



**Naftna industrija Srbije A.D.**

**Interim Condensed Consolidated Financial  
Statements**

30 September 2013

**Naftna industrija Srbije A.D.**  
**Interim Condensed Consolidated Financial**  
**Statements**  
**30 September 2013**

**Contents**

Interim Condensed Consolidated Statement of Financial Position	3
Interim Condensed Consolidated Statement of Comprehensive Income	4
Interim Condensed Consolidated Statement of Changes in Equity	6
Interim Condensed Consolidated Statement of Cash Flows	7
Notes to the Interim Condensed Consolidated Financial Statements	8

**NIS Group**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

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

<b>Assets</b>	Notes	<b>30 September 2013</b>	<b>31 December 2012</b>
		<i>(unaudited)</i>	<i>(restated)</i>
<b>Current assets</b>			
Cash and cash equivalents	6	7,076,488	12,069,897
Short-term financial assets		14,765	3,707,912
Trade and other receivables	7	54,136,035	43,942,667
Inventories	8	35,728,231	43,894,302
Current income tax prepayments		37,033	13,862
Other current assets	9	6,122,338	7,524,946
Assets classified as held for sale		22,706	57,983
<b>Total current assets</b>		<b>103,137,596</b>	<b>111,211,569</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	186,521,557	159,921,565
Investment property		1,272,400	1,367,378
Goodwill and other intangible assets	11	6,852,127	5,614,959
Investments in joint venture	12	1,008,221	-
Trade and other non-current receivables		76,195	9,973
Long-term financial assets		216,483	198,127
Deferred tax assets		9,789,114	9,788,287
Other non-current assets		9,798,700	4,771,354
<b>Total non-current assets</b>		<b>215,534,797</b>	<b>181,671,643</b>
<b>Total assets</b>		<b>318,672,393</b>	<b>292,883,212</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	13	20,253,657	9,630,880
Trade and other payables	14	40,317,975	38,345,858
Other current liabilities	15	4,654,592	5,205,531
Current income tax payable		2,181,403	519,689
Other taxes payable		8,890,236	8,593,652
Provisions for liabilities and charges		2,710,464	2,428,078
<b>Total current liabilities</b>		<b>79,008,327</b>	<b>64,723,688</b>
<b>Non-current liabilities</b>			
Long-term debt	16	72,344,179	81,383,810
Deferred tax liabilities		2,629,820	2,422,241
Provisions for liabilities and charges		12,232,846	11,262,813
<b>Total non-current liabilities</b>		<b>87,206,845</b>	<b>95,068,864</b>
<b>Equity</b>			
Share capital	17	81,530,200	81,530,200
Reserves		(94,451)	794,352
Retained earnings		71,067,268	50,783,214
<b>Equity attributable to the Company's owners</b>		<b>152,503,017</b>	<b>133,107,766</b>
Non-controlling interest		(45,796)	(17,106)
<b>Total equity</b>		<b>152,457,221</b>	<b>133,090,660</b>
<b>Total liabilities and shareholder's equity</b>		<b>318,672,393</b>	<b>292,883,212</b>

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

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

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

	Notes	Nine month period ended 30 September	
		2013	2012
		<i>(unaudited)</i>	<i>(unaudited)</i>
Sales of petroleum products and oil and gas sales		181,358,805	159,311,284
Other revenues		3,603,962	2,953,469
<b>Total revenue from sales</b>	5	<b>184,962,767</b>	<b>162,264,753</b>
Purchases of oil, gas and petroleum products	18	(101,048,663)	(76,147,428)
Production and manufacturing expenses	19	(10,644,677)	(9,819,662)
Selling, general and administrative expenses	20	(18,936,242)	(22,993,806)
Transportation expenses		(805,000)	(477,310)
Depreciation, depletion and amortization		(8,038,736)	(4,972,497)
Taxes other than income tax		(4,870,314)	(5,433,855)
Exploration expenses		(737,803)	(884,164)
<b>Total operating expenses</b>		<b>(145,081,435)</b>	<b>(120,728,722)</b>
Other (expenses) income, net		(1,076,601)	392,716
<b>Operating profit</b>		<b>38,804,731</b>	<b>41,928,747</b>
Net foreign exchange gain (loss)		753,285	(8,569,344)
Other finance income		324,346	928,750
Other finance expenses		(2,648,688)	(1,532,304)
<b>Total finance expense</b>		<b>(1,571,057)</b>	<b>(9,172,898)</b>
<b>Profit before income tax</b>		<b>37,233,674</b>	<b>32,755,849</b>
Current income tax expense		(5,293,285)	(2,112,932)
Deferred income tax (expense) income		(206,751)	135,374
<b>Total income tax</b>		<b>(5,500,036)</b>	<b>(1,977,558)</b>
<b>Profit for the period</b>		<b>31,733,638</b>	<b>30,778,291</b>
<b>Other comprehensive loss</b>			
Currency translation differences		(21,844)	(14,835)
Gain (loss) on remeasuring financial asset available for sale		21,755	(35,296)
<b>Other comprehensive loss for the period</b>		<b>(89)</b>	<b>(50,131)</b>
<b>Total comprehensive income for the period</b>		<b>31,733,549</b>	<b>30,728,160</b>

*(continued)*

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

**NIS Group****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)***(All amounts are in 000 RSD, unless otherwise stated)*

Notes	Nine month period ended 30 September	
	2013	2012
	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Profit attributable to:</b>		
- Shareholders of Naftna Industrija Srbije	31,761,618	30,793,053
- Non-controlling interest	<u>(27,980)</u>	<u>(14,762)</u>
<b>Profit for the period</b>	31,733,638	30,778,291
<b>Total comprehensive income attributable to:</b>		
- Shareholders of Naftna Industrija Srbije	31,762,239	30,742,922
- Non-controlling interest	<u>(28,690)</u>	<u>(14,762)</u>
<b>Total comprehensive income for the period</b>	31,733,549	30,728,160
<b>Earnings per share attributable to shareholders of Naftna Industrija Srbije</b>		
- Basic earnings (RSD per share)	194.78	188.84
Weighted average number of ordinary shares in issue (in millions)	163	163

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

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

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

Nine month period ended 30 September 2013 and 2012

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

(unaudited)	Notes	Equity attributable to the Company's owners			Non-controlling interest	Total equity	
		Share capital	Reserves	Retained earnings			Total
<b>Balance as at 1 January 2012</b>		81,530,200	849,860	5,227,789	87,607,849	3,491	87,611,340
Profit (loss)		-	-	30,793,053	30,793,053	(14,762)	30,778,291
Other comprehensive loss for the period		-	(50,131)	-	(50,131)	-	(50,131)
<b>Total comprehensive income (loss) for the period</b>		-	(50,131)	30,793,053	30,742,922	(14,762)	30,728,160
Other		-	-	(1,783)	(1,783)	(1,144)	(2,927)
<b>Balance as at 30 September 2012</b>		<b>81,530,200</b>	<b>799,729</b>	<b>36,019,059</b>	<b>118,348,988</b>	<b>(12,415)</b>	<b>118,336,573</b>
<b>Balance as at 1 January 2013</b>		81,530,200	794,352	50,783,214	133,107,766	(17,106)	133,090,660
Profit (loss)		-	-	31,761,618	31,761,618	(27,980)	31,733,638
Other comprehensive income (loss) for the period		-	621	-	621	(710)	(89)
<b>Total comprehensive income (loss) for the period</b>		-	621	31,761,618	31,762,239	(28,690)	31,733,549
Dividend distribution	14	-	-	(12,364,129)	(12,364,129)	-	(12,364,129)
Other	2.20.	-	(889,424)	886,565	(2,859)	-	(2,859)
<b>Balance as at 30 September 2013</b>		<b>81,530,200</b>	<b>(94,451)</b>	<b>71,067,268</b>	<b>152,503,017</b>	<b>(45,796)</b>	<b>152,457,221</b>

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

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

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

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

		<b>Nine month period ended</b>	
		<b>30 September</b>	
	Notes	<b>2013</b>	<b>2012</b>
		<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Cash flows from operating activities</b>			
Profit before income tax		<b>37,233,674</b>	<b>32,755,849</b>
Adjustments for:			
Finance costs		2,648,688	1,532,304
Finance income		(324,346)	(928,750)
Depreciation, depletion and amortization	10,11	8,038,736	4,972,497
Adjustments for other provisions		1,419,545	815,101
Allowance for doubtful accounts	20	3,471,811	8,518,257
Payables write off		(160,162)	(440,525)
Net unrealised foreign exchange losses, net		89,735	9,254,378
Other non-cash items		908,412	817,255
		<b>16,092,419</b>	<b>24,540,517</b>
<b>Changes in working capital:</b>			
Trade and other receivables		(10,259,957)	(23,371,524)
Inventories		8,166,071	(629,883)
Other current assets		(2,727,572)	1,317,200
Trade payables and other current liabilities		6,111,484	(6,075,207)
Other taxes payable		325,487	2,883,839
<b>Cash from (used in) operations</b>		<b>1,615,513</b>	<b>(25,875,575)</b>
Income taxes paid		(3,708,348)	(2,573,649)
Interest paid		(2,291,924)	(2,623,419)
Interest received		658,736	1,489,632
		<b>(5,341,536)</b>	<b>(3,707,436)</b>
<b>Net cash generated by operating activities</b>		<b>49,600,070</b>	<b>27,713,355</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries or other business, net of cash acquired		(798,469)	(2,734,579)
Acquisition of equity accounted investments	12	(1,008,221)	-
Loan proceeds received		32,000	-
Capital expenditures		(42,862,653)	(29,470,406)
Proceeds from sale of property, plant and equipment		145,781	73,895
Other inflow		534,325	-
<b>Net cash used in investing activities</b>		<b>(43,957,237)</b>	<b>(32,131,090)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		21,696,382	4,023,561
Repayment of borrowings		(20,109,484)	(7,838,425)
Dividends paid	14	(12,364,129)	-
<b>Net cash used in financing activities</b>		<b>(10,777,231)</b>	<b>(3,814,864)</b>
<b>Net decrease in cash and cash equivalents</b>		(5,134,398)	(8,232,599)
Effect of foreign exchange on cash and cash equivalents		140,989	1,159,324
<b>Cash and cash equivalents as of the beginning of the period</b>		<b>12,069,897</b>	<b>25,832,354</b>
<b>Cash and cash equivalents as of the end of the period</b>		<b>7,076,488</b>	<b>18,759,079</b>

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

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

## **1. GENERAL INFORMATION**

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

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

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

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

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**

### **2.1. Basis of preparation**

These Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2013 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The Interim Condensed Consolidated Financial Statements do not include all disclosure and they should be interpreted in relation with the annual financial statements for the year ended 31 December 2012. These Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are not the statutory accounts of Group. The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by Serbian legislation. The accompanying Interim Condensed Consolidated Financial Statements were primarily derived from the Group's statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (IFRS).

These Interim Condensed Consolidated Financial Statements have been prepared on a historical cost basis, except certain financial assets and liabilities and investment properties measured at fair value.

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**

### **2.1. Basis of preparation (continued)**

The Interim Condensed Consolidated Financial Statements have been prepared based on the going concern principle, which assumes that the Group will continue to operate in the foreseeable future. In order to assess the reasonability of this assumption, management reviews forecasts of future cash inflows. Based on these reviews, management believes that the Group will be able to continue to operate as a going concern in the foreseeable future and, therefore, this principle should be applied in the preparation of these Interim Condensed Consolidated Financial Statements.

The preparation of Interim Condensed Consolidated Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Interim Condensed Consolidated Financial Statements are disclosed in note 3.

### **2.2. Comparative figures**

	<b>31 December 2012</b>	Marketing and distribution assets	<b>31 December 2012</b>
			<i>Adjusted</i>
Property, plant and equipment	160,416,687	(495,122)	159,921,565
Goodwill and other intangible assets	5,119,837	495,122	5,614,959
<b>Net assets</b>	<b>165,536,524</b>	<b>-</b>	<b>165,536,524</b>

As of 30 September 2013 Group was obtained all information about facts and circumstances that existed as of PS station acquisition date (PS Petroliv, XXL Oil and Eso Oil) which allowed to finalise provisional amounts previously recognised as business combination. Above has resulted in additional goodwill recognition in the Interim Condensed Consolidated Statement of Financial Position in amount of 495,122 RSD and decrease in value of PPE in the same amount.

### **2.3. Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors and the General Manager Advisory Board. The main indicator for assessing performance of operating segments is EBITDA, which is regularly reported to the chief operating decision-maker. The information on segment assets and liabilities are not regularly provided to the chief operating decision-maker.

### **2.4. Seasonality of Operations**

The Group as a whole is not subject to significant seasonal fluctuations.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**

### **2.5. Foreign currency translation**

#### *(a) Functional and presentation currency*

Items included in the Interim Condensed Consolidated Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Interim Condensed Consolidated Financial Statements are presented in RSD, which is the Company's functional and the Group's presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the end of the period exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Interim Condensed Consolidated Statement of Comprehensive Income, Profit or Loss.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and other monetary assets and liabilities are presented in the Interim Condensed Consolidated Statement of Comprehensive Income within "Net foreign exchange gain / (loss)".

#### *(c) Group's Companies*

The result and financial position of all group companies whose functional currency is different from the Group's presentation currency are calculated as follows:

- I. assets and liabilities are translated into the RSD using the exchange rate as at reporting date;
- II. income and expenses are translated at average exchange rates and all resulting foreign exchange differences are recognized in reserves as separate items in equity.

### **2.6. Principles of consolidation**

#### *(a) Subsidiaries*

Subsidiaries are all entities over which the Company has power to govern the financial and operating policies in order to make profit from their activity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date that control ceases.

Inter-group transactions, balances and unrealized gains on transactions between Group companies are eliminated during the preparation of Interim Condensed Consolidated Financial Statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### *(b) Investments in Associates and Joint Ventures (Equity Accounted Investees)*

Investments in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The Interim Condensed Consolidated Financial Statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.6. Principles of consolidation (continued)***(c) Non-controlling interests*

In Interim Condensed Consolidated Financial Statements, non-controlling interests in subsidiaries are presented separately from Group equity as non-controlling interests.

**2.7. Business combinations**

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group and recognised goodwill or a gain from a bargain purchase. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

**2.8. Goodwill and Other Intangible Assets**

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ('bargain purchase') is recognized in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, that the Group incurs in connection with a business combination are expensed as incurred.

**2.9. Cash and cash equivalents**

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognised based on the cost of acquisition which approximates fair value.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**

### **2.10. Non-derivative financial assets**

The Group has the following non-derivative financial assets: long-term loans and receivables and available for sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### *(a) Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables'.

Trade receivables are amounts due from customers for products and merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Alternatively, trade receivables are stated as long-term.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Interim Condensed Consolidated Statement of Comprehensive Income within 'Selling, general and administrative expenses' (note 20). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to 'Selling, general and administrative expenses' in the Interim Condensed Consolidated Statement of Comprehensive Income (note 20).

#### *(b) Available for sale financial assets*

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date, in which case they are classified as current assets.

Available for sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in Interim Condensed Consolidated Statement of Comprehensive Income as other finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss as other finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to profit and loss.

*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*

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.11. Non-Derivative Financial Liabilities**

The Group initially recognises financial liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

**2.12. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises cost of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Spare parts for equipment used in production are stated at cost. The impairment tests of inventories i.e. spare parts due to damage or obsolescence is performed once a year. Impairment losses are recognized as production and manufacturing expenses (note 19).

**2.13. Assets (or disposal groups) held for sale**

Assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through a continuing use. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the sales plan will be made or that the plan will be withdrawn.

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

**2.14. Intangible assets**

*(a) Licenses and rights*

Separately acquired licenses are presented at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortization is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

Licenses and rights include Oil and Gas exploration rights, which are amortized over the exploration period in accordance with the terms and conditions of the licence.

*(b) Computer software*

These include primarily the costs of implementation the (SAP) computer software program. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised over their estimated useful lives (not exceeding 8 years).

**2.15. Property, plant and equipment**

As of the date of establishment, the Group's property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other repairs and maintenance are charged to the Interim Condensed Consolidated Statement of Comprehensive Income during the financial period in which they are incurred.

Advances made on Property, plant and equipment and Construction in progress are accounted for within other non-current assets as a part of non-current non-financial accounts receivable.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.15. Property, plant and equipment (continued)**

Land and works of art are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Description	Useful lives
Refining assets	
Buildings	10 - 40
Machinery and equipment	10 - 25
Marketing and distribution assets	
Buildings	10 - 50
Machinery and equipment	5 - 15
Other Assets	5 - 10

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'Other income/expenses' in the Interim Condensed Consolidated Statement of Comprehensive Income.

**2.16. Oil and Gas properties****(a) Exploration and evaluation expenditure**

The Group follows the successful efforts method of accounting for its exploration and evaluation assets.

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution; and
- Costs of drilling and equipping exploratory wells.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.16. Oil and Gas properties (continued)***(a) Exploration and evaluation expenditure (continued)*

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling costs and dry and bottom hole contributions are temporarily capitalised under the successful effort method and treated as Oil and gas assets within Property, plant and equipment.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are temporarily considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, that may include drilling of further wells, are likely to be developed commercially; then the costs continue to be carried as Oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification.

*(b) Development costs of fixed and intangible assets*

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized within oil and gas assets according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortization are charged during development.

*(c) Oil and gas production assets*

Oil and gas production assets comprise exploration and evaluation tangible assets as well as development costs associated with the production of proved reserves.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.16. Oil and Gas properties (continued)***(d) Depreciation/amortization*

Oil and gas properties/intangible assets are depleted using the unit-of-production method. The unit-of production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

*(e) Impairment – exploration and evaluation assets*

Exploration property leasehold acquisition costs are assessed for impairment when there are indications of impairment. For the purpose of impairment testing, exploration property leasehold acquisition costs subject to impairment testing are grouped with existing cash-generating units (CGUs) of related production fields located in the same geographical region.

*(f) Impairment – proved oil and gas properties and intangible assets*

Proven oil and gas properties and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

**2.17. Capitalisation of Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. All other borrowing costs are expensed in the period in which they are incurred.

**2.18. Investment property**

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property principally comprises petrol stations, business facilities and apartments rented out to current and former Group employees for a period exceeding one year.

Investment property is carried at fair value, representing open market value based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the Interim Condensed Consolidated Statement of Comprehensive Income, Profit or Loss as part of other income/expense.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.19. Share capital**

The Company is registered as open joint stock company. Ordinary shares are classified as share capital.

**2.20. Reserves**

Reserves fully relate to the reserves established in the past in accordance with the previous Law on Enterprises. In accordance with this Law, the Company was required to allocate 5% of profits until the reserve equals the amount defined by Company's Act, and at least 10% of the share capital. In accordance with General Assembly Meeting Decision enacted on 18 June 2013 these reserves were credited to the retained earnings. Additionally, translation reserves are recorded in this line.

**2.21. Earnings per share**

The Group calculates and discloses the basic earnings per share. Basic earnings per share is calculated by dividing the net income that belongs to shareholders, the owners of ordinary shares of the Group, by the weighted average number of ordinary shares issued during the period.

**2.22. Provisions**

Provisions for environmental restoration, asset retirement obligation, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as financial expense and charged to Interim Condensed Consolidate Statement of Comprehensive Income.

**2.23. Current and deferred income tax**

The tax expense for the year comprises current and deferred tax. Tax is recognized in the Interim Condensed Consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognized directly in equity, in which case deferred tax liability is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in Serbia, where the Group operates and generates taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.23. Current and deferred income tax (continued)**

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Interim Condensed Consolidated Financial Statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**2.24. Employee benefits***(a) Pension obligations*

The Group operates a defined contribution pension plan. The Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

*(b) Employee benefits provided by Collective Labour Agreement*

The Group provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period.

*(c) Bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing based on an Individual performance assessment. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)****2.25. Dividend distribution**

Dividend distribution to the Group's shareholders is recognised as a liability in the period in which the dividends are approved by the Group's shareholders.

**2.26. Leases**

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's Interim Condensed Consolidated Statement of Financial Position. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

**2.27. Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of crude oil and gas, as well as petroleum products, materials, goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as describe below. The amount of the revenue is not considered to be reliably measurable until all contingences relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

**(a) Sales - wholesale**

The Group manufactures and sells oil, petrochemical products and liquefied natural gas in the wholesale market. Sales of goods are recognised when the Group has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of 90 days for state owned companies and 60 days for other companies, which is consistent with the market practice.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**

### **2.27. Revenue recognition (continued)**

#### *(b) Sales– retail*

The Group operates a chain of Petrol Stations. Sales of goods are recognised when the Group sells a product to the customer. Retail sales are usually in cash, fuel coupons or by credit card.

#### *(c) Sales of services*

The Group sells oil engineering services. These services are provided on a time and material basis or as a fixed price contract, with contract terms generally accepted in the industry.

Revenue from time and material contracts, typically from delivering engineering services, is recognised under the percentage of completion method. Revenue is generally recognized at the contractual rates. For time contracts, the stage of completion is measured on the basis of labour hours determined as a percentage of total hours to be delivered. For material contracts, the stage of completion is measured on the basis of, and direct expenses are incurred as, a percentage of the total expenses to be incurred.

Revenue from fixed-price contracts for delivering engineering services is also recognised under the percentage-of-completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

#### *(d) Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

#### *(e) Income from work performed by the Group and capitalized*

Income from work performed by the Group and capitalised relates to the capitalisation of costs of own products and services.

#### *(f) Dividend income*

Dividend income is recognised when the right to receive payment is established.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)**

### **2.28. Transportation expenses**

Transportation expenses recognised in profit and loss represent expenses incurred to transport crude oil and oil products through the pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

### **2.29. Maintenance and Repair**

Costs for maintenance and repair that do not represent significant improvements are expensed when incurred.

Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred.

## **3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS**

Preparing financial statements in accordance with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In addition to judgments involving estimations, Management also makes other judgments in the process of applying the Group's accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Interim Condensed Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

### **3.1. Estimation of Oil and Gas Reserves**

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Accounting measures such as depreciation, depletion and amortization charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

### **3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)**

#### **3.1. Estimation of Oil and Gas Reserves (continued)**

Oil and gas reserves have a direct impact on certain amounts reported in the Interim Condensed Consolidated Financial Statements, most notably depreciation, depletion and amortization as well as impairment expenses.

Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

#### **3.2. Useful Lives of Property, Plant and Equipment**

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located.

Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the year.

#### **3.3. Impairment of Non-Derivative Financial Assets**

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

### **3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)**

#### **3.4. Employee benefits**

The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to calculate the present value of estimated future cash outflows which are expected to be required to settle the employee benefits obligations. In determining the appropriate discount rate, the Group takes into consideration the interest rates of high-quality corporate bonds which are denominated in the currency in which pension liabilities will be settled and whose maturity dates approximate the maturity date of the related pension liability.

#### **3.5. Decommissioning Obligations**

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

#### **3.6. Contingencies**

Certain conditions may exist as of the reporting date are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

### **3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)**

#### **3.6. Contingencies (continued)**

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Interim Condensed Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 23).

#### **3.7. Financial crisis**

The Republic of Serbia displays certain characteristics of an emerging market. The tax, currency and customs legislation is subject to varying interpretations which contribute to the challenges faced by companies operating in Serbia.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Serbian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Republic of Serbia is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

##### *Impact on liquidity:*

The volume of wholesale financing has significantly reduced since September 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

##### *Impact on customers/ borrowers:*

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers (or borrowers) may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in their impairment assessments.

**NIS Group**  
**Notes to the Interim Condensed Consolidated Financial Statements**

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

## **4. FINANCIAL RISK MANAGEMENT**

### **4.1. Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance department within the Company's Function for Economics, Finance and Accounting (further "FEPA") under policies approved by the Board of Directors. The Company's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

In the normal course of its operations the Group has exposure to the following financial risks:

- a) market risk (including foreign exchange risk, interest rate risk and commodity price risk);
- b) credit risk; and
- c) liquidity risk.

#### *Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and EUR. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign exchange risk arising from future transactions and recognised assets and liabilities, responsible persons in the finance department within the FEPA negotiate the best possible exchange rates for the purchase of foreign currency to be contracted on a daily basis based on the exchange rate applicable on the day the purchase is made.

#### *Commodity Price risk*

The Group's primary activity expose it to the following commodity price risks: crude oil and oil derivatives price levels which affect the value of inventory; and refining margins which in turn affect the future cash flows of the business.

In the case of price risk, the level of exposure is determined by the amount of priced inventory carried at the end of the reporting period. In periods of sharp price decline, as the Group policy is to report its inventory at the lower of historic cost and net realisable value, the results are affected by the reduction in the carrying value of the inventory. The extent of the exposure relates directly to the level of stocks and the rate of price decrease.

#### **4. FINANCIAL RISK MANAGEMENT (continued)**

##### **4.1. Financial risk factors (continued)**

###### *Cash flow and fair value interest rate risk*

As at 30 September 2013 the Group had significant amounts of cash and cash equivalents. The cash was deposited only in banks with which the Group has passive business relationships i.e. loans and credit/documentary lines. Also, RSD and foreign currency fixed term deposits are short term (up to 60 days) and bear fixed interest rates. Based on the above information, the Group's revenues and cash flows are to a great extent independent of changes in market interest rates on fixed term deposits, although the interest rates that the Group can achieve in the market to a great extent depend on the level of basic interest rates at the time when cash has been deposited (Belibor / NBS key policy rate).

Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (EURIBOR or LIBOR) has a proportionate impact on the Group's results.

###### *Credit risk*

Credit risk is managed on the Group's level basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Banks are rated only in the case of collateralised receivables on various grounds, as well as based on the banks total exposure to the Group. For domestic banks, only the second criterion is applied. Sales to retail customers are settled in cash or using credit cards.

The Group has provided for receivables from customers who have exceeded their credit limits or are undergoing liquidity problems.

###### *Liquidity risk*

Cash flow forecasting is performed as aggregated at the Group's level. The FEPA monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the Group over and above balance required for working capital management are invested as surplus cash in time deposits.

**4. FINANCIAL RISK MANAGEMENT (continued)****4.2. Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio. Net debt to EBITDA is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, other finance income (expenses) net, other non-operating income (expenses).

The Group's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	<b>Nine month period ended 30 September</b>	
	<b>2013</b>	<b>2012</b>
Long-term debt	72,344,179	81,383,810
Short-term debt and current portion of long-term debt	20,253,657	9,630,880
Less: cash and cash equivalents	<u>(7,076,488)</u>	<u>(12,069,897)</u>
Net debt	85,521,348	78,944,793
EBITDA	<u>47,657,985</u>	<u>47,267,116</u>
<b>Net debt to EBITDA</b>	<b><u>1.79</u></b>	<b><u>1.67</u></b>

**4.3. Fair value estimation**

The fair value of financial instruments traded in an active market (such as available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the reporting date.

## NIS Group

### Notes to the Interim Condensed Consolidated Financial Statements

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

## 5. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for nine month period ended 30 September 2013 and 2012. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

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

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

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	67,815,567	180,934,850	(63,787,650)	184,962,767
Intersegment	63,652,547	135,103	(63,787,650)	-
External	<u>4,163,020</u>	<u>180,799,747</u>	-	<u>184,962,767</u>
EBITDA (Segment results)	58,534,397	(10,876,412)	-	47,657,985
Depreciation, depletion and amortization	(2,479,932)	(5,558,804)	-	(8,038,736)
Impairment losses	(108)	(11,690)	-	(11,798)
Other finance expenses, net	(234,673)	(2,089,669)	-	(2,324,342)
Income tax	(710,976)	(4,789,060)	-	(5,500,036)
Segment profit (loss)	<b>54,436,317</b>	<b>(22,702,679)</b>	-	<b>31,733,638</b>

Reportable segments results for the nine month period ended 30 September 2012 are shown in the table below:

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	73,848,255	155,100,776	(66,684,278)	162,264,753
Intersegment	66,463,418	220,860	(66,684,278)	-
External	<u>7,384,837</u>	<u>154,879,916</u>	-	<u>162,264,753</u>
EBITDA (Segment results)	65,099,208	(17,832,092)	-	47,267,116
Depreciation, depletion and amortization	(2,165,496)	(2,807,001)	-	(4,972,497)
Impairment losses	(19,627)	(119,370)	-	(138,997)
Other finance expenses, net	(240,786)	(362,768)	-	(603,554)
Income tax	(430,768)	(1,546,790)	-	(1,977,558)
Segment profit (loss)	<b>61,859,038</b>	<b>(31,080,747)</b>	-	<b>30,778,291</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 Group**  
**Notes to the Interim Condensed Consolidated Financial Statements**

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

**5. SEGMENT INFORMATION (continued)**

EBITDA for the nine month period ended 30 September 2013 and 2012 is reconciled below:

	<b>Nine month period ended</b>	
	<b>30 September</b>	
	<b>2013</b>	<b>2012</b>
Profit for the period	31,733,638	30,778,291
Income tax expenses	5,500,036	1,977,558
Other finance expenses	2,648,688	1,532,304
Other finance income	(324,346)	(928,750)
Depreciation, depletion and amortization	8,038,736	4,972,497
Net foreign exchange loss	(753,285)	8,569,344
Other expense (income), net	1,076,601	(392,716)
Other non-operating (income) expense, net*	(262,083)	758,588
<b>EBITDA</b>	<b>47,657,985</b>	<b>47,267,116</b>

\*Other non-operating expenses, net mainly relate to finance expenses on decommissioning provision, reversal of litigation provisions and other.

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

	<b>Nine month period ended 30 September 2013</b>		
	<b>Domestic market</b>	<b>Export and international sales</b>	<b>Total</b>
Sale of crude oil	-	3,548,453	3,548,453
Sale of gas	2,738,764	-	2,738,764
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	2,738,764	-	2,738,764
Sale of petroleum products	147,675,011	27,396,577	175,071,588
<i>Through a retail network</i>	46,549,522	-	46,549,522
<i>Wholesale activities</i>	101,125,489	27,396,577	128,522,066
Other sales	3,597,823	6,139	3,603,962
<b>Total Sales</b>	<b>154,011,598</b>	<b>30,951,169</b>	<b>184,962,767</b>

	<b>Nine month period ended 30 September 2012</b>		
	<b>Domestic market</b>	<b>Export and international sales</b>	<b>Total</b>
Sale of crude oil	-	2,914,185	2,914,185
Sale of gas	13,272,540	-	13,272,540
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	13,272,540	-	13,272,540
Sale of petroleum products	129,972,229	13,152,330	143,124,559
<i>Through a retail network</i>	41,327,316	-	41,327,316
<i>Wholesale activities</i>	88,644,913	13,152,330	101,797,243
Other sales	2,628,686	324,783	2,953,469
<b>Total Sales</b>	<b>145,873,455</b>	<b>16,391,298</b>	<b>162,264,753</b>

Revenues amounting to 25,374,764 RSD (2012: 6,674,057 RSD) are derived from a single domestic customer HIP Petrohemija (note 25). These revenues are attributable to wholesale activities within Downstream segment.

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

**NIS Group****Notes to the Interim Condensed Consolidated Financial Statements***(All amounts are in 000 RSD, unless otherwise stated)***6. CASH AND CASH EQUIVALENTS**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Cash in bank and in hand	5,268,967	8,232,783
Deposits with original maturity of less than three months	154,506	1,151,718
Cash held on escrow account	1,650,153	2,682,021
Cash equivalents	2,862	3,375
	<b>7,076,488</b>	<b>12,069,897</b>

**7. TRADE AND OTHER RECEIVABLES**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Trade receivables:		
- related parties	-	4,960
- third parties	72,091,277	61,046,135
	72,091,277	61,051,095
Accrued assets	1,264,526	2,272,765
Other receivables	9,820,029	7,799,629
	83,175,832	71,123,489
Less impairment provision	(29,039,797)	(27,180,822)
<b>Total trade and other receivables</b>	<b>54,136,035</b>	<b>43,942,667</b>

The ageing of trade receivables is as follows:

	<b>30 September 2013</b>	<b>31 December 2012</b>
Up to 3 months	38,317,758	30,118,327
Over 3 months	33,773,519	30,932,768
	<b>72,091,277</b>	<b>61,051,095</b>

Trade receivables as at 30 September 2013 amounting to 33,773,519 RSD that are more than 90 days overdue are considered as impaired, except for receivables of 12,639,164 RSD (31 December 2012: 9,622,375 RSD) from a number of independent customers for whom management believes that will make payments in the near futures or for whom there is no recent history of default.

**NIS Group****Notes to the Interim Condensed Consolidated Financial Statements***(All amounts are in 000 RSD, unless otherwise stated)***7. TRADE AND OTHER RECEIVABLES (continued)**

As at 30 September 2013 trade receivables of 21,214,757 RSD (31 December 2012: 21,360,758 RSD) were assessed as uncollectable and fully provided for. The ageing of receivables provided for is as follows:

	<b>30 September 2013</b>	<b>31 December 2012</b>
Up to 3 months	80,402	50,365
Over 3 months	21,134,355	21,310,393
	<b>21,214,757</b>	<b>21,360,758</b>

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

	<b>30 September 2013</b>	<b>31 December 2012</b>
RSD	70,712,847	59,944,899
EUR	10,060,054	7,890,832
USD	2,271,862	3,265,717
Other	131,069	22,041
	<b>83,175,832</b>	<b>71,123,489</b>

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

	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Total</b>
<b>As at 1 January 2012</b>	13,463,449	2,994,249	16,457,698
Provision for receivables impairment (note 20)	8,658,387	-	8,658,387
Unused amounts reversed (note 20)	(403,267)	(22,570)	(425,837)
Transfer from non-current to current part	-	1,591,471	1,591,471
Other	(186,872)	672,683	485,811
<b>As at 30 September 2012</b>	<b>21,531,697</b>	<b>5,235,833</b>	<b>26,767,530</b>
<b>As at 1 January 2013</b>	21,360,758	5,820,064	27,180,822
Provision for receivables impairment (note 20)	554,563	-	554,563
Unused amounts reversed (note 20)	(757,345)	-	(757,345)
Transfer from non-current to current part	-	1,591,471	1,591,471
Other	56,781	413,505	470,286
<b>As at 30 September 2013</b>	<b>21,214,757</b>	<b>7,825,040</b>	<b>29,039,797</b>

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

**NIS Group****Notes to the Interim Condensed Consolidated Financial Statements***(All amounts are in 000 RSD, unless otherwise stated)***8. INVENTORIES**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Crude oil	18,700,435	24,064,015
Gas	130,102	-
Petroleum products	15,647,112	17,490,538
Materials and supplies	7,824,114	7,989,640
Other	769,997	1,745,061
Less impairment provision	<u>(7,343,529)</u>	<u>(7,394,952)</u>
	<b><u>35,728,231</u></b>	<b><u>43,894,302</u></b>

**9. OTHER CURRENT ASSETS**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Advances paid	1,200,623	1,220,357
VAT receivables	1,164,992	819,129
Deferred VAT	1,607,239	3,925,769
Prepaid expenses	226,046	100,557
Prepaid custom duties	63,790	54,310
Prepaid excise	1,314,164	1,419,092
Other current assets	17,771,216	13,552,712
Less impairment provision	<u>(17,225,732)</u>	<u>(13,566,980)</u>
	<b><u>6,122,338</u></b>	<b><u>7,524,946</u></b>

Deferred VAT as at 30 September 2013 amounting to 1,607,239 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 September 2013 amounting to 1,314,164 RSD (31 December 2012: 1,419,092 RSD) relates to the excise paid to the state for finished products stored in non-excise warehouse.

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

	<b>Advances paid</b>	<b>Other current assets</b>	<b>Total</b>
<b>As at 1 January 2012</b>	379,688	12,183,500	12,563,188
Provision for other current assets impairment (note 20)	3,685	758,466	762,151
Unused amounts reversed (note 20)	(9,303)	(466,201)	(475,504)
Other	-	(81,554)	(81,554)
<b>As at 30 September 2012</b>	<b><u>374,070</u></b>	<b><u>12,394,211</u></b>	<b><u>12,768,281</u></b>
<b>As at 1 January 2013</b>	373,071	13,193,909	13,566,980
Provision for other current assets impairment (note 20)	12,460	3,778,140	3,790,600
Unused amounts reversed (note 20)	(2,492)	(116,050)	(118,542)
Other	-	(13,306)	(13,306)
<b>As at 30 September 2013</b>	<b><u>383,039</u></b>	<b><u>16,842,693</u></b>	<b><u>17,225,732</u></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 Group**  
**Notes to the Interim Condensed Consolidated Financial Statements**

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

**10. 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 2012</b>						
Cost	48,744,990	47,644,386	26,044,400	14,628,920	46,747,622	183,810,318
Depreciation and impairment	(18,552,532)	(23,301,793)	(12,787,656)	(5,737,007)	(2,982,674)	(63,361,662)
<b>Net book value</b>	<b>30,192,458</b>	<b>24,342,593</b>	<b>13,256,744</b>	<b>8,891,913</b>	<b>43,764,948</b>	<b>120,448,656</b>
<b>Period ended 30 September 2012</b>						
Additions	6,076,159	4,628,085	3,236,025	146,369	20,526,419	34,613,057
Acquisitions through business combinations	-	-	-	-	1,847,594	1,847,594
Impairment	(19,627)	(5,167)	(45,519)	(1,601)	(22,239)	(94,153)
Depreciation	(2,139,309)	(1,446,440)	(569,256)	(309,259)	(2,369)	(4,466,633)
Transfer to investment property	-	-	(45,731)	-	-	(45,731)
Transfer from assets classified as held for sale	-	-	-	-	162,926	162,926
Disposals and write-off	(105,204)	(1,416)	(1,449)	(3,108)	(659,371)	(770,548)
Other transfers	1,998,100	(1,246,271)	(327,896)	853,842	(1,306,010)	(28,235)
Translation differences	27,308	-	60,679	485	27,457	115,929
	<b>36,029,885</b>	<b>26,271,384</b>	<b>15,563,597</b>	<b>9,578,641</b>	<b>64,339,355</b>	<b>151,782,862</b>
<b>As at 30 September 2012</b>						
Cost	57,257,977	49,877,576	29,235,242	15,978,275	67,668,609	220,017,679
Depreciation and impairment	(21,228,092)	(23,606,192)	(13,671,645)	(6,399,634)	(3,329,254)	(68,234,817)
<b>Net book value</b>	<b>36,029,885</b>	<b>26,271,384</b>	<b>15,563,597</b>	<b>9,578,641</b>	<b>64,339,355</b>	<b>151,782,862</b>
<b>As at 1 January 2013</b>						
Cost	57,601,104	96,895,806	33,016,407	18,926,624	23,573,891	230,013,832
Depreciation and impairment	(20,474,513)	(23,887,053)	(13,125,313)	(8,285,523)	(4,319,865)	(70,092,267)
<b>Net book value</b>	<b>37,126,591</b>	<b>73,008,753</b>	<b>19,891,094</b>	<b>10,641,101</b>	<b>19,254,026</b>	<b>159,921,565</b>
<b>Period ended 30 September 2013</b>						
Additions	10,737,051	10,088,829	5,689,888	947,268	3,624,928	31,087,964
Acquisitions through business combinations	-	-	3,815,388	-	257,771	4,073,159
Impairment	-	-	(8,341)	-	(932)	(9,273)
Depreciation	(2,248,308)	(3,654,588)	(1,011,449)	(501,540)	(3,029)	(7,418,914)
Transfer to investment property	-	-	(1,195)	(2,455)	(4,810)	(8,460)
Disposals and write-off	(1,619)	(299)	(253,787)	(12,687)	(953,002)	(1,221,394)
Other transfers	(58,286)	(10,132)	6,686	5,847	(51,879)	(107,764)
Translation differences	16,712	-	182,325	(4,862)	10,499	204,674
	<b>45,572,141</b>	<b>79,432,563</b>	<b>28,310,609</b>	<b>11,072,672</b>	<b>22,133,572</b>	<b>186,521,557</b>
<b>As at 30 September 2013</b>						
Cost	62,102,041	106,418,740	42,200,499	19,068,671	26,442,079	256,232,030
Depreciation and impairment	(16,529,900)	(26,986,177)	(13,889,890)	(7,995,999)	(4,308,507)	(69,710,473)
<b>Net book value</b>	<b>45,572,141</b>	<b>79,432,563</b>	<b>28,310,609</b>	<b>11,072,672</b>	<b>22,133,572</b>	<b>186,521,557</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

**10. PROPERTY, PLANT AND EQUIPMENT (continued)**

In the nine month period ended 30 September 2013, in accordance with revised IAS 23 'Borrowing Costs', the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to 68,895 RSD (2012: 1,487,222 RSD).

*Oil and gas production assets*

Oil and gas production assets comprise aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves.

**NIS Group**  
**Notes to the Interim Condensed Consolidated Financial Statements**

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

**10. PROPERTY, PLANT AND EQUIPMENT (continued)**

*Oil and gas production assets (continued)*

	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 2012</b>						
Cost	2,320,886	3,455,790	5,776,676	48,208,255	129,810	54,114,741
Depreciation and impairment	(731)	(299,997)	(300,728)	(18,287,618)	(114,755)	(18,703,101)
<b>Net book amount</b>	<b>2,320,155</b>	<b>3,155,793</b>	<b>5,475,948</b>	<b>29,920,637</b>	<b>15,055</b>	<b>35,411,640</b>
<b>Period ended 30 September 2012</b>						
Additions	2,419,761	4,887,082	7,306,843	252	-	7,307,095
Transfer to assets other than O&G	-	(24,353)	(24,353)	-	-	(24,353)
Transfer from asset under construction	19,275	(4,731,533)	(4,712,258)	4,712,258	-	-
Other transfers	222,177	519,141	741,318	372,208	(296)	1,113,230
Impairment	-	-	-	(19,627)	-	(19,627)
Depreciation and depletion	(2,369)	-	(2,369)	(2,139,175)	(270)	(2,141,814)
Disposals and write-off	(714,755)	(19,094)	(733,849)	-	-	(733,849)
Translation differences	34,308	-	34,308	240	-	34,548
	<b>4,298,552</b>	<b>3,787,036</b>	<b>8,085,588</b>	<b>32,846,793</b>	<b>14,489</b>	<b>40,946,870</b>
<b>As at 30 September 2012</b>						
Cost	4,308,469	4,084,548	8,393,017	53,831,801	125,031	62,349,849
Depreciation and impairment	(9,917)	(297,512)	(307,429)	(20,985,008)	(110,542)	(21,402,979)
<b>Net book amount</b>	<b>4,298,552</b>	<b>3,787,036</b>	<b>8,085,588</b>	<b>32,846,793</b>	<b>14,489</b>	<b>40,946,870</b>
<b>As at 1 January 2013</b>						
Cost	6,354,587	5,315,398	11,669,985	53,371,094	123,953	65,165,032
Depreciation and impairment	(3,973)	(304,214)	(308,187)	(20,461,490)	(110,641)	(20,880,318)
<b>Net book amount</b>	<b>6,350,614</b>	<b>5,011,184</b>	<b>11,361,798</b>	<b>32,909,604</b>	<b>13,312</b>	<b>44,284,714</b>
<b>Period ended 30 September 2013</b>						
Additions	5,367,659	11,222,678	16,590,337	-	-	16,590,337
Transfer to assets other than O&G	671	(6,162)	(5,491)	(699,233)	-	(704,724)
Transfer from asset under construction	(50,904)	(8,534,940)	(8,585,844)	8,585,826	18	-
Other transfers	(3)	(17,466)	(17,469)	5,548	(46)	(11,967)
Depreciation and depletion	(2,362)	-	(2,362)	(2,247,735)	-	(2,250,097)
Disposals and write-off	(704,773)	(10,230)	(715,003)	-	-	(715,003)
Translation differences	26,539	-	26,539	19	-	26,558
	<b>10,987,441</b>	<b>7,665,064</b>	<b>18,652,505</b>	<b>38,554,029</b>	<b>13,284</b>	<b>57,219,818</b>
<b>As at 30 September 2013</b>						
Cost	10,994,417	7,968,228	18,962,645	55,075,809	122,115	74,160,569
Depreciation and impairment	(6,976)	(303,164)	(310,140)	(16,521,780)	(108,831)	(16,940,751)
<b>Net book amount</b>	<b>10,987,441</b>	<b>7,665,064</b>	<b>18,652,505</b>	<b>38,554,029</b>	<b>13,284</b>	<b>57,219,818</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 Group**  
**Notes to the Interim Condensed Consolidated Financial Statements**

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

**11. GOODWILL AND OTHER INTANGIBLE ASSETS**

	Goodwill	Licenses, other than related to O&G activity	Software	IA under development	Other IA	Total
<b>As at 1 January 2012</b>						
Cost	440,874	661,396	4,693,975	413,952	67,769	6,277,966
Amortization and impairment	-	(173,380)	(1,183,366)	(142,279)	(50,019)	(1,549,044)
<b>Net book value</b>	<b>440,874</b>	<b>488,016</b>	<b>3,510,609</b>	<b>271,673</b>	<b>17,750</b>	<b>4,728,922</b>
<b>Period ended 30 September 2012</b>						
Additions	-	46,206	78,898	209,226	-	334,330
Acquisitions through business combinations	835,721	-	-	-	-	835,721
Impairment	-	-	-	(43,867)	-	(43,867)
Amortization	-	(59,836)	(441,530)	-	(4,498)	(505,864)
Disposals	-	-	-	(187)	-	(187)
Other transfers	-	(4,410)	(877)	(27,339)	2,346	(30,280)
Translation differences	34,131	(3)	-	-	19	34,147
	<b>1,310,726</b>	<b>469,973</b>	<b>3,147,100</b>	<b>409,506</b>	<b>15,617</b>	<b>5,352,922</b>
<b>As at 30 September 2012</b>						
Cost	1,310,726	707,600	4,754,443	638,244	86,237	7,497,250
Amortization and impairment	-	(237,627)	(1,607,343)	(228,738)	(70,620)	(2,144,328)
<b>Net book value</b>	<b>1,310,726</b>	<b>469,973</b>	<b>3,147,100</b>	<b>409,506</b>	<b>15,617</b>	<b>5,352,922</b>
<b>As at 1 January 2013</b>						
Cost	1,464,062	829,812	4,856,080	429,983	334,398	7,914,335
Amortization and impairment	-	(261,788)	(1,779,197)	(206,029)	(52,362)	(2,299,376)
<b>Net book value</b>	<b>1,464,062</b>	<b>568,024</b>	<b>3,076,883</b>	<b>223,954</b>	<b>282,036</b>	<b>5,614,959</b>
<b>Period ended 30 September 2013</b>						
Additions	-	32,629	211,582	151,877	137,305	533,393
Acquisitions through business combinations	1,216,080	1,667	17,485	-	-	1,235,232
Amortization	-	(80,502)	(423,106)	-	(116,214)	(619,822)
Transfer from PPE	-	-	1,772	79,436	-	81,208
Disposals	-	-	-	(1,257)	-	(1,257)
Other transfers	-	(64,439)	7,503	3	47,490	(9,443)
Translation differences	17,815	27	336	-	(321)	17,857
	<b>2,697,957</b>	<b>457,406</b>	<b>2,892,455</b>	<b>454,013</b>	<b>350,296</b>	<b>6,852,127</b>
<b>As at 30 September 2013</b>						
Cost	2,697,957	798,062	5,040,383	660,042	472,119	9,668,563
Amortization and impairment	-	(340,656)	(2,147,928)	(206,029)	(121,823)	(2,816,436)
<b>Net book value</b>	<b>2,697,957</b>	<b>457,406</b>	<b>2,892,455</b>	<b>454,013</b>	<b>350,296</b>	<b>6,852,127</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 Group

### Notes to the Interim Condensed Consolidated Financial Statements

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

#### 11. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Goodwill acquired through business combinations has been allocated to Downstream (as at 30 September 2013: 2,697,957 RSD and 31 December 2012: 1,464,062 RSD) related CGUs.

#### 12. INVESTMENTS IN JOINT VENTURE

In 2013 the Group has acquired 50% of interest in a joint venture, Energowind doo which is intended to be used as a vehicle for operation of future wind farm "Plandiste" with installation of 34 wind generator with total capacity of 102 MW. The control over Energowind is divided equally between Group and Wind Power Company Delaware, USA and Original Solution Corporation. On the date of the issuance of these Interim Condensed Consolidated Financial Statements there were no business activities. The carrying value of the investments as of 30 September 2013 is 1,008,221 RSD. They are included in the Interim Condensed Consolidated Statement of Financial Position.

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

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

	<b>30 September 2013</b>	<b>31 December 2012</b>
Short-term loans	-	3,500,000
Interest liabilities	160,355	271,522
Other Short-term financial liabilities	257	525
Current portion of long-term loans (note 16)	20,062,165	5,822,689
Current portion of finance lease liabilities (note 16)	30,880	36,144
	<b>20,253,657</b>	<b>9,630,880</b>

#### 14. TRADE AND OTHER PAYABLES

	<b>30 September 2013</b>	<b>31 December 2012</b>
Trade payables		
- related parties	25,791,257	25,475,054
- third parties	10,683,525	9,026,497
Dividends payable	3,772,308	3,772,308
Other accounts payable	70,885	71,999
	<b>40,317,975</b>	<b>38,345,858</b>

As at 30 September 2013 payables to related parties amounting to 25,791,257 RSD (31 December 2012: 25,475,054 RSD) mainly relate to liabilities to the supplier Gazprom Neft Trading, Austria in the amount of 15,960,330 RSD (31 December 2012: 25,464,826 RSD), mostly for the purchase of crude oil.

A dividend in respect of the year ended 31 December 2012 of 75.83 RSD per share, amounting to a total dividend of 12,364,129 RSD is approved by the General Assembly Meeting and settled during August 2013.

**NIS Group****Notes to the Interim Condensed Consolidated Financial Statements***(All amounts are in 000 RSD, unless otherwise stated)***15. OTHER CURRENT LIABILITIES**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Advances received	1,013,827	962,634
Payables to employees	3,591,282	4,190,851
Accruals and deferred income	23,572	40,450
Other current non-financial liabilities	25,911	11,596
	<b>4,654,592</b>	<b>5,205,531</b>

**16. LONG-TERM DEBT**

	<b>30 September 2013</b>	<b>31 December 2012</b>
Long-term loans - Gazprom Neft	51,971,763	55,536,845
Bank loans	40,403,103	31,634,169
Finance lease liabilities	30,880	57,626
Other long-term borrowings	31,478	14,003
Less Current portion	(20,093,045)	(5,858,833)
	<b>72,344,179</b>	<b>81,383,810</b>

*(a) Long-term loans - Gazprom Neft*

As at 30 September 2013 long-term loans - Gazprom Neft amounting to 51,971,763 RSD (453,488,378 EUR), with current portion of 5,330,437 RSD, relate to borrowings from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares concluded on 24 December 2008. Under this agreement, Gazprom Neft shall grant loans for financing a 500 million EUR reconstruction and modernization of the technology complex programme which is finalized during 2012. The stated liabilities shall be settled in quarterly installments starting from December 2012 until 15 May 2023.

*(b) Bank loans*

	<b>30 September 2013</b>	<b>31 December 2012</b>
Domestic	12,311,376	14,627,940
Foreign	28,091,727	17,006,229
	40,403,103	31,634,169
Current portion of long-term loans	(14,731,728)	(533,466)
	<b>25,671,375</b>	<b>31,100,703</b>

The maturity of bank loans was as follows:

	<b>30 September 2013</b>	<b>31 December 2012</b>
Between 1 and 2 years	12,599,851	22,184,094
Between 2 and 5 years	7,178,320	2,405,694
Over 5 years	5,893,204	6,510,915
	<b>25,671,375</b>	<b>31,100,703</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 Group**  
**Notes to the Interim Condensed Consolidated Financial Statements**

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

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

(b) *Bank loans (continued)*

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

	<b>30 September 2013</b>	<b>31 December 2012</b>
USD	30,642,972	19,607,409
EUR	9,083,086	9,269,068
RSD	280,872	2,281,108
JPY	396,173	476,584
	<b>40,403,103</b>	<b>31,634,169</b>

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

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

The carrying amounts of the Group's bank loans as at 30 September 2013 and 31 December 2012 are presented in the table below:

<b>Creditor</b>	<b>Currency</b>	<b>30 September 2013</b>	<b>31 December 2012</b>
<b><i>Domestic long-term loans</i></b>			
Erste bank, Novi Sad	USD	285,814	301,856
Erste bank, Novi Sad	EUR	454,750	469,403
Bank Postanska stedionica, Belgrade	EUR	225,267	236,111
Bank Postanska stedionica, Belgrade	USD	1,558,675	1,670,920
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,582,616	4,670,317
Vojvodjanska bank, Novi Sad	RSD	-	1,000,000
UniCredit bank, Belgrade	USD	4,923,382	4,998,225
UniCredit bank, Belgrade	RSD	278,900	1,278,900
Other loans	RSD	1,972	2,208
		<b>12,311,376</b>	<b>14,627,940</b>
<b><i>Foreign long-term loans</i></b>			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	531,478	565,419
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	396,173	476,584
Erste bank, Holland	EUR	3,438,132	3,411,549
Erste bank, Holland	USD	5,517,584	-
VUB (Bank Intesa), Slovakia	USD	8,488,590	8,617,630
NBG bank, Great Britain	USD	4,244,295	6,307
NBG bank, Great Britain	EUR	-	102,324
Alpha bank, Great Britain	USD	3,395,436	1,723,526
Piraeus bank, Great Britain	USD	1,697,718	1,723,526
Neftegazovaja Inovacionnaja Korporacija, Russian Federation	EUR	382,321	379,364
		<b>28,091,727</b>	<b>17,006,229</b>
		<b>(14,731,728)</b>	<b>(533,466)</b>
		<b>25,671,375</b>	<b>31,100,703</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 Group****Notes to the Interim Condensed Consolidated Financial Statements***(All amounts are in 000 RSD, unless otherwise stated)***16. LONG-TERM DEBT (continued)***(b) Bank loans (continued)*

	Currency	Current portion		Long-term	
		30 September 2013	31 December 2012	30 September 2013	31 December 2012
<b>Domestic long - term loans</b>					
Erste bank, Novi Sad	USD	13,346	11,881	272,468	289,975
Erste bank, Novi Sad	EUR	20,965	18,169	433,785	451,234
Bank Postanska stedionica, Belgrade	EUR	12,144	12,586	213,123	223,525
Bank Postanska stedionica, Belgrade	USD	83,765	88,550	1,474,910	1,582,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	248,186	246,267	4,334,430	4,424,050
Vojvodjanska bank, Novi Sad	RSD	-	-	-	1,000,000
UniCredit bank, Belgrade	USD	679,087	-	4,244,295	4,998,225
UniCredit bank, Belgrade	RSD	-	-	278,900	1,278,900
Other loans	RSD	364	390	1,608	1,818
		<u>1,057,857</u>	<u>377,843</u>	<u>11,253,519</u>	<u>14,250,097</u>
<b>Foreign long-term loans</b>					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	30,836	27,790	500,642	537,629
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	18,595	19,202	377,578	457,382
Erste bank, Holland	EUR	3,438,132	-	-	3,411,549
Erste bank, Holland	USD	-	-	5,517,584	-
VUB (Bank Intesa), Slovakia	USD	8,488,590	-	-	8,617,630
NBG bank, Great Britain	USD	-	6,307	4,244,295	-
NBG bank, Great Britain	EUR	-	102,324	-	-
Alpha bank, Great Britain	USD	-	-	3,395,436	1,723,526
Piraeus bank, Great Britain	USD	1,697,718	-	-	1,723,526
Neftegazovaja Inovacionnaja Korporacija, Russian Federation	EUR	-	-	382,321	379,364
		<u>13,673,871</u>	<u>155,623</u>	<u>14,417,856</u>	<u>16,850,606</u>
		<u><b>14,731,728</b></u>	<u><b>533,466</b></u>	<u><b>25,671,375</b></u>	<u><b>31,100,703</b></u>

**17. SHARE CAPITAL**

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

Share capital as of 30 September 2013 and 31 December 2012 comprise of 163,060,400 shares.

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

	Nine month period ended 30 September	
	2013	2012
Crude oil	86,958,898	51,158,719
Petroleum products	13,583,076	24,988,709
Other	506,689	-
	<u><b>101,048,663</b></u>	<u><b>76,147,428</b></u>

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

**NIS Group****Notes to the Interim Condensed Consolidated Financial Statements***(All amounts are in 000 RSD, unless otherwise stated)***19. PRODUCTION AND MANUFACTURING EXPENSES**

	Nine month period ended 30 September	
	2013	2012
Employee costs	5,825,105	5,774,661
Materials and supplies (other than purchased oil, petroleum products and gas)	1,204,996	791,259
Repair and maintenance services	1,244,102	1,046,561
Electricity and utilities	1,163,944	684,556
Safety and security expense	113,016	112,493
Transportation expense	467,387	297,553
Other	626,127	1,112,579
	<b>10,644,677</b>	<b>9,819,662</b>

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

	Nine month period ended 30 September	
	2013	2012
Employee costs	11,380,629	10,302,541
Charitable contributions	160,816	128,622
Legal, audit, and consulting services	1,015,933	587,716
Rent expense	273,965	184,005
Business trips expense	331,460	361,554
Safety and security expense	298,038	303,005
Insurance expense	196,458	138,372
Transportation and storage	331,880	517,209
Allowance for doubtful accounts	3,469,276	8,519,197
Other	1,477,787	1,951,585
	<b>18,936,242</b>	<b>22,993,806</b>

**21. PERSONNEL COSTS**

	Nine month period ended 30 September	
	2013	2012
Wages and salaries	12,574,062	12,956,443
Employee benefits	728,988	1,251,162
Other costs	3,902,684	1,869,597
Total employee costs	17,205,734	16,077,202
Social security contributions (social taxes)	1,950,220	2,073,623
	<b>19,155,954</b>	<b>18,150,825</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 Group**  
**Notes to the Interim Condensed Consolidated Financial Statements**

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

**22. BUSINESS COMBINATIONS**

*Acquisition of petrol stations*

In 2013, as a part of regional expansion the Group has acquired 3 petrol stations (PS), one in Bulgaria and two in Romania. As a result of the acquisitions, the Group is expected to further increase its presence in these markets.

Name of acquiree	Date of acquisition	Percentage of equity interests acquired
<i>Bulgaria</i>		
PS Lovech	07/03/2013	100%
<i>Romania</i>		
PS Arad	26/04/2013	100%
PS Ovidiu SA	30/07/2013	100%

The following table summarises the consideration paid for acquired PS in the nine month period ended 30 September 2013, the fair value of assets acquired and liabilities assumed.

	Nine month period ended 30 September 2013		
	Bulgaria	Romania	Total
<b>Purchase consideration:</b>			
Cash paid	122,626	189,810	312,436
Additional consideration	2,839	-	2,839
<b>Total purchase consideration</b>	<b>125,465</b>	<b>189,810</b>	<b>315,275</b>
Fair value of net identifiable assets acquired (see below)	115,153	91,362	206,515
<b>Goodwill</b>	<b>10,312</b>	<b>98,448</b>	<b>108,760</b>
<i>Amounts recognized as at acquisition date for each major class of assets acquired and liabilities assumed</i>			
Property, plant and equipment	115,153	91,362	206,515
<b>Net identifiable assets acquired</b>	<b>115,153</b>	<b>91,362</b>	<b>206,515</b>

The acquisition agreements include only acquisition of properties of PS and do not contain any contingent consideration.

The following table summarises the consideration paid for acquired PS in the nine month period ended 30 September 2012, the fair value of assets acquired and liabilities assumed:

	Nine month period ended 30 September 2012			
	Bulgaria	Romania	BIH	Total
<b>Purchase consideration:</b>				
Cash paid	1,293,095	1,008,286	338,607	2,639,988
Additional consideration	33,864	-	958	34,822
<b>Total purchase consideration</b>	<b>1,326,959</b>	<b>1,008,286</b>	<b>339,565</b>	<b>2,674,810</b>
Fair value of net identifiable assets acquired (see below)	982,160	517,362	348,456	1,847,978
<b>Goodwill</b>	<b>344,799</b>	<b>490,924</b>	-	<b>835,723</b>
<b>Gain on bargain purchase</b>	-	-	<b>(8,891)</b>	<b>(8,891)</b>
<i>Amounts recognized as at acquisition date for each major class of assets acquired and liabilities assumed</i>				
Inventory	-	384	-	384
Property, plant and equipment	982,160	516,978	348,456	1,847,594
<b>Net identifiable assets acquired</b>	<b>982,160</b>	<b>517,362</b>	<b>348,456</b>	<b>1,847,978</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 Group**  
**Notes to the Interim Condensed Consolidated Financial Statements**

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

**22. BUSINESS COMBINATIONS (continued)**

*Acquisition of OMV BH*

On 28 February 2013, the Group acquired 100% of the share capital and obtain control of OMV BH for 3,623,811 RSD, which operates thru chain of 28 PS in Bosnia and Hercegovina. As a result of the acquisition, the Group is expected to increase it's presence in this market.

The following table summarises the consideration paid for OMV BH, the fair value of assets acquired and liabilities assumed at the acquisition date.

	<u>As at the acquisition date (28 February 2013)</u>
<b>Assets</b>	
Current assets	1,048,327
Property, plant and equipment	3,866,644
Intangible assets other than goodwill	19,152
Other non-current assets	66,912
<b>Total assets acquired</b>	<b>5,001,035</b>
<b>Liabilities</b>	
Current liabilities	(238,370)
Non-current liabilities	(2,246,274)
<b>Total liabilities assumed</b>	<b>(2,484,644)</b>
<b>Total identifiable net assets</b>	<b>2,516,391</b>
Consideration paid	3,623,811
Goodwill	1,107,320

The fair value of assets was recognised based on provisional amounts on acquisition date in accordance with IFRS 3.

**23. CONTINGENT LIABILITIES***Finance Guarantees*

As at 30 September 2013 the total amount of outstanding guarantees given by the Group amounted to 3,135,869 RSD mostly related to customs duties in the amount of 1,600,000 RSD (31 December 2012: 2,403,960 RSD).

*Other contingent liabilities*

As at 30 September 2013, 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 including interest of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Group's Management believes that, based on the concession agreements signed with Angola and an the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit Oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Group's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed three years ago. Taking all of the above into consideration, the Group's Management is of the view that as at 30 September 2013 outflow of resources embodying economic benefits is remote due to high level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil.

**NIS Group**  
**Notes to the Interim Condensed Consolidated Financial Statements**

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

**24. GROUP ENTITIES**

The financial statements of below listed subsidiaries are consolidated as at 30 September 2013 and 31 December 2012:

Subsidiary	Country of incorporation	Share %	
		30 September 2013	31 December 2012
O Zone a.d., Belgrade	Serbia	100	100
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	100	100
NIS Petrol SRL, Bucharest	Romania	100	100
Pannon naftagas Kft, Budapest	Hungary	100	100
NIS Oversiz, Moscow	Russia	100	100
Naftagas-naftni servisi d.o.o., Novi Sad	Serbia	100	100
NTC NIS-Naftagas d.o.o., Novi Sad	Serbia	100	100
Naftagas-tehnicki servisi d.o.o., Zrenjanin	Serbia	100	100
Naftagas-Transport d.o.o., Novi Sad	Serbia	100	100
G Petrol d.o.o. Sarajevo (ex. OMV BH)	Bosnia and Herzegovina	100	-
Jadran - Naftagas d.o.o., Banja Luka	Bosnia and Herzegovina	66	66
Ranis, Moscow region	Russia	51	51
Jubos, Bor	Serbia	51	51
Svetlost, Bujanovac, Serbia	Serbia	51	51

**25. RELATED PARTY TRANSACTIONS**

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

In the nine month period ended 30 September 2013 and in the same period in 2012, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, geophysical research and interpretation services.

**NIS Group****Notes to the Interim Condensed Consolidated Financial Statements***(All amounts are in 000 RSD, unless otherwise stated)***25. RELATED PARTY TRANSACTIONS (continued)**

As at 30 September 2013 and 31 December 2012 the outstanding balances with related parties were as follows:

	<b>Joint venture</b>	<b>Parent</b>	<b>Entities under common control</b>	<b>Total</b>
<b>As at 30 September 2013</b>				
Investments in joint venture	1,008,221	-	-	1,008,221
Other current assets	-	-	23	23
Trade and other payables	-	(9,660,642)	(16,130,615)	(25,791,257)
Other current liabilities	-	-	(4,336)	(4,336)
Short-term debt and current portion of long-term debt	-	(5,330,437)	-	(5,330,437)
Long-term debt	-	(46,641,326)	-	(46,641,326)
	<b>1,008,221</b>	<b>(61,632,405)</b>	<b>(16,134,928)</b>	<b>(76,759,112)</b>
<b>As at 31 December 2012</b>				
Trade and other receivables	-	-	4,960	4,960
Other current assets	-	-	20	20
Trade and other payables	-	-	(25,475,054)	(25,475,054)
Short-term debt and current portion of long-term debt	-	(5,404,426)	-	(5,404,426)
Long-term debt	-	(50,247,622)	-	(50,247,622)
	-	<b>(55,652,048)</b>	<b>(25,470,074)</b>	<b>(81,122,122)</b>

For the nine month period ended 30 September 2013 and 2012 the following transaction occurred with related parties:

	<b>Joint venture</b>	<b>Parent</b>	<b>Entities under common control</b>	<b>Total</b>
<b>Nine month period ended 30 September 2013</b>				
Petroleum products and oil and gas sales	-	-	85,602	85,602
Purchases of oil, gas and petroleum products	-	-	(77,668,797)	(77,668,797)
Production and manufacturing expenses	-	(3,879)	(14,741)	(18,620)
Selling, general and administrative expenses	-	(28,909)	-	(28,909)
Other expenses, net	-	(4,437)	(92,329)	(96,766)
Other finance expense	-	(921,464)	-	(921,464)
	-	<b>(958,689)</b>	<b>(77,690,265)</b>	<b>(78,648,954)</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 Group**  
**Notes to the Interim Condensed Consolidated Financial Statements**

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

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

	Joint venture	Parent	Entities under common control	Total
<b>Nine month period ended 30 September 2012</b>				
Petroleum products and oil and gas sales	-	-	82,273	82,273
Purchases of oil, gas and petroleum products	-	-	(43,523,410)	(43,523,410)
Production and manufacturing expenses	-	(3,148)	(10,300)	(13,448)
Selling, general and administrative expenses	-	(36,312)	-	(36,312)
Other expenses, net	-	(4,664)	(45,309)	(49,973)
Other finance expense	-	(97,373)	-	(97,373)
	-	<b>(141,497)</b>	<b>(43,496,746)</b>	<b>(43,638,243)</b>

*Main balances and transactions with state owned companies:*

	<b>30 September 2013</b>	<b>31 December 2012</b>
<i>Receivables</i>		
HIP Petrohemija	11,727,290	7,307,595
Srbijagas	26,266,621	23,573,467
	<u>37,993,911</u>	<u>30,881,062</u>
<i>Liabilities</i>		
HIP Petrohemija	(1,204,320)	(561,438)
Srbijagas	(113,124)	(554,138)
	<u>(1,317,444)</u>	<u>(1,115,576)</u>
<i>Advances received</i>		
HIP Petrohemija	(6,772)	(7,743)
Srbijagas	(12,798)	(12,806)
	<u>(19,570)</u>	<u>(20,549)</u>
<b>Nine month period ended 30 September</b>		
	<b>2013</b>	<b>2012</b>
<i>Income from sales of goods</i>		
HIP Petrohemija	25,374,764	6,674,057
Srbijagas	1,606,076	12,217,907
	<u>26,980,840</u>	<u>18,891,964</u>
<i>Cost of purchased raw materials and services</i>		
HIP Petrohemija	(30,317)	(113,494)
Srbijagas	(924,646)	(151,999)
	<u>(954,963)</u>	<u>(265,493)</u>

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

**NIS Group**  
**Notes to the Interim Condensed Consolidated Financial Statements**

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

## **26. TAX RISKS**

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Group has paid all tax liabilities as of 30 September 2013.

## **27. COMMITMENTS**

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

In October 2011, the Group entered into a Farm-out agreement with East West Petroleum Corporation, Canada for exploration and production of hydrocarbons in the Timisoara region in Romania. Under the Contract, the Group shall finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, the Group will be entitled to 85% of the total production volume of hydrocarbons. Moreover, under the Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Group will act as the Operator and will be in charge of and shall conduct all Joint Operations. In December 2012 exploration licence for Block 2 was ratified by Romania Government. Exploration activities are underway. On 30 September 2013 drilling and exploration works for Block 2 were estimated to 15.5 USD million.

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

In December 2011, the Group entered into a Farm-in agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kiskunhalas area in Hungary. Under the contract, the Group committed to finance 50% of total exploration costs on at least three oil wells in the area covered by the exploration license. Depending on success of the exploration, the Group will be entitled to 50% of total production volume of hydrocarbons. Under the Joint Operation Agreement signed with RAG Hungary Limited, RAG will act as the Operator and will be in charge of and shall conduct all Joint Operations. On 30 September 2013 drilling and exploration works were estimated to 1.9 USD million.

### *Call Option agreement with RAG Hungary limited*

In December 2012, the Group entered into a Call Option agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kelebia area in Hungary. Under the agreement NIS has an option to become equal owner in a jointly owned company (JOC) together with Rag Hungary, Rag Kiha, which will hold the Kelebia Licence by becoming a 50 % quota holder in the JOC. On 30 September 2013 drilling and exploration works were estimated to 1.4 USD million.

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

In August 2012, the Group has entered into Farm-out agreement with Zeta Petroleum S.R.L. Romania for exploration and production of hydrocarbons in Timis region in Romania. According to the Contract, the Group is committed to finance 51% of total exploration costs in the area covered by the exploration license. Depending on the success of exploration, the Group will be entitled to 51% of total production volume of hydrocarbons. Exploration activities are underway. On 30 September 2013 drilling and exploration works were estimated to 1.3 USD million.

**27. COMMITMENTS (continued)***Farm-out agreement with Moesia Oil and Gas PLC Ireland*

In June 2012, the Group has entered into a Farm-out agreement with Moesia Oil and Gas PLC Ireland for exploration and production of hydrocarbons in Romania. According to the Contract, the Group is committed to finance sunk costs and 75% of total exploration costs of Phase 1 of the Programme. Depending on the success of exploration, the Group will be entitled to 50% of total production volume of hydrocarbons and committed to finance 50% of further exploration and production costs. Exploration activities were started in November 2012. On 30 September 2013 drilling and exploration works were estimated to 0.7 USD million.

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

In January 2013, the Group entered into a Multi-well drilling exploration program with Falcon Oil & Gas Ltd. to target the shallower Algyö Formation in Hungary. Under the contract, the Group committed to drill three exploration wells targeting the shallow 'Algyö Play' reservoir covered by the Mako trough production license in the Pannonian Basin held by Falcon Oil & Gas limited, Hungary. Depending on success of the exploration, the Group will be entitled to 50% of any net production revenue from the three wells. On 30 September 2013 drilling and exploration works were estimated to 15.3 USD million.

**28. EVENTS AFTER THE REPORTING DATE**

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

Subsequent events occurring after 30 September 2013 were evaluated through 25 October 2013, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

**Novi Sad, 25 October 2013.**

**The person responsible for  
the preparation of Financial  
Statements**

**M.P.**

**Legal representative**

---