

**NAFTNA INDSTRIJA SRBIJE A.D.,
NOVI SAD
[OIL INDUSTRY OF SERBIA],**

**Financial Statements
Year Ended December 31, 2007 and
Independent Auditors' Report**

NAFTNA INDUSTRIJA SRBIJE A.D., NOVI SAD

CONTENTS	Page
Independent Auditors' Report	1 - 4
Financial Statements:	
Income Statement	5
Balance Sheet	6
Statement of Changes in Equity	7
Cash Flow Statement	8
Notes to the Financial Statements	9 - 45

Translation of the auditors' report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Management of Naftna industrija Srbije A.D., Novi Sad

We have audited the accompanying financial statements (pages 5 to 45) of Naftna industrija Srbije A.D., Novi Sad (the "Company" or "NIS"), which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations of the Republic of Serbia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as disclosed in Basis for Qualified Opinion, we conducted our audit in accordance with International Standards on Auditing and the Law on Accounting and Auditing of the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

As disclosed in Note 4 to the financial statements, the Company charged the effects of error corrections of RSD 526,822 thousand to the current year opening balance of retained earnings, which departs from the provisions of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" under which material errors relating to the subsequently determined income and expenses dating from prior periods are to be stated as the adjustment of retained earnings at the beginning of the current period, where comparative information in the prior year financial statements is restated.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Management of Naftna industrija Srbije A.D., Novi Sad (Continued)

Basis for Qualified Opinion (Continued)

As disclosed in Notes 3.4 and 7 to the financial statements, the Company did not perform an actuarial valuation in order to determine the present value of the accumulated employee rights to retirement benefits and jubilee awards, nor did it prepare a calculation of the short-term employee benefits, as required under the provisions of IAS 19, "Employee Benefits." As a result, the accompanying financial statements do not include long-term provisions and short-term liabilities with respect to employee benefits. Accordingly, we were unable to determine the potential effects of the aforementioned liabilities on the Company's financial statements for FY 2007.

As disclosed in Note 13 to the financial statements, intangible assets stated as of December 31, 2007 in the amount of RSD 3,166,609 thousand comprise investments made during the year of RSD 1,951,658 thousand, which primarily relate to the investments in SAP business software and include costs of standard supporting services, consulting services and employee trainings. Based on the documentation made available, we were unable to satisfy ourselves as to the nature of the services rendered and whether the Company fully identified investments that do not qualify for recognition as intangible assets and which should have been charged to the current year results as delineated under IAS 38 "Intangible Assets."

As disclosed in the Note 14 to the financial statements, at December 31, 2007, property, plant and equipment of RSD 96,104,403 thousand include construction in progress and advances of RSD 7,316,052 thousand, comprising the inventories of investment material of RSD 1,634,733 thousand. Due to the nature of the Company's accounting records, we were unable to satisfy ourselves as to the nature of the inventories of investment material, nor to confirm for which purpose these were used. Accordingly, we were unable to satisfy ourselves whether the entire amount of inventories of investment material complies with recognition and measurement criteria defined under IAS 16 "Property, Plant and Equipment."

As disclosed in Note 17 to the financial statements, other long-term investments stated at December 31, 2007 in the amount of RSD 7,656,261 thousand include long-term loans to employees of RSD 2,523,159 thousand and apartments rented to employees, which may be subject to repurchase by the occupants, with the net book value of RSD 896,081 thousand. These long-term loans and apartments rented to employees were valued at the amounts of outstanding receivable and at market value of apartments, respectively. In our opinion, such accounting treatment is not in line with IAS 39, "Financial Instruments: Recognition and Measurement", according to which long-term receivables are measured at amortized cost using the effective interest rate. Based on the Company's accounting records, we were unable to quantify the effects which the departure from the aforementioned standard could have on the accompanying financial statements. In addition, the long-term financial placement with the related party was disclosed as of the balance sheet date in the amount of RSD 1,616,295 thousand. The Company did not entirely define and disclose the maturity of these placements, given that the maturities of this placement have not been determined.

As disclosed in Note 18 to the financial statements, the Company's inventories stated as of December 31, 2007 in the net amount of RSD 31,528,100 thousand include obsolete and slow-moving inventories. Since the Company does not possess reliable aging analysis of inventories, we were unable to determine the potential impairment of these inventories. In addition, inventories of materials, goods, finished products and work in progress include the significant amount of internal profit. Due to the Company's methodology for cost price calculation and a lack of accounting records substantiating the required data, we were unable to determine the effects of potential adjustments to the accompanying financial statements.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Management of Naftna industrija Srbije A.D., Novi Sad (Continued)

Basis for Qualified Opinion (Continued)

As disclosed in Note 25 to the financial statements, based on the internal estimates of the Company's management, as of December 31, 2007 the provisions for the restoration and re-cultivation of degraded natural environment amounted to RSD 831,365 thousand. Based on the information made available, we were unable to satisfy ourselves as to the methodology used to calculate the aforementioned provisions, as required by IAS 37 "Provisions, Contingent Liabilities and Contingent Assets." In addition, due to the nature of its technological processes, in the previous period the Company potentially caused environmental pollution, based on which it could expect claims by citizens and criminal charges by relevant governmental authorities. The Company did not recognize a provision for costs of neutralizing the consequences of environmental contamination as required by the aforementioned standard.

As disclosed in Notes 19 and 28 to the financial statements, at December 31, 2007 accounts receivable and accounts payable amounted to RSD 17,522,765 thousand and RSD 31,879,359 thousand, respectively and included receivables from domestic customers of RSD 24,554,548 thousand, interest receivables of RSD 24,554,548 thousand, as well as liabilities to suppliers of RSD 29,132,404 thousand. Based on documentation made available to us, performed cut-off testings and independent confirmations received from certain debtors and creditors, we identified discrepancies as to the balances recorded in the Company's books of accounts. Given that up to the date of issuance of these financial statements, the Company's management had not reconciled these amounts, we are unable to satisfy ourselves whether a certain portions of accounts receivable and accounts payable were fairly stated as of December 31, 2007.

Deferred tax assets as of December 31, 2007 and income taxes for the year then ended amounted to RSD 487,537 thousand and RSD 592,865 thousand, respectively. Based on documentation made available to us, we were unable to satisfy ourselves whether deferred taxes were computed in accordance with IAS 12, "Income Taxes," or to quantify potential effects thereof on the accompanying financial statements. In addition, these financial statements do not include all the disclosures required under IAS 12, "Income Taxes."

Certain information presented in the cash flow statement has not been reconciled with the amounts stated in the Company's balance sheet as of December 31, 2007, as well as in the income statement and statement of changes in equity for the year then ended. Based on the information made available to us, and given the complexity of internal relations in the Company, we were unable to separate inflows and outflows arising on internal transactions and, accordingly, we do not express an opinion on the Company's cash flow statement for the year ended December 31, 2007.

Qualified Opinion

In our opinion, except for the effects of the possible adjustments associated with the uncertainties and limitations on the performance of the audit procedures referred to in the preceding paragraphs, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2007, and its financial performance and changes in equity for the year then ended, in accordance with the accounting regulations of the Republic of Serbia.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Management of Naftna industrija Srbije A.D., Novi Sad (Continued)

Emphasis of Matter

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

- a) The Company is neither in possession of all documentation that would evidence its ownership over all assets and properties, nor has it performed a complete split-off with the former NIS members. The Company's management believes that the ownership issues and the aforementioned split-off, as well as the settlement of balances with the state authorities of the Republic of Serbia arising on these issues will be successfully realized, and that no significant difficulties are anticipated in respect of the ownership titles.
- b) As disclosed in Note 32 to the financial statements, at December 31, 2007, the total amount of potential monetary damages arising from legal and administrative suits in which the Company has been named as a defendant amounted to RSD 8,493,023 thousand, without the effects of potential penalty interest for which the Company formed provisions of RSD 74,011 thousand. Although it is not possible to predict the final outcome of other litigations with any certainty, the Company's management does not expect unfavorable outcome of materially significant proceedings and, accordingly, no additional provisions have been formed in these financial statements. In addition, the worth of lawsuits the Company filed against third parties amounts to RSD 8,094,108 thousand, which have not been disclosed in the accompanying financial statements or for which the corresponding allowance for impairment has not been provided for.
- c) As disclosed in Note 2 to the financial statements, these financial statements were prepared by applying the IAS which were in effect as of December 31, 2002 and the accounting regulations of the Republic of Serbia based on them. The Company's management assesses IAS, IFRS and interpretations the application of which was prescribed pursuant to the February 12, 2008 Decision enacted by the Minister of Finance of the Republic of Serbia and once the standards and interpretations with reference to the Company's activities have been established, the Company intends to apply them in preparing the financial statements for the period beginning January 1, 2008. With regards to the provisions contained in the newly-adopted and amended standards and interpretations which relate to the application date and the provisions with reference to the disclosure of comparative figures, upon their adoption and application by the Company, certain reclassification of data presented in the accompanying financial statements for the year 2007 might be required, as these will be used as comparative figures in the Company's financial statements for the year 2008.
- d) As disclosed in Note 2.1, these financial statements include solely the receivables, payables and operating results of the parent company, without those of its related parties. The investments in subsidiaries are stated in the accompanying financial statements at cost. The consolidated financial statements for the year ended December 31, 2007, which the Company prepared and submitted to the National Bank of Serbia, Center for Credit Worthiness Assessment as delineated under the Law on Accounting and Auditing (See Official Gazette of the Republic of Serbia no. 46 of June 2, 2006) on April 24, 2008, provide a comprehensive insight into the Company's financial position.

Belgrade, May 9, 2008

Žarko Mijović
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2007
(thousands of RSD)

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
OPERATING INCOME			
Sales	5	159,051,572	153,354,618
Own-work capitalized		480,094	339,701
Decrease in the value of inventories		(185,332)	(1,895,963)
Other operating income		377,898	300,726
		<u>159,724,232</u>	<u>152,099,082</u>
OPERATING EXPENSES			
Cost of commercial goods sold		(52,200,075)	(54,802,828)
Cost of materials	6	(67,216,424)	(58,521,422)
Staff costs	7	(16,036,521)	(13,812,891)
Depreciation, amortization and provisions	13, 14, 25	(5,988,523)	(6,409,705)
Other operating expenses	8	(10,831,460)	(9,457,517)
		<u>(152,273,003)</u>	<u>(143,004,363)</u>
PROFIT FROM OPERATIONS		7,451,229	9,094,719
Finance income	9	9,764,905	9,392,905
Finance expenses	10	(7,784,811)	(7,560,500)
Other income	11	3,209,789	7,880,091
Other expenses	12	(5,142,657)	(12,326,015)
PROFIT BEFORE TAX		7,498,455	6,481,200
Income taxes		<u>(592,865)</u>	<u>(207,421)</u>
PROFIT FOR THE YEAR		<u><u>6,905,590</u></u>	<u><u>6,273,779</u></u>

The accompanying notes on the following pages
are an integral part of these financial statements.

Approved and signed on behalf of NIS A.D. Novi Sad by:

Srđan Bošnjaković
General Manager

Radmila Gajić
Chief Financial Officer

BALANCE SHEET
As at December 31, 2007
(thousands of RSD)

	<u>Notes</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
ASSETS			
Non-current assets			
Intangible assets	13	3,166,609	1,316,808
Property, plant and equipment	14	96,104,403	96,392,900
Investment property	15	738,953	738,953
Equity investments	16	4,320,059	4,521,045
Other long-term financial placements	17	7,656,261	7,292,324
		<u>111,986,285</u>	<u>110,262,030</u>
Current assets			
Inventories	18	31,528,100	25,179,444
Accounts receivable	19	17,522,765	14,596,813
Short-term financial placements	20	2,998,343	2,656,098
Cash and cash equivalents	21	1,784,304	2,663,384
Value added tax and prepayments	22	1,917,307	718,447
Deferred tax assets		487,537	487,498
		<u>56,238,356</u>	<u>46,301,684</u>
Total assets		<u><u>168,224,641</u></u>	<u><u>156,563,714</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	24	81,530,220	81,530,220
Other capital		5,597,804	5,593,656
Legal and statutory reserves		484,601	140,024
Revaluation reserves		275,984	60,783
Retained earnings		11,389,677	6,044,642
		<u>99,278,286</u>	<u>93,369,325</u>
Long-term provisions and liabilities			
Long-term provisions	25	905,376	1,574,481
Long-term borrowings	26	12,751,908	18,639,798
Other long-term liabilities		170,744	69,216
		<u>13,828,028</u>	<u>20,283,495</u>
Current liabilities			
Short-term borrowings	27	13,056,524	11,805,655
Accounts payable	28	31,879,359	24,334,824
Other current liabilities and accruals	29	4,938,713	3,925,214
Value added tax and other taxes and duties payable	30	4,650,866	2,783,372
Income taxes payable		592,865	61,829
		<u>55,118,327</u>	<u>42,910,894</u>
Total equity and liabilities		<u><u>168,224,641</u></u>	<u><u>156,563,714</u></u>
Off-balance- sheet items	31	<u><u>43,947,429</u></u>	<u><u>62,292,947</u></u>

The accompanying notes on the following pages are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2007
(thousands of RSD)

	Share Capital	Other Capital	Legal and Statutory Reserves	Revaluation Reserves	Retained Earnings	Total
Balance, January 1, 2006	22,424,616	220,926	710,068	63,316,121	1,312,786	87,984,517
Opening balance adjustment (Note 4)	-	-	-	9,219	268,870	278,089
Deferred taxes	-	-	-	-	443,394	443,394
Effects of reconciliation of capital in accordance with the Serbian Business Registers Agency Decision	59,105,604	5,372,912	(710,068)	(63,287,692)	(480,756)	-
Effects of changes in the fair value of long-term financial placements	-	-	-	61,368	(7)	61,361
Transfer of revaluation effects of disposed property, plant and equipment	-	-	-	(39,397)	39,397	-
Reactivation of disposed fixed assets	-	-	-	1,164	-	1,164
Transfers	-	-	140,024	-	(140,024)	-
Dividends declared	-	-	-	-	(1,687,716)	(1,687,716)
Profit for the year	-	-	-	-	6,273,779	6,273,779
Other	-	(182)	-	-	14,919	14,737
Balance, December 31, 2006	81,530,220	5,593,656	140,024	60,783	6,044,642	93,369,325
Balance, January 1, 2007	81,530,220	5,593,656	140,024	60,783	6,044,642	93,369,325
Opening balance adjustment (Note 4)	-	-	-	-	(526,822)	(526,822)
Effects of changes in the fair value of long-term financial placements	-	-	-	215,201	-	215,201
Transfers	-	-	344,578	-	(344,578)	-
Dividends declared	-	-	-	-	(689,155)	(689,155)
Profit for the year	-	-	-	-	6,905,590	6,905,590
Other	-	4,148	(1)	-	-	4,147
Balance, December 31, 2007	81,530,220	5,597,804	484,601	275,984	11,389,677	99,278,286

The accompanying notes on the following pages are an integral part of these financial statements.

CASH FLOW STATEMENT
Year Ended December 31, 2007
(thousands of RSD)

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Cash receipts from customers	315,115,066	202,626,351
Interest received	2,066,255	1,528,307
Extraordinary cash receipts	9,649,197	6,900,142
Cash paid to suppliers	(210,373,029)	(137,199,258)
Cash paid to, and on behalf of employees	(13,413,200)	(10,319,938)
Interest paid	(3,679,639)	(1,257,392)
Other duties paid	(564,051)	(59,884,900)
Extraordinary cash payments	(92,842,540)	-
<i>Net cash provided by operating activities</i>	<u>5,958,059</u>	<u>2,393,312</u>
INVESTING ACTIVITIES		
Net proceeds from the disposal of equity investments	398,943	569
Proceeds from the disposal of equipment	1,762,716	832,736
Other financial placements (net)	237,379	73,866
Interest received	154,959	74,366
Acquisition of shares and equity investments	902	(58,931)
Purchases of property, plant, equipment and intangible assets	(6,858,400)	(5,769,821)
Other financial placements (net outflows)	-	(2,940,206)
Interest paid	-	-
<i>Net cash used in by investing activities</i>	<u>(4,303,501)</u>	<u>(7,787,421)</u>
FINANCING ACTIVITIES		
Long-term and short-term borrowings (net inflows)	3,711,426	6,795,582
Other long- and short-term liabilities (net inflows)	8,920	1,898,717
Long-term and short-term borrowings (net outflows)	(4,287,353)	(2,992,699)
Finance lease	(45,644)	(85,839)
Dividends paid	(1,957,932)	(139,321)
<i>Net cash (used in) / provided by financing activities</i>	<u>(2,570,583)</u>	<u>5,476,440</u>
Net cash (outflow) / inflow	(916,025)	82,331
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,663,384	2,268,049
Foreign exchange gains on the translation of cash and cash equivalents	912,169	640,889
Foreign exchange losses on the translation of cash and cash equivalents	<u>(875,224)</u>	<u>(327,885)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>1,784,304</u></u>	<u><u>2,663,384</u></u>

The accompanying notes on the following pages are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

1. GENERAL INFORMATION

Naftna Industrija Srbije A.D., Novi Sad (the Oil Industry of Serbia, hereinafter: the “Company” or “NIS”) was originally established after World War II when the research and production of oil and natural gas, as well as the oil derivatives distribution and trade, started. The Company was organized in accordance with the Government of the Republic of Serbia Decision number 05/023-4377/2005-1 as of July 7, 2005 on the foundation of the Shareholding Company for research, production, processing, trade and distribution of oil and oil derivatives, and research and production of natural gas, NIS A.D., Novi Sad (Official Gazette of the Republic of Serbia 74/2005). NIS is one of the three legal successors of the Public Utility Oil Industry of Serbia (“Javno Preduzeće Naftna Industrija Srbije” - JP NIS), Novi Sad pursuant to the Law on Abrogation of the Law on the Founding of the Public Company for Exploration, Production and Distribution of Oil and Natural Gas (Official Gazette of the Republic of Serbia, number 74/2005) and pursuant to their Founding Act, assumed the rights, liabilities, assets, employees, documentation and contracts of the economic entity the Public Company for Exploration, Production and Distribution of Oil and Natural Gas (NIS JP). The distribution of rights, assets and liabilities of NIS JP to the newly founded established companies was executed on July 1, 2005 and the Company was registered on October 1, 2005.

The Company consists of three branches which, although not legal entities, have and exploit certain rights and liabilities in the legal transfers as provided by the Company’s By-Laws. The branches of the Company are:

Subsidiary	Head Office	Activity
1. NIS Naftagas	Novi Sad	Research and production of oil and natural gas, underground waters and geothermal energy research.
2. NIS TNG	Novi Sad	The production and processing of liquid oil gas.
3. NIS Petrol, with the following business units:	Belgrade	The production and distribution of oil derivatives.
- Oil Refinery Pančevo	Pančevo	The refinery processing of oil and production of oil derivatives – special and motor gasolines, diesel fuels and heating oil, laboratory processing and analyses, research and development services, catering oil refining, oil and oil derivatives transport and storage.
- Oil Refinery Novi Sad	Novi Sad	The refinery processing of oil and production of oil derivatives – special and motor gasolines, diesel fuels and heating oil, laboratory processing and analyses, research and development services, catering oil refining, oil and oil derivatives transport and storage.
- Jugopetrol	Belgrade	Wholesale and retail of oil and oil derivatives, gas and auxiliary range of products.
- Naftagas promet	Novi Sad	Wholesale and retail of oil and oil derivatives, gas and auxiliary range of products.
- Naftna linija	Belgrade	Oil refining and manufacture of oil derivatives and other products.
4. Organizational section of the Professional service	Novi Sad	Personnel, marketing and accounting operations and internal audit activities, as well as those of internal audit within NIS.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

1. GENERAL INFORMATION (Continued)

All branches of the Company are entirely state-owned. Also, the total amount of the state-owned capital of the Company's branches is the total capital of the Company.

The Company operates in accordance with the regulations set by the Government of the Republic of Serbia, dealing with oil derivatives and gas sales prices closely following the fluctuation in the price of the crude oil on the World Market. The By-laws also prescribe that NIS is obliged to enable the use of all its capacities for oil refining under equal conditions to the interested parties entered in the Court Register as entities involved in oil and oil derivatives distribution, under the same or comparable circumstances.

The Head Office is located in Novi Sad, 12 Narodni Front Street. The Company had 12,483 employees at December 31, 2007 (December 31, 2006: 12,928 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Basis of Preparation and Presentation of Financial Statements

Pursuant to the Law on Accounting and Auditing (See Official Gazette of the Republic of Serbia no. 46 of June 2, 2006), legal entities and enterprises incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards.

Pursuant to its Decision numbered 011-00-738-2003-01 of December 30, 2003, the Republic of Serbia Ministry of Finance determined and issued the Framework and IAS that were applied as of December 31, 2002, and upon which both the previous and the 2006 Law on Accounting and Auditing were based.

The amendments to the IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, upon the aforementioned date, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia with reference to the issuance of International Financial Reporting Standards (number 401-00-11/2008-16) and published in the Official Gazette of the Republic of Serbia number 16 of February 12, 2008 and, therefore could not be applied in the preparation of the accompanying financial statement of the Company for the year 2007.

The Company's management assesses the standards and interpretations the application of which is required under the February 12, 2008 Decision of the Ministry of Finance, and once the standards and interpretations relevant to the Company's activities have been adopted, intends to apply them in the preparation of the financial statements for the period beginning January 1, 2008.

In accordance with the aforementioned, and with regards to the potentially material effects of the departures of the accounting regulations of the Republic of Serbia and IAS, in effect as of December 31, 2002 (officially published and whose application was legally prescribed in the Republic of Serbia prior to February 12, 2008), from the newly-issued IFRS and amended IAS, the accompanying financial statements cannot be described as having been prepared in accordance with IFRS and IAS.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

In addition, the accompanying financial statements are presented in the format prescribed under the “Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures” (See Official Gazette of the Republic of Serbia, no. 114 of December 22, 2006). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, “Presentation of Financial Statements,” and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard.

In the preparation of the accompanying financial statements, the Company adhered to the accounting policies described in Note 3 which are in conformity with the accounting and tax regulations prevailing in the Republic of Serbia.

The accompanying financial statements include solely the receivables, payables and operating results of the Parent Company, while the investments in subsidiaries are stated in the accompanying financial statements at cost. The consolidated financial statements for the year ended December 31, 2007, which the Company prepared and submitted to the National Bank of Serbia, Center for Credit Worthiness Assessment as delineated under the Law on Accounting and Auditing (See Official Gazette of the Republic of Serbia no. 46 of June 2, 2006) on April 24, 2008, provide a comprehensive insight into the Company’s financial position.

The Company’s financial statements are stated in thousands of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia.

2.2. Comparative Information

For the purpose of conforming the presentation of figures to the current reporting period, certain reclassifications have been made to the amounts reported in the financial statements for the year ended December 31, 2006. The opening balance adjustments of retained earnings as of January 1, 2007 are presented in Note 4, whereas the restatement of corresponding data has not been performed.

2.3. Use of Estimates

The presentation of the financial statements requires from the Company’s management to make best estimates and reasonable assumptions that effect: the assets and liabilities amounts, the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, as well as the income and expenses arising during the accounting period. These estimations and assumptions are based on information available to us, as of the date of preparation of the financial statements. However, actual results may vary from these estimates.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense Recognition

Income is measured at the fair value of the consideration received or receivable, net of discounts and value added tax. Income from sales is recognized when the risk and rewards associated with the right of ownership are transferred to the customer, which is considered to be the date upon which products are delivered to the customer.

At the time when income is recognized, the related expenditure is also recognized (as per the "matching principle").

Interest income and interest expense are credited or charged to the income statement in the accounting period to which it relates, with the exception of interest for which is certain that will not be collected.

Income from dividends is recorded at the moment when such right has been established.

3.2. Foreign Exchange Gains and Losses

Assets and liabilities' components denominated in foreign currencies are translated into dinars at the official exchange rates prevailing at the balance sheet date.

Foreign currency transactions are translated into dinars at the official exchange rates in effect at the date of each transaction.

Foreign exchange gains or losses arising upon the translation of assets, liabilities and transactions are credited or debited as appropriate, to the income statement.

3.3. Taxes and Contributions

Income Tax Expense

Current Income Taxes

Current income tax represents an amount that is calculated and paid in accordance with the effective Republic of Serbia Income Tax Law.

Income tax is payable at the rate of 10% on the tax base reported in the annual corporate income tax return as reduced by any applicable tax credits. The taxable base stated in the income tax return includes the profit shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for duration of no longer than ten ensuing years.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2007***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.3. Taxes and Contributions (Continued)****Income Tax Expense (Continued)****Deferred Income Taxes**

Deferred income taxes are provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The currently-enacted tax rates or the substantively-enacted rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of income tax losses and credits are available for carryforward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carryforwards can be utilized.

Deferred income taxes are either charged or credited to the income statement, except in so far as they relate to items that are directly credited or charged to capital, and in that instance, the deferred taxes are then also recognized under equity.

Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes and various other taxes and contributions paid, pursuant to effective republic and municipal regulations.

3.4. Employee Benefits***a) Taxes and Contributions Made to the Employee Social Security and Insurance Funds***

In accordance with regulatory requirements, the Company is obligated to pay contributions to tax authorities and to various state social security funds that guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to the applicable government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

b) Obligations for Jubilee Awards and Retirement Benefits

In accordance with the Collective Bargaining Agreements, the Company is obligated to pay retirement benefits in an amount equal to three monthly salaries earned by the employee in the month preceding his/her retirement, which is not to be less than three average salaries in the Company at the time of the employee's retirement.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Employee Benefits (Continued)

b) Obligations for Jubilee Awards and Retirement Benefits (Continued)

In addition, the Company is obligated to pay jubilee awards depending on employee's continued years of service with the Company and its legal successors in the amount of one to four average salaries earned by the employee in the month preceding the of payment in accordance with the following schedule:

<u>Years of Service</u>	<u>Number of Average Salaries</u>
10	1
20	2
30	3
35	3.5
40	4

The Company did not form provisions for employee retirement benefits, as well as for jubilee awards as required by IAS 19, "Employee Benefits."

c) Voluntary Termination of Employment Service

Pursuant to its Decision regarding the stimulation measures for decrease in the number of employees, the Company's the Board of Directors determined one-time termination benefits for voluntary termination of service according to the following schedule:

<u>Number of Months up to Fulfillment of Retirement Condition or under the Force of Law</u>	<u>Amount of Termination Benefit as per Service Year</u>
up to 12 months	4 salaries
from 12 to 24 months	6 salaries
from 24 to 36 months	8 salaries
from 36 to 48 months	10 salaries
from 48 to 60 months	12 salaries
Over 60 months	14 salaries

Payments for voluntary termination of employment are charged to the current period results in the amount of calculated one-off termination benefits according to the aforementioned methodology, in the moment when the Company can determine the number of employees and quantify the total value of benefits for the voluntary termination of employment with certainty.

d) Participation of Employees in Profit Sharing

Pursuant to the Collective Bargaining Agreements, employees are entitled to participate in a company-sponsored profit sharing program. This participation may not be lower than 10% of the amount of earned profit. The employees' share in profit is charged to the current period results of operations.

3.5. Provisions

Provisions are made and recognized when the Company has a legal and pending obligation originating from previous events, and when it is probable that the expenditure of revenue-generating funds will be required for the settlement of such liabilities, and when one can reasonably estimate the amount of liability. The Company believes that it neither has liabilities for environmental protection, actual or contingent, nor basis for provisions formed thereto.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Property, Plant, Equipment and Intangible Assets

In accordance with the new accounting regulations applicable in the Republic of Serbia, the cost of property and equipment as of December 31, 2003 is treated as a deemed cost at January 1, 2004, that is equal to the tax base used in the computation of depreciation for tax purposes.

In 2005, the Company engaged an independent appraiser to perform the appraisal of property, plant and equipment as of January 1, 2005 in accordance with IAS 16, "Property, Plant and Equipment." The positive effects of appraisal were credited to revaluation reserves. The negative effects were charged to the previous year's results of operations. During 2006 based on the NIS decision, the Company released revaluation reserves based on the reconciliation of registered capital and capital stated in the books of accounts.

Additions to property and equipment subsequent to January 1, 2005 are recorded at cost. Cost represents the prices billed by suppliers together with all costs incurred in bringing new fixed assets into use, net of discounts.

Subsequent expenditure such as modification to property, plant and equipment, or adaptation is recognized as an increase in the cost of the respective assets, when it is probable that future economic benefits, in excess of the originally assessed standard of performance will flow to the Company, and when the cost can reliably be measured.

Repairs and maintenance are expensed as incurred and are stated under "Operating expenses."

Intangible assets mainly include concessions, softwares and licenses for computer applications.

3.7. Investment Property

Investment property represents commercial real-estate held for the purpose of earning rental income, and is stated at fair value at the balance sheet date. The changes in fair value of the investment property are reflected in the income statement of the respective period.

3.8. Depreciation and Amortization

Depreciation and amortization are individually charged for each item of property, plant and equipment, and intangible asset with the exception of tools and small inventory which are written off as a group. The individual calculation of depreciation and/or amortization involves the write-off of either individual fixed asset, or a number of fixed assets belonging to the same group, which have been placed into use in the same month.

The depreciation and amortization of property, plant and equipment and intangible assets are computed on a straight-line basis in order to fully write off the cost of such assets over their estimated useful lives. Depreciation and amortization are computed onto the cost or appraised value of property, plant and equipment and intangible assets, as well as assets that have been placed into use during the year using the straight-line method.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Depreciation and Amortization (Continued)

The depreciation/amortization rates in use for the major classes of property, plant and equipment and intangible assets are as summarized below:

Buildings	1.5 – 7.2%
Equipment:	
Reservoirs and concrete pipelines	2 – 16%
Vehicles (trucks and automobiles)	14 – 33%
Laboratory equipment and measurement instruments	11 – 20%
Other machines	3 – 33%
Small tools and fixtures	3 – 14%
Furniture	10 – 33%
Computers	12.5 – 25%
Software	20%

3.9. Inventories

Inventories of Raw Material, Spare Parts and Small Tools and Fixtures

The cost of raw materials, spare parts, tools and fixtures are stated at cost. The cost includes the invoiced value, transport, customs and other attributable expenses. Small tools are fully written off when issued into use.

Work-in-Progress and Finished Goods

The inventories of finished goods are primarily stated at the lower of cost and net realizable value. The net realizable value is the price at which inventories can be realized throughout the normal course of business, after allowing for the costs of realization.

The cost of work-in-progress and finished goods inventories includes all direct production costs and general production overheads.

Goods

Goods in wholesale are stated at wholesale prices as decreased by wholesale margins or at cost increased by excise duties.

The inventories of goods in retail sale are carried at retail prices net of margins, value added tax and other fees calculated at the moment of the oil derivative sales transaction.

At the end of the accounting period, the value of inventories in wholesale and retail sale is adjusted to cost through the allocation of the recorded price variances, which is calculated on an average basis between the costs of goods sold and the inventories held at the year-end.

In the event of price movements, the prices of goods held for retail and wholesale trade are adjusted to the newly effective prices. The effects of price-leveling are charged or credited to the cost of goods sold.

Provisions that are charged to other expenses are made where appropriate in order to reduce the value of inventories to management's best estimate of net realizable value. Inventories that are found to be of a damaged or of a substandard quality are written off in full.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Financial Instruments

Financial assets and liabilities are recognized on the Company's balance sheet at the moment in which the Company has become a party to the contractual provisions of a particular financial instrument.

Financial assets cease to be recognized when the Company loses control of the contractual rights governing such instruments, which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. Financial liabilities cease to be recognized when the Company fulfills the obligations, or when the contractual repayment obligation has either been cancelled or has expired.

Equity Investments

Equity investments are comprised of investments in subsidiaries, securities available-for-sale relating to equity investments in banks and other legal entities, as well as securities held for trading.

Subsidiaries are those companies in which the Company has an ownership interest of more than 50%, or in which it holds more than half of the voting rights of the other entity, or has the ability to control the entity's financial and operating policies.

Investments in the equity of subsidiaries and associates are valued at cost determined by an independent appraiser, for the purpose of the Company's foundation. If there is objective evidence that an impairment loss on investments has been incurred, estimation of recoverable amount of investment is performed and potential impairment losses are recognized in the income statement.

Securities available-for-sale for which an active market exist (equity investments in banks and other legal entities) are stated at fair value. The fair value is defined as an amount at which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction. Unrealized gains and losses arising from changes in the fair value sale are recognized within revaluation reserves and included in the income statement when securities are realized or impairment in value has been identified.

Securities held for trading comprise equity investments in other legal entities measured at deemed cost estimated by the independent appraiser (for the investments for which no available market information exists) or at fair value (for investments for which market information is readily available). Trading securities are classified within current assets based on the relevant Decision enacted by the Company's Management Board.

Other Long-Term Investments

Other long-term investments include the long-term loans based on reschedule of debts of domestic legal entities, housing loans approved to employees and receivables arising on the repurchase of apartments, which allow that possibility. Long-term loans granted to employees are stated in the amount of funds granted. Apartments subject to repurchase which are rented to employees are measured at their market value.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Financial Instruments (Continued)

Accounts Receivable and Other Current Receivables

Accounts receivable are stated at invoiced values less any allowance for impairment. In accordance with NIS accounting policy, provision was made for domestic customers and placements that are more than 60-days past due, receivables for liquid oil gas, delivered goods and resources to domestic consumers in the category "distance heating system" (heating plants) and consumers financed from the budget more than 90-day past due and foreign receivables and placements that are more than 180-days past due. A write-off of bad debts is performed either pursuant to a court order, or based on a settlement agreed between the parties involved, or otherwise, on the basis of a resolution of the Company's Board of Directors.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, cash and balances on current accounts and demand deposits.

Financial Liabilities

Financial liabilities are classified in accordance with the respective contractual provisions governing such instruments.

Borrowings are initially measured at the amount of the loan disbursements received, and are subsequently stated at the amortized cost that is computed based on the contractual interest rate, which approximates effective interest rate.

Accounts Payable

Accounts payable are initially measured at the amount of the fund received, and are subsequently stated at the amortized cost that is computed based on the contractual interest rate, which approximates effective interest rate.

3.11. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the Company. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Company at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Rentals payable under operating leases are recognized on a straight-line basis over the term of the relevant lease.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Fair Value

It is a policy of the Company to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded amounts. In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result of this, fair value cannot readily or reliably be determined in the absence of an active market. As per the Company's management, amounts expressed in the financial statements reflect the fair value which is most reliable and useful for the needs of the financial reporting in accordance with the Law on Accounting and Auditing of the Republic of Serbia.

4. OPENING BALANCE ADJUSTMENTS

	Retained Earnings as of January 1,	
	<u>2007</u>	<u>2006</u>
Retained earnings, January 1, 2007	6,044,642	1,312,786
Effects of error correction		
Prior year income taxes	(502,115)	-
Adjustment to crude oil price calculation	(24,707)	-
Prior year interest expenses	-	(689,894)
Income from surpluses of crude oil in previous years	-	676,508
Unreconciled capital with O Zone A.D., Beograd	-	(131,323)
Prior year liabilities (Duferco)	-	(576,829)
Provision for inventories under dispute	-	(48,890)
Initial filling of oil pipeline – valuation	-	1,398,695
Reconciliation of internal balances	-	(375,659)
Activation of oil rig	-	304,526
Distribution of profit to employees based on participation in profit sharing	-	(327,019)
Other error adjustments	-	38,755
Total adjustments	<u>(526,822)</u>	<u>268,870</u>
Retained earnings, January 1, 2007, after adjustments	<u>5,517,820</u>	<u>1,581,656</u>

Adjustments to the opening balance of retained earnings as of January 1, 2007 relate to the following:

The adjustment to income taxes of RSD 502,115 thousand represents the adjustment of the calculation of income taxes based on the Decision of the Tax Administration for FY 2006. During 2007, the Company paid the aforesaid taxes and has filed a suit before the Supreme Court with reference to the methodology of calculating income taxes, which has not been finalized until the issuance date of these financial statements.

Adjustment to crude oil price calculation of RSD 24,707 thousand represents the adjustment arising on the error in the calculation of the value of crude oil.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

4. OPENING BALANCE ADJUSTMENTS (Continued)

Adjustments to the opening balance of retained earnings as of January 1, 2006 pertain to the following:

Prior year interest expenses of RSD 689,894 thousand relate to the interests compounded on borrowings in the period between 2001 and 2005, mostly on long-term borrowings.

The income from surplus of crude oil from previous years of RSD 676,508 thousand mostly relate to the inventories of RSD 305,775 thousand, recorded in the books pursuant to the notice received from JANAF D.D., the Republic of Croatia, on the established quantities of oil from previous years and errors found in measuring of received crude oil of RSD 370,733 thousand.

The expenses for the reconciliation with the capital of O Zone A.D., Belgrade amounting to RSD 131,323 thousand, are associated with the expenses based on the reconciliation of equity investments and subscribed capital of the subsidiary.

Other expenses of RSD 576,829 thousand relate to liabilities towards the entity Duferco, Italy, assumed from the entity Sartid from Smederevo, settled in accordance with the Decision of the Government of the Republic of Serbia as of December 1, 2005.

The allowances for impairment of crude oil supplies located in JANAF gasoline relate to the value adjustment to the average cost in the amount of RSD 1,398,695 thousand.

The adjustments arising from internal reconciliation of receivables and liabilities within NIS amounted to RSD 375,659 thousand.

Activation of the oil rig dating from prior period and amounting to RSD 304,526 thousand represents the adjustment to the value of property, plant and equipment based on the reactivation of assets retired in the prior periods and charged to the income statement.

Distribution of profit to employees based on their share in profit of RSD 327,019 thousand represents the adjustment of costs of employees' share in the profit for FY 2005.

5. SALES

	<u>2007.</u>	<u>2006.</u>
Sale of products, goods and services on :		
- domestic market	148,952,833	146,631,244
- foreign markets	5,359,491	4,052,510
Sale of products, goods and services to subsidiaries	<u>4,739,248</u>	<u>2,670,864</u>
	<u>159,051,572</u>	<u>153,354,618</u>

6. COST OF MATERIALS

	<u>2007</u>	<u>2006</u>
Direct material consumption	63,172,804	53,474,527
Overheads and other material	1,493,555	2,168,611
Electricity	616,279	579,411
Other expenses of fuel and energy	<u>1,933,786</u>	<u>2,298,873</u>
	<u>67,216,424</u>	<u>58,521,422</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

7. STAFF COSTS

	<u>2007.</u>	<u>2006.</u>
Net salaries and benefits	6,028,648	5,539,111
Contributions on salaries and benefits paid by employees	2,794,868	2,537,351
Contributions on salaries and benefits paid by employer	1,760,949	1,496,451
Subcontractors' fees	45,717	8,393
Remunerations to the members of Board of Directors and Supervisory Board	82,964	61,504
Incentive severance payments	1,184,359	1,359,460
Retirement benefits and jubilee awards	268,636	239,405
Travel expenses and per diems	344,612	324,467
Voluntary pension insurance	330,414	313,081
Transportation of employees	314,919	320,237
Financial assistance to employees and their families	138,885	64,781
Temporary and seasonal employees	813,257	635,205
Participation of employees in profit sharing	809,645	697,087
Other benefits paid to employees as per Decision of the Board of Directors	1,006,079	-
Other staff costs	<u>112,569</u>	<u>216,358</u>
	<u>16,036,521</u>	<u>13,812,891</u>

Incentive severance payments of RSD 1,184,359 thousand relate to one-off payments made to 716 employees for the purpose of their voluntary termination of employment in the Company during 2007. The implementation of the Voluntary Retirement Program was carried out pursuant to the Board of Directors' Decision on stimulant measures with the aim to reduce the count of staff working in NIS A.D., Decision number 80/16-3 as of February 23, 2006, the Amendments to Decision number 80/35-2 dated September 15, 2006 and May 24, 2007 (Note 3.4c).

Other employee benefits mostly represent the write-off of short-term receivables from employees arising from borrowings for heating, winter food and books for school, as set forth under the Decision of the Company's Board of Directors dated December 27, 2007, whereby the aforementioned borrowings were turned into employee salaries.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

8. OTHER OPERATING EXPENSES

	<u>2007.</u>	<u>2006.</u>
Use of own products and services	166,602	419,702
Quality control	164,947	147,681
Telecommunications	266,454	218,090
Transportation	866,565	706,895
Maintenance	1,550,743	1,770,826
Rentals	132,169	158,968
Advertising and marketing	447,072	425,531
Research costs	172,703	61,574
Waste water processing	173,001	151,629
Consultant fees	740,854	307,853
Other production services	723,392	938,465
Other non-production services	874,789	739,744
Entertainment	163,248	171,712
Insurance premium	696,177	642,931
Bank charges	245,856	317,574
Cost for the use of the city construction land	433,489	363,085
Cost of the use of public property	163,451	104,884
Other indirect taxes and contributions	2,322,175	1,389,660
Other	527,773	420,713
	<u>10,831,460</u>	<u>9,457,517</u>

Other indirect taxes and contributions of RSD 2,322,175 thousand primarily relate to various taxes and fees based on the oil production (concessions) in Angola in the amount of RSD 1,240,674 thousand.

9. FINANCE INCOME

	<u>2007</u>	<u>2006</u>
Interest income	2,668,117	1,377,152
Foreign exchange gains	6,931,181	7,858,051
Other finance income	165,607	157,702
	<u>9,764,905</u>	<u>9,392,905</u>

10. FINANCE EXPENSES

	<u>2007</u>	<u>2006</u>
Interest expenses	2,131,337	2,478,761
Foreign exchange losses	5,043,294	4,976,661
Other finance expenses	610,180	105,078
	<u>7,784,811</u>	<u>7,560,500</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

11. OTHER INCOME

	<u>2007</u>	<u>2006</u>
Write-off of liabilities	472,292	1,274,965
Recovery of bad debts off and income from the release of allowance for impairment (Note 23)	1,860,860	5,799,340
Penalties, awards and damages collected	130,220	115,837
Surpluses	172,646	157,812
Gains on the sale of equity investments and long-term securities	3,040	569
Proceeds on the sale of property, plant and equipment	55,479	26,107
Proceeds on the sale of material	9,437	9,934
Other income	505,815	495,527
	<u>3,209,789</u>	<u>7,880,091</u>

12. OTHER EXPENSES

	<u>2007</u>	<u>2006</u>
Losses on the sale and disposal of property and equipment	458,117	922,633
Impairment of construction in progress	-	882,277
Shortages and write-off of inventories	366,849	740,225
Write-off of receivables	341,897	147,765
Impairment of receivables, short-term placements, inventories and advances paid and equity investments and long-term financial placements (Note 23)	2,866,604	9,085,176
Changes in the fair value of equity investments	20,778	-
Humanitarian, cultural, educational and sport expenses	321,932	257,061
Fines, penalties and damages	370,847	104,418
Other expenses	395,633	186,460
	<u>5,142,657</u>	<u>12,326,015</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

13. INTANGIBLE ASSETS

	Patents, Licenses and Similar Rights	Other Intangible Assets	Construction in Progress and Advances	Total
Cost				
Balance at January 1, 2007	440,047	227,692	1,002,855	1,670,594
Additions	2,796	1,186	1,947,676	1,951,658
Activations	92,520	361,631	(454,151)	-
Transfers	(103,792)	103,792	-	-
Sale and disposal	(26,217)	-	-	(26,217)
Balance, December 31, 2007	<u>405,354</u>	<u>694,301</u>	<u>2,496,380</u>	<u>3,596,035</u>
Accumulated Amortization				
Balance at January 1, 2007	164,687	46,820	142,279	353,786
Charge for the year	22,963	75,287	-	98,250
Sale and disposal	(23,421)	-	-	(23,421)
Transfer	(82,654)	82,654	-	-
Other changes	-	811	-	811
Balance, December 31, 2007	<u>81,575</u>	<u>205,572</u>	<u>142,279</u>	<u>429,426</u>
Net Book Value				
- December 31, 2007	<u>323,779</u>	<u>488,729</u>	<u>2,354,101</u>	<u>3,166,609</u>
- January 1, 2007	<u>275,360</u>	<u>180,872</u>	<u>860,576</u>	<u>1,316,808</u>

Construction in progress and advances to customers stated as of December 31, 2007 in the amount of RSD 2,354,101 thousand mainly relate to the purchase of the accounting information system - SAP.

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment and Other Assets	Construction in Progress and Advances	Total
Cost					
Balance at January 1, 2007	10,437,265	48,065,713	46,461,869	6,259,779	111,224,626
Additions	-	30,975	4,945	5,708,735	5,744,655
Activations and transfers	22,261	345,891	3,478,219	(3,846,371)	-
Sale and disposal	-	(346,397)	(94,884)	-	(441,281)
Surpluses/(shortages)	-	17,958	3,732	-	21,690
Other	-	138,638	(1,125)	(2,914)	134,599
Balance, December 31, 2007	<u>10,459,526</u>	<u>48,252,778</u>	<u>49,852,756</u>	<u>8,119,229</u>	<u>116,684,289</u>
Accumulated Depreciation					
Balance at January 1, 2007	-	4,719,607	9,229,842	882,277	14,831,726
Charge for the year	-	1,991,758	3,737,360	-	5,729,118
Sale and disposal	-	(66,922)	(27,063)	(675)	(94,660)
Activations and transfers	-	80,776	36,832	(117,608)	-
Impairment of assets	-	4,183	93,785	39,183	137,151
Surpluses (shortages)	-	9,606	(1,175)	-	8,431
Other	-	(31,880)	-	-	(31,880)
Balance, December 31, 2007	<u>-</u>	<u>6,707,128</u>	<u>13,069,581</u>	<u>803,177</u>	<u>20,579,886</u>
Net Book Value					
- at December 31, 2007	<u>10,459,526</u>	<u>41,545,650</u>	<u>36,783,175</u>	<u>7,316,052</u>	<u>96,104,403</u>
- at January 1, 2007	<u>10,437,265</u>	<u>43,346,106</u>	<u>37,232,027</u>	<u>5,377,502</u>	<u>96,392,900</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

15. INVESTMENT PROPERTY

	<u>2007</u>	<u>2006</u>
Balance, January 1	738,953	1,146,789
Additions	-	144,363
Transfer to non-current assets	-	(163,163)
Sale and disposal	-	(389,036)
	<u>738,953</u>	<u>738,953</u>

16. EQUITY INVESTMENTS

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
<i>Equity investments in:</i>		
- subsidiaries	3,318,142	3,321,100
- associates	4,539	4,526
- banks	360,833	257,282
- other legal entities	2,376,914	2,686,378
	<u>6,060,428</u>	<u>6,269,286</u>
Allowance for impairment – equity investments in (Note 23):		
- subsidiaries	(143,281)	(143,281)
- banks	(225,034)	(229,605)
- other legal entities	(1,372,054)	(1,375,355)
	<u>(1,740,369)</u>	<u>(1,748,241)</u>
	<u>4,320,059</u>	<u>4,521,045</u>

Equity investments in subsidiaries were as follows:

	<u>% Share</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
O Zone a.d. Beograd	100%	3,261,946	3,262,486
NIS-OIL, Frankfurt	100%	24,218	24,146
Doge SPA, Milano	100%	4,048	10,149
NIS Oversiz d.o.o., Moscow	100%	6,156	6,872
Eurol International Ltd, Bermuda	50%	2,686	2,999
RDS, London	50%	1,073	1,245
Ranis, Moscow area, Russia	51%	468	522
Jubos, Bor	51%	808	806
Svetlost, Bujanovac	51.32%	16,739	11,875
		<u>3,318,142</u>	<u>3,321,100</u>
<i>Less: Allowance for impairment</i>		<u>(143,281)</u>	<u>(143,281)</u>
		<u>3,174,861</u>	<u>3,177,819</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

16. EQUITY INVESTMENTS (Continued)

Equity investments in associates were as follows:

	December 31, 2007	December 31, 2006
Mako Nafta Skopje, Macedonia	4,282	4,269
Prokons d.o.o., Subotica	257	257
	<u>4,539</u>	<u>4,526</u>

Equity investments in banks were as follows:

	December 31, 2007	December 31, 2006
NLB Continental banka a.d., Novi Sad	10,525	10,525
Privredna banka a.d., Pančevo	22,596	7,532
Komercijalna banka a.d., Beograd	67,942	6,940
JUBMES a.d., Beograd	36,540	6,432
Panonska banka a.d., Novi Sad	-	2,343
Vojvođanska banka a.d., Novi Sad	-	300
Sileks banka a.d., Skopje	6,887	6,867
Banks in liquidation	216,343	216,343
	<u>360,833</u>	<u>257,282</u>
<i>Less: Allowance for impairment</i>	<u>(225,034)</u>	<u>(229,605)</u>
	<u>135,799</u>	<u>27,677</u>

Equity investments in other legal entities were as follows:

	December 31, 2007	December 31, 2006
HIP Petrohemija a.d., Pančevo	2,250,245	2,590,720
Linde Carbo Dioxid a.d., Bečej	112,376	88,263
Dunav osiguranje a.d.o., Beograd	13,490	6,592
Other	803	803
	<u>2,376,914</u>	<u>2,686,378</u>
<i>Less: Allowance for impairment</i>	<u>(1,372,054)</u>	<u>(1,375,355)</u>
	<u>1,004,860</u>	<u>1,311,023</u>

The long-term financial placements to HIP Petrohemija A.D., Pančevo stated as of December 31, 2007 in the gross amount of RSD 2,250,245 thousand, i.e., as adjusted for the allowance for impairment of RSD 1,371,527 thousand, in the net amount of RSD 878,718 thousand relate to rescheduled receivables from HIP Petrohemija A.D., Pančevo which were, pursuant to the Agreement on investing rights, receivables namely, in the share capital of HIP Petrohemija, Pančevo, converted into share capital as of October 17, 2006.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

17. OTHER LONG-TERM FINANCIAL PLACEMENTS

	December 31, 2007	December 31, 2006
Long-term loans to employees	2,590,965	2,255,631
Apartments subject to repurchase	896,081	1,229,761
Other long-term financial placements	<u>8,836,416</u>	<u>6,704,087</u>
	12,323,462	10,189,479
Current portions of long-term loans (Note 20)		
- long-term loans to employees	(29,242)	-
- Other long-term financial placements	<u>(1,976,098)</u>	<u>(1,384,158)</u>
	(2,005,340)	(1,384,158)
Allowance for impairment (Note 23):		
- long-term loans to employees	(38,564)	-
- Other long-term financial placements	<u>(2,623,297)</u>	<u>(1,512,997)</u>
	<u>(2,661,861)</u>	<u>(1,512,997)</u>
	<u><u>7,656,261</u></u>	<u><u>7,292,324</u></u>

Housing loans and receivables arising on the apartment repurchase are stated in the amount RSD 2,590,965 thousand and refer to the loans approved to employees for the housing purposes, as well as to the apartments occupied by employees who are in the process of repaying them. The loans for the apartment repurchase and improvement of housing conditions are approved for periods of 20 years, with the annual interest rate of 0,5 and currency clause (EUR). The loans for the purchase of apartments are interest-free and are extended for the period of 40 years and revalued by applying the retail price growth index.

The apartments subject to repurchase are stated in the amount of RSD 896,081 thousand and pertain to the Company's apartments occupied by the employees who are, on different grounds, entitled to repurchase these apartments under more favorable conditions.

Other long-term financial placements

	December 31, 2007	December 31, 2006
O Zone a.d., Beograd	1,616,295	1,616,295
HIP Petrohemija a.d., Pančevo	1,920,403	2,455,578
RTB Bor	1,426,540	1,426,540
JAT, Beograd	1,467,863	750,280
JP Srbijagas, Novi Sad	2,246,461	-
Concessions in Angola	130,348	403,428
Other placements	<u>28,506</u>	<u>51,966</u>
	8,836,416	6,704,087
Current portions	(1,976,098)	(1,384,158)
Allowance for impairment	<u>(2,623,297)</u>	<u>(1,512,997)</u>
	<u><u>4,237,021</u></u>	<u><u>3,806,932</u></u>

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2007***All amounts expressed in thousands of RSD, unless otherwise stated.***17. OTHER LONG-TERM FINANCIAL PLACEMENTS (Continued)***Other long-term financial placements (Continued)*

Other long-term investments to HIP Pertochemija, Pančevo are stated in the amount of RSD 1,920,403 thousand and relate to the reschedule of receivables from HIP Petrohemija, Pančevo pursuant to the Agreement on Loan Rescheduling as of December 29, 2006 for the amount of RSD 1,463,581 thousand. The abovementioned reschedule involves the receivables of RSD 2,046,042 thousand (EUR 24,628,161) at December 30, 2006, due in 36 monthly installments between April 1, 2007 and March 31, 2010, payable at the official EUR rates at the payment date, but the amount may not be below the amount of installment translated in dinars at the Agreement date. Other long-term placements to HIP Petrohemija A.D., Pančevo amounting to RSD 456,821 thousand (USD 8,502,684) relate to the NIS investments from previous years, fully provided for.

Other long-term investments to RTB Bor of RSD 1,426,540 thousand relate to long-term loans approved in the previous years. During 2004, the Company made Agreement on Loan Rescheduling. Pursuant to this agreement the repayment is due over a period of 3 years in equal monthly installments from January 1, 2005, where the interest is computed and paid at the legal penalty interest rate. The Company applied for the receivable with the Privatization Agency for the purpose of collecting the debt from the privatization revenues as in accordance with the Law on Privatization. The receivable was provided for in full, where the respective allowance for impairment charged to the operating results for the current year amounts to RSD 1,228,644 thousand.

Other long-term investments of RSD 1,467,863 thousand are comprised of receivables from JAT from previous years based on sale of jet fuel. On October 11, 2006, the Company signed a rescheduling protocol of the stated receivables as of August 31, 2006 when the total amount of the liability was determined in the amount of EUR 9,497,219. In accordance with the aforementioned protocol, the loan repayment is executed in 24 equal monthly installments, with the first one due on April 15, 2007. The interest rate for the period between August 31, 2006 and April 15, 2007 is calculated at monthly EURIBOR as increased by 4% annually. On December 21, 2007, a Protocol on the reschedule of receivables as of November 30, 2007 in the aggregate amount of EUR 12,589,400. In accordance with the aforesaid protocol, the debt repayment will be executed in 24 equal monthly installments, where the first installment falls due on April 30, 2008. In the period from November 30, 2007 until April 30, 2008, interest is compounded at the rate of monthly EURIBOR as increased by the margin of 2% annually.

Long-term financial placements stated in the amount of RSD 2,246,461 thousand, relate to the receivables from the Public Enterprise Srbijagas, Novi Sad which signed an Rescheduling Agreement with the Company on July 16, 2007 for the total amount of EUR 29,041,239. In accordance with the signed Agreement, the debt will be repaid in 48 equal installments at the official exchange rates as of the payment date, but at the rate no less than the one effective as of the debt reschedule date, where the first installment matured on December 1, 2007. The interest accrued on the receivables is calculated by applying the monthly EURIBOR rate as increased by the margin of 1.5% annually.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

18. INVENTORIES

	December 31, 2007	December 31, 2006
Materials	15,337,778	9,283,665
Spare parts	3,269,088	3,838,711
Small tools and fixtures	198,001	314,241
Work in progress	916,853	444,592
Finished goods	6,344,558	7,026,858
Goods for resale	5,267,341	4,294,766
	<u>31,333,619</u>	<u>25,202,833</u>
Advances to:		
- subsidiaries (Note 35)	47,654	52,872
- domestic suppliers	706,174	482,870
- foreign suppliers	684,389	797,175
	<u>1,438,217</u>	<u>1,332,917</u>
Allowance for impairment (Note 23):		
- inventories	(449,732)	(881,036)
- advances to suppliers	(794,004)	(475,270)
	<u>(1,243,736)</u>	<u>(1,356,306)</u>
	<u>31,528,100</u>	<u>25,179,444</u>

Review of inventories under pledge lien is presented in the following table:

Pledge Lien Date	Pledgor	Legal Grounds for the Pledge	Amount of Secured Pledgee's Receivable	Asset under Pledge Lien	Amount	Amount as of December 31, 2007 EUR	Storage Place
7/05	Unicredit bank a.d., Beograd	Agreement number 45- 473 dated August 5	EUR 10,767,921	Crude oil - REB	24,000t	11,266,205	Pančevo
				Components for motor oil	8,262t	2,584,017	Novi Sad
				Diesel -D2	9,091t	2,843,294	Pančevo
					7,580t	3,819,837	Pančevo
1248/05	Unicredit bank a.d., Beograd	Agreement IV/04 as of June 1, 2004, Agreement no. P 362/04 and Annex 4 to the Agreement as of July 22, 2005	EUR 7,395,235	Crude oil - REB	24,000t	11,266,205	Pančevo
					8,262t	2,584,017	Novi Sad
				Components for motor oil	9,091t	2,843,294	Pančevo
1653/05	Hipo Alpe – Adria – Bank, a.d., Beograd	Agreement I8296/2004 as of December 7, 2004	USD 10,000,000	Motor oil MB 95	1,800t	799,687	Novi Sad
				Components for motor oil	4,100t	1,282,313	Novi Sad
1655/05	Hipo Alpe – Adria – Bank, a.d., Beograd	Agreement I 1944/04 as of December 6, 2004	USD 10,000,000	Motor oil MB 95	4,800t	2,524,301	Pančevo
1343/05	Unicredit bank a.d., Beograd	Agreement IV 319/05 as of March 1, 2005	USD 3,000,000	Components for motor oil	19,000t	5,942,425	Pančevo
				Components for motor oil	9,091t	2,843,294	Pančevo
3534/06	Piraeus Atlas Banka a.d., Beograd	Agreement 45/454 as of June 2, 2006	EUR 10,000,000	Components for motor oil	12,200t	3,815,662	Pančevo or Novi Sad
316/06	Piraeus Atlas Banka a.d., Beograd	Pledge Agreement as of January 13, 2006	EUR 15,000,000	VGO – Vacuum Gas Oil	40,000t	10,574,668	Pančevo or Novi Sad
				Crude oil	12,000t	5,633,103	Pančevo or Novi Sad
				Masut S	8,600t	2,219,481	Pančevo or Novi Sad
						<u>72,841,803</u>	

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

18. INVENTORIES (Continued)

At December 31, 2007, no liabilities that arise from the aforementioned Loan Agreements exist, while the pledge thereupon expired. The process of removing the pledge from the relevant register is underway.

19. ACCOUNTS RECEIVABLE

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Accounts receivable:		
- related parties (Note 35)	1,441,489	48,219
- domestic	24,554,548	24,034,003
- foreign	<u>1,816,755</u>	<u>2,431,160</u>
	27,812,792	26,513,382
Receivables from specific operations	3,830,546	4,256,351
Interest receivables	4,103,295	2,977,348
Receivables from employees	504,800	165,324
Other receivables	<u>9,031,255</u>	<u>9,093,823</u>
	45,282,688	43,006,228
Allowance for impairment (Note 23):		
- accounts receivable	(12,064,461)	(13,733,829)
- receivables from specific operations	(3,774,872)	(4,077,413)
- interest and other receivables	<u>(11,920,590)</u>	<u>(10,598,173)</u>
	<u>(27,759,923)</u>	<u>(28,409,415)</u>
	<u>17,522,765</u>	<u>14,596,813</u>

Other receivables of RSD 9,031,255 thousand include receivables from the entity Tecra d.o.o., Beograd of RSD 782,128 thousand based on assumed liabilities of this entity to Hypo-Alpe-Adria Bank A.D., Beograd, the receivables from previous periods from GP Rad, Beograd of RSD 4,759,747 thousand, as well as receivables arising from the property located on the territory of former Yugoslav Republics and receivables for the war damages caused during the NATO bombing in the aggregate amount of RSD 1,363,195 thousand for which an allowance for impairment was fully provided for.

20. SHORT-TERM FINANCIAL PLACEMENTS

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Short-term loans		
- related parties (Note 35)	30,164	-
- other legal entities	139,666	205,424
Current portion of long-term financial placements (Note 17)	2,005,340	1,384,158
Trading securities	1,053,427	1,033,143
Other short-term financial placements	<u>746,167</u>	<u>1,730,403</u>
	3,974,764	4,353,128
Allowance for impairment (Note 23):		
- short-term domestic loans	(19,454)	(680,937)
- current portions	(71,367)	(71,367)
- trading securities	(694,316)	(673,538)
- other short-term financial placements	<u>(191,284)</u>	<u>(271,188)</u>
	<u>(976,421)</u>	<u>(1,697,030)</u>
	<u>2,998,343</u>	<u>2,656,098</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

20. SHORT-TERM FINANCIAL PLACEMENTS (Continued)

Trading securities are presented in the table below:

	December 31, 2007	December 31, 2006
BMP a.d., Beograd	802,602	859,118
SPC Pinki	89,493	89,493
Politika a.d., Beograd	29,451	29,451
RTV Politika d.o.o., Beograd	23,685	23,685
DDOR a.d.o., Novi Sad	15,998	15,998
Luka Dunav a.d., Pančevo	92,160	15,360
Jugovoće d.o.o., Valjevo	38	38
	<u>1,053,427</u>	<u>1,033,143</u>
<i>Less: Allowance for impairment</i>	<u>(694,316)</u>	<u>(673,538)</u>
	<u><u>359,111</u></u>	<u><u>359,605</u></u>

Trading securities as of December 31, 2007 in the amount of RSD 1,053,427 thousand (as adjusted for the allowance for impairment of RSD 694,316 thousand) pertain to equity investments in other legal entities based on the Decision enacted by the Board of Directors regarding the sale of the aforementioned equity investments on the market, classified within current assets.

Other short-term financial placements of RSD 746,167 thousand principally (in the amount of RSD 553,741 thousand) relate to the foreign exchange documentary letter of credit with Societe Generale Serbia Bank a.d., Beograd, obtained for the purposes of equipment acquisition.

21. CASH AND CASH EQUIVALENTS

	December 31, 2007	December 31, 2006
Current accounts:		
- in dinars	902,555	1,330,438
- in foreign currency	727,317	871,442
Cash in hand:		
- in dinars	35,851	14,909
- in foreign currency	763	188
Appropriated financial assets and letters of credit	111,389	86,925
Securities and cash equivalents	6,429	353,972
Other	-	5,510
	<u>1,784,304</u>	<u>2,663,384</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

22. VALUE ADDED TAX AND PREPAYMENTS

	December 31, 2007	December 31, 2006
Value added tax receivables	1,347,173	243,309
Prepaid expenses	210,942	79,846
Accrued income	-	115,053
Other prepayments	359,192	280,239
	<u>1,917,307</u>	<u>718,447</u>

23. MOVEMENTS IN ALLOWANCE FOR IMPAIRMENT

	Equity Investments and Long-Term Financial Placements (Notes 16 and 17)	Inventories and Advances to Suppliers (Note 18)	Receivables (Note 19)	Short-Term Financial Placements (Note 20)	Total
Balance, January 1, 2007	3,261,238	1,356,306	28,409,415	1,697,030	34,723,989
Charged to the income statement (Note 12)	1,228,686	314,705	1,323,213	-	2,866,604
Release to income statement (Note 11)	(56,465)	(277,272)	(785,736)	(741,387)	(1,860,860)
Foreign exchange fluctuations	(25,145)	(12,219)	(243,598)	-	(280,962)
Other	(6,084)	-	(178,989)	20,778	(164,295)
Write-offs	-	(137,784)	(764,382)	-	(902,166)
Balance, December 31, 2007	<u>4,402,230</u>	<u>1,243,736</u>	<u>27,759,923</u>	<u>976,421</u>	<u>34,382,310</u>

24. SHARE CAPITAL

The Company's capital represents the share capital of the closed shareholding entity with which the Company was founded, expressed as the total monetary and non-monetary stake of the Government of the Republic of Serbia. The registered capital amounted to EUR 993,786 thousand as of May 31, 2005.

25. LONG-TERM PROVISIONS

	December 31, 2007	December 31, 2006
Long-term provision for the restoration and re-cultivation of degraded environmental land	831,365	670,210
Long-term provisions for litigations	74,011	904,271
	<u>905,376</u>	<u>1,574,481</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

25. LONG-TERM PROVISIONS (Continued)

The movements in long-term provision were as summarized below:

	December 31, 2007	December 31, 2006
Balance, January 1, 2007	1,574,481	534,113
Charge for the year	161,155	1,041,463
Used provisions	<u>(830,260)</u>	<u>(1,095)</u>
Balance, December 31, 2007	<u><u>905,376</u></u>	<u><u>1,574,481</u></u>

26. LONG-TERM BORROWINGS

	December 31, 2007	December 31, 2006
Long-term loans:		
- Paris Club of Creditors	3,272,530	3,369,067
- London Club of Creditors	299,299	5,197,153
- domestic	5,979,720	1,817,000
- foreign	<u>5,263,967</u>	<u>10,189,281</u>
	14,815,516	20,572,501
Other long-term liabilities	<u>3,571</u>	<u>155,691</u>
Current portions of long-term loans (Note 27)	<u>(2,067,179)</u>	<u>(2,088,394)</u>
	<u><u>12,751,908</u></u>	<u><u>18,639,798</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

26. LONG-TERM BORROWINGS (Continued)

The principal terms of the Company's long-term loans are as summarized below:

Creditor	Interest Rate	Currency	Amount in Currency	December 31, 2007	December 31, 2006
<i>Paris Club of Creditors</i>					
Privredna banka A.D., Pančevo	5.375% p.a.	USD	23,170,945	1,244,898	1,398,513
Privredna banka A.D., Pančevo	5.5 % p.a.	EUR	2,484,508	196,863	197,547
	USD LIBOR +				
Erste banka A.D., Novi Sad	4.923+0.5% p.a.	USD	3,821,642	205,324	215,749
Erste banka A.D., Novi Sad	EURIBOR+2.93+0.5%	EUR	808,126	64,032	60,974
Erste banka A.D., Novi Sad	5.50%	EUR	1,207,906	95,710	90,366
Erste banka A.D., Novi Sad	5.9% p.a.	EUR	2,554,840	202,436	190,388
NLB Continental banka A.D., Ljubljana	5.38%	USD	4,654,079	250,048	278,422
NLB Continental banka A.D., Ljubljana	6M LIBOR + 0.5% p.a.	JPY	538,192,853	258,333	271,860
NLB Continental banka A.D., Ljubljana	6M LIBOR + 0.5% p.a.	USD	2,312,857	124,262	138,326
Vojvodanska banka A.D., Novi Sad	5.5 % p.a.	EUR	7,958,786	630,624	724,469
				3,272,530	3,566,614
<i>London Club of Creditors</i>					
Erste banka A.D., Novi Sad	3.75% p.a.	USD	1,507,212	80,978	135,594
Erste banka A.D., Novi Sad	6.75% p.a.	USD	63,853	3,431	3,830
Komercijalna banka a.d., Beograd	3.75% p.a.	USD	435,161	23,380	52,198
NLB Continental banka A.D., Ljubljana	3.75% - 6.75% p.a.	USD	671,371	36,071	40,266
Vojvodanska banka A.D., Novi Sad	5.5 % p.a.	EUR	1,443,220	114,355	131,373
Vojvodanska banka A.D., Novi Sad	5.5 % p.a.	USD	764,687	41,084	52,845
				299,299	416,106
<i>Other long-term domestic loans</i>					
Vojvodanska banka A.D., Novi Sad - Republic of Serbia	-	USD*	4,023,896	216,190	241,336
International Bank for Reconstruction and Development (IBRD) – Republic of Serbia	**	EUR	51,655,265	4,092,967	4,342,164
Hypo-Alpe-Adria Bank A.D., Beograd	3M EURIBOR + 2.75% p.a.	EUR	21,083,333	1,670,563	1,817,000
				5,979,720	6,400,500
<i>Other foreign currency long-term loans</i>					
Sinochem International					
Oil Company Limited, London, UK	6M LIBOR + 0.7% p.a.	EUR	97,976,476	5,263,967	7,345,281
RIEF, The Netherlands	3M EURIBOR + 1.4% p.a.	EUR	-	-	1,659,000
EFG NEF BV The Netherlands	3M EURIBOR + 1.6% p.a.	EUR	-	-	1,185,000
				14,815,516	20,572,501

* Clearing Dollars

** In accordance with the Law on certification of the agreement between the Federal Republic of Yugoslavia and IBRD

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

In December 2001, the negotiations between the Republic of Serbia Government and the Paris Club of Creditors resulted in significant reduction in liabilities (the principal, interest and penalty interest accrued as of March 22, 2002) by 51% new principal with the option of additional write-off of liabilities in the three years capped at 66.67%, as an additional item of the liability reschedule program. The negotiations between the Government of the Republic of Serbia and the London Club of Creditors resulted in significant reduction of liabilities (the principal, interest and penalty interest accrued as of September 30, 2004) by 62% the new principal. The law on regulating the relationship between the Federal Republic of Yugoslavia and legal parties and banks on the Yugoslav territory, which were the debtors or guarantors of the London and Paris Club of Creditors, came in effect on July 4, 2002 (Official Gazette of the Federal Republic of Yugoslavia number 36/2002). In conformity with the aforementioned law the Company was obliged to repay the loans, approved by the Paris and London Club of Creditors, to the domestic banks under no less favorable conditions than those defined by the Agreement signed with the foreign creditors.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

26. LONG-TERM BORROWINGS (Continued)

Paris Club of Creditors

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

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

The liabilities to Vojvodanska banka A.D., Novi Sad of RSD 630,624 thousand as of December 31, 2007 relate to the refinanced foreign currency loans, received from the Paris Club of Creditors. NIS became the Paris Club of Creditors' debtor when it assumed the liabilities by signing the September 19, 1991 Agreement signed with Metanolsko-sirćetni kompleks, Kikinda. On October 14, 2003, NIS entered into contract with Vojvodanska banka A.D., Novi Sad undertaking the obligation to settle the liabilities arising from loans extended by the Paris Club of Creditors, pursuant to The Law Governing the Relations between the Federal Republic of Yugoslavia and Legal Entities and Banks within the Territory of the Federal Republic of Yugoslavia Being the Original Debtors or Guarantors toward the Paris Club and London Club Creditors. The liabilities of the Company to the Bank as of March 22, 2002 amounted to EUR 13,285,105.62, out of which the initial principal amounted to 7,287,523.14 EUR, and the agreed regular interest and penalty interest amounted to EUR 1,734,559.03 and EUR 4,263,023.45, respectively. The interest is computed at an annual rate of 5.5% as of March 22, 2002 and is attributed to the principal. At March 31, 2006, the Company signed a new agreement with Vojvodanska banka A.D., Novi Sad number P-02/2006 whereby 51% of the principal was written off as of March 22, 2002 of EUR 6,775,404 and the new repayment program was agreed. The repayment is due within 7 years; annuities are repaid semi-annually starting on October 1, 2006. The interest remained at the rate of 5.5% annually.

The liability towards Privredna banka a.d., Pančevo was disclosed as of December 31, 2007 as amounting to RSD 1,441,761 thousand (USD 23,170,945 and EUR 2,484,508) and it relates to the settlement of liabilities towards the Paris Club of Creditors. The debt is rescheduled as of March 22, 2002 and is repaid in semi-annual installments until March 22, 2024. The principal is repaid as of September 22, 2008. The Agreement provides for 60% of interest maturing in the period from March 23, 2002 through March 22, 2005 will be capitalized and paid in 14 equal consecutive semi-annual installments, where the first and the last payment are due on September 22, 2007 and March 22, 2014, respectively. The balance of 40% interest is paid when due.

London Club of Creditors

The liability towards Erste banka a.d., Novi Sad stated as of December 31, 2007 in the amount of RSD 80,978 thousand arises from the Agreement number 15/06-710 and is payable in 7 semi-annual installments, where the first and the last installment are due on September 30, 2006 and September 30, 2009, respectively. The liability of RSD 3,431 thousand originates in the Agreement number 1092/02 and is to be repaid from May 1, 2010 in 30 equal semi-annual annuities until November 1, 2024.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2007***All amounts expressed in thousands of RSD, unless otherwise stated.***26. LONG-TERM BORROWINGS (Continued)***London Club of Creditors (Continued)*

The liability towards Komercijalna banka a.d., Beograd stated as of December 31, 2007 in the amount of RSD 23,380 thousand originates in the Debt Rescheduling Agreement within the London Club of Creditors. The principal debt is payable in semi-annual installments maturing on June 20 and December 20 each year. The final maturity date is December 20, 2008.

The liability towards NLB Continental banka a.d., Novi Sad was stated as of December 31, 2007 in the amount of RSD 36,071 thousand (USD 671,371). The interest is payable in semiannual installments where the first and the last principal installments are due on May 1, 2010, i.e., November 1, 2024.

The liabilities to Vojvođanska banka A.D., Novi Sad of RSD 155,439 thousand (EUR 114,355 and USD 41,084) as of December 31, 2007 relate to the refinanced foreign currency loans, received from the Paris Club of Creditors. NIS became the Paris Club of Creditors' debtor when it assumed the liabilities by signing the September 19, 1991 Agreement signed with Metanolsko-sirćetni kompleks, Kikinda. On October 24, 2003, NIS entered into contract with Vojvođanska banka A.D., Novi Sad undertaking the obligation to settle the liabilities arising from loans extended by the London Club of Creditors, pursuant to The Law Governing the Relations between the Federal Republic of Yugoslavia and Legal Entities and Banks within the Territory of the Federal Republic of Yugoslavia Being the Original Debtors or Guarantors toward the Paris Club and London Club Creditors. The liabilities of the Company to the Bank as of March 22, 2002 amounted to EUR 1,469,071.09 or USD 840,281.26. In accordance with the Agreement, the interest liabilities are subject to further reconciliation between the National Bank of Serbia ("NBS") and the London Club of Creditors. On March 31, 2006, NIS signed a new agreement with Vojvođanska banka A.D., Novi Sad number L-02/2006 whereby 51% of the principal was written off as of March 31, 2002 of EUR 1,495,666, i.e., USD 792,475, and a new repayment schedule was agreed. The repayment is due within 7 years; annuities are repaid semi-annually starting on October 1, 2006. The interest remained at the rate of 5.5% annually.

Other Domestic Loans

The liabilities to the International Bank for Research and Development (IBRD) amounting of RSD 4,092,967 thousand (EUR 54,964,101) as of December 31, 2007 arose from the Agreement on ceding rights arising from a guarantee. The Agreement was signed on May 30, 2005 by the Republic of Serbia, NLB Continental bank A.D., Novi Sad, as a guarantor, and NIS Naftagas, as a debtor. According to this Agreement the debtor is no longer liable to the International Bank for Research and Development (IBRD). Instead, it undertakes the obligation to pay the aforementioned amount to the Republic of Serbia. The Agreement is supplemented with an Annex in 2006 pursuant to which, the aggregate liabilities of NIS arising on the loan principal were translated from USD into EUR 46,444,901. This amount is increased by EUR 8,872,185, which is the total of the two principal installments which the Republic of Serbia paid to the International Bank for Research and Development (in 2005) and the related interest charged for the period between January 8, 2002 and December 15, 2005. The liabilities arising from the loan approved by Vojvođanska banka a.d., Novi Sad in the amount of RSD 216,190 thousand (4,023,896 Clearing Dollars) as of December 31, 2007 were incurred through the approval of the loan for the construction of the gas pipelines over the territory of SFRY in 1991. On December 30, 2005, Vojvođanska banka a.d., Novi Sad transferred its receivables thereof entirely to the Republic of Serbia. The amount of loan was not repaid and the respective interest was not calculated.

The loan from Hypo-Alpe-Adria Bank a.d., Beograd of RSD 1,670,563 thousand was approved on July 25, 2006 with the grace period lasting until July 31, 2007. The loan is repaid in the period from August 31, 2007 until July 31, 2012.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

26. LONG-TERM BORROWINGS (Continued)

Other Foreign Borrowings

The liability to Sinochem International Oil Company Limited, London of RSD 5,263,967 thousand at December 31, 2007, originates in the October 11, 2004 Deed of Arrangement. Sinochem sold and delivered crude oil to the Company in the period between 1991 and 1998. The Company is paying this principal in 16 equal semi-annual installments (Jun 30 and December 31) until December 31, 2011, whereas the first installment was paid on Jun 30, 2004.

At December 31, 2007, the maturities of long-term liabilities were as follows:

	December 31, 2007	December 31, 2006
Up to one year	2,067,179	2,088,394
From one to two years	2,095,230	5,072,222
From two to three years	2,072,124	2,255,850
From three to four years	2,088,354	2,228,990
From four to five to four years	638,579	2,245,964
From five to ten years	361,999	1,926,436
Over ten years	5,492,051	4,754,645
	<u>14,815,516</u>	<u>20,572,501</u>

27. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2007	December 31, 2006
Current portion of long-term liabilities:		
- long-term borrowings (Note 26)	2,067,179	2,088,394
- other long-term liabilities	46,573	35,375
Short-term loans approved by domestic banks	199,000	4,953,812
Short-term loans approved by foreign banks	8,529,777	2,528,000
Other short-term financial liabilities	2,213,995	2,200,074
	<u>13,056,524</u>	<u>11,805,655</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

27. SHORT-TERM FINANCIAL LIABILITIES (Continued)

The principal terms of the Company's short-term loans are as summarized below:

	Interest Rate	Currency	Amount in Currency	December 31, 2007	December 31, 2006
Short-term loans approved by domestic banks					
Alpha bank a.d., Beograd	Bank's usual interest	RSD		199,000	-
Vojvodanska banka a.d., Novi Sad	5.5% p.a.	RSD		-	201,922
Komercijalna banka a.d., Beograd	7.1% p.a.	RSD		-	300,952
Unicredit bank a.d., Beograd	1M EURIBOR + 3.75% p.a.	RSD		-	2,080,938
Banca Intesa a.d., Beograd	3M EURIBOR + 3% p.a.	RSD		-	790,000
Piraeus Bank a.d., Beograd	3M EURIBOR + 2.75% p.a.	RSD		-	1,580,000
				<u>199,000</u>	<u>4,953,812</u>
Short-term loans approved by foreign banks					
EFG NEF BV, Holland	3M EURIBOR + 1.1% p.a.	EUR	41,000,000	3,248,684	-
RI Eastern European Finance BV, Holland	EURIBOR+1.6% p.a.	EUR	34,650,000	2,745,535	-
Alpha Bank, London	3M EURIBOR + 2.7% p.a.	EUR	12,000,000	950,834	-
	EURIBOR+1.1% p.a.	EUR	20,000,000	1,584,724	-
West LB, London	6M EURIBOR + 3.05% p.a.	EUR	20,000,000	-	1,580,000
LHB Bank AG Frankfurt	3M EURIBOR + 3% p.a.	EUR	12,000,000	-	948,000
				<u>8,529,777</u>	<u>2,528,000</u>
				<u>8,728,777</u>	<u>7,481,812</u>

Other short-term financial liabilities of RSD 2,213,995 thousand as of December 31, 2007 in the amount of RSD 2,200,000 thousand relate to non-interest-bearing loans approved by the Republic of Serbia Ministry of Finance for the purpose of payment of severance payments to employees within NIS restructuring.

28. ACCOUNTS PAYABLE

	December 31, 2007	December 31, 2006
Payables to subsidiaries (Note 35):		
- accounts payable	105,057	84,620
- payables arising on specific operations	6,671	-
- advances from suppliers	893	-
	<u>112,621</u>	<u>84,620</u>
Accounts payable:		
- domestic	4,585,577	5,120,920
- foreign	24,441,770	16,459,473
	<u>29,027,347</u>	<u>21,580,393</u>
Liabilities from specific operations	1,000,058	1,957,546
Advances received from domestic customers	1,673,553	712,222
Other accounts payable	65,780	43
	<u>31,879,359</u>	<u>24,334,824</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

28. ACCOUNTS PAYABLE (Continued)

Foreign accounts payable of RSD 24,441,770 thousand as presented as of December 31, 2007 are in its greatest part (RSD 20,707,118 thousand, i.e., USD 385,415,779) associated with the amounts due to Glencore Energy UK Ltd., London for the imported crude oil.

29. OTHER SHORT-TERM LIABILITIES AND ACCRUALS

	December 31, 2007	December 31, 2006
Gross salaries	1,526,539	499,077
Liabilities to employees	19,852	22,087
Interest liabilities – domestic	815,851	1,058,314
Dividends payable	689,232	1,260,922
Other liabilities	156,806	31,091
Participation of employees in profit sharing	809,645	697,087
Other accruals	920,788	356,636
	<u>4,938,713</u>	<u>3,925,214</u>

30. VALUE ADDED TAX AND OTHER DUTIES PAYABLE

	December 31, 2007	December 31, 2006
VAT payables based on the difference between calculated VAT and previous tax	1,910,388	980,467
Excise duties	1,435,379	1,674,699
Customs duties	1,112,917	-
Other taxes, contributions and duties payable	192,182	128,206
	<u>4,650,866</u>	<u>2,783,372</u>

31. OFF-BALANCE SHEET ITEMS

	December 31, 2007	December 31, 2006
Promissory notes and guarantees issued	31,816,225	50,670,003
Promissory notes and guarantees received	961,970	826,686
Loan collaterals	3,324,774	3,324,774
Property in the Republic of Croatia	5,419,459	5,419,459
Third-party goods held in warehouses	2,070,380	1,364,029
Other off-balance-sheet items	-	367,050
Recourse for the closure of fields in Angola	354,621	320,946
	<u>43,947,429</u>	<u>62,292,947</u>

Promissory notes issued for the amount of RSD 31,816,225 thousand principally relate to notes collateralizing long- and short-term domestic loans.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

32. COMMITMENTS AND CONTINGENT LIABILITIES

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Commitment for contracted investments	1,030,023	1,942,156
Other purchase commitments	<u>683,852</u>	<u>22,704,000</u>
	<u>1,713,875</u>	<u>24,646,156</u>

Commitment for contracted investments

The commitments for contracted investments relate to the purchase of finance and accounting information system – SAP.

Other purchase commitments

Commitment for contracted other purchases relate to the Agreements on the industrial consulting executed with the company Shell Personnel Services B.V., Holland. .

Litigations

At December 31, 2007, the total amount of potential monetary damages arising from litigation in which the Company has been named as a defendant, were estimated at RSD 8,493,023 thousand without taking into account any related penalty interest that might be charged. The Company made provisions for litigations in the amount of RSD 74,011 thousand (Note 25). Although it is not possible to predict the final outcome of such litigation with any certainty, the Company's management does not expect unfavorable outcome of materially significant proceedings and, accordingly, no additional provisions have been formed in these financial statements. In addition, the worth of lawsuits the Company filed against third parties amounts to RSD 8,094,108 thousand, the amount which either has not been disclosed in the accompanying financial statements or for which the corresponding allowance for impairment has been provided for.

33. TAXATION RISKS

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

34. FINANCIAL RISK MANAGEMENT

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

Credit Risk

The Company's exposure to credit risk is primarily associated with customer accounts receivable, other long-term investments to customers, with respect to reschedule of receivables and various placements to employees.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

34. FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk (Continued)

At December 31, 2007 a significant concentration of credit risk exists with the following legal entities, and is primarily associated with the long-term and short-term financial placements and receivables.

	December 31, 2007	December 31, 2006
JP Srbijagas, Novi Sad	6,702,728	4,672,279
HIP Petrohemija a.d., Pančevo	5,273,806	3,164,829
Rudarsko-topioničarski basen, Bor	2,593,426	1,603,547
Metanolsko sirćetni kompleks a.d., Kikinda	1,335,991	1,459,338
Jat Airways, Beograd	1,655,149	1,210,631
Hipol hemijska industrija a.d., Odžaci	449,260	723,442
Elektroprivreda Srbije	673,713	632,824
Vojska Srbije	142,662	451,092
Trizon group, Beograd	344,578	344,577
Beogradsko preduzeće za puteve, Beograd	91,850	213,121
Total:	19,263,163	14,475,680

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

Currency Risk

The majority portion of the Company's foreign transactions, as well as borrowings and placements are performed and presented in foreign currency. Accordingly, the Company is exposed to the market risk impacted by movements in foreign currency exchange rates.

Interest Rate Risk

The Company's principal exposure to movements in interest rates relates to other long-term investments, short-term financial placements, as well as long-term and short-term loans. The Company does not have policies and procedures to reduce these risks to the minimum.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

35. RELATED PARTY TRANSACTIONS

a) Transactions with Subsidiaries

	December 31, 2007	December 31, 2006
BALANCE SHEET		
<u>Equity investments</u>		
- O Zone a.d., Beograd	3,261,946	3,262,486
- NIS OIL, Frankfurt	24,218	24,146
- NIS Oversiz d.o.o., Moscow	6,156	6,872
- Ranis, Russia	468	522
- Svetlost , Bujanovac	16,739	11,875
- Jubos Bor	808	806
- Doge SPA, Milano	4,048	10,149
- Eurol International Ltd, Bermuda	2,686	2,999
- Jugopetrol Investments Ltd. (RDS) London	1,073	1,245
	<u>3,318,142</u>	<u>3,321,100</u>
<u>Long-term financial placements</u>		
- O Zone a.d., Beograd	1,616,295	1,616,295
	<u>1,616,295</u>	<u>1,616,295</u>
<u>Advances to suppliers</u>		
- NIS OIL, Frankfurt	47,259	-
- O Zone a.d., Beograd	395	-
	<u>47,654</u>	<u>-</u>
<u>Accounts receivable</u>		
- O Zone a.d., Beograd	75,752	15,303
- NIS OIL, Frankfurt	1,303,784	21,111
- Ranis, Russia	25,682	-
- Svetlost Bujanovac	36,271	11,805
	<u>1,441,489</u>	<u>48,219</u>
<u>Receivables from specific operations</u>		
- O Zone a.d., Beograd	6,120	-
	<u>6,120</u>	<u>-</u>
<u>Interest receivables</u>		
- O Zone a.d. Beograd	2,056	1,104
- Ranis, Russia	920	-
	<u>2,976</u>	<u>1,104</u>
<u>Other receivables</u>		
- O Zone a.d., Beograd	10,412	-
	<u>10,412</u>	<u>-</u>
<u>Short-term financial placements</u>		
- O Zone a.d., Beograd	30,000	37
- Ranis, Russia	164	-
	<u>30,164</u>	<u>37</u>
Total receivables	<u><u>6,473,252</u></u>	<u><u>4,986,755</u></u>
<u>Advances from customers</u>		
- O Zone a.d., Beograd	364	-
- NIS OIL, Frankfurt	529	-
	<u>893</u>	<u>-</u>
<u>Accounts payable</u>		
- O Zone a.d., Beograd	62,654	50,311
- NIS OIL, Frankfurt	42,401	34,309
- Svetlost Bujanovac	2	-
	<u>105,057</u>	<u>84,620</u>
<u>Specific operations</u>		
- O Zone a.d., Beograd	6,671	-
	<u>6,671</u>	<u>-</u>
<u>Interest payables</u>		
- O Zone a.d., Beograd	52	20,380
	<u>52</u>	<u>20,380</u>
Total liabilities	<u><u>112,673</u></u>	<u><u>105,000</u></u>
RECEIVABLES, NET	<u><u>6,360,579</u></u>	<u><u>4,881,755</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

35. RELATED PARTY TRANSACTIONS (Continued)

a) Transactions with Subsidiaries (Continued)

	December 31, 2007	December 31, 2006
INCOME STATEMENT		
REVENUES		
<u>Sales of products, goods and services</u>		
- O Zone a.d., Beograd	7,486	14,782
- NIS OIL, Frankfurt	4,631,478	2,649,369
- Svetlost, Bujanovac	100,284	6,713
	<u>4,739,248</u>	<u>2,670,864</u>
<u>Finance income</u>		
- O Zone a.d., Beograd	900	843
- NIS OIL, Frankfurt	-	22,765
	<u>900</u>	<u>23,608</u>
<u>Other operating income</u>		
- O Zone a.d., Beograd	-	1,402
<u>Other income</u>		
- O Zone a.d., Beograd	-	7
- NIS OIL, Frankfurt	-	16,246
	<u>-</u>	<u>16,253</u>
Total revenue	<u><u>4,740,148</u></u>	<u><u>2,712,127</u></u>
EXPENSES		
<u>Cost of commercial goods sold</u>		
- O Zone a.d., Beograd	-	7,201
- NIS OIL, Frankfurt	-	12,646
	<u>-</u>	<u>19,847</u>
<u>Other operating expenses</u>		
- O Zone a.d., Beograd	12	85,949
<u>Finance expenses</u>		
- O Zone a.d., Beograd	-	150
- NIS OIL, Frankfurt	-	122,628
- Jubos Bor	-	83
	<u>-</u>	<u>122,861</u>
<u>Other expenses</u>		
- O Zone a.d., Beograd	-	28,246
- NIS OIL, Frankfurt	-	107
	<u>-</u>	<u>28,353</u>
Total expenses	<u><u>12</u></u>	<u><u>257,010</u></u>
Revenue, net	<u><u>4,740,136</u></u>	<u><u>2,455,117</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

35. RELATED PARTY TRANSACTIONS (Continued)

b) Related Party Transactions

In the course of its regular business operations, the Company enters into transactions with its related parties, the most significant of which is the entity HIP Petrohemija a.d., Pančevo.

Receivables and payables outstanding as of the balance sheet date, as well as revenues and expenses in the periods under review are included under the following balance sheet line items:

	December 31, 2007
BALANCE SHEET	
Equity investments	2,250,245
Allowance for impairment of equity investments	<u>(1,371,527)</u>
	878,718
Other long-term financial placements	1,920,403
Allowance for impairment of other long-term placements	(456,821)
Current portions of long-term placements	<u>(650,481)</u>
	813,101
Receivables	<u>2,993,407</u>
Interest receivable	<u>327,547</u>
Total receivables	<u><u>5,012,773</u></u>
Advances from customers	<u>2</u>
Accounts payable	<u>1,479,538</u>
Interest payable	<u>37,382</u>
Total liabilities	<u><u>1,516,922</u></u>
NET RECEIVABLES	<u><u>3,485,851</u></u>
	For the Year Ended December 31, 2007
INCOME STATEMENT	
Income	
Sales of products, goods and services	<u>5,448,500</u>
Finance income	<u>79,349</u>
Total income	<u><u>5,527,849</u></u>
Expenses	
Cost of material	<u>698,987</u>
Other operating expenses	<u>154,803</u>
Finance expenses	<u>37,222</u>
Total expenses	<u><u>891,012</u></u>
INCOME, NET	<u><u>4,636,837</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated.

36. POST BALANCE SHEET EVENTS

Voluntary Termination of Employment

In the course of 2008, 225 employees volunteered to terminate employment with the Company according to the Voluntary Retirement Program. The realization of the Voluntary Retirement Program was executed based on the Decision on the extension of the Board of Directors' Decision on the simulative measures intended to reduce the headcount of NIS for the year 2008, dated February 8, 2008. According to the aforementioned program, the amount calculated (RSD 359,559 thousand) is not final since the application of employees is still underway, and the calculation was made based on the January and February salary average. The said number of employees has successively applied, so the majority of employees was registered for voluntary retirement upon the adoption of these financial statements, so the management was unable to and did not have the necessary information to determine the structure and position of employees, i.e., determine the right number and amount of assets required thereto.

Sale of Equity Investments in DDOR Novi Sad a.d., Novi Sad

Based on the Decision on the sale DDOR Novi Sad a.d., Novi Sad as of October 15, 2007, the block of shares held by the Company in the aforementioned legal entity was joined to the shares of the Republic of Serbia Development Fund, based on the public announcement of the Deposit Insurance Agency. The Agreement on Joining Shares numbered 1459 was signed on October 25, 2007, whereby all joined shares are sold at the same price. On November 30, 2007, the Deposit Insurance Agency executed a Purchase and Sale Agreement for the joined shares in DDOR Novi Sad a.d., Novi Sad with the purchaser Fondiaria Sai, Italia. The agreed price per share amounted to EUR 124.8774. The shares were placed (deposited) on January 30, 2008 according to order to deposit shares with the broker Sinergy capital d.o.o., Beograd.

Agreement between the RS Government and the Russian Federation Government and the Company Privatization

The RS Government and the Government of the Russian Federation, in their attempts to enlarge energy capacities based on the continued deliveries of gas and oil from the Russian Federation in the Republic of Serbia, their transit across third world countries, production of oil derivatives on the territory of the Republic of Serbia and their realization, agreed, among other things, about the reconstruction and modernization of the technological complex belonging to the Company. Based on the aforescribed, an Agreement was prepared between the RS Government and the Government of the Russian Federation regarding the cooperation in the field of oil and gas industry, and submitted to the National Assembly of the Republic of Serbia for the adoption. The Protocol on the Main Terms of Purchase of the Company's shares by OAO "Gazprom njeft," which amount to 51% founding capital of the Company, was signed in Moscow on January 25, 2008. According to the aforementioned Protocol, the signatories agreed on the basic principles and procedures with reference to the purchase of 51% Company shares by OAO "Gazprom njeft." The basic Agreement will be closed no later than December 31, 2008, while the aforementioned Agreement and Protocol were neither ratified by the RS Assembly nor executed until the date of issuance of these financial statements.

37. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of balance sheet components denominated in foreign currencies, into dinars were as follows:

	December 31, 2007	December 31, 2006
EUR	79.2362	79.0000
USD	53.7267	59.9757

INCOME STATEMENT
Year Ended December 31, 2007
(thousands of RSD)

	Income Statement prior to Adjustments	Internal Balance and Adjustments	Adjusted Income Statement
OPERATING INCOME			
Sales of goods, products and services	251,379,628	(92,328,056)	159,051,572
Own-work capitalized	559,018	(78,924)	480,094
(Decrease)/increase of value of inventories	(187,822)	2,490	(185,332)
Other operating income	381,107	(3,209)	377,898
	<u>252,131,931</u>	<u>(92,407,699)</u>	<u>159,724,232</u>
OPERATING EXPENSES			
Cost of commercial goods sold	(127,346,634)	75,146,559	(52,200,075)
Cost of materials	(82,649,675)	15,433,251	(67,216,424)
Staff costs	(14,440,662)	(1,595,859)	(16,036,521)
Depreciation expense and provisions	(5,827,368)	(161,155)	(5,988,523)
Other operating expenses	(14,170,103)	3,338,643	(10,831,460)
	<u>(244,434,442)</u>	<u>92,161,439</u>	<u>(152,273,003)</u>
PROFIT FROM OPERATIONS	7,697,489	(246,260)	7,451,229
Finance income	10,276,378	(511,473)	9,764,905
Finance expenses	(8,481,779)	696,968	(7,784,811)
Other income	5,317,543	(2,107,754)	3,209,789
Other expenses	(6,438,955)	1,296,298	(5,142,657)
	<u>8,370,676</u>	<u>(872,221)</u>	<u>7,498,455</u>
PROFIT BEFORE TAXES	8,370,676	(872,221)	7,498,455
Income taxes	(274,222)	(318,643)	(592,865)
	<u>(274,222)</u>	<u>(318,643)</u>	<u>(592,865)</u>
PROFIT FOR THE YEAR	<u>8,096,454</u>	<u>(1,190,864)</u>	<u>6,905,590</u>

BALANCE SHEET
As at December 31, 2007
(thousands of RSD)

	Balance Sheet prior to Adjustments	Internal Balance and Adjustments	Adjusted Balance Sheet
ASSETS			
Non-current assets			
Intangible assets	2,605,703	560,906	3,166,609
Property, plant and equipment	96,910,722	(806,319)	96,104,403
Investment property	738,953	-	738,953
Equity investments	4,499,483	(179,424)	4,320,059
Other long-term financial placements	7,447,766	208,495	7,656,261
	<u>112,202,627</u>	<u>(216,342)</u>	<u>111,986,285</u>
Current assets			
Inventories	30,859,593	668,507	31,528,100
Accounts receivable	16,946,491	576,274	17,522,765
Short-term financial placements	1,888,894	1,109,449	2,998,343
Cash and cash equivalents	1,784,304	-	1,784,304
Value added tax and prepayments	2,391,142	(473,835)	1,917,307
Deferred tax assets	487,537	-	487,537
	<u>54,357,961</u>	<u>1,880,395</u>	<u>56,238,356</u>
Total assets	<u>166,560,588</u>	<u>1,664,053</u>	<u>168,224,641</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	81,530,220	-	81,530,220
Other capital	5,597,804	-	5,597,804
Legal and statutory reserves	484,601	-	484,601
Revaluation reserves	60,783	215,201	275,984
Retained earnings	12,964,715	(1,575,038)	11,389,677
	<u>100,638,123</u>	<u>(1,359,837)</u>	<u>99,278,286</u>
Long-term provisions and liabilities			
Long-term provisions	905,376	-	905,376
Long-term borrowings	12,672,418	79,490	12,751,908
Other long-term liabilities	170,744	-	170,744
	<u>13,748,538</u>	<u>79,490</u>	<u>13,828,028</u>
Current liabilities			
Short-term borrowings	13,111,575	(55,051)	13,056,524
Accounts payable	29,516,099	2,363,260	31,879,359
Other current liabilities and accruals	4,621,165	317,548	4,938,713
Value added tax and other taxes and duties payable	4,650,866	-	4,650,866
Income taxes payable	274,222	318,643	592,865
	<u>52,173,927</u>	<u>2,944,400</u>	<u>55,118,327</u>
Total equity and liabilities	<u>166,560,588</u>	<u>1,664,053</u>	<u>168,224,641</u>