Annual Report 2014

Future at work

NIS
GAZPROM NEFT

2014
ANNUAL REPORT

NIS
GAZPROM NEFT

1 Business Report

The Annual Report for 2014 represents a comprehensive review of NIS Group's development and performance in 2014. The report includes and presents data on NIS Group, which includes NIS j.s.c. Novi Sad and its subsidiaries. If the data refers only to certain subsidiaries or only to NIS j.s.c. Novi Sad, this has been pointed out in the report. The terms "NIS j.s.c. Novi Sad" and "Company" refer to the parent company NIS j.s.c. Novi Sad, whereas the terms "NIS" and "NIS Group" refer to NIS j.s.c. Novi Sad with its subsidiaries.
In accordance with the Law on Capital Market, the Report consists of three parts: the business report, financial statements (stand-alone and consolidated), and the statement of the persons responsible for the preparation of the Report.

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

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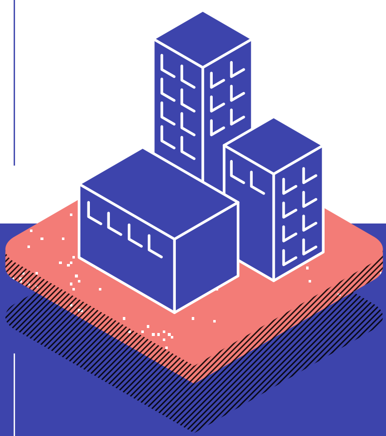
NIS Group in 2014



63.4

billion RSD
EBITDA

27.8

billion RSD
net profit

39.4

billion RSD
CAPEX

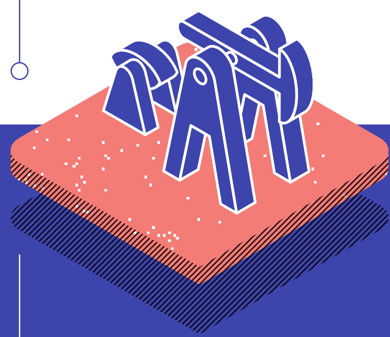
136

billion RSD of taxes and other public revenues

10

countries in which NIS Group operates

Exploration and Production



1,596

thousand t.o.e. of domestic oil and gas production volume

54

oil and gas fields
in Serbia

9%

growth of reserves

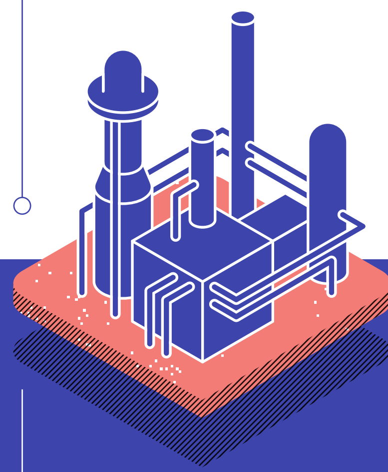
88.4%

achieved level of gas utilization

1st

in region in terms of lifting costs

Refining



3,104

thousand tons of processed oil and semi-finished products

75%

share of white petroleum products

84%

depth of refining

1st

in the region in terms of efficiency and the Solomon index indicators

Sales and Distribution

3,090

thousand tons total sale volume

333

active petrol stations in Serbia

88

active petrol stations in the region

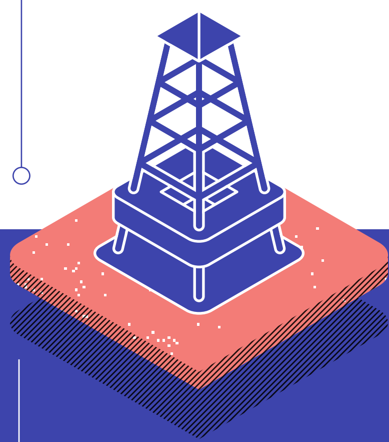
78%

share in the total petroleum products market in Serbia

1st

in Serbia in terms of daily sales at one GAZRPOM brand petrol station

Services



7,442

number of drilling services operations

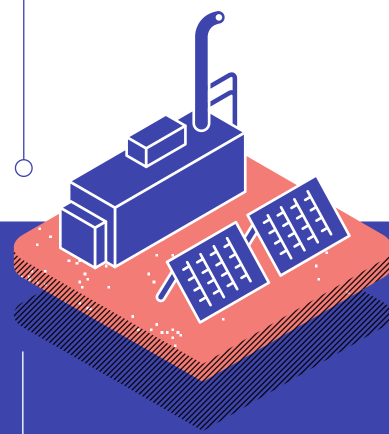
9

drilling units at the end of the year

16

workover crews

Energy



73,058

MWh of produced electricity

4

small power plants in 2014

11

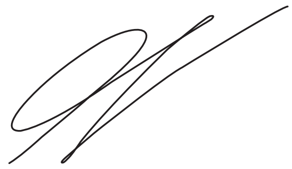
small power plants in Serbia in total

39.2

billions RSD is total value of projects being implemented[1]

1 CHPP Pančevo, Plandište wind farm, small power plants Majdan X and Novo Miloševo, and Ostrovo (CNG)

Vadim Yakovlev,
Chairman of Board of Directors
NIS J.S.C. Novi Sad



A Year of Challenge

Last year saw large-scale economic and political changes in the global market that have significantly influenced NIS' performance. Nevertheless, despite the challenges NIS managed to maintain profitability and to remain a base for the development of OJSC "Gazprom neft"'s business in Europe. NIS' team once again proved that it is able to adapt to the ever-changing economic situation, prioritize its development goals, and continuously improve its efficiency.

Sustainable development and payment of dividends

In spite of the unfavourable market conditions in 2014, NIS was able to increase sales of petroleum products and make important steps towards transforming from an oil and gas to an energy company. We are actively developing our network of petrol stations in Serbia and across the entire Balkan region under NIS Petrol and Gazprom brands. The network now comprises over 400 stations. We have improved the efficiency of our sales. Furthermore, in 2014 NIS became the second largest exporter in Serbia.

It is the second consecutive year that NIS a.d. Novi Sad is paying 25% of its net profit in dividends, to the amount of over 13.08 billion dinars. The long-term div-

NIS has adapted to rapid changes of the economic situation, defined the priorities for further development in time and increased business efficiency.

idend policy of the Company has not changed and provides for not less than 15% of the net profit to be allocated for the payment of dividends.

Consolidation and preservation of profitability

NIS' business plan for 2015 takes into account the current economic situation. Our goal is to remain profitable by means of implementing a large-scale efficiency improvement and cost-reduction programme. At the same time NIS will keep investing in its core operations. In geological exploration the NIS will focus on increasing reserves by working more efficiently and by exploring the potential of the Pannonian Basin. In oil and gas production NIS will keep cutting operating costs and developing automation.

NIS will continue upgrading its refining facilities, including the construction of a deep refining unit at the Pančevo refinery. We will also be implementing new energy-saving solutions and improving the efficiency of petroleum production, specifically by reducing unrecoverable losses at the refinery.

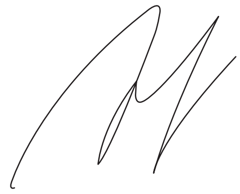
One of our priorities is to keep increasing sales of premium fuels at petrol stations. NIS will work on improving customer loyalty and attracting new clients.

Cooperation of the shareholders is a driver of success

We are well aware of the role NIS plays in the economy of Serbia and are committed to making every effort to ensure NIS remains a reliable source of profit to all its shareholders. NIS has unlimited access to the expertise, experience, and technologies of OJSC "Gazprom neft". Equally important is the support NIS receives from the Government of Serbia in forming the investment environment which is a large component of NIS' financial stability. Over the last five years the team at NIS has built a solid foundation for the Company's current position and, undoubtedly, further success and development.

For the second year in a row, NIS has paid out the dividends amounting to 25% of net profit - more than 13.08 billion.

Kirill Kravchenko
Chief Executive Officer
of NIS J.S.C. Novi Sad



Operating Efficiency – Key Words in the Years of Economic Crisis

In the year that is now over, NIS operated in a difficult economic environment, both in the country and abroad. Petroleum product markets in Serbia, Romania, Bulgaria, and Bosnia and Herzegovina recorded either a drop or, in the best-case scenario, stagnation. A marked fall in oil price, which was cut down by almost a half[1], and the weakening of domestic currency against the US Dollar by almost a fifth, affected our operational and financial indicators and mainly accounted for the drop in the operating profit and in the net income accordingly, compared to the previous year.

Adverse macroeconomic indicators and critical circumstances in 2014 bear similarity to the ones in 2008. Moreover, the present situation is no less difficult, since the problem of insolvent economy has become even more acute. But there is a substantial difference between NIS in that period and our company today. NIS is not a loss-maker, but a profitable company with the capacity to maintain its position in the Serbian economy, regardless of the challenges it is facing in its business operations.

Therefore, the downward trend recorded in the key business indicators was not so dramatic, owing to a consistent implementation of the internal efficiency improvement program which brought about the effect above the plan. In particular, we planned to save around three billion dinars, and have managed to save more than twice that much. This is the key reason for the lesser drop in the operating profit or net profit this year, compared to the previous year and the plan. This year, we have additionally increased production of top-quality, so-called white products, gasoline and diesel. We have also exploited new types of feedstock and other types of crude oil. Additionally, we have decreased administration

1 As at 31 December 2013, Europe Brent Spot Price FOB amounted to 109.95 $/bbl; whereas, as at 31 December 2014, it amounted to 55.27 $/bbl (Source: EIA)

costs and increased energy efficiency by generating our own electricity. I am very proud that we have managed to mitigate adverse effects by improving our internal efficiency, thus preserving profitability. A stable NIS is a guarantee of a stable budget system, given that we are the largest budget contributor. NIS liabilities in 2014 resulting from indirect and direct taxes and other public revenues, amount to 136 billion dinars, which is a 13-per cent increase compared to last year.

By improving our internal efficiency, we have managed to preserve profitability. Today NIS is a competitive company, primarily owing to the professional work and efforts put in by all employees, and the support provided by its shareholders.

Performance Improvement – Priorities in the Year to Come

2015 will certainly be a challenging year. Further cost reduction will remain our priority since it is the only aspect of our business operations we can affect independently. We plan to save three to five billion dinars this year and in 2016, which, although difficult, is absolutely necessary. NIS inevitably shares the destiny of the country and society whose key word in the next year will be savings. However, in order to keep our competitive edge, our long-term strategy involves investment in new oil and gas reserves and the increase of the existing ones by investing in technology. Let me remind you that the increase in oil and gas stocks in the previous years exceeded 50 per cent.

Innovation supporting Competitiveness

In order to keep pace with other strong energy companies in the region and in Europe, we will be developing innovative solutions aimed at environmental protection and electricity savings. In the previous year, we invested in energy development over ten million EUR in total. At the end of 2014, seven small power plants were generating electricity from gas with capacities of 7.4 MW, which was sufficient to supply more than 1,000 households with power. Last year, we started offering electricity in the domestic market, and thus became the only electricity generation company in Serbia, besides the Electric Power Industry of Serbia. This year, we plan to penetrate the regional electricity markets. We started up the first compressed natural gas production unit at Palić oil and gas field, which, due to its environmentally-friendly properties, is called fuel of the future. In addition, NIS has continued to introduce innovations in the production process and has finalized work on the Amine Unit, where new technologies for natural gas treatment will be introduced. In 2015, we intend to start the construction of the bottom-of-the-barrel complex at the Pančevo Oil Refinery, marking a second phase in the modernization of the company's refining capacity. Innovations in marketing and sales will also continue, as well as the introduction of new products and services for our clients. Furthermore, NIS will work towards synergizing with the petrochemical business too.

The Most Important Investment is in People

NIS is stable inasmuch as the people working for us are efficient and content, as well as our partners and the local community in which we operate. In 2014, NIS invested 180 billion dinars in support of young people, education and science. We support "Petnica" Research Station, we cooperate with 20 faculties and 17 schools all over Serbia and, through the "Energy of Knowledge" Program, we awarded scholarships to 82 secondary and university students. Through the NIS Chance program, over 660 young people have been employed at the Company since 2012. Last year, 592.5 million dinars was allocated for funding of socially-responsible projects in the fields of sport, education and science, and for the support of the local community; while 983 million dinars was allocated for environmental projects.

Despite the negative trends, I am still optimistic – NIS is competitive and stable and we will use our best endeavors to keep it that way.

Business Report

1.01 Auditor's Report on Compliance of the Business Report with Financial Statements

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TRANSLATION

TO THE SHAREHOLDERS

NIS A.D. NOVI SAD

We audited the separate and consolidated financial statements of NIS a.d. Novi Sad ("the Company"), which comprise the balance sheet as at 31 December 2014, the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information and issued our unmodified audit opinion on 4 March 2015.

Additional obligation in accordance with the Law on Accounting of the Republic of Serbia (Official Gazette of the Republic of Serbia number 62/2013).

In addition to the provision of the aforementioned independent audit opinions, the independent auditor is also required to comment upon the consistency of the attached annual business report with those audited financial statements.

We set out management's and our own responsibility in this regard, along with our opinion as follows:

Management's Responsibility

The Management is responsible for preparing the accompanying Annual Business Report in accordance with the requirements of the Law on Accounting of the Republic of Serbia (Official Gazette of the Republic of Serbia number 62/2013).

Auditors' Responsibility

Our responsibility is to express an opinion on the compliance of the Annual Business Report with the financial statements for the business year 2014. In this respect, our procedures are conducted in accordance with the International Standard on Auditing 720 - The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, and we are limited only to the assessment of the compliance of the annual business report with the financial statements and the specific guidance on the wording of our opinion as provided by Chamber of Authorized Auditors.

TRANSLATION

Opinion

In our opinion, the Annual Business Report is in compliance with the financial statements which were the subject of the audit and as referenced above.

Other matter

This opinion should be read in conjunction with the annual financial statements of the company and independent audit opinions thereon.

Belgrade, 6 April 2015

KPMG d.o.o. Beograd

(L.S.)

James Thornley
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Belgrade, 6 April 2015

KPMG d.o.o. Beograd

(L.S.)

James Thornley
Certified Auditor

1.02

Key Events Year 2014

January

- NIS Petrol stations voted Winner of the Best Buy Award by consumers for delivering the most value for money
- NIS was Winner of the VIRTUS Award for Corporate Philanthropy
- "Love Cures All" – NIS donation to the Institute of Oncology, Belgrade
- NIS awarded scholarships to undergraduates and graduates

February

- Publication of Audited Consolidated Financial Statement Data for 2013
- NIS introduced a new environmentally-friendly drilling method by applying a dry location principle
- NIS staff supported the launch of the Parents' House in Belgrade
- NIS supported the 42nd Festival
- NIS representatives presented a donation to the hospital for the treatment of children with cancer

March

- Public tender for NIS' program supporting the development of local communities; “Together for the Community” Serbian Top Leaders visited Pančevo Oil Refinery
- NIS participated at the International Motor Show, where Gazprom Petrol station was presented
- NIS Petrol Romania opened a new Gazprom Petrol station in Arad County
- Opening ceremony: two NIS classrooms in Novi Sad, in High School "Jovan Jovanović Zmaj" and the Faculty of Technology
- NIS offered a discount for farmers at petrol stations
- NIS helped in the Pupin Award program implementation

April

- A group of reporters visited the construction site at the Oil and Gas Preparation and Transportation Unit in Elemir, where NIS was constructing an amine unit for high-quality gas production
- Serbian Mathematical Olympiad launched under the auspices of the NIS
- Procurement of the seismic data processing equipment worth 150 million RSD
- NIS Winner of the "Best of Serbia" for Gazprom Petrol stations
- Launching gasoil 0.1 at NIS petrol stations
- NIS introduced one of the state-of-the-art production well automation systems
- NIS as a signatory of the regional initiative for youth employment, HR Business Arena 2014.

May

- NIS supported the "Balkan Traffic" Festival in Brussels for the second year in a row
- NIS achieved top ranking in the list of 200 top budget contributing companies in 2013 (Blic Daily)
- NIS participated in the international conference "South East Europe Petroleum Product Retail Market"
- NIS participated in the Energy Forum "Serbian Role in the Balkans Energy Market"
- During the May floods, owing to a joint and prompt response of the Company and employees, donations were made in fuel, drinking water, requisite equipment, food, hygiene items and monetary contributions.

June

- NIS and Serbian Tennis Federation joint campaign launched – "Sports against Violence"
- NIS in the CEDEF Public Debate – “Waste Treatment in Serbia”
- NIS awarded the "Captain Miša Anastasijević" recognition for achievements in the field of law
- Signing of the Agreement on Implementation of the "NIS Chance" Program with Zrenjanin
- Within the framework of the "Together for the Community" Project, NIS funded 164 projects in 2014
- NIS environmental project in Kanjiža finalized
- NIS launched the "Laboratory of Knowledge" at the Faculty of Science, Novi Sad
- NIS participated in the World Petroleum Congress in Moscow
- Kirill Kravchenko’s interview for the Brussels Magazine "New Europe"
- NIS participated in the Media Public Debate on Renewable Energy
- NIS at the Serbian Economic Summit
- NIS Laboratory launched at the Faculty of Medicine, Belgrade
- NIS supported the International Film Festival CINEMA CITY
- VI Regular General Shareholders Meeting

July

- Contract signing with 88 participants in the "NIS Chance" Program
- "Bolshoi Festival" supported by OJSC "Gazprom Neft"
- NIS presented the Report on Sustainable Development 2013
- Rebrand Serbia Conference with Exit Festival representatives
- High-scoring performance of NIS MHC/DHT Complex Pančevo, as concluded at the Chevron Lummus Global Symposium held in San Francisco
- NIS, Football Club Crvena Zvezda and Basketball Club Partizan launched the "You're our guy" Campaign to help flood victims
- Commissioning of the Cogeneration Module at the Loading Station "Boka"

August

- "Super Kartica" Program offered at Gazprom petrol stations
- NIS launched the first Compressed Natural Gas Production Plant
- NIS supported 20 students studying in Russia
- Ahead of the autumn harvests, farmers were granted discount prices for fuel at NIS PSs
- NIS supported the "Green Days" Environmental and Educational Festival, held in Pančevo
- "Coface CEE Top 500": NIS among the top successful companies in Central and Eastern Europe
- New product launch – Ultra D Fuel

September

- NIS achieved top ranking position in the traditional "Top 500 Companies in Central Europe" list, published by the audit and consulting company Deloitte
- New NIS Petrol petrol station launched in Belgrade, near Sava Centar
- NIS supported bilingual lessons in "Jovan Popović" Elementary School
- NIS signed the Memorandum of Understanding with the Ministry of Defense
- NIS donated 200,000 BAM to help flood-stricken areas in Bosnia and Herzegovina
- Audio library for disabled children launched, supported by NIS
- NIS helped introduce the new study program "Industrial Engineering in Oil and Gas Exploitation" into the Technical Faculty "Mihajlo Pupin", Zrenjanin
- NIS presented with "My Choice 2014" Award for social responsibility
- NIS presented on downstream business at the 6th Oil Forum of the Energy Community

October

- NIS supported the 45th International Meeting of the Children of Europe, JOY OF EUROPE
- NIS and AP Vojvodina signed the Agreement on Implementing the NIS Chance 2014/2015 Project
- NIS supported the launch of bilingual lessons in Aleksinac High School
- Chief Bulgarian reporters visited NIS and, during their tour around Pančevo Oil Refinery, learned about the potential of NIS' refining facilities
- NIS equipped the Laboratory for Contemporary Physics at the University of Belgrade
- NIS presented at the Energy Fair and International Fair of Environmental Protection "Ecofair" on its commitment to environmental innovation and energy efficiency
- NIS at the European Parliament of Enterprises
- NIS successfully completed additional modernization of its refining facilities in Pančevo
- Minister Udovičić visited young professionals in NIS
- Presentation of Debit card "Super kartica"
- NIN and BRA: NIS achieved top ranking in the list of TOP 300

November

- NIS equipped a computer room at the Faculty of Technical Sciences in Novi Sad
- NIS and Serbian-Russian Humanitarian Center signed a Memorandum of Understanding
- Kirill Kravchenko held a lecture on "Leadership in the Modern World" at the University of Novi Sad
- NIS paid out dividends based on its profit in 2013
- NIS Petrol launched its summer sweepstake "Driving without limits 2"
- Science Festival supported by NIS
- Managing Director of NIS Bulgaria announced as Winner of the Economic magazine award
- NIS launched small power plants at the gas reservoir in Srbobran

December

- NIS aided the population in the affected areas in the municipalities of Majdanpek, Donji Milanovac and Bor
- Gazprom Petrol stations in Bosnia and Herzegovina won the prestigious international "Superbrands" 2014 title
- NIS CEO attended the Exhibition on Petnica
- G-Petrol, a subsidiary company operating under NIS, recognized as the Greatest Investor in Bosnia and Herzegovina
- NIS supported Exit Youth Foundation Conference
- NIS won the SAM Award for the most socially-responsible company in 2014
- NIS implemented state-of-the-art software for the analysis of Pannonian Basin hydrocarbon systems
- NIS boosted cooperation with the Ministry of Youth and Sports
- NIS Winner of the award for the development of sports in Serbia
- Kirill Kravchenko's interview for the "Politika" daily.
- A new collective agreement signed in compliance with the new Labor Law

January

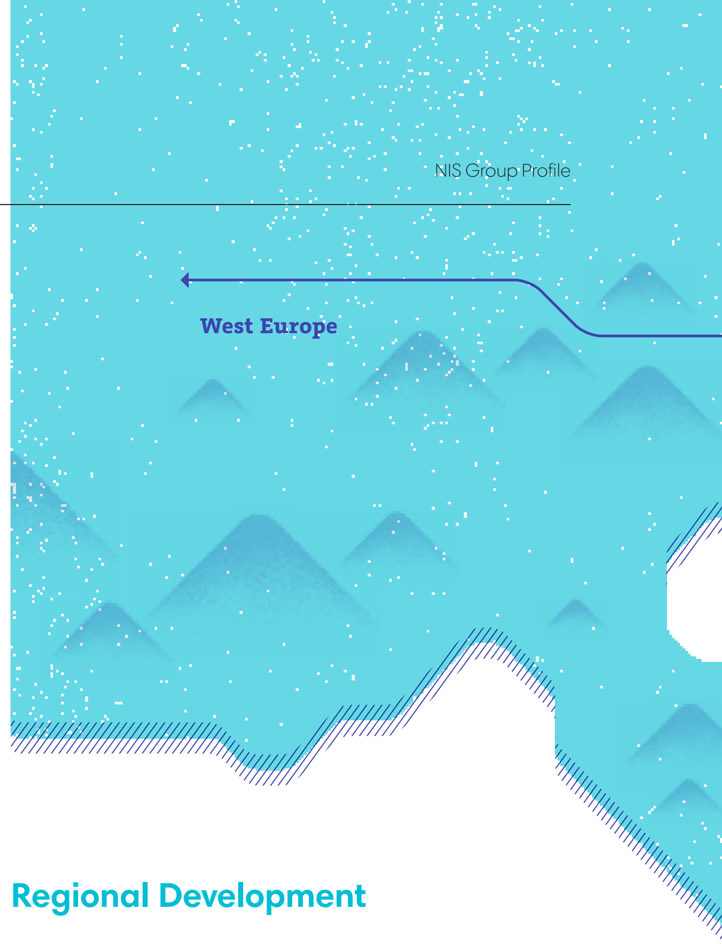
- The Quality of Aviation Fuel Produced in Pančevo Oil Refinery Recognized by the World's Companies
- NIS BoD adopted the Business Plan for 2015
- Respectful Acknowledgement by the Basketball Federation of Serbia to NIS
- NIS Rewarded for Support to the International Minibasket Festival
- According to the survey conducted by "Blic" daily newspaper, the Chief Executive Officer of NIS, Kirill Kravchenko, was elected the most powerful foreign national in Serbia in 2014 for the sixth consecutive year
- Small power plants were put into operation at Velebit, Turija and Bradarac oil fields
- Extraordinary session of the Shareholders' Assembly

February

- Operations concerning the compressed natural gas production unit started at Novi Sad petrol station - the first NIS' petrol station with CNG installations
- Two more small power plants - Velebit and Bradarac start operating
- NIS awarded with prestigious "SAP Quality Award 2014"

March

- NIS released audited consolidated financial statements for 2014
- NIS supports 43rd International Film Festival (FEST)
- Signing the Strategic Cooperation Agreement marks the continuation of cooperation between NIS and the University of Novi Sad



1.03 NIS Group Profile

NIS Group is one of the largest vertically-integrated energy systems in South East Europe. With administrative offices in Novi Sad and Belgrade and major facilities distributed throughout Serbia, NIS is engaged in research, production and refining of crude oil and natural gas, transport of a wide range of petroleum and gas products, and the implementation of projects in the field of energy. NIS is an international company with an international team of experts and it operates in ten countries.

Regional Development

In line with the strategic goal of reaching the leading position in the region, NIS undertook its first business expansion activities in 2011. The regional expansion is carried out in two areas of business operations: exploration and production and sales and distribution.

Exploration activities are performed in Bosnia and Herzegovina, Hungary and Romania in cooperation with partner companies. NIS operates the largest retail network in the territory of the Republic of Serbia, but it has expanded its retail network to neighboring countries' territories: Bosnia and Herzegovina, Bulgaria and Romania.

History

1930

1940

1949
Naftagas Company incorporated. First gas deposits discovered.

1950

1951
Gas transportation system launched.

1952
First oil deposits discovered.

1953
Commencement of construction of first petrol stations.

1960

1963
Construction of first main gas pipeline Mokrin – Kikinda – Elemir – Velika Greda – Pančevo completed.

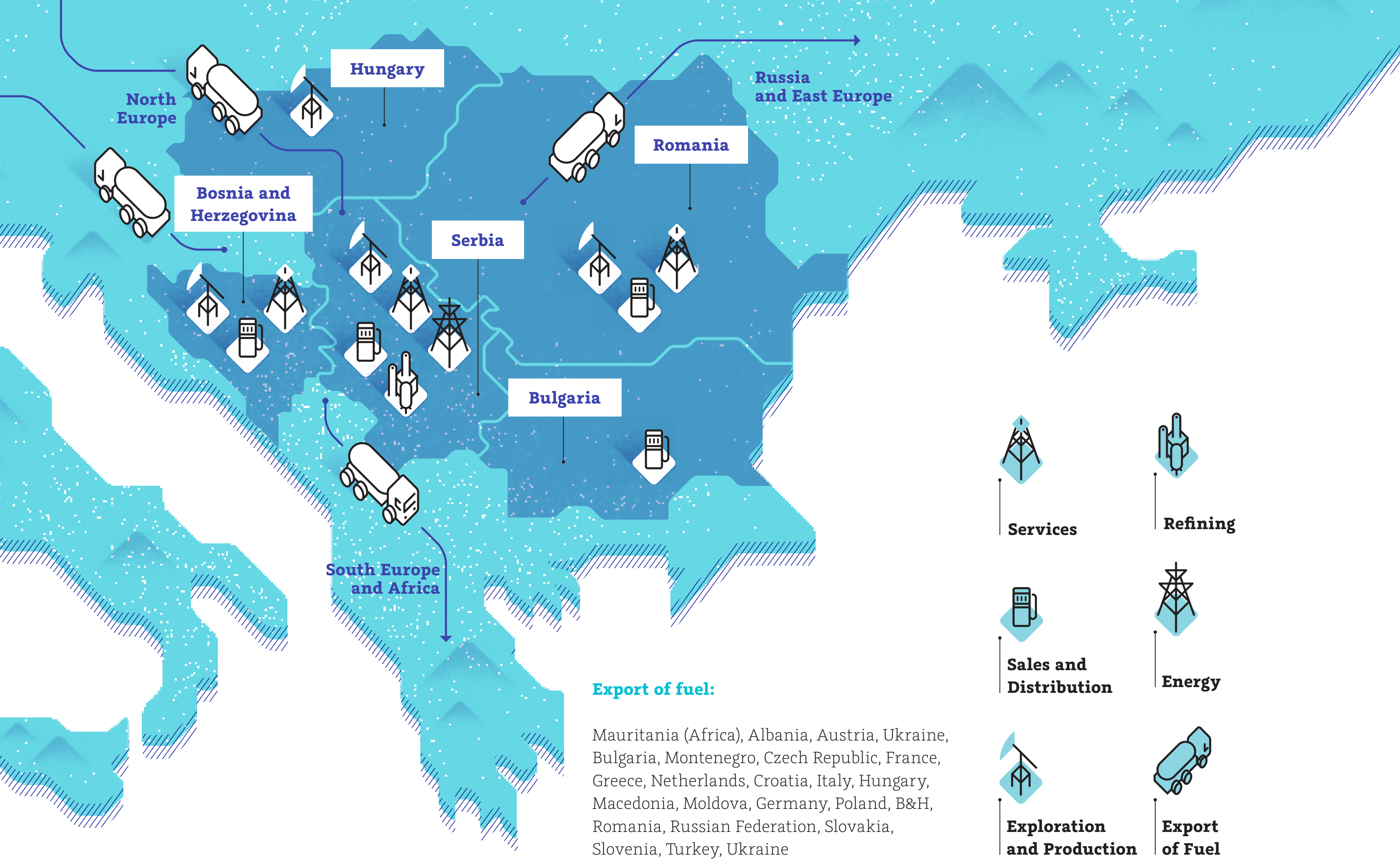
1968
Start of operations of Pančevo and Novi Sad oil refineries.

Velebit oil deposit discovered.

1970

1979
Gas pipeline Horgoš – Batajnica commissioned.

1985
Start of oil exploitation in Angola (concessions).



Export of fuel:

Mauritania (Africa), Albania, Austria, Ukraine, Bulgaria, Montenegro, Czech Republic, France, Greece, Netherlands, Croatia, Italy, Hungary, Macedonia, Moldova, Germany, Poland, B&H, Romania, Russian Federation, Slovakia, Slovenia, Turkey, Ukraine

1980 1990 2000 2010 2020

1991

Incorporation of the public enterprise "Naftna Industrija Srbije" incorporated.

2005

The Company obtained the status of a joint-stock company.

2009

OJSC "Gazprom neft" became a majority shareholder of NIS.

Start of modernization of refining facilities

2010

NIS became an open joint-stock company with 4.8 million shareholders and was listed on the Belgrade Stock Exchange.

2011

Start of NIS' expansion in the region: in Bosnia and Herzegovina, Romania, Hungary and Bulgaria.

2012

First stage of Pančevo Oil Refinery modernization completed and the start of Euro 5 quality fuel production.

2013

Payout of dividends for the year of 2012 to the total of RSD 12.4 billion.

Start of NIS' transformation into an energy company.

2014

Sale of first quantities of electricity in the market.

NIS launched new fuel on the market – ULTRA D, branded premium Euro Diesel

NIS Group's Business Structure

Representative and Branch Offices

- Turkmenistan Branch Office
- Branch Offices in Serbia[1]
- Angola Representative Office
- Bulgaria Representative Office
- Croatia Representative Office
- Kingdom of Belgium Representative Office
- Bosnia and Herzegovina Representative Office
- Hungary Representative Office
- Romania Branch Representative Office
- Russian Federation Representative Office

Subsidiaries

- O Zone a.d. Belgrade
  - NIS Energowind d.o.o. Belgrade
- Naftagas - naftni servisi d.o.o. Novi Sad
- Naftagas - tehnički servisi d.o.o. Zrenjanin
- Naftagas - transport d.o.o. Novi Sad
- NTC NIS NAftagas d.o.o. Novi Sad
- NIS Overseas o.o.o Sankt Peterburg
- NIS Petrol e.o.o.d. Sofia
- NIS Petrol s.r.l. Bucharest
- NIS Petrol d.o.o. Banja Luka
  - G – Petrol d.o.o. Sarajevo
- Panon Naftagas kft Budapest
- Jadran Naftagas d.o.o. Banjaluka
- NIS - Svetlost d.o.o. Bujanovac
- JUBOS d.o.o. Bor

[1] According to the Law on Tourism of the Republic of Serbia, if a company does not operate a hospitality business as a core activity, in order to perform these activities, the company is obliged to form a branch, i.e. with premises outside its business seat, and register it in the appropriate registry, or otherwise establish an appropriate organizational unit that is recorded in the Tourism Registry. For this reason, the Company registered all petrol stations where it operates a hospitality business as separate branches. The list of petrol stations which are registered as branches is posted on the website: http://ir.nis.eu/about-the-company/group-structure-hide/

NIS j.s.c. Novi Sad Business Structure

NIS
GAZPROM NEFT

- Corporate Centre
- NIS
- Representative and Branch Offices

Exploration and Production

- Department of Oil and Gas Production
- Department of Geological Research and Deposit Development
- Drilling Department
- Department of Well Operations
- Department of Capital Construction
- Department of Perspective Development and Foreign Aseets
- PEC Department
- Department for Management of Oil Services
- HSE Sector
- HR Service

Services

- Department of Sale and Business Development
- PEC Department
- Department of MT and SS
- Central Engineering Technical Sector
- HSE Sector
- HR Service
- Mud Department
- Chief Engineer

Refining

- Department of Production
- Technical Department
- PEC Department
- Department of Development
- HSE Department
- Sector for Securing Material Technical Resources
- HR Sector

Sales and Distribution

- Wholesale, Logistics and Lubricants
- Retail and Development
- Department of Development, Investments and Capital Construction
- PEC Department
- Department for Marketing
- Department for HSE and Quality Control
- Department of MT and SS
- HR Sector

Energy

- Development and Investments
- Department of Electricity Trade
- Department of Sale and Management of Natural Gas Portfolio
- Department for Energy Facility Exploitation
- PEC Department
- Energy Management Sector
- HSE Sector
- Service for MT and SS

Business Activities

NIS Group's business activities are organized within the parent company NIS j.s.c. Novi Sad in:

Five Blocks:
- Exploration and Production Block
- Services Block
- Refining Block
- Sales and Distribution Block
- Energy Block

NIS main activities are exploration, production and refining, sales and distribution of a broad range of petroleum products, as well as the implementation of energy projects. NIS has a time-honoured tradition and high-quality resources. It is the only company in Serbia which pursues oil and gas exploration, as well as geothermal energy production.

Partially de-centralized Functions
- Function for Finance, Economics, Planning and Accounting
- Function for Strategy and Investments
- Function for Material-Technical and Service Support and Capital Construction
- Function for Organizational Affairs
- Function for HSE

And Centralized Functions
- Function for Legal and Corporate Affairs
- Function for Corporate Security
- Function for External Affairs and Government Relations
- Function for Public Relations and Communications
- Function for Internal Audit[1]

1 Function for Internal Audit is subordinate to the CEO, but also reports to the Audit Committee of the Board of Directors

Although not singled out as a separate function, one of the CEO's Deputies is in charge of the petrochemical business.

Exploration and Production Block covers the area of exploration and production of crude oil and gas, namely: exploration, production, infrastructure and operational support for the production and management of oil and gas reserves, management and development of oil and gas deposits and major projects in the field of exploration and production.

Oil and gas exploitation is currently performed in the northern part of the Republic of Serbia, in Vojvodina. Annual production of domestic oil and gas was 1.6 million t.o.e. which represents 97% of NIS annual production in 2014. In Angola, NIS has operated since 1980, and in 1985 it began oil production in the country (approximately 3% of NIS oil and gas production in 2014, i.e. 0.06 million tons).

NIS is conducting oil and gas exploration projects in the Republic of Srpska (Jadran Naftagas d.o.o. Banja Luka), Hungary (Pannon Naftagas Kft, Budapest) and Romania (NIS Petrol s.r.l. Bucharest).

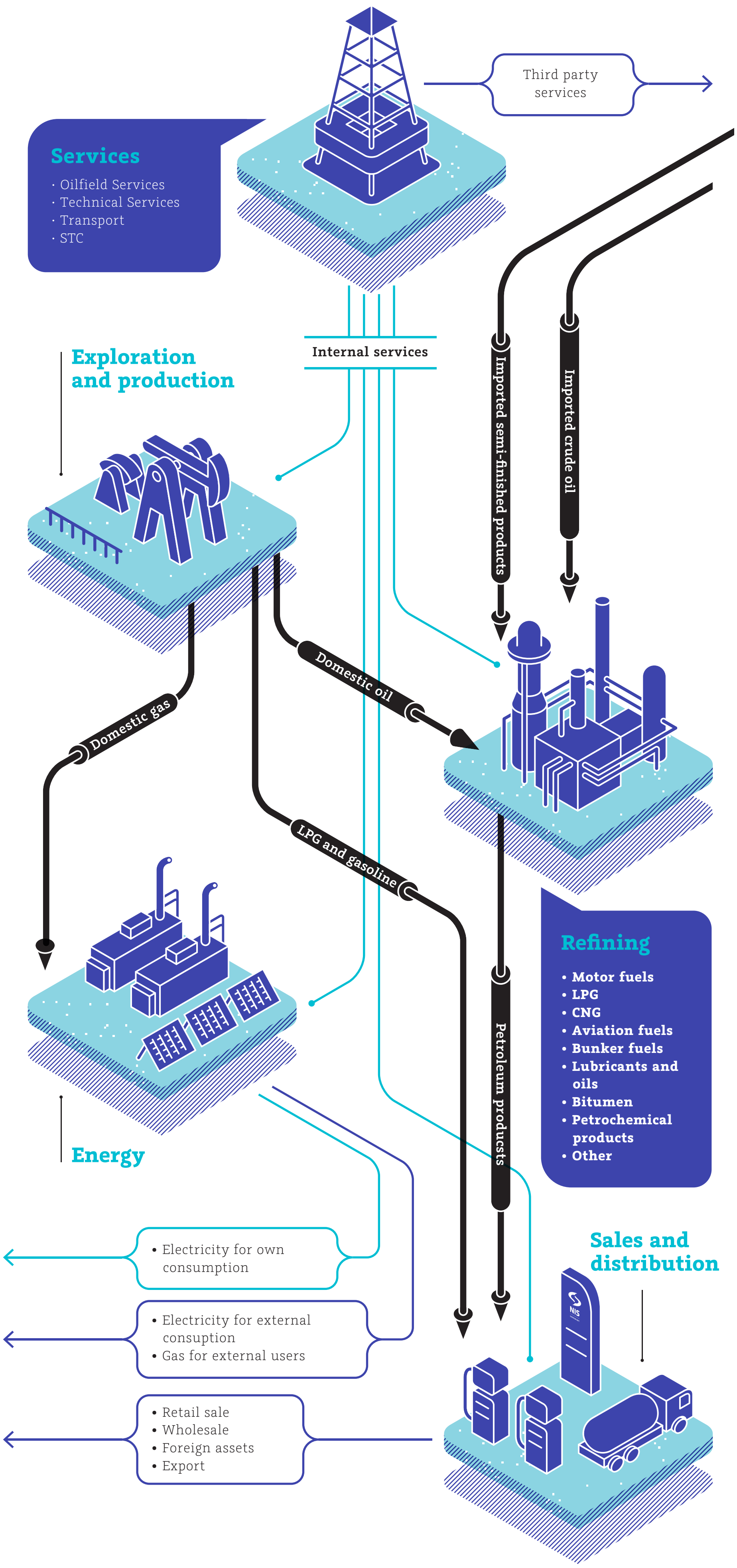
The facility for LPG production in Elemir operates within the Exploration and Production Block. Total projected capacity of this facility is 63,000 tons of LPG and natural gasoline (gazolin) per annum.

Through its subsidiary Scientific and Technological Centre (NTC) NIS Naftagas d.o.o. Novi Sad, NIS provides scientific and technical support to the prevailing activity of the parent company and ensures development and innovation within its business operations. As a regional base, this subsidiary should meet the needs of NIS, OJSC "Gazprom Neft" and its subsidiaries, but also provide external services to third parties outside NIS and Serbia.

Services Block provides major support for exploration and production in all processes of exploration and production of oil and gas from geophysical services, drilling and workover of wells, to the process of transportation of assets, maintenance of work equipment and construction and maintenance of oil and gas systems and facilities. Services Block also provides service of transportation of employees.

Services Block has expanded its business to foreign markets: in the territories of Bosnia and Herzegovina and Romania. The new installation K-1 was introduced into production in 2014, and thus eight drilling rigs were engaged at the end of the year. At the same time, 16 workover units were engaged on the fulfillment of the production plan for this year (15 of them until July), and four new workover units were purchased and will be put in operation in early 2015.

Refining Block is engaged in the production of petroleum products (of Euro-quality standard). NIS produces a full range of petroleum products: motor fuels, raw materials for the petrochemicals industry, motor oils



and other petroleum products. NIS' refining complex comprises two production units in Pačevo and Novi Sad, and the maximum design capacity of the processing plants within both refineries (Pančevo and Novi Sad) exceeds seven million tons of crude oil a year. Pančevo Oil Refinery, with projected annual capacity of 4.8 million tons, is in operation; Novi Sad Oil Refinery is in the process of conservation, so its projected annual capacity of 2.5 million tons has not been put to use yet.

Sales and Distribution Block includes external and internal trade, wholesale trade, retail trade in petroleum products and related goods. NIS operates the largest retail network in Serbia. On the day of December 31 2014, in the Republic of Serbia NIS Group owned: 334 operating retail facilities (333 petrol stations, 323 public (including 12 under the Gazprom brand) and ten internal petrol stations, as well as one station for LPG bottles; five storage stations for petroleum products in use (Novi Sad, Smederevo, Belgrade, Požega and Niš), five active storage stations for liquefied petroleum gas (Novi Sad, Belgrade, Zrenjanin, Čačak and Niš) and two active storage stations for derivatives (Čačak and Jakovo).

In the countries of the region, NIS operates 88 petrol stations. In Bulgaria 35 stations are currently active, 18 in Romania, while in Bosnia and Herzegovina 35 petrol stations are in operation.

In the territory of Serbia and the region, NIS operates in the market with two brands: NIS Petrol and Gazprom.

As separate business lines, NIS is developing the supply of jet fuel and bunkering. NIS offers two types of jet fuel: jet fuel Jet A-1, which is produced in the refinery in Pančevo, and jet fuel Avgas 100LL, imported from world-famous producers. On the Danube NIS has four bunker stations for supplying ships with Euro diesel and lubricants in Novi Sad, Veliko Gradište, Smederevo and Prahovo.

Apart from jet fuel and bunkering, NIS is developing lubricants and bitumen sales.

Energy Block is engaged in the production of electricity and heat from traditional and renewable sources of energy, gas trade, electricity trade, development and implementation of energy projects of strategic importance and development and implementation of projects to improve energy efficiency.

Energy Block develops and implements energy projects within NIS Group; it performs analysis and evaluation of investment projects as well as conceptual projects in the energy sector in Serbia, with the aim of committing to participate in a strategic partnership.

1.04 Strategic Objectives

Due to significant macroeconomic changes over the past few years, NIS has started reviewing its existing Development Strategies to be able to adequately respond to the emerging market challenges, which have changed considerably compared to the period when the previous version of the Corporate Development Strategy was prepared. NIS will continue to evolve towards building a strong foundation which should ensure stable development of the Company in the future, at the same time as diversifying its risks and business opportunities.

Exploration and production

As before, NIS will mainly focus on research and production and will:

- pay close attention to increasing the efficiency and yield of the existing reservoirs, as well as measures aimed at the reduction of production losses;
- intensify activities in the field of exploration in Serbia, and
- maximize potential exploration opportunities related to non-conventional resources in the medium-term.

NIS is planning to increase its activities in concession projects, and to analyze potential new business opportunities in the region and beyond, to ensure long-term sustainable development.

Services

Further development of Services will be aimed at, to support the implementation of the Company's plans in exploration and production. Improvement of the service quality, increase in capacity utilization and increase in efficiency are key priorities for future development of Oilfield services.

Refining

Only the most complex refineries in Europe will have the opportunity to fully compete with the refining capacities in the Middle East and maintain profitability in the long run. The petrochemicals industry in Europe is in an even worse situation and is not competitive in terms of costs with the Middle East and North America. To that end, NIS is considering the possibilities of continuing the development of refining capacities, firstly by their further modernization, followed by a steady operational efficiency increase which was initiated in 2009, along with plans to further increase the efficiency of all relevant indicators.

Sales and distribution

As regards the sales, NIS will further solidify its operations in the regions where it currently operates and expand its business activities in these regions to the greatest extent possible. In order to overcome major adverse market trends, NIS will pay special attention to the implementation of the operational effectiveness program throughout the entire value chain in sales and distribution, while at the same time implementing the innovative retail sales formats, thus making the offer more appealing to customers and efficient for NIS itself.

The strategic goal of the Company was and still is to become the most efficient, fastest-growing energy company in the Balkans while maintaining a leadership position in the domestic market.

Energy

Being the youngest business aspect of NIS' portfolio, energy is a rapidly growing segment with ambitious development plans involving Serbia and the trends which entail a complete monetization of its own natural gas through the development of cogeneration power plants and the production and sale of compressed natural gas. Thus, the effects of its own energy sources will be maximized and meet the internal energy needs, as well as the needs of customers in the market. At the same time, energy is developing towards diversification of energy sources which will be used to produce electricity and heat from conventional resources to renewable energy sources.

Mission

By responsible use of natural resources and advanced technologies, we give the people of the Balkans the energy to strive for improvement.

Vision

As a vertically-integrated energy company, NIS j.s.c. Novi Sad will become a recognized leader in the Balkan region in its field of activity, owing to its rate of sustainable development and increased efficiency, its demonstrations of a high-level social and environmental responsibility, and its modern customer service standards.

Values

Professionalism

Acquiring up-to-date knowledge in order to improve our expertise and capacity for implementation in the relevant work processes.

Initiative and responsibility

Finding and proposing new solutions in the domain of our work commitments, as well as in the area of the Company's general interests. Championing a positive attitude and cooperation.

Positive attitude and cooperation

Readiness to participate in multifunctional groups and projects, eagerness to respond to requests of colleagues from other units of the Company and to exchange information; ability to work as a team.

Shared Results

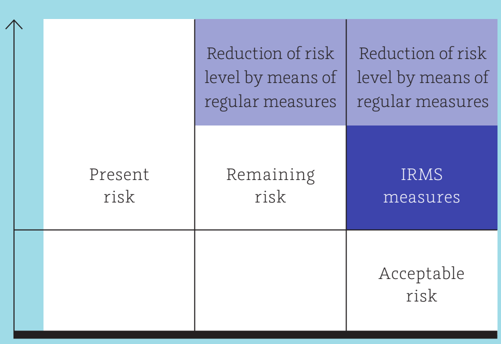
Joint efforts in order to produce visible and distinguished results, a desire to achieve success, provide indispensable assistance and promote the cooperation of employees.

1.05 Risk Management

Integrated Risk Management System

NIS has defined its objectives in the field of risk management and established an integrated risk management system (IRMS). IRMS is a systematic, structured, unified, continuous and permanent system of risk identification and assessment, defining the measures for risk management and monitoring their implementation. The basic principle underlying this system is that the responsibility for managing different risks is assigned to different levels of management, depending on the assessed financial impact of the risk.

Risk management

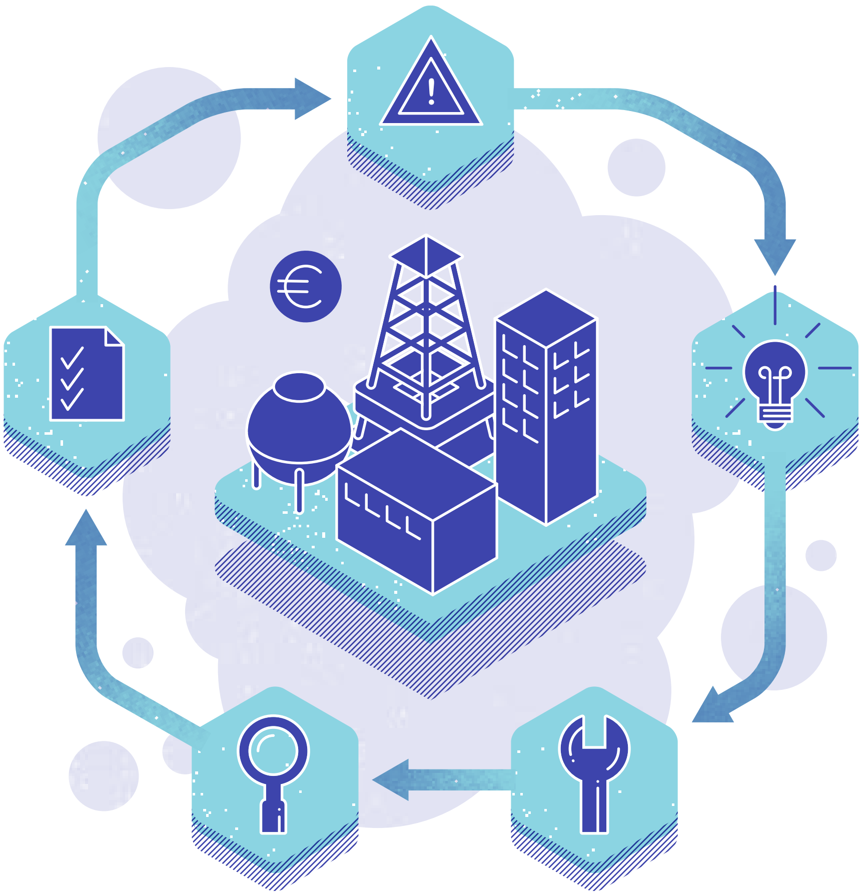


The process also includes all key subsidiaries[1] through preparation of the consolidated risk register. The parent Company has established the Risk Assessment Section which coordinates and continually develops this process. The objective in the field of risk management is to ensure additional guarantees for achievement of strategic and operational goals by means of a timely risk identification and prevention, define the effective measures and provide for maximum efficiency of risk management measures.

Risk management has become an integral part of the internal environment through the implementation of the following processes:

- Adoption of the risk-oriented approach in all aspects of the management activity
- Systematic analysis of identified risks
- Establishment of the risk management system and monitoring the efficiency of risk management measures
- Informing all employees of the adopted basic risk management principles and approaches
- Ensuring the required normative and methodological support
- Risk management authorization and responsibility distribution between the organizational units.

1 NIS Petrol EOOD, NIS Petrol s.r.l., NIS Petrol d.o.o., Jadran – Naftagas d.o.o., Pannon Naftagas kft, Naftagas – Tehni;ki servisi d.o.o., Naftagas – Naftni servisi d.o.o., Naftagas – Transport d.o.o.



tivity. This largely depends on the results of geological and exploration activities aiming at the well stock increase in the country and abroad.

The main risk in the field of exploration and production ensues from unconfirmed estimated reserves and, consequently, failure to achieve the planned increase in the resource base.

NIS has considerable experience in conducting geological and exploration works. Due to the expertise of exploration and production works performed internally by the majority shareholder and the use of up-to-date exploration methods, the probability of this risk is reduced. In order to increase the efficiency and quality of geological and exploration works, the drilling rig fleet has been further modernized.

The risk arising from the sanctions against Russian companies and the Gazprom Group

As a result of imposing sanctions against Russian companies and the Gazprom Group, as well as the newly developed international situation, political risks have intensified. The Company continuously monitors international developments, assessing the consequences for business and undertaking appropriate activities in order to minimize potential adverse impacts on the Group performance.

IRMS Inegration into Business Planning Process

Risk assessment constitutes an integral part of the business planning process and the key risk information constitutes an integral part of business plans.

Risk identification and assessment are carried out in parallel with the business planning process. With respect to key risks, the management strategy, risk management measures, required financial resources for measure implementation, and people responsible for their implementation are defined.

In its business operations, the Group faces industrial (operational) and financial risks.

Operational Risks

As the principal areas of operation include production, refining, sales and distribution of oil and gas, the Group is especially vulnerable to risks related to exploration and production of oil, as well as the risks arising from the sanctions against Russian companies and the Gazprom Group.

Risks in the Field of Oil Exploration and Production

One of the prominent goals of NIS Group is to increase the resource base by intensifying the exploration ac-

Financial Risks

Business operations of NIS Group are exposed to various financial risks: market risk (including foreign exchange risk, price risk, and interest rate risk), credit risk, and liquidity risk. In the conditions of unforeseeable financial markets, risk management helps reduce a potential negative impact on financial operations to a minimum.

Market Risk

Foreign exchange risk – NIS Group performs its business activity in the international settings and is exposed to the risk of volatile foreign currency exchange rates, evolved in the business transactions in different currencies, primarily USD and EUR. The risk is created with respect to future business transactions and recognized assets and liabilities. Part of the risk relating to the impact of the national currency exchange rate against USD is neutralized through natural hedging of petroleum product sales prices, which are adjusted to changes in the exchange rate, and use of risk management instruments such as forward transactions on the foreign exchange market which reduce the impact of foreign currency losses, in case of depreciation of national currency against USD or EUR.

Risk of price change – In view of its core activity, NIS Group faces the risk of changes in price, primarily of crude oil and petroleum products, which affects the value of stocks and oil refining margin, further affecting the future cash flows. Part of this risk is offset by adjustment of petroleum product sales prices against such changed oil and petroleum product prices. The need to use certain commodity hedging instruments in subsidiaries within the Group, including NIS j.s.c. Novi Sad as a subsidiary, is determined at the level of "Gazprom Neft" Group.

Additionally, the following activities are undertaken in order to reduce the potential negative impact of this risk:

- Annual planning based on the scenario approach, plan follow-up and timely adjustment of operating crude oil procurement plans,
- Regular sessions of the Committee for procurement of crude oil,
- Tendency to enter into long-term contracts for purchase of crude oil at the best market and commercial terms, including extended payment terms on an open account basis,
- daily follow-up of crude oil publications and contacts with foreign partners.

Interest Rate Risk – NIS Group is exposed to the interest rate risk both in terms of its indebtedness with the banks and placement of deposits. NIS j.s.c. Novi Sad takes on loans from commercial banks at floating interest rates and performs sensitivity analysis with respect to change of interest rates in order to estimate if raising a loan at a flat interest rate is required to a certain extent. In addition, NIS places deposits. Term deposits are placed with the major commercial banks exclusively, from which NIS j.s.c. Novi Sad takes out loans and/or credit/documentary lines. Moreover, the term deposits, both in RSD and in foreign currency, are short-term (up to 90 days), at flat interest rates. Based on the aforesaid, revenues and cash flows are substantially independent of changes in market interest rates on deposited funds in the form of term deposits, although the interest rates that NIS j.s.c. Novi Sad can obtain in the market heavily rely on the base interest rate at the moment of depositing (Belibor/reference interest rate of the National Bank of Serbia).

During 2014, NIS j.s.c. Novi Sad granted subordinated loans to foreign companies in which the Company owns the majority interest (NIS Group members), as a source of financing business activities abroad. The loans granted for this purpose are secured at variable interest rates (EURIBOR).

The loans granted at variable interest rates expose NIS j.s.c. Novi Sad to the cash flow interest rate risk.

Depending on the net debt at a certain period, any change of the basic interest rate (EURIBOR or LIBOR) has an impact on the NIS Group's results.

Credit Risk

Credit risk management is established at the level of NIS Group. Credit risk is related to cash and cash equivalents, deposits with banks and financial institutions, intercompany loans granted to foreign or local subsidiaries, as well as due to the exposure in wholesale and retail sale risk, including unrecoverable debt and assumed payment obligations.

With respect to credit limits, banks are ranked based on the adopted methodologies applicable to major and other banks, in order to determine the maximum amount of securities to secure claims from one bank.

Regarding the accounts receivable, the developed credit limits methodology defines the level of exposure of specific customers, depending on their financial indicators.

Liquidity Risk

NIS Group continually monitors liquidity in order to provide sufficient funds for its business operations, while maintaining the level of unused lines of credit, so as to prevent exceeding the credit limits with banks or breach of conditions stipulated by loan agreements.

This type of projection takes into account the Group's debt repayment schedules, compliance with contractual terms and compliance with internally-set goals, and it is based on the daily cash flow projections of the entire NIS Group which are the basis for making decisions on the need to raise external loans, in the cases of which adequate bank financing sources are secured, provided compliance with the allowable limits set by OJSC "Gazprom Neft".

Aiming to increase liquidity and decrease dependence on external financing sources, as well as to decrease the NIS Group's costs of financing, as of 1 January 2014, the cash pooling system has been introduced for liquidity management, which involves the centralized management of liquidity and financing with respect to the division of NIS Group in the Republic of Serbia .

As of mid-September 2014, NIS j.s.c. Novi Sad has been facing the risk of limited external financing capabilities due to the EU and US sectorial sanctions imposed against Russian companies. Owing to continuous monitoring of geopolitical situation and capital market trends, as well as the timely response and entering into lines of credits with the banks before introduction of the aforesaid sanctions, NIS j.s.c. Novi Sad has managed to secure sufficient limits for documentary business and credit financing of NIS Group by the end of 2014.

1.06 Business Environment

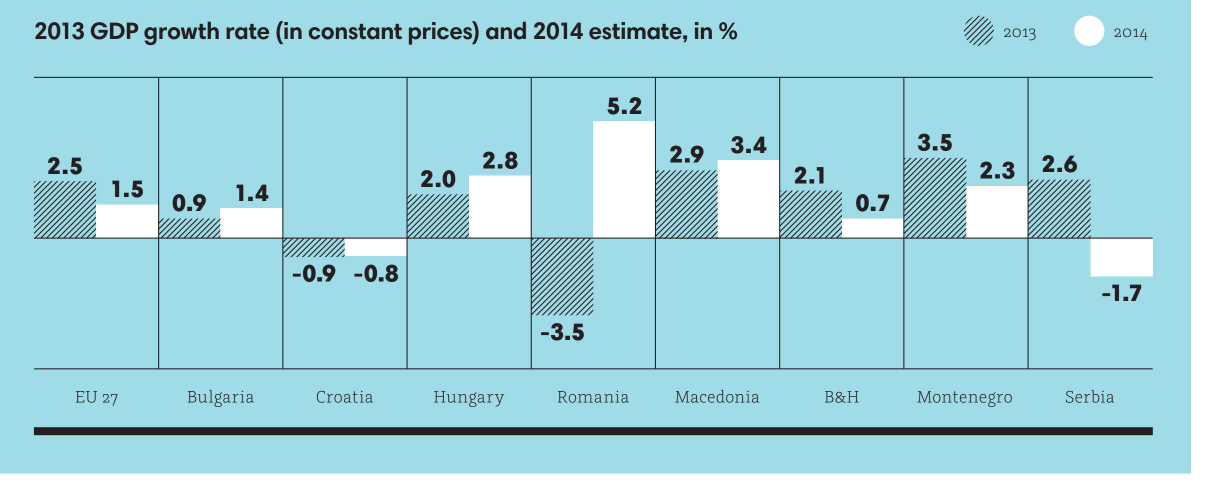
Global

Five years on, developed countries have started recovering from the consequences of the financial crisis. The recovery is expected to stimulate the economic growth in developing countries as well. The positive trend is furthermore strengthened by China's consistently good economic results. In 2014, the country officially became the world's biggest economy based on purchasing power parity. China is also the largest exporter of goods in the world.

The World Bank expects the global GDP in 2014 to rise to 3.2%, an increase compared to 2.4% in the previous year. The positive trend is expected to continue in 2015 and 2016 with the growth rate of 3.4% and 3.5% respectively, wherein a substantial part of the initial acceleration will result in a more robust economic growth in developed economies.

The overall economic growth slowed down in Central, Eastern and Southeastern Europe (CESEE) in the second half of 2014. In October, the IMF revised down the growth forecast for the region to 1.2 percent. The reduction largely reflects the effects of Ukraine-Russia tensions.

Inflation rates are also very divergent across the region. Declining world food and energy prices and low inflation in the Eurozone have additionally pulled down prices across most of CESEE except Turkey, Russia and the rest of the CIS, where high domestic food prices and exchange rate depreciation have kept inflation high.



Increasing Operational Efficiency

What?

Enhancing efficiency - reducing the effects of the crisis

Operational efficiency involves enhancing the use of internal resources in all business segments of the company. In the difficult business conditions due to negative economic trends, it is a way of using one's own resources for the purposes of further development of the company.

How?

Better than better

For the increase in the operational efficiency to yield the expected results, it is necessary for each employee to change the approach to performing his work duties and to use his own innovativeness to contribute to increasing the efficiency of business processes, developing new business, the use of new technology and innovation, and enhancing competitiveness.

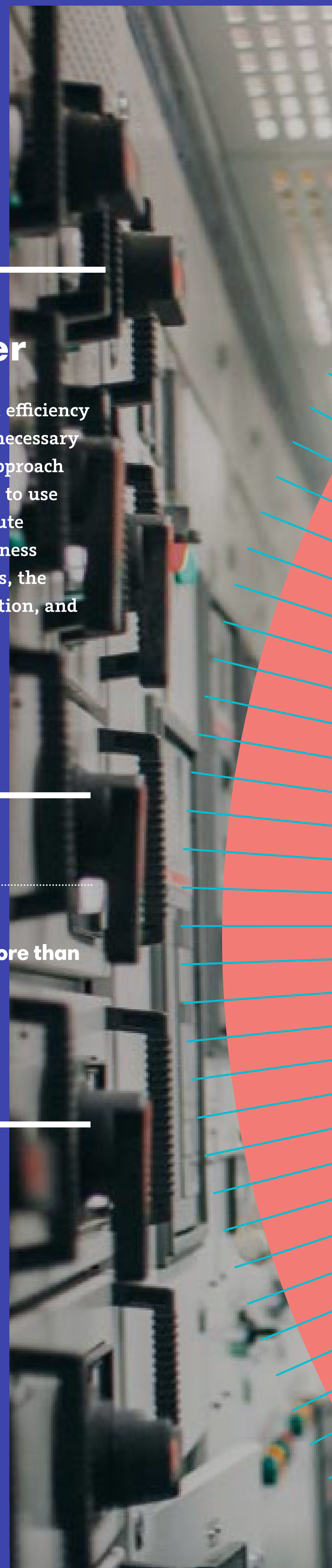
Effects

Reduction of the internal costs at all levels in 2014 is the best indicator of business efficiency, with the effects surpassing the expectations.

Savings achieved amount to more than

8

billion dinars




NIS

Serbia

Economy decline, which started in late 2013, continued and deepened in 2014 for several reasons:

- Slow Eurozone recovery and, accordingly, weaker import (especially of automotive industry and agricultural commodities)
- Drop in industrial production volume (largely due to the flood damage in the first half of the year – around 1.2% of the GDP),
- Continuation of negative trends in the construction sector.

31%

drop of the price of Urals crude oil in Q4 2014 compared to Q4 2013

The NBS forecasts that the total economic activity in 2014 measured in gross domestic product and expressed in constant prices, will have an actual drop of 1.7% compared to the previous year.

In 2014, the physical volume of industrial production decreased by 6.8%. The decline was predominantly caused by the power, gas and vapor supply sector.

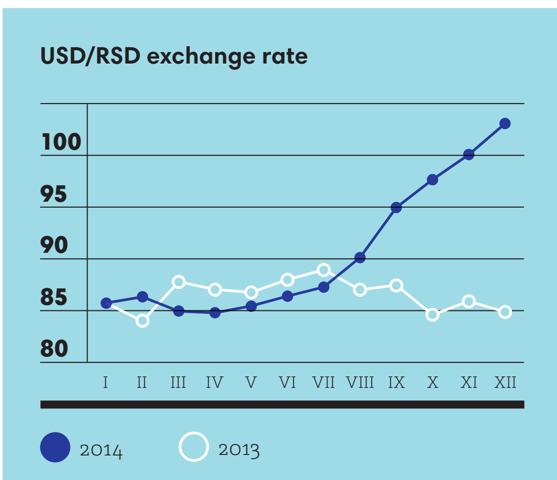
Since the start of the year, Serbian dinar depreciated nominally against all major world currencies – US dollar (19.6%), Swiss franc (7.5%) and euro (5.5%). The exchange rate depreciation is, in principle, favorable for the competitiveness of Serbian exports. However, it has also resulted in the increase of debt coverage costs, both for the state, and for the private sector.

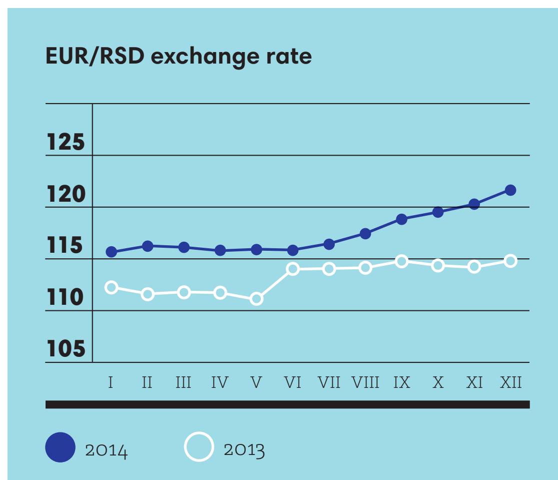
Inflationary pressures remained low, primarily due to the low aggregate demand, absence of the usual administered price adjustment, and the low cost-push pressures both in terms of raw materials in food production, and in terms of import prices.

Looking at inflation components, the inflation fluctuations were mostly due to food prices. Their drop can be linked to a drop in international and domestic prices of primary agricultural commodities since mid-May. This followed largely from the absence of electricity price adjustment and a drop in petroleum product prices. Annual inflation rate in Serbia is estimated at 2.3%.

According to the assessment of the Statistical Office of the Republic of Serbia, 1,688,577 people were employed in October. Survey unemployment rate (SORS) in the Q3 of 2014 dropped to 17.6%, down from 20.3% in the previous quarter of 2014. This is the lowest rate since April 2010, when it amounted to 19.2%. The main reasons behind the lower unemployment rates are seasonal factors and the number of people employed in the informal sector.

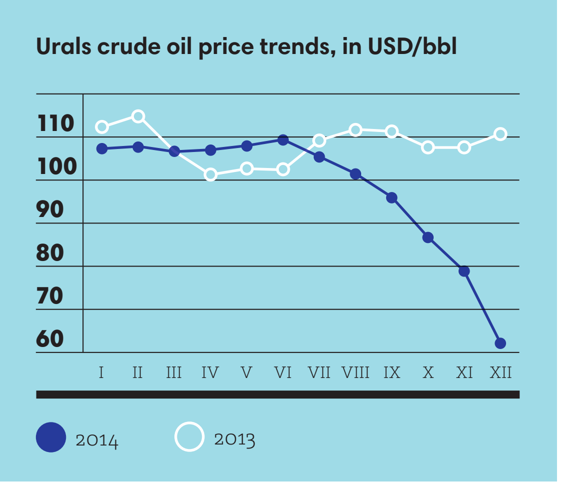
Net salaries and wages paid in 2014, compared to the net salaries and wages paid in 2013, were higher by 2.6% in nominal terms and lower by 0.3% in real terms.

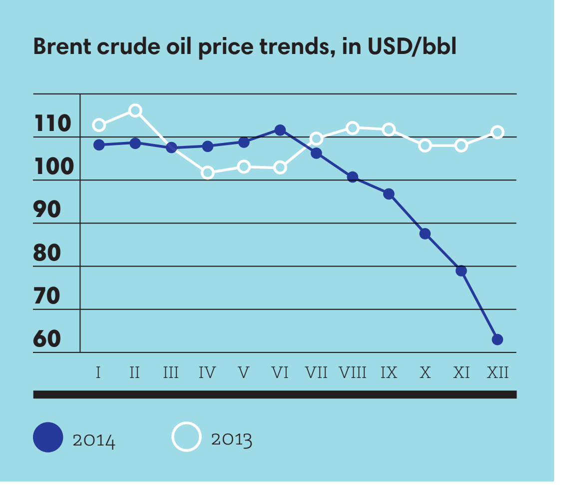




- Increase of USD/RSD exchange rate in 2014 was 16.3359 RSD or 19.65% (USD/RSD exchange rate changed from 83.1282 RSD as of 1 January 2014 to 99.4641 RSD as of 31 December 2014)
- Decrease of USD/RSD exchange rate in 2013 was -3.0481 RSD or -3.5% (USD/RSD exchange rate changed from 86.1763 RSD as of 1 January 2013 to 83.1282 RSD as of 31 December 2013)

- Increase of EUR/RSD exchange rate in 2014 was 6.3162 RSD or 5.49% EUR/RSD exchange rate changed from 114.6421 RSD as of 1 January 2014 to 120.9583 RSD as of 31 December 2014)
- Increase of EUR/RSD exchange rate in 2013 was 0.9238 RSD or 0.8% (EUR/RSD exchange rate changed from 113.7183 RSD as of 1 January 2013 to 114.6421 RSD as of 31 December 2013)





Emergency Situation

Abundant precipitations in May in Serbia and Bosnia and Herzegovina resulted in floods and declaration of the state of emergency, having both direct and indirect impact on NIS business operations. The precipitations induced rising of groundwater and surface waters and, as a result, protective measures were issued such as flood barriers, cleaning of the channels and temporary flood protection. The Services was engaged to help reconstruct the roads. In Pančevo Oil Refinery, the water was prevented from breaking into the substation at Block 11. Two warehouses were closed in Serbia, and a number of petrol stations in Serbia and Bosnia and Herzegovina were flooded. NIS engaged all its available capacities in order to mitigate the effects of the natural catastrophe by means of donations in fuel, drinking water and equipment, and the employees organized "Support Now!" humanitarian campaign. The overall economic effect of May floods (direct and indirect) amounted to five billion dinars.

In December, the state of emergency was declared in three municipalities in Serbia – Majdanpek, Donji Milanovac and Bor. Abundant snowfall caused loss of electric power. During the state of emergency, NIS petrol stations in the affected areas were equipped with additional electrical generating units, in order to ensure continuous fuel supply in the municipalities affected by the adverse weather. In addition, NIS provided aid to the affected residents in the form of LPG cylinders for the households in Majdanpek Municipality and the neighboring villages.

Changes to Legislation

In 2014, the legislative activities of competent authorities recorded an unsteady trend as a consequence of parliamentary elections in the Republic of Serbia and the flood emergency situation. Legislative activities in the Republic of Serbia were aimed at improving the economic climate, and further harmonizing national regulations with the regulations of the European Union in the energy and environmental protection sector.

In the same period, the National Assembly enacted several important laws:

- The Law amending the Labor Law which has created conditions for employment rate increase in Serbia on the one hand and for enabling employers to generate economic savings, on the other.
- A completely new Privatization Law which has brought a significant novelty in defining deadlines after which it will be possible to resume or initiate the forced collection and enforcement procedure against the subjects of privatization undergoing restructuring on the effective date of this law.
- The Law on Amendments to the Bankruptcy Law specifying a range of terms and institutes in the bankruptcy proceedings and shortening bankruptcy procedure periods by which optimum time frames of these procedures should be specified. The Law on Tax Procedure and Administration which has improved regulation of inspection procedure and authorization of inspection bodies and introduced more severe fines for tax evasion, with the aim to stamp out grey economy. The Law on Employment of Foreign Nationals which, for the first time, by introduction of a special provision, stipulates the requirements and procedure for employment and work of foreign nationals in the Republic of Serbia.
- The Law on the Amendments to the Law on Planning and Construction which could save time due to shortening of specific procedures, but also money due to their consolidation and cutting the number of fees which need to be paid. New Energy Law, harmonizing the national regulations in the field with the regulations of the European Union and enabling enforcement of the EU Third Energy Package.

Extensive and heavy rainfall in May in Serbia and Bosnia and Herzegovina caused floods and the declaration of a state of emergency, which affected, directly and indirectly, the business operations of NIS. The overall economic impact of floods in May, direct and indirect, amounted to RSD 5 billion.

In 2014, a number of by-laws were enacted based on the Law on Commodity Reserves, in particular the Regulation on the Amount, Method of Calculation, Payment, and Allocation of Fee for the Establishment of Emergency Stocks of Crude Oil and Petroleum Products. The fee imposed on energy companies regarding the required stocks of petroleum products will be yet another levy for the end consumers, added to the already burdened price of petroleum products.

In addition to the enacted laws, in 2014 a number of draft laws were prepared and reviewed and are expected to be adopted in 2015, primarily the Draft Law on Geological Exploration and Mining.

The laws regulating inspection supervision and flammable and combustible fluids and flammable gases, which will directly impact on the production and sales processes, and the Company's operations on the whole, are also in the phase of being drafted.

1.07 Market Position

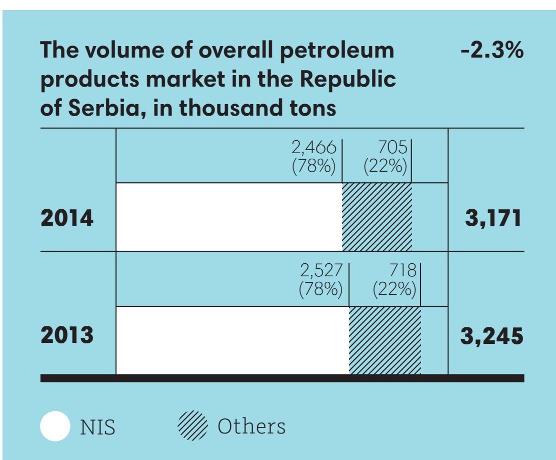
Position in the Serbian Market

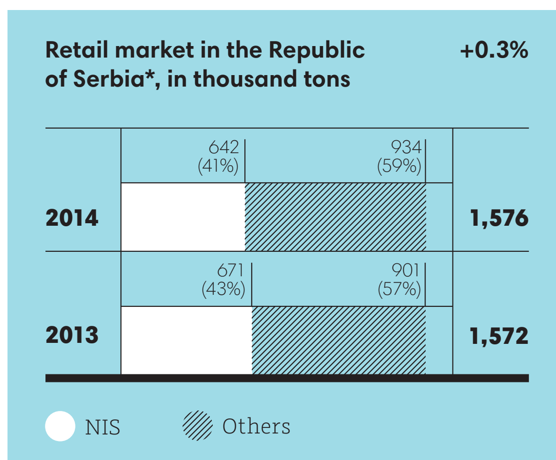
Consumption of petroleum products is declining. Virgin naphtha and LPG have recorded the greatest drop in consumption, while diesel fuels show a slight upward trend. Consumption of aviation fuel has soared primarily owing to the expanding business activities of Air Serbia Airline Company. The growth in bitumen consumption is a result of continued construction of the corridor through Serbia and the finishing of Pupin's bridge in Belgrade.

NIS' market share has remained stable compared to the year before as a result of an adequate market approach and flexible response to the changing environment.

The retail market is on the same level as it was last year, characterized by a slightly modified structure reflected in a decreased LPG demand and increased Diesel fuels consumption. In August, the monitoring of markers in motor fuels was introduced, which improved quality control of fuels sold in Serbia.

NIS share in the retail market has slightly shrunk, as a result of a different mechanism of the agricultural programme which now allows distribution by all petrol stations in the country and not by only one distribution system, as was the case in the previous years. During the agricultural season, substitution of Diesel fuels with fuel oils, whose sales were rising, was perceivable.





* NIS and other competitors' sales include motor fuels (gas, motor fuels, diesel and EL fuel oil used as motor fuel). LPG bottles excluded.

Position in the Markets of Bosnia & Herzegovina, Bulgaria, and Romania

Bosnia and Herzegovina

The motor fuel market is recovering slowly due to the flagging economy and negative effects of May floods.

Due to lower excise and taxes compared to other countries, Bosnia recorded a growth in cross-border purchases carried out by the residents of frontier areas, including purchasing of fuel.

35 petrol stations are active in Bosnia and Herzegovina.

NIS' share in the total motor fuel market is 7% and in the retail market 7.3%.

Bulgaria

A gradual market recovery continued in 2014 in Bulgaria. Growth of motor fuel market is a result of increase in Diesel consumption, which should be a key factor for further long-term development.

In the last quarter, LPG and motor gasoline consumption increased as a result of a sharp drop of fuel price.

35 petrol stations are active in Bulgaria.

NIS' share in the total motor fuel market is 2.8% and in the retail market 2.6%.

Romania

In the fourth quarter, the motor fuel market marked a recovery due to lower prices, which partly compensated for the negative effect of increased excise applied since April.

18 petrol stations are active in Romania.

NIS' share in the total motor fuel market is 0.4% and in the retail market 0.5%.

1.08

Result Analysis

Key Performance Indicators

Q4 2013	Q4 2014	(%)[1]	Key indicators	Measurement unit	2014	2013	(%)[1]
109.0	75.55	-31%	Urals	$/bbl.	98.01	108.3	-9%
16.6	6.7	-59%	Net profit	bn. RSD	27.8	48.3	-42%
21.2	16.1	-24%	EBITDA[2]	bn. RSD	63.4	68.8	-8%
74.5	64.5	-13%	Sales revenues (excluding excise)	bn. RSD	258.3	259.4	-0.4%
25.7	30.3	+18%	OCF	bn. RSD	49.6	75.3	-34%
29.4	38.1	+30%	Liabilities from taxes and other public revenues[3]	bn. RSD	136.2	120.6	+13%
415	387	-7%	Domestic oil and gas production[4]	thou. t.o.e.	1,596	1,642	-2.8%
303	277	-9%	Domestic oil production[5]	thou. tons	1,148	1,200	-3.6%
862	852	-1%	Oil and semi-finished products refining volume	thou. tons	3,104	3,066	+1%
896	837	-7%	Total petroleum product sales volumes	thou. tons	3,090	3,079	+0.4%
36	42	+17%	· Sales volumes - foreign assets	thou. tons	157	84	+86%
716	676	-6%	· Petroleum products sales volumes on domestic market	thou. tons	2,424	2,497	-3%
442	454	+3%	- Motor fuels	thou. tons	1,632	1,592	+3%
190	183	-4%	- Retail	thou. tons	643	674	-5%

Q4 2013	Q4 2014	(%)[1]	Key indicators	Measurement unit	2014	2013	(%)[1]
17.8	12.5	-30%	CAPEX[6]	bn. RSD	39.4	55.6	-29%
489	626	+28%	Total bank indebtedness (total indebtedness)[7]	mn. USD	626	489	+28%

1 Any possible discrepancies in percentage values and aggregate values are due to rounding

2 EBITDA = Sales revenues (excluding excise) – inventory costs (crude oil, petroleum and other products) – operating expenses (OPEX) – other costs that can be controlled by the management

3 Taxes, duties, fees and other public revenues calculated for the relevant period. The overview includes NIS' tax obligations and other public revenues in Serbia and in other countries in which it operates. The indicated amount is exclusive of dividends paid out to the Republic of Serbia (3.7 billion RSD in 2013 and 3.9 billion RSD in 2014).

4 Due to changes in methodology, oil production includes gasoline and light condensate, and gas production takes into account commodity production of gas

5 Including gazoline and light condensate

6 CAPEX amounts are exclusive of VAT

7 Total bank indebtedness = total debt to banks + L/C. As at 31 December 2014, this amount is 598 million USD of total debt + 28 million USD of Letters of Credit

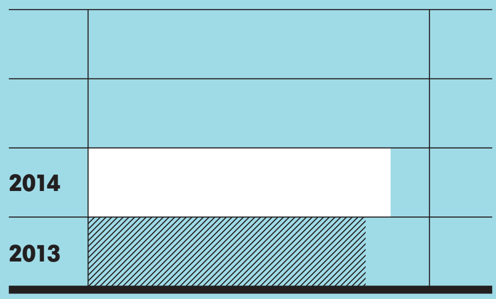
Operating Indicator

Exploration and Production

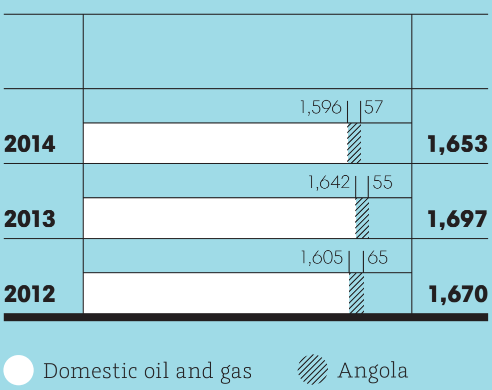
The total oil and gas production in 2014 amounted to 1,653 thousand tons of oil equivalent, out of which 1,596 thousand tons is from domestic oil and gas production. Domestic oil production dropped by approximately 4%, while oil production in Angola increased. Domestic gas production rose by 1% on the year before and amounted to 558 million of cubic meters.

The drop in production was caused by a change in the drilling rate and a drop in base production.

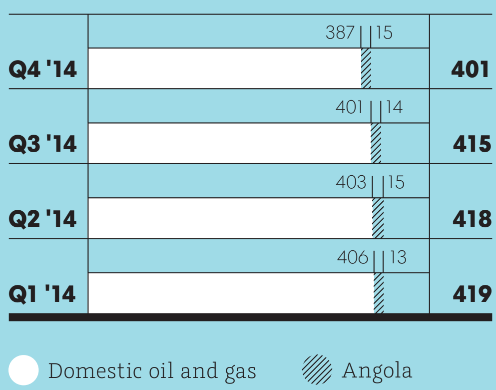
Hydrocarbons reserves (Serbia and Angola) thousand t.o.e. +9%

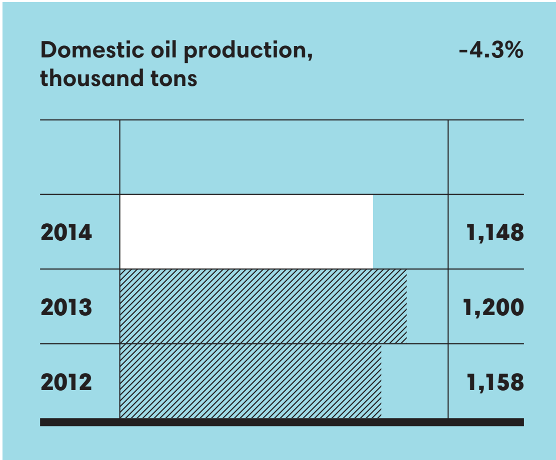


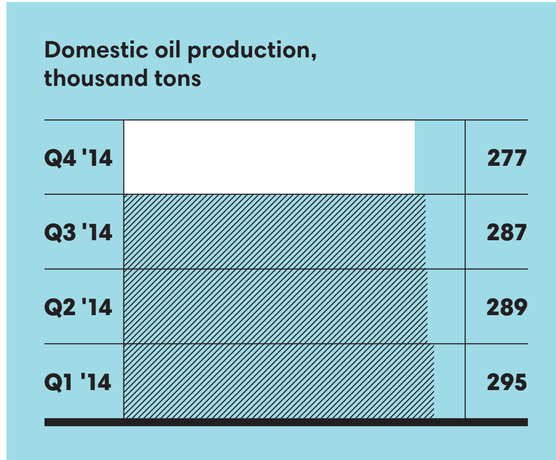
Domestic oil and gas production, thousand t.o.e. -2.6%

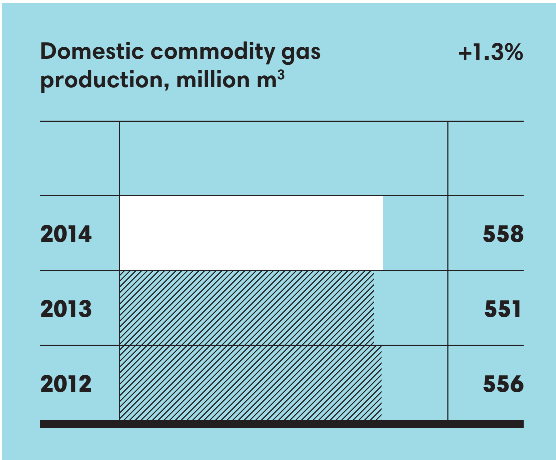


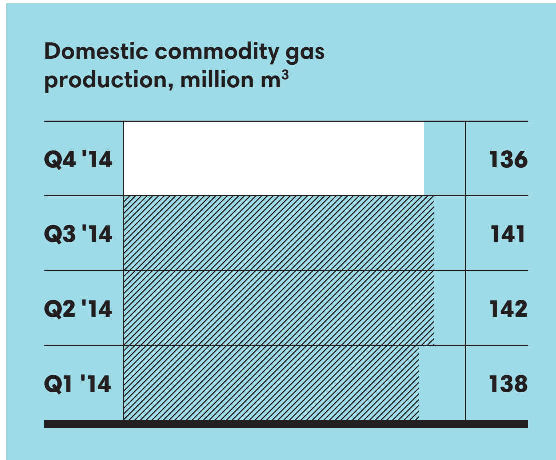
Domestic oil and gas production, thousand t.o.e.









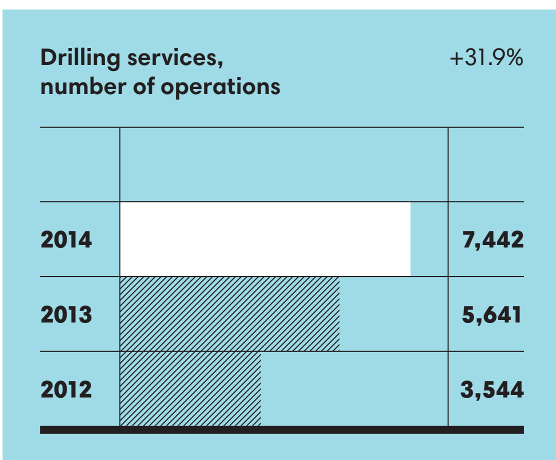


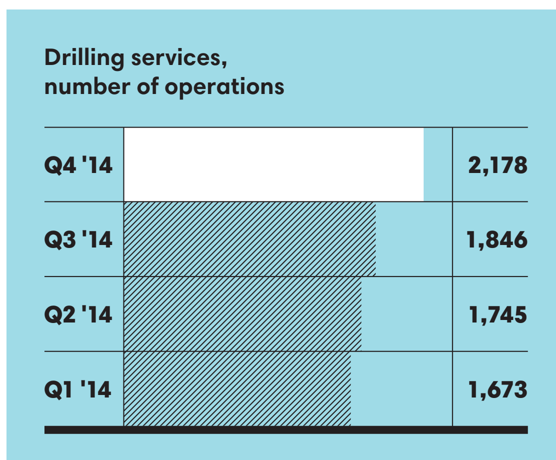
Services

In 2014, apart from Serbia, the Services Block was engaged in Bosnia and Herzegovina and Romania as well.

By use of integrated services (telemetry + engines + bits), the well drilling periods have been shortened, resulting in additional savings. In addition, by expediting mobilization of drilling rigs – "dismantling + mobilization + installation" cycle has been decreased by up to three days. During the first six months of 2014, six drilling units were in operation, while, by the end of the year, there were nine of them. By implementing the above mentioned solutions, 100% of drilling operations scheduled in the Gantt Chart were completed.

The number of workover crews in 2014 was increased to 16, and the productive time was increased by one workover crew a month.





3,104

thousand tons refining volume in 2014

Refining

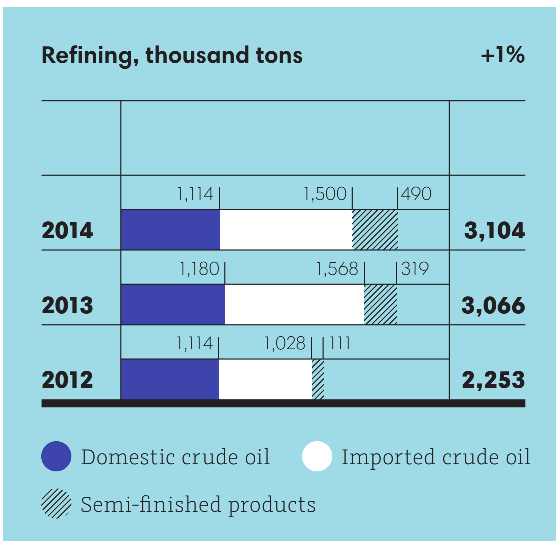
In 2014, the year-on-year crude oil refining and semi-finished products reprocessing volumes increased by +1%, i.e. the total crude oil refining and semi-finished products reprocessing volumes amounted to 3,104 thousand tons.

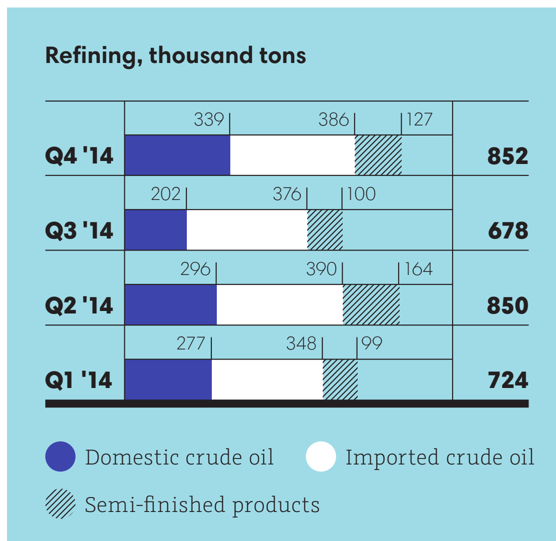
Crude oil refining and semi-finished products reprocessing was in line with the operational plans, created in line with market demands.

In September 2014, the main refinery plants underwent an overhaul. All activities related to the planned downtime due to the overhaul were performed efficiently and in due time, with an aim to ensure continuous, reliable and safe operation of the refining units in the following two years. The downtime was also used to continue modernization for the purpose of even higher production of "white" petroleum products: top-quality gasoline, Diesel and jet fuel as per Euro 5 standard, as well as an improved energy efficiency of NIS' refinery processing.

The refining volumes of vacuum gas oil (VGO) and Diesel fractions, which have not been hydro treated (gasoil S<1.1%), exceeded the plan. The production of high-octane gasoline with a high margin (EBMB98, EBMB 100) was started, as well as production of a new polymer-modified bitumen type – PMB 25/50. The program for decrease of low-margin virgin naphtha volumes was launched (with a change in the operating mode of atmospheric and vacuum distillation, hydrocracking, catalytic cracking, alkylation, in order to facilitate use of heavy gasoline fractions as components in Diesel fuels).

In 2014, the Diesel dewaxing project was launched, deconservation of C-2400 unit was performed, as well as an overhaul, and the dewaxing catalyst was ordered. This project is intended to improve the quality of Euro Diesel production, aiming to ensure even higher customer satisfaction. The start of operation of this unit is scheduled for the first quarter of 2015.





Sales and Distribution

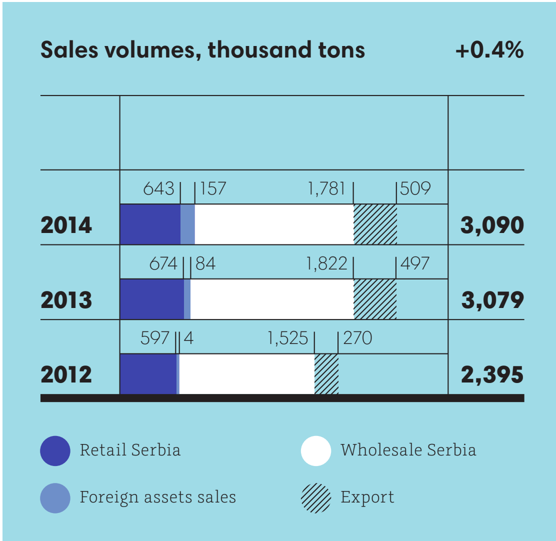
2014 recorded 0.4% increase in sales volumes on the year before, and the total sales volumes, both in Serbia and foreign assets, amounted to 3,090 thousand tons.

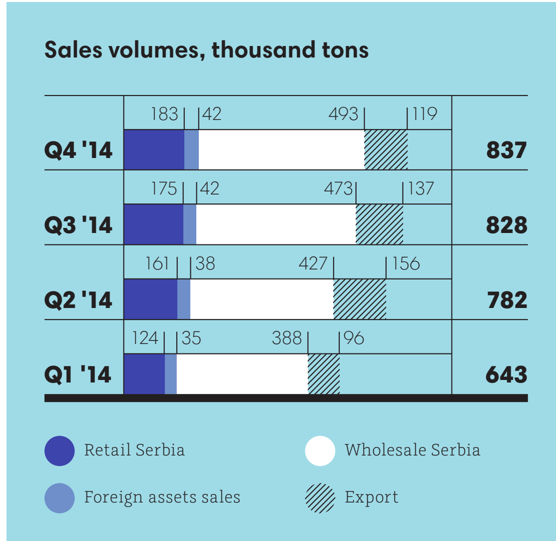
Retail – 5% drop in retail volumes
- The decline in retail sales was primarily a consequence of decreased sales to farmers. Part of the diesel fuel volumes intended for farmers was marketed through the wholesale channel
- NIS is the first in the country by the average daily sales per petrol station indicator, in premium segment with 7.1 t/day, and also in mass segment with 5.2 t/day.

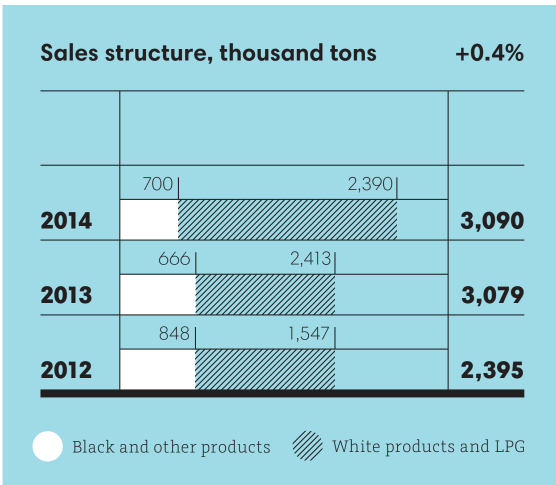
Wholesale – 2% drop
- The drop is due to reduced sales of naphtha by 32%
- Growth of motor fuels 5%, of which diesel fuel record growth of 6%
- Growth of jet fuel 60%
- Growth of heavy fuel oil sales by 1.4% and bitumen sales of 32%

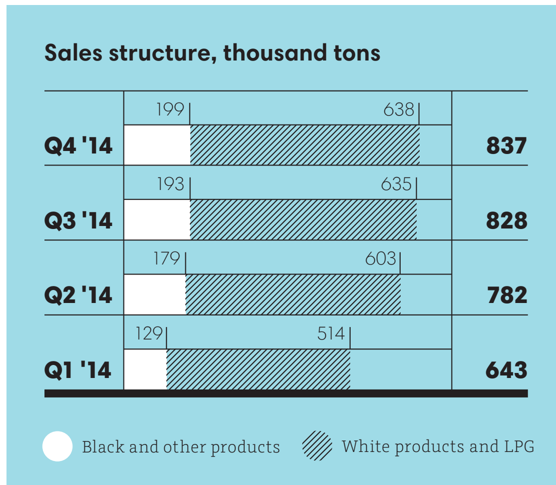
Export – 2% increase
- Compared to 2013, increase in export volumes was recorded in case of Diesel by 62%, bitumen by 4.9% and jet fuel by 25%. Gasoline (36%) and heavy fuel oil (11%) went down.

Foreign assets – 86% increase
- Motor fuel sales volumes rose by 87%, out of which gasoline 67% and Diesel 91%.









Number of petrol stations in Serbia in 2014[1]

Operational petrol stations	333
Reconstructed (rebranded) petrol stations	5
New petrol stations	1
New LPG facilities	-
Petrol stations on lease	76

1 As at December 31st 2014

Number of petrol stations in the region in 2014[1]	Romania	Bulgaria	B&H
Operational petrol stations	18	35	35
Reconstructed (rebranded) petrol stations	-	10	-
New petrol stations (construction)	10	-	-

1 As at December 31st 2014

Energy

In 2014, construction of four small-size power plants comprising five production units with a total power rating of 3,650 kWe was completed and, as a result, the installed power was doubled compared to end-2013. Construction of Velebit 3 power plant was completed after only eight months, the commissioning was performed, and it will be put into commercial operation in February 2015. The equipment for the second power plant (Sirakovo 2) was mounted on the base and installation is underway.

In 2014, NIS became, apart from Electric Power Industry of Serbia (EPS), the only producer in Serbia supplying electricity in the free market.

Together with the aforesaid power plants, the power rating of power plants has been increased to 11,485 kWe and, as a result, NIS currently possesses its own power generation capacity to cover 30% of its own demand.

The projects for construction of two new power plants with a total capacity of 14,000 kWe have been prepared, and the construction is scheduled to start in 2015. Upon completion of these power plants, NIS will own the capacity almost sufficient for its own power demands.

The small-size power plants constructed in 2014 generated 31,912,000 kWh of electrical energy from 9.1 million m3 of non-commercial gas, thus reducing the technical losses. The projects under preparation will generate new revenues from sales of electrical (and thermal) energy from non-commercial gas which has no market value.

In 2014, NIS sold its first quantities of electrical energy generated by the Company's cogeneration plants. Thus, besides the Electric Power Industry of Serbia (EPS), the Company has become the only Serbian producer supplying electricity in the free market. In October and November, the initial monthly volume of 5MWh/h was sold, whereas, in December, the sales volumes increased to 12 MWh/h. The first NIS' electricity trading partners are Gazprom Marketing & Trading, GEN-I, Petrol and Electric Power Industry of Serbia.

The first CNG installation on the gas and oil fields was put into operation on 3 July 2014, at Palić Measuring and Dispatch Station, and it produces about 5,500 kg of compressed gas a day for the existing customer (wholesale). The construction of the first CNG installation at a petrol station was scheduled for October 2014, specifically at Novi Sad 10 Petrol Station. This production unit is scheduled to start operating in March 2015. 18 petrol stations have been identified as meeting the requirements for construction of CNG installations. In 2015, construction of CNG units is envisaged on at least two petrol stations.

The investment and technical documents for construction of 10 MWe cogeneration power plants in Novi Sad Refinery have been prepared; the requirement documents for connection to the electricity and distribution grid have been obtained, as well as the location permit for construction. The investment and technical documents have been prepared, the government authorities have granted their approval for the main design, the amendments to the general urban plan (plan basis) are about to be completed, the steps for obtaining the requirements for connection of Pančevo Thermal Power and Heating Plant to the Serbian electric power system have been agreed upon. NIS has obtained the energy license for the combined electric and thermal energy production, as well as the license for the energy power plant in Pančevo Oil Refinery, the energy license for thermal energy production, for the purpose of selling electrical and thermal energy to external customers.

73,058

MWh of electricity produced in 2014

The Energy of Efficiency

What?
To change while remaining consistent with the mission

The development of innovative solutions that contribute to environmental protection and increase the internal efficiency is one of the basic elements of the strategy of NIS. That is why working on projects in the field of energy, such as small power plants, can be seen as a continuation of the transformation of NIS from an oil and gas company into an energy company.

How?
Efficiently and environment-friendly

The efficiency of the power plants is reflected in the fact that they produce electricity and heat energy from gas that until now has not been used because of the high level of carbon dioxide and nitrogen. The process of converting the gas into electricity has the additional quality from the ecological point of view: it reduces the emission of harmful gases into the atmosphere.

Effects

Entering the national electricity market in 2014

Sales of the first amounts of electricity produced in the small power plants

NIS has become the only producer in Serbia, in addition to EPS (Power Industry of Serbia), which supplies electricity to the free market

A total of **11** small power plants on the oil and gas fields in Serbia

A total of **4** small power plants in 2014 with the total electric power of 3,650 kWe

Electricity production, MWh	+102%
2014	73,058
2013	36,239
2012	35,378

Electricity production, MWh	
Q4 '14	24,613
Q3 '14	13,151
Q2 '14	16,607
Q1 '14	18,687

Financial Indicators

2014 was a challenge for NIS. The oil price drop in the second half of the year, along with strengthening of the US dollar, had a negative impact on the financial result. The unresolved issues of debt collection from public enterprises resulted in the execution of the base investment plan. A slowdown in domestic oil production generated an increase in the crude import volumes and higher payments for imported oil, despite the oil price drop. This further impacted on the operating cash flow.

Sales revenues

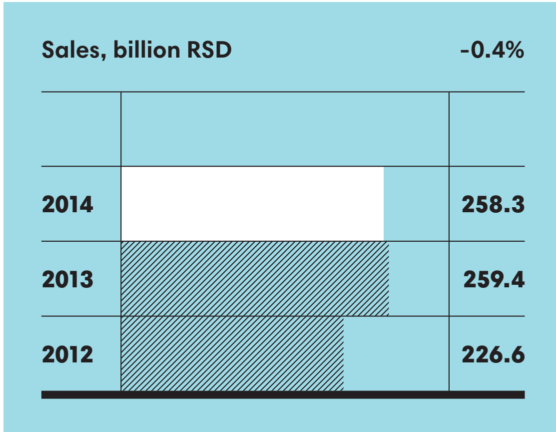
Given that in 2014 the actual sales volumes were at the same level in the year before, the sales revenues were at the last year's level as well.

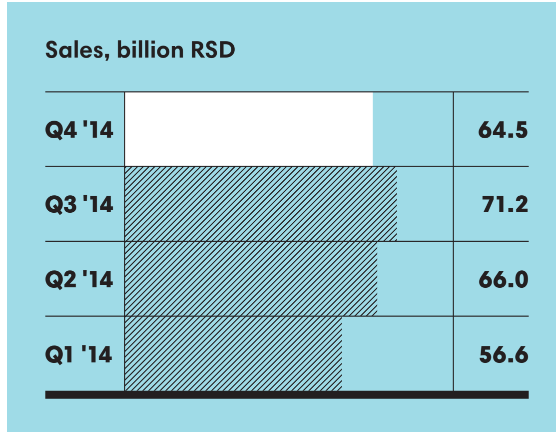
In 2014, the average price of Ural oil type amounted to 98 $/bbl., i.e. 9% lower compared to the average price of the same oil type in 2013.

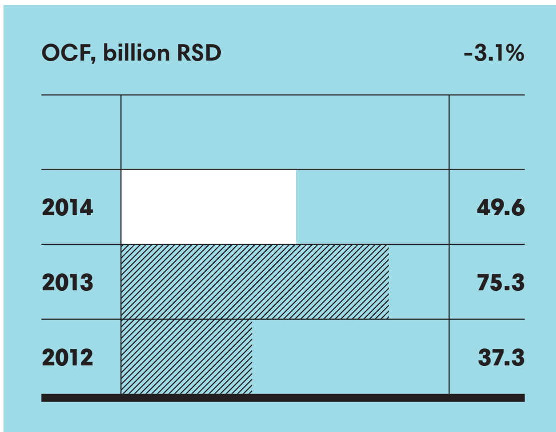
The retail petroleum product prices increased in 2014 by about 0.70% compared to 2013.

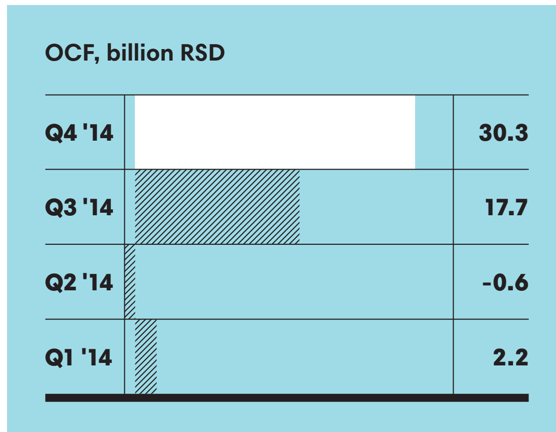
Changes in retail prices[1]	(%)
Europremium BMB 95	-0.52%
Eurodiesel	1.90%

1 The prices are calculated as the average of all daily prices in 2013 and 2014









OCF

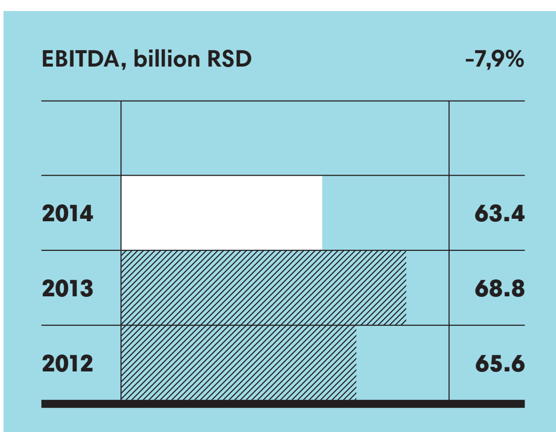
The operating cash flow is lower by 34% on the year before and amounts to RSD 49.6 billion. The main causes of the decreased operating cash flow are as follows:

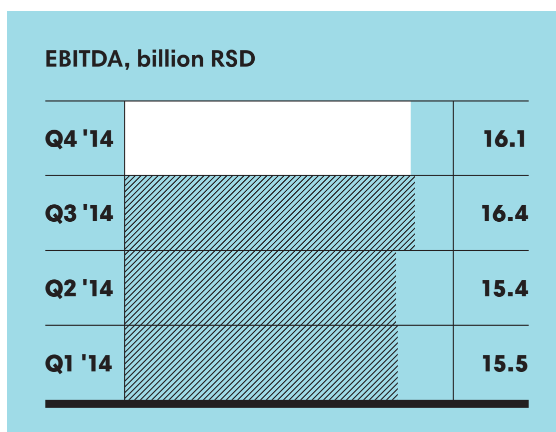
- Oil price drop
- Increased duties for petroleum product supply (semi-finished products)
- Crude oil import – larger quantity and refining-sales cycle length
- Increase in customs and fiscal duties

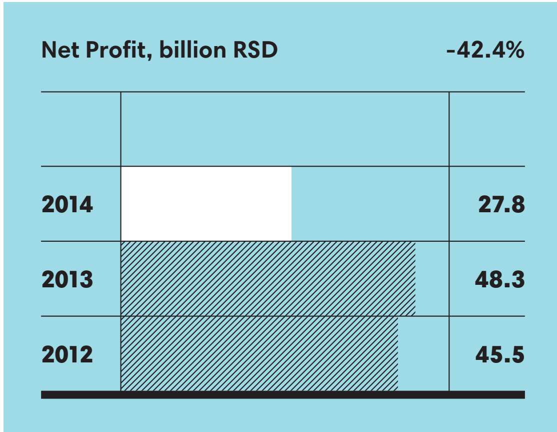
EBITDA

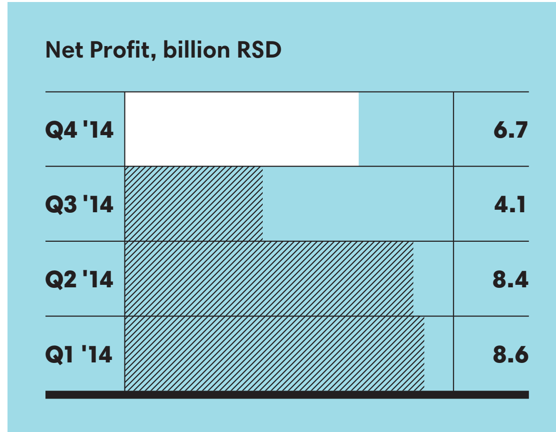
In 2014, EBITDA amounted to RSD 63.4 billion, marking 8% decrease on the year before. The main reasons for lower EBITDA are as follows:

- Oil price drop on the global market
- Lower domestic oil and gas production









Net profit

2014 net profit amounts to RSD 27.8 billion, which is 42% lower than the net profit generated in the previous year. In addition to the negative effects of the oil price drop, the following also had affected the net profit:

- Negative exchange rate differences, as a consequence of US dollar strengthening against the domestic currency
- Higher depreciation amount

Increase of Efficiency

One of NIS top priorities is to increase efficiency in all business segments. In the previous period, major investment and organizational projects have been implemented, improving the effectiveness of operations and bringing impressive results – start-up of the modern hydrocracking complex, modernization of the petrol station network, introduction of new equipment and technology in exploration and production, organizational restructuring, etc.

In 2014, a new employee motivation scheme entitled "I Have an Idea" was launched. Ideas generated by employees are proactive proposals for improving the efficiency of business operations and commercial processes, boosting NIS' competitiveness and sustainability in all its activities and meeting strategic objectives.

400

ideas on how to be more efficient generated in 2014

In 2014, efficiency increase measures were expected to generate RSD 3 billion, while their actual effect was more than twice as much.

Ratios

Ratio indicators	2014	2013
Return on total capital (Gross profit/total capital)	18%	32%
Net return on equity[1] (Net profit/shareholders equity)	34%	59%
Operating net profit (operating profit/net sales income)	20%	22%
Degree of leverage (short term and long term liabilities/shareholders equity[1])	97%	103%
Degree of leverage (short term and long term liabilities/shareholders equity[1])	218%	214%
1st degree liquidity (cash and cash equivalents/short term liabilities)	11%	9%
2nd degree liquidity (current assets - inventories/short term liabilities)	94%	72%
Net working fund ratio (current assets – current liabilities/current assets)	14%	5%

1 shareholders equity = share capital

Changes on Assets and Liabilities of More Than 10%

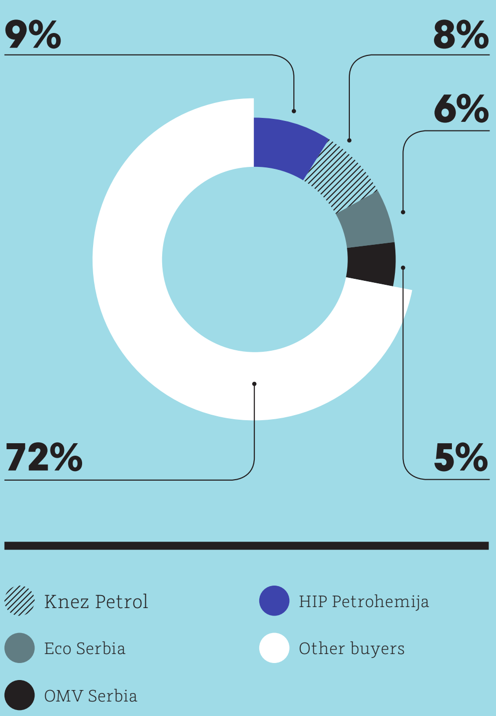
Assets	Change (in %)	Explanation
Intangible assets	35%	Growth of intangible investments as on 31 December 2014, in relation to 31 December 2013, is for the most important part related to new investments in research and development in the total amount of RSD thousand 3,833,142.
Deferred tax assets	-20%	Reduction in deferred tax assets as on 31 December 2014, in relation to 31 December 2013 in a whole refers to the cancellation of the deferred tax assets which were formed from the previously recognized tax-loans on the basis of investments.
Receivables from specific operations	98%	Growth of receivables from specific operations as on 31 December 2014, in relation to 31 December 2013, for the most important part refers to the claims of the Energowind d.o.o. Group
Other receivables	808%	Growth of other receivables as on 31 December 2014, in relation to 31 December 2013, for the most important part refers to the claims for overpaid tax on the profit in the amount of RSD thousand 2,634,847.
Value Added Tax	-92%	Reduction of the value added tax as on 31 December 2014, in relation to 31 December 2013, for the most important part refers to the claims for overpaid VAT in the amount of RSD thousand 1,761,203.
Prepayments and accrued income	13%	Growth of prepayments and accrued income as on 31 December 2014, in relation to 31 December 2013, for the most important part refers to reduction of receivables arising from non-invoiced income in the amount of RSD thousand 1,351,475, and from suspension of import VAT in the amount of RSD thousand 1,276,994, while on the other hand there was growth of receivables for differentiated VAT in the amount of RSD thousand 460,116 and of claims for excises in the amount of RSD thousand 2,829,276.
Off-balance sheet assets/liabilities	28%	Growth of off-balance sheet assets/liabilities as on 31 December 2014, in relation to 31 December 2013, refers for the largest part to the received/issued bills of exchange and guarantees.

Liabilities	Change (in %)	Explanation
Unrealized profit from securities and other comprehensive income items (credit balance of the group account 33 except 330)	1620%	Growth of unrealized profit from securities and other comprehensive income items as on 31 December 2014, in relation to 31 December 2013, refers for the most important part to the actuarial surplus on the basis of reservation assessment for employee benefits in accordance with the MRS 19 requirements.
Unrealized losses from securities and other comprehensive income items (debit balance of the group account 33 except 330)	165%	Growth of the amount of unrealized losses from securities and other comprehensive income items as on 31 December 2014, in relation to 31 December 2013, refers for the most important part to translation losses concerning the financial statements of foreign subsidiaries in the amount of RSD thousand 381,093.
Retained earnings	17%	Growth of retained earnings as on 31 December 2014, in relation to 31 December 2013, refers for the most important part to achieved result of the current year in the amount of RSD thousand 27,838,444 which was reduced by the paid dividends in the amount of RSD thousand 13,080,705.
Long-term provisions	-26%	Reduction of long-term provisions as on 31 December 2014, in relation to 31 December 2013, refers for the most important part to reduction in provisions for employee benefits arising from the actuary's assessment in the amount of RSD thousand 2,435,137.
Long-term liabilities	53%	Growth of long-term liabilities as on 31 December 2014, in relation to 31 December 2013, refers for the most important part to the withdrawal of new loan tranches from Sberbank Europe AG, Vienna and Banca Intesa, Serbia.
Deferred tax liabilities	28%	Increase of deferred tax liabilities as of 31 December 2013 compared to 31 December 0214 mostly relates on difference between accounting and depreciation for tax purposes in amount of RSD 493,697 thousand.
Short-term financial liabilities	-47%	Reduction of short-term financial liabilities as on 31 December 2014, in relation to 31 December 2013, refers for the most important part to the current due-date repayments of long-term loans on the one hand and on the other hand to the withdrawal of new short-term loan tranches from commercial banks in the country.
Received advance payments, deposits and down payments	78%	Growth of received advance payments, deposits and down payments as on 31 December 2014, in relation to 31 December 2013, refers for the most important part to the advance payments received from the Ministry of Defense of the Republic of Serbia and Nafta AD Beograd.
Liabilities from business operations	-27%	Reduction of liabilities from business operations as on 31 December 2014, in relation to 31 December 2013, refers for the most important part to reduction of liabilities for crude oil in the amount of RSD thousand 12,126,653.

Liabilities	Change (in %)	Explanation
Other short-term liabilities	13%	Growth of other short-term liabilities as on 31 December 2014, in relation to 31 December 2013, refers for the most important part to the accounted and outstanding employee salaries for December 2013, in the amount of RSD thousand 1,040,474.
Liabilities for VAT	205%	Growth of liabilities for VAT as on 31 December 2014, in relation to 31. December 2013, refers fully to the VAT liability growth.
Liabilities for other tax	-26%	Reduction of liabilities for other taxes as on 31 December 2014, in relation to 31 December 2013, refers for the most important part to reduction of tax liabilities from the result in the amount of RSD thousand 2,613,295.
Accrued expenses and deferred revenues	58%	Growth of accrued expenses and deferred revenues as on 31 December 2014, in relation to 31 December 2013, refers for the most important part to calculated liabilities against suppliers in the amount of RSD thousand 1,956,716.

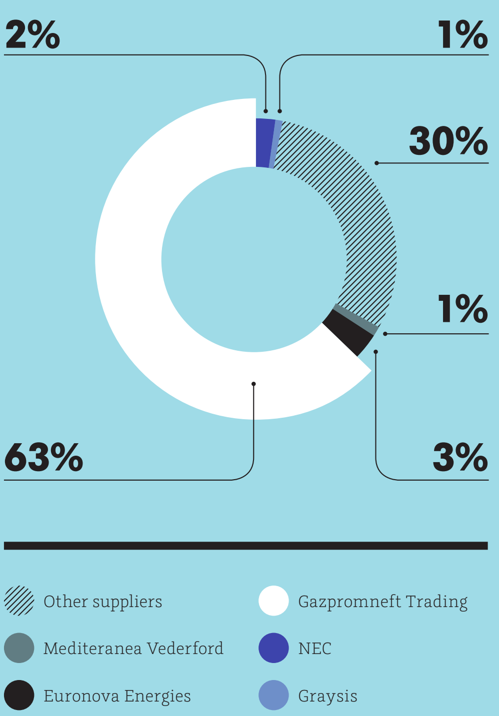
Major Buyers and Suppliers

The largest buyers*



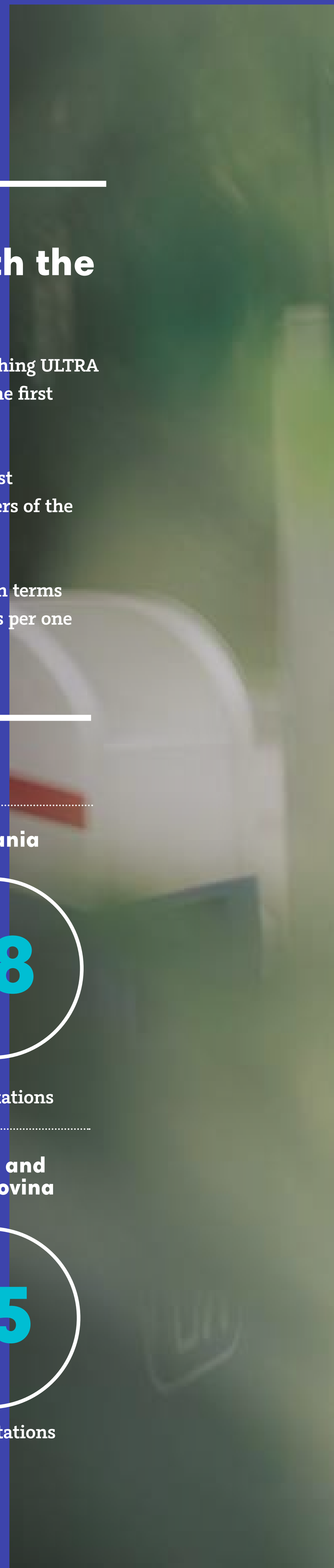
* Information delivered to NIS j.s.c. Novi Sad, in the period from 01/01/2014 until 12/31/2014

The biggest suppliers*



* Information delivered to NIS j.s.c. Novi Sad, on 12/31/2014

Consumers



What?
Two names for quality

Retail brands "NIS Petrol" and "GAZPROM Petrol Stations" are intended for satisfying diverse consumer needs. Both brands are the epitome of cutting-edge service and quality products, synonymous with quality. NIS Petrol is a brand positioned to the wide consumer population, while Gazprom Petrol Stations is a premium-brand, which in addition to offering consumers quality fuel, also offers other services.

How?
Development with the label „modern“

Quality without compromise: launching ULTRA D, premium-quality diesel Euro 5, the first branded fuel in Serbia.

Continued development of the largest loyalty program: nearly 600,000 users of the Superkartica.

First place in the domestic market in terms of volume of daily turnover: 7.1 Tons per one GAZPROM petrol station

Effects

A network of

421

petrol stations

46.2%

of active drivers in Serbia regularly buy fuel at NIS petrol stations
(this information is the result of monitoring the habits and attitudes of consumers in Serbia, conducted in October 2014)

Serbia

333

petrol stations

Romania

18

petrol stations

Bulgaria

35

petrol stations

Bosnia and Herzegovina

35

petrol stations

1.09

Indebtedness

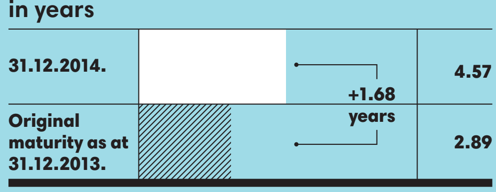
In June 2014, NIS closed the tender for bank portfolio restructuring. The objective of this tender was to ensure sufficient bank limits both to refund its credit liabilities which were to fall due in 2014 and for future funding of NIS' operational and investment activities in the form of credits, letters of credit, and guarantees.

The tender results indicated that, despite the challenges emerging in the capital market in the second half of the year, NIS managed to ensure sufficient bank limits to refund its credit liabilities falling due in 2014, as well as to fund its future business needs. In addition, the terms of newly obtained lines of credit are more favorable in terms of price and due dates than the terms applied before the restructuring.

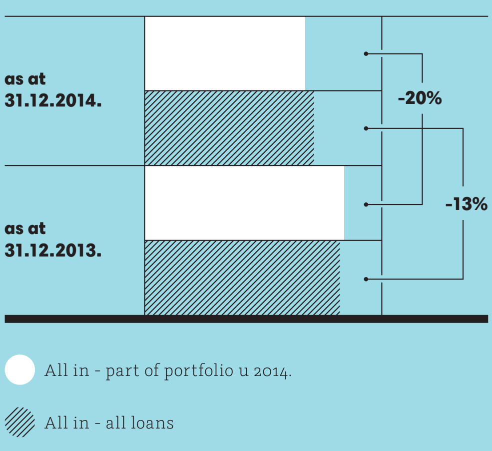
The sanctions imposed on the Russian companies, including the majority shareholder of NIS j.s.c. Novi Sad – OJSC "Gazprom Neft", by the EU and USA, affected NIS j.s.c. Novi Sad as a OJSC "Gazprom Neft" subsidiary founded outside the EU. In order to lessen the effects of sanctions, the Company in September temporarily withdrew USD 115 million to repay the loan in December 2014.

Due to the weaker operational cash flow, but also the impossibility for recovering outstanding debts from public companies, the total debt to the banks rose in 2014, although it is still within the planned limits, as well as the Debt/EBITDA ratio.

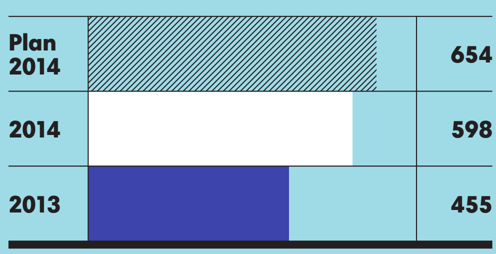
Average credit maturity, in years



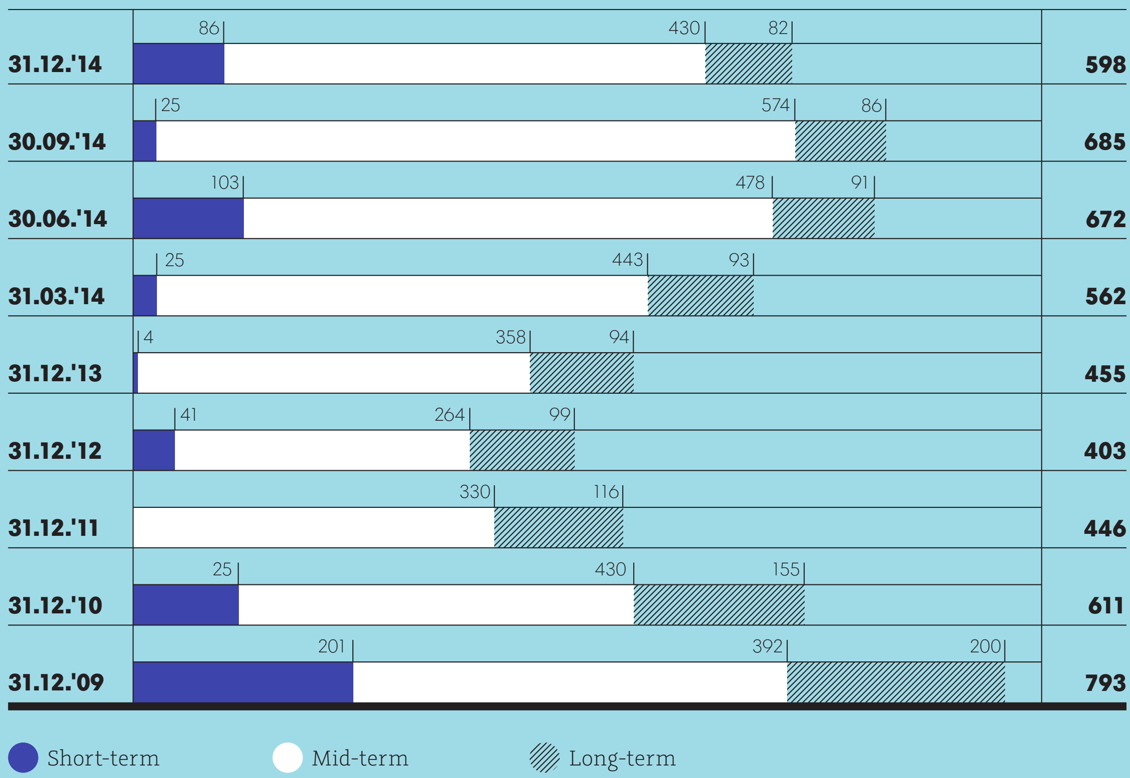
Interest rates for credit obtained, in % per year



Total debt to the banks, million USD

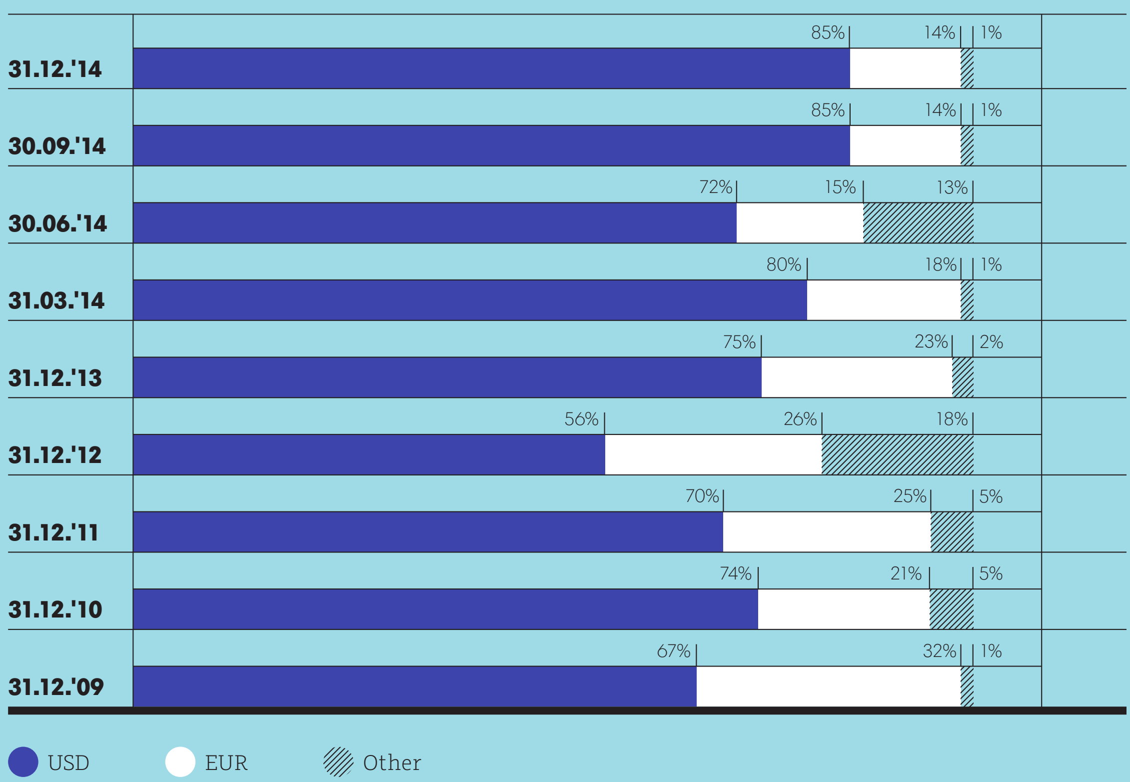


Total debt to banks, million USD* +31%

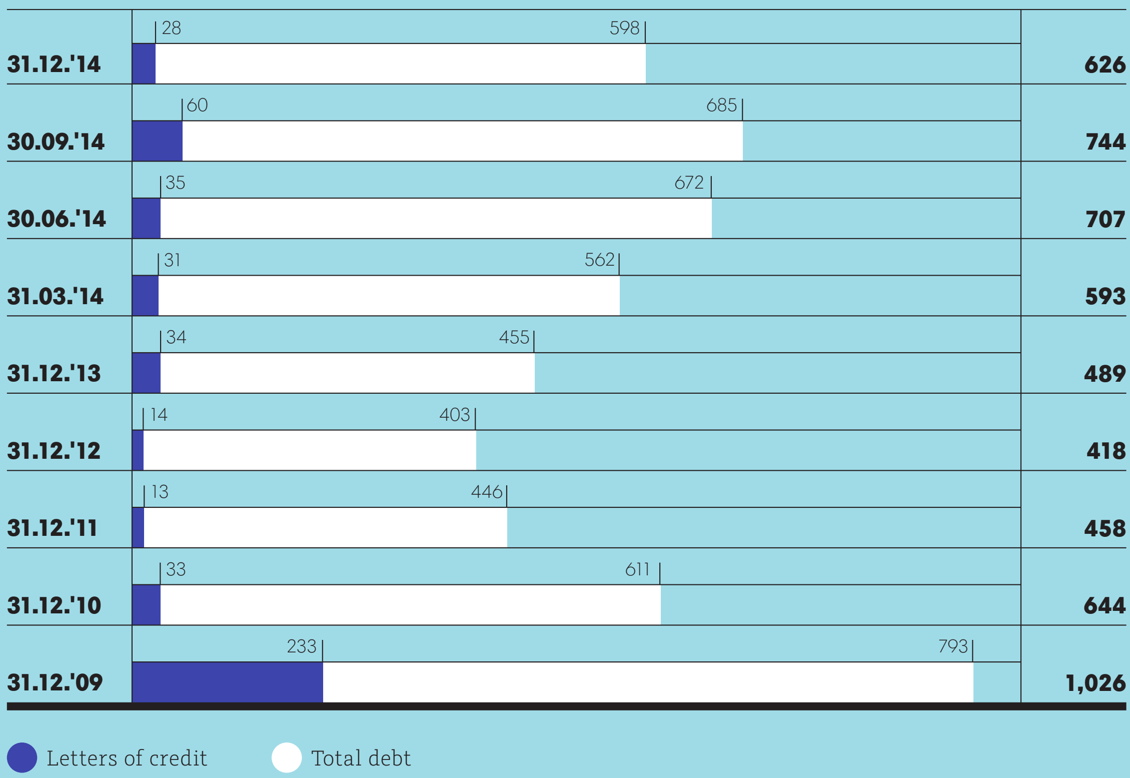


* Term structure of the debt to banks is shown according to Contract terms and not by maturity of the debt as of December 31st 2014.

Structure of total debt to banks, by currency, in %

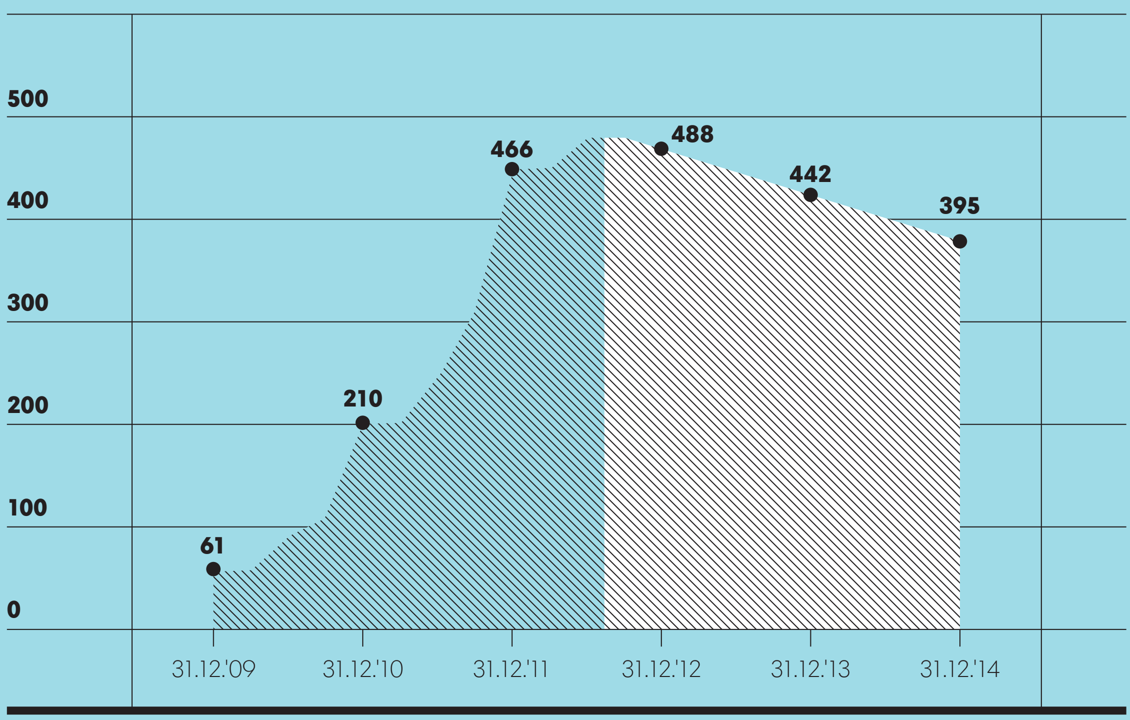


Total bank indebtedness*, million USD **+28%**



* In addition to the debt to the banks and Letters of Credit, as at 31 December 2014, NIS j.s.c. Novi Sad also holds issued bank guarantees in the amount of USD 68 million, corporate guarantees in the amount of USD 50 million and signed Letters of Intent in the amount of USD 1 million

GPN loan, million EUR **-11%**



The Growth of Reserves

What?
Always more

Increasing the oil and gas reserves is the priority of business and sustainability of any company that operates in this sector.

Therefore, the constant investment in geological exploration and equipment is the prerequisite for achieving objectives in this segment.

How?
Always in step with the modern

By applying modern software, geological data from Serbia, Hungary, Romania and Bosnia and Herzegovina are analyzed and interpreted, with the ultimate goal of creating a model of the Pannonian Basin and choosing the most promising areas for future oil and geological research.

Effects

The effect is primarily achieved thanks to the implementation of projects in the field of geological research and defining the geological model of the Pannonian Basin.

The growth of oil and gas reserves in Serbia and Angola amounts to

9%

compared with 2013.

Most of NIS' oil fields are located in the territory of Serbia, but the company has stepped out into the region, conducting exploration works in Bosnia and Herzegovina, Hungary and Romania.

In order to increase the efficiency of exploration and production, and to increase thus the volume of production of hydrocarbons, the global trends and new technologies are constantly followed and implemented at NIS.

1.10 Investments

Investment projects

The 2014 Business Plan of NIS j.s.c. and Medium-term Investment Programme (hereinafter: MIP), which included the CAPEX investment plan in the period 2014–2016, were adopted at the second meeting of the Board of Directors held on 10/12/2013.

More than 60% of total investments were allocated to oil and gas exploration and production projects.

According to the MIP, the main investment areas in 2014 were oriented towards implementation of the following groups of projects: environmental protection projects, projects in refining, oil and gas production, and a certain number of projects at the corporate headquarters.

In 2014, RSD 39.4 billion was earmarked for investment funding, which is 29% less than in 2013.

The most important investments in oil and gas production in 2014 included:

- Drilling of development wells
- Programme of 3D Seismic Exploration and Drilling of Exploration Wells in the Republic of Serbia
- Geological exploration of unconventional gas
- Investment in concession rights
- Compressor station with associated infrastructure at OGF Velebit
- Separation of CO_2 from natural gas
- Elimination of accidents at GP systems

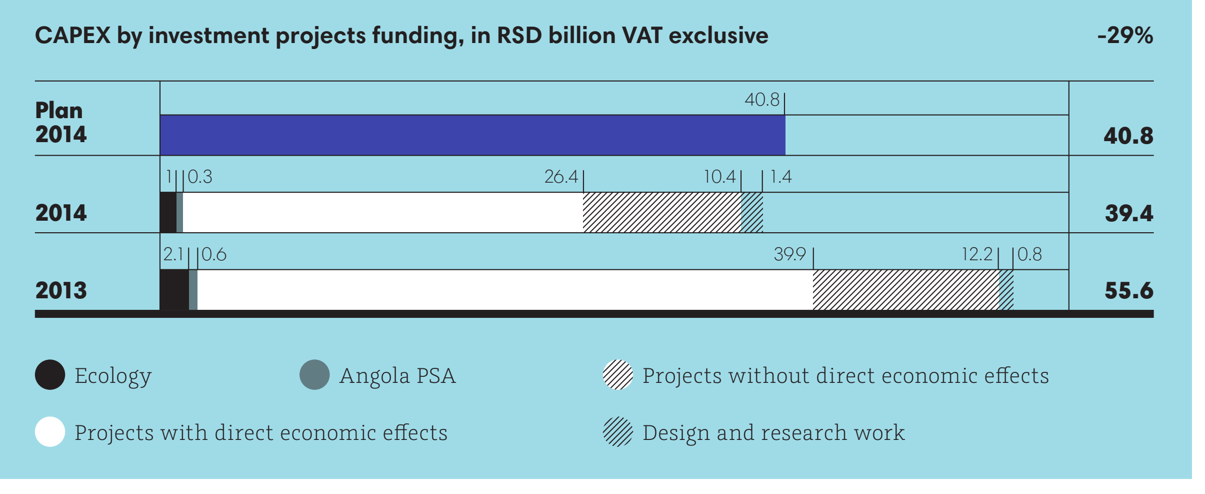
The most important capital investments in refining in 2014 were made by means of the following projects:
- Production of Industrial Base Oils
- Reconstruction of Tanks and Technological Systems for Oil Transport
- Connection of Distribution TS and Rehabilitation of Process Transformer Substations
- Installation of the Stationary Vibration Measuring System on Rotating Equipment
- Construction of a New Water Demineralization Line at Pančevo Refinery
- Construction of a Steam Condensate Polishing Line at Pančevo Refinery
- Production Automation and Management

The most important capital investments related to environmental protection at the Pančevo Oil Refinery in 2014 included:
- Project involving Construction of a Closed Drainage System (S-100/ 300/ 400/ 500/ 2100/ 2300/ 2400/ 2500/ 2600)
- Construction of a Closed System for Sampling in Production
- Reconstruction of Loading Terminal
- Diesel Blending with Bio-Diesel

Investment funding by type of project[1]	2014	2013
Ecology	0.99	2.07
Angola	0.30	0.60
Projects with direct economic effects	26.35	39.93
Projects without direct economic effects	10.35	12.21
Design and research work	1.43	0.81
Total:	**39.42**	**55.62**

1 The amounts are in RSD billion VAT exclusive.

Investments by segments	2014	2013
Exploration and Production	25.16	25.29
Refining	7.71	11.53
Sales and Distribution	3.70	13.27
Services	1.01	2.93
Energy	1.04	1.22
NIS Corporate Centre	0.80	1.38



1.11

Taxes And Other Public Revenues

Analytical overview of accrued liabilities for taxes and other public revenues, bn. RSD

Q4 2013	Q4 2014	-	NIS j.s.c. Novi Sad	2014	2013	-
0.0	0.3	n/a	Contributions for social insurance paid by the employer	1.5	1.6	-6%
0.0	-0.3	n/a	Income tax	2.9	6.2	-53%
4.0	4.2	4%	VAT	16.6	19.8	-16%
24.5	28.8	18%	Excise tax	100.0	83.8	19%
0.0	1.4	n/a	Contribution for buffer stocks	1.5	0.0	n/a
0.4	0.1	-64%	Custom duty	0.6	1.2	-47%
0.0	0.4	n/a	Royalties	2.2	2.5	-10%
0.0	0.3	n/a	Other taxes	1.2	1.4	-13%
28.8	**35.3**	**22%**	**Total**	**126.5**	**116.5**	**9%**

Q4 2013	Q4 2014	-	NIS j.s.c. Novi Sad	2014	2013	-
			NIS subsidiaries in Serbia[1]			
0.0	0.1	n/a	Contributions for social insurance paid by the employer	0.5	0.6	-7%
0.0	-0.1	n/a	Income tax	0.0	0.0	123%
0.2	0.2	42%	VAT	0.7	1.0	-24%
0.0	0.0	n/a	Excise tax	0.0	0.0	n/a
0.0	0.0	-35%	Custom duty	0.1	0.1	104%
0.0	0.0	n/a	Royalties	0.0	0.0	n/a
0.0	0.0	n/a	Other taxes	0.1	0.1	38%
0.2	**0.3**	**75%**	**Total**	**1.5**	**1.7**	**-11%**
29.0	**35.6**	**23%**	**Total NIS with subsidiaries in Serbia**	**128.1**	**118.2**	**8%**
			NIS subsidiaries in the region and Angola			
0.0	0.1	n/a	Contributions for social insurance paid by the employer	0.2	0.2	-18%
0.0	0.2	n/a	Income tax	0.6	0.5	6%
-0.4	0.1	-120%	VAT	0.1	-0.6	-112%
0.8	1.5	97%	Excise tax	4.7	2.4	97%
0.0	0.0	-100%	Custom duty	0.0	0.0	-100%
0.0	0.0	n/a	Royalties	0.0	0.0	n/a
0.0	0.0	n/a	Other taxes	0.1	0.1	70%
0.4	**1.8**	**356%**	**Total**	**5.6**	**2.6**	**117%**
0.0	0.7	n/a	Deferred tax assets (total for Group)	2.5	-0.2	1.360%
29.4	**38.1**	**30%**	**Total NIS Group[2]**	**136.2**	**120.6**	**13%**

1 Subsidiaries include: STC NIS – Naftagas l.t.d. , Naftagas – Transport l.t.d., Naftagas – Technical Services l.t.d. and Naftagas – Oilfield Services l.t.d., and does no include O Zone j.s.c., NIS – Svetlost l.t.d. and Jubos l.t.d.

2 Inclusive of taxes and other liabilities based on public revenues with respect to regional subsidiaries, tax and profit in Angola, and deferred tax assets.

Total amount of calculated obligations based on public revenue which is paid in Serbia by NIS j.s.c. Novi Sad with its daughter companies, and which derives from NIS's organizational structure26, amounts to RSD 128.1 billion, which is higher by 9.8 billion, i.e., eight percent more than in the same period of the previous year.

3 Subsidiaries include: STC NIS – Naftagas l.t.d. , Naftagas – Transport l.t.d., Naftagas – Technical Services l.t.d. and Naftagas – Oilfield Services l.t.d., and does no include O Zone j.s.c., NIS – Svetlost l.t.d. and Jubos l.t.d.

NIS paid to the Central Budget of the Republic of Serbia for dividends the amount of RSD 3.9 billion, as non-taxed revenue from property (RSD 3.7 billion in 2013).

Total amount of calculated obligations based on public revenue paid by NIS Group in 2014 amounts to RSD 136.2 billion, which is higher by 15.6 billion, i.e., 13% more.

1.12 Securities

Share Capital Structure

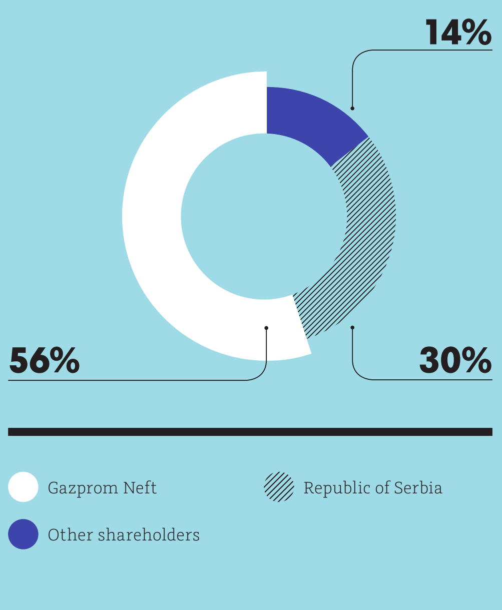
NIS' share capital amounts to 81.53 billion RSD, and it is distributed into 163,060,400 shares with a nominal value of 500.00 RSD per share.

The shares are dematerialized and registered with the Central Securities Depository and Clearing House of the Republic of Serbia, under CFI code ESVUFR and ISIN number RSNISHE79420

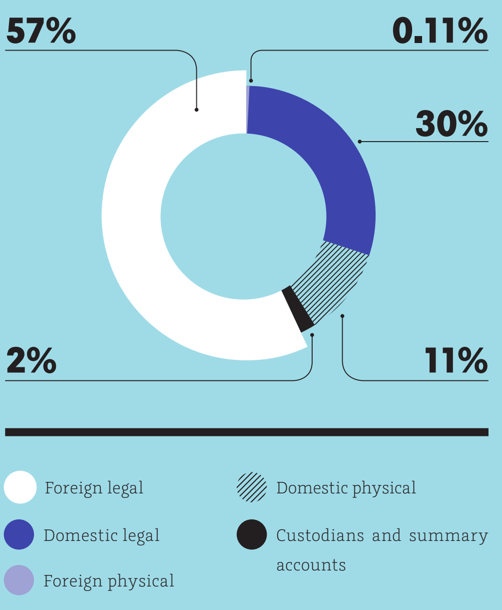
All issued shares are common shares which grant the following rights to their holders:

- Right to participate and vote at the shareholders' assembly sessions, according to one-share-one-vote rule;
- Right to dividend in compliance with the applicable regulations;
- Right to a share in the distribution of the liquidation stock or bankruptcy estate in compliance with the bankruptcy law;
- Right to the option to buy the common shares and other financial instruments that can be traded for newly-issued common shares;
- Other rights in accordance with the Company Law and Company documents.

Share capital structure based on % in share capital



Share capital structure based on entity type

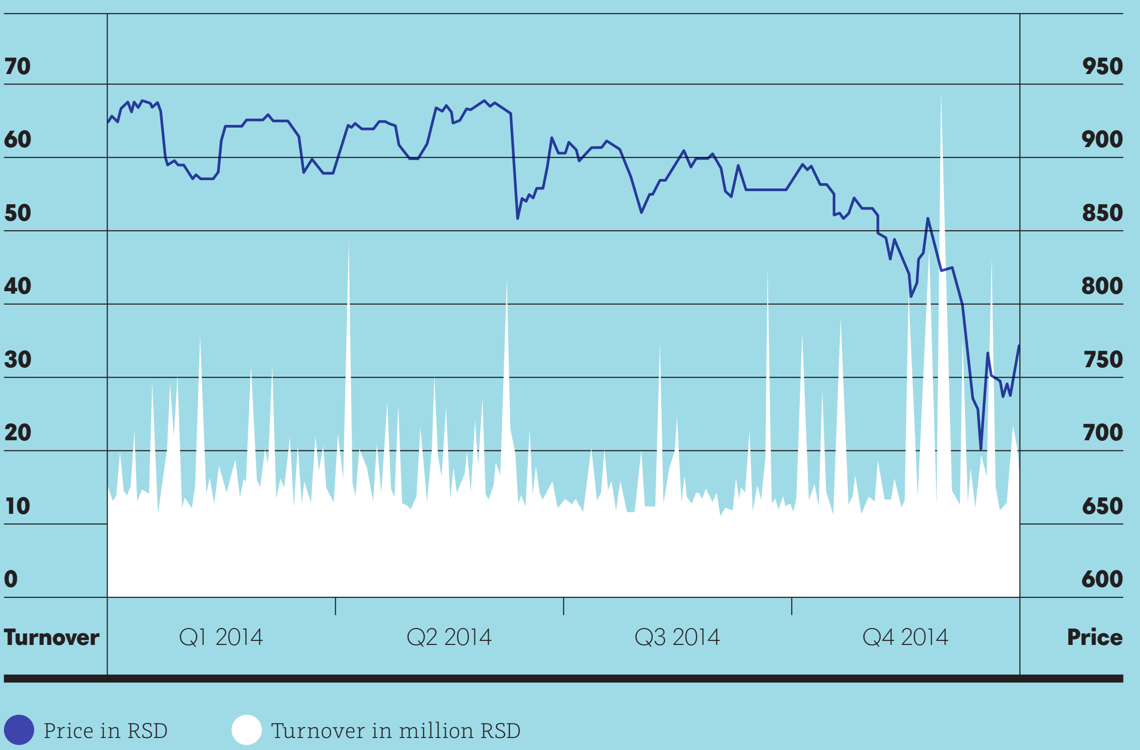


Shareholder	Number of shares	% in share capital
Gazprom Neft	91,565,887	56.15%
Republic of Serbia	48,712,034	29.87%
Unicredit Bank Srbija a.d. – custody account	614,662	0.38%
East Capital (Lux) – Balkan fund	420,989	0.26%
Societe Genera Bank Serbia – custody account	412,753	0.25%
Raiffeisen Bank a.d. Belgrade – custody account	285,056	0.17%
UniCredit Bank Srbija a.d. – collective account	240,284	0.15%
Raiffeisenbank a.d. Belgrade – custody account	223,181	0.14%
Global Macro Capital Opportunities	216,465	0.13%
Keramika Jovanović d.o.o. Zrenjanin	203,824	0.12%
Other shareholders	20,165,265	12.37%
Total number of shareholders as of 31 December 2014		**2,224,843**

Share Trading and Indicators per Share

NIS j.s.c. Novi Sad shares are listed in the Prime Listing of the Belgrade Stock Exchange.

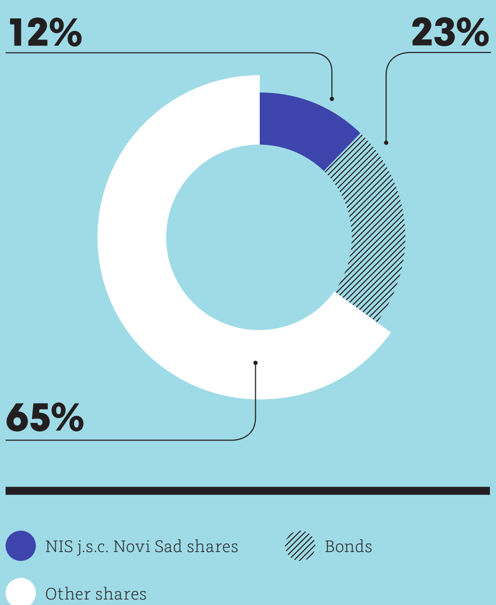
Price and turnover trends in 2014



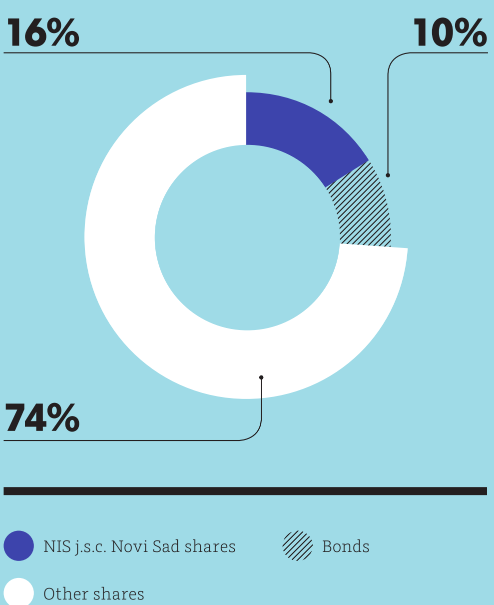
Overview of trading in NIS shares at the Belgrade Stock Exchange in 2014	
Last price (as of 31 December 2014)	775 RSD
Highest price (as of 4 June 2014)	950 RSD
Lowest price (as of 17 December 2014)	700 RSD
Total turnover	2,320,095,250.00 RSD
Total volume (number of shares)	2,622,013 shares
Total number of transactions	101,325 transaction
Market capitalization as of 31 December 2014	126,371,810,000.00 RSD
EPS	187.41 RSD
Consolidated EPS	170.72 RSD
P/E ratio	4.14
Consolidated P/E ratio	4.54
Book value as of 31 December 2014	1,193.34 RSD
Consolidated book value as of 31 December 2014	1,126.09 RSD
P/BV ratio	0.65
Consolidated P/BV ratio	0.69

In 2014, the Company did not acquire any own shares (treasury shares).

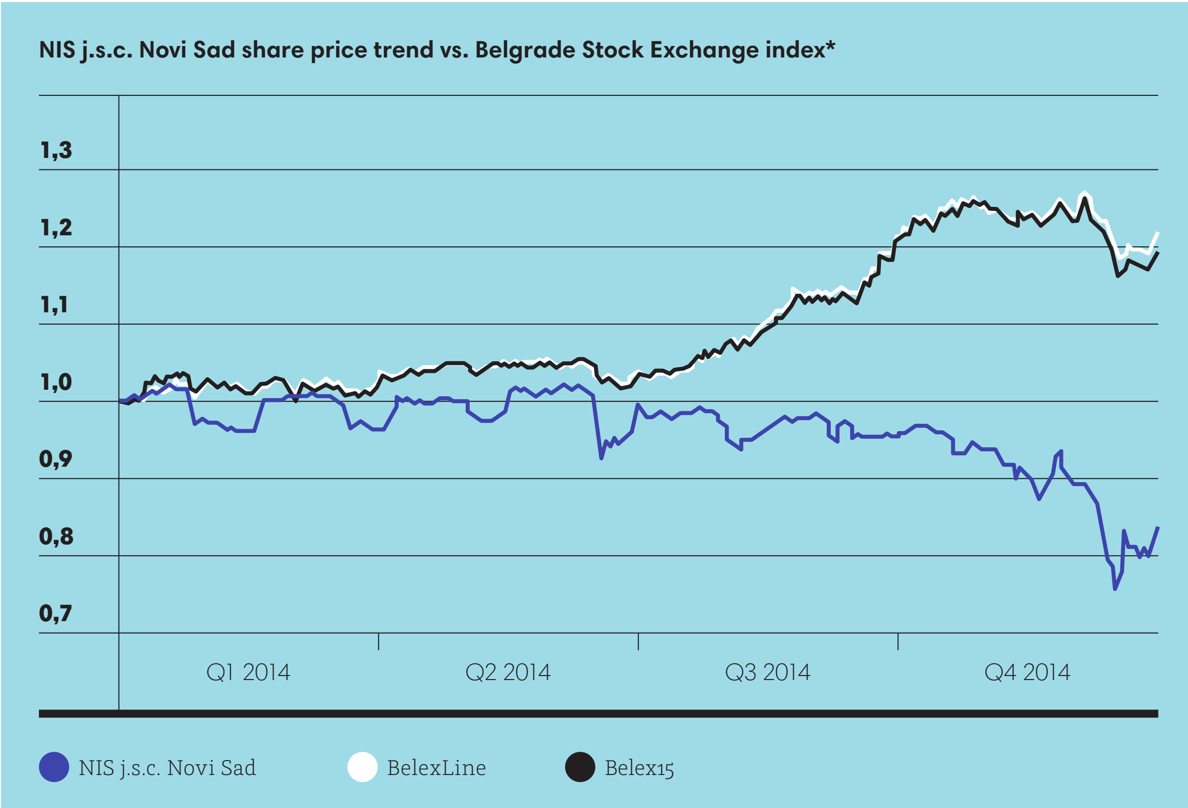
NIS j.s.c. Novi Sad share in the total share turnover at the Belgrade Stock Exchange



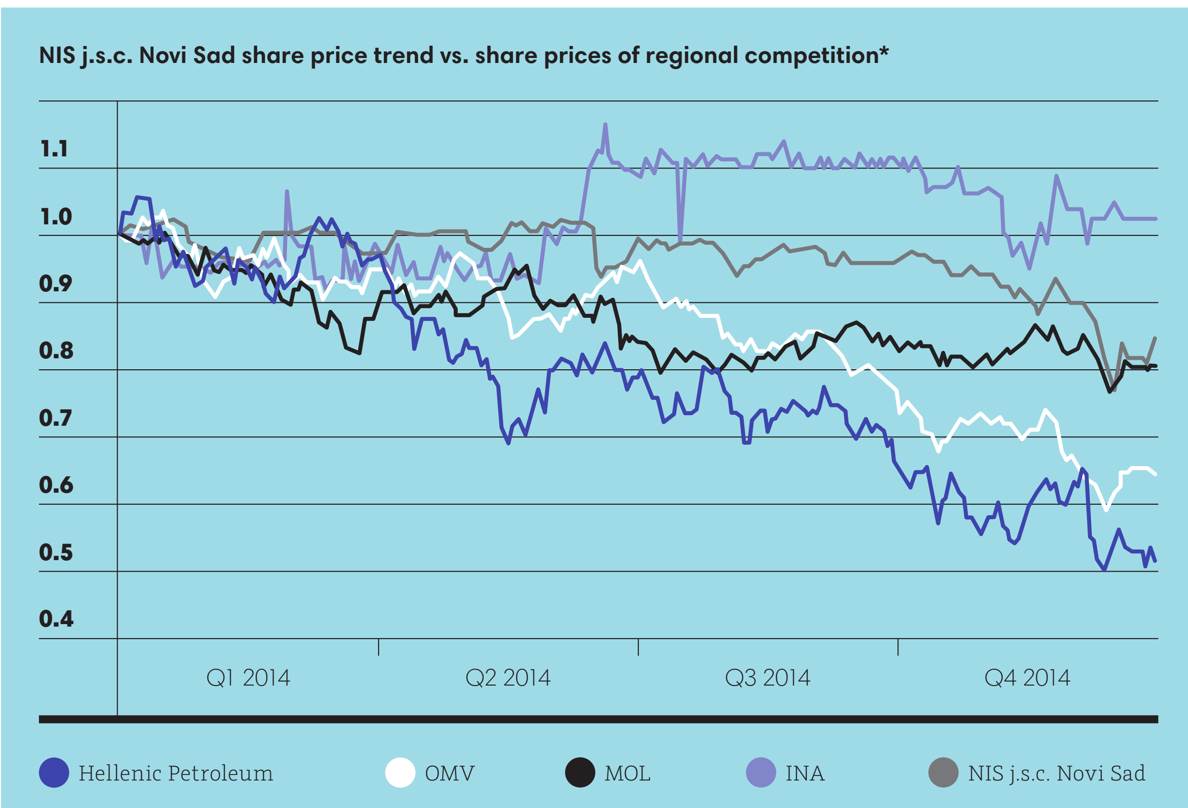
NIS j.s.c. Novi Sad share in the total market capitalization at the Belgrade Stock Exchange



In 2014, NIS j.s.c. Novi Sad shares showed a trend opposite to the Belgrade Stock Exchange index trend, and they followed the trend of the regional oil and gas sector, albeit with a smaller drop in price (excluding INA).



* normalized



* normalized

Dividends, Shareholders

What?
Reliable source of income for shareholders

Since 2010, when they were first listed on the Belgrade Stock Exchange (BSE), NIS shares have been the most traded securities on this market. Proactive approach, implementation of global practices in reporting and regular payment of dividends justify the name of the greatest Serbian blue chip company.

How?
A reliable interlocutor for its partners

NIS is active in communicating with investors via regular quarterly presentations of results, holding meetings with investors and by participating in investor conferences. All the information for investors and shareholders is published in a special section of the corporate website - https://ir.nis.eu.

Effects

12%

of total turnover on the BSE is the turnover of NIS shares

16%

of total turnover on the BSE is the turnover of NIS shares

Every year NIS opens its doors for the investor community by organizing the Investors' Day. The Investors' Day is an opportunity for investors and shareholders to get acquainted with the latest projects and achievements.

Dividends

NIS j.s.c. Novi Sad dividend policy is based on a balanced approach which takes into account the necessity of profit retention, for purposes of future investment funding, as well as the rate of growth of the invested capital and the amount for dividend payment. The long-term dividend policy stipulates that at least 15% of the generated net profit is to be paid to the shareholders in the form of dividends.

When adopting the draft decision on the distribution of profit and payment of dividends, the Company management considers a number of factors, including the financial situation, investment plans, loan repayment obligations, macroeconomic environment, and legal regulations. Each and every one of these factors, whether individually or combined, if carrying sufficient weight, may affect the proposed dividend payment.

	2009	2010	2011	2012	2013
Net profit (loss), in bn. RSD[1]	(4.4)	16.5[2]	40.6[3]	49.5	52.3
Total dividend amount, in bn. RSD	0.00	0.00	0.00	12.4	13.1
Payment ratio	-	-	-	25%	25%
Earnings per share, in RSD	-	101.1	249.0	303.3	320.9
Dividend per share, gross, in RSD	0.00	0.00	0.00	75.83	80.22
Price share as of 31 December, in RSD	-	475	605	736	927
Shareholders' dividend yield, in %[4]	-	-	-	10.3	8.7

1 NIS j.s.c. Novi Sad net revenue
2 Net revenue used to cover accumulated losses
3 Net revenue used to cover accumulated losses
4 Calculated as a ratio between gross dividend and share price at year-end

Investor Relations

The Company actively communicates with investors through regular quarterly presentations of the results achieved, ensuring direct communication between the stakeholders and the Company's management. In addition, the Company communicates with the stakeholders by holding one-to-one meetings with investors and by attending investor conferences. Any information intended for investors is published in the section of the corporate website dedicated to investors and shareholders – https://ir.nis.eu.

NIS j.s.c. Novi Sad paid out in 2014, the second year on end, dividends in the amount of 25% of the net profit. The amount of RSD 13.08 billion was allocated for dividends.

Complying with the principle of transparent business and the adoption of new corporate management standards in Serbia, NIS j.s.c. Novi Sad has continued its practice of "opening the Company's doors" to the representatives of banks, brokerage companies, investment funds, and financial analysts, with the aim of keeping investors informed on the relevant aspects of its business. Following the presentation of financial results and open and structured dialogue between the Company representatives and investors, attendees learn about the Company's plans in relation to the project of increasing the operational efficiency of the Company.

Overview of Financial Instruments Used by the Group

Due to its exposure to the foreign exchange risk, NIS Group practises forward transactions on the foreign exchange market, as the instrument to manage this type of risk.

As the parent company of "Gazprom Neft" Group, which includes NIS j.s.c. Novi Sad and its subsidiaries, OJSC "Gazprom Neft" manages the commodity hedging instruments at the level of "Gazprom Neft" Group and decides if it is necessary to use specific commodity hedging instruments.

In 2014, NIS was considering the option of issuing corporate bonds in the local market. Due to unfavorable market conditions, such issuing has been postponed until the conditions improve.

Rating

A company's rating represents the assessment of its business solvency and market position, including all other features of the company – position, assets, businesses and perspective. However, the company's rating is closely related to the rating of the country in which it conducts its business activity and an assessment of the risks of investing in that country.

In Serbia, as of 1 January 2010, the official Solvency Report Database is kept with the Register of Financial Statements and Solvency Information of Legal Entities and Entrepreneurs, by the Business Registers Agency of the Republic of Serbia (www.apr.gov.rs).The Business Registers Agency issues scores, as a form of opinion with regards to the solvency, formed based on the data provided in the financial statements and by applying the method of quantitative financial analysis and statistical monitoring.

Rating assigned by	Member of Group	Previous rating assessment		Previous rating assessment	
		Rating assessment	Date	Rating assessment	Date
Business Registry Agency Republic of Serbia	-	CC Good	29.01.2014.	BB Very good	29.01.2015.
Rating d.o.o. Belgrade Serbia	Dun&Breadstreet Short Hills New Jersey, USA	5A2 Good Up	20.06.2013.	5A2 Good Up	10.11.2014.
Solvent Rating d.o.o. Belgrade Serbia	Bisnode AB, Stockholm, Swweden	A1	17.01.2014	A1	26.01.2015.

1.13 Corporate Governance

Statement on the application of Code of Corporate Governance

In line with Article 368 of the Company Law (hereinafter the "Law") NIS j.s.c. Novi Sad declares that it applies the Code of Corporate Governance of NIS j.s.c. Novi Sad (hereinafter referred to as: the "Code") which is available on the Company's website[1]. This Statement contains a detailed and comprehensive review of corporate governance practices implemented by the Company.

In 2014 a new version of the Code was adopted which supplements the rules contained in the Law and the Statute of NIS j.s.c. Novi Sad (hereinafter referred to as: the "Statute"), in accordance with which holders of the Company's corporate governance should behave. The Board of Directors of the Company ensures the application of established principles of the Code, monitors its implementation and supervises the coordination of the organization and operation of the Company with the Code and the Law.

Company Management System

The Company has established a one-tier management system where the Board of Directors holds the central role in the Company management. The Board of Directors is responsible for the accomplishment of set goals and achievement of results, while shareholders exercise their rights and control primarily through the Shareholders' Assembly. The provisions of the Statute make a full and distinct delineation between the scope of operations of the Board of Directors and the scope of work of the Shareholders' Assembly, the Chief Executive Officer of the Company and the bodies appointed by corporate management bodies.

Shareholders' Assembly and shareholders' rights

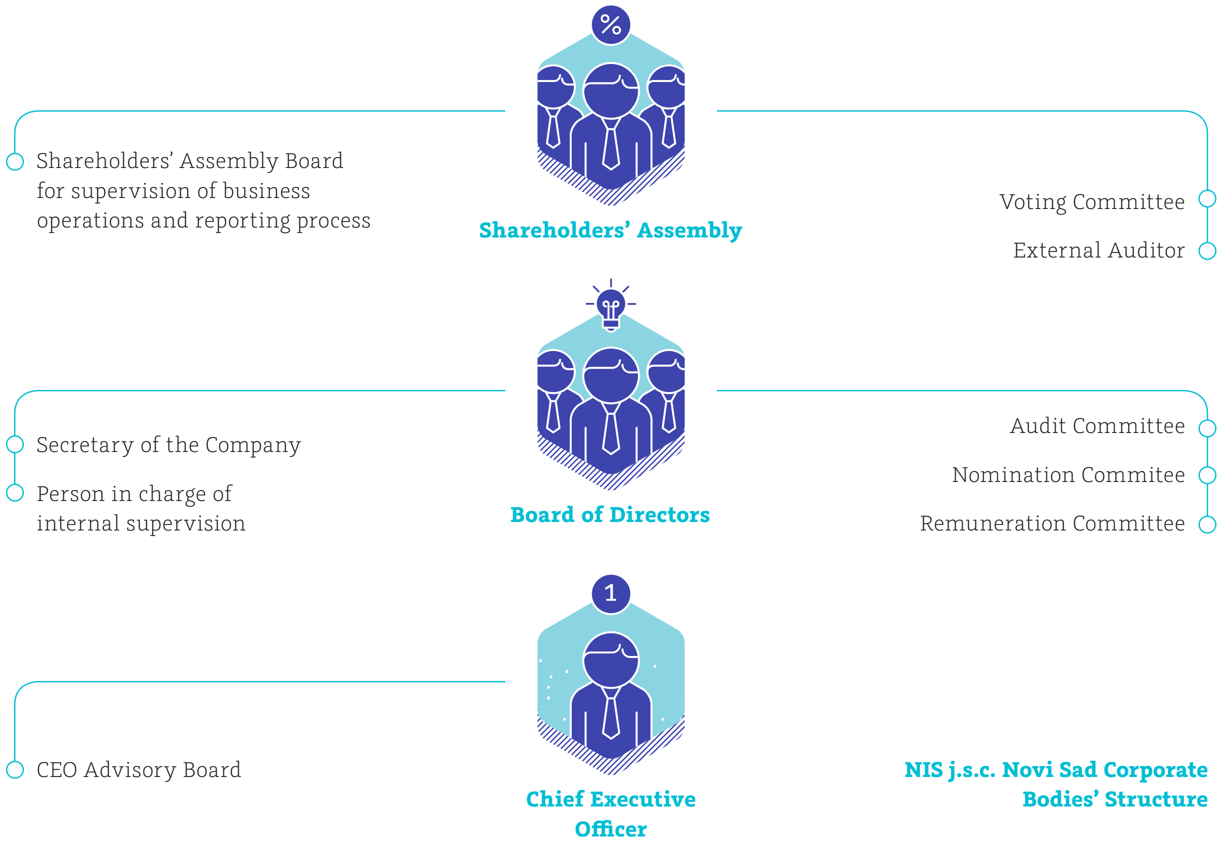
As the highest authority of the Company, the Shareholders' Assembly is made up of all shareholders. All NIS j.s.c. Novi Sad shares are regular shares that give owners the same rights, wherein one share carries one vote. The Company standards do not impose restrictions that would apply to the number of shares or votes that a person may have at the Shareholders' Assembly.

The Shareholders' Assembly sessions may be regular and extraordinary. Regular sessions are convened by the Board of Directors no later than six months after the end of a fiscal year. Extraordinary sessions are convened by the Board of Directors at its discretion or at the request of shareholders holding at least 5% of the Company shares.

The rules relating to the method of convening sessions, operation and decision making of the Shareholders' Assembly, and in particular the issues related to the manner of exercising the rights of shareholders in connection with the Shareholders' Assembly, are prescribed in advance and listed in the Rules of Procedure of the Company's Shareholders' Assembly (the "Rules of Procedure of Shareholders' Assembly[2]"), which is published and available to all shareholders.

1 http://ir.nis.eu/corporate-governance/code-of-corporate-governance/

2 Available on the page http://ir.nis.eu/corporate-governance/shareholders-assembly/#c41



NIS j.s.c. Novi Sad Corporate Bodies' Structure

Invitations for attending the Shareholders' Assembly session are posted on the Company's website (www.nis.eu), the Business Entity Registry website (www.apr.gov.rs) and the regulated market website (www.belex.rs) at least 30 days before the day of a regular session and 21 days before an extraordinary session. Simultaneously with the publication of the invitation for the Shareholders' Assembly session on the Company's website, the materials for the Shareholders' Assembly session are also published to be made available for inspection to each shareholder or his/her representative at the Company's registered office pending the date of the session.

NIS j.s.c. Novi Sad adopted a new version of Corporate Governance Code in 2014.

All decisions adopted by the Shareholders' Assembly are published on the Company's website together with the report of the Voting Committee on the election results, minutes of the Shareholders' Assembly session, and the list of participants, invitees and the list of attending and represented shareholders of the Company.

The invitations and materials for the Shareholders' Assembly session, adopted decisions and other documents published following a Shareholders' Assembly are available in Serbian, Russian and English.

Shareholders' Special Rights

The sale and purchase agreement for NIS j.s.c. Novi Sad shares, which was concluded on 24 December 2008 between OJSC "Gazprom Neft" and the Republic of Serbia, envisages that, as long as the contracting parties are shareholders of NIS j.s.c. Novi Sad, neither party shall sell, transfer or by other similar method dispose of ownership of the shares package, in part or in its entirety for the benefit of any third party, unless it previously offers to the other party the option of purchasing the shares package in accordance with the same terms as offered by the third party.

In accordance with Article 4.4.1 of the Agreement, as long as the Republic of Serbia is the shareholder of the Company with at least 10% equity share, it shall be entitled to a number of members on the Board of Directors proportional to its share in the equity share.

The Right to Participate in the Shareholders' Assembly

The right to participate and vote in the Shareholders' Assembly is held by all shareholders who own NIS j.s.c. Novi Sad shares on the Record Date, which is the tenth day prior to the Shareholders' Assembly session, based on the records of the Central Securities, Depository and Clearing House.

According to the Statute, the right to personally participate in the Shareholders' Assembly is held by a Company shareholder with at least 0.1% of the shares of the total number of Company shares, and/or his/her attorney representing at least 0.1% of the total number of Company shares. The Company shareholders who individually hold less than 0.1% of the total number of Company shares are eligible to participate in the Shareholders' Assembly's work through a joint proxy, to vote in absentia or to vote electronically, re-

NIS j.s.c. Novi Sad shareholders are offered a possibility of giving powers of attorney for participation in the Shareholders' Meeting, and of electronic voting.

gardless of the number of shares held, in which case all of the above voting methods have the same effect. The stipulation of a threshold for personal participation is conditioned by the fact that the Company has a very large number of shareholders (about 2.2 million) and a threshold in these circumstances is necessary in order not to compromise the efficiency and rationality in terms of planning and holding Shareholders' Assembly sessions. Since the 6th Regular Shareholders' Assembly session, which was held on 30 June 2014, the Company allows the shareholders to grant a power of attorney electronically and vote electronically prior to the meeting, wherein the power of attorney, and/or a ballot form must be signed by a qualified electronic signature in accordance with the law governing electronic signatures.

Proposing Amendments to the Agenda

In accordance with the Statute and the Law, one or more of the Company's shareholders holding at least 5% of voting shares may put forward a motion to the Board of Directors which contains additional items to the agenda of the annual Shareholders' Assembly session which is put forward for discussion, as well as additional items in relation to which it is proposed that the Shareholders' Assembly adopt a decision.

Voting Majority

Shareholders' Assembly Decisions are adopted, as a rule, by a simple majority of votes of attending Company shareholders entitled to vote on the issue concerned, unless the law, the Statute or other regulations require more votes for certain issues. Exceptionally, as long as the Republic of Serbia holds at least 10% of the Company's share capital, the affirmative vote of the Republic of Serbia is required for the decisions of Shareholders' Assembly concerning the following issues: adoption of financial statements and the auditor's report, amendments to the Statute, capital decrease and increase, status change, acquisition and disposal of major assets of the Company, changes in core activities, registered office and the dissolution of the Company.

Shareholders' Assembly Activities in 2014

In 2014, the 6th Regular Shareholders' Assembly session was held in Belgrade in the NIS registered office in Milentija Popovića Street no.1 on 30 June; no extraordinary sessions were held.

In this session, the Shareholders' Assembly adopted the financial and consolidated financial statements of the Company for the year 2013 with the auditor's opinion and appointed the auditor for 2014 (Ernst & Young doo Beograd). In addition, it also adopted the

Company's Annual Report for 2013 and the Report on Audit of the Annual Report, Report on the Analysis of the Work of the Board of Directors and Committees of the Board of Directors and the Report of the Committee of the Shareholders' Assembly. The Shareholders' Assembly also adopted the Report on Adequacy of the Composition of the Board of Directors and the Number of Members of the Board of Directors, Needs of the Company and the Report on Assessment of the Amount and Structure of Remuneration for Members of the Board of Directors of NIS j.s.c. Novi Sad, which were prepared with the assistance of external experts. In addition, the Shareholders Assembly adopted the Decision on Profit Distribution for 2013, Payment of Dividends and the Determination of the Total Amount of Retained Earnings of the Company More information on paid dividends for the year 2013 is presented in the relevant section of the Annual Report: Annual Report> Securities> Dividend.

The Shareholders' Assembly also dismissed and appointed members of the Board of Directors and the Chair and members of the Board of the Shareholders' Assembly for Supervising Operations and Procedures of Reporting to Shareholders, and adopted amendments to the Statute and the Rules of Procedure of the Shareholders' Assembly providing for granting authorizations by electronic means and electronic voting before the annual Shareholders' Assembly session, which should ensure the more efficient work of the Board of the Shareholders' Assembly.

We are developing two-way communication with shareholders and investors, who receive all the necessary information about the business operations and about their rights.

Shareholder Relations and Information Sharing

The Company has developed a two-way communication with shareholders and investors, who are able to obtain all the necessary information about the Company and their rights through the Office for Minority Shareholders Relations in Novi Sad and Belgrade, a separate call center, an e-mail service through which each shareholder may put questions and receive answers electronically, as well as through investor relations. In addition, the Company gives special presentations for shareholders and investors in connection with the most important events and participates in the meetings with investment community representatives. Quarterly presentations of results of the Company's operations are regularly attended by representatives of the Company's top management and both the results of the previous period and future plans and strategies of the Company are discussed in these presentations. More information about the Company's relations with investors is available in the relevant section of the Annual Report: Annual Report> Securities> Investor Relations.

NIS j.s.c. Novi Sad strives to apply the highest standards in terms of information sharing, while respecting the principles of equal treatment of all users of information and ensuring that the information published is equally and easily available to all stakeholders in the shortest time possible. The Company's website is used mostly to this end.

The Company also has a mechanism for preventing and resolving potential conflicts between minority shareholders and the Company. The Company has a five-member committee to resolve complaints by minority shareholders which works on the basis of the Rules of Procedure of the Committee. The present Rules govern the procedures of minority shareholders addressing the Committee, work in its meetings, duties and responsibilities of its members and other relevant issues, and the Rules of Procedure is available on the Company's website[1].

The Board of Directors

The Board of Directors has a central role in the management of the Company and it is collectively responsible for the long-term success of the Company and for setting up basic business goals and guiding the directions of the Company's further development, as well as identification and control of the effectiveness of the Company's business strategy.

Composition of the Board of Directors

The Board of Directors consists of 11 members appointed by the Shareholders' Assembly. The members elect the Board of Directors' Chair; the functions of the Board of Directors' Chair and the Chief Executive Officer are separate. Members of the Board of Directors possess the appropriate combination of necessary knowledge and experience relevant to the type and scope of business activities conducted by NIS j.s.c. Novi Sad.

Candidates for members of the Board of Directors may be proposed by the Appointment Committee or shareholders of the Company who individually or jointly own at least 5% of the Company's shares.

The Board of Directors consists of executive and non-executive directors. The Board of Directors consists of one executive and ten non-executive members, of which two non-executive directors are also independent members of the Board of Directors.

Of the 11 members of the Board of Directors, six are Russian nationals, three are nationals of the Republic of Serbia, one director is a national of France, and one is an Austrian national.

The Board of Directors members must meet the requirements prescribed by the Law, as well as special conditions prescribed by the Statutes of which they make Statements at the beginning of the term of office and have an obligation to inform the Company of any changes in their status, especially those changes which would render

1 available at http://ir.nis.eu/faq-questions-and-answers/#c889

The Board of Directors has one executive and 10 non-executive members, while two non-executive directors are at the same time the independent members of the Board of Directors.

them potentially no longer eligible for election to the Board of Directors, or which could indicate the existence of a conflict of interest or violation of the prohibition of competition.

The term of office of the Board of Directors' members terminates at the next regular session of the Shareholders' Assembly, except in the case of co-optation, when the term of office of co-opted members of the Board of Directors lasts until the first next annual Shareholders' Assembly session. Each member of the Board of Directors may be reappointed without limitation.

Board of Directors' Rules of Procedure and Sessions

The Rules of Procedure of the Board of Directors and Committees of the Board of Directors of the Company (hereinafter "the Rules of Procedure of the Board of Directors") govern the operation and decision making of the Board of Directors and Committees of the Board of Directors of the Company, including the procedure for convening and holding meetings.

The Board of Directors decide by a simple majority of votes of all members of the Board of Directors, except for the decision to co-opt, which is made by a simple majority of votes of attending members, and decisions for which the Law and/or the Statute requires a different majority of votes.

Remuneration to the Board of Directors and the Committees' Members

The Board of Directors performs once a year an analysis of its work and of the work of the Committees, whose results are presented at the Shareholders' Meeting.

Payment Policy – The applicable remunerations policy for the members of the Board of Directors and the members of the Board of Directors Committees, adopted by the Shareholders' Assembly in 2013, is drafted on the bases of the external consultant's reports on the analysis of market remunerations to non-executive members of the Board of Directors in the selected reference group. The Policy provides that the payments should be desirable and competitive to attract and retain persons as members of the Board of Directors and members of the Committees of the Board of Directors who meet professional and other criteria necessary for the Company. At the same time, the payments should not significantly deviate from compensation paid to members of the Board of Directors and members of the Commission Board of Directors in other companies with the same or similar activities and size and scope of operations.

The payment policy envisages that payments for executive directors are determined in an employment contract, i.e. contract of engagement of each of the executive directors of the Company, whereby the latter do not receive fees for membership on the Board of Directors and Committees of the Board of Directors, except for the portion relating to the compensation of costs and liabilities in connection with the membership and the work of the Board of Directors and Committees

The Remuneration Structure – The remuneration policy stipulates that the remuneration consists of:

- a fixed (permanent) portion;
- compensation of costs; and
- liability insurance of members of the Board of Directors and Committees of the Board of Directors.

Fixed (permanent) portion: This payment to members consists of a fixed portion of the annual fee for membership of the Board of Directors and the fixed annual fees for participation in the work of the Committees of the Board of Directors.

Reimbursement of expenses: The members of the Board of Directors and Committees of the Board of Directors are entitled to receive reimbursement for all expenses incurred in connection with their membership on the Board of Directors or Committees of the Board of Directors, within the limits of norms determined by the internal Company deeds.

Liability insurance of members of the Board of Directors: Members of the Board of Directors have the right to liability insurance (Directors & Officers Liability Insurance) at the expense of the Company in accordance with the internal deeds of the Company.

Remuneration Policy Change – In order to maintain the remuneration at an appropriate level, it is provided that the Remuneration Policy is subject to periodic reviews and analysis, and in this respect it should comply with the needs, abilities and interests of the Company and other changes in the relevant criteria. Recommendations made by the Remuneration Committee related to the remuneration policy shall be submitted to the Company's Shareholders' Assembly.

The total Amount of the Payments Disbursed to the Board of Directors' Members In 2014, RSD Net

Chief Executive Officer	22,489,029
Other Members of the Board of Directors	92,662,373

Analysis of the Board Of Directors' Work

The Board of Directors conducts an analysis of their work and the work of the Committees on an annual basis for the purpose of identifying potential problems and proposing measures to improve the work of the Board of Directors.

The analysis of the work is carried out on the basis of a survey that members of the Board of Directors fill out.

The assessment results based on the responses of members of the Board of Directors received as a result of completing the surveys are presented at a meeting of shareholders in a Special Report.

Induction and Training of the Board of Directors' Members

Members of the Board of Directors, upon their appointment, are introduced to the Company's operations, allowing them greater insight into the Company's way of doing business, strategy and, the key risks that the Company faces, and their expedited active involvement in the work of the Board of Directors.

The Company also organizes special programs for additional training, or provides special funds for these purposes in cases where members of the Board of Directors express the need for this.

Strategic Sessions

Members of the Board of Directors participate in strategic sessions which ensure that they gain a better insight into the Company's business operations and which allow them to review and reconsider the priority directions of the Company's development and projected key performance indicators and assumptions for the Company's development in the long run. During 2014, work continued on the development and harmonization of the Company Development Strategy until 2030.

Changes in the Composition of the Board of Directors in 2014

At the 6th Regular session of NIS' Shareholders' Assembly, held on 30 June 2014, Mr. Nenad Mijailović (at the same session appointed as the Chairman of the Shareholders' Assembly Board for the Supervision of Operations and the Procedure for Reporting to the Company's Shareholders) and Mrs. Negica Rajakov were relieved of their duties as members of NIS j.s.c. Novi Sad Board of Directors, and the new Board of Directors members were appointed: Mr. Goran Knežević and Mrs. Danica Drašković.

Members of the Board of Directors as at 31 December 2014

Vadim Yakovlev,

Chairman of NIS j.s.c. Novi Sad Board of Directors
Deputy Chairman of OJSC "Gazprom Neft" Executive Board, First CEO Deputy, in charge of exploration and production, strategic planning and mergers and acquisitions

Born on 30 September 1970.
In 1993, Mr. Yakovlev graduated from the Moscow Engineering Physics Institute, Department of Applied Nuclear Physics. Mr. Yakovlev graduated from the Faculty of Finance at the International University in Moscow in 1995. Since 1999, he has been a qualified member of the Chartered Association of Certified Accountants. In 2009, he earned a degree from the British Institute of Directors (IoD).
During his employment with PricewaterhouseCoopers from 1995 to 2000, Mr. Yakovlev held various positions, starting from a Consultant to being promoted to Audit Manager. In the period from 2001 to 2002, he served as Deputy Head of the Financial and Economics Department, YUKOS EP c.j.c.s, and from 2003 to 2004, as Financial Director of Yuganskneftegaz, NK Yukos. From 2005 to 2006, Mr. Yakovlev held the position of Deputy General Director in charge of economy and finance at SIBUR-Russian Tyres.

Kirill Kravchenko,

Chief Executive Officer of NIS j.s.c. Novi Sad
Member of Nomination Committee
Deputy CEO for Overseas Asset Management OJSC "Gazprom Neft"

Born on 13 May 1976 in Moscow.
In 1998, Mr. Kravchenko graduated with honors from Lomonosov Moscow State University with a degree in Sociology. He completed postgraduate studies at the same university. He continued his studies at the Open British University (Financial Management), and IMD Business School. He holds a PhD in Economics. Mr. Kravchenko worked in consulting until 2000, and from 2000 to 2004, he held various positions in YUKOS in Moscow and Western Siberia and with Schlumberger (under the partnership programme with NK Yukos) in Europe and Latin America. In the period from 2004 to 2007, he was Administrative Director of JSC EuroChem Mineral and Chemical Company. Mr. Kravchenko was elected member to the Board of Directors several times in major Russian and international companies. In April 2007, he was appointed Vice-Chairman of OJSC "Gazprom Neft", and in January 2008, he was made Deputy Chairman of the Management Board of OJSC "Gazprom Neft", as well as Deputy General Director for Organizational Affairs. Since February 2009, he was appointed CEO of NIS a.d. Novi Sad, and member of the NIS Board of Directors, and as of March 2009, he holds the position of Deputy CEO for Overseas Assets Management in OJSC "Gazprom Neft".

Alexander Bobkov,

Member of NIS j.s.c. Novi Sad Board of Directors
Advisor to the OJSC "Gazprom Neft" CEO

Born on 18 October 1966 in Vinnytsia.
Mr. Bobkov graduated from "Zhdanov" Leningrad State University, Department of Political Economy in 1988. On 16 June 2006, Mr. Bobkov received his Master's Degree in Economics and attained his PhD in Economics on 17 June 2011. From 1991 to 2010, he held various managerial positions in the following fields: civil engineering, production, real estate and sales at Leningrad Business Co-operation Centre "Perekryostok", "Proxima" j.s.c., and "General Civil Engineering Corporation" Ltd. Since 2010, Mr. Bobkov has served as Executive Director of "Okhta" o.j.s.c. Business Centre (presently "Lakhta Center" Multifunctional Complex j.s.c.), and in 2012, he was appointed Advisor to the OJSC "Gazprom Neft" CEO.

Danica Drašković,

Member of NIS j.s.c. Novi Sad Board of Directors

Born in Kolašin in 1945.
Ms. Drašković graduated from the Faculty of Law, University of Belgrade in 1968. From 1968 to 1972, she worked in the field of finance in the banking sector, and in the field of law and commerce within the economy sector, and as a Belgrade City Magistrate. Ms. Drašković is the owner of the publishing house "Srpska reč", founded in 1990. She is the author of two books written in the opinion journalism style. From April 2009 to 2013, Ms. Danica Drašković was a member of the NIS Management Board, and from 2012 to 2013, she served as a member of the Board of Directors, being re-elected on 30th June 2014.

Alexey Yankevich,

Member of NIS j.s.c. Novi Sad Board of Directors
Deputy CEO for Economics and Finance OJSC "Gazprom Neft"

Born on 19 December 1973.
In 1997, Mr. Yankevich graduated from Saint-Petersburg State University of Electrical Engineering ("LETI"), majoring in optical instruments and systems. In 1998, he completed a course at LETI-Lovanium International School of Management in Saint-Petersburg. Mr. Yankevich was employed with CARANA, a consulting company, from 1998 to 2001. In the period from 2001 to 2005, he served as Deputy Head of the Planning, Budgeting and Controlling Department at YUKOS RM o.j.s.c. (the business unit responsible for logistics and downstream operations). In 2004, he qualified as a Certified Management Accountant (CMA). From 2005 to 2007, he worked as Deputy CFO at LLK-International (specializing in the production and sale of lubricants and special petroleum products; part of the LUKOIL group). From 2007 to 2011, he held the post of Head of the Planning and Budgeting Department, and was Head of the Economics and Corporate Planning Department at OJSC "Gazprom Neft". Since August 2011, he has served as Acting Deputy CEO for Economics and Finance at OJSC "Gazprom Neft". Mr. Yankevich has been a member of the Management Board of OJSC "Gazprom Neft" and Deputy CEO for Economics and Finance since March 2012.

Goran Knežević,

Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of Nomination Committee

Born on 12 May 1957 in Banatski Karlovac.
Mr. Knežević graduated from the Faculty of Economics, University of Belgrade. He worked at "Servo Mihalj" in Zrenjanin from 1983 to 1990. Mr. Knežević served as General Manager at "Servo Mihalj Turist" from 1990 to 2000. Since 2000, he has been the Executive Committee Chairman of the city of Zrenjanin and the City Mayor holding office for three consecutive terms. Mr. Knežević was appointed Minister of Agriculture of the Republic of Serbia in 2012. From 1 October 2013 to 30 June 2014, he was Advisor to the NIS j.s.c. Novi Sad CEO.

Alexander Krilov,

Member of NIS j.s.c. Novi Sad Board of Directors
Director of the Department for Regional Sales at OJSC "Gazprom Neft"

Born on 17 March 1971 in Saint Petersburg. In 1992, Mr. Krilov graduated from LMU (Saint Petersburg) and from the Faculty of Law at Saint Petersburg State University in 2004. In 2007, he earned a degree from Moscow International Business School MIRBIS MBA, specializing in Strategic Management and Entrepreneurship. From 1994 to 2005, Mr. Krilov held managerial positions in the field of real estate sales (Chief Executive Officer, Chairman) in the following companies: Russian-Canadian SP "Petrobild"; c.j.s.c. "Alpol". From 2005 to 2007, he served as Deputy Head of the Department for Implementation in LTD "Sibur". In April 2007, Mr. Krilov was appointed Head of the Division for Petroleum Product Supply, Head of the Regional Sales Division and Director of the Regional Sales Department at OJSC "Gazprom Neft".

Nikola Martinović,

Member of NIS j.s.c. Novi Sad Board of Directors
Member of Audit Committee

Born on 3 December 1947.
Mr. Martinović completed his primary education in Feketić, and secondary in Srbobran. He graduated from the Faculty of Economics in Subotica, where he also defended his Master's thesis, titled: "Transformation of the Tax System in Serbia by Implementing VAT". From 1985 to 1990, he was the CEO of "Solid" company from Subotica, and from 1990 to 1992, he served as Assistant Minister of the Interior of the Republic of Serbia. From 1992 to 2000, Mr. Martinović held the position of Assistant CEO of the Serbian Petroleum Industry in charge of financial affairs, and was CEO of "Naftagas promet" from 1996 to 2000. From 2005 until 31 August 2013, Mr. Martinović worked as a Special Advisor at NIS j.s.c. Novi Sad. On 1 September 2013, he was appointed Special Advisor to the CEO of O Zone j.s.c, Belgrade, and from 15 December 2013 to 17 November 2014, he was performing the duties of the Advisor to the Director of STC NIS-Naftagas d.o.o. Novi Sad. Mr. Martinović was a member of the NIS j.s.c. Novi Sad BoD from 2004 to 2008, and was re-appointed in February 2009. Furthermore, he currently serves as member of the NBS Governor Council.

Wolfgang Ruttenstorfer,

Independent Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of Audit Committee

Born on 15 October 1950 in Vienna, Austria.
Mr. Ruttenstorfer' s career started in the Austrian company OMV in 1976. In 1985, he was transferred to the Planning and Control Department, and in 1989, he became responsible for the strategic development of the OMV Group. Being appointed Marketing Director in 1990, he became a member of the Executive Board in 1992 and was in charge of finance and chemical products. By early 1997, he was a member of the OMV EB, when he was appointed Deputy Minister of Finance. On 1 January 2000, he was re-appointed a member of the OMV EB in charge of finance, a function he performed until April 2002. He was in charge of gas affairs by December 2006. In the period from 1 January 2002 to 31 March 2011, Mr. Ruttenstorfer was the Chairman of the Executive Board of OMV Group.

Anatoly Cherner,

Member of NIS j.s.c. Novi Sad Board of Directors
Member of Remuneration Committee
Deputy Chairman of the Executive Board, Deputy CEO for Logistics, Refining and Sales at "Gazprom Neft" j.s.c.

Born in 1954.
Mr. Cherner graduated from Groznyy Oil Institute in 1976 with a degree in chemical technology for oil and gas refining. From 1976 to 1993, he worked at the Sheripov Groznyy Refinery, where he held a number of positions, from operator to refinery director in 1993. In 1996, he joined SlavNeft as Head of the Oil and Petroleum Products Sales Department and later served as its Vice-Chairman. He joined SibNeft (from June 2006 – OJSC "Gazprom Neft") as Vice-Chairman in charge of Refining and Sales in April 2006.

Stanislav Shekshnia,

Independent Member of NIS j.s.c. Novi Sad Board of Directors
Chairman of Remuneration Committee
Member of Nomination Committee
Professor at the International Business School INSEAD

Born on 29 May, 1964, citizen of France.
Mr. Shekshnia serves as the Chief of Practice at the Talent Performance and Leadership Development Consulting Department. He is also Director of the Talent Equity Institute and senior partner at Ward Howell. He teaches the course "Entrepreneur Leadership" at the International Business School INSEAD. Mr. Shekshnia has more than ten years of practical experience in management. He held the following positions: CEO of Alfa Telecom, Chairman and CEO of Millicom International Cellular, Russia and ZND, Chief Operational Director of Vimpelkom, Director of Personnel Management in OTIS Elevator, Central and East Europe. He was the Chairman of the LLC SUEK and c.j.s.c. Vimpelkom-R Boards of Directors.

Composition of the BoD and BoD's Committees

Position	Name and surname	Date of first election to the BoD	Executive Director	Non-Executive Director	Independent Director	Audit Committee	Nomination Committee	Renumeration Committee	Citizenship
BoD Chairman	Vadim Yakovlev	10 Feb 2009		x					Russian
BoD Member and CEO	Kirill Kravchenko	10 Feb 2009	x				○		Russian
BoD Member	Alexander Bobkov	22 July 2013 (co-optation)		x					Russian
BoD Member	Alexey Yankevich	18 June 2013		x					Russian
BoD Member	Alexander Krilov	21 June 2011		x					Russian
BoD Member	Nikola Martinović	24 Sep 2005[1]		x		○			Serbian
BoD Member	Goran Knežević	30 June 2014		x			●		Serbian
BoD Member	Danica Drašković	1 April 2009[2]		x					Serbian
BoD Member	Wolfgang Ruttenstorfer	20 April 2012		x	x	●			Austrian
BoD Member	Anatoly Cherner	10 Feb 2009		x				○	Russian
BoD Member	Stanislav Shekshnia	21 June 2010		x	x		○	●	French
Members of the BoD's Committees who are not members of BoD									
Member of Audit Committee	Alexey Urusov					○			Russian
Member of Remuneration Committee	Nenad Mijailović							○	Serbian

Legend:

● Chairman

○ Member

1 Nikola Martinovic was a member of the NIS j.s.c. Novi Sad Management Board (today known as the Board of Directors) from 24 September 2005 to 29 February 2008 , and was re-elected member as of 30 September 2008. Prior to his appointment to the Management Board of NIS j.s.c. Novi Sad, he was a member of the Management Board of the Public Company NIS – Petroleum Industry of Serbia from 1 April 2004 to 23 September 2005.

2 Danica Draškovic was a member of the NIS j.s.c. Novi Sad Board of Directors (previously Management Board) from 1 April 2009 to 18 June 2013, to be reappointed a member of the Board of Directors on 30 June 2014.

Membership of the Board of Directors or Supervisory boards of other companies

Vadim Yakovlev	• JSC NGK "Slavneft" • JSC "SN-MNG" • LTD "Gazprom Neft Development" • JSC "Gazprom Neft-NNG" • LTD "Gasprom Neft-East" • LTD "Gasprom Neft-Hantos" • LTD "Gasprom Neft-NTC" • LTD "GaspromNeft-Angara" • JSC "Gazprom Neft-Orenburg" • LTD "Gazprom Neft-Sahalin" • Salim Petroleum Development N.V. (Supervisory Board member) • JSC "Tomskneft" VNK
Kirill Kravchenko	• Vice-Chairman of the National Oil Committee of the Republic of Serbia • Serbian Tennis Federation BoD Member • SAM BoD Member – Serbian Association of Managers
Alexander Bobkov	• Lakhta Center" Multifunctional Complex JSC
Alexey Yankevich	• JSC NGK "Slavneft" • LLC "Gazprom Neft – Aero" • LTD "Gazprom Neft – SM" • LTD "Gazprom Neft Business-Servis" • "Gazprom Neft Lubricants" Italy • LTD "Gazprom Neft Marin Bunker" • FLLC "Gazprom Neft – Orenburg"
Alexander Krilov	• FLLC "Gazprom Neft Kuzbas" • JSC "Gazprom Neft Novosibirsk" • JSC "GaspromNeft Omsk" • JSC "Gazprom NeftTumen" • JSC "Gazprom Neft Ural" • JSC "Gazprom Neft Yaroslavlye" • FLLC "Gazprom Neft Northwest" • LTD "Gazprom Neft Asia" • LTD "Gazprom Neft Tajikistan" • LTD "Gazprom Neft Kazakhstan" • LTD "Gazprom Neft Centre" • LTD "Gazprom Neft Terminal" • LTD "Gazprom Neft Chelyabinsk" • LTD "Gazprom Neft – Regional Sales" • LTD "Gazprom Neft – Transport" • FLLC "Munay – Mirza" • LTD "Gazprom Neft – South" • LTD "Gazprom Neft – Krasnoyarsk" • LTD "Gazprom Neft – Corporate Sales"
Nikola Martinović	-
Goran Knežević	-

Membership of the Board of Directors or Supervisory boards of other companies	
Danica Drašković	-
Wolfgang Ruttenstorfer	• "CA Immobilien" AG, Vienna, Chairman of the Supervisory Board • "Flughafen Wien" AG, Vienna, Member of the Supervisory Board • "RHI" AG, Vienna, Member of the Supervisory Board
Anatoly Cherner	• JSC NGK "Slavneft" • JSC "Gazprom Neft-ONPZ" • JSC "Slavneft-JANOS" • JSC "Gazprom Neft –MNPZ" • FLLC "Gazprom Neft-Aero" • FLLC "St. Petersburg's International Commodities and Resources Exchange" • LLC "Gazprom Neft-Belnefteprodukt" • LTD "Gazprom Neft – SM" • LTD "Gazprom Neft Marin Bunker" • LTD "Gazprom Neft – Logistics" • JSC "Mozirski NPZ" • LTD "Avtomatika-Servis"
Stanislav Shekshnia	• Independent director of Dentsu Aegis Network Russia

Board of Directors' Activities

The Board of Directors held four sessions in presentia and 23 correspondence sessions. The attendance rate at the Board of Directors was 99.27 per cent, and the lowest attendance rate on single-BoD session basis was 81.81 per cent.

Apart from regular activities related to reviewing the Annual Report of NIS j.s.c. Novi Sad and Financial Statements and Consolidated Financial Statements for 2013, adoption of interim (quarterly) reports of the Company for 2014 and convening of the 6th Regular and 42nd Extraordinary sessions of the Shareholders Assembly[1], the Agenda for the Board of Directors also included review of "Modernization of NIS j.s.c. Novi Sad Refineries – Complex Project for Increase of Depth of Refining", with the option of delayed coking unit (DCU) construction on the grounds of Pančevo Oil Refinery, and the project of thermal power and heating plant construction on the grounds of NIS j.s.c. Novi Sad – Pančevo Oil Refinery. Furthermore, the Board of Directors adopted several motions to dismiss and appoint Company representatives in the bodies of NIS j.s.c. Novi Sad subsidiaries, as well as motions to dismiss and appoint the Corporate Secretary, to appoint members for Board of Directors Committees of the Company, and to appoint an officer in charge of internal revision of the Company's business activities. In order to achieve the defined Company's objectives as well as review the Company's performance, the Board of Directors quarterly discussed analysis of operations for the relevant reporting period together with business estimates for the end of 2014. Furthermore, for the purpose of reviewing its own performance, the Board of Directors analyzed its own activity and, based on that, submitted an adequate Report for the 6th session of the Shareholders' Assembly. The Board also deliberated the results concerning fulfillment of key performance indicators in 2013, as well as the reward system for key performance indicators in 2014. The Board of Directors considered the innovative Code or Corporate Management, the New Collective Agreement of NIS j.s.c. Novi Sad, and adopted the decision to establish 49 NIS branches (for the purpose of registration of catering businesses in retail facilities – NIS j.s.c. Novi Sad petrol stations), and the decision to acquire 50% share in the equity of "RAG Kiha Ltd" Hungary.

One of the most significant items deliberated by NIS j.s.c. Novi Sad Board of Directors in 2014 was the procedure for developing the Integrated Corporate Development Strategy of NIS by 2030. In 2014, the Board of Directors adopted 93 decisions, and monitoring enforcement of the adopted decisions is followed up through interim reports on the enforcement of the decisions and the execution of orders of the Board of Directors.

1 The 42nd Extraordinary session of the Shareholders' Assembly of the Company was held on 30 January 2015.

Attendance At The Sessions Of The Board Of Directors And Board Of Directors' Committees

BoD Member	Board of Directors		Audit Committee		Remuneration Committee		Nomination Committee	
	% attendance	Number of sessions	% attendance	Number of sessions	% attendance	Number of sessions	% attendance	Number of sessions
Vadim Yakovlev Chairman of the BoD	96%	26/27	-	-	-	-	-	-
Kirill Kravchenko CEO	100%	27/27	-	-	-	-	-	-
Alexander Bobkov	100%	27/27	-	-	-	-	-	-
Alexey Yankevich	100%	27/27	-	-	-	-	-	-
Alexander Krilov	100%	27/27	-	-	-	-	-	-
Nikola Martinović[1]	100%	27/27	100%-	3/3	-	-	100%	6/6
Goran Knežević[2]	100%	12/12					100%	2/2
Danica Drašković[3]	100%	12/12						
Wolfgang Ruttenstorfer	100%	27/27	100%	8/8	-	-	-	-
Anatoly Cherner	96%	26/27	-	-	100%	7/7	-	-
Stanislav Shekshnia	100%	27/27	-	-	100%	7/7	100%-	8/8
Nenad Mijailović[4]	100%	15/15	100%	5/5	100%	1/1		
Negica Rajakov[5]	100%	15/15			100%	6/6		
Members of BoD's Committees who are not members of the BoD								
Alexey Urusov	-	-	100%	8/8	-	-	-	-

1 Member of the Nomination Committee until 30 June 2014. Member of the Audit Committee as of 8 August 2014
2 Member of the Board of Directors as of 30 June 2014. Chairperson of the Nomination Committee as of 8 August 2014
3 Member of the Board of Directors as of 30 June 2014
4 Member of the Board of Directors and Audit Committee until 30 June 2014. Member of the Remuneration Committee as of 8 August 2014
5 Member of the Board of Directors and Remuneration Committee until 30 June 2014

Board of Director's Committees

In order to ensure the efficient performance of its activities, the Board of Directors has established three standing committees as its advisory and expert bodies providing assistance to its activities, especially in terms of deliberating on issues within its scope of competence, preparation and monitoring of the enforcement of decisions and adopting and performing certain specialized tasks to meet the Board of Directors' needs.

The Board of Directors has established the following:
- Audit Committee,
- Remuneration Committee, and
- Nomination Committee.

As appropriate, the Board of Directors may establish other standing or ad hoc committees to deal with the issues relevant for the activities of the Board of Directors.

Each of the committees consists of three members, appointed and relieved of duty by the Board of Directors. The Board of Directors appoints one of its members as a Chairman to manage the activities of a Committee, prepare, convene and chair its sessions and perform other activities required for performing the activities within its scope of competence.

Most of the members of each committee are non-executive directors and at least one member must be an independent director of the Company. The Board of Directors may appoint persons who do not hold managerial positions but who have relevant skills and competencies and work experience to perform the Committee's activities.

The role, scope of competence and responsibilities of the Committees are defined by the law and the Rules of Procedure of the Board of Directors, which also regulate the composition, appointment criteria and the number of members, term of office, dismissal, work method and other relevant issues related to the activities of the Board of Directors' committees.

At least once a year, the Board of Directors' Committees should prepare and submit reports to the Board of Directors on the issues falling within their scope of competence, and the Board of Directors may request that the reports on all or certain issues within their area of competence be submitted in a shorter period of time.

The Board of Directors and its Committees may require the professional advice of independent experts when necessary to carry out their obligations efficiently.

Audit Committee

In addition to the general requirements regarding the composition of the Board of Directors' Committees, the position of the Chairman of the Audit Committee must be held by an independent director of the Company, while at least one member must be a certified auditor or a person possessing relevant knowledge and work experience in the field of finance and accounting, who is not employed by the Company.

The Audit Committee's members are as follows:
- Wolfgang Ruttenstorfer, Chairman of the Audit Committee,
- Alexey Urusov, Member of the Audit Committee, and
- Nikola Martinović, Member of the Audit Committee.

The Chairman and members of the Audit Committee were appointed under the Decision of the Board of Directors dated 8 August 2014, while Wolfgang Ruttenstorfer and Alexey Urusov held the same positions in the Audit Committee in the previous term.

In 2014, the Audit Committee held five sessions in presentia and three correspondence sessions. Inter alia, the Committee discussed the contents of the quarterly reports, financial statements and consolidated financial statements for the first, second and third quarters of 2014 as well as a letter to management with recommendations given by the auditor of the Company for the year 2013, and upon reviewing these gave the appropriate recommendations to the Board of Directors. The Audit Committee submitted the appropriate report on its activity to the Board of Directors

Remuneration Committee

The Remuneration Committee members are as follows:
- Stanislav Shekshnia, Chairman of the Remuneration Committee,
- Anatoly Cherner, Member of the Remuneration Committee, and
- Nenad Mijailović, Member of the Remuneration Committee.

The Chairman and members of the Remuneration Committee are appointed by the Decision of the Board of Directors adopted on 8 August 2014, while Stanislav Shekshnia and Anatoly Cherner held the same position in the Remuneration Committee in the previous term.

In 2014, the Remuneration Committee held two sessions in presentia and five correspondence sessions. The Committee reviewed the results of key indicators fulfillment for 2013 and the System of Rewarding and indicators for 2014. In addition, the Committee drafted the proposal of remuneration for the auditor of Financial and Consolidated Financial Statements of NIS j.s.c. Novi Sad for 2014. The Remuneration Committee submitted the appropriate report on its activity to the Board of Directors and also prepared the Report on the Estimated Amount and Structure of Compensation for the Members of NIS j.s.c. Novi Sad Board of Directors, to be put forward for review at the Shareholders' Assembly session held on 30 June 2014.

Nomination Committee

The Nomination Committee members are as follows:
- Goran Knežević, Chairman of the Nomination Committee,
- Kirill Kravchenko, Member of the Nomination Committee and,

- Stanislav Shekshnia, Member of the Nomination Committee.

The Chairman and members of the Nomination Committee are appointed by the Decision of the Board of Directors, adopted on 8 August 2014, while Kirill Kravchenko and Stanislav Shekshnia held the same position in the Nomination Committee in the previous term.

In 2014, the Nomination Committee held eight correspondence sessions. The Committee deliberated motions for dismissal and appointment of Company representatives in the subsidiaries' bodies in the country and abroad and the System of Candidate Selection and Recruitment in NIS j.s.c. Novi Sad Subsidiaries Abroad. The Nomination Committee submitted the appropriate report on its activity to the Board of Directors, and also prepared the Report on Eligibility and Number of Members of NIS j.s.c. Novi Sad Board of Directors Based on Needs of NIS j.s.c. Novi Sad, delivered for review at the Shareholders' Assembly session held on 30 June 2014.

Shareholders' Assembly Board

The Shareholders' Assembly Board for Supervising Business Operations and the Procedure of Reporting to the Company's Shareholders (hereinafter: Shareholders' Assembly Board) is an advisory and expert body of the NIS Shareholders' Assembly, which provides assistance to the Shareholders' Assembly in its activities and deliberation on issues falling within their scope of competence. The members of the Shareholders' Assembly Board are accountable to the Shareholders' Assembly which appoints them to and relieves them of their duty.

In accordance with the powers under the Articles of Association, the Shareholders' Assembly Board provides its opinion, among other things, on the following matters: reporting to the Shareholders' Assembly on the application of accounting practices; financial reporting practices in the Company and its subsidiaries; reporting to the Shareholders' Assembly concerning the credibility and completeness of reports to the Company shareholders on relevant facts; proposed methods for profit distribution and other payments to Company shareholders; procedures for performing an independent audit of the Company's financial statements; internal audit activities within the Company and assessment of internal audit activities in the Company; proposals for the establishment or liquidation of companies in which the Company holds a share in equity, and the Company's subsidiaries; proposals for acquisition and sale of shares, stakes and/or other interests the Company holds in other companies, and the assessment of handling complaints filed by Company's shareholders.

Members of the Shareholders' Assembly Board as at 31 December 2014

At the 6th Regular Meeting of the NIS Shareholders' Assembly held on 30 June 2014, Mr. Ljubomir Aksentijević and Mr. Radoslav Striković were relieved of their duties, and new members of the Shareholders' Assembly Board were appointed as follows: Mr. Nenad Mijailović and Zoran ran Grujičić. Thus, the Board consists of the following members:

- Nenad Mijailović (Chairman)
- Zoran Grujičić (Member)
- Alexey Urusov (Member)

Nenad Mijailović,

Nenad Mijailović
Chairman of Shareholders' Assembly Board for supervising business operations and reporting to NIS j.s.c. Novi Sad shareholders
Member of Remuneration Committee

Born on 14 October, 1980 in Čačak.

Mr. Mijailović graduated from the Faculty of Economics, University of Belgrade in 2003. In 2007, he obtained an MBA degree from the University of Lausanne, Switzerland. In 2010, he started his PhD studies at the Faculty of Economics, University of Belgrade. As from 2011, he has held an international CFA license in the field of Finance. From 2003 to 2009, he worked as a consultant and manager in finance and banking in the following companies: Deloitte, Belgrade; AVS Fund de Compensation, Genève; JP Morgan, London; and KBC Securities Corporate Finance, Belgrade. From December 2009 to August 2012, Mr. Mijailović served as Advisor to the Minister in the Ministry of Economy and Regional Development, Department of Economy and Privatization. Since August 2012, he has held the position of Deputy Minister of Finance and Economy of the Republic of Serbia.

Zoran Grujičić,

Member of Shareholders' Assembly Board for supervising business operations and reporting to NIS j.s.c. Novi Sad shareholders

Born on 28 July 1955 in Čačak .

Mr. Grujičić graduated from the Faculty of Mechanical Engineering, University of Belgrade. From 1980 to 1994, he was employed with Heat Transfer Appliances Plant "Cer" in Čačak, where he held a variety of positions, including General Manager, Technical Manager, Production Manager and Design Engineer. From May 1994 to February 1998, he served as Advisor to the General Manager of "Interkomerc", Belgrade. From February 1998 to June 2004, he was Managing Director of the Company "MNG Group d.o.o.", Čačak. From June 2004 to February 2007, he was Director of the Trading Company "Agrostroj j.s.c. Čačak", Director of the limited partnership company "Leonardo" from Čačak and Director of the Vojvodina Highway Centre. Since February 2007, Mr. Grujičić has been employed with NIS j.s.c. Novi Sad and has held the following positions: Deputy Director of the Logistics Department, Jugopetrol; Head of RC Čačak at the Retail Department – Čačak Region; Manager of the Retail Network Development of the Development Department, Sales and Distribution. Since 1 October 2012, he has served as Advisor to the Sales and Distribution Director.

Alexey Urusov,

Member of Shareholders' Assembly Board for supervising business operations and reporting to NIS j.s.c. Novi Sad Shareholders
Member of Audit Committee
Director of Economics and Corporate Planning Department at "Gazprom Neft" j.s.c.

Born on 17 November 1974.

Mr. Urusov graduated from the Tyumen State University (specializing in finance and loans) and the University of Wolverhampton in the United Kingdom (specializing in Business Administration). Mr. Urusov holds an MSc degree in Sociology.

From 2006 to 2008, he was Executive Deputy Chairman for planning and business management and control at "Integra" Group. From 2002 to 2006, he worked in the company TNK-VR, and from 2002 to 2003, he worked in the Group for Monitoring and Control at OD TNK. In the period from 2004 to 2006, he was the Financial Director in the business unit "TNK-VR Ukraine". From 2009 to 2012, he was employed at NIS j.s.c. Novi Sad as Chief Financial Officer.

Membership of the Board of Directors or Supervisory Boards of Other Companies	
Nenad Mijailović	-
Zoran Grujicic	-
Alexey Urusov	• Member of the Supervisory Board of Gazprom Neft Marine Bunker Balkan S.A.

Total amount of fees paid to SAB members, net RSD	
Members of SAB	12,257,802

Activities of the Shareholders' Assembly Board

In 2014, the Shareholders' Assembly Board held 13 sessions in presentia. The Shareholders' Assembly Board reviewed the interim reports of the Company: quarterly reports, quarterly financial and consolidated financial statements for the first, second and third quarters of 2014 and the quarterly report of the Chief Executive Officer of the Company regarding all signed contracts worth more than EUR 5 million in Q1,2,3 2014. In addition, the Shareholders' Assembly Board deliberated the option of acquring 50% share in the equity of "RAG Kiha Ltd", Hungary, the establishment of 49 NIS j.s.c. Novi Sad branches, and the project of thermal power and heating plant construction in the grounds of NIS j.s.c. Novi Sad – Pančevo Oil Refinery, as well as the 2015 Business Plan. In 2014, the Shareholders' Assembly Board adopted 55 conclusions.

Chief Executive Officer

The Board of Directors appoints one of its executive members to act as the Chief Executive Officer. The Chief Executive Officer coordinates the activities of the executive members of the Board of Directors and organizes the Company's activities, performs daily management activities and decides on matters which do not fall within the competence of the Shareholders' Assembly and the Board of Directors. The Chief Executive Officer is a legal representative of NIS.

Mr. Kirill Kravchenko is the Chief Executive Officer of NIS j.s.c Novi Sad.

CEO's Advisory Board

The CEO's Advisory Board as an expert body that provides assistance to the CEO in his activities and consideration of issues within its scope of competence. The composition of the CEO's Advisory Board has been determined by the CEO's Decision and it is composed of the Directors of all Blocks and Functions within the Company, the CEO's Deputy for petrochemical affairs and Regional Directors of NIS j.s.c. Novi Sad for Romania and the Adriatic. The Advisory Board has a Council composed of Block Directors and the Deputy CEO in charge of petrochemical affairs. The CEO Advisory Board is managed by the CEO and provides him with assistance in relation to the issues concerning the Company's business operations management. In addition to issues concerning the Company's current operations (monthly and quarterly operating results, annual business plans, monthly investment plans), the Advisory Board deals with issues related to strategy and development policy, whose basic principles are established by the Shareholders' Assembly and the Company's Board of Directors.

Members of the Council and other members of CEO's Advisory Board

Members of Council of CEO's Advisory Board as of 31 December 2014 are as follows:

Vladimir Paltsev,

First Deputy of Chief Executive Officer

Born in Primorsky Krai, Russia, in 1956.

Mr. Paltsev started his career as an assistant driller in 1975. After graduating from Ufa Petroleum Institute in 1978, majoring in Drilling of Oil and Gas Wells, he continued working at the oil company of Pravdinsk Neft. Owing to his professional expertise and skills, he became a lead engineer in 1988. Five years later he started working at Yuganskneftegaz as the Director of the Department for Oil and Gas Field Connection at Start-up and as early as in 1999 he became the First Deputy CEO of Yuganskneftegaz. In 2002 he was invited to join YUKOS as its vice-president – Head of the Main Oil Production Administration. In the period from 2006 until taking the post at NIS, he was the Chief Executive Officer of Tomskneft.

Irek Khabipov,

Director of Exploration and Production

Born on 13 June 1971 in Aznakaevo, Russian Federation.

Mr. Khabipov graduated from the Gubkin Russian State University of Oil and Gas in 1993, majoring in Development and Exploitation of Oil and Gas Fields, and in 2007 he obtained a degree in Finance and Credit from the Tyumen State University.

He started his career in the oil industry in 1993 as an operator with Nizhnevartovsk Neft, which he left in 1999 as the deputy head of the Oil and Gas Production Unit. In 2000 he became the deputy manager of the Production and Technology Sector and in 2003 he was appointed Director of the Oil Production Department, Deputy Director for Production Planning and Technologies with Samotlorskoe NGDU №2 Samotlorneftegaz j.s.c. He subsequently became Deputy CEO in charge of Infrastructure and Operational Support Management – Lead Engineer with the same company. In 2010 he started working at TNK-Uvat LLC as the Deputy Chief Executive Officer in charge of Infrastructure and Operational Support – Lead Engineer.

He joined NIS in May 2014 as Deputy CEO – Director of Exploration and Production.

Anatoly Skoromets,

Director of Refining

Born on 24 September 1976.

Mr. Skoromets graduated from the D. I. Mendeleyev University of Chemical Technology of Russia, at the Department for Chemical Technology of Organic Substances. He began his professional career in Ryazan Oil Refinery, as a technology process operator. Afterwards, he was appointed lead technologist in the company. In 2008, he joined the team of TNK-BP Management, where he performed the duties of the Director of the Refining Department, assigned to controlling the operation of five TNK-BP system refineries. In October 2010, he assumed the function of the CEO of Ryazan Oil Refinery. Mr. Skoromets joined NIS in 2013.

Aleksandar Malanin,

Director of Sales and Distribution

Born on 13 January 1976 in the town of Pushkin in Moscow region.

Mr. Malanin graduated from the Faculty of International Economic Relations "Plekhanov" in Moscow, and from the School of Commercial Management (WHU) in Koblenz, Germany. From 1995 to 1998, he worked as a Financial Manager in Moscow representative offices of the companies "Uni-Baltic Ltd Oy" and "Roskan Shipping AB", dealing with foreign trade operations in the oil sector of the Russian economy. In 1999, he started working in "LUKOIL" group in the field of the development of downstream activities abroad. In 2007, he was appointed General Manager of the company "Teboil OY AB / Oy Suomen Petrooli", a LUKOIL subsidiary in Finland. Since August 2011, he has held the position of Director of Sales and Distribution at NIS j.s.c. Novi Sad. He speaks German and English.

Alexey Belov,

Director of Energy

Born in 1972 in the town of Kstovo in the Gorkovski region.

Mr. Belov holds two university degrees: in 1995, he graduated from Nizhniy Novgorod State Technical University, majoring in Nuclear Power Plants and Installations. In 2001, he graduated from Tolyatin Management Academy, completing the programme of management training for the Russian Federation state authorities. In December 2007, Mr. Belov was awarded the academic title of Master of Technical Sciences at NPO CKTI in Saint Petersburg. From 1994 to 1997, he worked as an energy facilities engineer at AOOT Nizhegorodnefteorgsintez, "Neftekhim NHZ" j.s.c., and NORSI o.j.s.c. From 1997 to 2007, he worked as Deputy Chief Engineer for thermal energy, i.e. energy facilities engineer for thermal energy supply, as well as Deputy Chief Engineer for thermal energy supply management in LUKOIL-Nizhegorodnefteorgsintez o.j.s.c.. In 2007, Mr. Belov worked as the Head of the Gas Legislation Sector at LUKOIL-ENERGOGAS LLC. From January 2008 to September 2010, he served as the general manager of "LUKOIL Energy and Gas Bulgaria". From October 2010 until assuming a new position at NIS, he was the General Manager of LUKOIL-EKOENERGO LLC, which was known as JGK TGK-8 LLC until 6 December 2010.

Salavat Munipov ,

Director of Services

Born on 9 September 1973 in Nizhnevartovsk, Russian Federation.

In 1992 Mr. Munipov finished at the Oil Polytechnic in Nizhnevartovsk, majoring in Exploitation of Oil and Gas Wells. In 1998 he graduated from the South Ural State University, majoring in Economics and Company Management, while in 2005 he obtained a degree in Development and Exploitation of Oil and Gas Fields from the Tyumen State Oil University.

He started his long carrier in the oil industry at Samotlorneftegaz. He was a Capital Well Workover (CWW) Operator, CWW Crew Leader, and CWW Unit Lead Technologist. After the merger of Samotlorneftegaz and Chernogornefteservis in 2004, he became the Lead Engineer of the CWW Technological Sector. In 2006 he was appointed Deputy Director of the Current Well Workover Centre in charge of Technologies, while in 2007 he became Current Well Workover Director. Since 2010 he has been Director of the GTA Department.

He joined NIS in May 2014 as the Director of the CETC (Central Engineering and Technical Centre) and he has been Acting Director of Services since September 2014.

Goran Stojilkovic,

Deputy CEO for Petrochemical Operations

Born on 13 September 1968 in Leskovac.

Mr. Stojilković graduated from the Faculty of Technology in Belgrade in 1995, specializing in chemical engineering. He started his career as a chemical engineer in the laboratory for organic chemistry in the company Zdravlje Actavis Serbia. Subsequently, he was appointed specialist on a pilot plant and then Technical Director of the Chemistry Department. In 2003, he was appointed Deputy CEO and in December 2004 he assumed the position of the Company CEO. In 2007, he was declared Manager of the Year by the Serbian Chamber of Commerce. Mr. Stojilković has nine years of experience working in a multinational pharmaceutical company. From April 2009 until his engagement by NIS, he was the CEO of the company Operations Actavis UK Ltd.

In 2012, he joined NIS j.s.c. Novi Sad as Deputy CEO for Petrochemical Operations. He was elected to the Supervisory Board at HIP "Petrohemija" in March 2013. Mr. Stojilković is married and has two children.

The other members of the CEO's Advisory Board as at 31 December 2014 are as follows:

Srđan Bošnjaković,

Deputy CEO, Director of Strategy and Investments

Born on 7 July 1969 in Novi Sad.

Mr. Bošnjaković graduated from the Faculty of Technical Sciences in Novi Sad, where he also earned his MSc degree in Mechanical Engineering. He began his career in 1995 at "NIS – Gas", as an engineer for transport and distribution of natural gas. Having served as Manager of the Department for Natural Gas Transportation and Distribution, he was appointed Managing Director of the company in 2002. Three years later, he became the Executive Director of "NIS LPG", and in 2006, he was elected Executive Director of "NIS–Petrol" and CEO of NIS j.s.c. Novi Sad. After spending two years on these positions, he was elected Chairman of the Management Board. In 2008, he was appointed Regional Director of Development, Sales and Distribution at Gazprom Neft. Since 2008, he was Director of the Project Office in Sofia, Bulgaria, and he later became the CEO of "NIS Petrol" EOOD in Bulgaria. Since January 2013, he has served as Deputy CEO at NIS j.s.c. Novi Sad, as well as Director for Strategy and Investments.

Mr. Bošnjaković is a member of the International Gas Union (IGU) and the European and the World Natural Gas Vehicle Association (ENGVA and IANGV). He is fluent in English and Russian.

Igor Tarasov,

Deputy CEO, Director of Corporate Security

Born on 2 July 1952 in Moscow.

He has 38 years of work experience in state security services. He was on the staff of the Embassy of the Russian Federation in Belgrade from 1994 to 1999 and from 2001 to 2006.

Mr. Tarasov is Deputy CEO, Director of Corporate Security since 2009.

He is married and has two children.

Anton Fyodorov,

Deputy CEO, Director of Finance, Economics, Planning and Accounting (CFO)

Born in 1973 in Saratovo region, Russian Federation.

Mr. Fyodorov graduated from the State Academy for Economics in Samara, specializing in national economy and law. In 2001, he acquired a degree in law, and in 2011, he earned the MBA degree in Finance from the Academy of National Economics under the Government of the Russian Federation.

From 1997 to 2005, he worked at "Yuganskneftegas" j.s.c. holding various positions including the position of CFO at "NGDU Yuganskneft". From 2005 to 2007, he worked at "Sibur" as the CFO of JSC "Yaroslavl Tire Factory" in Yaroslavl. In 2007, he joined OJSC "Gazprom Neft" as Project Manager for the Development of Sites in Western Siberia and he managed the implementation of the Novoport's Oil and Gas Deposit Project. Mr. Fyodorov served as the CFO of Moscow Refinery from 2009 to 2012.

He is married and has two sons.

Sergey Fominykh,

Deputy CEO, Director of Legal and Corporate Affairs

Born on 4 January 1979.

Mr. Fominykh graduated from the Faculty of Law at the Mari State University and Central European University in Budapest and in the field of jurisprudence and graduate studies at the Moscow Academy of Finance and Law. Afterwards, he completed management programs at the Moscow School of Management Skolkovo and Cambridge Judge Business School. For over seven years, he worked as an associate in international law and consulting firms. In 2009, he joined the NIS management team as the Director of the Legal Monitoring Department. In November 2010, he was appointed Director of Legal and Corporate Affairs. Mr. Fominykh is responsible for managing a team in charge of the company's legal support, corporate governance and real estate management.

Andrey Shibanov,

Deputy CEO, Director of Organizational Affairs

Born on 5 April 1965 in Ulyanovsk, Russia.

Mr. Shibanov graduated from the Gorky Institute of Foreign Languages in Nizhny Novgorod in 1989, receiving the title of Translator/Interpreter. In 1993 he completed the Copernicus Management Programme in Paris, France. In 2001 he received the title of Human Resources Expert at the Human Resource Management Certification Institute in the USA, and in 2014 he obtained a Master's degree from Stockholm School of Economics.

In a professional career extending for over 20 years, he has gained comprehensive experience in human resource management as a human resource director in numerous companies - UniCredit Bank, Alpha Bank, Renaissance Capital and Pricewaterhouse Coopers, Russia.

Since the beginning of 2014 he has been Deputy CEO – Director of Organizational Affairs with Naftna Industrija Srbije.

He speaks English, French, Italian and Serbian.

He is married and has a son.

Eugene Kudinov,

Deputy CEO, Director of External Affairs and Government Relations

Mr. Kudinov graduated from Moscow State University M.V Lomonosov, Department of Economics, as a regular student. He started his career in the USSR State Committee for foreign economic relations. Prior to joining Nis, he held a number of posts in trade representative offices of the USSR and RF in Serbia. He served as Commercial Director at Interslavia and Sever j.s.c, and from 2000 to 2001, he worked at the Ministry of Economic Development and Trade of the Russian Federation.

In 2007, pursuant to the Decree of the Government of the Russian Federation, Mr. Kudinov was appointed to the position of Trade Representative of the RF in the Republic of Serbia, which he occupied before he joined NIS in 2011.

Svetlana Vycherova,

Deputy CEO, Director of PR and Communications

Born on 6 October 1982.

Ms. Vycherova graduated from the Faculty of International Affairs at Moscow University for the Humanities. She began her career in 2005 in the Public Relations Department at the Russian-British Oil Company TNK-BP. From 2006 to 2009, she worked in the Sector of Political Information in OJSC "Gazprom Neft". In April 2009, Ms. Vycherova assumed the position of the Director of Internal Communications Department at NIS. In July 2011, she was appointed Director of PR and Communications. Since 2013, she has been a member of the European Association of Communication Directors (EACD).

Maxim Kozlovskiy,

Deputy CEO, Director of Material-technical and service support and capital construction

Born in 1976 in Russia.

Mr. Kozlovskiy graduated from the Tyumen State University in the field of Finance and Credit as well as from the Tyumen State Oil and Gas University in the field of exploration and production of oil and gas fields. Prior to his engagement at NIS j.s.c. Novi Sad, he worked at Rosat as Deputy Director for General Affairs, and at TNK-BP (Tyumen Oil Company – British Petrol) as Deputy Director of Material and Technical and Service Support Department, and later as Director of Material and Technical and Service Support Department.

From 2011 to 2013, Mr. Kozlovskiy worked at NIS j.s.c. Novi Sad as Deputy Director of Material and Technical and Service Support, and from November 2013, he has served as Deputy CEO, Director of Material and Technical and Service Support and Capital Construction.

He is married and has three children.

Aleksandra Samardžić,

Director of Internal Audit

Born on 21 July 1979.

In 2002, Ms. Aleksandra Samardžić graduated from the Faculty of Economics, University of Belgrade. Since 2009, she has held an ACCA license. She is a member of the Serbian Chamber of Certified Auditors, and also holds the certificates of both certified external and certified internal auditor. Currently, she is enrolled in the EMBA programme at CITY College, Sheffield University. In 2003, she worked at the Auditing Company BDO BC Excel. From 2004 until 2012, Ms. Samardžić was employed in the Auditing Company Ernst & Young, holding several positions, with the last being Senior Manager. From February 2012, she served as Director of the Corporate Audit Department at NIS j.s.c. Novi Sad, and since April 2013, she has held the post of Director of Internal Audit.

Ulrich Peball,

Director of HSE

Born on 30 June 1961 in Vienna.

Mr. Peball earned a degree in civil engineering in 1988 and worked in construction companies in Vienna and Germany at the beginning of his career.

He worked at OMV for 22 years and was responsible for ecological projects in refining, marketing, and exploration and production. In 1999 he transferred to international exploration and production operations within OMV, filling the position of HSE director in several countries, such as Australia, New Zealand and Romania.

Since August 2014 he has been heading the HSE Function at NIS.

He is married and has three children.

Vadim Smirnov,

Regional Director of NIS j.s.c. Novi Sad for Romania

Born on 10 October 1963 in Kazakhstan.

In 1985, Mr. Smirnov obtained a university degree in Finance and Auditing. He also graduated from the Diplomatic Academy (1994, in Moscow) and Moscow Higher School of Commerce (1999, in Moscow). From 1985 to 1991, he worked in the Russian Far East companies holding various positions. From 1991 to 1998, he worked in the MFA (The Ministry of Foreign Affairs of the Russian Federation), and gained extensive experience on long-term business trips to the countries of the Balkans. From 1998 to 2009, Mr. Smirnov was employed at "Aeroflot j.s.c." in different positions, including the post of the company representative for the Balkans (six years) and Head of Department for the Control of Foreign Representative Office Foreign-Exchange Business (two years). In 2010, he worked in the field of economic security provision at Gazprom Group companies, and in February 2012, he was appointed Director of Internal Audit at NIS. Currently, he is serving as Regional Director for Romania at NIS j.s.c. Novi Sad.

Branko Radujko,

NIS j.s.c. Novi Sad Regional Director for the Adriatic

Born in 1974.

Mr. Radujko graduated from the Faculty of Law in 1998 at the State University of Montenegro. He finished his MBA studies in Finance and Administration at the Faculty of Economics in Belgrade. In his professional career, he worked in a law office in Belgrade, specializing in commercial law, and in the international humanitarian sector as a regional UN repatriation project manager. From 2002 to 2008, he worked in the government sector as an Advisor and Chief of Staff of the Prime Minister, and the Secretary-General of the President of the Republic. He was a board member of several companies and institutions in restructuring. From February 2008 to September 2012, he held the post of CEO of Telekom Srbija AD, one of the leading companies in the country and the region. In addition, he was the first president of the Summit 100 of the business leaders of southeast Europe. He is fluent in English. Mr. Radujko is married and has two sons.

Activities of the CEO's Advisory Board

In 2014, 44 meetings of the Advisory Board to the Chief Executive Officer were held. Weekly reports of heads of organizational blocks and functions on the performance results recorded in the previous week and plans for the upcoming week are on the agenda of each meeting. Information on reported HSE events constitutes a mandatory part of each report. Business results of the Company since the beginning of the year, investment programme implementation, results and operating plans in subsidiaries are discussed monthly.

In addition to regular business reports, various strategies and operating reports of certain organizational units, various projects and corporate boards (Legislation Board, Tender Procedures Sector, Inventory Committee, and Internal Audit) were analyzed and considered.

Management Succession Planning

In order to reduce the potential risks to the Company and improve operational efficiency, specific corporate systems and processes are in place, aimed at filling potential vacant positions when it comes to the highest level of operational management of the Company. This involves the implementation of specific training programmes so as to ensure the long-term reduction of potential risks related to key managerial functions in the Company by continuous investment in the development of skills and competencies.

In addition, potential successors are assessed and lists of potential successors are prepared to include their names and surnames, their current positions and development plans.

Acquisition and disposal of the Company's shares by managers and related persons

In accordance with Article 84 of the Law on Capital Market and the Rulebook on Handling NIS j.s.c. Novi Sad Insider Information, all personnel performing managerial functions in the Company and related personnel (as defined under the aforementioned Law) are obliged to report any acquisition or disposal of the Company's shares for their own account to the Securities Committee and to the Company within five days if individual acquisition or disposal of shares exceeds the amount of RSD 100,000, and if the sum of the individual acquisition or disposal during the calendar year exceeds the amount of 500,000 RSD.

In 2013, the Company received no information about the acquisition or disposal of the Company's shares by members of Corporate Bodies or related personnel.

Number and % of NIS J.S.C. Novi Sad shares owned by the BoD members

Name and Surname	Number of shares	% in total number of shares
Nikola Martinovic	224	0,0001%

Number and % of NIS J.S.C. Novi Sad shares owned by the SAB members

Name and Surname	Number of shares	% in total number of shares
Nenad Mijailović	5	0,000003066%

Supervision and Audit Activities

The Company has established internal processes as the basic form of internal control over the key processes, activities, and procedures, which are integrated into a system, aiming to ensure a higher efficiency of business processes and risk control.

In addition to the internal audit systems, the Company has established the following forms of supervision and control:

- Audit Committee
- Internal Audit
- Integrated risk management system
- Internal audit of business processes and applied management systems
- Occupational safety and health measures implementation monitoring

NIS has established an integrated management system with the relevant certificates of the application of a number of different management system standards.

The Audit Committee is appointed by the Company's Board of Directors and it deals with the issues of internal auditing, in particular with the evaluation of internal audit systems, risk management processes, compliance of business processes, assessment of adequacy of financial reporting, and other issues related to the external audit.

The Company has set up a separate Internal Audit Function, with an aim to provide an unbiased and objective assurance of adequacy of corporate governance, risk management and internal audit processes, thus adding value and contributing to the overall efficiency and promotion of the Company. The Internal Audit operates in compliance with the International Professional Practices Framework and the normative and methodological documents relating to internal audit, adopted at the corporate level.

The Company has established the Integrated Risk Management System (IRMS) which represents a systematic, structured, uniform, continuous, and permanent process of identification, assessment, development, and monitoring of risk management measures. The risk management function is fulfilled by the management and by business processes, while the Risk Assessment Section, within the Internal Audit Function, coordinates this process. The risk management measures are incorporated into the business plans, and the risk management process is regulated by a special internal document of the Company. The key risks are associated with the Company's goals, identified by the management and adopted by the Board of Directors through adoption of the Company's business plans, the integral part of which are key risk assessment, management strategy, and resources required for implementation of the planned risk management measures. The Company keeps a risk register which is redefined every year at the corporate level.

The Company has an integrated management system, supported by the implementation of several standards on management systems, relevant to the processes that take place in specific organizational units. The verification of compliance with these standards is performed by the external accredited certification bodies which conduct inspections in order to issue adequate certificates. The management system, which is governed by the Company's normative and methodological documents, defines the business processes in the Company and their classification, describes the processes in relevant documents, and provides the KPIs (key performance indicators) which are regularly measured and monitored, analyzed and used as the basis for defining the process improvement programs and measures. Internal audits of the established management systems are performed per business process, in line with the internal audit schedule. The internal audits are scheduled once a year for every business process, while the extraordinary internal audits are performed in cases of identified process-related issues or non-compliances.

The audit results are presented in the form of reports, based on which the business process owners in the Company develop the measures to remedy the causes of the identified non-compliances or to improve the processes.

External Auditor

Audit of Financial Statements

In compliance with the law and the Articles of Association, the Company auditors are appointed by the Shareholders' Assembly, based on the motion of the Board of Directors. The Company's Auditor is elected at every regular session of the Shareholders' Assembly. Pursuant to the Law on the Capital Market, and considering the fact that NIS j.s.c. Novi Sad is a public joint-stock company, the legal entity performing the audit may carry out the maximum of five consecutive audits of annual financial statements.

The Auditor's reports on the performed audits of financial statements and consolidated financial statements of the Company for 2013 were adopted on 30 June 2014, at the 6th Regular session of the Shareholders' Assembly, which was attended by the Company's Auditor – Pricewaterhouse-Coopers d.o.o. Belgrade – which, in accordance with the Law, must be invited to attend the regular session of the Shareholders' Assembly. Considering that the Company's current auditor PricewaterhouseCoopers d.o.o. Belgrade has been performing auditing duties in the period 2009-2013 (five years in a row) the Shareholders' Assembly appointed Ernst & Young d.o.o. Belgrade as the auditor of the 2014 financial statements. At the 42nd NIS j.s.c. Novi Sad Shareholders' Assembly session, held on 28 January 2015, the Decision to Re-Elect the Auditor of the Company's Financial and Consolidated Financial Statements for 2014 was adopted, due to the inability of the previously elected auditor Ernst & Young d.o.o. Belgrade to audit the Company's financial statements for 2014. As a result, audit firm

KPMG d.o.o. Belgrade was elected the new auditor at the session.

Auditor's Other Services

In addition to financial and consolidated financial statement auditing services, KPMG d.o.o. Belgrade or its affiliated companies also provided other services to NIS in 2014. For the purpose of provision of these services, having in view the required knowledge and experience, engagement of KPMG d.o.o. instead of third parties was considered more efficient or in certain cases even a prerequisite. Provision of these services did not affect the auditor's independence. The other services (apart from auditing services) included support for taxation issues and the issue of the sustainable development strategy of the Company.

Transactions Involving Personal Interest and Transactions with Affiliates

A person with special obligations to the Company is obliged to promptly notify the Board of Directors of the existence of personal interest (or interest of entities affiliated to him/her) in the legal transactions entered into by the Company and/or legal actions undertaken by the Company.

In the Agreement on Mutual Rights and Obligations which they signed with the Company, the members of the Board of Directors are informed of the obligation to notify the Company in the cases of potentially entering into legal deals with the Company and the covenant not to compete with the Company, as well as other special duties of the members of the Board of Directors.

An anti-corruption and anti-fraud policy was adopted in order to prevent any kind of corruptionbehaviour and fraudulent activities.

The Company identifies and ensures entry into legal deals and legal transitions with affiliated entities only those which are not harmful to the Company's business. Legal affairs and legal transactions with affiliated entities are approved by the Board of Directors, in compliance with the Law. The Board of Directors submits information for approval before entering into transactions involving personal interest to the Shareholders' Assembly, on an annual basis, at the regular session.

In the twelve-month period which ended on 31 December 2014 and in the same period last year, NIS Group had business transactions with its affiliated legal entities. The most important transactions with affiliated legal entities in the said periods were concluded in connection with the procurement/delivery of crude oil and performance of geophysical testing and interpretation services. The transactions with affiliated companies have been listed in the notes to the financial statements.

In addition, for the purpose of monitoring possible competition, the Company has instituted the practice of a quarterly survey of the members of the Board of Directors regarding the circumstances of their current engagement and membership in Boards of Directors and Supervisory Boards of other companies.

Insider Information

Stock trading by using insider information is strictly forbidden under penalty prescribed by the Law on Capital Market. Due to this reason, the Company requires that those persons having continuous or temporary access to such information, fully comply with provisions of the law, by-laws, and corporate documents stipulating insider and confidential information.

The criteria based on which certain persons who act in the capacity of insiders, their rights and obligations, obligations of the Company to ensure the confidentiality of insider information, the procedure for publishing insider information, as well as the rules related to compiling, keeping and updating the list of insiders, are provided under the Rulebook on Dealing with Insider Information in NIS j.s.c. Novi Sad.

Code of Business Ethics

The Code of Business Ethics describes the ethical standards of NIS j.s.c. Novi Sad in all business areas and sets fundamental rules and standards of conduct which regulate relations with colleagues, clients, business partners, government authorities and local self-government, the public, and competitors.

The Code of Business Ethics of NIS j.s.c. Novi Sad should be applied by all employees and members of NIS j.s.c. Novi Sad management bodies, as well as the persons who are leased/outsourced in NIS j.s.c. Novi Sad, based on a contract, including the obligation of such persons to report any illicit or non-ethical action which affects the Company and represents a breach of the Code.

The Code of Business Ethics is available on the Company's website[1].

Corruption and Fraud Prevention Policy

The Company has adopted the Corruption and Fraud Prevention Policy in order to prevent and ban involvement in any type of corrupt behavior or fraudulent activities.

The Policy provides for the conditions for timely identification, prevention and minimization of the risk of illicit, un-

1 http://www.nis.eu/en/about-us/company-information/code-conduct

ethical and corrupt behavior, based on the adopted unified standard of conduct, values, principles of legal business activity, and the main rules for the combat of corruption and fraud.

The Policy stipulates, upon occurrence of a justified suspicion of performance or preparation of corrupt or fraudulent activities, or upon their identification, the obligation of all personnel to deliver appropriate information via the pre-defined and protected communication channels, provided a guarantee of confidentiality. The policy defines the measures to protect those who deliver such information and the method of its application, while ensuring that the position of a person who reports corrupt or fraudulent activities as described above, is not jeopardized in any way on these grounds.

Relations with Stakeholders and Socially Responsible Business

Information on the identification and development of relations with the key stakeholders, as well as the application of principles related to the socially responsible business, are available in the section dedicated to the Annual Report>Socially Responsible Business.

I Have an Idea

What?
Motivate to innovate

The motivation program "I Have an Idea" allows all the employees to propose ideas that can improve the performance of the Company and thus directly affect the increase in efficiency. Ideas are proactive suggestions on how to increase the efficiency of business processes, as well as the competitiveness and sustainable development of NIS under all circumstances, with the aim of realization of the strategic goals of the Company while achieving savings.

How?
From idea to implementation

By submitting their proposals, the employees have the opportunity to improve the business processes, and the company rewards the best ideas. The ultimate goal is to increase the following, through the innovative approach:

- efficiency of operations and processes
- competitiveness and sustainability of business
- savings and accomplishment of strategic goals.

Effects

More than

400

ideas submitted!


NIS
NIS

1.14 Sustainable Development

NIS' vision of sustainable development is directed towards the responsibility to future generations.

The nature of NIS' core activities is such as to require special and constant commitment in order to ensure a healthy, safe, and secure environment. For that reason, we develop comprehensive and firm procedures and standards, foster the application of new clean technologies, and form partner relationships with stakeholders.

The future we build is the future of energy efficiency reflected in increased use of renewable energies, the future of observance of laws and human rights, the future of optimal use of the available capacities and human resources. Our mission is to safeguard people, property and the environment, maintain a humane work environment, and run a responsible business. Our resources are innovations, investments, and open dialogue.

NIS gives priority to:

- Occupational safety and health with respect to employees and local residents
- Investment in employees
- Intensive commitment to rational use of resources and environmental protection
- Preventive measures and a timely response to incidents and accidents
- Investment into local communities, quality of social services, and providing aid to affected categories of residents

Environmental Protection, Industrial Safety, and Occupational Safety

As a socially responsible group, in 2014 NIS continued conducting its activities in line with the Policy of Environmental Protection, Industrial Safety, and Occupational Safety and Health. The HSE Policy Statement concerns the principles of sustainable development, reduction of negative impact on environment and human health, and constantly-improving and efficient environmental system management.

Objectives in the HSE field

1. Reduced rate of occupational injuries, professional diseases, major accidents, fires, and negative environmental impact
2. HSE risk management and provision of the required risk mitigation resources
3. Improvement of employees' health
4. Application of the prevention principle, for the purpose of impovement of work conditions and reduction of negative HSE event rate
5. Improvement of HSE compentancies of all employees and contractors
6. Efficient use of natural resources and energy, waste managment and reduction of hazardous substance emission
7. Active cooperation with the government authorities and HSE inspection
8. HSE training in efficiency improvement

Environmental Protection

Environmental protection is one of the main priorities and an integral part of the efficient management strategy. Sustainable environmental management in NIS implies the implementation of projects aimed at equipment modernization and reduction of the release of polluted substances into the air, soil, water, and groundwater, remediation and reclamation of contaminated sites (historical pollution), monitoring the condition of the environment, energy efficiency, use of renewable sources, etc.

In 2014, significant financial funds were allocated for the implementation of environmental projects. The projects initiated in the previous years were completed and a number of environmental projects are underway, whose implementation will have positive environmental effects.

In 2014, the reconstruction of a road loading terminal was completed in Pančevo Oil Refinery. Significant environmental and economic effects are expected from the reconstruction of nine loading platforms, by means of VRU and bottom-loading installation at the road loading terminal (two platforms), through four implementation phases.

Air

Modernization of boilers and furnaces in Pančevo Energy Power Plant, which includes oil-in-water emulsion combustion and replacement of burners, in order to reduce the emission of nitrogen oxides into the air and thus achieve the emission level value prescribed by the law.

The project of closed drainage system construction in Pančevo Oil Refinery is to facilitate the direct transport of hydrocarbon into the slop oil tank, resulting in a reduced emission of cancer-causing and toxic gases.

The reconstruction of the loading terminal at the Pančevo Oil Refinery was completed in 2014. Considerable ecological and economic effects are expected from the reconstruction of nine loading islands, installation of VRU and a bottom loading facility at the loading terminal (two islands) in four implementation stages.

Water

In Novi Sad Oil Refinery, the project of oily wastewater treatment unit rehabilitation and reconstruction was completed, resulting in a significant cut in volatile hydrocarbon and odor emission and the required level of wastewater quality, thus reducing the negative environmental impact.

As part of the petrol station reconstruction project, in the Refining Block double-wall tanks, oily wastewater separators and gasoline vapor recovery systems were installed in compliance with the latest European standards. The results of this project are mitigation of risk to the health of employees and of the local community, and elimination of possible groundwater contamination risk.

The project of a closed drainage water system in Pančevo Oil Refinery is to reduce the API separator load, thus reducing the expenditure of chemicals for separation of water from hydrocarbons, so that the wastewater sent for treatment will be less loaded.

Soil

The 2014 remediation of historical pollution in Exploration and Production Block included seven primary mud pits (Sir-21, Kg-68, El-65, Tus-5, Tus-7, Tus-8 and Tus-17). The area of around 8,200m2 of land was restored to its original purpose in this year, and the total area restored to its original purpose due to the project of historical pollution remediation project is 83,200m2, while a total of 108 mud pits were remediated.

Projects completed in 2014

Block	Project
	Wastewater treatment unit rehabilitation and reconstruction project in Novi Sad Oil Refinery
	Installation of measuring systems and on-line water analyzers during tank truck crude oil unloading in Pančevo Oil Refinery
	Reconstruction of tank truck loading terminal
	Reduction of NOx emission in flue gases from the Energy Power Plant
	Reconstruction of soot blowers at the boilers of the Energy Power Plant

On-going projects

Block	Project
	Construction of fluid (LPG) collection and burning system
	Upgrade of formation water collection systems at Srpska Crnja Gathering Gas Station and Međa Gathering Gas Station
	Project of a closed sampling system in production – second and third phase
	Biocomponent blending into diesel fuels
	Flue gas emission reduction project at S-2200 (reduction of SOx emission)
	Temporary storage of hazardous waste in Pančevo Oil Refinery
	Project of closed drainage system construction (S-100/ 300/ 400/ 500/ 2100/ 2300/ 2400/ 2500/ 2600)
	Oily and storm water remediation and separation – first and second phase
	Installation of separators

Refining

Sales and Distribution

Exploration and Production

Environmental Protection Costs

NIS allocates significant financial funds to settling the legally-prescribed fees for impact on environmental media – water, air, and soil.

The units subject to obtaining of integrated permits (Pančevo Oil Refinery, Novi Sad Oil Refinery and oil and gas preparation and transportation unit in Elemir), pay the SO2, NOx and powder substance emission fees, and hazardous and non-hazardous waste disposal fees.

Industrial Safety

The industrial safety management system consists of the key processes of risk identification, risk assessment, and risk management. Supported by production modernization, this application of advanced technological solutions, and training of employees, this system enables adequate prevention, monitoring, and a timely and an efficient emergency response.

A high level of health protection and safety at work is one of the priorities and preconditions for the successful results of NIS.

In 2014, we continued developing the established industrial safety system at the corporate level, consisting of three business processes.

Fire Protection

The project of fire unit centralization was completed, aimed at resource optimization and efficiency improvement, both from technical and organizational aspects.

- During the flood emergency situation in Serbia, the fire units took an active part in remedying the effects in Smederevska Palanka (Smederevo and Niš warehouse fire units) and Obrenovac (Pančevo Oil Refinery fire units).
- The unified Fire Safety Training Program was launched and adopted.
- Six safe work instructions were drafted.

Process Safety

- Completed process of document set updating and adaptation as per the SEVESO 2 Directive – Safety Report and Accident Prevention Plan for Higher Ranking SEVESO Units, and Accident Prevention Policy for Lower Ranking SEVESO Units.
- Amendments to internal documents dealing with issues and situations identified in the process of SEVESO document drafting, as well as implementation of recommendation of the government authorities.

Emergencies

In 2014, in Serbia, there were several emergencies caused by natural catastrophes (heavy snowfall in the first quarter of 2014 and May floods). In such situations, NIS continued its operations successfully and provided aid to the affected residents. Based on the experience gained during these catastrophes:

- New documents were adopted and the existing documents were reviewed in the field of emergency situations, in line with the experience of operating under the emergency conditions.
- 2014-2016 Emergency Response Action Plan was adopted, stipulating procurement of resources and services which were established as indispensible following the May floods.
- The Emergency Responsibility Matrices were adopted in certain Blocks, stipulating competencies both of individuals and organizational units.
- Memorandum of Cooperation was signed with the Serbian-Russian Humanitarian Center, for the purpose of providing professional and material aid, in case of emergency preparations and response.

Occupational Safety

Running a business in the oil industry requires a high degree of occupational health and safety protection, which is one of the priorities and prerequisites for a company to be successful. Safety and health protection as well as physical security of employees, contractors, third parties and local population have been the great focus of NIS' attention. Furthermore, NIS devotes constant efforts to enhancing preparedness for emergency responses and mitigation of the consequences.

Workplace Safety Risk Management

Regular activities of updating and amending the Workplace and Work Environment Risk Assessment Act continued in 2014. Generic risk assessment for administrative positions was put into practice in order to facilitate monitoring of regulatory compliance and to accelerate risk assessment auditing by reducing paper and administration demand.

Contractors and Third Parties Management

In line with NIS' social responsibility policy, only the contractors (and their subcontractors) meeting the minimum requirements of applicable Serbian legislation are eligible to participate in procurement procedures.

1,458

pre-qualified companies

NIS carries out a contractor pre-qualification process with the aim of improving HSE practices, which in effect helped many of the contractors to raise the level of safety in their companies.

4

Contractor Forums

Forums were held at NIS facilities aimed at raising HSE awareness of contractors and third parties. They were attended by contractors from various fields of industry, from maintenance (i.e. mechanical and assembly works) to the construction industry.

44

In-the-field Contractor Audits

The audits involved the assessment of risk management tools applied by contractors as well as suggestions and direct support from expert teams in charge of the audit.

54

Contractor Evaluations

The evaluations were made by HSE officers and auditors. This added-value approach provided the procurement department with additional input for future contractor selection processes.

Digital Contractor Portfolio

Editable and available to all internal stakeholders, providing more information on contractor profiles and management of associated risks.

Staff Development

What?

Improving business - professionalism at the highest level

Investing in employee development is an investment in the future. Through a system of quality training, the knowledge and the skills of NIS employees are perfected, which is a major stake for the future of the company and for the professional development of the employees.

How?

A developedsystem of programs

„NIS Chance“: a youth employment program for talented candidates with no work experience.

"Leader": The program aims to develop the leadership potential of representatives of the middle and lower management.

"Succession Pool": a program for development of representatives of middle and top management as the future successors to the highest managerial positions.

Effects

NIS CHANCE:

166

candidates have been employed by the company through this program in 2014

LEADER:

20

employees have completed the program in 2014

SUCCESSION POOL:

164

employees in the program in 2014

265

million dinars for professional development of the employees in 2014

Employee Health Care

In order to ensure continuous healthcare to employees and the prevention and early detection of cancer, diabetes, cardiovascular diseases, etc., the Company organized general check-ups and specialized examinations for employees, as well as mandatory examinations for high-risk workplaces. With the same goal, a series of health-related campaigns were run (quit smoking campaign, healthy diet awareness, sports and recreational activities, a video with proposed exercises for active breaks in sedentary time).

The measures of occupational health and safety, environmental protection and industrial safety are carried out by the employees and their managers in the first place.

Personal Protective Equipment (PPE)

At the end of 2014, the PPE Catalogue was updated to include new materials for sun-protective clothing and several other items. The list of manufacturers and materials is periodically updated and extended if testing has confirmed the satisfactory quality of certain materials.

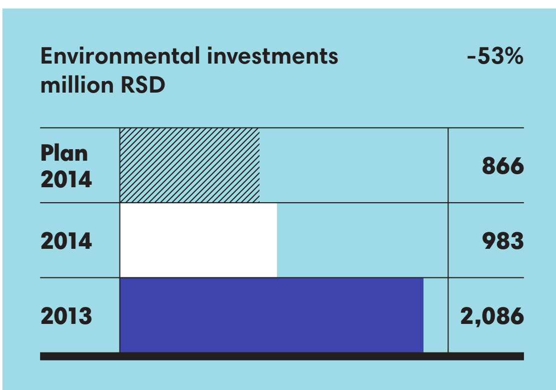
A project for Oracle migration to the Microsoft platform was launched in September 2014. After the migration, three HSE Oracle applications (PPE, Medical Examinations, Work-related Injuries) will be replaced with one application with three modules.

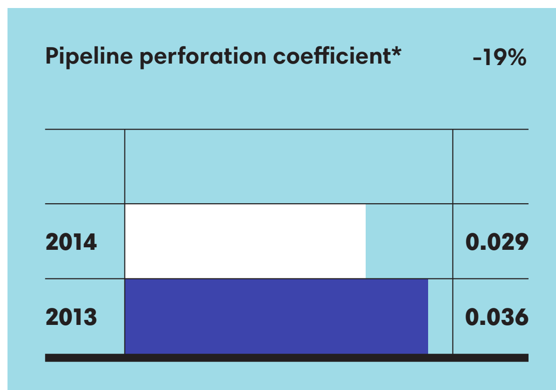
HSE Motivation

With a view of expanding the knowledge and raising employees' awareness of the importance of HSE, the HSE motivation system was established to reward best HSE achievements. The active promotion of the HSE motivation system as well as direct involvement of line managers and HSE officers significantly increased the number of improvement proposals and the number of employees rewarded through the system. The HSE motivation programme involved 271 people in 2014.

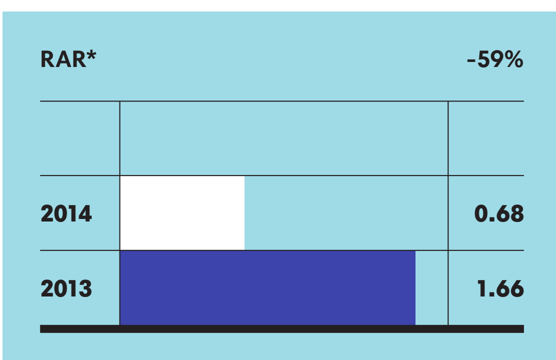
HSE Signs

KT-09.01.19. HSE Signs Catalogue was updated to include new signs in line with orders issued after audits and inspection visits. As part of the HSE visualization, new or repaired road markings and signals were placed in 2014 and this will continue in 2015 as well.

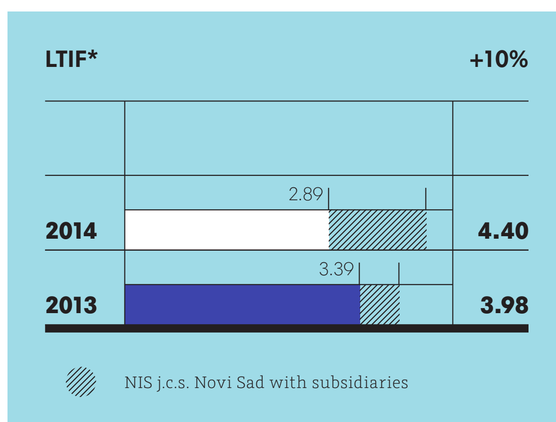




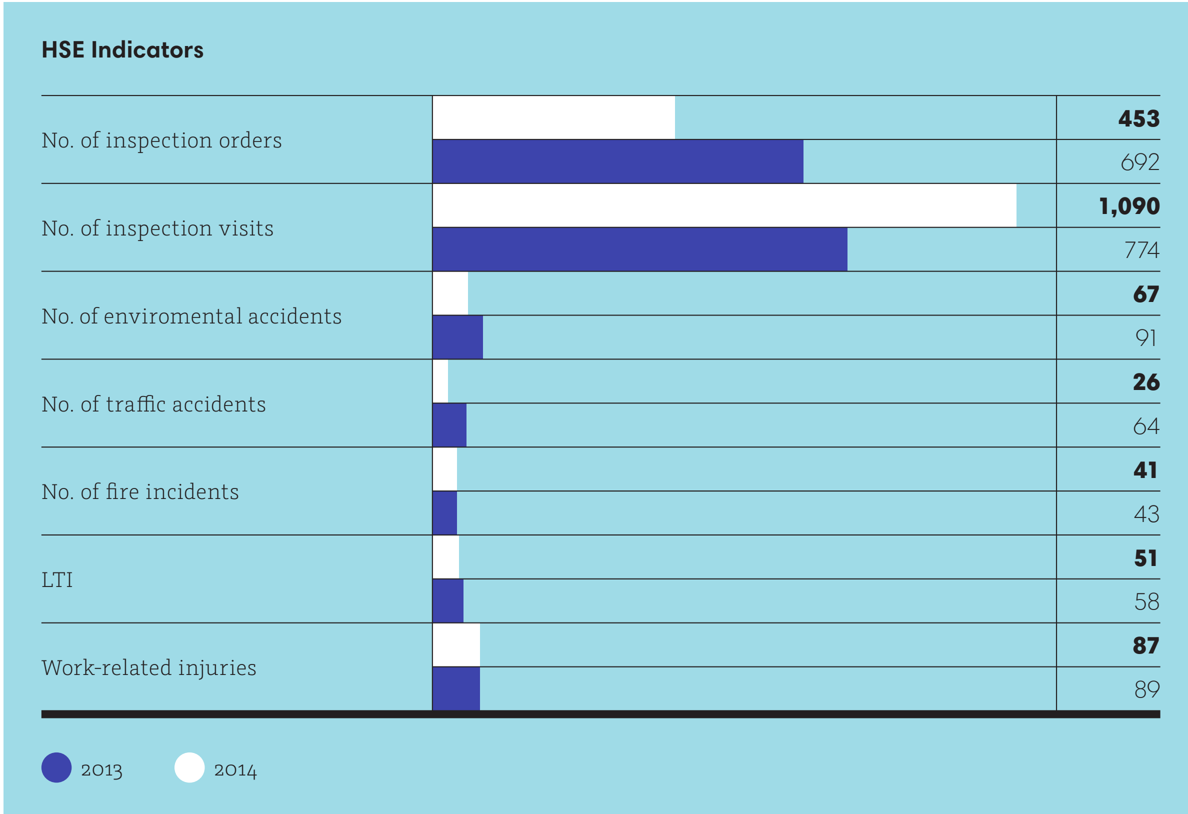
* Ratio of the number of perforations multiplied by 1,000 and the total pipeline length in km



* Ratio of the number of traffic accidents and the distance travelled in km multiplied by 1 million



* Total – NIS j.s.c. Novi Sad with subsidiaries Naftagas – Tehnički servisi d.o.o., Naftagas – Naftni servisi d.o.o., Naftagas – Transport d.o.o.



Energy Efficiency

Increasing energy efficiency is one of NIS' strategic goals. NIS operates adhering to the principles of energy efficiency and natural resource preservation. The Company has adopted its Energy Policy and an energy management system (EnMS) has been set up and certified. The Energy Policy is based on responsible energy management and continuous improvement of energy efficiency in all production processes, plants and facilities.

NIS recognizes its social responsibility in preserving energy resources and reducing detrimental impact on the natural environment, and therefore the Company:

- Constantly improves its energy efficiency in all organizational units
- Continuously reduces detrimental impact of its plants and facilities on the environment
- Sets and benchmarks its goals against the best global practice in the relevant line of industry
- Establishes, applies and constantly develops its energy management system across the organization
- When procuring services, goods and works, voluntarily applies energy efficiency as a selection criterion
- Meets legal obligations regarding energy use and energy efficiency

Human Resources

Professional Development

By continuously investing in the development of knowledge and skills of employees and by setting up a scheme for on-going top-quality training, NIS ensures that employees acquire the qualifications which are compliant with all relevant European and international standards.

Continuous effort is put into developing professional skills through corporate development programmes. There is a training scheme in place for all types of employees (from initial positions, specialists, experts, to managers at all levels). Apart from statutory training courses, employees are also provided with courses, seminars and conferences covering major business topics.

Technical/professional training courses (specialized training in operating specific equipment etc.), soft skills training (including time management, communication skills, HR management, etc.), statutory training courses, licensing, etc. and language courses were all conducted in 2014.

The Training and Development Sector also organizes employee training courses tailored to individual needs, as well as corporate development programmes for target employee groups – Leader and Succession Pool.

20
team development programmes

101
students involved in professional traineeship

20
participants in "Leader 2014"

366
On-Board Training participants

117
university and high school students spent a day at NIS

164
employees in "Succession Pool" program

NIS pays a lot of attention to developing team spirit and to a successful integration of individuals into teams and the Company in general.

Leader is designed to develop the leadership potential of the Company's mid-level and first-level management. The program involved 20 participants selected according to their managerial competencies and potential for development. The programme is aimed at improving leadership skills and innovative thinking in business and an in-depth understanding of the Company's operations and long-term strategies. The program consists of educational modules, coaching, mentorship and project preparation.

Succession Pool is a corporate development program with a strategic goal of developing mid- and upper-level managers as future successors of the highest managerial positions in the short or long term. The program was launched to ensure that the Company has at hand the personnel with the required degree of knowledge, experience, skills and capacities to take up identified high-responsibility positions within NIS.

In addition, NIS provides talented students the opportunity to gain experience in working for a successful company through the **Summer Internship** program.

Training costs[1] (in million RSD)	2013	2014
Professional education costs	265	240
Consultancy cost	23	11
Business associations membership costs	2	3
Total:	**290**	**254**
Organizational costs for training		11
TOTAL:		**265**

1 NIS j.s.c. Novi Sad with subsidiary companies established in 2012 from the organizational structure of NIS j.s.c. Novi Sad (NTC NIS – Naftagas d.o.o., Naftagas – Transport d.o.o., Naftagas – Tehnicki servisi d.o.o. and Naftagas - Naftni servisi d.o.o.); Training costs do not include the costs of the Energy of Knowledge project

Energy Of Knowledge

NIS pays special attention to the young people finding employment in NIS, so the Company launched the Energy of Knowledge project in order to create a pool of young, top-class experts.

The project is designed as a partnership with educational institutions in the country with the goal of educating highly-qualified professionals. The cooperation includes not only science research but also program activities aimed at improving the curriculum, renovating and equipping classrooms and labs and tailoring the studies to the labor market demands. The new study program "Industrial Engineering in exploitation of oil and gas" was formed and accredited at the Technical faculty "Mihajlo Pupin" in Zrenjanin. The program will be implemented in cooperation with Ukhtinsky State University in the Russian Federation.

Energy of Knowledge also includes support to secondary school students by backing all levels of qualifications of competitions and organizing and supporting national and international Olympics in mathematics, physics, chemistry and the Russian language.

A scholarship program for the most successful students is established within the Energy of Knowledge. This program invests in students and their development through internships, summer schools in the Russian Federation, learning of foreign languages and, after he end of the scholarship, employment in NIS.

Energy of Knowledge is also involved in the adaptation and equipping of NIS classrooms and laboratories, in order to create more modern working conditions.

The Energy of Knowledge

What?
Beating the Drum!

"The Energy of Knowledge" is a youth program, which aims to promote gifted students through support and investment in education and science, primarily natural and technical sciences, and to harmonize the educational system with the labor market.

How?
Investing in youth – investing in the future

The project involves partnerships with educational institutions, student scholarships, internships, further professional development of the employees and the implementation of joint research projects. The program is focused on programmatic cooperation aimed to improve the curriculum, on the reconstruction and equipping of classrooms and laboratories and adapting university curricula to labor market demands.

Effects

19

IT classroom

4

laboratories

have been adapted and equipped.

The continuation of cooperation with the University of Belgrade and Novi Sad, the faculties and schools in the Republic of Serbia.

12

"NIS Olympiads of Knowledge" have been held in mathematics, chemisty, physics and the Russian language

47

students in scholarship program in 2014/2015

2

summer schools in Russian federation

4

NIS Laboratories

19

NIS classrooms

Sports Team

Among NIS' prime considerations is promotion of employee health through a variety of corporate sports and healthcare activities organized by the Sports Team. Special attention is given to prevention, so sports diagnostics examinations were run based on which individual health promotion plans were prepared for each employee.

Employees are informed about healthy diet and the beneficial effects of exercise through announcements on the internal portal, brochures or workshops.

Employees are given recreational opportunities in 14 cities where 80% of employees live, along with other benefits for family members and free sport schools for children of the employees. NIS employees also achieved remarkable results in various competitions.

Social Security

The scope of the social security NIS provides to its employees is broader than the one prescribed by the law. It is regulated by the Collective Agreement and corporate documents, which provide the following benefits:

- Special security for occupational disability and illness and preventive rehabilitation of employees working in special conditions and the positions with reduced service years, with the aim of preventing occupational illnesses and disability
- Solidarity fund
- Compensation for damage incurred by employees as a result of destruction of or damage to housing facilities due to natural disasters and other emergencies
- Scholarships during formal schooling to children of deceased employees
- Collective health insurance of employees against severe illnesses and surgical interventions
- Collective insurance of employees against injuries
- Resolving housing needs of employees through housing loan subsidies
- Voluntary pension insurance

Non-material Motivation

Non-material incentive programs (No. 1 in Your Profession, vouchers, certificates, HSE motivation, etc.) have been planned for the active participation of employees in work activities and their achievements, and the awards reflect the level of work achievement.

Personnel Selection

The focus of the modern approach to business is on employees, who are the key factor of the success and acquired status of NIS. By following the principle of internal fairness and external competitiveness, we strive at selecting candidates who are fully able to meet our business demands.

Recruitment primarily targets internal resources and only if there are no appropriate candidates within the Company do we involve external channels.

Our goal is to select the best candidates capable of meeting set targets and thus ensuring regional leadership to NIS. The Talent Acquisition Sector hired nearly 300 people in 2014.

2014 NIS Chance

Being one of the largest energy groups in the region, as part of the corporate social responsibility policy and in cooperation with local governments, every year NIS carries out the NIS Chance programme which provides employment opportunities to young, talented people.

A total of 166 young people were employed through the program in the calendar year of 2014 (78 through the 2013/2014 program and 88 through the 2014/2015 program). Thus the tradition established in 2010 has been continued. To date, over 660 candidates have been employed through the NIS Chance programme.

Organizational unit	31 December 2014			31 December 2013		
	Employees	Leasing	Total	Employees	Leasing	Total
NIS j.s.c. Novi Sad	**4,275**	**3,382**	**7,657**	**4,266**	**3,628**	**7,894**
Exploration and Production Block	727	185	912	716	196	912
Refining Block	870	45	915	904	48	952
Sales and Distribution Block	959	2,618	3,577	1.035	2.940	3.975
Services Block	134	13	147	106	8	114
Energy Block	235	14	249	225	7	232
Corporate Centre	1,350	507	1,857	1.280	429	1.709
Representative and Branch Offices	**58**	**5**	**63**	**28**	**0**	**28**
Subsidiaries in Serbia	**1,459**	**1,374**	**2,833**	**1.481**	**1.416**	**2.897**
Naftagas - Naftni servisi	608	589	1,197	630	706	1.336
Naftagas - Tehnički servisi	423	495	918	452	447	899
Naftagas - Transport	112	257	369	115	236	351
NTC NIS Naftagas	316	33	349	284	27	311
Foreign Subsidiaries	**229**	**2**	**231**	**364**	**10**	**364**
NIS Petrol, Bulgaria	161	0	161	209	0	209
NIS Petrol, Romania	40	0	40	58	6	58
NIS Petrol, B&H	15	1	16	83	3	83
Jadran Naftagas, B&H	8	0	8	8	0	8
Pannon Naftagas, Hungary	5	1	6	6	1	6
Other Subsidiaries	**260**	**158**	**418**	**132**	**13**	**145**
Jubos d.o.o. Bor	-	-	-	0	0	0
O Zone a.d. Belgrade	4	91	95	4	0	4
NIS Oversees o.o.o. St Petersburg	119	-	119	91	0	91
NIS Svetlost d.o.o. Bujanovac	15	7	22	15	7	22
G Petrol d.o.o. Sarajevo	122	60	182	22	6	28
Total:	**6,281**	**4,921**	**11,202**	**6,271**	**5,067**	**11,328**

1 The numbers include NIS Chance

2 The numbers include NIS Chance

3 Also including the employees in branches

Causes of Employment Termination

In 2014, a total of 458 employees left NIS: six employees retired, 173 left NIS after termination of employment by mutual agreement, while the employment of 279 people was terminated on other grounds (involuntary termination, voluntary termination, death etc.).

	NIS j.s.c. Novi Sad	Domestic subsidiaries of NIS
Retirement	4	2
Mutual termination of employment	146	32
Other	226	60
Total:	**376**	**94**

Internal Communication

Active development of corporate culture and keeping employees informed are essential for the improvement of a business and achieving the set objectives of a company. These involve promoting corporate values through internal campaigns and corporate events, as well as distributing the news to each employee through an open dialogue with the management and feedback tools such as "SOS line for Reporting the Violation of the Business Ethics Code" and the "Questions to the Management" column in the corporate media. The main priority is given to providing timely, fair and accurate information to employees about all current issues – business results, company development plans, training courses, occupational health and safety, social packages and other benefits. NIS informs its employees in Serbia and the region through various corporate print media, such as monthly and weekly magazines in Serbian and English. In addition to the print information channels, a public address system is also available, as well as info boards at over 400 locations throughout Serbia. The electronic media include the Intranet portal, info mail and different types of email notifications. The results of the annual sociological research show that the level of information provided to employees is constantly growing and that the corporate culture is developing in accordance with the development stages and the set strategy.

Social Responsibility and Local Development

In 2014, NIS adopted a strategy for corporate brand repositioning to ensure that the Company brand adopts new attributes and is perceived as responsible, innovative, congenial and optimistic. With the slogan "Future at Work", an eponymous platform for social responsibility was defined with the main strategic commitment to youth, specifically by supporting and encouraging talented young people to realize their full potential and enhance their knowledge and skills, and assisting the development of the entire community in which the Company operates.

The slogan "Future at work" defines the platform of activities in the area of social responsibility with the main strategic focus on the young

Corporate social responsibility is a part of NIS' strategic business and it is put into practice through five programmes: Culture without borders, Energy of Sports, Energy of Knowledge, Humanitarian Projects and Cooperation for Development

Culture without borders

The Culture without borders programme is aimed at supporting cultural institutions and festivals of national and international importance, as well as affirming cultural values and supporting talented young people.

The goal of the support is to promote art and great pieces of art, as well as cultural projects of national and international importance.

This was the fifth consecutive year that NIS had been the general sponsor of international film festival FEST, organized under the slogan Not All is Black and White in 2014 for the 42nd time. This year NIS also organized a video contest entitled NISpired by Film via Instagram. The campaign was designed for all talented film enthusiasts in an effort to promote creativity. NIS provided a reward for the best video voted by an expert selection committee, namely a three-day trip for two to the international film festival in Karlovy Vary, the Czech Republic.

Five programmes of corporate social responsibility: Culture without Limits, The Energy of Sports, The Energy of Knowledge, Humanitarian Projects and Cooperation for Development

NIS sponsored a renowned music event promoting Serbian music tradition and national creativity this year as well. For the sixth time in a row, NIS was a strategic partner of the Guča Trumpet Festival.

The program also sponsored the most renowned jazz festival in southern Serbia in an effort to promote cultural values and art development. This year, NIS helped the best young unknown musicians to appear at the prestigious festival by participating in a music competition entitled Do You Have the Right String for Nisville. Owing to NIS support, a total of 31 musicians performed at the festival.

This was the second consecutive year that NIS had been the general sponsor of the international cultural and music festival in Brussels named Balkan Trafik.

Energy of Sports

The Energy of Sports program is aimed at supporting professional and children's sports and promoting healthy lifestyles. Special attention was given to children and youth development and affirmation of their talents.

NIS is a long-standing partner of Partizan Basketball Club and the club's general sponsor for the last two years. Partizan NIS is the country's most successful basketball club with a huge fan base, therefore one of Serbia's most well-known sports brands. Together with BC Partizan, NIS organizes a traditional campaign entitled Three Pointer for a Seasonal.

As part of the support for the Serbian Basketball Association, this was the third consecutive year that the Company had sponsored the sports campaign Mini Basket League, a basketball tournament for children aged below 12.

NIS is also the general sponsor of the Serbian Tennis Association and it supports Serbia's best male and female tennis players competing in the Davis and Fed Cup. For three years now, the cooperation between NIS and Serbian Tennis Association has involved Open School of Tennis for children across Serbia. More than 4,000 children have made their first tennis moves with professional coaches, free of charge.

NIS and the Serbian Tennis Association, in cooperation with the Ministry of Education, Science and Technological Development, launched the campaign entitled Sports against Violence, aimed at promoting sports values, non-violence and fair play culture in sports as elements of tremendous importance for the healthy development of kids. Sports against Violence will be held in over 300 elementary schools throughout Serbia in the school-year of 2014/15. To date, an opportunity to learn true sports values through tennis has been given to more than 6,000 kids.

Car racing and top sports results were supported through cooperation with the European champion Dušan Borković, a member of NIS Petrol Racing Team who has fully justified Company trust with his results, fair play and team spirit.

Together for the Community

What?
We create better – together

The program aims at consolidating partnerships with regions where the Company operates, local authorities and local communities. The project is implemented through a public competition titled "Together for the Community" and it aims to support projects in sport, culture, education, humanitarian and environmental initiatives.

How?
We win together

By organizing the public competition, NIS motivates associations, humanitarian and non-govermental organizations and other interested parties to propose potential solutions to the specific problems or to improve the current situation in their community.

Effects

110.5

millions of dinars invested in 2014

Full transparency of the project from the application procedure and clear criteria through to results and monitoring.

11

municipalities and cities have participated:

Belgrade
Novi Sad
Niš
Čačak
Pančevo
Zrenjanin
Kikinda
Kanjiža
Novi Bečej
Srbobran
Žitište

164

projects have been implemented in 2014.

Cooperation For Development

The Cooperation for Development program has been designed to strengthen partner relations with the local communities in which our company does business. A public competition entitled Together for the Community has been implemented for the third consecutive year as part of the program; this year it has been implemented in cooperation with 11 local self-governments: Belgrade, Novi Sad, Niš, Pančevo, Zrenjanin, Kikinda, Novi Bečej, Žitište, Kanjiža, Srbobran and Čačak. 164 projects have been selected in the public competition and their implementation has contributed to the development of the local communities, facilitated the operation of numerous establishments and improved the operation of cultural, educational and sports institutions.

Major Projects by Area

Sport	• Playgrounds in Kikinda – opening of two sports and recreational courts outfitted with equipment and street furniture in the less-developed and densely-populated parts of Kikinda • Arranging sports courts in Horgoš, Kanjiža • Reconstructions of sports courts in Srborbran in order to develop sport and football talent in elementary-school children • Outdoor gym for children, youth and all residents of Belo Blato, Zrenjanin
Culture	• Renovation and refurbishment of the exhibition space at the Museum of Cars in Belgrade • Mammoth Fest in Kikinda – an event dedicated to elementary-school children marking the anniversary of the discovery of one of the most significant remains of a mammoth in the world • 17th Pančevo Jazz Festival – an event of outstanding artistic significance for this city, which brings together prominent jazz musicians • International film festival titled Cinema City in Novi Sad – through its excellent program, the festival entertains and educates a wider audience on artistic values and creates the opportunity for young film artists to implement their ideas
Environment	• How to Grow a Tree – planting new trees and creating a new landscape in five elementary schools in Novi Sad • Think of the Sky – Do Something Eco! – developing and installing a creative facility for recycling in Kanjiža • Installing photovoltaic devices to generate electricity and solar heating of water in the nature reserve in Novi Bečej • Green Days – an ecological, educational and cultural festival in Pančevo
Science and Education	• Free video courses – video tutorial and lessons in physics delivered by the Pedagogical Society in Niš; • Education on traffic-related air pollution – bio-monitoring of heavy metals in the air along the main roads of the city of Belgrade • Knowledge for the Future – education of children of single mothers in Niš
Humanitarian Activities	• Through Work to Satisfaction – inclusion of people with disabilities and their wider community integration in Čačak • Sound Library Studio – construction of two anechoic rooms to support the education of the blind in Novi Sad • A Phone Call Changes Everything – organizing activities for female victims of violence in Novi Bečej • A Week of Challenges – inclusion of young people with disabilities in sports competitions in Žitište.

Humanitarian Projects

Several important programs involving assistance and support to the endangered population categories were implemented in 2014 as part of the programme.

Immediately following the first information on floods, corporate emergency response teams were formed, their task being to protect the health and safety of the employees, reduce an adverse impact on the environment, minimize risks with regard to interruptions in business operations, as well as to protect the Company's property and organize activities to eliminate and evaluate damage to the facilities. Fuel, company vehicles, construction machinery and other technical equipment, pumps and people were made available to government authorities; as required, people took part in rescuing the population in danger.

The results of the annual surveys with the media indicate that NIS is the most cooperative company in the energy sector.

In mid-July, NIS launched a two-month humanitarian campaign entitled You're Our Guy! with its partners, FC Crvena Zvezda and BC Partizan, in order to raise funds for the assistance to the areas affected by the flooding. It is via this campaign that the Company wanted to stimulate the fans of both clubs and all other interested parties to demonstrate their social consciousness. By sending a text message to 9001 and in a specially developed application, visitors were able to rent a place for their photo, which is to be placed on the numbers of sports shirts worn by players of Crvena Zvezda and Partizan during the entire season. All funds collected were paid into the account of the Government of the Republic of Serbia for the assistance to the people affected by the flooding.

In addition, NIS employees collected a considerable financial contribution to assist the people affected by the flooding as part of a corporate humanitarian campaign entitled Support NOW. In a joint effort of the employees and the Company, financial aid was also provided to the employees of NIS directly affected by the flooding.

Public Relations

Public relations and in particular NIS communication with the media are transparent as all information important to the Company's business operations is released promptly in the form of press releases which are also published on the corporate website in Serbian, Russian and English.

There is a rule in the Company to respond to media enquiries in a timely fashion, by providing proper, useful and full information within as short a time as possible. The results of annual surveys with media representatives conducted by an independent consultant show that NIS is the most cooperative company in the energy sector, whose representatives treat the press in a professional manner.

In addition to responding to media enquiries, the press section of NIS continuously provides support to the business, organizing press conferences, press tours and interviews. A separate part of the cooperation with media representatives involves organizing educational workshops for the press, where important matters in the area of oil and gas business and energy are discussed.

Relations with government authorities

Harmonization of the legislation in the Republic of Serbia to EU

In 2014, NIS continued keeping up to date with the adoption of new or amendments to the existing laws, bylaws and development strategies.

Having in mind the importance of harmonizing the legislation of the Republic of Serbia with the EU Acquis Communautaire, draft laws and bylaws proposed by the Government of the Republic of Serbia and related to the Company operations were particularly analyzed in view of harmonization with the Acquis Communautaire.

Cooperation with business associations

In 2014, NIS continued its successful cooperation with the following business associations in the Republic of Serbia, guided by common goals of enhancing the attractiveness of the business climate in the country and reducing the volume of illicit trade:

- the Foreign Investors Council (FIC),
- the American Chamber of Commerce (AMCHAM)
- the National Alliance for Local Economic Development (NALED).

Believing that it is essential to improve the business climate in the country, NIS is going to strive towards coming up with and presenting worthy proposals in 2015 as well.

Combating grey market

Since there is a persistent problem of illegal trade in the country and in the oil and gas sector, NIS' activities to combat it during 2013 produced significant results in 2014. The adoption of the Regulation on Marking Petroleum Products, which stipulated placing markers from the beginning of 2014 and controlling their concentration in the second half of 2014, as well as other measures to combat shadow economy, have contributed to a significant increase in the collected excise duties on petroleum products as public revenue.

Despite a considerable progress in combating illegal trade, NIS is going to continue cooperating with business associations with a view to controlling and further reducing its volume in the Republic of Serbia.

1.15 Research and Development

System of Managing Research and Development

The introduction and efficient use of new technologies is one of the priorities of NIS development in all business areas, from production and refining to human resources. Equipment modernization, innovative approach and preparation of up-to-date technologies are the prerequisite for advancement, competitiveness and taking on the regional leadership. NIS constantly modernizes its operations in the field of oil and gas business, introduces and upgrades new methods of oil and gas exploitation, constructs new refining units, automates its operations, and develops and modernizes the retail network.

Innovative approach and implementation of modern technologies are the necessary conditions for success, competitiveness and achieving the position of a regional leader.

In the field of exploration and development, the Rulebook on Planning, Execution, and Control of Innovative, Scientific, Research, Development and Technological Studies (SRDW) in NIS j.s.c. Novi Sad, in the Science and Technology Council, has been formed under the competence of NIS j.s.c. Chief Executive Officer, which convenes sessions on a quarterly basis; whereas the Research and Development Section has been formed within the Science and Technology Center, which performs tasks of science and research project coordination and execution.

In the NIS Group, the research and development activity is organized within subsidiary "STC NIS Naftagas" d.o.o. Novi Sad, which, in synergy with OJSC "Gazprom Neft", uses resources and technology of the parent company, and performs two functions:

- coordinator of science and research activities, and
- executor of science and research activities.

1.16 Further Development

At the session held on 5 January 2015, NIS Board of Directors adopted the 2015 Business Plan of the Company. Pursuant to the adopted document, the priority of NIS development in 2015 will be given to maintaining stable business operations by means of implementing an extensive program for efficiency improvement of all processes and cost reduction.

The key task of the Company in the field of hydrocarbon exploration and production will be to increase reserves on the grounds of improved efficiency of geological research, extend the knowledge of the geological model of Pannonian Basin and assess the potential of previously-discovered structures. With respect to hydrocarbon production operations, the Company will invest efforts to cut operating expenses, to continue process automation projects, and introduce new technological solutions.

In 2015, NIS intends to start the second phase of refining capacity modernization – construction of the bottom-of-the-barrel complex in Pančevo Oil Refinery. In addition, the Company will continue applying technologies which facilitate savings in energy and developing the technological solution in order to optimize petroleum products production and minimize the non-recoverable losses.

Development of sales and distribution in NIS will be facilitated by means of improving sales network efficiency in Serbia and abroad, the increase of the premium fuel sales and export, warehouses modernization and the decrease of logistic costs. The Company will continue to develop the quality management systems in retail facilities and will introduce a complex marketing policy.

Two scenarios have been foreseen by the business plan, depending on trends in the price of oil in the market. The investment plan also envisages two scenarios, depending on the collection of receivables from public undertakings and state-owned companies. If public enterprises and state-owned companies settle their debts, the investment will take two directions: oil production and decrease in bank debts.

Financial Statements

2

2.01

Stand-alone Financial Statements

Auditor's Report on Stand-alone Financial Statements

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TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS

NIS A.D. NOVI SAD

We have audited the accompanying separate financial statements of NIS a.d. Novi Sad ("the Company"), which comprise the separate balance sheet as at 31 December 2014, the separate income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and true and fair view of these financial statements in accordance with accounting regulations effective in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing of the Republic of Serbia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and true and fair view of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

TRANSLATION

Opinion

In our opinion, the separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2014, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the accounting regulations effective in the Republic of Serbia.

Other Matter

The separate financial statements of the Company as at and for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 13 February 2014.

Belgrade, 4 March 2015

KPMG d.o.o. Beograd

(L.S.)

James Thornley
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Belgrade, 4 March 2015

(L.S.)

KPMG d.o.o. Beograd

James Thornley
Certified Auditor

Balance Sheet

Balance Sheet (in RSD ,000)	Note	31 December 2014	31 December 2013
Assets			
Subscribed capital, unpaid		-	-
Non-current assets		**250,847,819**	**226,405,342**
Intangible assets	6	15,401,347	11,306,951
Property, plant and equipment	7	193,919,656	176,081,795
Biological assets		-	-
Long-term investments		41,514,772	37,805,356
Long-term receivables		12,044	1,211,240
Deferred tax assets	**11**	**7,834,155**	**9,776,709**
Current assets		**113,529,097**	**114,319,202**
Inventories	12	36,162,167	40,133,897
Trade receivables	13	54,093,160	55,632,286
Receivables from specific operations		445,596	390,716
Other receivables	14	3,784,621	1,142,314
Financial assets at fair value through profit and loss		-	-
Short-term financial investments	15	6,545,472	4,533,030
Cash and cash equivalents	16	5,338,023	5,180,154
Value added tax		-	621,864
Prepayments and accrued income	17	7,160,058	6,684,941
Total assets		**372,211,071**	**350,501,253**
Off-balance sheet assets	**18**	**118,774,144**	**91,777,781**
Equity and liabilities			
Equity		**194,586,302**	**176,882,691**
Share capital	19	81,530,200	81,530,200
Subscribed capital, unpaid		-	-
Treasury shares		-	-

Balance Sheet (in RSD ,000)	Note	31 December 2014	31 December 2013
Reserves		-	-
Revaluation reserves based on fair value of intangible assets, property, plant and equipment		-	-
Unrealized profit from securities and other comprehensive income items		246,519	18,144
Unrealized losses from securities and other comprehensive income items		176,664	173,368
Retained earnings		112,986,247	95,507,715
Non-controlling interest		-	-
Loss		-	-
Long-term Provisions and Liabilities		**101,303,211**	**72,153,981**
Long-term provisions	20	8,690,515	11,527,435
Long-term liabilities	21	92,612,696	60,626,546
Deferred Tax Liabilities	**11**	**2,724,064**	**2,153,482**
Short-term Liabilities		**73,597,494**	**99,311,099**
Short-term financial liabilities	22	14,700,586	27,917,966
Advances received		1,551,337	864,997
Trade payables	23	38,433,183	50,314,868
Other short-term liabilities	24	8,700,483	7,756,617
Liabilities for VAT		51,974	-
Liabilities for other taxes	25	7,113,998	10,047,563
Accrued expenses	26	3,045,933	2,409,088
Loss above equity		**-**	**-**
Total Equity and Liabilities		**372,211,071**	**350,501,253**
Off-balance Sheet Liabilities	**18**	**118,774,144**	**91,777,781**

The accompanying notes are an integral part of these financial statements.

Income Statement

Income Statement (in RSD ,000)			Year ended 31 December
	Note	2014	2013
Operating revenue	**5**	**247,620,582**	**252,353,586**
Income from sales of goods		7,951,525	9,667,372
Income from sales of products and services		239,523,009	242,547,357
Income from premiums, subventions and donations		7,646	562
Other operating income		138,402	138,295
Operating expenses		**196,879,506**	**195,523,781**
Cost of goods sold		7,050,529	9,390,494
Work performed by the entity and capitalized		695,171	223,460
Increase in the value of finished goods and work in progress		-	-
Decrease in the value of finished goods and work in progress		37,064	3,103,205
Cost of material	27	137,510,676	130,276,000
Cost of fuel and energy		2,894,032	2,290,456
Employee benefits expense	28	14,083,619	17,492,035
Cost of production services	29	13,867,297	12,112,152
Depreciation, depletion and amortization		10,717,178	9,422,450
Long-term provision expenses	30	277,786	1,270,994
Non-material expenses	31	11,136,496	10,389,455
Operating profit		**50,741,076**	**56,829,805**
Finance income	**32**	**8,728,147**	**14,828,972**
Finance income from related parties and other financial income		3,278,191	3,313,022
Interest income (from third parties)		4,196,347	5,451,340
Foreign exchange gains (third parties)		1,253,609	6,064,610
Finance expense	**33**	**19,751,540**	**9,682,407**
Finance expense from related parties and other financial expenses		7,295,912	2,217,836
Interest expense (from third parties)		2,327,011	2,371,952
Foreign exchange loss (third parties)		10,128,617	5,092,619

Income Statement (in RSD ,000)		Year ended 31 December	
	Note	2014	2013
(Loss) profit from financing operations		**(11,023,393)**	**5,146,565**
Income from valuation of assets at fair value through profit and loss	34	969,640	1,347,595
Loss from valuation of assets at fair value through profit and loss	35	5,850,648	5,276,931
Other income	**36**	**4,243,334**	**3,001,972**
Other expense	**37**	**2,623,125**	**2,739,681**
Profit from regular business operations before tax		**36,456,884**	**58,309,325**
Net profit from discontinued operations, the effects of changes in accounting policies and correction of errors from previous periods		-	-
Net loss from discontinued operations, the effects of changes in accounting policies and correction of errors from previous periods		-	-
Profit before income tax		**36,456,884**	**58,309,325**
Income tax	38		
Current income tax		3,421.124	6,185,819
Deferred tax expenses		2,476,523	-
Deferred tax income		-	200,860
Paid personal income of the employer		**-**	**-**
Net profit		**30,559,237**	**52,324,366**
Net profit attributable to non-controlling interest		-	-
Net profit attributable to shareholders		30,559,237	52,324,366
Earnings per share			
Basic	39	0.187	0.321
Diluted		-	-

The accompanying notes are an integral part of these financial statements.

Statement of Other Comprehensive Income

Statement of Other Comprehensive (in RSD ,000) | **Year ended 31 December**

	Note	2014	2013
Net result from business operations			
Net profit		30,559,237	52,324,366
Net loss		-	-
Other comprehensive profit or loss			
Items that will not be reclassified to profit or loss			
1. Changes in fair value of intangible assets, property, plant and equipment			
a) increase in revaluation reserves		-	-
b) decrease in revaluation reserves		-	12
2. Actuarial gains (losses) of post-employment benefit obligations			
a) gains		207,471	-
b) losses		-	95,339
3. Gains (losses) on investments in equity instruments			
a) gains		-	-
b) losses		-	-
4. Gains (losses) on share in other comprehensive profit (loss) of affiliates			
a) gains		-	-
b) losses		-	-
Items that may be subsequently reclassified to profit or loss			
1. Gains (losses) on translation of financial statements of foreign operations			
a) gains		-	-
b) losses		-	-
2. Gains (losses) on hedging instruments of a net investment in a foreign operation			
a) gains		-	-

Statement of Other Comprehensive (in RSD ,000) — **Year ended 31 December**

	Note	2014	2013
b) losses		-	-
3. Gains (losses) on instruments of hedging cash flow risk			
a) gains		-	-
b) losses		-	-
4. Gains (losses) from change in value of available-for-sale financial assets			
a) gains		20,904	14,643
b) losses		3,296	-
Other comprehensive profit before tax		225,079	-
Other comprehensive loss before tax		-	80,708
Other comprehensive profit/(loss) tax		-	-
Net other comprehensive profit		**225,079**	**-**
Net other comprehensive loss		**-**	**80,708**
Total comprehensive result for the period			
Total comprehensive profit		30,784,316	52,243,658
Total comprehensive loss		-	-
Total comprehensive income		**30,784,316**	**52,243,658**
1. attributable to shareholders		30,784,316	52,243,658
2. attributable to non-controlling interests		-	-

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Statement of Cash Flows (in RSD ,000)		Year ended 31 December	
	Note	2014	2013
Cash flows from operating activities			
Cash inflow from operating activities		**410,573,246**	**388,810,697**
Sales and advances received		409,472,731	387,768,902
Interest from operating activities		962,113	902,936
Other inflow from operating activities		138,402	138,859
Cash outflow from operating activities		**361,276,646**	**315,485,016**
Payments and prepayments to suppliers		192,056,661	154,525,550
Salaries, benefits and other personal expenses		13,368,470	18,782,016
Interest paid		3,093,168	2,944,779
Income tax paid		8,677,046	4,072,193
Payments for other public revenues		144,081,301	135,160,478
Net cash from operating activities		**49,296,600**	**73,325,681**
Cash flows from investing activities			
Cash inflow from investing activities		**12,390,584**	**1,058,821**
Sale of shares		-	-
Proceeds from sale of property, plant and equipment		259,590	204,087
Other financial investments		12,130,994	854,734
Interest received from investing activities		-	-
Dividends recieved		-	-
Cash outflow from investing activities		**56,261,417**	**64,024,826**
Purchase of shares (net outflow)		-	26,306
Purchase of intangible assets, property, plant and equipment		39,690,306	50,466,441
Other financial investments (net outflow)		16,571,111	13,532,079
Net cash used in investing activities		**43,870,833**	**62,966,005**

Statement of Cash Flows (in RSD ,000)		Year ended 31 December	
	Note	2014	2013
Cash flows from financing activities			
Cash inflow from financing activities		**40,702,390**	**21,996,382**
Increase in share capital		-	-
Proceeds from long-term borrowings		23,824,820	12,756,382
Proceeds from short-term borrowings		16,877,570	9,240,000
Other long-term liabilities		-	-
Other short-term liabilities		-	-
Cash outflow from financing activities		**46,445,739**	**35,588,438**
Purchase of treasury shares		-	-
Repayment of long-term borrowings (net outflow)		24,397,660	10,784,309
Repayment of short-term borrowings (net outflow)		8,967,374	12,440,000
Other liabilities (net outflow)		-	-
Financial leasing		-	-
Dividend paid		13,080,705	12,364,129
Net cash used in financing activities		**5,743,349**	**13,592,056**
Total inflow		**49.296.600**	**73.325.681**
Total outflow		**49.614.182**	**76.558.061**
Net cash inflow		**-**	**-**
Net cash outflow		**317,582**	**3,232,380**
Cash and cash equivalents at the beginning of the year		**5,180,154**	**8,311,264**
Currency translation gains on cash		879,335	711,333
Currency translation losses on cash		403,884	610,063
Cash and cash equivalents at the end of the year		**5,338,023**	**5,180,154**

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Equity

Statements of Changes in Equity (in RSD ,000) | **Equity components**

	Share capital	Reserves	Loss	Retained earnings
Balance as at 1 January 2013				
a) debit	-	-	396,287	-
b) credit	87,128,024	889,424	-	49,456,516
Correction of material errors and changes in accounting policy				
a) debit	-	-	-	-
b) credit	-	-	-	-
Restated balance as at 1 January 2013				
a) debit	-	-	396,287	-
b) credit	87,128,024	889,424	-	49,456,516
Changes in period				
a) debit	5,597,824	889,424	-	12,760,418
b) credit	-	-	396,287	58,811,617
Balance as at 31 December 2013				
a) debit	-	-	-	-
b) credit	81,530,200	-	-	95,507,715
Correction of material errors and changes in accounting policy				
a) debit	-	-	-	-
b) credit	-	-	-	-
Restated balance as at 1 January 2014				
a) debit	-	-	-	-
b) credit	81,530,200	-	-	95,507,715
Changes in period				
a) debit	-	-	-	13,080,705
b) credit	-	-	-	30,559,237
Balance as at 31 December 2014				
a) debit	-	-	-	-
b) credit	81,530,200	-	-	112,986,247

The accompanying notes are an integral part of these financial statements

Statements of Changes in Equity (in RSD ,000) **Other comprehensive income components**

	Revaluation reserves	Actuarial gain (loss)	Gains (losses) from change in value of available-for-sale financial assets	Total Equity
Balance as at 1 January 2013				
a) debit	-	-	74,528	
b) credit	12	-	-	137,003,161
Correction of material errors and changes in accounting policy				
a) debit	-	-	-	
b) credit	-	-	-	-
Restated balance as at 1 January 2013				
a) debit	12	-	74,528	
b) credit	-	-	-	137,003,161
Changes in period				
a) debit	12	95,339	-	
b) credit	-	-	14,643	39,879,530
Balance as at 31 December 2013				
a) debit	-	95,339	59,885	
b) credit	-	-	-	176,882,691
Correction of material errors and changes in accounting policy				
a) debit	-	-	-	
b) credit	-	-	-	-
Restated balance as at 1 January 2014				
a) debit	-	95,339	59,885	
b) credit	-	-	-	176,882,691
Changes in period				
a) debit	-	-	3.296	
b) credit	-	207,471	20,904	17,703,611
Balance as at 31 December 2014				
a) debit	-	-	42,277	
b) credit	-	112,132	-	194,586,302

The accompanying notes are an integral part of these financial statements

Notes to Stand-alone Financial Statements

Notes to Stand-alone Financial Statements

1. GENERAL INFORMATION

NIS a.d. – Naftna Industrija Srbije, Novi Sad (hereinafter "the Company") is a vsertically integrated oil company operating predominantly in Serbia. The Company's principal activities include:

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

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005 as a successor of five state owned companies of Javno Preduzece Naftna Industrija Srbije. On 2 February 2009, OAO Gazprom Neft ("Gazprom Neft") acquired a 51% of the share capital of NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011, under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired 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 Belgrade Stock Exchange, Listing A (Prime Market). The address of the Company's registered office is in Novi Sad, 12 Narodnog fronta Street.

These financial statements have been approved and authorized for issue by CEO and will be presented to shareholders on the General meeting for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the financial statements for the year ended 31 December 2013.

2.1. Basis of preparation

These financial statements for the year ended 31 December 2014 were prepared in accordance with the Law on Accounting of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (No. 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS :

- The financial statements are prepared in the format prescribed by the Ministry of Finance of the Republic of Serbia.
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

As a result, the accompanying financial statements cannot be considered as financial statements prepared in full compliance with IFRS.

The preparation of financial statements in conformity with the Law on Accounting of the Republic of Serbia requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2.2. New accounting standards

The following standards have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the Company:

- Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's financial statements.
- Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.
- Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Company has applied the amendment and there has been no significant impact on the Company financial statements as a result.
- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized.
- Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Company.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.
- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Company is assessing the impact of IFRS 15.

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

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 Company as a whole is not subject to significant seasonal fluctuation.

2.5. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (''the functional currency''). The Financial Statements are presented in Serbian dinars ("RSD"), which is the Company's functional and 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents and other monetary assets and liabilities are presented in the income statement within 'finance income or cost'.

2.6. Intangible assets

(a) Licenses and rights (concessions)

Separately acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation 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 Upstream Exploration Rights, which are amortised in accordance with the terms and conditions of the rights.

(b) Computer software

Costs associated with computer software primarily include the cost of the implementation of SAP software. Acquired computer software licenses are capitalized 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 to exceed 8 years).

2.7. Exploration for and evaluation of mineral resources

(a) Exploration and evaluation expenditure

During the exploration period, costs of exploration and evaluation of oil and natural gas are capitalized until it is proven that oil and gas reserves will not suffice to justify exploration costs. Geological and geophysical costs as well as costs directly associated with exploration are capitalized as incurred. The costs of obtaining exploration rights are capitalised either as part of property, plant and equipment or intangible assets depending on the type of cost. When commercial reserves have been discovered, subsequent to exploration and development investment impairment testing, they are transferred to development of assets either within property, plant and equipment or intangible assets. No depreciation and/or amortisation are charged during the exploration and evaluation phase.

(b) Development costs of fixed and intangible assets

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 construction in progress according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortisation 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.

(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.

2.8. Property, plant and equipment

As of the date of establishment, the Company'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 Company 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 income statement during the financial period in which they are incurred.

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
Buildings	10 - 50
Machinery and Equipment:	
- Production equipment	7 - 25
- Furniture	5 - 10
- Vehicles	7 - 20
- Computers	5 - 10
Other PP&E	3 - 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 income statement (notes 36 and 37).

2.9. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10. Investment property

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

Investment property principally comprises of petrol stations and business facilities rented out 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 income statement as part of "Other income/expenses" (notes 36 and 37).

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Company 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.

2.11. Investments in subsidiaries

Investments in subsidiaries are measured using the cost method, whereby these investments are recognized at cost without any changes in the value of investments originating from results. If there are indications that the value of investment has decreased at the reporting date, the assessment of the recoverable value of investment is being performed.

If the recoverable value is less than the book value, the book value is reduced to its recoverable value and impairment loss of investment is recognized as expense.

2.12. Joint arrangements

The Company has applied IFRS 11 to all joint arrangements from 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. Company has assessed the nature of its joint arrangements and determined them to be joint operations where joint operator accounts for its share of the assets, liabilities, revenue and expenses.

2.13. Business combinations

The Company accounts for its business combinations according to IFRS 3 Business Combinations. The Company 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 Company 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.

2.14. Long–term financial assets

The Company classifies its financial assets in the following categories: 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.

2.14.1. Financial assets classification

(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.

(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.

2.14.2. Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Company'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 fair value measurement gains (losses) in profit or loss for the year (notes 34 and 35).

2.14.3. Impairment of financial assets

(a) Assets carried at amortised cost

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial as-

sets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- Adverse changes in the payment status of borrowers in the portfolio; and
- National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(b) Assets classified as available for sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria referred to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.15. 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.

The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as Other expense (note 37).

2.16. Non-current assets (or disposal groups) held-for-sale

Non-current 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 Company'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.

2.17. Trade 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.

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 Company 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 income statement within 'loss from valuation of assets at fair value through profit and loss' (note 35). 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 'income from valuation of assets at fair value through profit and loss' in the income statement (note 34).

2.18. 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.

2.19. Off-balance sheet assets and liabilities

Off-balance sheet assets/liabilities include: material received from third parties for further processing and other assets not owned by the Company, as well as receivables/payables relating to collaterals received/given such as guarantees and other warrants.

2.20. Share capital

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

2.21. Earnings per share

The Company 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 Company, by the weighted average number of ordinary shares issued during the period (note 39).

2.22. Provisions

Provisions for environmental restoration, asset retirement obligation and legal claims are recognised when: the Company 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 cost of provision and charged to income statement.

2.23. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.24. Trade 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. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.25. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, 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 Company 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.

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 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.

2.26. Employee benefits

(a) Pension obligations

The Company operates a defined contribution pension plan. The Company pays contributions to publicly administered pension insurance plans on a mandatory basis. The Company 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 the Collective Agreement

The Company 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. The expected costs of these benefits are accrued over the period of employment. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Serbian Treasury bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

(c) Bonus plans

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

In 2011, the Company started setting-up a long-term incentive program for Company’s managers. Following the program’s approval, cash incentives will be settle based on the Key Performance Indicators (“KPI”) reached over a three-year period. At the end of 2014 Company made decision to introduce new one-year incentive program (note 20).

2.27. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts.

The Company 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 Company'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 Company 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 of goods – wholesale

The Company manufactures and sells oil, petrochemical products and liquified natural gas in the wholesale market. Sales of goods are recognised when the Company 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 Company 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 consistent with the market practice.

(b) Sales – retail

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

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company 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.

2.28. Leases

Leases under the terms of which the Company 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 Company's balance sheet. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

(a) Right of use of land

Right of use of land acquired as a part of either acquisition or a separate transaction through payment to a third party or Local Authority is treated as an intangible asset. This acquired intangible assets has an indefinite useful life and is subject to annual impairment testing.

2.29. Dividend distribution

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

2.30. 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.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Preparing financial statements required Management to make estimates and assumptions that effect 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 experience and other facts 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 estimates 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, Managements also makes other judgments in the process of applying the 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 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 Company 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.

Oil and gas reserves have a direct impact on certain amounts reported in the 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.

Detailed disclosure about Oil and gas reserves was not given as these data prescribed by the law of the Republic of Serbia are classified as a state secret.

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.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2014 would be to increase/decrease it by RSD 984,249 (2013: RSD 870,202).

3.3. 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 Company 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 Company 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.

If the discount rate used to calculate the present value of employee benefit obligations had been 7.75% (rather than 6.75%) per year, the past service liability (DBO) would decrease by approx. 10.9% for retirement indemnity and 6.2% for jubilee awards. If the employee salaries were to increase by 4% for 2015 and 3.5% for the financial years from 2016 onwards (rather than 3% for 2015 and 2.5% for the financial years from 2016 onwards) per year, the past service liability (DBO) would increase by approx. 12.8% for retirement indemnity and 6.7% for jubilee awards.

3.4. Decommissioning Obligations (asset retirement obligation and environmental protection)

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 Company'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.

If the discount rate used to calculate the present value of decommissioning obligations had been 7.75% (rather than 6.75%) per year, the present liability would have decreased by approx. RSD 481,611 (2013: RSD 418,137).

3.5. Contingencies

Certain conditions may exist as of the date of these Financial Statements are issued that may result in a loss to the Company, 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 Company or unasserted claims that may result in such proceedings, the Company, 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. 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 Company's 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 Company 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 42).

3.6. Economic Environment in the Russian Federation

In July-September 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Company.

The U.S. sanctions prohibit any U.S. person, and U.S. incorporated entities (including their foreign branches) or any person or entity in the United States from:

- transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity for a number of Russian energy companies, and
- from providing, exporting, or re-exporting, directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deep water, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory to Russian companies. These sanctions also apply to any entity if 50% or more of its capital is owned, directly or indirectly, separately or in the aggregate, by sanctioned entities.

The EU sanctions, imposed in July and September 2014, prohibit:

- purchasing, selling, providing investment services for or assistance in the issuance of, or other dealings with transferable securities, money-market instruments and new loans or credit with a maturity exceeding 30 days, issued by / extended to a number of Russian companies, and any legal person, entity or body established outside the Union which are directly or indirectly owned for more than 50% by parent company of the Company, including all entities that comprise NIS Group.

Although sanctions were imposed had an impact on the restructuring of the loan portfolio, the Company has successfully completed the restructuring process without significant additional costs.

The Company continues to assess the impact of the sanctions but currently does not believe they have a significant impact on the Financial Statements.

3.7. Impact of recent crude oil volatility

In the line with recent significant changes in crude oil prices on world oil markets, which occurred in late 2014 and which continued into 2015, management of the company undertook, in January 2015, a detailed stress sensitivity analysis of the potential impact of the identified price reductions upon the prospective performance of the business and the potential recoverability of relevant assets, for the period up to 31 December 2015.

The stress sensitivity analysis was based on various scenarios built around recent and reasonably expected prospective world crude oil prices, as estimated by reference to internal and external industry reference sources. The results of the analysis lead management to believe that, as of the date of approving these financial statements:

- It is appropriate to adopted the going concern basis of reporting as at 31 December 2014
- The changes in crude oil prices are short term in the nature. As such, when combined with the Company's operational characteristics the recent oil price changes were not considered as an asset impairment indicators as of the balance sheet date or the date of issuance of these financial statements.

Management will continue to monitor the crude oil price and its influence on business performance in order to mitigate the impact if the negative trends, outside the range of expectation, occur.

4. FINANCIAL RISK MANAGEMENT

4.1. Financial risk factors

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

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

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

(a) market risk (including foreign exchange risk and interest rate risk);

(b) credit risk; and

(c) liquidity risk.

Foreign exchange risk

The Company 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. Foreign exchange risks arise when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Company functional currency.

The Company has borrowings denominated in foreign currency mainly in EUR and USD which predominantly expose Company to the foreign currency translation risk. Currency exposure arising from the borrowings is managed through the participation of the borrowing denominated in functional currency of the Company in the total credit portfolio.

As at 31 December 2014, if the currency had strengthened /weakened by 15% against the EUR with all other variables held constant, pre-tax profit for the year would have been RSD 2,699,467 (2013: RSD 3,733,047) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

As at 31 December 2014, if the currency had strengthened /weakened by 15% against the USD with all other variables held constant, pre-tax profit for the year would have been RSD 10,971,164 (2013: RSD 9,042,186) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated borrowings and trade payables.

Cash flow and fair value interest rate risk

As at 31 December 2014, the Company approved to its majority-owned foreign subsidiaries subordinated loans as a means of financing business activities abroad. These loans were approved with the variable interest rate (Euribor). If the interest rates on approved loans had been 1% higher/lower with all other parameters unchanged, net result before tax for the year 2014 would have been RSD 274,817 (2013: RSD 221,636) higher/lower.

Borrowings withdrawn at variable interest rates expose the Company to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Company 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 Company's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2014 would have been RSD 1,048,789 (2013: RSD 833,518) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

Credit risk is managed on the Company's level basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, intercompany loans issued to overseas and to domestic subsidiaries, 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 Company. For domestic banks, if it is bank with who the Company has passive activities the second criterion is applied and if it is a bank with who Company doesn't have cooperation, credit limits are determined based on the defined methodology.

Liquidity risk

Cash flow forecasting is performed as aggregated at the Company's level. The Company's finance function monitors rolling forecasts of the Company'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 Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company'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 Company over and above balance required for working capital management are invested as surplus cash in time deposits.

The table below analyses the Company's financial liabilities into relevant maturity groupings at the balance sheet.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at December 2014	Less than 1 year	1 - 5 years	Over 5 years	Total
Borrowings (short-term, current portion and long-term debt)	17,143,534	74,506,758	26,112,192	117,762,484
Trade payables	38,433,183	-	-	38,433,183
	55,576,717	**74,506,758**	**26,112,192**	**156,195,667**

As at December 2013	Less than 1 year	1 - 5 years	Over 5 years	Total
Borrowings (short-term, current portion and long-term debt)	30,165,075	36,445,238	31,056,498	97,666,811
Trade payables	50,314,868	-	-	50,314,868
	80,479,943	**36,445,238**	**31,056,498**	**147,981,679**

4.2. Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

On the Company 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 amortisation, other finance income (expenses) net, other non-operating income (expenses).

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

	31 December 2014	31 December 2013
Total borrowings (notes 21 and 22)	107,313,282	88,544,512
Less: cash and cash equivalents (note 16)	(5,338,023)	(5,180,154)
Net debt	101,975,259	83,364,358
EBITDA	64,391,138	69,417,881
Net debt to EBITDA	1.58	1.20

The Company has committed to maintain debt cover ratio of total indebtedness and EBITDA not exceeding 3.0 during the terms of long-term borrowings agreements with certain commercial banks. Company constantly monitoring the established commitments to maintain the height of debt cover ration and there has been no breach of these obligation.

There were no changes in the Company's approach to capital management during the year.

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 Company 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 Company 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.

5. SEGMENT INFORMATION

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

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

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

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

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

Reportable segment results for the year ended 31 December 2014 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	80,403,331	244,940,926	(77,723,675)	247,620,582
Intersegment	76,539,271	1,184,404	(77,723,675)	-
External	3,864,060	243,756,522	-	247,620,582
EBITDA (Segment results)	66,929,689	(2,538,551)	-	64,391,138
Depreciation, depletion and amortization	(3,028,837)	(7,688,341)	-	(10,717,178)
Impairment losses (reversal) (notes 36 and 37)	(25,798)	611,902	-	586,104
Finance expenses, net	(103,288)	(10,920,105)	-	(11,023,393)
Income tax	(501,736)	(5,395,911)	-	(5,897,647)
Segment profit (loss)	**62,621,462**	**(32,062,225)**		**30,559,237**

Reportable segment results for the year ended 31 December 2013 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	88,394,589	248,759,012	(84,800,015)	252,353,586
Intersegment	84,664,912	135,103	(84,800,015)	-
External	3,729,677	248,623,909	-	252,353,586
EBITDA (Segment results)	77,164,720	(7,746,839)	-	69,417,881
Depreciation, depletion and amortization	(2,354,684)	(7,067,766)	-	(9,422,450)
Impairment losses (notes 36 and 37)	(106,653)	(84,059)	-	(190,712)
Finance income (expenses), net	(416,245)	5,562,810		5,146,565
Income tax	-	(5,984,959)	-	(5,984,959)
Segment profit (loss)	**73,309,289**	**(20,984,923)**		**52,324,366**

EBITDA for the year ended 31 December 2014 and 2013 is reconciled below:

	Year ended 31 December	
	2014	2013
Profit for the year	30,559,237	52,324,366
Income tax expenses	5,897,647	5,984,959
Other expenses	2,623,125	2,739,681
Other income	(4,243,334)	(3,001,972)
Loss from valuation of assets at fair value through profit and loss	5,850,648	5,276,931
Income from valuation of assets at fair value through profit and loss	(969,640)	(1,347,595)
Finance expense	19,751,540	9,682,407
Finance income	(8,728,147)	(14,828,972)
Depreciation, depletion and amortization	10,717,178	9,422,450
Other non-operating expenses	2,932,884	3,165,626
EBITDA	**64,391,138**	**69,417,881**

*Other non-operating expense, net mainly relate to reversal of impairment, fines, penalties and other.

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

	Year ended 31 December 2014		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	3,605,885	3,605,885
Sale of gas	3,757,787	-	3,757,787
Through a retail network	-	-	-
Wholesale activities	3,757,787	-	3,757,787
Sale of petroleum products	195,001,420	39,842,087	234,843,507
Through a retail network	61,771,841	-	61,771,841
Wholesale activities	133,229,579	39,842,087	173,071,666
Other sales	5,197,704	215,699	5,413,403
Total sales	**203,956,911**	**43,663,671**	**247,620,582**

	Year ended 31 December 2013		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	3,550,090	3,550,090
Sale of gas	3,918,192	-	3,918,192
Through a retail network	-	-	-
Wholesale activities	3,918,192	-	3,918,192
Sale of petroleum products	206,159,963	34,007,648	240,167,611
Through a retail network	65,049,672	-	65,049,672
Wholesale activities	141,110,291	34,007,648	175,117,939
Other sales	4,643,568	74,125	4,717,693
Total sales	**214,721,723**	**37,631,863**	**252,353,586**

Out of the amount of RSD 173,071,666 (2013: RSD 175,117,939) revenue from sale of petroleum products (wholesale), the amount of RSD 23,382,492 (2013: RSD 35,132,534) are derived from a single domestic customer, HIP Petrohemija (note 41). These revenues are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations.

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 203,956,911 (2013: RSD 214,721,723), and the total of revenue from external customer from other countries is RSD 43,663,671 (2013: RSD 37,631,863). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2014	**2013**
Sale of crude oil	3,605,885	3,550,090
Sale of petroleum products (retail and wholeasle)		
Bulgaria	6,820,153	5,154,969
Bosnia and Herzegovina	5,142,090	4,449,974
Romania	4,562,293	2,860,204
All other markets	23,317,551	21,542,501
	39,842,087	34,007,648
Other sales	215,699	74,125
	43,663,671	**37,631,863**

Revenues from the individual countries included in all other markets are not material.

6. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Other intangibles	Intangible assets under development	Total
At 1 January 2013					
Cost	-	5,662,500	326,313	4,583,997	10,572,810
Accumulated amortisation and impairment	-	(1,987,343)	(47,001)	(313,788)	(2,348,132)
Net book amount	**-**	**3,675,157**	**279,312**	**4,270,209**	**8,224,678**
Year ended 31 December 2013					
Additions	-	341,044	7,999	3,396,889	3,745,932
Impairment	-	-	-	(24,347)	(24,347)
Amortisation	-	(605,480)	(114,949)	-	(720,429)
Transfer from PP&E (note 7)	-	-	-	149,366	149,366
Disposals and write-off	-	-	-	(81,068)	(81,068)
Other transfer	-	(36,259)	49,078	-	12,819
Closing net book amount	**-**	**3,374,462**	**221,440**	**7,711,049**	**11,306,951**
As at 31 December 2013					
Cost	-	6,000,613	333,465	7,799,147	14,133,225
Accumulated amortisation and impairment	-	(2,626,151)	(112,025)	(88,098)	(2,826,274)
Net book amount	**-**	**3,374,462**	**221,440**	**7,711,049**	**11,306,951**
At 1 January 2014					
Cost	-	6,000,613	333,465	7,799,147	14,133,225
Accumulated amortisation and impairment	-	(2,626,151)	(112,025)	(88,098)	(2,826,274)
Net book amount	**-**	**3,374,462**	**221,440**	**7,711,049**	**11,306,951**
Year ended 31 December 2014					
Additions	3,873,220	542,491	637,828	(1,238,552)	3,814,987
Amortisation	(40,079)	(798,078)	(36,530)	-	(874,687)
Transfer from PP&E (note 7)	-	-	-	1,213,430	1,213,430
Disposals and write-off	-	-	-	(59,334)	(59,334)
Other transfers	(1)	(52,495)	52,496	-	-
Closing net book amount	**3,833,140**	**3,066,380**	**875,234**	**7,626,593**	**15,401,347**
As at 31 December 2014					
Cost	3,873,219	6,494,640	971,770	7,714,691	19,054,320
Accumulated amortisation and impairment	(40,079)	(3,428,260)	(96,536)	(88,098)	(3,652,973)
Net book amount	**3,833,140**	**3,066,380**	**875,234**	**7,626,593**	**15,401,347**

Development investments as at 31 December 2014 in the amount of RSD 3,833,140 mostly relate to investments in geological, 2D and 3D seismic explorations on the territory of the Republic of Serbia (2013: RSD 0).

Concessions, patents, licenses, software and other rights as at 31 December 2014 amounting to RSD 3,066,380 mostly relate to investments in the SAP system of RSD 2,011,495 (2013: RSD 2,563,713).

Intangible assets under development as at 31 December 2014 amounting to RSD 7,626,593 (31 December 2013: RSD 7,711,049) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 6,009,662 (31 December 2013: RSD 6,557,429)

Amortisation amounting to RSD 874,687 (2013: RSD 720,429) is included in Operating expenses.

7. PROPERTY, PLANT AND EQUIPMENT

(a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment
At 1 January 2013			
Cost	11,239,442	87,204,602	83,980,139
Accumulated depreciation and impairment	(692,797)	(26,142,357)	(31,184,643)
Net book amount	**10,546,645**	**61,062,245**	**52,795,496**
Year ended 31 December 2013			
Additions	222,046	16,186,415	10,609,227
Impairment charge (note 37)	-	(232,285)	(15,856)
Depreciation	-	(3,663,672)	(5,036,560)
Transfer to intangible assets (note 6)	-	-	-
Transfer from investment property	(3,696)	17,689	-
Transfer to non-current assets held for sale	-	-	-
Disposals and write-off	(68,493)	(246,183)	(118,414)
Other transfers	-	4,450,270	(4,463,076)
Closing net book amount	**10,696,502**	**77,574,479**	**53,770,817**
At 31 December 2013			
Cost	11,000,724	110,567,629	84,882,738
Accumulated depreciation and impairment	(304,222)	(32,993,150)	(31,111,921)
Net book amount	**10,696,502**	**77,574,479**	**53,770,817**
Year ended 31 December 2014			
Additions	15,507	18,819,254	8,564,557
Acquisitions through business combinations	-	-	-
Impairment charge (note 37)	(29,907)	54,028	(25,210)
Depreciation	-	(4,837,403)	(4,995,419)
Transfer to intangible assets (note 6)	-	-	-
Transfer from investment property	(8,190)	61,445	-
Disposals and write-off	(39,494)	(129,794)	(74,954)
Other transfers	876	144,288	(144,859)
Closing net book amount	**10,635,294**	**91,686,297**	**57,094,932**
At 31 December 2014			
Cost	10,969,423	129,367,760	92,244,112
Accumulated depreciation and impairment	(334,129)	(37,681,463)	(35,149,180)
Net book amount	**10,635,294**	**91,686,297**	**57,094,932**

Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
22,573,044	76,173	110,630	2,426,047	207,610,077
(4,938,057)	(1,135)	(110,630)	(21,418)	(63,091,037)
17,634,987	**75,038**	**-**	**2,404,629**	**144,519,040**
13,292,711	-	35,773	11,540,954	51,887,126
(61,826)	(101)	-	(8,206)	(318,274)
-	-	(1,789)	-	(8,702,021)
(149,366)	-	-	-	(149,366)
(11,248)	-	-	-	2,745
(1,272,306)	-	-	-	(1,272,306)
(996,247)	-	-	(9,806,266)	(11,235,603)
-	(14)	-	(79)	(12,899)
28,436,705	**74,923**	**33,984**	**4,131,032**	**174,718,442**
32,480,853	76,135	56,038	4,160,931	243,225,048
(4,044,148)	(1,212)	(22,054)	(29,899)	(68,506,606)
28,436,705	**74,923**	**33,984**	**4,131,032**	**174,718,442**
3,270,469	-	344,388	4,815,603	35,829,778
788,129	-	-	-	788,129
(33,294)	(49)	-	-	(34,432)
-	-	(9,669)	-	(9,842,491)
(1,213,430)	-	-	-	(1,213,430)
-	-	-	-	53,255
(170,922)	(32)	-	(7,346,612)	(7,761,808)
-	76	-	-	381
31,077,657	**74,918**	**368,703**	**1,600,023**	**192,537,824**
33,860,460	76,768	400,426	1,629,280	268,548,229
(2,782,803)	(1,850)	(31,723)	(29,257)	(76,010,405)
31,077,657	**74,918**	**368,703**	**1,600,023**	**192,537,824**

In 2014, the Company capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 69,900 (2013: RSD 91,300).

Machinery and equipment include the following amounts where the Company is a lessee under a finance lease:

	31 December 2014	31 December 2013
Cost capitalised – finance leases	149,696	149,696
Accumulated depreciation	(77,343)	(62,373)
Net book amount	**72,353**	**87,323**

The management of the Company assesses at each reporting date whether there is an indication that the recoverable amount of property, plant and equipment fell below its book value.

As at 31 December 2014, the Company assessed impairment indicators of cash generating units ("CGU") and concluded that general indications of impairment does not exist. In addition Company has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 34,432 (2013: RSD 318,274).

(b) Investment property – carried at fair value

Investment properties are valued at the reporting date at fair value representing the investment property market value.

Movements on the account were as follows:

	2014	2013
As at 1 January	1,363,353	1,316,069
Additions	817	150
Fair value gains (note 36)	164,761	151,936
Transfer to PP&E carried at cost	(53,255)	(2,745)
Transfer to non-current assets held for sale	-	6,424
Disposals	(93,463)	(108,481)
Other	(381)	-
As at 31 December	**1,381,832**	**1,363,353**

As at 31 December 2014, investment properties amounting to RSD 1,381,832 (31 December 2013: RSD 1,363,353) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

Fair value of investment properties

Valuation of the Company's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2014 and 2013. The revaluation surplus was credited to other income (note 36).

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value measurements at 31 December 2014 using:

	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Recurring fair value measurements			
Land and buildings			
– Shops and other facilities for rents	-	812,023	-
– Apartments	-	-	-
– Gas stations	-	-	569,808
Total	**-**	**812,023**	**569,808**

Fair value measurements at 31 December 2013 using:

	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Recurring fair value measurements			
Land and buildings			
– Shops and other facilities for rents	-	772,952	-
– Apartments	-	131,513	-
– Gas stations	-	-	509,899
Total	**-**	**904,465**	**509,899**

Valuation techniques used to derive level 2 fair values

Level 2 fair values of shops, apartments and other properties for rent have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

Fair value measurements using significant unobservable inputs (Level 3)

Level 3 fair values of gas stations have been derived using value-in-use approach where fair value of gas station is determined as the present value of future net benefits which will belong to the Company based on long-term rental contracts. The most significant input into this valuation approach is rental price per gas station.

The key assumptions used for value-in-use calculations:

	2014	**2013**
Long term growth rate	0%	0%
Discount rate	12%	12%

Reconciliation of changes in fair value measurement, assets categorised within Level 3 of the fair value hierarchy:

	2014	2013
Assets as at 1 January	509,899	484,850
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	59,909	25,048
Total increase in fair value measurement, assets	59,909	25,048
Assets as at 31 December	**569,808**	**509,899**

(c) Oil and gas production assets

Oil and gas production assets comprise of aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.7.).

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total-asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2013						
Cost	5,304,044	5,097,738	10,401,782	42,567,439	112,666	53,081,887
Depreciation and impairment	-	(304,214)	(304,214)	(14,450,258)	(110,630)	(14,865,102)
Net book amount	**5,304,044**	**4,793,524**	**10,097,568**	**28,117,181**	**2,036**	**38,216,785**
Year ended 31 December 2013						
Additions	5,907,334	19,037,854	24,945,188	-	-	24,945,188
Transfer from asset under construction	(158,215)	(11,078,397)	(11,236,612)	11,236,612	-	-
Other transfers	4,808	(4,787)	21	(1,343,512)	(61)	(1,343,552)
Impairment	-	(29,547)	(29,547)	(77,107)	-	(106,654)
Depreciation and depletion	-	-	-	(2,343,846)	-	(2,343,846)
Disposals and write-off	(809,340)	(1,282,277)	(2,091,617)	2,951	-	(2,088,666)
	10,248,631	11,436,370	21,685,001	35,592,279	1,975	57,279,255
As at 31 December 2013						
Cost	10,248,631	11,674,429	21,923,060	51,949,129	22,241	73,894,430
Depreciation and impairment	-	(238,059)	(238,059)	(16,356,850)	(20,266)	(16,615,175)
Net book amount	**10,248,631**	**11,436,370**	**21,685,001**	**35,592,279**	**1,975**	**57,279,255**
As at 1 January 2014						
Cost	10,248,631	11,674,429	21,923,060	51,949,129	22,241	73,894,430
Depreciation and impairment	-	(238,059)	(238,059)	(16,356,850)	(20,266)	(16,615,175)
Net book amount	**10,248,631**	**11,436,370**	**21,685,001**	**35,592,279**	**1,975**	**57,279,255**
Year ended 31 December 2014						
Additions	6,860,465	18,757,565	25,618,030	-	-	25,618,030
Transfer from asset under construction	(3,923,922)	(18,528,311)	(22,452,233)	22,452,233	-	-
Other transfers	2,013,886	(312,733)	1,701,153	(805,588)	(81)	895,484
Impairment	-	(15,526)	(15,526)	(10,222)	(49)	(25,797)
Depreciation and depletion	-	-	-	(2,990,069)	-	(2,990,069)
Transfer from investment property	-	-	-	35,121	-	35,121
Disposals and write-off	(197,690)	(12,672)	(210,362)	(29,252)	-	(239,614)
	15,001,370	11,324,693	26,326,063	54,244,502	1,845	80,572,410
As at 31 December 2014						
Cost	15,001,370	11,578,278	26,579,648	73,455,119	22,203	100,056,970
Depreciation and impairment	-	(253,585)	(253,585)	(19,210,617)	(20,358)	(19,484,560)
Net book amount	**15,001,370**	**11,324,693**	**26,326,063**	**54,244,502**	**1,845**	**80,572,410**

8. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries:

	31 December 2014	31 December 2013
Investments in subsidiaries:		
In shares	3,457,576	3,457,576
In stakes	5,271,612	5,272,134
	8,729,188	8,729,710
Less: Provision	(1,173,167)	(1,173,167)
	7,556,021	**7,556,543**

Investments in subsidiaries as at 31 December 2014 relate to the following companies:

Company	Investment	Impairment	Net book value	Share %
O Zone a.d. Belgrade, Serbia	3,457,576	(1,172,263)	2,285,313	100%
NIS Petrol e.o.o.d., Sofija, Bulgaria	28,938	-	28,938	100%
NIS Petrol SRL, Bucharest, Romania	997	-	997	100%
NIS Petrol doo, Banja Luka, BiH	1,030	-	1,030	100%
Pannon naftagas Kft, Budapest, Hungary	184	-	184	100%
NTC NIS-Naftagas d.o.o., Novi Sad, Serbia	321,500	-	321,500	100%
Naftagas-Tehnicki servisi d.o.o., Zrenjanin, Serbia	983,353	-	983,353	100%
Naftagas-Naftni servisi d.o.o., Novi Sad, Serbia	3,579,983	-	3,579,983	100%
Naftagas-Transport d.o.o., Novi Sad, Serbia	327,751	-	327,751	100%
NIS Oversiz, Moscow, Russia	9,856	-	9,856	100%
Jadran-Naftagas d.o.o. Banja Luka, BiH	71	-	71	66%
Svetlost, Bujanovac, Serbia	17,045	-	17,045	51%
Jubos, Bor, Serbia	904	(904)	-	51%
	8,729,188	**(1,173,167)**	**7,556,021**	

9. LONG-TERM INVESTMENTS IN PARENT AND SUBSIDIARIES

	31 December 2014	31 December 2013
LT loans - Subsidiaries - Domestic	2,842,520	2,694,089
LT loans - Subsidiaries - Foregin	31,674,870	26,258,655
Less: Impairment	(1,943,236)	-
	32,574,154	**28,952,744**

Long-term loans to subsidiaries denominated in RSD as at 31 December 2014 relate to:

	Currency	31 December 2014	31 December 2013
Domestic			
O Zone a.d., Belgrade, Serbia	EUR	2,842,520	2,694,089
		2,842,520	2,694,089
Foregin			
NIS Petrol e.o.o.d., Sofija, Bulgaria	EUR	11,348,122	8,635,174
NIS Petrol SRL, Bucharest, Romania	EUR	9,258,906	8,022,041
NIS Petrol d.o.o., Banja Luka, BiH	EUR	7,484,821	7,093,978
Jadran - Naftagas d.o.o., Banja Luka, BiH	EUR	1,852,285	1,708,521
Pannon naftagas Kft, Budapest, Hungary	EUR	1,730,736	798,941
		31,674,870	26,258,655
		34,517,390	**28,952,744**

As at 31 December 2014, the Company has assessed and recognised impairmet loss for long-term loan provided to Pannon-naftagas Kft, Budapest, Hungary in amount of RSD 1,730,736 and portion of loan provided to Jadran-Naftagas d.o.o Banja Luka, BiH as some of the exploration activities financed through these loans in these regions were unsuccessful.

Long-term loans to subsidiaries are approved at the variable interest rates (1M and 6M Euribor + 2.9%), for a period of 7 years from the date of payment of the last tranche. The carrying value of long-term loans is equal to their fair value.

10. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2014	31 December 2013
Other LT placements	925,696	794,627
LT loans given to employees	1,155,943	1,083,093
Less: Impairment	(919,728)	(782,311)
	1,161,911	**1,095,409**

Loans to employees as at 31 December 2014 amounting to RSD 1,155,943 (31 December 2013: RSD 1,083,093) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly installments.

The fair value of loans to employees is based on the cash flows discounted at market interest rate at which the Company could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 4.99% for loans denominated in EUR, and 15.85% for loans denominated in RSD (2013: 5.62% p.a.).

The maximum exposure to credit risk at the reporting date is the nominal value of loans given to employees. This credit risk exposure is limited, as the monthly installments of these loans are withheld from employees' salaries.

11. DEFERRED TAX ASSETS AND LIABILITIES

	Provisions	Carrying value of PP&E vs Tax base	Total
Deferred tax liabilities			
As at 1 January 2013	**-**	**(2,364,591)**	**(2,364,591)**
Origination and reversal of temporary differences (note 38)	-	211,109	211,109
As at 31 December 2013	**-**	**(2,153,482)**	**(2,153,482)**
Origination and reversal of temporary differences			
- charged to the income statement (note 38)	-	(533,969)	(533,969)
- charged to other comprehensive income	(36,613)	-	(36,613)
As at 31 December 2014	**(36,613)**	**(2,687,451)**	**(2,724,064)**

	Provisions	Impairment loss	Investment credit	Total
Deferred tax assets				
As at 1 January 2013	249,839	799,319	8,737,800	9,786,958
Origination and reversal of temporary differences (note 38)	58,450	(36,441)	(32,258)	(10,249)
As at 31 December 2013	**308,289**	**762,878**	**8,705,542**	**9,776,709**
Origination and reversal of temporary differences (note 38)	(282,758)	(82,219)	(1,577,577)	(1,942,554)
As at 31 December 2014	**25,531**	**680,659**	**7,127,965**	**7,834,155**

The recognition of deferred tax assets was based on a five-year business plan of the Company and the actual results achieved to date which have given the management strong indications that the income tax credits carried forward will be utilised.

Investment credits represent 20% qualifying of capital investments made up to 31 December 2013 in accordance with tax legislation of the Republic of Serbia, which can be utilized in 10 years period.

12. INVENTORY

	31 December 2014	31 December 2013
Materials, spare parts and tools	25,741,314	30,082,947
Work in progress	5,755,021	4,782,796
Finished goods	7,121,091	8,130,379
Goods for sale	2,770,724	1,549,993
Advances	627,709	700,073
Less:provision	(5,853,692)	(6,384,597)
	36,162,167	38,861,591
Non-current assets held for sale	-	1,272,306
Total inventories, net	**36,162,167**	**40,133,897**

Movement on inventory provision is as follows:

	Impairment of inventories	Impairment of advances	Total
Balance as of 1 January 2013	**6,447,124**	**373,071**	**6,820,195**
Provision for inventories and advances (note 37)	139,379	16,165	155,544
Unused amounts reversed (note 36)	(450,253)	(9,659)	(459,912)
Receivables written off during the year as uncollectible	-	(131,230)	(131,230)
Balance as of 31 December 2013	**6,136,250**	**248,347**	**6,384,597**
Provision for inventories and advances (note 37)	9,025	5,688	14,713
Unused amounts reversed (note 36)	(216,837)	(13,116)	(229,953)
Other	(314,592)	(1,073)	(315,665)
Balance as of 31 December 2014	**5,613,846**	**239,846**	**5,853,692**

13. TRADE RECEIVABLES

	31 December 2014	31 December 2013
Parents and subsidiaries - domestic	4,199,731	1,666,029
Parents and subsidiaries - foreign	1,394,526	1,640,985
Other related parties - domestic	13,023,542	12,303,237
Other related parties - foreign	36,398	3,537
Trade receivables domestic – third parties	46,603,719	51,597,366
Trade receivables foreign – third parties	1,336,768	960,100
Less: Impairment	(12,501,524)	(12,538,968)
	54,093,160	**55,632,286**

The ageing of trade receivables is as follows:

	31 December 2014	31 December 2013
Neither impaired nor past due	25,690,121	30,257,273
Past due but not impaired:		
within 30 days	3,813,902	5,418,628
1 to 3 months	2,052,271	4,493,744
3 months to 1 year	10,978,994	6,122,023
over 1 year	11,557,872	9,340,618
Total	**54,093,160**	**55,632,286**

Due to unfavourable macroeconomic conditions in the recent years, the Company was faced with slowdown in collection from state owned companies. However, the Company management is working closely with major debtors on recovery of these debts and believes that net receivables included in the ageing table above are fully recoverable.

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

	31 December 2014	31 December 2013
RSD	63,826,066	65,561,177
EUR	550,793	556,954
USD	2,217,804	2,053,102
Other	21	21
	66,594,684	**68,171,254**

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

	Trade receivables		Total
	Individually impaired	Collectively impaired	
As at 1 January 2013	8,904,176	4,237,782	13,141,958
Provision for receivables impairment (note 35)	237,257	273,725	510,982
Unused amounts reversed (note 34)	(2,936)	(719,131)	(722,067)
Receivables written off during the year as uncollectible	-	(95,668)	(95,668)
Other	(901,457)	605,220	(296,237)
As at 31 December 2013	**8,237,040**	**4,301,928**	**12,538,968**
Provision for receivables impairment (note 35)	81,045	206,348	287,393
Unused amounts reversed (note 34)	-	(287,868)	(287,868)
Receivables written off during the year as uncollectible	-	(264,395)	(264,395)
Other	-	227,426	227,426
As at 31 December 2014	**8,318,085**	**4,183,439**	**12,501,524**

Expenses that have been provided for or written off are included in fair value measurement loss within the income statement (note 35). Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

14. OTHER RECEIVABLES

	31 December 2014	31 December 2013
Interest receivables	14,308,224	11,294,510
Receivables from employees	85,892	84,140
Income tax prepayment	2,627,622	-
Other receivables	7,514,100	7,462,878
Less: Impairment	(20,751,217)	(17,699,214)
Total other receivables, net	**3,784,621**	**1,142,314**

Movements on the provision for other receivables :

	Intrest receivables	Other receivables	Total
As at 1 January 2013	**5,864,441**	**7,323,979**	**13,188,420**
Provision for other receivables impairment (note 35)	4,737,697	7,569	4,745,266
Unused amounts reversed (note 34)	(183,807)	(844)	(184,651)
Receivables written off during the year as uncollectible	(49,485)	(336)	(49,821)
As at 31 December 2013	**10,368,846**	**7,330,368**	**17,699,214**
Provision for other receivables impairment (note 35)	3,604,591	1,543	3,606,134
Unused amounts reversed (note 34)	(391,242)	(2,258)	(393,500)
Receivables written off during the year as uncollectible	(159,538)	(1,093)	(160,631)
As at 31 December 2014	**13,422,657**	**7,328,560**	**20,751,217**

15. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2014	31 December 2013
ST loans and placements - Parent and subsidiaries	4,337,886	2,384,555
ST loans and placements - Domestic	2,019	2,019
Other ST financial placements	10,357,959	9,974,197
Less: Impairment	(8,152,392)	(7,827,741)
Total short-term financial investments, net	**6,545,472**	**4,533,030**

Other ST financial placements as at 31 December 2014 amounting to RSD 10,357,959 (31 December 2013: RSD 9,974,197) mainly relate to current portion of rescheduled receivables in amount of RSD 10,257,989 (31 December 2013: RSD 9,823,260). They are provided for in the amount of RSD 8,152,392 (2013: RSD 7,827,615).

Movements on the provision for short-term financial assets:

	Short-term financial loans - Parent and subsidiaries	Other ST financial placement - Recheduled receivables	Total
As at 1 January 2013	**142**	**5,820,064**	**5,820,206**
Reclassification from non-current to current part	-	1,591,471	1,591,471
Exchange differences	(16)	416,080	416,064
As at 31 December 2013	**126**	**7,827,615**	**7,827,741**
Unused amounts reversed (note 34)	-	(106,562)	(106,562)
Receivables written off during the year as uncollectible	(126)	-	(126)
Exchange differences	-	431,339	431,339
As at 31 December 2014	**-**	**8,152,392**	**8,152,392**

16. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Cash in bank and in hand	4,338,300	4,958,692
Deposits with original maturity of less than three months	725,814	2,342
Cash equivalents	273,909	219,120
	5,338,023	**5,180,154**

17. PREPAYMENTS AND ACCRUED INCOME

	31 December 2014	31 December 2013
Deferred input VAT	1,086,612	2,055,272
Prepaid expenses	108,427	114,807
Accrued revenue	2,750	1,354,225
Prepaid excise duty	4,256,200	1,364,295
Housing loans and other prepayments	1,706,069	1,796,342
	7,160,058	**6,684,941**

Deferred input VAT as at 31 December 2014 amounting to RSD 1,086,612 (31 December 2013: RSD 2,055,272) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty amounting to RSD 4,256,200 (31 December 2013: RSD 1,364,295) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

18. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2014	31 December 2013
Issued warranties and bills of exchange	74,389,497	43,781,876
Received warranties and bills of exchange	27,511,645	32,580,486
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	6,329,184	5,103,758
Third party merchandise in NIS warehouses	4,414,343	4,315,685
Assets for oil fields liquidation in Angola	771,785	638,286
	118,744,144	**91,777,781**

19. SHARE CAPITAL

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

Share capital as of 31 December 2014 and 31 December 2013 comprise of 163,060,400 of ordinary shares.

On June 30, 2014 the annual general shareholders meeting of the Company approved dividend for 2013 in the amount of RSD 80,22 per share.

20. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommis-sioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2013	**7,972,086**	**861,383**	**2,244,566**	**1,042,854**	**809,445**	**12,930,334**
Charged to the income statement (note 30 and 33)	589,424	195,000	-	521,427	319,786	1,625,637
New obligation incurred and change in estimates	962,855	-	-	-	-	962,855
Release of provision (note 36)	(303,653)	(112,396)	(348,948)	-	-	(764,997)
Actuarial loss charged to other comprehensive income	-	-	95,339	-	-	95,339
Settlement	(157,674)	(253,893)	(90,200)	(42,202)	(37,856)	(581,825)
As at 31 December 2013	**9,063,038**	**690,094**	**1,900,757**	**1,522,079**	**1,091,375**	**14,267,343**
As at 1 January 2014	9,063,038	690,094	1,900,757	1,522,079	1,091,375	14,267,343
Charged to the income statement (note 30 and 33)	52,371	20,000	253,786	-	-	326,157
New obligation incurred and change in estimates	(14,377)	-	-	-	-	(14,377)
Release of provision (note 36)	-	-	(1,237,653)	(812,189)	(55,307)	(2,105,149)
Actuarial gain charged to other comprehensive income	-	-	(244,084)	-	-	(244,084)
Settlement	(75,420)	(152,437)	(74,938)	(608,044)	(167,523)	(1,078,362)
As at 31 December 2014	**9,025,612**	**557,657**	**597,868**	**101,846**	**868,545**	**11,151,528**

Analysis of total provisions:

	31 December 2014	31 December 2013
Non-current	8,690,515	11,527,435
Current	2,461,013	2,739,908
	11,151,528	**14,267,343**

(a) Decommissioning

The Company's Management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells based on previous experience in similar projects.

(b) Environmental protection

The Company has to comply with environmental protection regulations. At the reporting date Company recorded provision for environmental protection of RSD 557,657 (31 December 2013: RSD 690,094) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) Long-term incentive program

In 2011, the Company started setting-up a long-term incentive program for Company managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2014 the management made an assessment of present value of liabilities related to new one-year employee incentives in amount of RSD 101,846 (31 December 2013: RSD 1,522,079).

(d) Legal claims provisions

As at 31 December 2014, the Company assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Company released provision for litigation amounting to RSD 55,307 (2013: RSD 319,786, charge) for proceedings which were assessed that won't have negative outcome. The Company estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2014.

(e) Provision for employee benefits

Employee benefits:

	31 December 2014	31 December 2013
Retirement allowances	68,359	533,180
Jubilee awards	529,509	1,367,577
	597,868	**1,900,757**

The principal actuarial assumptions used were as follows:

	31 December 2014	31 December 2013
Discount rate	6.75%	6.30%
Future salary increases	2.5%	5.50%
Future average years of service	12.4	14.84

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2013	**622,739**	**1,621,827**	**2,244,566**
Benefits paid directly	(18,081)	(72,119)	(90,200)
Actuarial loss recognised in other comprehensive income	95,339	-	95,339
Credited to the income statement	(166,817)	(182,131)	(348,948)
Balances as at 31 December 2013	**533,180**	**1,367,577**	**1,900,757**
Benefits paid directly	(16,264)	(58,674)	(74,938)
Actuarial gain recognised in other comprehensive income	(244,084)	-	(244,084)
Credited to the income statement	(204,473)	(779,394)	(983,867)
Balances as at 31 December 2014	**68,359**	**529,509**	**597,868**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December	
	2014	**2013**
Current service cost	159,284	181,210
Interest cost	117,574	166,769
Curtailment gain	(254,486)	-
Actuarial losses (jubilee awards)	(400,609)	(425,333)
Amortisation of past service cost	(605,630)	(271,594)
	(983,867)	**(348,948)**

21. LONG-TERM LIABILITIES

	31 December 2014	31 December 2013
Long-term loan - Gazprom Neft	47,820,723	50,655,812
Bank loans	50,891,269	37,565,857
Finance lease liabilities	-	21,634
Other long-term borrowings	1,208	1,209
Less Current portion	(6,100,504)	(27,617,966)
	92,612,696	**60,626,546**

(a) Long-term loan - Gazprom Neft

As at 31 December 2014 long-term loan - Gazprom Neft amounting to RSD 47,820,723 (EUR 395,348,842) (2013: RSD 50,655,813), with current portion of RSD 5,625,967 (2013: RSD 5,332,191), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(b) Bank loans

	31 December 2014	31 December 2013
Domestic	7,175,319	12,048,569
Foreign	43,715,950	25,517,288
	50,891,269	37,565,857
Current portion of long-term loans (note 22)	(474,537)	(22,264,141)
	50,416,732	**15,301,716**

The maturity of non-current loans was as follows:

	31 December 2014	31 December 2013
Between 1 and 2 years	6,969,316	2,926,308
Between 2 and 5 years	38,044,029	6,871,962
Over 5 years	5,403,387	5,503,446
	50,416,732	**15,301,716**

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

	31 December 2014	31 December 2013
USD	45,401,219	28,343,857
EUR	5,126,540	8,579,494
RSD	1,520	280,783
JPY	361,990	361,723
	50,891,269	**37,565,857**

The fair value of non-current loans and their carrying amounts are equal.

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

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

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

Creditor	Currency	31 December 2014	31 December 2013
Domestic long-term loans			
Erste bank, Novi Sad	USD	319,049	279,719
Erste bank, Novi Sad	EUR	457,835	454,900
Bank Postanska stedionica, Belgrade	EUR	224,938	225,341
Bank Postanska stedionica, Belgrade	USD	1,728,210	1,526,400
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,443,767	4,459,990
UniCredit bank, Belgrade	USD	-	4,821,436
UniCredit bank, Belgrade	RSD	-	278,900
Other loans	RSD	1,520	1,883
		7,175,319	**12,048,569**
Foreign long-term loans			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	584,396	518,612
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	361,990	361,723
Erste bank, Holland	EUR	-	3,439,263
Erste bank, Holland	USD	6,465,167	5,403,333
VUB (Bank Intesa), Slovakia	USD	14,919,615	8,312,820
NBG bank, Great Britain	USD	4,973,205	2,493,846
Alpha bank, Great Britain	USD	-	3,325,128
Piraeus bank, Great Britain	USD	-	1,662,563
Sberbank Europe AG, Wien, Austria	USD	16,411,577	-
		43,715,950	**25,517,288**
Less current portion of long-term loans		(474,537)	(22,264,141)
		50,416,732	**15,301,716**

	Currency	Current portion 31 December 2014	Current portion 31 December 2013	Long-term 31 December 2014	Long-term 31 December 2013
Domestic long - term loans					
Erste bank, Novi Sad	USD	17,872	13,070	301,177	266,649
Erste bank, Novi Sad	EUR	25,376	20,972	432,459	433,928
Bank Postanska stedionica, Belgrade	EUR	12,468	12,148	212,470	213,193
Bank Postanska stedionica, Belgrade	USD	95,789	82,030	1,632,421	1,444,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	261,946	248,267	4,181,821	4,211,723
UniCredit bank, Belgrade	USD	-	4,821,436	-	-
UniCredit bank, Belgrade	RSD	-	278,900	-	-
Other loans	RSD	345	369	1,175	1,514
		413,796	5,477,192	6,761,523	6,571,377
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	40,677	30,197	543,719	488,415
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	20,064	16,978	341,926	344,745
Erste bank, Holland	EUR	-	3,439,263	-	-
Erste bank, Holland	USD	-	-	6,465,167	5,403,333
VUB (Bank Intesa), Slovakia	USD	-	8,312,820	14,919,615	-
NBG bank, Great Britain	USD	-	-	4,973,205	2,493,846
Alpha bank, Great Britain	USD	-	3,325,128	-	-
Piraeus bank, Great Britain	USD	-	1,662,563	-	-
Sberbank Europe AG, Беч, Аустрија	USD	-	-	16,411,577	-
		60,741	16,786,949	43,655,209	8,730,339
		474,537	**22,264,141**	**50,416,732**	**15,301,716**

The loan agreements contain financial covenants that require the Company's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Company is in compliance with these covenants as of 31 December 2014 and 31 December 2013, respectively.

22. SHORT-TERM FINANCIAL LIABILITIES

	31 December 2014	31 December 2013
Short-term loans	8,600,082	300,000
Current portion of long-term loans (note 21)	6,100,504	27,596,332
Current portion of finance lease liabilities (note 21)	-	21,634
	14,700,586	**27,917,966**

23. TRADE PAYABLES

	31 December 2014	31 December 2013
Parents and subsidiaries - domestic	2,845,130	1,022,184
Parents and subsidiaries - foreign	20,144,858	9,338,240
Other related parties - domestic	830,355	1,534,730
Other related parties - foreign	50,923	28,586,819
Trade payables domestic – third parties	5,654,892	7,664,202
Trade payables foreign – third parties	8,837,079	2,099,059
Other trade payables	69,946	69,634
	38,433,183	**50,314,868**

As at 31 December 2014 payables to parents and subsidiaries-foreign amounting to RSD 20,144,858 (31 December 2013: RSD 9,338,240) mostly relate to payables to the supplier Gazprom Neft, St Petersburg, Russian Federation in the amount of 20,122,243 RSD for the purchase of crude oil.

24. OTHER SHORT-TERM LIABILITIES

	31 December 2014	31 December 2013
Specific liabilities	493,913	307,236
Liabilities for unpaid wages and salaries, gross	821,286	2,552
Interest liabilities	657,526	520,438
Dividends payable	3,772,308	3,772,308
Payables to employees	446,262	504,425
Decommissioning and site restoration costs	1,638,178	1,694,023
Environmental provision	490,586	584,494
Litigation and claims	272,252	364,611
Other current liabilities	108,172	6,530
	8,700,483	**7,756,617**

25. LIABILITIES FOR OTHER TAXES

	31 December 2014	31 December 2013
Excise tax	5,294,046	4,294,766
Income tax	-	2,626,080
Liabilities for taxes and custom duties	1,688,669	3,009,684
Other taxes payables	131,283	117,033
	7,113,998	**10,047,563**

26. ACCRUED EXPENSES

Accrued expenses as at 31 December 2014 amounting to RSD 3,045,933 (31 December 2013: RSD 2,409,088) mainly relate to accrued employee bonuses of RSD 1,548,802 (31 December 2013: RSD 1,507,805).

27. COST OF MATERIAL

	Year ended 31 December	
	2014	**2013**
Costs of raw materials	136,850,946	129,663,178
Overheads and other costs	155,109	91,815
Other	504,621	521,007
	137,510,676	**130,276,000**

28. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December	
	2014	**2013**
Wages and salaries (gross)	10,995,544	11,300,671
Taxes and contributions on wages and salaries paid by employer	1,541,382	1,647,437
Cost of service agreement	540,286	608,161
Cost of other personal wages	59,568	63,420
Fees paid to board of directors and general assembly board	126,569	72,106
Termination costs	303,545	2,421,545
Other personal expenses	516,725	1,378,695
	14,083,619	**17,492,035**

29. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2014	2013
Cost of production services	3,295,560	2,006,984
Transportation services	3,077,529	3,230,895
Maintenance	4,073,119	3,082,595
Rental costs	1,266,705	875,026
Fairs	11,148	5,909
Advertising costs	905,831	655,583
Exploration expenses	542,985	1,322,014
Cost of other services	694,420	933,146
	13,867,297	**12,112,152**

30. LONG-TERM PROVISION EXPENSES

	Year ended 31 December	
	2014	2013
Decommissioning and site restoration costs	24,000	429,781
Employee benefits costs	253,786	521,427
Other provision expense (litigation and claims)	-	319,786
	277,786	**1,270,994**

31. NON-MATERIAL EXPENSES

	Year ended 31 December	
	2014	**2013**
Costs of non-production services	6,357,806	4,822,203
Representation costs	110,283	143,157
Insurance premium	493,047	298,055
Bank charges	202,766	209,917
Cost of taxes	945,242	1,662,621
Mineral extraction tax	2,234,572	2,472,792
Other non-production expenses	792,780	780,710
	11,136,496	**10,389,455**

Cost of non-production services for the year ended 31 December 2014 amounting to RSD 6,357,806 (2013: RSD 4,822,203) mainly relate to costs of service organizations of RSD 3,684,698, consulting service costs of RSD 1,044,525, project management costs of RSD 669,907 and certification and supervision costs of RSD 170,308.

32. FINANCE INCOME

	Year ended 31 December	
	2014	**2013**
Finance income - related parties		
- foreign exchange differences	2,175,510	1,960,423
- other finance income	1,086,526	1,340,193
Interest income	4,196,347	5,451,340
Foreign exchange gains	1,253,608	6,064,610
Other finance income	16,156	12,406
	8,728,147	**14,828,972**

33. FINANCE EXPENSE

	Year ended 31 December	
	2014	2013
Finance expenses – related parties		
- foreign exchange differences	1,153,455	1,224,655
- other finance expense	6,142,110	993,137
Interest expenses	2,278,640	2,017,309
Amortization of long-term liabilities	48,371	354,643
Foreign exchange losses	10,128,617	5,092,619
Other finance expenses	347	44
	19,751,540	**9,682,407**

34. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 December	
	2014	2013
Reversal of impairment of LT financial investments	17,263	190,629
Income from valuation:		
- trade and specific receivables	452,315	972,315
- short-term investments	106,562	-
- other receivables	393,500	184,651
	969,640	**1,347,595**

35. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 December	
	2014	**2013**
Loss from valuation:		
- LT financial investments	1,943,262	6,524
- trade and specific receivables	298,084	525,141
- other receivables	3,606,134	4,745,266
- other	3,168	-
	5,850,648	**5,276,931**

36. OTHER INCOME

	Year ended 31 December	
	2014	**2013**
Gains on disposal - Intangible assets and PPE	164,180	87,604
Gains on disposal - materials	41,619	20,118
Surpluses from stock count	346,806	350,100
Payables written off	33,661	226,727
Release of long-term provisions	2,105,148	764,997
Gain on bargain purchase	455,776	-
Release of impairment:		
- PPE	79,589	143
- investment property	164,761	151,936
- inventory	216,837	450,253
- other property	13,115	9,659
Penalty interest	98,858	517,978
Other income	522,984	422,457
	4,243,334	**3,001,972**

37. OTHER EXPENSE

	Year ended 31 December	
	2014	**2013**
Loss on disposal - Intangible assets and PPE	159,401	437,232
Shortages from stock count	766,429	1,008,424
Write-off receivables	2,081	11,692
Write-off inventories	41,642	73,725
Impairment:		
- IA	-	24,374
- PPE	114,021	318,417
- inventory	9,025	139,379
- other property	5,687	16,244
Other expenses	1,524,839	710,194
	2,623,125	**2,739,681**

38. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2014	**2013**
Income tax for the year	3,421,124	6,185,819
Deferred income tax for the period (note 11)		
Origination and reversal of temporary differences	2,476,523	(200,860)
	5,897,647	**5,984,959**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Company's profits as follows:

	Year ended 31 December	
	2014	**2013**
Profit before tax	36,456,884	58,309,328
Tax calculated at statutory tax rate – 15%	5,468,533	8,746,399
Tax effect on:		
Revenues exempt from taxation	(277,761)	-
Expenses not deductible for tax purposes	1,339,758	139,421
Tax losses for which no deferred income tax asset wasrecognised	1,577,576	-
Utilized tax credits	(1,858,423)	(2,998,604)
Other	(285,250)	-
	5,964,433	(5,887,216)
Tax reassessment	(66,786)	97,743
	5,897,647	**5,984,959**
Effective income tax rate	16.18%	10.26%

39. EARNINGS PER SHARE

	Year ended 31 December	
	2014	**2013**
Profit	30,559,237	52,324,366
Weighted average number of ordinary shares issued	163,060,400	163,060,400
Basic Earnings per share	**0.187**	**0.321**

40. BUSINESS COMBINATIONS

Acquisition of petrol stations

In 2014 the Company has acquired one petrol station.

Name of aquiree	**Date of acquisition**	**Percentage of equity intrests acquired**
Serbia		
SSG Sava Centar	21 July 2014	100%

The following table summarises the consideration paid for acquired PS in the year ended 31 December 2014, the fair value of assets acquired and liabilities assumed.

	Year ended 31 December 2014	
	Serbia	**Total**
Purchase consideration:		
Cash paid	332,353	332,353
Total purchase consideration	332,353	332,353
Fair value of net identifiable assets acquired	788,129	788,129
Gain on bargain purchase	**(455,776)**	**(455,776)**

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

	Serbia	**Total**
Licenses, other than related to O&G activity – land rights	626,451	626,451
Property, plant and equipment	161,678	161,678
Net identifiable assets acquired	**788,129**	**788,129**

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

41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The total of 29.87% shares of the Company are owned by the Republic of Serbia, while 13.98% are owned by non-controlling shareholders and are quoted on the Belgrade Stock Exchange. Gazprom, Russian Federation is the ultimate owner of the Company.

During 2014 and 2013, the Company entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

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

	Subsidiary	Parent	Entities unde common control	Total
As at 31 December 2014				
Advances for PPE	35,055	-	-	35,055
Investments in subsidiaries	7,556,021	-	-	7,556,021
Long-term loans to related parties	32,574,154	-	-	32,574,154
Trade receivables	5,590,651	-	36,398	5,627,049
Other receivables	1,068,527	-	-	1,068,527
Short-term investments	4,337,886	-	-	4,337,886
Other current assets	53,933	-	-	53,933
Long-term liabilities	-	(42,194,756)	-	(42,194,756)
Short-term financial liabilities	-	(5,625,967)	-	(5,625,967)
Advances received	(142)	-	(12,831)	(12,973)
Trade payables	(2,867,745)	(20,122,243)	(50,923)	(23,040,911)
Other short-term liabilities	(197,786)	-	-	(197,786)
Other current liabilities	(6,006)	-	-	(6,006)
	48,144,548	**(67,942,966)**	**(27,356)**	**(19,825,774)**
As at 31 December 2013				
Advances for PPE	159,524	-	-	159,524
Investments in subsidiaries	7,556,543	-	-	7,556,543
Long-term loans to related parties	28,952,744	-	-	28,952,744
Long-term receivables	1,199,807	-	-	1,199,807
Trade receivables	3,303,408	-	3,537	3,306,945
Other receivables	1,125,205	-	-	1,125,205
Short-term investments	2,384,428	-	-	2,384,428
Other current assets	84,009	-	-	84,009
Long-term liabilities	-	(45,323,621)	-	(45,323,621)
Short-term financial liabilities	-	(5,332,191)	-	(5,332,191)
Advances received	(163)	-	-	(163)
Trade payables	(1,022,184)	(9,338,240)	(28,586,819)	(38,947,243)
Other short-term liabilities	(41,371)	-	-	(41,371)
Other current liabilities	(9,249)	-	-	(9,249)
	43,692,701	**(59,994,052)**	**(28,583,282)**	**(44,884,633)**

For the year ended 31 December 2014 and 2013 the following transaction occurred with related parties:

	Subsidiary	Parent	Entities unde common control	Total
As at 31 December 2014				
Sales revenue	10,342,966	-	2,208,538	12,551,504
Other operating income	34,501	-	-	34,501
Cost of goods sold	(127,787)	-	(65,868)	(193,655)
Decrease in inventories of finished goods and work in progress	(9,800,339)	-	(1,627,639)	(11,427,978)
Cost of material	(13,003)	(109,522)	(94,590,847)	(94,713,372)
Fuel and energy expenses	(437)	-	-	(437)
Employee benefits expenses	(27,215)	-	-	(27,215)
Production services	(3,877,420)	-	-	(3,877,420)
Non-material expense	(550,441)	(51,132)	(12,974)	(614,547)
Finance income	1,086,526	-	-	1,086,526
Finance expense	(3,384)	(1,150,071)	-	(1,153,455)
Fair value measurement losses	(1,943,236)	-	-	(1,943,236)
Other income	-	52,602	202,046	254,648
Other expenses	(5,205)	(68,318)	(410,518)	(484,041)
	(4,884,474)	**(1,326,441)**	**(94,297,262)**	**(100,508,177)**
As at 31 December 2013				
Sales revenue	5,932,498	-	92,553	6,025,051
Other operating income	32,789	-	-	32,789
Cost of goods sold	(145,451)	-	(17,245)	(162,696)
Decrease in inventories of finished goods and work in progress	(5,319,630)	-	-	(5,319,630)
Cost of material	-	-	(114,209,629)	(114,209,629)
Employee benefits expenses	(79,384)	-	-	(79,384)
Production services	(3,421,275)	-	-	(3,421,275)
Non-material expense	(196,479)	(45,889)	-	(242,368)
Finance income	1,338,481	-	-	1,338,481
Finance expense	-	(1,224,655)	-	(1,224,655)
Other income	10	-	297,244	297,254
Other expenses	(2,484)	(4,437)	(634,721)	(641,642)
	(1,860,925)	**(1,274,981)**	**(114,471,798)**	**(117,607,704)**

Key management compensation

Management compensation paid in 2014 and 2013 is shown in the table below:

	Year ended 31 December	
	2014	**2013**
Salaries and other short-term benefits	685,322	404,298
	685,322	**404,298**

Main balances and transactions with mayor state owned companies are shown below:

	31 December 2014	31 December 2013
Receivables – gross		
HIP Petrohemija	13,004,338	12,284,032
Srbijagas	29,289,917	27,124,438
	42,294,255	**39,408,470**
Liabilities		
HIP Petrohemija	(830,355)	(1,534,730)
Srbijagas	(226,896)	(230,099)
	(1,057,251)	**(1,764,829)**
Advances received		
HIP Petrohemija	(7,109)	(7,112)
Srbijagas	(12,806)	(12,806)
	(19,915)	**(19,918)**

	Year ended 31 December	
	2014	**2013**
Operating income		
HIP Petrohemija	23,382,492	35,132,534
Srbijagas	2,926,879	2,176,974
	26,309,371	**37,309,508**
Operating expenses		
HIP Petrohemija	(174,117)	(30,266)
Srbijagas	(751,452)	(1,080,394)
	(925,569)	**(1,110,660)**

Transactions with state controlled entities mainly relates to sales of petroleum products based on the price lists in force and terms that would be available to third parties.

42. CONTINGENT LIABILITIES

Transfer of property ownership

As at 31 December 2014, the Company had ownership and the right to use and possess of 7,915 properties, which represent 97% of the total Company properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

Finance Guarantees

As at 31 December 2014 the total amount of outstanding finance guarantees given by the Company amounted to RSD 6,434,369 mostly related to customs duties in the amount of RSD 3,145,363 (2013: RSD 2,192,400).

Other contingent liabilities

As at 31 December 2014, the Company did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Company has to pay the difference in tax calculation of USD 81 million related to the additional profit oil for the period from 2002 to 2009. The Company's Management believes that, based on the concession agreements signed with Angola and the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit Oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Company's Management will lodge a complaint against any tax enforcement action from the Angolan Ministry of Finance and will take all necessary steps which will enable it to suspend tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionaries, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the Ministry of Finance that was served upon them, although complaints were filed four years ago. Taking all of the above into consideration, the Company's Management is of the view that as at 31 December 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.

43. TAX RISKS

Tax laws of Republic of Serbia are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. The tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years from the transaction date. As at 31 December 2014, Management assessed that the Company had paid all tax liabilities.

44. COMMITMENTS

Leases

Minimum lease payments under non-cancellable operating lease by lessor:

	31 December 2014	31 December 2013
Less than one year	168,359	199,402
1-5 years	206,160	239,269
Over five years	139,743	138,591
	514,262	**577,262**

Minimum lease payments under non-cancellable operating lease by lessee:

	31 December 2014	31 December 2013
Less than one year	817,691	418,361
1-5 years	1,534,726	7,945
	2,352,417	**426,306**

There were no other material commitments of the Company.

45. EVENTS AFTER THE REPORTING PERIOD

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

Subsequent events occurring after 31 December 2014 were evaluated through 4 March 2015, the date these Financial Statements were authorised for issue.

Novi Sad, 4 March 2015

The person responsible for the preparation of financial statements

Anton Fyodorov,

CEO Deputy,

Head of Function for Finance, Economics, Planning and Accounting

Legal representative

Kirill Kravchenko,

CEO

2.02
Consolidated Financial Statements

Auditor's Report On Stand-alone Financial Statements

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TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS

NIS A.D. NOVI SAD

We have audited the accompanying consolidated financial statements of NIS a.d. Novi Sad ("the Company"), which comprise the consolidated balance sheet as at 31 December 2014, the consolidated income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and true and fair view of these consolidated financial statements in accordance with accounting regulations effective in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing of the Republic of Serbia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and true and fair view of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

TRANSLATION

Opinion

In our opinion, the separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2014, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the accounting regulations effective in the Republic of Serbia.

Other Matter

The separate financial statements of the Company as at and for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 13 February 2014.

Belgrade, 4 March 2015

KPMG d.o.o. Beograd

(L.S.)

James Thornley
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Belgrade, 4 March 2015

(L.S.)

KPMG d.o.o. Beograd

James Thornley
Certified Auditor

Consolidated Balance Sheet

Consolidated Balance Sheet (in RSD ,000)	Note	31 December 2014	31 December 2013
Assets			
Subscribed capital, unpaid		-	-
Non-current assets		**246,183,088**	**221,861,308**
Intangible assets	6	21,687,631	16,057,900
Property, plant and equipment	7	222,017,915	203,418,795
Biological assets		-	-
Long-term investments		2,465,498	2,373,180
Long-term receivables		12,044	11,433
Deferred tax assets	**10**	**7,834,203**	**9,776,757**
Current assets		**110,645,943**	**113,990,324**
Inventories	11	39,554,349	41,206,459
Trade receivables	12	49,244,871	52,575,085
Receivables from specific operations		323,954	163,502
Other receivables	13	3,046,977	335,488
Financial assets at fair value through profit and loss		-	-
Short-term financial investments	14	2,207,637	2,154,738
Cash and cash equivalents	15	8,326,704	8,707,774
Value added tax		163,230	1,939,549
Prepayments and accrued income	16	7,778,221	6,907,729
Total assets		**364,663,234**	**345,628,389**
Off-balance sheet assets	**17**	**120,440,876**	**94,164,460**
Equity and liabilities			
Equity		**183,620,504**	**168,953,099**
Share capital	18	81,550,674	81,550,757
Subscribed capital, unpaid		-	-
Treasury shares		-	-
Reserves		-	-

Consolidated Balance Sheet (in RSD ,000)	Note	31 December 2014	31 December 2013
Revaluation reserves based on fair value of intangible assets, property, plant and equipment		-	-
Unrealized profit from securities and other comprehensive income items		312,137	18,144
Unrealized losses from securities and other comprehensive income items		616,921	232,531
Retained earnings		102,374,614	87,616,729
Non-controlling interest		-	-
Loss		-	-
Long-term provisions and liabilities		**102,600,628**	**73,328,120**
Long-term provisions	19	9,012,584	12,194,243
Long-term liabilities	20	93,588,044	61,133,877
Deferred tax liabilities	**10**	**2,980,602**	**2,337,282**
Short-term liabilities		**75,461,500**	**101,009,888**
Short-term financial liabilities	21	14,701,438	27,918,441
Advances received		1,589,530	892,243
Trade payables	22	36,815,739	50,378,870
Other short-term liabilities	23	9,137,662	8,055,634
Liabilities for VAT		187,050	61,393
Liabilities for other taxes	24	7,513,714	10,202,079
Accrued expenses	25	5,516,367	3,501,228
Loss above equity		-	-
Total equity and liabilities		**364,663,234**	**345,628,389**
Off-balance sheet liabilities	**17**	**120,440,876**	**94,164,460**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Income Statement

Consolidated Income Statement (in RSD ,000) | **Year ended 31 December**

	Note	2014	2013
Operating revenue	**5**	**258,557,529**	**259,556,253**
Income from sales of goods		26,886,264	21,851,148
Income from sales of products and services		231,432,459	237,570,649
Income from premiums, subventions and donations		7,646	806
Other operating income		231,160	133,650
Operating expenses		**210,473,983**	**204,986,422**
Cost of goods sold		15,326,614	15,449,511
Work performed by the entity and capitalized		10,498,510	7,981,686
Increase in the value of finished goods and work in progress		313,347	
Decrease in the value of finished goods and work in progress		-	3,102,098
Cost of material	26	140,794,695	132,262,630
Cost of fuel and energy		4,052,031	3,296,360
Employee benefits expense	27	19,286,286	23,612,684
Cost of production services	28	14,506,200	10,495,572
Depreciation, depletion and amortization		12,757,430	10,871,986
Long-term provision expenses	29	366,247	1,349,805
Non-material expenses	30	14,196,337	12,527,462
Operating profit		**48,083,546**	**54,569,831**
Finance income	**31**	**7,788,961**	**13,944,681**
Finance income from related parties and other financial income		2,218,595	2,117,743
Interest income (from third parties)		4,238,258	5,539,711
Foreign exchange gains (third parties)		1,332,108	6,287,227
Finance expense	**32**	**20,401,328**	**10,322,958**
Finance expense from related parties and other financial expenses		7,423,239	2,346,784
Interest expense (from third parties)		2,497,209	2,517,777
Foreign exchange loss (third parties)		10,480,880	5,458,397

Consolidated Income Statement (in RSD ,000)		**Year ended 31 December**	
	Note	**2014**	**2013**
(Loss) profit from financing operations		**(12,612,367)**	**3,621,723**
Income from valuation of assets at fair value through profit and loss	33	984,506	1,348,403
Loss from valuation of assets at fair value through profit and loss	34	3,938,708	5,285,784
Other income	**35**	**4,866,534**	**3,287,541**
Other expense	**36**	**3,513,956**	**3,151,293**
Profit from regular business operations before tax		**33.869.555**	**54.390.421**
Net profit from discontinued operations, the effects of changes in accounting policies and correction of errors from previous periods		-	-
Net loss from discontinued operations, the effects of changes in accounting policies and correction of errors from previous periods		-	-
Profit before income tax		**33.869.555**	**54.390.421**
Income tax	37		
Current income tax		3,497,767	6,195,055
Deferred tax expenses		2,533,344	152,330
Deferred tax income		-	-
Paid personal income of the employer			
Profit for the year		**27,838,444**	**48,347,696**
attributable to shareholders		27,939,245	48,373,230
attributable to non-controlling interest		100,801	25,534
Earnings per share			
Basic	38	0.171	0.297
Diluted		-	-

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Other Comprehensive Income

Consolidated Statement of Other Comprehensive Income (in RSD ,000)

Year ended 31 December

	Note	2014	2013
Net result from business operations			
Net profit		27,838,444	48,347,696
Net loss		-	-
Other comprehensive profit or loss			
Items that will not be reclassified to profit or loss			
1. Changes in fair value of intangible assets, property, plant and equipment			
a) increase in revaluation reserves		-	-
b) decrease in revaluation reserves		-	-
2. Actuarial gains (losses) of post-employment benefit obligations			
a) gains		273,088	-
b) losses		-	114,418
3. Gains (losses) on investments in equity instruments			
a) gains		-	-
b) losses		-	-
4. Gains (losses) on share in other comprehensive profit (loss) of affiliates			
a) gains		-	-
b) losses		-	-
Items that may be subsequently reclassified to profit or loss			
1. Gains (losses) on translation of financial statements of foreign operations			
a) gains		-	-
b) losses		380,965	18,526
2. Gains (losses) on hedging instruments of a net investment in a foreign operation			
a) gains		-	-

Consolidated Statement of Other Comprehensive Income (in RSD ,000)

Year ended 31 December

	Note	2014	2013
b) losses		-	-
3. Gains (losses) on instruments of hedging cash flow risk			
a) gains		-	-
b) losses		-	-
4. Gains (losses) from change in value of available-for-sale financial assets			
a) gains		20,904	14,643
b) losses		3,296	-
Other comprehensive profit before tax		-	-
Other comprehensive loss before tax		90,269	118,301
Other comprehensive profit/(loss) tax		-	-
Net other comprehensive profit		**-**	**-**
Net other comprehensive loss		**90,269**	**118,301**
Total comprehensive result for the period			
Total comprehensive profit		27,748,175	48,229,395
Total comprehensive loss		-	-
Total comprehensive income			
1. attributable to shareholders		27,748,175	48,229,395
2. attributable to non-controlling interests		-	-

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Cash Flow Report

Consolidated Cash Flow Report (in RSD ,000)		Year ended 31 December	
	Notes	2014	2013
Cash flows from operating activities			
Cash inflow from operating activities		**425,553,728**	**397,638,605**
Sales and advances received		424,322,314	396,553,219
Interest from operating activities		1,000,254	950,931
Other inflow from operating activities		231,160	134,455
Cash outflow from operating activities		**375,960,284**	**322,353,185**
Payments and prepayments to suppliers		196,926,049	152,436,633
Salaries, benefits and other personal expenses		18,194,798	25,262,051
Interest paid		3,089,785	2,947,527
Income tax paid		8,697,928	4,122,711
Payments for other public revenues		149,051,724	137,584,263
Net cash from operating activities		**49,593,444**	**75,285,420**
Cash flows from investing activities			
Cash inflow from investing activities		**303,492**	**813,429**
Sale of shares		-	542,617
Proceeds from sale of property, plant and equipment		303,492	238,812
Other financial investments		-	32,000
Interest received from investing activities		-	-
Dividends recieved		-	-
Cash outflow from investing activities		**45,306,096**	**65,957,898**
Purchase of shares (net outflow)		-	-
Purchase of intangible assets, property, plant and equipment		45,300,443	64,897,780
Other financial investments (net outflow)		5,653	1,060,118
Net cash used in investing activities		**45,002,604**	**65,144,469**

Consolidated Cash Flow Report (in RSD ,000)		Year ended 31 December	
	Notes	**2014**	**2013**
Cash flows from financing activities			
Cash inflow from financing activities		**39,931,496**	**21,996,382**
Increase in share capital		-	-
Proceeds from long-term borrowings		24,121,300	12,756,382
Proceeds from short-term borrowings		15,810,196	9,240,000
Other long-term liabilities		-	-
Other short-term liabilities		-	-
Cash outflow from financing activities		**45.378.365**	**35.588.438**
Purchase of treasury shares		-	-
Repayment of long-term borrowings (net outflow)		24,397,660	10,784,309
Repayment of short-term borrowings (net outflow)		7,900,000	12,440,000
Other liabilities (net outflow)		-	-
Financial leasing		-	-
Dividend paid		13,080,705	12,364,129
Net cash used in financing activities		**5,446,869**	**13,592,056**
Total inflow		**49,593,444**	**75,285,420**
Total outflow		**50,449,473**	**78,736,525**
Net cash inflow		**-**	**-**
Net cash outflow		**856,029**	**3,451,105**
Cash and cash equivalents at the beginning of the year		**8,707,774**	**12,069,897**
Currency translation gains on cash		806,734	803,737
Currency translation losses on cash		331,775	714,755
Cash and cash equivalents at the end of the year		**8,326,704**	**8,707,774**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity (in RSD ,000)				Equity components
	Share capital	Reserves	Loss	Retained earnings
Balance as at 1 January 2013				
a) debit	-	-	398,016	-
b) credit	87,148,630	889,424	-	45,546,708
Correction of material errors and changes in accounting policy				
a) debit	-	-	-	-
b) credit	-	-	-	-
Restated balance as at 1 January 2013				
a) debit	-	-	398,016	-
b) credit	87,148,630	889,424	-	45,546,708
Changes in period				
a) debit	5,597,873	889,424	-	12,764,972
b) credit	-	-	398,016	54,834,993
Balance as at 31 December 2013				
a) debit	-	-	-	-
b) credit	81,550,757	-	-	87,616,729
Correction of material errors and changes in accounting policy				
a) debit	-	-	-	-
b) credit	-	-	-	-
Restated balance as at 1 January 2014				
a) debit	-	-	-	-
b) credit	81,550,757	-	-	87,616,729
Changes in period				
a) debit	83	-	-	13,080,705
b) credit	-	-	-	27,838,590
Balance as at 31 December 2014				
a) debit	-	-	-	-
b) credit	81.550.674	-	-	102,374,614

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity **Other comprehensive income components**

	Actuarial gain (loss)	Translation reserves	Gains (losses) from change in value of available-for-sale financial assets	Total Equity
Balance as at 1 January 2013				
a) debit	-	21,558	74,528	-
b) credit	-	-	-	133,090,660
Correction of material errors and changes in accounting policy				
a) debit	-	-	-	-
b) credit	-	-	-	-
Restated balance as at 1 January 2013				
a) debit	-	21,558	74,528	-
b) credit	-	-	-	133,090,660
Changes in period				
a) debit	114,418	18,526	-	-
b) credit	-	-	14.643	35,862,439
Balance as at 31 December 2013				
a) debit	114,418	40,084	59,885	-
b) credit	-	-	-	168,953,099
Correction of material errors and changes in accounting policy				
a) debit	-	-	-	-
b) credit	-	-	-	-
Restated balance as at 1 January 2014				
a) debit	114,418	40,084	59,885	-
b) credit	-	-	-	168,953,099
Changes in period				
a) debit	-	381,093	3,296	-
b) credit	273,088	-	20,904	14,667,405
Balance as at 31 December 2014				
a) debit	-	421,177	42,277	-
b) credit	158,670	-	-	183,620,504

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

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 the Government of the Republic of Serbia on 7 July 2005 as a successor of five state owned companies of *Javno Preduzece Naftna Industrija Srbije*. On 2 February 2009, OAO Gazprom Neft ("Gazprom Neft") acquired a 51% of the share capital of NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011, under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired 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 Belgrade Stock Exchange, Listing A (Prime Market). The address of the Company's registered office is in Novi Sad, 12 Narodnog fronta Street.

These consolidated financial statements have been approved and authorized for issue by CEO and will be presented to shareholders on the General meeting for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the consolidated financial statements for the year ended 31 December 2013.

2.1. Basis of preparation

These consolidated financial statements for the year ended 31 December 2014 were prepared in accordance with the Law on Accounting of the Republic of Serbia published in the Official Gazette of the Republic of Serbia (No. 62/2013), which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS :

- The financial statements are prepared in the format prescribed by the Ministry of Finance of the Republic of Serbia.
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

As a result, the accompanying consolidated financial statements cannot be considered as financial statements prepared in full compliance with IFRS.

The preparation of financial statements in conformity with the Law on Accounting of the Republic of Serbia 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 consolidated financial statements are disclosed in note 3.

2.2. New accounting standards

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the Group:

- Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group's consolidated financial statements.
- Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.
- Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group has applied the amendment and there has been no significant impact on the Group consolidated financial statements as a result.
- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized.
- Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.
- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of consolidated financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

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

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 fluctuation.

2.5. Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The Consolidated financial statements are presented in Serbian dinars ("RSD"), which is the Group's functional and 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents and other monetary assets and liabilities are presented in the income statement within 'finance income or cost'.

(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 in RSD. 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 control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity. 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 Consolidated Financial Statements.

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

(b) Joint Operations and Joint Ventures

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

(c) Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Non-controlling interests

In the Consolidated Financial Statements, non-controlling interests in subsidiaries are presented separately from the 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

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.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed (note 6).

2.9. Intangible assets

(a) Licenses and rights (concessions)

Separately acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation 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 Upstream Exploration Rights, which are amortised in accordance with the terms and conditions of the rights.

(b) Computer software

Costs associated with computer software primarily include the cost of the implementation of SAP software. Acquired computer software licenses are capitalized 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 to exceed 8 years).

2.10. Exploration for and evaluation of mineral resources

(a) Exploration and evaluation expenditure

During the exploration period, costs of exploration and evaluation of oil and natural gas are capitalized until it is proven that oil and gas reserves will not suffice to justify exploration costs. Geological and geophysical costs as well as costs directly associated with exploration are capitalized as incurred. The costs of obtaining exploration rights are capitalised either as part of property, plant and equipment or intangible assets depending on the type of cost. When commercial reserves have been discovered, subsequent to exploration and development investment impairment testing, they are transferred to development of assets either within property, plant and equipment or intangible assets. No depreciation and/or amortisation are charged during the exploration and evaluation phase.

(b) Development costs of fixed and intangible assets

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 construction in progress according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortisation 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.

(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.

2.11. 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 income statement during the financial period in which they are incurred.

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
Buildings	10 - 50
Machinery and Equipment:	
- Production equipment	7 - 25
- Furniture	5 - 10
- Vehicles	7 - 20
- Computers	5 - 10
Other PP&E	3 - 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 inconsolidated come statement (notes 35 and 36).

2.12. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13. Investment property

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

Investment property principally comprises of petrol stations and business facilities rented out 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 consolidated income statement as part of "Other income/expenses" (notes 35 and 36).

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.

2.14. Long–term financial assets

The Group classifies its financial assets in the following categories: 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.

2.14.1. Financial assets classification

(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.

(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.

2.14.2. Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as 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 fair value measurement gains (losses) in profit or loss for the year (notes 33 and 34).

2.14.3. Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - Adverse changes in the payment status of borrowers in the portfolio; and
  - National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2.15. 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.

The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as Other expense (note 36).

2.16. Trade 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.

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 income statement within 'loss from valuation of assets at fair value through profit and loss' (note 34). 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 'income from valuation of assets at fair value through profit and loss' in the consolidated income statement (note 33).

2.17. 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.

2.18. Off-balance sheet assets and liabilities

Off-balance sheet assets/liabilities include: material received from third parties for further processing and other assets not owned by the Group, as well as receivables/payables relating to collaterals received/given such as guarantees and other warrants.

2.19. Share capital

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

2.20. 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 (note 38).

2.21. Provisions

Provisions for environmental restoration, asset retirement obligation 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 cost of provision and charged to consolidated income statement.

2.22. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.23. Trade 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. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.24. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, 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.

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 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.

2.25. 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 the Collective 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. The expected costs of these benefits are accrued over the period of employment. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Serbian Treasury bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

(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.

In 2011, the Group started setting-up a long-term incentive program for Group's managers. Following the program's approval, cash incentives will be settle based on the Key Performance Indicators ("KPI") reached over a three-year period. At the end of 2014 Group made decision to introduce new one-year incentive program (note 19).

2.26. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of 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 of goods – wholesale

The Group manufactures and sells oil, petrochemical products and liquified 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 consistent with the market practice.

(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) 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.

2.27. 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 consolidated financial statements. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

(a) Right of use of land

Right of use of land acquired as a part of either acquisition or a separate transaction through payment to a third party or Local Authority is treated as an intangible asset. This acquired intangible assets has an indefinite useful life and is subject to annual impairment testing.

2.28. 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.

2.29. 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.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGeMENTS

Preparing consolidated financial statements required Management to make estimates and assumptions that effect 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 experience and other facts 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 estimates 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, managements also makes other judgments in the process of applying the 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 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.

Oil and gas reserves have a direct impact on certain amounts reported in the 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.

Detailed disclosure about Oil and gas reserves was not given as these data prescribed by the law of the Republic of Serbia are classified as a state secret.

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.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2014 would be to increase/decrease it by RSD 1,171,551 (2013: RSD 1,007,041).

3.3. 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.

If the discount rate used to calculate the present value of employee benefit obligations had been 7.75% (rather than 6.75%) per year, the past service liability (DBO) would decrease by approx. 10.9% for retirement indemnity and 6.2% for jubilee awards. If the employee salaries were to increase by 4% for 2015 and 3.5% for the financial years from 2016 onwards (rather than 3% for 2015 and 2.5% for the financial years from 2016 onwards) per year, the past service liability (DBO) would increase by approx. 12.7% for retirement indemnity and 6.6% for jubilee awards.

3.4. Decommissioning Obligations (asset retirement obligation and environmental protection)

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.

If the discount rate used to calculate the present value of decommissioning obligations had been 7.75% (rather than 6.75%) per year, the present liability would have decreased by approx. RSD 481,611 (2013: RSD 418,137).

3.5. Contingencies

Certain conditions may exist as of the date of these Consolidated financial statements 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. 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 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 42).

3.6. Economic Environment in the Russian Federation

In July-September 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group.

The U.S. sanctions prohibit any U.S. person, and U.S. incorporated entities (including their foreign branches) or any person or entity in the United States from:

- transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity for a number of Russian energy companies, and
- from providing, exporting, or re-exporting, directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deep water, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory to Russian companies. These sanctions also apply to any entity if 50% or more of its capital is owned, directly or indirectly, separately or in the aggregate, by sanctioned entities.

The EU sanctions, imposed in July and September 2014, prohibit:

- purchasing, selling, providing investment services for or assistance in the issuance of, or other dealings with transferable securities, money-market instruments and new loans or credit with a maturity exceeding 30 days, issued by / extended to a number of Russian companies, and any legal person, entity or body established outside the Union which are directly or indirectly owned for more than 50% by parent company of the Company, including all entities that comprise NIS Group.

Although sanctions were imposed had an impact on the restructuring of the loan portfolio, the Group has successfully completed the restructuring process without significant additional costs.

The Group continues to assess the impact of the sanctions but currently does not believe they have a significant impact on the Consolidated Financial Statements.

3.7. Impact of recent crude oil volatility

In the line with recent significant changes in crude oil prices on world oil markets, which occurred in late 2014 and which continued into 2015, management of the Group undertook, in January 2015, a detailed stress sensitivity analysis of the potential impact of the identified price reductions upon the prospective performance of the business and the potential recoverability of relevant assets, for the period up to 31 December 2015.

The stress sensitivity analysis was based on various scenarios built around recent and reasonably expected prospective world crude oil prices, as estimated by reference to internal and external industry reference sources. The results of the analysis lead management to believe that, as of the date of approving these financial statements:

- It is appropriate to adopted the going concern basis of reporting as at 31 December 2014
- The changes in crude oil prices are short term in the nature. As such, when combined with the Group's operational characteristics the recent oil price changes were not considered as an asset impairment indicators as of the balance sheet date or the date of issuance of these consolidated financial statements.

Management will continue to monitor the crude oil price and its influence on business performance in order to mitigate the impact if the negative trends, outside the range of expectation, occur.

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 and cash flow interest rate 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. The Group uses financial instruments to hedge certain risk exposures.

Risk management is carried out by the finance department within the Function for Economics, Finance and Accounting (further „FEPA") under policies approved by the Board of Directors. The Group's finance department identifies, evaluates and hedges 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 and interest rate 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. Foreign exchange risks arise when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group functional currency.

The Group has borrowings denominated in foreign currency mainly in EUR and USD which predominantly expose Group to the foreign currency translation risk. Currency exposure arising from the borrowings is managed through the participation of the borrowing denominated in functional currency of the Group in the total credit portfolio.

As at 31 December 2014, if the currency had strengthened/weakened by 15% against the EUR with all other variables held constant, pre-tax profit for the year would have been RSD 7,794,751 (2013: RSD 7,879,158) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

As at 31 December 2014, if the currency had strengthened/weakened by 15% against the USD with all other variables held constant, pre-tax profit for the year would have been RSD 11,213,395 (2013: RSD 9,255,840) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated borrowings and trade payables.

Cash flow and fair value interest rate risk

Borrowings withdrawn 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. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2014 would have been RSD 1,048,789 (2013: RSD 833,518) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

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, if it is bank with who the Group has passive activities the second criterion is applied and if it is a bank with who Group doesn't have cooperation, credit limits are determined based on the defined methodology.

Liquidity risk

Cash flow forecasting is performed as aggregated at the Group's level. The Group's finance function 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.

The table below analyses the Group's financial liabilities into relevant maturity groupings at the balance sheet.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at December 2014	Less than 1 year	1 - 5 years	Over 5 years	Total
Borrowings (short-term, current portion and long-term debt)	17,144,386	75,249,622	26,344,676	118,738,684
Trade payables	36,815,739	-	-	36,815,739
	53,960,125	**75,249,622**	**26,344,676**	**155,554,423**

As at December 2013	Less than 1 year	1 - 5 years	Over 5 years	Total
Borrowings (short-term, current portion and long-term debt)	30,165,551	36,832,196	31,176,872	98,174,619
Trade payables	50,378,870	-	-	50,378,870
	80,544,421	**36,832,196**	**31,176,872**	**148,553,489**

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, return capital to shareholders, issue new shares or sell assets to reduce debt.

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 amortisation, 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:

	31 December 2014	31 December 2013
Total borrowings (notes 20 and 21)	108,289,482	89,052,318
Less: cash and cash equivalents (note 15)	(8,326,704)	(8,707,774)
Net debt	99,962,778	80,344,544
EBITDA	63,399,048	68,845,801
Net debt to EBITDA	1.58	1.17

The Group has committed to maintain debt cover ratio of total indebtedness and EBITDA not exceeding 3.0 during the terms of long-term borrowings agreements with certain commercial banks. Group constantly monitoring the established commitments to maintain the height of debt cover ration and there has been no breach of these obligation.

There were no changes in the Group's approach to capital management during the year.

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.

5. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the years ended 31 December 2014 and 2013. Operating segments are components that engaged 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 oil 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 on-going operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the year ended 31 December 2014 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	80,995,753	255,285,451	(77,723,675)	258,557,529
Intersegment	76,539,271	1,184,404	(77,723,675)	-
External	4,456,482	254,101,047	-	258,557,529
EBITDA (Segment results)	65,683,172	(2,284,124)	-	63,399,048
Depreciation, depletion and amortization	(4,117,888)	(8,639,542)	-	(12,757,430)
Impairment (losses) reversal (note 35 and 36)	(27,346)	115,626	-	88,280
Finance expenses, net	(227,772)	(12,384,595)	-	(12,612,367)
Income tax	(580,889)	(5,450,222)	-	(6,031,111)
Segment profit (loss)	**60,353,697**	**(32,515,253)**	**-**	**27,838,444**

Reportable segment results for the year ended 31 December 2013 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	88,229,399	256,126,869	(84,800,015)	259,556,253
Intersegment	84,664,912	135,103	(84,800,015)	-
External	3,564,487	255,991,766	-	259,556,253
EBITDA (Segment results)	77,917,157	(9,071,356)	-	68,845,801
Depreciation, depletion and amortization	(2,437,895)	(8,434,091)	-	(10,871,986)
Impairment losses (note 35 and 36)	(110,377)	(126,641)	-	(237,018)
Finance expenses, net	(465,665)	4,087,388	-	3,621,723
Income tax	(535,507)	(5,507,218)	-	(6,042,725)
Segment profit (loss)	**72,937,094**	**(24,589,398)**	**-**	**48,347,696**

EBITDA for the year ended 31 December 2014 and 2013 is reconciled below:

	Year ended 31 December	
	2014	**2013**
Profit for the year	27,838,444	48,347,696
Income tax expenses	6,031,111	6,042,725
Other expenses	3,513,956	3,151,293
Other income	(4,866,534)	(3,287,541)
Loss from valuation of assets at fair value through profit and loss	3,938,708	5,285,784
Income from valuation of assets at fair value through profit and loss	(984,506)	(1,348,403)
Finance expense	20,401,328	10,322,958
Finance income	(7,788,961)	(13,944,681)
Depreciation, depletion and amortization	12,757,430	10,871,986
Other non-operating expenses	2,558,072	3,403,984
EBITDA	**63,399,048**	**68,845,801**

**Other non-operating expense, net mainly relate to reversal of impairment, fines, penalties and other.*

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

	Year ended 31 December 2014		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	3,605,885	3,605,885
Sale of gas	3,744,856	-	3,744,856
Through a retail network	-	-	-
Wholesale activities	3,744,856	-	3,744,856
Sale of petroleum products	194,215,579	48,911,946	243,127,525
Through a retail network	61,771,841	-	61,771,841
Wholesale activities	132,443,738	48,911,946	181,355,684
Other sales	5,018,971	3,060,292	8,079,263
Total sales	**202,979,406**	**55,578,123**	**258,557,529**

	Year ended 31 December 2013		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	3,553,732	3,553,732
Sale of gas	3,918,192	-	3,918,192
Through a retail network	-	-	-
Wholesale activities	3,918,192	-	3,918,192
Sale of petroleum products	206,159,963	42,031,098	248,191,061
Through a retail network	65,049,672	-	65,049,672
Wholesale activities	141,110,291	42,031,098	183,141,389
Other sales	3,819,140	74,128	3,893,268
Total sales	**213,897,295**	**45,658,958**	**259,556,253**

Out of the amount of RSD 243,127,525 (2013: RSD 248,191,061) revenue from sale of petroleum products (wholesale), the amount of RSD 23,382,492 (2013: RSD 35,132,534) are derived from a single domestic customer, HIP Petrohemija (note 41). These revenues are attributable to wholesale activities within Downstream segment.

Other sales mainly relate to sales of non-fuel products at petrol stations.

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 202,979,406 (2013: RSD 213,895,066), and the total of revenue from external customer from other countries is RSD 155,578,123 (2013: RSD 45,658,958). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December	
	2014	2013
Sale of crude oil	3,605,885	3,553,732
Sale of petroleum products (retail and wholeasle)		
Bulgaria	9,831,025	6,865,297
Bosnia and Herzegovina	7,948,661	8,650,936
Romania	7,833,671	4,972,364
All other markets	23,298,589	21,542,501
	48,911,946	42,031,098
Other sales	3,060,292	74,128
	55,578,123	**45,658,958**

Revenues from the individual countries included in all other markets are not material.

Non-current assets, other than financial instruments and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts), by country:

	31 December 2014	31 December 2013
Serbia	218,176,386	191,858,955
Bulgaria	8,524,519	7,413,855
Bosnia and Herzegovina	8,296,363	8,247,285
Romania	6,268,690	4,840,894
Hungary	65	664,542
	241,266,023	**213,025,531**

6. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licences, software and other rights	Goodwill	Other intangibles	Intangible assets under development	Total
At 1 January 2013						
Cost	-	5,796,304	1,464,063	437,496	5,535,077	13,232,940
Accumulated amortisation and impairment	-	(2,002,825)	-	(155,460)	(210,002)	(2,368,287)
Net book amount	**-**	**3,793,479**	**1,464,063**	**282,036**	**5,325,075**	**10,864,653**
Year ended 31 December 2013						
Additions	-	651,492	-	134,367	4,598,033	5,383,892
Acquisitions through business combinations	-	36,932	543,457	260,578	-	840,967
Impairment (note 36)	-	-	(42,290)	-	(24,347)	(66,637)
Amortisation	-	(654,195)	-	(144,225)	(3,160)	(801,580)
Transfer from PP&E (note 7)	-	(7,481)	-	-	170,966	163,485
Disposals and write-off	-	-	-	-	(81,068)	(81,068)
Other transfer	-	(36,467)	-	49,287	(281,838)	(269,018)
Translation differences	-	140	(3,092)	8,453	17,705	23,206
Closing net book amount	**-**	**3,783,900**	**1,962,138**	**590,496**	**9,721,366**	**16,057,900**
As at 31 December 2013						
Cost	-	6,472,181	2,004,284	737,003	9,816,673	19,030,141
Accumulated amortisation and impairment	-	(2,688,281)	(42,146)	(146,507)	(95,307)	(2,972,241)
Net book amount	**-**	**3,783,900**	**1,962,138**	**590,496**	**9,721,366**	**16,057,900**
At 1 January 2014						
Cost	-	6,472,181	2,004,284	737,003	9,816,673	19,030,141
Accumulated amortisation and impairment	-	(2,688,281)	(42,146)	(146,507)	(95,307)	(2,972,241)
Net book amount	**-**	**3,783,900**	**1,962,138**	**590,496**	**9,721,366**	**16,057,900**
Year ended 31 December 2014						
Additions	3,873,221	808,150	170,073	100,644	(44,884)	4,907,204
Acquisitions through business combinations	-	-	42,148	-	-	42,148
Impairment (note 36)	-	(533)	(322,848)	(8,065)	(1,503)	(332,949)
Amortisation	(40,080)	(919,463)	-	(77,395)	(4,439)	(1,041,377)
Transfer from PP&E (note 7)	-	-	-	616,451	825,409	1,441,860
Disposals and write-off	-	(749)	-	(153,714)	(332,569)	(487,032)
Other transfers	1	(223,782)	-	223,781	828,398	828,398
Translation differences	-	2,982	106,384	23,923	138,190	271,479
Closing net book amount	**3,833,142**	**3,450,505**	**1,957,895**	**1,316,121**	**11,129,968**	**21,687,631**
As at 31 December 2014						
Cost	3,873,221	7,061,422	2,333,733	1,485,101	11,231,789	25,985,266
Accumulated amortisation and impairment	(40,079)	(3,610,917)	(375,838)	(168,980)	(101,821)	(4,297,635)
Net book amount	**3,833,142**	**3,450,505**	**1,957,895**	**1,316,121**	**11,129,968**	**21,687,631**

Development investments as at 31 December 2014 in the amount of RSD 3,833,142 mostly relate to investments in geological, 2D and 3D seismic explorations on the territory of the Republic of Serbia (2013: RSD 0).

Concessions, patents, licenses, software and other rights as at 31 December 2014 amounting to RSD 3,450,505 mostly relate to investments in the SAP system of RSD 2,011,495 (2013: RSD 2,563,713).

Intangible assets under development as at 31 December 2014 amounting to RSD 11,129,968 (31 December 2013: RSD 9,721,366) mostly relate to investments in explorations (unproved reserves) in amount of RSD 9,465,471 (31 December 2013: RSD 8,458,461)

Amortisation amounting to RSD 1,041,377 (2013: RSD 801,580) is included in Operating expenses.

Goodwill acquired through business combinations has been allocated to Downstream (as at 31 December 2014: RSD 42,148 and 31 December 2013: RSD 543,457) related CGUs. Other goodwill additions in amount of RSD 170,073 relates to one gas stations acquired in prior year.

Impairment test for goodwill

Goodwill is monitored by the management on an individual CGU basis and geographical location. The recoverable amount of each CGUs has been determined by independent appraisal based on higher of value-in-use and fair value less cost to disposed calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

The average key assumptions used in value-in use calculations:

	2014	2013
Average gross margin	17%	15%
Growth rate	1%	0%
Discount rate		
- Romania market	9.2%	10.7%
- Bulgaria market	9.7%	10.6%
- Bosnia and Herzegovina market	13.1%	16%

Management determined the budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relation to the relevant CGU. The following is a summary of goodwill allocation:

	Opening	Addition	Impairment	Translation differences	Closing
2014					
Bosnia and Herzegovina	458,686	-	-	25,271	483,957
Romania	546,177	170,073	(322,848)	26,402	419,804
Bulgaria	957,275	42,148	-	54,711	1,054,134
	1,962,138	**212,221**	**(322,848)**	**106,384**	**1,957,895**
2013					
Bosnia and Herzegovina	11,724	434,697	-	12,265	458,686
Romania	495,122	98,448	(23,954)	(23,439)	546,177
Bulgaria	957,217	10,312	(18,336)	8,082	957,275
	1,464,063	**543,457**	**(42,290)**	**(3,092)**	**1,962,138**

The impairment charge of RSD 322,848 (2013:RSD 42,290) arose in a Romania business activity and is recognised as expense in Profit and Loss. (note 36).

In Bulgaria and Bosnia and Herzegovina, the recoverable amount calculated based on value-in-use exceed carrying value.

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment
At 1 January 2013			
Cost	14,856,754	91,567,949	95,863,682
Accumulated depreciation and impairment	(692,796)	(26,867,130)	(38,019,485)
Net book amount	**14,163,958**	**64,700,819**	**57,844,197**
Year ended 31 December 2013			
Additions	1,419,006	17,960,710	13,388,707
Acquisition through business combinations	1,497,423	2,218,078	630,849
Impairment charge (note 35 and 36)	-	(232,285)	(15,856)
Depreciation	-	(3,932,662)	(6,132,465)
Transfer to intangible assets (note 6)	1,906	850,131	157,179
Transfer to investment property	(3,696)	17,689	-
Disposals and write-off	(68,493)	(324,792)	(273,329)
Other transfers	(51,510)	4,040,649	(4,497,066)
Translation differences	75,894	85,353	23,934
Closing net book amount	**17,034,488**	**85,383,690**	**61,126,150**
At 31 December 2013			
Cost	17,338,710	118,861,913	93,865,422
Accumulated depreciation and impairment	(304,222)	(33,478,223)	(32,739,272)
Net book amount	**17,034,488**	**85,383,690**	**61,126,150**
Year ended 31 December 2014			
Additions	311,480	20,062,264	12,009,160
Acquisitions through business combinations	-	-	-
Impairment charge (note 35 and 36)	(29,907)	(42,822)	(63,828)
Depreciation	-	(5,323,569)	(6,380,450)
Transfer to intangible assets (note 6)	-	53,404	1,330
Transfer from investment property	31,599	70,690	2,588
Disposals and write-off	(112,861)	(248,146)	(114,579)
Other transfers	6,972	194,162	(200,048)
Translation differences	338,515	375,996	119,197
Closing net book amount	**17,580,286**	**100,525,669**	**66,499,520**
At 31 December 2014			
Cost	17,914,415	139,332,185	104,654,098
Accumulated depreciation and impairment	(334,129)	(38,806,516)	(38,154,578)
Net book amount	**17,580,286**	**100,525,669**	**66,499,520**

Construction in progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
22,681,199	91,447	129,318	2,466,224	227,656,573
(4,315,892)	(1,146)	(126,907)	(21,418)	(70,044,774)
18,365,307	**90,301**	**2,411**	**2,444,806**	**157,611,799**
15,303,057	19	35,773	13,921,611	62,028,883
232,080	-	-	-	4,578,430
(65,442)	(332)	-	(8,402)	(322,317)
-	-	(5,279)	-	(10,070,406)
(1,173,216)	-	515	-	(163,485)
(11,248)	-	-	-	2,745
(1,021,573)	(26)	-	(9,931,132)	(11,619,345)
248,736	(14)	-	26,474	(232,731)
1,033	231	6,607	(2,194)	190,858
31,878,734	**90,179**	**40,027**	**6,451,163**	**202,004,431**
35,926,540	91,391	81,375	6,481,062	272,646,413
(4,047,806)	(1,212)	(41,348)	(29,899)	(70,641,982)
31,878,734	**90,179**	**40,027**	**6,451,163**	**202,004,431**
3,856,319	-	344,388	5,786,829	42,370,440
1,245,216	-	-	-	1,245,216
(52,462)	(49)	-	-	(189,068)
-	-	(12,034)	-	(11,716,053)
(1,496,594)	-	-	-	(1,441,860)
-	-	-	-	104,877
(1,531,011)	(47)	-	(9,830,700)	(11,837,344)
(828,398)	(703)	-	-	(828,015)
56,713	-	807	32,231	923,459
33,128,517	**89,380**	**373,188**	**2,439,523**	**220,636,083**
35,928,308	91,230	426,130	2,468,780	300,815,146
(2,799,791)	(1,850)	(52,942)	(29,257)	(80,179,063)
33,128,517	**89,380**	**373,188**	**2,439,523**	**220,636,083**

In 2014, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 78,399 (2013: RSD 111,522).

Machinery and equipment include the following amounts where the Group is a lessee under a finance lease:

	31 December 2014	31 December 2013
Cost capitalised – finance leases	149,696	149,696
Accumulated depreciation	(77,343)	(62,373)
Net book amount	**72,353**	**87,323**

The management of the Group assesses at each reporting date whether there is an indication that the recoverable amount of property, plant and equipment fell below its book value.

As at 31 December 2014, the Group assessed impairment indicators of cash generating units ("CGU") and concluded that general indications of impairment does not exist. In addition Group has assessed and recognized impairment losses for the asset which has disposed due to obsolete or physically demolition in amount of RSD 189,068 (2013: RSD 322,317).

(b) Investment property – carried at fair value

Investment properties are valued at the reporting date at fair value representing the investment property market value.

Movements on the account were as follows:

	2014	2013
As at 1 January	1,414,364	1,367,378
Fair value gains (note 35)	164,761	151,936
Transfer to PP&E carried at cost	(104,877)	(2,745)
Disposals	(93,462)	(108,483)
Other	1,046	6,278
As at 31 December	**1,381,832**	**1,414,364**

As at 31 December 2014, investment properties amounting to RSD 1,381,832 (31 December 2013: RSD 1,414,364) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

Fair value of investment properties

Valuation of the Group's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2014 and 2013. The revaluation surplus was credited to other income (note 35).

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value measurements at 31 December 2014 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings			
– Shops and other facilities for rents	-	812,023	-
– Apartments	-	-	-
– Gas stations	-	-	569,808
Total	**-**	**812,023**	**569,808**

Fair value measurements at 31 December 2013 using:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings			
– Shops and other facilities for rents	-	772,952	-
– Apartments	-	131,513	-
– Gas stations	-	-	509,899
Total	**-**	**904,465**	**509,899**

Valuation techniques used to derive level 2 fair values

Level 2 fair values of shops, apartments and other properties for rent have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

Fair value measurements using significant unobservable inputs (Level 3)

Level 3 fair values of gas stations have been derived using value-in-use approach where fair value of gas station is determined as the present value of future net benefits which will belong to the Group based on long-term rental contracts. The most significant input into this valuation approach is rental price per gas station.

The key assumptions used for value-in-use calculations:

	2014	2013
Long term growth rate	0%	0%
Discount rate	12%	12%

Reconciliation of changes in fair value measurement, assets categorised within Level 3 of the fair value hierarchy:

	2014	2013
Assets as at 1 January	509,899	484,850
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	59,909	25,049
Total increase in fair value measurement, assets	59,909	25,049
Assets as at 31 December	**569,808**	**509,899**

(c) Oil and gas production assets

Oil and gas production assets comprise of aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.10.).

	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	118,631	65,165,032
Depreciation and impairment	(3,973)	(304,214)	(308,187)	(20,466,813)	(105,319)	(20,880,319)
Net book amount	**6,350,614**	**5,011,184**	**11,361,798**	**32,909,603**	**13,312**	**44,284,713**
Year ended 31 December 2013						
Additions	7,980,904	19,684,120	27,665,024	-	-	27,665,024
Transfer from asset under construction	(337,362)	(11,484,839)	(11,822,201)	11,812,975	9,226	-
Other transfers	4,808	(11,641)	(6,833)	(894,829)	(9,267)	(910,929)
Impairment	(3,616)	(29,547)	(33,163)	(77,107)	-	(110,270)
Depreciation and depletion	(3,160)	-	(3,160)	(3,031,956)	-	(3,035,116)
Disposals and write-off	(809,340)	(10,229)	(819,569)	-	(28)	(819,597)
Translation differences	28,372	-	28,372	15	-	28,387
	13,211,220	**13,159,048**	**26,370,268**	**40,718,701**	**13,243**	**67,102,212**
As at 31 December 2013						
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**
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**
Year ended 31 December 2014						
Additions	8,004,209	20,994,826	28,999,035	-	-	28,999,035
Transfer from asset under construction	(3,619,756)	(20,246,631)	(23,866,387)	23,866,387	-	-
Other transfers	2,013,886	(527,685)	1,486,201	445,480	(81)	1,931,600
Impairment	(1,503)	(15,526)	(17,029)	(10,222)	(49)	(27,300)
Depreciation and depletion	(4,439)	-	(4,439)	(3,763,379)	-	(3,767,818)
Disposals and write-off	(1,691,582)	(139,622)	(1,831,204)	(31,006)	(15)	(1,862,225)
Translation differences	157,847	-	157,847	174	-	158,021
	18,069,882	**13,224,410**	**31,294,292**	**61,226,135**	**13,098**	**92,533,525**
As at 31 December 2014						
Cost	18,087,173	13,477,995	31,565,168	82,284,653	33,457	113,883,278
Depreciation and impairment	(17,291)	(253,585)	(270,876)	(21,058,518)	(20,359)	(21,349,753)
Net book amount	**18,069,882**	**13,224,410**	**31,294,292**	**61,226,135**	**13,098**	**92,533,525**

8. 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 total capacity of 102 MW. Energowind is jointly controlled by the Group and Asporta Limited, Cyprus. On the date of the issuance of these Consolidated Financial Statements there have been no significant business activities. The carrying value of the investment as of 31 December 2014 is RSD 1,008,221 (31 December 2013: RSD 1,008,221) and is included in the Consolidated Balance Sheet.

Energowind d.o.o. is a private company and there is no available quoted market price.

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

9. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2014	31 December 2013
Other LT placements	998,376	863,518
LT loans given to employees	1,155,943	1,083,092
Less: Impairment	(919,728)	(782,311)
	1,234,591	**1,164,299**

Loans to employees as at 31 December 2014 amounting to RSD 1,155,943 (31 December 2013: RSD 1,083,092) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes. These loans are repaid through monthly installments.

The fair value of loans to employees is based on the cash flows discounted at market interest rate at which the Group could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 4.99% for loans denominated in EUR, and 15.85% for loans denominated in RSD (2013: 5.62% p.a.).

The maximum exposure to credit risk at the reporting date is the nominal value of loans given to employees. This credit risk exposure is limited, as the monthly installments of these loans are withheld from employees' salaries.

10. DEFERRED TAX ASSETS AND LIABILITIES

	Provisions	Carrying value of PP&E vs Tax base	Total
Deferred tax liabilities			
As at 1 January 2013	**-**	**(2,422,241)**	**(2,422,241)**
Origination and reversal of temporary differences (note 37)	-	163,860	163,860
Acquisition of subsidiary	-	(76,799)	(76,799)
Translation difference	-	(2,102)	(2,102)
As at 31 December 2013	**-**	**(2,337,282)**	**(2,337,282)**
Origination and reversal of temporary differences			
- charged to the income statement (note 37)	-	(590,790)	(590,790)
- charged to other comprehensive income	(48,193)	-	(48,193)
Translation difference	-	(4,337)	(4,337)
As at 31 December 2014	**(48,193)**	**(2,932,409)**	**(2,980,602)**

	Provisions	Impairment loss	Investment credit	Total
Deferred tax assets				
As at 1 January 2013	**251,121**	**799,319**	**8,737,847**	**9,788,287**
Origination and reversal of temporary differences (note 37)	57,168	(36,440)	(32,258)	(11,530)
As at 31 December 2013	**308,289**	**762,879**	**8,705,589**	**9,776,757**
Origination and reversal of temporary differences (note 37)	(282,758)	(82,219)	(1,577,577)	(1,942,554)
As at 31 December 2014	**25,531**	**680,660**	**7,128,012**	**7,834,203**

The recognition of deferred tax assets was based on a five-year business plan of the Group and the actual results achieved to date which have given the management strong indications that the income tax credits carried forward will be utilised.

Investment credits represent 20% qualifying of capital investments made up to 31 December 2013 in accordance with tax legislation of the Republic of Serbia, which can be utilized in 10 years period.

11. INVENTORY

	31 December 2014	31 December 2013
Materials, spare parts and tools	28,559,616	32,143,369
Work in progress	5,755,021	4,787,759
Finished goods	7,477,570	8,131,485
Goods for sale	3,494,419	2,536,369
Advances	668,211	799,549
*Less:*provision	(6,400,488)	(7,192,072)
	39,554,349	**41,206,459**

Movement on inventory provision is as follows:

	Impairment of inventories	Impairment of Advances	Total
Balance as of 1 January 2013	**7,394,952**	**373,071**	**7,768,023**
Provision for inventories and advances (note 36)	139,379	16,165	155,544
Unused amounts reversed (note 35)	(455,074)	(9,659)	(464,733)
Receivables written off during the year as uncollectible	-	(131,230)	(131,230)
Other	(140,254)	4,722	(135,532)
Balance as of 31 December 2013	**6,939,003**	**253,069**	**7,192,072**
Provision for inventories and advances (note 36)	9,025	5,688	14,713
Unused amounts reversed (note 35)	(216,837)	(13,116)	(229,953)
Receivables written off during the year as uncollectible	-	(989)	(989)
Other	(575,531)	176	(575,355)
Balance as of 31 December 2014	**6,155,660**	**244,828**	**6,400,488**

12. TRADE RECEIVABLES

	31 December 2014	31 December 2013
Other related parties - domestic	13,004,338	12,284,032
Other related parties - foreign	36,398	3,537
Trade receivables domestic – third parties	47,435,227	51,702,966
Trade receivables foreign – third parties	1,342,216	1,174,338
Less: Impairment	(12,573,308)	(12,589,788)
	49,244,871	**52,575,085**

The ageing of trade receivables is as follows:

	31 December 2014	31 December 2013
Neither impaired nor past due	24,034,163	28,250,375
Past due but not impaired:		
within 30 days	4,098,982	5,409,615
1 to 3 months	2,025,111	4,040,201
3 months to 1 year	8,338,053	5,585,322
over 1 year	10,748,562	9,289,572
Total	**49,244,871**	**52,575,085**

Due to unfavourable macroeconomic conditions in the recent years, the Group was faced with slowdown in collection from state owned companies. However, the Group management is working closely with major debtors on recovery of these debts and believes that net receivables included in the ageing table above are fully recoverable.

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

	31 December 2014	31 December 2013
RSD	59,705,725	63,936,761
EUR	465,225	548,176
USD	876,000	425,793
Other	771,229	254,143
	61,818,179	**65,164,873**

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

	Trade receivables		Total
	Individualy impaired	Collectively impaired	
As at 1 January 2013	**8,907,656**	**4,034,522**	**12,942,178**
Provision for receivables impairment (note 34)	237,257	282,088	519,345
Unused amounts reversed (note 33)	(2,936)	(719,131)	(722,067)
Receivables written off during the year as uncollectible	-	(99,562)	(99,562)
Other	(715,332)	665,226	(50,106)
As at 31 December 2013	**8,426,645**	**4,163,143**	**12,589,788**
Provision for receivables impairment (note 34)	81,045	237,253	318,298
Unused amounts reversed (note 33)	-	(302,657)	(302,657)
Receivables written off during the year as uncollectible	-	(264,395)	(264,395)
Other	(3,474)	235,748	232,274
As at 31 December 2014	**8,504,216**	**4,069,092**	**12,573,308**

Expenses that have been provided for or written off are included in fair value measurement loss within the income statement (note 36). Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

13. OTHER RECEIVABLES

	31 December 2014	31 December 2013
Interest receivables	13,492,221	10,419,050
Receivables from employees	88,782	87,210
Income tax prepayment	2,672,130	37,283
Other receivables	7,552,779	7,498,568
Less: Impairment	(20,758,935)	(17,706,623)
	3,046,977	**335,488**

Movements on the provision for other receivables :

	Interest receivables	Other receivables	Total
As at 1 January 2013	5,867,321	7,326,588	13,193,909
Provision for other receivables impairment (note 34)	4,737,697	7,569	4,745,266
Unused amounts reversed (note 33)	(183,807)	(844)	(184,651)
Receivables written off during the year as uncollectible	(51,766)	(336)	(52,102)
Other	-	4,201	4,201
As at 31 December 2013	**10,369,445**	**7,337,178**	**17,706,623**
Provision for other receivables impairment (note 34)	3,604,591	1,616	3,606,207
Unused amounts reversed (note 33)	(391,242)	(2,225)	(393,467)
Receivables written off during the year as uncollectible	(159,538)	(1,106)	(160,644)
Other	-	216	216
As at 31 December 2014	**13,423,256**	**7,335,679**	**20,758,935**

14. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2014	31 December 2013
ST loans and placements - Domestic	2,021	1,928
Other ST financial placements	10,358,008	9,980,425
Less: Impairment	(8,152,392)	(7,827,615)
	2,207,637	**2,154,738**

Other ST financial placements as at 31 December 2014 amounting to RSD 10,358,008 (31 December 2013: RSD 9,980,424) mainly relate to current portion of rescheduled receivables in amount of RSD 10,353,617 (31 December 2013: RSD 9,913,994). They are provided for in the amount of RSD 8,152,392 (2013: RSD 7,827,615).

Movements on the provision for short-term financial assets:

	Other ST financial placement - Recheduled receivables	Total
As at 1 January 2013	**5,820,064**	**5,820,064**
Reclassification from non-current to current part	1,591,471	1,591,471
Exchange differences	416,080	416,080
As at 31 December 2013	**7,827,615**	**7,827,615**
Unused amounts reversed (note 34)	(106,562)	(106,562)
Exchange differences	431,339	431,339
As at 31 December 2014	**8,152,392**	**8,152,392**

15. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Cash in bank and in hand	5,064,178	6,065,857
Deposits with original maturity of less than three months	1,351,870	771,950
Cash with restriction	1,655,104	1,651,099
Cash equivalents	255,552	218,868
	8,326,704	**8,707,774**

Cash with restriction as of 31 December 2014 amounting to RSD 1,655,104 (31 December 2013: RSD 1,651,099) mainly relates to deposited funds on escrow account in accordance with share purchase agreement with Energowind doo (through which the operation of future wind farm ''Plandiste' will be managed) in amount of RSD 1,636,805 (31 December 2013: RSD 1,650,878) .

16. PREPAYMENTS AND ACCRUED INCOME

	31 December 2014	31 December 2013
Deferred input VAT	1,632,682	2,236,598
Prepaid expenses	137,615	136,118
Prepaid excise duty	4,256,208	1,364,295
Housing loans and other prepayments	1,751,716	3,170,718
	7,778,221	**6,907,729**

Deferred input VAT as at 31 December 2014 amounting to RSD 1,632,682 (31 December 2013: RSD 2,236,598) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty amounting to RSD 4,256,208 (31 December 2013: RSD 1,364,295) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

17. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2014	31 December 2013
Issued warranties and bills of exchange	75,764,106	44,546,397
Received warranties and bills of exchange	27,794,515	34,202,644
Properties in ex-Republics of Yugoslavia	5,357,690	5,357,690
Receivables from companies from ex-Yugoslavia	6,329,184	5,103,758
Third party merchandise in NIS warehouses	4,423,596	4,315,685
Assets for oil fields liquidation in Angola	771,785	638,286
	120,440,876	**94,164,460**

18. EQUITY

				Equity attributable to
	Share capital	Other capital	Reserves	Retained earnings (loss)
Balance as at 1 January 2013	**81,530,200**	**5,597,873**	**889,424**	**45,185,341**
Profit for the year	-	-	-	48,373,230
Gains from securities	-	-	-	-
Other transfers	-	(5,597,873)	(889,424)	6,487,297
Dividend distribution	-	-	-	(12,364,129)
Actuarial gain	-	-	-	-
Other	-	-	-	(2,830)
Balance as at 31 December 2013	**81,530,200**	**-**	**-**	**87,678,909**
Balance as at 1 January 2014	81,530,200	-	-	87,678,909
Profit for the year	-	-	-	27,939,245
Gains from securities	-	-	-	-
Dividend distribution	-	-	-	(13,080,705)
Actuarial losses	-	-	-	-
Other	-	-	-	38
Balance as at 31 December 2014	**81,530,200**	**-**	**-**	**102,537,487**

owners of the Group

	Translation reserves	Unrealised gains (losses) from securities	Actuarial gain (loss)	Total	Non-controling intrest	Total equity
	(20,544)	**(74,528)**	**-**	**133,107,766**	**(17,106)**	**133,090,660**
	-	-	-	48,373,230	(25,534)	48,347,696
	-	14,643	-	14,643	-	14,643
	-	-	-	-	-	-
	-	-	-	(12,364,129)	-	(12,364,129)
	-	-	(114,418)	(114,418)	-	(114,418)
	(17,746)	-	-	(20,576)	(777)	(21,353)
	(38,290)	**(59,885)**	**(114,418)**	**168,996,516**	**(43,417)**	**168,953,099**
	(38,290)	(59,885)	(114,418)	168,996,516	(43,417)	168,953,099
	-	-	-	27,939,245	(100,801)	27,838,444
	-	17,608	-	17,608	-	17,608
	-	-	-	(13,080,705)	-	(13,080,705)
	-	-	273,088	273,088	-	273,088
	(372,247)	-	-	(372,209)	(8,821)	(381,030)
	(410,537)	**(42,277)**	**158,670**	**183,773,543**	**(153,039)**	**183,620,504**

18.1. Share capital

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

Share capital as of 31 December 2014 and 31 December 2013 comprise of 163,060,400 of ordinary shares.

On June 30, 2014 the annual general shareholders meeting of the Group approved dividend for 2013 in amount of RSD 80,22 per share.

19. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommi-ssioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2013	7,972,086	861,383	3,000,520	1,042,854	814,047	13,690,890
Charged to the income statement (note 29 and 32)	589,423	195,000	17,535	521,427	381,063	1,704,448
New obligation incurred and change in estimates	962,855	-	-	-	-	962,855
Release of provision (note 35)	(303,653)	(112,396)	(451,170)	-	-	(867,219)
Actuarial loss charged to other comprehensive income	-	-	114,418	-	-	114,418
Settlement	(157,673)	(253,893)	(135,497)	(42,202)	(37,858)	(627,123)
Other	-	-	5,884	-	-	5,884
As at 31 December 2013	**9,063,038**	**690,094**	**2,551,690**	**1,522,079**	**1,157,252**	**14,984,153**
As at 1 January 2014	9,063,038	690,094	2,551,690	1,522,079	1,157,252	14,984,153
Charged to the income statement (note 29 and 32)	52,371	32,947	329,300	-	-	414,618
New obligation incurred and change in estimates	(14,377)	-	-	-	-	(14,377)
Release of provision (note 35)	-	-	(1,565,729)	(812,189)	(48,009)	(2,425,927)
Actuarial gain charged to other comprehensive income	-	-	(321,281)	-	-	(321,281)
Settlement	(75,421)	(152,437)	(115,426)	(608,044)	(167,626)	(1,118,954)
Other	-	(245)	186	-	2,963	2,904
As at December 2014	**9,025,611**	**570,359**	**878,740**	**101,846**	**944,580**	**11,521,136**

Analysis of total provisions:

	31 December 2014	31 December 2013
Non-current	9,012,584	12,194,243
Current	2,508,552	2,789,910
	11,521,136	**14,984,153**

(a) Decommissioning

The Group's Management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells based on previous experience in similar projects.

(b) Environmental protection

The Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 570,359 (31 December 2013: RSD 690,094) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) Long-term incentive program

In 2011, the Group started setting-up a long-term incentive program for Group managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2014 the management made an assessment of present value of liabilities related to new one-year employee incentives in amount of RSD 101,846 (31 December 2013: RSD 1,522,079).

(d) Legal claims provisions

As at 31 December 2014, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Group released provision for litigation amounting to RSD 48,009 (2013: RSD 381,063, charge) for proceedings which were assessed that won't have negative outcome. The Group estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2014.

(e) Provision for employee benefits

Employee benefits:

	31 December 2014	31 December 2013
Retirement allowances	101,096	703,729
Jubilee awards	777,644	1,847,961
	878,740	**2,551,690**

The principal actuarial assumptions used were as follows:

	31 December 2014	31 December 2013
Discount rate	6.75%	6.30%
Future salary increases	2.5%	5.50%
Future average years of service	12.4	14.84

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2013	836,998	2,163,522	3,000,520
Benefits paid directly	(59,174)	(76,323)	(135,497)
Actuarial loss recognised in other comprehensive income	114,418	-	114,418
Credited to the income statement	(194,397)	(239,238)	(433,635)
Liability acquired in a business combination	4,722	-	4,722
Translation difference	1,162	-	1,162
Balances as at 31 December 2013	**703,729**	**1,847,961**	**2,551,690**
Benefits paid directly	(26,150)	(89,276)	(115,426)
Actuarial gain recognised in the statement of other comprehensive income	(321,281)	-	(321,281)
Credited to the income statement	(255,388)	(981,041)	(1,236,429)
Translation difference	186	-	186
Balances as at 31 December 2014	**101,096**	**777,644**	**878,740**

The amounts recognized in the Income Statement are as follows:

	Year ended 31 December	
	2014	**2013**
Current service cost	202,422	230,536
Interest cost	156,808	220,805
Curtailment gain	(265,082)	(357,007)
Actuarial losses (jubilee awards)	(557,749)	-
Amortisation of past service cost	(772,828)	(527,969)
	(1,236,429)	**(433,635)**

20. LONG-TERM LIABILITIES

	31 December 2014	31 December 2013
Long-term loan - Gazprom Neft	47,820,723	50,655,812
Bank loans	51,604,833	37,948,303
Finance lease liabilities	199,737	107,689
Other long-term borrowings	64,078	40,486
Less Current portion	(6,101,327)	(27,618,413)
	93,588,044	**61,133,877**

(a) Long-term loan - Gazprom Neft

As at 31 December 2014 long-term loan - Gazprom Neft amounting to RSD 47,820,723 (EUR 395,348,842) (2013: RSD 50,655,812), with current portion of RSD 5,625,967 (2013: RSD 5,332,191), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

(b) Bank loans

	31 December 2014	31 December 2013
Domestic	7,175,319	12,048,569
Foreign	44,429,514	25,899,734
	51,604,833	37,948,303
Current portion of long-term loans (note 21)	(474,537)	(22,264,141)
Total	**51,130,296**	**15,684,162**

The maturity of non-current loans was as follows:

	31 December 2014	31 December 2013
Between 1 and 2 years	6,969,316	2,926,308
Between 2 and 5 years	38,525,058	6,871,962
Over 5 years	5,635,922	5,885,892
	51,130,296	**15,684,162**

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

	31 December 2014	31 December 2013
USD	45,401,219	28,343,857
EUR	5,840,104	8,961,940
RSD	1,520	280,783
JPY	361,990	361,723
	51,604,833	**37,948,303**

The fair value of non-current loans and their carrying amounts are equal.

The Group repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Group agreed 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 31 December 2014 and 31 December 2013 are presented in the table below:

Creditor	Currency	31 December 2014	31 December 2013
Domestic long-term loans			
Erste bank, Novi Sad	USD	319,049	279,719
Erste bank, Novi Sad	EUR	457,835	454,900
Bank Postanska stedionica, Belgrade	EUR	224,938	225,341
Bank Postanska stedionica, Belgrade	USD	1,728,210	1,526,400
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,443,767	4,459,990
UniCredit bank, Belgrade	USD	-	4,821,436
UniCredit bank, Belgrade	RSD	-	278,900
Other loans	RSD	1,520	1,883
		7,175,319	**12,048,569**
Foreign long-term loans			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	584,396	518,612
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	361,990	361,723
Erste bank, Holland	EUR	-	3,439,263
Erste bank, Holland	USD	6,465,167	5,403,333
VUB (Bank Intesa), Slovakia	USD	14,919,615	8,312,820
NBG bank, Great Britain	USD	4,973,205	2,493,846
Alpha bank, Great Britain	USD	-	3,325,128
Piraeus bank, Great Britain	USD	-	1,662,563
Sberbank Europe AG, Wien, Austria	USD	16,411,577	-
NeftegazInKor, Russian Federation	EUR	403,517	-
Neftegazovaja Inovacionnaja Korporacija, Russian Federation	EUR	310,047	382,446
		44,429,514	**25,899,734**
Less current portion of long-term loans		(474,537)	(22,264,141)
		51,130,296	**15,684,162**

		Current portion		Long-term	
	Currency	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Domestic long - term loans					
Erste bank, Novi Sad	USD	17,872	13,070	301,177	266,649
Erste bank, Novi Sad	EUR	25,376	20,972	432,459	433,928
Bank Postanska stedionica, Belgrade	EUR	12,468	12,148	212,470	213,193
Bank Postanska stedionica, Belgrade	USD	95,789	82,030	1,632,421	1,444,370
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	261,946	248,267	4,181,821	4,211,723
UniCredit bank, Belgrade	USD	-	4,821,436	-	-
UniCredit bank, Belgrade	RSD	-	278,900	-	-
Other loans	RSD	345	369	1,175	1,514
		413,796	5,477,192	6,761,523	6,571,377
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	40,677	30,197	543,719	488,415
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	20,064	16,978	341,926	344,745
Erste bank, Holland	EUR	-	3,439,263	-	-
Erste bank, Holland	USD	-	-	6,465,167	5,403,333
VUB (Bank Intesa), Slovakia	USD	-	8,312,820	14,919,615	-
NBG bank, Great Britain	USD	-	-	4,973,205	2,493,846
Alpha bank, Great Britain	USD	-	3,325,128	-	-
Piraeus bank, Great Britain	USD	-	1,662,563	-	-
Sberbank Europe AG, Wien, Austria	USD	-	-	16,411,577	-
NeftegazInKor, Russian Federation	EUR	-	-	403,517	-
Neftegazovaja Inovacionnaja Korporacija, Russian Federation	EUR	-	-	310,047	382,446
		60,741	16,786,949	44,368,773	9,112,785
		474,537	**22,264,141**	**51,130,296**	**15,684,162**

The loan agreements contain financial covenants that require the Group's ratio of Consolidated Indebtedness to Consolidated EBITDA. Management believes the Group is in compliance with these covenants as of 31 December 2014 and 31 December 2013, respectively.

(c) Financial lease liabilities

Minimum finance lease payments:

	31 December 2014	31 December 2013
Less than one year	66,290	43,614
1-5 years	229,507	97,277
Over 5 years	790,393	382,499
Future finance charges on finance leases	(886,453)	(415,701)
Present value of finance lease liabilities	**199,737**	**107,689**

	31 December 2014	31 December 2013
Less than one year	823	22,081
1-5 years	15,702	13,697
Over 5 years	183,212	71,911
Present value of finance lease liabilities	**199,737**	**107,689**

21. SHORT-TERM FINANCIAL LIABILITIES

	31 December 2014	31 December 2013
Short-term loans	8,600,111	300,028
Current portion of long-term loans (note 20)	6,100,504	27,596,332
Current portion of finance lease liabilities (note 20)	823	22,081
	14,701,438	**27,918,441**

22. TRADE PAYABLES

	31 December 2014	31 December 2013
Parents and subsidiaries - foreign	20,122,243	9,338,240
Other related parties - domestic	830,355	1,534,730
Other related parties - foreign	131,258	28,586,819
Trade payables domestic – third parties	6,312,351	7,714,277
Trade payables foreign – third parties	9,343,872	3,134,047
Other trade payables	75,660	70,757
	36,815,739	**50,378,870**

As at 31 December 2014 payables to parents and subsidiaries-foreign amounting to RSD 20,122,243 (31 December 2013: RSD 9,338,240) fully relate to payables to the supplier Gazprom Neft, St Petersburg for the purchase of crude oil.

23. OTHER SHORT-TERM LIABILITIES

	31 December 2014	31 December 2013
Specific liabilities	386,183	332,512
Liabilities for unpaid wages and salaries, gross	1,111,477	56,112
Interest liabilities	667,760	520,438
Dividends payable	3,772,308	3,772,308
Other payables to employees	629,953	672,029
Decommissioning and site restoration costs	1,638,178	1,694,023
Environmental provision	503,287	584,494
Litigation and claims	278,989	365,784
Other current liabilities	149,527	57,934
	9,137,662	**8,055,634**

24. LIABILITIES FOR OTHER TAXES

	31 December 2014	31 December 2013
Excise tax	5,492,646	4,312,273
Income tax	15,435	2,628,730
Liabilities for taxes and custom duties	1,755,409	3,050,302
Other taxes payables	250,224	210,774
	7,513,714	**10,202,079**

25. ACCRUED EXPENSES

Accrued expenses as at 31 December 2014 amounting to RSD 5,516,367 (31 December 2013: RSD 3,501,228) mainly relate to accrued employee bonuses of RSD 1,875,170 (31 December 2013: RSD 1,652,748).

26. COST OF MATERIAL

	Year ended 31 December	
	2014	**2013**
Costs of raw materials	138,821,147	130,671,124
Overheads costs	265,998	193,722
Other costs	1,707,550	1,397,784
	140,794,695	**132,262,630**

27. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December	
	2014	**2013**
Wages and salaries (gross)	15,130,012	15,349,007
Taxes and contributions on wages and salaries paid by employer	2,209,554	2,394,753
Cost of service agreement	594,975	666,003
Cost of other personal wages	61,780	65,641
Fees paid to board of directors and general assembly board	127,144	72,666
Termination costs	395,819	3,375,478
Other personal expenses	767,002	1,689,136
	19,286,286	**23,612,684**

28. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2014	**2013**
Cost of production services	2,613,461	1,839,254
Transportation services	2,928,463	2,519,454
Maintenance	2,906,214	2,072,722
Rental costs	2,318,699	1,189,741
Fairs	11,539	5,917
Advertising costs	971,609	755,081
Exploration expenses	1,680,138	786,216
Cost of other services	1,076,077	1,327,187
	14,506,200	**10,495,572**

29. LONG-TERM PROVISION EXPENSE

	Year ended 31 December	
	2014	**2013**
Decommissioning and site restoration costs	36,947	429,780
Employee benefits costs	329,300	538,962
Other provision expense (litigation and claims)	-	381,063
	366,247	**1,349,805**

30. NON-MATERIAL EXPENSES

	Year ended 31 December	
	2014	2013
Costs of non-production services	8,114,893	6,074,329
Representation costs	115,662	152,509
Insurance premium	581,400	305,264
Bank charges	270,043	254,017
Cost of taxes	1,165,296	1,808,706
Mineral extraction tax	2,234,572	2,472,792
Other non-production expenses	1,714,471	1,459,845
	14,196,337	**12,527,462**

Cost of non-production services for the year ended 31 December 2014 amounting to RSD 8,114,893 (2013: RSD 6,074,329) mainly relate to costs of service organizations of RSD 5,396,888, consulting service costs of RSD 1,059,174, project management costs of RSD 247,157 and certification and supervision costs of RSD 180,425.

31. FINANCE INCOME

	Year ended 31 December	
	2014	2013
Finance income - related parties		
- foreign exchange differences	2,197,806	2,105,327
- other finance income	2,530	-
Interest income	4,238,258	5,539,711
Foreign exchange gains	1,332,107	6,287,228
Other finance income	18,260	12,415
	7,788,961	**13,944,681**

32. FINANCE EXPENSE

	Year ended 31 December	
	2014	2013
Finance expenses – related parties		
- foreign exchange differences	6,285,920	1,122,256
- other finance expense	1,136,972	1,224,482
Interest expenses	2,448,838	2,163,134
Amortization of long-term liabilities	48,371	354,643
Foreign exchange losses	10,480,880	5,458,397
Other finance expenses	347	46
	20,401,328	**10,322,958**

33. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 December	
	2014	2013
Reversal of impairment of LT financial investments	17,263	190,629
Income from valuation:		
- trade and specific receivables	467,104	972,314
- short-term investments	393,467	184,651
- other receivables	106,672	809
	984,506	**1,348,403**

34. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 December	
	2014	2013
Loss from valuation:		
- LT financial investments	3,168	6,493
- trade and specific receivables	328,989	533,504
- other receivables	3,606,207	4,745,266
- other	344	521
	3,938,708	**5,285,784**

35. OTHER INCOME

	Year ended 31 December	
	2014	**2013**
Gains on disposal - Intangible assets and PPE	202,270	109,012
Gains on disposal - materials	41,917	20,118
Surpluses from stock count	394,324	385,145
Payables written off	42,257	274,630
Release of long-term provisions	2,425,927	867,219
Gain on bargain purchase (note 39)	455,776	-
Release of impairment:		
- PPE	79,596	143
- investment property	164,761	151,936
- inventory	216,837	455,074
- other property	13,117	9,658
Penalty interest	106,128	523,261
Other income	723,624	491,345
	4,866,534	**3,287,541**

36. OTHER EXPENSES

	Year ended 31 December	
	2014	**2013**
Loss on disposal - Intangible assets and PPE	288,251	647,458
Shortages from stock count	821,895	1,074,361
Write-off receivables	3,133	26,789
Write-off inventories	88,321	79,550
Impairment:		
- IA	332,949	66,637
- PPE	268,664	322,460
- inventory	9,025	139,379
- other property	18,276	18,529
Other expenses	1,683,442	776,130
	3,513,956	**3,151,293**

37. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2014	**2013**
Income tax for the year	3,497,767	6,195,055
Deferred income tax for the period (note 10)		
Origination and reversal of temporary differences	2,533,344	(152,330)
	6,031,111	**6,042,725**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Group's profits as follows:

	Year ended 31 December	
	2014	**2013**
Profit before tax	33,869,555	54,390,421
Tax calculated at domestic tax rates applicable to profits in the respective countries	5,990,376	8,793,869
Tax effect on:		
Revenues exempt from taxation	(315,335)	-
Expenses not deductible for tax purposes	985,182	154,030
Tax losses for which no deferred income tax asset was recognised	1,528,598	9,699
Utilized tax credits	(1,860,025)	(3,012,616)
Other	(285,251)	-
	6,043,545	**5,944,982**
Tax reassessment	(12,434)	97,743
	6,031,111	**6,042,725**
Effective income tax rate	17.81%	11.11%

38. EARNINGS PER SHARE

	Year ended 31 December	
	2014	**2013**
Profit attributable to shareholders of Naftna Industrija Srbije	27,939,245	48,373,230
Weighted average number of ordinary shares issued	163,060,400	163,060,400
Basic Earnings per share	**0.171**	**0.297**

39. BUSINESS COMBINATIONS

Acquisition of petrol stations

In 2014 the Group has acquired five petrol stations, 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 acquire	Date of acquisition	Percentage of equity intrests acquired
Bulgaria		
Bansko	6 June 2014	100%
Ceren Kos	4 June 2014	100%
Ruse	16 June 2014	100%
Haskovo	5 June 2014	100%
Serbia		
SSG Sava Centar	21 July 2014	100%

The following table summarises the consideration paid for acquired PS in the year ended 31 December 2014, the fair value of assets acquired and liabilities assumed.

	Year ended 31 December 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	788,129	1,245,216
Goodwill	**42,148**	**-**	**42,148**
Gain on bargain purchase	**-**	**(455,776)**	**(455,776)**

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

	Bulgaria	Serbia	Total
Licenses, other than related to O&G activity – land rights	-	626,451	626,451
Property, plant and equipment	457,087	161,678	618,765
Net identifiable assets acquired	**457,087**	**788,129**	**1,245,216**

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

In 2013, the Group acquired 3 petrol stations (one in Bulgaria and two in Romania) and 100% of the share capital of OMV Bosnia and Herzegovina. The total consideration paid for above acquisitions amounted to RSD 3,939,086. The fair value of net identifiable asset acquired amounted to RSD 3,395,629 and remaining amount was recognised as goodwill.

40. GROUP ENTITIES

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

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

The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The total of 29.87% shares of the Company are owned by the Republic of Serbia, while 13.98% are owned by non-controlling shareholders and are quoted on the Belgrade Stock Exchange. Gazprom, Russian Federation is the ultimate owner of the Company.

During 2014 and 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, petroleum products and energy.

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

	Subsidiary	Parent	Enitites under common control	Total
As at 31 December 2014				
Investments in joint ventures	1,008,221	-	-	1,008,221
Trade receivables	-	-	36,398	36,398
Other receivables	117,858	-	-	117,858
Long-term liabilities	-	(42,194,756)	-	(42,194,756)
Short-term financial liabilities	-	(5,625,967)	-	(5,625,967)
Advances received	-	-	(12,831)	(12,831)
Trade payables	-	(20,122,243)	(131,258)	(20,253,501)
	1,126,079	**(67,942,966)**	**(107,691)**	**(66,924,578)**
As at 31 December 2013				
Investments in joint ventures	1,008,221	-	-	1,008,221
Trade receivables	-	-	3,537	3,537
Other receivables	11,385	-	-	11,385
Long-term liabilities	-	(45,323,621)	-	(45,323,621)
Short-term financial liabilities	-	(5,332,191)	-	(5,332,191)
Trade payables	-	(9,338,240)	(28,586,819)	(37,925,059)
	1,019,606	**(59,994,052)**	**(28,583,282)**	**(87,557,728)**

For the year ended 31 December 2014 and 2013 the following transaction occurred with related parties:

	Joint venture	Parent	Enitites under common control	Total
Year ended 31 December 2014				
Sales revenue	-	-	2,208,538	2,208,538
Cost of goods sold	-	-	(65,868)	(65,868)
Decrease in inventories of finished goods and work in progress	-	-	(1,627,639)	(1,627,639)
Cost of material	-	(109,522)	(94,590,847)	(94,700,369)
Non-material expense	-	(51,132)	(12,974)	(64,106)
Finance expense	-	(1,150,071)	-	(1,150,071)
Other income	-	52,602	202,046	254,648
Other expenses	-	(68,318)	(410,518)	(478,836)
	-	**(1,326,441)**	**(94,297,262)**	**(95,623,703)**
Year ended 31 December 2013				
Sales revenue	-	-	92,553	92,553
Cost of goods sold	-	-	(17,245)	(17,245)
Cost of material	-	-	(114,209,629)	(114,209,629)
Non-material expense	-	(45,889)	-	(45,889)
Finance expense	-	(1,224,655)	-	(1,224,655)
Other income	-	-	297,244	297,244
Other expenses	-	(4,437)	(634,721)	(639,158)
	-	**(1,274,981)**	**(114,471,798)**	**(115,746,779)**

Key management compensation

Management compensation paid in 2014 and 2013 is shown in the table below:

	Year ended 31 December	
	2014	**2013**
Salaries and other short-term benefits	685,322	404,298
	685,322	**404,298**

Main balances and transactions with mayor state owned companies are:

	31 December 2014	31 December 2013
Receivables – gross		
HIP Petrohemija	13,004,338	12,284,032
Srbijagas	29,289,917	27,124,438
	42,294,255	**39,408,470**
Liabilities		
HIP Petrohemija	(830,355)	(1,534,730)
Srbijagas	(226,896)	(230,099)
	(1,057,251)	**(1,764,829)**
Advances received		
HIP Petrohemija	(7,109)	(7,112)
Srbijagas	(12,806)	(12,806)
	(19,915)	**(19,918)**

	Year ended 31 December	
	2014	2013
Operating income		
HIP Petrohemija	23,382,492	35,132,534
Srbijagas	2,926,879	2,176,974
	26,309,371	**37,309,508**
Operating expenses		
HIP Petrohemija	(174,117)	(30,266)
Srbijagas	(751,452)	(1,080,394)
	(925,569)	**(1,110,660)**

Transactions with state controlled entities mainly relates to sales of petroleum products based on the price lists in force and terms that would be available to third parties.

42. CONTINGENT LIABILITIES

Transfer of property ownership

As at 31 December 2014, the Group had ownership and the right to use and possess of 7,915 properties, which represent 97% of the total Group properties (buildings and land). The remaining 3% of properties titles should be transferred by Republic of Serbia in accordance with the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., signed in 2007.

Finance Guarantees

As at 31 December 2014 the total amount of outstanding finance guarantees given by the Group amounted to RSD 6,753,935 mostly related to customs duties in the amount of RSD 3,454,563 (2013: RSD 2,192,400).

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Group's management recognised an environmental provision in the amount of RSD 570,358 (31 December 2013: RSD 690,094).

The Group's Management believes that cash outflows related to provision will not be significantly higher than the ones already provided for. However, it is possible that these costs will increase significantly in the future, should the legislation become more restrictive.

Other contingent liabilities

As at 31 December 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 31 December 2014 outflow of resources embodying economic benefits is not probable 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.

43. TAX RISKS

Tax laws of Republic of Serbia are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. The tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years from the transaction date. As at 31 December 2014, Management assessed that the Group had paid all tax liabilities.

44. COMMITMENTS

Leases

Minimum lease payments under non-cancellable operating lease by lessor:

	31 December 2014	31 December 2013
Less than one year	151,533	230,006
1-5 years	206,160	349,778
Over five years	148,888	484,875
	506,581	**1,064,659**

Minimum lease payments under non-cancellable operating lease by lessee:

	31 December 2014	31 December 2013
Less than one year	1,020,707	588,323
1-5 years	2,290,408	719,661
Over 5 years	403,808	489,029
	3,714,923	**1,797,013**

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. Exploration activities are underway. On 31 December 2014 drilling and exploration works for Block 2, 3, 7 and 8 were estimated to USD 50 million.

There were no other material commitments of the Group.

45. EVENTS AFTER THE REPORTING PERIOD

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

Subsequent events occurring after 31 December 2014 were evaluated through 4 March 2015, the date these Consolidated Financial Statements were authorised for issue.

Novi Sad, 4 March 2015

The person responsible for the preparation of consolidated financial statements

Anton Fyodorov,

CEO Deputy,

Head of Function for Finance, Economics, Planning and Accounting

Legal representative

Kirill Kravchenko,

CEO

3 Statement of Individuals Responsible for the Preparation of Financial Statements

3

Statement of Individuals Responsible for the Preparation of Financial Statements

We hereby declare that, to the best of our knowledge, the annual financial statements have been made by applying appropriate international financial reporting standards, as well as in compliance with the Law on Accounting of the Republic of Serbia (Official Gazette of the Republic of Serbia, No. 62/2013), which stipulates that financial statements be prepared in compliance with all IFRSs and regulations issued by the Ministry of Finance of the Republic of Serbia[1] and that they provide accurate and objective information on the property, liabilities, financial standing and business operations, gains and losses, cash flows and changes in capital of the public company, including the companies which are part of the consolidated financial statements.

Kirill Kravchenko
Chief Executive Officer
NIS j.s.c. Novi Sad

1 Considering the differences between the two pieces of legislation, these financial statements deviate from IFRS in terms of the following:
- The Company has prepared the financial statements using the templates prescribed by the Ministry of Finance of the Republic of Serbia, which are not in compliance with the requirements of IAS 1 – Presentation of Financial Statements.
- Off-balance Sheet Assets and Liabilities have been presented by using the balance sheet template. As defined by the IFRS, these items are neither assets nor liabilities.

Appendices

4

4.01

General Information

Business Name:	NIS a.d. Novi Sad
Company Identity Number:	20084693
Address	Novi Sad. Narodnog fronta 12
Tax ID:	104052135
Web site:	www.nis.eu
e-mail:	office@nis.eu
Activity:	0610 – exploitation of crude oil
Number and date of registration in BRA:	BD 92142, 29.09.2005
Total equity as at 31 December 2014	183,620,501,000 RSD
Share capital as at 31 December 2014	81,530,200,000 RSD
Number of employees as of 31 December 2014	4,275[1]
Audit company that audited the last financial report (dated December 31st 2014):	KPMG d.o.o. Belgrade Kraljice Natalije 11, Belgrade
Organized market where Shares of the Issuer are traded in	Belgrade Stock Exchange Omladinskih brigada 1 Belgrade. Serbia

1 Without the employees outsourced via service companies and without the employees of subsidiary companies and representative offices

4.02

Key Indicators – Historical Data 2009-2014

in bn. RSD	2009	2010	2011	2012	2013	2014
Income, total	135.7	181.3	207.5	248.8	277.4	272.2
Expenses, total	175.4	169.0	167.8	201.3	223.0	238.3
Net profit (loss)	(37.8)	16.7	40.6	45.5	48.3	27.8.
Sales	118.6	161.4	187.1	226.6	259.4	258.3
OCF	17.5	17.6	34.5	37.3	75.3	49.6.
EBITDA	10.4	32.2	52.4	65.5	68.8	63.4
Non-current assets[1]	96.4	113.7	145.6	181.7	231.6	254.0
Current assets	48.3	64.4	88.0	111.2	114.0	110.6
Total assets	144.7	178.1	233.6	292.9	345.6	364.7
Total capital	32.0	47.0	87.6	133.1	169.0	183.6
Long-term provisions	16.1	18.6	10.4	11.3	15.0	9.0
Long-term liabilities[2]	43.3	51.1	83.2	83.8	63.5	96.6
Short-term liabilities	53.3	61.4	52.3	64.7	98.2	75.5
Total liabilities	144.7	178.1	233.6	292.9	345.6	364.7

1 Non-current assets include deferred tax assets
2 Long-term liabilities include deferred tax liabilities

4.03

Glossary

Abbreviation	Explanation
3D	three-dimensional
AP	Autonomous Province
API Separator	Oil-water separator
BAM	Convertible marka, Bosnian currency
B&H	Bosnia and Herzegovina
bbl.	barrel
BC	Basketball Club
BELIBOR	Belgrade Interbank Offered Rate
Blic	Serbian daily newspaper
bn	billion
BoD	Board of Directors
BRA	Business Registry Agency
C.J.S.C	Closed joint-stock company
CAPEX	Capital expenditures
CEDEF	Central European Development Forum
CEO	Chief Executive Officer

Abbreviation	Explanation
CESEE	Central, East and South-east Europe
CFI	Clasification of Financial Instruments
CIS	Commonwealth of Independent States, former Soviet Republics
CNG	Compressed Natural Gas
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EPS	Earnings per share
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offer Rate
FC	Football club
FEST	Serbian Film Festival
GDP	Gross domestic product
GP	Gravel pack
GPN	OJSC "Gazprom Neft"
HR	Human Resources
HSE	Health, Safety and Environment
IMF	International Monetary Fund
IRMS	Integrated Risk Management System
ISIN	International Securities Identification Number
IT	Information technology
JSC or j.s.c.	Joint-stock company
KPI	Key Performance Indicators
L/C	Letters of Credit
LIBOR	London Interbank Offer Rate
LLC or Llc.	Limited liabilities company
LPG	Liquid petroleum gas
LTD or Ltd.	Limited

Abbreviation	Explanation
LTIF	Lost Time Injury Frequency
m or mn	million
MHC/DHC	Mild hydrocracking and hydro treating
MIP	Mid-term Investmen Plan
MT SS	Material-technical and service support
MT SS and CC	Material-technical and service support and capital construction
NBS	National Bank of Serbia
No.	Number
NTC or STC	Sciece and technical center
o.j.s.c.	Open joint-stock company
OCF	Operating Cash Flow
OGF	Oil and gas field
OPEX	Operating expenditures
P/BV	Price/Book Value
P/E	Price/EPS
PEC	Planning, Economics and Controlling
PPE	Personal Protective Equipment
PSA	Production Sharing Agreement
RF	Russian Federation
RS	Republic of Serbia
RSD	Serbian dinar
SAB	Shareholders' Assembly Board
SAM	Serbian Asociation of Managers
SEVESO	HSE Directive
t.o.e.	tons of oil equivalent
thou.	thousand
US	United States

Abbreviation	Explanation
USA	United States of America
USD	US Dollar
USSR	Union of Soviet Socialist Republics
VAT	Value added tax
VGO	Vacuum gasoil
VRU	Vapor Recovery Unit

4.04 Contact

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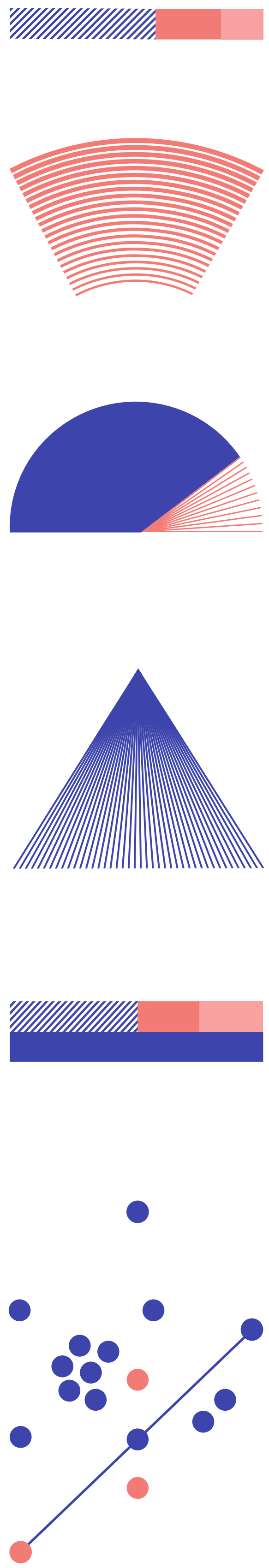

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