NIS A.D. – Naftna industrija Srbije
Novi Sad

Consolidated Financial Statements

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

Novi Sad, February 28, 2012

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 Nesović
Licensed Auditor

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 February 2012

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C O N T E N T S:

Consolidated Financial Statements for the year ended 31 December 2011

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

CONSOLIDATED BALANCE SHEET

ASSETS	Notes	31 December 2011	31 December 2010
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	19		
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 deffered 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

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

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

CONSOLIDATED INCOME STATEMENT

	Notes	For the year ended 31 December 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

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

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

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
Cash inflow from operating activities	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)
Cash outflow from operating activities	(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
Cash inflow from investing activities	609,388	45,850
Purchase of intangible assets, property, plant and equipment	(34,059,150)	(17,739,476)
Cash outflow from investing activities	(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
Cash inflow from financing activities	49,408,156	27,471,384
Outflows from long-term, short-term and other liabilities	(35,177,068)	(25,529,860)
Cash outflow from financing activities	(35,177,068)	(25,529,860)
Net cash provided by financing activities	**14,231,088**	**1,941,524**
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**

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

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

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**

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

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

CONSOLIDATED STATISTICAL ANNEX

For year ended 31 December 2011 and 2010

GENERAL INFORMATION ON COMPANY	2011	2010
1. Number of months of operations	12	12
2. Code identifying the company's size (1 to 3).	3	3
3. Code identifying the company's ownership structure (1 to 5).	4	4
4. Number of foreign persons, who may be natural persons or legal entities, holding a share in capital.	241	235
5. Average number of employees based on employee position as at each months end.	9,787	10,767

MOVEMENTS WITHIN INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, AND BIOLOGICAL ASSETS	Gross	Accumulated Depreciation	Net
1. Intangible assets			
1.1 Balance as at beginning of the year	7,454,157	2,612,739	4,841,418
1.2. Additions (purchases) during the year	639,722	-	639,722
1.3. Disposals during the year	1,780,722	-	772,176
1.4. Revaluation	-	-	-
1.5. Balance as at year end	6,313,157	1,604,193	4,708,964
2. Property, Plant and Equipment, and Biological Assets			
2.1. Balance as at beginning of the year	160,878,659	58,560,805	102,317,854
2.2. Additions (purchases) during the year	54,035,858	-	54,035,858
2.3. Disposals during the year	21,032,439	-	25,797,927
2.4. Revaluation	-	-	-
2.5. Balance as at year end	193,882,078	63,326,293	130,555,785

INVENTORIES	2011	2010
1. Stock of material	18,439,853	17,833,826
2. Work in progress	5,807,718	6,592,425
3. Finished goods	8,548,192	6,995,641
4. Merchandise	2,222,540	1,858,821
5. Non-current assets available–for-sale	181,608	262,431
6. Prepayments	384,902	736,156
Total	35,584,813	34,279,300
EQUITY		
Share capital	81,530,200	81,530,200
- foreign capital	45,999,066	41,735,436
Stakes of a limited liability company	20,557	20,557
- foreign capital	120	120
Stakes of members of a partnership or limited partnership	-	-
- foreign capital	-	-
State owned capital	-	-
Socially owned capital	-	-
Stakes in cooperatives	-	-
Other equity	5,597,873	5,597,873
Total	87,148,630	87,148,630
SHARE CAPITAL		
1. Ordinary Shares		
1.1. Number of ordinary shares	163,060,400	163,060,400
1.2. Face value of ordinary shares – Total	81,530,200	81,530,200
2. Preference shares	-	-
2.1. Number of preference shares	-	-
2.2. Face value of preference shares – Total	-	-
TOTAL – Face value of shares	81,530,200	81,530,200

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

CONSOLIDATEDSTATISTICAL ANNEX (continued)

For year ended 31 December 2011 and 2010

	2011	2010
RECEIVABLES AND PAYABLES		
1. Receivables from sales (Balance at year end)	19,975,688	12,559,127
2. Payables from operations (Balance at year end)	29,294,014	24,405,562
3. Receivables from insurance companies for compensation for damage during the year (debit turnover less opening balance)	74,899	69,394
4. VAT – previous tax (annual amount as per tax declarations)	27,606,211	20,655,718
5. Payables from operations (credit turnover less opening balance)	496,661,215	299,602,190
6. Net salaries and fringe benefits payable (credit turnover less opening balance)	13,967,998	13,540,367
7. Tax on salaries and fringe benefits charged to employees payable (credit turnover less opening balance)	2,242,455	2,012,090
8. Contribution on salaries and fringe benefits charged to employees payable (credit turnover less opening balance)	2,501,661	2,443,250
9. Dividends, share in profit and personal earnings of the employer payable (credit turnover less opening balance)	-	7,736,314
10. Fees for services rended by natural persons payable (credit turnover less opening balance)	544,357	341,533
11. VAT liability (annual amount as per tax declarations)	40,098,228	35,602,969
Total	632,966,726	418,968,514
OTHER COSTS AND EXPENSES		
1. Cost of fuel and energy	1,945,595	1,695,728
2. Cost of salaries and fringe benefits (gross)	15,094,120	14,006,201
3. Cost of taxes and contributions on salaries and fringe benefits charged to employer	2,521,657	2,434,701
4. Cost of fees for services rendered by natural persons (gross)	409,123	408,194
5. Cost of fees for members of management and supervisory boards (gross)	28,545	21,132
6. Other personal fees and expenses	3,933,567	4,475,892
7. Production services cost	6,360,587	6,694,429
8. Rental costs	584,052	399,093
9. Rental costs/Land	506	610
10. Research and development costs	177,971	351,105
11. Cost of depreciation	6,677,901	6,895,304
12. Insurance premium costs	222,566	377,102
13. Bank fees	253,537	185,555
14. Membership fees	69,979	63,155
15. Taxes	2,835,259	1,786,495
16. Contributions	751	196
17. Interest payable	2,633,673	3,084,330
18. Interest payable and a portion of financial expenses	2,671,707	3,084,330
19. Interest payable on bank loans and loans from other financial organizations	2,472,117	2,996,976
20. Cost of humanitarian, cultural, health, educational, scientific and religious purposes, environmental protection and sports purposes	57,150	72,484
Total	48,950,363	49,033,012

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

CONSOLIDATED STATISTICAL ANNEX (continued)

For year ended 31 December 2011 and 2010

	2011	2010
OTHER REVENUE		
1. Sales of merchandise	14,721,780	6,658,770
2. Revenues from premiums, subventions, grants, recourses, compensations and tax returns	14,875	2,979
3. Revenues from conditional donations	-	-
4. Revenues from land-rental fees	1,229	1,167
5. Membership fees	-	-
6. Interest receivable	1,356,264	1,411,351
7. Interest receivable incurring from accounts and deposits with banks and other financial organizations	685,453	347,081
8. Revenues from dividends and share in profit	-	-
Total	16,779,601	8,421,348
OTHER INFORMATION		
1. Excise duty liability (as per annual calculation of excise duty)	55,923,060	57,388,780
2. Customs and other import duties calculated (Annual Total as per calculation)	30,203,662	17,767,562
3. Capital subsidies and other government grants for the construction and purchase of fixed assets and intangible assets	-	-
4. Govermnment grants as premiums, recourses and coverage of running operating costs	-	-
5. Other Government grants	-	-
6. Forein donations and other non-returnable funds, received either in cash or in kind from foreign legal and/or natural persons	-	-
7. Personal earnings of the enterprener from net profit (To be completed only by enterpreneurs)	-	-
Total	86,126,722	75,156,342

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

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

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:

a. „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%,
b. „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%.
c. „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%.
d. „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 Finacial 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 Finanacial 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.]

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

3.1. Basis of preparation and presentation of Consolidated Finanacial Statements (continued)

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.

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

3.1. Basis of preparation and presentation of Consolidated Finanacial Statements (continued)

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.

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

3.1. Basis of preparation and presentation of Consolidated Finanacial Statements (continued)

New Accounting Pronouncements (continued)

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

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

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

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

- *IAS 27, 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.

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

3.1. Basis of preparation and presentation of Consolidated Finanacial Statements (continued)

New Accounting Pronouncements (continued)

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

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

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

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

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

3.1. Basis of preparation and presentation of Consolidated Finanacial Statements (continued)

New Accounting Pronouncements (continued)

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

a) 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.

b) Non-controlling interests

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

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

3.4. Foreign currency translation

(a) *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.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the end of the period exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the 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".

(c) *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 transleted at average exchange rates and all rsulting foreign exchange differences are rocognized 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

3.6. Intangible assets

(a) *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.

(b) *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

(a) *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.

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

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

(c) *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.

(d) *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.

(e) *Impairment – exploration and evaluation assets*

Exploration property leasehold acquisition costs are assessed for impairment when 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.

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

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

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

3.8. 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.

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

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

3.8. Property, plant and equipment (continued)

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

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’.

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

3.11. Construction contracts (continued)

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

(a) *Loans and receivables*

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

(b) *Available for sale financial assets*

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date, 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.

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

3.12. Financial assets (continued)

3.12.2. Recognition and measurement (continued)

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in 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

(a) 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.

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

3.12. Financial assets (continued)

3.12.3. Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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.

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

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

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

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 recognised 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.

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

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

3.25. Current and deferred income tax (continued)

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.26. Employee benefits

(a) *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.

(b) *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

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

3.26. Employee benefits (continued)

(b) *Employee benefits provided by Collective Labour Agreement (continued)*

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.

(c) *Bonus plans*

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

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

3.27. 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.

a) 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.

b) 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.

c) 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.

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

3.27. Revenue recognition (continued)

c) Sales of services (continued)

Revenue from time and material contracts, typically from delivering engineering services, is recognised under the percentage of completion method. Revenue is generally recognized at the contractual rates. For time contracts, the stage of completion is measured on the basis of 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.

d) 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.

e) 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.

f) Dividend income

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

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

3.28. Leases

a) Leases: Accounting by lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the 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.

b) Leases: Accounting by lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

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

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.

(a) *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.

(b) *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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.1. Critical accounting estimates and assumptions (continued)

(c) *Employee benefits*

The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of obligations.

The 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 calculete 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

(a) *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.

(b) *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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.2. Critical judgments in applying entity's accounting policies (continued)

(b) *Financial crisis (continued)*

Impact on liquidity:

The volume of wholesale financing has significantly reduced since September 2008. Such circumstances may affect the ability of the 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 Economics, Finance 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.

(a) *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.

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.1. Financial risk factors (continued)

(a) *Market risk (continued)*

a) Foreign exchange risk (continued)

Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign exchange risk arising from future transactions and recognised assets and liabilities, 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.

b) 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.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1. Financial risk factors (continued)

(a) *Market risk (continued)*

c) Cash flow and fair value interest rate risk

As at 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 intrest 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 RSD 595,850) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings..

(b) *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 appled.

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).

(c) *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.

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.1. Financial risk factors (continued)

(c) *Liquidity risk (continued)*

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.

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.2. Capital risk management (continued)

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.

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

6. SEGMENT INFORMATION

Operating segments, are segments whose operating results are regularly reviewed by the Chief Operating Decision Maker („CODM"). 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 electicity 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)
Operting 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)
Impairement 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**

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

6. SEGMENT INFORMATION (continued)

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)
Operting 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)
Impairement 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
Sales:		
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**

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

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).

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

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
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**

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

8. PROPERTY, PLANT AND EQUIPMENT (continued)

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.

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

8. PROPERTY, PLANT AND EQUIPMENT (continued)

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 intengible 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).

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

9. INVESTMENT PROPERTY

Investment properties are valued at the balance sheet date at fair value, representing the 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 activites 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**

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

10. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

a) *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 %
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	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**

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

10. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

a) *Investments in associates (continued)*

Movement on the provision for investments in associates:

	2011	2010
As at 1January	(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)**

b) *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
Less: Provision	(1,979,057)	(2,202,985)
	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**	

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

10. INVESTMENTS IN EQUITY INSTRUMENTS (continued)

b) Financial assets available for sale (continued)

Available for sale financial assets include the following:

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

The movements in available for sale financial assets:

	2011	2010
As at 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.

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

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
Less provision:		
- 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**

a) 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
Less: provision	(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
Colected impaired receivables (note 35)	-	55,844
Write-off	-	589,665
Reconciliation of long-term investments (note 35)	-	182,804
Foreign exchange gains /losses	317,467	(778,972)
Transfer to short-term financial investments and other movements (note 14)	2,121,961	201,172
As at 31 December	**(5,601,478)**	**(8,040,906)**

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

11. OTHER LONG-TERM INVESTMENTS (continued)

b) *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 witheld 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
Less provision:		
- 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
Writte-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).

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

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**
Less provision:		
- trade receivables	(5,695,782)	(5,977,098)
- receivables from specific operations	(7,767,667)	(7,760,208)
- intrest 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**

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

13. TRADE AND OTHER RECEIVABLES (continued)

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
Less: provision	(2,995,123)	(707,033)
Total short-term financial investments – net	**2,416,899**	**2,513,931**

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

14. SHORT-TERM FINANCIAL INVESTMENTS (continued)

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 diferences 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 eqivalents	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.

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

16. VAT AND PREPAID EXPENSES (continued)

Prepaid excise duty amounting to 1,119,985 RSD (2010: 842,064 RSD) 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.

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

17. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Investment credits represent 20% qualifying of capital investments made up to 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**

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

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.

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

19.1. SHARE CAPITAL

Share capital represent share capital of the Parent, wich 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%
	163,060,400	**100.00%**

19.2. UNREALISED GAINS (LOSSES) FROM SECURITIES

Unrealized 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 unrealized 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 osigruanje a.d.o, Belgrade	(4,904)	(3,678)
Luka Dunav a.d. Pančevo	(1,229)	-
SPC Pinki a.d. Zemun, Belgrade	(27,789)	(16,900)
Total	**(64,090)**	**(49,236)**

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

20. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Asset retirement obligation	Environmental protection	Employees benefits provision	Legal 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 equipement	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 equipement	(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**

(a) *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).

(b) *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.

(c) *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.

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

20. LONG – TERM PROVISIONS (continued)

(d) *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
Acturial 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.

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

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**

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

21. LONG-TERM LOANS (continued)

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**

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

21. LONG-TERM LOANS (continued)

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

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

22. OTHER LONG-TERM LIABILITIES (continued)

a) 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.

b) 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**

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

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**

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

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**

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

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**

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

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 supervisory board 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

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

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, sertification 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**

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

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
Reversal of impairment losses on:		
- 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**

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

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	-
Impairment:		
- 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**

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

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
Tax effect of:		
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.

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

39. RELATED PARTY TRANSACTIONS (continued)

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
Receivables			
Gazprom Neft Aero JSC, Moscow, Russia	3,717	-	Other
	3,717	-	
Liabilities			
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)	
Accrual			
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
Sales			
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	
Purchases of raw materials			
Gazprom Neft Trading, Austria	(64,176,762)	(79,065,104)	Other
	(64,176,762)	(79,065,104)	
Other operating expenses			
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)**	

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

39. RELATED PARTY TRANSACTIONS (continued)

	For the year ended 31 December 2011	2010	Category
Financial income			
Gazprom Neft Trading, Austria	18,266	-	Other
	18,266	-	
Financial expenses			
Gazprom Neft, St Petersburg, Russia	(38,034)	(339,688)	Parent
	(38,034)	(339,688)	
	(19,768)	**(339,688)**	

	For the year ended 31 December 2011	2010	Category
Other income			
Gazprom Neft Trading, Austria	45,956	-	Other
	45,956	-	
Other expenses			
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, Supervisory Board 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

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

39. RELATED PARTY TRANSACTIONS (continued)

Main transaction with state owned companies:

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

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

40. 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 Decison of the first instance court in Frankfurt dated 19 July 2011, the liquidation process was over.

Net assets of subisidiary as of 31 December 2011 and 31 December 2010 consist of:

Assets	**31 December 2011**	**31 December 2010**
Non-current assets		
Property, plant and equipement	-	126
Investments in equity instruments	-	38
	-	**164**
Current assets		
Trade receivables and other receivables	-	2,647
Cash and cash equivalents	-	26,691
	-	**29,338**
Short-term liabilities		
Other short-term liabilities	-	(859)
	-	**(859)**
Net assets	**-**	**28,643**

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

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 wich six are acquired in Bulgaria and one in Bosnia and Herzegovina (BiH). As the result of the aquisition, the Group is expected to further increase its presence in these markets.

Name of acquiree	Date of acquisition	Percentage of equity interests acquired
Bulgaria		
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%
Bosnia and Herzegovina		
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	**-**	**-**	**-**
Amounts recognised as of acquisition date for each major class of assets acquired and liabilities assumed			
Property, plant and equipment	1,320,496	104,640	1,425,136
Net identifiable assets acquired	**1,320,496**	**104,640**	**1,425,136**

Aquisition related costs of 18,344 RSD have been charged to expenses in the consolidated Income Statements for the year ended 31 Decembar 2011.

The aquisition agreements includes only to 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 whcih 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 favorur 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 immpvable 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 provison amounting to RSD 1,012,100, based on an internal assestment 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.

42. CONTINGENT LIABILITIES (continued)

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 an 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 opinon 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 concessionares, 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.

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

44. COMMITMENTS

a) 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 samounting 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.

b) Leases

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

	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:

	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**

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

44. COMMITMENTS (continued)

c) 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.

d) 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 aquired business equals to 289,058 РСД (2,691,540 ЕУР).

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.

The person responsible for the preparation of Consolidated Financial Statements	M.P.	Legal representative
______________________		______________________