



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

Interim Condensed Financial Statements

**As of June 30, 2011 and December 31, 2010 and
for the six month period ended June 30, 2011 and 2010
(unaudited)**

Novi Sad, August 5, 2011

Interim Condensed Financial Statements

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

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Interim Condensed Financial Statements

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

BALANCE SHEET

ASSETS	Notes	June 30, 2011	December 31, 2010
		<i>(unaudited)</i>	
Non-current assets			
Intangible assets		4,779,504	4,835,761
Property, plant and equipment	5	106,014,884	98,014,391
Investment property		1,428,918	1,393,170
Investments in equity instruments		2,583,240	2,578,753
Other long term investments		1,382,149	1,504,268
		116,188,695	108,326,343
Current assets			
Inventories	6	42,180,126	33,999,967
Trade receivables	7	21,866,939	12,945,719
Short term financial investments		2,043,979	2,513,880
VAT and prepaid expenses		3,389,020	3,940,358
Cash and cash equivalents	8	13,230,463	10,595,830
Deferred tax assets		4,804,904	4,804,904
		87,515,431	68,800,658
Total assets		203,704,126	177,127,001
Off-balance sheet assets		84,597,244	88,793,346
LIABILITIES			
Equity			
Share capital	9	87,128,024	87,128,024
Reserves		889,424	889,424
Revaluation reserves		12	39
Unrealized gains from securities		46,690	48,417
Unrealized losses from securities		(58,128)	(49,236)
Accumulated loss		(19,585,110)	(40,997,954)
		68,420,912	47,018,714
Long-term provisions and liabilities			
Long-term provisions		18,422,144	18,501,540
Long-term loans	10	23,243,814	26,645,540
Other long-term liabilities	11	26,200,584	22,281,614
		67,866,542	67,428,694
Short-term liabilities			
Short-term financial liabilities	12	17,341,195	21,805,638
Trade and other payables	13	34,433,473	24,944,688
Other short-term liabilities		6,034,532	6,394,456
Liabilities for VAT and other taxes and deferred income		7,234,379	7,456,869
Income tax liabilities		508,610	619,407
		65,552,189	61,221,058
Deferred tax liabilities		1,864,483	1,458,535
Total liabilities		203,704,126	177,127,001
Off-balance sheet liabilities		84,597,244	88,793,346

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Interim Condensed Financial Statements

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

STATEMENT OF INCOME

	Notes	Six-month period ended June 30,	
		2011 <i>(unaudited)</i>	2010 <i>(unaudited)</i>
Operating income			
Sales	14	83,057,785	63,402,191
Work performed by the entity and capitalized		1,356,198	932,885
Increase in the value of finished goods and work in progress		2,983,189	4,543,995
Other operating income		132,587	63,895
		<u>87,529,759</u>	<u>68,942,966</u>
Operating expenses			
Cost of goods sold		(5,933,319)	(1,037,333)
Cost of material	15	(44,592,864)	(42,649,421)
Cost of salaries, benefits and other personnel expenses	16	(10,026,035)	(11,154,093)
Depreciation and provisions		(3,757,377)	(3,411,869)
Other operating expenses	17	(6,446,799)	(4,944,643)
		<u>(70,756,394)</u>	<u>(63,197,359)</u>
Net operating income		<u>16,773,365</u>	<u>5,745,607</u>
Financial income	18	7,999,286	2,797,797
Financial expenses	19	(2,261,011)	(19,650,421)
Other income		2,323,248	3,803,491
Other expenses		(1,994,762)	(2,522,725)
Income (loss) before income tax		<u>22,840,126</u>	<u>(9,826,251)</u>
Income tax		<u>(1,427,282)</u>	<u>231,915</u>
Income tax expense		(1,021,333)	(73,949)
Deferred tax (expenses) income		(405,949)	305,864
Net Profit (Loss) for the period		<u>21,412,844</u>	<u>(9,594,336)</u>
Earnings (loss) per share			
- from continuing operations	20	0.13	(0.06)

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Interim Condensed Financial Statements

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

CASH FLOW STATEMENT

	Six-month period ended June 30,	
	2011 <i>(unaudited)</i>	2010 <i>(unaudited)</i>
Cash flows from operating activities		
Sales and advances received	122,583,168	107,513,134
Interest from operating activities	415,996	597,601
Other inflow from operating activities	132,587	63,895
<i>Cash inflow from operating activities</i>	<u>123,131,751</u>	<u>108,174,630</u>
Payments and prepayments to suppliers	(62,998,234)	(61,154,140)
Salaries, benefits and other personal expenses	(10,740,273)	(9,443,844)
Interest paid	(1,557,824)	(1,486,970)
Income tax paid	(1,132,130)	(197,907)
Payments for other public revenues	(33,788,706)	(33,257,408)
<i>Cash outflow from operating activities</i>	<u>(110,217,167)</u>	<u>(105,540,269)</u>
Net cash inflow from operating activities	<u>12,914,584</u>	<u>2,634,361</u>
Cash flows from investing activities		
Proceeds from sale of intangible assets and property, plant and equipment	7,303	20,744
<i>Cash inflow from investing activities</i>	<u>7,303</u>	<u>20,744</u>
Purchase of shares (net outflow)	(19,011)	(87,890)
Purchase of intangible assets, property, plant and equipment	(10,723,029)	(4,588,162)
<i>Cash outflow from investing activities</i>	<u>(10,742,040)</u>	<u>(4,676,052)</u>
Net cash outflow from investing activities	<u>(10,734,737)</u>	<u>(4,655,308)</u>
Cash flows from financing activities		
Proceeds from long term and short term borrowings	3,193,380	8,486,157
Proceeds from other long term and short term liabilities	4,412,700	3,333,070
<i>Cash inflow from financing activities</i>	<u>7,606,080</u>	<u>11,819,227</u>
Outflows from long term, short term and other liabilities	(6,611,112)	(12,063,594)
<i>Cash outflow from financing activities</i>	<u>(6,611,112)</u>	<u>(12,063,594)</u>
Net cash inflow (outflow) from financing activities	<u>994,968</u>	<u>(244,367)</u>
Net cash flows	3,174,815	(2,265,314)
Cash and cash equivalents at beginning of period	10,595,830	8,671,501
Currency translation gains on cash and cash equivalents	417,981	345,160
Currency translation losses on cash and cash equivalents	(958,163)	(178,187)
Cash and cash equivalents at end of period	<u>13,230,463</u>	<u>6,573,160</u>

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Interim Condensed Financial Statements

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

STATEMENT OF CHANGES IN EQUITY

for the six month period ended June 30, 2011

<i>(unaudited)</i>	Share capital	Other capital	Reserves	Revaluation reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated loss	Total
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
Income								
- Loss	-	-	-	-	-	-	(9,594,336)	(9,594,336)
- Losses from securities	-	-	-	-	(76,830)	(21,224)	-	(98,054)
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
Balance as at January 1, 2011	81,530,200	5,597,824	889,424	39	48,417	(49,236)	(40,997,954)	47,018,714
Income								
- Net income	-	-	-	-	-	-	21,412,844	21,412,844
- Losses from securities	-	-	-	-	(1,727)	(8,892)	-	(10,619)
Decrease through transfers and other changes, equity	-	-	-	(27)	-	-	-	(27)
Balance as at June 30, 2011	81,530,200	5,597,824	889,424	12	46,690	(58,128)	(19,585,110)	68,420,912

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Notes to Interim Condensed Financial Statements

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

1. GENERAL INFORMATION

These interim condensed financial statements have been approved by CEO and they were not audited.

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

These condensed interim financial statements for the six-month period ended June 30, 2011 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, 2010. 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 Interim condensed 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.

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, 2010.

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Notes to Interim Condensed Financial Statements*(All amounts are in 000 RSD, unless otherwise stated)***4. SEGMENT INFORMATION**

Operating segments, are segments whose operating results are regularly reviewed by the Chief Operating Decision Maker („CODM“). In Company, Executive Committee is seen as CODM.

As of June 30, 2011 business activities of the Company are organized into five operating segments (with the change of business structure in 2010 Oil field services became the new reportable segment):

1. Exploration and production of oil and natural gas,
2. Oil field services,
3. Refining,
4. Oil and oil products trading,
5. Other – administration.

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. Oil field services derives revenue from drilling services, constructing and services of geophysical measurement and transportation services,
3. Refining segments derives its revenue from sale of oil derivatives to NIS trade segment,
4. Oil and derivatives trading derives revenue from retail and wholesale activities consistent with the policy.

Reportable segments results for the six month period ended June 30, 2011 are shown in the following table:

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Segment revenue	51,945,756	7,588,275	92,840,652	136,033,860	4,083,047	292,491,590
Inter-segment revenue	41,386,162	7,129,648	79,321,033	73,136,697	3,988,291	204,961,831
Total revenue	10,559,594	458,627	13,519,619	62,897,163	94,756	87,529,759
Operating income (expenses)	28,909,635	(1,434,383)	(9,141,205)	(1,468,093)	(92,589)	16,773,365
Financial income	85,623	10,726	1,987,351	304,027	3,350,548	5,738,275
Other income	229,171	(73,231)	(109,313)	54,556	227,303	328,486
Profit / loss before tax	29,224,429	(1,496,888)	(7,263,167)	(1,109,510)	3,485,262	22,840,126
Deferred tax expense	-	-	-	-	(405,949)	(405,949)
Income tax expense	-	-	-	-	(1,021,333)	(1,021,333)
Net profit / (loss)	29,224,429	(1,496,888)	(7,263,167)	(1,109,510)	2,057,980	21,412,844

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Notes to Interim Condensed Financial Statements

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

4. SEGMENT INFORMATION (continued)

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

	Exploration and production	Refining	Trade	Other	Total
Segment revenue	29,628,326	65,997,237	65,862,992	3,050,936	164,539,491
Inter-segment revenue	25,085,727	57,134,316	10,465,402	2,911,080	95,596,525
Total revenue	4,542,599	8,862,921	55,397,590	139,856	68,942,966
Operating income (expenses)	12,985,993	(5,407,588)	(1,437,003)	(395,795)	5,745,607
Financial income (expenses)	577,587	(4,027,615)	212,158	(13,614,754)	(16,852,624)
Other income	154,208	66,722	590,384	469,452	1,280,766
Profit / loss before tax	13,717,788	(9,368,481)	(634,461)	(13,541,097)	(9,826,251)
Deferred tax income	-	-	-	305,864	305,864
Income tax expense	-	-	-	(73,949)	(73,949)
Net profit / (loss)	13,717,788	(9,368,481)	(634,461)	(13,309,182)	(9,594,336)

Sales among operating segment are performed in accordance with a Group's transfer pricing policy.

Assets and liabilities of operating segments as of June 30, 2011 are presented in the following table:

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Assets	34,357,413	7,112,900	83,449,458	39,745,462	39,038,893	203,704,126
Liabilities	(10,900,161)	(1,317,103)	(32,605,096)	(9,153,997)	(81,306,857)	(135,283,214)
Net assets	23,457,252	5,795,797	50,844,362	30,591,465	(42,267,964)	68,420,912

Assets and liabilities of operating segments as of December 31, 2010 are presented in the following table:

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Assets	30,433,074	7,765,691	74,665,749	32,569,271	31,693,216	177,127,001
Liabilities	(11,597,999)	(1,345,711)	(23,261,474)	(10,445,114)	(83,457,989)	(130,108,287)
Net assets	18,835,075	6,419,980	51,404,275	22,124,157	(51,764,773)	47,018,714

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

	Six-month period ended June 30,	
	2011	2010
Sale of oil and oil products	81,497,829	61,926,654
Sale of services and other sales	1,559,956	1,475,537
	83,057,785	63,402,191

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5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in other PP&E	Advances to suppliers	Total
At January 1, 2010								
Cost	11,209,371	55,763,533	53,911,498	8,709,106	89,396	110,630	5,012,342	134,805,876
Accumulated depreciation and impairment	(723,950)	(18,824,017)	(26,801,956)	(4,099,314)	(43,877)	(103,676)	(76,577)	(50,673,367)
Net book amount	10,485,421	36,939,516	27,109,542	4,609,792	45,519	6,954	4,935,765	84,132,509
Year ended December 31, 2010								
Opening net book amount	10,485,421	36,939,516	27,109,542	4,609,792	45,519	6,954	4,935,765	84,132,509
Additions	65,706	7,274,440	1,616,169	5,365,680	535	-	9,444,345	23,766,875
Other transfers	-	(1,172,903)	582,436	685,001	43,877	-	-	138,411
Disposals and advances paid used	(579)	(5,764)	(40,920)	(162,458)	-	-	(1,667,690)	(1,877,411)
Depreciation	-	(3,239,131)	(3,335,029)	-	-	(6,234)	-	(6,580,394)
Adjust. of depreciat. on impaired property	-	(273,123)	-	-	-	-	-	(273,123)
Impairment charge	(13,423)	(503,581)	(376,299)	(48,838)	(1,426)	-	-	(943,567)
Transfer from intangible assets	-	259	-	(14,023)	-	-	-	(13,764)
Transfer from investment property	-	(455,926)	-	-	-	-	-	(455,926)
Transferred to disposal group classified as held for sale	-	28,390	92,384	-	7	-	-	120,781
Closing net book amount	10,537,125	38,592,177	25,648,283	10,435,154	88,512	720	12,712,420	98,014,391
At December 31, 2010								
Cost	11,274,498	62,752,974	55,498,519	13,801,387	89,938	110,630	12,787,121	156,315,067
Accumulated depreciation and impairment	(737,373)	(24,160,797)	(29,850,236)	(3,366,233)	(1,426)	(109,910)	(74,701)	(58,300,676)
Net book amount	10,537,125	38,592,177	25,648,283	10,435,154	88,512	720	12,712,420	98,014,391
Period ended June 30, 2011								
Opening net book amount	10,537,125	38,592,177	25,648,283	10,435,154	88,512	720	12,712,420	98,014,391
Additions	1,024	1,797,719	695,772	6,438,892	527	-	4,741,458	13,675,392
Other transfers	(327)	433,879	(439,431)	45,582	867	-	-	40,570
Disposals and advances paid used	(231)	(6,696)	(12,470)	(1,397)	(324)	-	(2,633,299)	(2,654,417)
Depretiation	-	(1,342,333)	(1,607,008)	-	-	(180)	-	(2,949,521)
Impairment charge	-	(5,812)	(2,717)	(16,983)	(18)	-	-	(25,530)
Transfer from intangible assets	-	-	-	(65,808)	-	-	-	(65,808)
Transfer to investment property	(3,000)	(17,193)	-	-	-	-	-	(20,193)
Closing net book amount	10,534,591	39,451,741	24,282,429	16,835,440	89,564	540	14,820,579	106,014,884
At June 30, 2011								
Cost	11,258,955	65,126,791	55,539,735	19,927,470	90,123	110,630	14,895,254	166,948,958
Accumulated depreciation and impairment	(724,364)	(25,675,050)	(31,257,306)	(3,092,030)	(559)	(110,090)	(74,675)	(60,934,074)
Net book amount	10,534,591	39,451,741	24,282,429	16,835,440	89,564	540	14,820,579	106,014,884

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Notes to Interim Condensed Financial Statements

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

5. PROPERTY, PLANT AND EQUIPMENT (continued)

The most significant investments for the six month period ended June 30, 2011 in amount of 3,586,607 thousand RSD mostly relate to investments in MHC/DHT project (investments in construction of Mild Hydrocracking Complex and Hydrofinishing in Pančevo Oil Refinery). Balance of advances paid to supplier, related to the same project, as of June 30, 2011 amounted to 8,744,442 thousand RSD.

6. INVENTORIES

	June 30, 2011	December 31, 2010
Raw materials	23,740,214	19,319,424
Finished goods	10,450,133	6,995,641
Work in progress	6,083,368	6,586,856
Spare parts	3,083,589	3,089,881
Merchandise	2,856,165	1,925,793
Tools	146,831	120,241
	<u>46,360,300</u>	<u>38,037,836</u>
Advances	1,098,639	1,297,110
<i>Less provision:</i>		
- for inventories	(4,750,883)	(4,771,037)
- for advances	(527,930)	(563,942)
	<u>(5,278,813)</u>	<u>(5,334,979)</u>
Total inventories – net	<u>42,180,126</u>	<u>33,999,967</u>

Movement on inventory provision is as follows:

	2011	2010
At January 1st	(5,334,979)	(5,348,930)
Provision for impaired inventories charged to the period	(12,189)	(54,383)
Provision reversed	-	60,548
Writte off	48,201	27,970
Other	20,154	(20,184)
At June 30 / December 31	<u>(5,278,813)</u>	<u>(5,334,979)</u>

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Notes to Interim Condensed Financial Statements*(All amounts are in 000 RSD, unless otherwise stated)***7. TRADE AND OTHER RECEIVABLES**

	June 30, 2011	December 31, 2010
Trade receivables		
- domestic	23,873,340	16,054,686
- foreign	1,471,795	1,291,755
- related parties	2,087,343	1,192,453
	<u>27,432,478</u>	<u>18,538,894</u>
Receivables from specific operations	8,024,551	8,037,783
Interest receivables	5,168,378	4,922,863
Receivables from employees	89,673	112,592
Other receivables	7,546,186	7,437,431
	<u>12,804,237</u>	<u>12,472,886</u>
	<u>48,261,266</u>	<u>39,049,563</u>
<i>Less provision:</i>		
- trade receivables	(6,023,142)	(6,022,505)
- receivables from specific operations	(7,982,389)	(7,971,114)
- interest and other receivables	(12,388,796)	(12,110,225)
	<u>(26,394,327)</u>	<u>(26,103,844)</u>
Total receivables – net	<u>21,866,939</u>	<u>12,945,719</u>

Increase of domestic trade receivables, as of June 30, 2011 amounted 23,873,340 thousand RSD, mostly relates to the increase of not-due receivables participation in total receivables.

Trade receivables as of June 30, 2011 in amount 6,208,421 thousand RSD 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 327,595 thousand RSD (December 31, 2010: 129,960 thousand RSD).

The ageing analysis of trade receivables is as follows:

	June 30, 2011	December 31, 2010
Up to 3 months	21,224,057	13,232,787
Over 3 months	6,208,421	5,306,107
	<u>27,432,478</u>	<u>18,538,894</u>

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Notes to Interim Condensed Financial Statements*(All amounts are in 000 RSD, unless otherwise stated)***7. TRADE AND OTHER RECEIVABLES (continued)**

As of June 30, 2011 trade receivables in amount of 6,023,142 thousand RSD (December 31, 2010: 6,022,505 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, 2011	December 31, 2010
Up to 3 months	142,316	846,358
Over 3 months	5,880,826	5,176,147
	6,023,142	6,022,505

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

	June 30, 2011	December 31, 2010
RSD	46,651,048	37,622,691
EUR	505,257	228,573
USD	1,104,751	1,197,914
GBP	135	317
RUB	22	22
SEK	7	-
CHF	46	46
	48,261,266	39,049,563

8. CASH AND CASH EQUIVALENTS

	June 30, 2011	December 31, 2010
Cash in bank	13,007,795	10,485,780
Cash on hand	173,165	33,512
Other cash equivalents	49,503	76,538
	13,230,463	10,595,830

As at June 30, 2011 short term bank deposits in amount 7,257,288 thousand RSD (December 31, 2010: 10,205,106 thousand RSD) represent short term deposits in banks with due date within 30 days are presented in line cash in bank.

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Notes to Interim Condensed Financial Statements

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

9. SHARE CAPITAL

Share capital represent share capital of publicly listed company.

In accordance with the following documents: The Sale and Purchase Agreement No OV. II 266/2009, dated February 10, 2009 that was made between the Republic of Serbia and the Gazprom Neft company, the Law on the Joint stock companies takeover, Conclusion of The Government of The Republic of Serbia 05 No 023-9986/2010 dated December 30, 2010, The Decision of The Securities Commission on the approval of takeover bid No 4/0-32-172/8-11 dated 27.01.2011, on January 31, 2011 Gazprom Neft announced takeover bid to acquire shares of NIS a.d. Novi Sad from minority shareholders i.e. 31,180,256 ordinary shares or 19.12% of the total number of the ordinary shares. The bid was valid for 45 days until 16.03.2011 when 8,405,087 ordinary shares were acquired or 5.15% of the total number of ordinary shares at a price of 506.48 RSD per share that is the equivalent of 4.80996 EUR per share as of January 13, 2011.

The structure of the share capital as at June 30, 2011 was:

Shareholders	Number of shares	Structure in %
Gazprom Neft	91,565,887	56.15%
Republic of Serbia	48,715,379	29.88%
Erste bank custody	697,856	0.43%
Zagrebačka banka d.d.	590,326	0.36%
The Royal bank of Scotland n.v.	204,682	0.13%
Citigroup global market ltd	152,750	0.09%
Julius bear multipartner-Balkan	97,986	0.06%
Hypo kastodi 4	76,706	0.05%
Unicredit Bank Austria	75,253	0.05%
East Capital Asset Manag.	66,357	0.04%
Other	20,817,218	12.77%
	163,060,400	100.00%

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Notes to Interim Condensed Financial Statements

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

10. LONG TERM LOANS

	June 30, 2011	December 31, 2010
Domestic	19,027,890	22,162,259
Foreign	19,517,112	24,244,622
	<u>38,545,002</u>	<u>46,406,881</u>
Current portion of long-term loans	(15,301,188)	(19,761,341)
Total	<u>23,243,814</u>	<u>26,645,540</u>

The maturity of non-current loans was as follows:

	June 30, 2011	December 31, 2010
Between 1 and 2 years	9,952,118	14,747,653
Between 2 and 5 years	6,788,064	4,758,228
Over 5 years	6,503,632	7,139,659
	<u>23,243,814</u>	<u>26,645,540</u>

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

	June 30, 2011	December 31, 2010
USD	29,704,594	36,009,703
EUR	8,397,357	9,900,092
JPY	440,310	494,145
RSD	2,741	2,941
	<u>38,545,002</u>	<u>46,406,881</u>

The carrying amounts and fair value of the non-current borrowings are equal as they are received under market conditions.

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

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

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Notes to Interim Condensed Financial Statements

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

10. LONG TERM LOANS (continued)

The carrying amounts of the Company's long term loans as of June 30, 2011 and December 31, 2010:

Creditor	Currency	June 30, 2011	December 31, 2010
Domestic long term loans			
Alfa bank Srbija, Belgrade	USD	5,344,120	6,920,531
NLB bank, Novi Sad (London club)	USD	42,683	49,678
NLB bank, Novi Sad (Paris club)	USD	450,423	513,656
NLB bank, Novi Sad (Paris club)	JPY	440,310	494,145
Erste bank, Novi Sad (London club)	USD	4,059	4,725
Erste bank, Novi Sad (Paris club)	EUR	443,729	463,078
Erste bank, Novi Sad (Paris club)	USD	255,809	290,997
Hypo Alpe Adria Bank, Belgrade	EUR	510,608	768,379
Piraeus bank, Belgrade	USD	4,803,506	5,391,054
Privredna bank, Pančevo (Paris club)	EUR	227,899	239,395
Privredna bank, Pančevo (Paris club)	USD	1,466,614	1,679,068
Government of Republic of Serbia (IBRD)	EUR	4,540,914	4,789,655
Government of Republic of Serbia, Agency for deposit assurance	USD	494,475	554,957
Other loans	RSD	2,741	2,941
		19,027,890	22,162,259
Foreign long term loans			
Moscow bank, Russian Federation	USD	7,063,980	7,928,020
EFG NEF BV, Holland	USD	3,877,689	4,522,248
Erste Bank, Holland	EUR	2,305,420	3,164,946
VUB (Bank Intesa), Slovakia	USD	3,531,990	3,964,010
NBG Bank, Greece	USD	1,504,114	2,248,855
NBG Bank, Greece	EUR	368,787	474,639
Sinochem , Great Britain	USD	865,132	1,941,904
		19,517,112	24,244,622
Less current portion of long-term loans		(15,301,188)	(19,761,341)
		23,243,814	26,645,540

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Notes to Interim Condensed Financial Statements

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

10. LONG TERM LOANS (continued)

	Currency	Current portion		Long term	
		June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Domestic long term loans					
Alfa bank Srbija, Belgrade	USD	1,644,345	1,845,475	3,699,775	5,075,056
NLB bank, Novi Sad (London club)	USD	3,162	3,548	39,521	46,130
NLB bank, Novi Sad (Paris club)	USD	16,042	16,834	434,381	496,822
NLB bank, Novi Sad (Paris club)	JPY	13,918	14,414	426,392	479,731
Erste bank, Novi Sad (London club)	USD	301	337	3,758	4,388
Erste bank, Novi Sad (Paris club)	EUR	13,382	12,850	430,347	450,228
Erste bank, Novi Sad (Paris club)	USD	7,714	8,075	248,095	282,922
Hypo Alpe Adria Bank, Belgrade	EUR	471,330	485,292	39,278	283,087
Piraeus bank, Belgrade	USD	-	-	4,803,506	5,391,054
Privredna bank, Pančevo (Paris club)	EUR	9,872	9,708	218,027	229,688
Privredna bank, Pančevo (Paris club)	USD	63,125	67,644	1,403,489	1,611,424
Government of Republic of Serbia (IBRD)	EUR	221,893	228,465	4,319,021	4,561,190
Government of Republic of Serbia, Agency for deposit assurance	USD	-	-	494,475	554,957
Other loans	RSD	407	402	2,334	2,538
		<u>2,465,491</u>	<u>2,693,044</u>	<u>16,562,399</u>	<u>19,469,215</u>
Foreign long term loans					
Moscow bank, Russian Federation	USD	7,063,980	7,928,020	-	-
EFG NEF BV, Holland	USD	2,185,949	340,508	1,691,740	4,181,740
Erste Bank, Holland	EUR	1,536,947	1,582,473	768,473	1,582,473
VUB (Bank Intesa), Slovakia	USD	-	3,964,010	3,531,990	-
NBG Bank, Greece	USD	999,296	1,121,527	504,818	1,127,328
NBG Bank, Greece	EUR	184,393	189,855	184,394	284,783
Sinohem, Great Britain	USD	865,132	1,941,904	-	-
		<u>12,835,697</u>	<u>17,068,297</u>	<u>6,681,415</u>	<u>7,176,324</u>
		<u>15,301,188</u>	<u>19,761,341</u>	<u>23,243,814</u>	<u>26,645,539</u>

11. OTHER LONG-TERM LIABILITIES

	June 30, 2011	December 31, 2010
Liabilities to Parent	26,131,794	22,193,617
Liabilities for financial lease	67,581	86,788
Other long-term liabilities	1,209	1,209
	<u>26,200,584</u>	<u>22,281,614</u>

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Notes to Interim Condensed Financial Statements

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

11. OTHER LONG-TERM LIABILITIES (continued)

a) Liabilities to parent

As at June 30, 2011 other long-term liabilities to the Parent in the amount of 26,131,794 thousand RSD (EUR 255,036,148) relate to borrowings from JSC 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.

12. SHORT TERM FINANCIAL LIABILITIES

	June 30, 2011	December 31, 2010
Short term loans	2,004,540	2,004,540
Current portion of long term loans (note 10)	15,301,188	19,761,341
Current portion of financial lease	35,413	39,716
Other short term liabilities	54	41
	17,341,195	21,805,638

13. TRADE AND OTHER PAYABLES

	June 30, 2011	December 31, 2010
Advances received	1,779,423	2,061,165
Trade payables:		
- domestic	1,777,006	2,129,440
- foreign	5,953,562	647,824
Trade payables – parents, subsidiaries and other related parties	24,521,244	19,478,590
Liabilities from other operations	402,238	627,669
	34,433,473	24,944,688

Liabilities to foreign suppliers as of June 30, 2011 in the amount of 5,953,562 thousand RSD (December 31, 2010: 647,824 thousand RSD) mostly relate to liabilities towards Glencore Energy, London for crude oil purchase in the total amount of 4,764,529 thousand RSD.

As at June 30, 2011 payables to parents, subsidiaries and other related parties in the amount of 24,521,244 thousand RSD (December 31, 2010: 19,478,590 thousand RSD) mostly relate to liabilities for delivered crude oil by Gazprom Neft Trading, Austria in the amount of 24.307.238 thousand RSD (December 31, 2010: 19,376,889 thousand RSD).

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Notes to Interim Condensed Financial Statements

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

14. SALES

	Six-month period ended June 30,	
	2011	2010
Sales		
- domestic	68,894,268	55,994,464
- foreign	8,658,716	5,711,565
	<u>77,552,984</u>	<u>61,706,029</u>
Revenue from sales to subsidiaries and other related parties	<u>5,504,801</u>	<u>1,696,162</u>
	<u>83,057,785</u>	<u>63,402,191</u>

Analysis of sales in accordance with IFRS 8 “Operating segments” are presented in note 4.

15. COST OF MATERIAL

	Six-month period ended June 30,	
	2011	2010
Cost of raw materials	43,268,016	41,301,652
Cost of office and other material	408,004	462,089
Other fuel and energy expenses	916,844	885,680
	<u>44,592,864</u>	<u>42,649,421</u>

16. COST OF SALARIES, BENEFITS AND OTHER PERSONNEL EXPENSES

	Six-month period ended June 30,	
	2011	2010
Wages and salaries (gross)	7,049,463	6,528,423
Taxes and contributions on wages and salaries paid by employer	1,152,787	1,151,985
Cost for temporary service agreement	148,824	151,119
Cost of other temporary service agreements	7,190	33,279
Fees paid to management and supervisory board members	14,213	6,444
Cost for employees termination payments	1,061,046	2,838,513
Other personal expenses and benefits	592,512	444,330
	<u>10,026,035</u>	<u>11,154,093</u>

Termination costs in the amount of 1,061,046 thousand RSD relate to costs incurred in relation to voluntary leave program. Total number of employees who accepted the termination of employment in 2011 is 417 (2010: 1,148 employees).

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Notes to Interim Condensed Financial Statements

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

**16. COST OF SALARIES, BENEFITS AND OTHER PERSONNEL EXPENSES
(continued)**

	Six-month period ended June 30,	
	2011	2010
Average number of people employed	9,899	11,009

17. OTHER OPERATING EXPENSES

	Six-month period ended June 30,	
	2011	2010
Mineral extraction tax	998,529	590,383
Production services	902,135	702,307
Costs of non production services	838,593	898,509
Transportation services	797,841	740,407
Cost of custom duties, property taxes and other taxes	558,059	550,134
Cost of other services	486,737	348,802
Fee for emergency situations	481,462	-
Maintenance	455,542	351,647
Rental costs	124,241	85,230
Insurance premium	114,697	197,861
Research costs	114,598	65,222
Advertising costs	107,000	60,057
Representation costs	88,518	27,851
Administrative and other taxes	81,964	74,004
Bank charges	70,901	117,339
Cost of legal and consulting services	69,711	48,100
Fairs	2,072	113
Other	154,199	86,677
	6,446,799	4,944,643

Fee for emergency situations in amount 481,462 thousand RSD represents fee calculate in accordance with Emergency situations law.

Notes to Interim Condensed Financial Statements

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

18. FINANCIAL INCOME

	Six-month period ended June 30,	
	2011	2010
Foreign exchange gains	7,313,127	2,194,612
Interest income	685,812	597,601
Other financial income	347	5,584
	7,999,286	2,797,797

19. FINANCIAL EXPENSES

	Six-month period ended June 30,	
	2011	2010
Interest expenses	1,275,193	1,607,727
Foreign exchange losses	958,163	18,040,846
Financial expenses – parent, subsidiaries and other related	26,054	-
Other financial expenses	1,601	1,848
	2,261,011	19,650,421

20. EARNING PER SHARE

	Six-month period ended June 30,	
	2011	2010
Net income (loss)	21,412,844	(9,594,336)
Weighted average number of shares outstanding	163,060,400	163,060,400
Basic Earning per share	0.13	(0.06)

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Notes to Interim Condensed Financial Statements

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

21. RELATED PARTIES TRANSACTIONS

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, that owns 56,15% shares of the Company. The remaining 43,85% of shares are quoted on the Stock Exchange and are owned by various shareholders.

The Company was engaged in business transactions with its related entities during 2011 and 2010. The most significant transactions with related parties in the aforementioned periods related to supply/delivery of crude oil, geophysical research and interpretation services, and travel services.

	June 30, 2011	December 31, 2010
<i>Advances</i>		
O Zone a.d. Belgrade, Serbia	17,101	115
NIS Oversiz, Moscow, Russia	1,225	-
	<u>18,326</u>	<u>115</u>
<i>Receivables</i>		
O Zone a.d. Belgrade, Serbia	217,004	216,034
Svetlost d.o.o., Bujanovac, Serbia	77,711	34,845
Ranis, Moscow area, Russia	28,794	28,799
Jadran-naftagas d.o.o. Banja Luka, Bosnia and Herzegovina	18,956	-
NIS Oversiz, Moscow, Russia	22	1,031
	<u>342,487</u>	<u>280,709</u>
Total receivables:	<u>360,813</u>	<u>280,824</u>
<i>Liabilities</i>		
Gazprom Neft, St Petersburg, Russia	(26.221.228)	(22.262.027)
Gazprom Neft Trading, Austria	(24.307.238)	(19.376.889)
O Zone a.d. Belgrade, Serbia	(5.935)	(5.125)
Svetlost d.o.o., Bujanovac, Serbia	(4)	(4)
	<u>(50,534,405)</u>	<u>(41,644,045)</u>
<i>Advances received</i>		
Gazprom Neft NTC, Moscow, Russia	(6,383)	-
Svetlost d.o.o., Bujanovac, Serbia	(820)	(18)
	<u>(7,203)</u>	<u>(18)</u>
<i>Accrual</i>		
O Zone a.d. Belgrade, Serbia	(956)	(1,788)
Gazprom Neft, St Petersburg, Russia	-	(1,266)
	<u>(956)</u>	<u>(3,054)</u>
Total liabilities:	<u>(50,542,564)</u>	<u>(41,647,117)</u>
Liabilities, net:	<u>(50,181,751)</u>	<u>(41,366,293)</u>

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Notes to Interim Condensed Financial Statements

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

21. RELATED PARTIES TRANSACTIONS (continued)

	Six-month period ended	
	June 30,	
	2011	2010
<i>Sales</i>		
Svetlost d.o.o., Bujanovac, Serbia	349,064	262,607
Jadran-naftagas d.o.o. Banja Luka, Bosnia and Herzegovina	18,956	-
Gazprom Neft NTC, Moscow, Russia	4,981	-
O Zone a.d. Belgrade, Serbia	3,461	4,517
	<u>376,462</u>	<u>267,124</u>
<i>Other operating income</i>		
O Zone a.d. Belgrade, Serbia	609	552
	<u>609</u>	<u>552</u>
<i>Cost of material</i>		
Gazprom Neft Trading, Austria	(32,357,065)	(33,361,177)
	<u>(32,357,065)</u>	<u>(33,361,177)</u>
<i>Cost of salaries, benefits and other personnel expenses</i>		
O Zone a.d. Belgrade, Serbia	(66,909)	(38,072)
	<u>(66,909)</u>	<u>(38,072)</u>
<i>Other operating expenses</i>		
Gazprom Neft, St Petersburg, Russia	(18,233)	-
NIS Oversiz, Moscow, Russia	(11,206)	-
O Zone a.d. Belgrade, Serbia	(1,821)	(522)
	<u>(31,260)</u>	<u>(522)</u>
	<u>(32,078,163)</u>	<u>(33,132,095)</u>
<i>Financial income</i>		
O Zone a.d. Belgrade, Serbia	-	163
	<u>-</u>	<u>163</u>
<i>Financial expenses</i>		
O Zone a.d. Belgrade, Serbia	-	(213)
Gazprom Neft, St Petersburg, Russia	(26,054)	(16,817)
	<u>(26,054)</u>	<u>(17,030)</u>
	<u>(26,054)</u>	<u>(16,867)</u>

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Notes to Interim Condensed Financial Statements

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

21. RELATED PARTIES TRANSACTIONS (continued)

	Six-month period ended June 30,	
	2011	2010
<i>Other income</i>		
Gazprom Neft Trading, Austria	29,426	-
O Zone a.d. Belgrade, Serbia	-	78
NIS Oil Trading, Frankfurt, Germany	-	42,744
	29,426	42,822
<i>Other expenses</i>		
Gazprom Neft Trading, Austria	(68,527)	-
Gazprom Neft, St Petersburg, Russia	(21,250)	-
Svetlost d.o.o., Bujanovac, Serbia	(8,187)	-
O Zone a.d. Belgrade, Serbia	(776)	(2,870)
	(98,740)	(2,870)
	(69,314)	39,952

Transactions with state controlled institution and companies:

	Receivables		Advances	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Airport Nikola Tesla	6,988	13,470	-	-
JAT Airways	208,685	301,330	2	-
HIP Petrohemija	1,949,546	1,116,183	-	-
EPS Elektrovojvodina	16,243	21,336	17,901	442
MUP Republic of Serbia	463,457	492,680	201	198
RTB BOR Group	2,094,452	2,022,461	31,453	31,453
Srbijagas	7,952,161	5,278,026	-	-
Telekom Srbija	105,573	42,133	312	47
Heating companies (sum)	203,715	461,111	500	499
Road companies (sum)	1,300	4,519	5,886	-
Army of Serbia	153,618	203,757	430	-
	13,155,738	9,957,006	56,685	32,639

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Notes to Interim Condensed Financial Statements

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

21. RELATED PARTIES TRANSACTIONS (continued)

	Liabilities		Advances received	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Airport Nikola Tesla	72	304	-	-
JAT Airways	-	-	137	99
HIP Petrohemija	208,236	98,264	4,569	447
EPS Elektrovojvodina	167	1,312	-	-
MUP Republic of Serbia	-	17	250	72
RTB BOR Group	-	-	534	395
Srbijagas	279,658	267,519	12,794	12,804
Telekom Srbija	7,924	3,694	442	56
Heating companies (sum)	1,875	2,616	6,949	29,399
Road companies (sum)	71	35	17	310
Army of Serbia	-	2,113	187	318
	498,003	375,874	25,879	43,900

	Income		Expenses	
	Six-month period ended June 30,			
	2011	2010	2011	2010
Airport Nikola Tesla	48,474	68,028	11,618	2,140
JAT Airways	1,116,012	1,901,013	-	30
HIP Petrohemija	5,128,339	8,174,852	82,043	65,907
EPS Elektrovojvodina	56,972	99,940	336,850	279,470
MUP Republic of Serbia	711,194	1,130,710	241,660	354
RTB BOR Group	756,517	973,434	-	81
Srbijagas	5,079,386	8,402,753	109,501	128,758
Telekom Srbija	163,299	167,067	93,044	86,852
Heating companies (sum)	876,318	3,182,925	41,353	32,670
Road companies (sum)	13,560	41,713	60,766	88,139
Army of Serbia	1,081,903	1,284,038	692	4,668
	15,031,974	25,426,473	977,527	689,069

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

Notes to Interim Condensed Financial Statements

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

22. CONTINGENT LIABILITIES

Transfer of property ownership

In accordance with SPA, Republic of Serbia as the seller is obliged to provide written consent for the transfer of ownership and the right to use property registered with the NIS Registry of fixed assets as at 31 December 2007 year.

Until June 30, 2011 Republic of Serbia made 16 conclusions allowing the ownership transfer in Company favor (1,790 buildings and 564 parcels, on which such facilities are located, or a total of 2,354 real estate, which makes up 27% of the total Company's assets).

23. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date

Novi Sad, 5.08.2011

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

M.P.

Legal representative
