



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

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

Novi Sad, April 27, 2011

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

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

CONTENTS :	<i>Page</i>
Condensed Balance Sheet	3
Condensed Statement of Income	4
Condensed Cash Flow Statement	5
Condensed Statement of Changes in Equity	6
Notes to The Condensed Financial Statements	7-25

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

CONDENSED BALANCE SHEET

ASSETS	Notes	March 31, 2011	December 31, 2010
		<i>(unaudited)</i>	
Non-current assets			
Intangible assets		4,869,875	4,835,761
Property, plant and equipment	5	99,725,672	98,014,391
Investment property		1,393,170	1,393,170
Investments in equity instruments		2,598,092	2,578,753
Other long term investments		1,450,358	1,504,268
		110,037,167	108,326,343
Current assets			
Inventories	6	30,567,510	33,999,967
Trade receivables	7	16,696,153	12,945,719
Short term financial investments		2,269,804	2,513,880
VAT and prepaid expenses		3,154,003	3,940,358
Cash and cash equivalents		7,041,122	10,595,830
Deferred tax assets		4,804,904	4,804,904
		64,533,496	68,800,658
Total assets		174,570,663	177,127,001
Off-balance sheet assets		92,108,798	88,793,346
LIABILITIES			
Equity			
Share capital	8.1.	87,128,024	87,128,024
Reserves		889,424	889,424
Revaluation reserves		39	39
Unrealized gains from securities		51,608	48,417
Unrealized losses from securities		(52,099)	(49,236)
Retained earnings (loss)		(31,167,831)	(40,997,954)
		56,849,165	47,018,714
Long-term provisions and liabilities			
Long-term provisions		18,326,866	18,501,540
Long-term loans	9	22,945,155	26,645,540
Other long-term liabilities		21,870,960	22,281,614
		63,142,981	67,428,694
Short-term liabilities			
Short-term financial liabilities	10	23,375,701	21,805,638
Trade and other payables	11	16,857,617	24,944,688
Other short-term liabilities		5,970,625	6,394,456
Liabilities for VAT and other taxes and deferred income		6,720,242	7,456,869
Income tax liabilities		369,220	619,407
		53,293,405	61,221,058
Deferred tax liabilities		1,285,112	1,458,535
Total liabilities		174,570,663	177,127,001
Off-balance sheet liabilities		92,108,798	88,793,346

Notes from the page 7 to 25 are the part of these interim condensed financial statements.

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

CONDENSED STATEMENT OF INCOME

	Notes	Three-month period ended March 31,	
		<u>2011</u> <i>(unaudited)</i>	<u>2010</u> <i>(unaudited)</i>
Operating income			
Sales	12	36,742,340	27,431,890
Work performed by the entity and capitalized		338,547	478,619
Increase in the value of finished goods and work in progress		62,465	2,299,941
Other operating income		63,082	39,800
		<u>37,206,434</u>	<u>30,250,250</u>
Operating expenses			
Cost of goods sold		(2,446,818)	(415,821)
Cost of material	13	(19,073,201)	(18,813,233)
Cost of salaries, benefits and other personnel expenses	14	(5,363,308)	(4,320,027)
Depreciation and provisions		(2,005,402)	(1,819,847)
Other operating expenses	15	(2,830,794)	(2,264,513)
		<u>(31,719,523)</u>	<u>(27,633,441)</u>
Net operating income		<u>5,486,911</u>	<u>2,616,809</u>
Financial income	16	5,355,145	1,026,070
Financial expenses	17	(1,154,721)	(7,914,463)
Other income		1,685,986	2,082,142
Other expenses	18	(1,141,116)	(2,209,284)
Income (loss) before income tax		<u>10,232,205</u>	<u>(4,398,726)</u>
Income tax		<u>(402,082)</u>	<u>(107,513)</u>
Income tax expense		(575,504)	(25,653)
Deferred tax income (expenses)		173,422	(81,860)
Net Profit (Loss) for the period		<u>9,830,123</u>	<u>(4,506,239)</u>
Earnings (loss) per share			
- from continuing operations	19	0.06	(0.03)
- from discontinuing operations		-	-

Notes from the page 7 to 25 are the part of these Interim Condensed Financial Statements.

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

CONDENSED CASH FLOW STATEMENT

	Three-month period ended March 31,	
	2011 <i>(unaudited)</i>	2010 <i>(unaudited)</i>
Cash flows from operating activities		
Sales and advances received	53,648,038	47,508,168
Interest from operating activities	122	113,125
Other inflow from operating activities	63,082	39,800
<i>Cash inflow from operating activities</i>	<u>53,711,242</u>	<u>47,661,093</u>
Payments and prepayments to suppliers	(33,035,068)	(31,120,131)
Salaries, benefits and other personal expenses	(5,472,431)	(4,985,783)
Interest paid	(767,898)	(676,244)
Income tax paid	(825,691)	(197,907)
Payments for other public revenues	(14,658,636)	(13,610,543)
<i>Cash outflow from operating activities</i>	<u>(54,759,724)</u>	<u>(50,590,608)</u>
Net cash outflow from operating activities	<u>(1,048,482)</u>	<u>(2,929,515)</u>
Cash flows from investing activities		
Proceeds from sale of intangible assets and property, plant and equipment	661	14,025
<i>Cash inflow from investing activities</i>	<u>661</u>	<u>14,025</u>
Purchase of shares (net outflow)	(19,011)	(36,023)
Purchase of intangible assets, property, plant and equipment	(2,857,024)	(2,328,016)
<i>Cash outflow from investing activities</i>	<u>(2,876,035)</u>	<u>(2,364,039)</u>
Net cash outflow from investing activities	<u>(2,875,374)</u>	<u>(2,350,014)</u>
Cash flows from financing activities		
Proceeds from long term and short term borrowings	2,560,684	6,984,303
<i>Cash inflow from financing activities</i>	<u>2,560,684</u>	<u>6,984,303</u>
Outflows from long term, short term and other liabilities	(1,733,184)	(3,747,980)
<i>Cash outflow from financing activities</i>	<u>(1,733,184)</u>	<u>(3,747,980)</u>
Net cash inflow from financing activities	<u>827,500</u>	<u>3,236,323</u>
Net cash flows	<u>(3,096,356)</u>	<u>(2,043,206)</u>
Cash and cash equivalents at beginning of period	10,595,830	8,671,501
Currency translation gains on cash and cash equivalents	18,044	539,874
Currency translation losses on cash and cash equivalents	(476,396)	(52,602)
Cash and cash equivalents at end of period	<u>7,041,122</u>	<u>7,115,567</u>

Notes from the page 7 to 25 are the part of these Interim Condensed Financial Statements.

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

CONDENSED STATEMENT OF CHANGES IN EQUITY

for the three month period ended March 31, 2011

<i>(unaudited)</i>	Share capital	Other capital	Reserves	Revaluation reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated loss	Total
Balance as at January 1, 2010	81,530,200	5,597,824	889,424	39	130,243	(28,172)	(55,836,391)	32,283,167
Total increase in previous period	-	-	-	-	-	(3,100)	(4,506,239)	-
Total decrease in previous period	-	-	-	-	(37,814)	-	-	(4,547,153)
Balance as at March 31, 2010	81,530,200	5,597,824	889,424	39	92,429	(31,272)	(60,342,630)	27,736,014
Balance as at January 1, 2011	81,530,200	5,597,824	889,424	39	48,417	(49,236)	(40,997,954)	47,018,714
Total increase in previous period	-	-	-	-	3,191	(2,863)	9,830,123	9,830,451
Total decrease in previous period	-	-	-	-	-	-	-	-
Balance as at March 31, 2011	81,530,200	5,597,824	889,424	39	51,608	(52,099)	(31,167,831)	56,849,165

Notes from the page 7 to 25 are the part of these Interim Condensed Financial Statements.

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

1. GENERAL INFORMATION

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

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

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

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

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies are consistent to the policies applied in the financial statements for the year ended December 31, 2010.

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

4. SEGMENT INFORMATION

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

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

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

The reportable segments derive their revenue in following manner:

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

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

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Segment revenue	26,804,237	3,161,875	41,367,915	66,590,762	2,135,218	140,060,007
Inter-segment revenue	21,885,277	2,941,550	36,406,311	39,537,713	2,082,722	102,853,573
Total revenue	4,918,960	220,325	4,961,604	27,053,049	52,496	37,206,434
Operating income (expenses)	13,413,798	(951,995)	(6,149,640)	(857,894)	32,642	5,486,911
Financial income (expenses)	40,250	4,962	1,653,286	197,289	2,304,637	4,200,424
Other income (expenses)	312,620	(34,468)	(70,395)	61,934	275,179	544,870
Profit / loss before tax	13,766,668	(981,501)	(4,566,749)	(598,671)	2,612,458	10,232,205
Deferred tax	-	-	-	-	173,422	173,422
Income tax expense	-	-	-	-	(575,504)	(575,504)
Net profit / (loss)	13,766,668	(981,501)	(4,566,749)	(598,671)	2,210,376	9,830,123

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

4. SEGMENT INFORMATION (continued)

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

	<u>Exploration and production</u>	<u>Oil field services</u>	<u>Refining</u>	<u>Trade</u>	<u>Other</u>	<u>Total</u>
Segment revenue	11,827,210	937,292	26,438,814	28,321,855	4,124,858	71,650,029
Inter-segment revenue	10,239,647	802,317	24,201,870	4,531,193	1,624,752	41,399,779
Total revenue	1,587,563	134,975	2,236,944	23,790,662	2,500,106	30,250,250
Operating income (expenses)	6,919,365	(1,074,348)	(1,857,577)	(744,016)	(626,615)	2,616,809
Financial income (expenses)	244,502	(98)	(195)	104,566	(7,237,168)	(6,888,393)
Other income (expenses)	(135,209)	328,116	90,876	(399,387)	(11,538)	(127,142)
Profit / loss before tax	7,028,658	(746,330)	(1,766,896)	(1,038,837)	(7,875,321)	(4,398,726)
Deferred tax	-	-	-	-	(81,860)	(81,860)
Income tax expense	-	-	-	-	(25,653)	(25,653)
Net profit / (loss)	7,028,658	(746,330)	(1,766,896)	(1,038,837)	(7,982,834)	(4,506,239)

Sales among operating segment are performed in accordance with a transfer pricing decision. Measurement of revenues from external parties is consistent with the one from Income statement.

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

	<u>Exploration and production</u>	<u>Oil field services</u>	<u>Refining</u>	<u>Trade</u>	<u>Other</u>	<u>Total</u>
Assets	31,483,671	7,561,905	71,456,390	36,292,078	27,776,619	174,570,663
Liabilities	(10,842,535)	(1,370,701)	(16,732,726)	(9,270,208)	(79,505,328)	(117,721,498)
Net assets	20,641,136	6,191,204	54,723,664	27,021,870	(51,728,709)	56,849,165

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

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

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

	Three-month period ended March 31,	
	2011	2010
Sale of oil and oil products	36,034,416	26,893,882
Sale of services and other sales	707,924	538,008
	36,742,340	27,431,890

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

5. PROPERTY, PLANT AND EQUIPMENT

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

6. INVENTORIES

	March 31, 2011	December 31, 2010
Raw materials	16,026,625	19,319,424
Spare parts	3,062,318	3,089,881
Tools	130,431	120,241
Work in progress	5,886,858	6,586,856
Finished goods	7,756,962	6,995,641
Merchandise	1,999,064	1,925,793
	<u>34,862,258</u>	<u>38,037,836</u>
Advances	989,594	1,297,110
<i>Less provision:</i>		
- for inventories	(4,750,883)	(4,771,037)
- for advances	(533,459)	(563,942)
	<u>(5,284,342)</u>	<u>(5,334,979)</u>
Total inventories – net	<u>30,567,510</u>	<u>33,999,967</u>

Movement on inventory provision is as follows:

	2011	2010
At January 1st	(5,334,979)	(5,348,930)
Provision for impaired inventories charged to the period	(5,292)	(54,383)
Provision reversed		60,548
Writte off	35,775	27,970
Other	20,154	(20,184)
	<u>20,154</u>	<u>(20,184)</u>
At March 31 / December 31	<u>(5,284,342)</u>	<u>(5,334,979)</u>

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

7. TRADE AND OTHER RECEIVABLES

	March 31, 2011	December 31, 2010
Trade receivables		
- domestic	19,407,679	16,054,686
- foreign	1,608,152	1,291,755
- related parties	1,356,787	1,192,453
	<u>22,372,618</u>	<u>18,538,894</u>
Receivables from specific operations	8,027,967	8,037,783
Interest receivables	4,974,151	4,922,863
Receivables from employees	101,150	112,592
Other receivables	7,423,141	7,437,431
	<u>12,498,442</u>	<u>12,472,886</u>
	<u>42,899,027</u>	<u>39,049,563</u>
<i>Less provision:</i>		
- trade receivables	(6,050,565)	(6,022,505)
- receivables from specific operations	(7,969,667)	(7,971,114)
- interest and other receivables	(12,182,642)	(12,110,225)
	<u>(26,202,874)</u>	<u>(26,103,844)</u>
Total receivables – net	<u>16,696,153</u>	<u>12,945,719</u>
Receivables for overpaid income tax	<u>-</u>	<u>-</u>

Receivables from specific operations as of March 31, 2011 in amount of 8,027,967 RSD (December 31, 2010: 8,037,783 RSD) mostly relate to doubtful receivables with due date in 2005, in amount 6,111,290 RSD (Beobanka a.d. in amount 2,569,410 RSD; Srbijagas a.d. in amount of 2,487,575 RSD and Industrija stakla Pancevo a.d. in amount of 1,054,305 RSD). These receivables are fully provided for as at March 31, 2011.

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

The ageing analysis of trade receivables is as follows:

	March 31, 2011	December 31, 2010
Up to 3 months	16,267,417	13,232,787
Over 3 months	6,105,201	5,306,107
	<u>22,372,618</u>	<u>18,538,894</u>

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

7. TRADE AND OTHER RECEIVABLES (continued)

As of March 31, 2011 trade receivables in amount of 6,050,565 (December 31, 2010: 6,022,505 RSD) were either impaired or provided for. The individually impaired receivables mainly relate to customers which are assessed as unexpected to be collected. The ageing of receivables provided for is as follows:

	March 31, 2011	December 31, 2010
Up to 3 months	122,422	846,358
Over 3 months	5,928,143	5,176,147
	6,050,565	6,022,505

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

	March 31, 2011	December 31, 2010
RSD	41,172,897	37,622,691
EUR	767,005	228,573
USD	958,926	1,197,914
GBP	124	317
RUB	22	22
SEK	8	-
CHF	45	46
	42,899,027	39,049,563

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

8. EQUITY

	Share capital	Other capital	Reserves	Revaluation reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated loss	Total
Balance as at January 1, 2010	81,530,200	5,597,824	889,424	39	130,243	(28,172)	(55,836,391)	32,283,167
Income								
- Loss	-	-	-	-	-	-	(4,506,239)	(4,506,239)
- Gains/ losses from securities	-	-	-	-	(37,814)	(3,100)	-	(40,914)
Balance as at March 31, 2010	81,530,200	5,597,824	889,424	39	92,429	(31,272)	(60,342,630)	27,736,014
Balance as at January 1, 2011	81,530,200	5,597,824	889,424	39	48,417	(49,236)	(40,997,954)	47,018,714
Income								
- Profit	-	-	-	-	-	-	9,830,123	9,830,123
- Gains/ losses from securities	-	-	-	-	3,191	(2,863)	-	328
Balance as at March 31, 2011	81,530,200	5,597,824	889,424	39	51,608	(52,099)	(31,167,831)	56,849,165

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

8.1. SHARE CAPITAL

Share capital represent share capital of publicly listed company. As per Sale and Purchase

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

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

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

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

9. LONG TERM LOANS

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

The maturity of non-current loans was as follows:

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

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

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

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

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

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

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

9. LONG TERM LOANS (continued)

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

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

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

10. SHORT TERM FINANCIAL LIABILITIES

	March 31, 2011	December 31, 2010
Short term loans	4,567,324	2,004,540
Current portion of long term loans	18,770,572	19,761,341
Current portion of financial lease	37,774	39,716
Other short term liabilities	31	41
	23,375,701	21,805,638

11. TRADE AND OTHER PAYABLES

	March 31, 2011	December 31, 2010
Advances received	1,101,068	2,061,165
Trade payables:		
- domestic	1,740,758	2,129,440
- foreign	6,489,059	647,824
Trade payables – parents and subsidiaries	12,912	3,436
Trade payables – other related parties	7,103,830	19,475,154
Liabilities from other operations	70,774	70,113
Liabilities from specific operations	339,216	557,556
	16,857,617	24,944,688

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

Liabilities to foreign suppliers as of March 31, 2011 in the amount of 6,489,059 RSD (December 31, 2010: 647,824 RSD) mostly relate to liabilities towards Moil-coal trading co. Limited for crude oil purchase in the total amount of 5,446,755 RSD.

12. OPERATING INCOME

	Three-month period ended March 31,	
	2011	2010
Sales		
- domestic	33,081,483	25,721,976
- foreign	3,660,857	1,358,495
	36,742,340	27,080,471
Revenue from sales to subsidiaries and other related parties	-	351,419
	36,742,340	27,431,890

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

13. COST OF MATERIAL

	Three-month period ended March 31,	
	2011	2010
Cost of raw materials	18,419,069	18,212,375
Cost of office and other material	203,205	142,072
Other fuel and energy expenses	450,927	458,786
	<u>19,073,201</u>	<u>18,813,233</u>

14. COST OF SALARIES, BENEFITS AND OTHER PERSONNEL EXPENSES

	Three-month period ended March 31,	
	2011	2010
Wages and salaries (gross)	3,483,606	3,148,292
Taxes and contributions on wages and salaries paid by employer	576,321	563,098
Cost for temporary service agreement	71,336	68,571
Cost of other temporary service agreements	3,489	15,043
Fees paid to management and supervisory board members	7,379	3,098
Cost for employees termination payments	753,671	290,878
Other personal expenses and benefits	467,506	231,047
	<u>5,363,308</u>	<u>4,320,027</u>

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

	Three-month period ended March 31,	
	2011	2010
Average number of people employed	10,051	11,018

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

15. OTHER OPERATING EXPENSES

	Three-month period ended March 31,	
	2011	2010
Production services	452,179	364,960
Transportation services	386,962	317,399
Maintenance	232,812	158,670
Rental costs	60,506	40,058
Fairs	1,943	-
Advertising and representation costs	43,113	28,388
Research costs	26,890	17,701
Cost of other services	226,571	136,182
Costs of non production services	407,030	386,019
Representation costs	41,119	20,366
Insurance premium	62,621	142,929
Bank charges	29,588	50,673
Cost of custom duties, property taxes and other taxes	249,167	225,747
Mineral extraction tax	464,008	268,611
Cost of legal and consulting services	34,625	27,717
Administrative and other taxes	44,827	42,136
Other	66,833	36,957
	2,830,794	2,264,513

Cost of non-production services for year ended March 31, 2011 in the amount of 407,030 RSD (2010: 386,019 RSD) mostly relate to costs incurred for: use of service companies (security and cleaning companies) in the amount of 311,103 RSD, as cost of project management in the amount of 4,885 RSD, certification and supervision costs in amount 3,167 RSD.

16. FINANCIAL INCOME

	Three-month period ended March 31,	
	2011	2010
Interest income	307,280	308,591
Foreign exchange gains	5,047,522	712,395
Other financial income	343	5,084
	5,355,145	1,026,070

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

17. FINANCIAL EXPENSES

	Three-month period ended March 31,	
	2011	2010
Financial expenses – parent, subsidiaries and other related parties	32,885	-
Interest expenses	645,345	952,214
Foreign exchange losses	476,396	6,960,403
Other financial expenses	95	1,846
	1,154,721	7,914,463

18. OTHER EXPENSES

	Three-month period ended March 31,	
	2011	2010
Losses on disposal		
- property, plant and equipment	325	212
Shortages	107,738	11,835
Write off of inventories	-	36
Fines, penalties and damages	26,016	8,799
Humanitarian and sponsorships	22,840	15,614
New year presents	22,916	-
Business and technical cooperation expenses	21,250	-
Adjustment of investments in Angola	75,208	299,217
<i>Impairment:</i>		
- property, plant and equipment	17,209	8,583
- inventories	-	23
- receivables	352,871	1,089,533
- advances paid	5,292	-
Other	489,451	775,432
	1,141,116	2,209,284

19. EARNING PER SHARE

	Three-month period ended March 31,	
	2011	2010
Net income (loss)	9,830,123	(4,506,239)
Weighted average number of shares outstanding	163,060,400	163,060,400
Basic Earning per share	0.06	(0.03)

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

20. RELATED PARTIES TRANSACTIONS

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, that owns 56% shares of the Company. The remaining 44% of shares are quoted on the Stock Exchange and are owned by various shareholders.

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

	March 31, 2011	December 31, 2010
<i>Advances</i>		
O Zone a.d. Belgrade, Serbia	26,055	115
NIS Oversiz, Moscow, Russia	1,191	-
	<u>27,246</u>	<u>115</u>
<i>Receivables</i>		
O Zone a.d. Belgrade, Serbia	216,438	216,034
Svetlost, Bujanovac, Serbia	45,036	34,845
NIS Oversiz, Moscow, Russia	287	1,031
Ranis, Moscow area, Russia	28,797	28,799
	<u>290,558</u>	<u>280,709</u>
Total receivables:	<u>317,804</u>	<u>280,824</u>
<i>Liabilities</i>		
O Zone a.d. Belgrade, Serbia	(7,045)	(5,125)
Svetlost, Bujanovac, Serbia	(4)	(4)
Gazprom Neft Trading, Austria	(6,946,939)	(19,376,889)
Gazprom Neft, St Petersburg, Russia	(21,866,499)	(22,262,027)
	<u>(28,820,487)</u>	<u>(41,644,045)</u>
<i>Advances received</i>		
O Zone a.d. Belgrade, Serbia	(46)	-
Svetlost, Bujanovac, Serbia	(440)	(18)
	<u>(486)</u>	<u>(18)</u>
<i>Accrual</i>		
O Zone a.d. Belgrade, Serbia	(3,766)	(1,788)
Gazprom Neft, St Petersburg, Russia	-	(1,266)
	<u>(3,766)</u>	<u>(3,054)</u>
Total liabilities:	<u>(28,824,739)</u>	<u>(41,644,063)</u>
Liabilities, net:	<u>(28,506,935)</u>	<u>(41,363,239)</u>

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

20. RELATED PARTIES TRANSACTIONS (continued)

	Three-month period ended March 31,	
	2011	2010
<i>Sales</i>		
O Zone a.d. Belgrade, Serbia	3,290	3,604
Svetlost, Bujanovac, Serbia	169,252	142,920
	<u>172,542</u>	<u>146,524</u>
<i>Other operating income</i>		
O Zone a.d. Belgrade, Serbia	374	343
	<u>374</u>	<u>343</u>
<i>Cost of material</i>		
Gazprom Neft Trading, Austria	(15,720,294)	(16,883,260)
	<u>(15,720,294)</u>	<u>(16,883,260)</u>
<i>Cost of salaries, benefits and other personnel expenses</i>		
O Zone a.d. Belgrade, Serbia	(28,797)	(11,743)
	<u>(28,797)</u>	<u>(11,743)</u>
<i>Other operating expenses</i>		
O Zone a.d. Belgrade, Serbia	(1,022)	-
NIS Oversiz, Moscow, Russia	(4,278)	-
Gazprom Neft, St Petersburg, Russia	(12,665)	-
	<u>(17,965)</u>	<u>-</u>
	<u>(15,594,140)</u>	<u>(16,748,136)</u>
<i>Financial income</i>		
O Zone a.d. Belgrade, Serbia	-	163
	<u>-</u>	<u>163</u>
<i>Financial expenses</i>		
Gazprom Neft, St Petersburg, Russia	(32,885)	-
	<u>(32,885)</u>	<u>-</u>
	<u>(32,885)</u>	<u>163</u>

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

20. RELATED PARTIES TRANSACTIONS (continued)

	Three-month period ended March 31,	
	2011	2010
<i>Other income</i>		
Gazprom Neft Trading, Austria	21,417	-
O Zone a.d. Belgrade, Serbia	-	36
	21,417	36
<i>Other expenses</i>		
O Zone a.d. Belgrade, Serbia	(82)	(562)
Svetlost, Bujanovac, Serbia	(7,767)	(19,197)
Gazprom Neft, St Petersburg, Russia	(21,250)	-
Gazprom Neft Trading, Austria	(37,848)	-
	(66,947)	(19,759)
	(45,530)	(19,723)

Transactions with state controlled institution and companies:

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

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

20. RELATED PARTIES TRANSACTIONS (continued)

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

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

This version of the financial statements is a translation from the original, which was prepared in Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

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

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

21. CONTINGENT LIABILITIES

Transfer of property ownership

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

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

22. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date

Novi Sad, 27.04.2011

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

M.P.

Legal representative
