



Naftna industrija Srbije A.D.

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

30 September 2014

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

Assets	Note	30 September 2014	31 December 2013
		<i>(unaudited)</i>	
Current assets			
Cash and cash equivalents	5	14,178,512	8,707,775
Short-term financial assets		6,371	68,358
Trade and other receivables	6	55,312,077	56,117,886
Inventories	7	37,811,718	40,659,980
Current income tax prepayments		769,220	38,865
Other current assets	8	10,603,280	7,365,761
Total current assets		118,681,178	112,958,625
Non-current assets			
Property, plant and equipment	9	223,785,824	204,932,521
Investment property		1,377,700	1,414,364
Goodwill and other intangible assets		7,325,874	6,678,646
Investments in joint venture		1,008,221	1,008,221
Trade and other non-current receivables		75,834	76,219
Long-term financial assets		233,024	217,081
Deferred tax assets		8,181,112	9,776,756
Other non-current assets	10	5,893,583	8,567,539
Total non-current assets		247,881,172	232,671,347
Total assets		366,562,350	345,629,972
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current portion of long-term debt	11	26,689,793	28,054,845
Trade and other payables	12	47,599,700	55,276,015
Other current liabilities	13	3,903,474	3,559,331
Current income tax payable		-	2,630,312
Other taxes payable	14	6,953,931	8,701,055
Provisions for liabilities and charges		2,386,348	2,789,910
Total current liabilities		87,533,246	101,011,468
Non-current liabilities			
Long-term debt	15	86,904,733	61,133,878
Deferred tax liabilities		2,581,797	2,337,281
Provisions for liabilities and charges		12,822,141	12,194,243
Total non-current liabilities		102,308,671	75,665,402
Equity			
Share capital		81,530,200	81,530,200
Reserves		(365,012)	(98,174)
Retained earnings		95,696,828	87,564,495
Equity attributable to the Company's owners		176,862,016	168,996,521
Non-controlling interest		(141,583)	(43,419)
Total equity		176,720,433	168,953,102
Total liabilities and shareholder's equity		366,562,350	345,629,972

Kirill Kravchenko
CEO

22 October 2014

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

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

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

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

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

	Note	Nine month period ended 30 September	
		2014	2013
		<i>(unaudited)</i>	<i>(unaudited)</i>
Sales of petroleum products and oil and gas sales		187,838,453	181,358,805
Other revenues		6,021,479	3,603,962
Total revenue from sales	4	193,859,932	184,962,767
Purchases of oil, gas and petroleum products	16	(109,592,420)	(101,048,663)
Production and manufacturing expenses	17	(13,630,262)	(10,644,677)
Selling, general and administrative expenses	18	(16,422,403)	(18,936,242)
Transportation expenses		(797,381)	(805,000)
Depreciation, depletion and amortization		(9,437,834)	(8,038,736)
Taxes other than income tax		(4,428,659)	(4,870,314)
Exploration expenses		(992,773)	(737,803)
Total operating expenses		(155,301,732)	(145,081,435)
Other expenses, net		(985,884)	(1,076,601)
Operating profit		37,572,316	38,804,731
Net foreign exchange loss		(8,295,100)	753,285
Finance income		214,444	324,346
Finance expenses		(2,864,559)	(2,648,688)
Total other expense		(10,945,215)	(1,571,057)
Profit before income tax		26,627,101	37,233,674
Current income tax expense		(3,671,931)	(5,293,285)
Deferred income tax expense		(1,837,220)	(206,751)
Total income tax expense		(5,509,151)	(5,500,036)
Profit for the period		21,117,950	31,733,638
Other comprehensive loss:			
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		14,579	21,755
Currency translation differences		(284,431)	(21,844)
		(269,852)	(89)
Other comprehensive (loss) profit for the period		(269,852)	(89)
Total comprehensive income for the period		20,848,098	31,733,549

(continued)

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

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

	Note	Nine month period ended	
		30 September	
		2014	2013
		<i>(unaudited)</i>	<i>(unaudited)</i>
Profit attributable to:			
- Shareholders of Naftna Industrija Srbije		21,225,763	31,761,618
- Non-controlling interest		(107,813)	(27,980)
Profit for the period		21,117,950	31,733,638
Total comprehensive income attributable to:			
- Shareholders of Naftna Industrija Srbije		20,958,990	31,762,239
- Non-controlling interest		(110,892)	(28,690)
Total comprehensive income for the period		20,848,098	31,733,549
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		130.17	194.78
Weighted average number of ordinary shares in issue (in millions)		163	163

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NIS Group

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Nine month period ended 30 September 2014 and 2013

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

(unaudited)	Note	Equity attributable to the Company's owners			Non-controlling interest	Total equity	
		Share capital	Reserves	Retained earnings			Total
Balance as at 1 January 2013		81,530,200	794,352	50,783,215	133,107,767	(17,106)	133,090,661
Profit / (loss) for the period		-	-	31,761,618	31,761,618	(27,980)	31,733,638
Other comprehensive income / (loss)							
Change in value of available-for-sale financial assets		-	21,755	-	21,755	-	21,755
Currency translation differences		-	(21,134)	-	(21,134)	(710)	(21,844)
Total comprehensive income (loss) for the period		-	621	31,761,618	31,762,239	(28,690)	31,733,549
Dividend distribution		-	-	(12,364,129)	(12,364,129)	-	(12,364,129)
Total transaction with owners, recorded in equity		-	-	(12,364,129)	(12,364,129)	-	(12,364,129)
Other		-	(889,424)	886,564	(2,860)	-	(2,860)
Balance as at 30 September 2013		81,530,200	(94,451)	71,067,268	152,503,017	(45,796)	152,457,221
Balance as at 1 January 2014		81,530,200	(98,174)	87,564,495	168,996,521	(43,419)	168,953,102
Profit / (loss) for the period		-	-	21,225,763	21,225,763	(107,813)	21,117,950
Other comprehensive income / (loss)							
Change in value of available-for-sale financial assets		-	14,579	-	14,579	-	14,579
Currency translation differences		-	(281,352)	-	(281,352)	(3,079)	(284,431)
Total comprehensive income (loss) for the period		-	(266,773)	21,225,763	20,958,990	(110,892)	20,848,098
Dividend distribution	12	-	-	(13,080,705)	(13,080,705)	-	(13,080,705)
Total transaction with owners, recorded in equity		-	-	(13,080,705)	(13,080,705)	-	(13,080,705)
Other		-	(65)	(12,725)	(12,790)	12,728	(62)
Balance as at 30 September 2014		81,530,200	(365,012)	95,696,828	176,862,016	(141,583)	176,720,433

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NIS Group
CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Nine month period ended 30 September	
	2014	2013
	<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows from operating activities		
Profit before income tax	26,627,101	37,233,674
Adjustments for:		
Finance costs	2,864,559	2,648,688
Finance income	(214,444)	(324,346)
Depreciation, depletion and amortization	9,437,834	8,038,736
Adjustments for other provisions	494,308	1,419,545
Allowance for doubtful accounts	2,562,974	3,471,811
Payables write off	(15,095)	(160,162)
Net unrealised foreign exchange losses, net	6,597,777	89,735
Other non-cash items	891,806	908,412
	22,619,719	16,092,419
Changes in working capital:		
Trade and other receivables	804,206	(10,259,957)
Inventories	2,848,262	8,166,071
Other current assets	(6,170,783)	(2,727,572)
Trade payables and other current liabilities	(16,834,235)	6,111,484
Other taxes payable	(1,737,954)	325,487
Cash (used in) from operations	(21,090,504)	1,615,513
Income taxes paid	(7,031,209)	(3,708,348)
Interest paid	(2,270,244)	(2,291,924)
Interest received	434,265	658,736
	(8,867,188)	(5,341,536)
Net cash generated by operating activities	19,289,128	49,600,070
Cash flows from investing activities		
Acquisition of subsidiaries or other business, net of cash acquired	(952,777)	(798,469)
Acquisition of equity accounted investments	-	(1,008,221)
Loan proceeds received	-	32,000
Capital expenditures	(30,414,995)	(42,862,653)
Proceeds from sale of property, plant and equipment	179,649	145,781
Other (outflow) inflow	(1,485)	534,325
Net cash used in investing activities	(31,189,608)	(43,957,237)
Cash flows from financing activities		
Proceeds from borrowings	33,851,022	21,696,382
Repayment of borrowings	(16,834,394)	(20,109,484)
Dividends paid	-	(12,364,129)
Net cash generated by (used in) financing activities	17,016,628	(10,777,231)
Net decrease in cash and cash equivalents	5,116,148	(5,134,398)
Effect of foreign exchange on cash and cash equivalents	354,589	140,989
Cash and cash equivalents as of the beginning of the period	8,707,775	12,069,897
Cash and cash equivalents as of the end of the period	14,178,512	7,076,488

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NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014

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

1. GENERAL INFORMATION

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in significant accounting policies

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

Application of new IFRS

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

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

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

3. NEW ACCOUNTING STANDARDS

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

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010, November 2013 and July 2014 to address the classification and measurement of financial liabilities. Key features of the standard:

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

3. NEW ACCOUNTING STANDARDS (continued)

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

The mandatory effective date of IFRS 9 is January 1, 2018. IFRS 9 (2014) supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013), but these standards remain available for application if the relevant date of initial application is before February 1, 2015. The Group does not plan to adopt the standard before the mandatory effective date and is currently assessing the impact of the new standard on its Consolidated Financial Statements.

Amendments to **IFRS 11 – Joint Arrangements** (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Amendments to **IAS 16 – Property, Plant and Equipment** and **IAS 38 Intangible Assets** (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on clarification of acceptable methods of depreciation and amortization. In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its Consolidated Financial Statements.

3. NEW ACCOUNTING STANDARDS (continued)

IFRS 15 – Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after January 1, 2017). The new standard introduces the core principle that revenue must be recognized when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its Consolidated Financial Statements.

The amendments to IAS 19 – Employee Benefits (issued in November 2013 and effective for annual periods beginning on or after July 1, 2014) on contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service. The amendment has no significant impact on Group's Interim Condensed Consolidated Financial Statements.

4. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the nine month period ended 30 September 2014 and 2013. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

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

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

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

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

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

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

	<u>Upstream</u>	<u>Downstream</u>	<u>Eliminations</u>	<u>Total</u>
Segment revenue	63,510,022	191,675,625	(61,325,715)	193,859,932
Intersegment	60,416,223	909,492	(61,325,715)	-
External	3,093,799	190,766,133	-	193,859,932
EBITDA (Segment results)	51,504,503	(4,191,738)	-	47,312,765
Depreciation, depletion and amortization	(3,007,622)	(6,430,212)	-	(9,437,834)
Impairment losses	8	56,512	-	56,520
Net foreign exchange loss	(91,554)	(8,203,546)	-	(8,295,100)
Finance expenses, net	(231,103)	(2,419,012)	-	(2,650,115)
Income tax	(484,651)	(5,024,500)	-	(5,509,151)
Segment profit (loss)	47,374,186	(26,256,236)	-	21,117,950

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	4,163,020	180,799,747	-	184,962,767
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)
Net foreign exchange gain(loss)	(59,139)	812,424	-	753,285
Finance expenses, net	(234,673)	(2,089,669)	-	(2,324,342)
Income tax	(710,976)	(4,789,060)	-	(5,500,036)
Segment profit (loss)	54,436,317	(22,702,679)	-	31,733,638

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

EBITDA for the nine month period ended 30 September 2014 and 2013 is reconciled below:

	Nine month period ended 30 September	
	2014	2013
Profit for the period	21,117,950	31,733,638
Income tax expenses	5,509,151	5,500,036
Finance expenses	2,864,559	2,648,688
Finance income	(214,444)	(324,346)
Depreciation, depletion and amortization	9,437,834	8,038,736
Net foreign exchange loss	8,295,100	(753,285)
Other expense, net	985,884	1,076,601
Other non-operating expense (income), net*	(683,269)	(262,083)
EBITDA	47,312,765	47,657,985

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

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

	Nine month period ended 30 September 2014		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	2,584,262	2,584,262
Sale of gas	3,026,403	-	3,026,403
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	3,026,403	-	3,026,403
Sale of petroleum products	145,749,113	36,478,677	182,227,790
<i>Through a retail network</i>	45,172,122	-	45,172,122
<i>Wholesale activities</i>	100,576,989	36,478,677	137,055,666
Other sales	5,926,361	95,118	6,021,479
Total sales	154,701,875	39,158,057	193,859,932
	Nine month period ended 30 September 2013		
	Domestic market	Export and international sales	Total
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
Total sales	154,011,598	30,951,169	184,962,767

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

Out of the amount of 137,055,666 RSD (2013: 128,522,066 RSD) revenue from sale of petroleum products (wholesale), the amount of 20,187,745 RSD (2013: 25,374,764 RSD) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 154,701,875 RSD (nine month period ended 30 September 2013: 154,011,598 RSD), and the total of revenue from external customer from other countries is 39,158,057 RSD (nine month period ended 30 September 2013: 30,951,169 RSD). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Nine month period ended 30 September	
	2014	2013
Sale of crude oil	2,584,262	3,548,453
Sale of petroleum products (retail and wholesale)		
Bulgaria	5,247,049	1,861,177
BIH	5,798,904	4,567,156
Romania	2,121,843	1,066,113
All other markets	<u>23,310,881</u>	<u>19,902,131</u>
	36,478,677	27,396,577
Other sales	<u>95,118</u>	<u>6,139</u>
	<u>39,158,057</u>	<u>30,951,169</u>

5. CASH AND CASH EQUIVALENTS

	30 September 2014	31 December 2013
Cash in bank and in hand	11,912,182	6,068,422
Deposits with original maturity of less than three months	375,326	769,607
Cash held on escrow account	1,645,429	1,650,878
Cash equivalents	<u>245,575</u>	<u>218,868</u>
	<u>14,178,512</u>	<u>8,707,775</u>

6. TRADE AND OTHER RECEIVABLES

	30 September 2014	31 December 2013
Trade receivables:		
- related parties	59,125	3,537
- third parties	<u>74,647,692</u>	<u>74,579,495</u>
	74,706,817	74,583,032
Accrued assets	43,723	1,383,654
Other receivables	<u>10,309,631</u>	<u>9,834,081</u>
	85,060,171	85,800,767
Less impairment provision	<u>(29,748,094)</u>	<u>(29,682,881)</u>
Total trade and other receivables	<u>55,312,077</u>	<u>56,117,886</u>

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

The ageing of trade receivables is as follows:

	30 September 2014	31 December 2013
Up to 3 months	38,285,745	38,816,285
Over 3 months	36,421,072	35,766,747
	74,706,817	74,583,032

As at 30 September 2014 out of 36,421,072 RSD of overdue receivables (31 December 2013: 35,766,747 RSD), trade receivables in amount of 21,633,109 RSD (31 December 2013: 21,855,267 RSD) were fully provided for. The remaining amount of 14,787,963 RSD (31 December 2013: 13,911,480 RSD) relates to a number of independent customers for whom management believes that will be recovered in the near future.

The ageing of trade receivables provided for is as follows:

	30 September 2014	31 December 2013
Up to 3 months	66,583	1,098,697
Over 3 months	21,566,526	20,756,570
	21,633,109	21,855,267

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

	30 September 2014	31 December 2013
RSD	72,104,483	72,933,102
EUR	10,445,545	10,382,718
USD	1,757,912	2,229,144
Other	752,231	255,803
	85,060,171	85,800,767

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

	Trade receivables	Other receivables	Total
As at 1 January 2013	21,360,758	5,820,064	27,180,822
Provision for receivables impairment (note 18)	554,563	-	554,563
Unused amounts reversed (note 18)	(757,345)	-	(757,345)
Transfer from non-current to current part	-	1,591,471	1,591,471
Other	56,781	413,505	470,286
As at 30 September 2013	21,214,757	7,825,040	29,039,797
As at 1 January 2014	21,855,267	7,827,614	29,682,881
Provision for receivables impairment (note 18)	333,422	-	333,422
Unused amounts reversed (note 18)	(487,566)	-	(487,566)
Other	(68,014)	287,371	219,357
As at 30 September 2014	21,633,109	8,114,985	29,748,094

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

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NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014***(All amounts are in 000 RSD, unless otherwise stated)***7. INVENTORIES**

	30 September 2014	31 December 2013
Crude oil	21,075,854	25,490,951
Gas	174,132	98,558
Petroleum products	14,209,054	13,624,136
Materials and supplies	8,540,747	7,617,850
Other	577,775	767,490
Less impairment provision	<u>(6,765,844)</u>	<u>(6,939,005)</u>
	<u>37,811,718</u>	<u>40,659,980</u>

8. OTHER CURRENT ASSETS

	30 September 2014	31 December 2013
Advances paid	698,704	799,548
VAT receivables	1,218,684	1,939,549
Deferred VAT	1,359,152	2,681,103
Prepaid expenses	223,577	137,145
Prepaid custom duties	63,584	57,272
Prepaid excise	6,498,616	1,441,590
Other current assets	21,105,345	18,269,246
Less impairment provision	<u>(20,564,382)</u>	<u>(17,959,692)</u>
	<u>10,603,280</u>	<u>7,365,761</u>

Deferred VAT as at 30 September 2014 amounting to 1,359,152 RSD (31 December 2013: 2,681,103 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 30 September 2014 amounting to 6,498,616 RSD (31 December 2013: 1,441,590 RSD) relates to the excise paid to the State for finished products stored in non-excise warehouse and imported excise goods used in further production.

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

	Advances paid	Other current assets	Total
As at 1 January 2013	373,071	13,193,909	13,566,980
Provision for other current assets impairment (note 18)	12,460	3,778,140	3,790,600
Unused amounts reversed (note 18)	(2,492)	(116,050)	(118,542)
Other	-	(13,306)	(13,306)
As at 30 September 2013	<u>383,039</u>	<u>16,842,693</u>	<u>17,225,732</u>
As at 1 January 2014	253,069	17,706,623	17,959,692
Provision for other current assets impairment (note 18)	260	2,776,371	2,776,631
Unused amounts reversed (note 18)	(12,073)	(54,171)	(66,244)
Other	(780)	(104,917)	(105,697)
As at 30 September 2014	<u>240,476</u>	<u>20,323,906</u>	<u>20,564,382</u>

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NIS Group
Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014
(All amounts are in 000 RSD, unless otherwise stated)
9. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2013						
Cost	53,376,416	96,895,806	33,016,407	18,938,910	27,786,293	230,013,832
Depreciation and impairment	(20,466,813)	(23,887,053)	(13,125,313)	(8,293,223)	(4,319,865)	(70,092,267)
Net book value	32,909,603	73,008,753	19,891,094	10,645,687	23,466,428	159,921,565
Period ended 30 September 2013						
Additions	7,886,593	10,088,829	5,689,888	947,737	6,481,162	31,094,209
Acquisitions through business combinations	-	-	3,815,388	-	257,771	4,073,159
Impairment	-	-	(8,341)	-	(932)	(9,273)
Depreciation	(2,247,737)	(3,654,588)	(1,011,449)	(502,111)	(3,029)	(7,418,914)
Transfer to investment property	-	-	(1,195)	(2,455)	(4,810)	(8,460)
Disposals and write-off	-	(299)	(253,787)	(12,687)	(960,511)	(1,227,284)
Other transfers	5,547	(10,132)	6,686	5,859	(116,073)	(108,113)
Translation differences	23	-	182,325	(4,862)	27,183	204,669
	38,554,029	79,432,563	28,310,609	11,077,168	29,147,189	186,521,558
As at 30 September 2013						
Cost	55,075,809	106,418,740	42,200,499	19,081,284	33,455,696	256,232,028
Depreciation and impairment	(16,521,780)	(26,986,177)	(13,889,890)	(8,004,116)	(4,308,507)	(69,710,470)
Net book value	38,554,029	79,432,563	28,310,609	11,077,168	29,147,189	186,521,558
As at 1 January 2014						
Cost	58,161,373	108,204,314	44,958,981	19,127,652	45,176,238	275,628,558
Depreciation and impairment	(17,442,672)	(28,192,781)	(13,015,775)	(7,989,794)	(4,055,015)	(70,696,037)
Net book value	40,718,701	80,011,533	31,943,206	11,137,858	41,121,223	204,932,521
Period ended 30 September 2014						
Additions	14,786,627	3,118,838	3,227,828	515,922	6,334,297	27,983,512
Acquisitions through business combinations	-	-	-	-	789,440	789,440
Impairment	-	-	(37,097)	-	(15,200)	(52,297)
Depreciation	(2,742,161)	(3,906,254)	(1,526,809)	(537,883)	(3,975)	(8,717,082)
Transfer from investment property	35,121	9,358	14,768	7,399	-	66,646
Disposals and write-off	(13,708)	(2,785)	(190,646)	(43,995)	(1,296,968)	(1,548,102)
Other transfers	251,340	(585,085)	(170,261)	468,827	(352,681)	(387,860)
Translation differences	123	-	563,072	-	155,851	719,046
	53,036,043	78,645,605	33,824,061	11,548,128	46,731,987	223,785,824
As at 30 September 2014						
Cost	73,114,835	110,233,286	48,105,238	20,115,052	50,797,023	302,365,434
Depreciation and impairment	(20,078,792)	(31,587,681)	(14,281,177)	(8,566,924)	(4,065,036)	(78,579,610)
Net book value	53,036,043	78,645,605	33,824,061	11,548,128	46,731,987	223,785,824

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NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014

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

9. PROPERTY, PLANT AND EQUIPMENT (continued)

Oil and gas production assets

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2013						
Cost	6,354,587	5,315,398	11,669,985	53,376,416	123,953	65,170,354
Depreciation and impairment	(3,973)	(304,214)	(308,187)	(20,466,813)	(110,641)	(20,885,641)
Net book amount	6,350,614	5,011,184	11,361,798	32,909,603	13,312	44,284,713
Period ended 30 September 2013						
Additions	5,367,659	11,222,678	16,590,337	-	-	16,590,337
Transfer to assets other than O&G	-	(6,162)	(6,162)	-	-	(6,162)
Transfer from asset under construction	(50,904)	(8,534,940)	(8,585,844)	8,585,826	18	-
Other transfers	668	(17,466)	(16,798)	(699,576)	(46)	(716,420)
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	5,911	-	32,450
	10,987,441	7,665,064	18,652,505	38,554,029	13,284	57,219,818
As at 30 September 2013						
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)
Net book amount	10,987,441	7,665,064	18,652,505	38,554,029	13,284	57,219,818
As at 1 January 2014						
Cost	13,222,087	13,397,107	26,619,194	58,161,373	33,510	84,814,077
Depreciation and impairment	(10,867)	(238,059)	(248,926)	(17,442,672)	(20,267)	(17,711,865)
Net book amount	13,211,220	13,159,048	26,370,268	40,718,701	13,243	67,102,212
Period ended 30 September 2014						
Additions	4,534,056	14,532,792	19,066,848	-	-	19,066,848
Transfer from asset under construction	(1,948,341)	(12,838,286)	(14,786,627)	14,786,627	-	-
Other transfers	50,654	(380,606)	(329,952)	251,340	(81)	(78,693)
Depreciation and depletion	(3,517)	-	(3,517)	(2,742,161)	-	(2,745,678)
Transfer from investment property	-	-	-	35,121	-	35,121
Disposals and write-off	(1,081,140)	(366,825)	(1,447,965)	(13,708)	-	(1,461,673)
Translation differences	110,000	-	110,000	123	-	110,123
	14,872,932	14,106,123	28,979,055	53,036,043	13,162	82,028,260
As at 30 September 2014						
Cost	14,887,576	14,344,182	29,231,758	73,114,835	33,472	102,380,065
Depreciation and impairment	(14,644)	(238,059)	(252,703)	(20,078,792)	(20,310)	(20,351,805)
Net book amount	14,872,932	14,106,123	28,979,055	53,036,043	13,162	82,028,260

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

	30 September 2014	31 December 2013
Advances paid for PPE	3,802,036	6,481,062
Prepaid expenses	981,697	1,033,330
Other assets	1,139,107	1,083,046
Less impairment provision	(29,257)	(29,899)
	5,893,583	8,567,539

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

	30 September 2014	31 December 2013
Short-term loans	2,368,620	300,029
Interest liabilities	189,934	136,403
Current portion of long-term loans (note 15)	24,131,000	27,596,332
Current portion of finance lease liabilities (note 15)	239	22,081
	26,689,793	28,054,845

12. TRADE AND OTHER PAYABLES

	30 September 2014	31 December 2013
Trade payables		
- related parties	19,204,236	37,925,059
- third parties	11,472,332	13,507,743
Dividends payable	16,853,014	3,772,308
Other accounts payable	70,118	70,905
	47,599,700	55,276,015

As at 30 September 2014 payables to related parties amounting to 19,204,236 RSD (31 December 2013: 37,925,059 RSD) mainly relate to payables to the supplier Gazprom Neft Trading, Austria in the amount of 19,202,511 RSD (31 December 2013: 28,139,826 RSD), mostly for the purchase of crude oil.

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

13. OTHER CURRENT LIABILITIES

	30 September 2014	31 December 2013
Advances received	996,012	892,243
Payables to employees	2,848,180	2,636,098
Accruals and deferred income	41,697	24,020
Other current non-financial liabilities	17,585	6,970
	3,903,474	3,559,331

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

	30 September 2014	31 December 2013
Mineral extraction tax	572,410	522,953
VAT	1,418,219	517,592
Excise tax	2,643,397	4,312,273
Custom duties	51,618	1,624,014
Other taxes	2,268,287	1,724,223
	6,953,931	8,701,055

15. LONG-TERM DEBT

	30 September 2014	31 December 2013
Long-term loans - Gazprom Neft	48,369,553	50,655,813
Bank loans	62,438,831	37,948,303
Finance lease liabilities	151,763	107,689
Other long-term borrowings	75,825	40,486
Less Current portion	(24,131,239)	(27,618,413)
	86,904,733	61,133,878

Bank loans

	30 September 2014	31 December 2013
Domestic	9,903,301	12,048,569
Foreign	52,535,530	25,899,734
	62,438,831	37,948,303
Current portion of long-term loans	(18,603,051)	(22,264,141)
	43,835,780	15,684,162

The maturity of bank loans was as follows:

	30 September 2014	31 December 2013
Between 1 and 2 years	6,574,549	2,926,308
Between 2 and 5 years	31,876,586	6,871,962
Over 5 years	5,384,645	5,885,892
	43,835,780	15,684,162

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NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014***(All amounts are in 000 RSD, unless otherwise stated)***15. LONG-TERM DEBT (continued)***Bank loans (continued)*

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

	30 September 2014	31 December 2013
USD	52,631,671	28,343,857
EUR	9,432,574	8,961,940
RSD	1,607	280,783
JPY	372,979	361,723
	62,438,831	37,948,303

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

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

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

Creditor	Currency	30 September 2014	31 December 2013
<i>Domestic long-term loans</i>			
Erste bank, Novi Sad	USD	300,503	279,719
Erste bank, Novi Sad	EUR	449,859	454,900
Bank Postanska stedionica, Belgrade	EUR	221,019	225,341
Bank Postanska stedionica, Belgrade	USD	1,626,671	1,526,400
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,495,036	4,459,990
UniCredit bank, Belgrade	USD	2,808,606	4,821,436
UniCredit bank, Belgrade	RSD	-	278,900
Other loans	RSD	1,607	1,883
		9,903,301	12,048,569
<i>Foreign long-term loans</i>			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	552,156	518,612
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	372,979	361,723
Erste bank, Holland	EUR	3,565,527	3,439,263
Erste bank, Holland	USD	6,085,313	5,403,333
VUB (Bank Intesa), Slovakia	USD	14,043,030	8,312,820
NBG bank, Great Britain	USD	4,681,010	2,493,846
Alpha bank, Great Britain	USD	7,087,049	3,325,128
Piraeus bank, Great Britain	USD	-	1,662,563
Sberbank Europe AG, Беч, Аустрија	USD	15,447,333	-
NeftgazInKor, Russian Federation	EUR	304,646	-
Neftgazovaja Inovacionnaja Korporacija, Russian Federation	EUR	396,487	382,446
		52,535,530	25,899,734
Less current portion of long-term loans		(18,603,051)	(22,264,141)
		43,835,780	15,684,162

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NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014***(All amounts are in 000 RSD, unless otherwise stated)***15. LONG-TERM DEBT (continued)***Bank loans (continued)*

	Currency	Current portion		Long-term	
		30 September 2014	31 December 2013	30 September 2014	31 December 2013
Domestic long - term loans					
Erste bank, Novi Sad	USD	16,822	13,070	283,681	266,649
Erste bank, Novi Sad	EUR	24,934	20,972	424,925	433,928
Bank Postanska stedionica, Belgrade	EUR	12,250	12,148	208,769	213,193
Bank Postanska stedionica, Belgrade	USD	90,161	82,030	1,536,510	1,444,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	257,382	248,267	4,237,654	4,211,723
UniCredit bank, Belgrade	USD	2,808,606	4,821,436	-	-
UniCredit bank, Belgrade	RSD	-	278,900	-	-
Other loans	RSD	350	369	1,257	1,514
		<u>3,210,505</u>	<u>5,477,192</u>	<u>6,692,796</u>	<u>6,571,377</u>
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	38,287	30,197	513,869	488,415
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	20,673	16,978	352,306	344,745
Erste bank, Holland	EUR	3,565,527	3,439,263	-	-
Erste bank, Holland	USD	-	-	6,085,313	5,403,333
VUB (Bank Intesa), Slovakia	USD	-	8,312,820	14,043,030	-
NBG bank, Great Britain	USD	4,681,010	-	-	2,493,846
Alpha bank, Great Britain	USD	7,087,049	3,325,128	-	-
Piraeus bank, Great Britain	USD	-	1,662,563	-	-
Sberbank Europe AG, Беч, Аустрија	USD	-	-	15,447,333	-
NeftgazInKor, Russian Federation	EUR	-	-	304,646	-
Neftgazovaja Inovacionnaja Korporacija, Russian Federation	EUR	-	-	396,487	382,446
		<u>15,392,546</u>	<u>16,786,949</u>	<u>37,142,984</u>	<u>9,112,785</u>
		<u>18,603,051</u>	<u>22,264,141</u>	<u>43,835,780</u>	<u>15,684,162</u>

16. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Nine month period ended 30 September	
	2014	2013
Crude oil	78,342,229	86,958,898
Petroleum products	31,213,311	13,583,076
Other	36,880	506,689
	<u>109,592,420</u>	<u>101,048,663</u>

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

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

17. PRODUCTION AND MANUFACTURING EXPENSES

	Nine month period ended 30 September	
	2014	2013
Employee costs	5,326,551	5,825,105
Materials and supplies (other than purchased oil, petroleum products and gas)	1,633,922	1,204,996
Repair and maintenance services	2,240,185	1,244,102
Electricity and utilities	2,201,905	1,163,944
Safety and security expense	83,904	113,016
Transportation expense	1,016,155	467,387
Other	1,127,640	626,127
	13,630,262	10,644,677

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Nine month period ended 30 September	
	2014	2013
Employee costs	7,410,650	11,380,629
Legal, audit, and consulting services	1,358,962	1,015,933
Rent expense	285,819	273,965
Business trips expense	275,234	331,460
Safety and security expense	397,681	298,038
Insurance expense	199,769	196,458
Transportation and storage	361,904	331,880
Allowance for doubtful accounts	2,556,243	3,469,276
Other	3,576,141	1,638,603
	16,422,403	18,936,242

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NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014***(All amounts are in 000 RSD, unless otherwise stated)***19. BUSINESS COMBINATIONS***Acquisition of petrol stations*

In 2014, as a part of regional expansion, the Group has acquired 5 petrol stations (PS), four in Bulgaria and one in Serbia. 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>		
Bansko	6/6/2014	100%
Čeren Kos	6/4/2014	100%
Ruse	6/16/2014	100%
Haskovo	6/5/2014	100%
<i>Serbia</i>		
SSG Sava Centar	7/21/2014	100%

The following table summarises the consideration paid for acquired PS in the nine month period ended 30 September 2014, the fair value of assets acquired and liabilities assumed.

	Nine month period ended 30 September 2014		
	Bulgaria	Serbia	Total
Purchase consideration:			
Cash paid	499,235	332,353	831,588
Total purchase consideration	499,235	332,353	831,588
Fair value of net identifiable assets acquired	457,087	332,353	789,440
Goodwill	42,148	-	42,148

Amounts recognized as at acquisition date for each major class of assets acquired and liabilities assumed:

	Bulgaria	Serbia	Total
Property, plant and equipment	457,087	332,353	789,440
Net identifiable assets acquired	457,087	332,353	789,440

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

In same period ended 30 September 2013, Group acquired 3 petrol stations, one in Bulgaria and two in Romania and 100% of the share capital of OMV BH for total consideration paid in amount of 3,939,086 RSD for net identifiable asset acquired in amount of 2,723,006 RSD and goodwill in amount 1,216,080 RSD.

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014

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

20. CONTINGENT LIABILITIES

Finance Guarantees

As at 30 September 2014 the total amount of outstanding finance guarantees given by the Group amounted to 3,672,181 RSD mostly related to customs duties in the amount of 1,909,638 RSD (31 December 2013: 2,192,400 RSD).

Environmental protection

As at the reporting date, the Group's management made an environmental provision amounting to 540,632 RSD (31 December 2013: 690,094 RSD), based on an internal assessment of compliance with the Republic of Serbia environmental legislation.

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

Other contingent liabilities

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

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014

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

21. GROUP ENTITIES

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

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

22. RELATED PARTY TRANSACTIONS

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

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

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

NIS Group**Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014***(All amounts are in 000 RSD, unless otherwise stated)***22. RELATED PARTY TRANSACTIONS (continued)**

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

	Parent company	Entities under common control	Joint venture	Total
As at 30 September 2014				
Trade and other receivables	-	59,125	81,413	140,538
Investments in joint venture	-	-	1,008,221	1,008,221
Trade and other payables	-	(19,204,236)	-	(19,204,236)
Other current liabilities	-	(36,391)	-	(36,391)
Short-term debt and current portion of long-term debt	(5,527,949)	-	-	(5,527,949)
Long-term debt	(42,841,604)	-	-	(42,841,604)
	(48,369,553)	(19,181,502)	1,089,634	(66,461,421)
As at 31 December 2013				
Trade and other receivables	-	3,537	11,385	14,922
Investments in joint venture	-	-	1,008,221	1,008,221
Trade and other payables	(9,338,240)	(28,586,819)	-	(37,925,059)
Short-term debt and current portion of long-term debt	(5,332,191)	-	-	(5,332,191)
Long-term debt	(45,323,622)	-	-	(45,323,622)
	(59,994,053)	(28,583,282)	1,019,606	(87,557,729)

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

	Parent company	Entities under common control	Joint venture	Total
Nine month period ended 30 September 2014				
Petroleum products and oil and gas sales	-	1,801,575	-	1,801,575
Purchases of oil, gas and petroleum products	-	(71,151,887)	-	(71,151,887)
Production and manufacturing expenses	(8,002)	(22,715)	-	(30,717)
Selling, general and administrative expenses	(28,909)	-	-	(28,909)
Other expenses, net	(4,556)	(1,546)	-	(6,102)
Finance expense	(882,508)	-	-	(882,508)
	(923,975)	(69,374,573)	-	(70,298,548)

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Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014

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

22. RELATED PARTY TRANSACTIONS (continued)

	Parent company	Entities under common control	Joint venture	Total
Nine month period ended 30 September 2013				
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)
Finance expense	(921,464)	-	-	(921,464)
	(958,689)	(77,690,265)	-	(78,648,954)

23. 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 2014.

24. 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 2014 drilling and exploration works for Block 2 were estimated to 13.0 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 2014 drilling and exploration works were estimated to 1.2 USD million.

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Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014

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

24. COMMITMENTS (continued)

Joint Operation agreement with RAG Hungary limited

In December 2012, the Group entered into a Call Option agreement with RAG Hungary limited for exploration and production of hydrocarbons in the Kelebia area in Hungary. Under the previous agreement NIS has an option which has exercised during June 2014 signing Joint Operation agreement based on which NIS has become equal owner in a jointly owned company (JOC) Rag Kiha, together with Rag Hungary, becoming a 50 % quota holder. With this agreement on newly founded company were tranfered exploration licences in Kelebia area. On 30 September 2014 drilling and exploration works were estimated to 1.12 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 2014 drilling and exploration works were estimated to 0.36 USD million.

Farm-out agreement with Moesia Oil and Gas PLC Ireland

In June 2012, the Group has entered into a Farm-out agreement with Moesia Oil and Gas PLC Ireland for exploration and production of hydrocarbons in Romania. According to the Contract, the Group is committed to finance sunk costs and 75% of total exploration costs of Phase 1 of the Programme. Depending on the success of exploration, the Group will be entitled to 50% of total production volume of hydrocarbons and committed to finance 50% of further exploration and production costs. Exploration activities were started in November 2012. On 30 September 2014 drilling and exploration works were estimated to 0.33 USD million.

Oil field service contract with Falcon Oil & Gas LTD

In January 2013, the Group entered into a Multi-well drilling exploration program with Falcon Oil & Gas Ltd. to target the shallower Algyö Formation in Hungary. Under the contract, the Group committed to drill three exploration wells targeting the shallow 'Algyö Play' reservoir covered by the Mako through production license in the Pannonian Basin held by Falcon Oil & Gas limited, Hungary. Depending on success of the exploration, the Group will be entitled to 50% of any net production revenue from the three wells. On 30 September 2014 drilling and exploration works were estimated to 6.2 USD million.

25. 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 2014 were evaluated through 22 October 2014, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

NIS Group

Notes to the Interim Condensed Consolidated Financial Statements for the nine month period ended 30 September 2014

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

NIS Group

Contact information

The Group's office is:

12 Narodnog Fronta St.,
Novi Sad, Republic of Serbia
21000

Telephone: (+ 381 21) 481 1111

e-mail: office@nis.eu

www.nis.eu

Investor relations

e-mail: investor.relations@nis.eu