



Naftna industrija Srbije A.D.

Interim Condensed Financial Statements (Unaudited)

31 March 2014

Naftna industrija Srbije A.D.
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STATEMENT OF FINANCIAL POSITION

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

Assets	Note	31 March 2014	31 December 2013
		<i>(unaudited)</i>	<i>(unaudited)</i>
Current assets			
Cash and cash equivalents	5	5,000,349	5,180,156
Short-term financial assets		2,032,516	2,176,381
Trade and other receivables	6	55,157,585	59,380,882
Inventories	7	46,061,439	38,409,866
Current income tax prepayments		100,320	-
Other current assets	8	3,908,113	5,638,830
Assets classified as held for sale		866,062	1,272,306
Total current assets		113,126,384	112,058,421
Non-current assets			
Property, plant and equipment	9	184,281,767	178,003,944
Investment property		1,120,984	1,363,353
Other intangible assets		3,923,123	3,890,416
Investments in subsidiaries		7,556,020	7,556,542
Trade and other non-current receivables		2,434,606	2,434,588
Long-term financial assets		30,196,823	29,169,824
Deferred tax assets		9,160,042	9,776,709
Other non-current assets	10	6,355,832	6,247,455
Total non-current assets		245,029,197	238,442,831
Total assets		358,155,581	350,501,252
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current portion of long-term debt	11	33,172,912	28,054,370
Trade and other payables	12	42,571,011	54,507,915
Other current liabilities	13	3,787,252	2,964,691
Current income tax payable		3,006,875	2,626,080
Other taxes payable	14	8,641,064	8,418,130
Provisions for liabilities and charges		2,634,000	2,739,909
Total current liabilities		93,813,114	99,311,095
Non-current liabilities			
Long-term debt	15	63,818,617	60,626,546
Deferred tax liabilities		2,242,920	2,153,482
Provisions for liabilities and charges		11,611,230	11,527,436
Total non-current liabilities		77,672,767	74,307,464
Equity			
Share capital		81,530,200	81,530,200
Reserves		(60,682)	(59,885)
Retained earnings		105,200,182	95,412,378
Total equity		186,669,700	176,882,693
Total liabilities and shareholder's equity		358,155,581	350,501,252

Kirill Kravchenko
CEO

23 April 2014

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

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

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STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

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

		Three month period ended	
		31 March	
	Note	2014	2013
		<i>(unaudited)</i>	<i>(unaudited)</i>
Sales of petroleum products and oil and gas sales		53,521,437	47,418,782
Other revenues		1,158,643	1,180,405
Total revenue from sales	4	54,680,080	48,599,187
Purchases of oil, gas and petroleum products	16	(28,589,503)	(25,858,917)
Production and manufacturing expenses	17	(4,428,427)	(4,153,077)
Selling, general and administrative expenses	18	(4,438,819)	(4,591,810)
Transportation expenses		(231,453)	(257,718)
Depreciation, depletion and amortization		(2,580,726)	(2,188,424)
Taxes other than income tax		(1,251,699)	(1,433,851)
Exploration expenses		(32,084)	(34,965)
Total operating expenses		(41,552,711)	(38,518,762)
Other expenses, net		(53,819)	(87,806)
Operating profit		13,073,550	9,992,619
Net foreign exchange (loss) gain		(795,141)	46,237
Finance income		487,699	332,798
Finance expenses		(818,371)	(902,872)
Total other expense		(1,125,813)	(523,837)
Profit before income tax		11,947,737	9,468,782
Current income tax expense		(1,453,828)	(1,081,721)
Deferred income tax expense		(706,105)	(96,549)
Total income tax expense		(2,159,933)	(1,178,270)
Profit for the period		9,787,804	8,290,512
Other comprehensive loss:			
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		(797)	(1,040)
Other comprehensive loss for the period		(797)	(1,040)
Total comprehensive income for the period		9,787,007	8,289,472
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		60.02	50.84
Weighted average number of ordinary shares in issue (in millions)		163	163

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STATEMENT OF CHANGES IN EQUITY

Three month period ended 31 March 2014 and 2013

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

(unaudited)

	Share capital	Reserves	Retained earnings	Total
Balance as at 1 January 2013	81,530,200	814,908	54,658,053	137,003,161
Profit for the period	-	-	8,290,512	8,290,512
Other comprehensive loss				
Change in value of available-for-sale financial assets	-	(1,040)	-	(1,040)
Total comprehensive income (loss) for the period	-	(1,040)	8,290,512	8,289,472
Balance as at 31 March 2013	81,530,200	813,868	62,948,565	145,292,633
Balance as at 1 January 2014	81,530,200	(59,885)	95,412,378	176,882,693
Profit for the period	-	-	9,787,804	9,787,804
Other comprehensive loss				
Change in value of available-for-sale financial assets	-	(797)	-	(797)
Total comprehensive income (loss) for the period	-	(797)	9,787,804	9,787,007
Balance as at 31 March 2014	81,530,200	(60,682)	105,200,182	186,669,700

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STATEMENT OF CASH FLOWS

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

	Three month period ended	
	31 March	
	2014	2013
	<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows from operating activities		
Profit before income tax	11,947,737	9,468,782
Adjustments for:		
Finance costs	818,371	902,872
Finance income	(487,699)	(332,798)
Depreciation, depletion and amortization	2,580,726	2,188,424
Adjustments for other provisions	99,251	297,902
Allowance for doubtful accounts	710,207	73,192
Net unrealised foreign exchange losses (gain), net	719,697	(310,051)
Other non-cash items	107,856	571
	4,548,409	2,820,112
Changes in working capital:		
Trade and other receivables	4,222,456	1,406,751
Inventories	(7,651,573)	(4,503,794)
Other current assets	844,489	1,571,040
Trade payables and other current liabilities	(9,753,342)	933,123
Other taxes payable	217,735	(18,822)
	(12,120,235)	(611,702)
Income taxes paid	(1,170,774)	(1,177,706)
Interest paid	(635,323)	(856,093)
Interest received	176,860	179,661
	(1,629,237)	(1,854,138)
Net cash generated by operating activities	2,746,674	9,823,054
Cash flows from investing activities		
Loan issued	(2,153,001)	(4,048,014)
Loan proceeds received	1,699,285	134,462
Capital expenditures	(10,110,432)	(10,269,902)
Proceeds from sale of property, plant and equipment	90,335	77,258
Net cash used in investing activities	(10,473,813)	(14,106,196)
Cash flows from financing activities		
Proceeds from borrowings	10,378,676	5,722,848
Repayment of borrowings	(2,773,683)	(4,986,541)
Net cash generated by financing activities	7,604,993	736,307
Net decrease in cash and cash equivalents	(122,146)	(3,546,835)
Effect of foreign exchange on cash and cash equivalents	(57,661)	167,085
Cash and cash equivalents as of the beginning of the period	5,180,156	8,311,266
Cash and cash equivalents as of the end of the period	5,000,349	4,931,516

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

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

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") 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 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 three month period ended 31 March 2014 are not necessarily indicative of the results expected for the full year.

(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.

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

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.

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

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

4. SEGMENT INFORMATION

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

The 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 three month period ended 31 March 2014 are shown in the table below:

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	21,470,427	53,563,527	(20,353,874)	54,680,080
Intersegment	20,167,658	186,216	(20,353,874)	-
External	1,302,769	53,377,311	-	54,680,080
EBITDA (Segment results)	17,876,320	(2,068,379)	-	15,807,941
Depreciation, depletion and amortization	(696,887)	(1,883,839)	-	(2,580,726)
Impairment losses	(1,989)	(126,202)	-	(128,191)
Finance expenses, net	(67,493)	(263,177)	-	(330,670)
Income tax	(201,700)	(1,958,233)	-	(2,159,933)
Segment profit (loss)	16,872,045	(7,084,241)	-	9,787,804

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

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	21,783,030	48,560,932	(21,744,775)	48,599,187
Intersegment	21,705,004	39,771	(21,744,775)	-
External	78,026	48,521,161	-	48,599,187
EBITDA (Segment results)	19,256,497	(7,187,511)	-	12,068,986
Depreciation, depletion and amortization	(552,141)	(1,636,283)	-	(2,188,424)
Impairment losses	-	(356)	-	(356)
Finance expenses, net	(84,909)	(485,165)	-	(570,074)
Income tax	(3,641)	(1,174,629)	-	(1,178,270)
Segment profit (loss)	18,724,508	(10,433,996)	-	8,290,512

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

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

4. SEGMENT INFORMATION (continued)

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

	Three month period ended	
	31 March	
	2014	2013
Profit for the period	9,787,804	8,290,512
Income tax expenses	2,159,933	1,178,270
Finance expenses	818,371	902,872
Other finance income	(487,699)	(332,798)
Depreciation, depletion and amortization	2,580,726	2,188,424
Net foreign exchange loss/(profit)	795,141	(46,237)
Other expense, net	53,819	87,806
Other non-operating expense (income), net*	99,846	(199,863)
EBITDA	15,807,941	12,068,986

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

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

	Three month period ended 31 March 2014		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,248,245	1,248,245
Sale of gas	1,679,055	-	1,679,055
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,679,055	-	1,679,055
Sale of petroleum products	42,453,630	8,140,507	50,594,137
<i>Through a retail network</i>	12,186,227	-	12,186,227
<i>Wholesale activities</i>	30,267,403	8,140,507	38,407,910
Other sales	1,140,027	18,616	1,158,643
Total sales	45,272,712	9,407,368	54,680,080

	Three month period ended 31 March 2013		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	26,650	26,650
Sale of gas	1,707,913	-	1,707,913
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	1,707,913	-	1,707,913
Sale of petroleum products	38,678,001	7,006,218	45,684,219
<i>Through a retail network</i>	11,828,552	-	11,828,552
<i>Wholesale activities</i>	26,849,449	7,006,218	33,855,667
Other sales	1,178,474	1,931	1,180,405
Total sales	41,564,388	7,034,799	48,599,187

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

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

4. SEGMENT INFORMATION (continued)

Out of the amount of 50,594,137 RSD (2013: 45,684,219 RSD) revenue from sale of petroleum products (wholesale), the amount of 8,024,380 RSD (2013: 7,315,142 RSD) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

5. CASH AND CASH EQUIVALENTS

	31 March 2014	31 December 2013
Cash in bank and in hand	3,508,961	4,961,288
Deposits with original maturity of less than three months	1,265,873	-
Cash equivalents	225,515	218,868
	5,000,349	5,180,156

6. TRADE AND OTHER RECEIVABLES

	31 March 2014	31 December 2013
Trade receivables:		
- related parties	4,479,161	3,790,384
- third parties	70,424,182	74,223,194
	74,903,343	78,013,578
Accrued assets	17,850	1,362,235
Other receivables	9,886,873	9,823,260
	84,808,066	89,199,073
Less impairment provision	(29,650,481)	(29,818,191)
Total trade and other receivables	55,157,585	59,380,882

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

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

6. TRADE AND OTHER RECEIVABLES (continued)

The ageing of trade receivables is as follows:

	31 March 2014	31 December 2013
Up to 3 months	40,201,699	41,334,538
Over 3 months	34,701,644	36,679,040
	74,903,343	78,013,578

As at 31 March 2014 out of 34,701,644 RSD of overdue receivables (31 December 2013: 36,679,040 RSD), trade receivables in amount of 21,772,177 RSD (31 December 2013: 21,990,577 RSD) were fully provided for. The remaining amount of 12,929,467 RSD (31 December 2013: 14,688,463 RSD) relates to a number of independent customers for whom management believes that will be recovered in the near future.

The ageing of trade receivables provided for is as follows:

	31 March 2014	31 December 2013
Up to 3 months	1,005,878	1,002,942
Over 3 months	20,766,299	20,987,635
	21,772,177	21,990,577

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

	31 March 2014	31 December 2013
RSD	71,741,485	74,910,652
EUR	10,468,025	10,431,944
USD	2,598,534	3,856,453
Other	22	24
	84,808,066	89,199,073

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

	Trade receivables	Other receivables	Total
As at 1 January 2013	21,560,538	5,820,064	27,380,602
Provision for receivables impairment (note 18)	291,504	-	291,504
Unused amounts reversed (note 18)	(335,841)	-	(335,841)
Other	(149)	548,005	547,856
As at 31 March 2013	21,516,052	6,368,069	27,884,121
As at 1 January 2014	21,990,577	7,827,614	29,818,191
Provision for receivables impairment (note 18)	132,480	-	132,480
Unused amounts reversed (note 18)	(332,228)	-	(332,228)
Other	(18,652)	50,690	32,038
As at 31 March 2014	21,772,177	7,878,304	29,650,481

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.

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

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

7. INVENTORIES

	31 March 2014	31 December 2013
Crude oil	30,387,719	25,490,951
Gas	-	98,558
Petroleum products	15,299,114	12,780,938
Materials and supplies	6,047,474	5,582,457
Other	413,453	593,212
Less impairment provision	<u>(6,086,321)</u>	<u>(6,136,250)</u>
	<u>46,061,439</u>	<u>38,409,866</u>

8. OTHER CURRENT ASSETS

	31 March 2014	31 December 2013
Advances paid	407,637	700,072
VAT receivables	-	621,864
Deferred VAT	1,059,873	2,466,870
Prepaid expenses	62,214	114,807
Prepaid custom duties	62,554	52,378
Prepaid excise	1,511,101	1,431,422
Other current assets	19,602,498	18,198,978
Less impairment provision	<u>(18,797,764)</u>	<u>(17,947,561)</u>
	<u>3,908,113</u>	<u>5,638,830</u>

Deferred VAT as at 31 March 2014 amounting to 1.059.873 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 31 March 2014 amounting to 1.511.101 RSD (31 December 2013: 1.431.422 RSD) relates to the excise paid to the State for finished products stored in non-excise warehouse.

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

	Advances paid	Other current assets	Total
As at 1 January 2013	373,071	13,188,420	13,561,491
Provision for other current assets impairment (note 18)	-	173,064	173,064
Unused amounts reversed (note 18)	(449)	(55,099)	(55,548)
Other	-	(18,315)	(18,315)
As at 31 March 2013	<u>372,622</u>	<u>13,288,070</u>	<u>13,660,692</u>
As at 1 January 2014	248,347	17,699,214	17,947,561
Provision for other current assets impairment (note 18)	13	964,737	964,750
Unused amounts reversed (note 18)	(8,888)	(46,730)	(55,618)
Other	6	(58,935)	(58,929)
As at 31 March 2014	<u>239,478</u>	<u>18,558,286</u>	<u>18,797,764</u>

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

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

9. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2013						
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)
Net book value	28,117,179	73,008,754	14,032,550	9,469,510	21,681,414	146,309,407
Period ended 31 March 2013						
Additions	1,795,166	2,624,789	311,888	207,136	3,101,134	8,040,113
Impairment	-	-	-	-	(356)	(356)
Depreciation	(550,058)	(1,151,523)	(202,818)	(110,111)	-	(2,014,510)
Transfer to intangible assets	-	-	-	-	(23,614)	(23,614)
Disposals and write-off	(701,982)	(4,309)	(11,908)	(1,287)	(175,513)	(894,999)
Other transfers	1,276	184,546	8,277	(194,099)	-	-
	28,661,581	74,662,257	14,137,989	9,371,149	24,583,065	151,416,041
As at 31 March 2013						
Cost	43,115,889	99,324,820	27,319,238	16,534,630	28,897,611	215,192,188
Depreciation and impairment	(14,454,308)	(24,662,563)	(13,181,249)	(7,163,481)	(4,314,546)	(63,776,147)
Net book value	28,661,581	74,662,257	14,137,989	9,371,149	24,583,065	151,416,041
As at 1 January 2014						
Cost	51,949,129	108,204,314	29,704,322	16,939,009	39,760,624	246,557,398
Depreciation and impairment	(16,356,852)	(28,192,781)	(12,440,063)	(7,519,610)	(4,044,148)	(68,553,454)
Net book value	35,592,277	80,011,533	17,264,259	9,419,399	35,716,476	178,003,944
Period ended 31 March 2014						
Additions	3,711,841	193,193	822,740	78,151	4,224,414	9,030,339
Impairment	-	-	(29,907)	-	(2,431)	(32,338)
Depreciation	(692,821)	(1,295,073)	(281,372)	(121,610)	-	(2,390,876)
Transfer from investment property	35,121	1,316	36,481	7,399	-	80,317
Disposals and write-off	(129,158)	-	(47,134)	(21,271)	(125,275)	(322,838)
Other transfers	(44,373)	(236,340)	(13,643)	301,905	-	7,549
	38,472,887	78,674,629	17,751,424	9,663,973	39,718,854	184,281,767
As at 31 March 2014						
Cost	55,443,181	108,077,914	30,395,884	17,331,059	43,760,093	255,008,131
Depreciation and impairment	(16,970,294)	(29,403,285)	(12,644,460)	(7,667,086)	(4,041,239)	(70,726,364)
Net book value	38,472,887	78,674,629	17,751,424	9,663,973	39,718,854	184,281,767

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

9. PROPERTY, PLANT AND EQUIPMENT (continued)

Oil and gas production assets

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2013						
Cost	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)
Net book amount	5,304,044	4,793,524	10,097,568	28,117,179	2,036	38,216,783
Period ended 31 March 2013						
Additions	1,076,030	3,038,247	4,114,277	-	-	4,114,277
Transfer from asset under construction	-	(1,795,166)	(1,795,166)	1,795,166	-	-
Other transfers	-	(133)	(133)	1,276	(16)	1,127
Depreciation and depletion	-	-	-	(550,058)	-	(550,058)
Disposals and write-off	-	(2,759)	(2,759)	(701,982)	-	(704,741)
	6,380,074	6,033,713	12,413,787	28,661,581	2,020	41,077,388
As at 31 March 2013						
Cost	6,380,074	6,336,877	12,716,951	43,115,889	110,850	55,943,690
Depreciation and impairment	-	(303,164)	(303,164)	(14,454,308)	(108,830)	(14,866,302)
Net book amount	6,380,074	6,033,713	12,413,787	28,661,581	2,020	41,077,388
As at 1 January 2014						
Cost	10,248,631	11,674,429	21,923,060	51,949,129	22,241	73,894,430
Depreciation and impairment	-	(238,059)	(238,059)	(16,356,852)	(20,266)	(16,615,177)
Net book amount	10,248,631	11,436,370	21,685,001	35,592,277	1,975	57,279,253
Period ended 31 March 2014						
Additions	1,946,988	5,107,839	7,054,827	-	-	7,054,827
Transfer from asset under construction	(4,503)	(3,707,338)	(3,711,841)	3,711,841	-	-
Other transfers	-	31,742	31,742	(9,252)	(82)	22,408
Impairment	-	(1,989)	(1,989)	-	-	(1,989)
Depreciation and depletion	-	-	-	(692,821)	-	(692,821)
Disposals and write-off	(24,067)	(161,500)	(185,567)	(129,158)	-	(314,725)
	12,167,049	12,705,124	24,872,173	38,472,887	1,893	63,346,953
As at 31 March 2014						
Cost	12,167,049	12,945,172	25,112,221	55,443,181	22,159	80,577,561
Depreciation and impairment	-	(240,048)	(240,048)	(16,970,294)	(20,266)	(17,230,608)
Net book amount	12,167,049	12,705,124	24,872,173	38,472,887	1,893	63,346,953

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

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

10. OTHER NON-CURRENT ASSETS

	31 March 2014	31 December 2013
Advances paid for PPE	4,275,822	4,160,931
Prepaid expenses	1,027,902	1,033,330
Other assets	1,082,007	1,083,093
Less impairment provision	(29,899)	(29,899)
	6,355,832	6,247,455

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

	31 March 2014	31 December 2013
Short-term loans	2,146,301	300,000
Interest liabilities	200,228	136,403
Current portion of long-term loans (note 15)	30,813,077	27,596,333
Current portion of finance lease liabilities (note 15)	13,306	21,634
	33,172,912	28,054,370

12. TRADE AND OTHER PAYABLES

	31 March 2014	31 December 2013
Trade payables		
- related parties	30,133,489	38,997,863
- third parties	8,594,478	11,667,964
Dividends payable	3,772,308	3,772,308
Other accounts payable	70,736	69,780
	42,571,011	54,507,915

As at 31 March 2014 payables to related parties amounting to 30,133,489 RSD (31 December 2013: 38,997,863 RSD) mainly relate to payables to the supplier Gazprom Neft Trading, Austria in the amount of 19,373,027 RSD (31 December 2013: 28,139,826 RSD), mostly for the purchase of crude oil.

13. OTHER CURRENT LIABILITIES

	31 March 2014	31 December 2013
Advances received	860,224	864,997
Payables to employees	2,884,547	2,069,305
Accruals and deferred income	20,326	24,013
Other current non-financial liabilities	22,155	6,376
	3,787,252	2,964,691

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

14. OTHER TAXES PAYABLE

	31 March 2014	31 December 2013
Mineral extraction tax	589,910	522,953
VAT	1,712,304	461,212
Excise tax	3,815,427	4,294,766
Custom duties	637,162	1,623,065
Other taxes	1,886,261	1,516,134
	8,641,064	8,418,130

15. LONG-TERM DEBT

	31 March 2014	31 December 2013
Long-term loans - Gazprom Neft	49,642,169	50,655,813
Bank loans	44,988,315	37,565,857
Finance lease liabilities	13,306	21,634
Other long-term borrowings	1,210	1,209
Less Current portion	(30,826,383)	(27,617,967)
	63,818,617	60,626,546

Bank loans

	31 March 2014	31 December 2013
Domestic	12,072,460	12,048,569
Foreign	32,915,855	25,517,288
	44,988,315	37,565,857
Current portion of long-term loans	(25,446,356)	(22,264,141)
	19,541,959	15,301,716

The maturity of bank loans was as follows:

	31 March 2014	31 December 2013
Between 1 and 2 years	10,095,410	2,926,308
Between 2 and 5 years	4,048,331	6,871,962
Over 5 years	5,398,218	5,503,446
	19,541,959	15,301,716

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

15. LONG-TERM DEBT (continued)

Bank loans (continued)

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

	31 March 2014	31 December 2013
USD	35,725,541	28,343,857
EUR	8,617,975	8,579,494
RSD	280,690	280,783
JPY	364,109	361,723
	44,988,315	37,565,857

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 31 March 2014 and 31 December 2013 are presented in the table below:

Creditor	Currency	31 March 2014	31 December 2013
<i>Domestic long-term loans</i>			
Erste bank, Novi Sad	USD	276,062	279,719
Erste bank, Novi Sad	EUR	447,639	454,900
Bank Postanska stedionica, Belgrade	EUR	219,929	225,341
Bank Postanska stedionica, Belgrade	USD	1,493,909	1,526,400
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,488,872	4,459,990
UniCredit bank, Belgrade	USD	4,865,359	4,821,436
UniCredit bank, Belgrade	RSD	278,900	278,900
Other loans	RSD	1,790	1,883
		12,072,460	12,048,569
<i>Foreign long-term loans</i>			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	510,421	518,612
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	364,109	361,723
Erste bank, Holland	EUR	3,461,535	3,439,263
Erste bank, Holland	USD	5,452,558	5,403,333
VUB (Bank Intesa), Slovakia	USD	8,388,550	8,312,820
NBG bank, Great Britain	USD	4,194,275	2,493,846
Alpha bank, Great Britain	USD	6,350,132	3,325,128
Piraeus bank, Great Britain	USD	1,677,710	1,662,563
Sberbank Europe AG, Беч, Аустрија	USD	2,516,565	-
		32,915,855	25,517,288
Less current portion of long-term loans		(25,446,356)	(22,264,141)
		19,541,959	15,301,716

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

15. LONG-TERM DEBT (continued)

Bank loans (continued)

	Currency	Current portion		Long-term	
		31 March 2014	31 December 2013	31 March 2014	31 December 2013
Domestic long - term loans					
Erste bank, Novi Sad	USD	14,099	13,070	261,963	266,649
Erste bank, Novi Sad	EUR	22,604	20,972	425,035	433,928
Bank Postanska stedionica, Belgrade	EUR	11,105	12,148	208,824	213,193
Bank Postanska stedionica, Belgrade Government of Republic of Serbia, Agency for deposit assurance (IBRD)	USD	75,436	82,030	1,418,473	1,444,370
UniCredit bank, Belgrade	EUR	249,875	248,267	4,238,997	4,211,723
UniCredit bank, Belgrade	USD	4,865,359	4,821,436	-	-
UniCredit bank, Belgrade	RSD	278,900	278,900	-	-
Other loans	RSD	365	369	1,425	1,514
		5,517,743	5,477,192	6,554,717	6,571,377
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	32,300	30,197	478,121	488,415
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	18,386	16,978	345,723	344,745
Erste bank, Holland	EUR	3,461,535	3,439,263	-	-
Erste bank, Holland	USD	-	-	5,452,558	5,403,333
VUB (Bank Intesa), Slovakia	USD	8,388,550	8,312,820	-	-
NBG bank, Great Britain	USD	-	-	4,194,275	2,493,846
Alpha bank, Great Britain	USD	6,350,132	3,325,128	-	-
Piraeus bank, Great Britain	USD	1,677,710	1,662,563	-	-
Sberbank Europe AG, Беч, Аустрија	USD	-	-	2,516,565	-
		19,928,613	16,786,949	12,987,242	8,730,339
		25,446,356	22,264,141	19,541,959	15,301,716

16. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Three month period ended 31 March	
	2014	2013
Crude oil	24,726,406	22,826,540
Petroleum products	3,826,216	2,991,042
Other	36,881	41,335
	28,589,503	25,858,917

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

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17. PRODUCTION AND MANUFACTURING EXPENSES

	Three month period ended 31 March	
	2014	2013
Employee costs	910,976	972,823
Materials and supplies (other than purchased oil, petroleum products and gas)	154,993	153,359
Repair and maintenance services	725,522	616,035
Electricity and utilities	561,251	319,750
Other	2,075,685	2,091,110
	4,428,427	4,153,077

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three month period ended 31 March	
	2014	2013
Employee costs	2,269,611	2,652,754
Legal, audit, and consulting services	218,806	214,245
Rent expense	19,750	35,892
Business trips expense	48,125	78,899
Safety and security expense	84,619	152,230
Insurance expense	58,821	43,437
Transportation and storage	287,119	224,796
Allowance for doubtful accounts	709,384	73,179
Other	742,584	1,116,378
	4,438,819	4,591,810

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19. CONTINGENT LIABILITIES

Finance Guarantees

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

Environmental protection

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

The 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 31 March 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 31 March 2014 outflow of resources embodying economic benefits is remote due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

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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 three month period ended 31 March 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 31 March 2014 and 31 December 2013 the outstanding balances with related parties were as follows:

	<u>Subsidiaries</u>	<u>Parent company</u>	<u>Entities under common control</u>	<u>Total</u>
As at 31 March 2014				
Short-term financial assets	1,970,311	-	-	1,970,311
Trade and other receivables	4,469,800	-	9,361	4,479,161
Other current assets	10,513	-	7	10,520
Investments in subsidiaries	8,729,187	-	-	8,729,187
Long-term financial assets	32,407,160	-	-	32,407,160
Other non-current assets	159,524	-	-	159,524
Trade and other payables	(1,497,220)	(9,246,927)	(19,389,342)	(30,133,489)
Other current liabilities	(666)	-	(15,704)	(16,370)
Short-term debt and current portion of long-term debt	(24,366)	(5,366,721)	-	(5,391,087)
Long-term debt	-	(44,275,448)	-	(44,275,448)
	46,224,243	(58,889,096)	(19,395,678)	(32,060,531)
As at 31 December 2013				
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)
	45,109,624	(59,994,053)	(28,583,282)	(43,467,711)

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

20. RELATED PARTY TRANSACTIONS (continued)

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

	Subsidiaries	Parent company	Entities under common control	Total
Three month period ended 31 March 2014				
Petroleum products and oil and gas sales	2,422,084	-	718,136	3,140,220
Other revenues	127,262	-	-	127,262
Purchases of oil, gas and petroleum products	(1,025,573)	-	(25,682,902)	(26,708,475)
Production and manufacturing expenses	(761,371)	(1,849)	(4,907)	(768,127)
Selling, general and administrative expenses	(223,044)	(7,229)	-	(230,273)
Transportation expenses	(5,191)	-	-	(5,191)
Other expenses, net	(1,882)	(4,556)	3,909	(2,529)
Finance income	421,996	-	-	421,996
Finance expense	(3,382)	(299,073)	-	(302,455)
	950,899	(312,707)	(24,965,764)	(24,327,572)

	Subsidiaries	Parent company	Entities under common control	Total
Three month period ended 31 March 2013				
Petroleum products and oil and gas sales	232,571	-	-	232,571
Other revenues	171,281	-	40,463	211,744
Purchases of oil, gas and petroleum products	(272,973)	-	(20,563,269)	(20,836,242)
Production and manufacturing expenses	(654,229)	(923)	(25,202)	(680,354)
Selling, general and administrative expenses	(145,997)	(7,218)	-	(153,215)
Transportation expenses	(1,467)	-	-	(1,467)
Exploration expenses	(22,986)	-	-	(22,986)
Other expenses, net	(2,484)	(4,437)	(43,472)	(50,393)
Finance income	256,652	-	-	256,652
Finance expense	-	(308,064)	-	(308,064)
	(439,632)	(320,642)	(20,591,480)	(21,351,754)

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 31 March 2014.

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 three month period ended
31 March 2014**

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

22. 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 31 March 2014 were evaluated through 23 April 2014, the date these Interim Condensed Financial Statements were authorised for issue.

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

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

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