



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

**Interim condensed consolidated
financial statements for the three
month period ended March 31, 2011
(unaudited)**

Novi Sad, May 27, 2011

**Interim condensed consolidated financial statements
for the three month period ended March 31, 2011**

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

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**Interim condensed consolidated financial statements
for the three month period ended March 31, 2011**

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

CONSOLIDATED BALANCE SHEET

ASSETS	Notes	March 31, 2011 <i>(unaudited)</i>	December 31, 2010 <i>(audited)</i>
Non-current assets			
Intangible assets		4,875,087	4,841,418
Property, plant and equipment	5	102,630,417	100,924,684
Investment property		1,393,170	1,393,170
Investments in equity instruments		263,557	263,229
Other long term investments		1,451,849	1,505,758
		110,614,080	108,928,259
Current assets			
Inventories	6	30,557,152	34,016,869
Non-current assets held for sale		262,431	262,431
Trade and other receivables	7	16,729,444	12,997,854
Receivables for prepaid income tax		477	-
Short term financial investments		2,270,475	2,513,931
VAT and prepaid expenses		3,177,073	3,947,072
Cash and cash equivalents		7,092,117	10,636,669
Deferred tax assets		4,804,947	4,804,904
		64,894,116	69,179,730
Total assets		175,508,196	178,107,989
Off-balance sheet assets		92,108,798	88,793,346
EQUITY AND LIABILITIES			
Equity			
Share capital	8.1.	87,148,630	87,148,630
Reserves		890,504	889,672
Unrealized gains from securities		51,608	48,417
Unrealized losses from securities		(52,099)	(49,236)
Retained loss		(31,212,874)	(41,004,743)
		56,825,769	47,032,740
Long-term provisions and liabilities			
Long-term provisions		18,399,631	18,574,652
Long-term loans	9	22,945,155	26,645,540
Other long-term liabilities		22,585,896	22,996,705
		63,930,682	68,216,897
Short-term liabilities			
Short-term financial liabilities	10	23,375,674	21,805,638
Trade and other payables	11	16,873,305	24,964,034
Other short-term liabilities		6,127,805	6,552,062
Liabilities for VAT and other taxes and deferred income		6,719,364	7,457,457
Income tax liabilities		370,439	620,626
		53,466,587	61,399,817
Deferred tax liabilities		1,285,158	1,458,535
Total equity and liabilities		175,508,196	178,107,989
Off-balance sheet liabilities		92,108,798	88,793,346

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**Interim condensed consolidated financial statements
for the three month period ended March 31, 2011**

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

CONSOLIDATED INCOME STATEMENT

	Notes	Three-month period ended March 31,	
		2011 <i>(unaudited)</i>	2010 <i>(unaudited)</i>
Operating income			
Sales	12	36,776,852	27,470,767
Work performed by the entity and capitalized Increase in the value of finished goods and work in progress		338,641	478,754
Other operating income		62,465	2,337,324
		<u>62,980</u>	<u>39,812</u>
		37,240,938	30,326,657
Operating expenses			
Cost of goods sold		(2,446,818)	(447,664)
Cost of material	13	(19,078,448)	(18,819,045)
Salaries, benefits and other personnel expenses	14	(5,373,930)	(4,350,389)
Depreciation and provisions		(2,011,322)	(1,827,521)
Other operating expenses	15	(2,878,964)	(2,323,522)
		<u>(31,789,482)</u>	<u>(27,768,141)</u>
Net operating income		<u>5,451,456</u>	<u>2,558,516</u>
Financial income	16	5,355,314	1,021,379
Financial expenses	17	(1,155,620)	(7,910,335)
Other income		1,686,064	2,082,897
Other expenses	18	(1,133,395)	(2,208,842)
Income (loss) before income tax		<u>10,203,819</u>	<u>(4,456,385)</u>
Income tax expense		(575,607)	(25,761)
Deferred tax income (expenses)		<u>173,416</u>	<u>(81,860)</u>
Net Profit (Loss) for the period		<u>9,801,628</u>	<u>(4,564,006)</u>
Net profit (loss) attributable to non-controlling equity holders	8	177	(1)
Net profit (loss) attributable to owners of parent	8	9,801,451	(4,564,005)
Earnings (loss) per share			
- from continuing operations	19	0.06	(0.03)
- from discontinuing operations		-	-

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**Interim condensed consolidated financial statements
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(All amounts are in 000 RSD, unless otherwise stated)
CONSOLIDATED CASH FLOW STATEMENT

	Three-month period ended March 31,	
	2011 <i>(unaudited)</i>	2010 <i>(unaudited)</i>
Cash flows from operating activities		
Sales and advances received	53,639,286	47,725,776
Interest from operating activities	122	113,125
Other inflow from operating activities	62,980	39,812
<i>Cash inflow from operating activities</i>	<u>53,702,388</u>	<u>47,878,713</u>
Payments and prepayments to suppliers	(33,026,479)	(31,347,426)
Salaries, benefits and other personal expenses	(5,481,020)	(5,014,112)
Interest paid	(767,898)	(676,244)
Income tax paid	(825,691)	(197,907)
Payments for other public revenues	(14,658,638)	(13,610,545)
<i>Cash outflow from operating activities</i>	<u>(54,759,726)</u>	<u>(50,846,234)</u>
Net cash outflow from operating activities	<u>(1,057,338)</u>	<u>(2,967,521)</u>
Cash flows from investing activities		
Proceeds from sale of intangible assets and property, plant and equipment	661	14,025
<i>Cash inflow from investing activities</i>	<u>661</u>	<u>14,025</u>
Purchase of intangible assets, property, plant and equipment	(2,857,024)	(2,328,016)
<i>Cash outflow from investing activities</i>	<u>(2,857,024)</u>	<u>(2,328,016)</u>
Net cash outflow from investing activities	<u>(2,856,363)</u>	<u>(2,313,991)</u>
Cash flows from financing activities		
Proceeds from long term and short term borrowings	2,560,684	6,984,303
<i>Cash inflow from financing activities</i>	<u>2,560,684</u>	<u>6,984,303</u>
Repayments of long term, short term and other liabilities	(1,733,184)	(3,747,980)
<i>Cash outflow from financing activities</i>	<u>(1,733,184)</u>	<u>(3,747,980)</u>
Net cash inflow from financing activities	<u>827,500</u>	<u>3,236,323</u>
Net cash outflows	<u>(3,086,201)</u>	<u>(2,045,189)</u>
Cash and cash equivalents at beginning of period	10,636,669	8,723,278
Currency translation gains on cash and cash equivalents	18,045	539,875
Currency translation losses on cash and cash equivalents	(476,396)	(52,601)
Cash and cash equivalents at the end of the period	<u>7,092,117</u>	<u>7,165,363</u>

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Interim condensed consolidated financial statements for the three month period ended March 31, 2011

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the three month period ended March 31, 2011

	Share capital	Other capital	Reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulate d loss	Total
<i>(unaudited)</i>							
Balance as at January 1, 2010	81,550,720	5,597,873	889,171	130,243	(28,172)	(56,119,958)	32,019,877
Total increase in previous period	-	-	-	-	(3,100)	(4,599,165)	-
Total decrease in previous period	-	-	(592)	(37,814)	-	-	(4,640,671)
Balance as at March 31, 2010	81,550,720	5,597,873	888,579	92,429	(31,272)	(60,719,123)	27,379,206
Balance as at January 1, 2011	81,550,757	5,597,873	889,672	48,417	(49,236)	(41,004,743)	47,032,740
Total increase in previous period	-	-	832	3,191	(2,863)	-	9,793,029
Total decrease in previous period	-	-	-	-	-	9,791,869	-
Balance as at March 31, 2011	81,550,757	5,597,873	890,504	51,608	(52,099)	(31,212,874)	56,825,769

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**Notes to interim condensed consolidated financial statements
for the three month period ended March 31, 2011**

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

1. GENERAL INFORMATION

These interim condensed consolidated financial statements of NIS a.d. - Naftna industrija Srbije, Novi Sad (the Group) have been approved by CEO and they were not audited.

Consolidated Financial Statements consist of the financial statements of parent company NIS a.d., Novi Sad and the following domestic and foreign subsidiaries:

Name	Share %
O Zone a.d. Belgrade, Serbia	100
NIS Oil Trading, Frankfurt, Germany	100
NIS Oversiz, Moscow, Russia	100
Jadran - Naftagas d.o.o. Banja Luka, B&H	66
Ranis, Moscow region, Russia	51
Jubos, Bor, Serbia	51
Svetlost, Bujanovac, Serbia	51

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

These condensed interim consolidated financial statements for the three-month period ended March 31, 2011 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed Interim consolidated financial statements do not include all disclosure required in the annual consolidated financial statement and they should be interpreted in relation with the annual consolidated financial statements for the year ended December 31, 2010. The Group has prepared these consolidated financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia published in Official Gazette of the Republic of Serbia (no. 46/2006 and 111/2009), which requires full scope of IFRS to be applied, and the regulations issued by the Ministry of Finance of the Republic of Serbia. Due to the difference between these two regulations, these interim condensed consolidated financial statements differ from IFRS in the following respects:

- The interim condensed consolidated financial statements are prepared in format prescribed by the Ministry of Finance of the Republic of Serbia, which does not comply with IAS 1 – "Presentation of Financial Statements" requirements.
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS

The preparation of consolidated 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 Group's accounting policies.

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

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

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**Notes to interim condensed consolidated financial statements
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4. SEGMENT INFORMATION

Operating segments, are segments whose operating results are regularly reviewed by the Chief Operating Decision Maker („CODM“). For the Group, Executive Committee acts as a CODM.

As of March 31, 2011 business activities of the Group are organized into five operating segments (with the change of business structure in 2010 Oil field services became the new reportable segment):

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

The reportable segments derive their revenue in following manner:

1. Exploration and production of oil and natural gas derive its revenue from sale of crude oil and gas to Refinery and Srbijagas;
2. Oil field services derives revenue from drilling services, constructing and services of geophysical measurement and transportation services;
3. Refining segments derives its revenue from sale of oil derivatives to NIS trade segment;
4. Oil and derivatives trading derives revenue from retail and wholesale activities consistent with the policy.

Reportable segments results for the three month period ended March 31, 2011 are shown in the following table:

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Segment revenue	26,804,237	3,161,875	41,367,915	66,590,762	2,169,722	140,094,511
Inter-segment revenue	21,885,277	2,941,550	36,406,311	39,537,713	2,082,722	102,853,573
Total revenue	4,918,960	220,325	4,961,604	27,053,049	87,000	37,240,938
Operating income (expenses)	13,413,798	(951,995)	(6,149,640)	(857,894)	(2,813)	5,451,456
Financial income	40,250	4,962	1,653,286	197,289	2,303,907	4,199,694
Other income (expenses)	312,620	(34,468)	(70,395)	61,934	282,978	552,669
Profit / (loss) before tax	13,766,668	(981,501)	(4,566,749)	(598,671)	2,584,072	10,203,819
Deferred tax income	-	-	-	-	173,416	173,416
Income tax expense	-	-	-	-	(575,607)	(575,607)
Net profit / (loss)	13,766,668	(981,501)	(4,566,749)	(598,671)	2,181,881	9,801,628

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**Notes to interim condensed consolidated financial statements
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4. SEGMENT INFORMATION (continued)

Reportable segments results for the three month period ended March 31, 2010 are shown in the following table:

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Segment revenue	11,827,210	937,292	26,438,814	28,321,855	4,201,265	71,726,436
Inter-segment revenue	10,239,647	802,317	24,201,870	4,531,193	1,624,752	41,399,779
Total revenue	1,587,563	134,975	2,236,944	23,790,662	2,576,513	30,326,657
Operating income (expenses)	6,919,365	(1,074,348)	(1,857,577)	(744,016)	(684,908)	2,558,516
Financial income (expenses)	244,502	(98)	(195)	104,566	(7,237,731)	(6,888,956)
Other income (expenses)	(135,209)	328,116	90,876	(399,387)	(10,341)	(125,945)
Profit / (loss) before tax	7,028,658	(746,330)	(1,766,896)	(1,038,837)	(7,932,980)	(4,456,385)
Deferred tax expense	-	-	-	-	(81,860)	(81,860)
Income tax expense	-	-	-	-	(25,761)	(25,761)
Net profit / (loss)	7,028,658	(746,330)	(1,766,896)	(1,038,837)	(8,040,601)	(4,564,006)

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

Assets and liabilities of operating segments as of March 31, 2011 are presented in the following table:

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Assets	31,483,671	7,561,905	71,456,390	36,292,078	28,714,152	175,508,196
Liabilities	(10,842,535)	(1,370,701)	(16,732,726)	(9,270,208)	(80,466,257)	(118,682,427)
Net assets	20,641,136	6,191,204	54,723,664	27,021,870	(51,752,105)	56,825,769

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

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Assets	30,433,074	7,765,691	74,665,749	32,569,271	32,674,204	178,107,989
Liabilities	(11,597,999)	(1,345,711)	(23,261,474)	(10,445,114)	(84,424,951)	(131,075,249)
Net assets	18,835,075	6,419,980	51,404,275	22,124,157	(51,750,747)	47,032,740

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

	Three-month period ended March 31,	
	2011	2010
Sale of oil and oil products	36,034,416	26,893,882
Sale of services and other sales	742,436	576,885
	36,776,852	27,470,767

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**Notes to interim condensed consolidated financial statements
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5. PROPERTY, PLANT AND EQUIPMENT

The most significant investments for the three month period ended March 31, 2011 amounting 680,729 thousand RSD mostly relate to investments in MHC/DHT project (investments in construction of Mild Hydrocracking Complex and Hydrofinishing in Pančevo Oil Refinery). Balance of advances paid to supplier, related to the same project, as of March 31, 2011 amounted to 7,191,967 thousand RSD.

6. INVENTORIES

	March 31, 2011	December 31, 2010
Raw materials	16,030,011	19,323,919
Spare parts	3,062,318	3,089,881
Tools	131,419	121,228
Work in progress	5,892,427	6,592,425
Finished goods	7,756,962	6,995,641
Merchandise	2,002,783	1,928,657
	<u>34,875,920</u>	<u>38,051,751</u>
Advances	965,595	1,300,118
<i>Less provision:</i>		
- for inventories	(4,750,883)	(4,771,037)
- for advances	(533,480)	(563,963)
	<u>(5,284,363)</u>	<u>(5,335,000)</u>
Total inventories – net	<u>30,557,152</u>	<u>34,016,869</u>

Movement of inventory provision is as follows:

	2011	2010
At January 1st	(5,335,000)	(5,296,196)
Provision for impaired inventories charged to the period	(5,292)	(54,383)
Reversals	-	7,793
Write offs	35,775	27,970
Other	20,154	(20,184)
At March 31 / December 31	<u>(5,284,363)</u>	<u>(5,335,000)</u>

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7. TRADE AND OTHER RECEIVABLES

	March 31, 2011	December 31, 2010
Trade receivables		
- domestic	19,462,376	16,117,569
- foreign	1,610,049	1,293,482
- related parties	1,278,913	1,125,174
	<u>22,351,338</u>	<u>18,536,225</u>
Receivables from specific operations	<u>7,817,127</u>	<u>7,826,877</u>
Interest receivables	4,975,973	4,924,697
Receivables from employees	101,804	113,217
Other receivables	7,430,492	7,445,138
	<u>12,508,269</u>	<u>12,483,052</u>
	<u>42,676,734</u>	<u>38,846,154</u>
<i>Less provision:</i>		
- trade receivables	(6,005,118)	(5,977,098)
- receivables from specific operations	(7,758,761)	(7,760,208)
- interest and other receivables	(12,183,411)	(12,110,994)
	<u>(25,947,290)</u>	<u>(25,848,300)</u>
Total receivables – net	<u>16,729,444</u>	<u>12,997,854</u>

Receivables from specific operations as of March 31, 2011 in amount of 7.817.127 thousand RSD (December 31, 2010: 7.826.877 thousand RSD) mostly relate to doubtful receivables with due date in 2005, in amount 6,111,290 thousand RSD (Beobanka a.d. in amount 2,569,410 thousand RSD; Srbijagas a.d. in amount of 2,487,575 thousand RSD and Industrija stakla Pancevo a.d. in amount of 1,054,305 thousand RSD). These receivables are fully provided for as at March 31, 2011.

Receivables from state controlled institution and companies in amount 10,620,138 thousand RSD are disclosed in note 20.

Trade receivables as of March 31, 2011 in amount 6,105,201 thousand RSD from state controlled companies that are less than three months past due and trade receivables from other companies that are less than two months past due are not considered impaired, except for receivables from a number of independent customers for whom there is no recent history of default, amounted to 177,058 thousand RSD (December 31, 2010: 129,960 thousand RSD).

The ageing analysis of trade receivables is as follows:

	March 31, 2011	December 31, 2010
Up to 3 months	16,246,137	13,230,118
Over 3 months	6,105,201	5,306,107
	<u>22,351,338</u>	<u>18,536,225</u>

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7. TRADE AND OTHER RECEIVABLES (continued)

As of March 31, 2011 trade receivables in amount of 6,005,118 thousand RSD (December 31, 2010: 5,977,098 thousand RSD) were either impaired or provided for. The individually impaired receivables mainly relate to customers which are assessed as unexpected to be collected. The ageing of receivables provided for is as follows:

	March 31, 2011	December 31, 2010
Up to 3 months	76,975	800,951
Over 3 months	5,928,143	5,176,147
	6,005,118	5,977,098

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

	March 31, 2011	December 31, 2010
RSD	40,950,604	37,419,282
USD	958,926	1,197,914
EUR	767,005	228,573
Other	199	385
	42,676,734	38,846,154

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**Notes to interim condensed consolidated financial statements
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8. EQUITY

	Share capital	Other capital	Reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated loss	Non- controlling interest	Total
Balance as at January 1, 2010	81,530,200	5,597,873	889,171	130,243	(28,172)	(56,124,575)	25,137	32,019,877
Income								
- Loss	-	-	-	-	-	(4,564,005)	(1)	(4,564,006)
- Gains/ losses from securities	-	-	-	(37,814)	(3,100)	-	-	(40,914)
Increase (decrease) through transfers and other changes, equity	-	-	(592)	-	-	(35,159)	-	(35,751)
Balance as at March 31, 2010	81,530,200	5,597,873	888,579	92,429	(31,272)	(60,723,739)	25,136	27,379,206
Balance as at January 1, 2011	81,530,200	5,597,873	888,587	48,417	(49,236)	(41,009,046)	25,945	47,032,740
Income								
- Gain	-	-	-	-	-	9,801,451	177	9,801,628
- Gains/ losses from securities	-	-	-	3,191	(2,863)	-	-	328
Increase (decrease) through transfers and other changes, equity	-	-	1,625	-	-	(10,546)	(6)	(8,927)
Balance as at March 31, 2011	81,530,200	5,597,873	890,212	51,608	(52,099)	(31,218,141)	26,116	56,825,769

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**Notes to interim condensed consolidated financial statements
for the three month period ended March 31, 2011**

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

8.1. SHARE CAPITAL

In accordance with the The Sale and Purchase Agreement dated February 10, 2009 that was concluded between the Republic of Serbia and JSC Gazprom Neft, Gazprom Neft announced takeover bid to acquire shares of NIS a.d. Novi Sad from minority shareholders who are in the possession of 31,180,256 ordinary shares or 19.12% of the total number of the ordinary shares. The bid was valid for 45 days until 16.03.2011 when 8,405,087 ordinary shares were acquired being 5.15% of the total number of ordinary shares at a price of 506.48 RSD per share representing the equivalent of 4.80996 EUR per share as of January 13, 2011.

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

Shareholders	Number of shares	Structure in %
JSC Gazprom Neft	91,565,887	56.15%
The Republic of Serbia	48,717,074	29.88%
Raiffeisenbank a.d. Beograd, custody account	517,018	0.32%
Julius Baer Multipartner-Balka	97,986	0.06%
Vojvodjanska banka a.d. Novi Sad – custody account	92,963	0.06%
Unicredit bank Srbija a.d. – custody account	31,959	0.02%
Erste bank a.d. Novi Sad, - custody account	25,000	0.02%
Goran Rajić	21,455	0.01%
Melisma trading ltd	21,293	0.01%
Raiffeisenbank a.d. Beograd, - custody account	21,000	0.01%
Other shareholders	21,948,765	13.46%
	<u>163,060,400</u>	<u>100.00%</u>

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**Notes to interim condensed consolidated financial statements
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(All amounts are in 000 RSD, unless otherwise stated)

9. LONG TERM LOANS

	March 31, 2011	December 31, 2010
Domestic loans	20,223,056	22,162,259
Foreign loans	21,492,672	24,244,622
	<u>41,715,728</u>	<u>46,406,881</u>
Current portion of long-term loans	(18,770,573)	(19,761,341)
Total	<u>22,945,155</u>	<u>26,645,540</u>

The maturity of non-current loans was as follows:

	March 31, 2011	December 31, 2010
Between 1 and 2 years	12,244,531	14,747,653
Between 2 and 5 years	3,957,175	4,758,228
Over 5 years	6,743,449	7,139,659
	<u>22,945,155</u>	<u>26,645,540</u>

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

	March 31, 2011	December 31, 2010
USD	32,455,530	36,009,703
EUR	8,814,651	9,900,092
JPY	442,705	494,145
RSD	2,842	2,941
	<u>41,715,728</u>	<u>46,406,881</u>

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

The Group has both fixed and floating interest rates stipulated with the creditors. Floating interest rates are connected with Euribor and Libor.

Management expects that the Group will be able to fulfill all of its obligations within agreed timeframes.

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**Notes to interim condensed consolidated financial statements
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(All amounts are in 000 RSD, unless otherwise stated)

9. LONG TERM LOANS (continued)

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

Creditor	Currency	March 31, 2011	December 31, 2010
Domestic long term loans			
Alfa bank Srbija, Belgrade	USD	5,965,617	6,920,531
NLB bank, Novi Sad (London club)	USD	45,882	49,678
NLB bank, Novi Sad (Paris club)	USD	466,891	513,656
NLB bank, Novi Sad (Paris club)	JPY	442,705	494,145
Erste bank, Novi Sad (London club)	USD	4,364	4,725
Erste bank, Novi Sad (Paris club)	EUR	448,631	463,078
Erste bank, Novi Sad (Paris club)	USD	265,161	290,997
Hypo Alpe Adria Bank, Belgrade	EUR	635,383	768,379
Piraeus bank, Belgrade	USD	4,979,123	5,391,054
Privredna bank, Pančevo (Paris club)	EUR	230,417	239,395
Privredna bank, Pančevo (Paris club)	USD	1,520,233	1,679,068
Government of Republic of Serbia (IBRD)	EUR	4,703,254	4,789,655
Government of Republic of Serbia, Agency for deposit assurance	USD	512,553	554,957
Other loans	RSD	2,842	2,941
		20,223,056	22,162,259
Foreign long term loans			
Moscow bank, Russian Federation	USD	7,322,240	7,928,020
EFG NEF BV, Holland	USD	4,098,081	4,522,248
Erste Bank, Holland	EUR	2,330,890	3,164,946
VUB (Bank Intesa), Slovakia	USD	3,661,120	3,964,010
NBG Bank, Greece	USD	1,820,742	2,248,855
NBG Bank, Greece	EUR	466,076	474,639
Sinohem , Great Britain	USD	1,793,523	1,941,904
		21,492,672	24,244,622
Less current portion of long-term loans		(18,770,573)	(19,761,341)
		22,945,155	26,645,540

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**Notes to interim condensed consolidated financial statements
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(All amounts are in 000 RSD, unless otherwise stated)

10. SHORT TERM FINANCIAL LIABILITIES

	March 31, 2011	December 31, 2010
Short term loans	4,567,296	2,004,540
Current portion of long term loans	18,770,573	19,761,341
Current portion of financial lease	37,774	39,716
Other short term liabilities	31	41
	23,375,674	21,805,638

11. TRADE AND OTHER PAYABLES

	March 31, 2011	December 31, 2010
Advances received	1,101,569	2,064,911
Trade payables:		
- domestic	1,746,158	2,138,088
- foreign	6,502,590	656,363
Trade payables – parents	6,032	-
Trade payables – other related parties	7,103,830	19,475,154
Liabilities from other operations	71,650	71,046
Liabilities from specific operations	341,476	558,472
	16,873,305	24,964,034

As at March 31, 2011 payables to other related parties in the amount of 7,103,830 thousand RSD (December 31, 2010: 19,475,154 thousand RSD) mostly relate to liabilities for crude oil purchased from Gazprom Neft Trading, Austria in the amount of 6,946,939 thousand RSD (December 31, 2010: 19,376,889 thousand RSD).

Liabilities to foreign suppliers as of March 31, 2011 in the amount of 6,502,590 thousand RSD (December 31, 2010: 656,363 thousand RSD) mostly relate to liabilities towards Moil-coal trading co. Limited for crude oil purchase in the total amount of 5,446,755 thousand RSD.

12. SALES

	Three-month period ended March 31,	
	2011	2010
Sales		
- domestic	33,112,251	26,112,272
- foreign	3,664,601	1,358,495
	36,776,852	27,470,767

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**Notes to interim condensed consolidated financial statements
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(All amounts are in 000 RSD, unless otherwise stated)

13. COST OF MATERIAL

	Three-month period ended March 31,	
	2011	2010
Cost of raw materials	18,421,028	18,214,585
Cost of office and other material	203,862	143,439
Other fuel and energy expenses	453,558	461,021
	19,078,448	18,819,045

14. SALARIES, BENEFITS AND OTHER PERSONNEL EXPENSES

	Three-month period ended March 31,	
	2011	2010
Wages and salaries (gross)	3,514,101	3,180,666
Taxes and contributions on wages and salaries paid by employer	581,420	568,098
Cost for temporary service agreement	71,963	69,331
Cost of other temporary service agreements	4,127	16,056
Fees paid to management and supervisory board members	7,379	3,098
Cost for employees termination payments	753,671	291,044
Other personal expenses and benefits	441,269	222,096
	5,373,930	4,350,389

Termination costs in the amount of 753.671 thousand RSD relate to costs incurred in relation to voluntary leave program. Total number of employees who accepted the termination of employment until March 31, 2011 is 297 (2010:1,237 employees).

	Three-month period ended March 31,	
	2011	2010
Average number of people employed	10,197	11,187

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**Notes to interim condensed consolidated financial statements
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(All amounts are in 000 RSD, unless otherwise stated)

15. OTHER OPERATING EXPENSES

	Three-month period ended March 31,	
	2011	2010
Production services	452,179	364,960
Transportation services	387,717	318,257
Maintenance	233,422	159,299
Rental costs	102,374	87,037
Fairs	2,438	485
Advertising costs	43,725	28,821
Research costs	26,890	17,701
Cost of other services	227,342	136,908
Costs of non production services	404,446	389,677
Representation costs	41,582	20,919
Insurance premium	63,126	143,485
Bank charges	30,510	51,597
Cost of custom duties, property taxes and other taxes	252,220	228,523
Mineral extraction tax	464,008	268,611
Cost of legal and consulting services	34,625	27,717
Administrative and other taxes	44,827	42,137
Other	67,533	37,388
	2,878,964	2,323,522

Cost of non-production services for year ended March 31, 2011 in the amount of 404,446 thousand RSD (2010: 389,677 thousand RSD) mostly relate to costs incurred for: use of service companies (security and cleaning companies) in the amount of 311,156 thousand RSD, as cost of project management in the amount of 4,885 RSD, certification and supervision costs in amount 3,167 thousand RSD.

16. FINANCIAL INCOME

	Three-month period ended March 31,	
	2011	2010
Interest income	307,393	308,447
Foreign exchange gains	5,047,578	707,848
Other financial income	343	5,084
	5,355,314	1,021,379

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**Notes to interim condensed consolidated financial statements
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(All amounts are in 000 RSD, unless otherwise stated)

17. FINANCIAL EXPENSES

	Three-month period ended March 31,	
	2011	2010
Financial expenses – parent and other related parties	32,885	-
Interest expenses	645,380	952,307
Foreign exchange losses	477,259	6,956,183
Other financial expenses	96	1,845
	1,155,620	7,910,335

18. OTHER EXPENSES

	Three-month period ended March 31,	
	2011	2010
Losses on disposal		
- property, plant and equipment	325	212
Shortages	107,738	11,835
Fines, penalties and damages	25,995	8,252
Humanitarian and sponsorships	22,840	15,614
New year presents	22,916	-
Business and technical cooperation expenses	21,250	-
Adjustment of investments in Angola	75,208	299,217
Provision for bad debts	352,871	1,089,518
Other	504,252	784,194
	1,133,395	2,208,842

19. EARNINGS PER SHARE

	Three-month period ended March 31,	
	2011	2010
Net income (loss)	9,801,628	(4,564,006)
Weighted average number of shares outstanding	163,060,400	163,060,400
Basic earnings per share	0.06	(0.03)

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**Notes to interim condensed consolidated financial statements
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(All amounts are in 000 RSD, unless otherwise stated)

20. RELATED PARTIES TRANSACTIONS

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

The Group 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.

	March 31, 2011	December 31, 2010
<i>Liabilities</i>		
Gazprom Neft Trading, Austria	(6,946,939)	(19,376,889)
Gazprom Neft, St Petersburg, Russia	(21,866,499)	(22,262,027)
	<u>(28,813,438)</u>	<u>(41,638,916)</u>
<i>Accrual</i>		
Gazprom Neft, St Petersburg, Russia	-	(1,266)
	-	(1,266)
Total liabilities:	<u>(28,813,438)</u>	<u>(41,640,182)</u>
	Three-month period ended	
	March 31,	
	<u>2011</u>	<u>2010</u>
<i>Cost of material</i>		
Gazprom Neft Trading, Austria	(15,720,294)	(16,883,260)
	<u>(15,720,294)</u>	<u>(16,883,260)</u>
<i>Other operating expenses</i>		
Gazprom Neft, St Petersburg, Russia	(12,665)	-
	(12,665)	-
	<u>(15,732,959)</u>	<u>(16,883,260)</u>
<i>Financial expenses</i>		
Gazprom Neft, St Petersburg, Russia	(32,885)	-
	<u>(32,885)</u>	<u>-</u>
<i>Other income</i>		
Gazprom Neft Trading, Austria	21,417	-
	<u>21,417</u>	<u>-</u>
<i>Other expenses</i>		
Gazprom Neft, St Petersburg, Russia	(21,250)	-
Gazprom Neft Trading, Austria	(37,848)	-
	<u>(59,098)</u>	<u>-</u>
	<u>(37,681)</u>	<u>-</u>

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**Notes to interim condensed consolidated financial statements
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20. RELATED PARTIES TRANSACTIONS (continued)

Transactions with state controlled institution and companies:

	Receivables		Advances	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
Airport Nikola Tesla	5,394	13,470	-	-
JAT Airways	178,573	301,330	1	-
HIP Petrohemija	1,269,810	1,116,183	-	-
EPS Elektrovojvodina	53,743	21,336	2,825	442
MUP Republic of Serbia	465,670	492,680	199	198
RTB BOR Group	2,070,612	2,022,461	31,453	31,453
Srbijagas	5,648,604	5,278,026	-	-
Telekom Srbija	99,654	42,133	135	47
Heating companies	218,405	461,111	500	499
Road companies	2,857	4,519	2,450	-
Serbian army	606,816	203,757	421	-
	10,620,138	9,957,006	37,984	32,639

	Liabilities		Advances received	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
Airport Nikola Tesla	26	304	-	-
JAT Airways	-	-	10	99
HIP Petrohemija	156,890	98,264	1,366	447
EPS Elektrovojvodina	1,203	1,312	-	-
MUP Republic of Serbia	51	17	344	72
RTB BOR Group	-	-	1,006	395
Srbijagas	267,575	267,519	12,794	12,804
Telekom Srbija	4,878	3,694	72	56
Heating companies	202	2,616	13,751	29,399
Road companies	2,260	35	311	310
Serbian army	-	2,113	624	318
	433,085	375,874	30,278	43,900

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**Notes to interim condensed consolidated financial statements
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(All amounts are in 000 RSD, unless otherwise stated)

20. RELATED PARTIES TRANSACTIONS (continued)

	Income		Expenses	
	Three-month period ended March 31,			
	2011	2010	2011	2010
Airport Nikola Tesla	36,153	27,213	2,577	1,317
JAT Airways	506,658	341,781	-	-
HIP Petrohemija	2,382,961	1,819,477	44,335	52,248
EPS Elektrovojvodina	28,126	22,866	164,595	118,522
MUP Republic of Serbia	380,637	230,741	477	169
RTB BOR Group	353,825	185,771	-	-
Srbijagas	2,385,995	1,178,768	45,492	68,801
Telekom Srbija	21,232	28,896	43,352	37,729
Heating companies	773,484	1,212,525	8,212	14,126
Road companies	5,631	5,449	13,637	14,320
Serbian army	575,937	178,937	506	1,834
	7,450,639	5,232,424	323,183	309,066

21. CONTINGENT LIABILITIES

Transfer of NIS property ownership

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

Until March 31, 2011 Republic of Serbia made 14 conclusions allowing the ownership transfer in Companys' favor (1,702 buildings and 522 parcels, on which such facilities are located, or a total of 2,224 real estate, which makes up 26% of the total NIS assets).

22. EVENTS AFTER THE BALANCE SHEET DATE

Sales of Hotel Splendido

Based on the decion of Management of Board Ozone a.d. Belgrade, dated 8. april 2011, Hotel Splendido in Prcanj, Montenegro was sold.

Novi Sad, 27.05.2011

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

M.P.

Legal representative

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