



NIS

GAZPROM NEFT

Naftna industrija Srbije A.D.

**Interim Condensed Consolidated Financial
Statements (Unaudited)**

31 March 2014

Naftna industrija Srbije A.D.
Interim Condensed Consolidated Financial
Statements (Unaudited)

31 March 2014

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NIS Group
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Assets	Note	31 March 2014	31 December 2013
		<i>(unaudited)</i>	
Current assets			
Cash and cash equivalents	5	7,430,292	8,707,775
Short-term financial assets		68,751	68,358
Trade and other receivables	6	51,506,513	56,117,886
Inventories	7	48,328,116	40,659,980
Current income tax prepayments		146,842	38,865
Other current assets	8	5,665,234	7,365,761
Total current assets		113,145,748	112,958,625
Non-current assets			
Property, plant and equipment	9	212,178,269	204,932,521
Investment property		1,172,146	1,414,364
Goodwill and other intangible assets		6,707,873	6,678,646
Investments in joint venture		1,008,221	1,008,221
Trade and other non-current receivables		76,682	76,219
Long-term financial assets		216,923	217,081
Deferred tax assets		9,160,042	9,776,756
Other non-current assets	10	8,455,736	8,567,539
Total non-current assets		238,975,892	232,671,347
Total assets		352,121,640	345,629,972
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current portion of long-term debt	11	33,149,027	28,054,845
Trade and other payables	12	42,956,074	55,276,015
Other current liabilities	13	4,644,818	3,559,331
Current income tax payable		3,016,479	2,630,312
Other taxes payable	14	9,130,946	8,701,055
Provisions for liabilities and charges		2,671,448	2,789,910
Total current liabilities		95,568,792	101,011,468
Non-current liabilities			
Long-term debt	15	64,337,551	61,133,878
Deferred tax liabilities		2,395,340	2,337,281
Provisions for liabilities and charges		12,297,977	12,194,243
Total non-current liabilities		79,030,868	75,665,402
Equity			
Share capital		81,530,200	81,530,200
Reserves		(137,364)	(98,174)
Retained earnings		96,180,952	87,564,495
Equity attributable to the Company's owners		177,573,788	168,996,521
Non-controlling interest		(51,808)	(43,419)
Total equity		177,521,980	168,953,102
Total liabilities and shareholder's equity		352,121,640	345,629,972

Kirill Kravchenko
CEO

23 April 2014



Anton Fyodorov

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

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

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NIS Group
CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER
COMPREHENSIVE INCOME

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

	Note	Three month period ended 31 March	
		2014	2013
		<i>(unaudited)</i>	<i>(unaudited)</i>
Sales of petroleum products and oil and gas sales		55,111,004	48,066,955
Other revenues		1,488,949	1,383,785
Total revenue from sales	4	<u>56,599,953</u>	<u>49,450,740</u>
Purchases of oil, gas and petroleum products	16	(29,830,871)	(26,242,892)
Production and manufacturing expenses	17	(4,551,374)	(4,653,643)
Selling, general and administrative expenses	18	(5,082,759)	(4,584,368)
Transportation expenses		(228,104)	(263,304)
Depreciation, depletion and amortization		(3,027,643)	(2,489,473)
Taxes other than income tax		(1,459,571)	(1,692,485)
Exploration expenses		(32,084)	(11,979)
Total operating expenses		<u>(44,212,406)</u>	<u>(39,938,144)</u>
Other expenses, net		(88,402)	(278,788)
Operating profit		<u>12,299,145</u>	<u>9,233,808</u>
Net foreign exchange loss		(765,671)	(21,032)
Finance income		67,180	142,304
Finance expenses		(857,490)	(921,226)
Total other expense		<u>(1,555,981)</u>	<u>(799,954)</u>
Profit before income tax		10,743,164	8,433,854
Current income tax expense		(1,460,578)	(1,081,742)
Deferred income tax expense		(674,215)	(95,017)
Total income tax expense		<u>(2,134,793)</u>	<u>(1,176,759)</u>
Profit for the period		<u>8,608,371</u>	<u>7,257,095</u>
Other comprehensive loss:			
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		(797)	(1,040)
Currency translation differences		(38,672)	31,336
Other comprehensive (loss) profit for the period		<u>(39,469)</u>	<u>30,296</u>
Total comprehensive income for the period		<u>8,568,902</u>	<u>7,287,391</u>

(continued)

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NIS Group
CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER
COMPREHENSIVE INCOME (continued)

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

	Note	Three month period ended	
		31 March	
		2014	2013
		<i>(unaudited)</i>	<i>(unaudited)</i>
Profit attributable to:			
- Shareholders of Naftna Industrija Srbije		8,616,377	7,267,477
- Non-controlling interest		(8,006)	(10,382)
Profit for the period		<u>8,608,371</u>	<u>7,257,095</u>
Total comprehensive income attributable to:			
- Shareholders of Naftna Industrija Srbije		8,577,252	7,297,773
- Non-controlling interest		(8,350)	(10,382)
Total comprehensive income for the period		<u>8,568,902</u>	<u>7,287,391</u>
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		52.84	44.57
Weighted average number of ordinary shares in issue (in millions)		163	163

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NIS Group
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three month period ended 31 March 2014 and 2013
(All amounts are in 000 RSD, unless otherwise stated)

	Equity attributable to the Company's owners				Non-controlling interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
<i>(unaudited)</i>						
Balance as at 1 January 2013	81,530,200	794,352	50,783,215	133,107,767	(17,106)	133,090,661
Profit / (loss) for the period	-	-	7,267,477	7,267,477	(10,382)	7,257,095
Other comprehensive income / (loss)						
Change in value of available-for-sale financial assets	-	(1,040)	-	(1,040)	-	(1,040)
Currency translation differences	-	31,336	-	31,336	-	31,336
Total comprehensive income (loss) for the period	-	30,296	7,267,477	7,297,773	(10,382)	7,287,391
Other	-	-	(2,923)	(2,923)	451	(2,472)
Balance as at 31 March 2013	81,530,200	824,648	58,047,769	140,402,617	(27,037)	140,375,580
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	-	-	8,616,377	8,616,377	(8,006)	8,608,371
Other comprehensive income / (loss)						
Change in value of available-for-sale financial assets	-	(797)	-	(797)	-	(797)
Currency translation differences	-	(38,328)	-	(38,328)	(344)	(38,672)
Total comprehensive income (loss) for the period	-	(39,125)	8,616,377	8,577,252	(8,350)	8,568,902
Other	-	(65)	80	15	(39)	(24)
Balance as at 31 March 2014	81,530,200	(137,364)	96,180,952	177,573,788	(51,808)	177,521,980

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NIS Group
CONSOLIDATED STATEMENT OF CASH FLOWS
(All amounts are in 000 RSD, unless otherwise stated)

	Three month period ended 31 March	
	2014 <i>(unaudited)</i>	2013 <i>(unaudited)</i>
Cash flows from operating activities		
Profit before income tax	10,743,164	8,433,854
Adjustments for:		
Finance costs	857,490	921,226
Finance income	(67,180)	(142,304)
Depreciation, depletion and amortization	3,027,643	2,489,473
Adjustments for other provisions	126,658	335,469
Allowance for doubtful accounts	725,285	76,060
Net unrealised foreign exchange losses (gain), net	702,338	103,097
Other non-cash items	106,107	141,443
	<u>5,478,341</u>	<u>3,924,464</u>
Changes in working capital:		
Trade and other receivables	4,611,283	411,768
Inventories	(7,668,136)	(4,827,410)
Other current assets	1,522,191	2,021,674
Trade payables and other current liabilities	(11,255,753)	2,086,812
Other taxes payable	386,556	12,310
	<u>(12,403,859)</u>	<u>(294,846)</u>
Income taxes paid	(1,179,808)	(1,187,959)
Interest paid	(632,309)	(856,093)
Interest received	178,336	194,012
	<u>(1,633,781)</u>	<u>(1,850,040)</u>
Net cash generated by operating activities	<u>2,183,865</u>	<u>10,213,432</u>
Cash flows from investing activities		
Acquisition of subsidiaries or other business, net of cash acquired	-	(147,949)
Acquisition of equity accounted investments	-	(1,008,221)
Loan proceeds received	-	13,728
Capital expenditures	(11,072,978)	(14,212,044)
Proceeds from sale of property, plant and equipment	93,230	77,258
Other (outflow) inflow	(472)	542,617
Net cash used in investing activities	<u>(10,980,220)</u>	<u>(14,734,611)</u>
Cash flows from financing activities		
Proceeds from borrowings	9,313,922	5,722,848
Repayment of borrowings	(1,732,927)	(4,986,541)
Net cash generated by financing activities	<u>7,580,995</u>	<u>736,307</u>
Net decrease in cash and cash equivalents	(1,215,360)	(3,784,872)
Effect of foreign exchange on cash and cash equivalents	(62,123)	167,272
Cash and cash equivalents as of the beginning of the period	<u>8,707,775</u>	<u>12,069,897</u>
Cash and cash equivalents as of the end of the period	<u>7,430,292</u>	<u>8,452,297</u>

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NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014

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

1. GENERAL INFORMATION

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

The results for the three month period ended 31 March 2014 are not necessarily indicative of the results expected for the full year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in significant accounting policies

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

Application of new IFRS

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

- amendments regarding set off rules to IAS 32 Financial Instruments,
- amendments in respect of Investment entities to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other entities and IAS 27 Separate Financial Statements,
- amendments to IAS 36 Impairment of Assets, regarding additional disclosure
- amendments to IAS 39 Financial Instruments: Recognition and Measurement regarding novation of derivatives and hedge accounting,
- IFRIC 21 – Levies, Annual improvements 2013.

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

3. NEW ACCOUNTING STANDARDS

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

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

3. NEW ACCOUNTING STANDARDS (continued)

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

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

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

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

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014

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

4. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the three month period ended 31 March 2014 and 2013. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

Upstream segment (exploration and production) includes the following Group operations: exploration, development and production of crude oil and natural gas and oil field services. Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Corporate centre expenses are presented within the Downstream segment.

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

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

Reportable segment results for the three month period ended 31 March 2014 are shown in the table below:

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	21,486,201	55,467,626	(20,353,874)	56,599,953
Intersegment	20,167,658	186,216	(20,353,874)	-
External	1,318,543	55,281,410	-	56,599,953
EBITDA (Segment results)	17,802,712	(2,297,313)	-	15,505,399
Depreciation, depletion and amortization	(926,315)	(2,101,328)	-	(3,027,643)
Impairment losses	(1,989)	(127,250)	-	(129,239)
Finance expenses, net	(69,868)	(720,442)	-	(790,310)
Income tax	(176,560)	(1,958,233)	-	(2,134,793)
Segment profit (loss)	16,487,013	(7,878,642)	-	8,608,371

Reportable segment results for the three month period ended 31 March 2013 are shown in the table below:

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	21,997,885	49,197,630	(21,744,775)	49,450,740
Intersegment	21,705,004	39,771	(21,744,775)	-
External	292,881	49,157,859	-	49,450,740
EBITDA (Segment results)	19,207,113	(7,407,737)	-	11,799,376
Depreciation, depletion and amortization	(777,385)	(1,712,088)	-	(2,489,473)
Impairment losses	-	(356)	-	(356)
Finance expenses, net	(78,767)	(700,155)	-	(778,922)
Income tax	(2,131)	(1,174,628)	-	(1,176,759)
Segment profit (loss)	18,160,920	(10,903,825)	-	7,257,095

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NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014***(All amounts are in 000 RSD, unless otherwise stated)***4. SEGMENT INFORMATION (continued)**

EBITDA for the three month period ended 31 March 2014 and 2013 is reconciled below:

	Three month period ended 31 March	
	2014	2013
Profit for the period	8,608,371	7,257,095
Income tax expenses	2,134,793	1,176,759
Finance expenses	857,490	921,226
Other finance income	(67,180)	(142,304)
Depreciation, depletion and amortization	3,027,643	2,489,473
Net foreign exchange loss	765,671	21,032
Other expense, net	88,402	278,788
Other non-operating expense (income), net*	90,209	(202,693)
EBITDA	15,505,399	11,799,376

*Other non-operating expenses (income), net mainly relate to litigation provisions and other.

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

	Three month period ended 31 March 2014		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,248,245	1,248,245
Sale of gas	1,679,055	-	1,679,055
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,674,941	-	1,674,941
Sale of petroleum products	47,072,970	5,110,734	52,183,704
<i>Through a retail network</i>	12,186,227	-	12,186,227
<i>Wholesale activities</i>	34,886,743	5,110,734	39,997,477
Other sales	1,470,333	18,616	1,488,949
Total sales	50,222,358	6,377,595	56,599,953

	Three month period ended 31 March 2013		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	26,650	26,650
Sale of gas	1,722,158	-	1,722,158
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,722,158	-	1,722,158
Sale of petroleum products	38,945,431	7,372,716	46,318,147
<i>Through a retail network</i>	11,828,552	-	11,828,552
<i>Wholesale activities</i>	27,116,879	7,372,716	34,489,595
Other sales	1,381,854	1,931	1,383,785
Total sales	42,049,443	7,401,297	49,450,740

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Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014

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

4. SEGMENT INFORMATION (continued)

Out of the amount of 39,997,477 RSD (2013: 34,489,595 RSD) revenue from sale of petroleum products (wholesale), the amount of 8,024,380 RSD (2013: 7,315,142 RSD) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 50,222,358 RSD (three month period ended 31 March 2013: 42,049,443 RSD), and the total of revenue from external customer from other countries is 6,377,595 RSD (three month period ended 31 March 2013: 7,401,297 RSD). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Three month period ended 31 March	
	2014	2013
Sale of crude oil	1,248,245	26,650
Sale of petroleum products (retail and wholesale)		
Bulgaria	1,589,516	276,523
BIH	1,663,830	544,208
Romania	758,305	35,207
All other markets	1,099,083	6,516,778
	5,110,734	7,372,716
Other sales	18,616	1,931
	6,377,595	7,401,297

5. CASH AND CASH EQUIVALENTS

	31 March 2014	31 December 2013
Cash in bank and in hand	4,065,108	6,068,422
Deposits with original maturity of less than three months	1,512,689	769,607
Cash held on escrow account	1,626,980	1,650,878
Cash equivalents	225,515	218,868
	7,430,292	8,707,775

6. TRADE AND OTHER RECEIVABLES

	31 March 2014	31 December 2013
Trade receivables:		
- related parties	9,361	3,537
- third parties	71,015,993	74,579,495
	71,025,354	74,583,032
Accrued assets	39,466	1,383,654
Other receivables	9,946,473	9,834,081
	81,011,293	85,800,767
Less impairment provision	(29,504,780)	(29,682,881)
Total trade and other receivables	51,506,513	56,117,886

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NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014***(All amounts are in 000 RSD, unless otherwise stated)***6. TRADE AND OTHER RECEIVABLES (continued)**

The ageing of trade receivables is as follows:

	31 March 2014	31 December 2013
Up to 3 months	38,165,606	38,816,285
Over 3 months	32,859,748	35,766,747
	71,025,354	74,583,032

As at 31 March 2014 out of 32,859,748 RSD of overdue receivables (31 December 2013: 35,766,747 RSD), trade receivables in amount of 21,626,476 RSD (31 December 2013: 21,855,267 RSD) were fully provided for. The remaining amount of 11,233,272 RSD (31 December 2013: 13,911,480 RSD) relates to a number of independent customers for whom management believes that will be recovered in the near future.

The ageing of trade receivables provided for is as follows:

	31 March 2014	31 December 2013
Up to 3 months	1,063,445	1,098,697
Over 3 months	20,563,031	20,756,570
	21,626,476	21,855,267

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

	31 March 2014	31 December 2013
RSD	69,265,909	72,933,102
EUR	10,474,550	10,382,718
USD	995,765	2,229,144
Other	275,069	255,803
	81,011,293	85,800,767

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

	Trade receivables	Other receivables	Total
As at 1 January 2013	21,360,758	5,820,064	27,180,822
Provision for receivables impairment (note 18)	294,375	-	294,375
Unused amounts reversed (note 18)	(335,841)	-	(335,841)
Other	56,692	548,005	604,697
As at 31 March 2013	21,375,984	6,368,069	27,744,053
As at 1 January 2014	21,855,267	7,827,614	29,682,881
Provision for receivables impairment (note 18)	148,608	-	148,608
Unused amounts reversed (note 18)	(335,661)	-	(335,661)
Other	(41,738)	50,690	8,952
As at 31 March 2014	21,626,476	7,878,304	29,504,780

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

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NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014***(All amounts are in 000 RSD, unless otherwise stated)***7. INVENTORIES**

	31 March 2014	31 December 2013
Crude oil	30,387,719	25,490,951
Gas	-	98,558
Petroleum products	15,979,950	13,624,136
Materials and supplies	8,061,389	7,617,850
Other	783,105	767,490
Less impairment provision	<u>(6,884,047)</u>	<u>(6,939,005)</u>
	<u>48,328,116</u>	<u>40,659,980</u>

8. OTHER CURRENT ASSETS

	31 March 2014	31 December 2013
Advances paid	459,300	799,548
VAT receivables	1,374,270	1,939,549
Deferred VAT	1,300,282	2,681,103
Prepaid expenses	79,712	137,145
Prepaid custom duties	67,480	57,272
Prepaid excise	1,521,335	1,441,590
Other current assets	19,672,807	18,269,246
Less impairment provision	<u>(18,809,952)</u>	<u>(17,959,692)</u>
	<u>5,665,234</u>	<u>7,365,761</u>

Deferred VAT as at 31 March 2014 amounting to 1,300,282 RSD (31 December 2013: 2,681,103 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 31 March 2014 amounting to 1,521,335 RSD (31 December 2013: 1,441,590 RSD) relates to the excise paid to the State for finished products stored in non-excise warehouse.

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 2013	373,071	13,193,909	13,566,980
Provision for other current assets impairment (note 18)	-	173,064	173,064
Unused amounts reversed (note 18)	(449)	(55,099)	(55,548)
Other	-	(6,379)	(6,379)
As at 31 March 2013	<u>372,622</u>	<u>13,305,495</u>	<u>13,678,117</u>
As at 1 January 2014	253,069	17,706,623	17,959,692
Provision for other current assets impairment (note 18)	13	967,009	967,022
Unused amounts reversed (note 18)	(8,888)	(46,730)	(55,618)
Other	37	(61,181)	(61,144)
As at 31 March 2014	<u>244,231</u>	<u>18,565,721</u>	<u>18,809,952</u>

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Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 December 2014
(All amounts are in 000 RSD, unless otherwise stated)

9. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2013						
Cost	53,376,416	96,895,806	33,016,407	18,938,910	27,786,293	230,013,832
Depreciation and impairment	(20,466,813)	(23,887,053)	(13,125,313)	(8,293,223)	(4,319,865)	(70,092,267)
Net book value	32,909,603	73,008,753	19,891,094	10,645,687	23,466,428	159,921,565
Period ended 31 March 2013						
Additions	1,834,838	2,624,789	635,851	687,175	3,372,186	9,154,839
Acquisitions through business combinations	-	-	3,815,387	-	131,095	3,946,482
Impairment	-	-	-	-	(356)	(356)
Depreciation	(707,316)	(1,151,523)	(274,918)	(157,042)	(954)	(2,291,753)
Transfer (to) from intangible assets	-	-	2,070	-	(26,730)	(24,660)
Disposals and write-off	(62)	(182)	(157,442)	(5,916)	(183,504)	(347,106)
Other transfers	(712,288)	180,419	5,410	(194,099)	696,369	(24,189)
Translation differences	(96)	-	(80,473)	(4,573)	(37,119)	(122,261)
	33,324,679	74,662,256	23,836,979	10,971,232	27,417,415	170,212,561
As at 31 March 2013						
Cost	48,336,099	99,324,820	37,199,698	18,450,679	31,736,660	235,047,956
Depreciation and impairment	(15,011,420)	(24,662,564)	(13,362,719)	(7,479,447)	(4,319,240)	(64,835,390)
Net book value	33,324,679	74,662,256	23,836,979	10,971,232	27,417,420	170,212,566
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 31 March 2014						
Additions	3,779,341	193,193	1,722,840	97,176	4,362,352	10,154,902
Impairment	-	-	(29,907)	-	(2,431)	(32,338)
Depreciation	(857,081)	(1,295,074)	(478,687)	(175,623)	(809)	(2,807,274)
Transfer from investment property	35,121	1,316	36,481	7,399	-	80,317
Disposals and write-off	(10,149)	8,044	(48,974)	(21,469)	(120,642)	(193,190)
Other transfers	(44,328)	(244,383)	(7,990)	301,905	(100,644)	(95,440)
Translation differences	30	-	118,644	-	20,097	138,771
	43,621,635	78,674,629	33,255,613	11,347,246	45,279,146	212,178,269
As at 31 March 2014						
Cost	61,842,042	108,077,913	46,678,567	19,538,445	49,332,006	285,468,973
Depreciation and impairment	(18,220,407)	(29,403,284)	(13,422,954)	(8,191,199)	(4,052,860)	(73,290,704)
Net book value	43,621,635	78,674,629	33,255,613	11,347,246	45,279,146	212,178,269

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Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014

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

9. PROPERTY, PLANT AND EQUIPMENT (continued)

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 2013						
Cost	6,354,587	5,315,398	11,669,985	53,376,416	123,953	65,170,354
Depreciation and impairment	(3,973)	(304,214)	(308,187)	(20,466,813)	(110,641)	(20,885,641)
Net book amount	6,350,614	5,011,184	11,361,798	32,909,603	13,312	44,284,713
Period ended 31 March 2013						
Additions	1,484,798	3,162,021	4,646,819	-	-	4,646,819
Transfer from asset under construction	-	(1,605,004)	(1,605,004)	1,604,986	18	-
Other transfers	-	10,500	10,500	(482,436)	(16)	(471,952)
Depreciation and depletion	(781)	-	(781)	(707,316)	-	(708,097)
Disposals and write-off	-	(3,018)	(3,018)	(62)	-	(3,080)
Translation differences	(29,342)	-	(29,342)	(96)	-	(29,438)
As at 31 March 2013	7,805,289	6,575,683	14,380,972	33,324,679	13,314	47,718,965
As at 1 January 2014						
Cost	7,809,982	6,878,847	14,688,829	48,336,099	122,154	63,147,082
Depreciation and impairment	(4,693)	(303,164)	(307,857)	(15,011,420)	(108,840)	(15,428,117)
Net book amount	7,805,289	6,575,683	14,380,972	33,324,679	13,314	47,718,965
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 31 March 2014						
Additions	2,203,160	5,274,246	7,477,406	-	-	7,477,406
Transfer from asset under construction	(24,837)	(3,793,551)	(3,818,388)	3,818,388	-	-
Other transfers	-	32,152	32,152	(48,254)	(81)	(16,183)
Impairment	-	(1,989)	(1,989)	-	-	(1,989)
Depreciation and depletion	(809)	-	(809)	(857,081)	-	(857,890)
Disposals and write-off	(24,066)	(162,340)	(186,406)	(10,149)	-	(196,555)
Translation differences	18,913	-	18,913	30	-	18,943
As at 31 March 2014	15,383,581	14,507,566	29,891,147	43,621,635	13,162	73,525,944
As at 31 March 2014						
Cost	15,395,202	14,747,614	30,142,816	61,842,042	33,429	92,018,287
Depreciation and impairment	(11,621)	(240,048)	(251,669)	(18,220,407)	(20,267)	(18,492,343)
Net book amount	15,383,581	14,507,566	29,891,147	43,621,635	13,162	73,525,944

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NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014***(All amounts are in 000 RSD, unless otherwise stated)***10. OTHER NON-CURRENT ASSETS**

	31 March 2014	31 December 2013
Advances paid for PPE	6,375,726	6,481,062
Prepaid expenses	1,027,902	1,033,330
Other assets	1,082,007	1,083,046
Less impairment provision	(29,899)	(29,899)
	8,455,736	8,567,539

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

	31 March 2014	31 December 2013
Short-term loans	2,122,303	300,029
Interest liabilities	199,860	136,403
Other short-term financial liabilities	29	-
Current portion of long-term loans (note 15)	30,813,077	27,596,332
Current portion of finance lease liabilities (note 15)	13,758	22,081
	33,149,027	28,054,845

12. TRADE AND OTHER PAYABLES

	31 March 2014	31 December 2013
Trade payables		
- related parties	28,636,269	37,925,059
- third parties	10,476,720	13,507,743
Dividends payable	3,772,308	3,772,308
Other accounts payable	70,777	70,905
	42,956,074	55,276,015

As at 31 March 2014 payables to related parties amounting to 28,636,269 RSD (31 December 2013: 37,925,059 RSD) mainly relate to payables to the supplier Gazprom Neft Trading, Austria in the amount of 19,373,027 RSD (31 December 2013: 28,139,826 RSD), mostly for the purchase of crude oil.

13. OTHER CURRENT LIABILITIES

	31 March 2014	31 December 2013
Advances received	880,615	892,243
Payables to employees	3,719,873	2,636,098
Accruals and deferred income	20,325	24,020
Other current non-financial liabilities	24,005	6,970
	4,644,818	3,559,331

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NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014***(All amounts are in 000 RSD, unless otherwise stated)***14. OTHER TAXES PAYABLE**

	31 March 2014	31 December 2013
Mineral extraction tax	589,910	522,953
VAT	1,794,412	517,592
Excise tax	3,881,409	4,312,273
Custom duties	638,309	1,624,014
Other taxes	2,226,906	1,724,223
	9,130,946	8,701,055

15. LONG-TERM DEBT

	31 March 2014	31 December 2013
Long-term loans - Gazprom Neft	49,642,169	50,655,813
Bank loans	45,373,238	37,948,303
Finance lease liabilities	100,337	107,689
Other long-term borrowings	48,642	40,486
Less Current portion	(30,826,835)	(27,618,413)
	64,337,551	61,133,878

Bank loans

	31 March 2014	31 December 2013
Domestic	12,072,463	12,048,569
Foreign	33,300,775	25,899,734
	45,373,238	37,948,303
Current portion of long-term loans	(25,446,356)	(22,264,141)
	19,926,882	15,684,162

The maturity of bank loans was as follows:

	31 March 2014	31 December 2013
Between 1 and 2 years	10,095,410	2,926,308
Between 2 and 5 years	4,048,331	6,871,962
Over 5 years	5,783,141	5,885,892
	19,926,882	15,684,162

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NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014***(All amounts are in 000 RSD, unless otherwise stated)***15. LONG-TERM DEBT (continued)***Bank loans (continued)*

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

	31 March 2014	31 December 2013
USD	35,725,541	28,343,857
EUR	9,002,895	8,961,940
RSD	280,693	280,783
JPY	364,109	361,723
	45,373,238	37,948,303

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

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

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

Creditor	Currency	31 March 2014	31 December 2013
Domestic long-term loans			
Erste bank, Novi Sad	USD	276,062	279,719
Erste bank, Novi Sad	EUR	447,639	454,900
Bank Postanska stedionica, Belgrade	EUR	219,929	225,341
Bank Postanska stedionica, Belgrade	USD	1,493,909	1,526,400
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,488,872	4,459,990
UniCredit bank, Belgrade	USD	4,865,359	4,821,436
UniCredit bank, Belgrade	RSD	278,900	278,900
Other loans	RSD	1,793	1,883
		12,072,463	12,048,569
Foreign long-term loans			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	510,421	518,612
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	364,109	361,723
Erste bank, Holland	EUR	3,461,535	3,439,263
Erste bank, Holland	USD	5,452,558	5,403,333
VUB (Bank Intesa), Slovakia	USD	8,388,550	8,312,820
NBG bank, Great Britain	USD	4,194,275	2,493,846
Alpha bank, Great Britain	USD	6,350,132	3,325,128
Piraeus bank, Great Britain	USD	1,677,710	1,662,563
Sberbank Europe AG, Беч, Аустрија	USD	2,516,565	-
Neftegazovaja Inovacionnaja Korporacija, Russian Federation	EUR	384,920	382,446
		33,300,775	25,899,734
Less current portion of long-term loans		(25,446,356)	(22,264,141)
		19,926,882	15,684,162

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Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014

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

15. LONG-TERM DEBT (continued)

Bank loans (continued)

	Currency	Current portion		Long-term	
		31 March 2014	31 December 2013	31 March 2014	31 December 2013
Domestic long - term loans					
Erste bank, Novi Sad	USD	14,099	13,070	261,963	266,649
Erste bank, Novi Sad	EUR	22,604	20,972	425,035	433,928
Bank Postanska stedionica, Belgrade	EUR	11,105	12,148	208,824	213,193
Bank Postanska stedionica, Belgrade	USD	75,436	82,030	1,418,473	1,444,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	249,875	248,267	4,238,997	4,211,723
UniCredit bank, Belgrade	USD	4,865,359	4,821,436	-	-
UniCredit bank, Belgrade	RSD	278,900	278,900	-	-
Other loans	RSD	365	369	1,425	1,514
		5,517,743	5,477,192	6,554,717	6,571,377
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	32,300	30,197	478,121	488,415
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	18,386	16,978	345,723	344,745
Erste bank, Holland	EUR	3,461,535	3,439,263	-	-
Erste bank, Holland	USD	-	-	5,452,558	5,403,333
VUB (Bank Intesa), Slovakia	USD	8,388,550	8,312,820	-	-
NBG bank, Great Britain	USD	-	-	4,194,275	2,493,846
Alpha bank, Great Britain	USD	6,350,132	3,325,128	-	-
Piraeus bank, Great Britain	USD	1,677,710	1,662,563	-	-
Sberbank Europe AG, Беч, Аустрија	USD	-	-	2,516,565	-
Neftegazovaja Inovacionnaja Korporacija, Russian Federation	EUR	-	-	384,923	382,446
		19,928,613	16,786,949	13,372,165	9,112,785
		25,446,356	22,264,141	19,926,882	15,684,162

16. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Three month period ended 31 March	
	2014	2013
Crude oil	24,726,416	22,747,917
Petroleum products	5,067,575	3,453,639
Other	36,880	41,336
	29,830,871	26,242,892

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NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014**

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

17. PRODUCTION AND MANUFACTURING EXPENSES

	Three month period ended 31 March	
	2014	2013
Employee costs	1,731,008	1,976,300
Materials and supplies (other than purchased oil, petroleum products and gas)	369,532	607,725
Repair and maintenance services	622,674	337,436
Electricity and utilities	703,165	345,156
Other	1,124,995	1,387,026
	4,551,374	4,653,643

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three month period ended 31 March	
	2014	2013
Employee costs	2,605,142	2,883,890
Legal, audit, and consulting services	251,787	244,286
Rent expense	94,760	66,186
Business trips expense	64,731	97,862
Safety and security expense	102,402	105,112
Insurance expense	59,585	44,331
Transportation and storage	103,196	120,857
Allowance for doubtful accounts	724,351	76,050
Other	1,076,805	945,794
	5,082,759	4,584,368

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Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014

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

19. CONTINGENT LIABILITIES

Finance Guarantees

As at 31 March 2014 the total amount of outstanding finance guarantees given by the Group amounted to 2,959,626 RSD mostly related to customs duties in the amount of 1,602,400 RSD (2013: 1,603,960 RSD).

Environmental protection

As at the reporting date, the Group's management made an environmental provision amounting to 647,212 RSD (31 December 2013: 690,094 RSD), based on an internal assessment of compliance with the Republic of Serbia environmental legislation.

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

Other contingent liabilities

As at 31 March 2014, the Group did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Group has to pay the difference in tax calculation of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Group's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Group's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed four years ago. Taking all of the above into consideration, the Group's Management is of the view that as at 31 March 2014 outflow of resources embodying economic benefits is remote due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

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Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014

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

20. GROUP ENTITIES

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

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

21. RELATED PARTY TRANSACTIONS

For the purpose of these Interim Condensed Consolidate 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 three month period ended 31 March 2014 and in the same period in 2013, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil and petroleum products.

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014***(All amounts are in 000 RSD, unless otherwise stated)***21. RELATED PARTY TRANSACTIONS (continued)**

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

	Parent company	Entities under common control	Joint venture	Total
As at 31 March 2014				
Trade and other receivables	-	9,361	46,409	55,770
Investments in joint venture	-	-	1,008,221	1,008,221
Trade and other payables	(9,246,927)	(19,389,342)	-	(28,636,269)
Other current liabilities	-	(15,704)	-	(15,704)
Short-term debt and current portion of long-term debt	(5,366,721)	-	-	(5,366,721)
Long-term debt	(44,275,448)	-	-	(44,275,448)
	(58,889,096)	(19,395,685)	1,054,630	(77,230,151)
As at 31 December 2013				
Trade and other receivables	-	3,537	11,385	14,922
Investments in joint venture	-	-	1,008,221	1,008,221
Trade and other payables	(9,338,240)	(28,586,819)	-	(37,925,059)
Short-term debt and current portion of long-term debt	(5,332,191)	-	-	(5,332,191)
Long-term debt	(45,323,622)	-	-	(45,323,622)
	(59,994,053)	(28,583,282)	1,019,606	(87,557,729)

For the three month period ended 31 March 2014 and 2013 the following transaction occurred with related parties:

	Parent company	Entities under common control	Joint venture	Total
Three month period ended 31 March 2014				
Petroleum products and oil and gas sales	-	718,136	-	718,136
Purchases of oil, gas and petroleum products	-	(25,682,902)	-	(25,682,902)
Production and manufacturing expenses	(1,849)	(4,907)	-	(6,756)
Selling, general and administrative expenses	(7,229)	-	-	(7,229)
Other expenses, net	(4,556)	3,909	-	(647)
Finance expense	(299,073)	-	-	(299,073)
	(312,707)	(24,965,764)	-	(25,278,471)

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

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Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014

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

21. RELATED PARTY TRANSACTIONS (continued)

	Parent company	Entities under common control	Joint venture	Total
Three month period ended 31 March 2013				
Other revenues	-	40,463	-	40,463
Purchases of oil, gas and petroleum products	-	(20,563,269)	-	(20,563,269)
Production and manufacturing expenses	(923)	(25,202)	-	(26,125)
Selling, general and administrative expenses	(7,218)	-	-	(7,218)
Other expenses, net	(4,437)	(43,472)	-	(47,909)
Finance expense	(308,064)	-	-	(308,064)
	(320,642)	(20,591,480)	-	(20,912,122)

22. TAX RISKS

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Group has paid all tax liabilities as of 31 March 2014.

23. COMMITMENTS

Farm-out agreement with East West Petroleum Corporation, Canada

In October 2011, the Group entered into a Farm-out agreement with East West Petroleum Corporation, Canada for exploration and production of hydrocarbons in the Timisoara region in Romania. Under the Contract, the Group shall finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, the Group will be entitled to 85% of the total production volume of hydrocarbons. Moreover, under the Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Group will act as the Operator and will be in charge of and shall conduct all Joint Operations. In December 2012 exploration licence for Block 2 was ratified by Romania Government. Exploration activities are underway. On 31 March 2014 drilling and exploration works for Block 2 were estimated to 13.164 USD million.

Farm-in agreement with RAG Hungary limited

In December 2011, the Group entered into a Farm-in agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kiskunhalas area in Hungary. Under the contract, the Group committed to finance 50% of total exploration costs on at least three oil wells in the area covered by the exploration license. Depending on success of the exploration, the Group will be entitled to 50% of total production volume of hydrocarbons. Under the Joint Operation Agreement signed with RAG Hungary Limited, RAG will act as the Operator and will be in charge of and shall conduct all Joint Operations. On 31 March 2014 drilling and exploration works were estimated to 1.2 USD million.

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Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014

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

23. COMMITMENTS (continued)

Call Option agreement with RAG Hungary limited

In December 2012, the Group entered into a Call Option agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kelebia area in Hungary. Under the agreement NIS has an option to become equal owner in a jointly owned company (JOC) together with Rag Hungary, Rag Kiha, which will hold the Kelebia Licence by becoming a 50 % quota holder in the JOC. On 31 March 2014 drilling and exploration works were estimated to 1.45 USD million.

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

In August 2012, the Group has entered into Farm-out agreement with Zeta Petroleum S.R.L. Romania for exploration and production of hydrocarbons in Timis region in Romania. According to the Contract, the Group is committed to finance 51% of total exploration costs in the area covered by the exploration license. Depending on the success of exploration, the Group will be entitled to 51% of total production volume of hydrocarbons. Exploration activities are underway. On 31 March 2014 drilling and exploration works were estimated to 0.9 USD million.

Farm-out agreement with Moesia Oil and Gas PLC Ireland

In June 2012, the Group has entered into a Farm-out agreement with Moesia Oil and Gas PLC Ireland for exploration and production of hydrocarbons in Romania. According to the Contract, the Group is committed to finance sunk costs and 75% of total exploration costs of Phase 1 of the Programme. Depending on the success of exploration, the Group will be entitled to 50% of total production volume of hydrocarbons and committed to finance 50% of further exploration and production costs. Exploration activities were started in November 2012. On 31 March 2014 drilling and exploration works were estimated to 0.61 USD million.

Oil field service contract with Falcon Oil & Gas LTD

In January 2013, the Group entered into a Multi-well drilling exploration program with Falcon Oil & Gas Ltd. to target the shallower Algyö Formation in Hungary. Under the contract, the Group committed to drill three exploration wells targeting the shallow 'Algyö Play' reservoir covered by the Mako through production license in the Pannonian Basin held by Falcon Oil & Gas limited, Hungary. Depending on success of the exploration, the Group will be entitled to 50% of any net production revenue from the three wells. On 31 March 2014 drilling and exploration works were estimated to 13.41 USD million.

24. EVENTS AFTER THE REPORTING DATE

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

Subsequent events occurring after 31 March 2014 were evaluated through 23 April 2014, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

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Notes to the Interim Condensed Consolidated Financial Statements for the three month period ended 31 March 2014

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

NIS Group

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