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**GAZPROM NEFT**

**Naftna industrija Srbije A.D.**

**Interim Condensed Financial Statements (Unaudited)**

**30 June 2014**

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

**Contents**

Interim Condensed Statement of Financial Position	3
Interim Condensed Statement of Profit and Loss and Other Comprehensive Income	4
Interim Condensed Statement of Changes in Equity	5
Interim Condensed Statement of Cash Flows	6
Notes to the Interim Condensed Financial Statements	7

NIS a.d.

**STATEMENT OF FINANCIAL POSITION**

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

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

На основу Извештаja о стању послова и о резултатима послова за период од 1.1.2014. до 30.6.2014.  
назив документа бр. датума

Kirill Kravchenko

CEO  
назив функције

22 July 2014  
назив функције

Kirill Kravchenko  
име и презиме

Anton Fyodorov

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

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

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NIS a.d.

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

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

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**NIS a.d.**  
**STATEMENT OF CHANGES IN EQUITY**  
Six month period ended 30 June 2014 and 2013  
*(All amounts are in 000 RSD, unless otherwise stated)*

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

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

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**Notes to the Interim Condensed 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") is a vertically integrated oil company operating predominantly in Serbia. The Company's principal activities include:

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

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

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

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

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

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

NIS a.d.

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Changes in significant accounting policies**

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

**Application of new IFRS**

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

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

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

**3. NEW ACCOUNTING STANDARDS**

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

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

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



### 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 Company does not plan to adopt the standard before the mandatory effective date and is currently assessing the impact of the new standard on its Financial Statements.

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

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

NIS a.d.

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

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

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

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

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

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

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	43,252,674	116,128,848	(40,915,068)	118,466,454
Intersegment	40,537,560	377,508	(40,915,068)	-
External	2,715,114	115,751,340	-	118,466,454
EBITDA (Segment results)	36,373,083	(3,924,771)	-	32,448,312
Depreciation, depletion and amortization	(1,429,767)	(3,809,932)	-	(5,239,699)
Reversal of impairment	-	45,223	-	45,223
Finance expenses, net	(143,909)	(570,066)	-	(713,975)
Income tax	(373,926)	(4,054,062)	-	(4,427,988)
Segment profit (loss)	<b>34,043,147</b>	<b>(13,637,901)</b>	-	<b>20,405,246</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	43,532,832	108,969,660	(41,808,633)	110,693,859
Intersegment	41,724,655	83,978	(41,808,633)	-
External	1,808,177	108,885,682	-	110,693,859
EBITDA (Segment results)	37,046,615	(9,139,591)	-	27,907,024
Depreciation, depletion and amortization	(1,119,196)	(3,390,372)	-	(4,509,568)
Impairment losses	-	(476)	-	(476)
Finance expenses, net	(169,392)	(795,437)	-	(964,829)
Income tax	(236,823)	(2,611,356)	-	(2,848,179)
Segment profit (loss)	<b>35,733,793</b>	<b>(16,589,830)</b>	-	<b>19,143,963</b>

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Notes to the Interim Condensed 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:

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

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

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

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

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

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

**5. CASH AND CASH EQUIVALENTS**

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

**6. TRADE AND OTHER RECEIVABLES**

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

The ageing of trade receivables is as follows:

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

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

NIS a.d.

Notes to the Interim Condensed 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 provided for is as follows:

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

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

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

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

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

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

NIS a.d.

**Notes to the Interim Condensed 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	18,627,294	12,780,938
Materials and supplies	6,136,544	5,582,457
Other	382,029	593,212
Less impairment provision	(6,086,339)	(6,136,250)
	<b>46,508,817</b>	<b>38,409,866</b>

**8. OTHER CURRENT ASSETS**

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

Deferred VAT as at 30 June 2014 amounting to 1,115,659 RSD (31 December 2013: 2,466,870 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

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

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

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

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NIS a.d.

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

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NIS a.d.

Notes to the Interim Condensed 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	5,304,044	5,097,738	10,401,782	42,567,439	112,666	53,081,887
Depreciation and impairment	-	(304,214)	(304,214)	(14,450,260)	(110,630)	(14,865,104)
<b>Net book amount Period ended 30 June 2013</b>	<b>5,304,044</b>	<b>4,793,524</b>	<b>10,097,568</b>	<b>28,117,179</b>	<b>2,036</b>	<b>38,216,783</b>
Additions						
Transfer from asset under construction	2,703,736	5,818,381	8,522,117	-	-	8,522,117
Other transfers	(29,682)	(3,289,278)	(3,318,960)	3,318,960	-	-
Depreciation and depletion	(3)	(4,417)	(4,420)	916	(16)	(3,520)
Disposals and write-off	(12,333)	(3,751)	(16,084)	(1,114,699)	-	(1,114,699)
	<b>7,965,762</b>	<b>7,314,459</b>	<b>15,280,221</b>	<b>29,444,704</b>	<b>2,020</b>	<b>44,726,945</b>
<b>As at 30 June 2013</b>						
Cost	7,965,762	7,617,623	15,583,385	44,460,545	110,850	60,154,780
Depreciation and impairment	-	(303,164)	(303,164)	(15,015,841)	(108,830)	(15,427,835)
<b>Net book amount</b>	<b>7,965,762</b>	<b>7,314,459</b>	<b>15,280,221</b>	<b>29,444,704</b>	<b>2,020</b>	<b>44,726,945</b>
<b>As at 1 January 2014</b>						
Cost	10,248,631	11,674,429	21,923,060	51,949,129	22,241	73,894,430
Depreciation and impairment	-	(238,059)	(238,059)	(16,356,852)	(20,266)	(16,615,177)
<b>Net book amount Period ended 30 June 2014</b>	<b>10,248,631</b>	<b>11,436,370</b>	<b>21,685,001</b>	<b>35,592,277</b>	<b>1,975</b>	<b>57,279,253</b>
Additions						
Transfer from asset under construction	2,873,356	8,256,500	11,129,856	-	-	11,129,856
Other transfers	(1,934,990)	(7,181,047)	(9,116,037)	9,116,037	-	-
Depreciation and depletion	50,654	(23,118)	27,536	254,857	(81)	282,312
Transfer from investment property	-	-	-	(1,420,745)	-	(1,420,745)
Disposals and write-off	(14,303)	(222,000)	(236,303)	35,121	-	35,121
	<b>11,223,348</b>	<b>12,266,705</b>	<b>23,490,053</b>	<b>42,554,526</b>	<b>1,894</b>	<b>66,046,473</b>
<b>As at 30 June 2014</b>						
Cost	11,223,348	12,504,764	23,728,112	60,238,601	22,203	83,988,916
Depreciation and impairment	-	(238,059)	(238,059)	(17,684,075)	(20,309)	(17,942,443)
<b>Net book amount</b>	<b>11,223,348</b>	<b>12,266,705</b>	<b>23,490,053</b>	<b>42,554,526</b>	<b>1,894</b>	<b>66,046,473</b>

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NIS a.d.

Notes to the Interim Condensed 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	3,020,079	4,160,931
Prepaid expenses	1,004,514	1,033,330
Other assets	2,095,740	2,116,423
Less impairment provision	(1,033,771)	(1,063,229)
	<b>5,086,562</b>	<b>6,247,455</b>

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

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

**12. TRADE AND OTHER PAYABLES**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Trade payables		
- related parties	17,565,678	38,715,029
- third parties	16,851,114	11,950,798
Dividends payable	16,853,013	3,772,308
Other accounts payable	69,335	69,780
	<b>51,339,140</b>	<b>54,507,915</b>

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

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

**13. OTHER CURRENT LIABILITIES**

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

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NIS a.d.

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

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

14. OTHER TAXES PAYABLE

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

15. LONG-TERM DEBT

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

*Bank loans*

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

The maturity of bank loans was as follows:

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

NIS a.d.

Notes to the Interim Condensed 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:

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

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

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

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

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

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NIS a.d.

Notes to the Interim Condensed 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, Austria	USD	-	-	6,363,698	-
		<b>23,524,092</b>	<b>16,786,949</b>	<b>12,715,645</b>	<b>8,730,339</b>
		<b>29,099,741</b>	<b>22,264,141</b>	<b>19,180,963</b>	<b>15,301,716</b>

16. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

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

NIS a.d.

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

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

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

NIS a.d.

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

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*(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 Company amounted to 2,868,440 RSD mostly related to customs duties in the amount of 1,600,531 RSD (31 December 2013: 2,192,400 RSD).

### *Environmental protection*

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

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

### *Other contingent liabilities*

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

NIS a.d.

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

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

**20. RELATED PARTY TRANSACTIONS**

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

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

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

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

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

*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 a.d.

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

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

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

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

	<u>Subsidiary</u>	<u>Parent</u>	<u>Other related parties</u>	<u>Total</u>
<b>Six month period ended 30 June 2014</b>				
Petroleum products and oil and gas sales	5,091,408	-	1,364,867	6,456,275
Other revenues	235,450	-	-	235,450
Purchases of oil, gas and petroleum products	(5,109,270)	-	(45,784,488)	(50,893,758)
Production and manufacturing expenses	(1,783,811)	(5,177)	(166,878)	(1,955,866)
Selling, general and administrative expenses	(472,033)	(18,069)	-	(490,102)
Transportation expenses	(8,794)	-	-	(8,794)
Other expenses, net	(7,086)	(4,556)	(37,581)	(49,223)
Finance income	883,926	-	-	883,926
Finance expense	(3,381)	(596,758)	-	(600,139)
	<b>(1,173,591)</b>	<b>(624,560)</b>	<b>(44,624,080)</b>	<b>(46,422,231)</b>
<b>Six month period ended 30 June 2013</b>				
Petroleum products and oil and gas sales	1,336,025	-	84,307	1,420,332
Other revenues	284,830	-	-	284,830
Purchases of oil, gas and petroleum products	(949,699)	-	(48,479,223)	(49,428,922)
Production and manufacturing expenses	(1,455,354)	(2,312)	-	(1,457,666)
Selling, general and administrative expenses	(467,613)	(18,080)	-	(485,693)
Transportation expenses	(7,281)	-	-	(7,281)
Exploration expenses	(83,250)	-	-	(83,250)
Other expenses, net	(2,484)	(4,437)	(73,533)	(80,454)
Finance income	565,356	-	-	565,356
Finance expense	-	(610,848)	-	(610,848)
	<b>(779,470)</b>	<b>(635,677)</b>	<b>(48,468,449)</b>	<b>(49,883,596)</b>

**21. TAX RISKS**

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



NIS a.d.

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

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

## **22. COMMITMENTS**

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

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

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

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

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

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

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

**NIS a.d.**  
**Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2014**

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

**NIS a.d.**  
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