NAFTNA INDUSTRIJA SRBIJE AD, Novi Sad

Consolidated Financial Statements
For the year ended 31st December 2009

Consolidated Balance Sheet

ASSETS	Note	31 December 2009	31 December 2008
Non-current assets			
Intangible assets	6	4,800,245	5,462,308
Property, plant and equipment	7	86,387,736	100,145,413
Investment property	8	499,974	738,953
Long-term financial investments	9	4,668,786	7,178,205
		96,356,741	**113,524,879**
Current assets			
Inventories	10	23,031,345	24,423,527
Non-current assets held for sales	11	135,649	-
Trade receivables	12	11,394,204	14,248,642
Receivables for overpaid income tax	12	42,018	507,352
Short term financial investments	13	861,209	2,657,516
VAT and prepaid expenses	15	4,156,907	1,771,165
Cash and cash equivalents	14	8,723,278	4,060,250
Deferred TAX assets		**-**	276
		48,344,610	**47,668,728**
Total assets		**144,701,351**	**161,193,607**
Off-balance sheet assets	16	151,211,899	106,528,611
Equity			
Share capital	17	87,156,815	87,151,650
Reserves	17	889,424	889,211
Revaluation reserves	17	-	61,362
Unrealized gains from securities	17	130,243	136,760
Unrealized losses from securities	17	(28,172)	33,169)
Retained earnings (loss)	17	(56,128,433)	(18,571,969)
		32,019,877	**69,633,845**
Long-term provisions and liabilities			
Long-term provisions	18	16,111,675	7,878,920
Long-term loans	19	34,733,451	12,245,150
Other long-term liabilities	20	6,636,526	882,670
		57,481,652	**21,006,740**
Short-term liabilities			
Short-term financial liabilities	21	18,567,835	47,409,746
Trade and other payables	22	23,336,687	11,508,677
Other short-term liabilities	23	4,047,008	4,217,632
Liabilities for VAT and other taxes and differed income	24	7,314,806	3,374,049
Liabilities for income tax	24	1,431	160,951
		53,267,767	**66,671,055**
Differed tax liabilities	34	**1,932,055**	**3,881,967**
Total liabilities		**144,701,351**	**161,193,607**
Off-balance sheet liabilities	16	151,211,899	106,528,611

Consolidated Statement of income

	Note	12 months ended 31 December 2009	2008
Operating income			
Sales	25	118,578,202	168,903,199
Work performed by the entity and capitalized	25	724,653	697,090
Increase (decrease) in the value of finished goods and working in progress	25	(981,362)	(225,751)
Other operating revenue	26	380,381	232,594
		118,701,874	169,607,132
Operating expenses			
Cost of goods sold	27	(6,186,024)	(39,582,455)
Cost of material	27	(68,676,064)	(93,033,146)
Cost of salaries, benefits and other personnel expenses	28	(19,983,605)	(14,170,110)
Depreciation and provisions	27	(12,743,544)	(6,975,591)
Other operating expenses	29	(13,420,537)	(11,051,084)
		(121,009,774)	(164,812,386)
Operating profit (loss)		**(2,307,900)**	**4,794,746**
Financial income	30	11,124,507	8,505,247
Financial expenses	31	(15,884,833)	(18,907,824)
Other income	32	5,880,260	8,552,811
Other expenses	33	(38,527,706)	(11,021,776)
Loss before income tax		**(39,715,672)**	**(8,076,796)**
Profit tax		1,949,700	(113,694)
Tax for the period	34	(212)	(111,629)
Deferred tax income (expenses)	34	1,949,912	(2,065)
Net loss		**(37,765,972)**	**(8,190,490)**

Consolidated Cash Flow Statement

	12 months ended 31 December	
	2009	**2008**
Cash flows from operating activities		
Sales and advances received	182,719,648	172,380,718
Interest from operating activities	2,301,199	2,260,200
Other inflow from operating activities	380,381	232,594
Cash inflow from operating activities	185,401,228	174,873,512
Payments and prepayments to suppliers	(82,015,355)	(121,607,366)
Salaries, benefits and other personal expenses	(18,951,685)	(14,781,115)
Interest paid	(3,019,682)	(2,639,739)
Income tax paid	(305,814)	(1,052,999)
Payments for other public revenues	(63,608,886)	(46,898,320)
Cash outflow from operating activities	(167,901,422)	(186,979,539)
Net cash inflow (outflow) from operating activities	**17,499,806**	**(12,106,027)**
Proceeds from investing activities		
Sale of shares (net inflow)		597,412
Proceeds from sale of intangible assets and PPE	8,911	428,818
Dividends received	-	3,376
Cash inflow from investing activities	8,911	1,029,606
Purchase of intangible assets, property, plant and equipment	(9,371,622)	(8,811,981)
Other financial investments	-	(2,767,859)
Cash outflow from investing activities	**(9,371,622)**	**(11,579,840)**
Net cash inflow (outflow) from investing activities	**(9,362,711)**	**(10,550,234)**
Proceeds from financing activities		
Proceeds from long term and short term borrowings	75,907,523	24,569,405
Other long term and short term liabilities	6,094,682	1,533,048
Cash inflow from financing activities	82,002,205	26,102,453
Long term, short term and other liabilities	(85,522,238)	(435,703)
Cash outflows from financing activities	(85,522,238)	(435,703)
Net cash inflow (outflow) from financing activities	**(3,520,033)**	**25,666,750**
Net cash inflow	**4,617,062**	**3,010,489**
Cash at the beginning of accounting period	**4,060,250**	**1,862,109**
Foreign currency gains on translation of cash and cash equivalents	143,915	1,173,780
Foreign currency losses on translation of cash and cash equivalents	(97,949)	(1,986,128)
Cash at the end of accounting period	**8,723,278**	**4,060,250**

Notes from page 5 to 63 are part of these Consolidated Financial statements.

Consolidated Statement of changes in Equity

For period from 01 January to 31 December 2009.

	Share capital	Other capital	Reserves	Revaluation reserves	Unrealized gains	Unrealized losses	Retained earnings	Accumulated Loss	Total
Balance as at 1 January 2008	81,530,220	5,619,160	484,601	1,880,271	-	-	3,253,268	(10,174,534)	**82,592,986**
Provision for material misstatement and changes in accounting policy	-	-	-	(1,604,162)	-	-	-	-	**(1,604,162)**
Restated opening balance as at 1 January 2008	81,530,220	5,619,160	484,601	276,109	-	-	3,253,268	(10,174,534)	**80,988,824**
Total increase in previous year (Note 17)	-	3,139	404,823	454	136,760	(33,169)	1,222,725	(9,152,745)	
Total decrease in previous year (Note 17)	-	(869)	(213)	(215,201)	-	-	(4,475,993)	755,310	**(11,354,979)**
Balance as at 31 December 2008	**81,530,220**	**5,621,430**	**889,211**	**61,362**	**136,760**	**(33,169)**	**-**	**(18,571,969)**	**69,633,845**
Restated opening balance as at 1 January 2009	81,530,220	**5,621,430**	**889,211**	**61,362**	**136,760**	**(33,169)**	**-**	**(18,571,969)**	**69,633,845**
Total increase in current year (Note 17)	-	5,185	213	-	-	-	-	(37,771,172)	
Total decrease in current year (Note 17)	(20)	-	-	(61,362	(6,517)	4,997	-	214,708	**(37,613,968)**
Balance as at 31 December 2009,	**81,530,200**	**5,626,615**	**889,424**	**-**	**130,243**	**(28,172)**	**-**	**(56,128,433)**	**32,019,877**

1. General information

NIS a,d, – Naftna Industrija Srbije, Novi Sad (hereinafter “the Company”) was founded in accordance with 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 (hereinafter “JP NIS”). Also, in accordance with the Decision of the Government of Republic of Serbia, it has been concluded that assets and liabilities belonging to JP NIS are the monetary and non-monetary stake in the Company.

On 24 December 2008, ownership structure was changed in accordance with Sales Purchase Agreement signed between Gazprom Neft and the Government of Republic of Serbia, The new ownership structure was registered in the Central Depository and Clearing House on 2 February 2009, as shown below:

- 51% of share capital in ownership of Gazprom Neft, Sankt Petersburg, Russian Federation
- 49% of share capital in ownership of the Government of Republic of Serbia, Ministry for industry and privatization

The Company and its subsidiaries (the “Group”) operates in energy sector predominantly in Serbia and its main activities are:

- Refining and trade of oil and petrochemical products
- Exploration, development and production of hydrocarbons
- Trade of Liquid Petrol Gas

The address of the Company’s registered office is in Novi Sad, no,12 Narodnog fronta Street, The average number of employees in 2009 was 11,262 (2008: 12,343).

Consolidated Financial Statements consider Financial Statements of Parent Company NIS ad, Novi Sad and following domestic and foreign subsidiaries:

Company name	**% Share**
O Zone a.d., Beograd	100
NIS Oil Trading, Frankfurt, Germany	100
NIS Overseas, Moscow, Russia	100
JP Investments, London	100
Ранис, Москва, Русија	51
Jubos d.o.o., Bor	51
Svetlost d.o.o, Bujanovac	51

These Consolidated Financial statements have been approved by CEO.

The approved consolidated financial statements may be amended based on the auditor’s opinion, in accordance with legislation.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation of consolidated financial statements

The Company has prepared these consolidated financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia published in Official Gazette of the Republic of Serbia (no. 46/2006 and 111/2009), which requires full scope of IFRS to be applied, and the regulations issued by the Ministry of Finance of the Republic of Serbia. Due to the difference between these two regulations, these consolidated financial statements differ from IFRS in the following respects:

1 The Group prepared these consolidated financial statements 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.

2 “Off-balance sheet assets and liabilities” are recorded on the face of the balance sheet (note 16). Such items do not meet the definition of either an asset or a liability under IFRS.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRSs as of 1 January 2009:

- IFRS *7* ‘Financial instruments — Disclosures’ (amendment) — effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- IAS 23 ‘Borrowing costs‘ - In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Company previously recognised all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of lAS 23, ‘Borrowing costs’ (2007) in accordance with the transition provisions of the standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

2. Summary of significant accounting policies (continued)

• IFRS 8, 'Operating segments', replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

• IAS 24 (Amendment) "Related Party Disclosures" (effective for annual periods beginning on or after 1 January 2011).This amendment attempts to relax disclosures of transactions between government-related entities and clarify related-party definition. More specifically, it removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities, clarifies and simplifies the definition of a related party and requires the disclosure not only of the relationships, transactions and outstanding balances between related parties, but of commitments as well in both the consolidated and the individual financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- IAS 1 (Revised), *"Presentation of financial statements"* (effective 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on 1 July 2009). The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Company will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the Company's financial statements.

- IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009).The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Company will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

2. Summary of significant accounting policies (continued)

- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- IAS 38 (amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Company will apply lAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Company's financial statements.

- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of lAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of lAS 1. The Company will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Company's financial statements.
- lAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the lASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Company will apply lAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Company's financial statements.

- IFRS 9, 'Financial instruments: 'Classification and measurement'. In November 2009, the Board issued the first part of IFRS 9 relating to the classification and measurement of financial assets. IFRS 9 will ultimately replace IAS 39. The standard requires an entity to classify its financial assets on the bases of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, and subsequently measures the financial assets as either at amortised cost or fair value. The new standard is mandatory for annual periods on or after 1 January 2013.

- IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2—Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Company's and Group's consolidated financial statements.

2. Summary of significant accounting policies (continued)

2.1.1 Comparative figures

The Group's 2009 opening balances were amended in order to reflect reclassifications as follows:

	2008 (as reported) RSD '000	*Write-off after valuation – O zone*	*Reclassification of excise from inventory to prepayment*	*Reclassification for deposits with maturity less than 3 months*	**2008 (as restated) RSD '000**
Cash and cash equivalents	625,910	-	-	3,434,340	4,060,250
Short term financial investments	6,091,856	-	-	(3,434,340)	2,675,516
VAT and prepaid expenses	1,118,736	-	652,429	-	1,771,165
Inventories	25,075,956	-	(652,429)	-	24,423,527
Property,plant &Equipment	101,749,575	(1,604,162)	-		100,145,413
Revaluation reserves	1,665,524	1,604,162	-	-	61,362
Net assets	**71.238.007**	**-**	**-**	**-**	**69,633,845**

2.2 Going concern

The consolidated financial statements are prepared in accordance with going concern concept, which assumes that the Group will be able to continue to operate in foreseeable future. Although the Group's current assets are lower than current liabilities by RSD 4,923,157 (2008: RSD 19,002,603) and the Group incurred loss for 2009 in amount of RSD 37,765,972 (2008: RSD 8,190,490), management is confident that they will ensure enough available funds to settle liabilities when they are due.

Management succeeded in restructuring borrowings from the banks from short-term to medium and long-term. Also, the Company is considered as significant subsidiary of Gazprom Neft Group which implies access to the Group's financial arrangements.

2. Summary of significant accounting policies (continued)

2.3 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies in order to make profit from their activity. Financial statements of subsidiaries are included in consolidated financial statements from the date on which control is transferred to the Group until the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated during the preparation of consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Minority interest

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Associates are all entities where parent company performs common control determined by contract, and where consensus decides on operating and financial policies.

Investments in associates are accounted for using the equity method of accounting and are initially recognised as a cost.
The Company performs consolidation only with the related parties, while with affiliates The Company does not have control and trying to sell them or shut them down. Also participation in these entities is considered to be materiality insignificant.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive committee that makes strategic decisions.

2. Summary of significant accounting policies (continued)

2.5 Foreign currency translation

a) *Functional and presentation currency*

The functional currency of the Company and its presentation currency is Serbian dinar (“RDS”). All amounts in these consolidated financial statements are presented in Serbian dinars, unless otherwise stated.

b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and other monetary assets and liabilities are presented in the income statement within ‘finance income or cost’.

c) *Group’s Companies*

Condition and results of all group companies whose functional currency is different from the Group's presentation currency are calculated as follows:

- Assets and liabilities are translated into the RSD using the exchange rate as at the date of Balance sheet

- Income statement and Cash flow are translated to RSD using the average exchange rate (except that the average rate is not a reasonable approximation of the cumulative effect on the date of the transaction, in which case the translation is done at the exchange rate as at the date of transaction);

- All resulting foreign exchange differences are recognized as separate items if capital

2. Summary of significant accounting policies (continued)

2.6 Intangible assets

a) *Licenses and rights*

Separately acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

Licenses and rights include Upstream Exploration rights which are amortised over the period of the exploration period as per the terms of the relevant licences (0 to 20 years).

b) *Computer software*

These include primarily the costs of implementing the (SAP) computer software program. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (0 to 20 years).

2.7 Exploration for and Evaluation of Mineral Resources

(a) Exploration and evaluation assets

During the exploration period, oil and natural gas exploration and evaluation expenditures are capitalized, unitil it is proved that oil and gas reserves are sufficient to justify the cost of exploration. Geological and geophysical costs as well as costs directly associated with an exploration are capitalized as incurred. Exploration property leasehold acquisition costs are capitalized within intangible assets and amortised over the period of the license or in relation to the progress of the activities if there is a substantial difference.

(b) Development of tangible and intangible assets

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized within construction in progress assets according to nature. When development is completed on a specific field, it is transferred to production assets. No depreciation and/or amortization is charged during development.

(c) Oil and gas production assets

Oil and gas properties consist of aggregated exploration and evaluation tangible assets and development expenditures associated with the production of proved reserves.

2. Summary of significant accounting policies (continued)

d) Production – share agreement and buy-back contracts

Oil and gas reserves related to production-sharing agreements and buy-back contracts are determined on the basis of contractual clauses related to the repayment of costs incurred for the exploration, development and production activities executed through the use of Group's technologies and financing (cost oil) and the Group's share of production volumes not destined to cost recovery (profit oil). Revenues from the sale of the production entitlements against both cost oil and profit oil are accounted for on an accrual basis whilst exploration, development and production costs are accounted for according to the policies mentioned above.

The Group's share of production volumes and reserves representing the profit oil includes the share of hydrocarbons which corresponds to the taxes to be paid, according to the contractual agreement, by the national government on the behalf of the Group. As a consequence the Group has to recognise at the same time an increase in the taxable profit, through the increase of the revenues, and a tax expense.

(e) Depreciation/amortization

Oil and gas properties/intangible assets are depreciated/amortized using the unit-of-production method. Unit-of production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at "Custody transfer" or sales transaction points at the outlet valve on the field storage tank.

(f) Impairment – exploration and evaluation assets

The exploration property leasehold acquisition costs are tested for impairment whenever facts and circumstances indicate impairment. For the purposes of assessing impairment, the exploration property leasehold acquisition costs subject to testing are grouped with existing cash-generating units (CGUs) of production fields that are located in the same geographical region corresponding to each license.

(g) Impairment – proved oil and gas properties and intangible assets

Proven oil and gas properties and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.8 Property, plant and equipment

On 1 July 2005, the date of foundation of the Group, Property, plant and equipment were valued at market value by independent appraisal. Revaluation reserves for the excess of fair value against historical value were cancelled against share capital as at 1 January 2006.

Since the date of foundation, Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items.

2. Summary of significant accounting policies (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Description	2009. % year
Buildings	2-10
Machinery and Equipment	4 -14
Other PP&E	2 – 20
Furniture	10-20
Vehicles	5-14
Computers	10-20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/expenses", in the income statement. (notes 32 and 33)

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property principally comprises of apartments rented on long-term lease period to current and ex employees of the Company.

2. Summary of significant accounting policies (continued)

Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment property is carried at fair value, representing open market value based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the income statement as part of other income.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.11 Construction contracts

Construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset.

Contract costs are recognised as expenses in the period in which they are incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the ‘percentage-of-completion method’ to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, pre-payments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within ‘trade and other receivables’[1].

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2. Summary of significant accounting policies (continued)

2.12 Long – term financial assets

The Group classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2.11.1 Classification

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet (note 2.14 and 2.15).

(b) *Available for sale financial assets*

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

2.11.2 Recognition and measurement

Regular purchases and sales of the investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables are carried at amortised cost using the effective interest method.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from equity to finance income in profit or loss for the year.

2. Summary of significant accounting policies (continued)

2.11.3 Impairment of financial assets

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from equity to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Impairment testing of trade receivables is described in note 2.14.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises cost of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.
Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.
Spare parts which are used in production are stated at cost, less any impairment for obsolete, damaged and slow-moving spare parts more than 12 months.

2.14 Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through a continuing use.

2.15 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Alternatively, trade receivables are stated as long term.

2. Summary of significant accounting policies (continued)

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (*more than 90 days for state controlled companies and more than 60 days overdue for other customers*) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'other expenses' (note 33). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to 'other income' in the income statement (note 32).

2.16 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.17 Off balance sheet assets/liabilities

Those include: consignment stock, material received from third parties for further processing and other assets not owned by the Group, as well as receivables/payables relating to collaterals received/given such as guarantees and other warrants.

2.18 Share capital

The Company is registered as Closed Shareholding Company. Ordinary shares are classified as equity.

2.19 Provisions

Provisions for environmental restoration, asset retirement obligation, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as cost of provision (note 27).

2. Summary of significant accounting policies (continued)

2.20 Borrowings

Borrowings are recognised initially at the fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.21 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity /in that case deferred tax liability is recognized in equity as well/.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Serbia, where the Group operates and generates taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2. Summary of significant accounting policies (continued)

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

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

2.23 Employee benefits

a) Pension obligations

The Group operates a defined contribution pension plan. The Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Other employee benefit schemes

The Group provides jubilee, retirement and miscellaneous allowances in accordance with Collective Labour Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

Jubilee awards:

Payment of jubilee awards is determined as number of monthly salaries based on number of completed years of services for every employee, as it is show in table below:

Minimum years of service in the Company	Number of monthly salaries
10	1
20	2
30	3
35	3.5
40	4

2. Summary of significant accounting policies (continued)

Retirement allowances:

The Group has to pay to every employee at his/her retirement, allowance in amount, maximum of:

- three monthly salaries over the last month preceding the month of the employee's retirement
- three average monthly salaries in the Group

The expected costs of these benefits are accrued over the period of employment.

The defined benefit obligation is valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to income over the expected average remaining working lives of the related employees for retirement allowance and charged or credited to income statement in full amount for jubilee awards and allowances for miscellaneous allowances.

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

d) Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.24 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, excise duty, returns, rebates and discounts after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as describe below. The amount of the revenue is not considered to be reliably measurable until all contingences relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2. Summary of significant accounting policies (continued)

a) Sales of goods – wholesale

The Company manufactures and sells Oil and Petrochemical products and Liquid Natural Gas in the wholesale market. Sales of goods are recognised when the Group has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, except for oil products which price is regulated by the Ministry of Energy of Republic of Serbia. There is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of 90 days for state owned companies and 60 days for other companies, which is consistent with the market practice.

b) Sales of goods – retail

The Group operates a chain of Petrol Stations in Serbia. Sales of goods are recognised when a Company sells a product to the customer. Retail sales are usually in cash, fuel coupons or by credit card.

c) Sales of services

The Group sells oil engineering services. These services are provided on a time and material basis or as a fixed price contract, with contract terms generally accepted in the industry. In addition, the Group is engaged in providing hotel, restaurant and tourist services within their own accommodation capacities in Serbia and Montenegro.

Revenue from time and material contracts, typically from delivering engineering services, is recognised under the percentage of completion method. Revenue is generally recognized at the contractual rates. For time contracts, the stage of completion is measured on the basis of as labour hours are delivered as a percentage of total hours to be delivered. For material contracts, the stage of completion is measured on the basis of and direct expenses are incurred as a percentage of the total expenses to be incurred.

Revenue from fixed-price contracts for delivering of engineering services is also recognised under the percentage-of-completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

2. Summary of significant accounting policies (continued)

d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

e) Income from work performed by entity and capitalized

Income from work performed by entity and capitalized relates to capitalization of costs of own products and services.

f) Dividend income

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

2.25 Leases

a) Leases: Accounting by lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment, acquired under finance leases, is depreciated over the shorter of the useful life of the asset and the lease term.

b) Leases: Accounting by lessor

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

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

2. Summary of significant accounting policies (continued)

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

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

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

2.26 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the period in which the dividends are approved by the Group's shareholders.

2.27 Capitalisation of borrowing costs.

Borrowing costs directly attributable to the acquisition, construction or production of assets that [are not carried at fair value and that] necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.
Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.
The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalized.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury department (The Company Treasury) under policies approved by the Board of Directors. The Company Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

3. Financial risk management (continued)

(a) *Market risk*

(i) *Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and EUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities at the balance sheet date.
Management has set up a policy to manage its foreign exchange risk against its functional currency. To manage its foreign exchange risk arising from future transactions and recognised assets and liabilities, the Group uses preferable currency rate agreed with the bank on daily basis. Sum of carrying values of financial assets and liabilities denominated in foreign currencies are shown in table below

	Financial Assets		Financial Liabilities	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
EUR	11,732,648	1,080,382	23,749,908	9,849,947
USD	4,087,492	9,779,139	47,162,296	35,691,392

At 31 December 2009, if the currency had weakened/strengthened by 10% against the EUR and USD with all other variables held constant, post-tax profit for the year would have been RSD 402,664 (2008: RSD 240,687) lower/higher, mainly as a result of foreign exchange losses/gains on translation of Euro-denominated trade receivables, trade payables and foreign exchange losses/gains on translation of Euro and USD denominated borrowings.

(ii) *Commodity Price risk*

The Group's primary activity as a refiner creates two types of commodity price exposures; crude oil and oil products price levels which affect the value of inventory and refining margins which in turn affect the future cash flows of the business.

In the case of price risk the level of exposure is determined by the amount of priced inventory carried at the end of the reporting period. In periods of sharp price decline, as the Group policy is to report its inventory at the lower of historic cost and net realisable value, results are affected by the reduction in the carrying value of the inventory. The extent of the exposure relates directly to the level of stocks and rate of price decrease.

Refining margin exposure relates to the price of oil products determined by the Ministry of Energy, which has been assessed on every two weeks.

3. Financial risk management (continued)

(iii) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.
The Group's income and operating cash flows are substantially independent of changes in market interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, while borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (EURIBOR or LIBOR), has a proportionate impact on the Group's results. At 31 December 2009, if interest rates on foreign currency denominated borrowings had been 1% higher / lower with all other variables held constant, pre-tax profit for the year would have been RSD 591,057 (2008: RSD 596,527) lower / higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) *Credit risk*

Credit risk is managed on the Group's level basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only banks with the highest capitalization rate in Serbia are accepted.
Since the acquisition, wholesale customers are selected based on the assessment of the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

Sales to retail customers are settled in cash or using credit cards.

The Group has provided for receivables from customers, which have exceeded their credit limits or went into liquidity problems (note 12).

(c) *Liquidity risk*

Cash flow forecasting is performed as aggregated at the Group's level. The Group's finance function monitors rolling forecasts of the Group's liquidity requirements to ensure It has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 19) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements .— for example, currency restrictions.

3. Financial risk management (continued)

Surplus cash held by the Group over and above balance required for working capital management are invested as surplus cash in time deposits and money market deposits.
The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

Comparative information has been restated as permitted by the amendments to IFRS 7 for the liquidity risk disclosures.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at December 31 2009	**Less than 1 month**	**1 - 3 months**	**3 months to one year**	**1-5 years**	**Over 5 years**	**Total**
Borrowings	-	-	5,178,734	42,477,750	11,448,237	59,104,721
Financial lease liabilities	4,592	9,219	40,279	130,928	-	185,018
Trade payables	16,146,420	5,686,501	48,678	-	-	21,881,599

As at December 31 2008	**Less than 1 month**	**1 - 3 months**	**3 months to one year**	**1-5 years**	**Over 5 years**	**Total**
Borrowings	-	-	2,507,346	55,101,563	2,047,539	59,656,448
Financial lease liabilities	9,285	13,115	34,314	53,048	-	109,762
Trade payables	9,905,932	415,468	27,831			9,854,051

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

3. Financial risk management (continued)

The gearing ratios of The Group as at 31 December 2009 and 2008 were as follows:

	2009	2008
Total borrowings (notes 19, 20 and 21)	59,105,724	59,652,738
Less: cash and cash equivalents (note 14)	(8,723,278)	(4,060,250)
Net debt	50,382,446	55,592,488
Total equity	32,019,877	69,633,845
Gearing ratio	**1.57**	**0.80**

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.
The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of term contracts in foreign currencies determines using quoted market exchange rates as at Balance sheet.

It is assumed that the nominal value, less for impairment of receivables and liabilities, approximately reflect their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting of future contacted cash flows at the current market interest rate that is available to the Group for purpose of similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below:

a) Revenue recognition

The Group uses the percentage-of-completion method in accounting for its sales of services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed.

4 Critical accounting estimates and judgments (continued)

b) Employee benefits

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

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the employee benefits obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Were the discount rate used to differ by 2.5% from management's estimates, the carrying amount of pension obligations would be an estimated RSD 930.069 lower or RSD 930.069 higher.

4.2. Critical judgments in applying entity's accounting policies

(a) *Impairment of available for sale financial assets*

The Group follows the guidance of IAS 39 to determine when an available for sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(b) *Financial crisis*

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

4 Critical accounting estimates and judgments (continued)

Impact on liquidity:

The volume of wholesale financing has significantly reduced since September 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Impact on customers/ borrowers:

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers (or borrowers) may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

Valuation of property measured at fair value

The fair value of investment property accounted for using the fair value model in accordance with IAS 40 is updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. In the absence of current prices in an active market, the Group considers information from a variety of sources, including:

a) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;
b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

5. Segment information

Management has determined the operating segments based on reports reviewed by Executive Committee that are used to make strategic decisions. The Committee considers business from both geographic and operational perspective

As of 31 December 2009, business activities of the Group are organized into four operating segments:

1. Exploration and production of oil and natural gas,
2. Production of oil products - Refining,
3. Oil and oil products trading,
4. Other – Hotel, restaurant and touristic services.

The reportable segments derive their revenue in following manner:

1. Exploration and production of oil and natural gas derive its revenue from sale of crude oil and gas to Refinery and Srbijagas
2. Refining segments derives its revenue from sale of oil derivatives to NIS trade segment
3. Oil and derivatives trading derives revenue from retail and wholesale activities consistent with the policy described in 2.23

Reportable segments results for 12 month period ended 31 December 2009 are shown in the following table:

	Exploration and production	**Refining**	**Trade**	**Other**	**Total**
Segment revenue	11,829,109	19,461,569	86,984,507	426,689	118,701,874
Inter-segment revenue	6,415,993	60,982,812	223,709	-	67,622,514
Total revenue	18,245,102	80,444,381	87,208,216	426,689	186,324,388
Operating income (expenses)	6,467,299	2,897,406	(10,706,585)	(966,020)	(2,307,900)
Financial income (expenses)	235,351	373,633	952,392	(6,321,702)	(4,760,326)
Other income (expenses)	(3,398,682)	(15,937,141)	(9,308,035)	(4,003,588)	(32,647,446)
Profit / loss before tax	3,303,968	(12,666,102)	(19,062,228)	(11,291,310)	(39,715,672))
Differed tax			-	1,949,700	1,949,700
Net Profit / loss	3,303,968	(12,666,102)	(19,062,228))	(9,341,610)	(37,765,972)

5. Segment information (continued)

Operating segments results for 12 month period ended 31 December 2008 are shown in the following table:

	Exploration and production	Refining	Trade	Other	Total
Segment revenue	10,804,330	97,799,237	60,620,205	383,360	169,607,132
Inter-segment revenue	3,500,000	(24,005,000)	17,013,500	-	(3,491,500)
Total revenue	14,304,330	73,794,237	77,633,705	383,360	166,115,632
Operating income (expenses)	3,315,416	2,861,907	(1,269,981)	(112,596)	4,794,746
Financial income (expenses)	468,383	507,669	985,318	(12,363,947)	(10,402,577)
Other income (expenses)	861,392	(1,810,182)	10,621	(1,530,796)	(2,468,965)
Profit / loss before tax	4,645,191	1,559,394	(274,042)	(14,007,339)	(8,076,796)
Profit tax				(113,694)	(113,694)
Net Profit / loss	4,645,192	1,559,393	(274,041)	(14,121,033)	(8,190,490)

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

Assets and liabilities of operating segments as of 31 December 2009 are presented in the following table:

	Exploration and production	Refining	Trade	Other	Total
Total Assets	42,788,016	58,488,104	26,144,747	17,280,484	144,701,351
Total Liabilities	(9,912,949)	(26,074,015)	(8,925,799)	(67,768,711)	(112,681,474)
Net assets	**32,875,067**	**32,414,089**	**17,218,948**	**(50,488,227)**	**32,019,877**

Assets and liabilities of operating segments as of 31 December 2008 are presented in the following table:

	Exploration and production	Processing	Turnover	Other	Total
Total Assets	45,949,760	69,237,641	35,542,327	10,463,879	161,193,607
Total Liabilities	(5,847,118)	(7,849,496)	(7,165,878)	(70,697,270)	(91,559,762)
Net Assets	**40,102,642**	**61,388,145**	**28,376,449**	**(60,233,391)**	**69,633,845**

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

	2009	2008
Sale of oil and oil products	113,719,465	126,585,218
Sale of services	568,676	1,166,887
Other sales	4,290,061	3,938,412

6. Intangible assets

	Concessions, patents, licenses and rights	Intangible assets under construction	Other intangibles	Total
At 1 January 2008				
Cost	405,353	2,351,608	702,646	3,459,607
Accumulated amortization and impairment	(81,575)	(142,279)	(207,220)	(431,074)
Net book amount	**323,778**	**2,209,329**	**495,426**	**3,028,533**
Year ended 31 December 2008				
Opening net book amount	323,778	2,209,329	495,426	3,028,533
Additions	-	2,561,966	31,713	2,593,679
Transfer from CIP	-	(34,931)	34,931	-
Amortization charge (note 27)	(33,162)	-	(122,679)	(155,841)
Disposals (note 33)	-	(3,811)	(252)	(4,063)
Closing net book amount	**290,616**	**4,732,553**	**439,139**	**5,462,308**
At 31 December 2008				
Cost	` 405,353	4,874,832	768,839	6,049,024
Accumulated amortization and impairment	(114,737)	(142,279)	(329,700)	(586,716)
Net book amount	**290,616**	**4,732,553**	**439,139**	**5,462,308**
Year ended 31 December 2009				
Opening net book amount	290,616	4,732,553	439,139	5,462,308
Additions	26,214	804,696	-	830,910
Transfer from CIP	435,285	(680,782)	245,497	-
Amortization charge (note 27)	(14,558)	-	(217,432)	(231,990)
Impairment charge (note 33)	(1,750)	(1,556,014)	(24,740)	(1,582,504)
Disposals (note 33)	-	(8,086)	-	(8,085)
Other transfers	-	-	329,606	329,606
Closing net book amount	**735,807**	**3,292,368**	**772,070**	**4,800,245**
At 31 December 2009				
Cost	840,638	4,998,747	1,486,548	7,325,933
Accumulated amortization and impairment	(104,831)	(1,706,379)	(714,478)	(2,525,688)
Net book amount	**735,807**	**3,292,368**	**772,070**	**4,800,245**

Intangible assets under construction mostly relates to investment in implementation of SAP system in NIS as the company activated only 3 out of 9 purchased modules.
Other Intangible assets as of 31 December 2009 mostly comprise investments in software in amount of RSD 717,807.

Impairment of Intangible assets in progress in the amount of RSD 1,556,014 relates to a contract on industrial consulting with Shell Personnel Services B.V., Holland (note 33). The Group cancelled the contract on 21 August 2008, and new management of the Group is developing new operational model and strategy, not expecting future economic benefits from the use of Shell's model.

Amortization in the amount of RSD 231,990 (2008: RSD 155,841) is included in Operating expenses in the Income statement (note 27)

7. Property, plant and equipment

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in other PP&E	Advances to suppliers	Total
At 1 January 2008								
Cost or valuation	10,690,530	49,112,710	49,917,584	10,805,003	88,363	19,325	217,018	120,850,533
Accumulated depreciation		(6,782,968)	(13,129,202)	(764,670)	(156)	(3,131)	(80,193)	(20,760,320)
Net book amount	10,690,530	42,329,742	36,788,382	10,040,333	88,207	16,194	136,825	100,090,213
Year ended 31 December 2008								
Opening net book amount	10,690,530	42,329,742	36,788,382	10,040,333	88,207	16,194	136,825	100,090,213
Additions	-	5,853	1,983	6,060,855	-	1,163	316,201	6,386,055
Transfer from CIP	348,317	828,674	3,866,915	(5,153,981)	1,245	108,830	-	-
Disposals	-	-	(56,801)	-	-	-	(317,260)	(374,061)
Depreciation charge (note 27)	-	(2,046,180)	(3,803,525)	-	-	(2,907)	-	(5,852,612)
Impairment (note 33)	-	(18,039)	(32,468)	(15,576)	(8)		(38,091)	(104,182)
Closing net book amount at 31. December	11,038,847	41,100,050	36,764,486	10,931,631	89,444	123,280	97,675	100,145,413
At 31 December 2008								
Cost or valuation	11,038,847	49,792,681	53,380,390	11,544,568	89,452	129,318	214,405	126,189,661
1 Accumulated		(8,692,631)	(16,615,904)	(612,937)	(8)	(6,038)	(116,730)	(26,044,248)
2 Net book amount	11,038,847	41,100,050	36,764,486	10,931,631	89,444	123,280	97,675	100,145,413
Year ended 31 December 2009								
Opening net book amount	11,038,847	41,100,050	36,764,486	10,931,631	89,444	123,280	97,675	100,145,413
Additions	-	-	1,788	5,056,815	-	-	5,384,262	10,442,865
Transfer from CIP	401,738	2,504,188	1,447,318	(4,353,267)	23	-	-	-
Other Transfers	-	2,242,018	(12,474)	(190,553)	-	-	(544,639)	1,494,352
Disposals (note 33)	(210)	(2,194)	(58,165)	(343,780)	(1)	-	2,197	(402,153)
Depreciation charge(note 27)	-	(2,292,881)	(4,113,574)		-	(105,966)	-	(6,512,421)
Impairment (note 33)	(723,950)	(6,796,999)	(6,778,126)	(4,298,191)	(43,877)	-	(3,730)	(18,644,873)
Transferred to disposal group classified as held for sale	-	(33,124)	(102,323)	-	-	-	-	(135,447)
Closing net book amount	10,716,425	36,721,058	27,148,930	6,802,655	45,589	17,314	4,935,765	86,387,736
At 31 December 2009								
Cost or valuation	11,440,375	54,400,048	54,030,573	10,901,969	89,466	129,318	5,054,028	136,045,777
Accumulated depreciation	(723,950)	(17,678,990)	(26,881,643)	(4,099,314)	(43,877)	(112,004)	(118,263)	(49,658,041)
Net book amount	**10,716,425**	**36,721,058**	**27,148,930**	**6,802,655**	**45,589**	**17,314**	**4,935,765**	**86,387,736**

7. Property, plant and equipment (continued)

Depreciation expense in the amount of RSD 6,512.421 (2008: RSD 5,852,612) is recorded under operating expenses in the income statement (Note 27).

Property, plant and equipment transferred to the disposal group classified as held for sale amounts to RSD 135,447. See note 11 for further details regarding the disposal group held-for-sale.

Vehicles and machinery include the following amounts where the group is a lessee under a finance lease:

	2009	2008
Cost capitalised - finance leases	207,762	198,610
Accumulated depreciation	(29,181)	(71,506)
Net book amount	**178,581**	**127,104**

According to Revised IAS 23 – "Borrowing costs", the Group has capitalized borrowing costs for construction of qualifying assets as part of its purchased value in the amount of RSD 26,158.

Impairment loss in the amount of RSD 17,907,275 was generated on Cash Generating Units CGU's, Refinery Novi Sad and Wholesale after impairment test performed by independent valuator. Impairment is a consequence of excessive refinery capacities and decreased wholesale margins expected to be caused by cancellation of the Group's monopoly position as of 1 January 2011. After the impairment review, the Group has reconsidered its policy for depreciation of property, plant and equipment in CGU and determined that this decision will not effect in change of useful life and residual value of PPE.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets for 10 to 40 years period approved by management. Cash flows beyond the 10 to 40 years period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the manufacturing business in which the CGU operates.

Key assumptions used for value-in-use calculations

Manufacturing	***Exploration and production***	***Refinery Pancevo***	***Refinery Novi Sad***	***Retail and trade and production of liquid petrol gas***	***Wholesale***
Gross margin	47%	10%	0%	13.1%	2%
Growth rate	2.8%	2.8%	2.8%	2.8%	2.8%
Discount rate	15.6%	14.7%	14.7%	13.96%	13.96%

These assumptions have been used for the analysis of each CGU in this business segment.

7. Property, plant and equipment (continued)

Management determined the budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relation to the relevant CGU.

8. Investment property

Investment properties are valued annually on 31 December at fair value, which comprising of market value.

Movements on the account were as follows:

	2009	2008
Beginning of year	**738,953**	**738,953**
Fair value gains (note 32)	172,648	-
Fair value losses (note 33)	(505,044)	-
Disposal	(433)	-
Transfer from CIP	93,850	-
End of year	**499,974**	**738,953**

The following amounts have been recognized in the income statement:

	2009	2008
Rental income	173,183	190,825

As at 31 December 2009, Investment properties in amount of RSD 499,974 mostly relate to apartments and business area given to long-term lease, are valued at fair value on Balance Sheet date.

9. Long-term financial investments

9.1. Equity investments

	2009	2008
Investments in other related parties	116,870	98,802
Investments in other legal entities and other securities available for sale	3,834,789	4,020,472
Less: Provision	(3,585,545)	(3,239,225)
	366,114	**880,049**

(a) Investments in other related parties

	2009	2008
In shares	97,999	79,851
In stakes	18,836	18,951
	116,870	98,802
Less: provision	(14,393)	(11,394)
	102,477	**87,408**

9. Long-term financial investments (continued)

Investments in associates relate to:

Company	Investment	Provision	NBV	Share (%)
Euro International Ltd, Bermuda	2,999	(2,999)	-	50,00
Maco nafta Skopje,Macedonia	4,269	-	4,269	49,00
NIS Jugopetrol Spa, Milano	10,149	(10,149)	-	50,00
RDS Naftagas,Ltd, London	1,245	(1,245)	-	50,00
SPC Pinki, Zemun	97,999	-	97,999	46,16
Prokons, Subotica	174	-	174	20,15
NAP Moskva	35	-	35	
	116,870	**(14,393)**	**102,477**	**-**

Movements on the account:

	2009	2008
As at 1st January	**98,802**	**101,838**
Exchange differences and other movements	18,068	(3,036)
Less: provision	(14,393)	(11,394)
As at 31st December	**102,477**	**87,408**

Movement on Provision for Investments in associates:

	2009	2008
As at 1st January	**(11,394)**	**(11,394)**
Provision for Impairment		
- Eurol International Ltd, Bermuda	(2,999)	-
As at 31st December	**(14,393)**	**(11,394)**

(b) Investment in other legal entities and other available for sale financial assets

	2009	2008
In shares	3,579,750	3,780,308
In stakes	28,822	23,822
Other investments	231,217	216,342
Less: Provision	(3,571,152)	(3,227,831)
	263,637	**792,641**

9. Long-term financial investments (continued)

Investments in other legal entities relate to:

Company	Investment	Provision	NBV	Share (%)
HIP Petrohemija a.d., Pancevo	1,682,522	(1,682,522)	-	20,51
MSK a.d., Kikinda	1,633,680	(1,633,680)	-	10,10
Linde gas Srbija a.d., Becej	112,376	-	112,376	12,44
Luka Dunav a.d., Pancevo	93,420	-	93,420	3,36
Komercijalna banka a.d., Beograd	19,953	-	19,953	0,08
Jubmes banka, a.d., Beograd	15,378	-	15,378	0,38
Centralna kooperativna banka, Skopje	6,867	-	6,867	0,63
Politika a.d, Beograd	6,136	-	6,136	0,85
Other legal entities	4,496	-	4,496	0,59
Dunav osiguranje a.d., Beograd	259,961	(254,950)	5,011	-
	3,834,789	**(3,571,152)**	**263,637**	**-**

Available for sale financial assets include the following:

	2009	2008
Listed securities, quoted on BELEX		
- Ownership securities	256,861	761,992
Unlisted securities:		
- Ownership securities	6,956	30,649
	263,637	**792,641**

The movements in available for sale financial assets:

	2009	2008
As at Januray 1st	**792,641**	**1,051,167**
Translation of receivables from MSK Kikinda into investment	-	1,633,681
Increase / (decrease)	(343,321)	(1,629,571)
Fair value adjustments	(19,668)	113,325
Impairment	(176,990)	-
Write-off	-	(390,733)
Other movements	10,975	14,862
At 31st December	**263,637**	**792,641**

Movement of provision for available for sale financial assets:

	2009	2008
As at 1st January	**(3,227,831)**	**(1,597,088)**
Provision for Impairment (note 27)		
- HIP Petrohemija a.d., Pancevo	(310,995)	-
- Other legal entites	(23,693)	-
Transfers and other movements	(8,633)	(1,630,743)
As at 31st December	**(3,571,152)**	**(3,227,831)**

For other investments traded in active markets, fair value is determined by reference to the current market value at the close of business on 31 December.

9. Long-term financial investments (continued)

9.2. Other long term financial investments

Structure of other long term financial investments:

	2009	2008
Long term loans	10,031,434	5,346,360
Other long term financial assets	3,487,438	3,389,618
Less: Provision		
Long term loans	(8,447,998)	(1,549,730)
Other long term financial assets	(768,202)	(888,092)
Total – net	**4,302,672**	**6,298,156**

a) Long term loans

Long term loans relate to receivables from customers for rescheduled debt from 2008 and 2009.

	Total	Long-term	Current portion
- HIP Petrohemija	8,072,762	8,015,229	57,533
- Srbijagas	1,929,118	589,665	1,339,453
- RTB Bor	1,426,540	1,426,540	-
- JAT	427,626	-	427,626
	11,856,046	**10,031,434**	**1,824,612**
Less: Provision	(10,084,363)	(8,447,998)	(1,636,365)
Total – net	**1,771,683**	**1,583,436**	**188,247**

a) Receivables from HIP Petrohemija Pancevo, in the amount of RSD 8.072.762 relate to rescheduled receivables. Management has assessed that these receivables are not collectible in the amount of RSD 6.383.290 thousand, while remaining portion in the amount of RSD 1.689.471 thousand is secured by pledge right on debtor's assets.

b) Long term financial investments in the amount of RSD 1.929.118 thousand relate to long term receivables from JP Srbijagas, Novi Sad. Management has assessed that it is not collectible due to the decision of Government of Serbia, owner of Srbijagas, to net-off receivables with dividends declared related to financial year 2008. The Decision is made before ownership changed to Gazprom Neft and before adopting audited financial statements, which are showing losses of RSD 8,022,615. Government decision is still under litigation.

c) Receivables from RTB Bor in the amount of RSD 1.426.540 thousand is fully provided per management assessment, as a consequence of non collectability since 2004.

The fair values of loans to related parties are based on discounted cash flows calculation using a discount rate based of 4.59%, which is equal to the interest on Euro bonds issued by the Government with 14 years maturity period. The discount rate equals to previously stated rate for long term receivables denominated in EUR.

9. Long-term financial investments (continued)

Structure of other Long term financial assets:

	2009	**2008**
Long term loans to employees	1,769,402	1,156,490
Buildings leased at financial leasing	159,387	670,276
Concession in Angola	911,281	993,266
Other long term financial assets	647,368	569,586
	3,487,438	3,389,618
Less: Provision		
Buildings in financial lease	(129,232)	(363,673)
Other long term financial assets	(638,970)	(524,419)
	(768,202)	(888,092)
Total – net	**2,719,236**	**2,501,526**

Out of total amount of other long term financial assets (RSD 649,481), the most significant part (RSD 567,371) relates to investment in HIP Petrohemija Pancevo for construction of facility for waste water treatment, fully provided in previous years.

10. Inventories

	2009	**2008**
Raw materials	14,219,247	9,696,076
Spare parts	3,407,275	3,535,982
Tools	121,333	174,926
Work in progress	2,380,633	1,613,419
Finished goods	5,900,842	7,794,460
Merchandise	678,389	1,222,914
	26,707,719	24,037,777
Payments in advance	1,619,822	1,955,536
Less: provision for inventories	(4,749,526)	(910,460)
Less: provision for advances	(546,670)	(659,326)
Total inventories – net	**23,031,345**	**24,423,527**

Increase/(decrease) in work in progress and finished goods is recorded in income statement by crediting/debiting operating income (note 25).

Movement on inventory provision is as follows:

	2009	**2008**
At 1st January	**(1,569,786)**	**(1,156,512)**
Provision for impaired inventory	(4,039,478)	(672,266)
Inventories written off during the year	96,052	-
Provision reversed	111,548	258,992
At 31st December	**(5,401,664)**	**(1,569,786)**

10. Inventories (continued)

The Group has accounted for provision for crude oil (initial filling in 1978 and second 1996) in pipeline in Adriatic oil pipeline system (JANAF), Croatia (in total amount of RSD 3,969,049 (112,896.tons) (note 33).
The total quantity of the crude oil as of 31 December 2009 is not confirmed by JANAF, Croatia and is accordingly fully provided for in 2009.

11. Non- current assets held for sale

Non-current Group's assets in the amount of RSD 135,649 thousand as of 31 December 2009 are classified as held for sale, based on management decision on sale of related assets

Non-current assets classified as held for sale :

	2009	2008
Non current assets held for sale		
- Buildings	33,326	-
- Plant and equipment	102,323	-
	135,649	-

12. Trade receivables

	2009	2008
Trade receivables:		
- domestic	18,830,263	20,632,316
- foreign	1,616,575	1,823,061
- related parties	622,783	2,403,102
	21,069,621	24,858,479
Receivables from specific operations	5,081,087	3,738,710
Receivables from interests	4,101,357	3,364,666
Receivables from employees	125,870	263,588
Other receivables	7,523,559	8,619,971
	11,750,786	12,248,225
	37,901,494	**40,845,414**
Less : Provision		
- Trade receivables	(10,115,124)	(11,459,471)
- Receivables from specific operations	(5,079,714)	(3,714,106)
- Interest and other receivables	(11,312,452)	(11,423,195)
	(26,507,290)	**(26,596,772)**
Total receivables – net	**11,394,204**	**14,248,642**
Receivables for overpaid income tax	**42,018**	**507,352**

Receivables from specific operations in amount of RSD 5,081,087 (2008: RSD 3,738,710), mostly relate to receivables in amount of RSD 3,736,143 transferred to NIS in 2005, at the date of foundation. These receivables are fully provided for as at 31 December 2009.
Trade receivables from state controlled companies that are less than three months past due and trade receivables from other companies that are less than two months past due are not considered impaired, except for receivables from a number of independent customers for whom there is no recent history of default, amounted to RSD 2,017,923 (2008: RSD 540,463)

12. Trade receivables (continued)

The ageing analysis of trade receivables is as follows:

	2009	2008
Up to 3 months	9,221,396	13,675,519
Over 3 months	11,848,225	11,182,960
	21,069,621	**24,858,479**

As of 31 December 2009, trade receivables in amount of RSD 10,115,124 (2008: RSD 11,459,471) were either impaired or provided for. The individually impaired receivables mainly relate to customers which are assessed as unexpected to be collected. The ageing of receivables provided for is as follows:

	2009	2008
Up to 3 months	147,542	221,770
Over 3 months	9,967,582	11,237,701
	10,115,124	**11,459,471**

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

	2009	2008
RSD	36,104,621	38,710,434
EUR	218,516	197,144
USD	1,578,335	1,937,814
RUB	22	22
	37,901,494	**40,845,414**

Movements on the Company's provision for impairment of trade receivables are as follows:

	2009	2008
At 1st January	**(26,596,772)**	**(27,759,923)**
Provision for impaired receivables	(3,432,973)	(2,555,838)
Receivables written off during the year as uncollectible	2,622,324	24,939
Unused amounts reversed	632,616	2,138,794
Transfers	267,515	1,555,256
At 31st December	**(26,507,290)**	**(26,596,772)**

Expenses for written off and provided for receivables is included in 'other expenses/other income in the income statement (notes 32 and 33). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

13. Short term financial investments

	2009	2008
Short term loans and investments	546,696	79,201
Short term loans and investments – related parties	-	1,152
Current portion of long term investments	1,950,830	2,621,649
Other short term financial investments	500	79,686
Less: provision	(1,636,817)	(124,172)
	861,209	**2,657,516**

Current portion of long term investments (receivables) in the amount of RSD 1,950,830 (2008: 2,621,649), mostly relate to rescheduled receivables from Srbijagas in the amount of RSD 1,339,453 (2008: RSD 643,271), JAT in the amount of RSD 427,626 (2008: RSD 81,408) and HIP Petrohemija in the amount of RSD 57,533 (2008: RSD 1,813,750). They are provided for in the amount of RSD 1,392,365 for Srbijagas and in the amount of RSD 244,000 for JAT.

Movement table of provision for short term financial investments:

	2009	2008
At 1st January	**(124,172)**	**(976,421)**
Provision for impairment	(1,602,926)	
Disposal and other movements	90,281	852,249
At 31st December	**(1,636,817)**	**(124,172)**

14. Cash and cash equivalents

	2009	2008
Cash at bank		
- in RSD	602,486	322,757
- foreign currency	259,621	239,295
Cash in hand		
- in RSD	149,567	19,360
- in foreign currency	913	1,178
Short term bank deposits	7,620,122	3,461,380
Cash equivalents – cheques	82,680	116
Cash allocated for payments and letters of credit	7,497	14,745
Other cash	392	1,419
	8,723,278	**4,060,250**

As at 31 December 2009, Short term bank deposits in amount of RSD 7,620,122 (2008: RSD 3,461,380) represent short term deposits in banks with average interest rate of 3.80% for foreign currency and 9.70% for deposits denominated in RSD.

15. VAT and prepaid expenses

	2009	2008
Prepayment for VAT	371,672	599,810
Prepaid expenses	33,832	165,104
Not invoiced revenue	1,052,753	
Excise duty	986,447	652,429
Employees benefits for housing loans	1,483,599	
Other prepayments	228,604	353,822
Total	**4,156,907**	**1,771,165**

Prepayment for VAT in the amount of RSD 371,672 is VAT on incoming invoices accounted for in current period, while its deduction will come in following accounting period.

Revenue not invoiced in the amount of RSD 1,052,423, relates to receivables from Noble Clean Fuels in the amount of RSD 1,017,013 and Constant Oil in the amount of RSD 34,941 for current period sales for which the Company did not issue invoices.

16. Off balance sheet assets and liabilities

	2009	2008
Issued warranties and bills of exchange	131,982,082	91,582,736
Received warranties and bills of exchange	5,684,192	1,233,001
Properties in ex-Republics of Yugoslavia	5,421,435	5,421,435
Receivables from companies from ex-Yugoslavia	4.096.875	3,861,809
Third party merchandise in NIS warehouses	3.436.067	3,910,925
Assets for oil fields liquidation in Angola	591.248	518,705
	151,211,899	106,528,611

Bills of exchange and guarantees are provided to financial institutions and crude oil suppliers to secure payments. Out of total amount, RSD 10,391,622 relates to open credit lines still not drawn.

17. Equity

	Share capital	Other capita	Reserve	Revaluation reserves	Unrealized gains	Unrealized losses	Retained earnings(losses))	Total
At 1st January 2008	81,530,220	5,619,160	484,601	276,109	-	-	(6,921,266)	80,988,824
AFS movement	-	-	-	(215,201)	136,760	(33,169)	-	(111,610)
Transfer to reserves 5 %	-	-	404,823	-	-	-	(404,823)	-
Corrections for income tax	-	-	-	-	-	-	(22,943)	(22,943)
Deferred tax effect	-	-	-	-	-	-	755,310	755,310
Profit for the year	-	3,139	(213)	454	-	-	(3,981)	(601)
Total income / (expenses) recognized in 2008.	-	(869)	-	-	-	-	(8,189,621)	(8,190,490)
	-	**2,270**	**404,610**	**(214,747)**	**136,760**	**(33,169)**	**(7,866,058)**	**(7,570,334)**
Dividends for 2007								
Decreased liabilities for dividends	-	-	-	-	-	-	(4,048,227)	(4,048,227)
At 31st December 2008	-	-	-	-	-	-	263,582	263,582
	81,530,220	**5,621,430**	**889,211**	**61,362**	**136,760**	**(33,169)**	**(18,571,969)**	**69,633,845**
At 1st January 2009								
Unrealized gains/(losses) for AFS	**81,530,220**	**5,621,430**	**889,211**	**61,362**	**136,760**	**(33,169)**	**(18,571,969)**	**69,633,845**
Reversal of Revaluation Reserves rezervi	-	-	-	-	(6,517)	4,997	-	(1,520)
At 1st January 2008	-	-	-	(61,362)	-	-	-	(61,362)
Other	(20)	(15)	213	-	-	-	214,708	214,886
Profit / (loss) for the year	-	5,200	-	-	-	-	(37,771,172)	(37,765,972)
Total income / (expenses) recognized in 2009	**(20)**	**5,185**	**213**	**(61,362)**	**(6,517)**	**4,997**	**(37,556,464)**	**(37,613,968)**
At 31st December 2009	**81,530,200**	**5,626,615**	**889,424**	**-**	**130,243**	**(28,172)**	**(56,128,433)**	**32,019,877**

Other Capital contains minority interest in the amount of RSD 28,471 (2008: RSD 23,626)

17. Equity (continued)

17.1 Share capital

Share capital represents closed joint stock company share capital

As per Sale and Purchase Agreement dated on 24 December 2008, there was a change in ownership of the Company, registered at the Central register for securities as of 2 February 2009. New ownership structure is as follows:

- 51% of share capital in the ownership of Gazprom Neft, St Petersburg, Russia, or 4.158.040 ordinary shares;
- 49% of share capital is owned by the Serbian Government, Ministry of Industry and privatization, or 3,994,982 regular shares.

According to Sales and Purchase Agreement, as long as Serbian Government holds 10% of voting rights, its positive vote is required for:

- Adoption of financial statements and audit report
- Changes in Act of Incorporation
- Capital increase and decrease
- Status changes
- Acquiring and disposal of the Company's assets with large value
- Changes of registered business seat and activity
- Termination of the Company

During August 2009 Shareholders assembly adopted a decision on split of shares. Total number of regular shares is 163,060,400 (2008: 8,153,022) with nominal value of RSD 500 per share (2008: RSD 10,000 per share). During 2008 there were no share issues. All issued shares are paid in whole.

17.2 Revaluation reserves and unrealized gains and losses

Movements on the accounts were as follows:

	Revaluation reserves	Unrealized gains on AFS	Unrealized losses AFS	Total
As at 1st January 2009	**61,362**	**136,760**	**(33,169)**	**164,953**
Fair value gains - Available for sale financial assets	**-**	(6,517)	4,997	**(1,520)**
Disposal of revaluation reserves	(61,362)	**-**	**-**	**(61,362)**
As at 31st December 2009	**-**	**130,243**	**(28,172)**	**102,071**

Unrealized gains in the amount of RSD 130,243 resulted from positive effect of estimated values of financial assets available for sale which fair value changes effects are reflected in equity

17. Equity (continued)

Structure of unrealized gains from sale of assets available for sale:

	2009	2008
Luka Dunav a.d, Pančevo	78,060	90,808
Linde Gas Srbija a.d, Bečej	23,487	23,487
Komercijalna banka a.d, Beograd	13,012	11,104
SPC Pinki a.d, Zemun	8,507	-
Jubmes banka a.d, Beograd	7,177	7,327
Privredna banka a.d. Pančevo	-	4,034
	130,243	**136,760**

Unrealized losses on AFS in amount of RSD 28,172 thousand resulted from the valuation of shares classified as available for sale and represent negative effects that could not be charged against the unrealized gains on a specific security.

Structure of unrealized losses from AFS:

	2009	2008
Politika a.d, Beograd	(23,316)	(19,634)
Privredna banka a.d. Pančevo	(2,760)	-
Dunav osiguranje a.d.o, Beograd	(2,096)	(3,894)
SPC Pinki a.d, Zemun	-	(9,641)
	(28,172)	**(33,169)**

17.3 Retained earnings

Movements on account were as follows:

	2009	2008
As at 1 January	(18,571,969)	(6,921,266)
Loss for the year	(37,771,172)	(8,189,621)
Transfer to statutory and other reserves		(404,823)
Dividends distributed		(4,048,227)
Reversal of liabilities for dividends		263,582
Reduction of deferred tax liabilities		755,310
Income tax correction		(22,943)
Other	214,708	(3,981)
As at 31 December	**(56,128,433)**	**(18,571,969)**

18. Long-term provisions

	2009	2008
Long term provisions for environmental restoration	5,293,834	1,980,718
Long term provisions for employees benefits	4,828,831	1,902,294
Long term provisions for legal cases	5,989,010	3,995,908
As at 31st December	**16,111,675**	**7,878,920**

Movements on the account were as follows:

	Environmental restoration provision	Employees benefits provision	Legal cases provisions	Total
As at 1st January 2008.	2,359,708	2,482,544	3,953,276	8,795,528
Charged(credited) to Income statement:	602,201	322,305	42,632	967,138
Used during year	(981,191)	(902,555)	-	(1,883,746)
As at 31st December 2008	**1,980,718**	**1,902,294**	**3,995,908**	**7,878,920**
Charged(credited) to Income statement	455,265	3,603,707	1,940,161	5,999,133
Adjustments on PP&E	2,864,951	-	-	2,864,951
Used during year	(7,100)	(677,170)	52,941	(631,329)
As at 31st December 2009	**5,293,834**	**4,828,831**	**5,989,010**	**16,111,675**

(a) *Environmental restoration*

Based on previous experience on similar actions, management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells. Accrual for asset retirement of active wells in total amount of RSD 2,864,951 is recognized under property, plant and equipment.

(b) *Legal claims*

Provision for legal cases in amount of RSD 5,989,010 relates to provisions for legal cases against the Company as of 31 December 2009. Provision in amount of RSD 1,940,161 (2008: RSD 42,632) is recorded in Income Statement line Depreciation and provision expenses (note 27) in accordance with Law on Auditing and Accounting of Serbia.

The Company's assessment is that the outcome of all legal cases will not lead to material losses above the amount already provided as of 31 December 2009. The Company regularly assesses the probability of negative outcomes of legal cases, as well as the amounts of probable or reasonable estimated losses including management judgment after consideration of information such as notifications, settlements, legal department estimates, available facts, identification of potential responsible parties and their possibilities to contribute in problem solving, as well as their previous experience.

18. Long-term provisions (continued)

(c) *Employee benefits*

Provision for Employee benefits includes:

	2009	2008
Termination benefits	1,017,571	532,385
Jubilee awards	3,705,958	1,319,655
Other benefits in accordance with acquired rights	105,302	50,254
	4,828,831	**1,902,294**

The principal actuarial assumptions used were as follows:

	2009	2008
Discount rate	6.5%	17.75%
Future salary increases	6%	-
Future average years of service	17.7	17.7

19. Long term loans

	2009	2008
Domestic	19,590,474	10,077,512
Foreign	20,272,434	4,622,053
	39,862,908	**14,699,565**
Current portion of long-term loans	(5,129,457)	(2,454,415)
Total	**34,733,451**	**12,245,150**

The maturity of non-current loans was as follows:

	2009	2008
Between 1 and 2 years	9,530,561	2,393,100
Between 2 and 5 years	18,591,704	3,548,208
Over 5 years	6,611,186	6,303,842
	34,733,451	**12,245,150**

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

	2009	2008
RSD	4,871,441	-
EUR	11,313,046	7,221,930
USD	23,302,210	7,106,664
JPY	376,211	370,971
Total	**39,862,908**	**14,699,565**

19. Long term loans (continued)

The carrying amounts of the Company's long term loans as of 31 December 2009:

Borrower	Currency	2009	2008
Alpha bank Serbia, Belgrade	USD	5,271,551	-
Moscow bank, Russian Federation	USD	3,336,425	-
NLB banka, Belgrade (London club)	USD	44,799	42,229
NLB banka, Belgrade (Paris club)	USD	444,673	429,330
NLB banka, Belgrade (Paris club)	JPY	376,211	370,971
EFG NEF BV, Holland	USD	3,042,019	-
Erste bank, Belgrade	USD	4,261	4,017
Erste bank, Belgrade (Paris club)	EUR	431,111	406,593
Erste bank, Belgrade (Paris club)	USD	250,870	241,372
Erste Bank, Holland	EUR	4,314,996	-
Hypo Alpe Adria Bank, Belgrade	EUR	1,176,236	1,494,404
VUB (Banca Intesa), Slovakia	USD	3,336,425	-
NBG Bank, Greece	USD	2,369,682	-
NBG Bank, Greece	EUR	603,967	-
Piraeus banka, Belgrade	RSD	4,868,106	-
Privredna banka, Pančevo (Paris club)	EUR	225,694	215,444
Privredna banka, Pančevo (Paris club)	USD	1,465,489	1,426,785
Sinochem , Great Britain	USD	3,268,921	4,622,053
Government of RS (IBRD)	EUR	4,561,041	4,406,263
Government of RS, Agency for deposit insurance	USD	467,096	253,103
Vojvođanska bank, Novi Sad (Paris club)	EUR	-	591,894
Erste bank, Belgrade (London club)	USD	-	47,402
Vojvođanska bank, Novi Sad (London club)	EUR	-	107,332
Vojvođanska bank, Novi Sad (London club)	USD	-	40,373
Other Loans	RSD	3,335	-
		39,862,908	**14,699,565**

The carrying amounts and fair value of the non-current borrowings are equal as they are received under market conditions. The Group repays for its loans in accordance with agreed dynamics, i.e. determined annuity plans. The Company has both fixed and floating interest rates stipulated with the creditors. Floating interest rates are connected with Euribor and Libor, which sensitivity analysis is shown in the note 3.1 (a).

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

19. Long term loans (continued)

The Company has the following open loans facilities:

	2009
Floating rate:	
- Expiring within one year	7,473,266
- Expiring beyond one year	971,105
Fixed rate:	
- Expiring within one year	3,336,425
	11,780,796

Borrowing facilities expiring within one year are annual facilities subject to review at various dates during 2010. The other facilities have been arranged to help finance the proposed expansion of the Group's activities.

20. Other long-term liabilities

	2009	2008
Liabilities to Parent	5,804,462	-
Liabilities for financial lease	114,557	20,281
Other long-term liabilities	717,507	862,389
	6,636,526	**882,670**

As at 31 December 2009, Other long-term liabilities to the Parent in the amount of RSD 5,804,462 (EUR 60,533 thousand) relate to borrowings from OAO Gazprom Neft, with respect to its obligation, from Sales and Purchase Agreement signed on 24 December 2008, to approve borrowing facility for financing of Program for reconstruction and modernization of technology capacities. Total investments amount to EUR 500 million and should be finalized not later than 31 December 2012.

Long-term lease liabilities in the amount of RSD 114,557 (2008: RSD 20,281) are effectively secured, as the rights to the leased asset revert to the lessor in the event of default.

Financial lease liabilities – minimum lease payments:

	2009	2008
No later than 1 year	37,694	40,162
Later than 1 year and no later than 5 years	133,874	24,657
Future finance charges on finance leases	(19,318)	(4,376)
Present value of finance lease liabilities	**152,250**	**60,443**

20. Other long-term liabilities (continued)

The present value of finance lease liabilities is as follows:

	2009	**2008**
No later than 1 year	37,694	40,162
Later than 1 year and no later than 5 years	114,556	20,281
	152,250	**60,443**

21. Short term financial liabilities

	2009	**2008**
Short term loans	13,388,110	44,900,241
Current portion of long term loans	5,129,457	2,454,415
Current portion of financial lease	37,694	40,162
Current portion of other long term loans	12,550	12,769
Other short term liabilities	24	2,159
	18,567,835	**47,409,746**

22. Trade and other payables

	2009	**2008**
Advances received	1,009,108	945,553
Trade payables		
- domestic	1,754,317	4,790,512
- foreign	16,693,870	4,991,333
Trade payables – parents and subsidiaries	3,244,473	-
Trade payables – other related parties	114,314	-
Liabilities from other operations	74,627	72,207
Liabilities from specific operations	445,978	709,072
	23,336,687	**11,508,677**

As at 31 December 2009, foreign trade payables in the amount of RSD 16,708,415, mostly relate to outstanding liabilities for crude oil purchased from VitolSA, in the amount of RSD 15,073,118 (USD 225,887 thousand).

Payables to parent and subsidiaries in the amount of RSD 3,267,050 mostly relate to liabilities for delivered light oil by Gazprom Neft Trading in the amount of RSD 3,244,473 (USD 48,622 thousand).

23. Other short-term liabilities

	2009	2008
Liabilities for unpaid wages and salaries, gross	578,239	606,604
Liabilities to employees	32,891	28,868
Liabilities for interest – domestic	558,653	919,036
Liabilities for dividends	2,126,363	2,126,363
Participation of employees in profit	147	147
Liabilities towards Management and supervising boards members	167	4,406
Other liabilities	750,548	532,208
	4,047,008	**4,217,632**

As at 31 December 2009, other liabilities in the amount of RSD 750,548, mostly relate to liabilities for unused vacations in the amount of RSD 653,517.

24. Liabilities for VAT and other taxes and deferred income

	2009	2008
Liabilities for VAT	594,186	498,270
Liabilities for excise	2,074,978	1,654,790
Liabilities for taxes and custom duties	240,962	183,346
Other liabilities for taxes and contributions	149,690	216,461
Non-invoiced liabilities	1,857,544	-
Other accruals	2,397,446	821,182
	7,314,806	**3,374,049**
Liabilities for income tax	1,431	160,951
	7,316,237	**3,535,000**

As at 31 December 2009, non-invoiced liabilities in amount of RSD 1,857,544, mostly relate to liability for received but not invoiced goods from IAG International in amount of RSD 1,094,387. The remaining amount related to received goods or services performed in 2009, but not invoiced by other suppliers.

Other accruals as of 31 December 2009 in the amount of RSD 2,397,446 (2008: RSD 821,182) mostly relate to accrual for annual bonuses in the amount of RSD 886,220, quarterly premiums in the amount of RSD 995,448 and service performed in 2009, but not invoiced in the amount RSD 236,560.

25. Operating income

	2009	2008
Sales :		
- domestic market	103,348,442	160,940,573
- foreign market	15,229,760	7,962,626
	118,578,202	168,903,199
Revenue from worked performed by entity and capitalized capitalized	724,653	697,090
Decrease in inventories (note 10)	(981,362)	(225,751)
Other operating income	380,381	232,594
Total	**118,701,874**	**169,607,132**

26. Other operating income

	2009	2008
Rental income (note 8)	173,083	190,825
Revenue from royalties	45,925	70,967
Other operating income	161,373	(29,198)
Total	**380,381**	**232,594**

27. Operating expenses

	2009	2008
Cost of goods sold	6,186,024	39,582,455
Cost of material	68,676,064	93,033,146
Cost of salaries, benefits and other personal expenses	19,983,605	14,170,110
Depreciation and provisions	12,743,544	6,975,591
Other operating expenses (note 29)	13,420,537	11,051,084
Total	**121,009,774**	**164,812,386**

Cost of material includes:

	2009.	2008.
Cost of raw materials	65,266,093	80,356,892
Cost of office and other material	1,234,924	9,021,205
Other fuel and energy expenses	2,175,047	3,655,049
Total	**68,676,064**	**93,033,146**

Depreciation and provision include:

	Note	2009	2008
Depreciation expenses	6, 7	6,744,411	6,008,453
Provision for asset retirement obligation	18	455,265	602,201
Provision for salaries and employees benefits	18	3,603,707	322,305
Provision for legal cases	18	1,940,161	42,632
		12,743,544	**6,975,591**

28. Cost of salaries, benefits and other personnel expenses

	2009	2008
Wages and salaries (gross)	13,362,096	10,328,067
Taxes and contributions on wages and salaries paid by employer	2,373,032	1,849,003
Cost for temporary service agreement	192,083	49,676
Cost of other temporary service agreements	18,473	8,503
Fees paid to management and supervisory board members	4,084	87,869
Cost for employees termination payments	2,894,498	472,146
Transportation cost	429,490	347,895
Travel and per diem cost	246,045	431,913
Employees family members help	142,559	166,065
Other personal expenses and benefits	321,245	428,973
Total	**19,983,605**	**14,170,110**

Termination costs in the amount of RSD 2,894,498 relate to costs incurred in relation to voluntary leave program issued on 15 July 2009 - ''Program 750''. Based on Sale and Purchase Agreement the Company is able to propose voluntary termination of employment, only if it pays one off severance payment to every employee in the amount of EUR 750 per year of working service. Total number of employees who accepted the termination of employment in 2009 is 1,238.

29. Other operating expenses

	2009	2008
Production services	2,418,347	994,818
Transportation services	1,429,060	1,280,752
Maintenance	1,058,040	1,433,709
Rental costs	348,929	202,457
Fairs	5,620	10,368
Advertising and representation costs	181,406	285,612
Research costs	246,342	125,964
Cost of other services	989,539	1,067,855
Costs of non production services	1,941,972	2,092,843
Representation costs	98,500	181,111
Insurance premium	669,763	598,957
Bank charges	799,559	321,140
Cost of custom duties, property taxes and other taxes	1,984,642	1,412,428
Land use fees	575,762	422,831
Cost of legal and consulting services	260,925	65,552
Administrative and other taxes	176,981	125,175
Other	235,150	429,512
Total	**13,420,537**	**11,051,084**

29. Other operating expenses (continued)

Cost of other services in amount of RSD 989,539 (2008: RSD 1,067,855) mainly relates to: SAP license costs in amount of RSD 219,815 (2008: RSD 130,442), cost of environmental taxes in amount of RSD 198,761 (2008: RSD 206,587)

Cost of non-production services in the amount of RSD 1,941,972 (2008: RSD 2,092,843) mostly relate to costs incurred for: use of service companies for physical-technical security in the amount of RSD 1,202,484, public utility services and project management in the amount of RSD 161,059.

30. Financial income

	2009	2008
Interest income	2,301,199	1,521,571
Foreign exchange gains	8,717,740	6,978,247
Other financial income	105,568	5,429
	11,124,507	**8,505,247**

31. Financial expenses

	2009	2008
Interest expenses	2,891,427	2,744,475
Foreign exchange losses	12,936,175	15,881,961
Other financial expenses	57,231	281,388
	15,884,833	**18,907,824**

32. Other income

	2009	2008
Gains on disposal:		
- intangibles, property, plant and equipment	55,986	35,370
- stakes and long-term securities	-	462,438
- materials	9,968	6,413
Surpluses	52,202	159,955
Receivables written off and collected	30,049	381,837
Write off of payables	724,685	1,551,018
Gains from collected penalty interest	77,603	29,256
Cancellation of long-term provisions	31,592	1,552,900
Gain on calculation of present value of housing loans	2,186,767	-
Gains from re-activation of oil wells	449,392	-
Gain from settlement with SAP WB	394,131	-
Overpaid excise	210,675	-
Reversal of impairment losses on:		
- intangibles	243	-
- investment properties	172,648	167,310
- long-term financial investments and available for sale financial assets	-	204,205
- inventories	263,368	384,808
- receivables and short-term financial investments	646,431	2,180,496
- other properties	13,410	23,136
Other income	561,110	1,413,669
	5,880,260	**8,552,811**

33. Other expenses

	2009	2008
Losses on disposal:		
- property, plant and equipment	5,494	200,706
- apartment given to financial lease	54,659	-
Losses on inventory and fixed assets count	197,697	536,736
Write off of receivables	19,858	166,808
Write off of inventories	3,658	1,970,144
Fines, penalties and damages	159,725	206,238
Humanitarian and sponsorships	167,225	322,356
Reconciliation to PV for restitution of liquidated wells	639,447	-
Loss on sale of materials	346,176	-
Impairment :	36,933,767	7,618,788
	38,527,706	**11,021,776**

Impairment relates to:

	2009	2008
Impairment of intangibles	1,582,504	-
Impairment property, plant and equipment	18,644,873	104,182
Impairment Investment properties	505,044	-
Impairment of investments in related parties	2,999	-
Impairment of AFS	511,678	-
Impairment of reprogrammed LT receivables	6,836,990	-
Impairment of other investments	30,974	602,881
Impairment of inventories	2,875,978	4,139,996
Impairment of short-term investments	1,602,926	-
Impairment of trade receivables	3,432,973	2,564,161
Other	906,828	207,568
	36,933,767	**7,618,788**

34. Income Tax Expense

	2009	**2008**
Income tax related to period	(212)	(111,629)
Deferred tax income for period	1,949,912	(2,065)
	1,949,700	(113,694)

Movement in deferred taxes:

Deferred tax liabilities	**Carrying value vs Tax base**	**Total**
As at 1st January 2008	4,634,904	4,634,904
Charged on Income statement	(752,937)	(752,937)
As at 31st December 2008.	3,881,967	3,881,967
Charged on Income statement	(1,949,912)	(1,949,912)
As at 31st December 2009	**1,932,055**	**1,932,055**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighed average tax rate applicable to the Group's profits as follows:

	2009	**2008**
Profit before tax	(39,715,672)	(8,076,796)
Tax calculated at statutory tax rate – 10%	(3,971,567)	(807,680)
Tax effect on:		
Expenses not deductible for tax purposes	3,334,484	1,014,277
Utilization of previously unrecognised tax losses	-	(113,694)
Tax losses for which no deferred income tax assets was recognised	(713,607)	-
Reversal of temporary differences	1,949,912	-
Tax loss	**1,949,912**	**113,694**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets shown in table below:

	2009	**2008**
Investment credit	4,802,588	3,479,338
Tax loss credit	713,607	-
Total	**5,516,195**	**3,479,338**

Investment credit is incurred as 20% of capital investments made up to 31 December 2009.

35. Contingent liabilities

The Group has made assessment and provided for litigations in the amount of RSD 5,936,069 (note 18). There are number of legal cases for which the Group did not provide for. The most significant ones are:

- Litigation initiated by Housing Cooperative “Stambena Zadruga Rafinerija” against the Company. It is arisen from the debt from financing of apartments for MUP Serbia. At the current date the value of claim is approximately EUR 630 million.

- Litigation initiated by “JIK Bank” for the payment to foreign suppliers. The claim was suspend in 1999 and renewed in 2009. Total exposure is approximately EUR 43.6 million.

Management does not anticipate that any material liabilities will arise from the outcome of above mentioned litigations (note 18).

In addition, in accordance with SPA, Republic of Serbia is obliged to unconditionally withdraw all claims against the Group initiated by institutions or companies owned by Government.

The Group has obligations related to environmental protection. The Group has not recorded any liability for anticipated costs due to lack of relevant data related to the assessment of Group's exposure.

Environmental regulations are developing in Serbia and the Group has not recorded any liability for anticipated costs, including legal and consulting fees, site studies, the design and implementation of remediation plans, related to environmental matters other than those disclosed in Note 18.

Management consider that, based on the current environmental legislation, the costs associated with environmental issues will not be significantly higher than those provided for already; it is possible, however, that such costs may increase substantially in the future, should the legislation become more restrictive, for example through convergence towards EU standards.

According to SPA, the Group shall engage an independent consultant with an aim to assess Company’s exposure to environment risk. Following the adoption of such report by the both shareholders, Republic of Serbia should be liable only for the damages arising from past events stated in the report. However, liability of RoS is limited to 25% of purchase price for all the claims raised by the Seller, including environmental claims.

In December 2009, the Group engaged D’Appolonia, Italy to assess current environmental condition of the Company. The results are expected to be published in mid of 2010.

Also, Republic of Serbia committed in SPA to ensure that if exploration of NIS’s equipment that existed on the date of acquisition results in non-compliance with environmental requirements due to obsolescence or physical wear, no sanctions should apply against NIS until such equipment is modernized or replaced.

36. Tax risks

Tax laws of Republic of Serbia are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. Tax liability due date is five years. This means that tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Group has paid all tax liabilities as of 31 December 2009.

37. Commitments

The Company is committed under Sales and Purchase Agreement to:

- Comply with a Social program as follows:
  - The salaries of NIS' employees shall be modified annually at the rate of the annual variation in the index reflecting the cost of living in Republic of Serbia
  - In the period to 31 December 2012 , NIS shall not terminate the employment of its employees against their will on the basis of technological or organizational changes
  - NIS may propose termination of employment, provided that a onetime dismissal wage is paid to the employee in the amount of EUR 750 for every served year of employment
- Invest in modernization of the Group in amount of Euro 547 million in period of 4 years in accordance with Modernization and Reconstuction programme providing a loan with special appropriation and contract terms prescribed in the amount of EUR 500 million;
- Distribute dividends for 4 consecutive years in amount not less than 15% of net profit of the Group
- Maintain level of exploration and production of crude oil at least to 2020, not to cease with refining activities, to maintain level of production of oil derivatives for Serbian market, to maintain the market share in trade of oil derivatives up to the level in 2008
- Conduct modernization and reconstruction of the Group

38. Related parties transactions

Loans taken from related parties:

	2009	2008
At 1 January	-	-
Loans taken during the year	5,804,462	-
Loans repayments	-	-
Financial expenses - capitalized	26,243	-
At 31 December	**5,830,705**	**-**

38. Related parties transactions (continued)

Transactions with state controlled institution and companies:

	Receivables		Advances paid	
	2009	**2008**	**2009**	**2008**
Aerodrom Nikola Tesla	9,307	8,320	-	1
JAT Airways	152,056	-	13	-
HIP Petrohemija	605,633	2,440,054	-	-
EPS Elektrovojvodina	4,892	227	208	5
MUP Republike Srbije	335,356	138,966	-	-
RTB BOR Grupa	1,981,689	1,520,322	31,453	31,453
Srbijagas	6,337,810	5,597,012	362	362
Telekom Srbija	35,452	9,158	190	38
Toplane (sum)	1,283,834	1,451,310	-	-
Putari (sum)	622,727	1,646,969	2,300	6
Vojska Srbije	233,995	244,258	439	-
	11,602,751	13,056,596	34,965	31,865

	Liabilities		Advances received	
	2009	**2008**	**2009**	**2008**
Aerodrom Nikola Tesla	222	2,326	0	0
JAT Airways	9	1,171	92	6
HIP Petrohemija	114,314	607,784	261	-
EPS Elektrovojvodina	240	58,511	6	-
MUP Republike Srbije	20	-	86	103
RTB BOR Grupa	207	-	1,603	1,175
Srbijagas	272,053	1,892,772	23,759	65,912
Telekom Srbija	11,244	16,896	-	-
Toplane (sum)	808	15,788	11,444	30,948
Putari (sum)	-	-	4,719	3,331
Vojska Srbije	560	-	116	244
	399,677	2,595,248	42,086	101,719

	Sales		Expenses	
	2009	**2008**	**2009**	**2008**
Aerodrom Nikola Tesla	59,058	58,434	(5,868)	(5,441)
JAT Airways	1,400,334	2,336,690	(14)	(1,119)
HIP Petrohemija	3,547,685	9,906,858	(156,715)	(1,169,145)
EPS Elektrovojvodina	3,161	24,868	(487,255)	(603,119)
MUP Republike Srbije	651,238	667,664	(24)	(34)
RTB BOR Grupa	628,840	800,599	(808)	-
Srbijagas	5,945,319	4,340,213	(1,148,591)	(1,234,299)
Telekom Srbija	114,125	118,358	(185,323)	(213,969)
Toplane (sum)	5,756,130	3,351,007	(46,758)	(51,591)
Putari (sum)	4,780,785	9,134,377	(47,677)	(5,132)
Vojska Srbije	1,020,429	1,106,076	(3,317)	(6,832)
	23,907,104	31,845,144	(2,082,350)	(3,290,681)

38. Related parties transactions (continued)

Key management compensation

Key management represents: Management Board, Executive Board and Heads of Departments. Management compensation paid in 2009 and 2008 are shown in table below:

	2009	2008
Salaries and other compensations	70,060	123,631
	70,060	**123,631**

39. Events after the balance sheet date

On 6 January 2010, there was change in ownership structure. In accordance with the Law on disbursment of free shares enacted by the Government of Serbia, citizens of Serbia received shares of NIS, and new ownership structure valid from 6 January 2010 is:

- Gasprom Neft OAO 51.00%
- Governement of Republic of Serbia 29.92%
- Serbian citizens 14.74%
- Employees and ex-employees 4.34%

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for.

In Novi Sad, 22 April 2010

Finance Manager	**MP**	**Chief Executive Officer**
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