



Naftna industrija Srbije A.D.

Interim Condensed Financial Statements (Unaudited)

30 June 2015

Naftna industrija Srbije A.D.
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STATEMENT OF FINANCIAL POSITION
(All amounts are in 000 RSD, unless otherwise stated)

Assets	Note	30 June 2015	31 December 2014
		<i>(unaudited)</i>	
Current assets			
Cash and cash equivalents	6	8,251,010	5,338,023
Short-term financial assets		3,312,596	2,786,555
Trade and other receivables	7	53,637,795	56,658,222
Inventories	8	24,289,650	35,774,304
Current income tax prepayments		4,177,871	2,627,622
Other current assets	9	4,621,858	6,939,633
Total current assets		98,290,780	110,124,359
Non-current assets			
Property, plant and equipment	10	206,466,606	201,627,904
Investment property		1,584,194	1,381,832
Other intangible assets		4,522,733	4,711,241
Investments in subsidiaries	11	13,442,631	7,556,020
Trade and other non-current receivables		2,895	2,427,259
Long-term financial assets		33,604,419	32,814,852
Deferred tax assets		7,421,624	7,834,155
Other non-current assets	12	3,623,402	3,733,444
Total non-current assets		270,668,504	262,086,707
Total assets		368,959,284	372,211,066
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	13	16,277,929	14,831,489
Trade and other payables	14	44,415,625	43,511,405
Other current liabilities	15	3,289,864	4,466,671
Other taxes payable	16	8,856,933	8,326,910
Provisions for liabilities and charges		2,256,090	2,461,013
Total current liabilities		75,096,441	73,597,488
Non-current liabilities			
Long-term debt	17	88,886,632	92,612,697
Deferred tax liabilities		2,699,709	2,724,064
Provisions for liabilities and charges		8,884,569	8,690,515
Total non-current liabilities		100,470,910	104,027,276
Equity			
Share capital	18	81,530,200	81,530,200
Reserves		(23,780)	(42,277)
Retained earnings		111,885,513	113,098,379
Total equity		193,391,933	194,586,302
Total liabilities and shareholder's equity		368,959,284	372,211,066

Kirill Kravchenko
CEO

27 July 2015



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

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

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STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

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

		Six month period ended 30 June	
	Note	2015	2014
		(unaudited)	(unaudited)
Sales of petroleum products and oil and gas sales		94,938,163	116,024,175
Other revenues		3,031,129	2,442,279
Total revenue from sales	5	97,969,292	118,466,454
Purchases of oil, gas and petroleum products	19	(55,849,444)	(64,754,392)
Production and manufacturing expenses	20	(9,084,169)	(8,792,742)
Selling, general and administrative expenses	21	(9,851,372)	(9,485,694)
Transportation expenses		(380,596)	(526,862)
Depreciation, depletion and amortization		(5,742,324)	(5,239,699)
Taxes other than income tax		(2,205,561)	(2,460,111)
Exploration expenses		-	(36,018)
Total operating expenses		(83,113,466)	(91,295,518)
Other expenses, net		(569,520)	(90,572)
Operating profit		14,286,306	27,080,364
Net foreign exchange loss		(5,401,875)	(1,533,155)
Finance income		642,550	1,010,195
Finance expenses		(1,669,255)	(1,724,170)
Total other expense		(6,428,580)	(2,247,130)
Profit before income tax		7,857,726	24,833,234
Current income tax expense		(1,043,037)	(2,990,552)
Deferred tax expense		(388,175)	(1,437,436)
Total income tax expense		(1,431,212)	(4,427,988)
Profit for the period		6,426,514	20,405,246
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Change in value of available-for-sale financial assets		18,497	7,234
Other comprehensive income for the period		18,497	7,234
Total comprehensive income for the period		6,445,011	20,412,480
Earnings per share attributable to shareholders of Naftna Industrija Srbije			
- Basic earnings (RSD per share)		39.53	125.18
Weighted average number of ordinary shares in issue (in millions)		163	163

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STATEMENT OF CHANGES IN EQUITY
Six month period ended 30 June 2015 and 2014
(All amounts are in 000 RSD, unless otherwise stated)

	Share capital	Reserves	Retained earnings	Total
<i>(unaudited)</i>				
Balance as at 1 January 2014	81,530,200	(59,885)	95,412,378	176,882,693
Profit for the period	-	-	20,405,246	20,405,246
Other comprehensive income				
Change in value of available-for-sale financial assets	-	7,234	-	7,234
Total comprehensive income for the period				
Dividend distribution	-	7,234	20,405,246	20,412,480
	-	-	(13,080,705)	(13,080,705)
Total transaction with owners, recorded in equity				
	-	-	(13,080,705)	(13,080,705)
Balance as at 30 June 2014	81,530,200	(52,651)	102,736,919	184,214,468
Balance as at 1 January 2015	81,530,200	(42,277)	113,098,379	194,586,302
Profit for the period	-	-	6,426,514	6,426,514
Other comprehensive income				
Change in value of available-for-sale financial assets	-	18,497	-	18,497
Total comprehensive income for the period				
Dividend distribution	-	18,497	6,426,514	6,445,011
	-	-	(7,639,380)	(7,639,380)
Total transaction with owners, recorded in equity				
	-	-	(7,639,380)	(7,639,380)
Balance as at 30 June 2015	81,530,200	(23,780)	111,885,513	193,391,933

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NIS a.d.
STATEMENT OF CASH FLOWS
(All amounts are in 000 RSD, unless otherwise stated)

	Six month period ended	
	30 June	
	2015	2014
	<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows from operating activities		
Profit before income tax	7,857,726	24,833,234
Adjustments for:		
Finance costs	1,669,255	1,724,170
Finance income	(642,550)	(1,010,195)
Depreciation, depletion and amortization	5,742,324	5,239,699
Adjustments for other provisions	171,545	343,970
Allowance for doubtful accounts	84,866	1,680,000
Payables write off	(203,393)	(648)
Net unrealised foreign exchange losses, net	4,662,972	1,488,205
Other non-cash items	234,855	(82,318)
	<u>11,719,874</u>	<u>9,382,883</u>
<i>Changes in working capital:</i>		
Trade and other receivables	348,493	(941,295)
Inventories	11,484,654	(8,098,951)
Other current assets	1,926,875	(4,444,482)
Trade payables and other current liabilities	(5,537,786)	(12,079,658)
Other taxes payable	532,123	1,252,969
	<u>8,754,359</u>	<u>(24,311,417)</u>
Income taxes paid	(2,595,388)	(5,428,389)
Interest paid	(1,498,316)	(1,392,402)
Interest received	241,779	289,608
	<u>(3,851,925)</u>	<u>(6,531,183)</u>
Net cash generated by operating activities	<u>24,480,034</u>	<u>3,373,517</u>
Cash flows from investing activities		
Loans issued	(7,884,015)	(7,507,855)
Loan proceeds received	5,959,284	4,162,603
Capital expenditures	(13,199,337)	(18,050,682)
Proceeds from sale of property, plant and equipment	72,437	124,148
Net cash used in investing activities	<u>(15,051,631)</u>	<u>(21,271,786)</u>
Cash flows from financing activities		
Proceeds from borrowings	16,231,948	21,725,677
Repayment of borrowings	(22,702,299)	(6,118,824)
Net cash (used in) generated by financing activities	<u>(6,470,351)</u>	<u>15,606,853</u>
Net increase (decrease) in cash and cash equivalents	<u>2,958,052</u>	<u>(2,291,416)</u>
Effect of foreign exchange on cash and cash equivalents	(45,065)	(73,238)
Cash and cash equivalents as of the beginning of the period	<u>5,338,023</u>	<u>5,180,156</u>
Cash and cash equivalents as of the end of the period	<u>8,251,010</u>	<u>2,815,502</u>

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") is a vertically integrated oil company operating predominantly in Serbia. The Company's principal activities include:

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

2.1. Basis of preparation

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

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

The Company does not disclose information which would substantially duplicate the disclosures contained in its audited Financial Statements for 2014, such as significant accounting policies, significant estimates and judgements, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. Management of the Company believes that the disclosures in these Interim Condensed Financial Statements are adequate to make the information presented not misleading if these Interim Condensed Financial Statements are read in conjunction with the Company's Financial Statements for 2014.

The results for the six month period ended 30 June 2015 are not necessarily indicative of the results expected for the full year.

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

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

2.2. Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Financial Statements are consistent with those applied during the preparation of Financial Statements as of and for the year ended 31 December 2014, except for those described in Application of new IFRS paragraph.

2.3. Application of new IFRS

The amendments to IAS 19 – Employee Benefits on contributions from employees or third parties to defined benefit plans became effective for the annual periods beginning on or after July 1, 2014. The amendment has no significant impact on Company's Interim Condensed Financial Statements.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

3.1. Economic Environment in the Russian Federation

The Company continues to assess the impact of the sanctions imposed in July-September 2014, but currently does not believe they have a significant impact on the Interim Condensed Financial Statements.

4. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after January 1, 2015 or later, and that the Company has not early adopted. The full list of such Standards and interpretations was disclosed in the Financial Statements as of and for the year ended December 31, 2014.

Amendments to the IFRS for Small and Medium-Sized Entities (issued in May 2015 and effective for annual periods beginning on or after January 1, 2017) relate to transactions commonly encountered by SMEs which are: permitting SMEs to use a revaluation model for property, plant and equipment; and aligning the main recognition and measurement requirements for deferred income tax with IAS 12 Income Taxes.

No other new documents were issued during the six months period ended 30 June 2015.

Unless otherwise stated the new standards and interpretations are not expected to have significant impact on affect significantly the Company's Financial Statements.

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

5. SEGMENT INFORMATION

Presented below is information about the Company's operating segments for the six month period ended 30 June 2015 and 2014. 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 six month period ended 30 June 2015 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	28,946,095	96,741,511	(27,718,314)	97,969,292
Intersegment	26,945,653	772,661	(27,718,314)	-
External	2,000,442	95,968,850	-	97,969,292
EBITDA (Segment results)	21,385,136	(849,091)	-	20,536,045
Depreciation, depletion and amortization	(1,579,456)	(4,162,868)	-	(5,742,324)
Impairment losses	-	(195,740)	-	(195,740)
Net foreign exchange loss	(21,243)	(5,380,632)	-	(5,401,875)
Finance expenses, net	(55,650)	(971,055)	-	(1,026,705)
Income tax	-	(1,431,212)	-	(1,431,212)
Segment profit (loss)	19,320,745	(12,894,231)	-	6,426,514

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

	Upstream	Downstream	Eliminations	Total
Segment revenue	43,252,674	116,128,848	(40,915,068)	118,466,454
Intersegment	40,537,560	377,508	(40,915,068)	-
External	2,715,114	115,751,340	-	118,466,454
EBITDA (Segment results)	36,373,083	(3,924,771)	-	32,448,312
Depreciation, depletion and amortization	(1,429,767)	(3,809,932)	-	(5,239,699)
Impairment gain	-	45,223	-	45,223
Net foreign exchange loss	(45,246)	(1,487,909)	-	(1,533,155)
Finance expenses, net	(143,909)	(570,066)	-	(713,975)
Income tax	(373,926)	(4,054,062)	-	(4,427,988)
Segment profit (loss)	34,043,147	(13,637,901)	-	20,405,246

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

5. SEGMENT INFORMATION (continued)

EBITDA for the six month period ended 30 June 2015 and 2014 is reconciled below:

	Six month period ended 30 June	
	2015	2014
Profit for the period	6,426,514	20,405,246
Income tax expenses	1,431,212	4,427,988
Finance expenses	1,669,255	1,724,170
Finance income	(642,550)	(1,010,195)
Depreciation, depletion and amortization	5,742,324	5,239,699
Net foreign exchange loss	5,401,875	1,533,155
Other expense, net	569,520	90,572
Other non-operating income/expense, net*	(62,105)	37,677
EBITDA	20,536,045	32,448,312

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

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

	Six month period ended 30 June 2015		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	1,740,490	1,740,490
Sale of gas	4,779,868	-	4,779,868
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	4,779,868	-	4,779,868
Sale of petroleum products	73,647,685	14,770,120	88,417,805
<i>Through a retail network</i>	23,162,461	-	23,162,461
<i>Wholesale activities</i>	50,485,224	14,770,120	65,255,344
Other sales	2,676,602	354,527	3,031,129
Total sales	81,104,155	16,865,137	97,969,292
	Six month period ended 30 June 2014		
	Domestic market	Export and international sales	Total
Sale of crude oil	-	2,592,771	2,592,771
Sale of gas	2,097,035	-	2,097,035
<i>Through a retail network</i>	-	-	-
<i>Wholesale activities</i>	2,097,035	-	2,097,035
Sale of petroleum products	91,606,220	19,728,149	111,334,369
<i>Through a retail network</i>	27,718,400	-	27,718,400
<i>Wholesale activities</i>	63,887,820	19,728,149	83,615,969
Other sales	2,389,161	53,118	2,442,279
Total sales	96,092,416	22,374,038	118,466,454

Out of the amount of 65,255,344 RSD (six month period ended 30 June 2014: 83,615,969 RSD) revenue from sale of petroleum products (wholesale), the amount of 8,888,980 RSD (six month period ended 30 June 2014: 15,342,789 RSD) are derived from a single domestic customer, HIP Petrohemija. These revenue are attributable to wholesale activities within Downstream segment.

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*(All amounts are in 000 RSD, unless otherwise stated)***5. SEGMENT INFORMATION (continued)**

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 1,685,458 RSD (six month period ended 30 June 2014: 1,689,056 RSD).

The Company is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is 81,104,155 RSD (six month period ended 30 June 2014: 96,092,416 RSD), and the total of revenue from external customer from other countries is 16,865,137 RSD (six month period ended 30 June 2014: 22,374,038 RSD). The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Six month period ended	
	30 June	
	2015	2014
Sale of crude oil	1,740,490	2,592,771
Sale of petroleum products (retail and wholesale)		
Bulgaria	3,618,422	3,764,814
Bosnia and Herzegovina	2,783,262	3,051,406
Romania	1,053,203	1,711,494
All other markets	7,315,233	11,200,435
	<u>14,770,120</u>	<u>19,728,149</u>
Other sales	354,527	53,118
	<u>16,865,137</u>	<u>22,374,038</u>

Revenues from the individual countries included in all other markets are not material.

6. CASH AND CASH EQUIVALENTS

	30 June	31 December
	2015	2014
Cash in bank and in hand	8,013,727	4,358,280
Deposits with original maturity of less than three months	-	724,192
Cash equivalents	237,283	255,551
	<u>8,251,010</u>	<u>5,338,023</u>

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

7. TRADE AND OTHER RECEIVABLES

	30 June 2015	31 December 2014
Trade receivables:		
- related parties	3,425,481	6,113,296
- third parties	67,251,330	69,996,807
	<u>70,676,811</u>	<u>76,110,103</u>
Accrued assets	1,084,329	13,870
Other receivables	10,227,959	10,257,988
	<u>81,989,099</u>	<u>86,381,961</u>
Less impairment provision	(28,351,304)	(29,723,739)
Total trade and other receivables	<u>53,637,795</u>	<u>56,658,222</u>

The ageing of trade and other receivables is as follows:

	30 June 2015	31 December 2014
Neither impaired nor past due	28,252,085	25,727,489
Past due but not impaired:		
within 30 days:	4,415,224	3,839,535
1 to 3 months	3,652,899	2,060,031
3 months to 1 year	6,184,320	13,129,697
over 1 year	11,133,267	11,901,470
	<u>11,133,267</u>	<u>11,901,470</u>
Total	<u>53,637,795</u>	<u>56,658,222</u>

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 aging table above are fully recoverable.

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

	30 June 2015	31 December 2014
RSD	67,299,751	72,826,293
EUR	12,201,818	10,862,728
USD	2,487,508	2,692,920
Other	22	20
	<u>81,989,099</u>	<u>86,381,961</u>

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

7. TRADE AND OTHER RECEIVABLES (continued)

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

	Trade receivables		Other receivables	Total
	Individually impaired	Collectively impaired	Individually impaired	
As at 1 January 2014	17,688,648	4,301,928	7,827,613	29,818,189
Provision for receivables impairment	62,718	153,919	-	216,637
Unused amounts reversed	(155,160)	(243,327)	-	(398,487)
Receivables written off during the year as uncollectible	(40)	(28,133)	-	(28,173)
Other	(551,960)	551,960	78,057	78,057
As at 30 June 2014	17,044,206	4,736,347	7,905,670	29,686,223
As at 1 January 2015	17,387,910	4,183,437	8,152,392	29,723,739
Provision for receivables impairment	13,183	76,554	-	89,737
Unused amounts reversed	(144)	(91,699)	-	(91,843)
Receivables written off during the year as uncollectible	(1,317,897)	(22,518)	-	(1,340,415)
Other	-	(6,048)	(23,866)	(29,914)
As at 30 June 2015	16,083,052	4,139,726	8,128,526	28,351,304

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the Profit and Loss. 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. The other classes within trade and other receivables do not contain impaired assets.

8. INVENTORIES

	30 June 2015	31 December 2014
Crude oil	12,848,206	21,306,426
Gas	-	161,206
Petroleum products	11,689,593	13,712,462
Materials and supplies	5,026,852	5,797,035
Other	331,752	411,021
Less impairment provision	(5,606,753)	(5,613,846)
	24,289,650	35,774,304

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

9. OTHER CURRENT ASSETS

	30 June 2015	31 December 2014
Advances paid	731,539	627,709
Deferred VAT	1,236,383	1,640,431
Prepaid expenses	251,250	108,427
Prepaid custom duties	52,064	51,810
Prepaid excise	1,991,176	4,323,739
Other current assets	21,360,072	21,178,580
Less impairment provision	(21,000,626)	(20,991,063)
	4,621,858	6,939,633

Deferred VAT as at 30 June 2015 amounting to 1,236,383 RSD (31 December 2014: 1,640,431 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 30 June 2015 amounting to 1,991,176 RSD (31 December 2014: 4,323,739 RSD) 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.

Other current assets mainly relate to accrued interests and claims in dispute which are impaired.

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

	Advances paid	Other current assets	Total
As at 1 January 2014	248,347	17,699,214	17,947,561
Provision for receivables impairment	3,091	1,919,981	1,923,072
Unused amounts reversed	(9,979)	(52,197)	(62,176)
Other	6	(85,016)	(85,010)
As at 30 June 2014	241,465	19,481,982	19,723,447
As at 1 January 2015	239,845	20,751,218	20,991,063
Provision for receivables impairment	377	100,132	100,509
Unused amounts reversed	(2,560)	(10,977)	(13,537)
Other	(827)	(76,582)	(77,409)
As at 30 June 2015	236,835	20,763,791	21,000,626

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

10. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2014						
Cost	51,949,129	108,204,314	29,704,322	16,939,009	39,760,624	246,557,398
Depreciation and impairment	(16,356,852)	(28,192,781)	(12,440,063)	(7,519,610)	(4,044,148)	(68,553,454)
Net book value	35,592,277	80,011,533	17,264,259	9,419,399	35,716,476	178,003,944
Period ended 30 June 2014						
Additions	9,116,037	1,343,872	1,206,739	147,298	3,999,048	15,812,994
Impairment	-	-	(37,097)	-	(442)	(37,539)
Depreciation	(1,420,745)	(2,600,213)	(588,641)	(247,527)	-	(4,857,126)
Transfer from investment property	35,121	9,358	28,439	7,399	-	80,317
Disposals and write-off	(1,023,021)	(45,087)	(43,105)	(35,805)	(112,209)	(1,259,227)
Other transfers	254,857	(585,232)	(111,470)	441,351	(92,937)	(93,431)
As at 30 June 2014	42,554,526	78,134,231	17,719,124	9,732,115	39,509,936	187,649,932
As at 1 January 2015						
Cost	60,238,601	108,841,615	30,619,801	17,527,298	43,547,654	260,774,969
Depreciation and impairment	(17,684,075)	(30,707,384)	(12,900,677)	(7,795,183)	(4,037,718)	(73,125,037)
Net book value	42,554,526	78,134,231	17,719,124	9,732,115	39,509,936	187,649,932
As at 1 January 2015						
Cost	73,455,117	114,595,855	31,255,519	17,838,728	40,592,464	277,737,683
Depreciation and impairment	(19,210,617)	(32,895,538)	(13,279,118)	(7,941,703)	(2,782,803)	(76,109,779)
Net book value	54,244,500	81,700,317	17,976,401	9,897,025	37,809,661	201,627,904
Period ended 30 June 2015						
Additions	6,974,133	2,220,364	870,622	136,797	679,567	10,881,483
Impairment	-	(13,670)	(147,634)	-	(60,354)	(221,658)
Depreciation	(1,564,966)	(2,851,375)	(611,204)	(281,645)	-	(5,309,190)
Transfer to investment property	-	-	(2,305)	(187,296)	-	(189,601)
Disposals and write-off	(102,955)	(9,839)	(18,925)	(73,093)	(23,770)	(228,582)
Other transfers	(22,648)	(2,966)	(539)	3,772	(71,369)	(93,750)
As at 30 June 2015	59,528,064	81,042,831	18,066,416	9,495,560	38,333,735	206,466,606
As at 30 June 2015						
Cost	80,321,226	116,754,476	31,992,961	17,651,840	41,117,822	287,838,325
Depreciation and impairment	(20,793,162)	(35,711,645)	(13,926,545)	(8,156,280)	(2,784,087)	(81,371,719)
Net book value	59,528,064	81,042,831	18,066,416	9,495,560	38,333,735	206,466,606

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*(All amounts are in 000 RSD, unless otherwise stated)***10. PROPERTY, PLANT AND EQUIPMENT (continued)***Oil and gas production assets*

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2014						
Cost	10,248,631	11,674,429	21,923,060	51,949,129	22,241	73,894,430
Depreciation and impairment	-	(238,059)	(238,059)	(16,356,852)	(20,266)	(16,615,177)
Net book amount	10,248,631	11,436,370	21,685,001	35,592,277	1,975	57,279,253
Period ended 30 June 2014						
Additions	2,873,356	8,256,500	11,129,856	-	-	11,129,856
Transfer from asset under construction	(1,934,990)	(7,181,047)	(9,116,037)	9,116,037	-	-
Other transfers	50,654	(23,118)	27,536	254,857	(81)	282,312
Depreciation and depletion	-	-	-	(1,420,745)	-	(1,420,745)
Transfer from investment property	-	-	-	35,121	-	35,121
Disposals and write-off	(14,303)	(222,000)	(236,303)	(1,023,021)	-	(1,259,324)
As at 30 June 2014	11,223,348	12,266,705	23,490,053	42,554,526	1,894	66,046,473
Cost	11,223,348	12,504,764	23,728,112	60,238,601	22,203	83,988,916
Depreciation and impairment	-	(238,059)	(238,059)	(17,684,075)	(20,309)	(17,942,443)
Net book amount	11,223,348	12,266,705	23,490,053	42,554,526	1,894	66,046,473
As at 1 January 2015						
Cost	15,001,370	11,578,278	26,579,648	73,455,117	22,203	100,056,968
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	54,244,500	1,845	80,572,408
Period ended 30 June 2015						
Additions	1,387,963	7,847,450	9,235,413	-	-	9,235,413
Transfer from asset under construction	(211,476)	(6,762,657)	(6,974,133)	6,974,133	-	-
Other transfers	(12,000)	12,216	(4,933)	(22,648)	(30)	(27,611)
Depreciation and depletion	-	-	-	(1,564,966)	-	(1,564,966)
Disposals and write-off	(28,012)	-	(22,863)	(102,955)	(50)	(125,868)
As at 30 June 2015	16,137,845	12,421,702	28,559,547	59,528,064	1,765	88,089,376
Cost	16,137,845	12,660,141	28,797,986	80,321,226	22,123	109,141,335
Depreciation and impairment	-	(238,439)	(238,439)	(20,793,162)	(20,358)	(21,051,959)
Net book amount	16,137,845	12,421,702	28,559,547	59,528,064	1,765	88,089,376

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

11. INVESTMENTS IN SUBSIDIARIES

In 2015, Company has increased investments in following subsidiaries:

- Naftagas-naftni servisi d.o.o., Novi Sad in amount of 3,720,017 RSD. The increase is registered on 24 june 2015.
- NTC NIS-Naftagas d.o.o., Novi Sad in amount of 583,500 RSD. The increase is registered on 24 june 2015;
- Naftagas-tehnicki servisi d.o.o., Zrenjanin in amount of 193,679 RSD. The increase is registered on 24 june 2015.
- Naftagas-Transport d.o.o., Novi Sad in amount of 1,389,598 RSD. The increase is registered on 24 june 2015
- Pannon naftagas Kft, Budapest in amount of 1,710,726 RSD. The increase is registered on 14 may 2015. The investment is totally impaired.

12. OTHER NON-CURRENT ASSETS

	30 June 2015	31 December 2014
Advances paid for PPE	1,564,107	1,629,280
Prepaid expenses	937,807	977,478
Other assets	1,150,745	1,155,943
Less impairment provision	(29,257)	(29,257)
	3,623,402	3,733,444

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

	30 June 2015	31 December 2014
Short-term loans	3,028,883	8,600,082
Interest liabilities	134,216	130,903
Current portion of long-term loans (note 17)	13,114,830	6,100,504
	16,277,929	14,831,489

14. TRADE AND OTHER PAYABLES

	30 June 2015	31 December 2014
Trade payables		
- related parties	24,603,250	23,047,021
- third parties	8,330,040	16,621,984
Dividends payable	11,411,688	3,772,308
Other accounts payable	70,647	70,092
	44,415,625	43,511,405

As at 30 June 2015 payables to related parties amounting to 24,603,250 RSD (31 December 2014: 23,047,021 RSD) mainly relate to payables to the supplier Gazprom Neft, St Petersburg in the amount of 20,754,722 RSD (31 December 2014: 20,122,243 RSD), for the purchase of crude oil.

A dividend In respect of the year ended 31 December 2014 of 46.85 RSD per share, amounting to a total dividend of 7,639,380 was approved by the General Assembly Meeting held on 23 June 2015.

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

15. OTHER CURRENT LIABILITIES

	30 June 2015	31 December 2014
Advances received	963,221	1,551,337
Payables to employees	2,228,912	2,847,285
Accruals and deferred income	11,410	17,988
Other current non-financial liabilities	86,321	50,061
	3,289,864	4,466,671

16. OTHER TAXES PAYABLE

	30 June 2015	31 December 2014
Mineral extraction tax	415,446	407,990
VAT	2,177,267	217,845
Excise tax	4,026,904	4,710,646
Contribution for buffer stocks	251,437	583,400
Custom duties	190,788	414,883
Other taxes	1,795,091	1,992,146
	8,856,933	8,326,910

17. LONG-TERM DEBT

	30 June 2015	31 December 2014
Long-term loan - Gazprom Neft	44,875,982	47,820,723
Bank loans	57,124,272	50,891,268
Other long-term borrowings	1,208	1,210
Less Current portion	(13,114,830)	(6,100,504)
	88,886,632	92,612,697

(a) Long-term loan - Gazprom Neft

As at 30 June 2015 long-term loan - Gazprom Neft amounting to 44,875,982 RSD (372,093,029 EUR) (2014: 47,820,723 RSD), with current portion of 5,609,498 RSD (2014: 5,625,967 RSD), 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

	30 June 2015	31 December 2014
Domestic	7,121,926	7,175,318
Foreign	50,002,346	43,715,950
	57,124,272	50,891,268
Current portion of long-term loans	(7,505,332)	(474,537)
	49,618,940	50,416,731

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

17. LONG-TERM DEBT (continued)

(b) Bank loans (continued)

The maturity of bank loans was as follows:

	30 June 2015	31 December 2014
Between 1 and 2 years	8,616,945	6,969,316
Between 2 and 5 years	35,804,571	38,044,029
Over 5 years	5,197,424	5,403,386
	49,618,940	50,416,731

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

	30 June 2015	31 December 2014
USD	51,786,830	45,401,219
EUR	4,962,702	5,126,540
RSD	1,343	1,519
JPY	373,397	361,990
	57,124,272	50,891,268

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

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

The carrying amounts of the Company's bank loans as at 30 June 2015 and 31 December 2014 are presented in the table below:

Creditor	Currency	30 June 2015	31 December 2014
<i>Domestic long-term loans</i>			
Erste bank, Novi Sad	USD	336,199	319,049
Erste bank, Novi Sad	EUR	444,263	457,835
Bank Postanska stedionica, Belgrade	EUR	218,270	224,938
Bank Postanska stedionica, Belgrade	USD	1,821,682	1,728,210
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,300,169	4,443,767
Other loans	RSD	1,343	1,519
		7,121,926	7,175,318
<i>Foreign long-term loans</i>			
NLB Nova Ljubljanska bank d.d., Slovenia	USD	611,617	584,396
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	373,397	361,990
Erste bank, Holland	USD	7,002,476	6,465,167
VUB (Bank Intesa), Slovakia	USD	16,159,560	14,919,615
NBG bank, Great Britain	USD	8,079,780	4,973,205
Sberbank Europe AG, Viena, Austria	USD	17,775,516	16,411,577
		50,002,346	43,715,950
		(7,505,332)	(474,537)
		49,618,940	50,416,731

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

17. LONG-TERM DEBT (continued)

(b) Bank loans (continued)

	Currency	Current portion		Long-term	
		30 June 2015	31 December 2014	30 June 2015	31 December 2014
Domestic long - term loans					
Erste bank, Novi Sad	USD	20,651	17,872	315,548	301,177
Erste bank, Novi Sad	EUR	27,033	25,376	417,230	432,459
Bank Postanska stedionica, Belgrade	EUR	13,282	12,468	204,988	212,470
Bank Postanska stedionica, Belgrade	USD	110,849	95,789	1,710,833	1,632,421
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	261,179	261,946	4,038,990	4,181,821
Other loans	RSD	281	345	1,062	1,174
		433,275	413,796	6,688,651	6,761,522
Foreign long-term loans					
NLB Nova Ljubljanska bank d.d., Slovenia	USD	46,860	40,677	564,757	543,719
NLB Nova Ljubljanska bank d.d., Slovenia	JPY	22,721	20,064	350,676	341,926
Erste bank, Holland	USD	7,002,476	-	-	6,465,167
VUB (Bank Intesa), Slovakia	USD	-	-	16,159,560	14,919,615
NBG bank, Great Britain	USD	-	-	8,079,780	4,973,205
Sberbank Europe AG, Viena, Austria	USD	-	-	17,775,516	16,411,577
		7,072,057	60,741	42,930,289	43,655,209
		7,505,332	474,537	49,618,940	50,416,731

The loan agreements contain financial covenants that require the Company's ratio of Indebtedness to EBITDA. Management believes the Company is in compliance with these covenants as of 30 June 2015 and 31 December 2014, respectively.

18. SHARE CAPITAL

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

Share capital as of 30 June 2015 and 31 December 2014 comprise of 163,060,400 shares.

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

19. PURCHASES OF OIL, GAS AND PETROLEUM PRODUCTS

	Six month period ended 30 June	
	2015	2014
Crude oil	42,798,094	52,576,228
Petroleum products	12,835,396	12,141,284
Other	215,954	36,880
	55,849,444	64,754,392

20. PRODUCTION AND MANUFACTURING EXPENSES

	Six month period ended 30 June	
	2015	2014
Employee costs	1,778,308	1,847,096
Materials and supplies (other than purchased oil, petroleum products and gas)	491,224	350,951
Repair and maintenance services	1,732,584	1,666,414
Electricity and utilities	1,499,246	1,174,307
Safety and security expense	58,902	48,874
Transportation services for production	252,847	276,930
Other	3,271,058	3,428,170
	9,084,169	8,792,742

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six month period ended 30 June	
	2015	2014
Employee costs	4,628,035	4,464,614
Legal, audit, and consulting services	634,541	735,877
Rent expense	52,583	40,841
Business trips expense	87,088	132,157
Safety and security expense	237,051	201,899
Insurance expense	150,347	133,389
Transportation and storage	589,894	567,493
Allowance for doubtful accounts	84,866	1,679,046
Other	3,386,967	1,530,378
	9,851,372	9,485,694

22. FAIR VALUE MEASUREMENT

The following assets are measured at fair value in the Interim Condensed Financial Statements: investment properties and financial investments classified as available for sale. The valuation techniques and inputs used in fair value measurements are on the same basis as disclosed in the Financial Statements as of 31 December 2014. There were no transfers between the levels of the fair value hierarchy during the interim period.

As of 30 June, 2015 carrying value of financial assets approximate their fair value.

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23. CONTINGENCIES AND COMMITMENTS

Transfer of property ownership

As at 30 June 2015, the Company had ownership and the right to use and possess of 7,922 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 30 June 2015 the total amount of outstanding finance guarantees provided by the Company amounted to 3,406,878 RSD, mostly related to guaranties for customs duties in the amount of 1,921,381 RSD (31 December 2014: 3,145,363 RSD).

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Company's management recognised an environmental provision in the amount of 503,780 RSD (31 December 2014: 557,657 RSD).

The Company'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 30 June 2015, 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. Taking all of the above into consideration, the Company's Management is of the view that as at 30 June 2015 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.

Tax risks

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Company's management. As result, some transactions may be disputed by tax authorities and the Company may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Company has paid all tax liabilities as of 30 June 2015.

Commitments

There were no material commitments of the Company.

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

24. RELATED PARTY TRANSACTIONS

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

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

In the six month period ended 30 June 2015 and in the same period in 2014, 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 at 30 June 2015 and 31 December 2014 the outstanding balances with related parties were as follows:

	Subsidiaries	Parent company	Entities under common control	Total
As at 31 June 2015				
Short-term financial assets	3,308,672	-	-	3,308,672
Trade and other receivables	3,391,039	420	34,022	3,425,481
Other current assets	208,009	-	38,816	246,825
Investments in subsidiaries	13,442,631	-	-	13,442,631
Long-term financial assets	33,352,811	-	-	33,352,811
Other non-current assets	159,464	-	-	159,464
Trade and other payables	(3,869,105)	(20,758,214)	(17,142)	(24,644,461)
Other current liabilities	(4,568)	-	(4,852)	(9,420)
Short-term debt and current portion of long-term debt	(134,776)	(5,609,498)	-	(5,744,274)
Long-term debt	-	(39,266,484)	-	(39,266,484)
	49,854,177	(65,633,776)	50,844	(15,728,755)
As at 31 December 2014				
Short-term financial assets	2,780,193	-	-	2,780,193
Trade and other receivables	6,076,898	-	36,398	6,113,296
Other current assets	171,412	-	-	171,412
Investments in subsidiaries	8,729,187	-	-	8,729,187
Trade and other non-current receivables	2,427,259	-	-	2,427,259
Long-term financial assets	34,517,390	-	-	34,517,390
Other non-current assets	35,055	-	-	35,055
Trade and other payables	(3,071,537)	(20,122,243)	(50,923)	(23,244,703)
Other current liabilities	(142)	-	(12,831)	(12,973)
Short-term debt and current portion of long-term debt	-	(5,625,967)	-	(5,625,967)
Long-term debt	-	(42,194,756)	-	(42,194,756)
	51,665,715	(67,942,966)	(27,356)	(16,304,607)

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

24. RELATED PARTY TRANSACTIONS (continued)

For the six month period ended 30 June 2015 and 2014 the following transaction occurred with related parties:

	Subsidiaries	Parent company	Entities under common control	Total
Six month period ended 30 June 2015				
Petroleum products and oil and gas sales	4,575,153	-	80,878	4,656,031
Other Revenues	266,916	-	157,482	424,398
Purchases of oil, gas and petroleum products	(5,735)	(35,246,131)	(2,033,070)	(37,284,936)
Production and manufacturing expenses	(1,631,846)	(3,733)	(109,057)	(1,744,636)
Selling, general and administrative expenses	(455,511)	(15,465)	-	(470,976)
Transportation expenses	(10,714)	-	-	(10,714)
Other expenses, net	(48,354)	(16,210)	(18,557)	(83,121)
Finance income	526,342	-	-	526,342
Finance expense	(435)	(494,182)	-	(494,617)
	3,215,816	(35,775,721)	(1,922,324)	(34,482,229)
Six month period ended 30 June 2014				
Petroleum products and oil and gas sales	5,091,408	-	1,364,867	6,456,275
Other revenues	235,450	-	-	235,450
Purchases of oil, gas and petroleum products	(5,109,270)	-	(45,784,488)	(50,893,758)
Production and manufacturing expenses	(1,783,811)	(5,177)	(166,878)	(1,955,866)
Selling, general and administrative expenses	(472,033)	(18,069)	-	(490,102)
Transportation expenses	(8,794)	-	-	(8,794)
Other expenses, net	(7,086)	(4,556)	(37,581)	(49,223)
Finance income	883,926	-	-	883,926
Finance expense	(3,381)	(596,758)	-	(600,139)
	(1,173,591)	(624,560)	(44,624,080)	(46,422,231)

Key management compensation

Management compensation paid or payable in six month period ended 30 June 2015 and 2014 is shown in the table below:

	Six month period ended 30 June	
	2015	2014
Salaries and other short-term employee benefits	230,464	157,351
	230,464	157,351

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

25. EVENTS AFTER THE REPORTING DATE

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

Subsequent events occurring after 30 June 2015 were evaluated through 27 July 2015, the date these Interim Condensed Financial Statements were authorised for issue.

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Notes to the Interim Condensed Financial Statements for the six month period ended 30 June 2015

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

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