



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

**Interim Condensed Consolidated Financial Statements**

**As of 30 June 2012 and 31 December 2011 and  
for the six month period ended 30 June 2012 and 2011  
(unaudited)**

Novi Sad, 06 August 2012

**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 Income Statement               | 4    |
| Interim Condensed Consolidated Statement of Cash Flows        | 5    |
| Interim Condensed Consolidated Statement of Changes in Equity | 6    |
| Notes to Interim Condensed Consolidated Financial Statements  | 7-30 |

*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 consolidated financial statements**

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

**CONSOLIDATED BALANCE SHEET**

|  | Notes | <b>30 June<br/>2012</b> | <b>31 December<br/>2011</b> |
|--|-------|-------------------------|-----------------------------|
| <b>ASSETS</b>  |       | <i>(unaudited)</i>      |                             |
| <b>Non-current assets</b>                            |       |                         |                             |
| Intangible assets                                    | 5     | 7,276,744               | 4,708,964                   |
| Property, plant and equipment                        | 6     | 141,289,633             | 129,217,516                 |
| Investment property                                  |       | 1,383,998               | 1,338,269                   |
| Investments in equity instruments                    |       | 195,092                 | 225,232                     |
| Other long-term investments                          |       | 1,236,414               | 1,087,147                   |
|  |       | <b>151,381,881</b>      | <b>136,577,128</b>          |
| <b>Current assets</b>                                |       |                         |                             |
| Inventories  | 7     | 37,858,583              | 35,403,205                  |
| Non current assets held for sale                     |       | 16,238                  | 181,608                     |
| Trade and other receivables                          | 8     | 30,765,292              | 20,345,343                  |
| Short-term financial investments                     |       | 2,224,468               | 2,416,899                   |
| Cash and cash equivalents                            | 9     | 25,619,719              | 25,832,354                  |
| VAT and prepaid expenses                             | 10    | 5,289,051               | 4,922,034                   |
| Deferred tax assets                                  |       | 7,878,726               | 7,875,479                   |
|  |       | <b>109,652,077</b>      | <b>96,976,922</b>           |
| <b>Total assets</b>                                  |       | <b>261,033,958</b>      | <b>233,554,050</b>          |
| Off-balance sheet assets                             |       | 75,354,513              | 79,279,565                  |
| <b>EQUITY AND LIABILITIES</b>                        |       |                         |                             |
| <b>Equity</b>  |       |                         |                             |
| Share and other capital                              | 11    | 87,128,073              | 87,128,073                  |
| Reserves   |       | 860,849                 | 884,368                     |
| Unrealized gains from securities                     |       | 5,982                   | 29,582                      |
| Unrealized losses from securities                    |       | (70,630)                | (64,090)                    |
| Accumulated gain (loss)                              |       | 20,864,903              | (370,083)                   |
| <i>Equity attributable to owners of the parent</i>   |       | <b>108,789,177</b>      | <b>87,607,850</b>           |
| Non-controlling interests                            |       | (6,508)                 | 3,490                       |
| <b>Total equity</b>                                  |       | <b>108,782,669</b>      | <b>87,611,340</b>           |
| <b>Long-term provisions and liabilities</b>          |       |                         |                             |
| Long-term provisions                                 |       | 13,349,133              | 13,371,651                  |
| Long-term loans                                      | 12    | 31,524,814              | 33,774,543                  |
| Other long-term liabilities                          | 13    | 54,528,477              | 48,278,469                  |
|  |       | <b>99,402,424</b>       | <b>95,424,663</b>           |
| <b>Short-term liabilities</b>                        |       |                         |                             |
| Short-term financial liabilities                     | 14    | 5,143,461               | 3,445,250                   |
| Trade and other payables                             | 15    | 28,787,791              | 29,621,937                  |
| Other short-term liabilities                         | 16    | 6,052,438               | 6,694,698                   |
| Liabilities for VAT, other taxes and deferred income | 17    | 11,547,242              | 8,098,259                   |
| Income tax liabilities                               |       | 197,023                 | 1,493,849                   |
|  |       | <b>51,727,955</b>       | <b>49,353,993</b>           |
| Deferred tax liabilities                             |       | 1,120,910               | 1,164,054                   |
| <b>Total equity and liabilities</b>                  |       | <b>261,033,958</b>      | <b>233,554,050</b>          |
| Off-balance sheet liabilities                        |       | 75,354,513              | 79,279,565                  |

Notes from page 7 to 30 are part of these Interim Condensed Consolidated 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 consolidated financial statements**

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

**CONSOLIDATED INCOME STATEMENT**

|   | Notes | Six month period ended<br>30 June |                            |
|---|-------|-----------------------------------|----------------------------|
|   |       | 2012<br><i>(unaudited)</i>        | 2011<br><i>(unaudited)</i> |
| <b>Operating income</b>   |       |                                   |                            |
| Sales   | 18    | 99,715,031                        | 83,134,711                 |
| Work performed by the entity and capitalized<br>Increase in inventories of finished goods and<br>work in progress |       | 2,089,286                         | 1,375,317                  |
| Other operating income  |       | 3,640,819                         | 2,983,189                  |
|   |       | 194,610                           | 133,953                    |
|   |       | <u>105,639,746</u>                | <u>87,627,170</u>          |
| <b>Operating expenses</b>   |       |                                   |                            |
| Cost of goods sold  |       | (7,663,214)                       | (5,933,319)                |
| Raw material and consumables used   | 19    | (44,104,045)                      | (44,609,341)               |
| Employee benefits expense   | 20    | (11,183,158)                      | (10,111,816)               |
| Depreciation, amortisation and provision  | 21    | (3,722,468)                       | (3,768,627)                |
| Other operating expenses  | 22    | (7,403,252)                       | (6,524,055)                |
|   |       | <u>(74,076,137)</u>               | <u>(70,947,158)</u>        |
| <b>Profit from operating activities</b>   |       | <b><u>31,563,609</u></b>          | <b><u>16,680,012</u></b>   |
| Financial income  | 23    | 4,881,099                         | 8,000,132                  |
| Financial expenses  | 24    | (14,668,609)                      | (2,262,876)                |
| Other income  |       | 1,963,017                         | 2,381,180                  |
| Other expenses  |       | (1,422,771)                       | (1,989,697)                |
| <b>Profit before income tax</b>   |       | <b><u>22,316,345</u></b>          | <b><u>22,808,751</u></b>   |
| <b>Income tax</b>   |       |                                   |                            |
| Income tax expense  |       | (1,090,566)                       | (1,427,373)                |
| Deferred tax income (expense)   |       | (1,136,856)                       | (1,021,424)                |
|   |       | <u>46,290</u>                     | <u>(405,949)</u>           |
| <b>Profit for the period</b>  |       | <b><u>21,225,779</u></b>          | <b><u>21,381,378</u></b>   |
| Net (loss) profit attributable to non-controlling<br>equity holders   |       | (8,632)                           | 574                        |
| Net profit attributable to owners of the parent   |       | 21,234,411                        | 21,380,804                 |
| <b>Earnings per share</b>   |       |                                   |                            |
| - Basic   | 25    | 0.13                              | 0.13                       |

Notes from page 7 to 30 are part of these Interim Condensed Consolidated 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 consolidated financial statements**

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

|   | Six month period ended<br>30 June |                            |
|---|-----------------------------------|----------------------------|
|   | 2012<br><i>(unaudited)</i>        | 2011<br><i>(unaudited)</i> |
| <b>Cash flows from operating activities</b>                               |                                   |                            |
| Sales and advances received   | 136,440,385                       | 122,678,568                |
| Interest from operating activities  | 1,169,172                         | 415,996                    |
| Other inflow from operating activities                                    | 194,613                           | 133,953                    |
| <i>Cash inflow from operating activities</i>                              | <u>137,804,170</u>                | <u>123,228,517</u>         |
| Payments and prepayments to suppliers                                     | (62,084,508)                      | (50,002,753)               |
| Salaries, benefits and other personal expenses                            | (11,616,872)                      | (10,829,770)               |
| Interest paid   | (1,772,248)                       | (1,557,824)                |
| Income tax paid   | (2,434,370)                       | (1,132,292)                |
| Payments for other public revenues  | (40,585,225)                      | (46,809,201)               |
| <i>Cash outflow from operating activities</i>                             | <u>(118,493,223)</u>              | <u>(110,331,840)</u>       |
| <b>Net cash provided by operating activities</b>                          | <u>19,310,947</u>                 | <u>12,896,677</u>          |
| <b>Cash flows from investing activities</b>                               |                                   |                            |
| Proceeds from sale of intangible assets and property, plant and equipment | 31,581                            | 321,148                    |
| <i>Cash inflow from investing activities</i>                              | <u>31,581</u>                     | <u>321,148</u>             |
| Purchase of intangible assets, property, plant and equipment              | (17,149,333)                      | (10,723,029)               |
| <i>Cash outflow from investing activities</i>                             | <u>(17,149,333)</u>               | <u>(10,723,029)</u>        |
| <b>Net cash used in investing activities</b>                              | <u>(17,117,752)</u>               | <u>(10,401,881)</u>        |
| <b>Cash flows from financing activities</b>                               |                                   |                            |
| Proceeds from long-term and short term borrowings (net inflow)            | -                                 | 3,193,380                  |
| Proceeds from other long term and short term liabilities                  | 3,818,459                         | 4,412,700                  |
| <i>Cash inflow from financing activities</i>                              | <u>3,818,459</u>                  | <u>7,606,080</u>           |
| Outflows from long-term, short-term and other liabilities (net outflow)   | (7,542,217)                       | (6,611,112)                |
| <i>Cash outflow from financing activities</i>                             | <u>(7,542,217)</u>                | <u>(6,611,112)</u>         |
| <b>Net cash (used in) provided by financing activities</b>                | <u>(3,723,758)</u>                | <u>994,968</u>             |
| <b>(Decrease) Increase in cash and cash equivalents</b>                   | <b>(1,530,563)</b>                | <b>3,489,764</b>           |
| <b>Cash and cash equivalents at beginning of period</b>                   | <b>25,832,354</b>                 | <b>10,636,669</b>          |
| Currency translation gains on cash and cash equivalents                   | 1,664,380                         | 417,982                    |
| Currency translation losses on cash and cash equivalents                  | (346,452)                         | (958,163)                  |
| <b>Cash and cash equivalents at end of period</b>                         | <u><b>25,619,719</b></u>          | <u><b>13,586,252</b></u>   |

Notes from page 7 to 30 are part of these Interim Condensed Consolidated 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 consolidated financial statements**

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the six month period ended 30 June 2012 and 2011

| <i>(unaudited)</i>                  | Equity attributable to owners of parent |                  |                |                                  |                                   |                         | Non-controlling interests | Total              |
|-------------------------------------|---|------------------|----------------|----------------------------------|-----------------------------------|-------------------------|---------------------------|--------------------|
|                                     | Share capital                           | Other capital    | Reserves       | Unrealised gains from securities | Unrealised losses from securities | Accumulated gain (loss) |                           |                    |
| <b>Balance as at 1 January 2011</b> | <b>81,530,200</b>                       | <b>5,597,873</b> | <b>888,587</b> | <b>48,417</b>                    | <b>(49,236)</b>                   | <b>(41,009,046)</b>     | <b>25,945</b>             | <b>47,032,740</b>  |
| Result for the period:              |   |                  |                |                                  |                                   |                         |                           |                    |
| - Profit                            | -                                       | -                | -              | -                                | -                                 | 21,380,804              | 574                       | 21,381,378         |
| - Losses from securities            | -                                       | -                | -              | (1,727)                          | (8,892)                           | -                       | -                         | (10,619)           |
| Other changes                       | -                                       | -                | 718            | -                                | -                                 | (3,995)                 | (236)                     | (3,513)            |
| <b>Balance as at 30 June 2011</b>   | <b>81,530,200</b>                       | <b>5,597,873</b> | <b>889,305</b> | <b>46,690</b>                    | <b>(58,128)</b>                   | <b>(19,632,237)</b>     | <b>26,283</b>             | <b>68,399,986</b>  |
| <b>Balance as at 1 January 2012</b> | <b>81,530,200</b>                       | <b>5,597,873</b> | <b>884,368</b> | <b>29,582</b>                    | <b>(64,090)</b>                   | <b>(370,084)</b>        | <b>3,491</b>              | <b>87,611,340</b>  |
| Result for the period:              |   |                  |                |                                  |                                   |                         |                           |                    |
| - Profit                            | -                                       | -                | -              | -                                | -                                 | 21,234,411              | (8,632)                   | 21,225,779         |
| - Losses from securities            | -                                       | -                | -              | (23,600)                         | (6,540)                           | -                       | -                         | (30,140)           |
| Other changes                       | -                                       | -                | (23,519)       | -                                | -                                 | 576                     | (1,367)                   | (24,310)           |
| <b>Balance as at 30 June 2012</b>   | <b>81,530,200</b>                       | <b>5,597,873</b> | <b>860,849</b> | <b>5,982</b>                     | <b>(70,630)</b>                   | <b>20,864,903</b>       | <b>(6,508)</b>            | <b>108,782,669</b> |

Notes from page 7 to 30 are part of these Interim Condensed Consolidated 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 the interim condensed 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 (Prime Market). The address of the Parent’s registered office is in Novi Sad, no.12 Narodnog fronta Street.

The financial statements of below listed subsidiaries are consolidated as at 30 June 2012:

| Name  | Share % |
|---|---------|
| O Zone a.d. Belgrade, Serbia                        | 100     |
| NIS Petrol d.o.o., 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, Russian Federation             | 100     |
| NTC NIS-Naftagas d.o.o., Novi Sad, Serbia           | 100     |
| Naftagas-Tehnicki servisi d.o.o., Zrenjanin, Serbia | 100     |
| Naftagas-Naftni servisi d.o.o. Novi Sad, Serbia     | 100     |
| Naftagas-Transport d.o.o. Zrenjanin, Serbia         | 100     |
| Jadran - Naftagas d.o.o., Banja Luka, B&H           | 66      |
| Ranis, Moscow region, Russian Federation            | 51      |
| Jubos, Bor, Serbia                                  | 51      |
| Svetlost, Bujanovac, Serbia                         | 51      |

In 2012., the Parent established following companies:

- Naftagas-Naftni servisi d.o.o., Novi Sad. As of 30 June 2012 the total equity of the new company amounts to 3,579,983 RSD (non-cash contribution 3,579,930 RSD).
- NTC NIS-Naftagas d.o.o., Novi Sad. As of 30 June 2012 the total equity of the new company amounts to 321,500 RSD (non-cash contribution 321,447 RSD).
- Naftagas-Tehnicki servisi d.o.o., Zrenjanin. As of 30 June 2012 the total equity of the new company amounts to 1,044,554 RSD (non-cash contribution 1,044,501 RSD).
- Naftagas-Transport d.o.o., Zrenjanin. As of 30 June 2012 the total equity of the new company amounts to 327,751 RSD (non-cash contribution 327,695 RSD).

These interim condensed consolidated financial statements have been approved by CEO.

**Notes to the interim condensed consolidated financial statements**

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

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

These interim condensed consolidated financial statements for the six month period ended 30 June 2012 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The interim condensed consolidated financial statements do not include all disclosures and they should be interpreted in relation with the annual financial statements for the year ended 31 December 2011. The Group has prepared these interim condensed consolidated financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia published in Official Gazette of the Republic of Serbia (no. 46/2006 and 111/2009), which requires full scope of IFRS to be applied, and the regulations issued by the Ministry of Finance of the Republic of Serbia. Due to the difference between these two regulations, these interim condensed consolidated financial statements differ from IFRS in the following respects:

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

**Notes to the interim condensed consolidated financial statements**

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

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

The principal accounting policies are consistent to the policies applied in the financial statements for the year ended 31 December 2011.

**4. SEGMENT INFORMATION**

Operating segments, are segments whose operating results are regularly reviewed by the Chief Operating Decision Maker („CODM“) of the Parent. During 2012, the Company has adopted new governance structure in compliance with the new Company law of the Republic of Serbia. The Board of Directors and the General Manager Advisory Board represent the CODM according to newly adopted structure.

In 2011, new business segment within the Group - "Energy" was founded for the operations expansion to electricity and heat production. On 30 June 2012 the business segment Energy did not qualify as a separate reporting segment and was included within Other reporting segment.

As of 30 June 2012 business activities of the Group are organized into five operating segments:

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

The reportable segments derive their revenue in following manner:

1. Exploration and Production of Oil and Natural Gas – 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.

**Notes to the interim condensed consolidated financial statements**

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

**4. SEGMENT INFORMATION (continued)**

Reportable segment results for the six month period ended 30 June 2012 are shown in the following table:

|   | <b>Exploration and production</b> | <b>Oil field services</b> | <b>Refining</b>    | <b>Trade</b>     | <b>Other</b>        | <b>Total</b>      |
|---|-----------------------------------|---------------------------|--------------------|------------------|---------------------|-------------------|
| Segment revenue                                 | 48,234,340                        | 3,546,474                 | 74,476,489         | 89,234,246       | 4,939,042           | 220,430,591       |
| Inter-segment revenue                           | (41,311,151)                      | (1,432,363)               | (70,899,902)       | (954,726)        | (192,703)           | (114,790,845)     |
| Operating income – total                        | 6,923,189                         | 2,114,111                 | 3,576,587          | 88,279,520       | 4,746,339           | 105,639,746       |
| Depreciation                                    | (1,024,402)                       | (424,744)                 | (996,999)          | (373,001)        | (480,766)           | (3,299,912)       |
| Impairment losses                               | (238)                             | (10,036)                  | (14,869)           | (44,923)         | (21,432)            | (91,498)          |
| Segment profit (loss) from operating activities | 41,377,016                        | (322,431)                 | (4,467,604)        | (1,044,474)      | (3,978,898)         | 31,563,609        |
| Financial income (expenses)                     | (7,711)                           | 26,088                    | (1,977,344)        | 252,230          | (8,080,773)         | (9,787,510)       |
| Other income (expenses)                         | 636,972                           | 5,126                     | 17,476             | (149,012)        | 29,684              | 540,246           |
| Segment Profit (loss) before tax                | 42,006,277                        | (291,217)                 | (6,427,472)        | (941,256)        | (12,029,987)        | 22,316,345        |
| Deferred tax income                             | -                                 | 1,653                     | -                  | -                | 44,637              | 46,290            |
| Income tax expense                              | -                                 | (10,674)                  | -                  | (245)            | (1,125,937)         | (1,136,856)       |
| Segment profit (loss)                           | <b>42,006,277</b>                 | <b>(300,238)</b>          | <b>(6,427,472)</b> | <b>(941,501)</b> | <b>(13,111,287)</b> | <b>21,225,779</b> |

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

|   | <b>Exploration and production</b> | <b>Oil field services</b> | <b>Refining</b>    | <b>Trade</b>   | <b>Other</b>       | <b>Total</b>      |
|---|-----------------------------------|---------------------------|--------------------|----------------|--------------------|-------------------|
| Segment revenue                                 | 32,638,692                        | 2,223,757                 | 64,655,027         | 78,527,244     | 270,153            | 178,314,873       |
| Inter-segment revenue                           | (26,079,101)                      | (796,891)                 | (63,085,159)       | (657,413)      | (69,139)           | (90,687,703)      |
| Operating income – total                        | 6,559,591                         | 1,426,866                 | 1,569,868          | 77,869,831     | 201,014            | 87,627,170        |
| Depreciation                                    | (1,013,253)                       | (397,220)                 | (1,004,716)        | (395,171)      | (488,551)          | (3,298,911)       |
| Impairment losses                               | (7,164)                           | (17)                      | (9,888)            | (6,231)        | (2,231)            | (25,531)          |
| Segment profit (loss) from operating activities | 26,651,062                        | (950,107)                 | (5,434,042)        | (226,832)      | (3,360,069)        | 16,680,012        |
| Financial income                                | 85,623                            | 10,726                    | 1,987,351          | 303,041        | 3,350,515          | 5,737,256         |
| Other income (expenses)                         | 225,504                           | (73,231)                  | (109,313)          | 62,858         | 285,665            | 391,483           |
| Segment Profit (loss) before tax                | 26,962,189                        | (1,012,612)               | (3,556,004)        | 139,067        | 276,111            | 22,808,751        |
| Deferred tax expense                            | -                                 | -                         | -                  | -              | (405,949)          | (405,949)         |
| Income tax expense                              | -                                 | -                         | -                  | (16)           | (1,021,408)        | (1,021,424)       |
| Segment profit (loss)                           | <b>26,962,189</b>                 | <b>(1,012,612)</b>        | <b>(3,556,004)</b> | <b>139,051</b> | <b>(1,151,246)</b> | <b>21,381,378</b> |

*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 the interim condensed consolidated financial statements**

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

**4. SEGMENT INFORMATION (continued)**

Intersegment revenue are performed in accordance with the 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:

|  | <b>Six month period ended<br/>30 June</b> |                   |
|--|---|-------------------|
|  | <b>2012</b>                               | <b>2011</b>       |
| <i>Sales:</i>  |   |                   |
| Sale of crude oil  | 2,901,744                                 | -                 |
| Sale of petroleum products                                     | 87,345,740                                | 75,634,067        |
| Sale of goods  | 8,823,859                                 | 6,816,297         |
| Sale of services   | 643,688                                   | 684,347           |
|  | <b>99,715,031</b>                         | <b>83,134,711</b> |
| Work performed by the entity and capitalized                   | 2,089,286                                 | 1,375,317         |
| Increase in inventories of finished goods and work in progress | 3,640,819                                 | 2,983,189         |
| Other operating income   | 194,610                                   | 133,953           |
| <b>Total Operating Income</b>                                  | <b>105,639,746</b>                        | <b>87,627,170</b> |

*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 the interim condensed consolidated financial statements

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

5. INTANGIBLE ASSETS

|   | Research and development | Concessions, patents, licenses and rights | Intangible assets under development | Other intangibles | Total            |
|---|--------------------------|---|-------------------------------------|-------------------|------------------|
| <b>As at 1 January 2011</b>                 |                          |   |                                     |                   |                  |
| 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)      |
| <b>Net book amount</b>                      | <b>-</b>                 | <b>693,688</b>                            | <b>145,566</b>                      | <b>4,002,164</b>  | <b>4,841,418</b> |
| <b>Period ended 30 June 2011</b>            |                          |   |                                     |                   |                  |
| Opening net book amount                     | -                        | 693,688                                   | 145,566                             | 4,002,164         | 4,841,418        |
| Additions                                   | 18,956                   | 107,334                                   | 188,926                             | -                 | 315,216          |
| Transfer from property, plant and equipment | -                        | 65,808                                    | -                                   | -                 | 65,808           |
| Depreciation                                | -                        | (42,785)                                  | -                                   | (296,092)         | (338,877)        |
| Disposals and other transfers               | -                        | (8)                                       | -                                   | (429)             | (437)            |
| <b>Closing net book amount</b>              | <b>18,956</b>            | <b>824,037</b>                            | <b>334,492</b>                      | <b>3,705,643</b>  | <b>4,883,128</b> |
| <b>As at 30 June 2011</b>                   |                          |   |                                     |                   |                  |
| Cost  | 18,956                   | 1,051,262                                 | 2,032,786                           | 4,728,128         | 7,831,132        |
| Accumulated depreciation and impairment     | -                        | (227,225)                                 | (1,698,294)                         | (1,022,485)       | (2,948,004)      |
| <b>Net book amount</b>                      | <b>18,956</b>            | <b>824,037</b>                            | <b>334,492</b>                      | <b>3,705,643</b>  | <b>4,883,128</b> |
| <b>As at 1 January 2012</b>                 |                          |   |                                     |                   |                  |
| Cost  | 182,322                  | 956,792                                   | 413,952                             | 4,761,744         | 6,314,810        |
| Accumulated depreciation and impairment     | -                        | (230,183)                                 | (142,279)                           | (1,233,384)       | (1,605,846)      |
| <b>Net book amount</b>                      | <b>182,322</b>           | <b>726,609</b>                            | <b>271,673</b>                      | <b>3,528,360</b>  | <b>4,708,964</b> |
| <b>Period ended 30 June 2012</b>            |                          |   |                                     |                   |                  |
| Opening net book amount                     | 182,322                  | 726,609                                   | 271,673                             | 3,528,360         | 4,708,964        |
| Additions                                   | 582,861                  | 3,378                                     | 724,120                             | 16,977            | 1,327,336        |
| Transfer from property, plant and equipment | 1,602,487                | -   | (8,734)                             | 7,529             | 1,601,282        |
| Depreciation                                | -                        | (44,375)                                  | -                                   | (299,273)         | (343,648)        |
| Impairment                                  | (21,159)                 | -   | -                                   | -                 | (21,159)         |
| Disposals                                   | -                        | -   | -                                   | 754               | 754              |
| Translation reserves                        | 37,150                   | 8,606                                     | -                                   | 22                | 45,778           |
| Other transfers                             | -                        | (1,823)                                   | (35,063)                            | (5,677)           | (42,563)         |
| <b>Closing net book amount</b>              | <b>2,383,661</b>         | <b>692,395</b>                            | <b>951,996</b>                      | <b>3,248,692</b>  | <b>7,276,744</b> |
| <b>As at 30 June 2012</b>                   |                          |   |                                     |                   |                  |
| Cost  | 2,404,820                | 968,919                                   | 1,136,866                           | 4,778,763         | 9,289,368        |
| Accumulated depreciation and impairment     | (21,159)                 | (276,524)                                 | (184,870)                           | (1,530,071)       | (2,012,624)      |
| <b>Net book amount</b>                      | <b>2,383,661</b>         | <b>692,395</b>                            | <b>951,996</b>                      | <b>3,248,692</b>  | <b>7,276,744</b> |

Other intangible assets as of 30 June 2012 mostly relate to investment in SAP system in the amount of 3,137,006 RSD (31 December 2011: 3,401,832 RSD) .

## Notes to the interim condensed consolidated financial statements

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

## 6. PROPERTY, PLANT AND EQUIPMENT

|  | Land              | Buildings         | Machinery<br>and<br>equipment | Construction in<br>Progress | Other PP&E    | Investments in<br>leased PP&E | Advances to<br>suppliers | Total              |
|--|-------------------|-------------------|-------------------------------|-----------------------------|---------------|-------------------------------|--------------------------|--------------------|
| <b>As at 1 January 2011</b>                          |                   |                   |                               |                             |               |                               |                          |                    |
| 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)       |
| <b>Net book amount</b>                               | <b>10,768,129</b> | <b>39,039,966</b> | <b>25,674,291</b>             | <b>12,628,021</b>           | <b>93,426</b> | <b>8,431</b>                  | <b>12,712,420</b>        | <b>100,924,684</b> |
| <b>Period ended 30 June 2011</b>                     |                   |                   |                               |                             |               |                               |                          |                    |
| 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         |
| Other transfers                                      | (327)             | 433,879           | (439,541)                     | 45,582                      | 867           | -                             | -                        | 40,460             |
| Transfer to intangible assets                        | -                 | -                 | -                             | (65,808)                    | -             | -                             | -                        | (65,808)           |
| 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 investment property                      | (3,000)           | (17,192)          | -                             | -                           | -             | -                             | -                        | (20,192)           |
| <b>Closing net book amount</b>                       | <b>10,765,595</b> | <b>39,894,249</b> | <b>24,294,518</b>             | <b>19,028,307</b>           | <b>92,594</b> | <b>6,926</b>                  | <b>14,820,579</b>        | <b>108,902,768</b> |
| <b>As at 30 June 2011</b>                            |                   |                   |                               |                             |               |                               |                          |                    |
| 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 and impairment              | (724,364)         | (25,798,325)      | (31,325,788)                  | (3,092,030)                 | (559)         | (122,392)                     | (116,361)                | (61,179,819)       |
| <b>Net book amount</b>                               | <b>10,765,595</b> | <b>39,894,249</b> | <b>24,294,518</b>             | <b>19,028,307</b>           | <b>92,594</b> | <b>6,926</b>                  | <b>14,820,579</b>        | <b>108,902,768</b> |
| <b>As at 1 January 2012</b>                          |                   |                   |                               |                             |               |                               |                          |                    |
| 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)       |
| <b>Net book amount</b>                               | <b>11,721,568</b> | <b>39,111,715</b> | <b>25,413,954</b>             | <b>44,124,668</b>           | <b>91,288</b> | <b>5,421</b>                  | <b>8,748,902</b>         | <b>129,217,516</b> |
| <b>Period ended 30 June 2012</b>                     |                   |                   |                               |                             |               |                               |                          |                    |
| Opening net book amount                              | 11,721,568        | 39,111,715        | 25,413,954                    | 44,124,668                  | 91,288        | 5,421                         | 8,748,902                | 129,217,516        |
| Additions  | 908,107           | 2,001,320         | 2,008,040                     | 15,252,617                  | -             | -                             | 2,617,976                | 22,788,060         |
| Acquisitions through business combinations (note 27) | -                 | -                 | -                             | 1,293,551                   | -             | -                             | -                        | 1,293,551          |
| Other transfers                                      | -                 | 51,575            | (56,060)                      | -                           | 4,485         | -                             | -                        | -                  |
| Disposals and advances paid used                     | -                 | (10,553)          | (21,516)                      | (281,314)                   | (4,485)       | -                             | (7,247,570)              | (7,565,438)        |
| Translation reserves                                 | 156,924           | 20,413            | 6,951                         | 46,502                      | -             | -                             | -                        | 230,790            |
| Depreciation   | -                 | (1,259,452)       | (1,695,307)                   | -                           | -             | (1,505)                       | -                        | (2,956,264)        |
| Impairment charge                                    | -                 | (13,404)          | (38,388)                      | (18,547)                    | -             | -                             | -                        | (70,339)           |
| Transfer to intangible assets                        | -                 | -                 | -                             | (1,601,282)                 | -             | -                             | -                        | (1,601,282)        |
| Transfer to investment property                      | (37,736)          | (9,225)           | -                             | -                           | -             | -                             | -                        | (46,961)           |
| <b>Closing net book amount</b>                       | <b>12,748,863</b> | <b>39,892,389</b> | <b>25,617,674</b>             | <b>58,816,195</b>           | <b>91,288</b> | <b>3,916</b>                  | <b>4,119,308</b>         | <b>141,289,633</b> |
| <b>As at 30 June 2012</b>                            |                   |                   |                               |                             |               |                               |                          |                    |
| Cost   | 13,424,480        | 65,723,879        | 62,405,890                    | 61,511,719                  | 96,308        | 129,318                       | 4,140,726                | 207,432,320        |
| Accumulated depreciation and impairment              | (675,617)         | (25,831,490)      | (36,788,216)                  | (2,695,524)                 | (5,020)       | (125,402)                     | (21,418)                 | (66,142,687)       |
| <b>Net book amount</b>                               | <b>12,748,863</b> | <b>39,892,389</b> | <b>25,617,674</b>             | <b>58,816,195</b>           | <b>91,288</b> | <b>3,916</b>                  | <b>4,119,308</b>         | <b>141,289,633</b> |

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 the interim condensed consolidated financial statements***(All amounts are in 000 RSD, unless otherwise stated)***6. PROPERTY, PLANT AND EQUIPMENT (continued)**

The additions to property, plant and equipment for the six month period ended 30 June 2012 in the amount of 22,788,060 RSD (2011: 13,677,538 RSD) mostly relate to investments in MHC/DHT project (investments in construction of Mild Hydrocracking Complex and Hydrofinishing in Pančevo Oil Refinery) in amount of 11,648,353 RSD. Advances paid to suppliers, related to the MHC/DHT project, as of 30 June 2012 amounted to 2,836,770 RSD.

In 2012 the Group has capitalized borrowing costs for construction of qualifying assets as part of their acquisition cost in the amount of 972,422 RSD (2011: 423,763 RSD).

**7. INVENTORIES**

|                                | <b>30 June<br/>2012</b>  | <b>31 December<br/>2011</b> |
|--------------------------------|--------------------------|-----------------------------|
| Raw materials                  | 19,152,018               | 23,275,562                  |
| Spare parts                    | 2,908,040                | 2,783,196                   |
| Tools                          | 189,103                  | 137,703                     |
| Work in progress               | 6,567,866                | 5,808,325                   |
| Finished goods                 | 11,429,470               | 8,548,192                   |
| Merchandise                    | 4,930,789                | 2,272,222                   |
|                                | <u>45,177,286</u>        | <u>42,825,200</u>           |
| Advances                       | 858,912                  | 764,590                     |
| <i>Less provision:</i>         |                          |                             |
| - for inventories              | (7,805,485)              | (7,806,896)                 |
| - for advances                 | (372,130)                | (379,689)                   |
|                                | <u>(8,177,615)</u>       | <u>(8,186,585)</u>          |
| <b>Total inventories – net</b> | <b><u>37,858,583</u></b> | <b><u>35,403,205</u></b>    |

Movement on inventory provision is as follows:

|  | <b>2012</b>               | <b>2011</b>               |
|--|---------------------------|---------------------------|
| <b>As at January 1</b>                                   | (8,186,585)               | (5,335,000)               |
| Provision for impaired inventories charged to the period | (765)                     | (12,189)                  |
| Provision reversed                                       | 8,324                     | 48,201                    |
| Other  | 1,411                     | 20,154                    |
| <b>As at June 30</b>                                     | <b><u>(8,177,615)</u></b> | <b><u>(5,278,834)</u></b> |

*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 the interim condensed consolidated financial statements**

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

**8. TRADE AND OTHER RECEIVABLES**

|  | <b>30 June<br/>2012</b>  | <b>31 December<br/>2011</b> |
|--|--------------------------|-----------------------------|
| Trade receivables:                     |                          |                             |
| - domestic                             | 31,239,832               | 22,616,484                  |
| - foreign                              | 1,278,368                | 1,055,870                   |
| - related parties                      | 2,638,251                | 1,999,116                   |
|  | <u>35,156,451</u>        | <u>25,671,470</u>           |
| Receivables from specific operations   | 8,383,193                | 7,787,863                   |
| Interest receivables                   | 5,023,953                | 4,984,493                   |
| Receivables from employees             | 82,594                   | 87,281                      |
| Other receivables                      | 7,444,888                | 7,461,184                   |
|  | <u>12,551,435</u>        | <u>12,532,958</u>           |
|  | <u>56,091,079</u>        | <u>45,992,291</u>           |
| <i>Less provision:</i>                 |                          |                             |
| - trade receivables                    | (4,803,682)              | (5,695,782)                 |
| - receivables from specific operations | (8,379,144)              | (7,767,667)                 |
| - interest receivables                 | (4,815,976)              | (4,856,030)                 |
| - other receivables                    | (7,326,985)              | (7,327,469)                 |
|  | <u>(25,325,787)</u>      | <u>(25,646,948)</u>         |
| <b>Total receivables – net</b>         | <b><u>30,765,292</u></b> | <b><u>20,345,343</u></b>    |

In accordance with the Agreement on debt repayment with JP Srbijagas, Novi Sad, on 25 Jun 2012 the Group has rescheduled its receivable from sales of natural gas in total of 10,360,842 RSD which will be collected in four equal monthly installments. The last installment is due on 31 December 2012.

Trade receivables as of 30 June 2012 in the amount of 4,905,990 RSD that are more than 90 days overdue are considered as impaired, except for receivables in the amount of 166,774 RSD (31 December 2011: 269,440 RSD) which relate to receivables to a certain number of customers which have not defaulted recently.

The ageing of trade receivables is as follows:

|                | <b>30 June<br/>2012</b> | <b>31 December<br/>2011</b> |
|----------------|-------------------------|-----------------------------|
| Up to 3 months | 30,250,461              | 19,780,737                  |
| Over 3 months  | 4,905,990               | 5,890,733                   |
|                | <u>35,156,451</u>       | <u>25,671,470</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 the interim condensed consolidated financial statements***(All amounts are in 000 RSD, unless otherwise stated)***8. TRADE AND OTHER RECEIVABLES (continued)**

As of 30 June 2012 trade receivables in the amount of 4,803,682 RSD (31 December 2011: 5,695,782 RSD) were completely impaired and provided for. The individually impaired receivables mainly relate to customers which are assessed as uncollectable. The ageing of receivables provided for is as follows:

|                | <b>30 June<br/>2012</b> | <b>31 December<br/>2011</b> |
|----------------|-------------------------|-----------------------------|
| Up to 3 months | 64,466                  | 74,489                      |
| Over 3 months  | 4,739,216               | 5,621,293                   |
|                | <b>4,803,682</b>        | <b>5,695,782</b>            |

The carrying amounts of the Group's trade and other receivables relate to following currencies:

|       | <b>30 June<br/>2012</b> | <b>31 December<br/>2011</b> |
|-------|-------------------------|-----------------------------|
| RSD   | 53,547,143              | 44,834,760                  |
| EUR   | 206,503                 | 241,141                     |
| USD   | 2,336,216               | 916,156                     |
| Other | 1,217                   | 234                         |
|       | <b>56,091,079</b>       | <b>45,992,291</b>           |

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

|                                    | <b>2012</b>         | <b>2011</b>         |
|------------------------------------|---------------------|---------------------|
| <b>As at January 1</b>             | (25,646,948)        | (25,848,300)        |
| Provision for impaired receivables | (725,245)           | (736,814)           |
| Written off                        | 211,996             | 33,898              |
| Unused amounts reversed            | 834,410             | 415,133             |
| Other                              | -                   | (2,172)             |
| <b>As at Jun 30</b>                | <b>(25,325,787)</b> | <b>(26,138,255)</b> |

**9. CASH AND CASH EQUIVALENTS**

|                        | <b>30 June<br/>2012</b> | <b>31 December<br/>2011</b> |
|------------------------|-------------------------|-----------------------------|
| Cash in bank           | 24,925,345              | 25,397,340                  |
| Cash on hand           | 460,627                 | 391,963                     |
| Other cash equivalents | 233,747                 | 43,051                      |
|                        | <b>25,619,719</b>       | <b>25,832,354</b>           |

As at 30 June 2012 short-term bank deposits with maturity up to 90 days in amount of 15,215,803 RSD (31 December 2011: 16,473,646 RSD) are presented as Cash in bank.

*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 the interim condensed consolidated financial statements**

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

**10. VAT AND PREPAID EXPENSES**

|                                     | <b>30 June<br/>2012</b> | <b>31 December<br/>2011</b> |
|-------------------------------------|-------------------------|-----------------------------|
| Prepayment for VAT                  | 1,423,609               | 2,027,935                   |
| Prepaid expenses                    | 224,885                 | 56,682                      |
| Accrued revenue                     | 1,458,533               | 484,112                     |
| Prepaid excise duty                 | 790,857                 | 1,119,985                   |
| Housing loans and other prepayments | 1,391,167               | 1,233,320                   |
|                                     | <b>5,289,051</b>        | <b>4,922,034</b>            |

Prepayment for VAT as of 30 June 2012 in the amount of 1,423,609 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.

Accrued revenue as of 30 June 2012 in the amount of 1,458,533 RSD (31 December 2011: 484,112 RSD) mainly relates to un-invoiced receivables from sales of crude oil during the current period in the amount of 1,072,633 RSD.

Prepaid excise duty amounting to 790,857 RSD (31 December 2011: 1,119,985 RSD) refers to the excise paid for finished products stored in non-excise warehouse.

**11. SHARE CAPITAL**

Share capital represents the Parent's share capital which is listed on Belgrade Stock Exchange.

The structure of the share capital as at 30 June 2012 was:

| <b>Shareholders</b>                             | <b>Number of shares</b> | <b>Structure in %</b> |
|---|-------------------------|-----------------------|
| Gazprom Neft, St Petersburg, Russian Federation | 91,565,887              | 56.15%                |
| Republic of Serbia                              | 48,712,869              | 29.87%                |
| Unicredit bank Serbia ad - custody account      | 612,951                 | 0.38%                 |
| Unicredit bank Serbia ad - custody account      | 538,817                 | 0.33%                 |
| Erste bank a.d. Novi Sad - custody account      | 451,071                 | 0.28%                 |
| Societe Generale Bank Serbia - custody account  | 151,539                 | 0.09%                 |
| Julius Baer Multipartner Balka                  | 133,686                 | 0.08%                 |
| Unicredit bank Serbia ad - custody account      | 128,264                 | 0.08%                 |
| Raiffeisenbank ad Beograd - custody account     | 114,351                 | 0.07%                 |
| AWLL Communications d.o.o. Beograd              | 110,603                 | 0.07%                 |
| Other   | 20,540,362              | 12.60%                |
|   | <b>163,060,400</b>      | <b>100.00%</b>        |

*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 the interim condensed consolidated financial statements**

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

**12. LONG-TERM LOANS**

|                                    | <b>30 June<br/>2012</b>  | <b>31 December<br/>2011</b> |
|------------------------------------|--------------------------|-----------------------------|
| Domestic                           | 17,468,923               | 19,064,657                  |
| Foreign                            | 15,122,830               | 16,984,538                  |
|                                    | <u>32,591,753</u>        | <u>36,049,195</u>           |
| Current portion of long-term loans | (1,066,939)              | (2,274,652)                 |
| <b>Total</b>                       | <b><u>31,524,814</u></b> | <b><u>33,774,543</u></b>    |

The maturity of non-current loans was as follows:

|                       | <b>30 June<br/>2012</b>  | <b>31 December<br/>2011</b> |
|-----------------------|--------------------------|-----------------------------|
| Between 1 and 2 years | 5,771,877                | 4,538,604                   |
| Between 2 and 5 years | 19,101,655               | 22,487,295                  |
| Over 5 years          | 6,651,282                | 6,748,644                   |
|                       | <b><u>31,524,814</u></b> | <b><u>33,774,543</u></b>    |

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

|     | <b>30 June<br/>2012</b>  | <b>31 December<br/>2011</b> |
|-----|--------------------------|-----------------------------|
| RSD | 1,281,306                | 1,281,436                   |
| EUR | 9,342,390                | 8,900,998                   |
| USD | 21,404,841               | 25,352,982                  |
| JPY | 563,216                  | 513,779                     |
|     | <b><u>32,591,753</u></b> | <b><u>36,049,195</u></b>    |

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

The Group repays 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.

**Notes to the interim condensed consolidated financial statements**

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

**12. LONG-TERM LOANS (continued)**

The carrying amounts of the Group's long-term loans as of 30 June 2012 and 31 December 2011 are presented below:

| Creditor  | Currency | 30 June<br>2012   | 31 December<br>2011 |
|---|----------|-------------------|---------------------|
| <b>Domestic long-term loans</b>                                       |          |                   |                     |
| NLB bank, Novi Sad (London club)                                      | USD      | 51,554            | 47,052              |
| NLB bank, Novi Sad (Paris club)                                       | USD      | 566,638           | 506,761             |
| NLB bank, Novi Sad (Paris club)                                       | JPY      | 563,216           | 513,779             |
| Erste bank, Novi Sad (London club)                                    | USD      | 4,903             | 4,475               |
| Erste bank, Novi Sad (Paris club)                                     | EUR      | 486,448           | 446,569             |
| Erste bank, Novi Sad (Paris club)                                     | USD      | 323,632           | 288,582             |
| Hypo Alpe Adria Bank, Belgrade  | EUR      | 44,398            | 280,786             |
| Piraeus bank, Belgrade  | USD      | 1,842,952         | 4,043,310           |
| Bank Postanska stedionica, Belgrade (Paris club)                      | EUR      | 246,450           | 227,822             |
| Bank Postanska stedionica, Belgrade (Paris club)                      | USD      | 1,830,811         | 1,643,661           |
| Government of Republic of Serbia, Agency for deposit assurance (IBRD) | EUR      | 4,882,054         | 4,524,125           |
| Government of Republic of Serbia, Agency for deposit assurance        | USD      | -                 | 566,059             |
| UniCredit bank, Belgrade  | USD      | 5,344,561         | 4,690,240           |
| UniCredit bank, Belgrade  | RSD      | 1,278,900         | 1,278,900           |
| Other loans   | RSD      | 2,406             | 2,536               |
|   |          | <b>17,468,923</b> | <b>19,064,657</b>   |
| <b>Foreign long-term loans</b>  |          |                   |                     |
| Erste Bank, Holland   | EUR      | 3,474,609         | 3,139,227           |
| VUB (Bank Intesa), Slovakia   | USD      | 9,214,760         | 8,086,620           |
| NBG Bank, London  | USD      | 382,078           | 1,432,912           |
| NBG Bank, London  | EUR      | 208,431           | 282,469             |
| Alpha Bank, London  | USD      | 1,842,952         | 4,043,310           |
|   |          | <b>15,122,830</b> | <b>16,984,538</b>   |
| Less current portion of long-term loans                               |          | (1,066,939)       | (2,274,652)         |
|   |          | <b>31,524,814</b> | <b>33,774,543</b>   |

*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 the interim condensed consolidated financial statements**

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

**12. LONG-TERM LOANS (continued)**

|   | Currency | Current portion  |                  | Long-term         |                   |
|---|----------|------------------|------------------|-------------------|-------------------|
|   |          | 30 June 2012     | 31 December 2011 | 30 June 2012      | 31 December 2011  |
| <b>Domestic long - term loans</b>                                     |          |                  |                  |                   |                   |
| NLB bank, Novi Sad (London club)                                      | USD      | 4,124            | 3,619            | 47,430            | 43,433            |
| NLB bank, Novi Sad (Paris club)                                       | USD      | 23,907           | 19,615           | 542,731           | 487,146           |
| NLB bank, Novi Sad (Paris club)                                       | JPY      | 20,922           | 17,603           | 542,294           | 496,176           |
| Erste bank, Novi Sad (London club)                                    | USD      | 392              | 344              | 4,511             | 4,131             |
| Erste bank, Novi Sad (Paris club)                                     | EUR      | 17,325           | 14,635           | 469,123           | 431,934           |
| Erste bank, Novi Sad (Paris club)                                     | USD      | 11,526           | 9,458            | 312,106           | 279,124           |
| Hypo Alpe Adria Bank, Belgrade  | EUR      | 44,398           | 280,786          | -                 | -                 |
| Piraeus bank, Belgrade  | USD      | -                | -                | 1,842,952         | 4,043,310         |
| Bank Postanska stedionica, Belgrade (Paris club)                      | EUR      | 12,239           | 10,558           | 234,211           | 217,264           |
| Bank Postanska stedionica, Belgrade (Paris club)                      | USD      | 90,376           | 75,702           | 1,740,435         | 1,567,959         |
| Government of Republic of Serbia, Agency for deposit assurance (IBRD) | EUR      | 250,819          | 226,609          | 4,631,235         | 4,297,516         |
| Government of Republic of Serbia, Agency for deposit assurance        | USD      | -                | -                | -                 | 566,059           |
| UniCredit bank, Belgrade  | USD      | -                | -                | 5,344,561         | 4,690,240         |
| UniCredit bank, Belgrade  | RSD      | -                | -                | 1,278,900         | 1,278,900         |
| Other loans   | RSD      | 402              | 415              | 2,004             | 2,121             |
|   |          | <b>476,430</b>   | <b>659,344</b>   | <b>16,992,493</b> | <b>18,405,313</b> |
| <b>Foreign long-term loans</b>  |          |                  |                  |                   |                   |
| Erste Bank, Holland   | EUR      | -                | -                | 3,474,609         | 3,139,227         |
| VUB (Bank Intesa), Slovakia   | USD      | -                | -                | 9,214,760         | 8,086,620         |
| NBG Bank, London  | USD      | 382,078          | 1,426,995        | -                 | 5,917             |
| NBG Bank, London  | EUR      | 208,431          | 188,313          | -                 | 94,156            |
| Alpha Bank, London  | USD      | -                | -                | 1,842,952         | 4,043,310         |
|   |          | <b>590,509</b>   | <b>1,615,308</b> | <b>14,532,321</b> | <b>15,369,230</b> |
|   |          | <b>1,066,939</b> | <b>2,274,652</b> | <b>31,524,814</b> | <b>33,774,543</b> |

**13. OTHER LONG-TERM LIABILITIES**

|                             | 30 June 2012      | 31 December 2011  |
|-----------------------------|-------------------|-------------------|
| Liabilities to Gazprom Neft | 53,869,908        | 47,611,714        |
| Financial lease liabilities | 40,557            | 53,117            |
| Other long-term liabilities | 618,012           | 613,638           |
|                             | <b>54,528,477</b> | <b>48,278,469</b> |

**14. SHORT-TERM FINANCIAL LIABILITIES**

|  | 30 June 2012     | 31 December 2011 |
|--|------------------|------------------|
| Short-term financial liabilities to Gazprom Neft (current portion) | 4,040,242        | 1,133,612        |
| Current portion of long-term loans (note 12)                       | 1,066,939        | 2,274,652        |
| Current portion of financial lease                                 | 36,033           | 33,069           |
| Other short-term liabilities                                       | 247              | 3,917            |
|  | <b>5,143,461</b> | <b>3,445,250</b> |

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 the interim condensed consolidated financial statements***(All amounts are in 000 RSD, unless otherwise stated)***15. TRADE AND OTHER PAYABLES**

|  | <b>30 June<br/>2012</b> | <b>31 December<br/>2011</b> |
|--|-------------------------|-----------------------------|
| Advances received                      | 971,388                 | 871,127                     |
| Trade payables:                        |                         |                             |
| - domestic                             | 2,707,730               | 2,702,845                   |
| - foreign                              | 2,339,046               | 7,060,646                   |
| Trade payables – other related parties | 22,397,372              | 18,587,440                  |
| Liabilities from other operations      | 69,413                  | 71,956                      |
| Liabilities from specific operations   | 302,842                 | 327,923                     |
|  | <b>28,787,791</b>       | <b>29,621,937</b>           |

Trade payables - other related parties mostly relate to liabilities for crude oil delivered by Gazprom Neft Trading, Austria in the amount of 21,506,633 RSD (31 December 2011: 18,116,245 RSD).

**16. OTHER SHORT-TERM LIABILITIES**

|  | <b>30 June<br/>2012</b> | <b>31 December<br/>2011</b> |
|--|-------------------------|-----------------------------|
| Liabilities for unpaid wages and salaries, gross | 861,220                 | 1,690,264                   |
| Liabilities to employees                         | 8,281                   | 46,973                      |
| Liabilities for interest – domestic              | 387,416                 | 354,633                     |
| Liabilities for dividends                        | 3,772,308               | 3,772,308                   |
| Unused holiday accrual                           | 874,096                 | 714,425                     |
| Other liabilities                                | 149,117                 | 116,095                     |
|  | <b>6,052,438</b>        | <b>6,694,698</b>            |

**17. LIABILITIES FOR VAT ,OTHER TAXES AND DEFERRED INCOME**

|   | <b>30 June<br/>2012</b> | <b>31 December<br/>2011</b> |
|---|-------------------------|-----------------------------|
| Liabilities for VAT                           | 2,460,308               | 1,161,428                   |
| Liabilities for excise                        | 4,263,848               | 2,422,037                   |
| Liabilities for taxes and custom duties       | 1,740,702               | 1,772,130                   |
| Other liabilities for taxes and contributions | 293,021                 | 48,780                      |
| Accrued liabilities                           | 934,976                 | 1,149,958                   |
| Other accruals                                | 1,854,387               | 1,543,926                   |
|   | <b>11,547,242</b>       | <b>8,098,259</b>            |

*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 the interim condensed consolidated financial statements**

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

**18. SALES**

|                    | <b>Six month period ended<br/>30 June</b> |                          |
|--------------------|---|--------------------------|
|                    | <b>2012</b>                               | <b>2011</b>              |
| Sales of products: |   |                          |
| - domestic         | 73,395,012                                | 62,225,055               |
| - foreign          | 12,157,774                                | 8,275,692                |
| - related parties  | 4,694,698                                 | 5,133,320                |
|                    | <u>90,247,484</u>                         | <u>75,634,067</u>        |
| Sales of goods:    |   |                          |
| - domestic         | 8,763,238                                 | 6,801,136                |
| - foreign          | 60,621                                    | 15,161                   |
|                    | <u>8,823,859</u>                          | <u>6,816,297</u>         |
| Sales of services: |   |                          |
| - domestic         | 314,549                                   | 326,996                  |
| - foreign          | 329,108                                   | 357,351                  |
| - related parties  | 31  | -                        |
|                    | <u>643,688</u>                            | <u>684,347</u>           |
|                    | <b><u>99,715,031</u></b>                  | <b><u>83,134,711</u></b> |

**19. RAW MATERIAL AND CONSUMABLES USED**

|                                   | <b>Six month period ended<br/>30 June</b> |                   |
|-----------------------------------|---|-------------------|
|                                   | <b>2012</b>                               | <b>2011</b>       |
| Cost of raw materials             | 42,757,625                                | 43,273,994        |
| Cost of office and other material | 352,075                                   | 412,867           |
| Other fuel and energy expenses    | 994,345                                   | 922,480           |
|                                   | <u>44,104,045</u>                         | <u>44,609,341</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 the interim condensed consolidated financial statements**

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

**20. EMPLOYEE BENEFITS EXPENSE**

|  | <b>Six month period ended<br/>30 June</b> |                   |
|--|---|-------------------|
|  | <b>2012</b>                               | <b>2011</b>       |
| Wages and salaries (gross)                                     | 8,389,024                                 | 7,116,371         |
| Taxes and contributions on wages and salaries paid by employer | 1,383,660                                 | 1,162,607         |
| Costs of temporary service agreement                           | 247,995                                   | 151,522           |
| Cost of other temporary service agreements                     | 11,948                                    | 8,456             |
| Fees paid to board of directors and general assembly board     | 16,248                                    | 14,213            |
| Cost for employees termination payments                        | 532,606                                   | 1,065,317         |
| Other personal expenses and benefits                           | 601,677                                   | 593,330           |
|  | <b>11,183,158</b>                         | <b>10,111,816</b> |

Termination costs in the amount of 532,606 RSD (2011: 1,065,317 RSD) mostly relate to costs incurred in relation to voluntary leave agreement. Total number of employees who accepted the termination of employment in 2012 was 294 (2011: 421 employees).

|                                   | <b>Six month period ended<br/>30 June</b> |             |
|-----------------------------------|---|-------------|
|                                   | <b>2012</b>                               | <b>2011</b> |
| Average number of people employed | 9,228                                     | 10,095      |

**21. DEPRECIATION, AMORTISATION AND PROVISIONS**

|  | <b>Six month period ended<br/>30 June</b> |                  |
|--|---|------------------|
|  | <b>2012</b>                               | <b>2011</b>      |
| Depreciation and amortisation expenses                     | 3,299,912                                 | 3,298,911        |
| Provision for :  |   |                  |
| - asset retirement obligation and environmental protection | -   | 161,453          |
| - salaries and employees benefits                          | 422,556                                   | 308,263          |
|  | <b>3,722,468</b>                          | <b>3,768,627</b> |

*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 the interim condensed consolidated financial statements**

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

**22. OTHER OPERATING EXPENSES**

|   | Six month period ended<br>30 June |                  |
|---|-----------------------------------|------------------|
|   | 2012                              | 2011             |
| Cost of production services                           | 827,677                           | 902,135          |
| Transportation services                               | 783,242                           | 797,893          |
| Maintenance   | 446,173                           | 463,484          |
| Rental costs  | 342,518                           | 125,524          |
| Fairs   | 1,741                             | 2,572            |
| Advertising costs                                     | 184,689                           | 107,196          |
| Research costs  | 20,215                            | 114,598          |
| Cost of other services                                | 402,364                           | 488,883          |
| Costs of non production services                      | 1,307,719                         | 879,709          |
| Representation costs                                  | 37,202                            | 88,640           |
| Insurance premium                                     | 112,337                           | 115,455          |
| Bank charges  | 96,623                            | 72,880           |
| Cost of custom duties, property taxes and other taxes | 1,033,827                         | 564,549          |
| Fee for emergency situations                          | 156,690                           | 481,462          |
| Mineral extraction tax                                | 1,369,028                         | 998,529          |
| Cost of legal and consulting services                 | 25,308                            | 69,711           |
| Administrative and other taxes                        | 81,731                            | 81,997           |
| Other   | 174,168                           | 168,838          |
|   | <b>7,403,252</b>                  | <b>6,524,055</b> |

Fee for emergency situations in the amount of 156,690 RSD represents fee calculated in accordance with the Emergency situations law.

Cost of non-production services for six month period ended 30 June 2012 in the amount of 1,307,719 RSD (2011: 879,709 RSD) mostly relate to costs incurred for: security and cleaning costs in the amount of 872,697 RSD, project management costs in the amount of 54,767 RSD, certification and supervision costs in amount 69,772 RSD.

**23. FINANCIAL INCOME**

|                        | Six month period ended<br>30 June |                  |
|------------------------|-----------------------------------|------------------|
|                        | 2012                              | 2011             |
| Interest income        | 1,263,873                         | 685,937          |
| Foreign exchange gains | 3,614,581                         | 7,313,460        |
| Other financial income | 2,645                             | 735              |
|                        | <b>4,881,099</b>                  | <b>8,000,132</b> |

*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 the interim condensed consolidated financial statements**

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

**24. FINANCIAL EXPENSES**

|                                       | Six month period ended<br>30 June |                  |
|---------------------------------------|-----------------------------------|------------------|
|                                       | 2012                              | 2011             |
| Financial expenses – Gazprom Neft     | 101,616                           | 26,054           |
| Interest expenses                     | 857,718                           | 1,275,268        |
| Amortization of long-term liabilities | 163,206                           | -                |
| Foreign exchange losses               | 13,544,593                        | 959,953          |
| Other financial expenses              | 1,476                             | 1,601            |
|                                       | <b>14,668,609</b>                 | <b>2,262,876</b> |

**25. EARNING PER SHARE**

|   | Six month period ended<br>30 June |             |
|---|-----------------------------------|-------------|
|   | 2012                              | 2011        |
| Profit attributable to owners of the parent   | 21,234,411                        | 21,380,804  |
| Weighted average number of shares outstanding | 163,060,400                       | 163,060,400 |
| <b>Basic Earning per share</b>                | <b>0.13</b>                       | <b>0.13</b> |

*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 the interim condensed consolidated financial statements**

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

**26. RELATED PARTIES 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 controlling party of the Group.

The Group was engaged in business transactions with its related entities during 2012 and 2011. The most significant transactions with related parties in the aforementioned periods related to supply/delivery of crude oil.

|   | <b>30 June<br/>2012</b> | <b>31 December<br/>2011</b> | <b>Category</b> |
|---|-------------------------|-----------------------------|-----------------|
| <i>Receivables</i>                                |                         |                             |                 |
| Gazprom Neft Aero JSC, Moscow, Russian Federation | 2,632                   | 3,717                       | Other           |
| <b>Total receivables:</b>                         | <b>2,632</b>            | <b>3,717</b>                |                 |
| <i>Liabilities</i>                                |                         |                             |                 |
| Gazprom Neft, St Petersburg, Russian Federation   | (58,058,909)            | (48,887,946)                | Parent          |
| Gazprom Neft Trading, Austria                     | (21,506,633)            | (18,116,245)                | Other           |
| Gazprom Neft Lubricants, Italia                   | (12,674)                | (5,594)                     | Other           |
|   | (79,578,216)            | (67,009,785)                |                 |
| <b>Total liabilities:</b>                         | <b>(79,578,216)</b>     | <b>(67,009,785)</b>         |                 |
| <b>Liabilities, net:</b>                          | <b>(79,575,584)</b>     | <b>(67,006,068)</b>         |                 |

*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 the interim condensed consolidated financial statements***(All amounts are in 000 RSD, unless otherwise stated)***26. RELATED PARTIES TRANSACTIONS (continued)**

|   | Six month period ended<br>30 June |                            | Category |
|---|-----------------------------------|----------------------------|----------|
|   | 2012                              | 2011                       |          |
| <i>Sales</i>                                      |                                   |                            |          |
| Gazprom Neft Aero JSC, Moscow, Russian Federation | 50,694                            | -                          | Other    |
| Gazprom Neft NTC, Moscow, Russian Federation      | -                                 | 4,981                      | Other    |
|   | <u>50,694</u>                     | <u>4,981</u>               |          |
| <i>Cost of goods sold</i>                         |                                   |                            |          |
| Gazprom Neft Lubricants, Italia                   | (5,453)                           | -                          | Other    |
|   | <u>(5,453)</u>                    | <u>-</u>                   |          |
| <i>Purchases of raw materials</i>                 |                                   |                            |          |
| Gazprom Neft Trading, Austria                     | (32,658,528)                      | (32,357,065)               | Other    |
| Gazprom Neft Lubricants, Italia                   | (3,571)                           | -                          | Other    |
|   | <u>(32,662,099)</u>               | <u>(32,357,065)</u>        |          |
| <i>Other operating expenses</i>                   |                                   |                            |          |
| Gazprom Neft, St Petersburg, Russian Federation   | (25,698)                          | (18,233)                   | Parent   |
| <b>Operating expenses, net</b>                    | <b><u>(32,642,556)</u></b>        | <b><u>(32,370,317)</u></b> |          |
| <i>Financial expenses</i>                         |                                   |                            |          |
| Gazprom Neft, St Petersburg, Russian Federation   | (101,616)                         | (26,054)                   | Parent   |
| <b>Financial expenses, net</b>                    | <b><u>(101,616)</u></b>           | <b><u>(26,054)</u></b>     |          |
| <i>Other income</i>                               |                                   |                            |          |
| Gazprom Neft Trading, Austria                     | 814                               | 29,426                     | Other    |
| <i>Other expenses</i>                             |                                   |                            |          |
| Gazprom Neft Trading, Austria                     | (80,583)                          | (68,527)                   | Other    |
| Gazprom Neft, St Petersburg, Russian Federation   | (4,664)                           | (21,250)                   | Parent   |
| Gazprom Neft Lubricants, Italia                   | (4)                               | -                          | Other    |
|   | <u>(85,251)</u>                   | <u>(89,777)</u>            |          |
| <b>Other expenses, net</b>                        | <b><u>(84,437)</u></b>            | <b><u>(60,351)</u></b>     |          |

*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 the interim condensed consolidated financial statements***(All amounts are in 000 RSD, unless otherwise stated)***26. RELATED PARTIES TRANSACTIONS (continued)***Main transaction with state owned companies*

|                          | <b>30 June<br/>2012</b>                   | <b>31 December<br/>2011</b> |
|--------------------------|---|-----------------------------|
| <i>Receivables</i>       |   |                             |
| HIP Petrohemija          | 2,635,619                                 | 1,995,294                   |
| Srbijagas                | 15,461,093                                | 7,414,404                   |
|                          | <b>18,096,712</b>                         | <b>9,409,698</b>            |
| <i>Liabilities</i>       |   |                             |
| HIP Petrohemija          | (562,639)                                 | (471,195)                   |
| Srbijagas                | (96,230)                                  | (272,661)                   |
|                          | <b>(658,869)</b>                          | <b>(743,856)</b>            |
| <i>Advances received</i> |   |                             |
| HIP Petrohemija          | (4,259)                                   | (5,386)                     |
| Srbijagas                | (12,806)                                  | (12,796)                    |
|                          | <b>(17,065)</b>                           | <b>(18,182)</b>             |
|                          | <b>Six month period ended<br/>30 June</b> |                             |
|                          | <b>2012</b>                               | <b>2011</b>                 |
| <i>Income</i>            |   |                             |
| HIP Petrohemija          | 4,644,035                                 | 5,128,339                   |
| Srbijagas                | 9,988,567                                 | 5,079,386                   |
|                          | <b>14,632,602</b>                         | <b>10,207,725</b>           |
| <i>Costs</i>             |   |                             |
| HIP Petrohemija          | (78,990)                                  | (82,043)                    |
| Srbijagas                | (112,641)                                 | (109,501)                   |
|                          | <b>(191,631)</b>                          | <b>(191,544)</b>            |

*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 the interim condensed consolidated financial statements***(All amounts are in 000 RSD, unless otherwise stated)***27. BUSINESS COMBINATIONS**

In 2012, as a part of regional expansion the Group acquired nine petrol and gas stations (P&G Station) in Bulgaria. As a result of the acquisition, the Group is expected to further increase its presence in this market.

| Name of acquiree            | Date of acquisition | Percentage of equity interests acquired |
|-----------------------------|---------------------|---|
| <i>Bulgaria</i>             |                     |   |
| P&G station Tsvetan Lazarov | 25/01/2012          | 100%                                    |
| P&G station Blagoevgrad     | 20/02/2012          | 100%                                    |
| P&G station Priseltsi       | 14/03/2012          | 100%                                    |
| P&G station Kardjali        | 17/05/2012          | 100%                                    |
| P&G station Veliko Tarnovo  | 21/05/2012          | 100%                                    |
| P&G station Smolian         | 22/06/2012          | 100%                                    |
| P&G station Pazardjik       | 26/06/2012          | 100%                                    |
| P&G station Plovdiv         | 29/06/2012          | 100%                                    |
| P&G station Vrajdebna       | 29/06/2012          | 100%                                    |

The following table summarises the consideration paid for acquired P&G stations, the fair value of assets acquired and liabilities assumed.

|  | <b>Bulgaria</b>  | <b>Total</b>     |
|--|------------------|------------------|
| <b>Purchase consideration:</b>   |                  |                  |
| Cash paid  | 1,259,336        | 1,259,336        |
| Additional consideration   | 34,215           | 34,215           |
| <b>Total purchase consideration</b>  | <b>1,293,551</b> | <b>1,293,551</b> |
| Fair value of net identifiable assets acquired (see below)   | 1,293,551        | 1,293,551        |
| <b>Goodwill</b>  | <b>-</b>         | <b>-</b>         |
| <i>Amounts recognised as of acquisition date for each major class of assets acquired and liabilities assumed</i> |                  |                  |
| Property, plant and equipment  | 1,293,551        | 1,293,551        |
| <b>Net identifiable assets acquired</b>  | <b>1,293,551</b> | <b>1,293,551</b> |

Acquisition related costs of 2,250 RSD have been charged to expenses in the consolidated Income Statement for the six month period ended 30 Jun 2012.

The acquisition agreements include only acquisition of properties of P&G Station and do not contain any contingent consideration.

**Notes to the interim condensed consolidated financial statements**

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

**28. CONTINGENT LIABILITIES**

*Transfer of property ownership*

Until 30 Jun 2012, the Parent had ownership of 5,549 and the right to use and possess 2,027 items of properties, which make up 65% and 24% of the total number of items of Parent's properties (buildings and land), respectively.

In accordance with the Sales and purchase agreement, the Republic of Serbia as the seller is obliged to provide written consent for the transfer of ownership and the right to use property listed within the Parent's registry of fixed assets as at 31 December 2007 year.

*Financial Guarantees*

As of 30 June 2012 the total amount of outstanding financial guarantees given by the Parent amounted to 3,781,794 RSD mostly related to customs duties in the amount of 2,401,200 RSD (31 December 2011: 3,200,000 RSD).

**29. EVENTS AFTER THE BALANCE SHEET DATE**

There were no significant events after the balance sheet date.

---

Kirill Kravchenko

CEO

**06 August 2012**

---

Branko Mitrovic

The person responsible for the preparation of financial statements

**06 August 2012**