



**NIS**

**GAZPROM NEFT**

**Naftna industrija Srbije A.D.**

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

30 June 2014

**Naftna industrija Srbije A.D.**  
**Interim Condensed Consolidated Financial**  
**Statements (Unaudited)**  
**30 June 2014**

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**NIS Group**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*(All amounts are in 000 RSD, unless otherwise stated)*

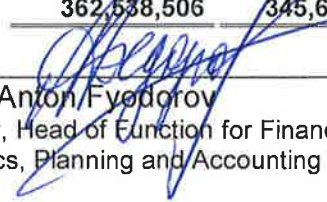
<b>Assets</b>	Note	<b>30 June 2014</b>	<b>31 December 2013</b>
		<i>(unaudited)</i>	
<b>Current assets</b>			
Cash and cash equivalents	5	5,815,572	8,707,775
Short-term financial assets		62,204	68,358
Trade and other receivables	6	55,784,335	56,117,886
Inventories	7	49,738,304	40,659,980
Current income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

Kirill Kravchenko  
 CEO

22 July 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.*

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

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

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

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

(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	Six month period ended	
		30 June	
		2014	2013
		<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Profit attributable to:</b>			
- Shareholders of Naftna Industrija Srbije		17,074,886	17,763,277
- Non-controlling interest		(95,153)	(18,901)
<b>Profit for the period</b>		<u>16,979,733</u>	<u>17,744,376</u>
<b>Total comprehensive income attributable to:</b>			
- Shareholders of Naftna Industrija Srbije		17,014,573	17,789,433
- Non-controlling interest		(95,744)	(19,401)
<b>Total comprehensive income for the period</b>		<u>16,918,829</u>	<u>17,770,032</u>
<b>Earnings per share attributable to shareholders of Naftna Industrija Srbije</b>			
- Basic earnings (RSD per share)		104.72	108.94
Weighted average number of ordinary shares in issue (in millions)		163	163

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**NIS Group**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Six month period ended 30 June 2014 and 2013  
*(All amounts are in 000 RSD, unless otherwise stated)*

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

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**NIS Group**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

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

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

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## **NIS Group**

### **Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 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 six month period ended 30 June 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 six month period ended 30 June 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 six month period ended 30 June 2014 and 2013. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

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

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

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

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

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

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**NIS Group**

**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014**

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

**4. SEGMENT INFORMATION (continued)**

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

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

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

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

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

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

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**NIS Group****Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014***(All amounts are in 000 RSD, unless otherwise stated)***4. SEGMENT INFORMATION (continued)**

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

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

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

**5. CASH AND CASH EQUIVALENTS**

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

**6. TRADE AND OTHER RECEIVABLES**

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

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**NIS Group****Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014***(All amounts are in 000 RSD, unless otherwise stated)***6. TRADE AND OTHER RECEIVABLES (continued)**

The ageing of trade receivables is as follows:

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

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

The ageing of trade receivables provided for is as follows:

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

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

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

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

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

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

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**NIS Group**

**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014**

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

**7. INVENTORIES**

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

**8. OTHER CURRENT ASSETS**

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

Deferred VAT as at 30 June 2014 amounting to 1,433,505 RSD (31 December 2013: 2,681,103 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

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

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

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

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## NIS Group

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

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**NIS Group**

**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 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
<b>As at 1 January 2013</b>						
Cost	6,354,587	5,315,398	11,669,985	53,376,416	123,953	65,170,354
Depreciation and impairment	(3,973)	(304,214)	(308,187)	(20,466,813)	(110,641)	(20,885,641)
<b>Net book amount</b>	<b>6,350,614</b>	<b>5,011,184</b>	<b>11,361,798</b>	<b>32,909,603</b>	<b>13,312</b>	<b>44,284,713</b>
<b>Period ended 30 June 2013</b>						
Additions	3,676,864	5,964,036	9,640,900	-	-	9,640,900
Transfer to assets other than O&G	-	(5,250)	(5,250)	-	-	(5,250)
Transfer from asset under construction	(29,682)	(3,145,128)	(3,145,110)	3,145,110	18	-
Other transfers	2,316	(198)	2,118	(471,126)	(16)	(469,024)
Depreciation and depletion	(1,564)	-	(1,564)	(1,429,042)	-	(1,430,606)
Disposals and write-off	(12,333)	(4,008)	(16,341)	(62)	-	(16,403)
Translation differences	14,707	-	14,707	(6)	-	14,701
<b>As at 30 June 2013</b>	<b>10,000,922</b>	<b>7,850,318</b>	<b>17,851,240</b>	<b>34,154,477</b>	<b>13,314</b>	<b>52,019,031</b>
<b>As at 1 January 2014</b>						
Cost	10,006,506	8,153,482	18,159,988	49,885,542	122,154	68,167,684
Depreciation and impairment	(5,584)	(303,164)	(308,748)	(15,731,065)	(108,840)	(16,148,653)
<b>Net book amount</b>	<b>10,000,922</b>	<b>7,850,318</b>	<b>17,851,240</b>	<b>34,154,477</b>	<b>13,314</b>	<b>52,019,031</b>
<b>As at 1 January 2014</b>						
Cost	13,222,087	13,397,107	26,619,194	58,161,373	33,510	84,814,077
Depreciation and impairment	(10,867)	(238,059)	(248,926)	(17,442,672)	(20,267)	(17,711,865)
<b>Net book amount</b>	<b>13,211,220</b>	<b>13,159,048</b>	<b>26,370,268</b>	<b>40,718,701</b>	<b>13,243</b>	<b>67,102,212</b>
<b>Period ended 30 June 2014</b>						
Additions	3,511,578	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
<b>As at 30 June 2014</b>	<b>13,852,023</b>	<b>14,757,992</b>	<b>28,610,015</b>	<b>47,865,190</b>	<b>13,162</b>	<b>76,488,367</b>
<b>As at 30 June 2014</b>						
Cost	13,865,228	14,996,051	28,861,279	66,972,093	33,472	95,866,844
Depreciation and impairment	(13,205)	(238,059)	(251,264)	(19,106,903)	(20,310)	(19,378,477)
<b>Net book amount</b>	<b>13,852,023</b>	<b>14,757,992</b>	<b>28,610,015</b>	<b>47,865,190</b>	<b>13,162</b>	<b>76,488,367</b>

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**NIS Group****Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014***(All amounts are in 000 RSD, unless otherwise stated)***10. OTHER NON-CURRENT ASSETS**

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

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

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

**12. TRADE AND OTHER PAYABLES**

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

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

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

**13. OTHER CURRENT LIABILITIES**

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

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**NIS Group****Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014***(All amounts are in 000 RSD, unless otherwise stated)***14. OTHER TAXES PAYABLE**

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

**15. LONG-TERM DEBT**

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

*Bank loans*

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

The maturity of bank loans was as follows:

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

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**NIS Group****Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 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:

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

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

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

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

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

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**NIS Group**

**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014**

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

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

*Bank loans (continued)*

	Currency	Current portion		Long-term	
		30 June 2014	31 December 2013	30 June 2014	31 December 2013
<b>Domestic long - term loans</b>					
Erste bank, Novi Sad	USD	14,261	13,070	264,792	266,649
Erste bank, Novi Sad	EUR	22,682	20,972	426,512	433,928
Bank Postanska stedionica, Belgrade	EUR	11,144	12,148	209,549	213,193
Bank Postanska stedionica, Belgrade	USD	76,302	82,030	1,434,771	1,444,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	250,743	248,267	4,128,350	4,211,723
UniCredit bank, Belgrade	USD	4,921,259	4,821,436	-	-
UniCredit bank, Belgrade	RSD	278,900	278,900	-	-
Other loans	RSD	358	369	1,344	1,514
		<b>5,575,649</b>	<b>5,477,192</b>	<b>6,465,318</b>	<b>6,571,377</b>
<b>Foreign long-term loans</b>					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	32,672	30,197	481,714	488,415
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	18,881	16,978	355,028	344,745
Erste bank, Holland	EUR	3,473,559	3,439,263	-	-
Erste bank, Holland	USD	-	-	5,515,205	5,403,333
VUB (Bank Intesa), Slovakia	USD	8,484,930	8,312,820	-	-
NBG bank, Great Britain	USD	4,242,465	-	-	2,493,846
Alpha bank, Great Britain	USD	6,423,092	3,325,128	-	-
Piraeus bank, Great Britain	USD	848,493	1,662,563	-	-
Sberbank Europe AG, Беч, Аустрија	USD	-	-	6,363,698	-
Neftegazovaja Inovacionnaja Korporacija, Russian Federation	EUR	-	-	683,046	382,446
		<b>23,524,092</b>	<b>16,786,949</b>	<b>13,398,691</b>	<b>9,112,785</b>
		<b>29,099,741</b>	<b>22,264,141</b>	<b>19,864,009</b>	<b>15,684,162</b>

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

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

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**NIS Group****Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014***(All amounts are in 000 RSD, unless otherwise stated)***17. PRODUCTION AND MANUFACTURING EXPENSES**

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

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

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

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## NIS Group

### Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014

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

#### 19. CONTINGENT LIABILITIES

##### *Finance Guarantees*

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

##### *Environmental protection*

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

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

##### *Other contingent liabilities*

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

## NIS Group

### Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014

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

## 20. GROUP ENTITIES

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

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

## 21. RELATED PARTY TRANSACTIONS

For the purpose of these Interim Condensed 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 six month period ended 30 June 2014 and in the same period in 2013, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil and petroleum products.



**NIS Group**

**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014**

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

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

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

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

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

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

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**NIS Group**  
**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014**

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

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

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

**22. TAX RISKS**

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Group has paid all tax liabilities as of 30 June 2014.

**23. COMMITMENTS**

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

In October 2011, the Group entered into a Farm-out agreement with East West Petroleum Corporation, Canada for exploration and production of hydrocarbons in the Timisoara region in Romania. Under the Contract, the Group shall finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, the Group will be entitled to 85% of the total production volume of hydrocarbons. Moreover, under the Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Group will act as the Operator and will be in charge of and shall conduct all Joint Operations. In December 2012 exploration licence for Block 2 was ratified by Romania Government. Exploration activities are underway. On 30 June 2014 drilling and exploration works for Block 2 were estimated to 13.1 USD million.

*Farm-in agreement with RAG Hungary limited*

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

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## NIS Group

### Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014

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

#### 23. COMMITMENTS (continued)

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

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

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

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

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

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

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

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

#### 24. EVENTS AFTER THE REPORTING DATE

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

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

**NIS Group**  
**Notes to the Interim Condensed Consolidated Financial Statements for the six month period ended 30 June 2014**

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

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