



NAFTNA INDUSTRIJA SRBIJE

**NIS A.D. – Naftna industrija Srbije
Novi Sad**

**Interim Condensed Financial
Statements For The Six Month Period
Ended June 30, 2010
(unaudited)**

Novi Sad, August 6, 2010

**Interim condensed financial statements
for the six-month period ended June 30, 2010**

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

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**Interim condensed financial statements
for the six-month period ended June 30, 2010**

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

BALANCE SHEET

ASSETS	Notes	June 30, 2010 <i>(unaudited)</i>	December 31, 2009
Non-current assets			
Intangible assets		4.716.359	4.792.744
Property, plant and equipment	6	84.379.361	83.221.228
Investment property		873.049	499.974
Long-term financial investments		7.688.372	7.220.214
		97.657.141	95.734.160
Current assets			
Inventories	7	26.818.632	23.056.296
Non-current assets held for sales		133.631	135.649
Trade receivables	8	11.554.705	11.390.933
Receivables for overpaid income tax	8	138.620	41.689
Short term financial investments	9	1.678.494	875.839
VAT and prepaid expenses	11	4.613.941	4.145.248
Cash and cash equivalents	10	6.573.160	8.671.501
		51.511.183	48.317.155
Total assets		149.168.324	144.051.315
Off-balance sheet assets		137.768.874	151.211.899
LIABILITIES			
Equity			
Share capital	12	87.128.024	87.128.024
Reserves		889.424	889.424
Revaluation reserves		39	39
Unrealized gains from securities		53.413	130.243
Unrealized losses from securities		(49.396)	(28.172)
Retained earnings (loss)		(65.430.727)	(55.836.391)
		22.590.777	32.283.167
Long-term provisions and liabilities			
Long-term provisions	13	16.401.117	16.040.464
Long-term loans	14	44.189.061	34.733.451
Other long-term liabilities	15	9.912.983	5.920.227
		70.503.161	56.694.142
Short-term liabilities			
Short-term financial liabilities	16	17.444.140	18.566.832
Trade and other payables	17	23.907.771	23.367.446
Other short-term liabilities		3.794.363	3.884.567
Liabilities for VAT and other taxes and deferred income	18	9.301.960	7.323.145
		54.448.234	53.141.990
Deferred tax liabilities		1.626.152	1.932.016
Total liabilities		149.168.324	144.051.315
Off-balance sheet liabilities		137.768.874	151.211.899

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**Interim condensed financial statements
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(All amounts are in 000 RSD, unless otherwise stated)

STATEMENT OF INCOME

	Notes	Six-month period ended June 30,	
		2010	2009
		<i>(unaudited)</i>	<i>(unaudited)</i>
Operating income			
Sales	19	63.402.191	50.194.067
Work performed by the entity and capitalized	19	932.885	171.309
Increase in the value of finished goods and working in progress	19	4.543.995	1.452.454
Other operating revenue		63.895	140.646
		<u>68.942.966</u>	<u>51.958.476</u>
Operating expenses			
Cost of goods sold		(1.037.333)	(3.956.748)
Cost of material	20	(42.649.421)	(30.889.249)
Cost of salaries, benefits and other personnel expenses	21	(11.154.093)	(7.496.932)
Depreciation and provisions		(3.411.869)	(3.342.219)
Other operating expenses	22	(4.944.643)	(5.387.688)
		<u>(63.197.359)</u>	<u>(51.072.836)</u>
Operating profit (loss)		<u>5.745.607</u>	<u>885.640</u>
Financial income	23	2.797.797	3.278.761
Financial expenses	24	(19.650.421)	(6.565.173)
Other income	25	3.803.491	2.132.435
Other expenses	26	(2.522.725)	(7.123.470)
Loss before income tax		<u>(9.826.251)</u>	<u>(7.391.807)</u>
Profit tax		231.915	(39.985)
Tax for the period		(73.949)	(39.985)
Deferred tax income (expenses)		305.864	-
Net loss		<u>(9.594.336)</u>	<u>(7.431.792)</u>

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

CASH FLOW STATEMENT

	Six-month period ended June 30,	
	2010	2009
	<i>(неревидирани)</i>	<i>(неревидирани)</i>
Cash flows from operating activities		
Sales and advances received	107.513.134	74.443.955
Interest from operating activities	597.601	1.391.181
Other inflow from operating activities	63.895	140.646
<i>Cash inflow from operating activities</i>	<u>108.174.630</u>	<u>75.975.782</u>
Payments and prepayments to suppliers	(61.154.140)	(41.240.935)
Salaries, benefits and other personal expenses	(9.443.844)	(7.233.808)
Interest paid	(1.486.970)	(1.412.669)
Income tax paid	(197.907)	-
Payments for other public revenues	(33.257.408)	(25.435.800)
<i>Cash outflow from operating activities</i>	<u>(105.540.269)</u>	<u>(75.323.212)</u>
Net cash inflow (outflow) from operating activities	<u>2.634.361</u>	<u>652.570</u>
Proceeds from investing activities		
Proceeds from sale of intangible assets and PPE	20.744	-
<i>Cash inflow from investing activities</i>	<u>20.744</u>	<u>-</u>
Purchase of shares (net outflow)	(87.890)	-
Purchase of intangible assets, property, plant and equipment	(4.588.162)	(1.844.817)
<i>Cash outflow from investing activities</i>	<u>(4.676.052)</u>	<u>(1.844.817)</u>
Net cash inflow (outflow) from investing activities	<u>(4.655.308)</u>	<u>(1.844.817)</u>
Proceeds from financing activities		
Proceeds from long term and short term borrowings	8.486.157	42.284.131
Other long term and short term liabilities	3.333.070	760.725
<i>Cash inflow from financing activities</i>	<u>11.819.227</u>	<u>43.044.856</u>
Long term, short term and other liabilities	(12.063.594)	(44.169.104)
<i>Cash outflows from financing activities</i>	<u>(12.063.594)</u>	<u>(44.169.104)</u>
Net cash inflow (outflow) from financing activities	<u>(244.367)</u>	<u>(1.124.248)</u>
Net cash inflow	(2.265.314)	(2.316.495)
Cash at the beginning of accounting period	8.671.501	3.989.794
Foreign currency gains on translation of cash and cash equivalents	345.160	75.544
Foreign currency losses on translation of cash and cash equivalents	(178.187)	(62.446)
Cash at the end of accounting period	<u>6.573.160</u>	<u>1.686.397</u>

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Interim condensed financial statements for the six-month period ended June 30, 2010

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

STATEMENT OF CHANGES IN EQUITY

For period from January 1st to June 30th, 2010

(unaudited)

	<u>Share capital</u>	<u>Other capital</u>	<u>Reserves</u>	<u>Revaluation reserves</u>	<u>Unrealised gains from securities</u>	<u>Unrealised losses from securities</u>	<u>Accumulated loss</u>	<u>Total</u>
Balance as at January 1, 2009	81.530.220	5.597.804	889.424	60.783	136.760	(33.169)	(18.200.280)	69.981.542
Correction of material errors and changes in accounting policies	-	-	-	-	-	-	-	-
Restated opening balance as at January 1, 2009	81.530.220	5.597.804	889.424	60.783	136.760	(33.169)	(18.200.280)	69.981.542
Total increase in previous period	-	-	-	-	-	(44.599)	(9.594.336)	-
Total decrease in previous period	-	-	-	-	(4.273)	-	-	(9.643.208)
Balance as at June 30, 2009	81.530.220	5.597.804	889.424	60.783	132.487	(77.768)	(27.794.616)	60.338.334
Balance as at January 1, 2010	81.530.200	5.597.824	889.424	39	130.243	(28.172)	(55.836.391)	32.283.167
Correction of material errors and changes in accounting policies	-	-	-	-	-	-	-	-
Restated opening balance as at January 1, 2010	81.530.200	5.597.824	889.424	39	130.243	(28.172)	(55.836.391)	32.283.167
Total increase in current period	-	-	-	-	-	(21.224)	(9.594.336)	-
Total decrease in current period	-	-	-	-	(76.830)	-	-	(9.692.390)
Balance as at June 30, 2010	81.530.200	5.597.824	889.424	39	53.413	(49.396)	(65.430.727)	22.590.777

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**Notes to interim condensed financial statements
for the period of six-month ended June 30, 2010**

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

1. GENERAL INFORMATION

NIS a.d. – Naftna Industrija Srbije, Novi Sad (hereinafter “the Company”) was founded in accordance with decision of Government of Republic of Serbia on 7 July 2005 as the successor of five state owned companies of “Javno Preduzece Naftna Industrija Srbije (hereinafter “JP NIS”). Also, in accordance with the Decision of the Government of Republic of Serbia, it has been concluded that assets and liabilities belonging to JP NIS are the monetary and non-monetary stake in the Company.

On 24 December 2008, ownership structure was changed in accordance with Sales Purchase Agreement signed between Gazprom Neft and the Government of Republic of Serbia. The new ownership structure was registered in the Central Depository and Clearing House on February 2, 2009 as shown below:

- 51% of share capital in ownership of Gazprom Neft, Sankt Petersburg, Russian Federation
- 49% of share capital in ownership of the Government of Republic of Serbia, Ministry for industry and privatization.

According to the Law on free shares and the Government’s Decision on the distribution of free shares to the citizens of Serbia and NIS employees, the ownership structure of the Company has been changed on January 6, 2010. The new structure was as shown below:

- | | |
|--|--------|
| • Gazprom Neft OAO | 51.00% |
| • The Government of The Republic of Serbia | 29.92% |
| • The citizens of The Republic of Serbia | 14.74% |
| • Employees and ex employees | 4.34% |

The Company operates in energy sector predominantly in Serbia and its main activities are:

- Refining and trade of oil and petrochemical products
- Exploration, development and production of crude oil, petroleum products and gas
- Trade of liquid petrol gas.

The address of the Company’s registered office is in Novi Sad, no.12 Narodnog fronta Street. The average number of employees was 10.996 on June 30, 2010 (December 31, 2009: 11.084 employees).

These Financial statements have been approved by CEO.

The approved financial statements have not been reviewed nor audited.

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**Interim condensed financial statements
for the six-month period ended June 30, 2010**

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

**2. BASIS OF PREPARATION AND PRESENTATION OF THE CONDENSED
INTERIM FINANCIAL STATEMENTS**

These condensed interim financial statements for the half-year ended June 30, 2010 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed Interim financial statements do not include all disclosure and they should be interpreted in relation with the annual financial statements for the year ended December 31, 2009. The Company has prepared these financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia published in Official Gazette of the Republic of Serbia (no. 46/2006 and 111/2009), which requires full scope of IFRS to be applied, and the regulations issued by the Ministry of Finance of the Republic of Serbia. Due to the difference between these two regulations, these financial statements differ from IFRS in the following respects:

- The financial statements are prepared in format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 – "Presentation of Financial Statements" requirements.
- "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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the 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.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING
ESTIMATES**

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

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**Interim condensed financial statements
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(All amounts are in 000 RSD, unless otherwise stated)

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

3.1. Basis of preparation and presentation of interim condensed financial statements

Standards and interpretations in effect in the current period

- *IFRS 7 'Financial instruments — Disclosures' (amendment)* — effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.
- *IAS 23 'Borrowing costs'* - In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009, the Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Company previously recognized all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of IAS 23, 'Borrowing costs' (2007) in accordance with the transition provisions of the standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share. According accounting policy Company has capitalized borrowing costs which is related to investments in property, plant and equipment in amount of 112,342 thousand RSD.
- *IFRS 8, 'Operating segments'*, replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

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**Interim condensed financial statements
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

3.1. Basis of preparation and presentation of interim condensed financial statements (continued)

- IAS 24 (amendment) “*Related party disclosures*” (effective for annual periods beginning on or after 1 January 2011). This amendment attempts to relax disclosures of transactions between government-related entities and clarify related-party definition. More specifically, it removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities, clarifies and simplifies the definition of a related party and requires the disclosure not only of the relationships, transactions and outstanding balances between related parties, but of commitments as well in both the consolidated and the individual financial statements.

The following standards and amendments to existing standards have been published and are mandatory for the Company’s accounting periods beginning on or after 1 January 2010 or later periods, but the Company has not early adopted them.

- IAS 1 (revised), “*Presentation of financial statements*” (effective 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- IFRIC 17, ‘*Distribution of non-cash assets to owners*’ (effective on 1 July 2009). The interpretation is part of the IASB’s annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.
- IAS 27 (revised), ‘*Consolidated and separate financial statements*’ (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss.

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**Interim condensed financial statements
for the six-month period ended June 30, 2010**

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

3.1. Basis of preparation and presentation of interim condensed financial statements (continued)

- *IFRS 3 (revised), 'Business combinations'* (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquire either at fair value or at the non-controlling interest's proportionate share of the acquirers net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.
- *IAS 38 (amendment), 'Intangible Assets'*. The amendment is part of the IASB's annual improvements project published in April 2009 and the Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Company's financial statements.
- *IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'*. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.
- *IAS 1 (amendment), 'Presentation of financial statements'*. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

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**Interim condensed financial statements
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

3.1. Basis of preparation and presentation of interim condensed financial statements (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

- *IFRS 9, 'Financial instruments: 'Classification and measurement'.* In November 2009, the Board issued the first part of IFRS 9 relating to the classification and measurement of financial assets. IFRS 9 will ultimately replace IAS 39. The standard requires an entity to classify its financial assets on the bases of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, and subsequently measures the financial assets as either at amortized cost or fair value. The new standard is mandatory for annual periods on or after 1 January 2013.
- *Amendments to IFRS 1 "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),*
- *IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions'.* In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 - Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Company's financial statements.
- *Amendments to various standards and interpretations "Improvements to IFRSs (2010)"* resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011),
- *Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011), and*
- *IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).*

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

3.2. Going concern

The financial statements are prepared in accordance with going concern concept, which assumes that the Company will be able to continue to operate in foreseeable future. Although on the June 30, 2010 the Company's current assets are lower than current liabilities by 2,937,051 RSD thousand (December 31, 2009: 4,824,835 RSD thousand), and the Company incurred loss for the six month period ended June 30, 2010 in amount of 9,594,336 RSD thousand (six month period ended June 30, 2009: 7,431,792 RSD thousand), the new management is confident that they will ensure enough available funds to settle liabilities when they are due.

The new management has succeeded in restructuring borrowings from the banks from short-term to medium and long-term during 2009. Also, the Company is considered as significant subsidiary of Gazprom Neft Group which implies access to the Group's financial arrangements.

3.3. 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 Executive committee.

3.4. Foreign currency translation

(a) Functional and presentation currency

All amounts in these financial statements are presented in Serbian dinars ("RSD"), that is the functional and presentation currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the end of the period exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and other monetary assets and liabilities are presented in the income statement within "financial income or expenses".

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

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

3.5. Intangible assets

(a) Licenses and rights

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 Upstream Exploration rights which are amortised over the exploration period as per the terms of the relevant licences (0 to 20 years).

(b) Computer software

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

These costs are amortised over their estimated useful lives (0 to 20 years).

3.6. Exploration for and evaluation of mineral resources

(a) Exploration and evaluation assets

During the exploration period, oil and natural gas exploration and evaluation expenditures are capitalized, until it is proved that oil and gas reserves are sufficient to justify the cost of exploration. Geological and geophysical costs as well as costs directly associated with an exploration are capitalized as incurred. Exploration property leasehold acquisition costs are capitalized within intangible assets and amortised over the period of the license or in relation to the progress of the activities if there is a substantial difference.

(b) Development of tangible 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 assets according to nature. When development is completed on a specific field, it is transferred to production assets. No depreciation and/or amortization is charged during development.

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

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

3.6. Exploration for and evaluation of mineral resources (continued)

(c) Oil and gas production assets

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

(d) Production – share agreement and buy-back contracts

Oil and gas reserves related to production-sharing agreements and buy-back contracts are determined on the basis of contractual clauses related to the repayment of costs incurred for the exploration, development and production activities executed through the use of company's technologies and financing (cost oil) and the company's share of production volumes not destined to cost recovery (profit oil). Revenues from the sale of the production entitlements against both cost oil and profit oil are accounted for on an accrual basis whilst exploration, development and production costs are accounted for according to the policies mentioned above.

The company's share of production volumes and reserves representing the profit oil includes the share of hydrocarbons which corresponds to the taxes to be paid, according to the contractual agreement, by the national government on the behalf of the company.

As a consequence the company has to recognise at the same time an increase in the taxable profit, through the increase of the revenues, and a tax expense.

(e) Depreciation/amortization

Oil and gas properties/intangible assets are depreciated/amortized using the unit-of-production method. 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.

(f) Impairment – exploration and evaluation assets

The exploration property leasehold acquisition costs are tested for impairment whenever facts and circumstances indicate impairment. For the purposes of assessing impairment, the exploration property leasehold acquisition costs subject to testing are grouped with existing cash-generating units (CGUs) of production fields that are located in the same geographical region corresponding to each license.

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

3.6. Exploration for and evaluation of mineral resources (continued)

(g) Impairment – proved oil and gas properties and intangible assets

Proven oil and gas properties and intangible assets are reviewed for impairment whenever 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.

3.7. Property, plant and equipment

On 1 July 2005, the date of foundation of the Company, Property, plant and equipment were valued at market value by independent appraisal. Revaluation reserves for the excess of fair value against historical value were cancelled against share capital as at 1 January 2006.

Since the date of foundation, 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.

Property, plant and equipment in progress are stated at cost.

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 replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

3.7. Property, plant and equipment (continued)

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Description	%
Buildings	2-10
Machinery and Equipment	4 -14
Other PP&E	2-20
Furniture	10-20
Vehicles	5-14
Computers	10-20

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 (note 3.8).

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 25 and 26).

3.8. 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 whenever 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.

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

3.9. Investment property

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

Investment property, principally comprises of apartments rented on long-term lease period to current and ex employees of the Company.

Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met.

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.

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.

3.10. Construction contracts

Construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset.

Contract costs are recognized as expenses in the period in which they are incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

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

3.10. Construction contracts (continued)

The Company uses the ‘percentage-of-completion method’ to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, pre-payments or other assets, depending on their nature.

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within ‘trade and other receivables’.

The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

3.11. Long – term financial assets

The Company classifies its financial assets in the following categories: loans and receivables and available for sale.

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

3.11.1. 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 balance sheet date. These are classified as non-current assets. The Company’s loans and receivables comprise ‘trade and other receivables’ and cash and cash equivalents in the balance sheet (note 3.14).

(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 balance sheet date.

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

3.11.2. Recognition and measurement

Regular purchases and sales of the investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Loans and receivables 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 finance income in profit or loss for the year.

3.11.3. Impairment of financial assets

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from equity to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss. 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 current period's profit or loss.

Impairment testing of trade receivables is described in note 3.14.

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

3.12. Inventories

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

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

Spare parts which are used in production are stated at cost, less any impairment for obsolete, damaged and slow-moving spare parts more than 12 months.

3.13. 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.

3.14. Trade receivables

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

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the 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 'other expenses' (note 26). 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 'other income' in the income statement (note 25).

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

3.15. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

3.16. Off balance sheet assets and liabilities

Off balance sheet assets/liabilities include: consignment stock, 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.

3.17. Share capital

The Company is registered as Closed Shareholding Company. Ordinary shares are classified as equity.

3.18. Provisions

Provisions for environmental restoration, asset retirement obligation, restructuring costs 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.

3.19. Borrowings

Borrowings are recognised initially at the 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.

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

3.19. Borrowings (continued)

Fees paid on the establishment of loan facilities are recognized 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 pre-payment 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 balance sheet date.

3.20. 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.

3.21. 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 that case deferred tax liability is recognized in equity as well/.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet 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.

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

3.21. Current and deferred income tax (continued)

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

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

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

3.22. 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) Other employee benefit schemes

The Company provides jubilee, retirement and miscellaneous allowances in accordance with Collective Labour Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

Jubilee awards

Payment of jubilee awards is determined as number of monthly salaries based on number of completed years of services for every employee, as it is show in table below:

Minimum years of service in the Company	Number of monthly salaries
10	1
20	2
30	3
35	3,5
40	4

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

3.22. Employee benefits (continued)

Retirement allowances

The Company has to pay to every employee at his/her retirement, allowance in amount, maximum of:

- three monthly salaries over the last month preceding the month of the employee's retirement
- three average monthly salaries in the Company

The expected costs of these benefits are accrued over the period of employment.

The defined benefit obligation is 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 high-quality corporate 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 pension liability. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to income over the expected average remaining working lives of the related employees for retirement allowance and charged or credited to income statement in full amount for jubilee awards and allowances for miscellaneous allowances.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(c) Profit-sharing and bonus plans

The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

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

3.23. 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 after eliminating sales within the Company.

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 and Petrochemical products and Liquid Natural Gas in the wholesale market. Sales of goods are recognised when the Company has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, except for oil products which price is regulated by the Ministry of Energy of Republic of Serbia. There is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. 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 of 90 days for state owned companies and 60 days for other companies, which is consistent with the market practice.

b) Sales of goods – retail

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

c) Sales of services

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

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

3.23. Revenue recognition (continued)

c) Sales of services (continued)

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

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

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

d) Interest income

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

e) Income from work performed by entity and capitalized

Income from work performed by entity and capitalized relates to capitalization of costs of own products and services.

f) Dividend income

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

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

3.24. Leases

a) Leases: Accounting by lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment, acquired under finance leases, is depreciated over the shorter of the useful life of the asset and the lease term.

b) Leases: Accounting by lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

3.25. 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.

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

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

3.26. Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that [are not carried at fair value and 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, if the commencement date for capitalisation is on or after 1 January 2009. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalized.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

(a) *Revenue recognition*

The Company uses the percentage-of-completion method in accounting for its sales of services. Use of the percentage-of-completion method requires the Company to estimate the services performed to date as a proportion of the total services to be performed.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.1. Critical accounting estimates and assumptions (continued)

(b) 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 determine the present value of estimated future cash outflows expected to be required to settle the employee benefits obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

4.2. Critical judgments in applying entity's accounting policies

(a) Impairment of available for sale financial assets

The Company follows the guidance of IAS 39 to determine when an available for sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(b) Financial crisis

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Management is unable to reliably estimate the effects on the Company's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.2. Critical judgments in applying entity's accounting policies (continued)

(b) Financial crisis (continued)

Impact on liquidity:

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

Impact on customers/ borrowers:

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

(c) Valuation of property measured at fair value

The fair value of investment property accounted for using the fair value model in accordance with IAS 40 is updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. In the absence of current prices in an active market, the Company considers information from a variety of sources, including:

- current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;
- recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

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5. SEGMENT INFORMATION

Management has determined the operating segments based on reports reviewed by Executive Committee. The Committee considers business from both geographic and operational perspective.

As of June 30, 2010 business activities of the Company are organized into four operating segments:

1. Exploration and production of oil and natural gas,
2. Production of oil products - Refining,
3. Oil and oil products trading,
4. Other – NIS Strucne sluzbe.

The reportable segments derive their revenue in following manner:

1. Exploration and production of oil and natural gas derive its revenue from sale of crude oil and gas to Refinery and Srbijagas
2. Refining segments derives its revenue from sale of oil derivatives to NIS trade segment
3. Oil and derivatives trading derives revenue from retail and wholesale activities consistent with the policy described in 3.23.

Reportable segments results for six month period ended June 30, 2010 are shown in the following table:

	Exploration and production	Refining	Trade	Other	Total
Segment revenue	4.542.599	8.862.921	55.397.590	139.856	68.942.966
Inter-segment revenue	25.085.727	57.134.316	10.465.402	2.911.080	95.596.525
Total revenue	<u>29.628.326</u>	<u>65.997.237</u>	<u>65.862.992</u>	<u>3.050.936</u>	<u>164.539.491</u>
Operating income (expenses)	<u>12.985.993</u>	<u>(5.407.588)</u>	<u>(1.437.003)</u>	<u>(395.795)</u>	<u>5.745.607</u>
Financial income (expenses)	577.587	(4.027.615)	212.158	(13.614.754)	(16.852.624)
Other income (expenses)	154.208	66.722	590.384	469.452	1.280.766
Profit / loss before tax	<u>13.717.788</u>	<u>(9.368.481)</u>	<u>(634.461)</u>	<u>(13.541.097)</u>	<u>(9.826.251)</u>
Deferred tax	-	-	-	305.864	305.864
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(73.949)</u>	<u>(73.949)</u>
Net profit / (loss)	<u><u>13.717.788</u></u>	<u><u>(9.368.481)</u></u>	<u><u>(634.461)</u></u>	<u><u>(13.309.182)</u></u>	<u><u>(9.594.336)</u></u>

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5. SEGMENT INFORMATION (continued)

Reportable segments results for six month period ended June 30, 2009 are shown in the following table:

	Exploration and production	Refining	Trade	Other	Total
Segment revenue	5.718.286	7.033.748	39.173.697	32.745	51.958.476
Inter-segment revenue	19.411.093	35.448.375	3.262.314	880.077	59.001.859
Total revenue	25.129.379	42.482.123	42.436.011	912.822	110.960.335
Operating income (expenses)	3.820.321	(681.186)	(2.181.668)	(71.827)	885.640
Financial income (expenses)	282.999	417.165	693.528	(4.680.104)	(3.286.412)
Other income (expenses)	(763.307)	(2.223.171)	(1.488.934)	(515.623)	(4.991.035)
Profit / (loss) before tax	3.340.013	(2.487.192)	(2.977.074)	(5.267.554)	(7.391.807)
Income tax expense	-	-	-	(39.985)	(39.985)
Net profit / (loss)	3.340.013	(2.487.192)	(2.977.074)	(5.307.539)	(7.431.792)

Sales among operating segment are performed in accordance with a transfer pricing decision. Measurement of revenues from external parties is consistent with the one from Income statement.

Assets and liabilities of operating segments as of 30 June 2010 are presented in the following table:

	Exploration and production	Refining	Trade	Other	Total
Assets	35.540.450	57.290.311	30.978.862	25.358.701	149.168.324
Liabilities	(10.979.852)	(25.522.498)	(8.515.040)	(81.560.157)	(126.577.547)
Net assets	24.560.598	31.767.813	22.463.822	(56.201.456)	22.590.777

Assets and liabilities of operating segments as of 31 December 2009 are presented in the following table:

	Exploration and production	Refining	Trade	Other	Total
Assets	42.788.016	58.488.104	26.144.747	16.630.448	144.051.315
Liabilities	(9.912.949)	(26.074.015)	(8.925.799)	(66.855.385)	(111.768.148)
Net assets	32.875.067	32.414.089	17.218.948	(50.224.937)	32.283.167

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5. SEGMENT INFORMATION (continued)

Analysis of the Company's revenue per main products and services is given in the following table:

	Six-month period ended June 30,	
	2010	2009
Sale of oil and oil products	61.926.654	48.063.305
Sale of services and other sales	1.475.537	2.130.762
	<u>63.402.191</u>	<u>50.194.067</u>

6. PROPERTY, PLANT AND EQUIPMENT

The most significant investments in period of six-months ended June 30, 2010 relate to investments in MHC/DHT project (investments in construction of a Mild Hydrocracking Complex and Hydrofinishing in Pančevo Oil Refinery) amounted 1.200.299 thousand RSD.

7. INVENTORIES

	June 30, 2010	December 31, 2009
Raw materials	13.618.204	14.215.098
Spare parts	3.180.845	3.407.247
Tools	115.144	120.147
Work in progress	3.047.400	2.375.837
Finished goods	9.773.324	5.900.842
Merchandise	796.787	677.604
	<u>30.531.704</u>	<u>26.696.775</u>
Advances	1.588.367	1.708.451
<i>Less provision:</i>		
- for inventories	(4.755.620)	(4.749.526)
- for advances	(545.819)	(599.404)
	<u>(5.301.439)</u>	<u>(5.348.930)</u>
Total inventories – net	<u>26.818.632</u>	<u>23.056.296</u>

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7. INVENTORIES (continued)

Movement on inventory provision is as follows:

	2010	2009
At January 1st	(5.348.930)	(1.569.786)
Provision for impaired inventories charged to the period	(13.486)	(4.039.478)
Provision reversed	52.757	164.282
Write off	7.034	96.052
Other	1.186	-
At June 30 / December 31	(5.301.439)	(5.348.930)

8. TRADE AND OTHER RECEIVABLES

	June 30, 2010	December 31, 2009
Trade receivables		
- domestic	18.311.978	18.778.375
- foreign	1.115.577	1.677.505
- related parties	1.020.592	721.942
	<u>20.448.147</u>	<u>21.177.822</u>
Receivables from specific operations	6.609.172	5.292.519
Interest receivables	4.452.576	4.099.968
Receivables from employees	94.975	120.431
Other receivables	7.447.459	7.518.505
	<u>11.995.010</u>	<u>11.738.904</u>
	<u>39.052.329</u>	<u>38.209.245</u>
<i>Less provision:</i>		
- trade receivables	(9.119.417)	(10.280.128)
- receivables from specific operations	(6.609.172)	(5.224.781)
- interest and other receivables	(11.769.035)	(11.313.403)
	<u>(27.497.624)</u>	<u>(26.818.312)</u>
Total receivables – net	<u>11.554.705</u>	<u>11.390.933</u>
Receivables for overpaid income tax	<u>138.620</u>	<u>41.689</u>

Receivables from specific operations as of June 30, 2010 in amount of 6.609.172 thousand RSD (December 31, 2009: 5.292.519 thousand RSD) mostly relate to receivables in amount of 5.013.073 thousand RSD transferred to NIS in 2005, at the date of foundation. These receivables are fully provided for as at June 30, 2010.

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8. TRADE AND OTHER RECEIVABLES (continued)

Trade receivables as of June 30, 2010 from state controlled companies that are less than three months past due and trade receivables from other companies that are less than two months past due are not considered impaired, except for receivables from a number of independent customers for whom there is no recent history of default, amounted to 171.452 thousand RSD (December 31, 2009: 2.017.923 thousand RSD).

The ageing analysis of trade receivables is as follows:

	June 30, 2010	December 31, 2009
Up to 3 months	11.157.277	8.895.203
Over 3 months	9.290.870	12.282.619
	20.448.147	21.177.822

As of June 30, 2010 trade receivables in amount of 9.119.417 thousand (December 31, 2009: 10.280.128 thousand RSD) were either impaired or provided for. The individually impaired receivables mainly relate to customers which are assessed as unexpected to be collected. The ageing of receivables provided for is as follows:

	June 30, 2010	December 31, 2009
Up to 3 months	32.000	15.432
Over 3 months	9.087.417	10.264.696
	9.119.417	10.280.128

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

	June 30, 2010	December 31, 2009
RSD	37.881.780	36.412.372
EUR	164.263	218.516
USD	1.006.264	1.578.335
RUB	22	22
	39.052.329	38.209.245

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8. TRADE AND OTHER RECEIVABLES (continued)

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

	<u>2010</u>	<u>2009</u>
At January 1st	(26.818.312)	(26.596.772)
Provision for impaired receivables	(1.233.809)	(3.648.464)
Receivables written off during the year as uncollectible	120.621	2.622.324
Unused amounts reversed	445.917	622.703
Transfers	(12.041)	181.897
At June 30 / December 31	<u><u>(27.497.624)</u></u>	<u><u>(26.818.312)</u></u>

Expenses for written off and provided for receivables is included in 'other expenses/other income in the income statement (notes 25 and 26). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

9. SHORT TERM FINANCIAL INVESTMENTS

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Short term loans and investments	109.104	544.607
Short term loans and investments – related parties	16.500	16.266
Current portion of long term investments	3.082.931	1.950.830
Other short term financial investments	500	501
	<u>3.209.035</u>	<u>2.512.204</u>
<i>Less: provision</i>	<u>(1.530.541)</u>	<u>(1.636.365)</u>
Total short term financial investments – net	<u><u>1.678.494</u></u>	<u><u>875.839</u></u>

Current portion of long term investments (receivables) as of June 30, 2010 in the amount of 3.082.931 thousand RSD (December 31, 2009: 1.950.830 thousand RSD), mostly relate to current portion of rescheduled receivables in the amount of 2.951.477 thousand RSD. They are provided for in the amount of 1.530.541 thousand RSD (December 31, 2009: 1.636.365 thousand RSD)

Movement table of provision for short term financial investments:

	<u>2010</u>	<u>2009</u>
At January 1st	(1.636.365)	(119.251)
Provision for impairment	-	(1.602.926)
Disposal and other movements	105.824	85.813
At June 30 / December 31	<u><u>(1.530.541)</u></u>	<u><u>(1.636.365)</u></u>

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10. CASH AND CASH EQUIVALENTS

	June 30, 2010	December 31, 2009
Cash in bank	6.496.957	8.513.140
Cash in hand	74.618	149.445
Other cash equivalents	1.585	8.916
	6.573.160	8.671.501

As at June 30, 2010 short term bank deposits in amount of 5.479.198 thousand RSD (December 31, 2009: 7.618.081 thousand RSD) represent short term deposits in banks with average interest rate of 2.95% for foreign currency and 7.83% for deposits denominated in RSD, are presented in line cash in bank.

11. VAT AND PREPAID EXPENSES

	June 30, 2010	December 31, 2009
Prepayment for VAT	1.882.452	362.814
Prepaid expenses	154.042	33.372
Not invoiced revenue	455	1.052.423
Excise duty	672.173	986.447
Employees benefits for housing loans and other prepayments	1.904.819	1.710.192
Total	4.613.941	4.145.248

Prepayment for VAT as of June 31, 2010 in the amount of 1.882.452 thousand RSD is VAT on incoming invoices accounted for in current period, while its deduction will come in following accounting period.

12. SHARE CAPITAL

Share capital represent share capital of publicly not listed company. As per Sale and Purchase Agreement dated on 24 December 2008, there was a change in ownership of the Company, registered at the Central register for securities as of 2 February 2009. Ownership structure was as follows:

- 51% of share capital in the ownership of Gazprom Neft, St Petersburg, Russia, or 4.158.040 ordinary shares;
- 49% of share capital is owned by the Serbian Government, Ministry of Industry and privatization, or 3.994.982 regular shares.

In accordance with the Law on disbursement of free shares enacted by the Government of Serbia, citizens of Serbia received shares of NIS, and new ownership structure valid from 6 January 2010 is:

- Gasprom Neft OAO 51.00%
- Government of Republic of Serbia 29.92%
- Serbian citizens 14.74%
- Employees and ex-employees 4.34%

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12. SHARE CAPITAL (continued)

According to Sales and Purchase Agreement, as long as Serbian Government holds 10% of voting rights, its positive vote is required for:

- Adoption of financial statements and audit report
- Changes in Act of incorporation
- Capital increase and decrease
- Status changes
- Acquiring and disposal of the Company's assets with large value
- Changes of registered business seat and activity
- Termination of the Company

During August 2009 Shareholders assembly adopted a decision on split of shares. Total number of regular shares is 163.060.400 (2008: 8.153.022) with nominal value of RSD 500 per share (2008: RSD 10,000 per share). During 2008 there were no share issues. All issued shares are paid in whole.

13. LONG – TERM PROVISIONS

Movements on the account were as follow:

	Environmental restoration provision	Employees benefits provision	Legal cases provisions	Total
As at January 1, 2010	5.293.834	4.810.561	5.936.069	16.040.464
Charged (credited) to Income statement	383.905	319.689	(522.098)	181.496
Adjustments on PP&E	287.040	-	-	287.040
Used during period	-	(104.409)	-	(104.409)
Other	-	-	(3.474)	(3.474)
As at June 30, 2010	5.964.779	5.025.841	5.410.497	16.401.117

(a) *Environmental restoration*

Based on previous experience on similar actions, management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells. Accrual for asset retirement of active wells for the period for six-months ended June 30, 2010 in total amount of 287.040 thousand RSD is recognized under property, plant and equipment.

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13. LONG – TERM PROVISIONS (continued)

(b) *Legal claims*

The Company's assessment is that the outcome of all legal cases will not lead to material losses above the amount already provided as of June 30, 2010. The Company assesses the probability of negative outcomes of legal cases, as well as the amounts of probable or reasonable estimated losses including management judgment after consideration of information such as notifications, settlements, legal department estimates, available facts, identification of potential responsible parties and their possibilities to contribute in problem solving, as well as their previous experience.

(c) *Employee benefits*

Provision for Employee benefits includes:

	June 30, 2010	December 31, 2009
Retirement allowances	1.061.557	1.007.687
Jubilee awards	3.851.979	3.697.572
Other benefits in accordance with acquired rights	112.305	105.302
	5.025.841	4.810.561

The principal actuarial assumptions used were as follows:

	June 30, 2010	December 31, 2009
Discount rate	6.5%	6.5%
Future salary increases	6%	6%
Future average years of service	17.7	17.7

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14. LONG TERM LOANS

	June 30, 2010	December 31, 2009
Domestic	24.749.329	19.590.474
Foreign	27.366.048	20.272.434
	<u>52.115.377</u>	<u>39.862.908</u>
Current portion of long-term loans	(7.926.316)	(5.129.457)
Total	<u>44.189.061</u>	<u>34.733.451</u>

The maturity of non-current loans was as follows:

	June 30, 2010	December 31, 2009
Between 1 and 2 years	21.956.349	9.530.561
Between 2 and 5 years	14.733.019	18.591.704
Over 5 years	7.499.693	6.611.186
	<u>44.189.061</u>	<u>34.733.451</u>

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

	June 30, 2010	December 31, 2009
RSD	5.815.745	4.871.441
EUR	11.074.277	11.313.046
USD	34.728.584	23.302.210
JPY	496.771	376.211
	<u>52.115.377</u>	<u>39.862.908</u>

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14. LONG TERM LOANS (continued)

The carrying amounts of the Company's long term loans as of June 30, 2010 and December 31, 2009:

Поверилац	Валута	June 30, 2010	December 31, 2009
<i>Дугорочни кредити у земљи</i>			
Alfa bank Srbija, Belgrade	USD	8.456.561	5.271.551
NLB bank, Belgrade (London club)	USD	55.475	44.799
NLB bank, Belgrade (Paris club)	JPY	561.994	444.673
NLB bank, Belgrade (Paris club)	USD	496.771	376.211
Erste bank, Belgrade	EUR	5.276	4.261
Erste bank, Belgrade (Paris club)	USD	463.879	431.111
Erste bank, Belgrade (Paris club)	EUR	317.691	250.870
Hypo Alpe Adria Bank, Belgrade	RSD	1.040.225	1.176.236
Piraeus bank, Belgrade	EUR	5.812.599	4.868.106
Privredna bank, Pančevo (Paris club)	USD	241.342	225.694
Privredna bank, Pančevo (Paris club)	EUR	1.844.555	1.465.489
Government of Republic of Serbia (IBRD)	USD	4.851.464	4.561.041
Government of Republic of Serbia, Agency for deposit assurance	EUR	598.351	467.096
Other loans		3.146	3.335
		24.749.329	19.590.473
<i>Дугорочни кредити у иностранству</i>			
Moskow bank, Russen Federation	USD	8.547.940	3.336.425
EFG NEF BV, Holland	EUR	3.896.835	3.042.019
Erste Bank, Holland	USD	3.913.890	4.314.996
VUB (Bank Intesa), Slovakia	USD	4.273.970	3.336.425
NBG Bank, Greece	EUR	3.029.313	2.369.682
NBG Bank, Greece	USD	563.477	603.967
Sinohem , Great Britain	USD	3.140.623	3.268.921
		27.366.048	20.272.435
<i>Less current portion of long-term loans</i>		(7.926.316)	(5.129.457)
		44.189.061	34.733.451

15. OTHER LONG-TERM LIABILITIES

	June 30, 2010	December 31, 2009
Liabilities to Parent	9.806.863	5.804.462
Liabilities for financial lease	104.911	114.557
Other long-term liabilities	1.209	1.208
	9.912.983	5.920.227

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15. OTHER LONG-TERM LIABILITIES (continued)

As at June 30, 2010 other long-term liabilities to the Parent in the amount of 9.806.863 thousand RSD (EUR 93.962.107) relate to borrowings from OAO Gazprom Neft, with respect to its obligation, from Sales and Purchase Agreement signed on 24 December 2008, to approve borrowing facility for financing of Program for reconstruction and modernization of technology capacities. Total investments amount to EUR 500 million and should be finalized not later than 31 December 2012.

16. SHORT TERM FINANCIAL LIABILITIES

	June 30, 2010	December 31, 2009
Short term loans	9.466.327	13.388.074
Current portion of long term loans	7.926.316	5.129.457
Current portion of financial lease	39.881	37.694
Current portion of other long term loans	11.583	11.583
Other short term liabilities	33	24
	17.444.140	18.566.832

17. TRADE AND OTHER PAYABLES

	June 30, 2010	December 31, 2009
Advances received	3.394.800	1.007.016
Trade payables:		
- domestic	1.679.384	1.741.997
- foreign	5.669.746	16.708.415
Trade payables – parents and subsidiaries	11.662	22.577
Trade payables – other related parties	12.797.409	3.358.787
Liabilities from other operations	73.501	74.482
Liabilities from specific operations	281.269	454.172
	23.907.771	23.367.446

Payables to other related parties in the amount of 12.797.409 thousand RSD (December 31, 2009: 3.358.787 thousand RSD) mostly relate to liabilities for delivered crude oil by Gazprom Neft Trading, Austria in the amount of 12.695.249 thousand RSD (December 31, 2009: 3.244.473 thousand RSD).

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18. LIABILITIES FOR VAT AND OTHER TAXES AND DEFERRED INCOME

	June 30, 2010	December 31, 2009
Liabilities for VAT	1.438.041	593.094
Liabilities for excise	2.450.693	2.074.755
Liabilities for taxes and custom duties	1.578.626	240.822
Other liabilities for taxes and contributions	38.990	147.858
Non-invoiced liabilities	636.062	1.857.544
Other accruals	3.159.548	2.409.072
	9.301.960	7.323.145

As at June 30, 2010 non-invoiced liabilities in amount of 636.062 thousand RSD, mostly relate to liability for received but not invoiced equipment from CBI Lummus in amount of 239.560 thousand RSD (December 31, 2009 1.857.544 thousand RSD related to non-invoiced equipment from IAG International). The remaining amount related to received goods or services performed in period of six-months ended June 30, 2010 but not invoiced by other suppliers.

Other accruals as of June 30, 2010 in the amount of 3.159.548 thousand RSD (December 31, 2009: 2.409.072 thousand RSD) mostly relate to accrual for termination costs in the amount of RSD 2.544.389 thousand RSD, quarterly premiums in the amount of 395.414 thousand RSD.

19. OPERATING INCOME

	Six-month period ended June 30,	
	2010	2009
Sales		
- domestic	55.994.464	43.876.989
- foreign	5.711.565	6.179.098
	61.706.029	50.056.087
Revenue from sales to related parties	1.696.162	137.980
Revenue from worked performed by entity and capitalized	932.885	171.309
Increase in inventories	4.543.995	1.452.454
Other operating income	63.895	140.646
	68.942.966	51.958.476

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20. COST OF MATERIAL

Cost of material includes:

	Six-month period ended June 30,	
	2010	2009
Cost of raw materials	41.301.652	29.151.795
Cost of office and other material	462.089	561.678
Other fuel and energy expenses	885.680	1.175.776
	42.649.421	30.889.249

21. COST OF SALARIES, BENEFITS AND OTHER PERSONNEL EXPENSES

	Six-month period ended June 30,	
	2010	2009
Wages and salaries (gross)	6.528.423	5.807.623
Taxes and contributions on wages and salaries paid by employer	1.151.985	1.039.201
Cost for temporary service agreement	151.119	46.180
Cost of other temporary service agreements	33.279	5.958
Fees paid to management and supervisory board members	6.444	2.596
Cost for employees termination payments	2.838.513	6.245
Other personal expenses and benefits	444.330	589.129
	11.154.093	7.496.932

Termination costs in the amount of 2.838.513 thousand RSD relate to costs incurred in relation to voluntary leave program issued on 15 July 2009 - "Program 750". Based on Sale and Purchase Agreement the Company is able to propose voluntary termination of employment, only if it pays one off severance payment to every employee in the amount of EUR 750 per year of working service. Total number of employees who accepted the termination of employment in 2010 is 1.148.

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22. OTHER OPERATING EXPENSES

	Six-month period ended June 30,	
	2010	2009
Production services	702.307	466.600
Transportation services	740.407	651.545
Maintenance	351.647	481.888
Rental costs	85.230	129.799
Fairs	113	2.191
Advertising and representation costs	60.057	64.712
Research costs	65.222	131.185
Cost of other services	348.802	362.731
Costs of non production services	898.509	899.178
Representation costs	27.851	48.028
Insurance premium	197.861	341.277
Bank charges	117.339	315.837
Cost of custom duties, property taxes and other taxes	550.134	920.236
Mineral extraction tax	590.383	271.142
Cost of legal and consulting services	48.100	88.979
Administrative and other taxes	-	87.097
Other	160.681	125.263
	4.944.643	5.387.688

Cost of non-production services for six-month period ended June 30, 2010 in the amount of 898.509 thousand RSD (2009, respectively: 899.178 thousand RSD) mostly relate to costs incurred for: use of service companies (security and cleaning companies) in the amount of 504.207 thousand RSD, as cost of project management in the amount of 75.174 thousand RSD.

23. FINANCIAL INCOME

	Six-month period ended June 30,	
	2010	2009
Financial income – parents and subsidiaries	-	65
Interest income	597.601	1.391.181
Foreign exchange gains	2.194.612	1.861.484
Other financial income	5.584	26.031
	2.797.797	3.278.761

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24. FINANCIAL EXPENSES

	Six-month period ended June 30,	
	2010	2009
Interest expenses	1.607.727	1.447.142
Foreign exchange losses	18.040.846	5.024.195
Other financial expenses	1.848	93.836
	19.650.421	6.565.173

25. OTHER INCOME

	Six-month period ended June 30,	
	2010	2009
Gains on disposal:		
- property, plant and equipment	11.246	35.941
- materials	1.961	7.539
Surpluses	17.040	16.323
Receivables written off and collected	-	28.941
Write off of payables	237.772	15.415
Cancellation of long-term provisions	570.660	-
Gains from collected penalty interest	28.554	39.013
Adjustment of accrued bonuses	749.504	-
Adjustment of investments in Angola	533.156	169.467
Capitalization of oil wells	254.773	-
Reconciliation of long-term investments	284.218	-
Adjustment of amortization on impaired property	179.022	-
<i>Reversal of impairment losses on:</i>		
- intangibles	-	243
- property, plant and equipment	6.613	-
- long-term financial investments and available for sale financial assets	88.351	-
- inventories	47.390	1.107.219
- receivables and short-term financial investments	475.038	467.966
- other properties	5.835	7.559
Other	312.358	236.809
	3.803.491	2.132.435

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26. OTHER EXPENSES

	Six-month period ended June 30,	
	2010	2009
Losses on disposal property, plant and equipment	428	98.101
Shortages	29.174	41.978
Write off of receivables	10.947	2.284
Adjustment of investments in Angola	356.113	74.779
Property adjustment	273.123	-
<i>Impairment:</i>		
- property, plant and equipment	82.077	3.289
- other long-term investments	-	487.985
- inventories	34.963	50.334
- short-term investments	6.173	5.055
- receivables	1.233.809	6.020.980
Other	495.918	338.685
	2.522.725	7.123.470

27. RELATED PARTIES TRANSACTIONS

	June 30, 2010	December 31, 2009
<i>Advances</i>		
O Zone a.d. Belgrade, Serbia	54.267	40.456
NIS Oil Trading, Frankfurt, Germany	-	52.757
	54.267	93.213
<i>Receivables</i>		
O Zone a.d. Belgrade, Serbia	21.114	219.456
NIS Oil Trading, Frankfurt, Germany	-	102.565
Svetlost, Bujanovac, Serbia	31.402	25.741
NIS Oversiz, Moscow, Russia	1.085	22
Ranis, Moscow area, Russia	40.693	28.669
Gazprom Neft Trading, Austria	-	556.892
	94.294	933.345
Total receivables:	148.561	1.026.558

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27. RELATED PARTIES TRANSACTIONS (continued)

	June 30, 2010	December 31, 2009
<i>Liabilities</i>		
O Zone a.d. Belgrade, Serbia	(12.363)	(17.060)
NIS Oil Trading, Frankfurt, Germany	-	(45.962)
Svetlost, Bujanovac, Serbia	(4)	(4)
Gazprom Neft Trading, Austria	(12.695.249)	(3.011.316)
Gazprom Neft, St Petersburg, Russia	(9.836.099)	(5.804.462)
	<u>(22.543.715)</u>	<u>(8.878.804)</u>
<i>Advances received</i>		
O Zone a.d. Belgrade, Serbia	-	(7)
NIS Oil Trading, Frankfurt, Germany	-	(4)
Svetlost, Bujanovac, Serbia	(18)	(18)
	<u>(18)</u>	<u>(29)</u>
Total liabilities:	<u>(22.543.733)</u>	<u>(8.878.833)</u>
Liabilities, net:	<u>(22.395.172)</u>	<u>(7.852.275)</u>
	Six-month period ended June 30,	2009
	2010	2009
<i>Sales</i>		
O Zone a.d. Belgrade, Serbia	4.517	3.660
Svetlost, Bujanovac, Serbia	262.607	73.753
	<u>267.124</u>	<u>77.413</u>
<i>Other operating income</i>		
O Zone a.d. Belgrade, Serbia	552	31.309
	<u>552</u>	<u>31.309</u>
<i>Cost of salaries, benefits and other personnel expenses</i>		
O Zone a.d. Belgrade, Serbia	(38.072)	(38.470)
	<u>(38.072)</u>	<u>(38.470)</u>
<i>Other operating expenses</i>		
O Zone a.d. Belgrade, Serbia	(522)	(31.309)
	<u>(522)</u>	<u>(31.309)</u>
	<u>229.082</u>	<u>38.943</u>

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27. RELATED PARTIES TRANSACTIONS (continued)

	Six-month period ended June 30,	
	2010	2009
<i>Financial income</i>		
O Zone a.d. Belgrade, Serbia	163	(63)
	<u>163</u>	<u>(63)</u>
<i>Financial expenses</i>		
O Zone a.d. Belgrade, Serbia	(213)	(10.190)
Svetlost, Bujanovac, Serbia	-	(7.599)
Gazprom Neft, St Petersburg, Russia	(16.817)	-
	<u>(17.030)</u>	<u>(17.789)</u>
	<u>(16.867)</u>	<u>(17.852)</u>
<i>Other income</i>		
O Zone a.d. Belgrade, Serbia	78	-
NIS Oil Trading, Frankfurt, Germany	42.744	-
	<u>42.822</u>	<u>-</u>
<i>Other expenses</i>		
O Zone a.d. Belgrade, Serbia	(2.870)	(1.194)
Svetlost, Bujanovac, Serbia	(19.214)	(1.080)
	<u>(22.084)</u>	<u>(2.274)</u>
	<u>20.738</u>	<u>(2.274)</u>

Transactions with state controlled institution and companies:

	Receivables		Advances	
	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
Airport Nikola Tesla	4.098	9.307	-	-
JAT Airways	307.386	152.056	16	92
HIP Petrohemija	934.427	605.633	-	261
EPS Elektrovojvodina	335.196	4.892	6.753	6
MUP Republic of Serbia	366.493	335.356	-	86
RTB BOR Group	1.992.682	1.981.689	31.453	1.603
Srbijagas	7.159.521	6.337.810	362	23.759
Telekom Srbija	57.703	35.452	-	-
Heating companies (sum)	627.916	1.283.834	1.611	11.444
Road companies (sum)	1.232	6.092	-	4.719
Army of Serbia	204.610	233.995	-	116
	<u>11.991.264</u>	<u>10.986.116</u>	<u>40.195</u>	<u>42.086</u>

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27. RELATED PARTIES TRANSACTIONS (continued)

	Liabilities		Advances received	
	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
Airport Nikola Tesla	78	222	-	-
JAT Airways	40	9	202	92
HIP Petrohemija	102.160	114.314	77	261
EPS Elektrovojvodina	666	240	6.564	6
MUP Republic of Serbia	2	20	192	86
RTB BOR Group	98	207	-	1.603
Srbijagas	275.568	272.053	18.248	23.759
Telekom Srbija	28.561	11.244	189	-
Heating companies (sum)	3.715	808	1.352	11.444
Road companies (sum)	-	-	522	3
Army of Serbia	-	560	116	116
	<u>410.888</u>	<u>399.677</u>	<u>27.462</u>	<u>37.370</u>

28. CONTINGENT LIABILITIES

(a) Legal claims

The Company has made assessment and provided for litigations in the amount of 5.410.497 thousand RSD (note 13).

Management does not anticipate that any material liabilities will arise from the outcome of above mentioned litigations.

In addition, in accordance with SPA, Republic of Serbia is obliged to unconditionally withdraw all claims against the Company initiated by institutions or companies owned by Government.

(a) Environmental protection

In accordance with domestic legislation, Company has obligation related to environmental protection. At balance sheet date no environmental provisions have been recognized as there were no relevant data for assesment of environmental risk exposure.

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28. CONTINGENT LIABILITIES (continued)

(a) Environmental protection (continued)

Environmental regulations are developing in Serbia and the Company has not recorded any liability for anticipated costs, including legal and consulting fees, site studies, the design and implementation of remediation plans, related to environmental matters other than those disclosed in Note 13.

Management consider that, based on the current environmental legislation, the costs associated with environmental issues will not be significantly higher than those provided for already; it is possible, however, that such costs may increase substantially in the future, should the legislation become more restrictive, for example through convergence towards EU standards.

According to SPA, the Company shall engage an independent consultant with an aim to assess Company's exposure to environment risk. Following the adoption of such report by the both shareholders, Republic of Serbia should be liable only for the damages arising from past events stated in the report. However, liability of Republic of Serbia is limited to 25% of purchase price for all the claims raised by the Seller, including environmental claims.

In December 2009, the Company engaged D'Appolonia, Italy to assess current environmental condition of the Company. The results are expected to be published in 2010.

Also, Republic of Serbia committed in SPA to ensure that if exploration of NIS's equipment that existed on the date of acquisition results in non-compliance with environmental requirements due to obsolescence or physical wear, no sanctions should apply against NIS until such equipment is modernized or replaced.

29. 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. Tax liability due date is five years. This means that 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 June 30, 2010.

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30. COMMITMENTS

The Company is committed under Sales and Purchase Agreement to:

- comply with a Social program as follows:
 - The salaries of NIS' employees shall be modified annually at the rate of the annual variation in the index reflecting the cost of living in Republic of Serbia;
 - In the period to 31 December 2012, NIS shall not terminate the employment of its employees against their will on the basis of technological or organizational changes;
 - NIS may propose termination of employment, provided that a onetime dismissal wage is paid to the employee in the amount of EUR 750 for every served year of employment;
- invest in modernization of the Company in amount of Euro 547 million in four year period, providing loan with special purpose and conditions defined by Agreement in amount of 500 millions EUR;
- distribute dividends for 4 consecutive years in 15% of net profit of the Company;
- maintain level of exploration and production of crude oil at least to 2020, not to cease with refining activities, to maintain level of production of oil derivatives for Serbian market, to maintain the market share in trade of oil derivatives up to the level in 2008;
- Conduct modernization and reconstruction of the Company.

31. EVENTS AFTER THE BALANCE SHEET DATE

a) Transformation in publicly listed company

On June 21, 2010 Shareholders assembly enacted Decision of Company's transformation in publicly listed company. On June 23, 2010 the transformation was registered at Serbian Business Registers Agency, under registration number BD 68531/2010. But, the registration at the Central securities depository and clearing house has not been completed until issuing these financial statements.

6) Strategic cooperation with HIP Petrohemija a.d. Pancevo - in restructuring

On July 15, 2010 the Company has signed an agreement on long-term strategic cooperation with the HIP Petrohemija a.d. Pancevo - in restructuring. Agreement closely defines long-term supplying HIP Petrohemija a.d. Pancevo - in restructuring with the primary gasoline as well as the conversion of Company's receivables in to stakes, in a way that such increase of Company's share in HIP Petrohemija capital doesn't exceed 24.99% of shares.

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31. EVENTS AFTER THE BALANCE SHEET DATE (continued)

в) Memorandum on cooperation between the NIS a.đ. Novi SAD и OAO "Нефтегазоваја иновационаја корпорација"

On 16 July 2010 the Company signed together with OAO "Нефтегазоваја иновационаја корпорација" Russian Federation a Memorandum on Cooperation in the implementation of projects in oil and gas industry in Russia and abroad, including joint projects in Bosnia and Herzegovina - the Republic of Srpska.

Novi Sad, 06.08.2010

**The person responsible for the
preparation of financial
statements**

M.P.

Legal representative

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