NIS A.D. – Naftna industrija Srbije
Novi Sad

Financial Statements

As of December 31, 2011 and December 31, 2010 and for the year ended December 31, 2011 and 2010

Novi Sad, February 10, 2012

NAFTNA INDUSTRIJA SRBIJE A.D., Novi Sad

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND DECEMBER 31, 2010 AND FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010
AND INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Naftna Industrija Srbije a.d., Novi Sad

We have audited the accompanying financial statements of Naftna Industrija Srbije a.d., Novi Sad (the "Company") which comprise the balance sheet as of 31 December 2011 and the income statement, statement of changes in shareholder's equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes. The statistical annex is an integral part of these financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Naftna Industrija Srbije a.d., Novi Sad as of 31 December 2011 and of its financial performance and cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia.

Milivoje Nesovic
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 10 February 2012

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Financial statements for the year ended December 31, 2011

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

BALANCE SHEET

ASSETS	Notes	December 31, 2011	December 31, 2010
Non-current assets			
Intangible assets	7	4,441,599	4,835,761
Property, plant and equipment	8	124,923,027	98,014,391
Investment property	9	1,338,269	1,393,170
Investments in equity instruments	10	2,542,882	2,578,753
Other long-term investments	11	3,376,034	1,504,268
		136,621,811	**108,326,343**
Current assets			
Inventories	12	35,397,598	33,999,967
Non current assets held for sale		165,371	-
Trade and other receivables	13	20,373,239	12,945,719
Short-term financial investments	14	2,413,567	2,513,880
VAT and prepaid expenses	16	4,626,921	3,940,358
Cash and cash equivalents	15	25,228,726	10,595,830
Deferred tax assets	17	7,875,436	4,804,904
		96,080,858	**68,800,658**
Total assets		**232,702,669**	**177,127,001**
Off-balance sheet assets	18	79,279,565	88,793,346
LIABILITIES AND EQUITY			
Equity			
Share and other capital	19.1	87,128,024	87,128,024
Reserves		889,424	889,424
Revaluation reserves		12	39
Unrealized gains from securities	19.2	29,582	48,417
Unrealized losses from securities	19.2	(64,090)	(49,236)
Accumulated loss		(396,287)	(40,997,954)
		87,586,665	**47,018,714**
Long-term provisions and liabilities			
Long-term provisions	20	13,365,464	18,501,540
Long-term loans	21	33,774,543	26,645,540
Other long-term liabilities	22	47,666,041	22,281,614
		94,806,048	**67,428,694**
Short-term liabilities			
Short-term financial liabilities	23	3,444,922	21,805,638
Trade and other payables	24	29,458,654	24,944,688
Other short-term liabilities	25	6,666,892	6,394,456
Liabilities for VAT, other taxes and deffered income	26	8,087,096	7,456,869
Income tax liabilities		1,491,881	619,407
		49,149,445	**61,221,058**
Deferred tax liabilities	17	1,160,511	1,458,535
Total liabilities and equity		**232,702,669**	**177,127,001**
Off-balance sheet liabilities	18	79,279,565	88,793,346

Notes from page 10 to 80 are part of these Financial Statements.

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

STATEMENT OF INCOME

	Notes	For the year ended December 31, 2011	2010
Operating income			
Sales	27	186,882,958	161,148,850
Work performed by the entity and capitalized		4,478,663	2,906,606
Increase in inventories of finished goods and work in progress		768,451	5,357,982
Other operating income	28	298,141	126,085
		192,428,213	**169,539,523**
Operating expenses			
Cost of goods sold		(12,711,852)	(5,384,481)
Raw material and consumables used	29	(95,536,272)	(95,345,034)
Employee benefits expense	31	(21,744,471)	(21,269,895)
Depreciation, amortisation and provision	30	(6,832,271)	(8,383,146)
Other operating expenses	32	(14,534,161)	(12,967,108)
		(151,359,027)	**(143,349,664)**
Profit from operating activities		**41,069,186**	**26,189,859**
Financial income	33	7,008,996	6,311,641
Financial expenses	34	(8,833,569)	(19,112,780)
Other income	35	7,406,282	5,204,757
Other expenses	36	(6,953,521)	(6,555,506)
Profit before income tax		**39,697,374**	**12,037,971**
Income tax		904,293	4,446,410
Income tax expense	37	(2,464,263)	(831,975)
Deferred tax income	17	3,368,556	5,278,385
Profit for the year		**40,601,667**	**16,484,381**
Earnings per share			
- Basic	38	0.25	0.10

Notes from page 10 to 80 are part of these Financial Statements.

Financial statements for the year ended December 31, 2011

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

STATEMENT OF CASH FLOW

	For the year ended December 31, 2011	2010
Cash flows from operating activities		
Sales and advances received	282,802,307	253,910,032
Interest from operating activities	984,664	571,050
Other inflow from operating activities	298,141	126,085
Cash inflow from operating activities	284,085,112	254,607,167
Payments and prepayments to suppliers	(148,803,500)	(118,935,077)
Salaries, benefits and other personal expenses	(21,599,392)	(20,576,856)
Interest paid	(3,114,515)	(3,002,155)
Income tax paid	(1,591,789)	(197,907)
Payments for other public revenues	(73,990,344)	(94,104,572)
Cash outflow from operating activities	(249,099,540)	(236,816,567)
Net cash generated from operating activities	**34,985,572**	**17,790,600**
Cash flows from investing activities		
Sale of shares	17,103	-
Proceeds from sale of intangible assets and property, plant and equipment	278,989	45,850
Cash inflow from investing activities	296,092	45,850
Purchase of shares (net outflow)	(26,234)	(173,772)
Purchase of intangible assets, property, plant and equipment	(32,509,584)	(17,739,476)
Other financial investments (net outflow)	(2,267,599)	-
Cash outflow from investing activities	(34,803,417)	(17,913,248)
Net cash used in investing activities	**(34,507,325)**	**(17,867,398)**
Cash flows from financing activities		
Proceeds from long-term and short term borrowings	23,406,069	11,761,406
Proceeds from other long-term and short-term liabilities	26,002,087	15,709,941
Cash inflow from financing activities	49,408,156	27,471,347
Outflows from long-term, short-term and other liabilities	(35,177,068)	(25,529,860)
Cash outflow from financing activities	(35,177,068)	(25,529,860)
Net cash provided by financing activities	**14,231,088**	**1,941,487**
Increase in cash and cash equivalents	**14,709,335**	**1,864,689**
Cash and cash equivalents at beginning of period	**10,595,830**	**8,671,501**
Currency translation gains on cash and cash equivalents	1,409,520	880,359
Currency translation losses on cash and cash equivalents	(1,485,959)	(820,719)
Cash and cash equivalents at end of period	**25,228,726**	**10,595,830**

Notes from page 10 to 80 are part of these Financial Statements.

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

STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2011 and 2010

	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
Total increase in previous period	-	-	-	-	-	(21,064)	14,838,437	14,735,547
Total decrease in previous period	-	-	-	-	(81,826)	-	-	-
Balance as at December 31, 2010	**81,530,200**	**5,597,824**	**889,424**	**39**	**48,417**	**(49,236)**	**(40,997,954)**	**47,018,714**
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
Total increase in current period	-	-	-	-	-	(14,854)	40,601,667	40,567,951
Total decrease in current period	-	-	-	(27)	(18,835)	-	-	-
Balance as at December 31, 2011	**81,530,200**	**5,597,824**	**889,424**	**12**	**29,582**	**(64,090)**	**(396,287)**	**87,586,665**

Notes from page 10 to 80 are part of these Financial Statements.

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

STATISTICAL ANNEX
For year ended December 31, 2011 and 2010

GENERAL INFORMATION ON COMPANY	2011	2010
1. Number of months of operations	12	12
2. Code identifying the company's size (1 to 3).	3	3
3. Code identifying the company's ownership structure (1 to 5).	4	4
4. Number of foreign persons, who may be natural persons or legal entities, holding a share in capital.	241	235
5. Average number of employees based on employee position as at each months end.	9,650	10,583

MOVEMENTS WITHIN INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, AND BIOLOGICAL ASSETS/ GROSS	Gross	Accumulated Depreciation	Net
1. Intangible assets			
1.1 Balance as at beginning of the year	7,443,706	2,607,945	4,835,761
1.2. Additions (purchases) during the year	375,514	-	375,514
1.3. Disposals during the year	1,776,669	-	769,676
1.4. Revaluation	-	-	-
1.5. Balance as at year end	6,042,551	1,600,952	4,441,599
2. Property, Plant and Equipment, and Biological Assets			
2.1. Balance as at beginning of the year	157,708,237	58,300,676	99,407,561
2.2. Additions (purchases) during the year	53,129,769	-	53,129,769
2.3. Disposals during the year	21,479,731	-	26,276,034
2.4. Revaluation	-	-	-
2.5. Balance as at year end	189,358,275	63,096,979	126,261,296

INVENTORIES	2011	2010
1. Stock of material	18,440,807	17,828,344
2. Work in progress	5,802,756	6,586,856
3. Finished goods	8,548,192	6,995,641
4. Merchandise	2,220,870	1,855,957
5. Non-current assets available–for-sale	165,371	-
6. Prepayments	384,973	733,169
Total	35,562,969	33,999,967
EQUITY		
Share capital	81,530,200	81,530,200
- foreign capital	45,999,066	41,735,436
Stakes of a limited liability company	-	-
- foreign capital	-	-
Stakes of members of a partnership or limited partnership	-	-
- foreign capital	-	-
State owned capital	-	-
Socially owned capital	-	-
Stakes in cooperatives	-	-
Other equity	5,597,824	5,597,824
Total	87,128,024	87,128,024
SHARE CAPITAL		
1. Ordinary Shares		
1.1. Number of ordinary shares	163,060,400	163,060,400
1.2. Face value of ordinary shares - Total	81,530,200	81,530,200
2. Preference shares	-	-
2.1. Number of preference shares	-	-
2.2. Face value of preference shares - Total	-	-
TOTAL – Face value of shares	81,530,200	81,530,200

Financial statements for the year ended December 31, 2011

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

STATISTICAL ANNEX (continued)

For year ended December 31, 2011 and 2010

	2011	2010
RECEIVABLES AND PAYABLES		
1. Receivables from sales (Balance at year end)	20,031,038	12,516,389
2. Payables from operations (Balance at year end)	29,130,587	24,387,131
3. Receivables from insurance companies for compensation for damage during the year (debit turnover less opening balance)	74,899	69,394
4. VAT – previous tax (annual amount as per tax declarations)	27,246,222	20,548,652
5. Payables from operations (credit turnover less opening balance)	493,575,371	298,263,823
6. Net salaries and fringe benefits payable (credit turnover less opening balance)	13,764,296	13,469,946
7. Tax on salaries and fringe benefits charged to employees payable (credit turnover less opening balance)	2,212,384	2,001,371
8. Contribution on salaries and fringe benefits charged to employees payable (credit turnover less opening balance)	2,473,848	2,425,589
9. Dividends, share in profit and personal earnings of the employer payable (credit turnover less opening balance)	-	7,736,314
10. Fees for services rended by natural persons payable (credit turnover less opening balance)	530,320	337,402
11. VAT liability (annual amount as per tax declarations)	40,024,883	35,540,703
Total	629,063,848	417,296,714
OTHER COSTS AND EXPENSES		
1. Cost of fuel and energy	1,933,667	1,680,326
2. Cost of salaries and fringe benefits (gross)	14,945,910	13,871,982
3. Cost of taxes and contributions on salaries and fringe benefits charged to employer	2,504,933	2,413,378
4. Cost of fees for services rendered by natural persons (gross)	387,898	401,010
5. Cost of fees for members of management and supervisory boards (gross)	28,545	21,132
6. Other personal fees and expenses	3,877,185	4,562,395
7. Production services cost	6,152,554	6,494,122
8. Rental costs	405,846	218,729
9. Rental costs/Land	506	610
10. Research and development costs	177,971	351,105
11. Cost of depreciation	6,655,665	6,864,311
12. Insurance premium costs	221,165	375,446
13. Payment operations costs	248,925	180,261
14. Membership fees	69,281	62,583
15. Taxes	2,822,811	1,773,984
16. Contributions	-	19
17. Interest payable	2,633,575	3,084,263
18. Interest payable and a portion of financial expenses	2,637,411	3,084,263
19. Interest payable on bank loans and loans from other financial organizations	2,472,117	2,996,611
20. Cost of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	57,150	72,484
Total	48,233,115	48,509,014

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

STATISTICAL ANNEX (continued)

For year ended December 31, 2011 and 2010

	2011	2010
OTHER REVENUE		
1. Sales of merchandise	13,908,808	6,086,301
2. Revenues from premiums, subventions, grants, recourses, compensations and tax returns	14,875	2,979
3. Revenues from conditional donations	-	-
4. Revenues from land-rental fees	1,229	1,167
5. Membership fees	-	-
6. Interest receivable	1,372,323	1,410,976
7. Interest receivable incurring from accounts and deposits with banks and other financial organizations	683,553	347,017
8. Revenues from dividends and share in profit	-	-
Total	15,980,788	7,848,440
OTHER INFORMATION		
1. Excise duty liability (as per annual calculation of excise duty)	55,923,060	57,388,780
2. Customs and other import duties calculated (Annual Total as per calculation)	30,203,662	17,767,562
3. Capital subsidies and other government grants for the construction and purchase of fixed assets and intangible assets	-	-
4. Govermnment grants as premiums, recourses and coverage of running operating costs	-	-
5. Other Government grants	-	-
6. Forein donations and other non-returnable funds, received either in cash or in kind from foreign legal and/or natural persons	-	-
7. Personal earnings of the enterprener from net profit (To be completed only by enterpreneurs)	-	-
Total	86,126,722	75,156,342

Notes from page 10 to 80 are part of these Financial Statements.

1. GENERAL INFORMATION

NIS a.d. – Naftna Industrija Srbije, Novi Sad (hereinafter “the Company”) is an oil company operating predominantly in Serbia. The Company’s principal activities include:

- 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 Company was incorporated in accordance with the resolution of Government of Republic of Serbia on 7 July 2005 as the successor of five state owned companies of “Javno Preduzece Naftna Industrija Srbije’’. On February 2, 2009 OAO Gazprom Neft (’’Gazprom Neft’’) has completed acquisition of a 51% stake in NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011 in accordance with the Agreement on sale and purchase of the Company’s shares, Gazprom Neft acquired an additional 5.15% interest in the Company and increased its interest to 56.15%.

Company is publicly company, whose shares are listed on A - Prime Market of Belgrade Stock Exchange. The address of the Company’s registered office is in Novi Sad, no.12 Narodnog fronta Street.

These Financial statements have been approved by CEO.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

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 application of International Finacial Reporting Standards (IFRS), 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.
- Property, plant and equipment were measured at market value by independent appraisal and any revaluation reserves for the excess of fair value against historical value were cancelled against share capital as at 1 January 2006.
- The Company has not consolidated the financial statements of its subsidiaries as in accordance with the Law of Accounting and Auditing of the Republic of Serbia the consolidated financial statements for the current year are required to be filed up to the end of April the following year. These investments are accounted for on a cost basis. Under International Financial Reporting Standards, stand alone financial statements of a Company which has subsidiaries are only allowed if consolidated financial statements are also prepared and issued at the same time.

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 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies are consistent to the policies applied in the financial statements for the year ended December 31, 2010.

3.1. Basis of preparation and presentation of finacial statements

The following new standards and interpretations became effective for the Company from 1 January 2011:

- Amendment to *IAS 24, Related Party Disclosures* (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties [, and provided disclosures of only individually significant transactions with government-related entities.]

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

- **IFRS 1** was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements;
- **IFRS 3** was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3;
- **IFRS 7** was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period;

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

3.1. Basis of preparation and presentation of finacial statements (continued)

- **IAS 27** was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008);

- **IAS 34** was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and

- **IFRIC 13** was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

Other revised standards and interpretations effective for the current period.

IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these financial statements.

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

3.1. Basis of preparation and presentation of finacial statements (continued)

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Company has not early adopted.

- *IFRS 9, Financial Instruments* Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Key features of the standard are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

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

3.1. Basis of preparation and presentation of finacial statements (continued)

New Accounting Pronouncements (continued)

- *IFRS 10, Consolidated Financial Statements* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

- *IFRS 12, Disclosure of Interest in Other Entities*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

- *IFRS 11, Joint Arrangements* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

- *IFRS 13, Fair value measurement*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

- *IAS 27, Separate Financial Statements*, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

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

3.1. Basis of preparation and presentation of finacial statements (continued)

New Accounting Pronouncements (continued)

- *IAS 28, Investments in Associates and Joint Ventures,* (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

- *Disclosures—Transfers of Financial Assets – Amendments to IFRS 7* (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

- Amendments to *IAS 1, Presentation of Financial Statements* (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

- Amended *IAS 19, Employee Benefits* (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

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

3.1. Basis of preparation and presentation of finacial statements (continued)

New Accounting Pronouncements (continued)

- Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements

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 .

(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 (8 years).

3.5. Exploration for and evaluation of mineral resources

(a) *Exploration and evaluation expenditure*

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. Capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure. Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

(b) *Development expenditure*

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized and shown as construction in progress assets according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortization is charged during development.

(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.

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

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

(d) *Depreciation/amortization*

Oil and gas properties/intangible assets are depleted 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.

(e) *Impairment – exploration and evaluation assets*

The exploration property leasehold acquisition costs are tested for impairment when 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.

(f) *Impairment – proved oil and gas properties and intangible assets*

Proven oil and gas properties and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

3.6. Property, plant and equipment

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.

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

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

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 36).

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 35 and 36).

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 when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.8. Investment property

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

Investment properties principally comprise of petrol stations, business facilities and apartments. The majority of apartments have been rented to Company's current and former employees.

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

3.8. Investment property (continued)

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 (note 35).

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.

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

3.10. Investments in subsidiaries

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

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

3.11. Financial assets

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

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

3.11.1. Financial assets classification

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables'.

(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.

3.11.2. Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Loans and receivables 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.

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

3.11. Long – term financial assets (continued)

3.11.2. Recognition and measurement (continued)

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 (note 33 and 34).

3.11.3. Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - Adverse changes in the payment status of borrowers in the portfolio; and
  - National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

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

3.11. Long – term financial assets (continued)

3.11.3. Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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

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

(b) Assets classified as available for sale

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

3.12. Inventories

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

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

Spare parts for equipment used in production are stated at cost The impairment test of inventories - spare parts due to damage or obsolescence is performed once a year. Impairment losses are recognized as other expenses (note 36).

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

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

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through a continuing use. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Company's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

3.14. Trade receivables

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

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days for state controlled companies and more than 60 days overdue for other customers) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'other expenses' (note 36). 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 35).

3.15. Cash and cash equivalents

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

3.16. Off-balance sheet assets and liabilities

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

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

3.17. Share capital

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

3.18. Other capital

Other capital in total refers to the Company's capital above the amount estimated and registered as at May 31, 2005. It was recognized as other capital.

3.19. Reserves

Reserves were established in the past in accordance with the previous Law on Enterprises. In accordance with this Law the Company was required to allocate 5% of profits until the reserves reached the amount defined by Company's Act and at least 10% of the share capital.

3.20. Earnings per share

The Company calculates and discloses the basic earnings per share. Basic earnings per share is calculated by dividing the net income that belongs to shareholders, the owners of ordinary shares of the Company, by the weighted average number of ordinary shares issued during the period (note 38).

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

3.22. Borrowings

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

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

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

3.23. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.24. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity. In 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.

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.

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

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

3.24. Current and deferred income tax (continued)

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.

3.25. Employee benefits

(a) *Pension obligations*

The Company operates a defined contribution pension plan. The Company pays contributions to publicly administered pension insurance plans on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Employee benefits provided by Labour agreement*

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 or the completion of a minimum service period. A new Collective agreement of the Company has been applied from June 1, 2011.

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	New Collective Labour Agreement	Old Collective Labour Agreement
	Number of monthly salaries	
10	1	1
20	1.5	2
30	2	3
35	2.5	3.5
40	2.5	4

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

3.25. Employee benefits (continued)

(b) *Employee benefits provided by Labour agreement (continued)*

Retirement allowances

The Company has to pay to every employee when retiring, the maximum of three average Company's salaries, paid in months prior to the employee retirement.

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) *Bonus plans*

The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a Individual performance assesment. 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)

3.26. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the 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 customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term 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. Sales of goods are recognised when the Company sells a product to the customer. Retail sales are usually in cash, fuel coupons or by credit card.

c) 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)

3.26. 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)

3.27. 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.

3.28. 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)

3.29. 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) *Income tax*

The Company is obliged to pay income tax. The company recognizes liability for the expected effects of issues arising from the audit, according to the assessment of whether there will be additional taxes. If the final outcome of the effects of these issues on income taxes is different from the original amount booked, it will affect both current and deferred income taxes and provision for deferred tax assets and liabilities in the period in which the difference is identified.

(b) *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)

(c) *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.

If the discount rate used in calculation of present value of employee benefit obligations was 7.0% (rather than 7.75%) per year, then the past service liability (DBO) would increase by about 10.6% for the retirement indemnity and 9.5% for the jubilee benefit. If pay increased by 7.0% (rather than 6.0%) per year, then the past service liability (DBO) would increase by about 14.0% for the retirement indemnity and 16.6% for the jubilee benefit.

4.2. Critical judgments in applying 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*

Republic of Serbia displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in Serbia.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Serbian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Republic of Serbia is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Company’s business in the current business and economic environment.

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.

5. FINANCIAL RISK MANAGEMENT

5.1. Financial risk factors

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

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

(a) *Market risk*

a) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and EUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities at the balance sheet date.

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.1. Financial risk factors (continued)

(a) *Market risk (continued)*

a) Foreign exchange risk (continued)

Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign exchange risk arising from future transactions and recognised assets and liabilities, the responsible persons in financial department within the FEPA Function negotiate the best rates for purchasing foreign currency to be contracted on a daily basis depending on the rate of that day. Sum of carrying values of financial assets and liabilities denominated in foreign currencies are shown in table below:

	Financial Assets		**Financial Liabilities**	
	31 December 2011	**31 December 2010**	**31 December 2011**	**31 December 2010**
EUR	13,694,819	8,812,218	58,474,401	32,477,011
JPY	-	-	514,970	495,430
CHF	18	39	464	-
USD	7,699,163	5,381,721	50,272,976	57,145,143

At 31 December 2011, if the currency had weakened/strengthened by 10% against the EUR and USD with all other variables held constant, post-tax profit for the year would have been 809,996 RSD (2010: 660,089 RSD) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated trade receivables, trade payables and foreign exchange losses/gains on translation of EUR and USD denominated borrowings.

b) Commodity Price risk

The Company's primary activity as a refiner creates two types of commodity price exposures; crude oil and oil products price levels which affect the value of inventory and refining margins which in turn affect the future cash flows of the business.

In the case of price risk the level of exposure is determined by the amount of priced inventory carried at the end of the reporting period. In periods of sharp price decline, as the Company policy is to report its inventory at the lower of historic cost and net realisable value, results are affected by the reduction in the carrying value of the inventory. The extent of the exposure relates directly to the level of stocks and rate of price decrease.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1. Financial risk factors (continued)

(a) *Market risk (continued)*

c) Cash flow and fair value interest rate risk

As at December 31, 2011 the Company had significant amounts of cash and cash equivalents, i.e. significant interest-bearing assets. The cash was deposited only in banks with which the Company has passive business relationships as loans and credit/documentary lines. Also, the deposits in RSD or in foreign currency were deposited for the short term period (up to 60 days) and at the fixed interest rates on such deposit. From the above stated, the Company's revenues and cash flows are at the great extent independent regarding changes in market interest rates on time deposits, although the interest rates that the Company can achieve in the market in the great extent depends on the level of basic interest rates at the time when the cash is being deposited (Belibor / NBS key policy rate).

Also, in 2011, the Company has approved to the subsidiaries abroad the subordinated loans, as the means of financing business activities abroad. The loans for this purpose were approved with the variable interest rate (Euribor). If the interest rates on approved loans were 1% higher / lower with all other parameters unchanged, the net result before tax for the year 2011 would be higher / lower for 496 RSD.

Borrowings issued at variable rates expose the Company to cash flow interest rate risk, while borrowings issued at fixed rates expose the Company to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (EURIBOR or LIBOR), has a proportionate impact on the Company's results. If interest rates on foreign currency denominated borrowings, with floating intrest rate, had been 1% higher / lower with all other variables held constant, pre-tax profit for 2011 would have been 640,891 RSD (2010: RSD 595,850 RSD) lower / higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) *Credit risk*

Credit risk is managed on the Company's level basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Banks are ranked only in the case of acceptance of collateral claims on various grounds, as well as the total exposure banks to the Company. Second criteria is applicable for domestic banks.

Sales to retail customers are settled in cash or using credit cards.

The Company has provided for receivables from customers, which have exceeded their credit limits or went into liquidity problems (note 13).

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.1. Financial risk factors (continued)

(c) *Liquidity risk*

Cash flow forecasting is performed as aggregated at the Company's level. The Company's finance function monitors rolling forecasts of the Company's liquidity requirements to ensure It has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements - for example, currency restrictions.

Surplus cash held by the Company over and above balance required for working capital management are invested as surplus cash in time deposits.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

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

As at December 31, 2011	Less than 1 month	1 - 3 months	3 - 1 year	1 - 5 years	Over 5 years	Total
Borrowings	182,031	152,043	3,074,178	45,163,710	36,222,560	84,794,522
Financial lease liabilities	2,756	5,512	24,802	53,117	-	86,186
Short-term liabilities	20,272,671	9,485,581	9,053,015	-	-	38,811,267

As at December 31, 2010	Less than 1 month	1 - 3 months	3 - 1 year	1 - 5 years	Over 5 years	Total
Borrowings	346,701	1,452,860	19,968,859	26,213,039	22,623,579	70,605,038
Financial lease liabilities	3,310	6,618	29,788	86,788	-	126,504
Short-term liabilities	21,843,011	11,984,987	116,397	-	-	33,944,395

5.2. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.2. Capital risk management (continued)

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including ‘current and non-current borrowings’ as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as ‘equity’ as shown in the balance sheet plus net debt.

The gearing ratios at December 31, 2011 and December 31, 2010 were as follows:

	31 December 2011	31 December 2010
Total borrowings (notes 21, 22 and 23)	84,794,522	70,605,038
Less: cash and cash equivalents (note 15)	(25,228,726)	(10,595,830)
Net debt	**59,565,796**	**60,009,208**
Total equity	87,586,665	47,018,714
Gearing ratio	0.68	1.28

5.3. Fair value estimation

The fair value of financial instruments traded in active markets (such as available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

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

6. 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.

During the third quarter of 2011 a new business segment within the company - "Energy" was founded for the operations expansion to electicity and heat production. On December 31, 2011 the business segment Energy did not qualify as a separate reporting segment and was included within Other reporting segment.

As of December 31, 2011 business activities of the Company are organized into five operating segments (with the change of business structure in 2010 Oil field services became a 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 and Energy.

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 refinery products to NIS trade segment.
4. Oil and refinery products trading derives revenue from retail and wholesale activities consistent with the policy.

Reportable segment results for the year ended December 31, 2011 are shown in the following table:

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Segment revenue	78,152,193	6,999,742	136,362,877	168,759,386	199,310	390,473,508
Inter-segment revenue	(59,703,080)	(2,406,034)	(135,633,379)	(302,802)	-	(198,045,295)
Operting income - total	18,449,113	4,593,708	729,498	168,456,584	199,310	192,428,213
Depreciation	(2,067,932)	(856,169)	(2,023,125)	(783,725)	(924,714)	(6,655,665)
Impairement losses	(191,778)	(11,233)	(26,396)	(97,892)	1,728	(325,571)
Segment profit (loss) from operating activities	**65,061,804**	**(634,719)**	**(15,478,960)**	**(943,658)**	**(6,935,281)**	**41,069,186**
Financial income (expenses)	(354,107)	10,510	(318,367)	402,740	(1,565,349)	(1,824,573)
Other income (expenses)	(21,456)	(1,263,299)	(1,728,714)	3,063,357	402,873	452,761
Segment Profit (loss) before tax	**64,686,241**	**(1,887,508)**	**(17,526,041)**	**2,522,439**	**(8,097,757)**	**39,697,374**
Deferred income tax	-	-	-	-	3,368,556	3,368,556
Income tax expense	-	-	-	-	(2,464,263)	(2,464,263)
Segment profit (loss)	**64,686,241**	**(1,887,508)**	**(17,526,041)**	**2,522,439**	**(7,193,464)**	**40,601,667**

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

6. SEGMENT INFORMATION (continued)

Reportable segments results for the year ended December 31, 2010 are shown in the following table:

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Segment revenue	52,108,548	4,879,639	128,803,974	149,589,495	(375,860)	335,005,796
Inter-segment revenue	(38,917,780)	(1,708,743)	(122,851,641)	(1,973,751)	(14,358)	(165,466,273)
Operting income - total	13,190,768	3,170,896	5,952,333	147,615,744	(390,218)	169,539,523
Depreciation	(2,804,820)	(826,648)	(2,005,250)	(684,327)	(543,266)	(6,864,311)
Impairement losses	-	-	-	(943,567)	-	(943,567)
Segment profit (loss) from operating activities	**38,433,432**	**(1,513,919)**	**(4,092,333)**	**144,547**	**(6,781,868)**	**26,189,859**
Financial income (expenses)	631,213	7,836	(168,271)	1,880,385	(15,152,302)	(12,801,139)
Other income (expenses)	(218,167)	487,647	30,209	(1,172,603)	(477,835)	(1,350,749)
Segment Profit (loss) before tax	**38,846,478**	**(1,018,436)**	**(4,230,395)**	**852,329**	**(22,412,005)**	**12,037,971**
Deferred income tax	-	-	-	-	5,278,385	5,278,385
Income tax expense	-	-	-	-	(831,975)	(831,975)
Segment profit (loss)	**38,846,478**	**(1,018,436)**	**(4,230,395)**	**852,329**	**(17,965,595)**	**16,484,381**

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

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

	For the year ended December 31, 2011	2010
Sale of crude oil	4,722,757	3,965,019
Sale of petroleum products	178,705,794	153,846,013
Sale of services and other sales	3,454,407	3,337,818
	186,882,958	**161,148,850**

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

7. INTANGIBLE ASSETS

	Concessions, patents, licenses and rights	Intangible assets under development	Other intangibles	Total
At January 1, 2010				
Cost	840,638	4,998,747	1,333,523	7,172,908
Accumulated depreciation and impairment	(104,830)	(1,706,379)	(568,955)	(2,380,164)
Net book amount	**735,808**	**3,292,368**	**764,568**	**4,792,744**
Year ended December 31, 2010				
Opening net book amount	735,808	3,292,368	764,568	4,792,744
Additions	-	362,134	-	362,134
Transfer from CIP	181,819	(3,448,963)	3,267,144	-
Transfer from PP&E	(4,769)	(11,169)	29,702	13,764
Depreciation (note 30)	(76,107)	-	(207,810)	(283,917)
Disposals	(113)	(1)	(47)	(161)
Other transfers	(142,949)	(48,803)	142,949	(48,803)
Closing net book amount	**693,689**	**145,566**	**3,996,506**	**4,835,761**
At December 31, 2010				
Cost	878,120	1,843,860	4,721,726	7,443,706
Accumulated depreciation and impairment	(184,431)	(1,698,294)	(725,220)	(2,607,945)
Net book amount	**693,689**	**145,566**	**3,996,506**	**4,835,761**
Year ended December 31, 2011				
Opening net book amount	693,689	145,566	3,996,506	4,835,761
Additions	-	375,514	-	375,514
Transfer from CIP	-	(246,938)	246,938	-
Transfer to PP&E	-	-	(74,040)	(74,040)
Depreciation (note 30)	(14,971)	-	(660,417)	(675,388)
Impairment	(1,625)	-	(37,866)	(39,491)
Disposals	24,910	(2,499)	(3,168)	19,243
Other transfers	(56,549)	30	56,519	-
Closing net book amount	**645,454**	**271,673**	**3,524,472**	**4,441,599**
At December 31, 2011				
Cost	874,906	413,952	4,753,693	6,042,551
Accumulated depreciation and impairment	(229,452)	(142,279)	(1,229,221)	(1,600,952)
Net book amount	**645,454**	**271,673**	**3,524,472**	**4,441,599**

Other intangible assets as of December 31, 2011 in the amount of 3,524,472 RSD mostly relate to investment in SAP system in the amount of 3,401,832 RSD (2010: 3,840,765 RSD) .

Depreciation for the year ended December 31, 2011 in the amount of 675,388 RSD (2010: 283,917 RSD) is included in Operating expenses in the Income statement (note 30).

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

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased 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	-	-	-	14,322,530	-	-	9,444,345	23,766,875
Transfer from CIP	65,706	7,274,440	1,616,169	(8,956,850)	535	-	-	-
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 (note 36)	(13,423)	(503,581)	(376,299)	(48,838)	(1,426)	-	-	(943,567)
Transfer to intangible assets	-	259	-	(14,023)	-	-	-	(13,764)
Transfer to investment property (note 9)	-	(455,926)	-	-	-	-	-	(455,926)
Transferred from 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**
Year ended December 31, 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	-	-	-	38,481,024	-	-	14,627,609	53,108,633
Transfer from CIP	1,085	4,747,850	2,485,766	(7,241,689)	6,988	-	-	-
Other transfers	(328)	(1,057,979)	726,536	306,068	-	-	-	(25,703)
Disposals and advances paid used	(231)	(77,764)	(47,394)	97,737	(2,740)	-	(18,591,127)	(18,621,519)
Depreciation	-	(2,539,746)	(3,440,171)	-	-	(360)	-	(5,980,277)
Impairment charge (note 36)	(106)	(24,315)	(41,121)	(255,528)	(4,501)	-	-	(325,571)
Adjustment of assets value for estimated costs of the restoration of natural resources (note 20)	-	(1,035,326)	-	-	-	-	-	(1,035,326)
Transfer from intangible assets	-	-	74,040	-	-	-	-	74,040
Transfer to investment property (note 9)	(47,204)	(73,066)	-	-	-	-	-	(120,270)
Transferred to disposal group classified as held for sale	-	-	-	(165,371)	-	-	-	(165,371)
Closing net book amount	**10,490,341**	**38,531,831**	**25,405,939**	**41,657,395**	**88,259**	**360**	**8,748,902**	**124,923,027**
At December 31, 2011								
Cost	11,185,907	62,832,533	60,387,999	44,639,338	93,279	110,630	8,770,320	188,020,006
Accumulated depreciation and impairment	(695,566)	(24,300,702)	(34,982,060)	(2,981,943)	(5,020)	(110,270)	(21,418)	(63,096,979)
Net book amount	**10,490,341**	**38,531,831**	**25,405,939**	**41,657,395**	**88,259**	**360**	**8,748,902**	**124,923,027**

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

8. PROPERTY, PLANT AND EQUIPMENT (continued)

The additions to Construction in progress for the year ended December 31, 2011 in the amount of 38,481,024 RSD (2010: 14,322,530 RSD) mostly relate to investments in MHC/DHT project (investments in construction of Mild Hydrocracking Complex and Hydrofinishing in Pančevo Oil Refinery) in amount of 18,395,538 RSD, construction of plant for hydrogen production in amount of 5,015,595 RSD and petrol stations reconstructions in amount of 1,006,050 RSD. Advances paid to supplier, related to the MHC/DHT project, as of December 31, 2011 amounted to 6,345,337 RSD.

In 2011 the Company has capitalized borrowing costs for construction of qualifying assets as part of their acquisition cost in the amount of 1,141,090 RSD (2010: 317,506 RSD).

Machinery and equipment where the group is a lessee under a finance lease include the following amounts:

	December 31, 2011	December 31, 2010
Cost capitalised - finance leases	170,134	200,440
Accumulated depreciation	(46,014)	(47,983)
Net book amount	**124,120**	**152,457**

At each balance sheet date the management of the Company performs the assessment if there is an indication that the recoverable value of property, plant and equipment fell below its book value.

As of December 31, 2011 the Company assessed impairment indicators of the cash generating units ("CGU") and its concluded that no indications of additional impairment or reversals of previously recognized impairment losses exist. In 2010 the impairment loss was recognized in the net amount of 721,679 RSD in the following CGUs: the Retail CGU in the amount of 1,161,382 RSD resulting from cessation of the Company's monopoly position from January 1, 2011 and in the Wholesale CGU by reversing a portion of previously recognised impairment in the amount of 439,703 RSD as the result of increase in the wholesale margins.

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

8. PROPERTY, PLANT AND EQUIPMENT (continued)

Oil and gas production assets

	Total - asset under construction (exploration and development expenditure)	Production assets	Other bussines and corporate assets	Total
At January 1, 2010				
Cost	2,058,852	27,054,142	18,665,199	47,778,193
Accumulated depreciation and impairment	(122,347)	(8,054,730)	(4,864,075)	(13,041,152)
Net book amount	**1,936,505**	**18,999,412**	**13,801,124**	**34,737,041**
Year ended December 31, 2010				
Opening net book amount	1,936,505	18,999,412	13,801,124	34,737,041
Additions	8,191,824	-	-	8,191,824
Transfer from CIP	(8,049,644)	7,606,877	442,767	-
Separation of Oil field services segment	(113,537)	(5,309,302)	(3,054,228)	(8,477,067)
Depreciation	-	(2,945,620)	(685,848)	(3,631,468)
Impairment	(35,756)	(185,956)	(10,241)	(231,953)
Disposals	(67,289)	(2,336)	(48,865)	(118,490)
Other transfers	134,732	(217,480)	(4,693,873)	(4,776,621)
Transferred from disposal group classified as held for sale	-	41,810	17,201	59,011
Closing net book amount	**1,996,835**	**17,987,405**	**5,768,037**	**25,752,277**
At December 31, 2010				
Cost	2,020,206	29,368,407	5,455,352	36,843,965
Accumulated depreciation and impairment	(23,371)	(11,381,002)	312,685	(11,091,688)
Net book amount	**1,996,835**	**17,987,405**	**5,768,037**	**25,752,277**
Year ended December 31, 2011				
Opening net book amount	1,996,835	17,987,405	5,768,037	25,752,277
Additions	7,356,903	-	-	7,356,903
Transfer from CIP	(4,393,921)	3,500,423	893,498	-
Depreciation	-	(1,319,001)	(748,931)	(2,067,932)
Impairment	(181,228)	(143)	(10,407)	(191,778)
Adjustment of assets value for estimated costs of the restoration of natural resources	-	(1,035,326)	-	(1,035,326)
Disposals	(4,509)	(1,058)	(106,780)	(112,347)
Other transfers	2,262	223,000	(91,635)	133,627
Closing net book amount	**4,776,342**	**19,355,300**	**5,703,782**	**29,835,424**
At December 31, 2011				
Cost	4,978,679	31,653,923	5,998,009	42,630,611
Accumulated depreciation and impairment	(202,337)	(12,298,623)	(294,227)	(12,795,187)
Net book amount	**4,776,342**	**19,355,300**	**5,703,782**	**29,835,424**

Oil and gas properties consist of aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 3.5).

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

9. INVESTMENT PROPERTY

Investment properties are valued at the balance sheet date at fair value, representing the market value of investment property.

Movements on the account were as follows:

	2011	2010
At January 1st	**1,393,170**	**499,974**
Fair value gains (note 35)	-	575,786
Fair value losses (note 36)	(190,726)	(138,716)
Transfer from PP&E	120,270	455,926
Other	15,555	200
At December 31	**1,338,269**	**1,393,170**

The following amounts related to lease have been recognized in the income statement:

	2011	2010
Rental income (note 28)	120,339	91,379

As at December 31, 2011 investment properties in amount of 1,338,269 RSD (December 31, 2010: 1,393,170 RSD) mostly relate to the petrol stations, business facilities and apartments that have been rented out under long-term lease agreements, and are valued at fair value on balance sheet date.

10. INVESTMENTS IN EQUITY INSTRUMENTS

	December 31, 2011	December 31, 2010
Investments in subsidiaries	3,490,817	3,488,730
Investments in associates	69,145	90,183
Financial assets available for sale	2,142,411	2,389,139
Less: Provision	(3,159,491)	(3,389,299)
	2,542,882	**2,578,753**

a) *Investments in subsidiaries*

	December 31, 2011	December 31, 2010
In shares	3,457,576	3,436,185
In stakes	33,241	52,545
	3,490,817	3,488,730
Less: Provision	(1,173,167)	(1,173,167)
	2,317,650	**2,315,563**

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

10. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

Investments in subsidiaries as at December 31, 2011 relate to the following companies:

Company	Investment	Impairment	Net book value	Share %
O Zone a.d. Belgrade, Serbia	3,457,576	(1,172,263)	2,285,313	100%
NIS Petrol e.o.o.d., Sofija, Bulgaria	997	-	997	100%
NIS Petrol SRL, Bucharest, Romania	2,632	-	2,632	100%
NIS Petrol doo, Laktasi, BiH	1,030	-	1,030	100%
Pannon naftagas Kft, Budapest, Hungary	184	-	184	100%
NIS Oversiz, Moscow, Russia	9,856	-	9,856	100%
Jadran-Naftagas d.o.o. Banja Luka, BiH	71	-	71	66%
Svetlost, Bujanovac, Serbia	17,045	-	17,045	51%
Ranis, Moscow region, Russia	522	-	522	51%
Jubos, Bor, Serbia	904	(904)	-	51%
	3,490,817	**(1,173,167)**	**2,317,650**	

Movements on the account were as follows:

	2011	2010
As at January 1st	3,488,730	3,314,960
New investments in subsidiaries	26,234	173,770
Liquidation of NIS Oil Trading, Frankfurt, Germany	(24,147)	-
Less: provision	(1,173,167)	(1,173,167)
As at December 31st	**2,317,650**	**2,315,563**

New investments in subsidiaries in 2011 in the amount of 26,234 RSD relate to:

a. Additional investment in O Zone a.d., Belgrade in the amount of 21,391 RSD.

b. Establishment of „NIS Petrol“ d.o.o., Laktasi Bosnia and Herzegovina. As of December 31, 2011 the total equity of the new company amounts to 1,030 RSD (20,000 BAM) and the Company's share is 100%,

c. Establishment of „NIS Petrol“ e.o.o.d. Sofia, Bulgaria. As of December 31, 2011 the total equity of the new company amounts to 997 RSD (50,000 BGN), and the Company's share is 100%.

d. Establishment of „NIS Petrol“ SRL, Bucharest, Romania. As of December 31, 2011 the total equity of the new company amounts to 2,632 RSD (41,000 RON), and the Company's share is 100%.

e. Establishment of „Pannon naftagas“ Kft, Budapest, Hungary. As of December 31, 2011 the total equity of the new company amounts to 184 RSD (500,000 HUF), and the Company's share is 100%.

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

10. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

a) *Investments in subsidiaries (continued)*

Movement of the provision for investments in subsidiary:

	2011	2010
As at January 1st	(1,173,167)	(762,175)
Provision for Impairment:		
- O Zone a.d. Belgrade, Serbia	-	(410,992)
As at December 31st	**(1,173,167)**	**(1,173,167)**

b) *Investments in associates*

	December 31, 2011	December 31, 2010
In shares	61,703	72,592
In stakes	7,442	17,591
	69,145	90,183
Less: Provision	(7,268)	(13,148)
	61,877	**77,035**

Investments in associates as at December 31, 2011 relate to the following companies:

Company	Investment	Impairment	Net book value	Share %
Eurol International Ltd, Bermuda	2,999	(2,999)	-	50.00%
Maco nafta Skopje, Macedonia	4,269	(4,269)	-	49.00%
SPC Pinki, Belgrade, Zemun	61,703	-	61,703	46.16%
Prokons, Subotica	174	-	174	20.15%
	69,145	**(7,268)**	**61,877**	

Movements on the account:

	2011	2010
As at January 1st	90,183	116,835
Fair value adjustment	(10,889)	(25,407)
Write off	(10,149)	(1,245)
Less: provision	(7,268)	(13,148)
As at December 31st	**61,877**	**77,035**

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

10. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

b) *Investments in associates (continued)*

Movement of the provision for investments in associates:

	2011	2010
As at January 1st	(13,148)	(14,393)
Provision for Impairment:		
- Maco nafta Skopje, Macedonia (note 36)	(4,269)	-
Write off	10,149	1,245
As at December 31st	**(7,268)**	**(13,148)**

c) *Financial assets available for sale:*

	December 31, 2011	December 31, 2010
In shares	2,111,295	2,134,095
In stakes	23,822	23,822
Other	7,294	231,222
	2,142,411	2,389,139
Less: Provision	(1,979,057)	(2,202,985)
	163,354	**186,154**

Investments in other legal entities as at December 31, 2011 relate to the following companies:

Company	Investment	Impairment	Net book value	Share %
HIP Petrohemija a.d, Pančevo	1,682,522	(1,682,522)	-	12.72%
MSK a.d., Kikinda	265,507	(265,507)	-	10.10%
Linde Gas Serbia a.d, Bečej	112,376	-	112,376	12.44%
Luka Dunav a.d, Pančevo	14,131	-	14,131	3.36%
Komercijalna bank a.d, Belgrade	11,451	-	11,451	0.08%
Jubmes bank a.d, Belgrade	9,785	-	9,785	0.38%
Centralna kooperativna bank, Skopje, Macedonia	6,867	-	6,867	0.63%
Politika a.d., Belgrade	2,454	-	2,454	0.85%
Dunav osiguranje a.d., Belgrade	1,688	-	1,688	0.59%
Other legal entities	35,630	(31,028)	4,602	
	2,142,411	**(1,979,057)**	**163,354**	

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

10. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

c) Financial assets available for sale (continued)

Available for sale financial assets include the following:

	December 31, 2011	December 31, 2010
Listed securities, quoted on BELEX:		
- shares	156,398	179,198
Unlisted securities:		
- shares	6,956	6,956
	163,354	**186,154**

The movements in available for sale financial assets:

	2011	2010
As at January 1st	186,154	263,637
Fair value adjustments	(22,800)	(77,483)
As at December 31st	**163,354**	**186,154**

Movement of provision for available for sale financial assets:

	2011	2010
As at January 1st	(2,202,985)	(3,571,152)
Write-off of investment in:		
- MSK a.d. Kikinda (decrease of nominal value of investments)	-	1,368,172
- Beogradska Banka - in bankruptcy a.d. Belgrade	200,057	-
- Jugobanka - in bankruptcy a.d. Belgrade	23,416	-
- Other	455	-
Transfers and other movements	-	(5)
As at December 31st	**(1,979,057)**	**(2,202,985)**

For other investments traded in active markets, fair value is determined by reference to the current market value at the close of business at the balance sheet date.

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

11. OTHER LONG-TERM INVESTMENTS

	December 31, 2011	December 31, 2010
Rescheduled receivables	5,601,478	8,040,906
Long-term loans to subsidiaries	2,289,198	-
Long-term loans to employees	1,052,371	1,443,233
Finance lease receivables	148,043	153,415
Investments in Crni Vrh – O Zone	1,616,295	1,616,295
Other long-term financial assets	769,623	755,989
	11,477,008	12,009,838
Less provision:		
- rescheduled receivables	(5,601,478)	(8,040,906)
- finance lease receivables	(120,668)	(99,664)
- investments in Crni Vrh – O Zone	(1,616,295)	(1,616,295)
- other long-term financial assets	(762,533)	(748,705)
	(8,100,974)	(10,505,570)
Total – net	**3,376,034**	**1,504,268**

a) Rescheduled receivables

Rescheduled receivables as of December 31, 2011 relates to:

	Total	Long-term	Current portion
Rescheduled receivables			
- HIP Petrohemija	8,874,176	4,174,938	4,699,238
- RTB Bor	1,426,540	1,426,540	-
- JAT	116,560	-	116,560
	10,417,276	5,601,478	4,815,798
Less: provision	(8,595,727)	(5,601,478)	(2,994,249)
Total – net	**1,821,549**	**-**	**1,821,549**

Current portion of rescheduled receivables in the amount of 1,821,549 RSD consist of HIP Petrohemija Pancevo current receivables that are secured by a mortgage right over debtor's fixed assets.

Rescheduled receivables provision movement table:

	2011	2010
As at January 1st	(8,040,906)	(8,447,998)
Reversal of impairment (note 35)	-	156,579
Colected impaired receivables (note 35)	-	55,844
Write-off	-	589,665
Reconciliation of long-term investments (note 35)	-	182,804
Foreign exchange gains /losses	317,467	(778,972)
Transfer to short-term financial investments (note 14)	2,121,961	201,172
As at December 31st	**(5,601,478)**	**(8,040,906)**

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

11. OTHER LONG-TERM INVESTMENTS (continued)

b) Long-term loans to subsidiaries

Long-term loans to subsidiaries transleted into RSD as of December 31, 2011 consist of:

	Currency	December 31, 2011	December 31, 2010
NIS Petrol e.o.o.d., Sofija, Bulgaria	EUR	1,628,515	-
Jadran-Naftagas d.o.o., Banja Luka, BiH	EUR	387,571	-
NIS Petrol doo, Laktasi, BiH	EUR	273,112	-
		2,289,198	-

Long-term loans to subsidiaries granted for the purpose of acquiring petrol stations are approved at the variable interest rates (3M Euribor + 7.5% and 3M Euribor + 5%), for a period of 7 years from the date of payment of the last tranche, with a grace period from 3 to 5 years. The carrying value of long-term loans is equal to their fair value.

c) Other long-term financial assets and long-term loans to employees

Long-term loans to employees of the Company as at December 31, 2011 amounting to 1,052,371 RSD (December 31, 2010: 1,443,233 RSD) represent interest-free loans or loans at an interest rate of 0.5% and 1.5% given to employees for home purchases. These loans are repaid through monthly installments.

The fair value of the loans to employees is based on cash flows discounted at market interest rate at which the Company could obtain long-term borrowings and which corresponds to market interest rate for similar financial instruments in the current reporting period of 5.46% (2010: 6.5% per year).

The maximum exposure to the credit risk at the reporting date is the nominal value of loans given to employees. This credit risk exposure is limited, as the monthly installments of these loans are witheld from employees salaries.

None of the loans are overdue or impaired.

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

12. INVENTORIES

	December 31, 2011	December 31, 2010
Raw materials	23,272,508	19,319,424
Spare parts	2,783,196	3,089,881
Tools	137,291	120,241
Work in progress	5,802,756	6,586,856
Finished goods	8,548,192	6,995,641
Merchandise	2,270,553	1,925,793
	42,814,496	38,037,836
Advances	764,659	1,297,110
Less provision:		
- for inventories	(7,801,869)	(4,771,037)
- for advances	(379,688)	(563,942)
	(8,181,557)	(5,334,979)
Total inventories – net	**35,397,598**	**33,999,967**

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 (note 36)	(3,495,174)	(54,383)
Provision reversed	57,603	27,970
Writte-off	570,839	60,548
Other	20,154	(20,184)
At December 31	**(8,181,557)**	**(5,334,979)**

The Company recorded provision for slow-moving and obsolete spare parts in the amount of 3,474,982 RSD (note 36).

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

13. TRADE AND OTHER RECEIVABLES

	December 31, 2011	December 31, 2010
Trade receivables		
- domestic	22,564,614	16,054,686
- foreign	1,054,202	1,291,755
- related parties	2,096,242	1,192,453
	25,715,058	18,538,894
Receivables from specific operations	7,998,971	8,037,783
Interest receivables	4,984,235	4,922,863
Receivables from employees	86,656	112,592
Other receivables	7,428,788	7,437,431
	12,499,679	12,472,886
	46,213,708	**39,049,563**
Less provision:		
- trade receivables	(5,684,020)	(6,022,505)
- receivables from specific operations	(7,978,573)	(7,971,114)
- intrest receivables	(4,854,318)	(4,822,205)
- other receivables	(7,323,558)	(7,288,020)
	(25,840,469)	(26,103,844)
Total receivables – net	**20,373,239**	**12,945,719**

Trade receivables as of December 31, 2011 in amount 5,890,733 RSD are considered as impaired, except for receivables from a number of independent customers for whom there is no recent history of default that amounted to 269,440 RSD (December 31, 2010: 129,960 RSD).

The ageing of trade receivables is as follows:

	December 31, 2011	December 31, 2010
Up to 3 months	19,824,325	13,232,787
Over 3 months	5,890,733	5,306,107
	25,715,058	**18,538,894**

As of December 31, 2011 trade receivables in the amount of 5,684,020 RSD (December 31, 2010: 6,022,505 RSD) were either impaired or provided for. The individually impaired receivables mainly relate to customers which are assessed as uncollectable. The ageing of receivables provided for is as follows:

	December 31, 2011	December 31, 2010
Up to 3 months	62,727	846,358
Over 3 months	5,621,293	5,176,147
	5,684,020	**6,022,505**

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

13. TRADE AND OTHER RECEIVABLES (continued)

The carrying amounts of the Company's trade and other receivables relate to following currencies:

	December 31, 2011	December 31, 2010
RSD	45,056,177	37,622,691
EUR	241,141	228,573
USD	916,156	1,197,914
GBP	123	317
RUB	22	22
CHF	45	46
Other	44	-
	46,213,708	**39,049,563**

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

	2011	2010
At January 1st	(26,103,846)	(26,818,312)
Provision for impaired receivables (note 36)	(1,035,044)	(2,271,195)
Written off	497,706	2,732,214
Unused amounts reversed	741,175	567,492
Other	59,540	(314,043)
At December 31	**(25,840,469)**	**(26,103,844)**

Expenses that have been provided for or written off are included in other expenses/other income in the income statement (notes 35 and 36).

14. SHORT-TERM FINANCIAL INVESTMENTS

	December 31, 2011	December 31, 2010
Short-term loans to employees	508,887	506,784
Short-term loans and investments – related parties	126	1,139
Current portion of long-term investments	4,895,659	2,710,873
Other short-term financial investments	3,271	1,242
	5,407,943	3,220,038
Less: provision	(2,994,376)	(706,158)
Total short-term financial investments – net	**2,413,567**	**2,513,880**

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

14. SHORT-TERM FINANCIAL INVESTMENTS (continued)

Current portion of long-term investments as of December 31, 2011 in the amount of 4,895,659 RSD (December 31, 2010: 2,710,873 RSD), mostly relate to current portion of rescheduled receivables in the amount of 4,815,798 RSD. They are provided for in the amount of 2,994,376 RSD (December 31, 2010: 706,158 RSD), note 11.

Movement table of provision for short-term financial investments:

	2011	2010
At January 1st	(706,158)	(1,636,365)
Provision for impairment	(57,123)	(461,759)
Unused amounts reversed	145,180	-
Write off	-	1,530,541
Transfer from other long-term investments (note 11a)	(2,121,961)	(161,978)
Foreign exchange diferences and other movements	(254,314)	23,403
At December 31	**(2,994,376)**	**(706,158)**

15. CASH AND CASH EQUIVALENTS

	December 31, 2011	December 31, 2010
Cash in bank	24,793,781	10,485,780
Cash on hand	391,896	33,512
Other cash eqivalents	43,049	76,538
	25,228,726	**10,595,830**

As at December 31, 2011 short term bank deposits in amount of 16,473,646 RSD (2010: 10,205,106 RSD) of up to 30 day maturity date are presented on the line Cash in bank.

16. VAT AND PREPAID EXPENSES

	December 31, 2011	December 31, 2010
Prepayment for VAT	1,746,469	670,892
Prepaid expenses	55,361	35,478
Accrued revenue	483,920	1,150,066
Prepaid excise duty	1,119,985	842,064
Housing loans and other prepayments	1,221,186	1,241,858
	4,626,921	**3,940,358**

Prepayment for VAT as of December 31, 2011 in the amount of 1,746,469 RSD represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

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

16. VAT AND PREPAID EXPENSES (continued)

Prepaid excise duty amounting to 1,119,985 RSD (2010: 842,064 RSD) refers to the excise paid to the state for finished products stored in non-excise warehouse.

Accrued revenue as of December 31, 2011 in the amount of 483,920 RSD (December 31, 2010: 1,150,066 RSD) relates to a receivable from a debtor for current period sales of gasoline components that have not been billed by the Company by the year end.

17. DEFERRED TAX ASSETS AND LIABILITIES

	Carrying value vs Tax base	Total
Deferred tax liabilities		
As at January 1st , 2010	**1,932,016**	**1,932,016**
Credited on Statement of Income	(473,481)	(473,481)
As at December 31st,2010	**1,458,535**	**1,458,535**
Credited on Statement of Income	(298,024)	(298,024)
As at December 31st,2011	**1,160,511**	**1,160,511**

	Provisions	Impairment loss	Investment credit	Укупно
Deferred tax assets				
As at January 1st , 2010	**-**	**-**	**-**	**-**
Credited on Statement of Income	-	-	(4,804,904)	(4,804,904)
As at December 31st,2010	**-**	**-**	**(4,804,904)**	**(4,804,904)**
Credited on Statement of Income	(103,534)	(668,654)	(2,298,344)	(3,070,532)
As at December 31st,2011	**(103,534)**	**(668,654)**	**(7,103,248)**	**(7,875,436)**

The recognition of deferred tax assets was based on a five-year business plan of the Company and the actual results achieved to date which have given the management strong indications that the income tax credits carried forward will be utilised.

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

17. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Investment credits represent 20% qualifying of capital investments made up to December 31, 2011. in accordance with tax legislation of the Republic of Serbia.

Tax Credit Origination	Tax Credit Reversal	December 31, 2011	December 31, 2010
2005	2015	43,053	43,053
2006	2016	444,137	444,137
2007	2017	2,184,630	2,184,630
2008	2018	710,607	710,607
2009	2019	1,311,823	1,311,823
2010	2020	1,308,064	1,317,929
2011	2021	1,100,934	-
Total		**7,103,248**	**6,012,179**

18. OFF BALANCE SHEET ASSET AND LIABILITIES

	December 31, 2011	December 31, 2010
Issued warranties and bills of exchange	49,650,326	66,564,991
Received warranties and bills of exchange	14,603,725	7,304,718
Properties in ex-Republics of Yugoslavia	5,463,077	5,463,024
Receivables from companies from ex-Yugoslavia	4,964,881	4,867,507
Third party merchandise in NIS warehouses	4,332,583	4,035,255
Assets for oil fields liquidation in Angola	264,973	557,851
	79,279,565	**88,793,346**

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

19. SHARE CAPITAL

	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**
- Profit	-	-	-	-	-	-	16,484,381	16,484,381
- distribution of profit recorded before 2009 (note 25)	-	-	-	-	-	-	(1,645,944)	(1,645,944)
- losses from securities	-	-	-	-	(81,826)	(21,064)	-	(102,890)
Balance as at December 31, 2010	**81,530,200**	**5,597,824**	**889,424**	**39**	**48,417**	**(49,236)**	**(40,997,954)**	**47,018,714**
- Profit	-	-	-	-	-	-	40,601,667	40,601,667
- losses from securities	-	-	-	-	(18,835)	(14,854)	-	(33,689)
Other	-	-	-	(27)	-	-	-	(27)
Balance as at December 31, 2011	**81,530,200**	**5,597,824**	**889,424**	**12**	**29,582**	**(64,090)**	**(396,287)**	**87,586,665**

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

19.1. SHARE CAPITAL

Share capital represent share capital of publicly listed company.

The structure of the share capital as at December 31, 2011 was:

Shareholders	Number of shares	Structure in %
Gazprom Neft	91,565,887	56.15%
Republic of Serbia	48,713,684	29.87%
Erste bank a.d. Novi Sad	641,424	0.39%
Unicredit Bank a.d. Serbia - custody	605,634	0.37%
Unicredit Bank a.d. Serbia - custody	364,816	0.22%
Julius Baer Multipartner	133,686	0.08%
Societe Generale Bank - custody	132,308	0.08%
The Royal Bank of Scotland	121,355	0.07%
Vojvodjanska bank a.d. Novi Sad	80,798	0.05%
Hypo Alpe-Adria Bank a.d. Belgrade	67,943	0.04%
Other	20,632,865	12.68%
	163,060,400	**100.00%**

19.2. UNREALISED GAINS (LOSSES) FROM SECURITIES

Unrealized gains/losses as of December 31, 2011 in the amount of 29,582 RSD and 64,090 RSD (December 31, 2010: 48,417 RSD and 49,236 RSD, respectively) resulted from fair values changes of financial assets available for sale that are reflected in equity.

Structure of unrealized gains from sale of assets available for sale:

	December 31, 2011	December 31, 2010
Luka Dunav a.d. Pančevo	-	8,602
Linde Gas Serbia a.d. Bečej	23,487	23,486
Komercijalna bank a.d. Belgrade	4,511	11,136
Jubmes bank a.d. Belgrade	1,584	5,193
Total	**29,582**	**48,417**

Structure of unrealized losses from sale of assets available for sale:

	December 31, 2011	December 31, 2010
Politika a.d. Belgrade	(26,997)	(24,150)
Bank Postanska Stedionica a.d. Belgrade	(3,171)	(4,508)
Dunav osigruanje a.d.o, Belgrade	(4,904)	(3,678)
Luka Dunav a.d. Pančevo	(1,229)	-
SPC Pinki a.d. Zemun, Belgrade	(27,789)	(16,900)
Total	**(64,090)**	**(49,236)**

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

20. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Asset retirement obligation	Environmental protection	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 to Income statement (note 30)	345,421	962,968	210,446	-	1,518,835
Adjustments on property, plant and equipement	2,636,353	-	-	-	2,636,353
Release of provision	-	-	-	(606,448)	(606,448)
Settlement	-	-	(291,633)	(796,031)	(1,087,664)
As at December 31, 2010	**8,275,608**	**962,968**	**4,729,374**	**4,533,590**	**18,501,540**
Charged to Income statement (note 30 and 34)	352,614	176,606	-	-	529,220
Adjustments on property, plant and equipement	(1,035,326)	-	-	-	(1,035,326)
Release of provision (note 35)	(326,083)	-	(1,140,172)	(2,505,737)	(3,971,992)
Settlement	-	(127,474)	(295,108)	(235,396)	(657,978)
As at December 31, 2011	**7,266,813**	**1,012,100**	**3,294,094**	**1,792,457**	**13,365,464**

(a) *Environmental restoration provision*

Based on historic costs, management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells. Based on changes in estimate, release of provision for asset retirement of active wells for the year ended December 31, 2011 in amount of 1,035,326 RSD is recognized against property, plant and equipment (note 8).

(b) *Environmental protection*

In accordance with domestic legislation, the Company has to comply with environmental protection regulations. At the balance sheet date Company recorded amount of 1,012,100 RSD for environmental protection, based on management assessment of costs necessary for cleaning up of sites and remediation of polluted facilities.

(c) *Legal claims provisions*

As of December 31, 2011 The Company assesses the probability of negative outcomes of legal cases, as well as the amounts of probable losses based on information provided by Legal department. The Company has reversed the provisions for the legal disputes in amount of 2,505,737 RSD for which, after the legal consultation, positive outcome was estimated. 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 December 31, 2011.

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

20. LONG – TERM PROVISIONS (continued)

(d) *Employee benefits provision*

Provision for Employee benefits includes:

	December 31, 2011	December 31, 2010
Retirement allowances	1,035,340	976,273
Jubilee awards	2,258,754	3,657,173
Other benefits	-	95,928
	3,294,094	**4,729,374**

The principal actuarial assumptions used were as follows:

	December 31, 2011	December 31, 2010
Discount rate	7.75%	6%
Future salary increases	6%	6%
Future average years of service	18.79	18.23

	Retirement allowances	Jubilee awards	Other benefits	Total
Balances as at January 1, 2010.	1,007,687	3,697,572	105,302	4,810,561
Benefits paid directly and other	(188,734)	(92,450)	(10,449)	(291,633)
Total costs recognized in Statement of income	157,320	52,051	1,075	210,446
Balances as at December 31, 2010	**976,273**	**3,657,173**	**95,928**	**4,729,374**
Benefits paid directly	(63,544)	(227,562)	(4,002)	(295,108)
Total costs recognized in Statement of income	122,611	(1,170,857)	(91,926)	(1,140,172)
Balances as at December 31, 2011	**1,035,340**	**2,258,754**	**-**	**3,294,094**

Amounts recognized in Statement of income:

	For the year ended December 31 2011	2010
Current service cost	263,841	308,915
Intrest costs	241,609	322,119
Acturial loss	(1,645,622)	(420,588)
	(1,140,172)	**210,446**

A new Collective Labour agreement has been applied from June 1, 2011. Changes were made in the part which defines employee benefits (as described in note 3.25).

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

21. LONG-TERM LOANS

	December 31, 2011	December 31, 2010
Domestic	19,064,657	22,162,259
Foreign	16,984,538	24,244,622
	36,049,195	46,406,881
Current portion of long-term loans	(2,274,652)	(19,761,341)
Total	**33,774,543**	**26,645,540**

The maturity of non-current loans was as follows:

	December 31, 2011	December 31, 2010
Between 1 and 2 years	4,538,604	14,747,653
Between 2 and 5 years	22,487,295	4,758,228
Over 5 years	6,748,644	7,139,659
	33,774,543	**26,645,540**

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

	December 31, 2011	December 31, 2010
RSD	1,281,436	2,941
EUR	8,900,998	9,900,092
USD	25,352,982	36,009,703
JPY	513,779	494,145
	36,049,195	**46,406,881**

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

21. LONG-TERM LOANS (continued)

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.

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

Creditor	Currency	December 31, 2011	December 31, 2010
Domestic long-term loans			
Alfa bank Serbia, Belgrade	USD	-	6,920,531
NLB bank, Novi Sad (London club)	USD	47,052	49,678
NLB bank, Novi Sad (Paris club)	USD	506,761	513,656
NLB bank, Novi Sad (Paris club)	JPY	513,779	494,145
Erste bank, Novi Sad (London club)	USD	4,475	4,725
Erste bank, Novi Sad (Paris club)	EUR	446,569	463,078
Erste bank, Novi Sad (Paris club)	USD	288,582	290,997
Hypo Alpe Adria Bank, Belgrade	EUR	280,786	768,379
Piraeus bank, Belgrade	USD	4,043,310	5,391,054
Bank Postanska stedionica, Belgrade (Paris club)	EUR	227,822	239,395
Bank Postanska stedionica, Belgrade (Paris club)	USD	1,643,661	1,679,068
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,524,125	4,789,655
Government of Republic of Serbia, Agency for deposit assurance	USD	566,059	554,957
UniCredit bank, Belgrade	USD	4,690,240	-
UniCredit bank, Belgrade	RSD	1,278,900	-
Other loans	RSD	2,536	2,941
		19,064,657	**22,162,259**
Foreign long-term loans			
Moscow bank, Russian Federation	USD	-	7,928,020
EFG NEF BV, Holland	USD	-	4,522,248
Erste Bank, Holland	EUR	3,139,227	3,164,946
VUB (Bank Intesa), Slovakia	USD	8,086,620	3,964,010
NBG Bank, London	USD	1,432,912	2,248,855
NBG Bank, London	EUR	282,469	474,639
Alpha Bank, London	USD	4,043,310	-
Sinochem , Great Britain	USD	-	1,941,904
		16,984,538	**24,244,622**
Less current portion of long-term loans		(2,274,652)	(19,761,341)
		33,774,543	**26,645,540**

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

21. LONG-TERM LOANS (continued)

	Currency	Current portion December 31, 2011	Current portion December 31, 2010	Long-term December 31, 2011	Long-term December 31, 2010
Domestic long - term loans					
Alfa bank Serbia, Belgrade	USD	-	1,845,475	-	5,075,056
NLB bank, Novi Sad (London club)	USD	3,619	3,548	43,433	46,130
NLB bank, Novi Sad (Paris club)	USD	19,615	16,834	487,146	496,822
NLB bank, Novi Sad (Paris club)	JPY	17,603	14,414	496,176	479,731
Erste bank, Novi Sad (London club)	USD	344	337	4,131	4,388
Erste bank, Novi Sad (Paris club)	EUR	14,635	12,850	431,934	450,228
Erste bank, Novi Sad (Paris club)	USD	9,458	8,075	279,124	282,922
Hypo Alpe Adria Bank, Belgrade	EUR	280,786	485,292	-	283,087
Piraeus bank, Belgrade	USD	-	-	4,043,310	5,391,054
Bank Postanska stedionica, Belgrade (Paris club)	EUR	10,558	9,708	217,264	229,687
Bank Postanska stedionica, Belgrade (Paris club)	USD	75,702	67,644	1,567,959	1,611,424
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	226,609	228,465	4,297,516	4,561,190
Government of Republic of Serbia, Agency for deposit assurance	USD	-	-	566,059	554,957
UniCredit bank, Belgrade	USD	-	-	4,690,240	-
UniCredit bank, Belgrade	RSD	-	-	1,278,900	-
Other loans	RSD	415	402	2,121	2,539
		659,344	**2,693,044**	**18,405,313**	**19,469,215**
Foreign long-term loans					
Moscow bank, Russian Federation	USD	-	7,928,020	-	-
EFG NEF BV, Holland	USD	-	340,508	-	4,181,740
Erste Bank, Holland	EUR	-	1,582,473	3,139,227	1,582,473
VUB (Bank Intesa), Slovakia	USD	-	3,964,010	8,086,620	-
NBG Bank, London	USD	1,426,995	1,121,527	5,917	1,127,328
NBG Bank, London	EUR	188,313	189,855	94,156	284,784
Alpha Bank, London	USD	-	-	4,043,310	-
Sinochem , Great Britain	USD	-	1,941,904	-	-
		1,615,308	**17,068,297**	**15,369,230**	**7,176,325**
		2,274,652	**19,761,341**	**33,774,543**	**26,645,540**

22. OTHER LONG-TERM LIABILITIES

	December 31, 2011	December 31, 2010
Liabilities to the Parent	47,611,714	22,193,617
Financial lease liabilities	53,117	86,788
Other long-term liabilities	1,210	1,209
	47,666,041	**22,281,614**

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

22. OTHER LONG-TERM LIABILITIES (continued)

a) Liabilities to the Parent

As at December 31, 2011 other long-term liabilities to the Parent in the amount of 47,611,714 RSD (EUR 465,834,356) relate to borrowings from JSC Gazprom Neft, with respect to its obligation, from Sales and Purchase Agreement (further SPA) signed on 24 December 2008, to approve borrowing facility for the finance of a Program for reconstruction and modernization of a technology complex 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.

b) Financial lease liabilities

Financial lease liabilities as of December 31, 2011 in the amount of 53,117 RSD (2010: 86,788 RSD) are effectively secured, as the rights to the leased asset revert to the lessor in the event of default.

Minimum finance lease payments payable:

	December 31, 2011	December 31, 2010
End of period no later than one year	37,894	46,755
End of period later than one year and no later than 5 years	56,300	94,285
Future finance charges on finance leases	(8,008)	(14,536)
Present value of finance lease liabilities	**86,186**	**126,504**

	December 31, 2011	December 31, 2010
End of period no later than one year	33,069	39,716
End of period later than one year and no later than 5 years	53,117	86,788
Present value of finance lease liabilities	**86,186**	**126,504**

23. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2011	December 31, 2010
Short-term financial liabilities to Parent (current portion, note 22)	1,133,612	-
Short-term loans	-	2,004,540
Current portion of long-term loans (note 21)	2,274,652	19,761,341
Current portion of financial lease	33,069	39,716
Other short-term liabilities	3,589	41
	3,444,922	**21,805,638**

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

24. TRADE AND OTHER PAYABLES

	December 31, 2011	December 31, 2010
Advances received	872,581	2,061,165
Trade payables:		
- domestic	2,724,233	2,129,440
- foreign	6,861,872	647,824
Trade payables – parents and subsidiaries	12,505	3,436
Trade payables – other related parties	18,587,440	19,475,154
Liabilities from other operations	71,956	70,113
Liabilities from specific operations	328,067	557,556
	29,458,654	**24,944,688**

As at December 31, 2011 payables to other related parties in the amount of 18,587,440 RSD (December 31, 2010: 19,475,154 RSD) mostly relate to liabilities for crude oil delivered by Gazprom Neft Trading, Austria in the amount of 18,116,245 RSD (December 31, 2010: 19,376,889 RSD).

The increase in foreign trade payables, that on December 31, 2011 amounted to 6,861,872 RSD (on December 31, 2010: 647,824 RSD), was mostly related to the increase of the payables to the supplier Glencore Energy for the crude oil in the amount of 5,366,790 RSD.

25. OTHER SHORT-TERM LIABILITIES

	December 31, 2011	December 31, 2010
Liabilities for unpaid wages and salaries, gross	1,663,691	1,488,610
Liabilities to employees	46,715	32,650
Liabilities for interest – domestic	354,633	333,193
Liabilities for dividends	3,772,308	3,772,308
Participation of employees in profit	147	147
Unused holiday accrual	714,425	649,308
Other liabilities	114,973	118,240
	6,666,892	**6,394,456**

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

26. LIABILITIES FOR VAT ,OTHER TAXES AND DEFERRED INCOME

	December 31, 2011	December 31, 2010
Liabilities for VAT	1,161,309	1,630,155
Liabilities for excise	2,421,670	2,291,828
Liabilities for taxes and custom duties	1,770,644	476,089
Other liabilities for taxes and contributions	47,752	648,227
Accrued liabilities	1,150,705	600,911
Other accruals	1,535,016	1,809,659
	8,087,096	**7,456,869**

As at December 31, 2011 accrued liabilities in amount of 1,150,705 RSD, mostly relate to received goods or services before year ended December 31, 2011 but not invoiced by suppliers (December 31, 2010: 600,911 RSD).

Other accruals as of December 31, 2011 in the amount of 1,535,016 RSD (December 31, 2010: 1,809,659 RSD) mostly relate to accrual for premiums in the amount of 1.154.658 RSD.

27. SALES

	For the year ended December 31, 2011	2010
Sales of products		
- domestic	140,458,331	126,771,298
- foreign	15,068,275	15,592,762
	155,526,606	142,364,060
Sales of goods and services:		
- domestic	13,893,467	6,081,511
- foreign	15,246	4,780
	13,908,713	6,086,291
Revenue from sales to subsidiaries and other related parties	17,447,639	12,698,499
	186,882,958	**161,148,850**

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

28. OTHER OPERATING INCOME

	For the year ended December 31, 2011	2010
Rental income	120,339	91,379
Other operating income	177,802	34,706
	298,141	**126,085**

29. RAW MATERIAL AND CONSUMABLES USED

	For the year ended December 31, 2011	2010
Cost of raw materials	92,716,809	92,591,256
Cost of office and other material	885,796	1,073,452
Other fuel and energy expenses	1,933,667	1,680,326
	95,536,272	**95,345,034**

30. DEPRECIATION, AMORTISATION AND PROVISION

	For the year ended December 31, 2011	2010
Depreciation expenses	6,655,665	6,864,311
Provision for :		
- asset retirement obligation and environmental protection	176,606	1,308,389
- salaries and employees benefits	-	210,446
	6,832,271	**8,383,146**

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

31. EMPLOYEE BENEFITS EXPENSE

	For the year ended December 31, 2011	2010
Wages and salaries (gross)	14,945,910	13,871,982
Taxes and contributions on wages and salaries paid by employer	2,504,933	2,413,378
Costs of temporary service agreement	369,894	352,258
Costs of temporary jobs	380	-
Cost of other temporary service agreements	17,624	48,753
Fees paid to management and supervisory board members	28,545	21,132
Cost for employees termination payments	2,555,388	3,029,814
Other personal expenses and benefits	1,321,797	1,532,578
	21,744,471	**21,269,895**

Termination costs in the amount of 2,555,388 RSD mostly relate to costs incurred in relation to voluntary leave program. Total number of employees who accepted the termination of employment in 2011 was 1,090 (2010: 1,237 employees).

	For the year ended December 31, 2011	2010
Average number of people employed	9.650	10,583

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

32. OTHER OPERATING EXPENSES

	For the year ended December 31, 2011	2010
Cost of production services	1,545,572	1,863,928
Transportation services	1,546,325	1,671,865
Maintenance	1,191,573	1,148,825
Rental costs	391,926	207,283
Fairs	7,254	4,476
Advertising costs	391,983	352,733
Research costs	177,971	351,105
Cost of other services	899,950	893,906
Costs of non production services	2,161,740	2,066,085
Representation costs	153,602	131,691
Insurance premium	221,165	375,446
Bank charges	248,925	180,261
Cost of custom duties, property taxes and other taxes	2,268,699	1,773,984
Fee for emergency situations	554,112	-
Mineral extraction tax	2,138,526	1,375,187
Cost of legal and consulting services	104,800	181,335
Administrative and other taxes	192,216	144,742
Other	337,822	244,256
	14,534,161	**12,967,108**

Fee for emergency situations in the amount of 554,112 RSD represents fee calculated in accordance with the Emergency situations law.

Cost of non-production services for year ended December 31, 2011 in the amount of 2,161,740 RSD (2010: 2,066,085 RSD) mostly relate to costs incurred for: security and cleaning costs in the amount of 1,354,940 RSD, as cost of project management in the amount of 85,488 RSD, sertification and supervision costs in amount 118,767 RSD.

33. FINANCIAL INCOME

	For the year ended December 31, 2011	2010
Financial income – parent and subsidiaries	22,103	-
Financial income –other related parties	5,047	-
Interest income	1,334,289	1,410,976
Foreign exchange gains	5,646,752	4,763,942
Other financial income	805	136,723
	7,008,996	**6,311,641**

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

34. FINANCIAL EXPENSES

	For the year ended December 31, 2011	2010
Financial expenses – parent, subsidiaries and other related parties	38,034	339,901
Interest expenses	2,280,961	2,744,362
Amortization of long-term liabilities	352,614	-
Foreign exchange losses	6,159,017	16,024,453
Other financial expenses	2,943	4,064
	8,833,569	**19,112,780**

35. OTHER INCOME

	For the year ended December 31, 2011	2010
Gains on disposal:		
- property, plant and equipment	22,444	15,659
- materials	15,898	6,511
Surpluses from physical account	146,955	178,656
Payables written off	340,595	88,866
Release of long-term provisions (note 20)	3,971,992	606,448
Penalty interest	48,928	55,469
Receivable Elektroprivreda of Montenegro recovered	463,036	-
Insurance claims received	14,404	-
Reversal of impairment of buildings	31,135	-
Change in bonuses accrual	23.093	749,479
Adjustment of investments in Angola	418.982	770,534
Capitalization of oil wells	-	254,773
Reconciliation of long-term investments	-	182,804
Adjustment of amortization on impaired property		179,022
Reversal of impairment losses on:		
- property, plant and equipment	349,332	1,876
- investment property	-	575,786
- long-term financial investments	-	156,579
- inventories	-	118,842
- short-term financial investments	145,180	55,844
- receivables (note 13)	741,175	567,492
- other properties	57,603	6,327
Other	615,530	633,790
	7,406,282	**5,204,757**

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

36. OTHER EXPENSES

	For the year ended December 31, 2011	2010
Losses on disposal of property, plant and equipment	25,427	35,538
Shortages	800,655	137,294
Write off of receivables	10,337	14,042
Write off of inventories	19,398	7,633
Fines, penalties and damages	45,370	34,240
Humanitarian and sponsorships	173,169	181,616
Adjustment of investments in Angola	35,617	458,133
Property adjustment	-	273,123
Changes in deferred income	-	115,918
Bank charges for sales on debit cards	58,751	-
Service costs	36,382	-
Impairment:		
- intangible assets	39,491	-
- property, plant and equipment	325,571	943,567
- non-current assets held for sale	-	11,341
- investment property	190,726	138,716
- investments in subsidiaries	-	410,992
- investments in associates	4,269	-
- other long-term investments	32,475	-
- inventories (note 12)	3,474,982	93,580
- advances paid (note 12)	20,192	31,383
- short term investments	57,123	461,759
- receivables(note 13)	1,035,046	2,271,195
Other	568,540	935,436
	6,953,521	**6,555,506**

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

37. INCOME TAX

Components of income tax expense:

	For the year ended December 31, 2011	2010
Income tax for the year	2,464,263	831,975
Deferred income tax for the period (note 17)	(3,368,556)	(5,278,385)
	(904,293)	**(4,446,410)**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighed average tax rate applicable to the Company's profits as follows:

	For the year ended December 31, 2011	2010
Profit before tax	39,487,374	12,037,971
Income tax expense at applicable tax rate (10%)	3,948,737	1,203,797
Tax effect of:		
Expense not deductible in determining taxable profit (tax loss)	566,998	1,089,016
Tax losses for which no deferred income tax assets was recognised	-	(713,527)
Use of tax credit	(2,257,868)	(789,643)
Total income tax expense	**2,257,867**	**789,643**
Adjustment of prior year tax expense	206,396	42,332
	2,464,263	**831,975**
Average income tax rate	6.24%	6.91%

38. EARNING PER SHARE

	For the year ended December 31, 2011	2010
Profit	40,601,667	16,484,381
Weighted average number of shares outstanding	163,060,400	163,060,400
Basic Earning per share	**0.25**	**0.10**

39. RELATED PARTIES TRANSACTIONS

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The remaining 43.85% (29.87% owned by Republic of Serbia) of shares are quoted on the Belgrade Stock Exchange and are owned by various shareholders. Gazprom, Russian Federation is the ultimate controlling party of Company.

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

39. RELATED PARTIES TRANSACTIONS (continued)

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.

	December 31, 2011	December 31, 2010	Category
Long-term loans			
NIS Petrol e.o.o.d., Sofija, Bulgaria	1,628,515	-	Subsidiary
Jadran-Naftagas d.o.o. Banja Luka, BiH	387,571	-	Subsidiary
NIS Petrol doo, Laktasi, BiH	273,112	-	Subsidiary
	2,289,198	-	
Advances			
O Zone a.d. Belgrade, Serbia	-	115	Subsidiary
NIS Oversiz, Moscow, Russia	1,544	-	Subsidiary
	1,544	115	
Receivables			
O Zone a.d. Belgrade, Serbia	216,045	216,034	Subsidiary
Svetlost d.o.o., Bujanovac, Serbia	79,746	34,845	Subsidiary
Ranis, Moscow area, Russia	126	28,799	Subsidiary
Jadran-naftagas d.o.o. Banja Luka, BiH	15,175	-	Subsidiary
Gazprom Neft Aero JSC, Moscow, Russia	3,717	-	Other
NIS Oversiz, Moscow, Russia	22	1,031	Subsidiary
	314,831	280,709	
Total receivables:	**2,605,573**	**280,824**	
Liabilities			
Gazprom Neft, St Petersburg, Russia	(48,887,946)	(22,262,027)	Parent
Gazprom Neft Trading, Austria	(18,116,245)	(19,376,889)	Other
O Zone a.d. Belgrade, Serbia	(9,148)	(5,125)	Subsidiary
Gazprom Neft Lubricants, Italia	(5,594)	-	Other
Svetlost d.o.o., Bujanovac, Serbia	(4)	(4)	Subsidiary
NIS Oversiz, Moscow, Russia	(3,522)	-	Subsidiary
	(67,022,459)	(41,644,045)	
Advances received			
O Zone a.d. Belgrade, Serbia	(126)	-	Subsidiary
Svetlost d.o.o., Bujanovac, Serbia	(1,966)	(18)	Subsidiary
	(2,092)	(18)	
Accrual			
O Zone a.d. Belgrade, Serbia	(748)	(1,788)	Subsidiary
Gazprom Neft, St Petersburg, Russia	-	(1,266)	Parent
	(748)	(3,054)	
Total liabilities:	**(67,025,299)**	**(41,647,117)**	
Liabilities, net:	**(64,419,726)**	**(41,366,293)**	

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

39. RELATED PARTIES TRANSACTIONS (continued)

	For the year ended December 31, 2011	2010	Category
Sales			
Gazprom Neft Trading, Austria	4,722,757	3,965,019	Other
Svetlost d.o.o., Bujanovac, Serbia	772,908	550,277	Subsidiary
Gazprom Neft Aero JSC, Moscow, Russia	60,746	-	Other
Jadran-naftagas d.o.o. Banja Luka, BiH	32,422	-	Subsidiary
Gazprom Neft NTC, Moscow, Russia	4,981	-	Other
O Zone a.d. Belgrade, Serbia	4,241	8,351	Subsidiary
	5,598,055	4,523,647	
Other operating income			
O Zone a.d. Belgrade, Serbia	1,058	552	Subsidiary
	1,058	552	
Purchases of raw materials			
Gazprom Neft Trading, Austria	(64,176,762)	(79,065,104)	Other
	(64,176,762)	(79,065,104)	
Cost of salaries, benefits and other personnel expenses			
O Zone a.d. Belgrade, Serbia	(140,481)	(100,641)	Subsidiary
	(140,481)	(100,641)	
Other operating expenses			
Gazprom Neft, St Petersburg, Russia	(139,306)	(129,106)	Parent
Gazprom Neft NTC, Moscow, Russia	(3,000)	-	Other
NIS Oversiz, Moscow, Russia	(31,509)	-	Subsidiary
O Zone a.d. Belgrade, Serbia	(15,045)	(5,008)	Subsidiary
	(188,860)	(134,114)	
	(58,906,990)	**(74,775,660)**	
Financial income			
Jadran-naftagas d.o.o. Banja Luka, BiH	1,980	-	Subsidiary
NIS Petrol e.o.o.d., Sofija, Bulgaria	1,488	-	Subsidiary
NIS Petrol doo, Laktasi, BiH	369	-	Subsidiary
Gazprom Neft Trading, Austria	18,266	-	Other
	22,103	-	
Financial expenses			
O Zone a.d. Belgrade, Serbia	-	(213)	Subsidiary
Gazprom Neft, St Petersburg, Russia	(38,034)	(339,688)	Parent
	(38,034)	(339,901)	
	(15,931)	**(339,901)**	

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

39. RELATED PARTIES TRANSACTIONS (continued)

	For the year ended December 31,		
	2011	**2010**	**Category**
Other income			
Gazprom Neft Trading, Austria	45,956	-	Other
O Zone a.d. Belgrade, Serbia	-	7,755	Subsidiary
NIS Oil Trading, Frankfurt, Germany	-	42,744	Subsidiary
	45,956	50,499	
Other expenses			
Gazprom Neft Trading, Austria	(184,029)	-	Other
Gazprom Neft, St Petersburg, Russia	(21,250)	-	Parent
Svetlost d.o.o., Bujanovac, Serbia	(7,773)	(156)	Subsidiary
O Zone a.d. Belgrade, Serbia	(2,221)	(414,032)	Subsidiary
Ranis, Moscow area, Russia	(112)	-	Subsidiary
	(215,385)	(414,188)	
	(169,429)	**(363,689)**	

Key management compensation

Key management represents: Management Board, Executive Board, Supervisory Board and Heads of Departments. Management compensation paid in 2011 and 2010 are shown in table below:

	For the year ended December 31,	
	2011	**2010**
Salaries and other short-term compensations	193,162	150,949
	193,162	150,949

Main transaction with state owned companies

	December 31, 2011	**December 31, 2010**
Receivables		
HIP Petrohemija	1,995,294	1,116,183
Srbijagas	7,414,404	5,278,026
	9,409,698	**6,394,209**
Liabilities		
HIP Petrohemija	(471,195)	(98,264)
Srbijagas	(272,661)	(267,519)
	(743,856)	**(365,783)**
Advances received		
Srbijagas	(12,796)	(12,804)

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

39. RELATED PARTIES TRANSACTIONS (continued)

Main transaction with state owned companies (continued)

	For the year ended December 31, 2011.	2010.
Income		
HIP Petrohemija	11,849,584	8,174,852
Srbijagas	9,402,233	8,402,753
	21,251,817	**16,577,605**
Costs		
HIP Petrohemija	(155,513)	(74,488)
Srbijagas	(249,550)	(239,596)
	(405,063)	**(314,084)**

40. CONTINGENT LIABILITIES

Legal claims

At December 31, 2011 the Company appears in many legal cases as a defendant. For legal proceedings for which is possible to make a reliable estimate of the obligation the Company has made provisions in the amount of 1,792,457 RSD (December 31, 2010: 4,533,590 RSD) (note 20).

For litigations where it is not possible to reliably estimate the amounts of obligations The Company has not made provisions. The most significant legal case is initiated by Housing Cooperative „Stambena zadruga Rafinerija“ against the Company. The current possible exposure to the Company is approximately EUR 630 million. In 2011, the Commercial Court in Belgrade ruled in favor of the Company and rejectedthe claim in its entirety. Housing cooperative appealed to the Commercial Court of Appeal and the appeal procedure is in progress.

Management does not anticipate that any material liabilities will arise from the outcome of above mentioned litigations. In addition, in accordance with SPA, Republic of Serbia is obliged to unconditionally withdraw all claims against the Company initiated by institutions of companies owned by government.

Transfer of property ownership

Until December 31, 2011 the ownership of 4,787 items of properties (buildings and land) has been registered, which makes up 56% of the total number of items of Company's properties.

In accordance with the 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.

40. CONTINGENT LIABILITIES (continued)

Environmental protection

At balance sheet date management of the Company recorded a long-term environmental provison in amount of 1,012,100 RSD, based on an internal assestment of compliance with environmental legislation of the Republic of Serbia.

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.

Long-term employee incentive program

During 2011 the Company has begun the process of approval of long-term incentive program for the managers of the Company. After the approval, the cash incentives will be paid out on the basis of Key Performance Indicators ("KPI") realized over a three-year period.

On December 31, 2011 as the key performance indicators (KPIs) and the method of implementing the program were not approved, the amount of the future liabilities related to long-term employee incentives could not be reliably estimated and the Company has not made the provision. No significant outflows of funds are expected regarding this program.

Other contingent liabilities

On December 31, 2011 the Company did not make a provision for a potential loss that may arise based on a tax assessment of the Angolan Ministry of Finance according to which NIS has to pay the difference in tax calculation including interest of USD 40 million related to the additional profit oil for the period from 2002 to 2007. Management believes that, based on the concession agreements signed with Angolan state and an opinion from legal consultants from Angola, such claim is not in accordance with the current applicable legal framework in Angola. Management believes that calculation of profit oil is not performed correctly by the authorities. It also believes that profit Oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the Ministry of Finance. NIS will lodge a complaint against any tax enforcement action from the Ministry of Finance and will take all necessary steps which will enable it to suspend a tax enforcement until Angolan courts make a final decision on this issue. Based on the experience of other concessionares, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of Ministry of Finance that was served upon them, although complaints were filed three years ago. Taking all of the above into consideration, the management is of the view that as at 31 December 2011 there is significant level of uncertainty relating to the timing of the resolution of the request from Angolan Ministry of Finance and the amount payable for additional tax on profit oil if any.

41. 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 December 31, 2011.

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

42. COMMITMENTS

a) Sales and Purchase Agreement

Sales and Purchase Agreement between Gazprom Neft and the Republic of Serbia was signed on 2 February 2009. Based on the agreement, the Company is committed under 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 an amount of Euro 547 million over a four year period;
- 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.

b) Leases

Minimum lease payments under non-cancellable operating lease by lessor:

	2011	2010
End of period no later than one year	158,321	105,314
End of period later than one year and no later than five years	252,559	37,675
End of period later than five year	1,010	-
	411,890	**142,989**

Minimum lease payments under non-cancellable operating lease by lessee:

	2011	2010
End of period no later than one year	188,159	80,468
End of period later than one year and no later than five years	64,361	18,370
End of period later than five year	-	-
	252,520	**98,838**

42. COMMITMENTS (continued)

c) Farm-out agreement with East West Petroleum Corporation, Canada

In October 2011, the Company entered into a Farm-out agreement with East West Petroleum Corporation, Canada for exploration and production of hydrocarbons in Timisoara region in Romania. According to the Contract, the Company has committed to finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, Company will be entitled to 85% of total production volume of hydrocarbons. Moreover, according to Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Company will act as the Operator and will be in charge of and shall conduct all Joint Operations. By 31 December 2011, there were no activities with respect to the Agreement.

d) Farm-in agreement with RAG Hungary limited

In December 2011, the Company entered into Farm-in agreement with RAG Hungary limited for exploration and production of hydrocarbons in Kiskunhalas area in Hungary. By the contract, the Company has committed to finance 50% of total exploration costs on not less than three oil wells in the area covered by the exploration license. Depending on success of the exploration, Company will be entitled to 50% of total production volume of hydrocarbons. According to Joint Operation Agreement signed with RAG Hungary Limited, RAG will act as the Operator and will be in charge of and shall conduct all Joint Operations. By 31 December 2011, there were no activities with respect to the Agreement.

43. EVENTS AFTER THE BALANCE SHEET DATE

Farm - in agreement with RAG Hungary limited

In February 2012, RAG Hungary Limited and NIS started to drill first exploratory oil well based on Farm-in agreement signed in December 2011.

Novi Sad, 10.2.2012.

The person responsible for the preparation of financial statements

M.P.

Legal representative

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