



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

Interim Condensed Consolidated Financial Statements

**As of September 30, 2011 and December 31, 2010 and
for the nine-month period ended September 30, 2011 and 2010
(unaudited)**

Novi Sad, November 28, 2011

Interim Condensed Consolidated Financial Statements

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

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Interim Condensed Consolidated Financial Statements

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

CONSOLIDATED BALANCE SHEET

ASSETS	Notes	September 30, 2011 <i>(unaudited)</i>	December 31, 2010
Non-current assets			
Intangible assets		4,780,903	4,841,418
Property, plant and equipment	5	117,934,157	100,924,684
Investment property		1,469,937	1,393,170
Investments in equity instruments		236,498	263,229
Other long-term investments		1,313,916	1,505,758
		125,735,411	108,928,259
Current assets			
Inventories	6	35,873,441	34,016,869
Non-current asset held for sale		16,238	262,431
Trade receivables	7	20,491,577	12,997,854
Short-term financial investments		2,512,343	2,513,931
VAT and prepaid expenses		3,934,351	3,947,072
Cash and cash equivalents	8	11,603,301	10,636,669
Deferred tax assets		4,804,946	4,804,904
		79,236,197	69,179,730
Total assets		204,971,608	178,107,989
Off-balance sheet assets		78,684,286	88,793,346
LIABILITIES AND EQUITY			
Equity			
Share capital	9	87,128,073	87,128,073
Reserves		889,043	888,587
Unrealized gains from securities		39,102	48,417
Unrealized losses from securities		(62,709)	(49,236)
Accumulated loss		(14,006,619)	(41,009,046)
Total equity attributable to owners of parent		73,986,890	47,006,795
Minority interest		9,580	25,945
Total equity		73,996,470	47,032,740
Long-term provisions and liabilities			
Long-term provisions		18,438,905	18,574,652
Long-term loans	10	26,343,464	26,645,540
Other long-term liabilities	11	33,481,495	22,996,705
		78,263,864	68,216,897
Short-term liabilities			
Short-term financial liabilities	12	11,483,506	21,805,638
Trade and other payables	13	24,915,597	24,964,034
Other short-term liabilities		6,595,212	6,552,062
Liabilities for VAT and other taxes and deferred income		7,209,467	7,457,457
Income tax liabilities		725,260	620,626
		50,929,042	61,399,817
Deferred tax liabilities		1,782,232	1,458,535
Total liabilities and equity		204,971,608	178,107,989
Off-balance sheet liabilities		78,684,286	88,793,346

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Interim Condensed Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF INCOME

	Notes	Nine-month period ended September 30,	
		2011 <i>(unaudited)</i>	2010 <i>(unaudited)</i>
Operating income			
Sales	14	133,145,852	112,100,048
Work performed by the entity and capitalized		2,818,749	1,655,258
Increase in the value of finished goods and work in progress		2,115,635	5,941,123
Other operating income		203,181	85,817
		138,283,417	119,782,246
Operating expenses			
Cost of goods sold		(9,783,676)	(2,582,354)
Cost of material	15	(70,148,348)	(74,843,870)
Cost of salaries, benefits and other personnel expenses	16	(16,107,497)	(15,268,592)
Depreciation and provisions		(5,674,063)	(5,014,210)
Other operating expenses	17	(9,841,745)	(8,733,259)
		(111,555,329)	(106,442,285)
Net operating income		26,728,088	13,339,961
Financial income	18	6,512,455	6,066,211
Financial expenses	19	(3,066,401)	(17,831,704)
Other income		2,916,150	4,094,580
Other expenses		(4,298,382)	(3,430,400)
Income before income tax		28,791,910	2,238,648
Income tax expense		(1,467,249)	(42,756)
Deferred tax (expenses) income		(323,654)	353,809
Net Profit for the period		27,001,007	2,549,701
Net profit (loss) attributable to non-controlling equity holders		(16,160)	325
Net profit attributable to owners of parent		27,017,167	2,549,376
Earnings per share			
- from continuing operations	20	0.17	0.02

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Interim Condensed Consolidated Financial Statements*(All amounts are in 000 RSD, unless otherwise stated)***CONSOLIDATED STATEMENT OF CASH FLOWS**

	Nine-month period ended	
	September 30,	
	2011	2010
	<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows from operating activities		
Sales and advances received	202,492,573	177,804,755
Interest from operating activities	629,522	421,193
Other inflow from operating activities	203,181	85,817
<i>Cash inflow from operating activities</i>	<u>203,325,276</u>	<u>178,311,765</u>
Payments and prepayments to suppliers	(111,255,009)	(76,580,387)
Salaries, benefits and other personnel expenses	(16,115,543)	(16,623,291)
Interest paid	(2,415,893)	(2,269,428)
Income tax paid	(1,362,122)	(197,907)
Payments for other public revenues	(54,956,314)	(68,611,536)
<i>Cash outflow from operating activities</i>	<u>(186,104,881)</u>	<u>(164,282,549)</u>
Net cash inflow from operating activities	<u>17,220,395</u>	<u>14,029,216</u>
Cash flows from investing activities		
Sale of shares	17,103	-
Proceeds from sale of intangible assets and property, plant and equipment	582,339	30,117
<i>Cash inflow from investing activities</i>	<u>599,442</u>	<u>30,117</u>
Purchase of intangible assets, property, plant and equipment	(19,967,700)	(8,269,985)
<i>Cash outflow from investing activities</i>	<u>(19,967,700)</u>	<u>(8,269,985)</u>
Net cash outflow from investing activities	<u>(19,368,258)</u>	<u>(8,239,868)</u>
Cash flows from financing activities		
Proceeds from long-term and short-term borrowings	15,054,469	9,756,867
Proceeds from other long-term and short-term liabilities	11,360,028	5,616,669
<i>Cash inflow from financing activities</i>	<u>26,414,497</u>	<u>15,373,536</u>
Outflows from long-term, short-term and other liabilities	(22,747,972)	(19,188,251)
<i>Cash outflow from financing activities</i>	<u>(22,747,972)</u>	<u>(19,188,251)</u>
Net cash inflow (outflow) from financing activities	<u>3,666,525</u>	<u>(3,814,715)</u>
Net cash flows	1,518,662	1,974,633
Cash and cash equivalents at the beginning of the period	10,636,669	8,723,278
Currency translation gains on cash and cash equivalents	636,850	537,963
Currency translation losses on cash and cash equivalents	(1,188,880)	(504,371)
Cash and cash equivalents at the end of the period	<u>11,603,301</u>	<u>10,731,503</u>

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Interim Condensed Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the nine-month period ended September 30, 2011 and 2010

	Equity attributable to owners of parent							Minority interest	Total
	Share capital	Other capital	Reserves	Unrealised gains from securities	Unrealised losses from securities	Accumulated loss			
<i>(unaudited)</i>									
Balance as at January 1, 2010	81,530,200	5,597,873	889,171	130,243	(28,172)	(56,124,575)	25,137	32,019,877	
Income									
- Loss	-	-	-	-	-	2,549,376	325	2,549,701	
- Losses from securities	-	-	-	(80,746)	(21,720)	-	-	(102,466)	
Increase (decrease) through transfers and other changes, equity	-	-	(963)	-	-	25,028	-	24,065	
Balance as at September 30, 2010	81,530,200	5,597,873	888,208	49,497	(49,892)	(53,550,171)	25,462	34,491,177	
Balance as at January 1, 2011	81,530,200	5,597,873	888,587	48,417	(49,236)	(41,009,046)	25,945	47,032,740	
Income									
- Net income	-	-	-	-	-	27,017,167	(16,160)	27,001,007	
- Losses from securities	-	-	-	(9,315)	(13,473)	-	-	(22,788)	
Decrease in number of companies within a group for consolidation	-	-	(1,789)	-	-	(7,618)	-	(9,407)	
Increase (decrease) through transfers and other changes, equity	-	-	2,245	-	-	(7,122)	(205)	(5,082)	
Balance as at September 30, 2011	81,530,200	5,597,873	889,043	39,102	(62,709)	(14,006,619)	9,580	73,996,470	

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Notes to the Interim Condensed Consolidated Financial Statements

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

1. GENERAL INFORMATION

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

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

Name	Share %
O Zone a.d. Belgrade, Serbia	100
NIS Petrol doo, Laktasi, BiH	100
NIS Petrol e.o.o.d., Sofija, Bulgaria	100
NIS Petrol SRL, Bucharest, Romania	100
Pannon naftagas Kft, Budapest, Hungary	100
NIS Oversiz, Moscow, Russia	100
Jadran - Naftagas d.o.o. Banja Luka, B&H	66
Ranis, Moscow region, Russia	51
Jubos, Bor, Serbia	51
Svetlost, Bujanovac, Serbia	51

According to the Decision of the Group's Board of Directors dated August 23, 2011 the following companies have been established:

- „NIS Petrol“ d.o.o., Laktasi Bosnia and Herzegovina. On September 30, 2011 the total equity of the new company amounts to 20,000 Convertible marks and the Group's share is 100%.

- „NIS Petrol“ e.o.o.d. Sofia, Bulgaria. On September 30, 2011 the total equity of the new company amounts to 50,000 Levs, and the Group's share is 100%.

- „NIS Petrol“ SRL, Bucharest, Romania. On September 30, 2011 the total equity of the new company amounts to 41,000 Romanian Leu, and the Group's share is 100%.

- „Pannon naftagas“ Kft, Budapest, Hungary. On September 30, 2011 the total equity of the new company amounts to 500,000 HUF, and the Group's share is 100%.

On June 14, 2010 the Decision on voluntary liquidation of the subsidiary NIS Oil Trading, Frankfurt, Germany was enacted. Based on the Decision of the first instance court in Frankfurt dated July 19, 2011, the liquidation process was over and the subsidiary was shut down.

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

These condensed interim consolidated financial statements for the nine-month period ended September 30, 2011 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed interim consolidated financial statements do not include all disclosure and they should be interpreted in relation with the annual consolidated financial statements for the year ended December 31, 2010. The Group has prepared these consolidated financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia published in Official Gazette of the Republic of Serbia (no. 46/2006 and 111/2009), which requires full scope of IFRS to be applied, and the regulations issued by the Ministry of Finance of the Republic of Serbia. Due to the difference between these two regulations, these consolidated financial statements differ from IFRS in the following respects:

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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Notes to the Interim Condensed Consolidated Financial Statements

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4. SEGMENT INFORMATION

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

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

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

The reportable segments derive their revenue in following manner:

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

Reportable segments results for the nine-month period ended September 30, 2011 are shown in the following table:

	Exploration and production	Oil field services	Refining	Sales and distribution	Other	Total
Segment revenue	77,644,439	12,957,659	178,718,964	245,788,844	6,266,279	521,376,185
Inter-segment revenue	60,050,364	12,275,171	160,177,968	144,654,823	5,934,442	383,092,768
Total revenue	17,594,075	682,488	18,540,996	101,134,021	331,837	138,283,417
Operating income (expenses)	44,016,389	(1,707,809)	(13,186,788)	(2,102,264)	(291,440)	26,728,088
Financial income (expenses)	(167,020)	3,999	1,572,455	265,071	1,771,549	3,446,054
Other income (expenses)	328,638	(155,556)	(2,100,861)	405,542	140,005	(1,382,232)
Profit / (loss) before tax	44,178,007	(1,859,366)	(13,715,194)	(1,431,651)	1,620,114	28,791,910
Deferred tax	-	-	-	-	(323,654)	(323,654)
Income tax expense	-	-	-	-	(1,467,249)	(1,467,249)
Net profit / (loss)	44,178,007	(1,859,366)	(13,715,194)	(1,431,651)	(170,789)	27,001,007

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4. SEGMENT INFORMATION (continued)

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

	Exploration and production	Refining	Sales and distribution	Other	Total
Segment revenue	49,146,405	106,743,836	119,110,150	5,062,534	280,062,925
Inter-segment revenue	40,267,706	97,583,437	17,746,769	4,682,767	160,280,679
Total revenue	8,878,699	9,160,399	101,363,381	379,767	119,782,246
Operating income (expenses)	23,217,116	(9,811,672)	758,368	(823,851)	13,339,961
Financial income (expenses)	568,217	(3,331,041)	1,781,205	(10,783,874)	(11,765,493)
Other income	370,643	18,464	146,405	128,668	664,180
Profit / (loss) before tax	24,155,976	(13,124,249)	2,685,978	(11,479,057)	2,238,648
Deferred tax	-	-	-	353,809	353,809
Income tax expense	-	-	-	(42,756)	(42,756)
Net profit / (loss)	24,155,976	(13,124,249)	2,685,978	(11,168,004)	2,549,701

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

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

	Exploration and production	Oil field services	Refining	Trade	Other	Total
Assets	36,217,321	7,579,413	85,367,752	38,097,218	37,709,904	204,971,608
Liabilities	(11,055,570)	(1,485,068)	(23,449,487)	(8,931,350)	(86,053,663)	(130,975,138)
Net assets	25,161,751	6,094,345	61,918,265	29,165,868	(48,343,759)	73,996,470

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

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

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

	Nine-month period ended September 30,	
	2011	2010
Sales of oil and oil products	130,425,942	109,674,856
Sales of services and other sales	2,719,910	2,425,192
	133,145,852	112,100,048

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5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in other PP&E	Advances to suppliers	Total
At January 1, 2010								
Cost	11,440,375	56,563,904	54,030,573	10,901,969	89,466	129,318	5,054,028	138,209,633
Accumulated depreciation and impairment	(723,950)	(18,931,565)	(26,881,643)	(4,099,314)	(43,877)	(112,004)	(118,263)	(50,910,616)
Net book amount	10,716,425	37,632,339	27,148,930	6,802,655	45,589	17,314	4,935,765	87,299,017
Year ended December 31, 2010								
Opening net book amount	10,716,425	37,632,339	27,148,930	6,802,655	45,589	17,314	4,935,765	87,299,017
Additions	65,706	7,274,440	1,617,987	5,365,681	535	-	9,444,345	23,768,694
Disposals and advances paid used	(579)	(5,762)	(40,920)	(162,459)	-	-	(1,667,690)	(1,877,410)
Depreciation	-	(3,527,964)	(3,345,723)	-	-	(8,883)	-	(6,882,570)
Impairment	(13,423)	(503,581)	(376,299)	(48,838)	(1,426)	-	-	(943,567)
Transfer from intangible assets and other transfers	-	(1,139,539)	577,932	670,982	48,721	-	-	158,096
Transfer to investment property	-	(455,926)	-	-	-	-	-	(455,926)
Transfer to asset classified as held for sale	-	(234,041)	92,384	-	7	-	-	(141,650)
Closing net book amount	10,768,129	39,039,966	25,674,291	12,628,021	93,426	8,431	12,712,420	100,924,684
At December 31, 2010								
Cost	11,505,502	63,318,757	55,614,069	15,994,254	94,782	129,318	12,828,807	159,485,489
Accumulated depreciation and impairment	(737,373)	(24,278,791)	(29,939,778)	(3,366,233)	(1,356)	(120,887)	(116,387)	(58,560,805)
Net book amount	10,768,129	39,039,966	25,674,291	12,628,021	93,426	8,431	12,712,420	100,924,684
Period ended September 30, 2011								
Opening net book amount	10,768,129	39,039,966	25,674,291	12,628,021	93,426	8,431	12,712,420	100,924,684
Additions	1,026	1,856,330	1,232,367	16,030,589	526	-	8,965,480	28,086,318
Disposals and advances paid used	(231)	20,568	(86,997)	(51,748)	(3,242)	-	(6,332,176)	(6,453,826)
Depreciation	-	(2,021,349)	(2,446,938)	-	-	(2,257)	-	(4,470,544)
Impairment	-	(5,812)	(19,794)	(28,192)	(18)	-	-	(53,816)
Transfer to intangible assets and other transfers	(327)	426,199	(557,684)	93,499	867	-	-	(37,446)
Transfer to investment property	(18,559)	(42,654)	-	-	-	-	-	(61,213)
Closing net book amount	10,750,038	39,273,248	23,795,245	28,672,169	91,559	6,174	15,345,724	117,934,157
At September 30, 2011								
Cost	11,459,866	65,230,115	55,826,834	31,702,101	92,118	129,318	15,462,085	179,902,437
Accumulated depreciation and impairment	(709,828)	(25,956,867)	(32,031,589)	(3,029,932)	(559)	(123,144)	(116,361)	(61,968,280)
Net book amount	10,750,038	39,273,248	23,795,245	28,672,169	91,559	6,174	15,345,724	117,934,157

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Notes to the Interim Condensed Consolidated Financial Statements

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5. PROPERTY, PLANT AND EQUIPMENT (continued)

The most significant investments for the nine-month period ended September 30, 2011 in the amount of 10,198,330 thousand RSD mostly relate to investments in MHC/DHT project (investments in construction of Mild Hydrocracking Complex and Hydrofinishing in Pančevo Oil Refinery). Balance of advances paid to supplier, related to the same project, as of September 30, 2011 amounted to 9,524,574 thousand RSD.

6. INVENTORIES

	September 30, 2011	December 31, 2010
Raw materials	21,019,710	19,323,919
Finished goods	10,086,272	6,995,641
Work in progress	5,617,429	6,592,425
Spare parts	3,062,405	3,089,881
Merchandise	1,499,537	1,928,657
Tools	205,426	121,228
	<u>41,490,779</u>	<u>38,051,751</u>
Spare parts		
Advances	1,550,292	1,300,118
<i>Less provision:</i>		
- for inventories	(6,637,852)	(4,771,037)
- for advances	(529,778)	(563,963)
	<u>(7,167,630)</u>	<u>(5,335,000)</u>
Total inventories – net	<u>35,873,441</u>	<u>34,016,869</u>

Movement on inventory provision is as follows:

	2011	2010
At January 1st	(5,335,000)	(5,296,196)
Provision for impaired inventories charged to the period	(1,906,634)	(54,383)
Provision reversed	-	7,793
Writte off	53,778	27,970
Other	20,226	(20,184)
At September 30 / December 31	<u>(7,167,630)</u>	<u>(5,335,000)</u>

In the nine-month period ended on September 30, 2011, the obsolete and the slow moving inventories in the amount of 1,887,041 RSD thousand was impaired in accordance with the Group's accounting policy.

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

	September 30, 2011	December 31, 2010
Trade receivables		
- domestic	23,388,347	16,117,569
- foreign	1,152,420	1,293,482
- related parties	1,497,326	1,125,174
	<u>26,038,093</u>	<u>18,536,225</u>
Receivables from specific operations	<u>7,799,504</u>	<u>7,826,877</u>
Interest receivables	5,126,940	4,924,697
Receivables from employees	106,358	113,217
Other receivables	7,454,515	7,445,138
	<u>12,687,813</u>	<u>12,483,052</u>
	<u>46,525,410</u>	<u>38,846,154</u>
<i>Less provision:</i>		
- trade receivables	(5,936,972)	(5,977,098)
- receivables from specific operations	(7,769,530)	(7,760,208)
- interest and other receivables	(12,327,331)	(12,110,994)
	<u>(26,033,833)</u>	<u>(25,848,300)</u>
Total receivables – net	<u>20,491,577</u>	<u>12,997,854</u>

Increase of domestic trade receivables, as of September 30, 2011 amounted 23,388,347 thousand RSD (December 31, 2010 16,117,569 thousand RSD), mostly relates to the increase of not-due receivables participation in total receivables.

Trade receivables as of September 30, 2011 in the amount of 6,138,450 thousand RSD from state controlled companies that are less than three months past due and trade receivables from other companies that are less than two months past due are not considered impaired, except for receivables from a number of independent customers for whom there is no recent history of default, amounted to 237,119 thousand RSD (December 31, 2010: 129,960 thousand RSD).

The ageing analysis of trade receivables is as follows:

	September 30, 2011	December 31, 2010
Up to 3 months	19,899,643	13,230,118
Over 3 months	6,138,450	5,306,107
	<u>26,038,093</u>	<u>18,536,225</u>

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

As of September 30, 2011 trade receivables in the amount of 5,936,972 thousand RSD (December 31, 2010: 5,977,098 thousand RSD) were either impaired or provided for. The individually impaired receivables mainly relate to customers which are assessed as unexpected to be collected. The ageing of receivables provided for is as follows:

	September 30, 2011	December 31, 2010
Up to 3 months	35,641	800,951
Over 3 months	5,901,331	5,176,147
	5,936,972	5,977,098

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

	September 30, 2011	December 31, 2010
RSD	45,190,719	37,419,282
USD	1,028,586	1,197,914
EUR	305,908	228,573
GBP	123	317
CHF	45	46
RUB	22	22
SEK	7	-
	46,525,410	38,846,154

8. CASH AND CASH EQUIVALENTS

	September 30, 2011	December 31, 2010
Cash in bank	11,048,358	10,525,037
Cash on hand	321,905	34,724
Other cash equivalents	233,038	76,908
	11,603,301	10,636,669

As at September 30, 2011 short-term bank deposits in the amount of 5,992,117 thousand RSD (December 31, 2010: 10,205,106 thousand RSD) represent short-term deposits in banks with due date within 30 days are presented in line cash in bank.

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Notes to the Interim Condensed Consolidated Financial Statements

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

9. SHARE CAPITAL

Share capital represents share capital of publicly listed company.

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

The structure of the share capital as at September 30, 2011 was:

Shareholders	Number of shares	Structure in %
Gazprom Neft	91,565,887	56.15
Republic of Serbia	48,714,029	29.87
Erste bank	644,541	0.40
Unicredit Bank a.d. Serbia - custody	605,634	0.37
The Royal Bank of Scotland	156,978	0.10
Unicredit Bank a.d. Serbia - custody	152,750	0.09
Julius Baer Multipartner	133,686	0.08
Unicredit Bank a.d. Serbia - custody	100,000	0.06
Vojvodjanska bank a.d. Novi Sad	80,247	0.05
Hypo Alpe-Adria Bank a.d. Belgrade	68,173	0.04
Other	20,838,475	12.78
	163,060,400	100.00

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Notes to the Interim Condensed Consolidated Financial Statements

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

10. LONG-TERM LOANS

	September 30, 2011	December 31, 2010
Domestic	15,481,299	22,162,259
Foreign	20,708,848	24,244,622
	<u>36,190,147</u>	<u>46,406,881</u>
Current portion of long-term loans	(9,846,683)	(19,761,341)
Total	<u>26,343,464</u>	<u>26,645,540</u>

The maturity of non-current loans was as follows:

	September 30, 2011	December 31, 2010
Between 1 and 2 years	5,622,814	14,747,653
Between 2 and 5 years	14,202,355	4,758,228
Over 5 years	6,518,295	7,139,659
	<u>26,343,464</u>	<u>26,645,540</u>

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

	September 30, 2011	December 31, 2010
RSD	405,256	2,941
EUR	8,922,962	9,900,092
USD	26,381,025	36,009,703
JPY	480,904	494,145
	<u>36,190,147</u>	<u>46,406,881</u>

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

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

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

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Notes to the Interim Condensed Consolidated Financial Statements

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

10. LONG-TERM LOANS (continued)

The carrying amounts of the Company's long-term loans as of September 30, 2011 and December 31, 2010:

Creditor	Currency	September 30, 2011	December 31, 2010
Domestic long-term loans			
Alfa bank Serbia, Belgrade	USD	1,915,712	6,920,531
NLB bank, Novi Sad (London club)	USD	45,123	49,678
NLB bank, Novi Sad (Paris club)	USD	467,979	513,656
NLB bank, Novi Sad (Paris club)	JPY	480,904	494,145
Erste bank, Novi Sad (London club)	USD	4,292	4,725
Erste bank, Novi Sad (Paris club)	EUR	431,770	463,078
Erste bank, Novi Sad (Paris club)	USD	266,498	290,997
Hypo Alpe Adria Bank, Belgrade	EUR	387,831	768,379
Piraeus bank, Belgrade	USD	3,733,880	5,391,054
Bank Postanska stedionica, Belgrade (Paris club)	EUR	220,272	239,395
Bank Postanska stedionica, Belgrade (Paris club)	USD	1,517,873	1,679,068
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	4,483,749	4,789,655
Government of Republic of Serbia, Agency for deposit assurance	USD	522,739	554,957
Vojvodjanska bank, Novi Sad	RSD	402,618	-
UniCredit bank, Belgrade	USD	597,421	-
Other loans	RSD	2,638	2,941
		15,481,299	22,162,259
Foreign long-term loans			
Moscow bank, Russian Federation	USD	7,467,760	7,928,020
EFG NEF BV, Holland	USD	-	4,522,248
Erste Bank, Holland	EUR	3,035,196	3,164,946
VUB (Bank Intesa), Slovakia	USD	3,733,880	3,964,010
NBG Bank, London	USD	1,459,404	2,248,855
NBG Bank, London	EUR	364,144	474,639
Alpha Bank, London	USD	3,733,880	-
Sinochem , Great Britain	USD	914,584	1,941,904
		20,708,848	24,244,622
Less current portion of long-term loans		(9,846,683)	(19,761,341)
		26,343,464	26,645,540

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Notes to the Interim Condensed Consolidated Financial Statements

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

10. LONG-TERM LOANS (continued)

	Currency	Current portion		Long-term	
		September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Domestic long-term loans					
Alfa bank Serbia, Belgrade	USD	-	1,845,475	1,915,712	5,075,056
NLB bank, Novi Sad (London club)	USD	3,342	3,548	41,781	46,130
NLB bank, Novi Sad (Paris club)	USD	18,114	16,834	449,865	496,822
NLB bank, Novi Sad (Paris club)	JPY	16,477	14,414	464,427	479,731
Erste bank, Novi Sad (London club)	USD	318	337	3,974	4,388
Erste bank, Novi Sad (Paris club)	EUR	14,150	12,850	417,620	450,228
Erste bank, Novi Sad (Paris club)	USD	8,734	8,075	257,764	282,922
Hypo Alpe Adria Bank, Belgrade	EUR	387,831	485,292	-	283,087
Piraeus bank, Belgrade	USD	-	-	3,733,880	5,391,054
Bank Postanska stedionica, Belgrade (Paris club)	EUR	10,208	9,708	210,064	229,687
Bank Postanska stedionica, Belgrade (Paris club)	USD	69,908	67,644	1,447,965	1,611,424
Government of Republic of Serbia, Agency for deposit assurance (IBRD)	EUR	219,099	228,465	4,264,650	4,561,190
Government of Republic of Serbia, Agency for deposit assurance	USD	-	-	522,739	554,957
Vojvodjanska bank, Novi Sad	RSD	-	-	402,618	-
UniCredit bank, Belgrade	USD	-	-	597,421	-
Other loans	RSD	413	402	2,225	2,539
		748,594	2,693,044	14,732,705	19,469,215
Foreign long-term loans					
Moscow bank, Russian Federation	USD	7,467,760	7,928,020	-	-
EFG NEF BV, Holland	USD	-	340,508	-	4,181,740
Erste Bank, Holland	EUR	-	1,582,473	3,035,196	1,582,473
VUB (Bank Intesa), Slovakia	USD	-	3,964,010	3,733,880	-
NBG Bank, London	USD	533,673	1,121,527	925,731	1,127,328
NBG Bank, London	EUR	182,072	189,855	182,072	284,784
Alpha Bank, London	USD	-	-	3,733,880	-
Sinochem , Great Britain	USD	914,584	1,941,904	-	-
		9,098,089	17,068,297	11,610,759	7,176,325
		9,846,683	19,761,341	26,343,464	26,645,540

11. OTHER LONG-TERM LIABILITIES

	September 30, 2011	December 31, 2010
Liabilities to Parent	32,667,266	22,193,617
Liabilities for financial lease	59,198	87,644
Other long-term liabilities	755,031	715,444
	33,481,495	22,996,705

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Notes to the Interim Condensed Consolidated Financial Statements

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

11. OTHER LONG-TERM LIABILITIES (continued)

a) Liabilities to parent

As at September 30, 2011 other long-term liabilities to the Parent in the amount of 32,667,266 thousand RSD (322,884,577 EUR) relate to borrowings from JSC Gazprom Neft, with respect to its obligation, from Sales and Purchase Agreement signed on December 24, 2008, to approve borrowing facility for financing of Program for reconstruction and modernization of technology capacities. Total investments amount to 500 million EUR and should be finalized not later than 31 December 2012. Instalments are quarterly starting from December 2012 until May 15, 2023.

12. SHORT-TERM FINANCIAL LIABILITIES

	September 30, 2011	December 31, 2010
Current portion of long-term loans (note 10)	9,846,683	19,761,341
Short-term loans	1,601,945	2,004,540
Current portion of financial lease	33,623	39,716
Other short-term liabilities	1,255	41
	11,483,506	21,805,638

13. TRADE AND OTHER PAYABLES

	September 30, 2011	December 31, 2010
Advances received	1,469,971	2,064,911
Trade payables:		
- domestic	3,249,849	2,138,088
- foreign	1,639,195	656,363
Trade payables – other related parties	18,110,182	19,475,154
Liabilities from other operations	103,638	71,046
Liabilities from specific operations	342,762	558,472
	24,915,597	24,964,034

As at September 30, 2011 payables to other related parties in the amount of 18,110,182 thousand RSD (December 31, 2010: 19,475,154 thousand RSD) mostly relate to liabilities for delivered crude oil by Gazprom Neft Trading, Austria in the amount of 17,601,039 thousand RSD (December 31, 2010: 19,376,889 thousand RSD).

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Notes to the Interim Condensed Consolidated Financial Statements

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

14. SALES

	Nine-month period ended September 30,	
	2011	2010
Sales of products		
- domestic	100,795,066	92,127,947
- foreign	12,536,022	12,690,084
	<u>113,331,088</u>	<u>104,818,031</u>
Sales of goods and services:		
- domestic	11,222,435	3,430,371
- foreign	30,026	4,272
	<u>11,252,461</u>	<u>3,434,643</u>
Revenue from sales to subsidiaries and other related parties	<u>8,562,303</u>	<u>3,847,374</u>
	<u>133,145,852</u>	<u>112,100,048</u>

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

15. COST OF MATERIAL

	Nine-month period ended September 30,	
	2011	2010
Cost of raw materials	68,125,899	72,798,327
Cost of office and other material	612,885	708,613
Other fuel and energy expenses	1,409,564	1,336,930
	<u>70,148,348</u>	<u>74,843,870</u>

16. COST OF SALARIES, BENEFITS AND OTHER PERSONNEL EXPENSES

	Nine-month period ended September 30,	
	2011	2010
Wages and salaries (gross)	11,200,190	9,609,471
Taxes and contributions on wages and salaries paid by employer	1,911,402	1,675,708
Cost for temporary service agreement	274,197	251,076
Cost of other temporary service agreements	13,043	48,499
Fees paid to management and supervisory board members	21,258	14,210
Cost for employees termination payments	1,916,321	2,676,540
Other personnel expenses and benefits	771,086	993,088
	<u>16,107,497</u>	<u>15,268,592</u>

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Notes to the Interim Condensed Consolidated Financial Statements

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

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

Termination costs in the amount of 1,916,321 thousand RSD mostly relate to costs incurred in relation to voluntary leave program. Total number of employees who accepted the termination of employment in 2011 is 825 (2010: 1,076 employees).

	Nine-month period ended September 30,	
	2011	2010
Average number of people employed	9,956	10,918

17. OTHER OPERATING EXPENSES

	Nine-month period ended September 30,	
	2011	2010
Mineral extraction tax	1,519,265	965,235
Costs of non production services	1,382,564	1,511,131
Production services	1,215,476	1,495,932
Transportation services	1,151,710	1,174,948
Cost of custom duties, property taxes and other taxes	1,076,636	883,756
Maintenance	672,150	662,397
Cost of other services	653,020	598,082
Fee for emergency situations	481,462	-
Rental costs	369,268	269,254
Research costs	185,261	162,220
Advertising costs	184,272	132,368
Bank charges	181,878	175,631
Insurance premium	170,826	292,970
Administrative and other taxes	127,649	108,752
Representation costs	104,060	59,657
Cost of legal and consulting services	102,928	90,330
Fairs	3,028	800
Other	260,292	149,796
	9,841,745	8,733,259

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

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Notes to the Interim Condensed Consolidated Financial Statements

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

18. FINANCIAL INCOME

	Nine-month period ended September 30,	
	2011	2010
Foreign exchange gains	5,627,660	4,883,254
Interest income	883,543	1,104,557
Other financial income	1,252	78,400
	6,512,455	6,066,211

19. FINANCIAL EXPENSES

	Nine-month period ended September 30,	
	2011	2010
Interest expenses	1,839,342	2,329,604
Foreign exchange losses	1,191,907	15,488,824
Financial expenses – parent and other related parties	31,695	10,533
Other financial expenses	3,457	2,743
	3,066,401	17,831,704

20. EARNING PER SHARE

	Nine-month period ended September 30,	
	2011	2010
Net income attributable to the owner of the parent	27,017,167	2,549,376
Weighted average number of shares outstanding	163,060,400	163,060,400
Basic Earning per share	0.17	0.02

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21. LIQUIDATION OF THE SUBSIDIARY - NIS OIL TRADING

On June 14, 2010 the Decision on voluntary liquidation of the subsidiary NIS Oil Trading, Frankfurt, Germany was enacted. Based on the Decision of the first instance court in Frankfurt dated July 19, 2011, the liquidation process was over and the subsidiary was shut down.

Net assets of subsidiary as of September 30, 2011 and December 31, 2011 consist of:

Assets	September 30, 2011	December 31, 2010
Non-current assets	<i>(unaudited)</i>	
Property, plant and equipment	-	126
Investments in equity instruments	-	38
	-	164
Current assets		
Trade receivables and other receivables	-	2,647
Cash and cash equivalents	-	26,691
	-	29,338
Short-term liabilities		
Other short-term liabilities	-	(859)
	-	(859)
Net assets	-	28,643

22. RELATED PARTIES TRANSACTIONS

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

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

	September 30, 2011	December 31, 2010
<i>Receivables</i>		
Gazprom Neft – Aero JSC, Moscow	97	-
	97	-
Total receivables:	97	-

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Notes to the Interim Condensed Consolidated Financial Statements

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

22. RELATED PARTIES TRANSACTIONS (continued)

	September 30, 2011	December 31, 2010
<i>Liabilities</i>		
Gazprom Neft, St Petersburg, Russia	(32,779,922)	(22,262,027)
Gazprom Neft Trading, Austria	(17,601,039)	(19,376,889)
Gazprom Neft Lubricants, Italia	(7,523)	-
	<u>(50,388,484)</u>	<u>(41,638,916)</u>
<i>Advances received</i>		
Gazprom Neft NTC, Moscow, Russia	(6,364)	-
	<u>(6,364)</u>	<u>-</u>
<i>Accrual</i>		
Gazprom Neft, St Petersburg, Russia	-	(1,266)
	<u>-</u>	<u>(1,266)</u>
Total liabilities:	<u>(50,394,848)</u>	<u>(41,640,182)</u>
Liabilities, net:	<u>(50,394,751)</u>	<u>(41,640,182)</u>
	Nine-month period ended September 30,	
	2011	2010
<i>Sales</i>		
Gazprom Neft Aero JSC, Moscow, Russia	26,503	-
Gazprom Neft NTC, Moscow, Russia	4,981	-
	<u>31,484</u>	<u>-</u>
<i>Cost of material</i>		
Gazprom Neft Trading, Austria	(47,128,979)	(63,520,605)
	<u>(47,128,979)</u>	<u>(63,520,605)</u>
<i>Other operating expenses</i>		
Gazprom Neft, St Petersburg, Russia	(45,385)	(103,444)
	<u>(45,385)</u>	<u>(103,444)</u>
	<u>(47,142,880)</u>	<u>(63,624,049)</u>
<i>Financial income</i>		
Gazprom Neft Trading, Austria	18,266	-
	<u>18,266</u>	<u>-</u>
<i>Financial expenses</i>		
Gazprom Neft, St Petersburg, Russia	(31,695)	(10,533)
	<u>(31,695)</u>	<u>(10,533)</u>
	<u>(13,429)</u>	<u>(10,533)</u>

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Notes to the Interim Condensed Consolidated Financial Statements

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

22. RELATED PARTIES TRANSACTIONS (continued)

	Nine-month period ended September 30,	
	2011	2010
<i>Other income</i>		
Gazprom Neft Trading, Austria	30,012	-
	<u>30,012</u>	<u>-</u>
<i>Other expenses</i>		
Gazprom Neft Trading, Austria	(131,753)	-
Gazprom Neft, St Petersburg, Russia	(21,250)	-
	<u>(153,003)</u>	<u>-</u>
	<u>(122,991)</u>	<u>-</u>

Transactions with state controlled institution and companies:

	Receivables		Advances	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Airport Nikola Tesla	7,469	13,470	2	-
JAT Airways	374,852	301,330	2	-
HIP Petrohemija	1,489,401	1,116,183	-	-
EPS Elektrovojvodina	11,246	21,336	14,398	442
MUP Republic of Serbia	475,814	492,680	202	198
RTB BOR Group	2,414,156	2,022,461	31,453	31,453
Srbijagas	7,701,261	5,278,026	-	-
Telekom Srbija	101,749	42,133	492	47
Heating companies (sum)	205,963	461,111	500	499
Road companies (sum)	41	4,519	11,430	-
Army of Serbia	99,843	203,757	430	-
	<u>12,881,795</u>	<u>9,957,006</u>	<u>58,909</u>	<u>32,639</u>

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Notes to the Interim Condensed Consolidated Financial Statements

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

22. RELATED PARTIES TRANSACTIONS (continued)

	Liabilities		Advances received	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Airport Nikola Tesla	26	304	-	-
JAT Airways	-	-	1,283	99
HIP Petrohemija	189,202	98,264	644	447
EPS Elektrovojvodina	320	1,312	-	-
MUP Republic of Serbia	14	17	171	72
RTB BOR Group	-	-	3,614	395
Srbijagas	316,036	267,519	12,796	12,804
Telekom Srbija	8,837	3,694	231	56
Heating companies (sum)	1,364	2,616	69,387	29,399
Road companies (sum)	7,350	35	1,593	310
Army of Serbia	-	2,113	1,289	318
	523,149	375,874	91,008	43,900

	Income		Expenses	
	Nine-month period ended September 30,			
	2011	2010	2011	2010
Airport Nikola Tesla	62,215	47,757	25,058	3,551
JAT Airways	1,892,284	1,395,982	-	44
HIP Petrohemija	8,530,819	5,330,294	123,116	67,280
EPS Elektrovojvodina	86,166	71,681	558,296	462,291
MUP Republic of Serbia	1,058,583	677,676	242,442	807
RTB BOR Group	1,240,850	473,905	-	83
Srbijagas	5,567,555	5,277,118	178,208	184,103
Telekom Srbija	233,544	112,466	146,082	155,753
Heating companies (sum)	2,276,592	2,745,689	48,141	44,979
Road companies (sum)	19,986	29,539	70,653	113,884
Army of Serbia	1,117,577	662,804	781	5,981
	22,086,171	16,824,911	1,392,777	1,038,756

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Notes to the Interim Condensed Consolidated Financial Statements

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23. CONTINGENT LIABILITIES

Transfer of property ownership

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

Until September 30, 2011 the ownership of 2,987 of real estate (buildings and land) is registered, which makes up 36% of the total Group's assets.

24. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date.

Novi Sad, 28.11.2011

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



Legal representative

