NAFTNA INDUSTRIJA SRBIJE

NIS A.D. – Naftna industrija Srbije
Novi Sad

Interim Condensed Financial Statements For The Nine Month Period Ended September 30, 2010 (unaudited)

Novi Sad, October 28, 2010

C O N T E N T S : *Page*

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

Interim condensed financial statements
for the nine-month period ended September 30, 2010

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

BALANCE SHEET

ASSETS	Notes	September 30, 2010 *(unaudited)*	December 31, 2009
Non-current assets			
Intangible assets		4.752.512	4.792.744
Property, plant and equipment	6	87.179.185	83.221.228
Investment property		873.049	499.974
Long-term financial investments		7.024.170	7.220.214
		99.828.916	**95.734.160**
Current assets			
Inventories	7	33.305.038	23.056.296
Non-current assets held for sales		132.534	135.649
Trade receivables	8	13.710.136	11.390.933
Receivables for overpaid income tax	8	170.237	41.689
Short term financial investments	9	2.594.045	875.839
VAT and prepaid expenses	11	6.170.699	4.145.248
Cash and cash equivalents	10	10.661.328	8.671.501
		66.744.017	**48.317.155**
Total assets		**166.572.933**	**144.051.315**
Off-balance sheet assets		127.172.625	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		49.497	130.243
Unrealized losses from securities		(49.892)	(28.172)
Retained earnings (loss)		(53.159.223)	(55.836.391)
		34.857.869	**32.283.167**
Long-term provisions and liabilities			
Long-term provisions	13	15.733.564	16.040.464
Long-term loans	14	36.317.804	34.733.451
Other long-term liabilities	15	12.379.932	5.920.227
		64.431.300	**56.694.142**
Short-term liabilities			
Short-term financial liabilities	16	15.825.211	18.566.832
Trade and other payables	17	39.324.633	23.367.446
Other short-term liabilities		3.882.147	3.884.567
Liabilities for VAT and other taxes and deffered income	18	6.673.571	7.323.145
		65.705.562	**53.141.990**
Deferred tax liabilities		1.578.202	1.932.016
Total liabilities		**166.572.933**	**144.051.315**
Off-balance sheet liabilities		127.172.625	151.211.899

Notes from the page 7 to 49 are the part of these Financial Statements.

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

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

STATEMENT OF INCOME

	Notes	Nine-month period ended September 30, 2010 *(unaudited)*	2009 *(unaudited)*
Operating income			
Sales	19	111.897.485	80.876.502
Work performed by the entity and capitalized		1.654.814	270.053
Increase in the value of finished goods and working in progress		5.941.110	939.193
Other operating revenue		84.197	254.273
		119.577.606	82.340.021
Operating expenses			
Cost of goods sold		(2.582.352)	(4.666.312)
Cost of material	20	(74.803.286)	(49.275.061)
Cost of salaries, benefits and other personnel expenses	21	(15.201.142)	(14.159.981)
Depreciation and provisions		(4.991.359)	(7.340.564)
Other operating expenses	22	(8.546.829)	(8.412.915)
		(106.124.968)	(83.854.833)
Operating income (loss)		**13.452.638**	**(1.514.812)**
Financial income	23	6.063.365	4.799.182
Financial expenses	24	(17.828.513)	(6.402.470)
Other income	25	4.111.235	4.331.125
Other expenses	26	(3.433.040)	(7.962.175)
Income (loss) before income tax		**2.365.685**	**(6.749.150)**
Profit tax		311.483	(59.978)
Tax for the period		(42.331)	(59.978)
Deferred tax income (expenses)		353.814	-
Net income (loss)		**2.677.168**	**(6.809.128)**

Notes from the page 7 to 49 are the part of these Financial Statements.

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

CASH FLOW STATEMENT

	Nine-month period ended September 30, 2010	2009
	(unaudited)	*(unaudited)*
Cash flows from operating activities		
Sales and advances received	178.061.255	128.452.143
Interest from operating activities	421.169	387.708
Other inflow from operating activities	84.197	254.273
Cash inflow from operating activities	178.566.621	129.094.124
Payments and prepayments to suppliers	(76.754.561)	(50.471.843)
Salaries, benefits and other personal expenses	(16.550.340)	(14.949.283)
Interest paid	(2.269.428)	(2.149.169)
Income tax paid	(197.907)	(99.527)
Payments for other public revenues	(68.611.536)	(53.936.260)
Cash outflow from operating activities	(164.383.772)	(121.606.082)
Net cash inflow from operating activities	**14.182.849**	**7.488.042**
Proceeds from investing activities		
Proceeds from sale of intangible assets and PPE	30.117	-
Cash inflow from investing activities	30.117	-
Purchase of shares (net outflow)	(172.030)	-
Purchase of intangible assets, property, plant and equipment	(8.269.985)	(3.269.901)
Cash outflow from investing activities	(8.442.015)	(3.269.901)
Net cash outflow from investing activities	**(8.411.898)**	**(3.269.901)**
Proceeds from financing activities		
Proceeds from long term and short term borrowings	9.756.867	66.690.331
Other long term and short term liabilities	5.616.669	1.006.350
Cash inflow from financing activities	15.373.536	67.696.681
Long term, short term and other liabilities	(19.188.251)	(73.839.104)
Cash outflows from financing activities	(19.188.251)	(73.839.104)
Net cash outflow from financing activities	**(3.814.715)**	**(6.142.423)**
Net cash inflow (outflow)	**1.956.236**	**(1.924.282)**
Cash at the beginning of accounting period	**8.671.501**	**3.989.794**
Foreign currency gains on translation of cash and cash equivalents	537.962	79.367
Foreign currency losses on translation of cash and cash equivalents	(504.371)	(80.742)
Cash at the end of accounting period	**10.661.328**	**2.064.137**

Notes from the page 7 to 49 are the part of these Financial Statements.

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

STATEMENT OF CHANGES IN EQUITY
For period from January 1st to September 30th, 2010
(unaudited)

	Share capital	Other capital	Reserves	Revaluation reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated loss	Total
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	-	-	-	-	-	-	(6.809.128)	-
Total decrease in previous period	-	-	-	-	(6.342)	7.582	-	**(6.807.888)**
Balance as at September 30, 2009	**81.530.220**	**5.597.804**	**889.424**	**60.783**	**130.418**	**(25.587)**	**(25.009.408)**	**63.173.654**
Balance as at January 1, 2009	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 previous period	-	-	-	-	-	(21.720)	2.677.168	**2.574.702**
Total decrease in previous period	-	-	-	-	(80.746)	-	-	**-**
Balance as at September 30, 2010	**81.530.200**	**5.597.824**	**889.424**	**39**	**49.497**	**(49.892)**	**(53.159.223)**	**34.857.869**

Notes from the page 7 to 49 are the part of these Financial Statements.

(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%

Listing and Quotation Committee of the Belgrade Stock Exchange has on 23 August 2010 issued decision on admission of shares on listing A - Prime Market of Belgrade Stock Exchange. In accordance with this decision first trade with NIS shares was on 30 August 2010.

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 10.160 on September 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.

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

These condensed interim financial statements for the nine-month period ended September 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 are consistent to the policies applied in the financial statements for the year ended December 31, 2009..

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

3.1. 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. As on the September 30, 2010 the Company's current assets are higher than current liabilities by 1,038,455 RSD thousand (on the December 31, 2009 current assets were lower than current liabilities by 4,824,835 RSD thousand), and the Company incurred profit for the nine month period ended September 30, 2010 in amount of 2,677,168 RSD thousand (for the nine month period ended September 30, 2009 the loss was 6,809,128 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.

3.2. 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.

3.3. 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".

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

3.4. 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).

3.5. 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.

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

3.5. 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.

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

3.5. 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.

3.6. 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.

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

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

3.6. 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 3.7).

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).

3.7. 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.

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

3.8. 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.

3.9. 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.

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

3.9. 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).

3.10. 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.

3.10.1. 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 3.13).

(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.

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

3.10.2. 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.

3.10.3. 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 3.13.

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

3.11. 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.

3.12. 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.

3.13. 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.

For the first group of clients (the clients with the total amount of receivables at the balance sheet date amounts to 80% of the total amount of receivables), the risk of receivables collectibility is evaluated, taking into account the following indicators of impairment of receivables: ageing analysis of receivables, the estimated collectibility of the receivables in accordance with client's financial position and the history of client's late payments.

For another group of clients (customers who by the total amount at the balance sheet represent 20% of the total amount of claims), evaluates the risk of collection of receivables, taking into account the delay in the execution of payments, and the allowance of these clients form if payment is not made: within sixty (60) days from the due date, or within ninety (90) days from the due date of the receivables for liquefied petroleum gas, delivered goods to the domestic consumers in the category of "district heating systems" (plants), trade receivables that are financed from the budget (military, police, health , education, railways, etc).

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).

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

3.14. 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.

3.15. 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.

3.16. Share capital

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

3.17. 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.

3.18. 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.

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

3.18. 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.

3.19. 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.

3.20. 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.

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

3.20. 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.

3.21. 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

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

3.21. 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.

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

3.22. 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.

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

3.22. 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.

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

3.23. 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.

3.24. 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.

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

3.25. 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.

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.

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.

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

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 September 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 nine month period ended September 30, 2010 are shown in the following table:

	Exploration and production	Refining	Trade	Other	Total
Segment revenue	8.878.699	9.160.399	101.363.381	175.127	119.577.606
Inter-segment revenue	40.267.706	97.583.437	17.746.769	4.682.767	160.280.679
Total revenue	49.146.405	106.743.836	119.110.150	4.857.894	279.858.285
Operating income (expenses)	23.217.116	(9.811.672)	758.368	(711.174)	13.452.638
Financial income (expenses)	568.217	(3.331.041)	1.781.205	(10.783.529)	(11.765.148)
Other income (expenses)	370.643	18.464	146.405	142.683	678.195
Profit / loss before tax	24.155.976	(13.124.249)	2.685.978	(11.352.020)	2.365.685
Deferred tax	-	-	-	353.814	353.814
Income tax expense	-	-	-	(42.331)	(42.331)
Net profit / (loss)	24.155.976	(13.124.249)	2.685.978	(11.040.537)	2.677.168

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

5. SEGMENT INFORMATION (continued)

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

	Exploration and production	Refining	Trade	Other	Total
Segment revenue	7.581.968	9.500.673	65.215.688	41.692	82.340.021
Inter-segment revenue	32.404.279	60.529.396	5.043.295	1.676.963	99.653.933
Total revenue	39.986.247	70.030.069	70.258.983	1.718.655	181.993.954
Operating income (expenses)	4.891.481	1.165.793	(7.487.993)	(84.093)	(1.514.812)
Financial income (expenses)	127.570	960.798	980.131	(3.671.787)	(1.603.288)
Other income (expenses)	(1.393.457)	(2.437.031)	(1.018.902)	1.218.340	(3.631.050)
Profit / (loss) before tax	3.625.594	(310.440)	(7.526.764)	(2.537.540)	(6.749.150)
Income tax expense	-	-	-	(59.978)	(59.978)
Net profit / (loss)	3.625.594	(310.440)	(7.526.764)	(2.597.518)	(6.809.128)

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 September 2010 are presented in the following table:

	Exploration and production	Refining	Trade	Other	Total
Assets	36.749.846	57.057.804	42.986.426	29.778.857	166.572.933
Liabilites	(10.252.037)	(4.446.362)	(42.856.221)	(74.160.444)	(131.715.064)
Net assets	26.497.809	52.611.442	130.205	(44.381.587)	34.857.869

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
Liabilites	(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

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

5. SEGMENT INFORMATION (continued)

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

	Nine-month period ended September 30, 2010	2009
Sale of oil and oil products	109.674.856	77.785.214
Sale of services and other sales	2.222.629	3.091.288
	111.897.485	80.876.502

6. PROPERTY, PLANT AND EQUIPMENT

The most significant investments in period of nine-months ended September 30, 2010 relate to investments in MHC/DHT project (investments in construction of a Mild Hydrocracking Complex and Hydrofinishing in Pančevo Oil Refinery) amounted 2,419,457 thousand RSD. Balance of advances paid to supplier, related to the same project, as of September 30, 2010 amounted to 4.454.333 thousand RSD.

7. INVENTORIES

	September 30, 2010	December 31, 2009
Raw materials	17.981.299	14.215.098
Spare parts	3.233.720	3.407.247
Tools	124.556	120.147
Work in progress	4.334.466	2.375.837
Finished goods	9.883.259	5.900.842
Merchandise	1.854.165	677.604
	37.411.465	26.696.775
Advances	1.193.018	1.708.451
Less provision:		
- for inventories	(4.752.593)	(4.749.526)
- for advances	(546.852)	(599.404)
	(5.299.445)	(5.348.930)
Total inventories – net	**33.305.038**	**23.056.296**

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

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	(10.303)	(4.039.478)
Provision reversed	52.937	164.282
Writte off	6.881	96.052
Other	(30)	-
At September 30 / December 31	**(5.299.445)**	**(5.348.930)**

8. TRADE AND OTHER RECEIVABLES

	September 30, 2010	December 31, 2009
Trade receivables		
- domestic	19.890.120	18.778.375
- foreign	939.908	1.677.505
- related parties	1.400.643	721.942
	22.230.671	21.177.822
Receivables from specific operations	6.784.556	5.292.519
Interest receivables	4.793.443	4.099.968
Receivables from employees	126.078	120.431
Other receivables	7.526.364	7.518.505
	12.445.885	11.738.904
	41.461.112	38.209.245
Less provision:		
- trade receivables	(8.951.361)	(10.280.128)
- receivables from specific operations	(6.705.634)	(5.224.781)
- interest and other receivables	(12.093.981)	(11.313.403)
	(27.750.976)	(26.818.312)
Total receivables – net	**13.710.136**	**11.390.933**
Receivables for overpaid income tax	**170.237**	**41.689**

Receivables from specific operations as of September 30, 2010 in amount of 6,784,556 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 September 30, 2010.

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

8. TRADE AND OTHER RECEIVABLES (continued)

Trade receivables as of September 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 164,497 thousand RSD (December 31, 2009: 2.017.923 thousand RSD.

The ageing analysis of trade receivables is as follows:

	September 30, 2010	December 31, 2009
Up to 3 months	13.121.880	8.895.203
Over 3 months	9.108.791	12.282.619
	22.230.671	**21.177.822**

As of September 30, 2010 trade receivables in amount of 8,951,361 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:

	September 30, 2010	December 31, 2009
Up to 3 months	7.067	15.432
Over 3 months	8.944.294	10.264.696
	8.951.361	**10.280.128**

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

	September 30, 2010	December 31, 2009
RSD	40.398.760	36.412.372
EUR	152.312	218.516
USD	909.586	1.578.335
GBP	432	-
RUB	22	22
	41.461.112	**38.209.245**

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

8. TRADE AND OTHER RECEIVABLES (continued)

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

	2010	**2009**
At January 1st	(26.818.312)	(26.596.772)
Provision for impaired receivables	(1.535.056)	(3.648.464)
Written off	120.620	2.622.324
Unused amounts reversed	509.845	622.703
Transfers	(28.073)	181.897
At September 30 / December 31	**(27.750.976)**	**(26.818.312)**

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

	September 30, 2010	**December 31, 2009**
Short term loans and investments	646.638	544.607
Short term loans and investments – related parties	1.125	16.266
Current portion of long term investments	3.982.493	1.950.830
Other short term financial investments	1.234	501
	4.631.490	2.512.204
Less: provision	(2.037.445)	(1.636.365)
Total short term financial investments – net	**2.594.045**	**875.839**

Current portion of long term investments (receivables) as of September 30, 2010 in the amount of 3,982,493 thousand RSD (December 31, 2009: 1,950,830 thousand RSD), mostly relate to current portion of rescheduled receivables in the amount of 3,868,858 thousand RSD. They are provided for in the amount of 2,037,445 thousand RSD (December 31, 2009: 1.636.365 thousand RSD)

Movement table of provision for short term financial investments:

	2010	**2009**
At January 1st	(1.636.365)	(119.251)
Provision for impairment	(169.670)	(1.602.926)
Disposal and other movements	(231.410)	85.812
At September 30 / December 31	**(2.037.445)**	**(1.636.365)**

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

10. CASH AND CASH EQUIVALENTS

	September 30, 2010	December 31, 2009
Cash in bank	10.356.603	8.513.140
Cash in hand	303.011	149.445
Other cash equivalents	1.714	8.916
	10.661.328	**8.671.501**

As at September 30, 2010 short term bank deposits in amount 6,188,037 thousand RSD (December 31, 2009: 7.618.081 thousand RSD) represent short term deposits in banks are presented in line cash in bank.

11. VAT AND PREPAID EXPENSES

	September 30, 2010	December 31, 2009
Prepayment for VAT	1.751.124	362.814
Prepaid expenses	105.961	33.372
Not invoiced revenue	1.789.191	1.052.423
Excise duty	817.012	986.447
Employees benefits for housing loans and other prepayments	1.707.411	1.710.192
Total	**6.170.699**	**4.145.248**

Prepayment for VAT as of September 30, 2010 in the amount of 1,751,124 thousand RSD is VAT on incoming invoices accounted for in current period, while its deduction will come in following accounting period.

Revenue not invoiced in the amount of 1.789.191 thousand RSD (December 31, 2009: 1.052.423 thousand RSD) mostly relates to receivables from Noble Clean Fuels in the amount of 1.788.736 thousand RSD for current period sales of gasoline components for which the Company did not issue invoices.

12. SHARE CAPITAL

Share capital represent share capital of publicly 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.

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

12. SHARE CAPITAL (continued)

In accordance with the Law on disbursment of free shares and Decision enacted by the Government of Serbia at January 6, 2010, citizens of Serbia received shares of NIS, and new ownership structure was:

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

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).

Listing and Quotation Committee of the Belgrade Stock Exchange has on 23 August 2010 issued decision on admission of shares on listing A - Prime Market of Belgrade Stock Exchange. In accordance with this decision first trade with NIS shares was on 30 August 2010.

The structure of the share capital as at September 30, 2010 was:

Shareholders	Number of shares	Structure in %
Gazprom Neft	83.160.800	51,0000
Republic of Serbia	48.720.714	29,8789
Societe Generale Bank	134.050	0,0822
Unicredit Bank Castody Account	62.845	0,0385
ZB Invest doo	54.920	0,0337
Vojvođanska Bank - Castody	42.870	0,0263
Melisma Trading Ltd	21.293	0,0131
Raiffeisen Zentralbank	15.207	0,0093
BDD M&V Investments	14.312	0,0088
DDOR Novi Sad	12.500	0,0077
Other Shareholders	30.820.889	18,9015
	163.060.400	**100,0000**

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

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

13. LONG – TERM PROVISIONS

Movements on the long-term provisions 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	426.014	479.533	(528.850)	376.697
Adjustments on property, plant and equipement	287.040	-	-	287.040
Used during period	-	(196.574)	-	(196.574)
Other	-	-	(774.063)	(774.063)
As at September 30, 2010	**6.006.888**	**5.093.520**	**4.633.156**	**15.733.564**

(a) *Environmental restoration provision*

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 nine-months ended September 30, 2010 in total amount of 287,040 thousand RSD is recognized under property, plant and equipment.

(b) *Legal claims provisions*

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 September 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*

Provision for Employee benefits includes:

	September 30, 2010	December 31, 2009
Retirement allowances	1.088.329	1.007.687
Jubilee awards	3.891.762	3.697.572
Other benefits in accordance with acquired rights	113.429	105.302
	5.093.520	**4.810.561**

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

13. LONG – TERM PROVISIONS (continued)

(c) *Employee benefits (continued)*

The principal actuarial assumptions used were as follows:

	September 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

14. LONG TERM LOANS

	September 30, 2010	December 31, 2009
Domestic	22.650.325	19.590.473
Foreign	25.378.928	20.272.435
	48.029.253	39.862.908
Current portion of long-term loans	(11.711.449)	(5.129.457)
Total	**36.317.804**	**34.733.451**

The maturity of non-current loans was as follows:

	September 30, 2010	December 31, 2009
Between 1 and 2 years	23.468.333	9.530.561
Between 2 and 5 years	5.618.120	18.591.704
Over 5 years	7.231.351	6.611.186
	36.317.804	**34.733.451**

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

14. LONG TERM LOANS (continued)

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

	September 30, 2010	December 31, 2009
RSD	3.046	4.871.441
EUR	10.296.186	11.313.045
USD	37.254.206	23.302.211
JPY	475.815	376.211
	48.029.253	**39.862.908**

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

Поверилац	Валута	September 30, 2010	December 31, 2009
Дугорочни кредити у земљи			
Alfa bank Srbija, Belgrade	USD	7.272.931	5.271.551
NLB bank, Novi Sad (London club)	USD	50.693	44.799
NLB bank, Novi Sad (Paris club)	USD	506.073	444.673
NLB bank, Novi Sad (Paris club)	JPY	475.815	376.211
Erste bank, Novi Sad (London club)	USD	4.821	4.261
Erste bank, Novi Sad (Paris club)	EUR	466.047	431.111
Erste bank, Novi Sad (Paris club)	USD	286.702	250.870
Hypo Alpe Adria Bank, Belgrade	EUR	895.407	1.176.236
Piraeus bank, Belgrade	USD	5.311.473	4.868.106
Privredna bank, Pančevo (Paris club)	EUR	240.931	225.694
Privredna bank, Pančevo (Paris club)	USD	1.654.282	1.465.489
Government of Republic of Serbia (IBRD)	EUR	4.935.338	4.561.041
Government of Republic of Serbia, Agency for deposit assurance	USD	546.766	467.096
Other loans	RSD	3.046	3.335
		22.650.325	**19.590.473**
Дугорочни кредити у иностранству			
Moskow bank, Russen Federation	USD	7.810.990	3.336.425
EFG NEF BV, Holland	USD	4.539.363	3.042.019
Erste Bank, Holland	EUR	3.185.244	4.314.996
VUB (Bank Intesa), Slovakia	USD	3.905.495	3.336.425
NBG Bank, Greece	USD	2.494.760	2.369.682
NBG Bank, Greece	EUR	573.219	603.967
Sinohem , Great Britain	USD	2.869.857	3.268.921
		25.378.928	**20.272.435**
Less current portion of long-term loans		(11.711.449)	(5.129.457)
		36.317.804	**34.733.451**

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

15. OTHER LONG-TERM LIABILITIES

	September 30, 2010	December 31, 2009
Liabilities to Parent	12.281.799	5.804.462
Liabilities for financial lease	96.923	114.557
Other long-term liabilities	1.210	1.208
	12.379.932	**5.920.227**

As at September 30, 2010 other long-term liabilities to the Parent in the amount of 12.281.799 thousand RSD (EUR 115.675.276) 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. Instalments are quarterly starting from December 2012 until May 15, 2023.

16. SHORT TERM FINANCIAL LIABILITIES

	September 30, 2010	December 31, 2009
Short term loans	4.061.715	13.388.074
Current portion of long term loans	11.711.449	5.129.457
Current portion of financial lease	39.881	37.694
Current portion of other long term loans	12.128	11.583
Other short term liabilities	38	24
	15.825.211	**18.566.832**

17. TRADE AND OTHER PAYABLES

	September 30, 2010	December 31, 2009
Advances received	1.909.740	1.007.016
Trade payables:		
- domestic	2.328.689	1.741.997
- foreign	5.021.870	16.708.415
Trade payables – parents and subsidiaries	15.099	22.577
Trade payables – other related parties	29.459.964	3.358.787
Liabilities from other operations	69.095	74.482
Liabilities from specific operations	520.176	454.172
	39.324.633	**23.367.446**

As at September 30, 2010 payables to other related parties in the amount of 29,459,964 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 29,372,917 thousand RSD (December 31, 2009: 3.244.473 thousand RSD).

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

18. LIABILITIES FOR VAT AND OTHER TAXES AND DEFERRED INCOME

	September 30, 2010	December 31, 2009
Liabilities for VAT	1.005.474	593.094
Liabilities for excise	2.846.723	2.074.755
Liabilities for taxes and custom duties	1.812.585	240.822
Other liabilities for taxes and contributions	46.561	147.858
Non-invoiced liabilities	421.408	1.857.544
Other accruals	540.820	2.409.072
	6.673.571	**7.323.145**

As at September 30, 2010 non-invoiced liabilities in amount of 421,408 thousand RSD, mostly relate to received goods or services performed in period of nine-months ended September 30, 2010 but not invoiced by suppliers (December 31, 2009 1.857.544 thousand RSD related to non-invoiced equipment from IAG International).

Other accruals as of September 30, 2010 in the amount of 540,820 thousand RSD (December 31, 2009: 2.409.072 thousand RSD) mostly relate to accrual for quarterly premiums in the amount of 265,816 thousand RSD and deferred purchase costs in the amount of 132,650 thousand RSD.

19. OPERATING INCOME

	Nine-month period ended September 30, 2010	2009
Sales		
- domestic	95.408.161	71.221.627
- foreign	12.637.026	9.433.523
	108.045.187	80.655.150
Revenue from sales to subsidiaries and other related parties	3.852.298	221.352
	111.897.485	**80.876.502**

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

20. COST OF MATERIAL

Cost of material includes:

	Nine-month period ended September 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

	Nine-month period ended September 30, 2010	2009
Wages and salaries (gross)	9.508.092	8.835.574
Taxes and contributions on wages and salaries paid by employer	1.659.843	1.595.991
Cost for temporary service agreement	249.120	110.303
Cost of other temporary service agreements	45.288	8.703
Fees paid to management and supervisory board members	14.210	3.330
Cost for employees termination payments	2.676.387	2.546.888
Other personal expenses and benefits	1.048.202	1.059.192
	15.201.142	**14.159.981**

Termination costs in the amount of 2.676.387 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 1.076.

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

22. OTHER OPERATING EXPENSES

	Nine-month period ended September 30, 2010	2009
Production services	1.495.932	1.047.411
Transportation services	1.171.767	1.030.707
Maintenance	658.154	684.678
Rental costs	134.422	164.727
Fairs	315	2.191
Advertising and representation costs	128.785	98.932
Research costs	162.220	211.493
Cost of other services	595.670	537.215
Costs of non production services	1.498.155	1.376.154
Representation costs	56.417	61.464
Insurance premium	291.666	499.984
Bank charges	171.147	529.054
Cost of custom duties, property taxes and other taxes	873.854	1.302.987
Mineral extraction tax	965.235	403.943
Cost of legal and consulting services	90.330	152.007
Administrative and other taxes	108.700	130.658
Other	144.060	179.310
	8.546.829	**8.412.915**

Cost of non-production services for nine-month period ended September 30, 2010 in the amount of 1,498,155 housand RSD (2009, respectively: 1,376,154 thousand RSD) mostly relate to costs incurred for: use of service companies (security and cleaning companies) in the amount of 781,840 thousand RSD, as cost of project management in the amount of 166,564 thousand RSD.

23. FINANCIAL INCOME

	Nine-month period ended September 30, 2010	2009
Financial income – parent, subsidiaries and other related parties	-	548
Interest income	1.104.439	1.978.815
Foreign exchange gains	4.883.073	2.787.986
Other financial income	75.853	31.833
	6.063.365	**4.799.182**

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

24. FINANCIAL EXPENSES

	Nine-month period ended September 30, 2010	2009
Interest expenses	2.340.125	2.193.933
Foreign exchange losses	15.485.645	4.068.205
Other financial expenses	2.743	140.332
	17.828.513	**6.402.470**

25. OTHER INCOME

	Nine-month period ended September 30, 2010	2009
Gains on disposal:		
- property, plant and equipment	13.809	40.293
- materials	5.666	8.490
Surpluses	30.638	47.238
Receivables written off and collected	-	29.218
Write off of payables	62.587	30.490
Cancellation of long-term provisions	577.411	1.814.162
Gains from collected penalty interest	43.860	51.564
Adjustment of accrued bonuses	749.479	-
Adjustment of investments in Angola	769.357	169.364
Capitalization of oil wells	254.773	-
Reconciliation of long-term investments	284.218	-
Adjustment of amortization on impaired property	179.022	-
Reversal of impairment losses on:		
- intangibles	-	243
- property, plant and equipment	6.613	-
- long-term financial investments and financial assets available for sale	130.059	-
- inventories	62.334	1.364.043
- receivables and short-term financial investments	551.727	498.036
- other properties	5.862	9.599
Other	383.820	268.385
	4.111.235	**4.331.125**

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

26. OTHER EXPENSES

	Nine-month period ended September 30, 2010	2009
Losses on disposal property, plant and equipment	22.068	133.433
Shortages	50.842	49.514
Write off of receivables	11.246	2.479
Adjustment of investments in Angola	458.133	36.006
Property adjustment	273.123	-
Impairment:		
- property, plant and equipment	79.856	3.289
- other long-term investments	-	487.985
- inventories	63.361	487.231
- advances paid	6.036	6.017
- receivables	1.534.844	6.197.458
- other properties	169.670	184.763
Other	763.861	374.000
	3.433.040	**7.962.175**

27. RELATED PARTIES TRANSACTIONS

	September 30, 2010	December 31, 2009
Advances		
O Zone a.d. Belgrade, Serbia	5.166	40.456
NIS Oil Trading, Frankfurt, Germany	-	52.757
	5.166	93.213
Receivables		
O Zone a.d. Belgrade, Serbia	5.913	219.456
NIS Oil Trading, Frankfurt, Germany	-	102.565
Svetlost, Bujanovac, Serbia	44.964	25.741
NIS Oversiz, Moscow, Russia	1.013	22
Ranis, Moscow area, Russia	37.255	28.669
Gazprom Neft Trading, Austria	-	556.892
	89.145	933.345
Total receivables:	**94.311**	**1.026.558**

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

27. RELATED PARTIES TRANSACTIONS (continued)

	September 30, 2010	December 31, 2009
Liabilities		
O Zone a.d. Belgrade, Serbia	(16.796)	(17.060)
NIS Oil Trading, Frankfurt, Germany	-	(45.962)
Svetlost, Bujanovac, Serbia	(4)	(4)
Gazprom Neft Trading, Austria	(29.372.917)	(3.011.316)
Gazprom Neft, St Petersburg, Russia	(12.333.672)	(5.804.462)
	(41.723.389)	(8.878.804)
Advances received		
O Zone a.d. Belgrade, Serbia	(705)	(7)
NIS Oil Trading, Frankfurt, Germany	-	(4)
Svetlost, Bujanovac, Serbia	(18)	(18)
	(723)	(29)
Total liabilities:	(41.724.112)	(8.878.833)
Liabilities, net:	**(41.629.801)**	**(7.852.275)**

	Nine-month period ended September 30, 2010	2009
Sales		
O Zone a.d. Belgrade, Serbia	5.798	3.660
Svetlost, Bujanovac, Serbia	453.292	73.753
	459.090	77.413
Other operating income		
O Zone a.d. Belgrade, Serbia	552	31.309
	552	31.309
Cost of salaries, benefits and other personnel expenses		
O Zone a.d. Belgrade, Serbia	(65.052)	(38.470)
	(65.052)	(38.470)
Other operating expenses		
O Zone a.d. Belgrade, Serbia	(3.973)	(31.309)
Gazprom Neft, St Petersburg, Russia	(103.444)	-
	(107.417)	(31.309)
	287.173	**38.943**

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

27. RELATED PARTIES TRANSACTIONS (continued)

	Nine-month period ended September 30, 2010	2009
Financial income		
O Zone a.d. Belgrade, Serbia	-	(63)
	-	(63)
Financial expenses		
O Zone a.d. Belgrade, Serbia	(213)	(10.190)
Svetlost, Bujanovac, Serbia	-	(7.599)
Gazprom Neft, St Petersburg, Russia	(10.533)	-
	(10.746)	(17.789)
	(10.746)	**(17.852)**
Other income		
O Zone a.d. Belgrade, Serbia	36	-
NIS Oil Trading, Frankfurt, Germany	42.744	-
	42.780	-
Other expenses		
O Zone a.d. Belgrade, Serbia	(2.951)	(1.194)
Svetlost, Bujanovac, Serbia	(19.204)	(1.080)
	(22.155)	(2.274)
	20.625	**(2.274)**

Transactions with state controlled institution and companies:

	Receivables		Advances	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
Airport Nikola Tesla	5.929	9.307	-	-
JAT Airways	573.150	152.056	6	13
HIP Petrohemija	1.306.683	605.633	-	-
EPS Elektrovojvodina	4.778	4.892	9.014	208
MUP Republic of Serbia	366.778	335.356	1	-
RTB BOR Group	2.004.654	1.981.689	31.453	31.453
Srbijagas	7.096.140	6.337.810	362	362
Telekom Srbija	39.250	35.452	-	190
Heating companies (sum)	347.132	1.283.834	1.609	-
Road companies (sum)	4.734	6.092	-	2.300
Army of Serbia	233.995	233.995	-	439
	11.983.223	10.986.116	42.445	34.965

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

27. RELATED PARTIES TRANSACTIONS (continued)

	Liabilities		Advances received	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
Airport Nikola Tesla	4.890	222	-	-
JAT Airways	-	9	16	92
HIP Petrohemija	87.047	114.314	280	261
EPS Elektrovojvodina	1.129	240	-	6
MUP Republic of Serbia	1	20	75	86
RTB BOR Group	-	207	-	1.603
Srbijagas	268.895	272.053	18.249	23.759
Telekom Srbija	16.957	11.244	61	-
Heating companies (sum)	2.660	808	905	11.444
Road companies (sum)	-	-	274	3
Army of Serbia	-	560	116	116
	381.579	399.677	19.976	37.370

28. CONTINGENT LIABILITIES

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.

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.

According to SPA, the Company engaged 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.

28. CONTINGENT LIABILITIES (continued)

Environmental protection (continued)

In December 2009, the Company engaged D'Appolonia, Italy to assess current environmental condition of the Company. The results are expected to be published by the end of 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. 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 September 30, 2010.

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 milions 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

There were no significant events after the balance sheet date.

Novi Sad, 28.10.2010

The person responsible for the preparation of financial statements	**M.P.**	**Legal representative**
______________________________		______________________________