

TRANSLATION

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

**Adjusted Consolidated Financial Statements
for the year ended 31 December 2008**

Belgrade, 6 November 2009

ADJUSTED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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TRANSLATION

TO THE SHAREHOLDERS OF

NIS A.D. – NAFTNA INDUSTRIJA SRBIJE, NOVI SAD

Report on the Adjusted Consolidated Financial Statements

We have audited the accompanying adjusted consolidated financial statements of NIS a.d. – Naftna industrija Srbije, Novi Sad (hereinafter: “the Company”) which comprise the adjusted consolidated balance sheet as at 31 December 2008 and the related adjusted consolidated statement of income, adjusted consolidated cash flow statement and adjusted consolidated changes in shareholders equity for the year then ended. Audit of the Company’s consolidated financial statements for 2007 was performed by another auditor who expressed a qualified opinion in his report dated 9 May 2008 in respect of recording of effects of error adjustments, non-compliance with IAS 19 – Employee Benefits, intangible assets, nature and measurement of inventories of investment materials, long-term investments, obsolete inventories, slow moving inventories and inventories with internal profits, provisions for re-cultivation of environmental degradation, unreconciled receivables and payables, calculation and presentation of taxes in accordance with IAS 12 and cash flow statement.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these adjusted consolidated financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the “Official Gazette of the Republic of Serbia” 46/2006). This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of adjusted consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ Responsibility

Our responsibility is to express an opinion on these adjusted consolidated financial statements based on our audit. We have conducted our audit in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the “Official Gazette of the Republic of Serbia” 46/2006) and International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the adjusted consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the adjusted consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the adjusted consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the adjusted consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the adjusted consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the adjusted consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2008, and the consolidated results of its operations and consolidated cash flows for the year then ended, in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006).

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following issues:

As at 18 April 2008 the Shareholders' Assembly of the Company adopted the Decision on profit distribution for 2007 reported in the separate financial statements, whereby a liability was created toward its founder at the time in the amount of RSD 4,048,227 thousand. Out of this amount RSD 2,347,514 thousand was settled through compensation with JP Srbijagas and JP Železnice Srbije, while the amount of RSD 263,582 thousand was returned to the Company, whereby the Company's liability to its founder at that time as at 31 December 2008 amounts to RSD 2,126,363 thousand. Given that the Company's Share Purchase Agreement includes a statement and guarantee from the seller that after 25 January 2008 no dividends have been paid, we are unable to confirm the validity of the Decision on distribution of dividends for 2007 and related postings. Also, the Decision dated 29 January 2009 on covering losses from earlier years and distribution of retained earnings from previous years to the founder, liability toward the founder has been established for the remainder of profits after covering of losses in the amount of RSD 7,171,908 thousand. This Decision by the Shareholders' Assembly was not carried out in the Company's accounting records. In March 2009 the Board of Directors initiated court proceedings to cancel the decision on profit distribution. In accordance with information received from the Company's management, the validity of both decisions on profit distribution will be the subject of negotiation of interested parties.

The Company reported an equity investment in HIP Petrohemija a.d. Pančevo in the net amount of RSD 487,986 thousand, as well as long-term financial investments and current receivables from HIP Petrohemija a.d. Pančevo as at 31 December 2008 in the amount of RSD 6,576,116 thousand (2007 - RSD 2,107,655 thousand). In view of the weak financial position of HIP Petrohemija a.d. Pančevo and its reported losses, Company management is considering ways to collect and the amount of potential impairment of investment and receivables from HIP Petrohemija.

The Company does not have complete documentation as proof of ownership or right of use over all of its assets and property, nor has it made full separation with respect to former members of NIS. Company management believes that issues of ownership over property, separation with respect to former members of NIS and settling of relations with state authorities will be concluded successfully, and that there will not be any significant difficulties in defining ownership. The Company currently lacks documentation on ownership (detailed property list) for all of its properties, but relies on the obligation of the Government of the Republic of Serbia, arising from the Sale Purchase Agreement, to provide the appropriate documents.

Due to the existence of aged equipment and the fact that particular production processes in the Company are outdated, it is possible that the Company might have breached and will be in breach of environmental laws of the Republic of Serbia. As a result, the Company is a potential environmental pollutant and it is reasonable to expect environmental claims and litigation against the Company in future. The Company did not make provisions for the costs of rectifying the consequences of environmental pollution that occurred prior to and after the preparation of the financial statements for 2008, given that management is relying on obligation of the Government of the Republic of Serbia to indemnify the Company from any such claims and litigation except for industrial disasters until such time when the Programme for Reconstruction and Modernisation of assets of the Company is completed in accordance with the Sale Purchase Agreement.

Calculation of deferred tax liabilities was made based on the tax values of fixed assets and intangible assets that are assessed by the Tax Authorities, and which are the subject of an administrative dispute. Upon conclusion of this administrative dispute, with its ultimate outcome being difficult to estimate at this time, the value of deferred tax liabilities could be adjusted.

Within investments under construction the Company reported investments in the Crni Vrh hotel complex in the amount of RSD 2,850,035 thousand as at 31 December 2008. Following the last appraisal performed on 1 January 2007 no new investments were made in this hotel complex. Management did not reach a decision on future status of this investment in the hotel complex.

Belgrade, 6 November 2009

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(L.S.)

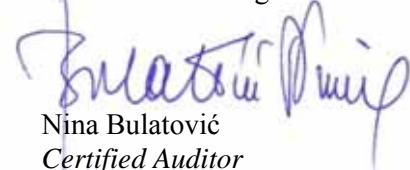
Nina Bulatović
Certified Auditor

This is a Translation of the Original Report on the Adjusted Consolidated Financial Statements issued in the Serbian Language. We are responsible for the translation of the Report on the Adjusted Consolidated Financial Statements and not for any other documents.

Belgrade, 6 November 2009



KPMG d.o.o. Beograd



Nina Bulatović
Certified Auditor

**ADJUSTED CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008**

In thousands of RSD	Notes	2008 Adjusted	2007 Adjusted
Sales	2(e), 3	169,607,132	159,552,279
Cost of goods sold		(39,582,455)	(52,802,418)
Material costs	2(f), 4	(93,033,146)	(67,298,673)
Gross salaries and wages	5	(14,170,110)	(16,216,585)
Depreciation and provision expense	2(j,p), 6	(6,975,591)	(8,747,261)
Other operating expenses	2(g), 7	(11,051,084)	(11,262,547)
Profit from operations		4,794,746	3,224,795
Financial income		8,505,247	9,786,963
Financial expenses		(18,907,824)	(7,794,829)
Financial income and expenses (net)	2(h,j), 8	(10,402,577)	1,992,134
Other income	9	8,552,811	3,252,222
Other expenses	10	(11,021,776)	(6,680,649)
Other income and expenses (net)		(2,468,965)	(3,428,427)
(Loss)/Profit before tax		(8,076,796)	1,788,502
Profit tax	2(p), 11	(111,629)	(593,517)
Deferred tax expenses of the period	2 (r), 11	(3,931)	(59,701)
Deferred tax income of the period	2 (r), 11	1,866	1,954
NET (LOSS)/PROFIT		(8,190,490)	1,137,238

The notes on pages 9 to 44 form an integral part of these
Adjusted Consolidated Financial Statements.
Report on the Adjusted Consolidated Financial Statements – pages 1 – 3.

**ADJUSTED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008**

In thousands of RSD	Notes	2008 Adjusted	2007 Adjusted
ASSETS			
Non-current assets			
Intangible assets	2(j), 12	5,462,308	3,028,533
Property, plant and equipment	2(j), 12	101,749,575	101,694,375
Investment property	2(k), 12	738,953	738,953
Long-term financial investments	2(l), 13	7,178,205	5,108,263
Total non-current assets		115,129,041	110,570,124
Current assets			
Inventories	2(m), 14	25,075,956	30,288,485
Receivables	2(n), 15	14,248,642	17,535,406
Receivables for overpaid profit taxes		507,352	-
Short-term financial investments	2(l), 16	6,091,856	2,982,462
Cash and cash equivalents	17	625,910	1,862,109
Value added tax and deferred expenses	18	1,118,736	1,921,736
Total current assets		47,668,452	54,590,198
Deferred tax assets	2(r), 11	276	1,918
TOTAL ASSETS		162,797,769	165,162,240
Off-balance sheet assets	26	106,528,611	43,947,429

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ADJUSTED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008 (continued)

In thousands of RSD	Notes	2008 Adjusted	2007 Adjusted
EQUITY AND LIABILITIES			
Equity	19		
Initial capital		87,128,024	87,128,024
Reserves		889,211	484,601
Revaluation reserves		1,665,524	1,880,271
Unrealised gains on securities		136,760	-
Unrealised losses on securities		(33,169)	-
Retained earnings		-	3,253,268
Loss		(18,571,969)	(10,174,534)
Minority interest		23,626	21,356
Total equity		71,238,007	82,592,986
Long-term provisions	2(o), 20	7,878,920	8,796,400
Long-term liabilities	21	13,127,820	13,737,889
Current liabilities			
Short-term financial liabilities	22	47,409,746	13,028,390
Liabilities from business operations	23	11,508,677	31,891,468
Other short-term liabilities	24	4,217,632	4,043,266
VAT and other liabilities for taxes, contributions and other accrued liabilities	25	3,374,049	5,841,969
Profit tax liabilities		160,951	594,969
Total current liabilities		66,671,055	55,400,062
Deferred tax liabilities	2(r), 11	3,881,967	4,634,903
TOTAL EQUITY AND LIABILITIES		162,797,769	165,162,240
Off-balance sheet equity and liabilities	26	106,528,611	43,947,429

General Manager, Mr. Kiril Kravčenko, has approved the Adjusted Consolidated Financial Statements.

Novi Sad, 6 November 2009

NIS a.d. – Naftna industrija Srbije, Novi Sad

Kiril Kravčenko
General Manager

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ADJUSTED CONSOLIDATED CASH FLOW STATEMENT FOR 2008

In thousands of RSD	2008 Adjusted	2007 Adjusted
Cash flow from operating activities		
Cash receipts from customers and advances received	168,946,378	223,131,072
Interest receipts from operating activities	2,260,200	1,513,696
Other receipts from operating activities	232,594	8,454,280
Payments to suppliers and advances paid	(121,607,366)	(164,058,329)
Gross salaries and wages	(14,781,115)	(13,530,732)
Interest paid	(2,639,739)	(2,956,035)
Income tax	(1,052,999)	(564,131)
Payments for other liabilities for taxes, contributions and other duties	(46,898,320)	(46,092,694)
Net cash (used in)/generated from operating activities	(15,540,367)	5,897,127
Cash flow from investing activities		
Sale of shares and stakes (net inflow)	597,412	398,943
Sale of intangible assets, property, plant and equipment and assets	428,818	1,762,716
Other financial investments (net inflow)	-	237,379
Interest received	-	154,959
Dividends received	3,376	902
Purchase of intangible assets, property, plant, equipment and natural assets	(8,811,981)	(6,879,109)
Other financial investments (net outflow)	(2,767,859)	(14,283)
Net cash used in investing activities	(10,550,234)	(4,338,493)
Cash flow from financing activities		
Long-term and short-term loans (net inflow)	24,569,405	3,753,009
Other long-term and short-term liabilities	1,533,048	61,558
Long-term and short-term loans (net outflow)	(435,703)	(4,287,353)
Financial leasing	-	(46,161)
Dividends paid	-	(1,965,293)
Net cash generated from/(used in) in financing activities	25,666,750	(2,484,240)
Net outflow of cash and cash equivalents	(423,851)	(925,606)
Cash at the beginning of the period	1,862,109	2,751,678
Foreign exchange gains on translation of cash	1,173,780	911,346
Foreign exchange losses on translation of cash	(1,986,128)	(875,309)
CASH AT THE END OF PERIOD	625,910	1,862,109

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TRANSLATION*NIS a.d. – Naftna industrija Srbije, Novi Sad*
*Adjusted Consolidated Financial Statements***ADJUSTED CONSOLIDATED STATEMENT ON CHANGES IN EQUITY IN 2008**

In thousands of RSD	Share capital	Other capital	Reserves	Revaluation reserves	Unrealised gains on sale of securities	Unrealised losses on sale of securities	Retained earnings	Loss	Total
Balance as at 31 December 2007	81,530,220	5,619,160	484,601	1,880,271	-	-	19,747,214	(10,174,534)	99,086,932
Opening balance adjustments (Appendix 1)	-	-	-	-	-	-	(16,493,946)	-	(16,493,946)
Adjusted opening balance	81,530,220	5,619,160	484,601	1,880,271	-	-	3,253,268	(10,174,534)	82,592,986
Transfer to reserves 5%	-	-	404,823	-	-	-	(404,823)	-	0
Effect of reduction in deferred tax liabilities	-	-	-	-	-	-	-	755,310	755,310
Reversal of effect of change in fair value of long-term financial investments for 2007	-	-	-	(215,201)	-	-	-	-	(215,201)
Effect of change in fair value of long-term financial investments as at 31 December 2008	-	-	-	-	136,760	(33,169)	-	-	103,591
Dividends to founder	-	-	-	-	-	-	(4,048,227)	-	(4,048,227)
Reduction of liabilities for dividends to founder	-	-	-	-	-	-	263,582	-	263,582
Adjustments to profit tax for 2005, 2006 and 2007	-	-	-	-	-	-	(22,943)	-	(22,943)
Transfer to/from	-	3,139	(213)	454	-	-	959,143	(963,124)	(601)
Current year loss	-	(869)	-	-	-	-	-	(8,189,621)	(8,190,490)
Balance as at 31 December 2008	81,530,220	5,621,430	889,211	1,665,524	136,760	(33,169)	-	(18,571,969)	71,238,007

The notes on pages 9 to 44 form an integral part of these
Adjusted Consolidated Financial Statements.
Report on the Adjusted Consolidated Financial Statements – pages 1 – 3.

1 Background

NIS a.d. – Naftna industrija Srbije, Novi Sad (hereinafter: the Company) was established by the Decision of the Government of the Republic of Serbia from 7 July 2005, as the biggest one of five legal successors of Javno Preduzeće Naftna industrija Srbije. According to the Law on the Abrogation of the Law on the Founding of the Public Company for Exploration, Production, Processing and Trade in Oil and Natural Gas Naftna Industrija Srbije, it has been concluded that all rights, obligations, assets, employees, documentation and contracts of JP NIS are assumed by the newly established companies. Also, according to the Decision of the Government of the Republic of Serbia, it has been concluded that assets, rights and liabilities belonging to JP NIS are the monetary and non-monetary stake in the Company's share capital. Distribution of assets, rights and liabilities of JP NIS to the newly established companies was performed on 1 July 2005, but the Company's registration was performed on 1 October 2005.

The Company's main activity is exploration and production of oil, refinement and sale of oil derivatives and production and sale of products and services within core commercial activity. Also the Company is engaged in other activities defined by its Statute, such as: engineering in oil industry, design and construction of buildings, foreign and domestic trade, construction work performed abroad, and other activities that contribute to better efficiency and effectiveness of operations of the Company, including provision of hotel, restaurant and tourist services.

The registered seat of the Company is in Novi Sad, no.12 Narodnog fronta street. The average number of employees during 2008 was 12.343 (2007. – 12.615).

The Company's business operations are mostly regulated by decrees issued by the Government of the Republic of Serbia which sets selling prices of oil derivatives and gas. Prices are reconciled with movements of prices of crude oil on the world market. Government decrees also regulate import and processing of crude oil and oil derivatives, and obligations of the Company to permit use of its facilities for the processing of crude oil under equal conditions to all interested companies who are registered for selling oil and oil derivatives.

Adjusted consolidated financial statements include the financial statements of the parent company NIS a.d., Novi Sad, and the following domestic and foreign subsidiaries:

Name	% share in equity
O Zone a.d. Beograd	100
NIS Oil Trading, Frankfurt, Nemačka	100
NIS Overseas, Moskva, Rusija	100
JP Investment, London	100
Ranis, Moskva, Rusija	51
Jubos d.o.o. Bor	51
Svetlost d.o.o. Bujanovac	51

As at 31 December 2008 share capital consists of the share capital of the parent company NIS a.d., Novi Sad.

2 Basic accounting policies

Basic accounting policies applied in the preparation of the Company's adjusted consolidated financial statements for 2008 are as follows:

(a) Statement of compliance

In accordance with the Law on Accounting and Auditing of the Republic of Serbia (Official Gazette of the Republic of Serbia 46/2006), Company management prepared these adjusted consolidated financial statements in compliance with the general accounting principles and practice effective in the Republic of Serbia.

The adjusted consolidated financial statements are expressed in thousands of Dinars (RSD). The dinar represents the functional currency used for reporting purposes in the Republic of Serbia.

(b) Comparative figures

The new Company management determined significant adjustments to the 2008 consolidated financial statements which were disclosed on 30 April 2009, as well as opening balance adjustments that impact previous years' profits and relate to identified materially significant effects of errors from previous years and changes in accounting policies and estimates.

According to requirements of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the Company made adjustments to the disclosed consolidated financial statements for 2008, and to the extent possible made retrospective adjustment of comparative figures for the year ended 31 December 2007. Besides this the Company made adjustments to opening balances of assets, liabilities and equity for 2007 for errors for which estimates of effects of specific periods on the comparative figures were not feasible.

An overview of adjustments to financial statements for 2008 and of adjustments to comparative figures is provided in Appendix 1.

(c) Going concern

The adjusted consolidated financial statements are prepared in accordance with the going concern concept, which assumes that the Company will continue to operate in the foreseeable future. Although current assets are lower than current liabilities, Company management has an approach to liquidity risk that always ensures, to the extent that this is possible, adequate funds for settling liabilities as they mature, both under regular and extraordinary conditions, without incurring unacceptable losses or risks for the Company's reputation.

The Company management manages liquidity needs by carefully monitoring scheduled maturities for long-term financial liabilities, as well as outflows of cash for everyday operating needs. Liquidity risks are monitored by different time intervals, from day to day and from week to week, as well as on the basis of 30 day projections. Long-term liquidity needs for the upcoming 180 to 360 days are identified monthly. The Company maintains adequate cash funds for the settlement of liquidity needs for periods up to 30 days.

(d) Basis of consolidation*/i/ Subsidiaries*

Subsidiaries are companies that are controlled by the parent company NIS a.d., Novi Sad. Control exists when the parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the adjusted consolidated financial statements from the date that control commences until the date that control ceases.

/ii/ Related party and joint venture investments

Related parties are companies over which the parent Company exercises significant influence, but over whose financial and operating policies the parent Company does not have control.

Joint ventures are entities in whose activities the parent Company exercises joint control, which is contractually defined and in which decisions on operating and financial policy are made through consensus.

Related parties and joint ventures are measured using the equity method.

In accordance with the Accounting Manual only subsidiaries are consolidated. The Company does not have control over associates and does not have their financial statements for many years, and has been trying to sell or close these companies. Also, ownership interests in these companies are considered materially insignificant.

/iii/ Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the adjusted consolidated financial statements. Unrealised gains arising from transactions with related parties and jointly controlled entities are eliminated to the extent of the Company's interest in the given company.

Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

/iv/ Foreign operations

Assets and liabilities of foreign operations are translated into the equivalent dinar value at the spot exchange rate as at balance sheet date. Income statements and cash flows are translated into dinars at the median exchange rate.

(e) Sales

/i/ In accordance with regulations, sales are stated at invoiced value reduced for VAT, rebates and other commercial discounts. Sales are disclosed to profit and loss statement after all significant risks and rewards of ownership have been transferred to the buyer. Change in the value of inventories of outputs is included in realisation.

TRANSLATION

NIS a.d. – Naftna industrija Srbije, Novi Sad
Notes to the Adjusted Consolidated Financial Statements

/ii/ Income from services is disclosed to profit and loss statement by reference to the stage of completion of services rendered at the balance sheet date. The stage of completion of services rendered is calculated on the estimated percentage of volume of services which is then applied on the total revenue from services.

(f) *Costs of materials*

/i/ Direct costs relate to raw materials and materials used in the production process. Direct costs also include costs of other materials, spare parts, fuel and energy.

/ii/ Costs also include cost of goods sold.

/iii/ All costs are recognised in the period when occurred, in accordance with the principles of accrual accounting of income and expenses.

(g) *Other operating expenses*

Other operating expenses include all operating and other expenses arising from the operations of the Company. The Company accrued all expenses incurred during the financial year for which documentation is not complete, based on Management estimates.

(h) *Interest as income/expense*

/i/ Interests incurred on receivables/payables calculated up to the balance sheet date (irrespective of whether they are payable or added to principle), are disclosed as a part of the financial income/expenses of the profit and loss account.

/ii/ Borrowing costs for the purchase of property, plant and equipment are capitalised and assigned to the value of those assets up to the moment of their being put into use, under the condition that borrowed funds are exclusively used for those purposes.

(i) *Gains/losses on translation of foreign currencies*

/i/ All assets and liabilities denominated in foreign currencies are converted into Dinars at the exchange rate effective at the balance sheet date. Transactions denominated in foreign currencies are stated in Dinars at the spot exchange.

/ii/ Foreign exchange gains and losses arising from the translation of foreign currency receivables and liabilities into Dinar amounts at the balance sheet date have been credited or charged against financial income or expenses.

/iii/ Foreign exchange gains and losses incurred through completed foreign currency transactions during the year have been credited or charged against financial income or expenses.

/iv/ The applied exchange rates at balance sheet dates were as follows:

Currency	31 December 2008	31 December 2007
USD	62.9000	53.7267
EUR	88.6010	79.2362

(j) Property, plant, equipment and intangible assets

/i/ As at 1 January 2004 during the transition to IFRS, the Company, in accordance with IFRS 1, applied the basic technique for recognition of fixed assets valuation, management estimated that the value of fixed assets, determined in previous years in accordance with at that time relevant regulations, is equal to market value. In accordance with the Company's Accounting Manual, accounting policy has been changed and an alternative technique of property, plant and equipment valuation has been applied. Valuation of fixed assets was performed as at 1 January 2005 on the basis of their reconciliation with market value by an authorized appraiser. Positive effects of estimation are recorded as revaluation reserves, and negative effects are charged to results of previous years. During 2006 the Company, based on its Decisions, cancelled revaluation reserves as the result of reconciliation of registered capital with the capital disclosed in its accounting records.

/ii/ Property, plant and equipment are initially measured at cost. Cost represents the prices billed by supplier together with all costs incurred in bringing fixed assets into use. A self-constructed asset is recognized at the lower of cost or market value.

/iii/ Subsequent costs: costs of replacement parts for property, plant and equipment, installation of replacement parts, costs of adaptation, overhaul and general repair are recognised as increases in the carrying amount of a fixed asset, if it is probable that future economic benefits will result from such improvements and if such costs can be measured reliably. Costs incurred for current maintenance of property and equipment: replacement and installation of small spare parts and consumables, as well as costs of daily repair of equipment are treated as period expenses in the period when occurred.

/iv/ Intangible assets are measured at cost, in accordance with IAS 38 - Intangible Assets. Cost of intangible assets consists of purchase price increased for customs and all other duties that are non-refundable, as well as other direct costs that can be assigned to preparing an intangible asset for use.

Intangible assets mostly relate to investments in development, software and licenses for computer programs.

/v/ The depreciation of property, plant, equipment and intangible assets is calculated for each asset and is provided at rates prescribed by the Accounting Manual of the Company over their estimated useful lives. Depreciation rates are designed to write off the cost or valuation of fixed assets on a straight line basis over their estimated useful lives.

The average depreciation rates in use are:

Description	2008 % p.a.
Buildings	1.5 – 20
Products and transfer equipment	2 – 16
Other equipment	2 – 20
Furniture	10 – 33
Vehicles	15.5
Computers	20
Intangible assets	20

/vi/ Gains on disposal of property, plant and equipment are credited to other income. The net book value of the disposed and written off fixed assets is charged to other expenses.

(k) Investment property

Investment property (land, buildings and equipment) is classified as investment property if held for appreciation in value or for rental purposes. An asset that is rented is classified as an investment property if it can be identified as such separately, that is if its largest portion is rented and an insignificant portion is used for conducting own business activities.

Investment property whose fair value can be determined reliably is initially reported at cost, and is subsequently measured at fair value. Fair value reflects market conditions as at balance sheet date and is based on valuation conducted by a professionally qualified independent valuer.

The Company measures investment property at fair value. Increase in fair value of investment properties is credited to income, while decrease is charged to expenses.

(l) Long- and short-term financial investments

/i/ Long-term financial investments relate to investments in the equity of other companies and other long-term investments. Long-term financial investments also include long-term securities that do not constitute equity investments in the security issuer, long-term loans given and other long-term financial investments.

/ii/ Investments in capital of other legal entities are initially recorded at cost or valuation. Investments in capital of other legal entities that are under the Company's control are recorded at cost.

/iii/ The Company measures long-term financial investments in the shares of other companies at their quoted value in an active stock market, except when there is no active market for shares. If there is no active market for shares, they continue to be disclosed at initial cost, adjusted for estimated permanent reduction in value.

/iv/ The effects of the change in fair value of these instruments is reported through revaluation reserves. When an instrument is sold, the effects of the change in fair value are disclosed in the income statement.

/v/ The Company measures short-term financial investments in the shares of other companies at their quoted price in an active stock market and reports the effects of change in their value during the period through the income statement.

/vi/ Associates are companies over which the Company exercises significant influence, but over whose business and financial policy the Company does not exercise control. Related parties are consolidated using the equity method.

/vii/ Based on IAS 39 in 2008, as well as based on relevant by-laws, as a measure for alleviating the effects of the world financial crisis, as at 1 July 2008 the Company reclassified its securities at fair value through profit and loss to securities available for sale.

Securities available for sale are reported at cost increased for transaction costs. If available-for-sale securities are traded on an active market, changes in fair value are reported in the balance sheet, within equity as revaluation reserves. In the event of their sale, accumulated gains reported in revaluation reserves are transferred to the income statement as gains or losses on their sale.

Also, in accordance with Ministry of Finance instructions, losses occurring due to the drop in the price of shares are treated as current fluctuations in the price of shares and are recorded under equity, as unrealised losses on shares that are available for sale.

/viii/ Other long-term financial investments relate to long-term loans related to reprogramming of debts of domestic companies, housing loans to employees and receivables for purchase of apartments, for which there is a purchase option for employees. Long-term loans to employees are reported at amortized cost. Apartments rented to employees that have a purchase option are measured at market value of those apartments decreased up to the amount of their appraised value at the time of repurchase.

(m) Inventories

/i/ Inventories are stated at lower of cost or net realizable value. The net realizable value is the price for which inventories may be sold in normal conditions of carrying on a business operation after being reduced for sale costs. The cost of work in progress and finished products includes the costs of production (raw materials, materials, power supply materials, labour, spare parts, and depreciation of production equipment).

/ii/ Valuation of inventories used is performed using the average weighted price method. Average weighted price is calculated upon each receipt of inventories.

/iii/ For tools and consumables, packaging materials and tires valuation of costs of inventories is performed at the moment of activation by fully charging them to period expenses.

(n) Trade receivables

/i/ Trade receivables include all amounts owed for goods sold, services rendered and use of Company property. Trade receivables are stated at the invoiced amount.

/ii/ Provision for trade receivables was recorded in compliance with the following accounting policy of the Company: for domestic receivables older than 60 days, for receivables for technical gas, delivered goods and fuel to domestic consumers in the remote heating system category and to consumers who are financed from the state budget within 90 days, and for foreign receivables older than 180 days. Direct write-off is performed only in case when impossibility of collection is certain and documented, and decision is ruled by the Company's Board of Directors.

(o) Long term provisions

/i/ Long term provisions are recognised in the balance sheet when the Company has a legal or constructive obligation as the result of past events, and when it is likely that the settlement of the obligation will entail the outflow of assets with economic benefits.

/ii/ Provisions are valued in accordance with accounting estimation so that the amount of provision is determined as the best estimate of further expenses.

/iii/ The release of provisions is allowed on occurrence of events for which the provisions were originally established in which case outflows arising from these events are not recognized as expenses, but as the release of the provisions. If the outflows, for which the provisions were originally established, are lower, they are cancelled and recorded as income. When it becomes probable that there will be no future outflows the provisions are cancelled and recorded as income.

(p) Income tax

/i/ Taxation is provided in accordance with the Corporate Income Tax Law. The Company estimates its monthly tax advance payment independently. The profit tax rate of 10% is applied on the taxable profit reported in the tax returns for 2008 (in 2007 it was 10%). The taxable profit reported in the tax returns includes the profit shown in the statutory Profit and Loss account and adjustments for permanent differences, as defined by the Corporate Income Tax Law of the Republic of Serbia. Such adjustments comprise mainly adding back certain disallowed expenses and deducting certain capital expenditures.

/ii/ The Serbian Tax Law does not allow tax losses of the current period to be used to recover tax paid within a specific carry back period. However, current year losses may be used to decrease taxable profits specified in the annual tax balance for future periods, but not longer than 10 years.

/iii/ Tax can be reduced for up to 20% of investments in fixed assets and up to a maximum of 50% of total tax liability. Also, tax liabilities can be decreased based on tax incentives related to positive differences in the gross salaries paid to new temporary employees and gross salaries of employees who left the Company during the same period, where those salaries would have been realized had they remained in the Company.

(q) Deferred tax

/i/ Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

/ii/ A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Taxable property is reduced when it is not certain that the taxable economic benefits from the property will be realized.

(r) Employee compensation

/i/ Pension plans with defined contributions

In its ordinary course of business the Company makes payments to the Republic of Serbia on behalf of its employees. All employees of the Company are members of the state pension fund. All contributions prescribed by law for pension insurance are recognized as expenses when occurred.

/ii/ Pension plans with defined benefits

The Company does not have any other pension plans and therefore does not have any other obligations in respects of pensions.

/iii/ Other employee compensation

In compliance with statutory requirements in the Republic of Serbia, the Company is liable for payment of 3 salaries to each its employee in the Republic of Serbia upon retirement. The Company estimated the present value of these liabilities and reported them in its financial statements.

3 Sales

Sales relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Sales on domestic market	160,940,573	149,457,964
Sales on foreign market	7,962,626	10,296,003
Sales of goods, products and services	168,903,199	159,753,967
Income from activation of own products and goods	697,090	481,626
Decrease in the value of finished goods and work-in-progress	(225,751)	(1,062,538)
Other operating income	232,594	379,224
Total	169,607,132	159,552,279

4 Material costs

Material costs relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Direct material consumption	80,356,892	63,214,574
Other material	9,021,205	1,534,034
Fuel and energy	3,655,049	2,550,065
Total	93,033,146	67,298,673

5 Gross salaries and wages

Gross salaries and wages and other personnel expenses relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Net salaries and salary compensation	7,429,374	6,167,804
Taxes and contributions	4,747,696	4,582,133
Service contract fees	58,179	54,462
Compensation to members of Managing and Supervisory boards	87,869	82,964
Termination benefits and incentive termination benefits	472,146	1,184,359
Jubilee awards	250,558	268,636
Travel expenses and per diems	431,913	344,612
Voluntary pension insurance	6,969	330,414
Costs of employee transportation	357,235	317,530
Assistance to employees and their families	166,065	138,885
Temporary and occasional employees	-	813,257
Costs of employees' share in profits	-	809,645
Other employee compensation based on Managing Board's decision	-	1,006,079
Other personnel expenses and employee compensation	162,106	115,805
Total	14,170,110	16,216,585

6 Depreciation and provision expense

Depreciation and provision expense as at 31 December 2008 amounts to RSD 6,975,591 thousand and relates to costs of deprecation in the amount of RSD 6,008,453 thousand and provisions for costs of renewal of natural resources in the amount of RSD 602,201 thousand, provisions for unused vacations by employees in the amount of RSD 303,612 thousand, provisions for lawsuits in the amount of RSD 42,632 thousand, and provisions for employee benefits in the amount of RSD 18,693 thousand.

7 Other operating expenses

Other operating expenses relate to:

<u>In thousands of RSD</u>	2008 Adjusted	2007 Adjusted
Costs of manufacturing products	797,416	166,602
Quality control costs	197,402	164,947
Transportation	1,280,752	1,142,608
Rental costs	202,457	132,169
Maintenance costs	1,433,710	1,560,743
Advertising costs	295,980	458,817
Research costs	125,964	172,703
Consulting services	147,346	740,854
Other production services	1,067,854	1,043,250
Payment operations expenses	321,140	245,856
Insurance	598,958	696,177
Entertainment	181,111	163,248
Costs of use of municipal construction land	472,798	433,489
Costs of use of municipal resources	187,225	163,451
Other non-production services	1,952,909	874,789
Tax and contributions not depending on result	803,608	2,328,274
Employee training costs	88,730	144,772
Other expenses	895,724	629,798
Total	11,051,084	11,262,547

Of the total amount of other production services of RSD 1,067,854 thousand, RSD 206,587 thousand relates to costs of waste treatment, RSD 130,442 thousand relates to costs of licenses, while RSD 241,389 thousand relates to food and lodging of workers working in field and RSD 239.675 thousand for costs of airline tickets.

Of the total amount of costs of other non-production services of RSD 1,952,909 thousand, the amount of RSD 607,590 thousand relates to services of student and youth employment agencies, while the amount of RSD 949,941 thousand relates to administrative costs, security and utilities services.

Of the total amount of reported other expenses of RSD 895,724 thousand, the amount of RSD 422,831 thousand relates to the fee for the use of crude oil, gas and other mineral resources.

8 Financial income and expense

Financial income and expenses relates to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Financial income		
Interest income	1,521,571	2,687,196
Profit on exchange	6,305,980	6,934,160
Gains from FX clause	677,696	165,607
Total of financial income	8,505,247	9,786,963
Financial expenses		
Interest expenses from operations	(2,744,475)	(2,138,714)
Loss on exchange from operations	(15,329,009)	(5,045,935)
Losses from FX clause	(834,340)	(610,180)
Total of financial expenses	(18,907,824)	(7,794,829)
Net	(10,402,577)	1,992,134

9 Other income

Other income relates to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Gains on disposals of stakes and long-term investments	462,438	3,040
Surpluses	159,955	172,646
Collected written off receivables	2,585,610	1,861,774
Income from decrease of liabilities	2,146,292	512,155
Gains on the sale of fixed assets	35,370	55,479
Income from the sale of materials	6,446	9,557
Income from collected penalties, awards and claims	84,073	130,220
Cancellation of provisions for employee benefits	595,616	-
Cancellation of provisions for re-cultivation of oil wells	402,930	-
Other income	2,074,081	507,351
Total	8,552,811	3,252,222

Of the total amount of reported gains on the sale of stakes of RSD 462,438 thousand, the amount of RSD 412,548 thousand relates to the sale of shares of the hotel shareholding company “Beogradsko mešovito preduzeće” a.d. Novi Beograd, which is the owner of the Hotel “Hyatt Regency”.

Of the total amount of reported income from decrease of liabilities of RSD 2,146,292 thousand, the amount of RSD 1,507,265 thousand relates to cancellation of liabilities toward the founder, based on the Decision on Profit Distribution for the period 1 January to 31 December 2007, adopted on 18 April 2008.

Of the total amount of reported other income of RSD 2,074,081 thousand, the amount of RSD 777,193 thousand relates to change in the price of crude oil from the Angola concession, based on the change in the price of crude oil on the world market, while the amount of RSD 200,889 thousand relates to cancellation of liabilities to the Tax Authority dating back to 2001 due to obsolescence.

10 Other expenses

Other expenses relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Negative effects of valuation of fixed assets and inv. property	-	1,489,996
Impairment of crude oil in the JANAF pipeline	1,783,011	-
Losses on fair value valuation of employee housing loans	598,652	-
Provisions for impairment of slow moving inventories	573,658	-
Write-off of receivables from employees	1,206,774	-
Loss on sales and disposal of fixed and intangible assets	200,706	458,117
Shortages	537,846	366,849
Write-off of receivables	1,970,144	341,897
Impairment of receivables, short-term investment, inventories and prepayments	2,843,067	2,910,783
Loss from valuation adjustments of short-term investments	-	20,778
Humanitarian, cultural, educational and sports sponsorships	322,356	321,932
Fines, penalties and claims	206,238	372,820
Other expenses	779,324	397,477
Total	11,021,776	6,680,649

Of the total amount of write-off of receivables of RSD 1,970,144 thousand, the amount of RSD 1,507,265 thousand relates to the cancellation of receivables from Srbijagas a.d., based on the Decision on Profit Distribution for the period 1 January to 31 December 2007, adopted on 18 April 2008.

Losses on fair value valuation of employee housing loans granted to employees in the amount of RSD 598,652 thousand resulted from the increase in the discount factor for loans granted in dinars from 9.57% in 2007 to 17.75% in 2008.

Write-off of receivables from employees in the amount of RSD 1,206,774 thousand relates to for short-term receivables from employees for subsidies for heating and pantry which were paid in 2008, increased for calculated taxes and contributions.

11 Profit tax

Profit tax relates to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Tax expense	(111,629)	(593,517)
Deferred tax expense	(3,931)	(59,701)
Deferred tax income	1,866	1,954
Net effect	(113,694)	(651,264)

Changes in deferred tax assets were as follows:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Balance as at 1 January	1,918	489,377
Opening balance adjustment (Appendix 1)	-	(487,498)
Adjusted balance	1,918	1,879
Changes during the year	(1,642)	39
Net effect	276	1,918

Changes in deferred tax liabilities were as follows:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Balance as at 1 January	4,634,903	4,551
Opening balance adjustment (Appendix 1)	-	4,654,135
Adjusted balance	4,634,903	4,658,686
Changes during the year	(752,936)	(23,783)
Net effect	3,881,967	4,634,903

12 Property, plant, equipment and intangible assets

/i/ Intangible assets

In thousands of RSD	Patents, licences and other rights	Other intangible assets	Intangible assets under construction and advances	Total
Cost or valuation				
Balance as at 31 December 2007	413,698	694,301	2,496,380	3,604,379
Opening balance adjustment	-	-	(144,772)	(144,772)
Adjusted opening balance	413,698	694,301	2,351,608	3,459,607
Additions	3,190	44,679	2,561,966	2,609,835
Transfers	-	18,942	(18,942)	-
Sales and disposals	-	(33)	-	(33)
Impairments	-	(798)	(19,800)	(20,598)
Balance as at 31 December 2008	416,888	757,091	4,874,832	6,048,811
Accumulated depreciation				
Balance as at 31 December 2007	(83,223)	(205,572)	(142,279)	(431,074)
Depreciation	(34,220)	(121,621)	-	(155,841)
Sales and disposals	-	412	-	412
Balance as at 31 December 2008	(117,443)	(326,781)	(142,279)	(586,503)
Net book value as at 31 December 2008	299,445	430,310	4,732,553	5,462,308
Net book value as at 31 December 2007	330,475	488,729	2,209,329	3,028,533

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/ii/ Property, plant and equipment

In thousands of RSD	Land	Buildings	Equipment and tools	Investments under construction and advances	Total
Cost or valuation					
Balance as at 31 December 2007	10,690,530	50,716,872	50,025,272	11,022,021	122,454,695
Additions	-	-	-	6,202,146	6,202,146
Transfer from investments under construction	348,317	829,635	3,980,590	(5,158,542)	-
Sales and disposals	-	(177,881)	(419,184)	(319,233)	(916,298)
Other	-	-	-	12,581	12,581
Balance as at 31 December 2008	11,038,847	51,368,626	53,586,678	11,758,973	127,753,124
Accumulated depreciation					
Balance as at 31 December 2007	-	(6,782,968)	(13,132,489)	(844,863)	(20,760,320)
Depreciation	-	(2,046,180)	(3,806,432)	-	(5,852,612)
Sales and disposals	-	185,310	337,161	-	522,471
Impairment	-	(20,576)	(28,992)	(55,118)	(104,686)
Other	-	-	21,284	170,314	191,598
Balance as at 31 December 2008	0	(8,664,414)	(16,609,468)	(729,667)	(26,003,549)
Net book value as at 31 December 2008	11,038,847	42,704,212	36,977,210	11,029,306	101,749,575
Net book value as at 31 December 2007	10,690,530	43,933,904	36,892,783	10,177,158	101,694,375

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/iii/ *Investment property*

In thousands of RSD	2008 Adjusted	2007 Adjusted
Balance as at 31 December of previous year	738,953	738,953
Transfer from investments under construction	4,360	-
Sales and disposals	(4,360)	-
Balance as at 31 December	738,953	738,953

13 Long-term financial investments

Long-term financial investments relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Equity investments	4,119,274	2,750,122
Other long-term financial investments	13,176,438	10,707,167
Current maturity of long-term investments	(2,621,649)	(2,005,340)
Provision for equity investments	(3,239,225)	(1,608,482)
Provision for long-term investments	(4,256,633)	(4,735,204)
Balance as at 31 December	7,178,205	5,108,263

Equity investments relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Investments in the shares in banks	268,690	360,833
HIP Petrohemija	1,859,513	2,250,245
MSK Kikinda	1,633,681	-
Other companies	357,390	139,044
Total	4,119,274	2,750,122
Provision for investments in the shares in banks	(219,027)	(225,034)
Provision for investments in the shares of other companies	(3,020,198)	(1,383,448)
Total	(3,239,225)	(1,608,482)
Balance as at 31 December	880,049	1,141,640

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Other long-term financial investments relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Long-term loans given to employees	3,061,957	2,590,965
Rented apartments with option to purchase	670,276	896,081
Other long-term investments	9,444,205	7,220,121
Total	13,176,438	10,707,167
Current maturity of long-term loan given to employees	(83,220)	(29,242)
Current maturity of other long-term investments	(2,538,429)	(1,976,098)
Total	(2,621,649)	(2,005,340)
Provision for long-term loan given to employees	(1,822,247)	(1,805,304)
Provision for rented apartments with option to purchase	(363,673)	(306,603)
Provision for other long-term investments	(2,070,713)	(2,623,297)
Total	(4,256,633)	(4,735,204)
Balance as at 31 December	6,298,156	3,966,623

Housing loans and receivables from repurchase of apartments disclosed in the amount of RSD 3,061,957 thousand as at 31 December 2008 (2007 – RSD 2,590,965 thousand) relate to housing loans granted to employees for resolving their housing needs, as well as apartments occupied by employees who are in process of repaying them. Housing loans for purchase of apartments and improvements in living conditions are granted for periods of 40 years, at annual interest ranging from 0.5% to 1.5% with an FX clause (EUR). Loans for repurchases of apartments are non-interest bearing and are granted for periods of up to 40 years and are CPI indexed. The Company determined amortised net present value of receivables from employees for housing loans using a discount factor on loans granted in dinars of 17.75% for 2008 and of 9.57% for 2007, and of 6.79% for both years for loans granted in euros.

Rented apartments with option to purchase in the amount of RSD 670,276 thousand as at 31 December 2008 (2007 – RSD 896,081 thousand) relate to Company apartments used by employees, with purchase options based on various rights under more favourable terms. The Company made provisions for the rented apartments up to the amount of their appraised value at the time of repurchase.

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Other long-term investments relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
HIP Petrohemija a.d. Pančevo	4,678,326	1,920,403
JP Srbijagas. Novi Sad	1,876,206	2,246,461
RTB. Bor	1,426,540	1,426,540
Concessions in Angola	993,266	130,348
JAT, Beograd	413,670	1,467,863
Other investments	56,197	28,506
Total	9,444,205	7,220,121
Current maturity – other long-term investments	(2,538,429)	(1,976,098)
Provision for other long-term investments	(2,070,714)	(2,623,297)
Balance as at 31 December	4,835,062	2,620,726

Other long-term financial investments in HIP Petrohemija, Pančevo disclosed in the amount of RSD 4,687,326 thousand as at 31 December 2008 partly relate to reprogrammed receivables from HIP Petrohemija, Pančevo, based on the Debt Reprogramming Agreement dated 29 December 2006 that as at 31 December 2008 amounted to RSD 909,200 thousand, and receivables from Debt Reprogramming Agreement dated 30 June 2008 that as at 31 December 2008 amounted to RSD 3,259,172 thousand. The debt reprogramming from 29 December 2006 covered receivables that as at 30 September 2006 amounted to RSD 2,046,042 thousand (24,628,161 EUR). The debt reprogramming from 30 June 2008 covered receivables that as at 30 June 2008 amounted to RSD 2,978,828 thousand (36,784,817 EUR). Other long-term financial investments in HIP Petrohemija, Pančevo, in the amount of RSD 509,954 thousand (8,502,684 USD) relate to investments in NIS from earlier years that have been fully provisioned.

Long-term financial investments disclosed in the amount of RSD 1,876,206 thousand relate to receivables from JP Srbijagas, Novi Sad, with which the Company signed a Receivables Reprogramming Agreement in the amount of RSD 2,294,257 thousand (29,041,240 EUR). In accordance with the signed agreement, repayment will be made in 48 equal monthly instalments at the mean NBS exchange rate on date of payment, which cannot be lower than the equivalent dinar value calculated at the exchange rate as at 31 December 2006. Interest on these receivables after a 6 month grace period amounts to one month EURIBOR+3% per annum.

Other long-term financial investments in RTB Bor in the amount of RSD 1,426,540 thousand relate to long-term loans approved in previous years. In 2004 the Company signed a Debt Reprogramming Agreement which specifies a total liability in the amount of RSD 1,426,540 thousand. Based on the reprogramming agreement, the amount owed will be repaid over 3 years in equal monthly instalments, starting with 1 January 2005, while interest will be equal to statutory penalty interest. The Company reported its receivables to the Privatisation Agency for debt collection from the privatisation proceeds, in accordance with the Privatisation Law. The receivable has been fully provisioned.

Long-term financial investments in the amount of RSD 993,266 thousand relate to capitalisation of costs of exploration and development of oil wells in the Angola concession.

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*Notes to the Adjusted Consolidated Financial Statements***14 Inventories**

Inventories relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Material	9,696,076	14,491,941
Spare parts	3,535,982	3,269,087
Tools and consumables	1,827,805	1,739,142
Work-in-progress	1,613,419	1,307,008
Finished products	8,446,889	9,057,245
Goods	1,222,914	1,814,712
Total	26,343,085	31,679,135
Advance payments to		
Domestic suppliers	1,933,405	709,175
Foreign suppliers	22,130	685,052
Total	1,955,535	1,394,227
Provision of		
Inventories	(2,563,338)	(1,990,873)
Advances	(659,326)	(794,004)
Total	(3,222,664)	(2,784,877)
Balance as at 31 December	25,075,956	30,288,485

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An overview of pledged inventories is provided in the table below:

Pledge no.	Pledge beneficiary	Legal basis for pledge	Amount of pledged secured receivable of creditor	Subject of pledge	Amount in tons	Amount as at 31 Dec. 2008 in EUR	Storage location
1248/05	HVB banka AD Beograd	Agreement no. IV.940/04 dated 1/06/2004. Contract no. P 362/04 and annex no. 3 and 4 same contract dated 1/06/2005 and 22/07/2005	EUR 7,395,235.00	Crude oil REB	24,000	5,446,080	Pančevo
				Diesel fuel D2	7,580	2,683,320	Pančevo
				Components for motor gasoline	8,262	3,026,288	Novi Sad
1653/05	Hypo-Alpe-Adria-Bank AD Beograd	Agreement no. I.8296/2004 date 7/12/2004	USD 10,000,000.00	Motor gasoline MB-95 Components for MB	1,800 4,100	659,322 1,501,789	Novi Sad
1655/05	Hypo-Alpe-Adria-Bank AD Beograd	Agreement no. IV.1944/04 date 6/12/2004	USD 10,000,000.00	Motor gasoline MB-95 Components for MB	4,800 19,000	1,758,192 6,959,510	Pančevo
7/05	HVB banka AD Beograd	Contract no. 45/473 dated 5/08/2005	EUR 10,767,921.26	Crude oil	24,000	5,446,080	Pančevo
				Components for motor gasoline	8,262	3,026,288	Novi Sad
				Components for motor gasoline Diesel fuel D2	9,091 7,580	3,329,942 2,683,320	Pančevo Pančevo
1343/05	HVB banka AD Beograd	Agreement no. IV.319/05 dated 1/03/2005	USD 3,000,000.00	Components for MB	9,091	3,329,942	Pančevo
3534/06	Piraeus Atlas Banka AD Beograd	Contract no. 45/454 dated 2/06/2006	EUR 10,000,000.00	Components for MB	12,200	4,468,738	Pančevo or Novi Sad
Total						44,318,811	

As at 31 December 2008 the Company does not have any liabilities for the listed loan contract, where pledge rights related to these contracts have expired. The procedure for deregistering pledge rights with the competent register is pending, where pledge rights under number 7/05, 1343/05 and 3534/06 have been deregistered during 2009.

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15 Receivables:

Receivables relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Trade receivables		
Domestic	23,217,552	24,715,932
Foreign	1,640,927	3,241,683
Total trade receivables	24,858,479	27,957,615
Receivables from specific business	3,738,710	3,830,546
Interest receivables	3,364,666	4,103,295
Receivables from employees	263,588	504,799
Other receivables	8,619,971	8,899,074
Total receivables	40,845,414	45,295,329
Provision for		
Trade receivables	(11,459,471)	(12,064,461)
Receivables from specific business	(3,714,106)	(3,774,872)
Receivables for interest and other	(11,423,195)	(11,920,590)
Total	(26,596,772)	(27,759,923)
Balance as at 31 December	14,248,642	17,535,406

16 Short-term financial investments

Short-term financial investments relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Short-term loans		
Companies	62,107	139,666
Private individuals	17,094	14,283
Part of long-term loans which matures within one year	2,621,649	2,005,340
Securities held for trading	-	1,053,427
Other short-term loans	3,515,178	746,167
Total	6,216,028	3,958,883
Provision		
Short term loans	(24,223)	(19,454)
Current maturity	(29,665)	(71,367)
Securities held for trading	-	(694,316)
Other short-term loans	(70,284)	(191,284)
Total	(124,172)	(976,421)
Balance as at 31 December	6,091,856	2,982,462

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The balance of short-term financial investments that as at 31 December 2008 amount to RSD 6,091,856 thousand largely relates to the part of long-term loans that mature within one year in the amount of RSD 2,621,649 thousand and other short-term investments in the amount of RSD 3,515,178 thousand. The part of long-term loans that mature within one year primarily relates to the reprogram of receivables from HIP Petrohemija in the amount of RSD 1,813,750 thousand and Srbijagas in the amount of RSD 643,270 thousand.

Of the total amount of reported other short-term investments of RSD 3,515,178 thousand, the amount of RSD 3,434,340 thousand relates to a foreign currency deposit with Erste banka.

17 Cash and cash equivalents

Cash and cash equivalents relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Gyro account		
Dinar	322,757	912,962
Foreign	239,295	794,253
Cash in hand		
Dinar	19,360	36,220
Foreign	1,178	763
Earmarked funds and letters of guarantee	39,008	111,389
Securities and cash equivalents	4,312	6,522
Balance as at 31 December	625,910	1,862,109

18 Value added tax and deferred expenses

Value added tax and deferred expenses relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
VAT	248,466	1,344,874
Prepaid expenses	165,104	210,942
Accrued liabilities	2,299	2,299
VAT for advances received	237,952	-
Other prepayments and deferred expenses	464,915	363,621
Balance as at 31 December	1,118,736	1,921,736

19 Share and other capital

The Company's share capital consists of a closed shareholding company's share capital with which the Company was founded. It is expressed as the total monetary and non-monetary stake of the Government of the Republic of Serbia. Registered capital as at 31 May 2005 amounts to EUR 993,786 thousand. Share capital comprises 8,153,020 shares with a nominal value of RSD 10 thousand per share.

Within other capital the Company disclosed minority interests in the amount of RSD 21,356 thousand as at 31 December 2007 and RSD 23,626 thousand as at 31 December 2008.

20 Long-term provisions

Long term provisions relate to:

In thousand of RSD	2008 Adjusted	2007 Adjusted
Long-term provisions for re-cultivation and overhaul of polluted environment	1,980,718	2,359,708
Long-term provisions for employee benefits	1,902,294	2,482,544
Long-term provisions for lawsuits	3,995,908	3,953,276
Other long-term provisions for lawsuits	-	872
Balance as at 31 December	7,878,920	8,796,400

Movements in provisions were as follows:

In thousand of RSD	2008 Adjusted	2007 Adjusted
Balance as at 31 December of previous year	8,796,400	6,982,089
Provision during the year	663,798	2,646,633
Provisions cancelled and used provisions	(1,581,278)	(832,322)
Balance as at 31 December	7,878,920	8,796,400

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21 Long-term liabilities

Long-term liabilities relate to:

In thousand of RSD	2008 Adjusted	2007 Adjusted
Paris Club of Creditors	3,682,389	3,272,530
London Club of Creditors	241,353	299,299
Domestic	6,153,770	5,979,720
Foreign	4,622,053	5,263,967
Total	14,699,565	14,815,516
Other long-term liabilities	882,670	989,552
Current portion of long-term loans with maturity within one year	(2,454,415)	(2,067,179)
Balance as at 31 December	13,127,820	13,737,889

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An overview of long-term loans is provided in the table below:

Creditor	Interest rate	Currency	Amount	2008 Adjusted	2007 Adjusted
Privredna banka a.d Pančevo	5.375% p.a.	USD	22,683,384	1,426,785	1,244,898
Privredna banka a.d Pančevo	5.5% p.a.	EUR	2,431,623	215,444	196,863
Erste banka a.d Novi Sad	USD LIBOR + 4.923 +0.5 p.a.	USD	3,837,403	241,372	205,324
Erste banka a.d Novi Sad	EURIBOR +2.93+0.5%	EUR	810,198	71,784	64,032
Erste banka a.d Novi Sad	5.5% p.a.	EUR	1,211,724	107,413	95,710
Erste banka a.d Novi Sad	5.9% p.a.	EUR	2,566,519	227,396	202,436
NLB Continental banka a.d Ljubljana	5.38%	USD	4,559,672	286,803	250,048
NLB Continental banka a.d Ljubljana	6 M LIBOR +0.5%	JPY	532,542,573	370,971	258,333
NLB Continental banka a.d Ljubljana	6 M LIBOR +0.5%	USD	2,265,942	142,527	124,262
Vojvođanska banka a.d Novi Sad	5.5% p.a.	EUR	6,680,436	591,894	630,624
Paris Club of Creditors				3,682,389	3,272,530
Erste banka a.d Novi Sad	3.75% p.a.	USD	753,609	47,402	80,978
Erste banka a.d Novi Sad	6.75% p.a.	USD	63,853	4,017	3,431
Komercijalna banka a.d Beograd	3.75% p.a.	USD	-	-	23,380
NLB Continental banka a.d Ljubljana	3.75% -6.75% p.a.	USD	671,371	42,229	36,071
Vojvođanska banka a.d Novi Sad	5.55% p.a.	EUR	1,211,404	107,332	114,355
Vojvođanska banka a.d Novi Sad	5.55% p.a.	USD	641,862	40,373	41,084
London Club of Creditors				241,353	299,299
Vojvođanska banka a.d. , Novi Sad	-	USD	4,023,896	253,103	216,190
International Bank for Research and Development (IBRD) – Republic of Serbia	-	EUR	49,731,521	4,406,263	4,092,967
Hypo-Alpe-Adria Bank a.d. Beograd	3 M EURIBOR +2.75% p.a.	EUR	16,866,672	1,494,404	1,670,563
Other long-term domestic loans				6,153,770	5,979,720
Sinochem International Oil Company Limited, London	6 M LIBOR +0.7% p.a.	USD	73,482,554	4,622,053	5,263,967
Other long-term foreign loans				4,622,053	5,263,967
Balance as at 31 December				14,699,565	14,815,516

The repayment of refinanced long-term loans (Paris and London Club of Creditors) realized prior to 1990 through domestic banks, and the respective interest, was frozen after the UN Sanctions were imposed in May 1992.

In December 2001, the negotiations between the Republic of Serbia Government and the Paris Club of Creditors resulted in significant reduction in liabilities (the principal, interest and penalty interest accrued as of 22 March 2002) by 51% new principal with the option of additional write-off of liabilities in the three years capped at 66.67%, as an additional item of the liability reschedule program. The negotiations between the Government of the Republic of Serbia and the London Club of Creditors resulted in significant reduction of liabilities (the principal, interest and penalty interest accrued as of 30 September 2004) by 62% the new principal. The Law on Regulating the Relationship Between the Federal Republic of Yugoslavia and Companies and Banks on Yugoslav Territory, Which Were the Debtors or Guarantors of the London and Paris Club of Creditors, went into effect on 4 July 2002 (Official Gazette of the Federal Republic of Yugoslavia number 36/2002). In conformity with the aforementioned Law the Company was obliged to repay the loans, approved by the Paris and London Clubs of Creditors, to the domestic banks under no less favourable conditions than those defined by the Agreement signed with the foreign creditors.

Paris Club of Creditors

In the previous years, the Company performed a write-off of 51% of the new principal of borrowings from the members of the Paris Club of Creditors as of 22 March 2002, with whom individual agreements on such write-offs had been signed. The amount of new principal based on communications and annuity plans forwarded by the National Bank of Serbia was reconciled.

The liabilities arising on a borrowing from the Paris Club of Creditors are repayable in semi-annual instalments in the period between 22 September 2008 and 22 March 2024 at an interest rate fluctuating within semi-annual LIBOR as increased by 0.5% annually to 5.9% (dependent on the Paris Creditor Club member country and loan currency). 60% of the interest charged within the first 5 years of repayment is capitalized and ascribed to the principal debt. The liabilities to Vojvođanska banka a.d., Novi Sad are settled semi-annually in the period between 1 October 2006 and 1 October 2013.

Liabilities to Vojvođanska banka a.d., Novi Sad of RSD 591,894 thousand (EUR 6,680,436) as of 31 December 2008 relate to refinanced foreign currency loans, received from the Paris Club of Creditors. NIS became the Paris Club of Creditors' debtor when it assumed the liabilities by signing the 19 September 1991 Agreement signed with Metanolsko-sirćetni kompleks, Kikinda, On 14 October 2003, NIS entered into contract with Vojvođanska banka a.d., Novi Sad undertaking the obligation to settle the liabilities arising from loans extended by the Paris Club of Creditors, pursuant to the Law Governing the Relations between the Federal Republic of Yugoslavia and Legal Entities and Banks within the Territory of the Federal Republic of Yugoslavia Being the Original Debtors or Guarantors toward the Paris Club and London Club Creditors. The liabilities of the Company to the Bank as of 22 March 2002 amounted to EUR 13,285,105.62, out of which the initial principal amounted to 7,287,523.14 EUR, and the agreed regular interest and penalty interest amounted to EUR 1,734,559.03 and EUR 4,263,023.45, respectively. The interest is computed at an annual rate of 5.5% as of 22 March 2002 and is attributed to principal. At 31 March 2006, the Company signed a new agreement with Vojvođanska banka A.D., Novi Sad number P-02/2006 whereby 51% of the principal was written off as of 22 March 2002 of EUR 6,775,404 and the new repayment program was agreed. Repayment is due within 7 years; annuities are repaid semi-annually starting on 1 October 2006. The interest remained at the rate of 5.5% annually.

The liability towards Privredna banka a.d., Pančevo was disclosed as of 31 December 2008 as amounting to RSD 1,642,229 thousand (USD 22,683,384 and EUR 2,431,623) and relates to the settlement of liabilities towards the Paris Club of Creditors. The debt is rescheduled as of 22 March 2002 and is repaid in semi-annual instalments until 22 March 2024. Principal repayment commenced as of 22 September 2008. The Agreement provides for 60% of interest maturing in the period from 23 March 2002 through 22 March 2005 will be capitalized and paid in 14 equal consecutive semi-annual instalments, where the first and the last payments are due on 22 September 2007 and 22 March 2014, respectively. The balance of 40% interest is paid when due.

London Club of Creditors

The liability towards NLB Continental banka a.d., Novi Sad was stated as of 31 December 2008 in the amount of RSD 42,229 thousand (USD 671,371). The interest is payable in semi-annual instalments where the first and the last principal instalments are due on 1 May 2010 and 1 November 2024, respectively.

The liabilities to Vojvođanska banka a.d., Novi Sad of RSD 147,705 thousand (EUR 1,211,404 and USD 641,862) as of 31 December 2008 relate to the refinanced foreign currency loans, received from the Paris Club of Creditors. NIS became the Paris Club of Creditors' debtor when it assumed the liabilities by signing the September 19, 1991 Agreement signed with Metanolsko-sirćetni kompleks, Kikinda. On 24 October 2003, NIS entered into contract with Vojvođanska banka a.d., Novi Sad, undertaking the obligation to settle the liabilities arising from loans extended by the London Club of Creditors, pursuant to The Law Governing the Relations Between the Federal Republic of Yugoslavia and Legal Entities and Banks within the Territory of the Federal Republic of Yugoslavia Being the Original Debtors or Guarantors toward the Paris Club and London Club Creditors. The liabilities of the Company to the Bank as of 22 March 2002 amounted to EUR 1,469,071.09 or USD 840,281.26. In accordance with the Agreement, interest liabilities are subject to further reconciliation between the National Bank of Serbia ("NBS") and the London Club of Creditors. On 31 March 2006, NIS signed a new agreement with Vojvođanska banka number L-02/2006 whereby 51% of the principal was written off as of 31 March 2002 of EUR 1,495,666, i.e., USD 792,475, and a new repayment schedule was agreed. The repayment is due within 7 years; annuities are repaid semi-annually starting on 1 October 2006. Interest remained at the rate of 5.5% annually.

Other Domestic Loans

Liabilities to the International Bank for Research and Development (IBRD) amounting of RSD 4,406,263 thousand (EUR 49,731,521) as of 31 December 2008 relate to the Agreement on Ceding Guarantee Rights. The Agreement was signed on 30 May 2005 by the Republic of Serbia, NLB Continental bank a.d., Novi Sad, as a guarantor, and NIS Naftagas, as a debtor. According to this Agreement the debtor is no longer liable to the International Bank for Research and Development (IBRD). Instead, it undertakes the obligation to pay the aforementioned amount to the Republic of Serbia. The Agreement is supplemented with an Annex in 2006 pursuant to which, the aggregate liabilities of NIS arising on the loan principal were translated from USD into EUR 46,444,901. This amount is increased by EUR 8,872,185, which is the total of the two principal instalments which the Republic of Serbia paid to the International Bank for Research and Development (in 2005) and the related interest charged for the period between 8 January 2002 and 15 December 2005.

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The liabilities arising from the loan approved by Vojvođanska banka a.d., Novi Sad in the amount of RSD 253,103 thousand (4,023,896 Clearing Dollars) as of 31 December 2008 were incurred through the approval of the loan for the construction of the gas pipelines over the territory of SFRY in 1991. On 30 December 2005, Vojvođanska banka a.d., Novi Sad transferred its receivables thereof entirely to the Republic of Serbia. The amount of loan was not repaid and the respective interest was not calculated.

The loan from Hypo-Alpe-Adria Bank a.d., Beograd in the amount of RSD 1,494,404 thousand is repaid in the period from 31 August 2007 to 31 July 2012.

Other Foreign Borrowings

The liability to Sinochem International Oil Company Limited, London of RSD 4,622,053 thousand (USD 73.482.554) at 31 December 2008, originates in the 11 October 2004 Deed of Arrangement. Sinochem sold and delivered crude oil to the Company in the period between 1991 and 1998. The Company is paying this principal in 16 equal semi-annual instalments (Jun 30 and December 31) until 31 December 2011, whereas the first instalment was paid on 30 Jun 2004.

Maturities of long-term loans are as follows:

In thousand of RSD	2008 Adjusted	2007 Adjusted
Due to one year	2,454,415	2,067,179
From one to two years	2,393,100	2,095,230
From two to three years	2,411,930	2,072,124
From three to four years	722,447	2,088,354
From four to five years	413,831	638,579
From five to ten years	2,047,539	361,999
Over ten years	4,256,303	5,492,051
Balance as at 31 December	14,699,565	14,815,516

Other long-term liabilities

Of the total amount of other long-term liabilities that as at 31 December 2008 amount to RSD 882,670 thousand, the amount of RSD 766,121 thousand relates to liabilities of the subsidiary company O Zone toward domestic companies. The maturities of these trade payables are not specified, nor is the obligation to accrue interest on them.

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22 Short-term financial liabilities

Short-term financial liabilities relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Current portion of		
Long-term loans	2,454,415	2,067,179
Other long-term loans	52,829	46,573
Domestic short-term loans from banks	6,791,500	199,000
Foreign short-term loans from banks	38,108,844	8,529,777
Other short-term financial liabilities	2,158	2,185,861
Balance as at 31 December	47,409,746	13,028,390

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An overview of short-term loan liabilities is provided in the table below:

Creditor	Interest rate	Currency	Amount	2008 Adjusted	2007 Adjusted
Raiffeisen banka Beograd	1 M LIBOR +1.8% p.a.	USD	60,000,000	3,774,000	-
Alpha banka a.d Beograd	Regular bank interest	RSD	-	1,572,500	199,000
Vojvođanska banka a.d Novi Sad	Regular BELIBOR	RSD	-	745,000	-
Komercijalna banka a.d Beograd	20.29%	RSD	-	700,000	-
Short-term domestic loans				6,791,500	199,000
Piraeus banka	USD LIBOR + 1.1% p.a.	USD	68,000,000	4,277,200	-
Societe Generale	3M LIBOR +0.45% p.a.	USD	50,000,000	3,145,000	-
EFG NEF BV Holandija	USD LIBOR +1.1% p.a.	USD	32,000,000	2,012,800	-
EFG NEF BV Holandija	USD LIBOR +0.9% p.a.	USD	27,500,000	1,729,850	-
EFG NEF BV Holandija	USD LIBOR +1.1% p.a.	USD	18,938,000	1,191,200	-
EFG NEF BV Holandija	USD LIBOR +1.1% p.a.	USD	21,650,000	1,361,785	-
Alpha bank London	1 M LIBOR +1.4% p.a.	USD	31,499,944	1,981,346	-
Alpha bank London	3 M LIBOR +2.2% p.a.	USD	30,000,000	1,887,000	-
Alpha bank London	1 M LIBOR +1.1% p.a.	EUR	10,000,000	886,010	-
Alpha bank London	1 M LIBOR +1.1% p.a.	USD	13,500,000	849,150	-
Vojvođanska banka a.d Novi Sad	1 M LIBOR +2.2% p.a.	USD	22,114,574	1,391,008	-
Vojvođanska banka a.d Novi Sad	1 M LIBOR +2.2% p.a.	USD	47,885,426	3,011,993	-
Erste banka	3 M LIBOR +2% p.a.	EUR	28,324,154	2,509,548	-
Erste banka	3 M LIBOR + 0.65%p.a.	USD	66,000,000	4,151,400	-
Intesa Banka Beograd	3 M LIBOR + 1% p.a.	USD	50,000,000	3,145,000	-
Intesa Banka Beograd	3 M LIBOR +2.4% p.a.	USD	45,335,000	2,851,572	-
Intesa Banka Beograd	3 M LIBOR +2.4% p.a.	USD	27,456,000	1,726,982	-
EFG NEF BV Holandija	3 M EURIBOR +1.1% p.a.	EUR	-	-	3,248,684
RIEUF Holandija	EURIBOR +1.6% p.a.	EUR	-	-	2,745,535
Alpha bank London	3 M EURIBOR + 2.7% p.a.	EUR	-	-	950,834
Alpha bank London	EURIBOR +1.1% p.a.	EUR	-	-	1,584,724
Short-term foreign loans				38,108,844	8,529,777
Balance as at 31 December				44,900,344	8,728,777

23 Liabilities from business operations

Liabilities from business operations relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Trade payables		
Domestic	4,790,512	4,734,207
Foreign	4,991,333	24,404,020
Total trade payables	9,781,845	29,138,227
Liabilities from specific operations	709,072	1,000,882
Advances received	945,553	1,679,906
Other liabilities from business operations	72,207	72,453
Balance as at 31 December	11,508,677	31,891,468

24 Other short-term liabilities

Other short-term liabilities relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Liabilities for gross salaries	616,807	1,540,555
Liabilities to employees	332,631	19,888
Liabilities for interest	1,075,902	971,166
Liabilities for dividends	2,126,363	689,232
Liabilities for profit sharing	147	809,645
Other liabilities	65,782	12,780
Balance as at 31 December	4,217,632	4,043,266

25 VAT and other liabilities for taxes, contributions and other accrued liabilities

VAT and other liabilities for taxes, contributions and other accrued liabilities relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Liabilities for VAT based on difference in VAT calculation and input VAT	386,973	1,910,388
Liabilities for excise duties	1,654,790	1,435,379
Customers duties	183,346	1,112,917
Other liabilities for taxes and contributions and other duties	759,545	330,916
Other liabilities	128,903	2,559
Accruals	260,492	1,049,810
Balance as at 31 December	3,374,049	5,841,969

26 Off-balance sheet assets and liabilities

Off-balance sheet assets and liabilities relate to:

In thousands of RSD	2008 Adjusted	2007 Adjusted
Securities issued and guarantees	91,582,736	35,140,999
Received securities and guarantees	1,233,001	762,813
Receivables for property in Former Yugoslav Republics	9,201,298	5,339,490
Other entity's goods in warehouse	3,701,653	2,091,993
Other assets owned by other entities	291,218	257,513
Assets for closing of oil wells in Angola	518,705	354,621
Balance as at 31 December	106,528,611	43,947,429

27 Undertaken and contingent liabilities

Lawsuits

Based on the report by the legal department the Company is involved in a number of court and administrative proceedings that as at 31 December 2008 amount to RSD 8,052,793 thousand, not including the effects of potential penalty interest. As at balance sheet date the Company estimated contingent liabilities and on that basis made provisions in its financial statements in the amount of RSD 3,995,908 thousand (Note 20).

Contractual investment obligations

During 2007 the Company signed a Contract with the Ministry for the Protection of the Environment with the aim of realising the Strategic Plan of Investing in Environmental Protection in the Municipality of Pančevo. The contracted amount of the investment is EUR 120 million, out of which the Environmental Protection Fund will co-finance 5% or EUR 6 million. Up to 31 December 2008 the Company invested RSD 1,697,100 thousand in Strategic Plan related projects.

Contractual commitments for purchases

Contractual liabilities for procurement relate to undertaken liabilities arising from the contract on industrial consulting for the company Shell Personnel Services B.V., Holland. The total contracted amount of this project is EUR 48,522 thousand, out of which EUR 25,665 thousand have been paid up to balance sheet date. According to contract the remaining amount of the fee will be paid in the next two years, except in case of contract termination, when the Company will be under obligation to settle all the expenses incurred by Shell up to contract termination date. Given that the Company terminated the contract on 21 August 2008 and after that accrued liabilities for supplier's invoices up to contract termination date, management believes that no further liabilities will arise in this respects.

28 Subsequent events

On 25 January 2008 the Government of the Russian Federation and the Government of the Republic of Serbia signed an Agreement on Cooperation in the Oil and Gas Industry that the Serbian Parliament ratified on 9 September 2008. Also, on 25 January 2008 the Republic of Serbia and Gazprom Neft concluded a Protocol related to the basic terms and conditions of the purchase of shares of Naftna Industrija Srbije a.d. Novi Sad by OAD Gazprom Neft, comprising 51% of the initial capital of the Company.

In accordance with the Agreement and the Protocol, on 24 December 2008, a Share Purchase Agreement of Shares of Naftna industrija Srbije a.d. Novi Sad was concluded between the Republic of Serbia and OAD Gazprom Neft. The object of purchase is the Block of Shares which consists of 4,158,040 ordinary shares with a nominal value of RSD 10 thousand per share, comprising 51% of the Company's initial capital.

In accordance with the Agreement, Gazprom Neft as the buyer undertakes the following:

- to observe the Social program;
- to fulfil the investment obligation in the period of four years, in accordance with the Program of Renewal and Modernisation, in the amount of EUR 547 million, securing a special purpose loan and Contractually Specified Terms in the amount of EUR 500 million;
- to assure dividend distribution by the Company in the period of four years for each fiscal year in the amount of not less than 15% of respective net profit per year;
- up to year 2020 to assure continuity of production and investment in research activities, not to discontinue operations of the refineries, for the quantities of crude oil refined by the Company to meet the requirements of the Serbian market for basic oil products, for the market share in derivatives for retail sales on the market of the Republic of Serbia not to be below the market share in 2008;
- to assure implementation of the Program of Reconstruction and Modernisation.

In accordance with the Agreement the Republic of Serbia as the seller undertakes the following:

- to maintain current quality requirements in relation to oil derivatives during the period until the completion of the implementation of the Program of Reconstruction and Modernisation;
- to maintain current restrictions on import of oil derivatives into the Republic of Serbia until 2010;
- to protect the buyer from all claims related to environmental protection resulting from obsolescence of production equipment until the completion of the Program of Reconstruction and Modernisation, excluding industrial accidents;
- to ensure that any and all claims against the Company and any of its Subsidiaries pursued by the Seller, any Governmental Authority or by any State-owned entity outstanding prior to the Transfer Closing Date for each such claim or group of claims is in excess of EUR 10 million will not result in any liability for the Company;
- to ensure that an official certificate is issued by the tax authorities confirming that the Company has no outstanding tax liabilities in relation to any tax periods that ended prior to the Transfer Closing Date;
- to ensure all necessary licenses for the sale of oil derivatives, assessment that facilities meet environmental criteria, and to provide a property list and give permission for registering the Company's ownership over such property.

Based on the Share Purchase Agreement concluded on 24 December 2008 a change in ownership structure of the Company occurred which was registered with the Central Securities Depository and Clearing House on 2 February 2009. The new ownership structure of the Company is as follows:

- 51% of initial capital is owned by Gazprom Neft, St Petersburg, Russian Federation;
- 49% of initial capital is owned by the Government of the Republic of Serbia, the Ministry of Economy and Privatisation.

Company management believes that there are no other significant subsequent events that could impact the financial statements for 2008 or that require separate disclosure.

29 Taxation risks

The Republic of Serbia tax legislation is subject to different interpretations and changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for five years. This practically means that the tax authorities are entitled to assign payment of unsettled liabilities within five years of when the liability occurred.

30 Financial risk management

The Company's activities are exposed to various financial risks, including the market risk, currency risk and interest rate risk. The basic characteristics of such exposure involve the following types of risk:

Credit risk

Credit risk is the risk of financial loss for the Company due to a buyer or other counterparty to a financial instrument failing to settle its contractual obligations. The Company's exposure to credit risk is primarily associated with customer accounts receivable, other long-term investments to customers, with respect to reschedule of receivables and various placements to employees.

At 31 December 2008 a significant concentration of credit risk exists with the following legal entities, and is primarily associated with the long-term and short-term financial placements and receivables:

In thousands of RSD	2008 Adjusted	2007 Adjusted
JP Srbijagas, Novi Sad	7,730,167	6,702,728
HIP Petrohemija, Pančevo	7,118,380	5,273,806
Rudarsko-topioničarski basen, Bor	2,829,670	2,593,426
MSK Kikinda	1,633,681	1,335,991
JAT Beograd	413,670	1,655,149
Hipol, Odžaci	228,150	449,260
Total	19,953,718	18,010,360

For the remaining portion of accounts receivable the Company does not have a significant concentration of credit risk, given that its exposure is diversified over a large number of customers.

The Company makes provisions for impairment losses that relate to estimates of incurred losses on trade receivables and on other receivables. Provisions for trade receivables are made in accordance with the Company's Accounting Manual for domestic trade receivables that are overdue for more than 60 days, and for liquid oil gas, delivered products and fuel to retail customers in the category of remote heating systems and for state funded consumers for receivables that are overdue for more than 90 days, and for foreign trade receivables, within 180 days as of payment due date. Direct write-off charged to expenses is only performed when the impossibility of collection is certain and documented, and when the decision on direct write-off is made by the Company's Board of Directors.

Currency risk

The majority portion of the Company's foreign transactions, as well as borrowings and placements are performed and presented in foreign currency. Accordingly, the Company is exposed to the market risk impacted by movements in foreign currency exchange rates. The majority of transactions are in EUR or USD. The Company does not use financial instruments for hedging currency risk.

Interest rate risk

The Company's principal exposure to movements in interest rates relates to other long-term investments, short-term financial placements, as well as long-term and short-term loans. The Company does not have policies and procedures for minimising interest rate risk.

1 ADJUSTMENTS TO CONSOLIDATED FINANCIAL STATEMENTS

In thousands of RSD	2008	2007
Net consolidated equity of Company as at 31 December before adjustments	91,137,177	99,086,932
Previous year's adjustments	(16,493,946)	-
Provisions for lawsuits against the Company	(42,632)	(3,879,265)
Provisions for employee benefits according to IAS 19	292,004	(2,465,205)
Adjustment of value of crude oil in JANAF pipeline	(1,783,011)	-
Costs of materials at the site in Turkmenistan	(229,046)	-
Reduction to fair value of receivables from employees for housing loans	(415,225)	(1,766,740)
Write-off of receivables from employees for paid subsidies for heating and pantry	(1,206,774)	-
Provisions for re-cultivation and liquidation of oil wells	402,930	(1,528,343)
Reduction of rented employee apartments to fair value	-	(306,603)
Elimination of inter-company profits comprised in inventories	397,391	(1,206,094)
Elimination of training costs from purchase price of SAP software	(88,730)	(144,772)
Provision for trade receivables from buyer Atako	(573,809)	-
Impairment of slow moving inventories	(573,658)	-
Adjustment of deferred tax liabilities	755,311	(4,570,692)
Adjustment of deferred tax assets	-	(487,498)
Adjustment of withholding tax on paid software	(62,607)	(138,734)
Other	(277,368)	-
Total adjustments	(19,899,170)	(16,493,946)
Net equity of Company as at 31 December after adjustments	71,238,007	82,592,986