



ANNUAL REPORT 2011

NIS in figures in 2011

Foreword by Chairman of Board of Directors

Foreword by CEO

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NIS is one of the largest vertically integrated energy companies in the South-East Europe. Its business activity combines exploration, production, and oil and gas processing, sales and distribution of petroleum products and project realization in the field of petrochemistry and energetics. The Company is the guarantor of reliable supply of Serbian market with petroleum products and, by means of its socially responsible business activity, it significantly impacts the overall development of the country. NIS has in its ownership a refining complex with two facilities – in Pancevo and Novi Sad, the LPG production unit in Elemir, and around 400 petrol stations all over the country, yet, in line with its strategy to become a leader in the area, it gradually expands its business activity to the regional market: Bosnia and Herzegovina, Hungary, Romania, and Bulgaria. NIS is the very first Serbian company to have set up a representative office in the European Union, in Brussels, hoping to, by taking part in the international dialogue, positively influence European integration of Serbia. The Company has around nine thousand employees.

The Annual Report of NIS a.d. Novi Sad for 2011 represents a reliable account of Company's business activity development and results accomplished in 2011. The Report, in compliance with the Capital Market Law, comprises three entities: business report, stand-alone and consolidated financial reports, including auditors' reports, as well as the statements of persons responsible for report delivery. Abbreviations and terms used in the Report, as well as the contact data are provided in the Appendix to the Report.

NIS in figures in 2011

Financial indicators	2011	2010	Δ	
Net profit (loss), bln. RSD	40.6	16.5	+146%	↑
EBITDA, bln. RSD	52.4	32.4	+62%	↑
Sales (excise tax excluded), bln. RSD	186.9	161.2	+16%	↑
OCF, bln. RSD	35	17.8	+97%	↑
CAPEX, bln. RSD	34.4	19.7	+75%	↑
Total debt to banks, mln. USD	446	611	-27%	↓
Total bank indebtedness, mln. USD	458	644	-29%	↓

Operational Indicators	2011	2010	Δ	
Domestic oil and gas production volume, thous.conditional tons	1,521	1,229.4	24%	↑
Average daily domestic oil production volume, t/day	2.77	2.37	17%	↑
Average daily domestic gas production volume, m3/day	1.67	1.24	35%	↑
Total volume of sales of oil products, thous.tons	2,428	2,611.2	-7%	↓
Volume of crude refining third parties excluded, thous.tons	2,359	2,849.7	-17%	↓
Number of operational petrol stations	399*	465*	-14%	↓

*balance as of Dec. 31. Number of operational petrol stations for 2011 does not include two petrol stations closed for reconstruction



„...by Company stabilization, profit-making, growing key indicators in all segments of business activity and by realization of investment programs, we create future in the field of energy we strive for...”

NIS accomplishments over the past three years give us huge satisfaction. Company's pace of development, its internal efficiency steadfast boost along with the fulfilment of ambitious investment programmes prove that NIS is a well-established modern company capable to bring about and spearhead across the Balkans the development of power generation projects devised by Gazprom Neft.

In a relatively short period of time, NIS Management successfully introduced changes, which substantially stabilised the company, secured profit and enhanced key indicators across the board. Along the same lines the company efficiently established a modern corporate management system underpinned by transparent communication with all stakeholders. All this propelled stock performance at the Belgrade Stock Exchange to our tremendous satisfaction.

In 2011, NIS adopted a ten year strategy, which sets ambitious objectives and envisages achievement of indicators befitting its greatest European competitors. 2011 activities kept the schedule of adopted strategy.

One of Serbia's largest investment projects – NIS production facilities revamping – has been progressing on schedule. It was apparent since the very take-over of NIS that its survival and subsequent competitiveness hinges on modern refining technology for the production of European quality fuel. The first stage of revamping was complete last year: the construction of hydrocracking complex within Pančevo Refinery is half-way through, which was marked by the opening ceremony of its Control Room – the heart of the facility. This investment project has been brought to such a remarkable fruition by virtue of well-established contract obligations and NIS working in concert with the government of the Republic of Serbia. The significance of the event is best described by the fact that the Control Room was put on stream jointly by Serbia's President Boris Tadić and Alexei Miller, Gazprom Executive Committee Chairman, at an opening ceremony attended by two countries' most prominent officials.

We pool efforts with the second biggest NIS shareholder to address all other issues of shared importance. In the time to come we shall endeavour to put more emphasis on power generation development, a process crucial for a company seeking to diversify its business in order to emerge as a major regional competitor. NIS determination to take up power generation reflects its readiness to employ novel technologies and provide its consumers with

new quality services. By pooling efforts with both shareholders we shall create Serbia's future in the power generation realm.

Gazprom Neft devised a strategy envisaging for NIS a role of power generation link between the region and the rest of Europe and world. NIS made significant strides in accomplishing these strategic targets by establishing its affiliate companies and representative offices across the region as well as by commencement of exploration works and acquiring investment-attractive facilities in neighbouring countries. In addition to production scope and sales boost, new projects in Europe make possible for NIS to expand its competencies, share experience with leading companies and implement progressive technologies.

Further investments should be made into the company's development in order to accomplish all above mentioned. The investments shall be made in the forthcoming period in accordance with a schedule. The two majority shareholders have agreed to invest another 1.5 billion euros. We are very well aware that such investments are crucial for NIS to emerge as a European leader in power generation at large, not only in crude and natural gas extraction and refining. Gazprom Neft remains a steady and reliable partner willing to commit investments, share knowledge, furnish technology and offer human resources in full pursuance of its commitments.

NIS commands significant resources and its planned investments, technological innovations, further streamlining of production and management process shall make NIS a reputable power generating company.

Vadim Yakovlev
Chairman of the Board of Directors
NIS a.d. Novi Sad



„...we actively expand and grow, invest in new technologies, thus demonstrating a high level of social responsibility, we develop business trends – energetics, petrochemistry, and unconventional resources. We have chosen the right course...”

The year 2011 that is behind us rounded off our three-year operation in Serbia. A year abound with challenges. Global economy suffered greatly from the impact of the economic crisis, which hit hard the developed nations and ground to a halt the progress of those developing. New wave of economic crisis raised serious questions concerning the prospects and future structure of European economy. EU's most advanced economies made efforts to cope with the emerging challenges, significantly shifting their focus from the whole region, which made the 2011 score of neighbouring countries way below the set objectives. In 2011, Serbia's frail economy attempts to recover in the aftermath of the previous wave of crisis were plagued by risk of further deterioration of macro-economic situation on the market due to the anticipation of a fresh bout of economic crisis. In parallel, high inflation rate, as well as large fluctuations in the RSD exchange rate, influenced the economic processes in our country. Huge instability augmented by the soaring unemployment rate resulted in across-the-board consumption plummeting, trade in particular, motor fuels demand being significantly affected. Inevitably, our Company's operation in 2011 strongly felt reverberations of all these circumstances. On top of all that, we entered the open oil products market, a great challenge in terms of local economy.

Never the less, I am proud to say that our company even through these rough and tough times emerged as Serbia's biggest investor and we shall pursue this trend in the long run. However, we are determined not to buckle under the pressure of circumstances, and will not only firmly stand behind our anticipated investments, but intend to make them even more ambitious! Starting in 2009 we pooled efforts with the majority shareholder Gazprom Neft and invested approximately 1.5 billion euros to strengthen and further develop the Company. We have an impressive catalogue of overall investments into the company, most important being Serbia's largest investment project – a revamp of refining facilities. We have put our internal resources into the development of other business areas such as extraction and refining of crude oil and gas, retail network streamlining,

environment protection and efficiency improvement as well as management process modernisation.

In an effort to live up to our reputation as Serbia's largest investor we planned to invest over the course of the coming three years another 1.5 billion euros in the development of refining, sales and distribution, introduction of novel technologies in exploration and development of hydrocarbons deposits and expanding business operation across the region. 2011 marked the start of implementation of hydrocarbons exploration and extraction projects in the Republic of Srpska, Hungary and Romania, as well as the entry into the retail markets of Bosnia-Herzegovina and Bulgaria. In support of Serbia's Eurointegration we inaugurated our representative office in Brussels.

Power generation is a new business area we started to develop in 2011. Our strategic plan is to step up the use of renewable sources of energy and start electricity production, which we see as great potential for our company and Serbia.

All our investment will facilitate our efforts to master the production of Euro 5 standard quality production, upgrade environment protection, greater scope of production and higher quality services.

As part of the overhaul of the corporate retail network in 2011 we updated a concept of NIS Petrol fuel stations. Creation of a unified network under the revamped brand aims to strengthen the position in local engine fuel retail market and materialise our commitment to provide our clients with guaranteed quality of fuel and services. Along with the changed visual identity featuring a trademark "three-colour", the new concept of fuel stations shall offer availability, reliability and modern standard of services. Next year, people in Serbia will have an opportunity to enjoy the quality we offer at the great number of our venues across the country.

Naturally, these ambitious plans came to a fruition due to the fact that the result of our three-year-long activities aim not only to financially recuperate and

stabilise the company, but to make planned profit. Net profit in 2011 exceeded the one of the preceding year by as much as 146 per cent and amounts to 40.6 billion RSD. Successful business results prove that in 2009 we opted for the right path, however, I would like to reiterate that the profit earned are being re-invested into the company in order to improve its competitiveness, business success and make it more modern.

Notwithstanding our significant investments into novel technologies, the success of such a scale would not be possible without efforts to improve human resources. In 2011, we put together a strong international team: experts from far and wide joined our company, bringing in different cultures, valuable knowledge, international expertise and progressive technologies. Today, nationals of 22 countries work in the company! However, along with employing new specialists, we committed a great deal of funds to upgrade the skills and qualifications of the current staff members. Human resources enhancement is company's long-term commitment put into practice by way of numerous projects, training programmes and incentives for staff members.

We have been vibrantly developing and growing over the course of all these years, but we are very well aware of our great role in Serbia's economy: we are the nation's greatest budget contributor and a major segment of its energy stability. We keep funding Serbia's development, displaying a high level of social responsibility. In 2011, almost 100 projects were implemented within corporate

programmes supporting institutions, organisations and events in sport, science, education, as well as humanitarian projects and priority programmes of local communities where NIS operates.

The year of 2012 holds new business challenges in store for us. Putting on stream our pivotal investment project, specifically the Hydrocracking Unit in the Pančevo Oil Refinery is company's paramount priority. Other than that, we shall strive to increase the scope of production and crude oil and gas resources and further expand operations in the region. Our important goals include the increase of scope of sales of high margin products and developing new business areas – power generation, petrochemistry and unconventional hydrocarbon resources.

Kirill Kravchenko
CEO of NIS a.d. Novi Sad



**BUSINESS
REPORT**



* Key Events

January

- Gazprom Neft announced take over bid for shares of minority shareholders

February

- "Jadran-Naftagas" officially started its operations as a newly formed company for exploration and production of oil and gas in the territory of Republic of Srpska
- Modernization of railway loading station in Pancevo Oil Refinery – installation of VRU units providing ecologic loading of oil products
- Start-up of raffinates production line in Novi Sad Oil Refinery
- Commencement of 2D seismic survey in the territory of Republic of Serbia.



March

- Start-up of Torda Plitko gas field
- Commencement of works on modernization of Danube jetty in Pancevo
- Gazprom Neft and Petrol, Slovenia, signed Memorandum of Understanding
- NIS a.d. Novi Sad presented the results of environmental audit
- Closing of Gazprom Neft take over bid for shares of minority shareholders

April

- Board of Directors of NIS a.d. Novi Sad adopted long term company development strategy for the Balkan market by 2020
- Opening of reconstructed petrol station "Stara zelezara" in Smederevo
- Opening of reconstructed petrol station "Nais" on the Niš highway



May

- NISOTEC won champion cup at the International Agriculture Fair in Novi Sad
- East West Petroleum Corporation and NIS signed Memorandum of Understanding in area of exploration and production in Romania

June

- TXM Oil & Gas Exploration Kft. and NIS signed Letter of intent under which NIS buys a share in „Algyo“ formation production
- Start-up of drilling of test well at Majdan, Banat
- Signing of contract with GES, Hungary for 3D seismic survey execution at the exploratory area in Vojvodina
- Commencement of deep test well Majx-2 (Majdan-Duboko)
- NIS representative office opened in Brussels
- New petrol station "Preljina 2" and reconstructed petrol station "Kruševac 3" opened

July

- Adoption of Decision on profit allocation and losses coverage of NIS for 2010
- First petrol station of NIS in the Republic of Srpska
- NIS presented its "Report on Sustainable Development for 2010"
- Obtained concession in the Republic of Srpska for the right of exploration and exploitation of hydrocarbons in this territory



August

- Opening of reconstructed petrol stations "Mali Pozarevac", "Kragujevac 2" and "Kragujevac 5"
- Commencement of building of bunker station in Novi Sad, to be used for loading fuel for vessels
- Commencement of 3D seismic survey in the exploration area Majdan-Srpski Krstur (North Banat)



September

- Opening of new petrol station "Plandiste"
- Set-up of a new block – Energy
- Signing of concession contract for exploration and exploitation of hydrocarbons in the territory of Republic of Srpska
- Rebranded "Vršac 2" fuel station put into operation



October

- Plans presented for NIS business activities development in Romania
- 3D seismic survey finished in exploration area of Severni Banat and started in the area of Zrenjanin (Middle Banat)
- Reconstructed petrol station "Sevojno 2" opened
- International acknowledgement of NIS for improvements made on the area of HSE
- Start-up of the reconstructed unit for gasoline refining in Novi Sad Refinery

November

- NIS and Central Administration of Vojvodina signed Memorandum of Cooperation in area of geothermal energy
- "Jadran-Naftagas" started 2D seismic survey in Republic of Srpska to locate oil and gas deposits
- Test well Osts 1 drilled (south from Sava and Danube)
- NIS received acknowledgement for best investor relations
- End of FCC unit reconstruction in Pancevo
- Business plan for 2012 adopted by Board of Director



December

- Agreement on strategic cooperation between NIS and Government of Serbia in area of efficiency increase in production and financial stability of HIP Petrohemija
- NIS and RAG signed agreement on joint exploration and development of conventional hydrocarbon resources in area of Kishkunhalas in Hungary
- Commencement of test well drilling – Jelica 1 (basin of Kraljevo)
- End of 2D seismic explorations
- Opening of reconstructed petrol stations "Novi Sad 10" and "Valjevo 2"

Key Events 2012.

January

- Test well Majh-2 examined put into trial operation

February

- RAG Hungary Limited and Company started drilling test wells upon Farm-In agreement, signed on December 2011
- Finish of 3D seismic surveys in test area of Zrenjanin (Middle Banat)



Strategic plan of development sets clear-cut across the board objectives for NIS, as well as for each individual business segment.

Development strategy is the result of a comprehensive assessment of the environment, anticipated progress of NIS, market situation, expected market development trends as well as assessment of competition.

Strategy, mission, vision and values

Strategy by 2020

The long-term strategic objective of NIS is to become a leader in efficiency in the Balkans, emerge as a major power generation company, a most competitive one on the southeastern European market, as well as the regional player with the fastest growing production, refining, sales and distribution volumes in the Balkans.

NIS is focused on these long-term development areas:



NIS has determined the main tasks and development trends of the company based on three horizons of set objectives in the period of 2011-2013-2020:

- Short-term outlook for 2011: vertically-integrated company
- Mid-term outlook by 2013: emerging player in the Balkan market
- Long-term outlook by 2020: efficiency leader in the Balkans.

NIS Development Strategy entails implementation of programmes that include:



5 million tons of crude and gas produced

- Capacity utilisation rate not less than 10
- Key player in Panonian Basin
- Broad portfolio of assets beyond Serbia's borders
- Most solid scientific and technological base for development of conventional and unconventional resources
- Gas supply to end user



5 million tons refined

- Among five most efficient refineries in SEE
- Less than two per cent heavy still bottoms
- Production of base and industrial oils
- Tight integration with petrochemistry
- Control of raw material delivery infrastructure



5 million tons oil products sold

- Leader in Serbia and neighbouring countries in quality of service and fuel
- 800-1000 petrol station of mass and premium brand in Serbia and Europe. Unchallenged leader of Serbian market in scope of sales
- One of three biggest vertically-integrated companies in the region by scope of retail sales
- One of the region's leaders in production of oils and jet fuel, bunkering and petrochemicals
- Pioneering the use of novel technologies in production of derivatives



Euro-5 standard of process and result

- European standard products and services
- Leader in the region by international HSE standards compliance
- Introduction of best Europe's management practice in public companies
- High achievements culture and region's best employer
- International standards in corporate social reporting

Accomplishment of NIS devised strategy will poise the company in the coming three years to reduce lagging behind the competition in key indicators of efficiency and bring EBITDA to 58.5 billion RSD in 2013. Furthermore, implementation of the strategy in the period from 2011 to 2013 envisages investments into the key business areas to the tune of 90 billion RSD.

MISSION AND VISION

MISSION

To give the people of Balkan region energy for movement towards better by responsible use of natural resources and modern technology.

VISION

Vertically integrated oil company NIS will emerge as a leader in its industry across the entire Balkan region through its sustainable growth and increased efficiency, demonstrating high social and environmental responsibility and high customer service standards.

COMPANY VALUES

PROFESSIONALISM

– acquisition of modern knowledge to constantly improve the expertise and ability to apply it in the specific working process

POSITIVE ATTITUDE AND WILLINGNESS TO COOPERATE

– willingness to participate in a multi-functional groups and projects, attentiveness to the demands of colleagues in other parts of the company, willingness to exchange information, ability to work in a team.

INITIATIVE AND RESPONSIBILITY

– finding new solutions in the domain of work commitments, and beyond that, within the company's sphere of interest.

COMMON OBJECTIVE CULTURE

– consolidated effort aimed at the accomplishment of tangible and impressive results, the pursuit of achieving success with the indispensable help of one another.

NIS Regional Development Plan

In pursuance of mid-term outlook for NIS long-term strategy, specifically to become an emerging player in the Balkan market, the year of 2011 marked the first steps aimed at the accomplishment of this goal. Memoranda of Understanding and Letters of Intention were signed with companies in Bulgaria, Romania and Hungary.

Company Name	Cooperation Type	Date	Field of cooperation
East West Petroleum Corp	MoU	25.05.2011.	Cooperation in upstream for a breakthrough in developing four onshore blocks in Romania: EX-2 (Tria), EX-3 (BaileFelix), EX-7 (Periam) iEX-8 (Billed).
TXM Oil i Gas Exploration Kft., daughter company of Canadian Falcon Oil & Gas Ltd.	Lol	09.06.2011.	Acquisition of share in production of "Algyo" formation, pursuant to Falcon's production license in the Mako block in Hungary
RAG Hungary Kft, Budapest (RAG)	Lol	14.10..2011.	Joint exploration and exploration and development of conventional resources of hydrocarbons in „Kiskunhalas“ to the west of Szeged, South Hungary

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 area in Romania. In December 2011, the Company entered into a Farm-in Agreement with RAG Hungary Limited for exploration and production of hydrocarbons in Hungary's Kiskunhalas area.

Second half of 2011 saw the establishment of subsidiaries in Bosnia-Herzegovina (Republic of Srpska), Bulgaria, Romania and Hungary.

Name of subsidiary	HQ	Date of establishment	Core Business
NIS Petrol d.o.o.	B&H, Republic of Srpska, Laktaši	13.09.2011.	Wholesale of solid, liquid and gaseous fule and related products
NIS Petrol e.o.o.d.	Bulgaria, Sofia	13.09.2011.	Trade in crude oil, LPG and oil products (wholesale and retail), import-export operations
NIS Petrol s.r.l.	Romania, Bucharest	16.09.2011.	Motor fuel retail in specialised shops
Panon Naftagas Kft.	Hungary, Budapest	03.10.2011.	Extraction of crude oil



General Information

Business Name:	NIS a.d. Novi Sad
Company Identity Number:	20084693
Address:	Novi Sad, Narodnog fronta 12
Tax ID:	104052135
Web site:	www.nis.rs
e-mail:	office@nis.rs
Core Business:	0610 – extraction and exploitation of crude oil
Number and date of reg. with BRA:	BD 92142, 29.09.2005
Equity as of 31.12.2011.	87,586,665,000 RSD
Share capital as of 31.12.2011.	81,530,200,000 RSD
Number of staff members as of 31.12.2011.	9,076*
Audit company, which audited financial statements as of 31.12.2011.:	PricewaterhouseCoopers d.o.o. Omladinskih brigada 88a Belgrade (New Belgrade)
Organized Market where Shares of the issuer are traded in	Belgrade Stock Exchange Omladinskih brigada 1 11070 New Belgrade

* without employees from service providers



KEY EVENTS

1949

Naftagas oil company established, the first gas fields discovered

1985

Beginning of the Angola crude oil production (concession)

1991

Establishment of the Public Company Naftna industrija Srbije

1952

First oil fields discovered

1951

Gas transportation system improvement launched

2005

The Company became a joint stock company.

2009

51% of NIS acquired by Gazprom Neft; 49% remains under control of the Republic of Serbia. Production modernization project was launched in September.

1953

Construction of the first petrol stations started

1963

Completion of the first main gas transmission line Mokrin – Kikinda – Elemir – Velika Greda – Pančevo

1968

Novi Sad and Pančevo Oil Refineries started operation. Velebit oil field discovered

2010

On 6 January, 19,08% of the shares owned by the Republic of Serbia pass into the ownership of the citizens of Serbia, employees and ex-employees of NIS. Hydrocracking and hydrotreating complex in Pancevo Oil Refinery launched in June that means the beginning of NIS refinery complex modernization. On June 21, NIS became an open joint stock company. On August 23 Belgrade Stock Exchange Commission for listing and quotation decided to accept NIS shares for Listing A – Prime Market, while on August 30 shares trading in Belgrade Stock Exchange started.

1979

Horgoš-Batajnica gas pipeline put on stream

2011

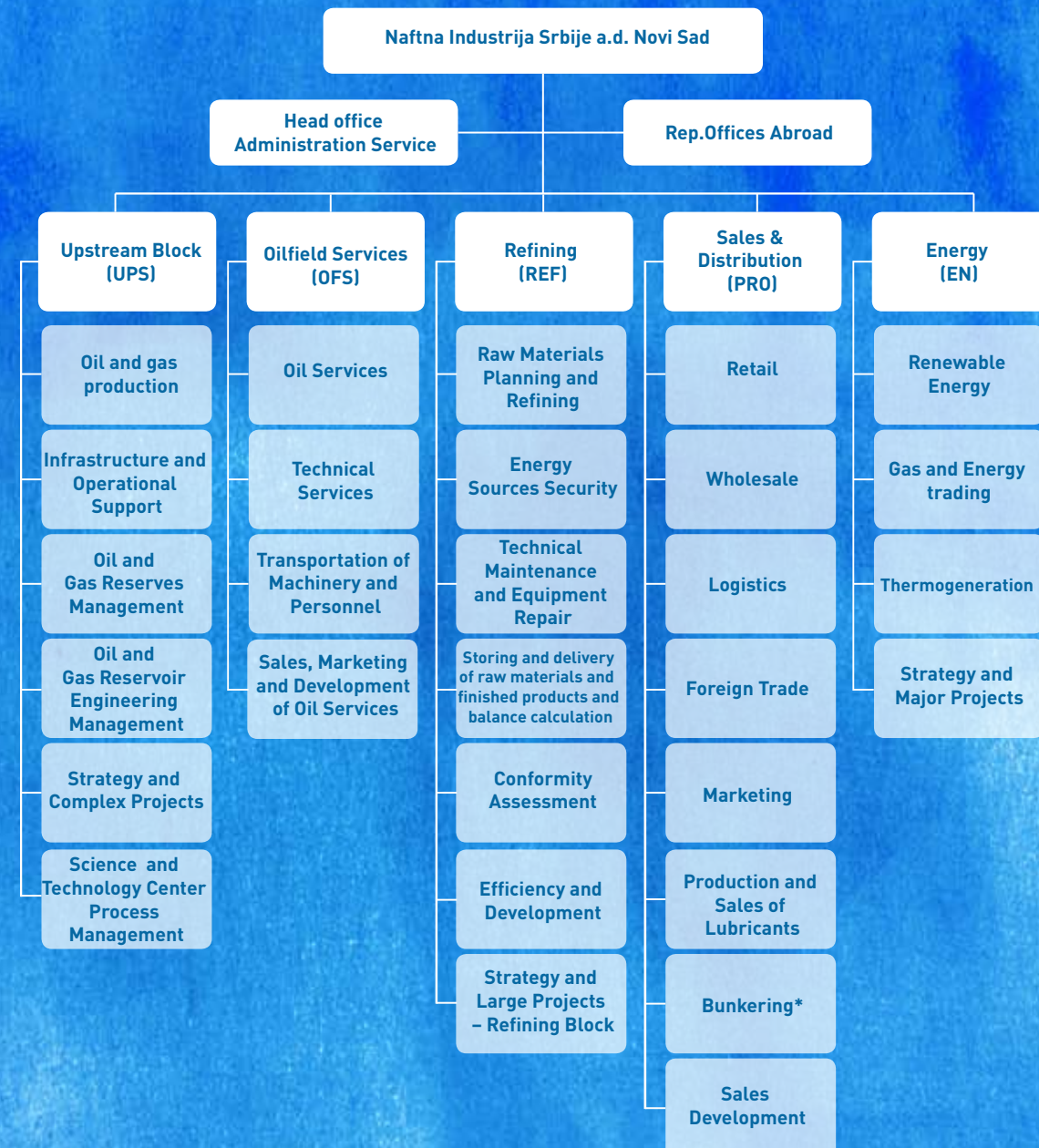
Adopted long-term development strategy by 2020; NIS begun to expand into the region – cooperation with East West Petroleum Corp, TXM Oil&Gas Exploration Kft, daughter company of a Canadian company Falcon Oil&Gas Ltd, RAG Hungary Kft, Budapest (RAG)

Subsidiaries established in the Republic of Srpska, Romania, Hungary and Bulgaria.

1982

Geological exploration of oil and gas started in Montenegro

Corporate Structure



*Formally existing Department, but not operational yet.

Business Operation

Naftna Industrija Srbije (NIS) is among major vertically-integrated oil companies in the South East Europe for exploration, extraction and refining of crude and natural gas as well as distribution and sale of a wide range of oil products. Company's HQ and main production facilities are based in the Republic of Serbia, a Balkan hub of trade and investments due to its geographic position. In 2011, NIS distributed its business operation between five blocks:

- Upstream
- Oilfield Services
- Refining
- Sales and Distribution
- Energy

partly decentralised functions/directorates

- Function for Finances, Economics, Planning and Accounting
- Function for Procurement of Material and Equipment, Service Support and Capital Projects
- Function for Organisational Issues and
- HSE Directorate

and centralised functions

- Function for Strategy and Investments
- Function for Legal and Corporate Issues
- Function for Corporate Security
- Function for Business Development and External Relations
- Function for In-house Audit
- Function for PR and Communications

Upstream Block is involved in exploration and production of oil and gas, including production, infrastructure and operational support, oil and gas reserves management,

oil and gas fields' development management, major projects in the field of exploration and production as well as Research Centre process control and Scientific and Technical Centre processes control. NIS has entered into three contracts for share of the Angola crude oil (PSA, Production Sharing Agreement):

- PSA, Block 3/05
- PSA, Block 3/05A
- PSA, Block 3/85 and PSA, Block 3/91

Since 2010 Upstream activities have been expanding into the countries of the region. „Jadran Naftagas“ Ltd. for exploration and extraction of crude has been established in the Republic of Srpska as a joint company of NIS

and Nefte Gaz Inco, a daughter company of Russia's „Zarubezhneft“.

Pannon Naftagas enterprise was registered in Hungary in 2011, while the establishment of an Upstream part is under way within already existing company in Romania, whose sole member is NIS a.d.

The Block includes the Elemir natural gas refinery, designed for production of approximately 60.000 t of liquefied gas (propane, butane) and gasoline.

Oilfield Services Block provides main support in exploration and production in all oil and gas upstream activities, from geophysical services, through drilling and overhaul of wells, to the transportation of the machinery and manpower, machinery maintenance as well as construction and maintenance of oil and gas systems and facilities.

Oilfield Services Block expanded its operations into the foreign markets in the last quarter of 2011. Contracts were concluded for drilling services in the territory of Turkmenistan, workover of wells in Bosnia-Herzegovina for Jadran Naftagas, pipeline testing and inspection of tank for oil products storage in the territory of Romania.

Refining Block deals with oil derivatives production at two separate locations in Pancevo and Novi Sad. They produce a whole range of oil derivatives – motor fuels, feedstock for petrochemical industry, motor oil, and other crude oil products. Average annual refining volume in the last several years was about 3 million tons of crude oil, while the maximum capacity of the refinery units in these two refineries is approximately 7 million tons of crude oil annually.

Sales and Distribution Block covers foreign and domestic trade, wholesale of all oil derivatives, and the retail which includes the finished derivatives, liquid petroleum gas and accessory merchandise. As of 31.12.2011 NIS has 429 operating retail facilities (401 petrol stations: 399 operational and 2 under reconstruction, 10 loading stations for LPG, 18 LPG cylinders sales points), 5 operational products storages (2 mor out of operation, and 1 leased), 6 operational Liquid petroleum gas storages and 3 operational storage facilities for products.

Energy Block, was set up in 2011 and includes generation and sale of electricity and thermal energy as well as synergy in the area of natural gas monetisation and its valorisation by way of sales or in generation, distribution and sale of electricity and thermal energy. Furthermore, Energy Block generates electricity and electricity/thermal energy by way of co-generation

and tapping into the resources of renewable energy and its sale. This Block also administers analysis and assessment of investment and preliminary projects pertaining to Serbia's power generation sector aimed at verification of NIS participation in strategic partnership.

Products and Services

NIS Refineries produce a wide range of oil products and natural gas products, conforming to the international quality standards and manufacturing specifications of the refineries:

1. Automotive fuels

- Liquid petroleum gas for motor vehicles
- Unleaded motor gasoline "EURO Premium" BMB 95
- Unleaded motor gasoline "Premium" BMB 95
- Unleaded motor gasoline "Regular" BMB 92
- Euro Diesel
- Diesel D2

2. Liquid petroleum gas

- Mixture of propane&butane in tanks
- Mixture of propane&butane in cylinders
- Iso-butane
- Butane

3. Aviation fuel

- GM-1 - for jet fuel engines
- JET A-1 - for jet fuel engines (pursuant to „Defence Standard“)

4. Lubricants and grease

- Motor oil
- Transmission oil
- Service liquids
- Industrial lubricants and grease

5. Fuel oil

6. Bitumen

7. Petrochemical products (virgin naphtha, propylene)

8. Distillates and raffinates

9. Other products (benzene, toluene, liquefied sulfur, special naphtha)

NIS also produces drinking water "Jazak".

Apart from that NIS has an ample offer of services, among which are toll processing of oil, transport and storage of oil products, laboratory testing and oilfield services (drilling, equipping and overhaul of oil, gas and geothermal wells, geophysical testing and measuring, maintenance and construction of oil and gas production systems, equipment maintenance and repair, construction and maintenance of transport pipelines, drilling, equipping and overhaul of drinking water wells, materials and equipment transportation) and services of Scientific and Technical Centre (projects for geological research, geophysical study and field development, designing and other engineering services).





Corporate Governance

NIS is aware of the importance of proper and responsible corporate governance, so it is determine to apply high standards of this area based on internationally recognised standards and best practices.

Corporate Governance aims at:

- protection of the rights and interests of shareholders and company's interests;
- shareholders equal treatment;
- control of Company's executive bodies by Board of Directors and Board of Directors responsibility before shareholders;
- transparency of decision-making process by managerial body;
- professionalism and ethics of managerial and supervisory bodies;
- timely, complete and accurate reporting and sharing all essential information;
- effective control of company's finance and business activities to protect shareholders rights and legitimate interests;
- development of business ethics and corporate social responsibility

NIS strategic corporate objectives shall bring about:

- professional and responsible management,
- efficient performance of Board of Directors and Executive Board acting in company's best interest and its shareholders, aiming to increase the assets and company's value
- high level of transparency and publicity of company's operation.

In December 2011, a team of experts from Serbia's Chamber of Commerce and IFC (International Finance Corporation) carried out an external evaluation of NIS Corporate Governance System for 2011. NIS corporate governance performance in the year concerned was rated with the overall mark of 90.25 per cent (a 75% score is regarded as very high, while the remaining percentage points up to 100% should serve as an encouragement to companies to implement high corporate governance principles). The 2011 score is by 4.25% better than overall score in 2010, which is an indication of Company's significant improvement of corporate governance.

Corporate Governance Code

Main objective of Corporate Governance Code is to set high standard in this realm, which would subsequently boost Company's competitiveness, control system efficiency and strengthen shareholders and investors confidence in the Company aiming to ensure its lasting business development.

In its quest to maintain the high level of Corporate Governance Culture, NIS makes significant efforts to constantly develop Corporate Governance System and upgrade the content of the Code based on internationally recognised standards and best practices in the area.

3rd Annual Shareholders' Assembly held on 21 June 2011 approved the Report on Compliance of Company's Set-up and Operation with NIS Corporate Governance Code, which Board of Directors presented to the Assembly. The Report sums up the effects of Corporate Governance Code implementation in June 2010 – April 2011 and informs Company's shareholders of the compliance of conduct and activities within the Company, as well as its set-up and operation with the Code.

The Report recognised Board of Directors successful management of the Company, which is being carried out in keeping with corporate governance-stipulated principles, in a way that protects shareholders' interests, as well as the establishment of an adequate corporate structure within the Company and a successful implementation of the Corporate Governance Code, while the Company undertakes to keep abiding by its principles.

Statement on Application of Corporate Governance Code

Dedication to Corporate Governance Principles

Following OECD (Organization for Economic Cooperation and Development) principles of corporate governance, as well as existing experience and best practices in this area NIS adopted its own principles of corporate governance that are incorporated in its code of corporate governance of NIS a.d. Novi Sad, dated June

10th, 2010 as well as Company's internal acts, available on the corporate web site: www.nis.rs. Board of Directors of NIS monitors the code application, its follow through and compliance of the Company's organization and activities with the Code, and reports to the Shareholder Assembly (Article 1.4. and 10.2. of the Code).

Application of the principle of the balanced respect of all the stakeholders' interests (the existing and potential shareholders, creditors, consumers, employees, the company's bodies, the state etc.) is obtained through adopted procedures of decision making of the Company's bodies, as well as through transparent interaction and communication of all the Company's bodies, management, employees, stakeholders and the public (Article 1.2. of the Code).

Shareholders and Shareholders' Assembly

All the NIS shares are common shares and each share gives the right of one vote in the Company's Shareholder Assembly. Regarding the right to participate in the proceedings of the Assembly, the right to propose motions and to receive answers concerning the items on the agenda, as well as the right to ask questions related to the agenda, a census of 1% is set for the Company's shareholders and their authorized representatives; this census is based on the fact that the Company has an extremely large number of shareholders (cca 2,7 million) and that in such conditions a census is mandatory in order not to compromise efficiency and rational planing of the Shareholder's Assembly session and its course. Shareholders having less than 1% of the total number of the Company's shares are given possibility to merge by authorizing the same representative (Article 2.3. of the Code).

The Company has developed machanisms providing its shareholders to vote via their authorized representatives as well as in written form and in this way to participate in Sareholder Assembly work and decision making process, whereas voting in person and in written form provide the same effect (Article 2.3. of the Code).

All the relevant information and material prepared for the assembly session, including templates for authorized representation and voting in written form, are made available on the Company's web site as well as in the Company's offices specially designated for the purpose to get acquainted with the materials (Article 2.6. of the Code).

As of the enactment of the new Law on Companies, that is since February 1st, 2012 census for participation in the proceedings of the Assembly is decreased to 0,1% of the total number of Company's shares. This increases the number of shareholders able to participate in the proceedings of the Assembly in person and without merging is increased and this Law also introduces the right to vote in absentia for all the shareholders, without any limitations regarding the number of shares.

In order to have the most efficient and precise information delivered to the minor shareholders the Company opened Offices for work with minor shareholders in Belgrade and in Novi Sad, shareholders service is developed through which each shareholder can ask questions and receive answers in electronic form. In addition to that Info Centre / Call Centre is available to shareholders, and also information is publicised on the Company's web site www.nis.rs. There is also a mechanism set for preventing and resolving potential conflicts between shareholders and the Company – a committee of five members is formed for the purpose of resolving complaints of minor shareholders and a special Procedure Rule Book is adopted regulating the Committee's work, the procedures and manners of addressing the committee, working order in its sessions, rights and responsibilities of its members and other relevant matters (Article 1.2. and Article 2.3. of the Code).

Board of Directors

The provisions of Act of Incorporation and Statute of the Company make full and clear division of the business activities of the Board of Directors and other bodies of the Company, and Rule of Procedures of Board of Directors is adapted to the Board's work respecting the principle of dividing functions of Board of Directors chairman and Company's CEO (Article 3.1.5. and Article 3.4.1. of the Code). The Board of Directors members possess relevant combination of acquired knowledge and experience, relevant for the type and scope of NIS activities (Article 3.1.2. and Article 3.2.1. of the Code). In order to provide quality and efficient work Board of Directors has analised and evaluated its work as well as the work of its committees, has discussed measures proposed to impove its work in the following period and has reported on these issues to Shareholders' Assembly (Article 3.6. of the Code).

Board of Directors has two independent memebers (Article 3.2. of the Code). The company is planning

to increase the number of independent members by appointing persons with relevant knowledge and experience in the area of energy, and that can contribute to develop business in the EU market.

Following the decision on formation of NIS BoD committees, the following committees have been set up: Committee for Appointments and Committee for Remunerations, representing counseling and expert bodies of Board of Directors, and the same decision regulates, among else, duties and responsibilities, selection criteria, area of responsibilities and tasks of the formed committees (Article 3.5. of the Code).

Policy of remuneration and bonuses of Board of Directors has been adopted by Shareholders' Assembly of the Company (Article 5. of the Code).

Executive Bodies of the Company

Rules of Procedure on Job Organization in NIS, introduces criteria defining relevant professional knowledge and competencies of the Executive Board members (Articles 4 of the Code).

A practice has been established in the company to have permanent communication between executive management of the Company and members of Board of Directors and Audit Comitee (Article 8. of the Code).

There is also an active procedure in place of evaluation of the work of the company's executive Board members and other key managers of the Company, which is performed by the Board of Directors with assistance of the Board's Committee for Remuneration (Article 5.2. of the Code).

Activities of Control Supervision and External Audit

In the system of internal control and internal audit in the Company Audit Comitee is formed, a body independent from Board of Directors, Executive Board and CEO of the Company (Article 6. of the Code), as well as Function for Internal Audit, supervising operative processes in the Company.

Through internal acts of the Company a system of the internal control and internal audit is set on the level of all processes in the Company in the accordance COSO framework (Committee of Sponsoring Organisations of the Treadway Commission). Procedures are constantly reviewed and improved in accordance with practices and

findings of the internal control.

There is also mechanism of monitoring and control through indicators defined by the Company's Business Plan, which sets forth strategy and key risks management plan. Indicators are monitored by Executive Board, Board of Directors and Audit Comitee of the Company through quarterly, semiannual and annual reports (Article 1.4. of the Code).

The Company has regulated activities regarding confidential information and has set up mechanisms to prevent abuse of confidential information (Article 8.3 and Article 9. of the Code).

Name of the Company's external auditor and audit report are publicised on the Company's web site. External auditor provides additional explanation on the performed audit and the stated conclusion and answers to the sheholders questions (Article 2.3. and Article 9. of the Code). Apart of audit report, external auditor also produces a letter to management, stating nonconformities found (Article 3.7.2. of the Code).

Transparency and visibility of the Company's business activitie

NIS provides transparency of its business activities by respecting its obligations regarding reporting and publicising full and precise information, as well as by respecting principle regular and timely informing in simple and accessible way. The Company's practice foresees voluntary reporting of shareholders and public exceeding requirements framework definid by the law and by laws, all in order to strengthen the Company's credibility.

Both shareholders and the public receive timely information via mass media and the Company's web site and Belgrade Stock Exchange reports on the Company's financial results and all important events regarding the Company.

A practice is established of reporting to the Company's management on issues relevant for business activities in the reporting period through quarterly reports delivered to Board of Directors.

The Company reugulary publishes data on total paid remunerations and other payments to the members of Board of Directors, Audit Comitee and CEO of the company.

Conclusion

In 2011. the application of the adopted principles of corporate governance was raised to a very high level, which is confirmed by external experts for evaluating practices of corporate governance of Chamber of commerce of Serbia and IFC (International Finance Corporation), that rated NIS corporate governance practice with a total of 90,25% in 2011. (result of 75% is regarded very high rate, the remaining value up to 100% serves as encouragement for companies for applying higher principles of corporate governance). The result from 2011. represents increase of 4,25% compared to the total rate from 2010. Deviations from best practices of corporate governance (application of census) are necessary due to specific shareholder structure of NIS and the number o shareholders exceeding one million.

NIS is highly aware of importance of achieving of high level of corporate governance and for this reason NIS shall continue to put its utmost efforts to improve the system of corporate governance and raise the level of corporate culture.

Corporate Bodies

Shareholders' Assembly

The Shareholders' Assembly is the top management body of NIS, through which the shareholders adopt and approve fundamental corporate decisions. All NIS shares are common shares and each share carries entitlement to a single vote at Company's Shareholders' Assembly.

In 2011, a regular annual session of Company's Shareholders' Assembly was held, with no emergency sessions being convened. According to law, the convention of 3rd Annual session of Shareholders' Assembly was announced on 16th May, with the subsequent holding of the session on 21 June 2011. At this session Assembly of Shareholders approved Financial and Consolidated Financial Statements for 2010 supported by the Auditor's Certificate, following which the Assembly elected an Audit Company for 2011. Other than that, Company's 2010 Business Report was approved, along with the Report on Assessment of Performance of Board of Directors and Comission of Board of Directors and Report on Audit Comitee Activity.

Board of Directors

General governance of NIS is under the competence of the Board of Directors which plays a central role in the system of corporate governance.

An efficient, professional and independent Board of Directors is essentially important for the implementation of good corporate governance practice. One of the major issues within the Board of Directors competencies is adoption of development strategy and drafting and endorsement of Business Plan. Other than that, Board of Directors convenes Shareholders' Assembly sessions and drafts agenda and drafts decisions for Shareholders' Assembly, approves interim financial statements and interim business reports (quarterly and semi-annual), as well as elects and relieves from office of CEO and other Executive Board members.

At 3rd Annual Shareholders' Assembly held on 21 June 2011 Slobodan Milosavljević was elected member of Board of Directors as a replacement of Dušan Petrović, who resigned as member of Board of Directors on 16 March 2011. At this session of Shareholders' Assembly all other members were re-elected, so that the current Board of Directors composition is as follows:

1. Vadim Vladislavovich Yakovlev (Chairman)
2. Kirill Albertovich Kravchenko (member)
3. Aleksandr Vladimirovich Krylov (member)
4. Vladislav Valeryevich Baryshnikov (member)
5. Anatoly Moiseevich Cherner (member)
6. Igor Konstantinovich Antonov (member)
7. Slobodan Milosavljević (member)
8. Nikola Martinović (Member)
9. Danica Drašković (Independent member)
10. Stanislav Vladimirovich Shekshnya (Independent member)



Vadim Vladislavovich Yakovlev

Deputy Chairman of Executive Management Board in Gazprom Neft, First Deputy CEO, CFO in Gazprom Neft

Born on September 30th, 1970. In 1993, graduated from Moscow Institute of Physics and Engineering (majors: applied nuclear physics). In 1995 graduated from Higher School of Finance at the International University in Moscow.

In 1999 qualified as certified accountant as a member of the ACCA. In 2009, got a degree at the Institute of Directors (ID) in the United Kingdom. In 1995-2001 in PricewaterhouseCoopers occupied different posts ranging from consultant through to audit manager. In 2001-2002 worked as Deputy Head, Financial and Economic Department, CJSC YUKOS EP. In 2003-2004

Financial Director, JSC YuganskNeftegaz NK YUKOS. In 2005-2006 Deputy CEO for Economy and Finance, LLC SIBUR-Russian Tyres.



Igor Konstantinovich Antonov

Deputy CEO for Corporate Security in Gazprom Neft

Born in 1951 in Leningrad. In 1974 graduated from the Leningrad Institute for Aviation Devices. 1977-1995 employed with the state security authorities.

1995 – 2000 Information Protection Director in „Bank Saint Petersburg”.

In 2000-2005 CEO of PE Informatika in Saint Petersburg. In 2005 – 2007 Vice-President for the security issues in Sibneft. Since 2007, Deputy CEO for Corporate Security in Gazprom Neft



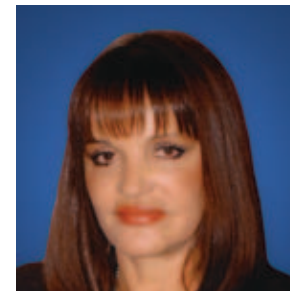
Vladislav Valeryevich Baryshnikov

Executive Management Board member, Deputy CEO of Gazprom Neft in charge of international business development

Born on 25 March 1965 in Petrozavodsk. In 1987 graduated from Krasnoznamensky Military Institute. In 2001 he completed a course of study at the Department of “State and Municipal Administration” at North-West Academy of Civil Service under the aegis of the Presidium of the Russian Federation. In the period 1991 - 1999 worked in various positions at City Executive Committee of Leningrad, subsequently as member of Foreign Affairs Committee in Saint Petersburg Mayor’s Office. In the period 1999-2000 was an adviser to the Vice-Governor of Saint Petersburg, director of a nonprofit partnership “Center for Cooperation with Asian and Pacific Region. In the period 2000 - 2002 worked in the Administration of the President of the Russian Federation as an advisor to the Staff of Authorized Representative of the President of the Russian Federation in the North-Western Federal District.

Between December 2002 and April 2009 he was director of “Gazprom” Representation in China, director of regional offices in the countries of Asian and Pacific Region. Since April 2009 he has been Deputy Director

General of Gazprom Neft in charge of international business development. He is Councilor of State 3rd Grade of the Russian Federation.



Danica Drašković

Board of Directors Member

Born in 1945 in Kolašin. Graduated from the University of Belgrade – Law School in 1968. In 1968-1972 financial inspector in SAS (SDK). In 1972-1974, a police court magistrate. In 1977-1986, Director of Legal and General Affairs in the public company Termovent. In 1990 founded the Srpska Reč magazine, which shortly after that became a publishing house, where she has been director to date. Since February 2009 she has been a member of NIS Board of Directors.



Slobodan Milosavljević

Member of NIS Board of Directors

Born in 1965 in Belgrade. In 1990, he graduated from Belgrade University School of Economics, where in 1996 he was awarded M.A degree, and in 2001, a Ph.D was conferred upon him for his research in Macroeconomic Studies and Management.

Since 1991 he has been on staff at Belgrade's Market Research Institute (IZIT), where he is a scientific supervisor of numerous market research projects, ownership, market and organisational restructuring of companies, creation of business image and marketing strategy for companies. Since 1996 he has been in the capacity of Director at Business Research and Macro-economic Analysis Center. Between January 2001 and March 2004, he was Minister of Trade, Tourism and Services in the Government of the Republic of Serbia. In December 2004, he was elected Chairman of Serbia's Chamber of Commerce, when he simultaneously became the President of National Committee of International Chamber of Commerce. He gives lectures at Belgrade School of Business in Trade and Trade Policy. Between May 2007 and July 2009, he was Minister of Agriculture, Forestry and Water Management, following which he was appointed Minister of Trade and Services, in which capacity he was up until March 2011, when he became a member of NIS Board of Directors. Currently, he is an advisor in Serbia's Chamber of Commerce as a member of "International Advisory Board UniCredit bank" Rome, Italy.



Kirill Albertovich Kravchenko

Executive Board member, Deputy CEO for Management of Foreign Assets in JSC Gazprom Neft, NIS a.d. CEO, Chairman of the Executive Management Board NIS

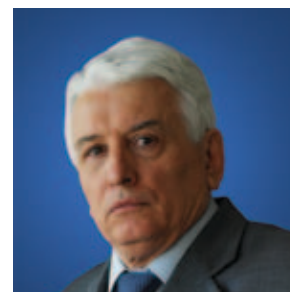
Born on May 13, 1976 in Moscow. Graduated Sociology with distinction from Lomonosov Moscow State University in 1998. In 2002-2003 studied at the Open University in Great Britain (Financial Management), in 2003-2004 - IMD Business School. He is a professor and holds a Ph.D. in Economics. Up to 2000 in consulting business. In 2000-2004 holds various posts in YUKOS oil company in Moscow and Western Siberia. In 2001-2002 posted in Europe and Latin America as a staff member of Schlumberger (under partnership program with Oil Company Yukos). In 2004-2007 – Administrative Director, JSC MHK Eurohim. On numerous occasions elected to the board of directors in major companies. In April 2007 appointed Vice-President JSC Gazprom. Since January 2008 Vice-President of JSC Gazprom Neft Executive Management Board, Deputy CEO in charge of organizational issues. As of March 2009 Deputy CEO JSC Gazprom Neft for Foreign Assets Management. Since February 2009 CEO and Member of Board of Directors of Serbia's oil company NIS.



Alexandr Vladimirovich Krylov

Director, Regional Sales Directorate, JSC Gazprom Neft

Born on March 17th, 1971 in Leningrad. In 1992 graduated from LMU (Leningrad), in 2004 from Leningrad University Law School, and in 2007 majored in Strategic Management in Entrepreneurship and acquired MBA at MIRBIS, Moscow International High School for Business. In 1994 – 2005, in the capacity of president or general manager worked in property sales companies PetroBuild (Russian Canadian joint venture), Alpol Ltd. Between 2005 and 2007 Deputy Manager in Sales Directorate of Sibur LLC. Since 2007 has been the manager in Oil Products Purchase Department, Regional Sales Department Manager and Director of the Regional Sales Directorate at Gazprom Neft.



Nikola Martinović

Member of NIS Board of Directors

Born on December 3, 1947. Gained M.Sc. at Faculty of Economy in Subotica; majored in „Tax system transformation with introduction of VAT in Serbia. In 1985 -1990 he was the manager of „Solid“, Subotica, and next two years until 1992 he was Assistant to Serbia's Interior Minister. In 1992.-2000 worked as Assistant General Director for Finance in NIS and General Director of Naftagas Promet from 1996 until 2000. Special advisor in NIS in 2005. In 2004-2008 a member of NIS Board of Directors, and appointed again to the same position in February 2009. Currently acts as a consultant to Serbia's National Bank Presidential Council.



Anatoly Moiseevich Cherner

Deputy Chairman of Executive Management Board, Deputy CEO for Logistics, Refining and Sales in Gazprom Neft

Born in 1954. Graduated from Grozny Oil Institute in chemical technology for oil and gas refining in 1976. From 1976 until 1993 he worked at the "Sheripov" Grozny Refinery, where he rose through the ranks from machine operator to become refinery director. In 1996 Mr. Cherner started to work in "SlavNeft" as Head of the Oil and Oil Products Sales Department, and later he was appointed Vice-President of NKG "SlavNeft". In April 2006, appointed Vice-President for refining and marketing in "SibNeft" (from June 2006 – Gazprom Neft).



Stanislav Vladimirovich Shekshnya

INSEAD International Business School Professor

Born on 29 May 1964th year. Citizen of France. Head of practice at the "Talent Performance and Leadership Development Consulting" Department. Director of Talent equity Institute. Senior Partner with Ward Howell. Professor of entrepreneurial leadership at the INSEAD International Business School. For more than 10 years he has been in the realm of practical management. He held following positions: general manager of Alfa Telecom, President and CEO of Millicom International Cellular, Russia and CIS, Chief Operating Officer of Vimpelkom, director of personnel management OTIS Elevators, Central and Eastern Europe. Presently, Chairman of Human Resources and Awards of Supervisory Council DTEK (Ukraine), he was Chairman of the Board of JSC SUEK" and CJSC "Vimpelkom-R."

Number and % of NIS shares owned by members

First and last name	Number of shares	% of participation in the total number of shares
Nikola Martinović	224	0,0001%

Membership in BoD or AC of other companies

Membership in BoD or AC of other companies	
Vadim Vladislavovich Yakovlev	„SlavNeft“, «Gazprom Neft Razvitie»; «Sever Energiya» and its subsidiaries; «Gazprom Neft-NNG»; «Gazprom Neft-Istok»; «Gazprom Neft-Hantos»; «Gazprom Neft -NTC»; Salim Petroleum Development N.V. (Member of Audit Comitee“.
Kirill Albertovich Kravchenko	Chairman of Board of Directors of „O Zone“ a.d. Beograd, a subsidiary of NIS a.d. Novi Sad Member BoD Tennis Association of Serbia Member EB Ski Association of Serbia Chairman HR Cttee BoD OAO Emaliance
Aleksandr Vladimirovich Krylov	«Gazprom Neft Kuzbass», «Gazprom Neft Novosibirsk», «Gazprom Neft Omsk», «Gazprom Neft Tyumen», «Gazprom Neft Ural», «Gazprom Neft Yaroslavl», «Gazprom Neft -Severo-Zapad», «Gazprom Neft Asia», «Gazprom Neft Tajikistan», «Gazprom Neft Kazakhstan», „Gazprom Neft – Center“
Vladislav Valeryevich Baryshnikov	«Gazprom Neft Razvitie»;
Anatoly Moiseevich Cherner	„SlavNeft“; „Gazprom Neft-ONPZ“; „SlavNeft-YANOS“; „Gazprom Neft –MNPZ“; „Gazprom Neft-Aero“; „St.Petersburg Int'l Commodity Exchange“
Igor Konstantinovich Antonov	-
Nikola Martinović	-
Danica Drašković	-
Stanislav Shekshnya	Independent member of Board of Directors of „ENER1“ Company
Slobodan Milosavljević	-

Board of Directors Activities

In 2011, Board of Directors held 5 regular sessions, as well as 14 meetings in absentia. Board of Directors agenda, in addition to its regular activities, pertaining to the review of NIS Business Report and Financial Statements and Consolidated Financial Statements for 2010 and approval of interim statements (semi-annual, as well as statements for the first and third quarter of 2011), Board of Directors approved activities concerning the registration of title to real property of NIS for 2011 and adopted a Resolution on profit distribution and cover for losses in 2010 stipulating the allocation of overall returns from the year concerned, according to law, to cover the losses carried over from previous years.

Furthermore, in 2011 Board of Directors examined new NIS Collective Agreement, with special emphasis put on the establishment of new subsidiaries in the territory of Bulgaria, Romania, Republic of Srpska (Bosnia-Herzegovina) and Hungary, in line with NIS strategy to expand its operation in other countries of the region.

Other than that, prominent item on Board of Directors' agenda was a review of Report on compliance of Company's set-up and operation with Corporate Governance Code NIS in June 2010 – April 2011, convening 3rd Annual NIS Shareholders' Assembly and defining draft resolutions, a review of Report on the assessment of performance of Board of Directors and Board of Directors Commission in the period June 2010 through to April 2011, as well as a review of 2012 Business Plan.

Audit Comitee

The Audit Comitee is an internal supervisory body of NIS responsible for NIS financial and accounting activities control, as well as monitoring compliance with laws and regulations, and reporting to the Shareholders' Assembly on the issues herein.

The Audit Comitee also reports to the Shareholders' Assembly on the External Auditor qualification and extent of independence, and contracts signed between NIS and associated entities, particularly with Board of Director members.

The Audit Comitee members report to the Shareholders' Assembly.

The Audit Comitee also controls and reviews with the Board of Directors and External Auditor, if appropriate, the following: adequacy and completeness of NIS financial statements and the basis for proposals for distribution of profit and other distributions to the shareholders the adequacy and completeness of the Company's disclosure of financial and other information to the members;

compliance of organization and operation of the Company with the code of conduct; suitability of Company business policy and its compliance with law; settlement of objections raised by shareholders, Company bodies or other persons, as well as basis of choice of the External Auditor and remuneration for his services.

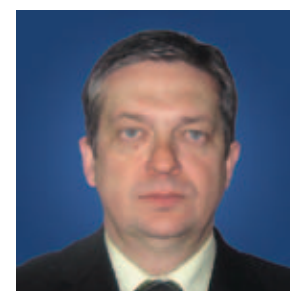
All Audit Comitee members were re-elected at 3rd Annual Shareholders' Assembly held on 21 June 2011, so the current Audit Comitee composition is as follows:

1. Milivoje Cvetanović (Chairman),
2. Božo Stanišić (member)
3. Maxim Viktorovich Shakhov (member)



Milivoje Cvetanović

Born on December 1, 1941. Graduated in 1963 from Belgrade University - Faculty of Economics and followed this with an MA in 1973. He is a certified auditor. Retired partner from Deloitte Central Europe. After retiring from partnership, he served as a consultant for the practical application of IFRS, creating and implementing customer information systems, including internal control systems. Holds membership in Serbia's Certified Auditors Chamber and its Examiners Commission for „Auditing and Professional Ethics“ within the auditor certification curriculum. Commands extensive work experience in Central and Eastern Europe, Russia, Ukraine, Moldova and Macedonia.



Božo Stanišić

Born on February 18, 1966 in Užice. Graduated in 1993 from the Faculty of Technology and Metallurgy, Technological Operations. He worked in Rekord, Rakovica, Pancevo Oil Refinery as an engineer in charge of petrol. In 1999 he was involved in the construction of the refinery infrastructure and held the position of Commercial Sector Director. He was a member and coordinator of various commissions in NIS. Furthermore, he was President of the Board of Directors at HIP Petrohemija, Pancevo, and a member of the Committee for Implementation of Governmental Measures in Magnohrom, Kraljevo. From November 1, 2006 to September 30, 2009 served as Deputy CEO at a private oil company Petrobart d.o.o. As of October 12, 2009 has held the post of Advisor to the President of Serbia's Chamber of Commerce.



Maxim Viktorovich Shakhov

Head of Methodology Unit, Internal Audit Gazprom Neft

Born May 14, 1972 in Yaroslavl, Russia. In 1994 he graduated from the Faculty of Chemical Technology at Yaroslavl Technical University. Currently in Gazprom Neft as Head of Methodology Unit within Internal Audit Service. Maxim Shakhov was Director of Internal Audit, Head of Section for the Functional Review, and Manager of Financial Statements Audit Department at RUSAL Global Management B.V Company, Moscow. In Yunikon company he held the following positions: Senior Manager, Manager, Lead Auditor, Senior Auditor, expert at the the Department for metallurgical and mining enterprises audit. Maxim Shakhov was awarded following professional certificates: Russian Finance Ministry Certificate for General Audit, he is a certified expert in international financial reporting (DiplFR), International Certificate of internal auditor (CIA).

Number and % of NIS shares owned by AC members

First and last name	Number of shares	% of participation in the total number of shares
Božo Stanišić	149	0,0001%

Membership in BoD or AC of other companies

Membership in BoD or AC of other companies	
Milivoje Cvetanović	Chairman of Audit Comitee Tigar a.d. Pirot Member of Audit Comitee «Energoprojekt Holding» a.d.
Božo Stanišić	Vice Chairman of Board of Directors "Industrija Mašina i Traktora"; (IMT) Novi Beograd; Chairman of Board of Directors Association of Citizens Bicycle race "Across Serbia".
Maxim Viktorovich Shakhov	-

Audit Comitee Activities

Over the course of 2011, Audit Comitee held 10 regular sessions, as well as 3 meetings in absentia written resolutions.

By virtue of the authority vested in it Audit Comitee in 2011, examined Business Report, Financial Statements and Consolidated Financial Statements pertaining to 2010, as well as pertaining to the first quarter, the first six months and third quarter of 2011. Apart from that, activities of Audit Comitee during the previous 2011 also included a review of Independent Auditor's Report of the completed audit of Financial and Consolidated Financial Statements of NIS a.d. pertaining to 2010, a review of Resolution on profit distribution and cover for losses incurred in 2010, as well as a review of Report on compliance of Company's set-up and operation with Corporate Governance Code of NIS a.d. Novi Sad in the period of June 2010 – April 2011.

Audit Comitee Report for 3rd Annual Shareholders' Assembly was approved, and CEO's quarterly Reports of all concluded contracts with price exceeding 5.000.000,00 euros for 1st, 2nd and 3rd quarters of 2011 were examined.

Other than that, Audit Comitee monitored the working framework and auditing procedures devised to audit Company's Financial Statements and evaluated the quality of auditors' performance, as well as assessment of Report of the completed audit of Financial Statements for 2010.

Executive Board and CEO

Executive Board is a corporate executive body of NIS responsible for executing decisions of the Board of Directors. Executive Board is responsible for the issues of NIS everyday management and daily operation. The Executive Board is also responsible for the NIS development strategy creation and implementation.

CEO is an independent executive entity of NIS. CEO, acting also as the Chairman of Executive Board, is elected by Board of Directors and he reports to the Board of Directors. CEO and Executive Board are responsible for timely and consistent execution and implementation of the Executive Board decisions, as well as all issues pertaining to everyday management and daily operation

of NIS. Pursuant to adopted principles of corporate governance separation of powers principle has been applied in relation to the positions of Company's CEO and Chairman of Board of Directors. CEO is a legal representative of NIS.

Kirill Kravchenko is CEO of NIS.

1. Kirill Albertovich Kravchenko, Chairman
2. Nicolaus Constantin Petri, member
3. Predrag Radanović, member
4. Igor Dmitrievich Tarasov, member
5. Alexei Alexandrovich Urusov, member

The current Executive Board composition:



Kirill Albertovich Kravchenko

Executive Board member, Deputy CEO for Management of Foreign Assets in JSC Gazprom Neft, NIS a.d. CEO, Chairman of the Executive Management Board NIS

Born on May 13, 1976 in Moscow. Graduated sociology with distinction from Lomonosov Moscow State University in 1998. In 2002-2003 studied at the Open University in Great Britain (Financial Management), in 2003-2004 - IMD Business School. He is a professor and holds a Ph.D. in Economics. In 2000-2004 occupied various posts in YUKOS oil company in Moscow and Western Siberia. In 2001-2002 staff member of Schlumberger (under partnership program with NK Yukos), posted in Europe and Latin America. Elected to the Boards of Directors of the following companies: Lifos, NGK Slavnafta, Emaliansa. In 2004-2007 - Administrative Director, JSC MHK Eurohim. In April 2007 appointed Vice-President in charge of organizational issues, JSC Gazprom Neft. In February 2009 appointed General Director of Serbia's oil company NIS.



Nicolaus Konstantin Petri

Deputy General Manager, Head of Function for Investment and Strategy. In charge of investment evaluation and analysis, project control and strategic planning of investments.

He graduated in 2002 from Harvard University with BA in Natural Sciences and Philosophy. From 2002 to 2003 he worked as analyst in Bain Capital, London and Boston. From 2003 to 2006 he was a senior consultant with McKinsey & Co. From 2006 to 2009 he was Director of Investment Department in SIBUR.



Predrag Radanović

Director of «Jadran Naftagas», Executive Board member in NIS a.d. Novi Sad.

Born on May 21, 1969. Graduated as mining engineer from the Faculty of Mining and Geology in Belgrade.

He works in NIS Naftagas since 1995; he started as an apprentice engineer, then he was an engineer in Srednji Banat Operation Plant to become Head of production in that Operation Plant. He was in that position from 2002 to 2006.



Tarasov Igor Dmitriyevich

Deputy General Manager, Director of Function for Corporate Security. In charge of economic and information security management and security issues management.

Born on 2 July, 1952 in Moscow. 38 years of experience in the state security system. Two tenures in the Embassy of the Russian Federation in Belgrade: 1994 to 1999 and 2001 to 2006.



Urusov Alexey Alexandrovich

Deputy General Manager, Head of Function for Finance, Economics, Planning and Accounting. In charge of financial operations, accounting and audit, business planning and business performance analysis.

Born on November 17, 1974. He graduated from Tyumen State University (majors: Finance and Credit) and Wolverhampton University in Great Britain (majors: Business Administration). He was Executive Deputy Chairman for Planning and Business Management and Control in the Integra Group. In 2002-2006 he held the post of Chief Financial Director at TNK-BP Ukraine business unit of TNK BP. He was Director of Planning in the group for monitoring and control at the Board of Directors in TNK IH.

Number and % of NIS shares owned by Executive Board members

Name and surname	Number of shares	% of total number of shares
Predrag Radanović	179	0,0001%

Membership of Board of Directors or Audit Committee of other companies

Name and surname	Membership of BoD and AC of other companies
Kirill Albertovich Kravchenko	Chairman of BoD of Ozone a.d. Beograd, an affiliated company of NIS a.d. Novi Sad Member of BoD of Tennis Association of Serbia Member of BoD of Ski Associations of Serbia Chairman to HR Committee of BoD at "OAO Emalians"
Nicolas Konstantin Petri	-
Predrag Radanovic	-
Igor Dmitriyevich Tarasov	-
Alexey Alexandrovich Urusov	-

Activities of the Executive Board

Apart from the members of the Executive Board mentioned above directors of Blocks and certain Functions are also permanent members who take part in Executive Board meetings:

- Sergei Alexandrovich Fominykh, Deputy CEO; Director of the Function for Legal and Corporate Issues.
- Dmitry Valentinovich Fomenko, Deputy CEO; Director of Function for Organizational Issues
- Evgeny Evgenyevich Kudinov, Deputy CEO; Director of the Function for the Development of Business and External Relations
- Svetlana Valeryevna Vycherova, Deputy CEO; Director of the Function for Public Relations and Communications,
- Dmitry Radifovich Mirsaitov, Deputy CEO; Director of the Function for Procurement and Capital Projects
- Alexey Vasilyevich Ovechkin, Director of the Exploration and Production Block
- Alexandr Georgievich Malanin, Director of Sales and Distribution Block

- Viktor Nikolaevich Slavin, Director of the Refining Block
- Evgeny Viktorovich Maievsky, Director of Oil Services Block
- Alexey Anatolievich Belov, Director of Energy Block

Official BoD meetings are held the second Tuesday of each month where priority business activities on a monthly level are discussed, such as financial reports and plans, reports on plans and implementation of investments, measures for the improvement of security and safety at work. The Executive Board also considers reports on other aspects of conducting business concerning organization and strategy, thus fulfilling the decisions taken on the BoD or preparing materials for the BoD of NIS.

In 2011, discussions were held on the opening of daughter companies and representative offices abroad, adoption of new organizational structures in departments and in the whole company, development strategy of certain business areas, such as power systems, oil chemistry, non-core profiles, innovational

and scientific and technical field, and security and risk reduction. Topics concerning HR development issues are also regularly discussed in the Executive board meetings.

In 2011, the Executive board of NIS met 12 times altogether and took 50 decisions.

CEO's staff prepares the meetings of the Executive Board and follows up on the process of fulfilment of its decisions.

Remuneration Committee and Nomination Committee

Committees are the counseling and expert bodies of the Board of Directors. Members of BoD committees have the relevant professional knowledge and professional experience concerning the business activities performed by the Company, as well as professional and moral integrity and knowledge of the basic principles of business ethics, corporate law and management, company law and management, while the members of Remuneration Committee must also be familiar with the basics of economics, finance and labor law. Committee members are appointed and relieved from duty by the Board of Directors which also appoints the Committee Chairman among the Committee members.

Committee meetings are not open to the public. They can be attended by the members of the Board of Directors, Executive Board and Audit Committee, and by the Auditor and representatives of other company bodies.

Nomination Committee has three members:

- Slobodan Milosavljević (Chairman)
- Kirill Albertovich Kravchenko (member)
- Igor Konstantinovich Antonov (member)

In 2011, two members of the Committee were replaced, and by a decision of the Board of Directors of 27th July Slobodan Milosavljević was appointed chairman in place of Nikola Martinović, and Kirill Kravchenko was appointed a member of the Committee in place of Vladislav Barishnikov.

The main task of the Committee is to put forward candidates for members of the Board of Directors and/or members of the Executive board and to give its

opinion on each candidate for a member of the Board of Directors or Executive board suggested by others. Furthermore, the Nomination Committee performs other activities within its scope of activities entrusted by the Board of Directors.

Remunerations Committee also has three members:

- Stanislav Vladimirovich Shekshnia, (Chairman)
- Anatoly Moisieovich Cherner, (member)
- Nikola Martinović, (member)

In 2011, the composition of the Committee was changed by a decision of the Board of Directors of 27th July when was Nikola Martinović was appointed member of the Committee in place of Dušan Petrović

Remunerations Committee's task in the first place is to put forward suggestions about the Company policy on remunerations to the members of the Board of Directors and Executive Board, Audit Committee and Auditor. Furthermore, the Committee performs other activities within its scope of activities entrusted by the Board of Directors.





In 2011, NIS learned about everything: to maintain a positive trend of financial results, to increase the work efficiency, by introducing new technologies into production and processing, to stand the blows of competition. We have managed to create a strong international team: the Company employs citizens of 22 countries today, and it is precisely this very diverse, multicultural, and multilingual team that enabled us to achieve excellent results in 2011, that will become our pledge for the future.

*Kirill Kravchenko
CEO of NIS a.d. Novi Sad*



Business environment

World Economy

The global economic situation in 2011 was marked by the crisis in Euro zone, turmoil in Arab countries, and growing economies of BRIC countries.

Financial turmoil in Europe spread to the developed countries and caused stock exchange collapse and reduction of cash flow towards the developing countries.

At the same time, growth of several most important developing countries (Brazil, India and, to a lesser extent, Russia, South Africa and Turkey) was slowed down. In spite of the increased activities in the USA and Japan, the global growth abruptly slowed down.

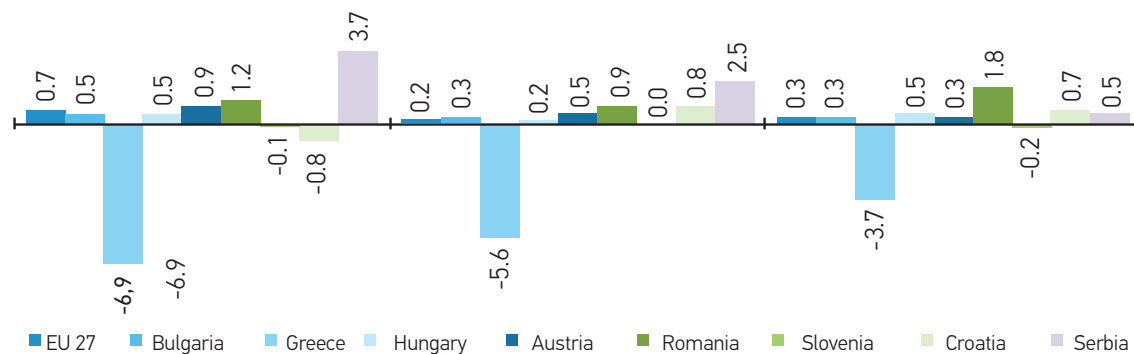
GDP movement in EU countries, region and Serbia

In 2011, the European Union faced a considerable crisis threatening its stability. In October and December, steps were taken towards stabilizing the market conditions and reinstatement of trust. Although most of the countries of the EU saw GDP growth in 2011, there was a significant departure concerning certain countries. In terms of GDP, the German economy grew (having impact on GDP of the countries Germany has the strongest trade relations), GDP in Greece and Portugal deteriorated due to the debt crisis.

Main trends in Serbia in 2011 were: slowdown in actual GDP growth, further decrease of actual goods turnover in retail, slowdown in export and import and actual drop in dinar exchange rate.

Total economic activities in Serbia in 2011 in terms of GDP and expressed in prices from the previous year were estimated to have seen actual growth by 1.9% in comparison with the previous year.

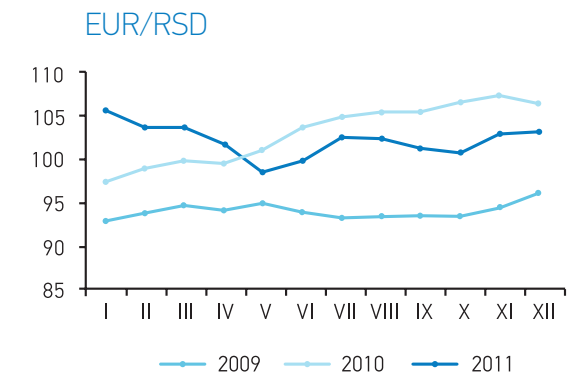
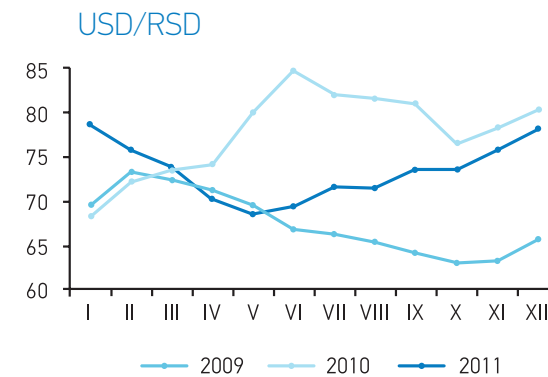
BDP growth rate in 2011 compared to the same quarter in the previous year, in %



Source: Eurostat, national statistical agencies, Institute for Statistics of the Republic of Serbia
 *At the time of the report preparation (February 2012) the official data on the GDP rate growth for the fourth quarter of 2011 were not yet available

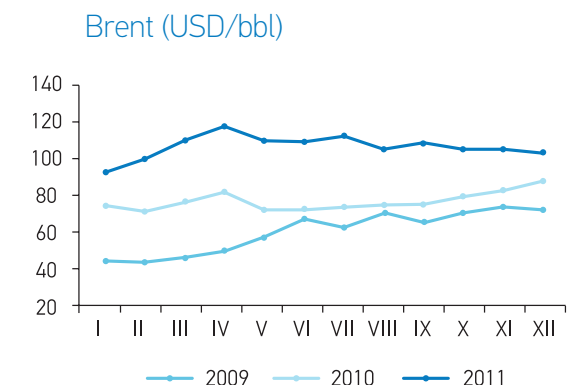
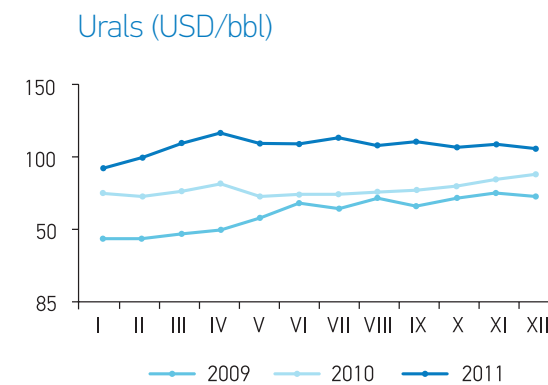
USD/RSD and EUR/RSD exchange rate trends

- USD/RSD exchange rate growth in 2011. amounted to 2% or 1.59 RSD (USD/RSD exchange rate went from 79.2802 RSD as of January 1st 2011; to 80.8662 RSD as of December 31st 2011)
- EUR/RSD exchange rate drop in 2011 amounted to 0,8% or 0.86 RSD (EUR/RSD exchange rate went from 105.4982 RSD as of January 1st 2011 to 104.6409 RSD as of December 31st 2011)
- USD/RSD exchange rate rise in 2010 amounted to 18.8% or +12.55 RSD (USD/RSD exchange rate went from 66.7285 RSD as of January 1st 2010 to 79.2802 RSD as of December 31st 2010)
- EUR/RSD exchange rate rise in 2010 amounted to 10% or +9.61 RSD (EUR/RSD exchange rate went from 95.8888 RSD as of January 1st 2010 to 105.4982 RSD as of December 31st 2010)



Oil price trends

The average price of the Urals oil in 2011 amounted to 110 USD/bbl on average.



Legislation changes

Further to the agreement on free trade in South Eastern Europe (CEFTA) the government of the Republic of Serbia took a decision on 1 January 2011 on lifting customs restrictions and free import of oil and oil products, and a by-law on cessation of validity of the by-law on oil product prices. This way the crude oil and oil product market in Serbia was liberalized, which was a business challenge for NIS in 2011.

In June 2011, a Law on the amendments to the excise law was passed, in order to bring into line the provisions related to oil product excise taxation and oil product tax structure with the EU standards. With a view to creating equal conditions for all parties involved in the production and turnover of oil products in the market of the Republic of Serbia, the same excise duty is foreseen by law for all kinds of motor gasolines, and for all kinds of diesel fuel, respectively. This resulted in higher excise duty on the fuel refined in Serbian refineries by 4.5 RSD /liter, and that way the Serbian government met the EC requirement to have equal excise duty on domestic and imported fuel.

In August 2011, a new Law on energy industry was passed in order to bring the primary legislation of the Republic of Serbia about the energy sector into line with the EU directives (the 2nd package and partly the 3rd package), which was not only Serbia's commitment as per the Energy Community Law, but was also a step forward in the process of market development in the energy sector. The key new moments introduced by the provisions of the new law are related to: the higher energy and energy-generating product supply and delivery security; a higher degree of protection of energy industry subjects; regulation of third party access rights; stronger market elements and competition in the field of electric power and natural gas; more efficient instruments of pricing decisions in the field of electric power and natural gas, especially in the field of transfer, transport and distribution services; rules of electric power and natural gas supplier change; stronger regulatory role of the Energy Agency; protection of energy endangered buyers; renewable energy sources and preferential energy

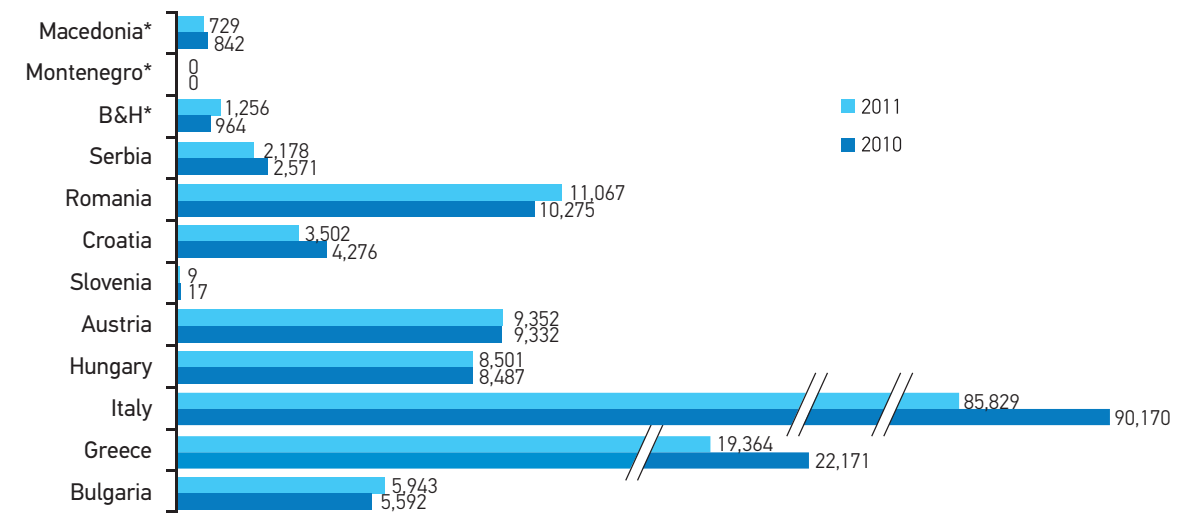
producers, etc. According to the new Law, electric power production is not defined as the area of the public interest any more, thus acquiring market attributes. In the light of this and other provisions of the new Energy Law, NIS is in a position of a direct participant in the natural gas market, and, therefore, the relevant activities towards prospective buyers are already going on, and, in parallel, NIS has formed an Energy department which will certainly take the opportunities given by the provisions of the new Energy Law both in terms of renewable energy sources and electric power production on the basis of fossil fuels. Over twenty by-laws are to derive from the new law in order to more closely regulate certain instruments and define activities contained in its provisions. At the same time, it is expected to pass a Law on rational use of energy in 2012, which will additionally open a range of possible implementations of projects in the Energy department.

The Law on Mining and Geological Explorations was adopted in November 2011. The new Law is directly related to the Mineral resources management strategy in the Republic of Serbia by 2030, and to the Action plan for the implementation of the National strategy of sustainable development of the Republic of Serbia in the period from 2009 – 2017. The provisions of the new Law increase the role of authorities on a local level in mineral resources exploration and use. In accordance with the transient and final provisions of the Law, NIS has kept its rights of exploration and use on the territory of Serbia (2020) and Vojvodina (2015). It is important to note that obtaining of rights of exploration and use by tender will be applied after Serbia becomes a member of the EU.

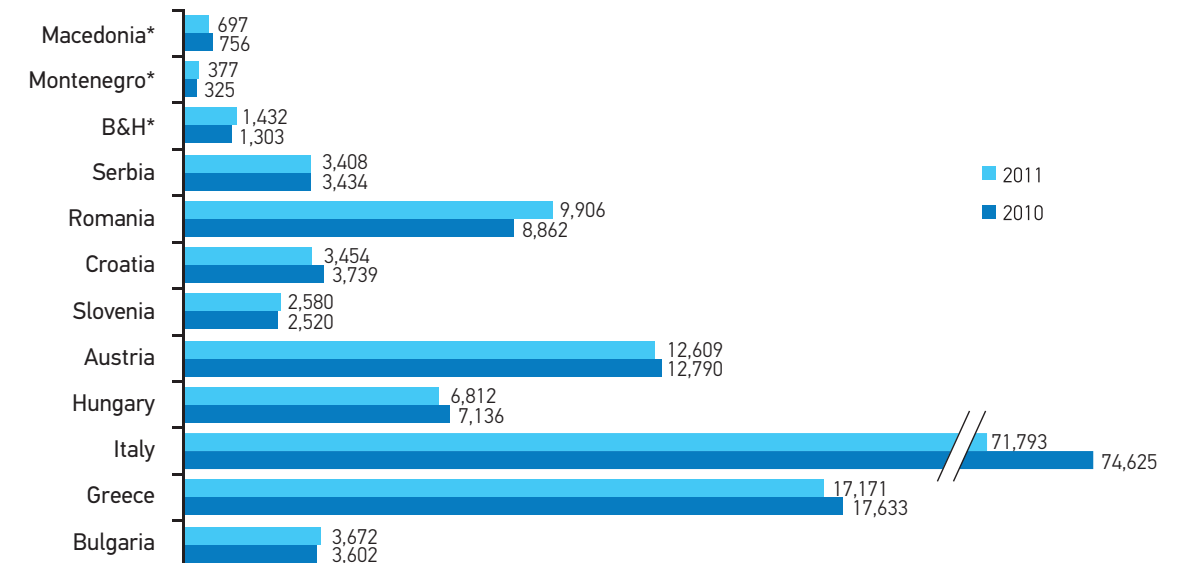
NIS and its experts have significantly contributed to the harmonization of the two regulations by actively participating in the process of reconciliation of provisions of the Energy Law and the Law on mining and geological explorations in order to prevent contradictory interpretations of the articles related to the mining issues.

In May 2011, a new Capital market law was passed; it came into force on 17 November 2011, and a new Company law became effective on 1 February 2012.

Oil Products Production in Serbia and in the Region



Oil product consumption in Serbia and surrounding countries



In thousand of tons
Source: Eurostat, FIS
*B&H, Montenegro and Macedonia –data from Energy balance

Risk Management

Risk Management Targets Set by the Company

Risk management targets and a formal risk management process were set by the Company in 2010. A "Risk Management Standard" was adopted in 2011. It established risk management principles for the purposes of increasing business efficiency of the company from a short-term and long-term perspective.

The aim of Company's risk management is to have additional guarantees for reaching of strategic goals by way of early risk prevention / identification and to ensure maximum efficiency of risk measurement measures.

Risk management is an integral part of the Company internal environment, including:

- adoption of a risk oriented approach in all aspects of production and management activities;
- introducing all employees of the Company to the basic principles and risk management approaches adopted in the Company;
- providing the necessary normative and methodological support;
- familiarity of all employees with the personal responsibility for the management of risks which are present in the processes within their sphere of responsibility;
- observing the requirements as set forth in normative and methodological documents included in the risk management system.

Industrial Risks

Main business areas of the Company are crude oil and gas production, oil refining and oil product sales, and that means that the Company is exposed to the oil and gas industry specific risks. The Company is especially exposed to the risks caused by:

- potential changes in oil and oil product prices;
- oil exploration and production risks.

Risks Related to the Potential Oil and Oil Product Price Changes

Company financial success ratios directly depend on the oil and oil product price level. Oil and oil product price movement is not controlled by the Company; it

depends on external factors such as global changes and changes in the Republic of Serbia of supply and demand balance, scope of consumption in these markets, and the activities of regulatory bodies.

With a view to reducing the potential negative impacts of the above mentioned risks the Company performs the following activities:

- annual planning based on an approach including scenarios, plan follow-ups and timely adjustments of crude oil purchase operational plans;
- regular sessions of the Crude oil procurement Committee;
- Daily awareness of news published on crude oil URAL (RCMB) and Brent DTD, and contacts with foreign partners.

These measures enable the Company to reduce the above mentioned risks to an acceptable level.

Oil Exploration and Production Risks

One of the important goals of the Company is to increase the resource base of the Company by intensifying the exploration activities. This largely depends on the success of geological exploration activities the aim of which is oil pool development in the country and abroad.

The main risk in the field of exploration and production is uncertainty about reserves assessment and, consequently, failure to form the planned resource base.

The Company has a significant experience in conducting geological exploration activities, performing the expertise of geological exploration programs internally and by the parent company and applying advanced exploration methods; all this leads to lowering the risk occurrence probability.

Financial Risks

Business activities of the Company are exposed to various financial risks: market risk (including currency risk, price risk and interest rate risk), loan risk, and liquidity risk. Risk management in the Company is directed to the efforts to bring down to the minimum potential negative effects of the volatile situation in financial markets on financial operations of the Company.

Market Risk

Currency risk - The Company conducts business on the international level and it is exposed to the foreign currency exchange risk coming from conducting business with various currencies involved, USD and EUR in the first place. The risk comes from future trade transactions and acknowledged funds and commitments.

Price Change Risk - Due to its basic business activities the Company is exposed to price change risks, specifically, the crude oil and oil product price, affecting the stock value; and oil refining margins, which further affects future money flow.

Interest Rate Risk - The Company makes cash investments. Cash funds are invested only with the business banks with whom it has passive business relations, i.e. loans and credit/documentary lines. Funds are invested as fixed-term investments, in RSD and foreign currency, on a short-term basis (up to 60 days) at fixed interest rates for such fixed-term investments. Therefore, the income of the Company and cash flows are largely independent from the changes in market interest rates, for short-term investments, although interest rates that can be achieved in the market by the Company depend a lot on basic interest rates at the time of investment (Belibor / The NBS reference interest rate).

In 2011, the Company granted subordinated loans to foreign companies where the Company is the majority shareholder, as a way of financing business activities abroad. Loans granted for these purposes were given at changeable interest rates (Euribor).

Loans given at changeable interest rates expose the Company to the cash flow interest rate risk, while loans given at fixed interest rates expose the Company to the risk of the change in fair values of interest rates. Depending on net indebtedness in a certain period of time any change of the basic interest rate (EURIBOR or LIBOR) has an impact on the Company results.

Loan risk

Loan risk occurs in relation to: the cash and cash equivalents, deposits in banks and financial institutions, as well as to the exposure to risk in wholesale and retail trade, including outstanding receivables and undertaken commitments.

Banks are ranked only in the case of acceptance of security instruments for receivables on various bases and on the total exposure of banks to the Company. In the case of domestic banks only the second criterium is considered. Retail buyers settle their commitments

incash or by payment cards.

The Company has corrected the receivables from buyers with credit limit overdraft or those experiencing problems with liquidity.

Liquidity risk

The Company continuously checks liquidity so as to provide enough cash for the business purposes, while maintaining the level of unused credit lines so as not to allow a credit limit overdraft with banks or breaking terms of loan agreements. Such projections take into consideration the Company plans concerning debt settlement, compliance with terms of agreements, compliance with internal targets, and, if applicable, external legislative or legal requirements – e.g. currency restrictions.



Market position



Market position and NIS share in overall consumption

The unstable recovery from the previous financial and economic crisis and the risk of further worsening of the macroeconomic situation under the influence of the expected new wave of crisis, have marked the Serbian economy in 2011.

The Republican Institute for Statistics estimates that GDP growth in 2011 will be 1.98%, a lot less than expected. Investments and net export contributed to the growth, while domestic final consumption was reduced and a significant recovery is not expected in 2012, while GDP growth is estimated at 1.5%.

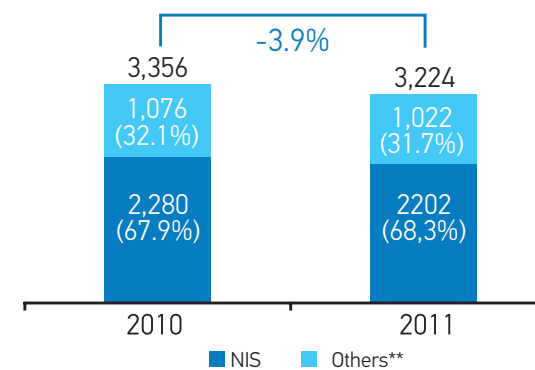
A difficult economic situation is reflected in the consumption of motor fuels, with an overall drop of 0.9%. The consumption of motor gasoline has dropped by 5.2%, and LPG consumption is lower by 8.7%. The consumption of diesel fuel is still on the rise, although D2 consumption has been partly substituted with fuel oil EL which has been imported since May 2011. After including this product in motor fuels consumption, middle distillate consumption growth makes 2.4%.

Turnover growth in retail market is the result of increased retail sale of middle distillates (diesel fuel and fuel oil EL) by 8.9%. Import of EL fuel oil between July and October saw a big growth. Considering the fact that storage area for EL available in other oil companies is quite limited, EL wholesale is mainly carried out at petrol stations.

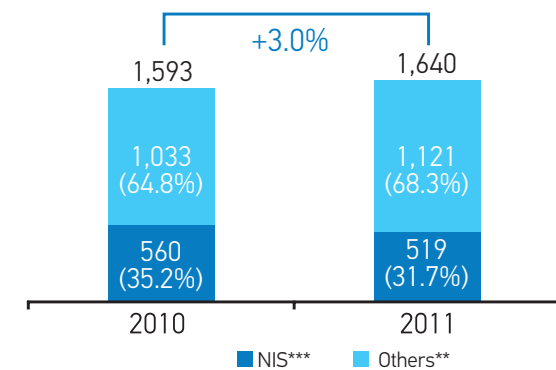
A drop in NIS retail market share comes as a result of several factors:

- The sale of EL which is not included in the excise regime has led to a big drop in D2 sales
- the liberalization of import of gasoline has reduced NIS sales (about 97% of gasoline turnover goes through retail),
- NIS leased 69 petrol stations in 2011
- in parallel, NIS continued the intensive reconstruction of petrol stations, which was an additional factor of reduction of retail sales

Overall market of Serbia*, thous.tons



Retail market, thous.tons



* The oil product market of Serbia is shown without products not produced by NIS (Euro BMB 98, fuel oil Euro EL, oil coke, base oils, vazeline, paraffine, various solvents, etc.)

** The sale of auto gas, motor gasolines, diesel and EL is shown under „others“

*** The sale of LPG cylinders, auto gas, motor gasoline is shown under NIS

The source of information: the Ministry of Infrastructure and Energy, the Chamber of Trade of Serbia and the Ministry of Finance



Business results analysis

Key indicators of business activities

Key indicators	2011	2010	Δ (2011/2010)
Urals, \$/bbl	109.6	78.1	40%
Net profit before changes in exchange rates, bln. RSD	41.1	27.7	48%
Net changes in exchange rates, bln. RSD	-0.5	-11.3	95%
Net profit, bln. RSD	40.6	16.5	146%
EBITDA*, bln. RSD	52.4	32.4	62%
Sales (excise tax excluded), bln. RSD	186.9	161.2	16%
OCF, bln. RSD	35.0	17.8	97%
Taxes and fiscal obligations paid**, bln. RSD	81.8	81.4	0.5%
Domestic oil and gas production, thous. toe***	1,520.6	1,229.4	24%
Domestic oil production (excl. gasoline), thous.tons	1,020.5	864.9	18%
Volume of crude refining including third parties, thous.tons	2,359.0	2,856.9	-17%
Volume of crude refining third parties excluded, thous.tons	2,359.0	2,849.7	-17%
Total sales of oil products, thous.tons	2,428.3	2,611.1	-7%
Sales of oil products in the domestic market****, thous.tons	2,182.0	2,257.8	-3%
Retail, thous.tons	518.6	559.6	-7%
Light product sales, thous.tons	1,554.3	1,620.4	-4%
CAPEX from GPN loan*****, mln. EUR	201.3	113.2	78%
Cash inflow from GPN (cumulative since 2009r.), mln. EUR	466.0	210.0	122%
CAPEX from OCF (NIS projects), bln. RSD*****	13.9	7.8	77%
Total debt to banks, mln. USD	446.0	611.0	-27%
Total indebtedness to banks (total indebtedness)*****, mln. USD	458.0	644.0	-29%

Any possible deviations in percentages and overall values may occur as a result of rounding off

Percentage amounts are calculated based on the amounts expressed in million RSD

Amounts for CAPEX from GPN loan and CAPEX from OCF are given without VAT

*EBITDA = Revenues from sales (excise tax excluded) – stock costs (oil, oil products, and other products) – operating costs of business activities (OPEX)

– other costs beyond the influence of the management

** Taxes, fees, dues and other public revenues

*** 1.256 m³ gas = 1 ton of oil equivalent

****Data about the Sales of oil products in 2010 were corrected for comparability with the data for 2011 (lubricants are not included in oil product turnover in retail segment)

***** Pursuant to the share purchase Agreement for the purchase of shares of NIS a.d. Novi Sad (point 8.1.2) Gazprom Neft (GPN) shall provide NIS a.d. Novi Sad with the amount of 500 million EUR through special purpose loans for the revamp program of the refining complex of NIS a.d. Novi Sad. CAPEX from GPN loan does not include letters of credit

***** Data on 2010 were corrected due to internal activities on projects with financial results (UPS) and capitalized costs which influenced the increase of investments for MHC/DHT project and Environmental

***** Total bank indebtedness (total indebtedness) = total debt to banks + letters of credit



NIS' investments in geological researches get doubled every year starting from 2010, and we intend to maintain that pace in 2012. For the last three years, we have developed and are now implementing a complex program of technical upgrading: the infrastructural reconstruction and modernization is performed, contemporary well equipment is installed.

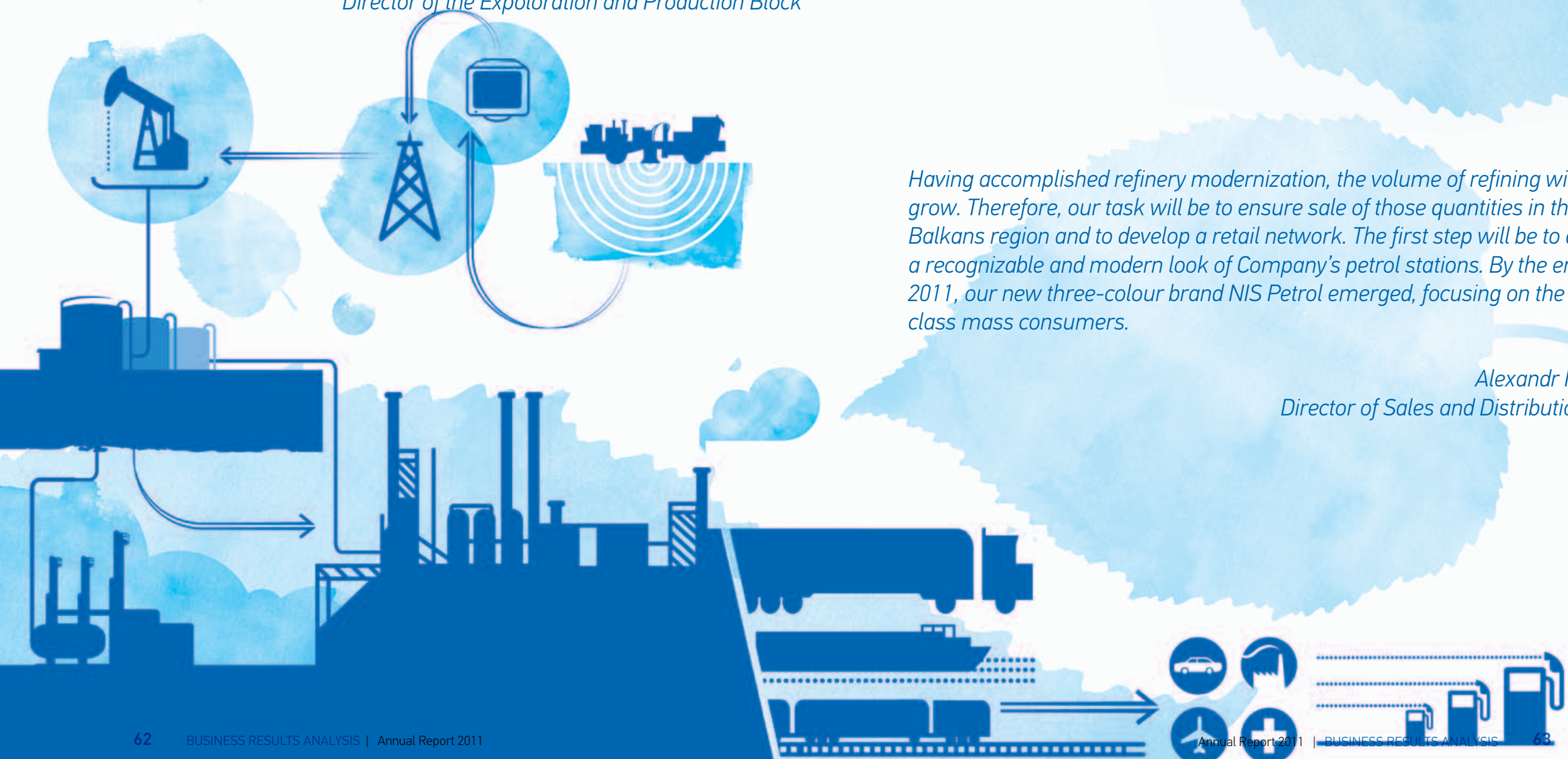
Alexey Ovechkin,
Director of the Expoloration and Production Block

As a part of Pancevo Refinery Modernization Project, modern oil-processing facilities are being constructed enabling significant increase of operational efficiency of the Refinery. MHC/DHT Project realization will facilitate absolute transfer to motor fuel production in accordance with the EURO 5 Standard.

Viktor Slavin,
Director of the Refining Block

Having accomplished refinery modernization, the volume of refining will grow. Therefore, our task will be to ensure sale of those quantities in the Balkans region and to develop a retail network. The first step will be to device a recognizable and modern look of Company's petrol stations. By the end of 2011, our new three-colour brand NIS Petrol emerged, focusing on the middle-class mass consumers.

Alexandr Malanin,
Director of Sales and Distribution Block



Exploration and production

Results achieved in the segment of production

The total production of crude oil and gas in 2011 amounts to 1,520.6 tons of oil equivalent, which is by 24% more as compared to 2010.

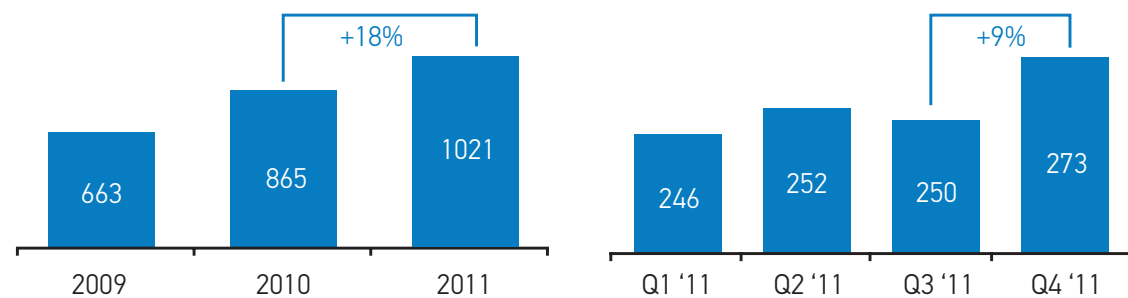
Natural gas production was also increased: gas production in 2011 amounted to 616.4 million m³, which is by 36% more as compared to 2010.

The growth of oil production volume is mainly the result of:

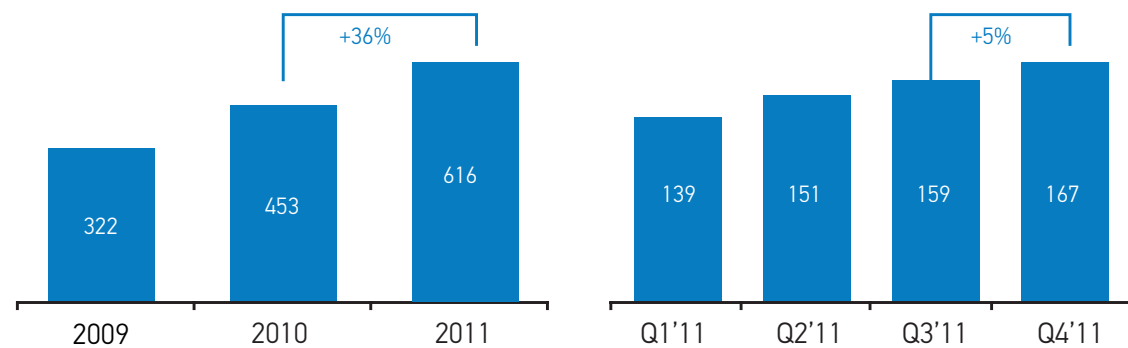
- Capital repair of oilwells
- Reactivation of idle oilwells.
- Domestic oil and gas production growth by 8% in the Q4 of 2011 as compared to the Q3 2011

	2011	2010	Δ	
Production of crude oil and gas, thous. of conditional tons	1,520.6	1,229.4	+24%	↑
Domestic oil production (excl. gasoline), thous.tons	1,020.5	864.9	+18%	↑
Domestic gas production, million m ³	616.4	452.8	+36%	↑

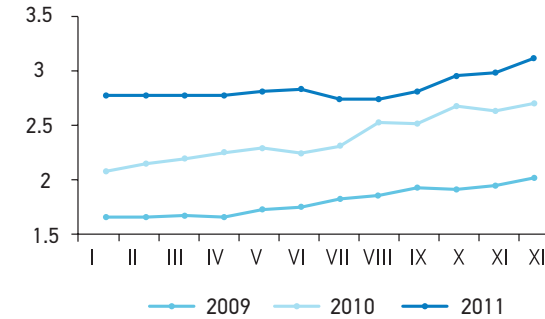
Domestic oil production, in thous. tons



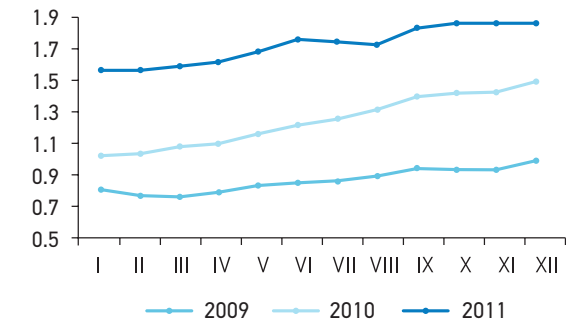
Gas production, in million m³



Oil production dynamics, thous. tons/day



Gas production dynamics, million m³/day



Refining

- from 5th of March to 10th of April
- from 21st of September to 8th of October
- from 23rd of November to 3rd of December

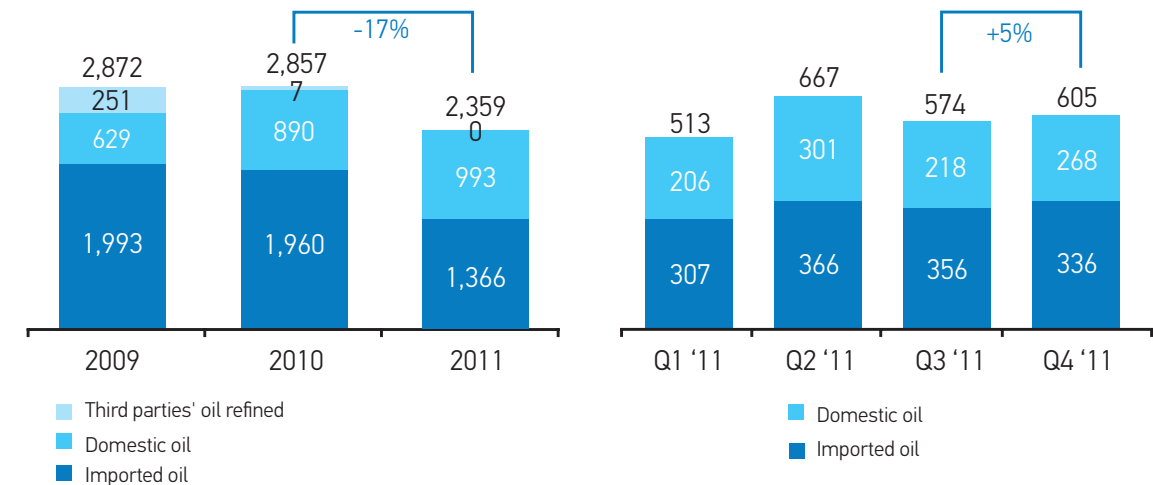
Results achieved in the refining segment

In 2011, there was a drop in refining volume by 17% in comparison with the previous year: 2,359 thous.tons were refined in 2011, as opposed to 2,857 thous.tons in 2010.

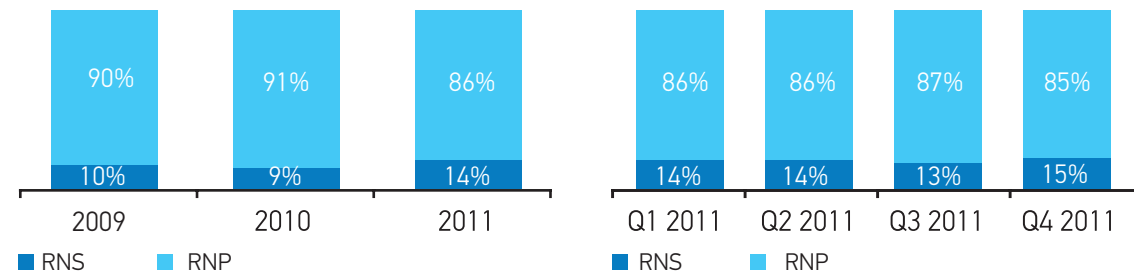
In 2011, the scheduled repair in the Pancevo refinery was carried out in the period:

In 2011, the refining structure was changed and the raffinate share was increased in the total refining volume. This change in the refining structure brought about the increase in refining volume in the Novi Sad refinery.

Refining of crude oil including third parties, in thous. Tons



Refining of crude oil by Refinery



Sales and Distribution

Results achieved in the turnover segment

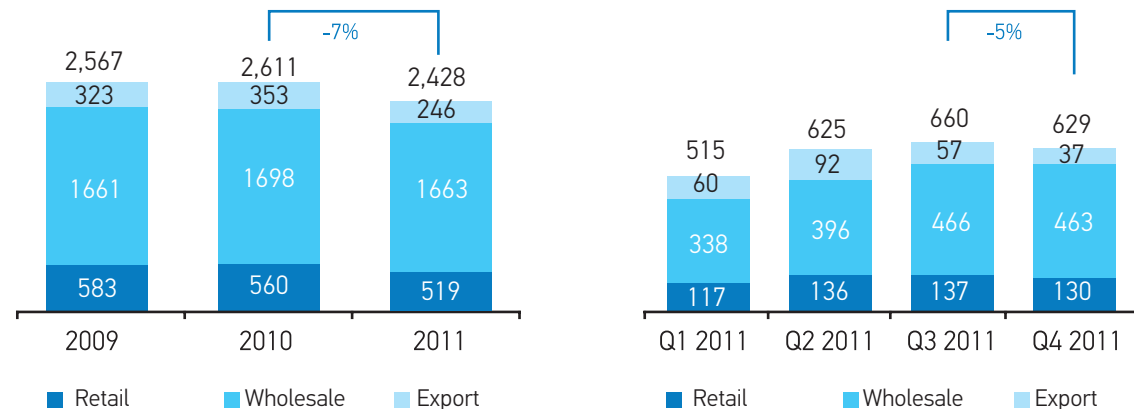
There was a drop in sales by 7% in 2011 in comparison with the previous year, so that the total sales amounted to 2,428 thousand tons.

There was a drop in sales in all three segments: retail (-7%), wholesale (-2%) and export (-30%).

Retail:

- reduction of the number of PS in operation by 14% (leasing petrol stations)
- drop in sold quantity of D-2
- increase in the sale of fuel oil EL and Euro diesel;
- reduced demand for diesel fuels by farmers, which was affected by the substitution with fuel oil EL consumption
- increase in the sale of auto gas was a result of a higher number of PS's where it is sold (+ 28 PS's);

Sales of oil products, in thous.tons



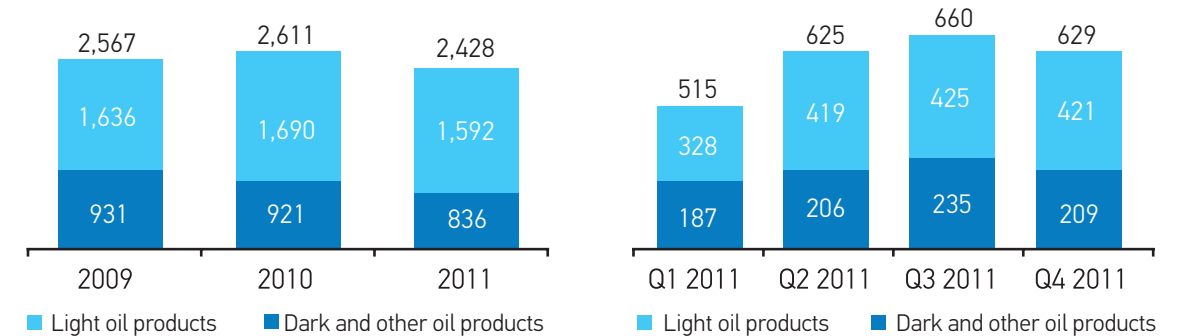
Wholesale:

- worsened economic situation and fall of purchasing power in demand
- reduced sales motor gasoline, D-2 and fuel oil (due to warm winter in 2011)

Export:

- reduced export of gasoline components, fuel oil and D-2;
- Reduction of exports due to the low water level of the Danube and the Sava rivers and subsequent complete suspension of navigation (August, September, October)

Turnover structure by oil product, in thousand tons



*Data on the turnover of oil products in 2009 and 2010 were corrected for the comparability with the data in 2011 (lubricants are not included in oil product turnover in retail segment)

Number of petrol stations

	2010	2011
Operational petrol stations**	465*	399*
Reconstructed petrol stations	7	10
New petrol stations	1	2
New LPG facilities	11	28
Petrol stations on lease	0	69

*balance as of Dec. 31. Number of operational petrol stations for 2011 does not include two petrol stations closed for reconstruction

**excluding LPG retail points (cylinders shops, loading stations)

Ratios

	2011	2010	2009	Δ (2011/2010)
Return on total capital (gross profit/total capital)	45%	26%	-122%	74%
Net return on equity* (net profit/equity*)	47%	19%	-43%	145%
Net business profit (business profit/net revenues from sales)	24%	17%	-2%	39%
Debt to Capital ratio (total liabilities/total capital)	149%	126%	108%	19%
Debt to Equity ratio (total liabilities/equity*)	150%	234%	291%	-36%
1st level of liquidity (cash and cash equivalents/current liabilities)	51%	17%	16%	202%
2nd level of liquidity (liquid assets-inventory/current liabilities)	107%	57%	48%	88%
Working capital turnover ratio (liquid assets-current liabilities/liquid assets)	44%	11%	-10%	303%

*Shareholders equity = Share capital + other capital



Bank indebtedness

Debt structure

At the end of 2011, total indebtedness to banks was USD 458 million.

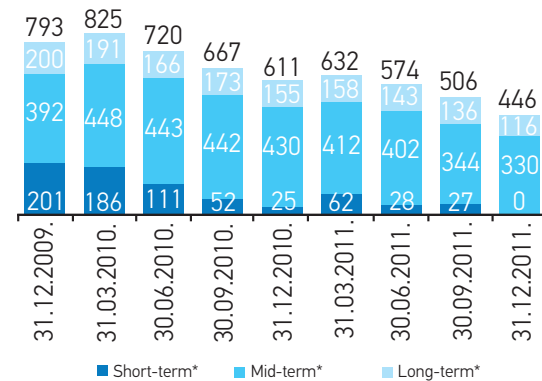
In comparison to total indebtedness at the end of 2010, the amount is reduced by USD 186 million.

Total debt of NIS to banks in 2011 was reduced by

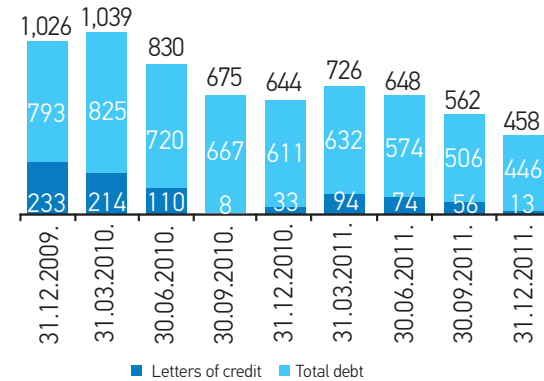
27%, from USD 611 million at the end of 2010 to USD 446 million at the end of 2011, while the amount of letters of credit decreased by 61%, from USD 33 million to USD 13 million.

At the end of 2011, the structure of bank loans is as follows: 74% are mid-term loans and 26% are long-term loans.

Total debt to banks in USD million (total debt)

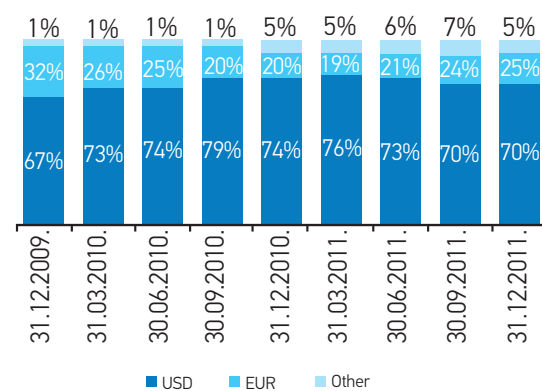


Total indebtedness to banks in USD million (total indebtedness)

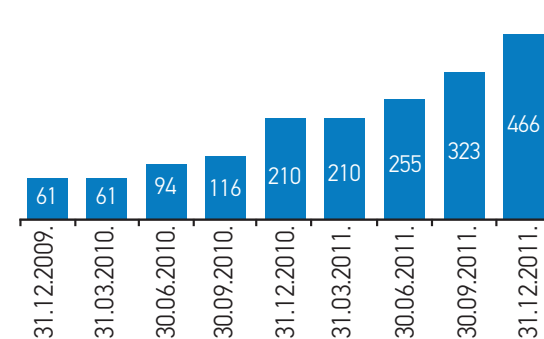


*Debt maturity structure was calculated based on the agreements signed with the banks, and not according to their maturity as of 31 December 2011

Structure of total debt to banks by currencies, in %



Gazprom Neft loan, in EUR million



"In 2011, we continued our effort to improve the financial state of the Company. According to the results from 2011, our debt to banks significantly decreased, which is in line with NIS' strategy to be a financially stable company. Today, our debt in relation to EBIDTA is at the level of 0.7 which corresponds to the best practices in the field of energy. Owing to debt reduction and credit portfolio restructuring, today, NIS has the financial capacity for realization of large investment projects."

Alexey Urusov

Head of Function for Finance, Economics, Planning and Accounting



10

Changes higher than 10%

Assets	Change (in %)	Description
Property, plant and equipment	27%	Increase in property, plant and equipment in 2011 business year, amounting to RSD 38,481,024 (RSD 14,322,530 in 2010) for the most part refers to investment into MHC/DHT project (investment into mild hydro cracking and distillate hydro treating plant) in the amount of RSD 18,395,538, construction of hydrogen producing plant in the amount of RSD 5,015,595, and reconstruction of petrol stations in the amount of RSD 1,006,050. The amount of advance payments made to suppliers for the MHC/DHT project as of December 31 st 2011 was RSD 6,345,337.
Other long-term investments	124%	The increase of other long-term loans and advances as of December 31 st 2011, in comparison with the balance as of December 31 st 2010, for the most part refers to granting long-term loans to subsidiaries in the amount of RSD 2,289,198 thousand. Long-term loans were granted under variable interest rates (3M Euribor + 7.5% and 3M Euribor + 5%) for the period of 7 years from the date of disbursement of the last tranche, with the grace periods of 5 years from the date of disbursement of the last tranche. The carried bookkeeping value of long-term loans is in line with their fair value.
Trade and other receivables	57%	The rise in receivables as of December 31 st 2011 compared to December 31 st 2010, and the related increase in revenue from sales in 2011, refers entirely to growth in sales of products and services of the Company, extending the maturity date for receivables, as well as to increase in receivables from Srbijagas, Novi Sad (amounting to RSD 2,136,378 million).
Cash and cash equivalents	138%	Short-term deposits with banks, amounting to RSD 16,473,646 as of December 31 st 2011 (as of December 31 st 2010 the amount was RSD 10,205,106 thousand), are money deposits with commercial banks with maturity of up to 30 days and they are carried under the item cash in bank.
VAT and prepaid expenses	17%	For the most part the increase relates to the increase in deferred value added tax in the amount of RSD 1,075,577 thousand. Deferred value added tax is value added tax in received invoices that are registered in the current accounting period, and the right to deduct input tax is realised in the following accounting period.
Deferred tax assets	64%	Increase in deferred tax assets as of December 31 st 2011 compared to December 31 st 2010 for the most part relates to tax credits carried forward, recognised based on the five-year business plan and on certainty they will be used. Tax credit was used in the amount of 20% of capital investment made by December 31 st 2011, in accordance with the fiscal regulations of the Republic of Serbia.

Liabilities	Change (in %)	Description
Unrealised gains from securities	-39%	The decrease in the amount of Unrealised gains from securities as of December 31 st 2011, in comparison with December 31 st 2010, refers entirely to decrease in value of investment into securities held for sale, based on reducing the value of investment to the fair (market) value (Linde Gas Srbija a.d. Bečej; Komercijalna banka a.d. Beograd; Jubmes banka a.d. Beograd)
Unrealised losses from securities	30%	The rise in the amount of Unrealised losses from securities as of December 31 st 2011, in comparison with December 31 st 2010, refers entirely to decrease in value of investment into securities held for sale, based on reducing the value of investment to the fair (market) value (Politika a.d. Beograd; Banka Poštanska štedionica a.d. Beograd; Dunav osiguranje a.d.o. Beograd; SPC Pinki a.d. Zemun, Beograd; Luka Dunav a.d. Pančevo;)
Retained earnings	146%	Retained earnings as of December 31 st 2011 refer entirely to realised results in the year ending on December 31 st 2011.
Loss	-29%	The decrease in loss as of December 31 st 2011, in comparison with December 31 st 2010, refers to covering the loss from previous years from the profit realised for 2010.
Long-term provisions	-28%	The decrease in long-term provisions in 2011 for the most part refers to: 1) cancelling provisions for renewing natural resources in the amount of RSD 1,035,326 thousand against the value of property, plant and equipment based on changes in estimate; 2) cancelling long-term provisions for court proceedings where outcome of disputes was estimated to be positive after legal consultations, in the amount of RSD 2,505,737 thousand; as well as 3) cancelling long-term provisions based on actuarial assessment of present value of liabilities for benefits to employees as of December 31 st 2011 in the amount of RSD 1,140,172 thousand.
Long-term loans	27%	The increase in long-term loans as of December 31 st 2011, compared to December 31 st 2010 (and the related decrease in short-term financial liabilities) for the most part refers to reprogramming of liabilities to Banca Intesa and Erste Bank, new agreements on long-term loans with Alfa Bank and UniCredit Bank. On the other hand, during 2011 early repayment of liabilities to EFG Bank was made.
Other long-term liabilities	114%	The increase in other long-term liabilities as of December 31 st 2011, compared to December 31 st 2010, is mostly due to withdrawing new tranches of the loan approved by the parent company Gazprom Neft in the amount of RSD 26,022,087 thousand.
Short-term financial liabilities	-84%	Reduction in short-term liabilities as of December 31 st 2011 in comparison with December 31 st 2010 is for the most part related to meeting the liabilities falling due in 2011 (including liabilities to Moscow bank), and also to reprogramming of liabilities to Banca Intesa and Erste Bank.

Liabilities	Change (in %)	Description
Trade and other liabilities	18%	The increase in trade liabilities as of December 31 st 2011 in comparison with December 31 st 2010 for the most part refers to increase in liabilities to suppliers: Gazprom Neft Trading, Austria (as of December 31 st 2011: RSD 18,116,245 thousand) and Glencore Energy (as of December 31 st 2011: RSD 5,366,790 thousand) for purchasing crude oil.
Income tax	141%	The increase in liabilities from corporate income tax as of December 31 st 2011, compared to December 31 st 2010, refers to the liability of profit tax, based on the calculated profit tax under tax return for 2011.
Deferred tax liabilities	-20%	The increase in deferred tax liabilities as of December 31 st 2011, compared to December 31 st 2010, refers to provisional differences between calculated depreciation for accounting purposes and depreciation recognised for tax purposes.
Result	Change (in %)	Description
Net profit (loss)*	146%	The growth in profitability of operations is primarily related to increase in effectiveness of core business operations, decrease in operating costs and expenses, as well as to rise in prices for hydrocarbons at the global market and increase in domestic production of oil and gas.

*comparative data is 31 December 2010

Major buyers and suppliers

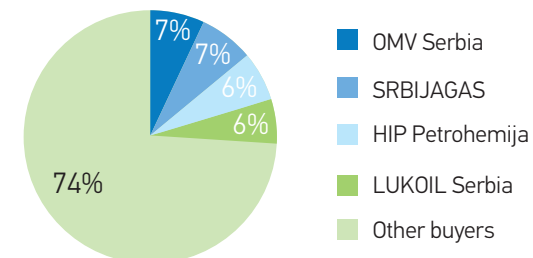
Buyers	Turnover in RSD million	Share in total revenues
OMV Serbia d.o.o.	15,237	7%
SRBIJAGAS JP Novi Sad	14,609	7%
HIP Petrohemija a.d. Pančevo	13,983	6%
LUKOIL Serbia a.d. Belgrade	13,795	6%
Total:	57,624	26%
Other buyers	163,345	74%
Total:	220,969	100%

*in the period from 1 Jan – 31 Dec. 2011

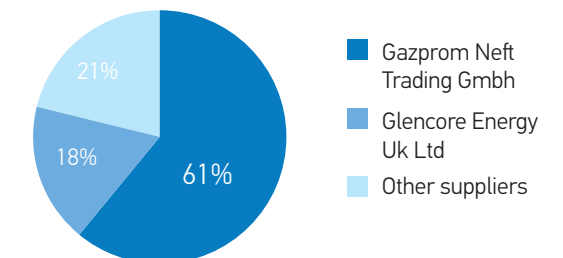
Suppliers	Total debt in RSD million	Share in total liabilities to suppliers
Gazprom Neft Trading Gmbh	18,116	61%
Glencore Energy UK Ltd.	5,367	18%
Total:	23,483	79%
Other suppliers	6,263	21%
Total:	29,746	100%

*as of 31 Dec 2011

Buyers



Suppliers





Transfer prices

Transfer prices in 2011 were defined by "Methodology for calculating transfer prices for oil from domestic production, oil derivatives, natural gas derivatives, natural gas, lubricating oils and JAZAK water in NIS a.d. Novi Sad for management accounting", applicable as of 1 January 2010.

The methodology for transfer prices in 2011 applied the "market principle", and also the principle "one product, one transfer price" applied.

The principle "one product, one transfer price" means that if one product has two or more wholesale prices, the transfer price to apply will be the lowest price.

Transfer prices used to generate internal revenues between operational segments of NIS are defined in such a manner that they reflect the market position of each segment of operations.

The following transfer prices apply:

- Transfer price for domestic oil, which is defined in accordance with the so-called "export parity". The calculation of transfer price for domestic oil: price quoted for reference oil at the global market + premium/discount for quality in relation to reference oil – transportation costs to the regional market;
- Transfer price for natural oil (between Exploration and Production Block and Refining Block), which is the selling price for natural gas of which the Exploration and Production Block sells natural gas to JP Srbijagas;
- Transfer prices for oil derivatives (between Refining Block and Sales and Distribution Block) are minimal wholesale prices at the domestic market, i.e. prices that Refining as a market player could reach at the national market.



Cases of uncertainty

As a part of NIS a.d. Novi Sad financial reporting, the company management makes accounting estimates and assumptions for the future. By default, the ensuing estimates will rarely be identical to the results achieved. The most important estimates and assumptions are estimated provisions for decrease in the value of receivables from buyers, provisions for expected effects of negative outcomes of court disputes, as well as provisions for environmental protection.

The receivables from buyers are initially recognized at fair value. Provisions for decrease in value of receivables are determined where there is objective evidence that the Company will be unable to collect all amounts of receivables in line with initial terms and conditions.

For class one clients (clients from whom total receivables represent 80% of total receivables amount as of balance sheet date), receivables collection risk is estimated by taking into account the indicators of decrease in selling value of receivables, namely: term structure of receivables, estimated collectability of debt according to the client's financial capacities, and the current history of delayed collection from the client. Consequently, provisions are made for impairment of receivables, or adjustment in value against the expenses for the period.

For class two clients (clients from whom total receivables represent 20% of total receivables amount as of balance sheet date), receivables collection risk is estimated by taking into account delays in payments, and provisions for these clients are made if the payment is not made: within sixty (60) days of due date, or of deadline for entry of foreign currency into the country; or within ninety (90) days of the due date for receivables for liquefied petroleum gas, delivered goods/fuels to domestic consumers in the category of "remote heating systems" (distant heating plants), receivables from budget-funded clients (military, police, healthcare, education, railways, etc.).

Book value of receivables is reduced by way of provisions, and the amount of reduction is recognized in the Income Statement, under the item "Other expenses". Where a receivable is uncollectible, it is written off against provisions for receivables.



As of 30 September 2011, the Company formed the provision for about 56% of gross value of total receivables.

The Company management estimated and made provisions for environmental protection as of balance sheet date in the amount of RSD 1,012,100 thousand, based on internal estimate of compliance with the Republic of Serbia legislation. The management believe that, in line with the applicable legal regulations, the expenses related to environmental protection issues are not significantly higher than the amount of the provision. However, it is possible that the mentioned expenses will significantly grow over the following period in case the legal regulations become more restrictive. The Company did not form provisions as of 31 December 2011 for any potential loss that may arise from estimated tax liabilities which might be due to the Ministry of Finance of Angola, involving the Company's obligation to pay the difference in tax calculated plus interest, in the amount of USD 40 million, on additional profit oil for the period from 2002 to 2007. The Management believe, under terms and conditions from signed Concession Agreements with the Government of Angola and based on the opinion of legal consultants from Angola, that such a request is not in accordance with the currently applicable legal framework in Angola, since the authorities incorrectly calculated profit oil, and that profit oil is a contractual obligation to the national concessionaire that should be met, which is contrary to the opinion of Angolan Ministry of Finance. The Company management will lodge a complaint against any action of enforced collection of tax by Angolan Ministry of Finance and undertake all the necessary steps aimed at postponing tax collection until Angolan court of law reaches a final decision on this matter. Based on the experiences of other concessionaires, Angolan court has not yet reached a decision about their complaints against the same decision of the Ministry of Finance, although the complaints were

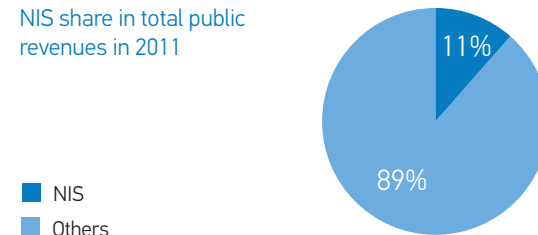
filed three years ago. Taking into account all the above mentioned, the Company management believe that on 31 December 2011 there is a significant level of uncertainty about the time necessary for resolving the request of the Ministry of Finance of Angola, and about the amount of additional tax on profit oil, if any.

In 2011 the Company started the process of harmonising the long-term program of incentives for company managers. After the process is completed, cash incentives will be given based on realising the established key performance indicators (KPI) in the three-year period. On 31 December 2011, due to a divergence between key performance indicators (KPI) and the manner of realising the program, it was not possible to reliably estimate the amount of future liability, and the Company did not make provisions for the program. However, no substantial outflow of funds is expected.

☒ Taxes

In 2011, the planned public revenues amounted to RSD 707 billion (Source: Law on amendments to the Law on RS Budget for 2011), where NIS share in contributing to the Budget stood at the amount of about RSD 81 billion.

NIS share in total public revenues in 2011



Analytical presentation of liabilities based on public revenues (in RSD billion)

Liabilities from public revenues	2010	2011
Excise tax	57.47	61.46
VAT	14.99	13.09
Mineral royalties	1.38	2.14
Other tax expenses	6.93	4.18
Total	80.77	80.88

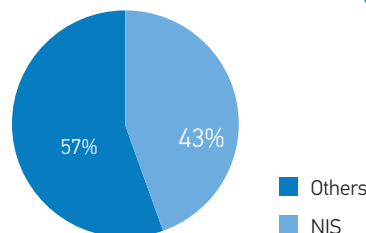
Total amount of paid taxes and fiscal obligations in 2011 was 81.8 billion RSD – 80.88 billion RSD in Serbia and 0.9 RSD in Angola (2010 – total: 8.4 bln.RSD, Serbia: 80.77 bln. RSD, Angola: 0.6 bln. RSD)

According to Budget Laws for 2010 and 2011, excise tax is an important source of funding for the Republic of Serbia, with share in public revenues ranging from 20.25% in 2010 to 22.85% in 2011. The largest part of excise tax revenues the Republic of Serbia receives from collecting excise tax on oil derivatives, which accounts

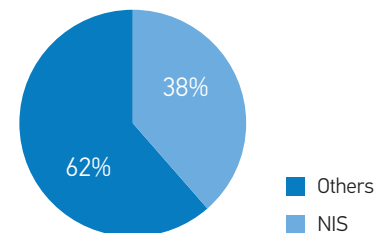
for almost 50% of total excise tax revenues. Analysis of total liabilities of NIS related to excise tax may lead to the conclusion that NIS had a significant share in planned budget revenues from excise tax.

Liabilities from public revenues	2010	2011
NIS share in total revenues of the Republic of Serbia from excise tax	43%	38%
NIS share in the Republic of Serbia revenues from excise tax on oil derivatives	88.4%	81.6%

NIS share in total public revenues from excise tax in 2010



NIS share in total public revenues from excise tax in 2011



Investment

Investment projects

Mid-term investment program (hereinafter: MIP) presenting the CAPEX investment plan for the period 2011 – 2013 was adopted on 8 November 2010, at 39th meeting of Investment Committee.

According to the MIP, main directions for investment are aimed at realising the following groups of projects – MHC/DHT+H2, environmental projects, projects in refining, sales and distribution, and production of oil and gas, as well as a number of projects in expert services.

RSD 34.39 billion of investment was realised in 2011, which is by 75% more in comparison to the same period of 2010.

The most important investments in oil and gas production in 2011 were made for the following projects:

- PSA (Production Sharing Agreement) Angola
- Geological explorations in the territory of Vojvodina
- Geological explorations in the Republic of Srpska

- Oil and gas fields infrastructure automation and reconstruction projects
- Hydraulic fracturing of wells
- BOKA system reconstruction
- Installation of ESP pumps
- Drilling development wells.

The most significant capital investments in 2011 related to environmental protection were realised in Pančevo refinery through the following projects:

- construction of spent sulphuric acid regeneration plant
- reconstruction and modernisation of RNP (Pančevo Oil Refinery) jetty at the Danube
- FCC plant reconstruction – reduction of emission of solid particles into the atmosphere

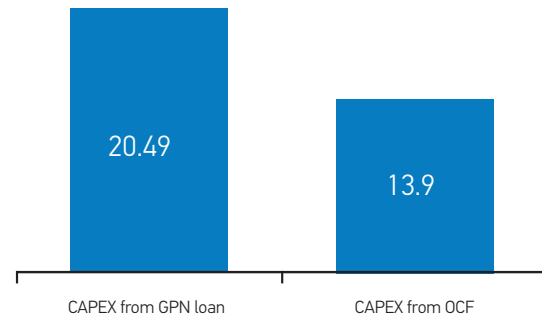
Sources of investment funding	2011	2010
CAPEX from GPN loan (L/Cs excluded)	20.49	11.86
Environmental protection	2.15	1.57
MHC/DHT	18.33	10.29
CAPEX from OCF (NIS funds)	13.90	7.84
Environmental protection	0.26	0.14
MHC/DHT	1.24	0.32
Angola	0.19	0.63
Projects with direct economic effect	9.44	4.74
Projects with no direct economic effect	2.71	2.00
Project development studies (PIR)	0.06	0
TOTAL:	34.39	19.7

VAT excluded

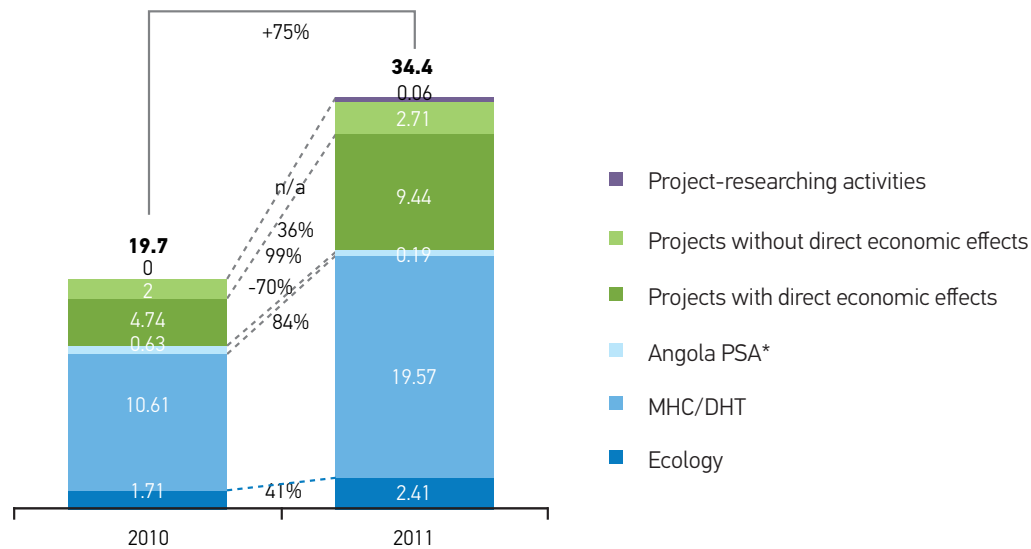
"In order to achieve set goals we have designed investment plans for each business line. In three year perspective, starting from 2012, we intend to invest 1.5 billion euros - 500 million per annum, in NIS business activities."

*Nicolaus Petri
Head of Function for Investments and Strategy*





CAPEX per investment projects



*PSA- Production Sharing Agreement

**The data for 2010 was adjusted due to internal activities on projects with economic effects (UPS) and capitalised expenditures that resulted in increase in investment into MHC/DHT and environmental protection projects.

Investment into other important projects

During 2011, in addition to investment into operating capacities, NIS made significant investment into development and upgrading of the information technology system.

Largest investments were made into SAP software, in the amount of RSD 0.2 billion, involving the upgrade of the system and existing modules and introduction of "Bulk" module and "DAS" logistics.

The investment of RSD 0.2 billion was made into purchasing computer equipment and software, aimed at upgrading the network and server infrastructure.

In addition, investment into security systems was increased, in the amount of RSD 0.1 billion.

Business Intelligence project was started with the objective of uniform collection of data and reporting.

Investment per segments

	2010	2011
Exploration and Production	4.24	6.98
Refining	12.78	22.72
Sales and Distribution	1.43	3.44

Major investments into exploration and production, refining, sales and distribution in 2011



Exploration and Production..... RSD 6.98 billion

Rise in production of oil and gas
Increase in reserve

- Geological explorations in the territory of Vojvodina
- Geological explorations in the territory of BH
- Investment into concession rights
- Fracturing of wells
- Drilling new development wells
- Automation of production
- Installing electrical submersible pumps



Refining..... RSD 22.72 billion

RNP reconstruction and modernisation
Environmental projects

- Construction of MHC/DHT plant and hydrogen plant
- Construction of spent sulphuric acid regeneration plant
- Reconstruction of Pančevo jetty
- FCC unit reconstruction



Sales and distribution..... RSD 3.44 billion

Developing retail network

- Total reconstruction – 10 petrol stations
- LPG installation – 28 filling stands
- Construction of new petrol stations – 2 petrol stations
- Regional sales development in Bulgaria and Bosnia & Herzegovina

Changes in equity structure

The Agreement on Sale and Purchase of Shares of Naftna industrija Srbije a.d. Novi Sad, entered into by and between the Republic of Serbia and the company Gazprom neft, provides for the obligation of the Gazprom neft to initiate the procedure for issuing the offer for takeover and redemption of all shares belonging to minority shareholders within 24 months from the date of conclusion of the Agreement. The Agreement also provides for that the price for all the shares held by the minority shareholders shall be established in accordance with the applicable law, provided that, in any case, it cannot be lower than the price per share resulting from acquisition of 51% of shares by Gazprom neft. The Republic of Serbia was obliged to refrain from involvement in the takeover offer, that is, not to sell a single share owned by it in NIS a.d. Novi Sad.

Pursuant to the Agreement, and on the basis of the Law on Takeover of Joint-Stock Companies, on January 14, 2011, Gazprom neft announced the Notice of Intention to Takeover the Shares of NIS a.d. Novi Sad in the daily newspaper «Blic».

Pursuant to the Conclusion of the Government of the Republic of Serbia dated December 30, 2010, and the Decision on Approval to Announce the Offer for Takeover of the Shares rendered by the Security Committee on January 27, 2011, Gazprom neft on January 31, 2011 announced the Offer for Takeover of the Shares of NIS a.d. Novi Sad. The Offer for Takeover was published in all daily newspapers distributed across the entire territory of the Republic of Serbia with circulation of at least 50,000 copies, and by means of all electronic media to which is allocated national frequency.

The price that Gazprom neft undertook to pay per share was 506.48 RSD, which according to the mean exchange rate applied by the NBS as of January 13, 2011 was equal to 4.80996 EUR per share, i.e. the price per

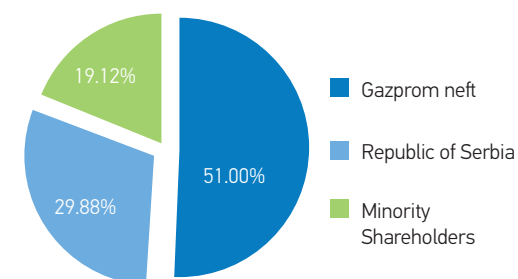
share resulting from the acquisition of 51% shares by Gazprom neft. If the mean exchange rate for EUR on the day of closing the Offer for Takeover had been higher, in that case Gazprom neft would have paid to the sellers the amount in dinars equal to the counter-value of 4.80996 EUR per share as calculated according to the mean exchange rate applied by the NBS on the closing date for the Offer for Takeover, and not less than RSD 506.48.

The Board of Directors of NIS on February 3, 2011 adopted the Opinion regarding the Offer for Takeover of the Shares of Naftna Industrija Srbije a.d. Novi Sad, and assessed that there were no reasons not to accept the intentions of the offeror related to the employees and management, including also substantial changes with respect to employment conditions, set out in the Offer for Takeover, whereby it supported the Offer for Takeover.

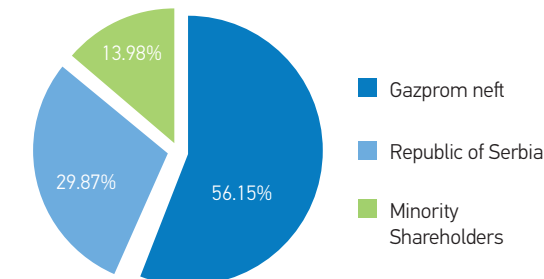
The Offer for Takeover of the Shares of NIS a.d. Novi Sad was closed on March 16, 2011 at 12:00 h. The Offer was valid for 45 days, and 8,405,087 of ordinary shares were taken over, i.e. 5.15% of the total number of ordinary shares. The price per share paid by Gazprom neft was 506.48 RSD, being a counter-value of 4.80996 EUR as of January 13, 2011. Following the finalization of the Offer for Takeover of the Shares of NIS a.d. Novi Sad, the majority owner of NIS a.d. Novi Sad – Gazprom neft has become the owner of 91,565,887 ordinary shares, i.e. 56.15% of the equity of NIS a.d. Novi Sad.

Within 3 (three) working days from the closing date for the Offer for Takeover, Gazprom neft effected the payment for the taken over shares by transferring the funds into the special purpose accounts of the shareholders that had deposited their shares into securities deposit accounts.

Equity structure as of 31.12.2010



Equity structure as of 31.12.2011



Shareholders

Business name (Name and family name)	Number of shares	Interest in the share capital (%)
Gazprom neft	91,565,887	56.15%
Republic of Serbia	48,713,684	29.87%
Erste Bank – custody account	641,424	0.39%
Unicredit Bank Srbija a.d. – custody account	605,634	0.37%
Unicredit Bank Srbija a.d. – custody account	364,816	0.22%
Julius Baer Multipartner-Balkan	133,686	0.08%
Societe Generale Banka Srbija – custody account	132,308	0.08%
The Royal Bank of Scotland	121,355	0.07%
Vojvodanska banka a.d. Novi Sad	80,798	0.05%
Hypo Alpe-Adria Bank a.d. Belgrade	67,943	0.04%
Other shareholders	20,632,865	12.65%
Total number of shareholders as of 31.12.2011		2,685,819

Information about shares

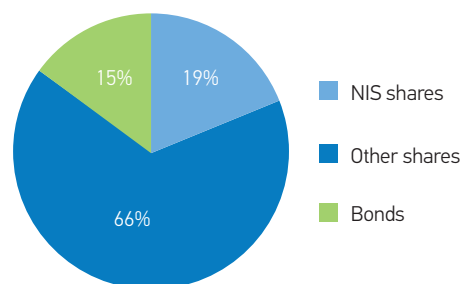
Total number of ordinary shares:	163,060,400
Nominal value:	500.00 RSD
CFI code:	ESVUFR
ISIN number:	RSNISHE79420
Ticker	NISHAK9420
Listing	Listing A - Prime Market, Blegrade Stock Exchange a.d. Belgrade

The Listing and Quotation Committee of the Belgrade Stock Exchange passed the Decision on inclusion of NIS shares into the Listing A-Prime Market on August 23, while the first day of trading shares of NIS was August 31, 2010. From the beginning of trading till December 31, 2011, the following was realized:

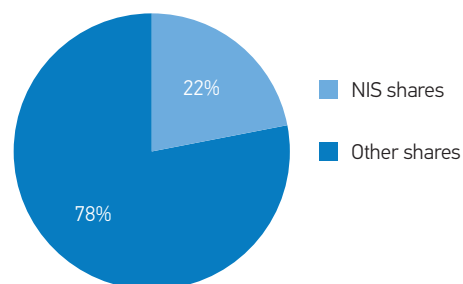
- Turnover of 7,228,807,446.00 RSD;
- Volume of 13,330,103 shares;
- 2,001,645 transactions.

In 2011, the portion of the shares of NIS in the total shares turnover of the Belgrade Stock Exchange was approximately 19%.

NIS participation in total turnover on Belgrade Stock Exchange in 2011



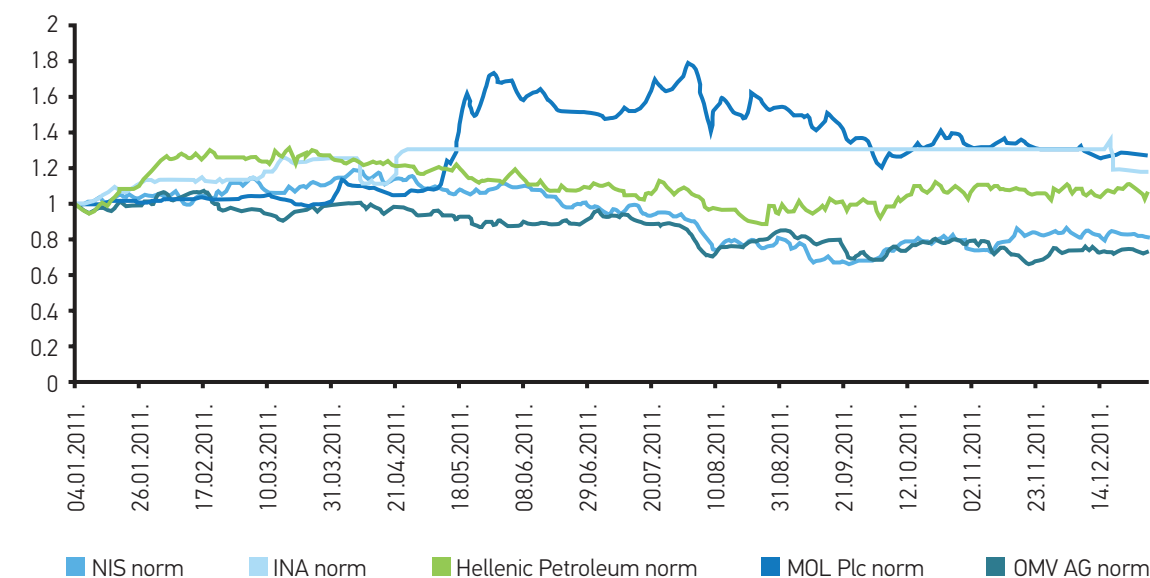
NIS participation in shares turnover on Belgrade Stock Exchange in 2011



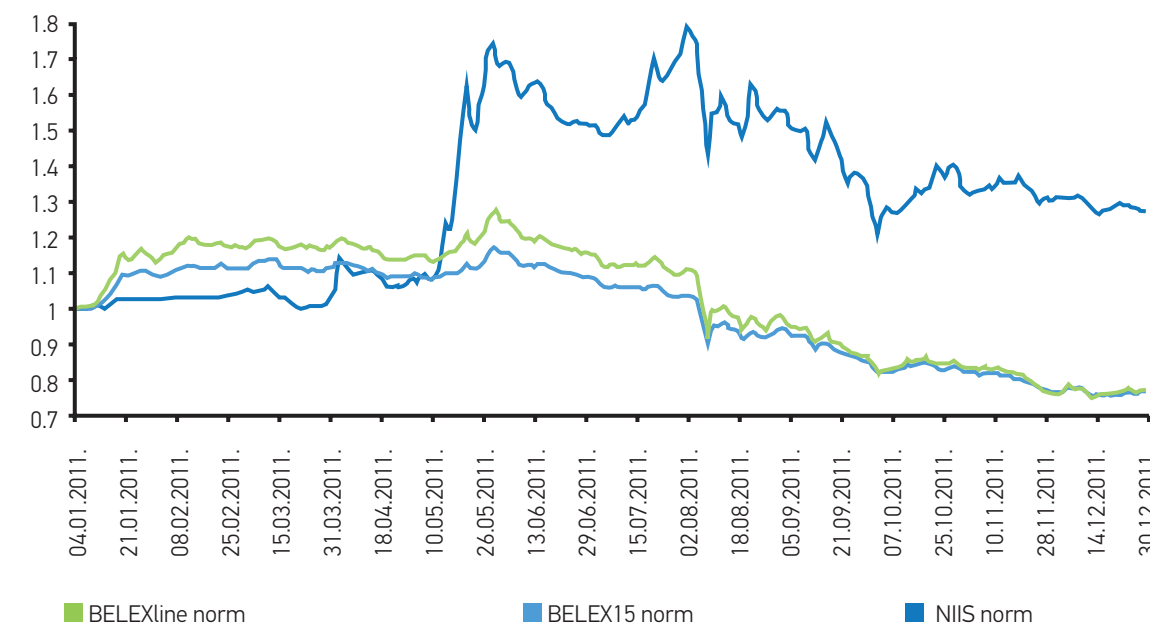
Trading shares of NIS in the period from 30.08.2010 to 31.12.2011

Last	605.00 RSD
High	865.00 RSD
Low	442.00 RSD
Total turnover	7,228,807,446.00 RSD
Total volume (number of shares)	13,330,103
% against the total number of shares	8.17%
% against the number of shares held by the minority shareholders	49.45%
Total number of transactions	2,001,645
Market capitalization as of 31.12.2011	98,651,542,000.00 RSD
EPS for the period 01.01. – 31.12.2011	248.99 RSD
P/E	2.43
Book value as of 31.12.2011	537.14 RSD
P/BV	1.13

Price trends of NIS shares and price trends of the peer companies from the region



Price trends NIS shares and trends of the Belgrade Stock Exchange indices



Activities of the Investor Relations Department

NIS has set as a goal to ensure high levels of transparency and publicity of its business activities, in order to provide information to the shareholders and investors of NIS in a timely manner, accurately and completely. To achieve that goal, in addition to reporting in compliance with the legislation, NIS has provide to its shareholders and investors also additional information and enabled a direct communication with the Company's management. Following each quarter, the business results of the Company are published by means of data presentation by the management and press conferences. Also, upon request of investors, the meetings are held with investors, on a 1:1 basis.

For the purpose of upgrading the communication with shareholders and investors, NIS intends to proceed with an active approach and introduce a range of new activities in the field of publishing and exchange of information.

Concerning its activities in the field of investor relations, NIS received the recognition from the Belgrade Stock Exchange as the company with the best investor relations in 2011.

Dividends

If profit has been generated by the Company, it is allocated in compliance with the Law, Memorandum of Association of the Company, observing also the provisions of Article 8.1.3 of the Agreement on Sale and Purchase of Shares of Naftna industrija Srbije a.d. Novi Sad. If decision approving the payment of dividend is passed, such a decision shall, inter alia, establish the method and time for payment of dividends, and the day on which the list of shareholders entitled to dividends is established.

The Companies Law provides for that following the adoption of the financial statements, the profit is allocated firstly to cover the losses of the previous years. Taking into account the existence of the accumulated loss, in 2011 no dividends were paid for the year 2010.

Information about dividends paid out for the preceding 3 years:

2008	The Company generated losses and no dividends were paid out.
2009	The Company generated losses and no dividends were paid out.
2010	The Company generated profit. The Board of Directors passed on July 27, 2011 the Decision on Allocation of Profit and Covering Losses for the Year 2010, under which the total profit earned had to be allocated to cover the losses carried forward from the previous years, and therefore no dividends were paid out.
2011	The company generated profiy. The amount of uncovered losses as of December 31 st 2011 is 0.4 billion RSD

Rating

Rating of a company is the assessment of the business ability and market ranking of the company. Based on the rating assigned, it is possible to assess the clients, business partners, competitors and new investment opportunities. The rating encompasses all the features of the company – position, assets, businesses and prospects.

However, the rating of a company also depends on the rating of the country in which it conducts its business activities, and is closely tied to the assessment of risks of investing in the country concerned.

The rating is assigned by specialized rating agencies, among which the most notable are Moody's, Standard&Poor and Fitch.

Solvency report is the basis for analysis of the financial standing and business performance of a company. The report presents a systemized set of information and indicators regarding the solvency, of various structure, contents and explanatory power. The official Solvency Report data base is maintained as of January 1, 2010 with the Register of Financial Statements and Solvency Information of Legal Entities and Entrepreneurs of the Business Registers Agency of the Republic of Serbia (www.apr.gov.rs). The Business Registers Agency also gives a scoring as a form for the opinion on the solvency

established on the basis of information from financial statements, by applying the method of quantitative financial analysis and statistical monitoring.

The solvency assessment firm Rating d.o.o. Belgrade was founded in 2006 and when preparing solvency reports it applies the methodology and tools of the company Dun&Bradstreet. The assessment assigned to NIS a.d. Novi Sad by Rating d.o.o. comprises financial strength indicators and risk factors. The financial strength indicator of NIS a.d. is the highest - 5A, while the risk factor value is 3 on the scale ranging from 1 to 4 (where 1 is the best result). The country risk had also influence on the assigned risk factor. Moreover, Rating d.o.o. assigned to the Company the growing business trend which will contribute to the further diminishing of the risk in dealing with NIS a.d. Novi Sad.

Solvent Rating d.o.o. Belgrade was founded in 2011 in order to represent the business activities of legal entities as transparent as possible. They use the methodology applied by the Swedish Company Bisnode AB. According to the assessment of the Solvent Rating d.o.o., NIS a.d. Novi Sad business was excellent with low probability of failures in the future. The Company did not have serious liquidity issues and at the same time it generated high yealds.

The scoring assigned by the Business Registers Agency encompasses the period between 2006 – 2010.

Rating assigned by	Member of Group	Rating assessment	Date
Solvent Rating d.o.o. Belgrade Serbia	Bisnode AB, Stockholm, Sweden	A1 Excellent Risk free	15.12.2011.
Rating d.o.o. Belgrade Serbia	Dun&Breadstreet Short Hills New Jersey, USA	5A3 Fair Up	27.07.2011.
Business Registry Agency Republic of Serbia	-	CC- Good solvency	13.02.2012.





Subsidiary Companies and Transactions with Affiliates

Information about subsidiaries

Business name	% of interest in the capital of the subsidiary held by the parent company
Joint-Stock Company for Hotel Management and Tourism O ZONE ad Belgrade	100%
OOO «NIS OVERSIZ» Moscow, Russian Federation	100%
NIS PETROL EOOD, Sofia, Bulgaria	100%
NIS PETROL S.R.L., Bucharest, Romania	100%
NIS PETROL d.o.o., Laktaši, Bosnia and Herzegovina	100%
Pannon Naftagas Kft, Budapest, Hungary	100%
„Jadran-Naftagas“ company with limited liability Banja Luka	66%
Company with limited liability NIS-SVETLOST BUJANOVAC	51.32%
Company for excavation, transportation and processing of smelting slag and copper production JUBOS d.o.o. Bor	51%
OOO «Joint Venture RANIS», Moscow Region, Chernogolovka, Russian Federation	51%
Eurol International (Bermuda) ltd	50%
MAKO NAFTA DOO Skopje	49%
Joint-Stock Company Culture and Sports Centre PINKI – ZEMUN, Zemun	48.7%

Joint-Stock Company for Hotel Management and Tourism O ZONE a,d, Belgrade

Company ID	20094630
Seat	Maršala Birjuzova 3-5, Belgrade, Srbija
Name and main activity code	5510 – Hotels and similar accommodation
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Management	Kirill Kravchenko, Chairman of the BoD Dmitry Fomenko, Member of the BoD Sergey Fominych, Member of the BoD
Branches:	FOLLOW ME Belgrade *LCC FOLLOW ME Novi Sad *LCC FOLLOW ME Niš
Business activities performed outside the seat – organizational units and representative offices	*On the basis of a franchise agreement they became a part of the single multinational network of tourist agencies operating under the name Lufthansa City Center,

Financial indicators	2009	2010	2011
Total assets	5,094,492	5,072,036	4,811,354
Noncurrent assets	5,042,374	5,032,987	4,699,328
Current assets	52,118	39,049	112,026
Total equity	2,226,692	2,271,521	2,361,596
Net profit/loss	(915,084)	(150,262)	90,076
Sales	263,915	254,475	232,546

OOO «NIS OVERSIZ» Moscow, Russian Federation

Company ID	(OFPH – Main State Registration Number 5067746792306)
Seat	Bolshoy Golovin pereulok 12, Moscow, RF
Name and code of main business activity	Extraction of crude oil and gas
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Management	Dmitry Fomenko, Director
Business activities performed outside the seat – organizational units and representative offices	-

Financial indicators	2009	2010	2011
Total assets	2,399	2,783	7,409
Noncurrent assets	-	-	-
Current assets	2,399	2,783	7,409
Total equity	1,572	1,748	4,536
Net profit/loss	64	-	6,324
Sales	-	-	-

NIS PETROL EOOD, Sofia, Bulgaria*

Company ID	201703950
Seat	10 Oborište street, Oborište District, Sofia, Bulgaria
Name and main activity code	Trade in oil, liquefied petroleum gas (LPG) and oil products (wholesale and retail), import-export operations
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Management	Srdjan Bošnjaković, General Manager

Business activities performed outside the seat – organizational units and representative offices

Financial indicators	2009	2010	2011
Total assets	-	-	1,631,223
Noncurrent assets	-	-	1,303,997
Current assets	-	-	327,226
Total equity	-	-	(49,068)
Net profit/loss	-	-	(51,743)
Sales	-	-	-

*Company established on 13.09.2011

NIS PETROL S.R.L., Bucharest, Romania*

Company ID	29111546
Seat	Daniel Danielopolu str. No. 4-6, 3rd floor, District 1, Bucharest, Romania
Name and main activity code	4730-Retail sale of motor fuel in specialized stores
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Management	Alexey Korobov, General Manager

Business activities performed outside the seat – organizational units and representative offices

Financial indicators	2009	2010	2011
Total assets	-	-	1,027
Noncurrent assets	-	-	-
Current assets	-	-	1,027
Total equity	-	-	1,027
Net profit/loss	-	-	-
Sales	-	-	-

*Company established on 16.09.2011.

NIS PETROL d.o.o., Laktaši, Bosnia and Herzegovina*

Company ID	11081932
Seat	Prijedorska bb, Trn, Laktaši, Bosnia and Herzegovina
Name and main activity code	46.71 – wholesale of solid, liquid and gaseous fuels and related products
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Management	Nikola Knežević, Director

Business activities performed outside the seat – organizational units and representative offices

Financial indicators	2009	2010	2011
Total assets	-	-	273,553
Noncurrent assets	-	-	104,641
Current assets	-	-	168,912
Total equity	-	-	(271)
Net profit/loss	-	-	(1,307)
Sales	-	-	-

*Company established on 13.09.2011.

Pannon Naftagas Kft, Budapest, Hungary*

Company ID	01-09-969323
Seat	1093 Budapest, Hungary, Kozraktar u., 30-32
Name and main activity code	0610'08 Extraction of crude oil
% of interest in the capital of the subsidiary company held by the parent company	100%
% of participation of the parent company in decision making	100%
Management	Slavko Pećanac, Director

Business activities performed outside the seat – organizational units and representative offices

Financial indicators	2009	2010	2011
Total assets	-	-	168
Noncurrent assets	-	-	-
Current assets	-	-	168
Total equity	-	-	168
Net profit/loss	-	-	-
Sales	-	-	-

*Company established on 03.10.2011.

„Jadran-Naftagas“ company with limited liability Banja Luka

Company ID	MBS: 57-01-0312-10		
Seat	7 Ivana Franje Jukića street, Banja Luka, Republic of Srpska		
Name and main activity code	Exploration and production of oil and gas 11.101 crude oil extraction; 11.102 natural gas extraction; 11.200 service activities incidental to oil and gas extraction, excluding surveying; 45.110 demolition and wrecking of buildings; earth moving; 45.120 test drilling & boring; 70.200 renting real estate on own account; 73.101 research and experimental development in natural sciences; 73.102 research and experimental development in the field of technology; 73.140 business and management consulting;		
% of interest in the capital of the subsidiary company held by the parent company	66%		
% of participation of the parent company in decision making	66%		
Management	Predrag Ristanović, Director		
Business activities performed outside the seat – organizational units and representative offices	-		
Financial indicators	2009	2010	2011
Total assets	-	108	542,741
Noncurrent assets	-	-	265,962
Current assets	-	108	276,779
Total equity	-	108	(24,480)
Net profit/loss	-	-	(23,958)
Sales	-	-	-

Company established on 23.12.2010

Company with limited liability NIS-SVETLOST BUJANOVAC

Company ID	20125535		
Seat	Industrijska zona bb, Bujanovac, Serbia		
Name and main activity code	4671 – wholesale of solid, liquid and gaseous fuels and related products		
General information	% of interest in the capital of the subsidiary company held by the parent company	51,32%	
	% of participation of the parent company in decision making	51,32%	
Management	Dragan Stojanović, Director		
Business activities performed outside the seat – organizational units and representative offices	-		
Financial indicators	2009	2010	2011
Total assets	80,886	82,707	137,628
Noncurrent assets	43,824	42,215	40,794
Current assets	37,062	40,492	96,834
Total equity	53,552	54,526	56,054
Net profit/loss	10,611	974	1,528
Sales	296,595	572,557	547,105

Company for excavation, transportation and processing of smelting slag and copper production JUBOS d.o.o. Bor

Company ID	20133597		
Seat	Djordja Vajferta 29, Bor, Serbia		
Name and main activity code	2444 – Copper production		
General information	% of interest in the capital of the subsidiary company held by the parent company	51%	
	% of participation of the parent company in decision making	51%	
Management	Snežana Djukić, Chairperson of the BoD Katarina Vukmirović, Member of the BoD Olivera Basta, Member of the BoD Dragan Bojović, Member of the BoD Borivoje Stojadinović, Member of the BoD		
Business activities performed outside the seat – organizational units and representative offices	-		
Financial indicators	2009	2010	2011
Total assets	1,744	1,744	1,744
Noncurrent assets	-	-	-
Current assets	1,744	1,744	1,744
Total equity	1,744	1,744	1,744
Net profit/loss	-	-	-
Sales	-	-	-

000 «Joint Venture RANIS», Moscow Region, Chernogolovka, Russian Federation

General information	Company ID	(OГPH – Main State Registration Number 1045006116198)
	Seat	Chernogolovka, Moscow District, RF
	Name and main activity code	Scientific research and development in the field of natural and technical sciences
	% of interest in the capital of the subsidiary company held by the parent company	51%
	% of participation of the parent company in decision making	51%
Management	Božidar Djukić, Director	

Business activities performed outside the seat – organizational units and representative offices

Financial indicators	2009	2010	2011
Total assets	29,621	34,395	841
Noncurrent assets	-	-	-
Current assets	29,621	34,395	841
Total equity	3,701	4,297	(25,976)
Net profit/loss	-	-	(29,805)
Sales	-	-	-

Eurol International (Bermuda) Ltd

General information	Company ID	(registration number EC-22435)
	Seat	Clarendon House, Church Street West, Hamilton HM 11, Bermuda
	Name and main activity code	Trade in oil which includes the import and export of refined oil products, including, but not limited to, liquefied gas, straight-run gasoline, motor gasoline, kerosene, diesel and fuel oil, and opportunities related to the trade in crude oil in the territory of the Republic of Serbia or in the countries where, in addition to Yugoslavia, Jugopetrol has an interest in.
	% of interest in the capital of the subsidiary company held by the parent company	50%
	% of participation of the parent company in decision making	50%
Management	„A“ Directors: Robert P. Finch David P. Fransen Barbara E. West	

Business activities performed outside the seat – organizational units and representative offices

Financial indicators	2009	2010	2011
Total assets	-	-	-
Noncurrent assets	-	-	-
Current assets	-	-	-
Total equity	-	-	-
Net profit/loss	-	-	-
Sales	-	-	-

MAKO NAFTA DOO Skopje

General information	Company ID	(EMEC – company ID 04438701)
	Seat	15 korpus no. 3, Skopje, Macedonia
	Name and main activity code	Wholesale of solid, liquid and gaseous fuels and related products
	% of interest in the capital of the subsidiary company held by the parent company	49%
	% of participation of the parent company in decision making	49%
Management	Elena Lazarevska, Director	

Business activities performed outside the seat – organizational units and representative offices

Financial indicators	2009	2010	2011
Total assets	-	-	-
Noncurrent assets	-	-	-
Current assets	-	-	-
Total equity	-	-	-
Net profit/loss	-	-	-
Sales	-	-	-

Joint-Stock Company Culture and Sports Center PINKI – ZEMUN Zemun

General information	Company ID	07026781		
	Seat	Gradski park 2, Belgrade-Zemun, Serbia		
	Name and main activity code	9319 – Other sports activities		
	% of interest in the capital of the subsidiary company held by the parent company	48,7%		
	% of participation of the parent company in decision making	48,7%		
Management	Dmitry Fomenko, Chairman of the BoD Predrag Ćurčić, Member of the BoD Vesna Zirić, Member of the BoD Olivera Vujnović, Member of the BoD Petar Djukić, Member of the BoD Aleksandar Božović, Member of the BoD Vladimir Gavrić, Member of the BoD Dragan Jović, Member of the BoD Eduard Skofenko, Member of the BoD Miroslav Despotović, Member of the BoD Sandra Barjaktarević, Member of the BoD			
Business activities performed outside the seat – organizational units and representative offices				
-				
Financial indicators				
	2009	2010	2011	
Total assets	228,315	234,943	232,267	
Noncurrent assets	198,588	210,639	210,706	
Current assets	29,727	24,304	21,561	
Total equity	192,140	192,769	191,653	
Net profit/loss	337	629	392	
Sales	19,143	18,398	15,583	

Transactions with Affiliates

The majority owner of the Company is Gazprom neft, St. Petersburg, Russian Federation, which owns 56.15% of the Company's shares. The remaining 43.85% shares (29.87% owned by the Republic of Serbia) are listed on the stock exchange and held by various shareholders. The ultimate owner of the Company is Gazprom, Russian Federatin.

During 2011 and 2010, the Company entered into business relationships with its affiliates. The most

important transactions with the affiliates in the aforesaid periods were related to the purchase/delivery of crude oil, geophysical explorations and interpretation and tourist organization services.

The overview of transactions with the affiliates is shown in the notes to the financial statements.





...by active investment in knowledge and skills improvement, the employees are given an opportunity to receive training and acquire high qualifications which correspond to European and international standards...



Human Resources

Human Resources Management Policy

Purpose of the policy

People are the most important resource of our company. By realization of their personal and professional potential, the employees contribute to the accomplishment of organizational goals. Therefore the highly qualified and high-quality employees are one of the highest priorities of NIS. The purpose of this policy is to establish the principle of managing the humans resources and to understand the role of Human Resources at NIS.

The human resource management policy, along with other related internal documents/bylaws, establishes the rules, methods and conditions for employment of persons, working conditions, compensations for employees, and training and development of employees. The human resources management policy defines standards for managing human resources applied by all the managers of the Company. This policy, also, sets the rules to be adhered to by all the employees.

Objective

The human resources management includes all activities related to the employment of new people and training and development, remuneration, motivation, monitoring/assessment and termination of employment of employees. Our objective is to manage human capital successfully, to attract, attach, develop, retain and reward the right people who will accomplish the set goals and objectives and pursue the Company's strategy.

NIS wants to be recognized as the «employer of choice» in the real/profit sector, by being, among other things, also a successful company in the field of human resources management. NIS is committed to the development of the potential of its employees to the fullest extent and creation of the environment in which equal opportunities are the reality in both the attitude and practice of employment.

The management of NIS is dedicated to the principles of equal opportunities in employment, not only in the way as prescribed by the law, but also according to the

principles of the mission and vision of the Company, that is to say, according to the corporate values advocated by the Company.

Equal opportunities

NIS is the equal opportunities employer, which practically means that no candidate may be discriminated by virtue of sex, age, marriage status, invalidity, religion, race, ethnic affiliation, nationality, and the like. As the employer, NIS is trying to use the talent and resources of all the employees to the fullest extent, as well as to ensure that no candidate is favored over the others.

General statement regarding the personnel conduct

The reputation and status of the Company within the community are, first of all, formed on the basis of appearance, behaviour, values and ethical standards of its management and employees. NIS recognizes the concept of the human resources management as a very important aspect of modern business and makes efforts to acquire a good reputation in this domain. Therefore, the Company expects from all of its employees to adhere to the highest standards of professional conduct any time.

Responsibility and organization of HR

HR is a centralized place responsible for creating and applying the Human Resources Management Policy, in line with overall standards of NIS, i.e. the mission and strategy of the enterprise. The main HR roles are to coordinate the employment process, plan and implement trainings, initiatives, and devise programmes for development of the employees, rewarding and sanctioning, motivation, monitoring/assessment of employees, and to realize the employment and termination of employment.

The scope of HR services includes:

- Recruitment, selection, employment and directing of newly employed staff;
- Exercising rights arising from employment;
- Training and development of the employees;

- Employment of apprentices, monitoring of work and success of implementation of the induction programme; organizing the apprentice examination;
- Organizing the professional examinations;
- Organizing and implementation of scholarship programme for the children of the killed and deceased workers;
- Assistance in the staff planning;
- Assistance in assignment of employees to other organizational units;
- Performance assessment of employees and managers;
- Compensations and benefits;
- Protection of material and social position of employees;

NIS HR consists of:

- Personnel Administration Division
- Employee Relations Division
- Compensations and Benefits Division
- Personnel Recruitment and Selection Division
- Training and Development Division
- Division for Foreign Citizens Support and International Projects
- Interregional Training Centre and Personnel Affairs Division at the Directorate for Organizational Issues of the «Sales» Block
- Personnel Affairs Divisions, Personnel Training Division and Compensation and Motivation Division of the Directorate for Organizational Issues of the Refining Block
- HR Division of the Oilfield Services Block
- HR Division of the Upstream Block

Being the owner of the process of managing the human resources of the company, HR should ensure

that the rules, procedures and processes are always applied successively by anyone who is involved in the human resources management.

Powers

The human resources management policy is adopted by the General Director of NIS. By his initial approval, the General Director confers to the Management of NIS the powers to approve minor, however, not substantial amendments and supplements to the Policy, including those prescribed by the law, without need for any subsequent approval by the General Director.

The HR Director is in charge of updating on a regular basis the contents of the Human Resources Management Policy and of putting forward proposal for the change thereof, if needed.

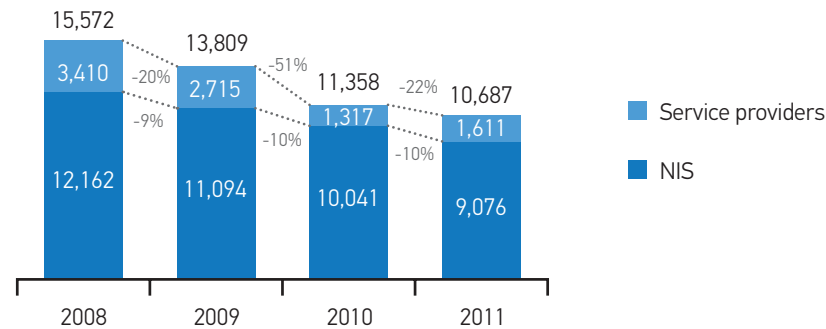
As any successful company, NIS regards its employees as the most important and valuable resource available to it. Investing in human resources is the base and prerequisite for NIS to achieve effectiveness in its business activities and keep the status of the most respectable company in the Balkans in the field of production and sales of oil and refined oil products.

Trend in the number of employees

The total number of employees as of December 31st 2011 was 9,076, whereby it was decreased by 10% (965 employees) as compared to 10,041 employees at the end of the year 2010. The average number of employees in 2011 was 9,650.

Organizational part	2010			2011		
	NIS	Service organizations	Total	NIS	Service organizations	Total
NIS – expert departments	1,302	4	1,306	1,211	17	1,228
Naftagas	2,797	263	3,060	-	-	0
Upstream Block	-	-	0	1,140	26	1,166
Oilfield Service Block	-	-	0	1,812	270	2,082
Refining Block	2,157	74	2,231	1,697	-	1,697
Sales Block	3,785	976	4,761	3,204	1,298	4,502
Energy Block	-	-	-	12	-	12
Total:	10,041	1,317	11,358	9,076	1,611	10,687

Trends in the number of employees



Qualification structure of employees as of 31.12.2011

Organizational part	Dr.Sc.	M.Sc.	BSc	ABSc	HS	ES	Highly-skilled workers	Skilled workers	Semi-skilled workers	Unskilled	Total
NIS-expert departments	2	64	709	109	227	12	33	38	3	14	1,211
Upstream Block	6	22	332	54	330	4	17	359	4	12	1,140
Oilfield Services Block	0	10	316	81	568	4	256	555	9	13	1,812
Refining Block	1	8	288	94	1,093	0	103	108	0	2	1,697
Sales Block	1	31	456	312	1,286	24	554	529	10	1	3,204
Energy Block	0	2	9	0	1	0	0	0	0	0	12
Total:	10	137	2,110	650	3,505	44	963	1,589	26	42	9,076

Age structure of employees as of 31.12.2011

Organizational part	Below 20	20-30	30-40	40-50	50-60	above 60	Total
NIS-expert departments	0	119	425	347	284	36	1,211
Upstream Block	1	57	297	404	343	38	1,140
Oilfield Services Block	0	90	512	662	519	29	1,812
Refining Block	0	171	415	590	488	33	1,697
Sales Block	0	129	888	1,279	864	44	3,204
Energy Block	0	1	4	3	3	1	12
Total:	1	567	2,541	3,285	2,501	181	9,076

Grounds for termination of employment

On the basis of the Agreement on Sale and Purchase of Shares of NIS and concluded social programme, NIS may propose termination of employment, provided that employee is paid a lump sum severance pay in the amount of EUR 750 for each complete year of service and four average wages earned with the Employer.

The voluntary retirement programme is implemented strictly observing the obligations undertaken by NIS as of the arrival of the new majority shareholder. Decision on leaving of an employee included in the programme may be made only upon voluntary decision of both employee and the Company. Within this programme, in 2011, 769 employees left the company.

	2011
Retirement	95
Voluntary resign programmes	1,090
Programme 750	769
Instruction	103
Individual negotiations	218
Other	116
Total:	1,301

Social responsibility

To the employees of NIS is provided a high level social protection, regulated by the Collective Agreement and Social Programme

Special benefits for employees – The Collective Agreement and Social Programme regulate special benefits for the employees of NIS:

- Provision of conditions for continual advancement and improvement of employees
- Special protection of disabled workers and in the event of occupational illnesses
- Additional supplemental voluntary pension insurance
- Guarantee that the level of wages of the employees of NIS corresponds to the level of leading Serbian companies, and adjustment to the cost-of-living index, increased by the real growth rate in accordance with the business results and gross domestic product growth
- Right to solidarity aid
- Right to jubilee award
- Special incentive severance pay for employees
- Fund for education and professional advanced training for employees

Safety and health of employees

The nature of business activities in the petroleum industry requires high level of protection of health and safety at work and is regarded as one of the priorities and prerequisites for success of the Company. In order to ensure as efficient and high-quality occupational safety for employees as possible, within NIS is formed a Committee for Safety and Health of Employees and are adopted respective internal documents facilitating the application of the Collective Agreement in this business area. Continual raising the safety level and monitoring of health of its employees on a regular basis are realized,

among other things, also through systematic medical examinations and regular medical check-up of workers who perform jobs under specific working conditions.

Selection of personnel

Selection of personnel is a process, which has been, along with the change in management and ownership structure of the Company, established on completely new conceptual bases, with the ultimate goal to correlate to the new mission and strategy of NIS and to contribute to their implementation. In addition to significant investments for the purpose of achieving highly set goals, NIS needs also highly qualified personnel, with sufficient knowledge and experience in special technologies for production, refining and sale of oil and oil refined products. Therefore, the personnel selection is the process which is on a continual basis reviewed and improved. New personnel selection rules apply to all the positions within the Company, from the management personnel to lower positions in the hierarchy. Special attention is dedicated to the quality of young specialists who are employed at NIS which shall be at the highest possible level. One of the key projects for ensuring young high-quality specialists is the project of cooperation with universities.

The university cooperation project includes «NIS Day» held at faculties, selection and provision to the best students the NIS Corporate Scholarship, which includes an option to students to undergo professional practice and specialization at the organizational units of NIS. In this way, NIS wants to attract the most talented students, and to achieve through their employment also the socially responsible goal – retaining the quality professional personnel in the Republic of Serbia.

In 2011, NIS has launched the programme «Student Practice». In this way over 50 students of various courses of Belgrade, Novi Sad and Zrenjanin had an opportunity to become familiar with the business activities, processes and work procedures of our Company.

The «First Chance» Project organized by NIS in collaboration with the National Employment Service provides an opportunity to young, hardworking and ambitious graduates to link their theoretical knowledge to the big company practice and thereby extend their

knowledge and experience. Within the «First Chance 2011» Programme, NIS has hired over 100 young persons. In 2012, NIS is planning to launch its own programme «NIS Chance».

Organizational part of NIS a.d.	Number of students included in the student practice
Upstream Block	21
Oilfield Services Block	5
Refining Block	24
Sales Block	7
NIS Parent Company	10
Total:	67

The «First Chance» Project in 2011

Profession	Volunteers	Apprentices
Graduate Mining Engineer	1	1
Graduate Geology Engineer	3	3
Graduate Mechanical Engineer	6	6
Graduate Electrical Engineer	6	6
Graduate Technology Engineer	7	7
Graduate Economist	24	22
Graduate Construction Engineer	2	2
Total	49	47

Profesional development of employees

NIS is actively investing in the development of knowledge and skills of its employees. By building the system of high-quality and continual training, NIS wants to provide to all its employees an opportunity to receive the training and obtain high qualifications corresponding to European and international standards in the field of production, refining and sale of oil and oil products. During 2010, NIS allocated approximately 81 million RSD for the personnel development while in 2011 the Company allocated approximately 146 million RSD. The plan for training and development of employees has been devised to meet the needs of business processes of the Company and of the corporate culture the NIS wants to develop.

The Training and Development Department deals with the organization of various types of training, namely:

- Technical training (professional training in specific fields of business – handling of specific equipment, and so forth),
- Non-technical training, designated for the development of manager and leader skills (so-called soft skills), seminars, conferences, symposiums...),
- Foreign languages (according to the business needs),
- Trainings, licenses prescribed by the law as mandatory ones, and other.

The Training and Development Department dedicates significant attention also to the development of specific

training programmes for employees, in particular of inheritance programmes. For the purpose of further development of personnel, and in line with the strategy of the Company, special «inheritance» programmes are devised, aimed at learning, training and development of the personnel who during the future period should be assigned to responsible and managerial positions in the Company. The most important programmes in this field are the projects «Personnel Reserve» and «Leader 2013». Each of these programmes is designated for the development of competences of specific groups of employees, while their common objective is to train the employees to meet long-term and ambitious goals of the Company.

For the purpose of personnel development, and career management as well, the preparation, development and implementation of the programme «Young Specialists» is in progress. This programme is designated for the youngest colleagues employed at the Company with the aim of developing their professional, expert and leader competences, in order to support the career leading in the Company from the very beginning, and thereby contribute on a long-term basis to the accomplishment of strategic goals.

In addition to the abovementioned activities, the scope of the Training and Development Department also encompasses development of other activities of the employees, such as, for instance, organizing team building for a Block, Function, Directorate, and the like.

In 2011, on account of professional development of its employees, NIS allocated approximately 146 million RSD.

Training costs (in million RSD)	2008	2009	2010	2011
Professional education costs	130	45	72	109
Consulting costs	35	5	9	35
Business associations membership fees	1	1	1	2
Total	166	50	81	146



...considerable funds, as well as realization of projects and programs aimed to improve environmental protection, are part of our strategic commitment and one of the main priorities of NIS...



Environment protection and industrial and occupational safety



The objectives of the Company in the fields of environmental protection, industrial safety and occupational safety (EP, IS, OSH) are as follows:

- Continual decreasing of the level of injuries at workplace, occupational illnesses, accidents and negative impacts to environment;
- Compliance of the business activities with requirements of national legislation in the field of environmental protection, industrial safety and occupational safety, international standards and standards of Gazprom neft.
- Ensuring safe conditions for business activities across NIS, in particular of production processes and environmental protection, on the basis of implementation of unified and integrated management system by 2012, which implies key processes of identification, control and management of environmental aspects, i.e. risks within the work processes;

The above mentioned objectives will be implemented by means of:

- Ensuring necessary resources, for the purpose of implementation of this Policy;
- Creating working conditions, in which each

employee will develop awareness about accepting responsibility for own safety and own environment safety, using at the same time the right to suspend and/or refuse the execution of activities jeopardizing one's own life and health or environment;

- Implementation of the world's best practice in the field of technology and management of the EP, IS and OSH;
- More rational use of natural resources and energy in accordance with principles of sustainable development, use of alternative and renewable energy, implementation of no-waste-technologies and low-waste technologies, technologies for safe collection, storing and disposal of waste generated during the work process, decrease of harmful substance emission and influence of work processes to the climate changes;
- Implementation, support and permanent upgrading of an efficient system for managing EP, IS and OSH, in compliance with requirements of SRPS ISO 14001:2005/2010 and SRPS OHSAS 18001:2008, and standards of Gazprom neft as well;
- successive implementation of preventive



measures aimed at decreasing the probability of incidents, as a result of awareness of the management and employees about dangers and risks existing during the work process within the petroleum industry, and its impact on environment;

- continual improvement of working conditions, increase of the industrial safety level, protection of environment, safety and health, and performance measurement in these fields;
- maintaining the required level of knowledge, competences, obtaining information and responsibility of employees according to the requirements in the field of EP, IS and OSH;
- implementation of respective management methods in relation to visitors, contractors and business partners, in order to ensure their adherence to this Policy, when performing their activities at locations of NIS, or on behalf of NIS a.d. Novi Sad;
- ensuring the transparency and availability of indicators in the fields of EP, IS and OSH, through an adequate exchange of information, good and bad practices and dialogue with all interested parties;

In 2011 has been resumed the process of normative and methodological implementation of the system of industrial safety, occupational safety and health, resulting in the preparation of a major number of documents, whereby this field has become more regulated as compared to the previous period.

The documents passed this year at the level of NIS are as follows:

1. Policy for protection of environment, industrial safety and occupational safety and health of NIS
2. Standard of NIS a.d. Novi Sad - Operative informing, research and recording and periodical reporting about events at NIS
3. Instruction for investigation of causes of accidents at NIS
4. Instruction for implementation of the decision on operative electronic notification of events at NIS
5. Event classifier KT-55 at NIS
6. Instruction for the procedure of preparation of the Instruction for safe work for identification of dangers and risk assessment at NIS
7. Company standard: Provision of personal protection equipment to employees
8. Catalogue of personal protection equipment by

workplaces at the functions of NIS

9. Company Standard: Health protection of the Company employees
10. Instruction for organizing medical examinations of employees at NIS
11. Instruction for prevention of alcoholism and drug abuse on workplace at NIS
12. Company standard: Safe drive by transportation means in road transport of NIS
13. Company Standard: Management of the fire and explosion protection system at NIS
14. Annual plan for improvement and provision of the FP
15. Company standard: Training of employees for safe work at NIS
16. Guidance for preparation of the Instruction for implementation of the training in the field of occupational safety and health for employees of NIS and other persons staying at NIS. On the basis of these have been also prepared related documents at Blocks.
17. Company standard: Identification and evaluation of environmental aspects at NIS
18. Methodology for identification and evaluation of environmental aspects at NIS
19. Company standard: Waste management at NIS

During 2011 was introduced the standard OHSAS 18 001 in parts of NIS, namely in the Upstream Block and Oilfield Services Block, whereby was significantly upgraded the situation with respect to occupational safety and health, through the systems of monitoring, corrective measures implementation, and continual improvement through preventive measures system.

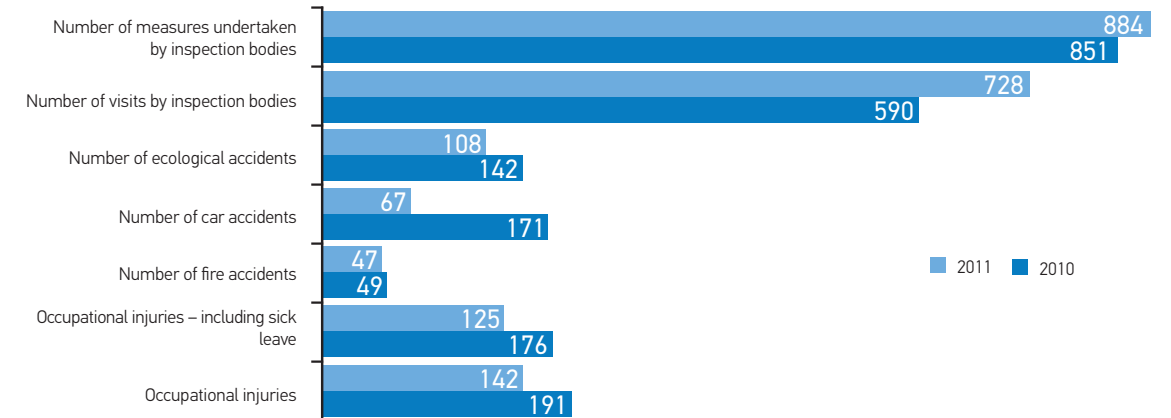
Occupational injuries and prevention of accidents at work

In 2011, by the end of December, 142 occupational injuries happened, which is less as compared to the same period of 2010. It confirms that serious attention was paid to issues of occupational safety and health.

This, however, is still a significant number, therefore, in each such event were held consultations with workers (so-called STOP-SAT), investigations of causes of events were conducted obligatorily and corrective and preventive measures were prescribed in order to avoid such cases in the future. Based on investigations of such.

Occupational injuries

	2010	2011
Occupational injuries	191	142
Occupational injuries – including seak leave	176	125
Number of fire accidents	49	47
Number of car accidents	171	67
Number of environmental accidents	142	108
Number of visits of inspection bodies	590	728
Number of measures undertaken by inspection bodies	851	884



Traffic safety

In 2011 was implemented the Company's standard: Safe drive by road transportation means of NIS, defining basic requirements related to the organization of transport and management of trips which provide increased transport safety. Owing to instructions (leaflets) for vehicle users as integral parts of the accompanying documentation for car taking, the employees are aware of the requirements set out in the Standard. By introduction of GPS, the control of vehicle speed has been much more improved, whereby the number of offenders decreased, as well as the risk of driving too fast. It resulted in the reduced number of traffic accidents, not only in general, but also as compared to the same period in 2010.

equipment containing all technical requirements of the Company with respect to the quality, appearance and functionality thereof.

At NIS, the line managers provide:

- proper use of personal protection means, and carry out the necessary training of employees in collaboration with person in charge of OSH issues
- use of necessary PPE on workplaces for the execution of tasks;
- adherence to all the rules for application of PPE, to serve as example to their subordinates;
- suspension of the operations, and initiating the procedure to establish the responsibility of the employees who has violated the rules and instructions concerning OSH in relation fo the use of PPE.

Personal protection equipment (PPE)

Personal protection equipment is made to protect workers from dangers which cannot be eliminated from the working environment. It constitutes the final obstacle between the danger and the worker. PPE will be efficient provided that dangers are identified, the risk nature clearly defined, and based on that the respective type of personal protection equipment determined. If PPE is used properly during the operations, the risk from employee injuries is significantly reduced.

Environmental protection

Environmental protection is one of the main priorities and integral part of the strategy for efficient management of NIS. Being aware of dangers and risks associated with the work processes within the petroleum industry, as well as of the impact to the environment, the management of NIS adopted in 2010 the Policy for Environmental Protection, Industrial Safety and Occupational Safety and Health. The policy defines the strategic goal set by the Company – to reach the leader position among petroleum companies in the Balkans, and, in the future, South-Eastern Europe in the fields of EP, IS and SHE, confirming this with concrete results and advanced operational methods.

For the purpose of ensuring an adequate protection, to the employees of the Company is provided modern and high-quality PPE corresponding to standards of the Republic of Serbia, and international standards. To that end are prepared catalogues of personal protection

Substantial financial means are allocated for

implementaiton of measures aimed at environmental protection. Investments are made mainly into the modernization of equipment, construciton of new units for which we can say that are the best available technologies, remediation measures and recultivation of contaminated locations (historical contamination), monitoring of environment, and so forth.

The realization of projects and programmes which should lead to significant reduction of the total emission of contaminating substances has been initiated. Significant improvements have been implemented in the field of environmental proteciton, owing to the modernization of equipment and units and introduction of new innovation technologies. This includes as follows: installation of fixed roofs with floating membrans on crude oil tanks, semi-finished and finished products, reconstruction of the truck loading platform and railcar loading platform and installation of the evaporation recovery system, reconstruction of the FCC unit for the purpose of reduction of solid particles emission, installation of the system for continual measurement of emission on high emitters.

In the production field in 2010 was initiated the project for injection of carbon-dioxide from the reservoir «Melenci duboko» into the gas cap of the reservoir «Rusanda II». This project will resolve the ecological issue of emisison of harmful gases into the atmosphere, since the produced gas is not discharged into the atmosphere but injected into the oil well to maintain the pressure in it.

In 2011, for the projects which are directly used for environmental protection, by 31.12.2011 inclusive, was paid:

Block	2011	
	(RSD)	EUR
Upstream	71,985,709	672,764
Refining	2,159,538,149	20,182,600
Sales	40,364,292	377,236
TOTAL:	2,271,888,150	21,232,600

Projects finalized in 2011

Block	Project name	Total investment by 31,12,2011 (RSD)
Refining	FCC reduction of emission of solid particles into the atmosphere	1,423,993,592
	System for continual emission monitoring	78,680,192
	Replacement of pyralene transformers	11,988,509
	Reconstruction/optimization of operation of the crude oil desalination unit FA -2151	14,839,713
	Modular unit for neutralization of the spent alkali C-1800	12,351,639
	Installation of the analyzer for monitoring of emission on the furnace BA-202	3,367,952
Sales	Ground water monitoring	585,200
	Installation of the separators on 6 PS	9,294,248
TOTAL:		1,555,101,045

List of all projects in the function of environmental protection

Block	Project name	Investment estimate (RSD)	Current (updated/new) project completion date	Total paid in 2011 (RSD)
Upstream	Injection of produced CO2 gas from the reservoir Melenci deep into the gas cap Rusanda II	192,700,000.00	01.07.2011	20,974
	Remediation of the historical soil contaminations – HSE	327,660,000.00	30.01.2014.	70,053,235
	HSE equipment	2,620,000.00		1,911,500
Refining, Oil Refinery Novi Sad	Reconstruction of the tank B11 preparation	64,937,000.00	September 2012.	1,321,737
	Remediation and reconstruction of the waste water treatment plant	45,000,000.00	03.08.2012.	2,365,000
	Remediation and reconstruction of the oil sewer system phase 1 and phase 2	156,620,000.00	29.11.2013.	19,488,672
	Continual emission monitoring system		Started up	78,680,192
	Project for construction of closed system for sampling at Production	117,900,000.00	23.07.2012.	0
	Project for construction of closed draining system (S-100/ 300/ 400/ 500/ 2100/ 2300/ 2400/ 2500/ 2600) 2011	418,800,000.00		0
	Replacement of safety valves at the block 5	32,250,000.00	25.07.2012.	637,000
	Replacement of pyralene transformers	62,700,000.00	Started up facility	0
	Project of upgrading of operation of the Klaus unit C-2450	25,000,000.00	25.06.2012.	843,900
	Jetty reconstruction	3,393,600,000.00	21.02.2013.	1,025,278,027
Refining, Oil Rafinery Pancevo	Remediation of the jetty contamination	53,500,000.00	02.08.2012.	0
	Truck loading platform reconstruction	1,029,000,000.00	04.10.2012.	45,697,930
	Revitalization of the unit for recuperation of gas from the flare S-1000	258,650,000.00	02.05.2012.	12,406,342
	Reconstruction of the existing and construction of new facilities for treatment and transportation of waste water (mobile plant for treatment of oil mud, oil sediments and oil contaminated soil)	122,500,000.00	20.06.2013.	119,500,000

Block	Project name	Investment estimate (RSD)	Current (updated/new) project completion date	Total paid in 2011 (RSD)
Refining, Oil Refinery Pančevo	Reconstruction of the HPV unit – plant for mud treatment	198,800,000.00	11.01.2012.	92,926,535
	Reconstruction/optimization of operation of the crude oil desalinators FA-2151	58,000,000.00	Started up facility	3,020,767
	Reconstruction of railcar loading platform – measuring systems	144,616,125.00	30.04.2012.	44,260,298
	FCC – reduction of solid particles emission into the atmosphere	2,177,000,000.00	15.08.2012.	331,932,899
	Project for construction of closed drainage and spillover system from vessels of the flare FA-1000 and gas meter FA -1000	48,085,000.00	15.03.2012.	4,162,369
	Modular unit for neutralization of spent alkali S-1800	28,250,000.00		0
	Regeneration of spent sulphuric acid	1,356,400,000.00	04.09.2012.	564,176,973
	S-2600 Neutralization of acid sewer	12,300,000.00	18.12.2012.	2,751,335
	Reconstruction and modernization of installations for loading and unloading of LPG	330,000,000.00	11.07.2012.	5,500,000
	Installation of the analyzer for emission monitoring on the furnace BA-202	20,137,000.00	Started up facility	0
	Reduction of Noh emission in tail gases from Energy Plant	30,000,000.00	28.11.2012.	2,035,265
	Ground water monitoring		Facility started up	144,400
	Sales	Installation of separators at FS:	9,294,248	10 facilities started up
Ecological projects – purchase of tanks for cleaning		34,000,000.00	15.09.2011.	31,068,964

Ecology – environmental protection costs

As a responsible company, NIS meets its obligations with respect to payments of ecology duties. The respective sum in 2010 amounted to approximately 161.4 million dinars.

According to the achieved and shown results regarding discharge of dangerous and harmful substances into the atmosphere, water, and waste generating, as to the total volume, at annual level, the

trend of reduction is realized, while the trend regarding the amount of funds required for the payment of obligations prescribed by the law is on an increase, because every year by special decisions and ordinances are defined the sums which are (as a rule) increased. The table below shows an overview of funds for ecology-related charges.



Environmental protection fees in 2010 and 2011

Fee description	Amount 2010 (RSD)	Amount 2011 (RSD)
Environment protection fee costs	5,740,153	64,640,878
Ecology fee	364,570	6,263,158
Ecology duty costs	135,926,674	86,909,541
Costs of waste water treatment services	-	148,026,517
Other	19,363,102	15,609,564
Total:	161,394,499	321,449,658

...by socially responsible business activity, NIS recognizes the environment in which it operates and promotes cooperation with all interested parties: employees, shareholders, consumers, local community...





Social responsibility

The long-term commitment of NIS is to nourish and improve the social responsibility principle which constitutes the strategic commitment of the Company.

Socially responsible business activities of NIS encompass observing the environment in which the Company is doing its business and cooperation with all interested parties: employees, shareholders, customers, local community, Government and competitors. By investing in sustainable development, Naftna industrija Srbije is trying to ensure a better life quality, and economic, cultural, educational and social welfare.

NIS takes part in promotion of genuine values, connecting business and society, stimulating solidarity and affinity and collective spirit and attracting partners in order to provide a better future for all. The leadership position we want to achieve in our business is reflected also in serving as example for responsibility towards the community, whereby specifically we are becoming the integral part of it.

The Company opts to promote in all the fields it is dedicated to the ultimate values, tradition, development of potentials, activities leading to the overall progress and betterment of the entire social community, observing at the same time the following principles:



Regional principle

It is characterized by implementation of the projects in the regions in which NIS has its interest related to the business development through which it creates the atmosphere of cooperation and understanding, and promotes itself as the Company creating the stable environment, thus positively changing the perception of the population.



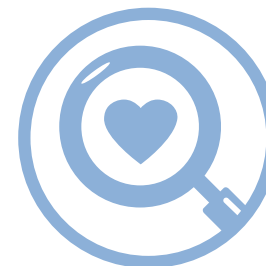
Prospectiveness principle

Implies understanding of sponsorship and donations as investment in the future in all the fields regarded by the Company as prospective ones, and, from the point of view of business, also taking into account the fact that the Company is interested in expanding its sales market.



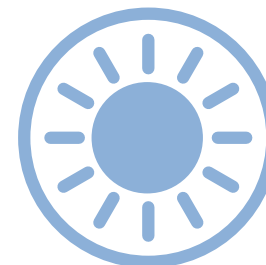
Efficiency principle

It is referred to the maximum performance of all sponsorship and donation projects, in terms of positive effects to the image of the Company among the population of the Region, through high-quality cooperation with local authorities, and from the point of view of spending the funds by their recipients. Moreover, the important outcome is creating a positive environment for realization of investment projects, as well as of the projects related to the business development



Principle of accessibility and transparency of charitable work

All the projects which are implemented must be close to the needs of the population of the Region, and, in addition, understandable to the population. It is also necessary that they ensure the necessary transparency and accessibility of information, in order to ensure the control of funds and their efficient spending.



Singularity principle

This implies the participation of NIS only in projects which do not involve companies-competitors for the avoidance of conflict of interests.

In 2011 NIS allocated funds amounting to 275.8 million RSD for support of the social responsibility programme.

Pursuant to the socially responsible business strategy and adopted Sponsorship and Donation Policy, within the sponsorship and donation activities, NIS has emphasized the following priority programmes:

Sport energy

This programme is intended to support professional and children sports and promote healthy lifestyle, collectivity, unity...

The project within this programme we would like to point up to, and which NIS has continued to support, is the sponsorship of the Davis Cup national team of Serbia – as the Team Sponsor of the Davis Cup Team of Serbia which achieved the historical and the greatest success in this prestigious competition.

The key project of this programme traditionally supported by NIS is the sponsorship of the Basketball

Club Partizan. It has been for years our most successful Club and one of the leading clubs in the elite European competition Euroligue. We support it in its matches on the domestic and international scene thus contributing to the promotion of sports.

Special attention is dedicated by NIS to children and youngsters, and to their correct upbringing and development and promotion of new sport talents. Within support to the children sports, NIS is the general sponsor of the initiative called Mini Basket – the basketball organization for the young categories, which is ongoing across our entire country.

Furthermore, NIS also supports the Volleyball Club Vojvodina, Harley Davidson Club Serbia, Karate Club NIS, Men Basketball Club Spartak, and Women Volleyball Club Spartak.

Culture without Limits

Within the programme «Culture without Limits», the Company supports cultural institutions, festivals of national and international importance, and projects



related to the Russian-Serbian cooperation.

NIS is in particular proud of and emphasizes the cooperation with the Belgrade Philharmonia, FEST, Guča Trumpet Festival, Sterija's Theatre, Zmaj Children Games, Children International Festival «Joy of Europe»...

Guča Trumpet Festival – One of the biggest Serbian festivals; promoting Serbian tradition, culture – Serbian folklore, and each year visited by more than half a million visitors, including the growing number of tourists from abroad. For three consecutive years, NIS has been the Strategic Partner of the Guča Festival – the unique international competition and festival of the Serbian folk culture creativity. The aim of such support is to contribute to the development of the local community, nourish the culture heritage and promote national identity.

Nisville – The biggest Jazz Festival in the region of the South-East Europe, where the most important jazz musicians from all over the world are gathered. For three years, the support rendered by NIS to one of the most respectable music festivals in the regions is based on the promotion of the high-quality music and opening of the space for new kind of energy and artistic innovation.

Belgrade Philharmonic Orchestra – The most important institution of classical music, with tradition over eighty years long. Wishing to support the decentralization in the field of arts, development of young talents and promotion of genuine music values, in 2010 NIS entered with the Belgrade Philharmony Fund into a strategic partnership, still lasting, much to

our mutual pleasure.

FEST – Belgrade Film Festival – the support rendered by NIS for three years now to the biggest International Film Festival in Serbia. The aim is to open new views, promote artistic talent in general, and support projects that improve the cultural life of community in which NIS conducts its business activities.

Sterija's Theatre – This most important International Festival of Serbian stage plays and theatre is traditionally supported by NIS, willing to contribute to nourishing the art of the theatre, preserve the stage play tradition in Serbia and innovative interpretation of plays.

Other sponsorship activities within the priority programmes «Culture without limits» are: Children Festival «Zmaj Children Games», «Joy of Europe».

Development of science and young talents

The aim of this programme is to support research, scientific discoveries, potentials of talented pupils and students.

As the most important project in this field, NIS, being the company nourishing innovation, scientific and research approach, in 2011 supported the system of educational programmes of the Research Station «Petnica», designated for young people from all parts of Serbia.

Moreover, in 2011, NIS has also established through agreements the cooperation with two biggest Serbian Universities – in Belgrade and Novi Sad, wishing to link





as much as possible the scientific theory, research and business practice. The cooperation includes provision of scholarships for the most successful students, programme of apprenticeship at the Company, additional advanced training and education of employees at the Company, acquiring of new knowledge and implementation of joint scientific and research projects.

Humanitarian projects

They represent a branch of the donation programmes which includes humanitarian aid and support to vulnerable categories of population, one-shot assistance to victims, aid to minor organizations and associations with interesting and good ideas, but scarce funds to implement the same, donations in fuel, humanitarian activities...

Cooperation for Development

The projects within this programme have been implemented since 2009, they are still ongoing, aimed at strengthening partnership relations with the regions in which NIS is doing it business, with local authorities and population.

This programme is promoting social care, cultural, humanitarian and sports values with focus on the projects which are regarded by the local community as the most important ones. Within the programme «Cooperation for Development» special attention is paid to the principle of openness and transparency.

The programme is implemented through cooperation with local authorities, signing agreements on social-economic cooperation at annual level – with the

Autonomous Province of Vojvodina, the cooperations is covering the activities in the fields of ecology, economic development, improvement of investment environment and resolving of social issues of local communities.

Within the aforesaid agreement are signed separate social-economic agreements with major cities: Novi Sad, Belgrade, Niš, as well as with municipalities and towns in Vojvodina: Pančevo, Kikinda, Zrenjanin, Kanjiža, Novi Bečej.

Local community itself defines priority projects contributing to the overall development, which are

afterwards implemented with support of NIS. In this way, assisted by NIS, was implemented a range of cultural, ecological, ethnological, tourist, sports events and activities of local and international importance, and assistance rendered to invalids, disabled, poor people.

In addition to these specific projects, NIS is constantly in touch with local community representatives, intensifying with them relationships in each field of a wider social significance.





Key Indicators – Historical Data (2009-2011)

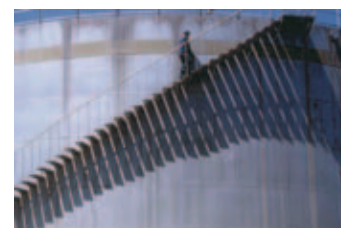
	2009	2010	2011
Total income	135,255	181,056	206,843
Total expenditure	174,774	169,018	167,146
Net profit (loss)	(4,444)*	16,484	40,602
Sales	118,376	161,149	186,883
OCF	17,619	17,791	34,986
EBITDA	10.4* billion. RSD	32.4 billion. RSD	52.4 billion. RSD
Non-current assets	95,734	108,326	136,622
Current assets**	48,317	68,801	96,081
Total assets	144,051	177,127	232,703
Total equity	32,283	47,019	87,587
Long-term provisions	16,040	18,502	13,365
Long-term liabilities	40,654	48,927	81,441
Short-term liabilities	53,141	61,221	49,149
Total liabilities	144,051	177,127	232,703

In million RSD, unless otherwise specified
 *before corrections as of February 2nd 2009
 **current assets inclusive of deferred tax assets



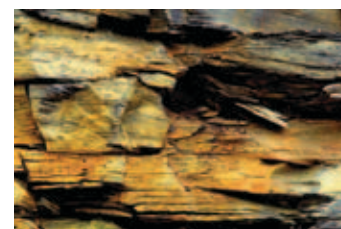
NIS in 2012

We at NIS look upon the year 2012 as the year of strategic investments and creating of foundations for new successes. The main focus is on the growth of investments and efficiency.



Production

growth of scope of production and reserves, portfolio enlargement and increase of projects abroad.



Setting up of a center for tapping into **unconventional resources**



Power Generation

start of big projects in conventional and alternative power generation



Oilfield Services

modernization of seismic survey equipment and drilling gear



Refining

scheduled completion of reconstruction per SPA, increase of utilization of capacities starting from 4th quarter



Distribution and Sales

– rebranding and reconstruction of 70 plus petrol stations by expanding the network abroad



Petrochemistry

– start of first stage modernization of “Petrohemija”, improvement of economy

**FINANCIAL
STATEMENTS
AND AUDITOR'S
REPORT**



Auditor's report on Stand-alone Financial Statement



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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This document is not a recommendation or a guarantee from the issuer, and it is not intended to be used for any purpose other than the one for which it was prepared. All possible risks and liabilities are assumed by the issuer. The issuer is not responsible for the preparation of the financial statements. The auditor's responsibility is to express an opinion on the financial statements based on the audit performed in accordance with the applicable standards.



Stand-alone Financial Statements

Balance Sheet

	Notes	December 31, 2011	December 31, 2010
ASSETS			
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 deferred 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

In .000 RSD

Income Statement

		For the year ended December 31,	
	Notes	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

In .000 RSD

Cash Flow Statement

	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
<i>Cash inflow from operating activities</i>	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)
<i>Cash outflow from operating activities</i>	(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
<i>Cash inflow from investing activities</i>	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)	-
<i>Cash outflow from investing activities</i>	(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
<i>Cash inflow from financing activities</i>	49,408,156	27,471,347
Outflows from long-term, short-term and other liabilities	(35,177,068)	(25,529,860)
<i>Cash outflow from financing activities</i>	(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

In .000 RSD

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

In .000 RSD



Notes to stand-alone 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 Financial 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 financial 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;
- **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.

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.

- *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.
- *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.
- 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

1) *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.

2) *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".

3.4. Intangible assets

1) *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 .

2) *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

1) 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.

2) 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.

3) 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.

4) 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.

5) 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.

6) 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.

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.

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).

3.10. 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

1) 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'.

2) 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.

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

1) *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.

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.

2) *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 1) 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).

3.13. 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.

3.17. 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.

3.22. 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.

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

1) 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.

2) 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

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.

3) 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.

3.26. 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.

1) *Sales of goods – wholesale*

The Company manufactures and sells Oil and Petrochemical products and Liquid Natural Gas in the whole-sale 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.

2) *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.

3) *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.

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.

4) *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 un-

winding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

5) *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.

6) *Dividend income*

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

3.27. Leases

1) *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.

2) *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.

3.29. 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.

1) *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.

2) *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.

3) *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

1) *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.

2) *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.

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.

1) 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.

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.

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 interest 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.

2) 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).

3) 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.

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.

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 electricity 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)
Operating 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)
Impairment 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

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)
Operating 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)
Impairment 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

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).

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	12,712,420	98,014,391
Accumulated depreciation and impairment	(723,950)	(18,824,017)	(26,801,956)	(4,099,314)	(43,877)	(103,676)		
Net book amount	10,485,421	36,939,516	27,109,542	4,609,792	45,519	6,954	12,787,121	156,315,067
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	12,712,420	98,014,391
Additions	-	-	-	14,322,530	-	-	-	-
Transfer from CIP	65,706	7,274,440	1,616,169	(8,956,850)	535	-	12,712,420	98,014,391
Other transfers	-	(1,172,903)	582,436	685,001	43,877	-	14,627,609	53,108,633
Disposals and advances paid used	(579)	(5,764)	(40,920)	(162,458)	-	-	-	-
Depreciation	-	(3,239,131)	(3,335,029)	-	-	(6,234)	-	(25,703)
Adjust. of depreciat. on impaired property	-	(273,123)	-	-	-	-	(18,591,127)	(18,621,519)
Impairment charge (note 36)	(13,423)	(503,581)	(376,299)	(48,838)	(1,426)	-	-	(5,980,277)
Transfer to intangible assets	-	259	-	(14,023)	-	-	-	(325,571)
Transfer to investment property (note 9)	-	(455,926)	-	-	-	-	-	(1,035,326)
Transferred from disposal group classified as held for sale	-	28,390	92,384	-	7	-	-	74,040
Closing net book amount	10,537,125	38,592,177	25,648,283	10,435,154	88,512	720	-	(120,270)
At December 31, 2010								
Cost	11,274,498	62,752,974	55,498,519	13,801,387	89,938	110,630	8,748,902	124,923,027
Accumulated depreciation and impairment	(737,373)	(24,160,797)	(29,850,236)	(3,366,233)	(1,426)	(109,910)		(58,300,676)
Net book amount	10,537,125	38,592,177	25,648,283	10,435,154	88,512	720	8,770,320	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	8,748,902	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

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.

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).

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

1) 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

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%.

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)

2) *Investments in associate*

	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

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)

3) *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	

Available for sale financial assets include the following:

	December 31, 2011	December 31, 2010
<i>Listed securities, quoted on BELEX:</i>		
- shares	156,398	179,198
<i>Unlisted securities:</i>		
- 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.

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

1) 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
<i>Less: provision</i>	(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
Collected 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)

2) Long-term loans to subsidiaries

Long-term loans to subsidiaries translated 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.

3) 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 withheld from employees salaries.

None of the loans are overdue or impaired.

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
<i>Less provision:</i>		
- 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
Write-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).

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
<i>Less provision:</i>		
- trade receivables	(5,684,020)	(6,022,505)
- receivables from specific operations	(7,978,573)	(7,971,114)
- interest 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

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

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 differences 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 equivalents	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.

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	Total
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.

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

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

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%
Total	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)

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 equipment	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 equipment	(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

1) *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).

2) *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.

3) *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.

4) *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).

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

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

	Currency	Current portion		Long-term	
		December 31, 2011	December 31, 2010	December 31, 2011	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

1) 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.

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

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

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

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

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 Audit Comitee 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

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, certification 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

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
<i>Reversal of impairment losses on:</i>		
- 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

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	-
<i>Impairment:</i>		
- 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

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
<i>Tax effect of:</i>		
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.

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
<i>Long-term loans</i>			
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	-	
<i>Advances</i>			
O Zone a.d. Belgrade, Serbia	-	115	Subsidiary
NIS Oversiz, Moscow, Russia	1,544	-	Subsidiary
	1,544	115	
<i>Receivables</i>			
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	

	December 31, 2011	December 31, 2010	Category
<i>Liabilities</i>			
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)	
<i>Advances received</i>			
O Zone a.d. Belgrade, Serbia	(126)	-	Subsidiary
Svetlost d.o.o., Bujanovac, Serbia	(1,966)	(18)	Subsidiary
	(2,092)	(18)	
<i>Accrual</i>			
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)	

	For the year ended December 31,		Category
	2011	2010	
<i>Sales</i>			
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	
<i>Other operating income</i>			
O Zone a.d. Belgrade, Serbia	1,058	552	Subsidiary
	1,058	552	
<i>Purchases of raw materials</i>			
Gazprom Neft Trading, Austria	(64,176,762)	(79,065,104)	Other
	(64,176,762)	(79,065,104)	
<i>Cost of salaries, benefits and other personnel expenses</i>			
O Zone a.d. Belgrade, Serbia	(140,481)	(100,641)	Subsidiary
	(140,481)	(100,641)	
<i>Other operating expenses</i>			
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)	

	For the year ended December 31,		Category
	2011	2010	
<i>Financial income</i>			
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	-	
<i>Financial expenses</i>			
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)	
<i>Other income</i>			
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	
<i>Other expenses</i>			
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, Audit Committee 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
<i>Receivables</i>		
HIP Petrohemija	1,995,294	1,116,183
Srbijagas	7,414,404	5,278,026
	9,409,698	6,394,209
<i>Liabilities</i>		
HIP Petrohemija	(471,195)	(98,264)
Srbijagas	(272,661)	(267,519)
	(743,856)	(365,783)
<i>Advances received</i>		
Srbijagas	(12,796)	(12,804)

	For the year ended December 31,	
	2011	2010
<i>Income</i>		
HIP Petrohemija	11,849,584	8,174,852
Srbijagas	9,402,233	8,402,753
	21,251,817	16,577,605
<i>Costs</i>		
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 rejected the 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.

Environmental protection

At balance sheet date management of the Company recorded a long-term environmental provision in amount of 1,012,100 RSD, based on an internal assessment 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 concessionaires, 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.

42. COMMITMENTS

1) 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.

2) Leases

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

	For the year ended December 31,	
	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:

	For the year ended December 31,	
	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

3) 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.

4) 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.



Auditor's Report on Consolidated Financial Statements



INDEPENDENT AUDITOR'S REPORT

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

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

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 consolidated 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 entity'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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and of its financial performance and its 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

Belgrade, 28 February 2012




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This financial statement report, the accompanying documents and translations from the original, will be prepared in accordance with the applicable laws and regulations. The auditor is not responsible for the accuracy of the original documents or for the accuracy of the translations. The auditor is not responsible for the accuracy of the translations of the original documents into any other language.



Consolidated Financial Statements

Consolidated Balance Sheet

	Notes	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Intangible assets	7	4,708,964	4,841,418
Property, plant and equipment	8	129,217,516	100,924,684
Investment property	9	1,338,269	1,393,170
Investments in equity instruments	10	225,232	263,229
Other long-term investments	11	1,087,147	1,505,758
		136,577,128	108,928,259
Current assets			
Inventories	12	35,403,205	34,016,869
Non current assets held for sale		181,608	262,431
Trade and other receivables	13	20,345,343	12,997,854
Short-term financial investments	14	2,416,899	2,513,931
VAT and prepaid expenses	16	4,922,034	3,947,072
Cash and cash equivalents	15	25,832,354	10,636,669
Deferred tax assets	17	7,875,479	4,804,904
		96,976,922	69,179,730
Total assets		233,554,050	178,107,989
Off-balance sheet assets	18	79,279,565	88,793,346
EQUITY AND LIABILITIES			
Equity			
Share and other capital	19.1	87,148,630	87,148,630
Reserves		884,217	889,672
Unrealized gains from securities	19.2	29,582	48,417
Unrealized losses from securities	19.2	(64,090)	(49,236)
Accumulated loss		(386,999)	(41,004,743)
		87,611,340	47,032,740
Long-term provisions and liabilities			
Long-term provisions	20	13,371,651	18,574,652
Long-term loans	21	33,774,543	26,645,540
Other long-term liabilities	22	48,278,469	22,996,705
		95,424,663	68,216,897
Short-term liabilities			
Short-term financial liabilities	23	3,445,250	21,805,638
Trade and other payables	24	29,621,937	24,964,034
Other short-term liabilities	25	6,694,698	6,552,062
Liabilities for VAT, other taxes and deferred income	26	8,098,259	7,457,457
Income tax liabilities		1,493,849	620,626
		49,353,993	61,399,817
Deferred tax liabilities	17	1,164,054	1,458,535
Total equity and liabilities		233,554,050	178,107,989
Off-balance sheet liabilities	18	79,279,565	88,793,346

In .000 RSD

Consolidated Income Statement

		For the year ended 31 December	
	Notes	2011	2010
Operating income			
Sales	27	187,069,899	161,379,929
Work performed by the entity and capitalized		4,511,530	2,908,291
Increase in inventories of finished goods and work in progress		768,451	5,357,982
Other operating income	28	300,309	132,450
		192,650,189	169,778,652
Operating expenses			
Cost of goods sold		(12,711,852)	(5,384,484)
Raw material and consumables used	29	(95,575,854)	(95,394,332)
Employee benefits expense	31	(21,987,012)	(21,346,120)
Depreciation, amortisation and provision	30	(6,854,507)	(8,414,138)
Other operating expenses	32	(14,793,918)	(13,213,524)
		(151,923,143)	(143,752,598)
Profit from operating activities		40,727,046	26,026,054
Financial income	33	7,014,939	6,320,537
Financial expenses	34	(8,838,821)	(19,116,265)
Other income	35	7,823,562	5,177,533
Other expenses	36	(7,009,260)	(6,117,785)
Profit before income tax		39,717,466	12,290,074
Income tax		898,298	4,445,829
Income tax expense	37	(2,466,758)	(832,556)
Deferred tax income	17	3,365,056	5,278,385
Profit for the year		40,615,764	16,735,903
Profit attributable to non-controlling interests	19	-	268
Profit attributable to owners of parent	19	40,615,764	16,735,635
Earnings per share			
- Basic	38	0.25	0.10

In .000 RSD

Consolidated Statement of Cash Flows

	For the year ended 31 December	
	2011	2010
Cash flows from operating activities		
Sales and advances received	282,619,560	253,718,920
Interest from operating activities	984,664	571,050
Other inflow from operating activities	300,309	132,450
<i>Cash inflow from operating activities</i>	283,904,533	254,422,420
Payments and prepayments to suppliers	(148,848,245)	(118,861,227)
Salaries, benefits and other personal expenses	(21,859,725)	(20,650,706)
Interest paid	(3,114,515)	(3,002,155)
Income tax paid	(1,591,951)	(197,907)
Payments for other public revenues	(73,999,299)	(94,104,572)
<i>Cash outflow from operating activities</i>	(249,413,735)	(236,816,567)
Net cash generated from operating activities	34,490,798	17,605,853
Cash flows from investing activities		
Sale of shares	17,103	-
Proceeds from sale of intangible assets and property, plant and equipment	592,285	45,850
<i>Cash inflow from investing activities</i>	609,388	45,850
Purchase of intangible assets, property, plant and equipment	(34,059,150)	(17,739,476)
<i>Cash outflow from investing activities</i>	(34,059,150)	(17,739,476)
Net cash used in investing activities	(33,449,762)	(17,693,626)
Cash flows from financing activities		
Increase in share capital	-	37
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
<i>Cash inflow from financing activities</i>	49,408,156	27,471,384
Outflows from long-term, short-term and other liabilities	(35,177,068)	(25,529,860)
<i>Cash outflow from financing activities</i>	(35,177,068)	(25,529,860)
Net cash provided by financing activities	14,231,088	1,941,524
Increase in cash and cash equivalents	15,272,124	1,853,751
Cash and cash equivalents at beginning of period	10,636,669	8,723,278
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	25,832,354	10,636,669

In .000 RSD

Consolidated Statement Of Changes In Equity
for the year ended 31 December 2011 and 2010

	Share capital	Other capital	Reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated loss	Total
Balance as at 1 January 2010	81,550,720	5,597,873	889,171	130,243	(28,172)	(56,119,958)	32,019,877
Total increase in previous period	37	-	501	-	(21,064)	15,115,215	15,012,863
Total decrease in previous period	-	-	-	(81,826)	-	-	-
Balance as at 31 December 2010	81,550,757	5,597,873	889,672	48,417	(49,236)	(41,004,743)	47,032,740
Balance as at 1 January 2011	81,550,757	5,597,873	889,672	48,417	(49,236)	(41,004,743)	47,032,740
Total increase in current period	-	-	-	-	(14,854)	40,615,764	40,578,600
Total decrease in current period	-	-	(5,455)	(18,835)	-	1,980	-
Balance as at 31 December 2011	81,550,757	5,597,873	884,217	29,582	(64,090)	(386,999)	87,611,340

In .000 RSD



Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

NIS a.d. – Naftna Industrija Srbije, Novi Sad (the Parent) and its subsidiaries (together “the Group”) is an vertically integrated oil company operating predominantly in Serbia. The Group’s principal activities include:

- Exploration, production and development of crude oil and gas,
- Production of refined petroleum products,
- Petroleum products and gas trading.

The Parent was established in accordance with the Decision of Government of Republic of Serbia on 7 July 2005 as the successor of five state owned companies of “Javno Preduzece Naftna Industrija Srbije”. On 2 February 2009 OAO Gazprom Neft (“Gazprom Neft”) acquired a 51% of the share capital of NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011 under the Parent’s Share Sale and Purchase Agreement, Gazprom Neft acquired an additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%.

The Parent is an open joint stock company, listed on the Belgrade Stock Exchange, Listing A (Prime Market).

The address of the Group’s registered office is in Novi Sad, no.12 Narodnog fronta Street.

The financial statements of below listed subsidiaries are consolidated as at 31 December 2011:

Name	Share %
O Zone a.d. Belgrade, Serbia	100
NIS Petrol doo, Laktasi, BiH	100
NIS Petrol e.o.o.d., Sofija, Bulgaria	100
NIS Petrol SRL, Bucharest, Romania	100
Pannon naftagas Kft, Budapest, Hungary	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

In 2011, the Parent established following companies:

- „NIS Petrol“ d.o.o., Laktasi Bosnia and Herzegovina. As of 31 December 2011 the total equity of the new company amounts to 1,030 RSD (20,000 BAM) and the Parent’s share is 100%,
- „NIS Petrol“ e.o.o.d. Sofia, Bulgaria. As of 31 December 2011 the total equity of the new company amounts to 997 RSD (50,000 BGN), and the Parent’s share is 100%.
- „NIS Petrol“ SRL, Bucharest, Romania. As of 31 December 2011 the total equity of the new company amounts to 2,632 RSD (41,000 RON), and the Parent’s share is 100%.
- „Pannon naftagas“ Kft, Budapest, Hungary. As of 31 December 2011 the total equity of the new company amounts to 184 RSD (500,000 HUF), and the Parent’s share is 100%.

On 14 June 2010 the CEO of the parent company enacted the Decision on voluntary liquidation of the subsidiary NIS Oil Trading, Frankfurt, Germany. Based on the Decision of the first instance court in Frankfurt dated 19 July 2011, the liquidation process was finished.

These Consolidated Financial Statements have been approved by CEO and will be presented to shareholders on the General meeting for approval.

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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 International Financial Reporting Standards (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, Consolidated Financial Statements differ from IFRS in the following respects:

- The 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.
- 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 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The principal accounting policies and significant accounting estimates are consistent to the ones applied in the Consolidated Financial Statements for the year ended 31 December 2010.

3.1. Basis of preparation and presentation of Consolidated Financial Statements

The following new standards and interpretations became effective for the Group 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;
- 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 Consolidated Financial Statements.

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 Consolidated Financial Statements.

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 Group 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 2015, 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.

- *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, Consolidated and 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.
- *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.
- 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 Consolidated Financial Statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s Consolidated 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. Consolidation

1) Subsidiaries

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies in order to make profit from their activity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Inter-group transactions, balances and unrealized gains on transactions between Group companies are eliminated during the preparation of Consolidated Financial Statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2) Non-controlling interests

In Consolidated Financial Statements, non-controlling interests in subsidiaries are presented separately from Group equity as non-controlling interests (note 19).

3) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Associates are all entities where parent Group performs common control determined by contract, and where consensus decides on operating and financial policies.

Investments in associates are accounted for using the equity method.

3.4. Foreign currency translation

1) Functional and presentation currency

Items included in the Consolidated Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Consolidated Financial Statements are presented in RSD, which is the group's presentation currency.

2) 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 Consolidated Income Statement.

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

3) Group's Companies

The result and financial position of all group companies whose functional currency is different from the Group's presentation currency are calculated as follows:

- I. assets and liabilities are translated into the RSD using the exchange rate as at the date of that Consolidated Balance Sheet;
- II. income and expenses are translated at average exchange rates and all resulting foreign exchange differences are recognized in reserves as separate items in equity.

3.5. Business combinations

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

3.6. Intangible assets

1) Licenses and rights

Separately acquired licenses are presented 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 Oil and Gas exploration rights, which are amortised over the exploration period in accordance with the terms and conditions of the licence.

2) Computer software

These include primarily the costs of implementation 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 (not exceed 8 years).

3.7. Exploration for and evaluation of mineral resources

1) Exploration and evaluation expenditure

During the exploration period, costs of exploration and evaluation of oil and natural gas are capitalized until it is proven that oil and gas reserves will not suffice to justify exploration costs. Geological and geophysical costs as well as costs directly associated with exploration are capitalized as incurred. The costs of obtaining exploration rights are capitalised either as part of property, plant and equipment or intangible assets depending on the type of cost. When commercial reserves have been discovered, subsequent to exploration and development investment impairment testing, they are transferred to development of assets either within property, plant and equipment or intangible assets. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

2) *Development costs of fixed and intangible assets*

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

3) *Oil and gas production assets*

Oil and gas production assets comprise exploration and evaluation tangible assets as well as development costs associated with the production of proved reserves.

4) *Depreciation/amortization*

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

5) *Impairment – exploration and evaluation assets*

Exploration property leasehold acquisition costs are assessed for impairment when there are indications of impairment. For the purpose of impairment testing, exploration property leasehold acquisition costs subject to impairment testing are grouped with existing cash-generating units (CGUs) of related production fields located in the same geographical region.

6) *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.

3.8. Property, plant and equipment

As of the date of establishment, the Group's 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 Group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other repairs and maintenance are charged to the Consolidated Income Statement during the financial period in which they are incurred.

Land and works of art are not depreciated. Depreciation of 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 Consolidated Income Statement (notes 35 and 36).

3.9. 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.

3.10. Investment property

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

Investment property principally comprises petrol stations, business facilities and apartments rented out to current and former Group employees for a period exceeding one year.

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 Consolidated 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 Group 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.

3.11. Construction contracts

A 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 Group 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 Group 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 Group 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).

3.12. Financial assets

The Group classifies its financial assets in the following categories: long-term loans and receivables and available for sale financial assets.

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

3.12.1. Financial assets classification

1) *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 Group's loans and receivables comprise 'trade and other receivables'.

2) *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, in which case they are classified as current assets.

3.12.2. Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables and held-to-maturity investments 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 Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in Consolidated Income Statement 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 Group'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 Consolidated Income Statement for the year (notes 33 and 34).

3.12.3. Impairment of financial assets

1) *Assets carried at amortised cost*

The Group 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 Group 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 Group, 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 Group first assesses whether objective evidence of impairment exists.

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 Consolidated 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 Group 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 Consolidated Income Statement.

2) *Assets classified as available for sale*

The Group 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 Group uses the criteria referred 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 Consolidated Income Statement — is removed from equity and recognised in the Consolidated Income Statement. Impairment losses recognised in the Consolidated Income Statement on equity instruments are not reversed through the Consolidated 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 Consolidated Income Statement, the impairment loss is reversed through the Consolidated Income Statement.

3.13. 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 i.e. spare parts due to damage or obsolescence is performed once a year. Impairment losses are recognized as other expenses (note 36).

3.14. 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 Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the sales plan will be made or that the plan will be withdrawn.

3.15. 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 Group 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 Consolidated 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 Consolidated Income Statement (note 35).

3.16. 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.

3.17. 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 Group, as well as receivables/payables relating to collaterals received/given such as guarantees and other warrants.

3.18. Share capital

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

3.19. Other capital

Other capital refers to non-registered share capital of the Parent, arisen at the date of the foundation of the Parent.

3.20. Reserves

Reserves fully relate to the reserves established in the past in accordance with the previous Law on Enterprises. In accordance with this Law, the Group was required to allocate 5% of profits until the reserve equals the amount defined by Group's Act, and at least 10% of the share capital. Additionally, translation reserves are recorded in this line.

3.21. Earnings per share

The Group 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 Group, by the weighted average number of ordinary shares issued during the period (note 38).

3.22. Provisions

Provisions for environmental restoration, asset retirement obligation, restructuring costs and legal claims are recognised when: the Group 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 and charged to Consolidated Income Statement.

3.23. 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 recog-

nised in the Consolidated 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the Consolidated balance sheet date.

3.24. 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.

3.25. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the Consolidated Income Statement, except to the extent that it relates to items recognized directly in equity, in which case deferred tax liability is also recognized in equity.

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 Group 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 Consolidated 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.

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.

3.26. Employee benefits

1) Pension obligations

The Group operates a defined contribution pension plan. The Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group 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.

2) Employee benefits provided by Collective Labour Agreement

The Group provides jubilee, retirement and other employee benefit schemes in accordance with the Collective 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. The new Collective Labour Agreement has been applied as of 1 June 2011.

Jubilee awards

The amount of jubilee awards to be paid is determined as a number of monthly salaries based on the number of completed years of service within the Group, as presented in the table below:

Minimum years of service in the Group	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

Retirement benefits

The Group shall pay to employees when they are retiring, retirement benefits equal to a maximum of three average Group's salaries paid in the months preceding the 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 pension obligations, and charged or credited to income in full amount for jubilee awards and termination benefits.

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 Group recognises 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.

3) Bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on an Individual performance assessment. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3.27. 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 Group's activities. Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts after eliminating sales within the Group.

The Group 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 Group'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 Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

1) Sales - wholesale

The Group manufactures and sells oil, petrochemical products and liquified natural gas in the wholesale market. Sales of goods are recognised when the Group 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 Group 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.

2) Sales - retail

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

3) *Sales of services*

The Group 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.

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 labour hours determined 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 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.

4) *Interest income*

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

5) *Income from work performed by entity and capitalized*

Income from work performed by entity and capitalised relates to the capitalisation of costs of own products and services.

6) *Dividend income*

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

3.28. Leases

1) *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 Consolidated Income Statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group 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 Consolidated 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.

2) *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.

3.29. Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the period in which the dividends are approved by the Group's shareholders.

3.30. Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and take a substantial time to get ready for their 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 Group 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 Group'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 capitalised.

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

1) *Income tax*

The Group is subject to income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities provisions in the period in which such determination is made.

2) *Revenue recognition*

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

3) *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 Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to calculate the present value of estimated future cash outflows which are expected to be required to settle the employee benefits obligations. In determining the appropriate discount rate, the Group takes into consideration the interest rates of high-quality corporate bonds which are denominated in the currency in which pension liabilities will be settled and whose maturity dates approximate the maturity date of the related pension liability.

If the discount rate used to calculate the present value of employee benefit obligations had been 7.0% (rather than 7.75%) per year, the past service liability (DBO) would have increased by approx. 10.6% for termination benefits and 9.5% for jubilee awards. If the employee salaries were to increase by 7.0% (rather than 6.0%) per year, the past service liability (DBO) would increase by approx. 14.0% for termination benefits and 16.6% for jubilee awards.

4.2. Critical judgments in applying accounting policies

4) *Impairment of available for sale financial assets*

The Group 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 Group 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.

5) *Financial crisis*

The Republic of Serbia displays certain characteristics of an emerging market. The tax, currency and customs legislation is subject to varying interpretations which contribute 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 Group's business in the current business and economic environment.

Impact on liquidity:

The volume of wholesale financing has significantly reduced since September 2008. Such circumstances may affect the ability of the Group 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 Group 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 Group'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 Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

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

1) *Market risk*

a) *Foreign exchange risk*

The Group 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 and recognised assets and liabilities.

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, responsible persons in the finance department within the FEPA negotiate the best possible exchange rates for the purchase of foreign currency to be contracted on a daily basis based on the exchange rate applicable on the day the purchase is made. The total amounts 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	13,938,466	8,812,218	58,537,300	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
Other	184,551	-	98,359	-

As 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 808,090 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.

a) *Commodity Price risk*

The Group's primary activity expose it to the following commodity price risks: crude oil and oil derivatives 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 Group policy is to report its inventory at the lower of historic cost and net realisable value, the 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 the rate of price decrease.

a) c) *Cash flow and fair value interest rate risk*

As at 31 December 2011 the Group had significant amounts of cash and cash equivalents. The cash was deposited only in banks with which the Group has passive business relationships i.e. loans and credit/documentary lines. Also, RSD and foreign currency fixed term deposits are short term (up to 60 days) and bear fixed interest rates. Based on the above information, the Group's revenues and cash flows are to a great extent independent of changes in market interest rates on fixed term deposits, although the interest rates that the Group can achieve in the market to a great extent depend on the level of basic interest rates at the time when cash has been deposited (Belibor / NBS key policy rate).

Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group 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 Group's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit for 2011 would have been RSD 640,891 (2010: RSD 595,850) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

2) *Credit risk*

Credit risk is managed on the Group'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 rated only in the case of collateralised receivables on various grounds, as well as based on the banks total exposure to the Group. For domestic banks, only the second criterion is applied.

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

The Group has provided for receivables from customers who have exceeded their credit limits or are undergoing liquidity problems (note 13).

3) *Liquidity risk*

Cash flow forecasting is performed as aggregated at the Group's level. The Parent's finance function monitors rolling forecasts of the Group'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 Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group'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 Group over and above balance required for working capital management are invested as surplus cash in time deposits.

The table below analyses the Group'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 31 December 2011	Less than 1 month	1 - 3 months	3 - 1 year	1 - 5 years	Over 5 years	Total
Borrowings	182,043	152,043	3,074,178	45,163,697	36,222,560	84,794,521
Financial lease liabilities	2,755	5,512	24,802	53,117	-	86,186
Other long-term liabilities	571,486	-	-	42,152	-	613,638
Short-term liabilities	20,471,923	9,485,581	9,053,015	-	-	39,010,519

As at 31 December 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	3,309	6,620	29,787	87,644	-	127,360
Short-term liabilities	21,862,357	11,984,987	116,397	-	-	33,963,741

5.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group'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 Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group 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 Consolidated balance sheet) less cash and cash equivalents.

The gearing ratios at 31 December 2011 and 31 December 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)	(25,832,354)	(10,636,669)
Net debt	58,962,168	59,968,369
Total equity	87,611,340	47,032,740
Gearing ratio	0.67	1.28

5.3. Fair value estimation

The fair value of financial instruments traded in an active market (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 Group 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 Group 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 fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

6. SEGMENT INFORMATION

Operating segments, are segments whose operating results are regularly reviewed by the Chief Operating Decision Maker („CODM“). The Parent's Executive Committee serves as the central decision-making body for the Group.

During the third quarter of 2011 a new business segment Energetika (Energy) was founded with the aim of expanding the Group's operations to electricity and heat production activities. As at 31 December 2011 the business segment Energy did not qualify as a separate reporting segment and was included within Other reporting segment.

As at 31 December 2011 business activities of the Group are organized into five operating segments (as a result of changes in 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. Trading Oil and Petroleum Products,
5. Other – Administration and Energy.

The reportable segments derive their revenue from the following activities:

1. Exploration and Production of Oil and Natural Gas – production and sale of crude oil and natural gas
2. Oil Field Services – drilling services, construction works and geophysical measurement and transportation services
3. Refining – refining of crude oil and sale of petroleum products to NIS trade segment
4. Trading Oil and Petroleum Products – retail and wholesale activities consistent with the policy

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

	Exploration and Production	Oil Field Services	Refining	Trade	Other	Total
Segment revenue	78,152,193	6,999,742	136,362,877	168,759,386	421,286	390,695,484
Inter-segment revenue	(59,703,080)	(2,406,034)	(135,633,379)	(302,802)	-	(198,045,295)
Operating income - total	18,449,113	4,593,708	729,498	168,456,584	421,286	192,650,189
Depreciation	(2,068,783)	(856,169)	(2,023,125)	(783,755)	(946,069)	(6,677,901)
Impairment losses	(191,778)	(11,233)	(26,396)	(118,379)	1,728	(346,058)
Segment profit (loss) from operating activities	65,042,473	(634,719)	(15,478,960)	(973,979)	(7,227,769)	40,727,046
Financial income (expenses)	(355,085)	10,510	(318,367)	400,497	(1,561,437)	(1,823,882)
Other income (expenses)	(25,105)	(1,263,299)	(1,728,714)	3,042,871	788,549	814,302
Segment Profit (loss) before tax	64,662,283	(1,887,508)	(17,526,041)	2,469,389	(8,000,657)	39,717,466
Deferred income tax	-	-	-	-	3,365,056	3,365,056
Income tax expense	-	-	-	-	(2,466,758)	(2,466,758)
Segment profit (loss)	64,662,283	(1,887,508)	(17,526,041)	2,469,389	(7,102,359)	40,615,764

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

	Exploration and Production	Oil Field Services	Refining	Trade	Other	Total
Segment revenue	52,108,548	4,879,639	128,803,974	149,589,495	(136,731)	335,244,925
Inter-segment revenue	(38,917,780)	(1,708,743)	(122,851,641)	(1,973,751)	(14,358)	(165,466,273)
Operating income - total	13,190,768	3,170,896	5,952,333	147,615,744	(151,089)	169,778,652
Depreciation	(2,804,820)	(826,648)	(2,005,250)	(684,327)	(574,258)	(6,895,303)
Impairment losses	-	-	-	(943,567)	-	(943,567)
Segment profit (loss) from operating activities	38,433,432	(1,513,919)	(4,092,333)	144,547	(6,945,673)	26,026,054
Financial income (expenses)	631,213	7,836	(168,271)	1,880,385	(15,146,891)	(12,795,728)
Other income (expenses)	(218,167)	487,647	30,209	(1,172,603)	(67,338)	(940,252)
Segment Profit (loss) before tax	38,846,478	(1,018,436)	(4,230,395)	852,329	(22,159,902)	12,290,074
Deferred income tax	-	-	-	-	5,278,385	5,278,385
Income tax expense	-	-	-	-	(832,556)	(832,556)
Segment profit (loss)	38,846,478	(1,018,436)	(4,230,395)	852,329	(17,714,073)	16,735,903

Intersegment revenue are performed in accordance with the Parent's transfer pricing policy approved by the Board of Directors.

The analysis of the Group's revenue from the main products and services is presented below in the table below:

	For the year ended 31 December	
	2011	2010
<i>Sales:</i>		
Sale of crude oil	4,722,757	3,965,019
Sale of petroleum products	166,102,678	148,937,413
Sale of goods	14,721,780	6,658,769
Sale of services	1,522,684	1,818,728
	187,069,899	161,379,929
Work performed by the entity and capitalized	4,511,530	2,908,291
Increase in inventories of finished goods and work in progress	768,451	5,357,982
Other operating income	300,309	132,450
Total Operating Income	192,650,189	169,778,652

7. INTANGIBLE ASSETS

	Research and development	Concessions, patents, licenses and rights	Intangible assets under development	Other intangibles	Total
As at 1 January 2010					
Cost	-	840,638	4,998,747	1,486,548	7,325,933
Accumulated depreciation and impairment	-	(104,831)	(1,706,379)	(714,478)	(2,525,688)
Net book amount	-	735,807	3,292,368	772,070	4,800,245
Year ended 31 December 2010					
Opening net book amount	-	735,807	3,292,368	772,070	4,800,245
Additions	-	-	362,168	-	362,168
Transfer from CIP	-	181,819	(3,448,997)	3,267,178	-
Transfer from PP&E	-	(4,769)	(11,169)	29,703	13,765
Depreciation (note 30)	-	(76,139)	-	(209,717)	(285,856)
Disposals	-	(113)	(1)	(48)	(162)
Other transfers	-	(142,917)	(48,803)	142,978	(48,742)
Closing net book amount	-	693,688	145,566	4,002,164	4,841,418
As at 31 December 2010					
Cost	-	878,120	1,843,860	4,732,177	7,454,157
Accumulated depreciation and impairment	-	(184,432)	(1,698,294)	(730,013)	(2,612,739)
Net book amount	-	693,688	145,566	4,002,164	4,841,418
Year ended 31 December 2011					
Opening net book amount	-	693,688	145,566	4,002,164	4,841,418
Additions	182,322	81,886	375,514	-	639,722
Transfer from CIP	-	-	(246,938)	246,938	-
Transfer to PP&E	-	-	-	(74,040)	(74,040)
Depreciation (note 30)	-	(15,702)	-	(661,754)	(677,456)
Impairment	-	(1,625)	-	(37,866)	(39,491)
Disposals	-	(3,214)	(2,499)	(3,597)	(9,310)
Other transfers	-	(28,425)	30	56,516	28,121
Closing net book amount	182,322	726,608	271,673	3,528,361	4,708,964
As at 31 December 2011					
Cost	182,322	956,792	413,952	4,760,091	6,313,157
Accumulated depreciation and impairment	-	(230,184)	(142,279)	(1,231,730)	(1,604,193)
Net book amount	182,322	726,608	271,673	3,528,361	4,708,964

Other intangible assets as at 31 December 2011 in the amount of 3,528,361 RSD mostly relate to investment in the SAP system in the amount of 3,401,832 RSD (2010: 3,840,765 RSD).

Depreciation amounting to 677,456 RSD (2010: 285,824 RSD) is included in Operating expenses within the Consolidated Income Statement (note 30).

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
As at 1 January 2010								
Cost	11,440,375	56,563,904	54,030,573	10,901,969	89,466	129,318	5,054,028	138,209,633
Accumulated depreciation and impairment	(723,950)	(18,931,565)	(26,881,643)	(4,099,314)	(43,877)	(112,004)	(118,263)	(50,910,616)
Net book amount	10,716,425	37,632,339	27,148,930	6,802,655	45,589	17,314	4,935,765	87,299,017
Year ended 31 December 2010								
Opening net book amount	10,716,425	37,632,339	27,148,930	6,802,655	45,589	17,314	4,935,765	87,299,017
Additions	-	-	-	14,324,349	-	-	9,444,345	23,768,694
Transfer from CIP	65,706	7,274,440	1,617,987	(8,958,668)	535	-	-	-
Other transfers	-	(1,139,797)	577,932	685,005	48,721	-	-	171,861
Disposals and advances paid used	(579)	(5,762)	(40,920)	(162,459)	-	-	(1,667,690)	(1,877,410)
Depreciation	-	(3,254,841)	(3,345,723)	-	-	(8,883)	-	(6,609,447)
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	-	258	-	(14,023)	-	-	-	(13,765)
Transfer to investment property (note 9)	-	(455,926)	-	-	-	-	-	(455,926)
Transferred from disposal group classified as held for sale	-	(234,041)	92,384	-	7	-	-	(141,650)
Closing net book amount	10,768,129	39,039,966	25,674,291	12,628,021	93,426	8,431	12,712,420	100,924,684
As at 31 December 2010								
Cost	11,505,502	63,318,757	55,614,069	15,994,254	94,782	129,318	12,828,807	159,485,489
Accumulated depreciation and impairment	(737,373)	(24,278,791)	(29,939,778)	(3,366,233)	(1,356)	(120,887)	(116,387)	(58,560,805)
Net book amount	10,768,129	39,039,966	25,674,291	12,628,021	93,426	8,431	12,712,420	100,924,684
Year ended 31 December 2011								
Opening net book amount	10,768,129	39,039,966	25,674,291	12,628,021	93,426	8,431	12,712,420	100,924,684
Additions	1,000,222	151,090	6,064	38,759,120	-	-	14,627,609	54,544,105
Transfer from CIP	1,085	4,747,850	2,489,456	(7,245,379)	6,988	-	-	-
Other transfers	(328)	(1,057,979)	726,472	306,068	-	-	-	(25,767)
Disposals and advances paid used	(230)	(77,761)	(56,070)	97,737	(4,625)	-	(18,591,127)	(18,632,076)
Depreciation	-	(2,550,702)	(3,446,733)	-	-	(3,010)	-	(6,000,445)
Impairment charge (note 36)	(106)	(32,357)	(53,566)	(255,528)	(4,501)	-	-	(346,058)
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	11,721,568	39,111,715	25,413,954	44,124,668	91,288	5,421	8,748,902	129,217,516
As at 31 December 2011								
Cost	12,417,133	63,546,775	60,477,344	47,106,611	96,308	129,318	8,770,320	192,543,809
Accumulated depreciation and impairment	(695,565)	(24,435,060)	(35,063,390)	(2,981,943)	(5,020)	(123,897)	(21,418)	(63,326,293)
Net book amount	11,721,568	39,111,715	25,413,954	44,124,668	91,288	5,421	8,748,902	129,217,516

Additions to property, plant and equipment in 2011 amounting to 38,759,120 RSD (2010: 14,324,349 RSD) mostly relate to investments in MHC/DHT project (investments in the construction of a Mild Hydrocracking Complex and Hydrofinishing in Pančevo Oil Refinery) amounting to 18,395,538 RSD, construction of hydrogen generation plant amounting to 5,015,595 RSD and reconstruction of petrol stations amounting to 1,006,050 RSD. Advances paid to supplier for the MHC/DHT project, as at 31 December 2011 amounted to 6,345,337 RSD.

In 2011, in accordance with revised IAS 23 'Borrowing Costs', the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to 1,141,090 RSD (2010: 317,506 RSD).

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

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

The management of the Group assesses at each balance sheet date whether there is an indication that the recoverable amount of property, plant and equipment fell below its book value.

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

Oil and gas production assets

As of 31 December 2011, Property, plant and equipment net book amount of 129,217,516 RSD (2010: 100,924,684 RSD) and intangible assets net book amount of 4,708,964 RSD (2010: 4,841,418 RSD) includes oil and gas production assets in the amount of 30,098,782 RSD (2010: 25,752,277 RSD) as presented in separate movement table below.

	Total - asset under construction (exploration and development expenditure)	Production assets	Other bussines and corporate assets	Total
As at 1 January 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 31 December 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
As at 31 December 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 31 December 2011				
Opening net book amount	1,996,835	17,987,405	5,768,037	25,752,277
Additions	7,621,112	-	-	7,621,112
Transfer from CIP	(4,393,921)	3,500,423	893,498	-
Depreciation	(852)	(1,319,001)	(748,930)	(2,068,783)
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	5,039,699	19,355,300	5,703,783	30,098,782
As at 31 December 2011				
Cost	5,242,888	31,653,923	5,998,009	42,894,820
Accumulated depreciation and impairment	(203,189)	(12,298,623)	(294,226)	(12,796,038)
Net book amount	5,039,699	19,355,300	5,703,783	30,098,782

Oil and gas production assets comprise aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 3.7).

9. INVESTMENT PROPERTY

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

Movements on the account were as follows:

	2011	2010
As at 1 January	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
As at 31 December	1,338,269	1,393,170

The following amounts relating to leasing activities have been recognized in the Consolidated Income Statement:

	2011	2010
Rental income (note 28)	120,553	92,047

As at 31 December 2011 investment properties amounting to 1,338,269 RSD (31 December 2010: 1,393,170 RSD) mainly 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 as at the balance sheet date.

10. INVESTMENTS IN EQUITY INSTRUMENTS

	31 December 2011	31 December 2010
Investments in associates	69,146	90,223
Financial assets available for sale	2,142,411	2,389,139
Less: Provision	(1,986,325)	(2,216,133)
	225,232	263,229

1) Investments in associates

	31 December 2011	31 December 2010
In shares	61,703	72,592
In stakes	7,443	17,631
	69,146	90,223
Less: Provision	(7,268)	(13,148)
	61,878	77,075

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

Company	Investment	Impairment	Net book value	Share %
Euro 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	175	-	175	20.15%
	69,146	(7,268)	61,878	

Movements on the account were as follows:

	2011	2010
As at 1 January	90,223	116,870
Fair value adjustment	(10,889)	(25,403)
Write off	(10,188)	(1,244)
Less: provision	(7,268)	(13,148)
As at 31 December	61,878	77,075

Movement on the provision for investments in associates:

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

2) *Financial assets available for sale:*

	31 December 2011	31 December 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
<i>Less: Provision</i>	<i>(1,979,057)</i>	<i>(2,202,985)</i>
	163,354	186,154

Investments in other legal entities as at 31 December 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	

Available for sale financial assets include the following:

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

The movements in available for sale financial assets:

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

Movement on the provision for available for sale financial assets:

	2011	2010
As at 1 January	(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 31 December	(1,979,057)	(2,202,985)

Fair value of other investments traded in an active market is determined based on the current market value at the close of business at the balance sheet date.

11. OTHER LONG-TERM INVESTMENTS

	31 December 2011	31 December 2010
Rescheduled receivables	5,601,478	8,040,906
Long-term loans to employees	1,052,371	1,443,233
Finance lease receivables	148,043	153,415
Other long-term financial assets	769,934	757,479
	7,571,826	10,395,033
<i>Less provision:</i>		
- rescheduled receivables	(5,601,478)	(8,040,906)
- finance lease receivables	(120,668)	(99,664)
- other long-term financial assets	(762,533)	(748,705)
	(6,484,679)	(8,889,275)
Total – net	1,087,147	1,505,758

1) Rescheduled receivables

Rescheduled receivables as at 31 December 2011 fully relate 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
<i>Less: provision</i>	(8,595,727)	(5,601,478)	(2,994,249)
Total – net	1,821,549	-	1,821,549

Current portion of rescheduled receivables amounting to 1,821,549 RSD relates to HIP Petrohemija Pancevo receivables that are secured by a mortgage right over debtor's fixed assets.

Movements on rescheduled receivables provision:

	2011	2010
As at 1 January	(8,040,906)	(8,447,998)
Reversal of impairment (note 35)	-	156,579
Collected 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 and other movements (note 14)	2,121,961	201,172
As at 31 December	(5,601,478)	(8,040,906)

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

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

The fair value of loans to employees is based on cash flows discounted at market interest rate at which the Group 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% p.a.).

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 withheld from employees salaries.

None of the loans are overdue or impaired.

12. INVENTORIES

	31 December 2011	31 December 2010
Raw materials	23,275,562	19,323,919
Spare parts	2,783,196	3,089,881
Tools	137,703	121,228
Work in progress	5,808,325	6,592,425
Finished goods	8,548,192	6,995,641
Merchandise	2,272,222	1,928,657
	42,825,200	38,051,751
Advances	764,590	1,300,118
<i>Less provision:</i>		
- for inventories	(7,806,896)	(4,771,037)
- for advances	(379,689)	(563,963)
	(8,186,585)	(5,335,000)
Total inventories – net	35,403,205	34,016,869

Movement on inventory provision is as follows:

	2011	2010
As at 1 January	(5,335,000)	(5,296,196)
Provision for impaired inventories charged to the period (note 36)	(3,500,373)	(54,383)
Reversal of provision	57,603	27,970
Write-off	570,839	7,793
Other	20,346	(20,184)
As at 31 December	(8,186,585)	(5,335,000)

The Group recorded provision for slow-moving and obsolete spare parts of 3,500,373 RSD (note 36).

13. TRADE AND OTHER RECEIVABLES

	31 December 2011	31 December 2010
Trade receivables		
- domestic	22,616,484	16,117,569
- foreign	1,055,870	1,293,482
- related parties	1,999,116	1,125,174
	25,671,470	18,536,225
Receivables from specific operations	7,787,863	7,826,877
Interest receivables	4,984,493	4,924,697
Receivables from employees	87,281	113,217
Other receivables	7,461,184	7,445,138
	12,532,958	12,483,052
	45,992,291	38,846,154
<i>Less provision:</i>		
- trade receivables	(5,695,782)	(5,977,098)
- receivables from specific operations	(7,767,667)	(7,760,208)
- interest receivables	(4,856,030)	(4,822,974)
- other receivables	(7,327,469)	(7,288,020)
	(25,646,948)	(25,848,300)
Total receivables – net	20,345,343	12,997,854

Trade receivables as at 31 December 2011 amounting to 5,890,733 RSD that are more than 90 days overdue are considered as impaired, except for receivables of 269,440 RSD (31 December 2010: 129,960 RSD) from a number of independent customers for whom there is no recent history of default.

The ageing of trade receivables is as follows:

	31 December 2011	31 December 2010
Up to 3 months	19,780,737	13,230,118
Over 3 months	5,890,733	5,306,107
	25,671,470	18,536,225

As at 31 December 2011 trade receivables of 5,695,782 RSD (31 December 2010: 5,977,098 RSD) were assessed as uncollectable and fully provided for. The ageing of receivables provided for is as follows:

	31 December 2011	31 December 2010
Up to 3 months	74,489	800,951
Over 3 months	5,621,293	5,176,147
	5,695,782	5,977,098

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

	31 December 2011	31 December 2010
RSD	44,834,760	37,419,282
EUR	241,141	228,573
USD	916,156	1,197,914
GBP	123	317
RUB	22	22
CHF	44	46
Other	45	-
	45,992,291	38,846,154

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

	2011	2010
As at 1 January	(25,848,300)	(26,507,290)
Provision for impaired receivables (note 36)	(1,068,701)	(2,246,118)
Written off	469,338	2,651,659
Reversal of provision	741,175	567,492
Other	59,540	(314,043)
As at 31 December	(25,646,948)	(25,848,300)

Expenses that have been provided for or written off are included in other expenses/other income within the Consolidated Income Statement (notes 35 and 36). The amounts charged to provision for impairment are written off when their collection is not expected.

14. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2011	31 December 2010
Short-term loans to employees	512,943	508,849
Current portion of long-term investments	4,895,659	2,710,873
Other short-term financial investments	3,420	1,242
	5,412,022	3,220,964
<i>Less: provision</i>	(2,995,123)	(707,033)
Total short-term financial investments – net	2,416,899	2,513,931

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

Movements on the provision for short-term financial investments:

	2011	2010
As at 1 January	(707,033)	(1,636,817)
Provision for impairment (note 36)	(57,011)	(461,759)
Reversal of provision (note 35)	145,180	-
Write off	-	1,530,541
Transfer from other long-term investments (note 11a)	(2,121,961)	(161,978)
Foreign exchange differences and other movements	(254,298)	22,980
As at 31 December	(2,995,123)	(707,033)

15. CASH AND CASH EQUIVALENTS

	31 December 2011	31 December 2010
Cash in bank	25,397,340	10,525,037
Cash on hand	391,963	34,724
Other cash equivalents	43,051	76,908
	25,832,354	10,636,669

As at 31 December 2011 short term bank deposits amounting to 16,473,646 RSD (2010: 10,205,106 RSD) relate to cash deposits with commercial banks with maturity of up to 30 days and are presented in line Cash at bank.

16. VAT AND PREPAID EXPENSES

	31 December 2011	31 December 2010
Prepayment for VAT	2,027,935	680,786
Prepaid expenses	56,682	36,140
Accrued revenue	484,112	1,150,257
Prepaid excise duty	1,119,985	842,064
Housing loans and other prepayments	1,233,320	1,237,825
	4,922,034	3,947,072

Prepayment for VAT as at 31 December 2011 amounting to 2,027,935 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.

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

Accrued revenue as at 31 December 2011 amounting to 484,112 RSD (31 December 2010: 1,150,257 RSD) relates to receivable from current period sales of gasoline components that have not been invoiced by the year end.

17. DEFERRED TAX ASSETS AND LIABILITIES

	Carrying value vs Tax base	Total
Deferred tax liabilities		
As at 1 January 2010	1,932,016	1,932,016
Credited on Consolidated Income Statement	(473,481)	(473,481)
As at 31 December 2010	1,458,535	1,458,535
Credited on Consolidated Income Statement	(294,481)	(294,481)
As at 31 December 2011	1,164,054	1,164,054

	Provisions	Impairment loss	Investment credit	Total
Deferred tax assets				
As at 1 January 2010	-	-	-	-
Credited on Consolidated Income Statement	-	-	(4,804,904)	(4,804,904)
As at 31 December 2010	-	-	(4,804,904)	(4,804,904)
Credited on Consolidated Income Statement	(103,534)	(668,654)	(2,298,387)	(3,070,575)
As at 31 December 2011	(103,534)	(668,654)	(7,103,291)	(7,875,479)

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

Investment credits represent 20% qualifying of capital investments made up to 31 December 2011 in accordance with tax legislation of the Republic of Serbia. The Group is able to offset up to 50% of income tax with investment tax credits.

Investment Tax Credit Origination	Investment Tax Credit Utilization	31 December 2011	31 December 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	1,100,977	-
	Total	7,103,291	6,012,179

18. OFF BALANCE SHEET ASSET AND LIABILITIES

	31 December 2011	31 December 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

19. EQUITY

	Equity attributable to owners of parent							
	Share capital	Other capital	Reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated loss	Non-controlling interests*	Total
Balance as at 1 January 2010	81,530,200	5,597,873	889,171	130,243	(28,172)	(56,124,575)	25,137	32,019,877
- Profit	-	-	-	-	-	16,735,635	268	16,735,903
- Distribution of profit recorded before 2009	-	-	-	-	-	(1,645,944)	-	(1,645,944)
- Losses from securities	-	-	-	(81,826)	(21,064)	-	-	(102,890)
Increase in equity	-	-	-	-	-	-	37	37
Other	-	-	(584)	-	-	25,838	503	25,757
Balance as at 31 December 2010	81,530,200	5,597,873	888,587	48,417	(49,236)	(41,009,046)	25,945	47,032,740
Balance as at 1 January 2011	81,530,200	5,597,873	888,587	48,417	(49,236)	(41,009,046)	25,945	47,032,740
- Profit	-	-	-	-	-	40,637,770	(22,006)	40,615,764
- Losses from securities	-	-	-	(18,835)	(14,854)	-	-	(33,689)
Decrease in ownership	-	-	(1,789)	-	-	(7,619)	-	(9,408)
Other	-	-	(2,430)	-	-	8,811	(448)	5,933
Balance as at 31 December 2011	81,530,200	5,597,873	884,368	29,582	(64,090)	(370,084)	3,491	87,611,340

*Loss attributable to the minority shareholders in the amount of 22,006 RSD isn't presented in the Consolidated Income Statement because of the limitation in the format of prescribed financial statements.

19.1. Share Capital

Share capital represent share capital of the Parent, which is listed on Belgrade Stock Exchange.

The structure of the share capital as at 31 December 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%
Total	163,060,400	100.00%

19.2. Unrealised Gains (Losses) From Securities

Unrealised gains and losses as at 31 December 2011 amounting to 29,582 RSD and 64,090 RSD (31 December 2010: 48,417 RSD and 49,236 RSD), respectively, represent positive and negative effects of fair value changes of financial assets available for sale that are reflected in equity.

Structure of unrealised gains from securities:

	31 December 2011	31 December 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 securities:

	31 December 2011	31 December 2010
Politika a.d. Belgrade	(26,997)	(24,150)
Bank Postanska Stedionica a.d. Belgrade	(3,171)	(4,508)
Dunav osiguranje 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)

20. LONG - TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Asset retirement obligation	Environmental protection	Employees benefits provision	Legal claims provisions	Total
As at 1 January 2010	5,293,834	-	4,828,831	5,989,010	16,111,675
Charged to Consolidated Income Statement (note 30)	345,421	962,968	210,446	-	1,518,835
Adjustments on property, plant and equipment	2,636,353	-	-	-	2,636,353
Release of provision	-	-	-	(601,848)	(601,848)
Settlement	-	-	(293,276)	(797,087)	(1,090,363)
As at 31 December 2010	8,275,608	962,968	4,746,001	4,590,075	18,574,652
Charged to Consolidated Income Statement (note 30 and 34)	352,614	176,606	-	-	529,220
Adjustments on property, plant and equipment	(1,035,326)	-	-	-	(1,035,326)
Release of provision (note 35)	(326,083)	-	(1,155,212)	(2,556,637)	(4,037,932)
Settlement	-	(127,474)	(295,108)	(236,381)	(658,963)
As at 31 December 2011	7,266,813	1,012,100	3,295,681	1,797,057	13,371,651

1) *Asset retirement obligation*

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 31 December 2011 in amount of 1,035,326 RSD is recognized against property, plant and equipment (note 8).

2) *Environmental protection*

The Group has to comply with environmental protection regulations. At the balance sheet date Group recorded provision for environmental protection of 1,012,100 RSD based on management assessment of necessary costs for cleaning up of sites and remediation of polluted facilities.

3) *Legal claims provisions*

As at 31 December 2011 The Group assesses the probability of negative outcomes of legal cases, as well as the amounts of probable losses based on information provided by Parent's Legal department. The Group has reversed the provision for litigation amounting to RSD 2,556,637 for proceedings which, upon legal consultations, were assessed to have positive outcome. The Group estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2011.

4) *Provision for employee benefits*

Employee benefits:

	31 December 2011	31 December 2010
Retirement benefits	1,036,927	984,888
Jubilee awards	2,258,754	3,665,185
Other benefits	-	95,928
	3,295,681	4,746,001

The principal actuarial assumptions used were as follows:

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

Movement table on provision for employee benefits is presented below:

	Retirement benefits	Jubilee awards	Other benefits	Total
Balances as at 1 January 2010.	1,025,957	3,697,572	105,302	4,828,831
Benefits paid directly and other	(190,377)	(92,450)	(10,449)	(293,276)
Total costs recognized in Consolidated Income Statement	157,320	52,051	1,075	210,446
Balances as at 31 December 2010	992,900	3,657,173	95,928	4,746,001
Benefits paid directly	(63,544)	(227,562)	(4,002)	(295,108)
Total costs recognized in Consolidated Income Statement	107,571	(1,170,857)	(91,926)	(1,155,212)
Balances as at 31 December 2011	1,036,927	2,258,754	-	3,295,681

Amounts recognized in Consolidated Income Statement:

	For the year ended 31 December	
	2011	2010
Current service cost	263,841	308,915
Interest costs	241,609	322,119
Actuarial loss	(1,660,662)	(420,588)
	(1,155,212)	210,446

A new Collective Labour agreement has been applied as of 1 June 2011. Amendments were made to the section which defines employee benefits as described in note 3.26.

21. LONG-TERM LOANS

	31 December 2011	31 December 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:

	31 December 2011	31 December 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 Group's loans are denominated in the following currencies:

	31 December 2011	31 December 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

The fair value of non-current loans and their carrying amounts are equal.

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

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

The carrying amounts of the Group's long-term loans as at 31 December 2011 and 31 December 2010 are presented in the table below:

Creditor	Currency	31 December 2011	31 December 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

	Currency	Current portion		Long-term	
		31 December 2011	31 December 2010	31 December 2011	31 December 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

	31 December 2011	31 December 2010
Liabilities to Gazprom Neft	47,611,714	22,193,617
Financial lease liabilities	53,117	87,644
Other long-term liabilities	613,638	715,444
	48,278,469	22,996,705

1) Liabilities to Gazprom Neft

As at 31 December 2011 other long-term liabilities to the Gazprom Neft in the amount of 47,611,714 RSD (EUR 465,834,356) relate to borrowings 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 15 May 2023.

2) Financial lease liabilities

As at 31 December 2011 long-term financial lease liabilities of 53,117 RSD (2010: 87,644 RSD) are secured by the lessor's right on ownership over the leased asset until the financial lease has been settled.

Minimum finance lease payments:

	31 December 2011	31 December 2010
Less than one year	37,894	46,755
1-5 years	56,300	95,141
Future finance charges on finance leases	(8,008)	(14,536)
Present value of finance lease liabilities	86,186	127,360

	31 December 2011	31 December 2010
Less than one year	33,069	39,716
1-5 years	53,117	87,644
Present value of finance lease liabilities	86,186	127,360

23. SHORT-TERM FINANCIAL LIABILITIES

	31 December 2011	31 December 2010
Short-term financial liabilities to Gazprom Neft (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	3,917	41
	3,445,250	21,805,638

24. TRADE AND OTHER PAYABLES

	31 December 2011	31 December 2010
Advances received	871,127	2,064,911
Trade payables:		
- domestic	2,702,845	2,138,088
- foreign	7,060,646	656,363
Trade payables – other related parties	18,587,440	19,475,154
Liabilities from other operations	71,956	71,046
Liabilities from specific operations	327,923	558,472
	29,621,937	24,964,034

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

The increase in foreign trade payables, that on 31 December 2011 amounted to 7,060,646 RSD (on 31 December 2010: 656,363 RSD), mainly relates to the increase in payables to the supplier Glencore Energy for the purchase of crude oil in the amount of 5,366,790 RSD.

25. OTHER SHORT-TERM LIABILITIES

	31 December 2011	31 December 2010
Liabilities for unpaid wages and salaries, gross	1,690,264	1,497,391
Liabilities to employees	46,973	32,739
Liabilities for interest – domestic	354,633	481,262
Liabilities for dividends	3,772,308	3,772,308
Unused holiday accrual	714,425	649,308
Other liabilities	116,095	119,054
	6,694,698	6,552,062

26. LIABILITIES FOR VAT, OTHER TAXES AND DEFERRED INCOME

	31 December 2011	31 December 2010
Liabilities for VAT	1,161,428	1,630,273
Liabilities for excise	2,422,037	2,292,202
Liabilities for taxes and custom duties	1,772,130	476,105
Other liabilities for taxes and contributions	48,780	648,846
Accrued liabilities	1,149,958	599,123
Other accruals	1,543,926	1,810,908
	8,098,259	7,457,457

Accrued liabilities as at 31 December 2011 amounting to 1,149,958 RSD, mainly relate to estimated cost of services rendered but not invoiced by suppliers in the year ended 31 December 2011 (31 December 2010: 599,123 RSD).

Other accruals as at 31 December 2011 amounting to 1,543,926 RSD (31 December 2010: 1,810,908 RSD) mainly relate to accrued employee bonuses of 1,154,658 RSD.

27. SALES

	For the year ended 31 December	
	2011	2010
Sales of products:		
- domestic	139,864,664	125,935,386
- foreign	14,322,703	14,827,175
- other related parties	16,638,068	12,139,871
	170,825,435	152,902,432
Sales of goods:		
- domestic	14,689,121	6,653,990
- foreign	32,659	4,779
	14,721,780	6,658,769
Revenue from services	1,522,684	1,818,728
	187,069,899	161,379,929

28. OTHER OPERATING INCOME

	For the year ended 31 December	
	2011	2010
Rental income	120,553	92,047
Other operating income	179,756	40,403
	300,309	132,450

29. RAW MATERIAL AND CONSUMABLES USED

	For the year ended 31 December	
	2011	2010
Cost of raw materials	92,737,629	92,616,481
Overheads and other costs	892,630	1,082,123
Other fuel and energy expenses	1,945,595	1,695,728
	95,575,854	95,394,332

30. DEPRECIATION, AMORTISATION AND PROVISION

	For the year ended 31 December	
	2011	2010
Depreciation expenses	6,677,901	6,895,303
Provision for :		
- asset retirement obligation and environmental protection	176,606	1,308,389
- employees benefits	-	210,446
	6,854,507	8,414,138

31. EMPLOYEE BENEFITS EXPENSE

	For the year ended 31 December	
	2011	2010
Wages and salaries (gross)	15,094,120	14,006,201
Taxes and contributions on wages and salaries paid by employer	2,521,657	2,434,701
Costs of special service agreement	389,672	354,703
Cost of other temporary service agreements	19,071	53,492
Fees paid to management and Audit Committee members	28,545	21,132
Cost for employees termination benefits	2,705,653	3,029,968
Other personal expenses and benefits	1,228,294	1,445,923
	21,987,012	21,346,120

Termination costs amounting to 2,705,653 RSD mainly relate to costs incurred in relation to voluntary leave programme. The total number of employees who accepted termination of employment in 2011 was 1,192 (2010: 1,237 employees).

	For the year ended 31 December	
	2011	2010
Average number of people employed	9,787	10,767

32. OTHER OPERATING EXPENSES

	For the year ended 31 December	
	2011	2010
Cost of production services	1,545,572	1,863,928
Transportation services	1,550,334	1,676,302
Maintenance	1,209,111	1,155,987
Rental costs	570,132	387,647
Fairs	7,754	4,961
Advertising costs	392,337	357,257
Research costs	177,971	351,105
Cost of other services	907,376	897,242
Costs of non production services	2,163,354	2,082,791
Representation costs	144,761	134,962
Insurance premium	222,566	377,102
Bank charges	253,537	185,555
Cost of custom duties, property taxes and other taxes	2,281,147	1,786,495
Fee for emergency situations	554,112	-
Mineral extraction tax	2,138,526	1,375,187
Cost of legal and consulting services	105,011	181,335
Administrative and other taxes	192,229	144,794
Other	378,088	250,874
	14,793,918	13,213,524

Fee for emergency situations amounting to 554,112 RSD represents fee calculated in accordance with the Law on Emergency Situations.

Cost of non-production services for year ended 31 December 2011 amounting to 2,163,354 RSD (2010: 2,082,791 RSD) mainly relate to costs incurred for: security and cleaning - 1,358,399 RSD, designing - 85,488 RSD, certification and technical supervision - 118,767 RSD.

33. FINANCIAL INCOME

	For the year ended 31 December	
	2011	2010
Financial income – Gazprom Neft	18,266	-
Interest income	1,337,998	1,411,529
Foreign exchange gains	5,652,820	4,769,733
Other financial income	5,855	139,275
	7,014,939	6,320,537

34. FINANCIAL EXPENSES

	For the year ended 31 December	
	2011	2010
Financial expenses – Gazprom Neft	38,034	339,688
Interest expenses	2,281,059	2,744,642
Amortization of long-term liabilities	352,614	-
Foreign exchange losses	6,163,777	16,027,870
Other financial expenses	3,337	4,065
	8,838,821	19,116,265

35. OTHER INCOME

	For the year ended 31 December	
	2011	2010
Gains on disposal:		
- property, plant and equipment	80,410	15,659
- materials	15,898	6,511
Surpluses from physical account	146,960	178,698
Receivables written off and collected	292	2,182
Payables written off	632,986	46,152
Release of long-term provisions (note 20)	4,037,932	601,848
Penalty interest	48,928	55,469
Collected receivables from Elektroprivreda of Montenegro receivables	463,036	-
Insurance claims received	14,404	-
Reversal of impairment of buildings	31,135	-
Change in bonuses accrual	23,093	749,479
Reimbursements of costs from the Operator 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
<i>Reversal of impairment losses on:</i>		
- property, plant and equipment	349,332	1,876
- investment property	-	575,786
- long-term financial investments	-	212,423
- inventories	-	118,842
- short-term financial investments	145,180	-
- receivables (note 13)	741,175	567,492
- other assets	57,603	6,327
Other	616,216	651,656
	7,823,562	5,177,533

36. OTHER EXPENSES

	For the year ended 31 December	
	2011	2010
Losses on disposal of property, plant and equipment	25,427	35,549
Shortages from physical count	800,655	137,294
Write off of receivables	10,337	14,042
Write off of inventories	19,404	7,634
Fines, penalties and damages	49,471	33,459
Donations and sponsorships	173,169	181,616
Additional charge from the Operator 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	-
<i>Impairment:</i>		
- intangible assets	39,491	-
- property, plant and equipment	346,058	943,567
- non-current assets held for sale	-	11,341
- investment property	190,726	138,716
- investments in associates	4,269	-
- other long-term investments	32,475	-
- inventories (note 12)	3,480,181	93,697
- advances paid (note 12)	20,192	31,383
- short term investments	57,011	461,759
- receivables(note 13)	1,068,701	2,246,118
Other	560,943	934,436
	7,009,260	6,117,785

37. INCOME TAX

Components of income tax expense:

	For the year ended 31 December	
	2011	2010
Income tax for the year	2,466,758	832,556
Deferred income tax (note 17)	(3,365,056)	(5,278,385)
	(898,298)	(4,445,829)

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

	For the year ended 31 December	
	2011	2010
Profit before tax	39,717,466	12,290,074
Tax expense at applicable tax rate (10%)	3,971,747	1,229,007
<i>Tax effect of:</i>		
Expense not deductible in determining taxable profit (tax loss)	567,483	1,064,387
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	2,281,362	790,224
Adjustment in respect of prior years	185,396	42,332
	2,466,758	832,556
Average income tax rate	6.21%	6.77%

38. EARNING PER SHARE

	For the year ended 31 December	
	2011	2010
Profit attributable to the owner of the Parent	40,637,770	16,735,635
Weighted average number of ordinary shares in issue	163,060,400	163,060,400
Basic Earnings per share	0.25	0.10

39. RELATED PARTY TRANSACTIONS

The majority owner of the Parent is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Parent. 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 owner of the Group.

During 2011 and 2010, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, geophysical research and interpretation services.

	31 December 2011	31 December 2010	Category
<i>Receivables</i>			
Gazprom Neft Aero JSC, Moscow, Russia	3,717	-	Other
	3,717	-	
<i>Liabilities</i>			
Gazprom Neft, St Petersburg, Russia	(48,887,946)	(22,262,027)	Parent
Gazprom Neft Trading, Austria	(18,116,245)	(19,376,889)	Other
Gazprom Neft Lubricants, Italia	(5,594)	-	Other
	(67,009,785)	(41,638,916)	
<i>Accrual</i>			
Gazprom Neft, St Petersburg, Russia	-	(1,266)	Parent
	-	(1,266)	
Liabilities, net:	(67,006,068)	(41,640,182)	

For the year ended 31 December			
	2011	2010	Category
<i>Sales</i>			
Gazprom Neft Trading, Austria	4,722,757	3,965,019	Other
Gazprom Neft Aero JSC, Moscow, Russia	60,746	-	Other
Gazprom Neft NTC, Moscow, Russia	4,981	-	Other
	4,788,484	3,965,019	
<i>Purchases of raw materials</i>			
Gazprom Neft Trading, Austria	(64,176,762)	(79,065,104)	Other
	(64,176,762)	(79,065,104)	
<i>Other operating expenses</i>			
Gazprom Neft, St Petersburg, Russia	(139,306)	(129,106)	Parent
Gazprom Neft NTC, Moscow, Russia	(3,000)	-	Other
	(142,306)	(129,106)	
	(59,530,584)	(75,229,191)	

For the year ended 31 December			
	2011	2010	Category
<i>Financial income</i>			
Gazprom Neft Trading, Austria	18,266	-	Other
	18,266	-	
<i>Financial expenses</i>			
Gazprom Neft, St Petersburg, Russia	(38,034)	(339,688)	Parent
	(38,034)	(339,688)	
	(19,768)	(339,688)	
<i>Other income</i>			
Gazprom Neft Trading, Austria	45,956	-	Other
	45,956	-	
<i>Other expenses</i>			
Gazprom Neft Trading, Austria	(184,029)	-	Other
Gazprom Neft, St Petersburg, Russia	(21,250)	-	Parent
	(205,279)	-	
	(159,323)	-	

Key management compensation

Key management comprises the: Management Board, Executive Committee, Audit Committee and Heads of Departments. Management compensation paid in 2011 and 2010 are shown in table below:

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

Main transaction with state owned companies:

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

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

40. LIQUIDATION OF THE SUBSIDIARY

On 14 June 2010 the Decision on voluntary liquidation of the subsidiary NIS Oil Trading, Frankfurt, Germany was enacted. Based on the Decision of the first instance court in Frankfurt dated 19 July 2011, the liquidation process was over.

Net assets of subsidiary as of 31 December 2011 and 31 December 2010 consist of:

	31 December 2011	31 December 2010
<i>Non-current assets</i>		
Property, plant and equipment	-	126
Investments in equity instruments	-	38
	-	164
<i>Current assets</i>		
Trade receivables and other receivables	-	2,647
Cash and cash equivalents	-	26,691
	-	29,338
<i>Short-term liabilities</i>		
Other short-term liabilities	-	(859)
	-	(859)
Net assets	-	28,643

41. BUSINESS COMBINATIONS

In December 2011, as a part of regional expansion the Group acquired seven petrol and gas stations (P&G Station), out of which six are acquired in Bulgaria and one in Bosnia and Herzegovina (BiH). As the result of the acquisition, the Group is expected to further increase its presence in these markets.

Name of acquiree	Date of acquisition	Percentage of equity interests acquired
<i>Bulgaria</i>		
P&G station Kalotina	15/12/2011	100%
P&G station Dolni Bogrov	22/12/2011	100%
P&G station Arena Plovdiv	29/12/2011	100%
P&G station Tsarigradsko shaussee	23/12/2011	100%
P&G station Vidin	29/12/2011	100%
P&G station Harmanli	28/12/2011	100%
<i>Bosnia and Herzegovina</i>		
P&G station Trn	15/12/2011	100%

The following table summarises the consideration paid for acquired petrol and gas stations, the fair value of assets acquired and liabilities assumed.

	Bulgaria	BiH	Total
Purchase consideration:			
Cash paid	1,289,176	104,640	1,393,816
Additional consideration	31,320	-	31,320
Total purchase consideration	1,320,496	104,640	1,425,136
Fair value of net identifiable assets acquired (see below)	1,320,496	104,640	1,425,136
Goodwill	-	-	-
<i>Amounts recognised as of acquisition date for each major class of assets acquired and liabilities assumed</i>			
Property, plant and equipment	1,320,496	104,640	1,425,136
Net identifiable assets acquired	1,320,496	104,640	1,425,136

Acquisition related costs of 18,344 RSD have been charged to expenses in the consolidated Income Statements for the year ended 31 December 2011.

The acquisition agreements include only the acquisition of properties of P&G Station and do not contain any contingent consideration.

42. CONTINGENT LIABILITIES

Legal claims

At 31 December 2011 the Group appeared in many legal cases as a defendant. For legal proceedings for which it was possible to make a reliable estimate of the obligation the Group made provisions amounting to 1,797,057 RSD (31 December 2010: 4,533,590 RSD) (note 20).

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

Management does not anticipate any significant losses arising from current litigations that would exceed the amount for which a provision was made.

Furthermore, under the SPA, the Republic of Serbia shall unconditionally withdraw all claims filed against the Group by state owned institutions or companies.

Transfer of property ownership

By 31 December 2011, the right of ownership to 4,787 items of property (buildings and plots of land) was registered in favor of the Parent, which makes 56% of the Parent's total immovable property.

The Republic of Serbia being the seller shall be obliged, under the Agreement for the Sale and Purchase of Shares of Naftna Industrija Srbije a.d., to provide a written consent to make the transfer of the Parent's total immovable property registered with the NIS Registry of Fixed Assets as at 31 December 2007.

Environmental protection

As at the balance sheet date, the Group's management made an environmental provision amounting to RSD 1,012,100, based on an internal assessment of compliance with the Republic of Serbia environmental legislation.

Management believes that based on current environmental legislation costs associated with environmental issues will not be significantly higher than the ones already provided for. However, it is possible that these costs will increase significantly in the future, should the legislation become more restrictive.

Long-term employee incentive program

In 2011 the Parent started setting-up a long-term incentive program for Parent's managers. Following the program's approval, cash incentives will be paid out based on the Key Performance Indicators ("KPI") reached over a three-year period.

As at 31 December 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 Group has not made the provision. No significant outflows of funds are expected regarding this program.

Other contingent liabilities

As at 31 December 2011, the Group did not make a provision for a potential loss that may arise based on the Angolan Ministry of Finance tax assessment according to which the Parent 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 Angola and on the opinion of Angolan legal consultants, such claim is not in accordance with the current applicable legal framework in Angola due to the fact that the calculation of profit oil is not performed correctly by the authorities and that profit oil is an obligation of a contractual nature that should be fulfilled towards the National Concessionaire, as opposed to the opinion of the Ministry of Finance. The Parent's management will lodge a complaint against any tax enforcement action from the Angolan 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 concessionaires, the Angolan Court has not made any ruling yet regarding their complaints against the same decision of the 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 was a significant level of uncertainty relating to the timing of the resolution of the request from the Angolan Ministry of Finance and the amount payable for additional tax on profit oil if any.

43. 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 Group's management. As result, some transactions may be disputed by tax authorities and the Group 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 Group has paid all tax liabilities as of 31 December 2011.

44. COMMITMENTS

1) Sales and Purchase Agreement

The Sales and Purchase Agreement between Gazprom Neft and the Republic of Serbia was signed on 2 February 2009. Based on the agreement, the Parent is committed under to:

- comply with a Social program as follows:
 - Employee salaries will be annually adjusted to apply to the annual cost of living index in the Republic of Serbia;
 - By 31 December 2012, the Parent will not effect termination of employment contracts against the will of the employees, based on technological or organizational changes;
 - The Company may propose termination of employment, provided that a onetime dismissal wage is paid to the employee amounting to EUR 750 for each year of employment;
- invest in the modernization of the Parent over a four year period amounting to Euro 547 million;
- distribute dividends for each fiscal year over a four year period amounting to no less than 15% of net profit of the Parent;

- 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 petroleum products for Serbian market, to maintain the market share in trade of oil derivatives up to the level in 2008;
- conduct modernization and reconstruction.

2) *Leases*

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

	For the year ended 31 December	
	2011	2010
Up to one year	158,321	105,314
Between one and five years	252,559	37,675
Over five year	1,010	-
	411,890	142,989

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

	For the year ended 31 December	
	2011	2010
Up to one year	188,159	80,468
Between one and five years	64,361	18,370
Over five year	-	-
	252,520	98,838

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

In October 2011, the Parent 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 Parent has committed to finance 85% of total exploration costs on four blocks in the region. Depending on the success of exploration, Parent will be entitled to 85% of total production volume of hydrocarbons. Moreover, according to Joint Operation Agreement signed with East West Petroleum Corporation, Canada, Parent 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.

4) *Farm-in agreement with RAG Hungary limited*

In December 2011, the Parent entered into Farm-in agreement with RAG Hungary limited for exploration and production of hydrocarbons in Kiskunhalas area in Hungary. By the contract, the Parent 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, Parent 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.

45. EVENTS AFTER THE BALANCE SHEET DATE

Business combinations

During January and February 2012, the Group acquired two petrol and gas station in Bulgaria. Total consideration for the acquired business equals to 289,058 RSD (2,691,540 EUR).

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, 28.2.2012.



STATEMENT OF PERSONS RESPONSIBLE FOR PREPARATION OF THE ANNUAL FINANCIAL STATEMENT

We hereby declare that, to the best of our knowledge, the annual statement was prepared applying the respective international financial reporting standards presenting true and fair data regarding the assets, liabilities and financial standing and operations, profits and losses, cash flows and changes in equity of the public company, including the companies encompassed by the consolidated statements.

Kirill Kravchenko

CEO, NIS a.d. Novi Sad

APPENDICES



Glossary

EBITDA	Earnings before interest, taxes and amortization
OCF	Operational Cash Flow
CAPEX	Capital expenditure
VRU	Vapour Recovery Unit
FCC	Fluid catalytic cracker
M&A	Mergers and acquisitions
EU	European union
PSA	Production Sharing Agreement
BMB	Unleaded motor fuel
LPG	Liquid petroleum gas
IFC	International Finance Corporation
OECD	Organisation for Economic Co-operation and Development
COSO	Committee of Sponsoring Organizations of the Treadway Commission
BoD	Board of Directors
AC	Audit Comitee
EB	Executive board
GDP	Gross domestic product
CEFTA	Central European Free Trade Agreement
EL	Extra light fuel oil
GPN	Gazprom neft
MHC/DHT	Mild hydrocracking and hydrotreatment
RNP	Rafinery Pancevo
RNS	Refinery Novi Sad
PS	Petrol Station

MIP	Mid-term investment program
L/Cs	Letters of credit
ESP	Electrical submersible pumps
BELEX 15	Index of the most liquid securities on Belgrade Stock Exchange
BELEXline	General index of Belgrade Stock Exchange
EPS	Earnings per share
P/E	Price/EarningsRatio
BV	Bookvalue
P/BV	Price/BookValue
HR	Human Resources
EP, IS, OSH	Environmental protection, industrial safety and occupational safety
ISO	International Organization for Standardization
OHSAS	Occupational Health and Safety Management System
PPE	Personal protection equipment

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Annual Report NIS a.d. Novi Sad for 2011 was approved by the Board of Directors on its session held on April 20th, 2012.



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