



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

Interim Condensed Consolidated Financial Statements

**As of June 30, 2011 and December 31, 2010 and
for the six month period ended June 30, 2011 and 2010
(unaudited)**

Novi Sad, September 9, 2011

Interim Condensed Consolidated Financial Statements

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

CONTENTS:	Page
Interim Condensed Consolidated Balance Sheet	3
Interim Condensed Consolidated Statements of Income	4
Interim Condensed Consolidated Statements of Cash Flow	5
Interim Condensed Consolidated Statements of Changes in Equity	6
Notes to Interim Condensed Consolidated Financial Statements	7-25

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Interim Condensed Consolidated Financial Statements

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

CONSOLIDATED BALANCE SHEET

ASSETS	Notes	June 30, 2011	December 31, 2010
Non-current assets		<i>(unaudited)</i>	
Intangible assets		4,883,128	4,841,418
Property, plant and equipment	5	108,902,768	100,924,684
Investment property		1,428,918	1,393,170
Investments in equity instruments		248,705	263,229
Other long term investments		1,383,639	1,505,758
		116,847,158	108,928,259
Current assets			
Inventories	6	42,194,256	34,016,869
Non current asset held for sale		16,238	262,431
Trade and other receivables	7	21,849,670	12,997,854
Short term financial investments		2,045,280	2,513,931
VAT and prepaid expenses		3,411,530	3,947,072
Cash and cash equivalents	8	13,586,252	10,636,669
Deferred tax assets		4,804,946	4,804,904
		87,908,172	69,179,730
Total assets		204,755,330	178,107,989
Off-balance sheet assets		84,597,244	88,793,346
LIABILITIES			
Equity			
Share capital	9	87,128,073	87,128,073
Reserves		889,305	888,587
Unrealized gains from securities		46,690	48,417
Unrealized losses from securities		(58,128)	(49,236)
Accumulated loss		(19,632,237)	(41,009,046)
		68,373,703	47,006,795
Minority interest		26,283	25,945
		68,399,986	47,032,740
Long-term provisions and liabilities			
Long-term provisions		18,494,717	18,574,652
Long-term loans	10	23,243,814	26,645,540
Other long-term liabilities	11	26,954,911	22,996,705
		68,693,442	68,216,897
Short-term liabilities			
Short-term financial liabilities	12	17,341,774	21,805,638
Trade and other payables	13	34,510,915	24,964,034
Other short-term liabilities		6,197,249	6,552,062
Liabilities for VAT and other taxes and deferred income		7,238,176	7,457,457
Income tax liabilities		509,260	620,626
		65,797,374	61,399,817
Deferred tax liabilities		1,864,528	1,458,535
Total liabilities		204,755,330	178,107,989
Off-balance sheet liabilities		84,597,244	88,793,346

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Interim Condensed Consolidated Financial Statements

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

CONSOLIDATED INCOME STATEMENT

	Notes	Six-month period ended June 30,	
		2011 <i>(unaudited)</i>	2010 <i>(unaudited)</i>
Operating income			
Sales	14	83,134,711	63,500,154
Work performed by the entity and capitalized Increase in the value of finished goods and work in progress		1,375,317	933,165
Other operating income		2,983,189	4,581,378
		<u>133,953</u>	<u>63,840</u>
		87,627,170	69,078,537
Operating expenses			
Cost of goods sold		(5,933,319)	(1,072,465)
Cost of material	15	(44,609,341)	(42,667,077)
Cost of salaries, benefits and other personnel expenses	16	(10,111,816)	(11,202,484)
Depreciation and provisions		(3,768,627)	(3,427,070)
Other operating expenses	17	(6,524,055)	(5,066,157)
		<u>(70,947,158)</u>	<u>(63,435,253)</u>
Net operating income		<u>16,680,012</u>	<u>5,643,284</u>
Financial income	18	8,000,132	2,793,847
Financial expenses	19	(2,262,876)	(19,652,990)
Other income		2,381,180	3,786,786
Other expenses		(1,989,697)	(2,520,071)
Income (loss) before income tax		<u>22,808,751</u>	<u>(9,949,144)</u>
Income tax expense		(1,021,424)	(74,212)
Deferred tax (expenses) income		(405,949)	305,859
Net Profit (Loss) for the period		<u>21,381,378</u>	<u>(9,717,497)</u>
Net profit attributable to non-controlling equity holders		574	143
Net profit (loss) attributable to owners of parent		21,380,804	(9,717,640)
Earnings (loss) per share			
- from continuing operations	20	0.13	(0.06)

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Interim Condensed Consolidated Financial Statements

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

CONSOLIDATED CASH FLOW STATEMENT

	Six-month period ended June 30,	
	2011	2010
	<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows from operating activities		
Sales and advances received	122,678,568	108,471,946
Interest from operating activities	415,996	685,937
Other inflow from operating activities	133,953	63,840
<i>Cash inflow from operating activities</i>	<u>123,228,517</u>	<u>109,221,723</u>
Payments and prepayments to suppliers	(63,023,246)	(62,110,516)
Salaries, benefits and other personal expenses	(10,829,770)	(9,492,235)
Interest paid	(1,557,824)	(1,607,727)
Income tax paid	(1,132,292)	(197,907)
Payments for other public revenues	(33,788,708)	(33,257,410)
<i>Cash outflow from operating activities</i>	<u>(110,331,840)</u>	<u>(106,665,795)</u>
Net cash inflow from operating activities	<u>12,896,677</u>	<u>2,555,928</u>
Cash flows from investing activities		
Proceeds from sale of intangible assets and property, plant and equipment	321,148	20,744
<i>Cash inflow from investing activities</i>	<u>321,148</u>	<u>20,744</u>
Purchase of intangible assets, property, plant and equipment	(10,723,029)	(4,588,162)
<i>Cash outflow from investing activities</i>	<u>(10,723,029)</u>	<u>(4,588,162)</u>
Net cash outflow from investing activities	<u>(10,401,881)</u>	<u>(4,567,418)</u>
Cash flows from financing activities		
Proceeds from long term and short term borrowings	3,193,380	8,486,157
Proceeds from other long term and short term liabilities	4,412,700	3,333,070
<i>Cash inflow from financing activities</i>	<u>7,606,080</u>	<u>11,819,227</u>
Outflows from long term, short term and other liabilities	(6,611,112)	(12,063,594)
<i>Cash outflow from financing activities</i>	<u>(6,611,112)</u>	<u>(12,063,594)</u>
Net cash inflow (outflow) from financing activities	<u>994,968</u>	<u>(244,367)</u>
Net cash flows	3,489,764	(2,255,857)
Cash and cash equivalents at beginning of period	10,636,669	8,723,278
Currency translation gains on cash and cash equivalents	417,982	345,161
Currency translation losses on cash and cash equivalents	(958,163)	(178,185)
Cash and cash equivalents at end of period	<u>13,586,252</u>	<u>6,634,397</u>

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Interim Condensed Consolidated Financial Statements

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STATEMENT OF CHANGES IN EQUITY

for the six month period ended June 30, 2011

<i>(unaudited)</i>	Share capital	Other capital	Reserves	Unrealised gains from securities	Unrealised losses from securities	Retained earnings (accumulated loss)	Minority interest	Total
Balance as at January 1, 2010	81,530,200	5,597,873	889,171	130,243	(28,172)	(56,124,575)	25,137	32,019,877
Income								
- Loss	-	-	-	-	-	(9,717,640)	143	(9,717,497)
- Losses from securities	-	-	-	(76,830)	(21,224)	-	-	(98,054)
Increase (decrease) through transfers and other changes, equity	-	-	839	-	-	(7,383)	-	(6,544)
Balance as at June 30, 2010	81,530,200	5,597,873	890,010	53,413	(49,396)	(65,849,598)	25,280	22,197,782
Balance as at January 1, 2011	81,530,200	5,597,873	888,587	48,417	(49,236)	(41,009,046)	25,945	47,032,740
Income								
- Net income	-	-	-	-	-	21,380,804	574	21,381,378
- Losses from securities	-	-	-	(1,727)	(8,892)	-	-	(10,619)
Increase (decrease) through transfers and other changes, equity	-	-	718	-	-	(3,995)	(236)	(3,513)
Balance as at June 30, 2011	81,530,200	5,597,873	889,305	46,690	(58,128)	(19,632,237)	26,283	68,399,986

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Notes to Interim Condensed Consolidated Financial Statements

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1. GENERAL INFORMATION

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

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

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

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

These condensed interim consolidated financial statements for the six-month period ended June 30, 2011 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed Interim consolidated financial statements do not include all disclosure and they should be interpreted in relation with the annual consolidated financial statements for the year ended December 31, 2010. The Group has prepared these consolidated financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia published in Official Gazette of the Republic of Serbia (no. 46/2006 and 111/2009), which requires full scope of IFRS to be applied, and the regulations issued by the Ministry of Finance of the Republic of Serbia. Due to the difference between these two regulations, these consolidated 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 consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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4. SEGMENT INFORMATION

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

As of June 30, 2011 business activities of the Group are organized into five operating segments (with the change of business structure in 2010 Oil field services became the new reportable segment):

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

The reportable segments derive their revenue in following manner:

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

Reportable segments results for the six month period ended June 30, 2011 are shown in the following table:

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Segment revenue	51,945,756	7,588,275	92,840,652	136,033,860	4,180,458	292,589,001
Inter-segment revenue	41,386,162	7,129,648	79,321,033	73,136,697	3,988,291	204,961,831
Total revenue	10,559,594	458,627	13,519,619	62,897,163	192,167	87,627,170
Operating income (expenses)	28,909,635	(1,434,383)	(9,141,205)	(1,468,093)	(185,942)	16,680,012
Financial income	85,623	10,726	1,987,351	304,027	3,349,529	5,737,256
Other income (expenses)	229,171	(73,231)	(109,313)	54,556	290,300	391,483
Profit / loss before tax	29,224,429	(1,496,888)	(7,263,167)	(1,109,510)	3,453,887	22,808,751
Deferred tax expense	-	-	-	-	(405,949)	(405,949)
Income tax expense	-	-	-	-	(1,021,424)	(1,021,424)
Net profit / (loss)	29,224,429	(1,496,888)	(7,263,167)	(1,109,510)	2,026,514	21,381,378

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Notes to Interim Condensed Consolidated Financial Statements

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

4. SEGMENT INFORMATION (continued)

Reportable segments results for the six-month period ended June 30, 2010 are shown in the following table:

	Exploration and production	Refining	Trade	Other	Total
Segment revenue	29,628,326	65,997,237	65,862,992	3,186,507	164,675,062
Inter-segment revenue	25,085,727	57,134,316	10,465,402	2,911,080	95,596,525
Total revenue	4,542,599	8,862,921	55,397,590	275,427	69,078,537
Operating income (expenses)	12,985,993	(5,407,588)	(1,437,003)	(498,118)	5,643,284
Financial income (expenses)	577,587	(4,027,615)	212,158	(13,621,273)	(16,859,143)
Other income	154,208	66,722	590,384	455,401	1,266,715
Profit / loss before tax	13,717,788	(9,368,481)	(634,461)	(13,663,990)	(9,949,144)
Deferred tax income	-	-	-	305,859	305,859
Income tax expense	-	-	-	(74,212)	(74,212)
Net profit / (loss)	13,717,788	(9,368,481)	(634,461)	(13,432,343)	(9,717,497)

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

Assets and liabilities of operating segments as of June 30, 2011 are presented in the following table:

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Assets	34,357,413	7,112,900	83,449,458	39,745,462	40,090,097	204,755,330
Liabilities	(10,900,161)	(1,317,103)	(32,605,096)	(9,153,997)	(82,378,987)	(136,355,344)
Net assets	23,457,252	5,795,797	50,844,362	30,591,465	(42,288,890)	68,399,986

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

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

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

	Six-month period ended June 30,	
	2011	2010
Sale of oil and oil products	81,497,829	61,926,654
Sale of services and other sales	1,636,882	1,573,500
	83,134,711	63,500,154

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Notes to Interim Condensed Consolidated Financial Statements

*(All amounts are in 000 RSD, unless otherwise stated)***5. PROPERTY, PLANT AND EQUIPMENT**

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in other PP&E	Advances to suppliers	Total
At January 1, 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	(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 December 31, 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	65,706	7,274,440	1,617,987	5,365,681	535	-	9,444,345	23,768,694
Disposals and advances paid used	(579)	(5,762)	(40,920)	(162,459)	-	-	(1,667,690)	(1,877,410)
Depreciation	-	(3,527,964)	(3,345,723)	-	-	(8,883)	-	(6,882,570)
Impairment charge	(13,423)	(503,581)	(376,299)	(48,838)	(1,426)	-	-	(943,567)
Transfer to intangible assets and other transfers	-	(1,139,539)	577,932	670,982	48,721	-	-	158,096
Transfer from investment property	-	(455,926)	-	-	-	-	-	(455,926)
Transferred to 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
At December 31, 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	(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
Period ended June 30, 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	1,024	1,797,719	697,918	6,438,892	527	-	4,741,458	13,677,538
Disposals and advances paid used	(231)	(6,696)	(24,518)	(1,397)	(2,208)	-	(2,633,299)	(2,668,349)
Depreciation	-	(1,347,614)	(1,610,915)	-	-	(1,505)	-	(2,960,034)
Impairment charge	-	(5,813)	(2,717)	(16,983)	(18)	-	-	(25,531)
Transfer to intangible assets and other transfers	(327)	433,879	(439,541)	(20,226)	867	-	-	(25,348)
Transfer to investment property	(3,000)	(17,192)	-	-	-	-	-	(20,192)
Closing net book amount	10,765,595	39,894,249	24,294,518	19,028,307	92,594	6,926	14,820,579	108,902,768
At June 30, 2011								
Cost	11,489,959	65,692,574	55,620,306	22,120,337	93,153	129,318	14,936,940	170,082,587
Accumulated depreciation	(724,364)	(25,798,325)	(31,325,788)	(3,092,030)	(559)	(122,392)	(116,361)	(61,179,819)
Net book amount	10,765,595	39,894,249	24,294,518	19,028,307	92,594	6,926	14,820,579	108,902,768

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Notes to Interim Condensed Consolidated Financial Statements

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5. PROPERTY, PLANT AND EQUIPMENT (continued)

The most significant investments for the six month period ended June 30, 2011 in amount of 3,586,607 thousand RSD mostly relate to investments in MHC/DHT project (investments in construction of Mild Hydrocracking Complex and Hydrofinishing in Pančevo Oil Refinery). Balance of advances paid to supplier, related to the same project, as of June 30, 2011 amounted to 8,744,442 thousand RSD.

6. INVENTORIES

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Raw materials	23,744,716	19,323,919
Finished goods	10,450,133	6,995,641
Work in progress	6,088,331	6,592,425
Spare parts	3,083,592	3,089,881
Merchandise	2,862,500	1,928,657
Tools	152,226	121,228
	<u>46,381,498</u>	<u>38,051,836</u>
Advances	<u>1,091,592</u>	<u>1,300,118</u>
<i>Less provision:</i>		
- for inventories	(4,750,883)	(4,771,037)
- for advances	<u>(527,951)</u>	<u>(563,963)</u>
	<u>(5,278,834)</u>	<u>(5,335,000)</u>
Total inventories – net	<u>42,194,256</u>	<u>34,016,869</u>

Movement on inventory provision is as follows:

	<u>2011</u>	<u>2010</u>
At January 1st	(5,335,000)	(5,296,196)
Provision for impaired inventories charged to the period	(12,189)	(54,383)
Provision reversed	-	7,793
Writte off	48,201	27,970
Other	<u>20,154</u>	<u>(20,184)</u>
At June 30 / December 31	<u>(5,278,834)</u>	<u>(5,335,000)</u>

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Notes to Interim Condensed Consolidated Financial Statements*(All amounts are in 000 RSD, unless otherwise stated)***7. TRADE AND OTHER RECEIVABLES**

	June 30, 2011	December 31, 2010
Trade receivables		
- domestic	23,929,352	16,117,569
- foreign	1,473,660	1,293,482
- related parties	1,957,272	1,125,174
	<u>27,360,284</u>	<u>18,536,225</u>
Receivables from specific operations	7,813,711	7,826,877
Interest receivables	5,170,098	4,924,697
Receivables from employees and other receivables	7,643,832	7,558,355
	<u>12,813,930</u>	<u>12,483,052</u>
	<u>47,987,925</u>	<u>38,846,154</u>
<i>Less provision:</i>		
- trade receivables	(5,977,207)	(5,977,098)
- receivables from specific operations	(7,771,483)	(7,760,208)
- interest and other receivables	(12,389,565)	(12,110,994)
	<u>(26,138,255)</u>	<u>(25,848,300)</u>
Total receivables – net	<u>21,849,670</u>	<u>12,997,854</u>

Increase of domestic trade receivables, as of June 30, 2011 amounted 23,929,352 thousand RSD (December 31, 2010: 16,117,569 thousand RSD), mostly relates to the increase of not-due receivables participation in total receivables.

Trade receivables as of June 30, 2011 in amount 6,208,421 thousand RSD from state controlled companies that are less than three months past due and trade receivables from other companies that are less than two months past due are not considered impaired, except for receivables from a number of independent customers for whom there is no recent history of default, amounted to 327,595 thousand RSD (December 31, 2010: 129,960 thousand RSD).

The ageing analysis of trade receivables is as follows:

	June 30, 2011	December 31, 2010
Up to 3 months	21,151,863	13,230,118
Over 3 months	6,208,421	5,306,107
	<u>27,360,284</u>	<u>18,536,225</u>

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Notes to Interim Condensed Consolidated Financial Statements*(All amounts are in 000 RSD, unless otherwise stated)***7. TRADE AND OTHER RECEIVABLES (continued)**

As of June 30, 2011 trade receivables in amount of 5,977,207 thousand RSD (December 31, 2010: 5,977,098 thousand RSD) were either impaired or provided for. The individually impaired receivables mainly relate to customers which are assessed as unexpected to be collected. The ageing of receivables provided for is as follows:

	June 30, 2011	December 31, 2010
Up to 3 months	142,316	800,951
Over 3 months	5,834,891	5,176,147
	5,977,207	5,977,098

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

	June 30, 2011	December 31, 2010
RSD	46,377,707	37,419,282
USD	1,104,751	1,197,914
EUR	505,257	228,573
GBP	135	317
CHF	46	46
RUB	22	22
SEK	7	-
	47,987,925	38,846,154

8. CASH AND CASH EQUIVALENTS

	June 30, 2011	December 31, 2010
Cash in bank	13,361,129	10,525,037
Cash on hand	175,037	34,724
Other cash equivalents	50,086	76,908
	13,586,252	10,636,669

As at June 30, 2011 short term bank deposits in amount 7,257,288 thousand RSD (December 31, 2010: 10,205,106 thousand RSD) represent short term deposits in banks with due date within 30 days are presented in line cash in bank.

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Notes to Interim Condensed Consolidated Financial Statements

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

9. SHARE CAPITAL

Share capital represent share capital of publicly listed company.

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 June 30, 2011 was:

Shareholders	Number of shares	Structure in %
Gazprom Neft	91,565,887	56.15%
Republic of Serbia	48,715,379	29.88%
Erste bank custody	697,856	0.43%
Zagrebačka banka d.d.	590,326	0.36%
The Royal bank of Scotland n.v.	204,682	0.13%
Citigroup global market ltd	152,750	0.09%
Julius bear multipartner-Balkan	97,986	0.06%
Hypo kastodi 4	76,706	0.05%
Unicredit Bank Austria	75,253	0.05%
East Capital Asset Manag.	66,357	0.04%
Other	20,817,218	12.77%
	163,060,400	100.00%

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Notes to Interim Condensed Consolidated Financial Statements

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

10. LONG TERM LOANS

	June 30, 2011	December 31, 2010
Domestic	19,027,890	22,162,259
Foreign	19,517,112	24,244,622
	<u>38,545,002</u>	<u>46,406,881</u>
Current portion of long-term loans	(15,301,188)	(19,761,341)
Total	<u>23,243,814</u>	<u>26,645,540</u>

The maturity of non-current loans was as follows:

	June 30, 2011	December 31, 2010
Between 1 and 2 years	9,952,118	14,747,653
Between 2 and 5 years	6,788,064	4,758,228
Over 5 years	6,503,632	7,139,659
	<u>23,243,814</u>	<u>26,645,540</u>

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

	June 30, 2011	December 31, 2010
USD	29,704,594	36,009,703
EUR	8,397,357	9,900,092
JPY	440,310	494,145
RSD	2,741	2,941
	<u>38,545,002</u>	<u>46,406,881</u>

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

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

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

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Notes to Interim Condensed Consolidated Financial Statements

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

10. LONG TERM LOANS (continued)

The carrying amounts of the Group's long term loans as of June 30, 2011 and December 31, 2010:

Creditor	Currency	June 30, 2011	December 31, 2010
Domestic long term loans			
Alfa bank Srbija, Belgrade	USD	5,344,120	6,920,531
NLB bank, Novi Sad (London club)	USD	42,683	49,678
NLB bank, Novi Sad (Paris club)	USD	450,423	513,656
NLB bank, Novi Sad (Paris club)	JPY	440,310	494,145
Erste bank, Novi Sad (London club)	USD	4,059	4,725
Erste bank, Novi Sad (Paris club)	EUR	443,729	463,078
Erste bank, Novi Sad (Paris club)	USD	255,809	290,997
Hypo Alpe Adria Bank, Belgrade	EUR	510,608	768,379
Piraeus bank, Belgrade	USD	4,803,506	5,391,054
Privredna bank, Pančevo (Paris club)	EUR	227,899	239,395
Privredna bank, Pančevo (Paris club)	USD	1,466,614	1,679,068
Government of Republic of Serbia (IBRD)	EUR	4,540,914	4,789,655
Government of Republic of Serbia, Agency for deposit assurance	USD	494,475	554,957
Other loans	RSD	2,741	2,941
		19,027,890	22,162,259
Foreign long term loans			
Moscow bank, Russian Federation	USD	7,063,980	7,928,020
EFG NEF BV, Holland	USD	3,877,689	4,522,248
Erste Bank, Holland	EUR	2,305,420	3,164,946
VUB (Bank Intesa), Slovakia	USD	3,531,990	3,964,010
NBG Bank, Greece	USD	1,504,114	2,248,855
NBG Bank, Greece	EUR	368,787	474,639
Sinochem , Great Britain	USD	865,132	1,941,904
		19,517,112	24,244,622
Less current portion of long-term loans		(15,301,188)	(19,761,341)
		23,243,814	26,645,540

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Notes to Interim Condensed Consolidated Financial Statements

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

10. LONG TERM LOANS (continued)

	Currency	Current portion		Long term	
		June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Domestic long term loans					
Alfa bank Srbija, Belgrade	USD	1,644,345	1,845,475	3,699,775	5,075,056
NLB bank, Novi Sad (London club)	USD	3,162	3,548	39,521	46,130
NLB bank, Novi Sad (Paris club)	USD	16,042	16,834	434,381	496,822
NLB bank, Novi Sad (Paris club)	JPY	13,918	14,414	426,392	479,731
Erste bank, Novi Sad (London club)	USD	301	337	3,758	4,388
Erste bank, Novi Sad (Paris club)	EUR	13,382	12,850	430,347	450,228
Erste bank, Novi Sad (Paris club)	USD	7,714	8,075	248,095	282,922
Hypo Alpe Adria Bank, Belgrade	EUR	471,330	485,292	39,278	283,087
Piraeus bank, Belgrade	USD	-	-	4,803,506	5,391,054
Privredna bank, Pančevo (Paris club)	EUR	9,872	9,708	218,027	229,687
Privredna bank, Pančevo (Paris club)	USD	63,125	67,644	1,403,489	1,611,424
Government of Republic of Serbia (IBRD)	EUR	221,893	228,465	4,319,021	4,561,190
Government of Republic of Serbia, Agency for deposit assurance	USD	-	-	494,475	554,957
Other loans	RSD	407	402	2,334	2,539
		<u>2,465,491</u>	<u>2,693,044</u>	<u>16,562,399</u>	<u>19,469,215</u>
Foreign long term loans					
Moscow bank, Russian Federation	USD	7,063,980	7,928,020	-	-
EFG NEF BV, Holland	USD	2,185,949	340,508	1,691,740	4,181,740
Erste Bank, Holland	EUR	1,536,947	1,582,473	768,473	1,582,473
VUB (Bank Intesa), Slovakia	USD	-	3,964,010	3,531,990	-
NBG Bank, Greece	USD	999,296	1,121,527	504,818	1,127,328
NBG Bank, Greece	EUR	184,393	189,855	184,394	284,784
Sinohem, Great Britain	USD	865,132	1,941,904	-	-
		<u>12,835,697</u>	<u>17,068,297</u>	<u>6,681,415</u>	<u>7,176,324</u>
		<u>15,301,188</u>	<u>19,761,341</u>	<u>23,243,814</u>	<u>26,645,540</u>

11. OTHER LONG-TERM LIABILITIES

	June 30, 2011	December 31, 2010
Liabilities to Parent	26,131,794	22,193,617
Liabilities for financial lease	67,581	87,644
Other long-term liabilities	755,536	715,444
	<u>26,954,911</u>	<u>22,996,705</u>

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Notes to Interim Condensed Consolidated Financial Statements

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

11. OTHER LONG-TERM LIABILITIES (continued)

Other long-term liabilities to parent as at June 30, 2011 in the amount of 26,131,794 thousand RSD (EUR 255,036,148) relate to borrowings from JSC Gazprom Neft, with respect to its obligation, from Sales and Purchase Agreement signed on 24 December 2008, to approve borrowing facility for financing of Program for reconstruction and modernization of technology capacities. Total investments amount to EUR 500 million and should be finalized not later than 31 December 2012. Instalments are quarterly starting from December 2012 until May 15, 2023.

12. SHORT TERM FINANCIAL LIABILITIES

	June 30, 2011	December 31, 2010
Short term loans	2,004,565	2,004,540
Current portion of long term loans (note 10)	15,301,188	19,761,341
Current portion of financial lease and other short term liabilities	36,021	39,757
	17,341,774	21,805,638

13. TRADE AND OTHER PAYABLES

	June 30, 2011	December 31, 2010
Advances received	1,782,438	2,064,911
Trade payables:		
- domestic	1,820,228	2,138,088
- foreign	5,977,239	656,363
Trade payables – other related parties	24,515,473	19,475,154
Liabilities from other operations	415,537	629,518
	34,510,915	24,964,034

Liabilities to foreign suppliers as of June 30, 2011 in the amount of 5,977,239 thousand RSD (December 31, 2010: 656,363 thousand RSD) mostly relate to liabilities towards Glencore Energy, London for crude oil purchase in the total amount of 4,764,529 thousand RSD.

As at June 30, 2011 payables to other related parties in the amount of 24,515,473 thousand RSD (December 31, 2010: 19,475,154 thousand RSD) mostly relate to liabilities for delivered crude oil by Gazprom Neft Trading, Austria in the amount of 24,307,238 thousand RSD (December 31, 2010: 19,376,889 thousand RSD).

Notes to Interim Condensed Consolidated Financial Statements

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

14. SALES

	Six-month period ended June 30,	
	2011	2010
Sales		
- domestic	69,353,187	56,085,877
- foreign	8,648,204	5,722,232
	<u>78,001,391</u>	<u>61,808,109</u>
Revenue from sales to other related parties	5,133,320	1,692,045
	<u>83,134,711</u>	<u>63,500,154</u>

Analysis of sales in accordance with IFRS 8 “Operating segments” are presented in note 4.

15. COST OF MATERIAL

	Six-month period ended June 30,	
	2011	2010
Cost of raw materials	43,273,994	41,309,206
Cost of office and other material	412,867	466,415
Other fuel and energy expenses	922,480	891,456
	<u>44,609,341</u>	<u>42,667,077</u>

16. COST OF SALARIES, BENEFITS AND OTHER PERSONNEL EXPENSES

	Six-month period ended June 30,	
	2011	2010
Wages and salaries (gross)	7,116,371	6,590,163
Taxes and contributions on wages and salaries paid by employer	1,162,607	1,166,605
Cost for temporary service agreement	151,522	152,448
Cost of other temporary service agreements	8,395	35,181
Fees paid to management and supervisory board members	14,213	6,444
Cost for employees termination payments	1,065,317	2,838,667
Other personal expenses and benefits	593,391	412,976
	<u>10,111,816</u>	<u>11,202,484</u>

Termination costs in the amount of 1,065,317 thousand RSD relate to costs incurred in relation to voluntary leave program. Total number of employees who accepted the termination of employment in 2011 is 421 (2010: 1,148 employees).

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Notes to Interim Condensed Consolidated Financial Statements

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

**16. COST OF SALARIES, BENEFITS AND OTHER PERSONNEL EXPENSES
(continued)**

	Six-month period ended June 30,	
	2011	2010
Average number of people employed	10.095	11.185

17. OTHER OPERATING EXPENSES

	Six-month period ended June 30,	
	2011	2010
Mineral extraction tax	998,529	590,383
Production services	902,135	702,307
Costs of non production services	879,709	908,091
Transportation services	797,893	741,991
Cost of custom duties, property taxes and other taxes	564,549	556,317
Cost of other services	488,883	350,100
Fee for emergency situation	481,462	-
Maintenance	463,484	354,980
Rental costs	125,524	173,420
Insurance premium	115,455	198,798
Research costs	114,598	65,222
Advertising costs	107,196	61,778
Representation costs	88,640	29,643
Administrative and other taxes	81,997	74,006
Bank charges	72,880	119,495
Cost of legal and consulting services	69,711	48,100
Fairs	2,572	597
Other	168,838	90,929
	6,524,055	5,066,157

Fee for emergency situations in amount 481,462 thousand RSD represents fee calculate in accordance with Emergency situations law.

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Notes to Interim Condensed Consolidated Financial Statements

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

18. FINANCIAL INCOME

	Six-month period ended June 30,	
	2011	2010
Foreign exchange gains	7,313,460	2,190,804
Interest income	685,937	597,459
Other financial income	735	5,584
	8,000,132	2,793,847

19. FINANCIAL EXPENSES

	Six-month period ended June 30,	
	2011	2010
Interest expenses	1,275,268	1,607,687
Foreign exchange losses parties	959,953	18,043,455
Financial expenses – parent and other related	26,054	-
Other financial expenses	1,601	1,848
	2,262,876	19,652,990

20. EARNING PER SHARE

	Six-month period ended June 30,	
	2011	2010
Net income (loss)	21,380,804	(9,717,640)
Weighted average number of shares outstanding	163,060,400	163,060,400
Basic Earning (loss) per share	0.13	(0.06)

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Notes to Interim Condensed Consolidated Financial Statements

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

21. RELATED PARTIES TRANSACTIONS

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

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

	June 30, 2011	December 31, 2010
<i>Liabilities</i>		
Gazprom Neft, St Petersburg, Russia	(26,221,228)	(22,262,027)
Gazprom Neft Trading, Austria	(24,307,238)	(19,376,889)
	<u>(50,528,466)</u>	<u>(41,638,916)</u>
<i>Advances received</i>		
Gazprom Neft NTC, Moscow, Russia	(6,383)	-
	<u>(6,383)</u>	<u>-</u>
<i>Accrual</i>		
Gazprom Neft, St Petersburg, Russia	-	(1,266)
	<u>-</u>	<u>(1,266)</u>
Total liabilities:	<u>(50,534,849)</u>	<u>(41,640,182)</u>
Liabilities, net:	<u>(50,534,849)</u>	<u>(41,640,182)</u>

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Notes to Interim Condensed Consolidated Financial Statements

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

21. RELATED PARTIES TRANSACTIONS (continued)

	Six-month period ended June 30,	
	2011	2010
<i>Sales</i>		
Gazprom Neft NTC, Moscow, Russia	4,981	-
	<u>4,981</u>	<u>-</u>
<i>Cost of material</i>		
Gazprom Neft Trading, Austria	(32,357,065)	(33,361,177)
	<u>(32,357,065)</u>	<u>(33,361,177)</u>
<i>Other operating expenses</i>		
Gazprom Neft, St Petersburg, Russia	(18,233)	-
	<u>(18,233)</u>	<u>-</u>
	<u>(32,370,317)</u>	<u>(33,361,177)</u>
<i>Financial expenses</i>		
Gazprom Neft, St Petersburg, Russia	(26,054)	(16,817)
	<u>(26,054)</u>	<u>(16,817)</u>
	<u>(26,054)</u>	<u>(16,817)</u>
<i>Other income</i>		
Gazprom Neft Trading, Austria	29,426	-
	<u>29,426</u>	<u>-</u>
<i>Other expenses</i>		
Gazprom Neft Trading, Austria	(68,527)	-
Gazprom Neft, St Petersburg, Russia	(21,250)	-
	<u>(89,777)</u>	<u>-</u>
	<u>(60,351)</u>	<u>-</u>

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Notes to Interim Condensed Consolidated Financial Statements

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

21. RELATED PARTIES TRANSACTIONS (continued)

Transactions with state controlled institution and companies:

	Receivables		Advances	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Airport Nikola Tesla	6,988	13,470	-	-
JAT Airways	208,685	301,330	2	-
HIP Petrohemija	1,949,546	1,116,183	-	-
EPS Elektrovojvodina	16,243	21,336	17,901	442
MUP Republic of Serbia	463,457	492,680	201	198
RTB BOR Group	2,094,452	2,022,461	31,453	31,453
Srbijagas	7,952,161	5,278,026	-	-
Telekom Srbija	105,573	42,133	312	47
Heating companies (sum)	203,715	461,111	500	499
Road companies (sum)	1,300	4,519	5,886	-
Army of Serbia	153,618	203,757	430	-
	13,155,738	9,957,006	56,685	32,639

	Liabilities		Advances received	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Airport Nikola Tesla	72	304	-	-
JAT Airways	-	-	137	99
HIP Petrohemija	208,236	98,264	4,569	447
EPS Elektrovojvodina	167	1,312	-	-
MUP Republic of Serbia	-	17	250	72
RTB BOR Group	-	-	534	395
Srbijagas	279,658	267,519	12,794	12,804
Telekom Srbija	7,924	3,694	442	56
Heating companies (sum)	1,875	2,616	6,949	29,399
Road companies (sum)	71	35	17	310
Army of Serbia	-	2,113	187	318
	498,003	375,874	25,879	43,900

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Notes to Interim Condensed Consolidated Financial Statements

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

21. RELATED PARTIES TRANSACTIONS (continued)

	Income		Expenses	
	Six-month period ended June 30,			
	2011	2010	2011	2010
Airport Nikola Tesla	48,474	68,028	11,618	2,140
JAT Airways	1,116,012	1,901,013	-	30
HIP Petrohemija	5,128,339	8,174,852	82,043	65,907
EPS Elektrovojvodina	56,972	99,940	336,850	279,470
MUP Republic of Serbia	711,194	1,130,710	241,660	354
RTB BOR Group	756,517	973,434	-	81
Srbijagas	5,079,386	8,402,753	109,501	128,758
Telekom Srbija	163,299	167,067	93,044	86,852
Heating companies (sum)	876,318	3,182,925	41,353	32,670
Road companies (sum)	13,560	41,713	60,766	88,139
Army of Serbia	1,081,903	1,284,038	692	4,668
	15,031,974	25,426,473	977,527	689,069

22. 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 June 30, 2011 Republic of Serbia made 16 conclusions allowing the ownership transfer in Group favor (1,790 buildings and 564 parcels, on which such facilities are located, or a total of 2,354 real estate, which makes up 27% of the total Company's assets).

23. EVENTS AFTER THE BALANCE SHEET DATE

Liquidation of NIS Oil Trading, Frankfurt, Germany was ended at July 19, 2011.

Novi Sad, 9.09.2011

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

M.P.

Legal representative

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