Council.

Mr. Martinović was a member of NIS j.s.c. Novi Sad BoD from 2004 to 2008, and he was re-elected on 10.02.2009.



Wolfgang Ruttenstorfer
Independent Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of Audit Commission⁸

Born on October 15, 1950 in Vienna, Austria.

In 1976, he graduated from the Economics and Business Administration at the Vienna University of Economics and business, and he holds a PhD degree.

Mr. Ruttenstorfer's career started in the Austrian company OMV in 1976. In 1985, he was transferred to the Planning and Control Department and in 1989, he became responsible for the strategic development of the OMV Group. Being appointed Marketing Director in 1990, he became a member of the Executive Board in 1992, and was in charge of finance and chemical products. By early 1997, he was a member of the OMV EB, when he was appointed Deputy Minister of Finance. On 01.01.2000, he was re-appointed a member of the OMV EB in charge of finance, a function he performed by April 2002. He was in charge of gas affairs by December 2006. In the period from 01.01.2002 to 31.03.2011, Mr. Ruttenstorfer was the Chairman of the Executive Board of the OMV Group.

⁶ Mandate period of the NIS j.s.c. Novi Sad Board of Directors Commissions members has expired on 23.06.2015.

⁷ Mandate period of the NIS j.s.c. Novi Sad Board of Directors Commissions members has expired on 23.06.2015.

⁸ Mandate period of the NIS j.s.c. Novi Sad Board of Directors Commissions members has expired on 23.06.2015.

He was elected Independent member of the NIS j.s.c. Novi Sad Board of Directors as of 20.04.2012.



Anatoly Cherner

Member of NIS j.s.c. Novi Sad Board of Directors

Member of Remuneration Commission⁹

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

Born on August 27, 1954 in Groznyy, USSR.

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

Mr. Cherner was elected member of the NIS j.s.c. Novi Sad Board of Directors as of 10.02.2009.



Stanislav Shekshnia

Independent Member of NIS j.s.c. Novi Sad Board of Directors

Chairman of Remuneration Commission¹⁰

Member of Appointment and Government Commission¹¹

Professor at the International Business School INSEAD

He was born on May 29, 1964 in Moscow, USSR.

Mr. Shekshnia serves as the Chief of practice in the Talent Performance and Leadership Development Consulting Department. Director of Talent Equity Institute and a senior partner at Ward Howell. He teaches the course "Entrepreneur Leadership" at the International Business School INSEAD. Mr. Shekshnia has more than ten years of practical experience in management. He held the following positions: 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.

Mr. Shekshnia was elected Independent member of the NIS j.s.c. Novi Sad Board of Directors as of 21.06.2010.

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 Martinovic	224	0.0001%

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

Vadim Yakovlev	<ul style="list-style-type: none"> • JSC NGK "Slavneft" • JSC "SN-MNG" • LTD "Gazprom Neft Development" • JSC "Gazprom Neft-NNG" • LTD "Gazprom Neft-East" • LTD "Gazprom Neft-Hantos" • LTD "Gazprom Neft-NTC" • LTD "Gazprom Neft-Angara" • FLLC "Gazprom Neft-Orenburg" • LTD "Gazprom Neft-Sahalin" • Salim Petroleum Development N.V. (Supervisory Board member) • JSC "Tomskneft" VNK • LLC "Gazprom neft Shelf" (Chairman of BoD)
Kirill Kravchenko	<ul style="list-style-type: none"> • Vice-Chairman of the National Oil Committee of the Republic of Serbia • Serbian Tennis Federation BoD Member • SAM BoD Member – Serbian Association of Managers

⁹ Mandate period of the NIS j.s.c. Novi Sad Board of Directors Commissions members has expired on 23.06.2015.

¹⁰ Mandate period of the NIS j.s.c. Novi Sad Board of Directors Commissions members has expired on 23.06.2015.

¹¹ Mandate period of the NIS j.s.c. Novi Sad Board of Directors Commissions members has expired on 23.06.2015.

Alexander Bobkov	<ul style="list-style-type: none"> • “Lakhta Center” Multifunctional Complex JSC
Alexey Yankevich	<ul style="list-style-type: none"> • JSC “NGK Slavneft” • LLC “Gazprom Neft – Aero” • LTD “Gazprom Neft – SM” • LTD “Gazprom Neft Biznis-Servis” • “Gazprom Neft Lubricants” Italy • LTD “Gazprom Neft Marin Bunker” • FLLC “Gazprom Neft – Orenburg” • LLC “Gazprom Neft Shelf”.
Alexander Krylov	<ul style="list-style-type: none"> • JSC “Gazprom Neft Kuzbas” • JSC “Gazprom Neft Novosibirsk” • JSC “Gazprom Neft Omsk” • JSC “Gazprom Neft Tumen” • JSC “Gazprom Neft Ural” • JSC “Gazprom Neft Yaroslavlye” • LLC “Gazprom Neft Northwest” • LTD “Gazprom Neft Asia” • LTD “Gazprom Neft - Tajikistan” • LTD “Gazprom Neft - Kazakhstan” • LTD “Gazprom Neft - Centre” • LTD “Gazprom Neft - Terminal” • LTD “Gazprom Neft - Chelyabinsk” • LTD “Gazprom Neft – Regional sales” • LTD “Gazprom Neft – Transport” • FLLC “Munay-Mirza” • LTD “Gazprom Neft – South” • LTD “Gazprom Neft – Krasnoyarsk” • LTD “Gazprom Neft – Corporate Sales” • LLC “Gazprom Neft – Belnefteprodukt” • FLLC “Gazprom Neft – Alternative Fuels”
Nikola Martinović	-
Goran Knežević	-
Danica Drašković	-
Wolfgang Rutenstorfer	<ul style="list-style-type: none"> • “CA Immobilien” AG, Vienna, Chairman of the Supervisory Board • “Flughafen Wien” AG, Vienna, Member of the Supervisory Board • “RHI” AG, Vienna, Member of the Supervisory Board
Anatoly Cherner	<ul style="list-style-type: none"> • JSC NGK “Slavneft” • JSC “Gazprom Neft-ONPZ” • JSC “Slavneft-JANOS” • JSC “Gazprom Neft –MNPZ” • C.J.S.C. “Gazprom Neft-Aero” • C.J.S.C. “St. Petersburg’s international commodities and resources Exchange” • LTD “Gazprom Neft –SM” • LTD “Gazprom Neft Marin Bunker” • LTD “Gazprom Neft – Logistics” • JSC “Mozirski NPZ”
Stanislav Shekshnia	<ul style="list-style-type: none"> • Independent Director of Dentsu Aegis Network Russia

THE TOTAL AMOUNT OF THE PAYMENTS DISBURSED TO THE BOARD OF DIRECTORS’ MEMBERS IN 2014, RSD NET

Chief Executive Officer	11,686,422
Other Members of the Board of Directors	33,974,855

BOARD OF DIRECTORS’ COMMITTEES

In order to ensure the efficient performance of its activities, the Board of Directors has established three standing committees as its advisory and expert bodies providing assistance to its activities, especially in terms of deliberating on issues within its scope of competence, preparation and monitoring of the enforcement of decisions and adopting and performing certain specialized tasks to meet the Board of Directors' needs.

The term in office of set-up Committees lasted until 23 June 2015, i.e. the day of the 7th Ordinary Meeting of the Company Shareholders Assembly, until which day the Committees had the following members:

- Audit Committee:
 - Wolfgang Rutenstorfer, Chairman of the Audit Committee,
 - Alexey Urusov, Member of the Audit Committee, and
 - Nikola Martinović, Member of the Audit Committee.
- Remuneration Committee:
 - Stanislav Shekshnia, Chairman of the Remuneration Committee,
 - Anatoly Cherner, Member of the Remuneration Committee, and
 - Nenad Mijailović, Member of the Remuneration Committee.
- Nomination Committee:
 - Goran Knežević, Chairman of the Nomination Committee,
 - Kirill Kravchenko, Member of the Nomination Committee and,
 - Stanislav Shekshnia, Member of the Nomination Committee.

The Board of Directors will as soon as possible re-appoint the members of the above Committees, and may set up other standing or ad hoc committees to deal with issues relevant to the operation of the Board of Directors, as appropriate.

SHAREHOLDERS' ASSEMBLY BOARD

The Shareholders' Assembly Board for Supervising Business Operations and the Procedure of Reporting to the Company's Shareholders (hereinafter: Shareholders' Assembly Board) is an advisory and expert body of the NIS Shareholders' Assembly, which provides assistance to the Shareholders' Assembly in its activities and deliberation on issues falling within their scope of competence. The members of the Shareholders' Assembly Board are accountable to the Shareholders' Assembly which appoints them to and relieves them of their duty.

MEMBERS OF THE SHAREHOLDERS' ASSEMBLY BOARD AS AT JUNE 30TH 2015



Nenad Mijailović

Chairman of Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders
Member of Remuneration Commission¹²

Born on October 14, 1980 in Čačak, Serbia.

Mr. Mijailović graduated from the Faculty of Economics, University of Belgrade in 2003. In 2007, he obtained an MBA degree from the University of Lausanne, Switzerland. In 2010, he started his PhD studies at the Faculty of Economics, University of Belgrade. As from 2011, he has held an international CFA license in the field of Finance. From 2003 to 2009, he worked as a consultant and manager in finance and banking in the following companies: Deloitte Belgrade, AVS Fund de Compensation Geneve, JP Morgan London, and KBC Securities Corporate Finance Belgrade. From December 2009 to August 2012, Mr. Mijailović served as Advisor to the Minister in the Ministry of Economy and Regional Development, Department of Economy and Privatization. Since August 2012, he has held the position of Deputy Minister of Finance and Economy of the Republic of Serbia. As of August 2014, he served as the Secretary of State in the Ministry of Finance of the Republic of Serbia.

Mr. Mijailović was a member of NIS j.s.c. Novi Sad BoD from 18.06.2013 to 30.06.2014. He was appointed Chairman of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders as of 30.06.2014.

¹² Mandate period of the NIS j.s.c. Novi Sad Board of Directors Commissions members has expired on 23.06.2015.



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

Born on July 28, 1955 in Čačak, Serbia.

Mr. Grujičić graduated from the Faculty of Mechanical Engineering, University of Belgrade. From 1980 to 1994, he was employed with Heat Transfer Appliances Plant "Cer" in Čačak, where he held a variety of positions, including General Manager, Technical Manager, Production Manager and Design Engineer. From May 1994 to February 1998, he served as Advisor 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 Agrostroj j.s.c. Čačak, Director of the limited partnership company Leonardo from Čačak and Director of the Vojvodina Highway Centre. Since February 2007, Mr. Grujičić has been employed with NIS j.s.c. Novi Sad and has held the following positions: Deputy Director of the Logistics Department, Jugopetrol; Head of RC Čačak at the Retail Department – Čačak Region; Manager of the Retail Network Development of the Development Department, Sales and Distribution. Since 01.10.2012, he has served as Advisor to the Sales and Distribution Director. He was appointed member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders as of 30.06.2014.



Alexey Urusov
Member of Shareholder Assembly Board for supervision of operations and reporting to shareholders of NIS j.s.c. Novi Sad
Member of Audit Commission¹³

Director of Economics and Corporate Planning Department in "Gazprom Neft" j.s.c.

Born on November 17, 1974 in Tyumen, USSR.

Mr. Urusov graduated from the Tyumen State University (specializing in finance and loans) and the University of Wolverhampton in the United Kingdom (specializing in Business Administration). Mr. Urusov holds an MSc degree in Sociology.

From 2006 to 2008 worked as executive vice-president for planning and performance management in the Integra Group. From 2002 to 2006 worked in TNK-BP. From 2002 to 2003 member of TNK BoD's Group for monitoring and control, and in period from 2004 to 2006 worked as CFO in TNK-BP Ukraine.

From 2009 to 2012, Mr. Urusov was employed with NIS j.s.c. Novi Sad as Chief Finance Officer.

He was appointed member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders as of 25.06.2012

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%

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

Nenad Mijailović	-
Zoran Grujičić	-
Alexey Urusov	• Supervisory Board member in Gazpromneft Marine Bunker Balkan S.A

TOTAL AMOUNT OF FEES PAID TO SAB MEMBERS, NET RSD

Members of SAB	9,438,393
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¹³ Mandate period of the NIS j.s.c. Novi Sad Board of Directors Commissions members has expired on 23.06.2015.

CHIEF EXECUTIVE OFFICER

The Board of Directors appoints one of its executive members to act as the Chief Executive Officer. The Chief Executive Officer coordinates the activities of the executive members of the Board of Directors and organizes the Company's activities, performs daily management activities and decides on matters which do not fall within the competence of the Shareholders' Assembly and the Board of Directors. The Chief Executive Officer is a legal representative of NIS.

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

CEO'S ADVISORY BOARD

The CEO's Advisory Board as an expert body that provides assistance to the CEO in his activities and consideration of issues within its scope of competence. The composition of the CEO's Advisory Board has been determined by the CEO's Decision and it is composed of the first Deputy of CEO, Directors of all Blocks and Functions within the Company, the CEO's Deputy for petrochemical affairs and Regional Directors of NIS j.s.c. Novi Sad for Romania and the Adriatic. The Advisory Board has a Council composed of first Deputy of CEO, Block Directors and the Deputy CEO in charge of petrochemical affairs. The CEO Advisory Board is managed by the CEO and provides him with 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 related to strategy and development policy, whose basic principles are established by the Shareholders' Assembly and the Company's Board of Directors.

TRANSACTIONS INVOLVING PERSONAL INTEREST AND TRANSACTION WITH AFFILIATES

A person with special obligations to the Company is obliged to promptly notify the Board of Directors of the existence of personal interest (or interest of entities affiliated to him/her) in the legal transactions entered into by the Company and/or legal actions undertaken by the Company.

In the Agreement on Mutual Rights and Obligations which they signed with the Company, the members of the Board of Directors are informed of the obligation to notify the Company in the cases of potentially entering into legal deals with the Company and the covenant not to compete with the Company, as well as other special duties of the members of the Board of Directors.

The Company identifies and ensures entry into legal deals and legal transitions with affiliated entities only those which are not harmful to the Company's business. Legal affairs and legal transactions with affiliated entities are approved by the Board of Directors, in compliance with the Law¹⁴. The Board of Directors submits to the Shareholders Assembly information on approving entering into transactions involving personal interest at the first following meeting.

In the first six months of 2015, *NIS Group* had business transactions with its affiliated legal entities. The most important transactions with affiliated legal entities in the said periods were concluded in connection with the procurement/delivery of crude oil and performance of geophysical testing and interpretation services. The transactions with affiliated companies have been listed in the notes to the financial statements.

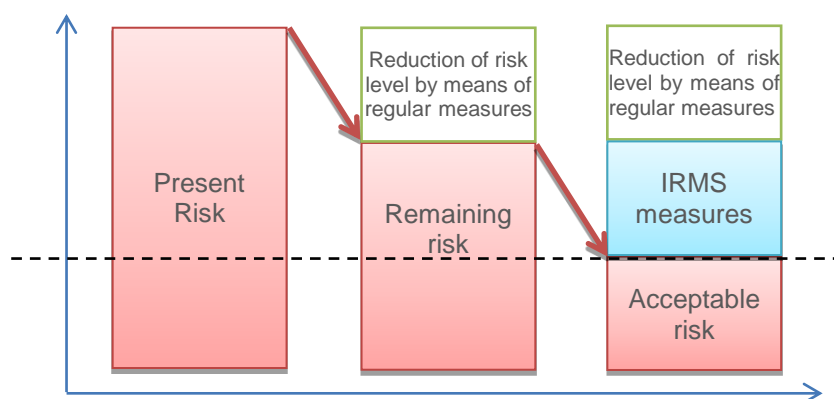
¹⁴ Board of Directors of NIS j.s.c. Novi Sad approves only transactions that NIS j.s.c. Novi Sad concludes with shareholders (GPN), or their related parties, and no other transactions concluded by affiliates of NIS group

RISK MANAGEMENT

INTEGRATED RISK MANAGEMENT SYSTEM

NIS has defined its objectives in the field of risk management and established an integrated risk management system (IRMS). IRMS is a systematic, structured, unified, continuous and permanent system of risk identification and assessment, defining the measures for risk management and monitoring their implementation. The basic principle underlying this system is that the responsibility for managing different risks is assigned to different levels of management, depending on the assessed financial impact of the risk.

The process also includes all key subsidiaries¹⁵ through preparation of the consolidated risk register. The parent Company has established the Risk Assessment Section which coordinates and continually develops this process. The objective in the field of risk management is to ensure additional guarantees for achievement of strategic and operational goals by means of a timely risk identification and prevention define the effective measures of risk management and provide for maximum efficiency of these measures.



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

- Adoption of the risk-oriented approach in all aspects of the management activity
- Systematic analysis of identified risks
- Establishment of the risk management system and monitoring the efficiency of risk management measures
- Informing all employees of the adopted basic risk management principles and approaches
- Ensuring the required normative and methodological support
- Risk management authorization and responsibility distribution between the organizational units.

IRMS INTEGRATION INTO BUSINESS PLANNING PROCESS

Risk assessment constitutes an integral part of the business planning process and the key risk information constitutes an integral part of business plans.

Risk identification and assessment are carried out in parallel with the business planning process. With respect to key risks, the management strategy, risk management measures, required financial resources for measure implementation, and people responsible for their implementation are defined.

In its business operations, the Group faces operational (industrial) and financial risks.

OPERATIONAL RISKS

As the principal areas of operation include exploration, production, refining of crude oil and gas, sales and distribution of petroleum products, the Group is especially vulnerable to risks related to exploration

¹⁵ NIS Petrol EOOD, NIS Petrol s.r.l., NIS Petrol d.o.o., Jadran – Naftagas d.o.o., Pannon Naftagas kft, Naftagas – Tehni;ki servisi d.o.o., Naftagas – Naftni servisi d.o.o., Naftagas – Transport d.o.o.

and production of oil. Due to newly raised political situation on international level Group also faces risks arising from the sanctions against Russian companies and the Gazprom Group.

RISKS IN THE FIELD OF OIL EXPLORATION AND PRODUCTION

One of the prominent goals of NIS Group is to increase the resource base by intensifying the exploration activity. This largely depends on the results of geological and exploration activities aiming at the well stock increase in the country and abroad.

The main risk in the field of exploration and production ensues from unconfirmed estimated reserves and, consequently, failure to achieve the planned increase in the resource base.

NIS has considerable experience in conducting geological and exploration works. Due to the expertise of exploration and production works performed internally by the majority shareholder and the use of up-to-date exploration methods, the probability of this risk is reduced. In order to increase the efficiency and quality of geological and exploration works, the drilling rig fleet has been further modernized.

THE RISK ARISING FROM THE SANCTIONS AGAINST RUSSIAN COMPANIES AND THE GAZPROM GROUP

As a result of imposing sanctions against Russian companies and the Gazprom Group, as well as the newly developed international situation, political risks i.e. possible risk for long-term development due to restrictive borrowings from commercial banks, have intensified. The Company continuously monitors international developments, assessing the consequences for business and undertaking appropriate activities in order to minimize potential adverse impacts on the Group performance.

FINANCIAL RISKS

Business operations of NIS Group are exposed to various financial risks: market risk (including foreign exchange risk, price risk, and interest rate risk), credit risk, and liquidity risk. In the conditions of unforeseeable financial markets, risk management helps reduce a potential negative impact on financial operations to a minimum.

MARKET RISK

FOREIGN EXCHANGE RISK – NIS Group performs its business activity in the international settings and is exposed to the risk of volatile foreign currency exchange rates, evolved in the business transactions in different currencies, primarily USD and EUR. The risk is created with respect to future business transactions and recognized assets and liabilities. Part of the risk relating to the impact of the national currency exchange rate against USD is neutralized through natural hedging of petroleum product sales prices, which are adjusted to changes in the exchange rate, and use of risk management instruments such as forward transactions on the foreign exchange market which reduce the impact of foreign currency losses, in case of depreciation of national currency against USD or EUR.

RISK OF PRICE CHANGE – In view of its core activity, NIS Group faces the risk of changes in price, primarily of crude oil and petroleum products, which affects the value of stocks and oil refining margin, further affecting the future cash flows. Part of this risk is offset by adjustment of petroleum product sales prices against such changed oil and petroleum product prices. The need to use certain commodity hedging instruments in subsidiaries within the Group, including NIS j.s.c. Novi Sad as a subsidiary, is determined at the level of "Gazprom Neft" Group.

Additionally, the following activities are undertaken in order to reduce the potential negative impact of this risk:

- Annual planning based on the scenario approach, plan follow-up and timely adjustment of operating crude oil procurement plans,
- Regular sessions of the Committee for procurement of crude oil,
- Tendency to enter into long-term contracts for purchase of crude oil at the best market and commercial terms, including extended payment terms on an open account basis,
- Daily follow-up of crude oil publications and contacts with foreign partners.

INTEREST RATE RISK – NIS Group is exposed to the interest rate risk both in terms of its indebtedness with the banks and placement of deposits. NIS j.s.c. Novi Sad takes on loans from commercial banks at floating interest rates and performs sensitivity analysis with respect to change of interest rates in order to estimate if raising a loan at a flat interest rate is required to a certain extent. In

addition, NIS places deposits. Term deposits are placed with the major commercial banks exclusively, from which NIS j.s.c. Novi Sad takes out loans and/or credit/documentary lines. Moreover, the term deposits, both in RSD and in foreign currency, are short-term (up to 90 days), at flat interest rates. Based on the aforesaid, revenues and cash flows are substantially independent of changes in market interest rates on deposited funds in the form of term deposits, although the interest rates that NIS j.s.c. Novi Sad can obtain in the market heavily rely on the base interest rate at the moment of depositing (BELIBOR/reference interest rate of the National Bank of Serbia).

During first six months of 2015, NIS j.s.c. Novi Sad granted financial loans to foreign companies in which the Company owns the majority interest (NIS Group members), as a source of financing business activities abroad. The loans granted for this purpose are secured at variable interest rates (EURIBOR). The loans granted at variable interest rates expose NIS j.s.c. Novi Sad to the cash flow interest rate risk.

Depending on the net debt at a certain period, any change of the basic interest rate (EURIBOR or LIBOR) has an impact on the NIS Group's results.

CREDIT RISK

Credit risk management is established at the level of NIS Group. Credit risk is related to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans granted to foreign or local subsidiaries, as well as due to the exposure in wholesale and retail sale risk, including unrecoverable debt and assumed payment obligations.

With respect to credit limits, banks are ranked based on the adopted methodologies applicable to major and other banks, in order to determine the maximum amount of securities to secure claims from one bank.

Regarding the accounts receivable, the developed credit limits methodology defines the level of exposure of specific customers, depending on their financial indicators.

LIQUIDITY RISK

NIS Group continually monitors liquidity in order to provide sufficient funds for its business operations, while maintaining the level of unused lines of credit, so as to prevent exceeding the credit limits with banks or breach of conditions stipulated by loan agreements.

This type of projection takes into account the Group's debt repayment schedules, compliance with contractual terms and compliance with internally-set goals, and it is based on the daily cash flow projections of the entire NIS Group which are the basis for making decisions on the need to raise external loans, in the cases of which adequate bank financing sources are secured, provided compliance with the allowable limits set by OJSC "Gazprom Neft".

Aiming to increase liquidity and decrease dependence on external financing sources, as well as to decrease the NIS Group's costs of financing, as of 1 January 2014, the cash pooling system has been introduced for liquidity management, which involves the centralized management of liquidity and financing with respect to the division of NIS Group in the Republic of Serbia¹⁶.

As of mid-September 2014, NIS j.s.c. Novi Sad has been facing the risk of limited external financing capabilities due to the EU and US sectorial sanctions imposed against Russian companies. Owing to continuous monitoring of geopolitical situation and capital market trends, as well as the timely response and entering into lines of credits with the banks before introduction of the aforesaid sanctions, NIS j.s.c. Novi Sad has managed to secure sufficient limits for documentary business and credit financing of NIS Group for first six months of 2015.

¹⁶ NIS j.s.c. Novi Sad and subsidiaries Naftagas - Naftni servisi, Naftagas - Tehnički servisi, Naftagas - Transport, and NTC NIS Naftagas

BUSINESS ENVIRONMENT

WORLD

Q1 of 2015 saw the growth of global GDP of 2.2%, which is 0.8% less than the initial forecasts of the IMF for 2015. In addition to one-off factors impacting on the activities in North and Central America (an exceptionally harsh winter, closed ports), there is also a considerable reduction of capital expenditures in the oil and gas sector, which contributed to the weakening of economic activities. Nonetheless, the basic drivers of the gradual acceleration of economic activity in developed economies – simple financial conditions, more neutral fiscal policy in the Eurozone, lower fuel prices, and greater security and labour market conditions – remained unchanged.

In countries with fast-growing economies (China, India, Brazil), the slowing-down trend continued due to the impact of several factors, the most important being: decreased prices of consumer goods, harsher external financial conditions, infrastructural bottlenecks, economic scarcity as a consequence of geopolitical factors, and the rebalancing in China. The World Bank warned the authorities in Beijing that the second biggest economy world economy could bid farewell to the three-decade-long economic boom unless it carried out the banking system reforms. The Chinese economy (according to some analyses) is showing worrying signs of slowing growth.

The European Union has a mild cyclical economic growth, impacted upon by numerous positive factors: low oil prices, stable global growth, depreciation of the euro, and support for economic policies in the EU. This is why the GDP forecasts for 2015 were raised by 0.2 percentage points compared to forecasts from three months ago. Contributing most to GDP growth are domestic demand, alongside the expected accelerated growth of private consumption. At the same time, in light of the crisis in Greece, certain analysts expect the euro and the Eurozone to weaken, which could result in the new drop in oil prices.

The price of Brent oil stabilized and is currently around 60 dollars per barrel. At the start of September, when the summer season is over, reduced demand for energy carriers might result in an oil price drop. Another factor which might affect the price of "black gold" is the possible lifting of sanctions against Iran if the negotiations on the Iranian nuclear programme are successful. Still, for the time being, drastic oscillations of oil prices are not expected.

SERBIA

After a longer while, in the period January-May, a year-over-year increase in total industrial production (2%) was recorded. The statistical data on industrial production, exports, possible investment activity, and retail sales in the country indicate a tendency of strengthening economic activity in Serbia.

According to some forecasts, the conditions are good for the industrial production dynamic to keep growing until the year's end.

The growth of exports remains a crucial growth factor for industrial production. The short-term export trend was accelerated, with its value rising at 2.1% per month in the first five months of this year. However, whether this trend will continue largely depends on car industry sales and solving the issues in petrochemistry. On the other hand, it is believed that there are great opportunities for improving production and exports in food industry by adapting it to the European standards, above all, in animal husbandry.

The short-term export trend is growing but stable, with values rising at 0.6% per month. The only year-over-year drop in value was recorded in exports of crude oil, gas, and oil products, resulting from the price drop in the global market.

After a year-over-year drop in the first four months of this year (by 1 to 2% per month), in May a year-over-year increase of 2.3% is established for gross domestic product. An increase was also recorded in the de-seasoned GDP series.

Taking account of the prospects in agriculture and other sectors in which the gross added value is formed (growth of exports, investments, internal consumption); one might conclude that this year will see a growth of GDP which exceeds all optimistic forecasts yet. However, this assessment should not be made before the Greek crisis prospects and other political developments which could affect economic relations have been fully understood.

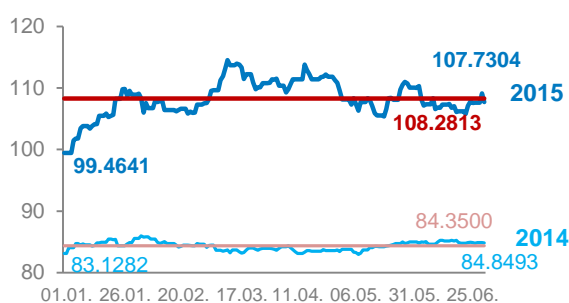
Average salaries in all public sector areas are dropping year-over-year both nominally and really. The mass of salary is dropping as well. On the other hand, a significant growth was recorded of earnings in

the private sector, and this growth is accelerating. The year-over-year increase of average salaries in the private sector in the period January-May stands at 7%, or 5.8% in real terms. Employment increased as well, so the year-over-year increase of the mass of salary was at 12.7% in the period January-May. May saw a minimal increase in the total mass of salary (by 0.5% in real terms), which movements are in line with the increase of economic activity. In May 2015, for the fifteenth consecutive month, the year-over-year inflation was below the lower target threshold, but the average monthly inflation rate from January to May 2015 was at 0.3%, and was largely a result of the one-off increase of regulated prices.

The International Monetary Fund's Board of Executive Directors made a decision on 26 June 2015 on the successful completion of the first review of the current "stand-by" arrangement of the Republic of Serbia without a formal discussion. The assessment of the implementation of the agreed economic programme was positive. All the implementation criteria and indicative targets defined under the programme for end-March 2015 have been met and the planned structural measures have been implemented.

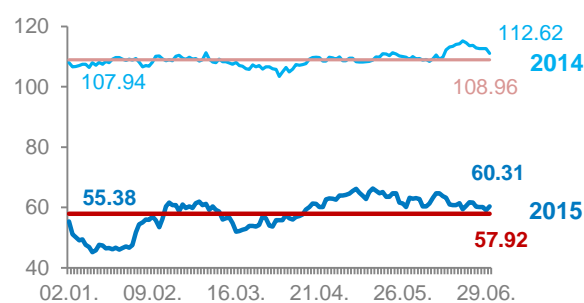
According to the International Monetary Fund' assessment, the Serbian economy has stabilized, with further low inflationary pressures and a strengthened external position of the country. Credit activity remains unchanged, and the growth of problem loans is recorded. In the implementation of the programme, there are risks relating to the possibility of regional effect spillover, market volatility, and the implementation of structural reforms.

USD/RSD Exchange rate trends



- Average USD/RSD exchange rate is by RSD 23,9314 i.e. 28% higher in 6M 2015 than the average rate in 6M 2014
- Average USD/RSD exchange rate increased by RSD 8,2663 i.e. 8% in 6M 2015
- Average USD/RSD exchange rate increased by RSD 1.7211 i.e. 2% in 6M 2014

Crude oil Brent¹⁷ type trends, in USD/bbl.



- Average price of Brent crude oil is by 51,04 \$/bbl i.e. 47% lower in 6M 2015 than the average price in 6M 2014
- Average price of Brent crude oil increased by - 4,93 \$/bbl i.e. 9% in 6M 2015
- Average price of Brent crude oil increased by - 3.09\$/bbl i.e. 3% in 6M 2014

¹⁷ Data for Europe Brent Spot Price FOB; Source: U.S. Energy Information Administration (http://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm)

MARKET SHARE

MARKET SHARE ON SERBIAN MARKET

In the first six months of 2015 the total consumption of petroleum products in Serbia grew primarily due to a significant rise in the consumption of heavy fuel oil, bitumen, and diesel fuels, resulting largely from lower petroleum product prices. The consumption of liquefied petroleum gas, virgin naphtha, coke, and aviation fuel is somewhat lower than in the same period last year.

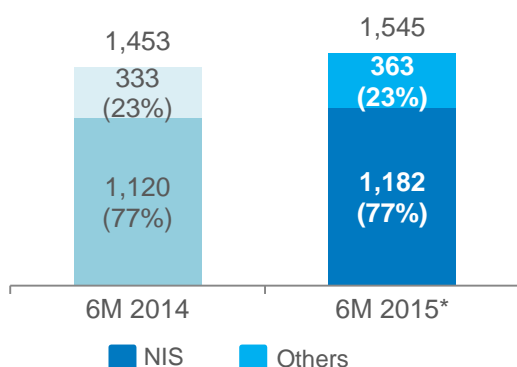
The reasons for NIS retaining an exceptionally high market share are business flexibility and readiness to adapt the client offer amid dynamic market changes as well.

In the first six month of 2015, the retail sales market had the total increase of 5.2% compared to the same period in 2014, albeit with structural changes. NIS increased its total market share in the Serbian retail market, with petrols rising primarily through EMBM 98 and diesel, and autogas having a mild drop.

The drop in the demand for autogas offsets the significant growth of the diesel pool consumption, which is linked to the topping up of operative stocks in retail at the beginning of the year, earlier start of sale of agricultural diesel due to the favourable price and weather conditions, and the discontinuation of the retail sale of heating oil, which was used during the whole 2014 as a motor fuel substitute.

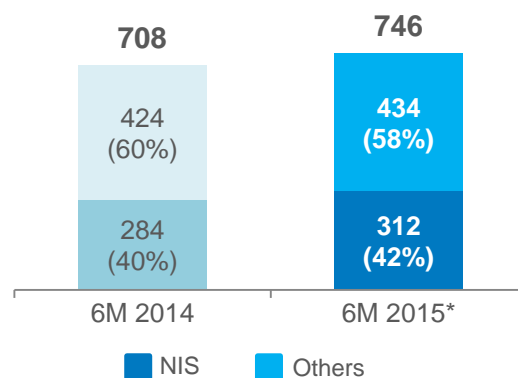
The volume of overall petroleum products market in the Republic of Serbia, in thousand tons¹⁸

1,545  **+6.3%**



Retail market in the Republic of Serbia¹⁹, in thousand tons¹⁷

746  **+5.2%**



¹⁸Data for 6M 2015 are an estimate

¹⁹NIS and other competitors' sales include motor fuels (gas, motor fuels, diesel and EL fuel oil used as motor fuel). LPG bottles excluded.

MARKET SHARE IN BOSNIA AND HERZEGOVINA, BULGARIA AND ROMANIA

BOSNIA AND HERZEGOVINA

Motor fuel market is recovering more slowly than other markets in the region because of low level of economic activity.

The consolidation of operators is noticeable in retail sales, where the networks of local oil product distributors are expanding (HIFA, Nešković), while NESTRO Group is optimizing its network.

BULGARIA

The gradual recovery of the Bulgarian market continued in 2015. The growth in motor fuel market is the result of an increase in the consumption of diesel fuel, which should be a key factor for further growth in the long term.

A new refinery block was opened in Burgas in May, owned by Lukoil. The hydrocracking facility will increase its refining capacity by about one million tonnes of petroleum products intended both for the domestic market and exports, primarily to Turkey.

ROMANIA

The motor fuel market has had a recovery, mostly due to lower prices.

The Romanian market remains interesting to investors, so that investment in unmanned automated service stations is on the increase (Smart diesel), and new networks are announced as well, e.g. Tiriac.

After the ENI acquisition, MOL now operates a 200+ station network in Romania, which makes it the third biggest operator in Romania.

	Bosnia and Herzegovina	Bulgaria	Romania
Number of petrol stations	35	35	18
Share in overall motor fuel market	9.1%	3.1%	0.5%
Share in retail motor fuel market	9.6%	4.1%	0.6%

RESULT ANALYSIS

KEY PERFORMANCE INDICATORS

Q2 2015.	Q2 2014.	Q2 2015. Q2 2014. (%) ²⁰	Key Indicators	Measurement Unit	6M 2015.	6M 2014.	6M 2015. 6M 2014. (%) ¹⁹
61.46	108.18	-43%	Urals crude oil	\$/bbl.	57.20	107.80	-47%
9.6	8.4	+15%	Net (loss) profit	bn RSD	5.0	17.0	-71%
13.8	15.4	-10%	EBITDA ²¹	bn RSD	21.0	30.9	-32%
57.0	66.0	-14%	Sales	bn RSD	103.4	122.6	-16%
19.9	-0.6	34x	OCF	bn RSD	24.3	1.6	15x
			Liabilities for taxes and other public				
37.7	37.5	+1%	revenues ²²	bn RSD	67.2	63.6	+6%
			Oil and gas production (Serbia and				
398	418	-5%	Angola) ²³	thou. t.o.e.	795	837	-5%
			Oil and semi-finished products				
828	850	-3%	refining volume	thou. tons	1,512	1,574	-4%
			Total petroleum products sales				
782	782	0%	volume		1,463	1,425	+3%
48	38	+26%	Sales volume – foreign assets	thou. tons	89	73	+22%
			Petroleum products sales on				
611	588	+4%	domestic market ²⁴		1,160	1,100	+5%
412	387	+6%	Motor fuels	thou. tons	739	689	+7%
172	161	+7%	Retail	thou. tons	313	285	+7%
			Market share on retail market in				
-	-	-	the Republic of Serbia	%	42	40	By 2%
5.5	8.2	-33%	CAPEX ²⁵	bn RSD	12.5	17.8	-30%
571	707	-19%	Total bank indebtedness ²⁶	m USD	571	707	-19%

²⁰ All discrepancies are due to rounding errors

²¹ EBITDA = Sales revenues (excluding excise) – inventory costs (crude oil, petroleum and other products) – operating expenses (OPEX) – other costs that can be controlled by the management

²² Taxes, duties, fees and other public revenues calculated for the relevant period. The overview includes NIS' tax obligations and other public revenues in Serbia and in other countries in which it operates.

²³ Oil production includes gasoline and light condensate, and gas production takes into account commodity production of gas.

²⁴ Besides motor fuels includes sales of other petroleum products

²⁵ Financing; VAT excluded

²⁶ Total bank indebtedness = total debt to banks + letters of credit. As of 30 June 2015 total bank indebtedness is consisted of USD 557 million of total debt to banks and USD 14 million of letters of credit

OPERATIONAL INDICATORS

EXPLORATION AND PRODUCTION

The production of oil and gas is at the level of the business plan.

The total production of oil and gas in the first six months of 2015 stands at 795 thousand t.o.e., which is 5% less than in the same period in 2014.

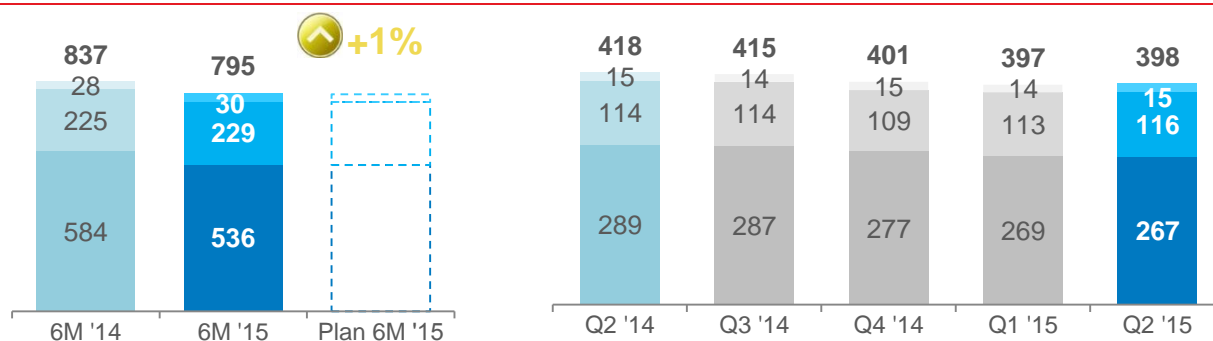
The hydrocarbon reserve increment for 2015 is assessed to be 5.4%.

Oil and gas production, thousand t.o.e.

795

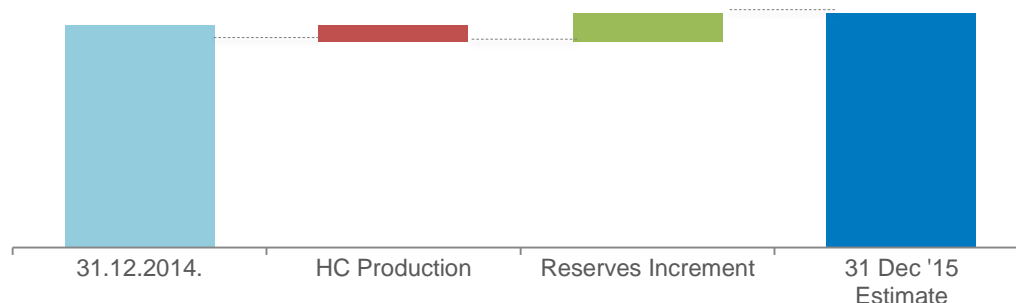
-5%

■ Serbia – crude oil
■ Serbia - gas
■ Angola



Estimate on growth of hydrocarbon reserves in 2015.

+5,4%



SERVICES

In *Services* the business plan was fulfilled regarding the drilling of regular wells and those with more complex constructions. Q2 2015 saw the completion of works for the project of 3D seismic surveys in Romania and the start of works for the project of 3D seismic surveys in Turija.

In the second quarter, *Services* operated with 7 drilling rigs. On average, 16 workover units were engaged for the needs of Exploration and Production with the aim of fulfilling the production plan. In June 1 unit was engaged in Bosnia and Herzegovina.

The Construction Unit has had savings in material and time for Exploration and Production by optimizing the work process through the introduction of optimized well pads in preparing drilling rig locations. In addition, savings have been made also by constructing rails around wells using waste iron – used tubing – and re-use of removed construction material during the re-cultivation of locations in upgrading and repairing well pads, roads, and locations.

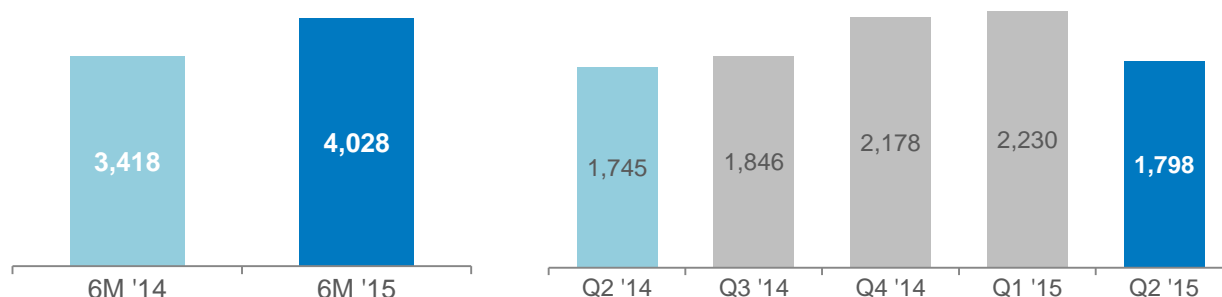
The Laboratory Section has had savings in time for Exploration and Production and Naftagas Naftni Servisi by increasing the capacity of the Tubing Centre in Kikinda, and the “just in time” deliveries as per

the clients' requests. In addition, Q2 saw the start of the operational tubing service and a significant increase in the tubing service volume.

Drilling services, number of operations

4,028

▲ +18%



REFINING

In the first six months of 2015, there was a reduction of the volume of oil refining and finalization of semi-finished goods by -4% compared to last year, so that the total volume of oil refining and finalization of oil and semi-finished goods stands at 1,512 thousand tonnes. Oil refining and the finalization of semi-finished goods were in line with the operational plans, prepared in accordance with the market needs.

A contract was signed with the company CB&I for the drawing up of the basic design package and front-end engineering design (BDP/FEED) for the Bottom of the Barrel project.

During the said period, the vacuum distillation operation (S-2200) was optimized with the aim of increasing the VGO recovery. In addition to a more stable unit operation, the result of this is a significant decrease in the water vapour consumption in the ejector system.

The diesel deparaffinization unit (S-2400 HDS) was started with the aim of improving the low-temperature characteristics of diesel and obtaining a satisfactory quality of diesel. The catalyst was replaced, which changed the use of the unit – the unit is now used for the dewaxing of diesel from the S-4300 unit. The S-2400 unit started (after the catalyst replacement) on 31 January, and the test run of the unit was carried out in March.

In January the capital workover of the Bitumen Unit was completed. All activities in the planned workover downtime were of high-quality and carried out on time, which will ensure an uninterrupted, reliable, and safe unit operation in the upcoming period.




In said period, the emphasis was on establishing bottlenecks in the process equipment operation, and implementing activities aimed to remedy them. The pump sealing system was reconstructed (the mounting of double mechanical seals) on S-2200, and the LDAR (leak detection and repair) project was implemented.

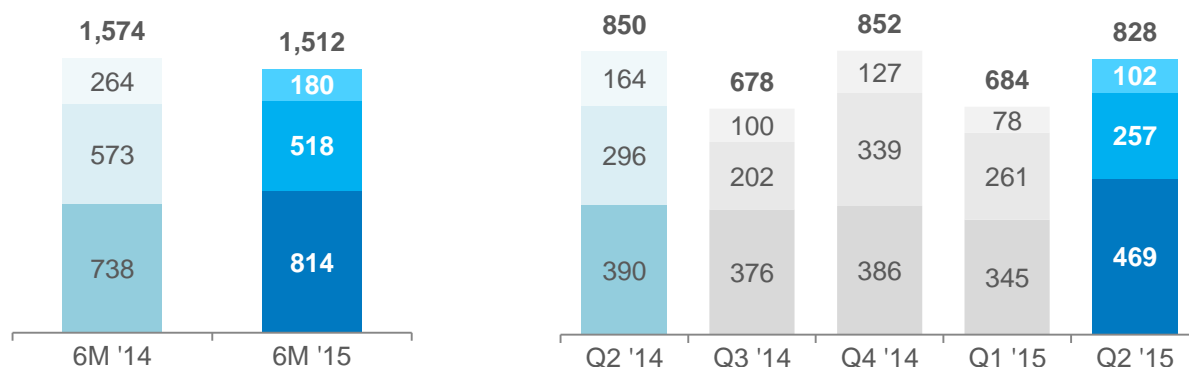
The founding and development of a volunteer fire-fighter association, and the victory of men's and women's teams in national competitions. The development of the training centre and training on training grounds in fire protection, work at height, and work in confined spaces (refinery workers and contractors).

Refining volume, thousand tons

1,574

 -4%

 Domestic crude oil
 Imported crude oil
 Semi-finished products



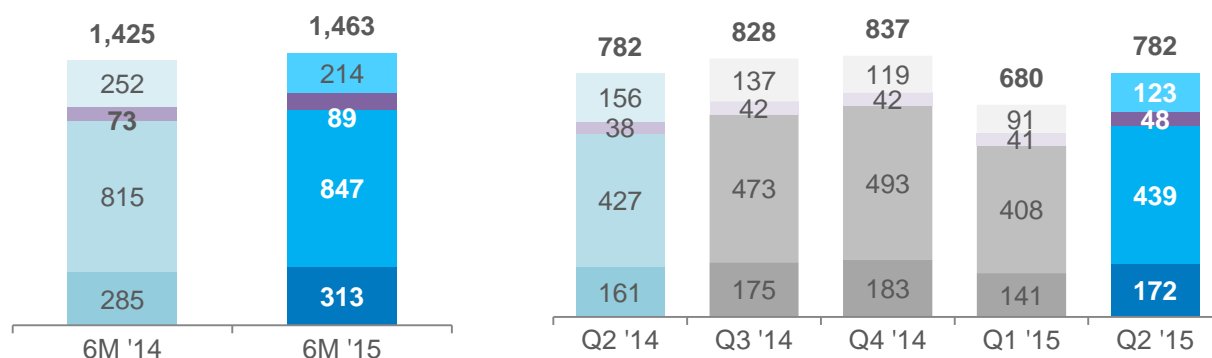
SALES AND DISTRIBUTION

Sales volumes recorded growth of 2.6% in 6M 2015 compared with the same period last year, and total sales volume – in Serbia together with foreign assets and export – amounted to 1,463 thousand tons.

- Retail – 10% increase.
 - Increase of retail is primarily result of increase in sales of diesel fuels by 15%, as well as increase in sales of motor gasoline by 4%.
- Wholesale – 4% increase.
 - Increase is a result of increase of sales of motor fuels by 6% - out of which increase in sales of gasoline is 6% and in sales of diesel – 5%.
 - Increase in sales of fuel oil is 35%.
 - Bitumen sales increase is at 38%
 - LPG sales dropped (15%) as well as the sales of virgin naphtha (5%)
- Export – 15% decrease.
 - A drop in exports compared to the first six months of 2014 was recorded due to a great drop in the sale of heavy fuel oil (75%) and bitumen (13%).
 - Increase in motor fuel sales by 47%.
- Foreign assets – 22% increase.
 - Increase in sales of motor fuels by 23% out of which increase in sales of diesel fuels is 75% and decrease in sales of gasoline is 32%.

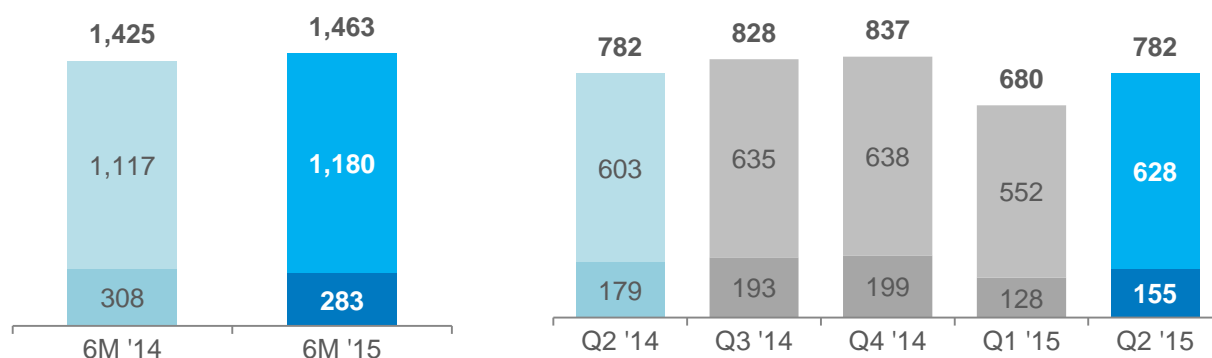
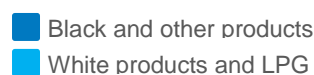
Sales volume, thousand tons

1,463

 +3%


Sales structure, thousand tons

1,463

 +3%


ENERGY

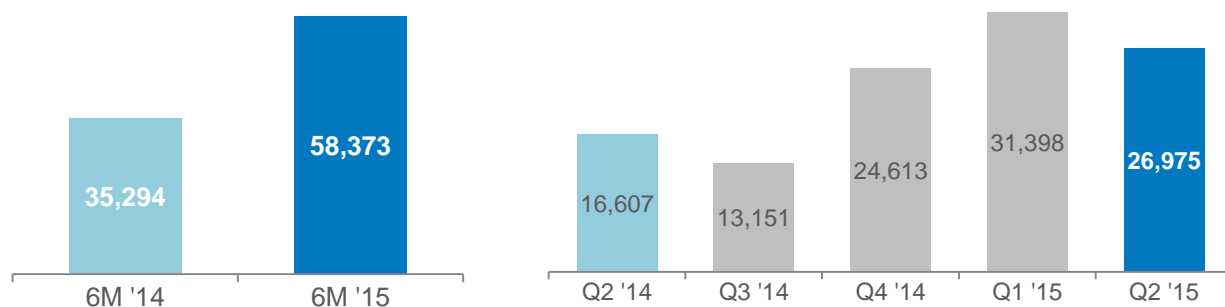
- The total electricity production in the first six months of 2015 stands at 58,373 MWh. The constructed small-scale electricity generating plant produced 33,430 MWh of electricity from 11.4 million m³ of non-commercial gas. The Pančevo electricity generating plant produced 24,943 MWh of electricity.
- Activities continue in the implementation of the Pančevo CHP plant project, as well as the activities centring around founding the project company. The feasibility study and the conceptual design are being drawn up in line with the regulations of the Republic of Serbia. The public hearing relating to the general regulation plan was completed.
- The small-scale electricity generating plants Bradarac (0.3 MW), Velebit 3 (2 MW), Turija (1 MW) and Sirakovo 2 (2 MW) were put into commercial operation in first six months of 2015. A tender was announced for the procurement of main equipment for the small-scale electricity generating plant Majdan (2.65MW). In addition, preparations started for the project of construction of the small-scale electricity generating plant Sirakovo 3 (4-5MW).
- In the first six months of 2015, the daily trading volume reached 30 MWh/h. In the same period the cooperation started between the Electric Power Industry of the Republic of Srpska and the Electric Power Industry of Bosnia and Herzegovina.

- The construction of a compressed natural gas (CNG) filling post was completed at the PS Novi Sad 10. Implementation started of the project of construction of a compressed natural gas (CNG) filling post at the FS Čačak 1. In Q2 the construction of a CNG filling station at the Ostrovo gas field was also contracted..
- The possibility of financing the project of construction of the Plandište wind farm with the German ECA Hermes was reviewed, and an offer was received from the Chinese company CEE for the purchase of the share in the project; documentation necessary for the implementation is being drafted.

Produced electricity, in MWh

58,373

📈 +65%



FINANCIAL INDICATORS

Along with a less pronounced volatility of the USD/RSD exchange rate and the price of oil, the second quarter of 2015 brought greater stability but not better macroeconomic conditions. The growth of the USD/RSD exchange rate by nearly a third and the halved oil price in the first six months of this year compared to the same period last year resulted in a reduced net result and the decrease of the EBITDA year over year. However, more stable conditions contributed to both mitigating the negative result in Q1 and achieving a positive result in the first half-year of 2015. The sales volume growth notwithstanding, the drop in retail prices resulted in a drop of sales revenue, whereas the operating cash flow strengthened owing to smaller operating expenses and smaller payments for the procurement of crude oil.

SALES

The sales volume growth notwithstanding, the drop in the petroleum product prices resulted in a drop of sales revenue.

The average price of the Urals oil in the first six months of 2015 stands at 57.20 \$/bbl, which is 47% lower than the average price for oil of this type in the same period last year.

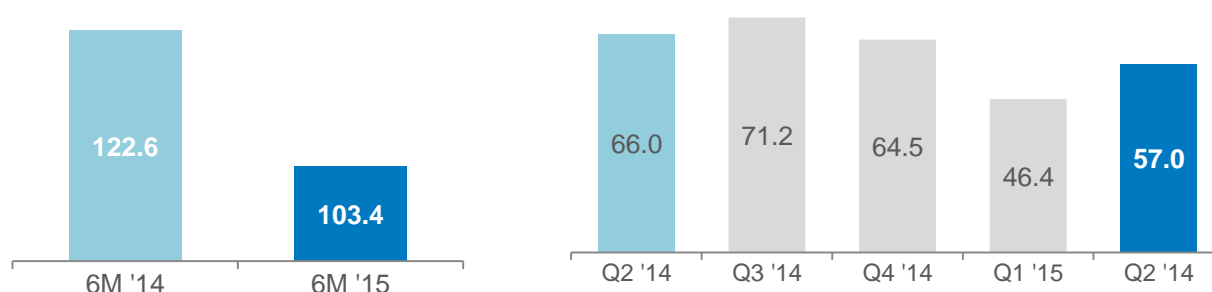
Decrease of retail prices of petroleum products in 6M 2015 is app. -8% compared to the same period last year.

Changes in retail prices ²⁷	$\Delta \frac{Q2\ 2015}{Q2\ 2014}$ (%)	$\frac{6M\ 2015}{6M\ 2014}$ (%)
Euro premium BMB95	-6.99%	-9.87%
Euro diesel	-4.62%	-5.88%

Excise tax on euro diesel was raised from 46 RSD/l to 50 RSD/l as of 1 January 2015.

Sales, bn RSD

103.4  **-16%**

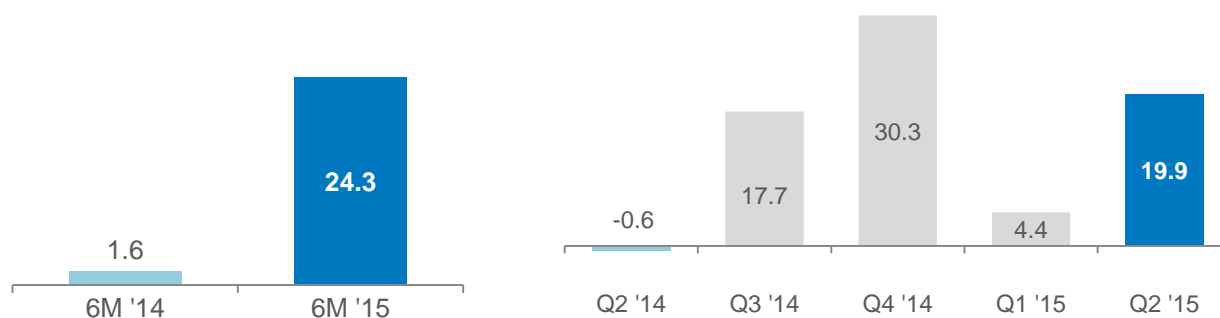


²⁷ Comparison of average of daily prices in Q2 2015 and Q2 2014

OCF

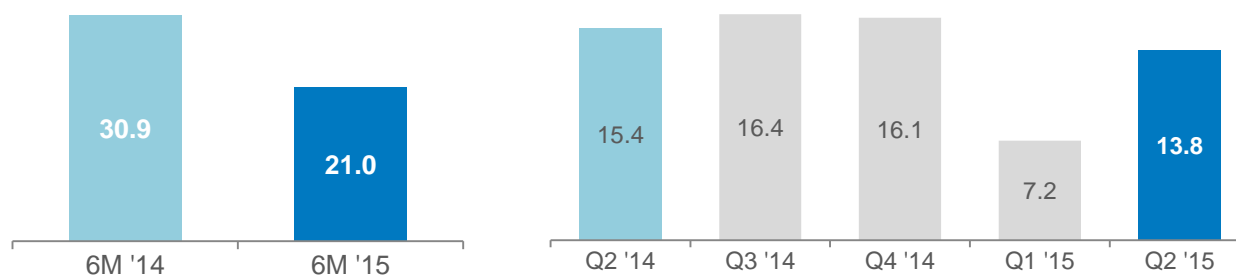
Operating Cash Flow increased due to:

- Lower payment for crude oil and petroleum products procurement
- Lower operating expenses

OCF, bn RSD**24.3**
 **x15**
**EBITDA**

EBITDA for 6M 2015 was by 32% lower than in 6M 2014:

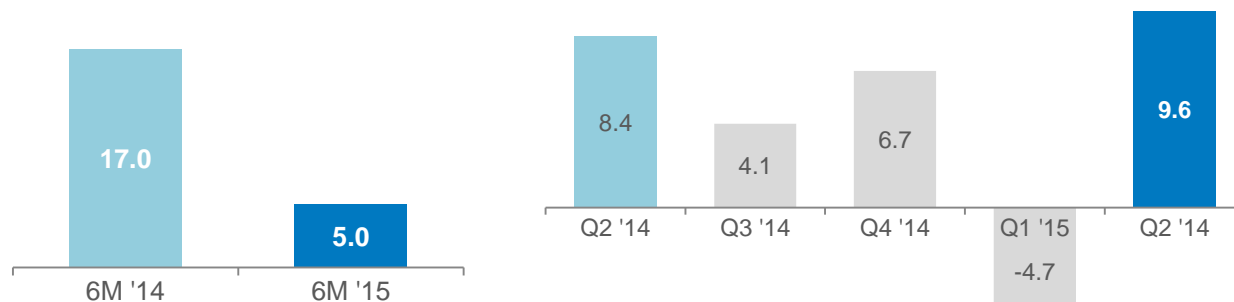
- Fluctuation of prices of crude oil and petroleum products
- In Q2 2015 EBITDA is almost twice as high than in Q1 2015 (in 2014, EBITDA in Q1 and Q2 were almost equal)

EBITDA, bn RSD**21.0**
 **-32%**


NET (LOSS) PROFIT

Net profit for the first six month of 2015 stand at 5 billion dinars, and have dropped by 71% compared to the same period last year:

- Price of crude oil and petroleum products
- Negative exchange rate difference comprising 5.6 bn RSD

Net (Loss) Profit, bn RSD**5.0**
 **-71%**
**OPERATING EFFICIENCY**

On-going program of increasing operation efficiency brought NIS 2.76 billion RSD in 6M 2015, which is 41% more than the plan

In 2015, the total expected effect of the implementation of measures aimed to increase operational efficiency was corrected to 9.24 billion dinars, and includes measures envisaged in the 2015 business plan (2.09 billion dinars), further measures (3.95 billion dinars), and potential further measures recognized by Blocks and Functions (3.20 billion dinars)

RATIOS

	6M 2015	6M 2014
Return on total capital (Gross profit/total capital)	4%	11%
Net return on equity²⁸ (Net profit/shareholders equity)	6%	21%
Operating net profit (Operating profit/net sales income)	15%	21%

	6M 2015	FY 2014
Degree of leverage (short term and long term liabilities/shareholders equity ¹⁸)	97%	97%
Degree of leverage (short term and long term liabilities/ shareholders equity ¹⁸)	214%	218%
1st degree liquidity (cash and cash equivalents/short term liabilities)	14%	11%
2nd degree liquidity (current assets - inventories/short term liabilities)	96%	94%
Net working fund ratio (current assets – current liabilities/total assets)	7%	10%

²⁸ shareholders equity = share capital

CHANGES IN ASSETS AND LIABILITIES OF MORE THAN 10%

Assets	Change (in %)	Explanation
Long-term financial assets	10%	Increase in long-term financial assets as of 30 June 2015 compared to 31 December 2014 mostly relates to funds transferred to Red Star in amount of 242,843 thousand RSD.
Long-term receivables	-25%	Decrease in long-term receivables as of 30 June 2015 compared to 31 December 2014 entirely relates to decrease of receivables from financial leasing.
Inventories	-28%	Decrease of inventories as of 30 June 2015 compared to 31 December 2014 is mainly related to the decrease in crude oil inventories in the amount of 8,458,220 thousand RSD
Other receivables	51%	Increase in other receivables as of 30 June 2015 compared to 31 December 2014 is mainly related to the increase of receivables for overpaid income tax in the amount of 1,549,818 thousand RSD.
Cash and cash equivalents	32%	Increase in cash and cash equivalents as of 30 June 2015 compared to 31 December 2014 is mainly related to the increase of cash in the bank accounts in the amount of 3,445,722 thousand RSD and on the other hand to decrease of deposits up to three months in the amount of 730,917 RSD.
Value added tax	32%	Increase of receivables for overpaid value added tax as of 30 June 2015 compared to 31 December 2014 is entirely related to the increase of receivables for value added tax.
Prepayments and accrued income	-21%	Decrease in prepayments and accrued income as of 30 June 2015 compared to 31 December 2014 mostly relates to decrease in receivables for of reimbursement of excise duty in amount of 2,332,763 thousand RSD.
Liabilities	Change (in %)	Explanation
Received advances, deposits and downpayments	-36%	Decrease in received advances, deposits and downpayments as of 30 June 2015 compared to 31 December 2014 mostly, in amount of 704,784 thousand RSD, relates to closing of received advances in country – Ministry of Defence of RS in amount of 394,628 thousand RSD and Nafta a.d. Belgrade in amount of 66,383 thousand RSD.
Trade payables	-15%	Decrease of trade payables as of 30 June 2015 compared to 31 December 2014 mostly relates to decrease of liabilities to Litasco SA Switzerland in amount of 5,453,974 thousand RSD.
Other short-term liabilities	83%	Increase of other short-term liabilities and related decrease of accrued costs and deferred revenues of as of 30 June 2015 compared to 31 December 2014 is mostly related to increase of liabilities for dividends according ot Decision of Shareholders Assembly on dividend distribution in amount of 7,639,380 thousand

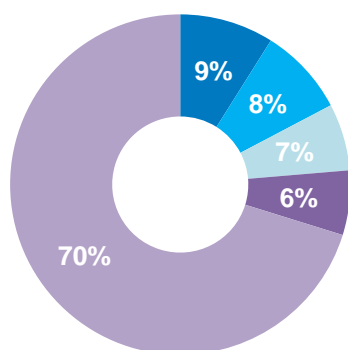
RSD.

Liabilities for VAT	1058%	Increase of liabilities for VAT as of 30 June 2015 compared to 31 December 2014 entirely relates to increase of liabilities for VAT,
Other taxes, contributions and other charges	-18%	Decrease of liabilities for other taxes, contributions and other charges as of 30 June 2015 compared to 31 December 2014 mostly relates to decrease of liabilities for excise in amount of 621,371 thousand RSD and decrease in liabilities for commodity reserves in the amount of 331,963 thousand RSD.
Accrued costs and deferred revenues	-54%	Decrease of accrued costs and deferred revenues as of 30 June 2015 compared to 31 December 2014 mostly relates to final settlement of accounts of previously accrued bonuses and other accrued liabilities.

BIGGEST BUYERS AND SUPPLIERS

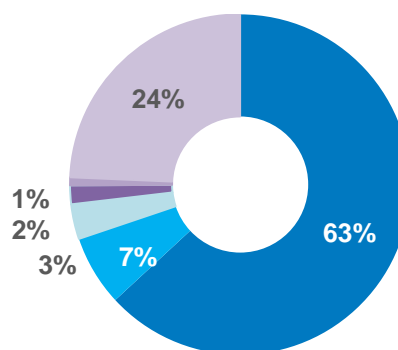
Biggest Buyers²⁹

- HIP Petrohemija
- Knez Petrol
- Eko Serbia
- OMV Serbia
- Other buyers



Biggest Suppliers³⁰

- Gazprom neft
- Daxin Petroleum PTE Ltd
- HIP Petrohemija
- MOL Serbia
- Janaf
- Other suppliers



²⁹ Data for NIS j.s.c. Novi Sad for period from 1 January until 30 June 2015

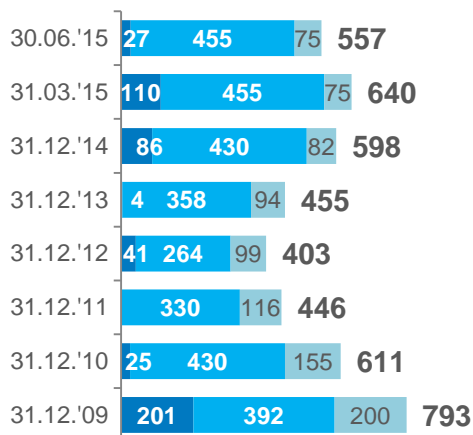
³⁰ Data for NIS j.s.c. Novi Sad as of 30 June 2015

INDEBTEDNESS

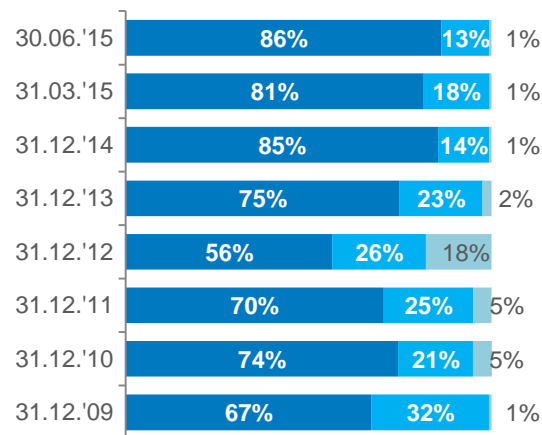
Total debt to banks,
million USD³¹**557**

✔ -7%

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

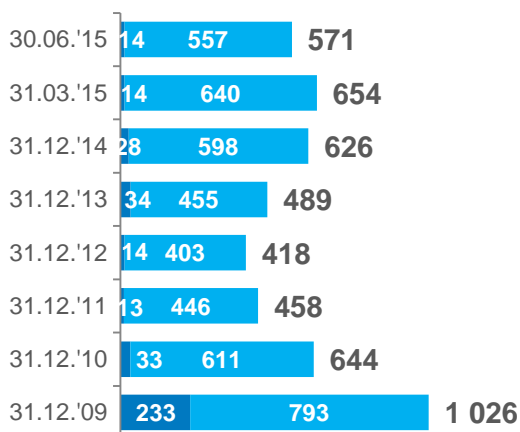
Structure of total debt to banks,
by currency, in %

- USD
- EUR
- Other

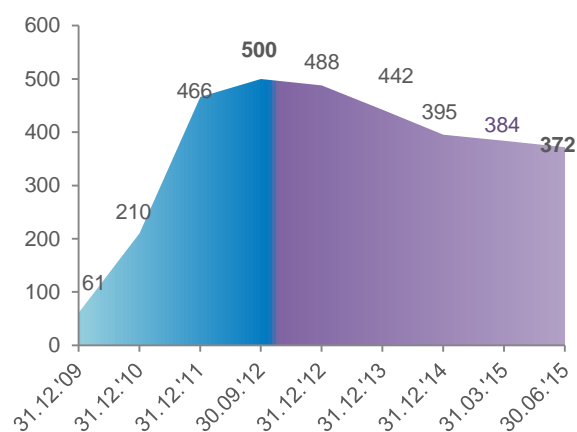
Total bank indebtedness³²,
million USD**571**

✔ -9%

- Letters of credit
- Total debt

GPN loan,
million EUR**372**

✔ -6%



³¹ Term structure of the debt to banks is shown according to Contract terms and not by maturity of the debt as of 30 June 2015

³² In addition to the debt to the banks and Letters of Credit, as at 30 June 2015, NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of USD 35.7 million, corporate guarantees in the amount of USD 67.8 million and signed Letters of Intent in the amount of USD 0.2million

INVESTMENTS

INVESTMENT PROJECTS

The 2015 Business Plan of NIS j.s.c. and Medium-term Investment Programme (hereinafter: MIP), which included the CAPEX investment plan in the period 2015–2017, were adopted at the 85th meeting of the Board of Directors held on 5 January 2015.

According to the MIP, the main investment areas in 2015 were oriented towards implementation of the following groups of projects: environmental protection projects, projects in refining, sales and distribution, oil and gas production, and a certain number of projects at the corporate headquarters.

In first six months of 2015, RSD 12.51 billion was earmarked³³ for investment funding, which is 30% less than in same period in 2014.

The most important investments in oil and gas production in first six months of 2015 included:

- Drilling of development wells
- Investments in geological and technical measures
- Programme of 3D Seismic Exploration and Drilling of Exploration Wells in the Republic of Serbia
- Gas business projects
- Investment in concession rights

The most important capital investments related to environmental protection at the Pančevo Oil Refinery in first quarter of 2015 included:

- Diesel blending with bio-diesel
- Reconstruction and modernization of port on Danube
- The construction of the closed sampling system in production

Investment funding by type of project³⁴	6M 2015	6M 2014
Ecology	0.25	0.46
Angola	0.29	0.10
Projects with direct economic effects	9.39	12.42
Projects without direct economic effects	2.30	4.08
Design and research work	0.28	0.74
TOTAL:	12.51	17.79

Investments by segments	6M 2015	6M 2014
Exploration and Production	9.94	11.40
Refining	1.12	4.02
Sales and Distribution	0.48	1.60
Services	0.56	0.20
Energy	0.27	0.13
NIS Corporate Centre	0.14	0.43

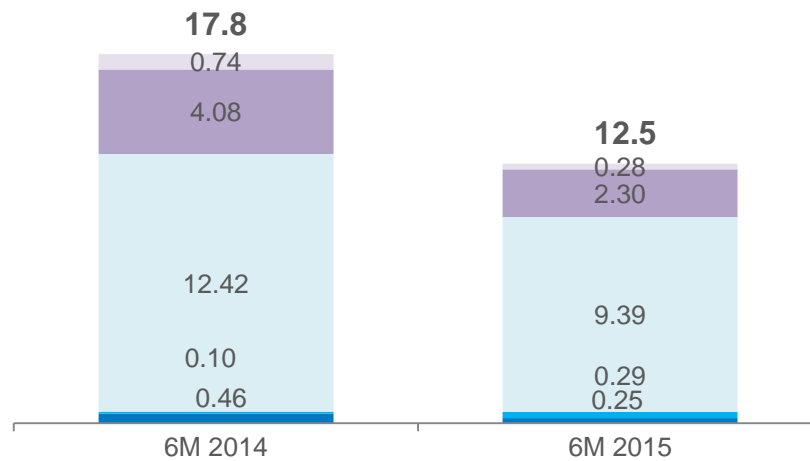
³³ NIS j.s.c. Novi Sad with subsidiary companies, excluding Jubos d.o.o. Bor, NIS Overseas o.o.o. Saint Petersburg, and NIS Svetlost d.o.o. Bujanovac.

³⁴ The amounts are in RSD billion VAT exclusive.

**CAPEX by investment projects, funding
in RSD billion VAT exclusive**

12.5
 **-30%**

-
- Ecology
 - Angola PSA
 - Projects with direct economic effects
 - Projects without direct economic effects
 - Design and research work
-



TAXES AND OTHER PUBLIC REVENUES

ANALYTICAL OVERVIEW OF ACCRUED LIABILITIES FOR TAXES AND OTHER PUBLIC REVENUES³⁵

NIS j.s.c. Novi Sad	6M 2015	6M 2014	$\frac{6M 2015}{6M 2014}$
Contributions for social insurance paid by the employer	0.73	0.76	-4%
Income tax	0.84	2.62	-68%
VAT	10.41	7.68	35%
Excise tax	45.40	45.14	1%
Contribution for buffer stocks	2.90	0.00	-
Custom duty	0.18	0.43	-58%
Royalties	0.81	1.18	-31%
Other taxes	0.67	0.52	29%
Total	61.92	58.33	6%
NIS subsidiaries in Serbia³⁶,			-
Contributions for social insurance paid by the employer	0.26	0.26	0%
Income tax	0.07	0.04	75%
VAT	0.24	0.28	-15%
Excise tax	0.00	0.00	-!
Custom duty	0.05	0.04	33%
Royalties	0.00	0.00	-
Other taxes	0.03	0.02	50%
Total	0.64	0.63	2%
Total NIS with subsidiaries in Serbia	62.57	58.96	6%
NIS subsidiaries in the region and Angola and Turkmenistan			
Contributions for social insurance paid by the employer	0.06	0.09	-33%
Income tax	0.21	0.37	-43%
VAT	0.35	0.88	-61%
Excise tax	3.25	1.82	79%
Custom duty	0.36	0.00	-
Royalties	0.00	0.00	-
Other taxes	0.07	0.06	17%
Total	4.30	3.22	34%
Deferred tax assets (total for Group)	0.37	1.41	-74%
Total NIS Group³⁷	67.24	63.60	6%

Total amount of obligations based on public revenue to be paid in Serbia by NIS j.s.c. Novi Sad with its daughter companies, derived from NIS's organizational structure³⁸, amounts to RSD 62.57 billion, which is higher by 3.60 billion, i.e., 6% more than in the same period previous year.

Total amount of obligations based on public revenue to be paid by NIS Group in 6M 2015 amounts to RSD 67.24 billion, which is higher by 3.64 billion, i.e., 6% more.

³⁵ in bn. RSD

³⁶ Subsidiaries include: STC NIS – Naftagas I.t.d. , Naftagas – Transport I.t.d., Naftagas – Technical Services I.t.d. and Naftagas – Oilfield Services I.t.d., and does not include O Zone j.s.c., NIS – Svetlost I.t.d. and Jubos I.t.d.

³⁷Inclusive of taxes and other liabilities based on public revenues with respect to regional subsidiaries, tax and profit in Angola, and deferred tax assets

³⁸Subsidiaries include: STC NIS – Naftagas I.t.d. , Naftagas – Transport I.t.d., Naftagas – Technical Services I.t.d. and Naftagas – Oilfield Services I.t.d., and does not include O Zone j.s.c., NIS – Svetlost I.t.d. and Jubos I.t.d.

SECURITIES

SHARE CAPITAL STRUCTURE

NIS' share capital amounts to 81.53 billion RSD, and it is distributed into 163,060,400 shares with a nominal value of 500.00 RSD per share.

The shares are dematerialized and registered with the Central Securities Depository and Clearing House of the Republic of Serbia, under CFI code ESVUFR and ISIN number RSNISHE79420

All issued shares are common shares which grant the following rights to their holders:

- Right to participate and vote at the shareholders' assembly sessions, according to one-share-one-vote rule;
- Right to dividend in compliance with the applicable regulations;
- Right to a share in the distribution of the liquidation stock or bankruptcy estate in compliance with the bankruptcy law;
- Right to the option to buy the common shares and other financial instruments that can be traded for newly-issued common shares;
- Other rights in accordance with the Company Law and Company documents.

In the ranking of ten top shareholders, holding the largest share in the equity capital, the following custodial accounts dominate:

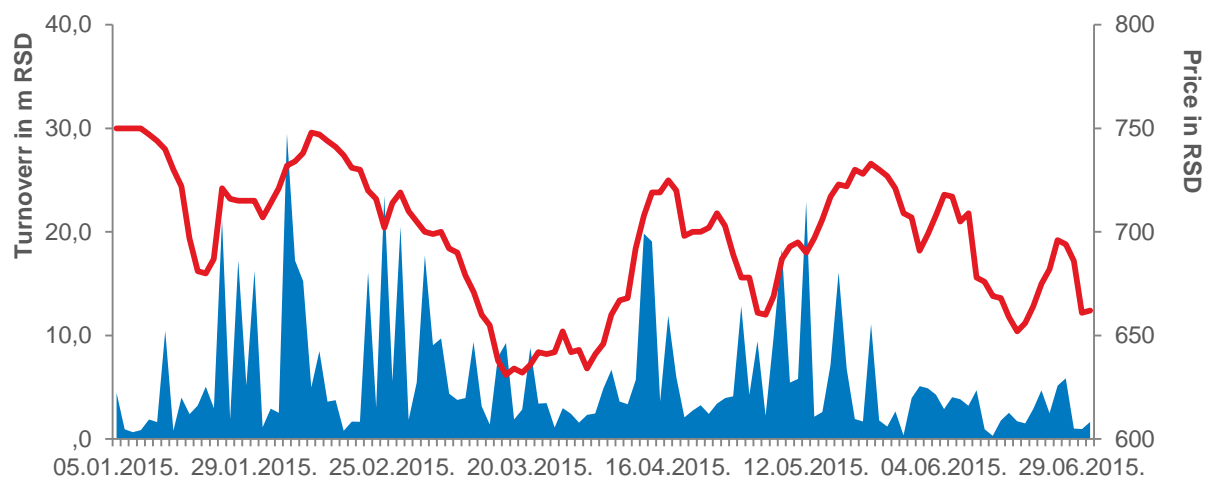
Shareholder	Number of shares	% in share capital
Gazprom Neft	91,565,887	56.1546%
Republic of Serbia	48,712,049	29.8736%
UniCredit Bank Srbija a.d. – custody account	598,912	0.3673%
Societe Genera Bank Serbia – custody account	460,849	0.2826%
Raiffeisen Bank a.d. Belgrade – custody account	355,723	0.2182%
East Capital (Lux) – Balkan fund	281,268	0.1725%
UniCredit Bank Srbija a.d. – collective account	236,701	0.1452%
Global Macro Capital Opportunities	216,465	0.1328%
AWLL Communications d.o.o. Belgrade	213,000	0.1306%
Keramika Jovanović d.o.o. Zrenjanin	203,824	0.1250%
Other shareholders	20,215,722	12.3977%
Total number of shareholders as of June 30th, 2015		2,191,709

SHARE TRADING AND INDICATORS PER SHARE

NIS j.s.c. Novi Sad shares are listed in the Prime Listing of the Belgrade Stock Exchange.

Price and turnover trends in first six months of 2015

■ Turnover
■ Price



Overview of trading in NIS shares at the Belgrade Stock Exchange in first six months of 2015

Last price (as of June 30 th , 2015)	663 RSD
Highest price (as of 5 January 2015)	770 RSD
Lowest price (18 March 2015)	621 RSD
Total turnover	708,117,670 RSD
Total volume (number of shares)	1,010,752 shares
Total number of transactions	32,849 transactions
Market capitalization as of June 30 th , 2015	107,945,984,800 RSD
EPS	39.53 RSD
Consolidated EPS	30.45 RSD
P/E ratio	16.8
Consolidated P/E ratio	21.8
Book value as of June 30 th , 2015	1,186.01 RSD
Consolidated book value as of June 30 th , 2015	1,110.72 RSD
P/BV ratio	0.6
Consolidated P/BV ratio	0.6

In first three months of 2015, the Company did not acquire any own shares (treasury shares).

DIVIDENDS

NIS j.s.c. Novi Sad dividend policy is based on a balanced approach which takes into account the necessity of profit retention, for purposes of future investment funding, as well as the rate of growth of the invested capital and the amount for dividend payment. The long-term dividend policy stipulates that at least 15% of the generated net profit is to be paid to the shareholders in the form of dividends.

When adopting the draft decision on the distribution of profit and payment of dividends, the Company management considers a number of factors, including the financial situation, investment plans, loan repayment obligations, macroeconomic environment, and legal regulations. Each and every one of these factors, whether individually or combined, if carrying sufficient weight, may affect the proposed dividend payment.

	2009	2010	2011	2012	2013	2014
Net profit (loss), in bn. RSD ³⁹	(4.4)	16.5 ⁴⁰	40.6 ⁴¹	49.5	52.3	30.6
Total dividend amount, in bn. RSD	0.00	0.00	0.00	12.4	13.1	7.6
Payment ratio	-	-	-	25%	25%	25%
Earnings per share, in RSD	-	101.1	249.0	303.3	320.9	187.4
Dividend per share, gross, in RSD	0.00	0.00	0.00	75.83	80.22	46.85
Price share as of 31 December, in RSD	-	475	605	736	927	775
Shareholders' dividend yield, in % ⁴²	-	-	-	10.3	8.7	6.0

OVERVIEW OF FINANCIAL INSTRUMENTS USED BY THE GROUP

Due to its exposure to the foreign exchange risk, NIS Group practises forward transactions on the foreign exchange market, as the instrument to manage this type of risk.

As the parent company of "Gazprom Neft" Group, which includes NIS j.s.c. Novi Sad and its subsidiaries, OJSC "Gazprom Neft" manages the commodity hedging instruments at the level of "Gazprom Neft" Group and decides if it is necessary to use specific commodity hedging instruments.

³⁹ NIS j.s.c. Novi Sad net revenue

⁴⁰ Net profit was used to cover accumulated loss

⁴¹ Net profit was used to cover accumulated loss

⁴² Calculated as a ratio between gross dividend and share price at year-end

HUMAN RESOURCES

HEADCOUNT

Organizational unit	30.06.2015.			30.06.2014.		
	Employees ⁴³	Servicing companies	Total	Employees ⁴⁴	Servicing companies	Total
NIS j.s.c. Novi Sad	3,938	3,421	7,359	4,311	3,540	7,851
Exploration and Production Block	772	204	976	731	186	917
Refining Block	829	46	875	900	50	950
Sales and Distribution Block	934	2,654	3,588	1,038	2,849	3,887
Services Block	105	18	123	135	15	150
Energy Block	234	15	249	235	7	242
Corporate Centre	1,064	484	1,548	1,272	433	1,705
Representative and Branch Offices	52	4	56	55	0	55
Local Subsidiaries	1,411	1,466	2,877	1,461	1,326	2,787
Naftagas - Naftni servisi ⁴⁵	590	726	1,316	616	548	1,164
Naftagas - Tehnički servisi	420	456	876	422	483	905
Naftagas - Transport	110	255	365	111	258	369
NTC NIS Naftagas	291	29	320	312	37	349
Foreign Subsidiaries	132	0	132	314	5	319
NIS Petrol, Bulgaria	77	0	77	188	0	188
NIS Petrol, Romania	30	0	30	45	2	47
NIS Petrol, B&H	15	0	15	68	2	70
Jadran Naftagas, B&H	6	0	6	7	0	7
Pannon Naftagas, Hungary	4	0	4	6	1	7
Other Subsidiaries	260	156	416	170	97	267
Jubos d.o.o. Bor – in liquidation	0	0	0	0	0	0
O Zone a.d. Belgrade	5	93	98	4	0	4
NIS Oversees o.o.o. St Petersburg	118	0	118	112	0	112
NIS Svetlost d.o.o. Bujanovac	15	3	18	15	7	22
G Petrol d.o.o. Sarajevo	122	60	182	39	90	129
TOTAL:	5,793	5,047	10,840	6,311	4,968	11,279

CAUSES OF EMPLOYMENT TERMINATION

In first six months of 2015, a total of 435 employees left NIS j.s.c. Novi Sad and local subsidiaries: 6 employees retired, 48 left NIS after termination of employment by mutual agreement, while the employment of 384 people was terminated on other grounds (involuntary termination, voluntary termination, death etc.).

	NIS j.s.c. Novi Sad	Domestic subsidiaries of NIS
Retirement	1	2
Mutual termination of employment	37	11
Other	357	27
Total:	395	40

⁴³ The numbers include NIS Chance

⁴⁴ The numbers include NIS Chance

⁴⁵ Also including the employees in branches

RESEARCH AND DEVELOPMENT

SYSTEM OF MANAGING RESEARCH AND DEVELOPMENT

The introduction and efficient use of new technologies is one of the priorities of NIS development in all business areas, from production and refining to human resources. Equipment modernization, innovative approach and preparation of up-to-date technologies are the prerequisite for advancement, competitiveness and taking on the regional leadership. NIS constantly modernizes its operations in the field of oil and gas business, introduces and upgrades new methods of oil and gas exploitation, constructs new refining units, automates its operations, and develops and modernizes the retail network.

In the field of exploration and development, the Rulebook on Planning, Execution, and Control of Innovative, Scientific, Research, Development and Technological Studies (SRDW) in NIS j.s.c. Novi Sad, in the Science and Technology Council, has been formed under the competence of NIS j.s.c. Chief Executive Officer, which convenes sessions on a quarterly basis; whereas the Research and Development Section has been formed within the Science and Technology Center, which performs tasks of science and research project coordination and execution.

In the NIS Group, the research and development activity is organized within subsidiary "STC NIS Naftagas" d.o.o. Novi Sad, which, in synergy with OJSC "Gazprom Neft", uses resources and technology of the parent company, and performs two functions:

- coordinator of science and research activities, and
- executor of science and research activities.

FINANCIAL STATEMENTS

STAND-ALONE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

	Note	30 June 2015 (unaudited)	31 December 2014
Assets			
Current assets			
Cash and cash equivalents	6	8,251,010	5,338,023
Short-term financial assets		3,312,596	2,786,555
Trade and other receivables	7	53,637,795	56,658,222
Inventories	8	24,289,650	35,774,304
Current income tax prepayments		4,177,871	2,627,622
Other current assets	9	4,621,858	6,939,633
Total current assets		98,290,780	110,124,359
Non-current assets			
Property, plant and equipment	10	206,466,606	201,627,904
Investment property		1,584,194	1,381,832
Other intangible assets		4,522,733	4,711,241
Investments in subsidiaries	11	13,442,631	7,556,020
Trade and other non-current receivables		2,895	2,427,259
Long-term financial assets		33,604,419	32,814,852
Deferred tax assets		7,421,624	7,834,155
Other non-current assets	12	3,623,402	3,733,444
Total non-current assets		270,668,504	262,086,707
Total assets		368,959,284	372,211,066
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	13	16,277,929	14,831,489
Trade and other payables	14	44,415,625	43,511,405
Other current liabilities	15	3,289,864	4,466,671
Other taxes payable	16	8,856,933	8,326,910
Provisions for liabilities and charges		2,256,090	2,461,013
Total current liabilities		75,096,441	73,597,488
Non-current liabilities			
Long-term debt	17	88,886,632	92,612,697
Deferred tax liabilities		2,699,709	2,724,064
Provisions for liabilities and charges		8,884,569	8,690,515
Total non-current liabilities		100,470,910	104,027,276
Equity			
Share capital	18	81,530,200	81,530,200
Reserves		(23,780)	(42,277)
Retained earnings		111,885,513	113,098,379
Total equity		193,391,933	194,586,302
Total liabilities and shareholder's equity		368,959,284	372,211,066

In thousand RSD

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

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six month period ended 30 June	
		2015 (unaudited)	2014 (unaudited)
Sales of petroleum products and oil and gas sales		94,938,163	116,024,175
Other revenues		3,031,129	2,442,279
Total revenue from sales	5	97,969,292	118,466,454
Purchases of oil, gas and petroleum products	19	(55,849,444)	(64,754,392)
Production and manufacturing expenses	20	(9,084,169)	(8,792,742)
Selling, general and administrative expenses	21	(9,851,372)	(9,485,694)
Transportation expenses		(380,596)	(526,862)
Depreciation, depletion and amortization		(5,742,324)	(5,239,699)
Taxes other than income tax		(2,205,561)	(2,460,111)
Exploration expenses		-	(36,018)
Total operating expenses		(83,113,466)	(91,295,518)
Other expenses, net		(569,520)	(90,572)
Operating profit		14,286,306	27,080,364
Net foreign exchange loss		(5,401,875)	(1,533,155)
Finance income		642,550	1,010,195
Finance expenses		(1,669,255)	(1,724,170)
Total other expense		(6,428,580)	(2,247,130)
Profit before income tax		7,857,726	24,833,234
Current income tax expense		(1,043,037)	(2,990,552)
Deferred tax expense		(388,175)	(1,437,436)
Total income tax expense		(1,431,212)	(4,427,988)
Profit for the period		6,426,514	20,405,246
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		18,497	7,234
Other comprehensive income for the period		18,497	7,234
Total comprehensive income for the period		6,445,011	20,412,480
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		39.53	125.18
Weighted average number of ordinary shares in issue (in millions)		163	163

In thousand RSD

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

Six month period ended 30 June 2015 and 2014

<i>(unaudited)</i>	Share capital	Reserves	Retained earnings	Total
Balance as at 1 January 2014	81,530,200	(59,885)	95,412,378	176,882,693
Profit for the period	-	-	20,405,246	20,405,246
Other comprehensive income				
Change in value of available-for-sale financial assets	-	7,234	-	7,234
Total comprehensive income for the period	-	7,234	20,405,246	20,412,480
Dividend distribution	-	-	(13,080,705)	(13,080,705)
Total transaction with owners, recorded in equity	-	-	(13,080,705)	(13,080,705)
Balance as at 30 June 2014	81,530,200	(52,651)	102,736,919	184,214,468
Balance as at 1 January 2015	81,530,200	(42,277)	113,098,379	194,586,302
Profit for the period	-	-	6,426,514	6,426,514
Other comprehensive income				
Change in value of available-for-sale financial assets	-	18,497	-	18,497
Total comprehensive income for the period	-	18,497	6,426,514	6,445,011
Dividend distribution	-	-	(7,639,380)	(7,639,380)
Total transaction with owners, recorded in equity	-	-	(7,639,380)	(7,639,380)
Balance as at 30 June 2015	81,530,200	(23,780)	111,885,513	193,391,933

In thousand RSD

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Six month period ended 30 June	
	2015	2014
	<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows from operating activities		
Profit before income tax	7,857,726	24,833,234
Adjustments for:		
Finance costs	1,669,255	1,724,170
Finance income	(642,550)	(1,010,195)
Depreciation, depletion and amortization	5,742,324	5,239,699
Adjustments for other provisions	171,545	343,970
Allowance for doubtful accounts	84,866	1,680,000
Payables write-off	(203,393)	(648)
Net unrealised foreign exchange losses, net	4,662,972	1,488,205
Other non-cash items	234,855	(82,318)
	11,719,874	9,382,883
Changes in working capital:		
Trade and other receivables	348,493	(941,295)
Inventories	11,484,654	(8,098,951)
Other current assets	1,926,875	(4,444,482)
Trade payables and other current liabilities	(5,537,786)	(12,079,658)
Other taxes payable	532,123	1,252,969
	8,754,359	(24,311,417)
Income taxes paid	(2,595,388)	(5,428,389)
Interest paid	(1,498,316)	(1,392,402)
Interest received	241,779	289,608
	(3,851,925)	(6,531,183)
Net cash generated by operating activities	24,480,034	3,373,517
Cash flows from investing activities		
Loans issued	(7,884,015)	(7,507,855)
Loan proceeds received	5,959,284	4,162,603
Capital expenditures	(13,199,337)	(18,050,682)
Proceeds from sale of property, plant and equipment	72,437	124,148
Net cash used in investing activities	(15,051,631)	(21,271,786)
Cash flows from financing activities		
Proceeds from borrowings	16,231,948	21,725,677
Repayment of borrowings	(22,702,299)	(6,118,824)
Net cash (used in) generated by financing activities	(6,470,351)	15,606,853
Net increase (decrease) in cash and cash equivalents	2,958,052	(2,291,416)
Effect of foreign exchange on cash and cash equivalents	(45,065)	(73,238)
Cash and cash equivalents as of the beginning of the period	5,338,023	5,180,156
Cash and cash equivalents as of the end of the period	8,251,010	2,815,502

In thousand RSD

The accompanying notes are an integral part of these financial statements.

NOTES TO STAND-ALONE 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 AND ACCOUNTING ESTIMATES

2.1. 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 2014, 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 2014.

The results for the six month period ended 30 June 2015 are not necessarily indicative of the results expected for the full year.

2.2. 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 2014, except for those described in Application of new IFRS paragraph.

2.3. Application of new IFRS

The amendments to IAS 19 – Employee Benefits on contributions from employees or third parties to defined benefit plans became effective for the annual periods beginning on or after July 1, 2014. The amendment has no significant impact on Company's Interim Condensed Financial Statements.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

3.1. Economic Environment in the Russian Federation

The Company continues to assess the impact of the sanctions imposed in July-September 2014, but currently does not believe they have a significant impact on the Interim Condensed Financial Statements.

3.2. Impact of recent crude oil volatility

In the line with recent changes in the crude oil price on the world market, management of the company continues to monitor the crude oil price fluctuation and its influence on business performance in order to adequately take measure to mitigate impact if the negative trends on the market continue.

Based on the currently available information and crude oil price forecast, management believe that at reporting date there are no indicators of asset impairment.

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after January 1, 2015 or later, and that the Company has not early adopted. The full list of such Standards and interpretations was disclosed in the Financial Statements as of and for the year ended December 31, 2014.

Amendments to the IFRS for Small and Medium-Sized Entities (issued in May 2015 and effective for annual periods beginning on or after January 1, 2017) relate to transactions commonly encountered by SMEs which are: permitting SMEs to use a revaluation model for property, plant and equipment; and aligning the main recognition and measurement requirements for deferred income tax with IAS 12 Income Taxes.

No other new documents were issued during the six months period ended 30 June 2015.

Unless otherwise stated the new standards and interpretations are not expected to have significant impact on affect significantly the Company's Financial Statements.

5. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the six month period ended 30 June 2015 and 2014. Operating segments are components that engaged 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 oil 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 on-going operating activities, as it reflects the Company's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the six month period ended 30 June 2015 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	28,946,095	96,741,511	(27,718,314)	97,969,292
Intersegment	26,945,653	772,661	(27,718,314)	-
External	2,000,442	95,968,850	-	97,969,292
EBITDA (Segment results)	21,385,136	(849,091)	-	20,536,045
Depreciation, depletion and amortization	(1,579,456)	(4,162,868)	-	(5,742,324)
Impairment losses	-	(195,740)	-	(195,740)
Net foreign exchange loss	(21,243)	(5,380,632)	-	(5,401,875)
Finance expenses, net	(55,650)	(971,055)	-	(1,026,705)
Income tax	-	(1,431,212)	-	(1,431,212)
Segment profit (loss)	19,320,745	(12,894,231)	-	6,426,514

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,252,674	116,128,848	(40,915,068)	118,466,454
Intersegment	40,537,560	377,508	(40,915,068)	-
External	2,715,114	115,751,340	-	118,466,454
EBITDA (Segment results)	36,373,083	(3,924,771)	-	32,448,312
Depreciation, depletion and amortization	(1,429,767)	(3,809,932)	-	(5,239,699)
Impairment gain	-	45,223	-	45,223
Net foreign exchange loss	(45,246)	(1,487,909)	-	(1,533,155)
Finance expenses, net	(143,909)	(570,066)	-	(713,975)
Income tax	(373,926)	(4,054,062)	-	(4,427,988)
Segment profit (loss)	34,043,147	(13,637,901)	-	20,405,246

EBITDA for the six month period ended 30 June 2015 and 2014 is reconciled below:

	Six month period ended 30 June	
	2015	2014
Profit for the period	6,426,514	20,405,246
Income tax expenses	1,431,212	4,427,988
Finance expenses	1,669,255	1,724,170
Finance income	(642,550)	(1,010,195)
Depreciation, depletion and amortization	5,742,324	5,239,699
Net foreign exchange loss	5,401,875	1,533,155
Other expense, net	569,520	90,572
Other non-operating (income) expense, net*	(62,105)	37,677
EBITDA	20,536,045	32,448,312

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

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

	Six month period ended 30 June 2015		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,740,490	1,740,490
Sale of gas	4,779,868	-	4,779,868
Through a retail network	-	-	-
Wholesale activities	4,779,868	-	4,779,868
Sale of petroleum products	73,647,685	14,770,120	88,417,805
Through a retail network	23,162,461	-	23,162,461
Wholesale activities	50,485,224	14,770,120	65,255,344
Other sales	2,676,602	354,527	3,031,129
Total sales	81,104,155	16,865,137	97,969,292

Six month period ended 30 June 2014

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

Out of the amount of 65,255,344 RSD (six month period ended 30 June 2014 83,615,969 RSD) revenue from sale of petroleum products (wholesale), the amount of 8,888,980 RSD (six month period ended 30 June 2014: 15,342,789 RSD) are derived from a single domestic customer, HIP Petrohemija. These revenue are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 1,685,458 RSD (six month period ended 30 June 2014: 1,689,056 RSD).

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 81,104,155 RSD (six month period ended 30 June 2014: 96,092,416 RSD), and the total of revenue from external customer from other countries is 16,865,137 RSD (six month period ended 30 June 2014: 22,374,038 RSD). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Six month period ended 30 June 2015	
	2015	2014
Sale of crude oil	1,740,490	2,592,771
Sale of petroleum products (retail and wholesale)		
Bulgaria	3,618,422	3,764,814
Bosnia and Herzegovina	2,783,262	3,051,406
Romania	1,053,203	1,711,494
All other markets	7,315,233	11,200,435
	14,770,120	19,728,149
Other sales	354,527	53,118
	16,865,137	22,374,038

Revenues from the individual countries included in all other markets are not material.

6. CASH AND CASH EQUIVALENTS

	30 June 2015	31 December 2014
Cash in bank and in hand	8,013,727	4,358,280
Deposits with original maturity of less than three months	-	724,192
Cash equivalents	237,283	255,551
	8,251,010	5,338,023

7. TRADE AND OTHER RECEIVABLES

	30 June 2015	31 December 2014
Trade receivables:		
- related parties	3,425,481	6,113,296
- third parties	67,251,330	69,996,807
	70,676,811	76,110,103
Accrued assets	1,084,329	13,870
Other receivables	10,227,959	10,257,988
	81,989,099	86,381,961
<i>Less impairment provision</i>	(28,351,304)	(29,723,739)
Total trade and other receivables	53,637,795	56,658,222

The ageing of trade and other receivables is as follows:

	30 June 2015	31 December 2014
Neither impaired nor past due	28,252,085	25,727,489
Past due but not impaired:		
within 30 days:	4,415,224	3,839,535
1 to 3 months	3,652,899	2,060,031
3 months to 1 year	6,184,320	13,129,697
over 1 year	11,133,267	11,901,470
Total	53,637,795	56,658,222

Due to unfavourable macroeconomic conditions in the recent years, the Company was faced with slowdown in collection from state owned companies. However, the Company management is working closely with major debtors on recovery of these debts and believes that net receivables included in the aging table above are fully recoverable.

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

	30 June 2015	31 December 2014
RSD	67,299,751	72,826,293
EUR	12,201,818	10,862,728
USD	2,487,508	2,692,920
Other	22	20
	81,989,099	86,381,961

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

	Trade receivables		Other receivables	Total
	Individually impaired	Collectively impaired	Individually impaired	
As at 1 January 2014	17,688,648	4,301,928	7,827,613	29,818,189
Provision for receivables impairment	62,718	153,919	-	216,637
Unused amounts reversed	(155,160)	(243,327)	-	(398,487)
Receivables written off during the year as uncollectible	(40)	(28,133)	-	(28,173)
Other	(551,960)	551,960	78,057	78,057
As at 30 June 2014	17,044,206	4,736,347	7,905,670	29,686,223
As at 1 January 2015	17,387,910	4,183,437	8,152,392	29,723,739
Provision for receivables impairment	13,183	76,554	-	89,737
Unused amounts reversed	(144)	(91,699)	-	(91,843)
Receivables written off during the year as uncollectible	(1,317,897)	(22,518)	-	(1,340,415)
Other	-	(6,048)	(23,866)	(29,914)
As at 30 June 2015	16,083,052	4,139,726	8,128,526	28,351,304

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the Profit and Loss. Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The other classes within trade and other receivables do not contain impaired assets.

8. INVENTORIES

	30 June 2015	31 December 2014
Crude oil	12,848,206	21,306,426
Gas	-	161,206
Petroleum products	11,689,593	13,712,462
Materials and supplies	5,026,852	5,797,035
Other	331,752	411,021
Less impairment provision	(5,606,753)	(5,613,846)
	24,289,650	35,774,304

9. OTHER CURRENT ASSETS

	30 June 2015	31 December 2014
Advances paid	731,539	627,709
Deferred VAT	1,236,383	1,640,431
Prepaid expenses	251,250	108,427
Prepaid custom duties	52,064	51,810
Prepaid excise	1,991,176	4,323,739
Other current assets	21,360,072	21,178,580
Less impairment provision	(21,000,626)	(20,991,063)
	4,621,858	6,939,633

Deferred VAT as at 30 June 2015 amounting to 1, 236,383 RSD (31 December 2014: 1,640,431 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 30 June 2015 amounting to 1,991,176 RSD (31 December 2014: 4,323,739 RSD) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

Other current assets mainly relate to accrued interests and claims in dispute which are impaired.

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

	Advances paid	Other current assets	Total
As at 1 January 2014	248,347	17,699,214	17,947,561
Provision for receivables impairment	3,091	1,919,981	1,923,072
Unused amounts reversed	(9,979)	(52,197)	(62,176)
Other	6	(85,016)	(85,010)
As at 30 June 2014	241,465	19,481,982	19,723,447
As at 1 January 2015	239,845	20,751,218	20,991,063
Provision for receivables impairment	377	100,132	100,509
Unused amounts reversed	(2,560)	(10,977)	(13,537)
Other	(827)	(76,582)	(77,409)
As at 30 June 2015	236,835	20,763,791	21,000,626

10. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2014						
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)
Net book value	35,592,277	80,011,533	17,264,259	9,419,399	35,716,476	178,003,944
Period ended 30 June 2014						
Additions	9,116,037	1,343,872	1,206,739	147,298	3,999,048	15,812,994
Impairment	-	-	(37,097)	-	(442)	(37,539)
Depreciation	(1,420,745)	(2,600,213)	(588,641)	(247,527)	-	(4,857,126)
Transfer from investment property	35,121	9,358	28,439	7,399	-	80,317
Disposals and write-off	(1,023,021)	(45,087)	(43,105)	(35,805)	(112,209)	(1,259,227)
Other transfers	254,857	(585,232)	(111,470)	441,351	(92,937)	(93,431)
	42,554,526	78,134,231	17,719,124	9,732,115	39,509,936	187,649,932
As at 30 June 2014						
Cost	60,238,601	108,841,615	30,619,801	17,527,298	43,547,654	260,774,969
Depreciation and impairment	(17,684,075)	(30,707,384)	(12,900,677)	(7,795,183)	(4,037,718)	(73,125,037)
Net book value	42,554,526	78,134,231	17,719,124	9,732,115	39,509,936	187,649,932
As at 1 January 2015						
Cost	73,455,117	114,595,855	31,255,519	17,838,728	40,592,464	277,737,683
Depreciation and impairment	(19,210,617)	(32,895,538)	(13,279,118)	(7,941,703)	(2,782,803)	(76,109,779)
Net book value	54,244,500	81,700,317	17,976,401	9,897,025	37,809,661	201,627,904
Period ended 30 June 2015						
Additions	6,974,133	2,220,364	870,622	136,797	679,567	10,881,483
Impairment	-	(13,670)	(147,634)	-	(60,354)	(221,658)
Depreciation	(1,564,966)	(2,851,375)	(611,204)	(281,645)	-	(5,309,190)
Transfer to investment property	-	-	(2,305)	(187,296)	-	(189,601)
Disposals and write-off	(102,955)	(9,839)	(18,925)	(73,093)	(23,770)	(228,582)
Other transfers	(22,648)	(2,966)	(539)	3,772	(71,369)	(93,750)
	59,528,064	81,042,831	18,066,416	9,495,560	38,333,735	206,466,606
As at 30 June 2015						
Cost	80,321,226	116,754,476	31,992,961	17,651,840	41,117,822	287,838,325
Depreciation and impairment	(20,793,162)	(35,711,645)	(13,926,545)	(8,156,280)	(2,784,087)	(81,371,719)
Net book value	59,528,064	81,042,831	18,066,416	9,495,560	38,333,735	206,466,606

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
As at 1 January 2014						
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)
Net book amount	10,248,631	11,436,370	21,685,001	35,592,277	1,975	57,279,253
Period ended 30 June 2014						
Additions	2,873,356	8,256,500	11,129,856	-	-	11,129,856
Transfer from asset under construction	(1,934,990)	(7,181,047)	(9,116,037)	9,116,037	-	-
Other transfers	50,654	(23,118)	27,536	254,857	(81)	282,312
Depreciation and depletion	-	-	-	(1,420,745)	-	(1,420,745)
Transfer from investment property	-	-	-	35,121	-	35,121
Disposals and write-off	(14,303)	(222,000)	(236,303)	(1,023,021)	-	(1,259,324)
	11,223,348	12,266,705	23,490,053	42,554,526	1,894	66,046,473
As at 30 June 2014						
Cost	11,223,348	12,504,764	23,728,112	60,238,601	22,203	83,988,916
Depreciation and impairment	-	(238,059)	(238,059)	(17,684,075)	(20,309)	(17,942,443)
Net book amount	11,223,348	12,266,705	23,490,053	42,554,526	1,894	66,046,473
As at 1 January 2015						
Cost	15,001,370	11,578,278	26,579,648	73,455,117	22,203	100,056,968
Depreciation and impairment	-	(253,585)	(253,585)	(19,210,617)	(20,358)	(19,484,560)
Net book amount	15,001,370	11,324,693	26,326,063	54,244,500	1,845	80,572,408
Period ended 30 June 2015						
Additions	1,387,963	7,847,450	9,235,413	-	-	9,235,413
Transfer from asset under construction	(211,476)	(6,762,657)	(6,974,133)	6,974,133	-	-
Other transfers	(12,000)	12,216	(4,933)	(22,648)	(30)	(27,611)
Depreciation and depletion	-	-	-	(1,564,966)	-	(1,564,966)
Disposals and write-off	(28,012)	-	(22,863)	(102,955)	(50)	(125,868)
	16,137,845	12,421,702	28,559,547	59,528,064	1,765	88,089,376
As at 30 June 2015						
Cost	16,137,845	12,660,141	28,797,986	80,321,226	22,123	109,141,335
Depreciation and impairment	-	(238,439)	(238,439)	(20,793,162)	(20,358)	(21,051,959)
Net book amount	16,137,845	12,421,702	28,559,547	59,528,064	1,765	88,089,376

11. INVESTMENTS IN SUBSIDIARIES

In 2015, Company has increased investments in following subsidiaries:

- Naftagas-naftni servisi d.o.o., Novi Sad in amount of 3,720,017 RSD. The increase is registered on 24 june 2015.
- NTC NIS-Naftagas d.o.o., Novi Sad in amount of 583,500 RSD. The increase is registered on 24 june 2015;
- Naftagas-tehnicki servisi d.o.o., Zrenjanin in amount of 193,679 RSD. The increase is registered on 24 june 2015.
- Naftagas-Transport d.o.o., Novi Sad in amount of 1,389,598 RSD. The increase is registered on 24 june 2015
- Pannon naftagas Kft, Budapest in amount of 1,710,726 RSD. The increase is registered on 14 may 2015. The investment is totally impaired.

12. OTHER NON-CURRENT ASSETS

	30 June 2015	31 December 2014
Advances paid for PPE	1,564,107	1,629,280
Prepaid expenses	937,807	977,478
Other assets	1,150,745	1,155,943
Less impairment provision	(29,257)	(29,257)
	3,623,402	3,733,444

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

	30 June 2015	31 December 2014
Short-term loans	3,028,883	8,600,082
Interest liabilities	134,216	130,903
Current portion of long-term loans (note 17)	13,114,830	6,100,504
	16,277,929	14,831,489

14. TRADE AND OTHER PAYABLES

	30 June 2015	31 December 2014
Trade payables		
- related parties	24,603,250	23,047,021
- third parties	8,330,040	16,621,984
Dividends payable	11,411,688	3,772,308
Other accounts payable	70,647	70,092
	44,415,625	43,511,405

As at 30 June 2015 payables to related parties amounting to 24,603,250 RSD (31 December 2014: 23,047,021RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 20,754,722 RSD (31 December 2014: 20,122,243 RSD), for the purchase of crude oil.

15. OTHER CURRENT LIABILITIES

	30 June 2015	31 December 2014
Advances received	963,221	1,551,337
Payables to employees	2,228,912	2,847,285
Accruals and deferred income	11,410	17,988
Other current non-financial liabilities	86,321	50,061
	3,289,864	4,466,671

16. OTHER TAXES PAYABLE

	30 June 2015	31 December 2014
Mineral extraction tax	415,446	407,990
VAT	2,177,267	217,845
Excise tax	4,026,904	4,710,646
Contribution for buffer stocks	251,437	583,400
Custom duties	190,788	414,883
Other taxes	1,795,091	1,992,146
	8,856,933	8,326,910

17. LONG-TERM DEBT

	30 June 2015	31 December 2014
Long-term loan - Gazprom Neft	44,875,982	47,820,723
Bank loans	57,124,272	50,891,268
Other long-term borrowings	1,208	1,210
Less Current portion	(13,114,830)	(6,100,504)
	88,886,632	92,612,697

a) Long-term loan - Gazprom Neft

As at 30 June 2015 long-term loan - Gazprom Neft amounting to 44,875,982 RSD (372,093,029 EUR) (2014: 47,820,723 RSD), with current portion of 5,591,409 RSD (2014: 5,609,498 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

b) Bank loans

	30 June 2015	31 December 2014
Domestic	7,121,926	7,175,318
Foreign	50,002,346	43,715,950
	57,124,272	50,891,268
Current portion of long-term loans	(7,505,332)	(474,537)
	49,618,940	50,416,731

The maturity of bank loans was as follows:

	30 June 2015	31 December 2014
Between 1 and 2 years	8,616,945	6,969,316
Between 2 and 5 years	35,804,571	38,044,029
Over 5 years	5,197,424	5,403,386
	49,618,940	50,416,731

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

	30 June 2015	31 December 2014
USD	51,786,830	51,786,830
EUR	4,962,702	4,962,702
RSD	1,343	1,343
JPY	373,397	373,397
	57,124,272	57,124,272

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 and Libor.

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

The carrying amounts of the Company's bank loans as at 30 June 2015 and 31 December 2014 are presented in the table below:

Creditor	Currency	30 June 2015	31 December 2014
Domestic long-term loans			
Erste bank, Novi Sad	USD	336,199	319,049
Erste bank, Novi Sad	EUR	444,263	457,835
Bank Postanska stedionica, Belgrade	EUR	218,270	224,938
Bank Postanska stedionica, Belgrade	USD	1,821,682	1,728,210
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,300,169	4,443,767
Other loans	RSD	1,343	1,519
		7,121,926	7,175,318
Foreign long-term loans			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	611,617	584,396
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	373,397	361,990
Erste bank, Holland	USD	7,002,476	6,465,167
VUB (Bank Intesa), Slovakia	USD	16,159,560	14,919,615
NBG bank, Great Britain	USD	8,079,780	4,973,205
Sberbank Europe AG, Viena, Austria	USD	17,775,516	16,411,577
		50,002,346	43,715,950
Less current portion of long-term loans		(7,505,332)	(474,537)
		49,618,940	50,416,731

	Currency	Current portion		Long-term	
		30 June 2015	31 December 2014	30 June 2015	31 December 2014
Domestic long - term loans					
Erste bank, Novi Sad	USD	20,651	17,872	315,548	301,177
Erste bank, Novi Sad	EUR	27,033	25,376	417,230	432,459
Bank Postanska stedionica, Belgrade	EUR	13,282	12,468	204,988	212,470
Bank Postanska stedionica, Belgrade	USD	110,849	95,789	1,710,833	1,632,421
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	261,179	261,946	4,038,990	4,181,821
Other loans	RSD	281	345	1,062	1,174
		433,275	413,796	6,688,651	6,761,522
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	46,860	40,677	564,757	543,719
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	22,721	20,064	350,676	341,926
Erste bank, Holland	USD	7,002,476	-	-	6,465,167
VUB (Bank Intesa), Slovakia	USD	-	-	16,159,560	14,919,615
NBG bank, Great Britain	USD	-	-	8,079,780	4,973,205
Sberbank Europe AG, Vienna, Austria	USD	-	-	17,775,516	16,411,577
		7,072,057	60,741	42,930,289	43,655,209
		7,505,332	474,537	49,618,940	50,416,731

The loan agreements contain financial covenants that require the Company's ratio of Indebtedness to EBITDA. Management believes the Company is in compliance with these covenants as of 30 June 2015 and 31 December 2014, respectively.

18. SHARE CAPITAL

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

Share capital as of 30 June 2015 and 31 December 2014 comprise of 163,060,400 shares.

19. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Six month period ended 30 June	
	2015	2014
Crude oil	42,798,094	52,576,228
Petroleum products	12,835,396	12,141,284
Other	215,954	36,880
	55,849,444	64,754,392

20. PRODUCTION AND MANUFACTURING EXPENSES

	Six month period ended 30 June	
	2015	2014
Employee costs	1,778,308	1,847,096
Materials and supplies (other than purchased oil, petroleum products and gas)	491,224	350,951
Repair and maintenance services	1,732,584	1,666,414
Electricity and utilities	1,499,246	1,174,307
Safety and security expense	58,902	48,874
Transportation services for production	252,847	276,930
Other	3,271,058	3,428,170
	9,084,169	8,792,742

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six month period ended 30 June	
	2015	2014
Employee costs	4,628,035	4,464,614
Legal, audit, and consulting services	634,541	735,877
Rent expense	52,583	40,841
Business trips expense	87,088	132,157
Safety and security expense	237,051	201,899
Insurance expense	150,347	133,389
Transportation and storage	589,894	567,493
Allowance for doubtful accounts	84,866	1,679,046
Other	3,386,967	1,530,378
	9,851,372	9,485,694

22. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Financial Statements: investment properties and financial investments classified as available for sale. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Financial Statements as of 31 December 2014. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 30 June, 2015 carrying value of financial assets approximate their fair value.

23. CONTINGENCIES AND COMMITMENTS*Transfer of property ownership*

As at 30 June 2015, the Company had ownership and the right to use and possess of 7,917 properties, which represent 97% of the total Company properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

Finance Guarantees

As at 30 June 2015 the total amount of outstanding finance guarantees provided by the Company amounted to 3,406,878 RSD, mostly related to guaranties for customs duties in the amount of 1,921,381 RSD (31 December 2014: 3,145,363 RSD).

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Company's management recognised an environmental provision in the amount of 503,780 RSD (31 December 2014: 557,657 RSD).

The Company's Management believes that cash outflows related to provision will not be significantly higher than the ones already provided for. However, it is possible that these costs will increase significantly in the future, should the legislation become more restrictive.

Other contingent liabilities

As at 30 June 2015, 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. Taking all of the above into consideration, the Company's Management is of the view that as at 30 June 2015 outflow of resources embodying economic benefits is not probable 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.

Tax risks

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Company has paid all tax liabilities as of 30 June 2015.

Commitments

There were no material commitments of the Company.

24. RELATED PARTY TRANSACTIONS

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

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

In the six month period ended 30 June 2015 and in the same period in 2014, 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, petroleum products and energy.

As at 30 June 2015 and 31 December 2014 the outstanding balances with related parties were as follows:

	Subsidiaries	Parent company	Entities under common control	Total
As at 30 June 2015				
Short-term financial assets	3,308,672	-	-	3,308,672
Trade and other receivables	3,391,039	420	34,022	3,425,481
Other current assets	208,009	-	38,816	246,825
Investments in subsidiaries	13,442,631	-	-	13,442,631
Long-term financial assets	33,352,811	-	-	33,352,811
Other non-current assets	159,464	-	-	159,464
Trade and other payables	(3,869,105)	(20,758,214)	(17,142)	(24,644,461)
Other current liabilities	(4,568)	-	(4,852)	(9,420)
Short-term debt and current portion of long-term debt	(134,776)	(5,609,498)	-	(5,744,274)
Long-term debt	-	(39,266,484)	-	(39,266,484)
	49,854,177	(65,633,776)	50,844	(15,728,755)

	Subsidiaries	Parent company	Entities under common control	Total
As at 31 December 2014				
Short-term financial assets	2,780,193	-	-	2,780,193
Trade and other receivables	6,076,898	-	36,398	6,113,296
Other current assets	171,412	-	-	171,412
Investments in subsidiaries	8,729,187	-	-	8,729,187
Trade and other non-current receivables	2,427,259	-	-	2,427,259
Long-term financial assets	34,517,390	-	-	34,517,390
Other non-current assets	35,055	-	-	35,055
Trade and other payables	(3,071,537)	(20,122,243)	(50,923)	(23,244,703)
Other current liabilities	(142)	-	(12,831)	(12,973)
Short-term debt and current portion of long-term debt	-	(5,625,967)	-	(5,625,967)
Long-term debt	-	(42,194,756)	-	(42,194,756)
	51,665,715	(67,942,966)	(27,356)	(16,304,607)

For the six month period ended 30 June 2015 and 2014 the following transaction occurred with related parties:

	Subsidiaries	Parent company	Entities under common control	Total
Six month period ended 30 June 2015				
Petroleum products and oil and gas sales	4,575,153	-	80,878	4,656,031
Other Revenues	266,916	-	157,482	424,398
Purchases of oil, gas and petroleum products	(5,735)	(35,246,131)	(2,033,070)	(37,284,936)
Production and manufacturing expenses	(1,631,846)	(3,733)	(109,057)	(1,744,636)
Selling, general and administrative expenses	(455,511)	(15,465)	-	(470,976)
Transportation expenses	(10,714)	-	-	(10,714)
Other expenses, net	(48,354)	(16,210)	(18,557)	(83,121)
Finance income	526,342	-	-	526,342
Finance expense	(435)	(494,182)	-	(494,617)
	3,215,816	(35,775,721)	(1,922,324)	(34,482,229)

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

Key management compensation

Management compensation paid or payable in six month period ended 30 June 2015 and 2014 is shown in the table below:

	Six month period ended 30 June	
	2015	2014
Salaries and other short-term employee benefits	230,464	157,351
	230,464	157,351

25. EVENTS AFTER THE REPORTING DATE

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

Subsequent events occurring after 30 June 2015 were evaluated through 27 July 2015, the date these Interim Condensed Financial Statements were authorised for issue

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2015 (unaudited)	31 December 2014
Assets			
Current assets			
Cash and cash equivalents	6	10,985,904	8,326,704
Short-term financial assets		148,690	6,413
Trade and other receivables	7	51,583,013	51,690,689
Inventories	8	27,830,008	39,130,966
Current income tax prepayments		4,206,336	2,656,695
Other current assets	9	5,281,302	7,841,611
Total current assets		100,035,253	109,653,078
Non-current assets			
Property, plant and equipment	10	237,162,900	232,389,851
Investment property		1,584,194	1,381,832
Goodwill and other intangible assets		7,311,801	7,494,340
Investments in joint ventures		1,008,221	1,008,221
Trade and other non-current receivables		75,362	72,680
Long-term financial assets		496,888	240,698
Deferred tax assets		7,421,671	7,834,202
Other non-current assets	11	3,663,271	4,572,897
Total non-current assets		258,724,308	254,994,721
Total assets		358,759,561	364,647,799
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	12	16,144,047	14,832,341
Trade and other payables	13	43,764,278	43,751,998
Other current liabilities	14	3,954,952	5,322,163
Other taxes payable	15	9,614,775	9,031,015
Provisions for liabilities and charges		2,290,293	2,508,552
Total current liabilities		75,768,345	75,446,069
Non-current liabilities			
Long-term debt	16	89,873,288	93,588,043
Deferred tax liabilities		2,939,958	2,980,602
Provisions for liabilities and charges		9,230,426	9,012,584
Total non-current liabilities		102,043,672	105,581,229
Equity			
Share capital	17	81,530,200	81,530,200
Reserves		(434,970)	(452,813)
Retained earnings		100,019,591	102,696,156
Equity attributable to the Company's owners		181,114,821	183,773,543
Non-controlling interest		(167,277)	(153,042)
Total equity		180,947,544	183,620,501
Total liabilities and shareholder's equity		358,759,561	364,647,799

In thousand RSD

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

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Six month period ended 30 June	
		2015 (unaudited)	2014 (unaudited)
Sales of petroleum products and oil and gas sales		99,132,126	118,895,528
Other revenues		4,266,577	3,746,368
Total revenue from sales	5	103,398,703	122,641,896
Purchases of oil, gas and petroleum products	18	(58,957,117)	(67,270,837)
Production and manufacturing expenses	19	(9,422,209)	(8,673,790)
Selling, general and administrative expenses	20	(10,776,522)	(10,679,187)
Transportation expenses		(368,842)	(520,655)
Depreciation, depletion and amortization		(6,789,017)	(6,189,727)
Taxes other than income tax		(2,629,035)	(2,885,577)
Exploration expenses		(6,972)	(979,511)
Total operating expenses		(88,949,714)	(97,199,284)
Other expenses, net		(853,256)	(922,862)
Operating profit		13,595,733	24,519,750
Net foreign exchange loss		(5,562,495)	(1,409,455)
Finance income		133,976	128,726
Finance expenses		(1,731,606)	(1,815,490)
Total other expense		(7,160,125)	(3,096,219)
Profit before income tax		6,435,608	21,423,531
Current income tax expense		(1,113,367)	(3,032,782)
Deferred tax (expense) income		(372,131)	(1,411,016)
Total income tax expense		(1,485,498)	(4,443,798)
Profit for the period		4,950,110	16,979,733
Other comprehensive loss:			
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		18,497	7,234
Currency translation differences		(119)	(68,138)
		18,378	(60,904)
Other comprehensive income (loss) for the period		18,378	(60,904)
Total comprehensive income for the period		4,968,488	16,918,829
Profit attributable to:			
- Shareholders of Naftna Industrija Srbije		4,964,880	17,074,886
- Non-controlling interest		(14,770)	(95,153)
Profit for the period		4,950,110	16,979,733
Total comprehensive income (loss) attributable to:			
- Shareholders of Naftna Industrija Srbije		4,982,723	17,014,573
- Non-controlling interest		(14,235)	(95,744)
Total comprehensive income (loss) for the period		4,968,488	16,918,829
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		30.45	104.72
Weighted average number of ordinary shares in issue (in millions)		163	163

In thousand RSD

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SIX MONTH PERIOD ENDED 30 JUNE 2015 AND 2014

<i>(unaudited)</i>	Equity attributable to the Company's owners				Non-controlling interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
Balance as at 1 January 2014	81,530,200	(98,174)	87,564,495	168,996,521	(43,419)	168,953,102
Profit (loss) for the period	-	-	17,074,886	17,074,886	(95,153)	16,979,733
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	7,234	-	7,234	-	7,234
Currency translation differences	-	(67,547)	-	(67,547)	(591)	(68,138)
Total comprehensive income (loss) for the period	-	(60,313)	17,074,886	17,014,573	(95,744)	16,918,829
Dividend distribution	-	-	(13,080,705)	(13,080,705)	-	(13,080,705)
Total transaction with owners, recorded in equity	-	-	(13,080,705)	(13,080,705)	-	(13,080,705)
Other	-	(65)	(1,955)	(2,020)	(39)	(2,059)
Balance as at 30 June 2014	81,530,200	(158,552)	91,556,721	172,928,369	(139,202)	172,789,167
Balance as at 1 January 2015	81,530,200	(452,813)	102,696,156	183,773,543	(153,042)	183,620,501
Profit (loss) for the period	-	-	4,964,880	4,964,880	(14,770)	4,950,110
Other comprehensive income/(loss)						
Change in value of available-for-sale financial assets	-	18,497	-	18,497	-	18,497
Currency translation differences	-	(654)	-	(654)	535	(119)
Total comprehensive income (loss) for the period	-	17,843	4,964,880	4,982,723	(14,235)	4,968,488
Dividend distribution	-	-	(7,639,380)	(7,639,380)	-	(7,639,380)
Total transaction with owners, recorded in equity	-	-	(7,639,380)	(7,639,380)	-	(7,639,380)
Other	-	-	(2,065)	(2,065)	-	(2,065)
Balance as at 30 June 2015	81,530,200	(434,970)	100,019,591	181,114,821	(167,277)	180,947,544

In thousand RSD

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six month period ended 30 June	
	2015	2014
	(unaudited)	(unaudited)
Cash flows from operating activities		
Profit before income tax	6,435,608	21,423,531
Adjustments for:		
Finance costs	1,731,606	1,815,490
Finance income	(133,976)	(128,726)
Depreciation, depletion and amortization	6,789,017	6,189,727
Adjustments for other provisions	199,536	393,646
Allowance for doubtful accounts	72,285	1,697,995
Payables write off	(275,187)	(5,531)
Net unrealised foreign exchange losses	4,214,557	1,461,252
Other non-cash items	279,719	921,833
	12,877,557	12,345,686
Changes in working capital:		
Trade and other receivables	97,288	330,851
Inventories	11,300,958	(9,078,324)
Other current assets	2,225,748	(4,730,168)
Trade payables and other current liabilities	(5,316,547)	(13,583,910)
Other taxes payable	580,236	1,584,312
	8,887,683	(25,477,239)
Income taxes paid	(2,661,258)	(5,577,618)
Interest paid	(1,498,274)	(1,389,020)
Interest received	259,547	292,066
	(3,899,985)	(6,674,572)
Net cash generated by operating activities	24,300,863	1,617,406
Cash flows from investing activities		
Acquisition of subsidiaries or other business, net of cash acquired	-	(535,143)
Loans issued	(386,333)	-
Capital expenditures	(14,685,113)	(19,939,109)
Proceeds from sale of property, plant and equipment	81,652	132,214
Other inflow (outflow)	37	(992)
Net cash used in investing activities	(14,989,757)	(20,343,030)
Cash flows from financing activities		
Proceeds from borrowings	15,918,666	20,957,402
Repayment of borrowings	(22,523,400)	(5,054,069)
Net cash (used in) generated by financing activities	(6,604,734)	15,903,333
Net increase (decrease) in cash and cash equivalents	2,706,372	(2,822,291)
Effect of foreign exchange on cash and cash equivalents	(47,172)	(69,912)
Cash and cash equivalents as of the beginning of the period	8,326,704	8,707,775
Cash and cash equivalents as of the end of the period	10,985,904	5,815,572

In thousand RSD

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 AND ACCOUNTING ESTIMATES

2.1. 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 2014, 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 2014.

The results for the six month period ended 30 June 2015 are not necessarily indicative of the results expected for the full year.

2.2. 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 2014, except for those described in Application of new IFRS paragraph.

2.3. Application of new IFRS

The amendments to IAS 19 – Employee Benefits on contributions from employees or third parties to defined benefit plans became effective for the annual periods beginning on or after July 1, 2014. The amendment has no significant impact on Group's Interim Condensed Consolidated Financial Statements.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

3.1. Economic Environment in the Russian Federation

The Group continues to assess the impact of the sanctions imposed in July-September 2014, but currently does not believe they have a significant impact on the Interim Condensed Consolidated Financial Statements.

3.2. Impact of recent crude oil volatility

In the line with recent changes in the crude oil price on the world market, management of the company continues to monitor the crude oil price fluctuation and its influence on business performance in order to adequately take measure to mitigate impact if the negative trends on the market continue.

Based on the currently available information and crude oil price forecast, management believe that at reporting date there are no indicators of asset impairment.

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after January 1, 2015 or later, and that the Group has not early adopted. The full list of such Standards and interpretations was disclosed in the consolidated Financial Statements as of and for the year ended December 31, 2014.

Amendments to the IFRS for Small and Medium-Sized Entities (issued in May 2015 and effective for annual periods beginning on or after January 1, 2017) relate to transactions commonly encountered by SMEs which are: permitting SMEs to use a revaluation model for property, plant and equipment; and aligning the main recognition and measurement requirements for deferred income tax with IAS 12 Income Taxes.

No other new documents were issued during the six months period ended 30 June 2015.

Unless otherwise stated the new standards and interpretations are not expected to have significant impact on affect significantly the Group's Consolidated Financial Statements.

5. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the six month period ended 30 June 2015 and 2014. Operating segments are components that engaged 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 oil 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 on-going operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the six month period ended 30 June 2015 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	28,924,193	102,192,824	(27,718,314)	103,398,703
Intersegment	26,945,653	772,661	(27,718,314)	-
External	1,978,540	101,420,163	-	103,398,703
EBITDA (Segment results)	21,410,985	(402,191)	-	21,008,794
Depreciation, depletion and amortization	(2,134,025)	(4,654,992)	-	(6,789,017)
Impairment losses (note 30)	-	(200,994)	-	(200,994)
Net foreign exchange gain (loss)	4,637	(5,567,132)	-	(5,562,495)
Finance expenses, net	(60,641)	(1,536,989)	-	(1,597,630)
Income tax	(49,612)	(1,435,886)	-	(1,485,498)
Segment profit (loss)	18,455,140	(13,505,030)	-	4,950,110

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,439,389	120,117,575	(40,915,068)	122,641,896
Intersegment	40,537,560	377,508	(40,915,068)	-
External	2,901,829	119,740,067	-	122,641,896
EBITDA (Segment results)	34,874,165	(3,976,140)	-	30,898,025
Depreciation, depletion and amortization	(1,923,286)	(4,266,441)	-	(6,189,727)
Impairment losses	8	24,183	-	24,191
Net foreign exchange loss	(54,892)	(1,354,563)	-	(1,409,455)
Finance expenses, net	(150,742)	(1,536,022)	-	(1,686,764)
Income tax	(389,734)	(4,054,064)	-	(4,443,798)
Segment profit (loss)	32,079,878	(15,100,145)	-	16,979,733

EBITDA for the six month period ended 30 June 2015 and 2014 is reconciled below:

	Six month period ended 30 June	
	2015	2014
Profit for the period	4,950,110	16,979,733
Income tax expenses	1,485,498	4,443,798
Finance expenses	1,731,606	1,815,490
Finance income	(133,976)	(128,726)
Depreciation, depletion and amortization	6,789,017	6,189,727
Net foreign exchange loss	5,562,495	1,409,455
Other expense, net	853,256	922,862
Other non-operating expense, net*	(229,212)	(734,314)
EBITDA	21,008,794	30,898,025

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

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

	Six month period ended 30 June 2015		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,740,490	1,740,490
Sale of gas	4,770,769	-	4,770,769
Through a retail network	-	-	-
Wholesale activities	4,770,769	-	4,770,769
Sale of petroleum products	73,373,633	19,247,234	92,620,867
Through a retail network	23,162,461	-	23,162,461
Wholesale activities	50,211,172	19,247,234	69,458,406
Other sales	2,417,336	1,849,241	4,266,577
Total sales	80,561,738	22,836,965	103,398,703

	Six month period ended 30 June 2014		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	2,592,771	2,592,771
Sale of gas	2,089,983	-	2,089,983
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	2,089,983	-	2,089,983
Sale of petroleum products	91,160,445	23,052,329	114,212,774
<i>Through a retail network</i>	27,718,400	-	27,718,400
<i>Wholesale activities</i>	63,442,045	23,052,329	86,494,374
Other sales	2,288,173	1,458,195	3,746,368
Total sales	95,538,601	27,103,295	122,641,896

Out of the amount of 69,458,406 RSD (six month period ended 30 June 2014 86,494,374 RSD) revenue from sale of petroleum products (wholesale), the amount of 8.888.980 RSD (six month period ended 30 June 2014: 15,342,789 RSD) are derived from a single domestic customer, HIP Petrohemija. These revenue are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 2,828,881RSD (six month period ended 30 June 2014: 2,787,667 RSD).

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 80,561,738 RSD (six month period ended 30 June 2014: 95,538,601 RSD), and the total of revenue from external customer from other countries is 22,836,965 RSD (six month period ended 30 June 2014: 27,103,295 RSD). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Six month period ended 30 June 2014	
	2015	2014
Sale of crude oil	1,740,490	2,592,771
Sale of petroleum products (retail and wholesale)		
Bulgaria	5,098,773	4,820,617
Bosnia and Herzegovina	4,310,182	4,254,439
Romania	2,748,444	2,817,563
All other markets	7,089,835	11,159,710
	19,247,234	23,052,329
Other sales	1,849,241	1,458,195
	22,836,965	27,103,295

Revenues from the individual countries included in all other markets are not material.

Non-current assets, other than financial instruments and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts), by country:

	30 June 2015	31 December 2014
Serbia	223,055,311	218,176,386
Bulgaria	8,130,218	8,524,519
Bosnia and Herzegovina	8,346,496	8,296,363
Romania	6,526,870	6,268,690
Hungary	-	65
	246,058,895	241,266,023

6. CASH AND CASH EQUIVALENTS

	30 June 2015	31 December 2014
Cash in bank and in hand	8,562,880	5,117,100
Deposits with original maturity of less than three months	586,331	1,317,248
Cash held on escrow account	1,599,410	1,636,805
Cash equivalents	237,283	255,551
	10,985,904	8,326,704

Cash held on escrow accounts as of 30 June 2015 amounting to 599,410 RSD (31 December 2014: 1,636,805 RSD) relates to deposited funds in accordance with share purchase agreement with Energowind doo (through which the operation of future wind farm 'Plandiste' will be managed).

7. TRADE AND OTHER RECEIVABLES

	30 June 2015	31 December 2014
Trade receivables:		
- related parties	34,022	36,398
- third parties	68,249,136	70,830,997
	68,283,158	70,867,395
Accrued assets	1,087,743	16,268
Other receivables	10,416,487	10,391,642
	79,787,388	81,275,305
Less impairment provision	(28,204,375)	(29,584,616)
Total trade and other receivables	51,583,013	51,690,689

The ageing of trade and other receivables is as follows:

	30 June 2015	31 December 2014
Neither impaired nor past due	26,729,436	24,050,369
Past due but not impaired:		
within 30 days:	4,517,224	4,122,003
1 to 3 months	3,822,555	2,027,385
3 months to 1 year	5,469,550	10,417,402
over 1 year	11,044,248	11,073,530
Total	51,583,013	51,690,689

Due to unfavourable macroeconomic conditions in the recent years, the Group was faced with slowdown in collection from state owned companies. However, the Company management is working closely with major debtors on recovery of these debts and believes that net receivables included in the aging table above are fully recoverable.

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

	30 June 2015	31 December 2014
RSD	65,710,983	68,417,996
EUR	10,648,222	10,733,307
USD	2,487,910	1,351,117
Other	940,273	772,885
	79,787,388	81,275,305

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

	Trade receivables		Other receivables	Total
	Individually impaired	Collectively impaired	Individually impaired	
As at 1 January 2014	17,481,016	4,374,251	7,827,614	29,682,881
Provision for receivables impairment	62,677	194,348	-	257,025
Unused amounts reversed	(155,160)	(267,109)	-	(422,269)
Receivables written off during the year as uncollectible	-	(32,028)	-	(32,028)
Other	(551,959)	531,749	78,057	57,847
As at 30 June 2014	16,836,574	4,801,211	7,905,671	29,543,456
As at 1 January 2015	17,387,912	4,044,312	8,152,392	29,584,616
Provision for receivables impairment	43,034	73,332	-	116,366
Unused amounts reversed	(38,164)	(91,699)	-	(129,863)
Receivables written off during the year as uncollectible	(1,317,897)	(22,520)	-	(1,340,417)
Other	(205,428)	202,966	(23,865)	(26,327)
As at 30 June 2015	15,869,457	4,206,391	8,128,527	28,204,375

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the Profit and Loss. Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The other classes within trade and other receivables do not contain impaired assets.

8. INVENTORIES

	30 June 2015	31 December 2014
Crude oil	12,848,206	21,306,426
Gas	-	161,206
Petroleum products	12,464,436	14,487,028
Materials and supplies	7,988,683	8,529,435
Other	646,475	802,531
Less impairment provision	(6,117,792)	(6,155,660)
	27,830,008	39,130,966

9. OTHER CURRENT ASSETS

	30 June 2015	31 December 2014
Advances paid	736,117	668,211
VAT receivables	214,755	163,230
Deferred VAT	1,580,299	2,241,351
Prepaid expenses	273,883	137,615
Prepaid custom duties	52,094	52,281
Prepaid excise	1,990,984	4,323,747
Other current assets	21,445,275	21,258,939
Less impairment provision	(21,012,105)	(21,003,763)
	5,281,302	7,841,611

Deferred VAT as at 30 June 2015 amounting to 1,580,299 RSD (31 December 2014: 2,241,351 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 30 June 2015 amounting to 1,990,984 RSD (31 December 2014: 4,323,747 RSD) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

Other current assets mainly relate to accrued interests and claims in dispute which are impaired.

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

	Advances paid	Other current assets	Total
As at 1 January 2014	253,069	17,706,623	17,959,692
Provision for receivables impairment	3,091	1,916,720	1,919,811
Unused amounts reversed	(9,979)	(52,197)	(62,176)
Other	54	(81,713)	(81,659)
As at 30 June 2014	246,235	19,489,433	19,735,668
As at 1 January 2015	244,828	20,758,935	21,003,763
Provision for receivables impairment	789	100,177	100,966
Unused amounts reversed	(4,207)	(10,977)	(15,184)
Other	(845)	(76,595)	(77,440)
As at 30 June 2015	240,565	20,771,540	21,012,105

10. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2014						
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)
Net book value	40,718,701	80,011,533	31,943,206	11,137,858	41,121,223	204,932,521
Period ended 30 June 2014						
Additions	8,629,858	1,299,117	2,179,203	251,714	5,606,537	17,966,429
Acquisitions through business combinations	-	-	-	-	461,219	461,219
Impairment	-	-	(37,097)	-	(15,366)	(52,463)
Depreciation	(1,759,518)	(2,600,214)	(1,006,820)	(359,267)	(164)	(5,725,983)
Transfer (to) from investment property	35,121	9,358	28,439	7,399	-	80,317
Disposals and write-off	(13,706)	(323)	(58,335)	(38,241)	(1,091,450)	(1,202,055)
Other transfers	254,674	(585,232)	(105,211)	441,351	(313,828)	(308,246)
Translation differences	60	-	205,794	-	57,641	263,495
	47,865,190	78,134,239	33,149,179	11,440,814	45,825,812	216,415,234
As at 30 June 2014						
Cost	66,972,093	108,841,622	47,052,666	19,815,615	49,887,202	292,569,198
Depreciation and impairment	(19,106,903)	(30,707,383)	(13,903,487)	(8,374,801)	(4,061,390)	(76,153,964)
Net book value	47,865,190	78,134,239	33,149,179	11,440,814	45,825,812	216,415,234
As at 1 January 2015						
Cost	82,284,653	114,595,854	49,338,344	20,285,937	46,177,226	312,682,014
Depreciation and impairment	(21,058,518)	(32,895,538)	(14,910,568)	(8,614,025)	(2,813,514)	(80,292,163)
Net book value	61,226,135	81,700,316	34,427,776	11,671,912	43,363,712	232,389,851
Period ended 30 June 2015						
Additions	7,872,396	2,220,364	1,095,610	157,601	499,624	11,845,595
Impairment	-	(13,670)	(147,634)	-	(65,609)	(226,913)
Depreciation	(1,960,882)	(2,851,376)	(1,066,233)	(394,893)	(2,494)	(6,275,878)
Transfer to intangible assets	-	-	34,115	-	(196,961)	(162,846)
Transfer to investment property	-	-	(2,305)	(180,595)	-	(182,900)
Disposals and write-off	(39,029)	(9,838)	(23,083)	(73,160)	(37,825)	(182,935)
Other transfers	(22,648)	(2,966)	(539)	37,092	-	10,939
Translation differences	(2)	-	(39,229)	-	(12,782)	(52,013)
	67,075,970	81,042,830	34,278,478	11,217,957	43,547,665	237,162,900
As at 30 June 2015						
Cost	90,056,793	116,754,474	50,265,517	20,135,541	46,358,904	323,571,229
Depreciation and impairment	(22,980,823)	(35,711,644)	(15,987,039)	(8,917,584)	(2,811,239)	(86,408,329)
Net book value	67,075,970	81,042,830	34,278,478	11,217,957	43,547,665	237,162,900

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
As at 1 January 2014						
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)
Net book amount	13,211,220	13,159,048	26,370,268	40,718,701	13,243	67,102,212
Period ended 30 June 2014						
Additions	3,511,578	8,749,013	12,260,591	-	-	12,260,591
Transfer from asset under construction	(1,934,990)	(6,628,600)	(8,563,590)	8,629,858	(66,268)	-
Other transfers	50,118	(278,488)	(228,370)	254,674	66,187	92,491
Depreciation and depletion	(2,265)	-	(2,265)	(1,759,518)	-	(1,761,783)
Transfer from investment property	-	-	-	35,121	-	35,121
Disposals and write-off	(1,015,931)	(242,981)	(1,258,912)	(13,706)	-	(1,272,618)
Translation differences	32,293	-	32,293	60	-	32,353
	13,852,023	14,757,992	28,610,015	47,865,190	13,162	76,488,367
As at 30 June 2014						
Cost	13,865,228	14,996,051	28,861,279	66,972,093	33,472	95,866,844
Depreciation and impairment	(13,205)	(238,059)	(251,264)	(19,106,903)	(20,310)	(19,378,477)
Net book amount	13,852,023	14,757,992	28,610,015	47,865,190	13,162	76,488,367
As at 1 January 2015						
Cost	18,087,173	13,477,995	31,565,168	82,284,653	33,457	113,883,278
Depreciation and impairment	(17,291)	(253,585)	(270,876)	(21,058,518)	(20,359)	(21,349,753)
Net book amount	18,069,882	13,224,410	31,294,292	61,226,135	13,098	92,533,525
Period ended 30 June 2015						
Additions	1,785,780	8,308,729	10,094,509	-	-	10,094,509
Transfer from asset under construction	(208,626)	(7,663,770)	(7,872,396)	7,872,396	-	-
Other transfers	(687,195)	595,911	(91,284)	(22,648)	(30)	(113,962)
Depreciation and depletion	(2,494)	-	(2,494)	(1,960,882)	-	(1,963,376)
Disposals and write-off	(34,993)	-	(34,993)	(39,029)	(49)	(74,071)
Translation differences	(4,372)	(7,757)	(12,129)	(2)	-	(12,131)
	18,917,982	14,457,523	33,375,505	67,075,970	13,019	100,464,494
As at 30 June 2015						
Cost	18,936,408	14,695,962	33,632,370	90,056,793	33,378	123,722,541
Depreciation and impairment	(18,426)	(238,439)	(256,865)	(22,980,823)	(20,359)	(23,258,047)
Net book amount	18,917,982	14,457,523	33,375,505	67,075,970	13,019	100,464,494

11. OTHER NON-CURRENT ASSETS

	30 June 2015	31 December 2014
Advances paid for PPE	1,604,023	2,468,780
Prepaid expenses	937,807	977,478
Other assets	1,150,698	1,155,896
Less impairment provision	(29,257)	(29,257)
	3,663,271	4,572,897

12. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	30 June 2015	31 December 2014
Short-term loans	2,894,530	8,600,112
Interest liabilities	133,823	130,902
Current portion of long-term loans (note 16)	13,114,830	6,100,504
Current portion of finance lease liabilities (note 16)	864	823
	16,144,047	14,832,341

13. TRADE AND OTHER PAYABLES

	30 June 2015	31 December 2014
Trade payables		
- related parties	20,783,378	20,253,500
- third parties	11,497,769	19,650,382
Dividends payable	11,411,688	3,772,308
Other accounts payable	71,443	75,808
	43,764,278	43,751,998

As at 30 June 2015 payables to related parties amounting to 20,783,378 RSD (31 December 2014: 20,253,500 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 20,754,722 RSD (31 December 2014: 20,122,243 RSD), for the purchase of crude oil.

14. OTHER CURRENT LIABILITIES

	30 June 2015	31 December 2014
Advances received	1,021,449	1,589,530
Payables to employees	2,826,978	3,639,272
Accruals and deferred income	18,164	40,179
Other current non-financial liabilities	88,361	53,182
	3,954,952	5,322,163

15. OTHER TAXES PAYABLE

	30 June 2015	31 December 2014
Mineral extraction tax	415,446	407,990
VAT	2,339,817	354,270
Excise tax	4,287,874	4,909,246
Contribution for buffer stocks	251,437	583,400
Custom duties	193,743	414,925
Other taxes	2,126,458	2,361,184
	9,614,775	9,031,015

16. LONG-TERM DEBT

	30 June 2015	31 December 2014
Long-term loan - Gazprom Neft	44,875,982	47,820,723
Bank loans	57,835,747	51,604,833
Finance lease liabilities	200,321	199,738
Other long-term borrowings	76,932	64,076
Less Current portion	(13,115,694)	(6,101,327)
	89,873,288	93,588,043

a) Long-term loan - Gazprom Neft

As at 30 June 2015 long-term loan - Gazprom Neft amounting to 44,875,982 RSD (372,093,029EUR) (2014: 47,820,723 RSD), with current portion of 5,609,498RSD (2014: 5,625,967 RSD), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

b) Bank loans

	30 June 2015	31 December 2014
Domestic	7,121,926	7,175,319
Foreign	50,713,821	44,429,514
	57,835,747	51,604,833
Current portion of long-term loans	(7,505,332)	(474,537)
	50,330,415	51,130,296

The maturity of bank loans was as follows:

	30 June 2015	31 December 2014
Between 1 and 2 years	8,616,944	6,969,316
Between 2 and 5 years	36,361,477	38,525,058
Over 5 years	5,351,994	5,635,922
	50,330,415	51,130,296

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

	30 June 2015	31 December 2014
USD	51,786,830	45,401,219
EUR	5,674,177	5,840,104
RSD	1,343	1,520
JPY	373,397	361,990
	57,835,747	51,604,833

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 and Libor.

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

The carrying amounts of the Group's bank loans as at 30 June 2015 and 31 December 2014 are presented in the table below:

	Creditor	Currency	30 June 2015	31 December 2014
Domestic long-term loans				
	Erste bank, Novi Sad	USD	336,199	319,049
	Erste bank, Novi Sad	EUR	444,263	457,835
	Bank Postanska stedionica, Belgrade	EUR	218,270	224,938
	Bank Postanska stedionica, Belgrade	USD	1,821,682	1,728,210
	Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,300,169	4,443,767
	Other loans	RSD	1,343	1,520
			7,121,926	7,175,319
Foreign long-term loans				
	NLB Nova Ljubljanska bank d.d., Slovenia	USD	611,617	584,396
	NLB Nova Ljubljanska bank d.d., Slovenia	JPY	373,397	361,990
	Erste bank, Holland	USD	7,002,476	6,465,167
	VUB (Bank Intesa), Slovakia	USD	16,159,560	14,919,615
	NBG bank, Great Britain	USD	8,079,780	4,973,205
	Sberbank Europe AG, Vienna, Austria	USD	17,775,516	16,411,577
	NeftgazInKor, Russian Federation	EUR	402,336	403,517
	Neftgazovaja Inovacionnaja Korporacija, Russian Federation	EUR	309,139	310,047
			50,713,821	44,429,514
	Less current portion of long-term loans		(7,505,332)	(474,537)
			50,330,415	51,130,296

	Currency	Current portion		Long-term	
		30 June 2015	31 December 2014	30 June 2015	31 December 2014
Domestic long - term loans					
Erste bank, Novi Sad	USD	20,651	17,872	315,548	301,177
Erste bank, Novi Sad	EUR	27,033	25,376	417,230	432,459
Bank Postanska stedionica, Belgrade	EUR	13,282	12,468	204,988	212,470
Bank Postanska stedionica, Belgrade	USD	110,849	95,789	1,710,833	1,632,421
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	261,179	261,946	4,038,990	4,181,821
Other loans	RSD	281	345	1,062	1,175
		433,275	413,796	6,688,651	6,761,523
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	46,860	40,677	564,757	543,719
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	22,721	20,064	350,676	341,926
Erste bank, Holland	USD	7,002,476	-	-	6,465,167
VUB (Bank Intesa), Slovakia	USD	-	-	16,159,560	14,919,615
NBG bank, Great Britain	USD	-	-	8,079,780	4,973,205
Sberbank Europe AG, Vienna, Austria	USD	-	-	17,775,516	16,411,577
NeftgazInKor, Russian Federation	EUR	-	-	402,336	403,517
Neftgazovaja Inovacionnaja Korporacija, Russian Federation	EUR	-	-	309,139	310,047
		7,072,057	60,741	43,641,764	44,368,773
		7,505,332	474,537	50,330,415	51,130,296

The loan agreements contain financial covenants that require the Group's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of 30 June 2015 and 31 December 2014, respectively.

17. SHARE CAPITAL

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

Share capital as of 30 June 2015 and 31 December 2014 comprise of 163,060,400 shares.

18. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Six month period ended 30 June	
	2015	2014
Crude oil	42,798,278	52,576,237
Petroleum products	15,942,885	14,657,719
Other	215,954	36,881
	58,957,117	67,270,837

19. PRODUCTION AND MANUFACTURING EXPENSES

	Six month period ended 30 June	
	2015	2014
Employee costs	3,433,378	3,474,138
Materials and supplies (other than purchased oil, petroleum products and gas)	1,379,673	880,282
Repair and maintenance services	1,454,296	1,251,787
Electricity and utilities	1,891,122	1,473,063
Safety and security expense	58,902	48,874
Transportation services for production	842,014	663,982
Other	362,824	881,664
	9,422,209	8,673,790

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six month period ended 30 June	
	2015	2014
Employee costs	4,921,823	5,045,196
Legal, audit, and consulting services	713,154	843,193
Rent expense	173,300	193,149
Business trips expense	147,396	168,907
Safety and security expense	266,464	250,529
Insurance expense	154,752	135,640
Transportation and storage	306,380	222,641
Allowance for doubtful accounts	72,285	1,692,391
Other	4,020,968	2,127,541
	10,776,522	10,679,187

21. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Consolidated Financial Statements: investment properties and financial investments classified as available for sale. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Consolidated Financial Statements as of 31 December 2014. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 30 June, 2015 carrying value of financial assets approximate their fair value.

22. CONTINGENCIES AND COMMITMENTS*Transfer of property ownership*

As at 30 June 2015, the Company had ownership and the right to use and possess of 7,922 properties, which represent 97% of the total Company properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

Finance Guarantees

As at 30 June 2015 the total amount of outstanding finance guarantees provided by the Group amounted to 3,845,859 RSD, mostly related to guaranties for customs duties in the amount of 2,352,798 5 RSD (31 December 2014: 3,454,563 RSD).

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Group's management recognised an environmental provision in the amount of 512,825 RSD (31 December 2014: 570,358 RSD).

The Group's Management believes that cash outflows related to provision will not be significantly higher than the ones already provided for. However, it is possible that these costs will increase significantly in the future, should the legislation become more restrictive.

Other contingent liabilities

As at 30 June 2015, 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. Taking all of the above into consideration, the

Group's Management is of the view that as at 30 June 2015 outflow of resources embodying economic benefits is not probable 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.

Tax risks

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Group has paid all tax liabilities as of 30 June 2015.

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. Exploration activities are underway. On 30 June 2015 drilling and exploration works for Block 2, 3, 7 and 8 were estimated to 6.24 USD million.

There were no other material commitments of the Group.

23. GROUP ENTITIES

The financial statements of below listed subsidiaries are consolidated as at 30 June 2015 and 31 December 2014:

Subsidiary	Country of incorporation	Nature of business	Share %	
			30 June 2015	31 December 2014
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	Trade	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	Trade	100	100
NIS Petrol SRL, Bucharest	Romania	Trade	100	100
Pannon naftagas Kft, Budapest	Hungary	O&G activity	100	100
NIS Oversiz, St Petersburg	Russia	Other	100	100
Naftagas-naftni servisi d.o.o., Novi Sad	Serbia	O&G activity	100	100
NTC NIS-Naftagas d.o.o., Novi Sad	Serbia	O&G activity	100	100
Naftagas-tehnicki servisi d.o.o., Zrenjanin	Serbia	O&G activity	100	100
Naftagas-Transport d.o.o., Novi Sad	Serbia	Transport	100	100
O Zone a.d., Belgrade	Serbia	Other	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	Trade	100	100
Jadran - Naftagas d.o.o., Banja Luka	Bosnia and Herzegovina	O&G activity	66	66
Jubos, Bor	Serbia	Other	51	51
Svetlost, Bujanovac, Serbia	Serbia	Trade	51	51

The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

24. RELATED PARTY TRANSACTIONS

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

The majority owner of the Group is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The second largest shareholder with 29.87% interest is Republic of Serbia, while

remaining 13.98% of interest owned by various minority shareholders are traded on the Belgrade Stock Exchange and are owned by various shareholders. Gazprom, Russian Federation is the ultimate owner of the Group.

In the six month period ended 30 June 2015 and in the same period in 2014, 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, petroleum products and energy.

As at 30 June 2015 and 31 December 2014 the outstanding balances with related parties were as follows:

	Parent company	Entities under common control	Joint venture	Total
As at 30 June 2015				
Trade and other receivables	420	34,022	150,196	184,638
Other current assets	-	38,816	-	-
Investments in joint venture	-	-	1,008,221	1,008,221
Trade and other payables	(20,758,214)	(25,164)	-	(20,783,378)
Other current liabilities	-	(4,852)	-	(4,852)
Short-term debt and current portion of long-term debt	(5,609,498)	-	-	(5,609,498)
Long-term debt	(39,266,484)	-	-	(39,266,484)
	(65,633,776)	42,822	1,158,417	(64,432,537)
As at 31 December 2014				
Trade and other receivables	-	36,398	117,858	154,256
Investments in joint venture	-	-	1,008,221	1,008,221
Trade and other payables	(20,122,243)	(131,257)	-	(20,253,500)
Other current liabilities	-	(12,831)	-	(12,831)
Short-term debt and current portion of long-term debt	(5,625,967)	-	-	(5,625,967)
Long-term debt	(42,194,756)	-	-	(42,194,756)
	(67,942,966)	(107,690)	1,126,079	(66,924,577)

For the six month period ended 30 June 2015 and 2014 the following transaction occurred with related parties:

	Parent	Entities under common control	Joint venture	Total
Six month period ended 30 June 2015				
Petroleum products and oil and gas sales	-	80,878	-	80,878
Other Revenues	-	157,482	-	157,482
Purchases of oil, gas and petroleum products	(35,246,131)	(2,033,070)	-	(37,279,201)
Production and manufacturing expenses	(3,733)	(109,057)	-	(112,790)
Selling, general and administrative expenses	(15,465)	(8,022)	-	(23,487)
Other expenses, net	(16,210)	(18,557)	-	(34,767)
Finance expense	(494,182)	-	-	(494,182)
	(35,775,721)	(1,930,346)	-	(37,706,067)
Six month period ended 30 June 2014				
Petroleum products and oil and gas sales	-	1,364,867	-	1,364,867
Purchases of oil, gas and petroleum products	-	(45,784,488)	-	(45,784,488)
Production and manufacturing expenses	(5,177)	(166,878)	-	(172,055)
Selling, general and administrative expenses	(18,069)	-	-	(18,069)
Other expenses, net	(4,556)	(37,581)	-	(42,137)
Finance expense	(596,758)	-	-	(596,758)
	(624,560)	(44,624,080)	-	(45,248,640)

Key management compensation

Management compensation paid or payable in six month period ended 30 June 2015 and 2014 is shown in the table below::

	Six month period ended 30 June	
	2015	2014
Salaries and other short-term employee benefits	230,464	157,351
	230,464	157,351

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 June 2015 were evaluated through 27 July 2015, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

STATEMENT OF INDIVIDUALS RESPONSIBLE FOR THE PREPARATION OF FINANCIAL STATEMENTS

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 ("Official Gazette of the Republic of Serbia" no. 62/2013), which requires full scope of IFRS to be applied as well as the regulations issued by the Ministry of Finance of the Republic of Serbia⁴⁶ 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

Branko Mitrović

(Stamp)

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

Director of Accounting Department,
Function for Finance, Economics,
Planning and Accounting
NIS j.s.c. Novi Sad

⁴⁶ 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.

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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 is provided on the date of this Report and are subject to change without notice.