



REPORT ON SUSTAINABLE DEVELOPMENT 2011

Opening Speech of the Managing Director

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- NIS throughout the years
- Mission, Vision, Values
- Corporate Governance
- Membership
- Awards
- Vision of Sustainable Development
- Dialogue with Interested Parties

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- NIS, the largest investor in Serbia
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Kirill Kravchenko

CEO

NIS a.d. novi Sad

A handwritten signature in black ink, appearing to read "Kirill Kravchenko".

The year 2011 was difficult for the entire energy sector of Europe, with NIS being no exception. Nevertheless, the Company's results in the past year seem solid: profits increased by over 140 percent, reaching 40.6 billion RSD in the absolute amount. But we must keep in mind the conditions under which this result was achieved. In 2011 the petroleum products market in Serbia was liberalized, a new phase of economic crisis began, fuel demand decreased. Yet, despite such negative factors, we managed to finish the year 2011 with positive results. The Ministry of Finance declared NIS the most successful company in 2011, which indicates the importance of positive results not only for NIS but also for Serbia, whose government is a shareholder in NIS. The reason is simple: stability reserves which NIS acquired in 2010 and positive price dynamics during several months in 2011 played a stabilizing role, allowing the Company to devote itself to its own development, in spite of unfavorable external factors.

Constant development is in many ways a prerequisite for success, where this process requires a serious approach to business investments. It is precisely this kind of approach which is applied at NIS: investments in Company development in 2011 amounted to 34.4 billion RSD, which is 75 percent more than in the previous year. Investment directions have been defined based on the Company's priorities and Development

Despite such negative factors, we managed to finish the year 2011 with positive results.

Strategy up to 2020, which was adopted in 2011. Under current economic conditions, we did not have the entitlement to spend financial resources without clearly defining current needs and future results. The community in which and for which the Company works, has assessed adequately our efforts in the crisis period: based on results in 2011, NIS was awarded the prestigious title "Best investor of the year".

I would like to emphasize that, as good businesspeople, we do not separate investments in operations from investments in socially relevant projects. This logic is the fundamental value of theory and practice of sustainable development of the Company within the current complex economic conditions. In the CSR report, which has been prepared in accordance with the world standard Global Reporting Initiative (GRI), we intend to present through facts to all interested parties actual steps made in that area.

Modernization and increase in Company efficiency shall be performed in accordance with the values of sustainable development philosophy. Let me give several examples.

Implementation of the modernization project of Pancevo Oil Refinery, on which NIS has been working with partners since 2009, would be impossible without compliance with its environmental component. At the end of 2011, we achieved serious successes: emissions of solids decreased almost three times, the gas treatment unit in the refinery was modernized, the number of environmental accidents in the Company decreased for 24 percent. Of course, such results require substantial investments. In 2011 the costs of environmental programs amounted to 2.41 billion RSD, which is 41 percent more year on year.

Strategically important issues for the Company's operations are relations with the authorities and with citizens living on territories where the Company has its interests, as well as with society as a whole. Thus, in 2011 we continued the practice of initiating agreements on social and economic partnerships with different regions of Serbia, we implemented a series of programs directed at improving living conditions of citizens and development of individual and social potentials, where for their implementation the Company allocated 275.8 billion RSD.

NIS is devoted to implementing modern processes in the field of HR in everyday practice, as well as in the development of employee potentials. Under present conditions, improvement



Modernization and increase in Company efficiency shall be performed in accordance with the values of sustainable development philosophy.

of employee skills is one of the key instruments for fighting the crises by increasing own efficiency. Thus in 2011, several big HR development projects were started: "Leader 2013", "HR Reserve", "Young Specialists" and "Project Manager". At the same time, we continued improving the system of development seminars and trainings. Through the cooperation of the Company with the University in Novi Sad, over 50 employees started MBA studies and a series of other specialist study programs. The importance of this for NIS is presented by the fact that in 2011, 146.2 billion was invested for these purposes, which is almost twice the amount invested in 2010.

The specific nature of the business activities of NIS as an oil and gas company requires a special approach to the issues of occupational health and safety of employees. In 2011 our efforts gave positive results: we managed to reduce the number of work injuries for over 25 percent compared with the previous

year. One of the key elements of operational productivity in this direction is the system of transparent reporting on the number of work injuries and their causes and consequences, which we introduced into the Company the previous year. In addition to this, we actively cooperate with all state authorities responsible for this area of business activity, which shall be continued in the future. We are aware that employees are one of the main Company resources and we intend to reduce to a minimum the risks they face.

Finally, I would like to quote the great Serbian scientist Nikola Tesla who said: "I do not work for the present, I work for the future". NIS, as a company of vital importance for Serbia, works for the present and the future of Serbia and the whole region. Undeniably, we have our work cut out for us. In 2012 we need to complete the modernization of the MHC/DHT complex in the Pancevo Oil Refinery, to accelerate dynamics and scope of modernization process and expansion of petrol stations network in Serbia and the region, to maintain high growth of reserves and Company efficiency. I know it will not be easy. The current instability in the world economy does not allow even the leaders in the world oil and gas sector to become complacent, fluctuations in prices and exchange rates of world currencies make planning difficult, the pressure from competitors is increasing. But the principles we apply in business and in the



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Under present conditions, improvement of employee skills is one of the key instruments for fighting the crises by increasing own efficiency.

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area of sustainable development, make me hopeful knowing that if we use all resources and knowledge that we possess effectively, NIS shall realize all the future assignments.

CO
PR

COMPANY Profile

МОЈ НИС

The circulation
of the corporate
magazine
MojNIS is 7000
copies

NIS
is present in
several social
networks



International
company with
international
team of experts
with business
operations in

One of the most attractive employers in Serbia, employing 9,076 people

9
countries

NIS is one of the
founders of the
National Petroleum
Committee of
Serbia

Annual net
profit
40.6
billion RSD

NIS

is one of the largest
vertically integrated
companies in South
East Europe

Implemented projects related
to sports, culture, science,
development of young talents
in the total amount of over

275
million RSD

The biggest investor in Serbia with

34.4

billion RSD of investment

NIS owns two refineries – in Pančevo and in Novi Sad

The key element of the modernization program is the construction of the complex for mild hydrocracking and hydrotreatment (MHC/DHT) in Pančevo Refinery

NIS
is the most successful company in Serbia according to the list compiled by the Serbian Ministry of Finance

Gazprom Neft owns **56.15%** of share capital in NIS, Serbian government owns **29.87%** and minority shareholders own **13.98%**



IFC

(International Finance Corporation) conducted an external audit of the NIS corporate management system for 2011 and out of potential 100% practices of NIS corporate management have been evaluated by total mark of

90.25%

NIS is one of the biggest budget providers in the country

COMPANY PROFILE

NIS, one of the largest vertically integrated energy companies in Southeast Europe, and Serbia's business giant today seeking to accomplish its strategic goal – to become the leader in the region by taking quick steps through modernization processes and efficiency increases.

With administrative headquarters in Novi Sad and Belgrade, key capacities arranged throughout Serbia, NIS explores, produces and refines petroleum and gas and distributes petroleum products. In 2011, a strategic turn towards unconventional and renewable sources of energy was taken, the gradual expansion of activities in the region started and the process of transforming NIS into an energy corporation was initiated.

Today, NIS is one of the most successful companies and one of the biggest taxpayers in Serbia, as well as the biggest investor on the Balkans.

NIS is the only company in Serbia dealing with exploration and exploitation of petroleum and gas, as well as the production of geothermal energy. Most of the deposits are located in Serbia, in the province of Vojvodina, while NIS owns the refineries in Pancevo and Novi Sad, the biggest network of petrol stations in Serbia, a number of auto filling stations and LPG cylinder shops, a sales network of Liquefied Petroleum



Gas and autogas, as well as a network of petroleum storage on the entire territory of the country.

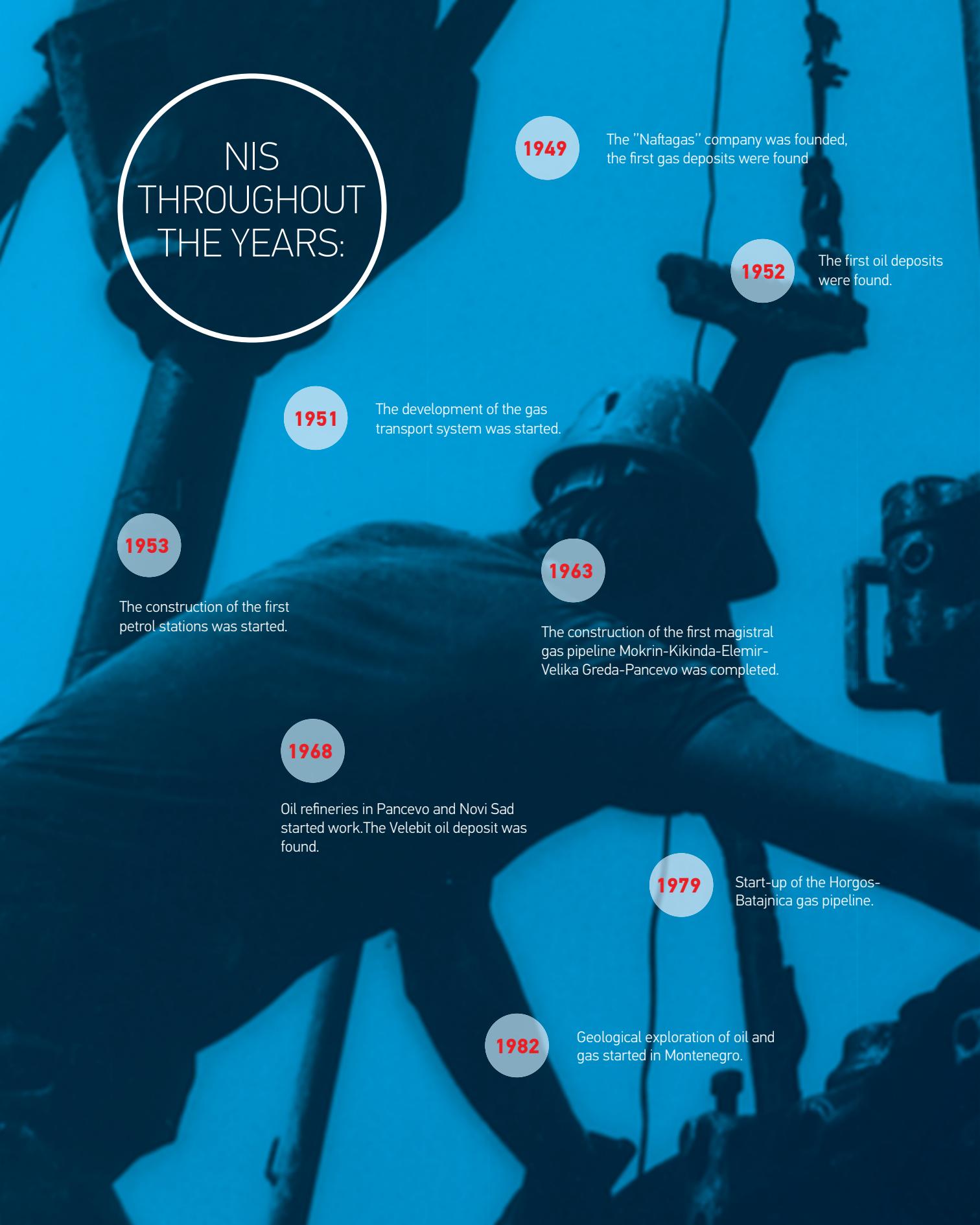
NIS is an international company with an international team of experts operating in nine countries: Serbia, Bosnia and Herzegovina, Hungary, Romania, Bulgaria, Belgium, Turkmenistan, Angola and Russia.

In 2011, the Company entered the international concessions market and expanded business operations through the implementation of hydrocarbon exploration and production projects in Bosnia and Herzegovina, Hungary and Romania. Company oilfield services were engaged in Hungary, Turkmenistan and recently in Egypt as well. The Company developed activities related to the expansion of the retail network and the development of sales channels in Bosnia and Herzegovina, Romania and Bulgaria; the

Company registered several affiliated companies in the region; the Company provided services of supplying airplanes with kerosene on the "Nikola Tesla" Airport (Belgrade) and the "Constantine the Great" Airport (Nis).

NIS is the first Serbian company to have opened its representative office in the very center of European Union – Brussels, in order to enable more efficient application of European Standards, new technologies in business operation and reach the leading position in oil and gas industry of the region.

Today, NIS is one of the most successful companies and one of the biggest taxpayers in Serbia, as well as the biggest investor on the Balkans.



NIS THROUGHOUT THE YEARS:

1949

The "Naftagas" company was founded,
the first gas deposits were found

1952

The first oil deposits
were found.

1951

The development of the gas
transport system was started.

1953

The construction of the first
petrol stations was started.

1963

The construction of the first magistral
gas pipeline Mokrin-Kikinda-Elemir-
Velika Greda-Pancevo was completed.

1968

Oil refineries in Pancevo and Novi Sad
started work. The Velebit oil deposit was
found.

1979

Start-up of the Horgos-
Batajnica gas pipeline.

1982

Geological exploration of oil and
gas started in Montenegro.



1985

The exploitation of oil in Angola started (concession).



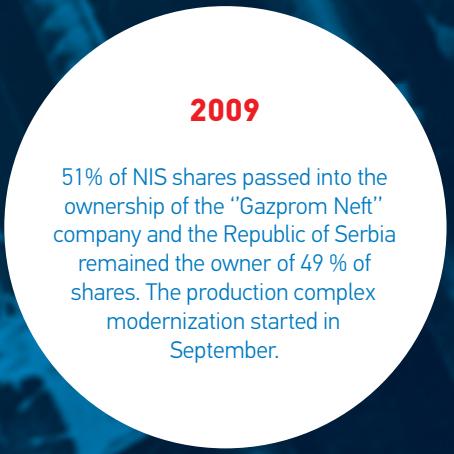
1991

The public company "Petroleum Industry of Serbia" was founded.



2005

The Company got the status of a joint stock company.



2009

51% of NIS shares passed into the ownership of the "Gazprom Neft" company and the Republic of Serbia remained the owner of 49 % of shares. The production complex modernization started in September.



2010

On January 6th, 19.08% of the Serbian Republic's shares passed into the ownership of the citizens of the Serbian Republic - employees and ex-employees of NIS.

The construction of the hydrocracking and hydroprocessing complex in PR started in June marking the beginning of the modernization of the NIS refining complex.

On June 21st, NIS became an open joint stock company. On August 23rd, the Belgrade Stock Exchange Market Listing and Quotation Committee passed the decision on listing NIS shares on Listing A – PrimeMarket, while on August 30th, the NIS share trading on the Belgrade Stock Exchange Market started.



2011

Long-term development strategy until 2020 was adopted; The beginning of NIS expansion in the region – cooperation with East West Petroleum Corp, TXM Oil&Gas Exploration Kft., daughter company of the Canadian company Falkon Oil&Gas Ltd., RAG Hungary Kft, Budapest (RAG) Establishment of subsidiaries in the Serbian Republic, Romania, Hungary and Bulgaria.

MISSION

To provide the people of the Balkan region with energy for moving forward through responsible use of natural resources and modern technologies.

PROFESSIONALISM

Acquiring up-to-date knowledge in order to constantly improve expertise and the ability to apply it in specific work processes.

INITIATIVE AND RESPONSIBILITY

Finding and proposing new solutions in the area of work duties as well as wider, in the area of the Company's interests.

VISION

The vertically integrated energy company NIS will be a recognized leader in the Balkan region in its field of business by the dynamics of sustainable development and increase in efficiency, with a high level of social and environmental responsibility and modern standards of service provided to clients.

POSITIVE APPROACH AND WILLINGNESS TO COOPERATE

Willingness to participate in multifunctional groups and projects, responsiveness to requests of colleagues from other parts of the company, readiness to exchange information, ability to work in a team.

CULTURE OF COMMON RESULTS

Joint venture in order to accomplish a visible and impressive result, aspiration towards achieving success by means of necessary help provided to each other.



CORPORATE GOVERNANCE

It is of high importance for NIS, which is aiming at maximum accomplishment and application of highest standards in all areas, for corporate governance to be on a high level in order to protect the interests of shareholders, enable successful business operations, maintain the market position and contribute to the overall social development.

Corporate governance provides the following:

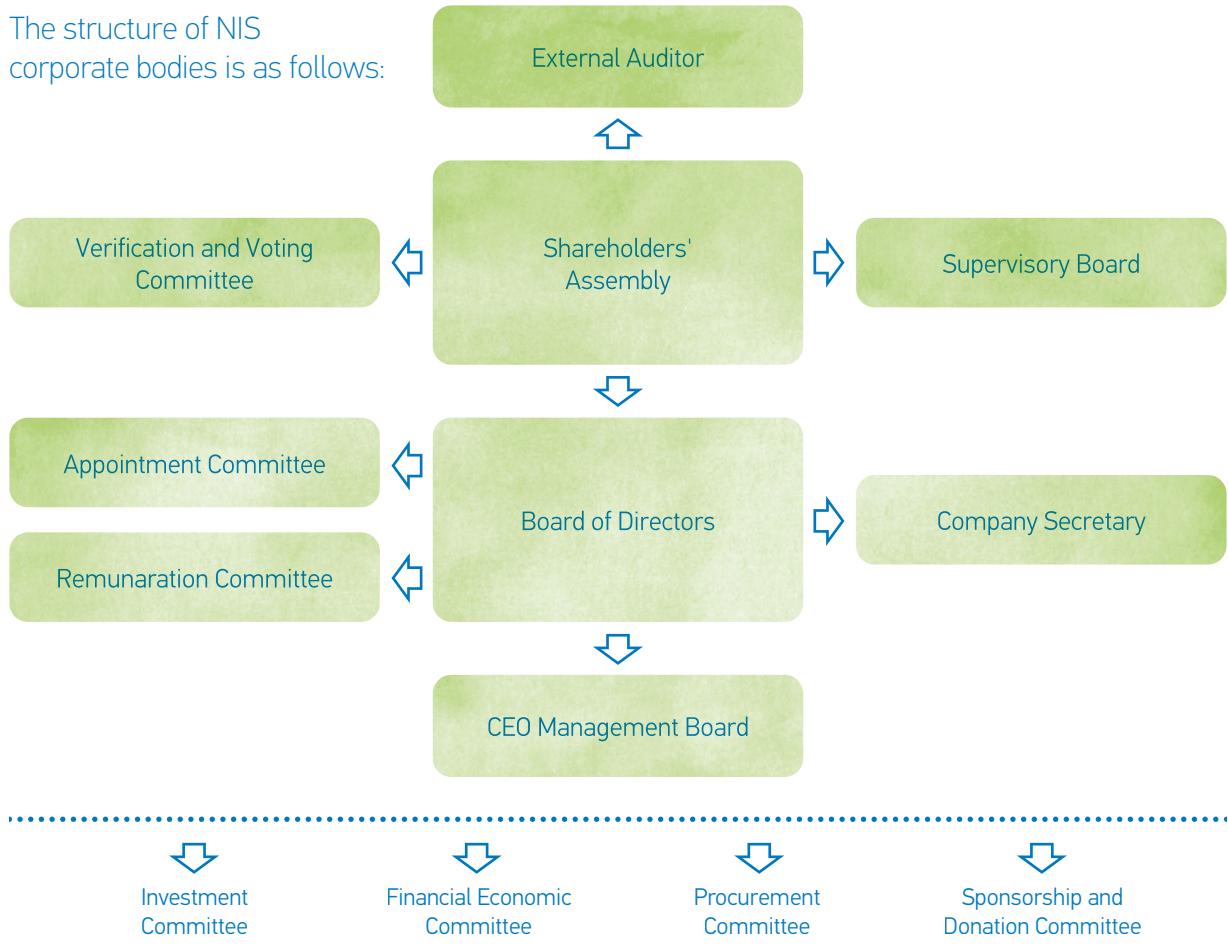
- efficient enforcement and protection of shareholders' rights and Company interests;
- fair and equal treatment of shareholders;
- control of executive bodies of the Company by the Board of Directors and the responsibility of the Board of Directors towards the shareholders;
- transparency in work and decision making by

management bodies;

- professionalism and work ethic of management bodies and supervisory bodies;
- timely, complete and accurate reporting and publishing of all important information;
- efficient control of financial business activities of the Company in order to protect the rights and legal interests of the shareholders;
- development of business ethics and socially responsible business operations.

In December 2011, a team of experts from the Serbian Chamber of Commerce and the IFC Organization (International Finance Corporations) conducted an external assessment of the NIS corporate governance system for 2011. The NIS corporate governance practice was given an overall grade

The structure of NIS corporate bodies is as follows:



IFC (International Finance Corporation) conducted an external audit of the NIS corporate management system for 2011 and practices of NIS corporate management have been evaluated by total mark of 90.25 percent out of potential 100%

of 90.25 percent (a result of 75 percent is considered to be a very high result, while the gap between 75 percent and 100 percent represents an incentive for companies to apply higher principles of corporate governance). This result represents an increase of 4.25 percent compared to the overall grade from 2010, which indicates a significant advancement in the corporate governance practice within the Company.

Modelled on the Organization for Economic Co-operation and Development (OECD) and in compliance with experience and best practice in this area, NIS adopted its own principles of corporate governance incorporated in the Company's Corporate Governance Code. The objective of the Code is the introduction of good business practices which should create a balance in the influence of its bearers, control systems consistency and strengthening the trust of shareholders and investors in order to enable long-term business development.

The structure of NIS corporate bodies is as follows:

1. Shareholders' Assembly
2. Board of Directors
3. Supervisory Board
4. Executive Board
5. Managing Director
6. Secretary



The Shareholders' Assembly is the primary governing body of NIS through which shareholders make and approve the most important decisions and choose members of the Board of Directors and the Supervisory Board. All NIS shares are ordinary shares and each share carries one vote in the Shareholders' Assembly.

The Board of Directors has a central role in the corporate governance of the company and is charged with the general management of the Company. One of the most important questions within the scope of the BoD's competence is the adoption of the development strategy, establishment of the business plan and appointment of the Managing Director and other members of the Executive Board. The provisions of the NIS Incorporation Act and Statute completely and clearly divided the BoD's scope of work in relation to other bodies of the Company, while the Book of Rules on the Work of the BoD regulated the work of the BoD, adhering to the principle

The strategic orientation of NIS is to apply the best world practices in all business areas.

of division between the function of the Chairman of the BoD and the Managing Director. The BoD counts ten members, nine men and one woman. There are two independent members in the BoD and the plan is to increase the number of independent members by appointing parties with relevant competence and experience in the area of energy, who can contribute to the development of business operations on the EU market.



The Supervisory Board is an internal supervisory board of the Company responsible for the controlling of financial and accounting activities in NIS, as well as following compliance with laws and other regulations. The Supervisory Board also reports to the Shareholders' Assembly on the competence and independence of the NIS Auditor, as well as on contracts NIS signed with related parties and especially with the members of the Board of Directors. The Supervisory Board counts three members whose work is under the competence of the Shareholders' Assembly.

The Executive Board is a collective management body responsible for the execution of the decisions made by the Board of Directors, as well as for daily management and ongoing business operations of NIS. The drafting and implementation of the NIS development strategy is under the competence of the Executive Board. The Executive Board counts five members.

The Managing Director and the Executive Board are responsible for the timely and consistent execution and implementation of decisions made by the Board of Directors, as well as for all current issues related to daily management and ongoing business operations of NIS.

The strategic orientation of NIS is to apply the best world practices in all business areas.

MEMBERSHIP

NIS is one of the founders of the **National Petroleum Committee of Serbia** which represents a national body in the World Petroleum Council, the largest and the oldest non-governmental organization in the field of petroleum and gas. The National Petroleum Committee of Serbia was founded

on March 3rd 2011 with the aim of improving business operations in the petroleum and gas industry, as well as in the area of sustainable development. Kirill Kravchenko, the Managing Director of NIS is the vicepresident and member of the Executive Board of the National Petroleum Committee of Serbia.

NIS is the member of:

- Foreign Investors Council
- GS1 Serbia (part of the Brussels GS1 Association, the leading global organization for the design and application of standards and solutions for identification in the supply and demand chain)
- Chamber of Commerce of Serbia
- Chamber of Commerce of Vojvodina
- Chamber of Commerce of Novi Sad

AWARDS

- "Captain Misa Anastasijevic" award for strategic management to the Managing Director of NIS, Kirill Kravchenko – April, 2011
- International Agricultural Fair in Novi Sad – the NISOTEC brand of oil and lubricants won the Great Champion Trophy, as well as seven great golden medals, four golden medals and one silver medal for quality – May, 2011
- NIS SAP Customer Competence Center was awarded by the SAP Active Global Support headquarters in Waldorf (Austria) with a special certificate as the official SAP Centre of Expertise – June, 2011
- NIS, the most successful company in Serbia, according to the list of the Ministry of Finances of the Republic of Serbia – October, 2011
- Belgrade Stock Exchange award for best relations with investors – November, 2011
- NIS, company of the year – Serbian Economic Journalists Club – December, 2011
- Nis, the best company in Novi Sad – research of the SCAN agency – December, 2011
- Award of the magazine "The Men" for the investor of the year.

VISION OF SUSTAINABLE DEVELOPMENT

The vision of sustainable development of NIS is based on achieving balance and reliability and is focused on responsibility towards future generations.

NIS is a modern company and the nature of its basic business activities is such that special and constant attention is necessary, which will provide a healthy, safe and secure environment. That is why NIS develops clear and strong procedures and standards, as well as the application of new, pure technologies and a partnership relation with interested parties.

What are the priorities of NIS?

- Investment into employees by opening new job positions, training and professional development, applying a motivation and awarding system;
- Occupational health and safety of employees;
- Intense care of rational resource utilization, environment protection, local population health;
- Preventive measures and timely reaction to incidents and accidents;
- Investment into local communities and regions, social infrastructure and social services quality and helping the ones in need.

In 2011, NIS succeeded in implementing a number of activities despite the unfavorable economic situation on the global level – capital investments increased, occupational injuries decreased, social policy, corporate culture and motivation system advanced. Innovation and modernization, together with responsibility, are the condition for achieving the goal – long-term competitiveness and increase in the efficiency and value of the company.

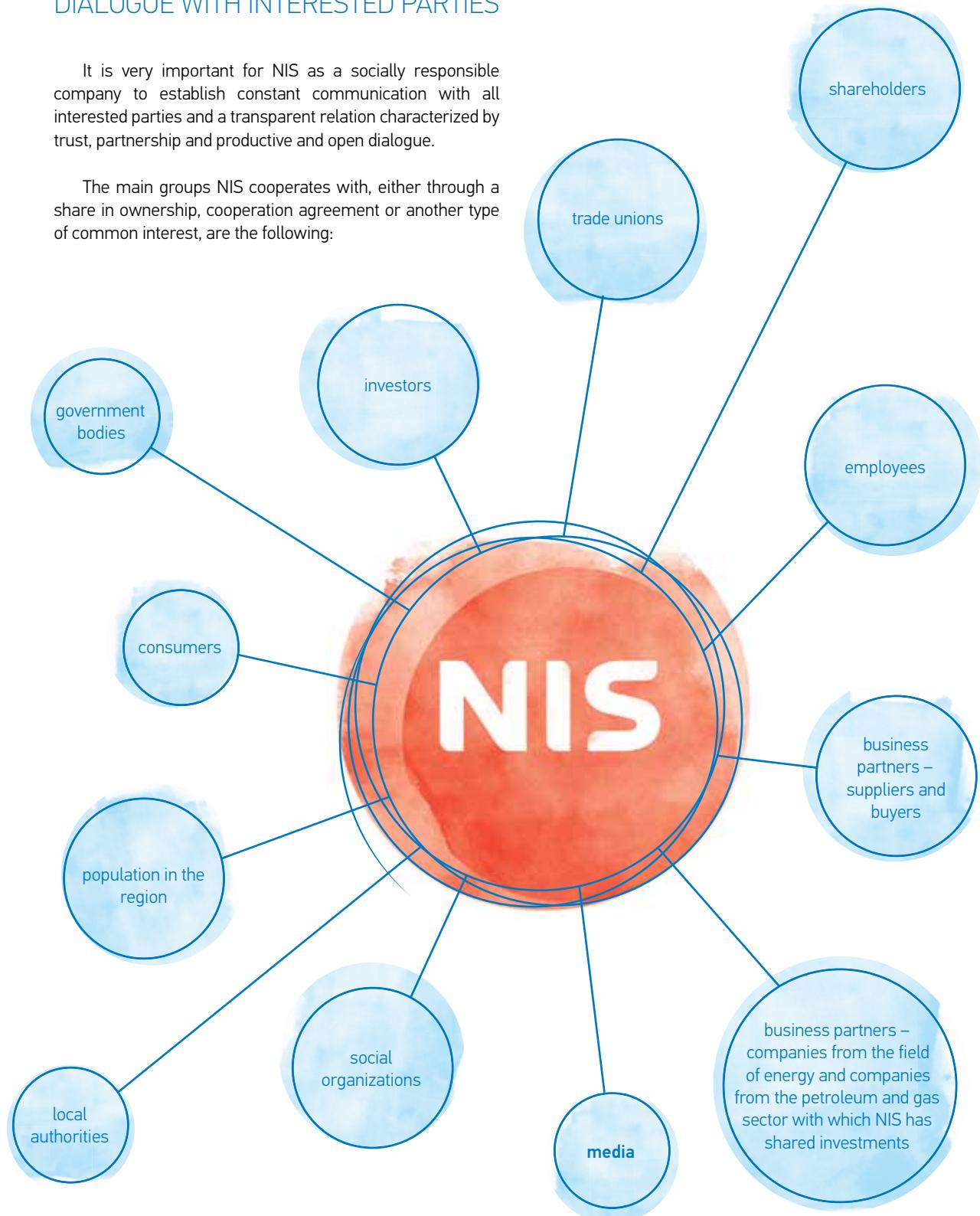


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DIALOGUE WITH INTERESTED PARTIES

It is very important for NIS as a socially responsible company to establish constant communication with all interested parties and a transparent relation characterized by trust, partnership and productive and open dialogue.

The main groups NIS cooperates with, either through a share in ownership, cooperation agreement or another type of common interest, are the following:





Information is of high importance for business operations and the importance of information increases in the period of changes or complex situations on the market, as was the case in 2011. Because of that, the system of active communication is developed on all levels and with all interested parties.

NIS continued to foster a **continuous and efficient dialogue with government bodies** and, with its expert opinions and attitudes, it participates actively in the solution of issues influencing the achievement of the relevant legal framework and European standards related to energy and petroleum and gas industry, environment and similar.

As an open joint stock company, NIS pays special attention to shareholders. **Offices for work with minority shareholders** operate in Belgrade and Novi Sad and there is a telephone number for obtaining information (011 22 000 55) as well as an e-mail address (servis.aktionara@nis.rs). A mechanism and procedures for preventing and solving potential complaints between shareholders and the Company have been established by means of which cooperation is improved – a five-member Committee for solving minority shareholders' complaints has been formed, a special Book of Rules on the work of the Committee has been adopted and procedures for solving complaints have been regulated.

It is very important for NIS as a socially responsible company to establish constant communication with all interested parties and a transparent relation characterized by trust, partnership and productive and open dialogue.

The company also supports the **education of citizens on stock exchange operations through the Shareholder Dictionary**, i.e. a book of reference, including stock exchange market terminology in printed media, as well, regularly presents the results of business operations on the company website and on the Belgrade Stock Exchange.

In its **relations with business partners**, NIS is trying to foster high ethics and transparency, as well as to achieve the highest professional standards by means of facilitated procedures.

At the end of 2011, the Company put into operation the new corporate website on two domains www.nis.rs and www.nis.eu in three languages: Serbian, English and Russian. In addition to

providing an insight into the business operations of NIS, the new website provides users with a comprehensive overview of the complexity and diversity of the petroleum and gas company.

NIS is a modern company which pays ever greater attention to **social networks and other Internet services including Facebook, YouTube, Twitter, Flickr and Wikipedia** by following world trends in availability of information. In this way, contact with interested groups is made in a quicker and more efficient way. It is of high importance that the Company succeeded to identify the positive and negative issues faced primarily by consumers, thus responding to their needs in a more adequate manner.

Since the consumer and his requests are in the focus of NIS business operations' attention, interactive communication with the stated target group is made available via a **telephone line (08 0000 8888)**, e-mail address (office@nis.rs) and company website.

One of the most important communication channels with employees is the **corporate web portal** which proved to be an efficient and favorite way of internal communication, very soon after its establishment. In addition to publishing a great number of news items on the business operations of the Company, as well as service information and providing access to databases and services, organizational units of NIS and their activities are

.....
In its relations with business partners, NIS is trying to foster high ethics and transparency, as well as to achieve the highest professional standards by means of facilitated procedures.
.....





also presented here. An open dialogue of all interested parties is enabled through the forum and topics appearing on it.

Every month, NIS publishes the **corporate magazine "My NIS"** in 7000 copies which thoroughly examines the topical subjects from the company's business operations through reports and analyses. Wishing to respond ever more to the needs of employees for whom it was designed, the magazine underwent positive changes in 2011 in terms of content and design, which shows the Company's commitment to change in line with contemporary communications and aesthetic standards.

"**Direct dialogue**" is the name of the program of regular meetings of management and employees where, with the presentation of the most topical subjects and the system of questions and answers, direct communication is developed and initiative and openness is encouraged. In 2011, 45 such meetings were held and attended by approximately 5,000 employees. Questions to management can be posed further

on through a special e-mail address (pitanja.rukovodstvu@nis.rs) and a telephone line and they are published on the portal with the aim of improving the system of direct communication.

Regular and productive **communication with trade unions** has special importance and in 2011, it resulted in the harmonization and adoption of a new Collective Agreement.

Media represents an important group approached with special attention. In addition to press releases and regular publications on the Company website, the NIS Press Service responds in a transparent manner to every inquiry and request posed through the official e-mail address press@nis.rs, organizes media conferences, press tours, briefings, educational seminars in the field of energy and the petrol and gas subject area. In the anonymous survey conducted for the third time among journalists following the work of the Company, the relation between media and NIS in 2011 was graded as excellent while the Press Service was characterized



as a professional and engaged cooperator. The journalists also had the chance to provide their proposals for further improvements of cooperation in the direct communication with the Company representatives responsible for the communication with media.

The wide public, population of the region, municipalities and cities in which NIS operates also represent one of the target groups in the communication process. Therefore, the Company is in a continuous dialogue with the representatives of local authority, common projects defined by cooperation agreements are implemented while the possibility to file a project to the Sponsorship and Donation Committee is also open. NIS is open for each cooperation which is in accordance with the criteria and values of the Company. Additional instruments significantly facilitating the communication between NIS and other interested parties thus simultaneously improving the quality of the relations between the company and the surroundings are the following:

- press conferences in which the NIS top management as well as the Managing Director participate
- participation of NIS representatives in expert meetings and conferences in Serbia and abroad
- quarterly presentation of results and company business operation plans for the professional public on the Belgrade Stock Exchange
- organization of press tours for domestic and foreign journalist to the company facilities in order to form the real picture about the manner NIS conducts business operations
- participation of NIS representatives on various fairs in Serbia and abroad.

The stated activities provided the Company with the possibility to hear the voice of interested parties, identify important topics and incorporate them in the Report on Sustainable Development.



BASIC MID-TERM PLANS

Drafting and adopting the Business Ethic Codex

Drafting the mid-term company sustainable development strategy

Preparatory activities for achieving a higher level of reporting in the area of sustainable development

DEV

ECONOMIC DEVELOPMENT

Annual net profit is

40.6

billion RSD

EBITDA
52.4
billion
RSD

NIS is the investor
of the year with
34.4
billion RSD of
capital investments

NIS
participates in
public revenues
by excises

38%



Increased economic value of the company by **39,499 million RSD**

Total liability
to banks
reduced by
186
million USD



Started business
in the Republic of Srpska, Hungary,
Romania, Bulgaria

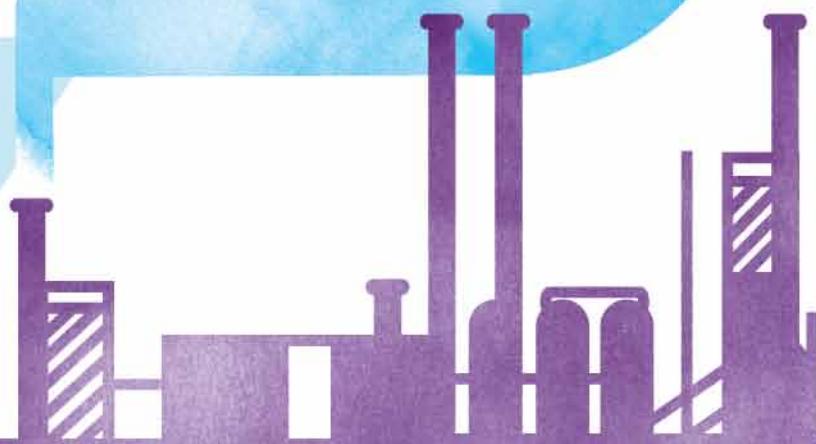


PRODUCTION

Oil and gas

1,521

thousand conditional tons



SALES
of petroleum products
2,428
thousand tons



OIL REFINING
excluding third parties
2,359
thousand tons

As a part of the modernization of the corporate retail network in 2011 completed development of renewed concept of petrol stations NIS Petrol етрола



ECONOMIC DEVELOPMENT

The year 2011 was marked by a significant world economic crisis that had influence on the Serbian economy as well.

The tendencies resulting from the global economic crisis and marking 2011 in our country are as follows: slowdown in the growth of GDP in the second half of 2011, continuous decrease in the physical volume of industrial production, continued decrease in the actual distribution of goods in retail commerce, slowdown in the growth of export and import and an actual decrease in the RSD exchange rate.

Conducting business operations in such conditions, together with amended legislation resulting in the cancellation of customs restrictions and free import of petroleum and petroleum products, and/or the liberalization of the petroleum and petroleum products market in Serbia represented a business challenge for NIS in 2011.

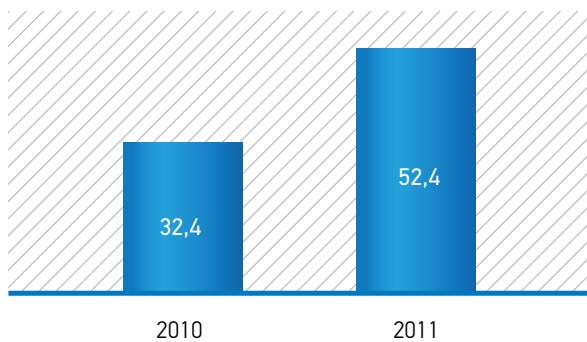
Despite difficult economic circumstances, the business results of NIS in 2011 are the best evidence of the company's efficient work in accomplishing its strategic goals.

Directly generated and distributed economic value, thousand RSD		
Position	2010	2011
Directly generated value	162,899	188,602
Income	162,899	188,602
Distributed economic value	141,964	149,153
Operating costs	113,992	118,108
Employee salaries and other benefits	21,346	21,987
Paid taxes for granted credits	3,084	2,319
Paid taxes	3,360	6,566
Investments in the community	182	173
Increase in the economic value of the Company	20,935	39,449

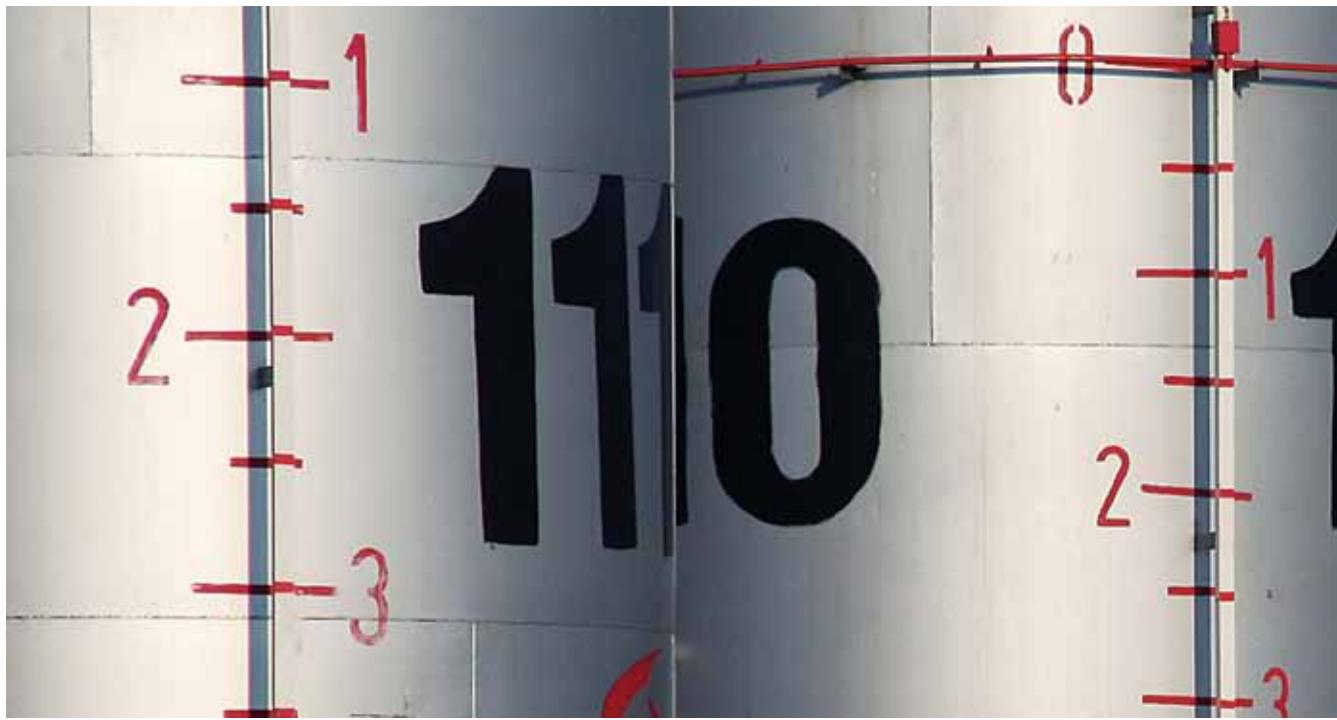
*Data taken from consolidated reports
Definitions of terms can be found in Annex 3

Despite difficult economic circumstances, the business results of NIS in 2011 are the best evidence of the company's efficient work in accomplishing its strategic goals. According to annual results, net profit in 2011 amounted to 40.6 billion dinars, representing significant growth of 146%, in comparison to the previous year, which was 16.5 billion dinars.

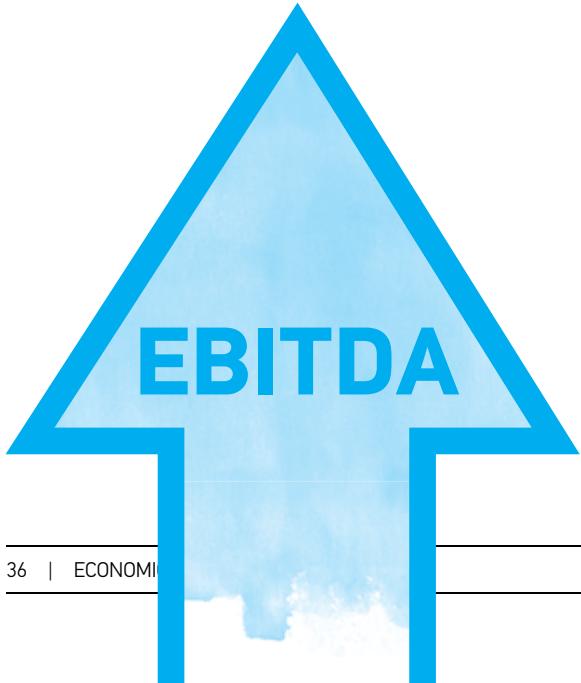
EBITDA, billion RSD



*Prior to adjustment of balance as at February 2nd and devaluation of fixed assets

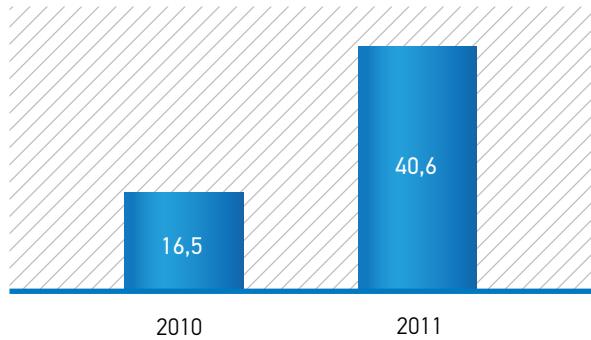


52.4
billion RSD



The assessment of successful business operations of NIS in 2011 is supported by the fact that EBITDA (earnings before interest, taxes, depreciation and amortization) increased by 62% and amounts to 52.4 billion dinars. EBITDA directly reflects the growth of internal efficiency of the Company.

Net profit, billion RSD



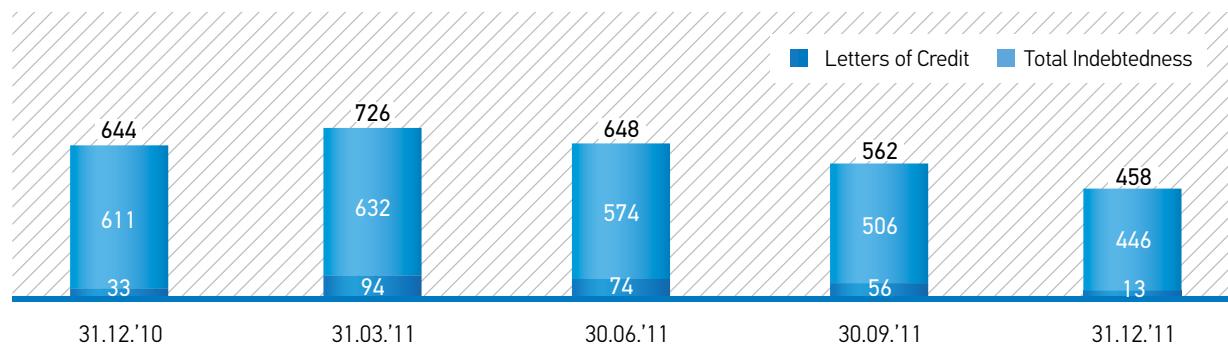


The fact that total liabilities towards banks were reduced from 644 million USD at the end of 2010 to 458 million USD at the end of 2011 is of high importance, representing a 29% decrease. Total liabilities of NIS towards banks decreased by 27% in 2011, dropping from 611 million USD at the end of 2010 to 446 million USD at the end of 2011, while the amount of letters of credit decreased by 61%, from 33 million USD

to 13 million USD.

The decrease in liabilities was accomplished with the aim of making NIS a financially stable company. Due to decrease in liabilities and restructuring of the credit portfolio, NIS has the financial capacity for the execution of large investment projects it successfully conducts.

Total indebtedness to banks in million USD

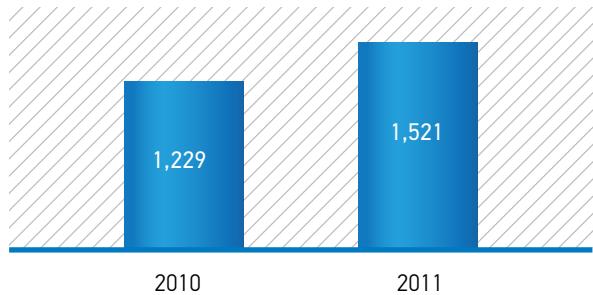


EXPLORATION AND PRODUCTION

The achievement of positive results in 2010 continued in 2011. Total production of domestic crude and gas for 2011 amounted to 1,520.6 thousand tons of oil equivalent which is by 24 % more than in 2010.

The growth in the petroleum production is mostly the result of successful application of measures for production efficiency increase, modern technology implementation, successful capital overhauls, as well as old oil well reactivation programs.

Petroleum and gas production, thousand of conditional tons

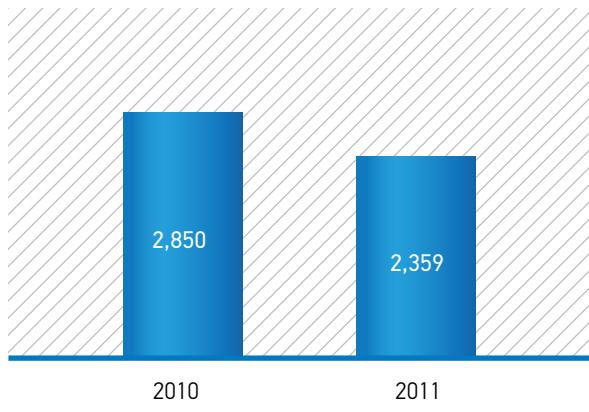


The majority of investments is directed to introduction of new technologies in exploration and production of oil and gas, as well as into the modernization of refining capacities

REFINING

The main focus in the segment of refining in 2011 was placed on the preparation of refinery capacities in Pancevo for commissioning the hydrocracking and hydrotreating complex, planned for 2012. Owing to this, three scheduled overhauls were conducted in 2011 on key plants which affected the volume of petroleum refining. In 2011, there was a 17 % decrease in the volume of refining compared to the previous year, i.e. 2,359 thousand tons were refined in 2011, third parties excluded, while 2,850 thousand tons were refined in 2010. The decrease in the volume of refining in the Pancevo Oil Refinery did not affect the stability of supplying the Serbian market with petroleum products.

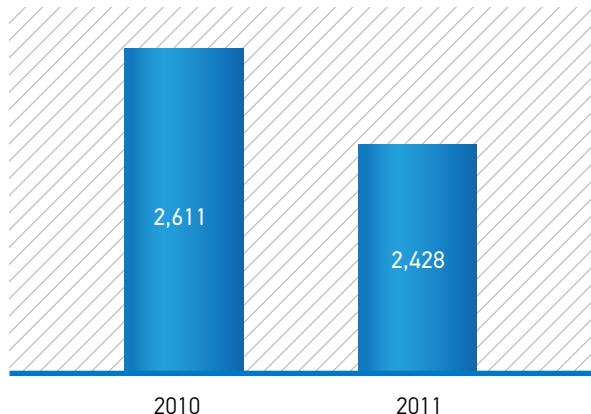
Petroleum refining, third parties excluded, thousand tons



SALES AND DISTRIBUTION

The main focus in the segment of refining in 2011 was placed on the preparation of refinery capacities in Pancevo for commissioning the hydrocracking and hydrotreating complex, planned for 2012. Owing to this, three scheduled overhauls were conducted in 2011 on key plants which affected the volume of petroleum refining. In 2011, there was a 17 % decrease in the volume of refining compared to the previous year, i.e. 2,359 thousand tons were refined in 2011, third parties excluded, while 2,850 thousand tons were refined in 2010. The decrease in the volume of refining in the Pancevo Oil Refinery did not affect the stability of supplying the Serbian market with petroleum products.

Petroleum refining, third parties excluded, thousand tons



SUPPLIERS

Successful cooperation with suppliers, for the purpose of maintaining competitiveness of the company, represents an important link in the structure of successful business operation.

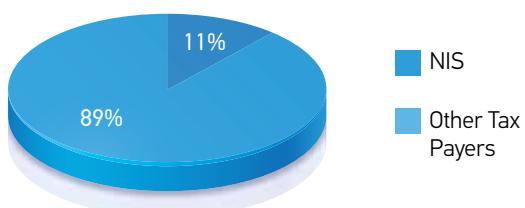
From the geographical point of view, and having in mind the wide range of industries that NIS relies on, suppliers from Serbia are regarded as local suppliers, suppliers from southeast Europe are regarded as regional suppliers, and suppliers from other parts of the world are regarded as global suppliers. Common practices, i.e. policies, due to the nature of business activity, do not imply preferentiality towards local suppliers. The company is developing competitiveness of the market, by encouraging suppliers and contractors to participate in transparent procedures of selection, clearly defined by internal procedures.



TAXES

In 2011, public income in the amount of 707 billion RSD was planned (Source: Law on Amendments and Addenda to the Budget Law of the Republic of Serbia for 2011). According to the Budget Law for 2011, excise revenues constitute an important source of financing of the Republic of Serbia with a percentage share in total public revenues of 22.85%. The Republic of Serbia achieves the largest part of its excise income from collecting excise duties on petroleum products, which represent almost 50% of total excise revenues. By analyzing total liabilities of NIS for excise duties, it can be concluded that NIS had a significant share in planned budget revenues from excise duties.

Share of NIS in total public revenues in 2011



NIS improves the supply system of all categories of consumers: by modernization of retail network, purchase of new aircraft tank trucks and building of a bunkering station for river vessels.

NIS, THE LARGEST INVESTOR IN SERBIA

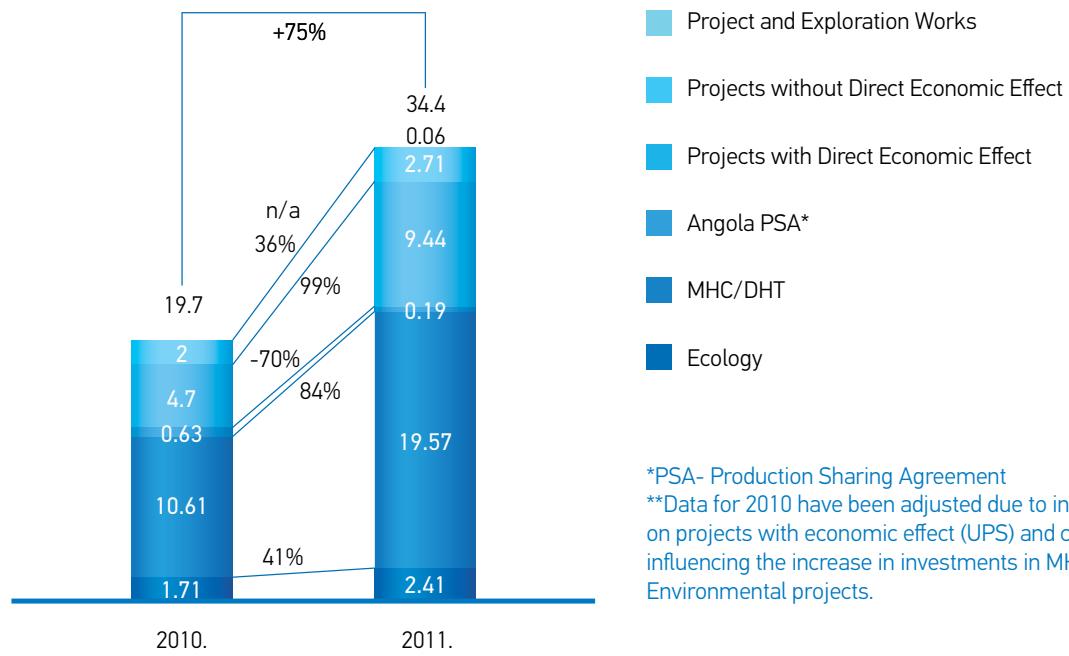
Despite the difficult economic situation, NIS became one of the largest investors in Serbia. The most important project for the Company, as well as the largest investment project in Serbia is the modernization of refining capacities. NIS invested its own assets also into the development of other directions of business operations – exploration, production and refining of petroleum and gas, modernization of retail network, environment protection and efficiency increase, as well as the modernization of management processes. This is best reflected by the total volume of capital investments in 2011 amounting to 34.4 billion RSD, which is by 17 percent more than the investment program volume in 2010. The Company's investments will contribute to achieving the Euro 5 product

quality standard, higher level of environmental protection, as well as larger production volume.

In the scope of the company retail network modernization in 2011, the creation of the renewed concept of NIS Petrol petrol stations was completed. The creation of a unique network under a renewed brand has the goal to strengthen the company's position on the local retail market of motor fuels and the desire to provide consumers with guaranteed quality of petrol products and services.

The Company's investments will contribute to achieving the Euro 5 product quality standard, higher level of environmental protection, as well as larger production volume.

CAPEX as per investment project



*PSA- Production Sharing Agreement

**Data for 2010 have been adjusted due to internal activities on projects with economic effect (UPS) and capitalized costs influencing the increase in investments in MHC/DHT and Environmental projects.

CAPITAL STRUCTURE

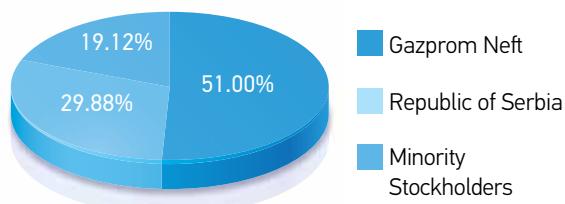
The Contract on the purchase and sale of NIS stocks concluded between the Republic of Serbia and Gazprom Neft specifies the obligation of Gazprom Neft to initiate the procedure for making an offer for the purchase of minority stockholders' stocks within 24 months of concluding the Contract.

On January 31st 2011, Gazprom Neft published the offer for the purchase of NIS stocks. The offer lasted for 45 days and closed on March 16th 2011. In that period, 5.15% of the total number of ordinary stocks were purchased.

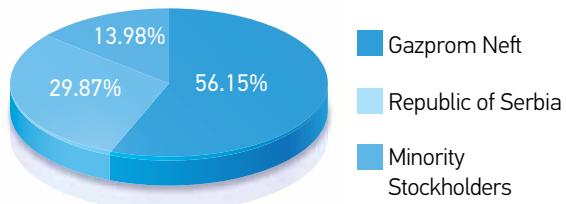
Upon the closing of the Offer for the takeover of NIS stocks, Gazprom Neft owns 56.15% of the NIS share capital.

56.15%

Capital structure as at 31.12.2010.



Capital structure as at 31.12.2011.



REGIONAL DEVELOPMENT

One of the most important goals of the Company in the midterm perspective is the expansion of business operations in the Balkans and the active leading role of NIS on the regional market. The increase of refining capacities resulting from the modernization of the refinery complex will provide the conditions for exporting surplus finished product, as well as for the development of the NIS retail network in neighboring countries.

In relation to the abovementioned, 2011 was marked by the expansion of NIS business operations in the region: the beginning of the implementation of projects in the field of

exploration and production of hydrocarbons in the Republic of Srpska, Hungary and Romania, as well as entering the retail market of Bosnia and Herzegovina and Bulgaria.

NIS also strengthened its partnership with companies outside Serbia, working on joint projects in the region which provided the exchange of experience and knowledge, better implementation and more successful business operations on the whole. Since the European Union, in the scope of its regional policy, also emphasizes the importance of regional development and cooperation, such a business direction of NIS at the same time contributes to better relations of Serbia with countries of the region and the development of the overall EU economy. The representative office in Brussels was opened as a support to European integrations of Serbia.

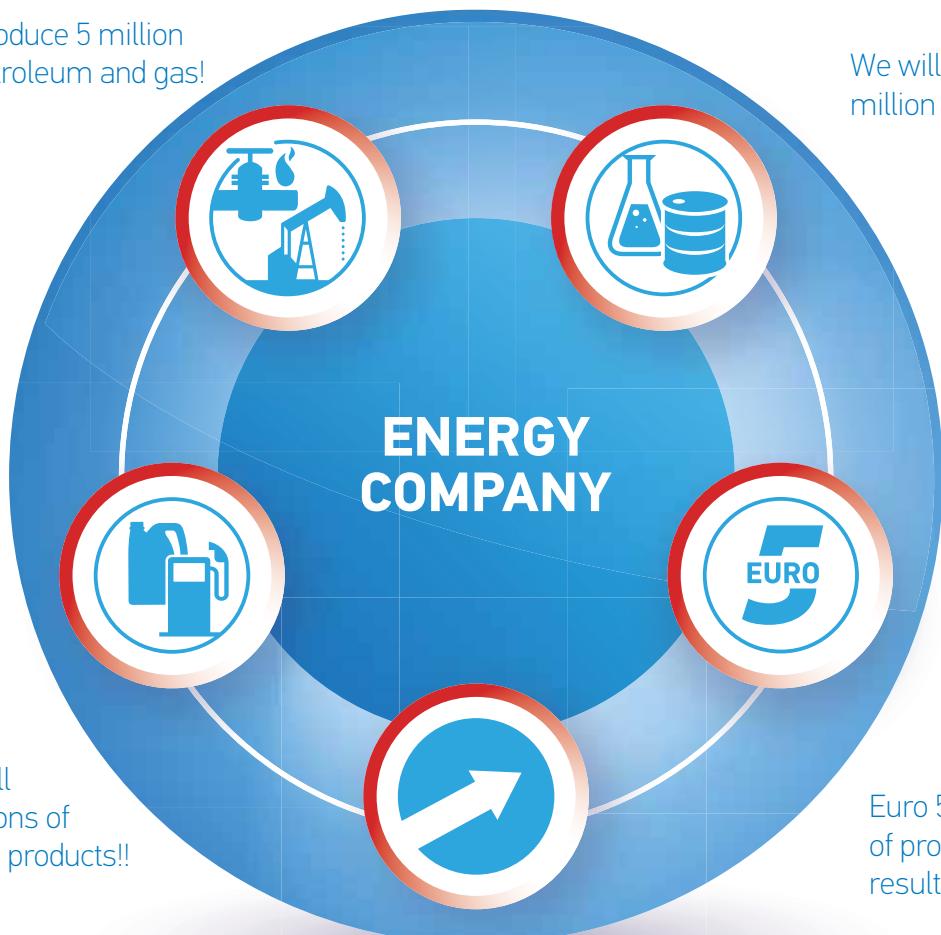
STRATEGIC GOALS OF DEVELOPMENT

NIS management, in accordance with the global directions of sustainable development and on the basis of a detailed analysis of the market situation in Serbia and the region, as well as anticipations regarding supply and demand trends in 2011, passed the Strategy of business operations until 2020, aiming at efficient and successful market operations in a highly competitive environment.

According to the strategy, the main goal of NIS is to become the most efficient, rapidly growing and energy efficient company in the field of producing energy-generating products, petroleum, gas, petroleum products and petrochemicals in the Balkan region, maintaining a leading position on the Serbian market and ensuring a place among the top three most efficient companies in Southeast Europe.

The Strategy represents a realistic and well-planned goal, including five success components:

We will produce 5 million tons of petroleum and gas!





We will produce 5 million tons of petroleum and gas!

- Resource utilization coefficient, minimum 10
- "Key player" in the Pannonian basin
- Wide asset portfolio outside Serbia
- Strongest scientific and technological base in the development of conventional and unconventional resources
- Sale of gas to end users



We will refine 5 million tons!

- One of the five most efficient refineries in Southeast Europe
- Less than two percent of heavy residue
- Production of base and industrial oils
- Close integration with petrochemical complex
- Raw-materials delivery infrastructure control



We will sell 5 million tons of petroleum products!

- Leader in Serbia and neighboring countries for service and petrol quality
- 800-1000 mass and premium brand petrol stations in Serbia and Europe. Undeniable leader of the Serbian market in sales volume
- One of the three largest vertically integrated companies in the region in retail volume
- One of the regional leaders in the production of oil and kerosene, bunkering and petrochemistry
- Pioneer in using new technologies and producing oil products



Euro 5 standard of processes and results!

- European standard products and services
- Region leader in the field of international HSE standards
- Introducing the best European practices of public company management
- High achievement culture and the best employer in the region
- International standards of corporate social reporting



The value of a NIS stock 5,000 RSD!

- Leader in economic efficiency in Eastern Europe
- Bruto profit – 130 billion RSD, the largest stockholders income from invested capital
- Public company with the best corporate management
- Balanced vertically integrated petroleum company developing business operations in the field of energy and petrochemistry
- Expanding geographical territory of business operations – competitive participant on the European energy market.

On the basis of the Strategy, the priorities of NIS when establishing business plans for the forthcoming period are as follows: proportional development of business activities, modernization, investment volume increase, modern technologies applications, energy development and orientation towards renewable resources, optimal use

of resources, application of international standards and breakthrough into the markets in the region.

Business goals of the company in that respect are defined in the following manner: accomplishing the European quality of products and services, increasing efficiency and regional development.



BASIC MID-TERM PLANS

To become the most influential vertically integrated oil company in the Balkans with the highest growth indicators in the fields of oil and gas exploration, production and trade of petroleum products

Key business indicators in 2014:

- production of domestic crude and gas – 1.9 thousand oil equivalent
- refining volume – 4.3 million tons
- petroleum product sales volume – 3.9 million tons

Key financial indicator in 2014:

- EBITDA 96.9 billion RSD

Investments into key business in the amount up to 46.5 billion dinars in 2014

Preparation of MHC/DHT unit for start-up

DEMAND

STAFF
DEVELOPMENT
& SUPPORT

**TOTAL NUMBER
OF EMPLOYEES IS**

9,076

**BASED ON
THE PROGRAM
"FIRST OPPORTUNITY"
50 TRAINEES
EMPLOYED**

**624 TRAININGS HELD WITH
7,350 ATTENDEES**



In 2011 spent
on employee
training

146.2

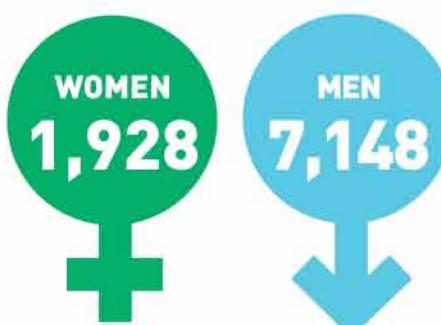
million RSD

NIS IMPLEMENTS
4 large programs of
personal development
of employees

**NUMBER OF WORK INJURIES
IN 2011 REDUCED BY**

25%

THE COMPANY EMPLOYS



AVERAGE GROSS SALARY IN DECEMBER 2011 AMOUNTED TO **115,439**



BY OCTOBER 2011, THERE WERE

1,000,000
WORKING HOURS WITHOUT ACCIDENTS



The Company successfully cooperates with Universities in Belgrade and Novi Sad

МБА
13 EMPLOYEES ATTEND MBA STUDIES

7,318 EMPLOYEES ARE MEMBERS OF REPRESENTATIVE TRADE UNIONS

PRELIMINARY PRACTICE IN NIS UNDERWENT **148** YOUNG EXPERTS

Large green silhouettes of people's heads and bodies are visible on the left side of the page.



STAFF DEVELOPMENT AND SUPPORT

As a modern and vibrant company NIS ranks its staff among the company's most valuable resources who, by unlocking their personal and professional potentials, contribute to the accomplishment of corporate objectives. This makes highly qualified and savvy employees the pivotal priority of NIS.

NIS seeks to be recognized as the "Employer of Choice" by becoming a company that is successful in the area of human resources management, among other things.

NIS is an equal opportunities employer, which practically means that not a single job seeker or staff member is discriminated against on the grounds of their sex, age, marital or disability status, religious beliefs, race, ethnicity, nationality and the like. No recorded cases of discrimination of any kind confirm this. As an employer, the Company seeks to tap into the talent and potential of its staff members in full measure, as well as to ensure equal treatment of all employment seekers, as ensured by the Company's internal regulations.

STAFF TURNOVER

The total number of Staff as of 31 December 2011 amounts to 9,076. Out of that number 9,046 are employed in Serbia, while 30 are based abroad.

As of 31 December 2011, NIS employs 8,983 full time staff, and 93 part-time staff, both categories working 8-hour shifts. In NIS there are no staff working reduced-hours shifts.

Business Unit	2010	2011
NIS - Headquarters	1,302	1,211
Naftagas*	2,797	-
Exploration and Production Block	-	1,140
Oilfield Services Block	-	1,812
Refining Block	2,157	1,697
Sales and Distribution Block	3,785	3,204
Energy Block	-	12
Total:	10,041	9,076

*Following changes in organizational structure, in 2011 Naftagas staff were relocated to the Exploration and Production Block, Oilfield Services Block and Energy Block

Staff Qualification Structure as of 31 December 2011												
	Ph.D	M.A.	MISC Graduate	Under-graduate	Secondary School	Elementary School	HQ	Qualified	Semi-qualified	Non-qualified	Total	
Full-Time Staff Members	12	126	2,053	709	3,987	57	1,109	1,879	49	52	10,033	
2010 Part-Time Staff Members	0	0	1	1	3	0	1	2	0	0	8	
Total	12	126	2,054	710	3,990	57	1,110	1,881	49	52	10,041	
Full-Time Staff Members	10	136	2,031	649	3,498	44	961	1,586	26	42	8,983	
2011 Part-Time Staff Members	0	1	79*	1	7	0	2	3	0	0	93	
Total	10	137	2,110	650	3,505	44	963	1,589	26	42	9,076	

*out of 79 staff members 50 persons were employed as part of the "First Chance" Program

Management vs. Staff Proportion					
	Number of Managers*			Number of Staff	
	Number of Managers	% of share in total	Number of Staff	% of share in total	
2010	Men	213	64.0	7,743	79.8
	Women	120	36.0	1,965	20.2
	Total	333	100	9,708	100
2011	Men	245	64.5	6,903	79.4
	Women	135	35.5	1,793	20.6
	Total	380	100	8,696	100

*Including managers of I, II and III category



	Age Structure						
	up to 19	20-29	30-39	40-49	50-59	of 60	Total
Management*	0	18	180	107	67	8	380
Staff	1	549	2,361	3,178	2,434	173	8,696
Total 2011	1	567	2,541	3,285	2,501	181	9,076
Total 2010	1	561	2,764	3,645	2,818	252	10,041

*Including managers I, II and III group.

In case the Company is compelled to cut a job position or reduce the headcount within a Business Unit, it is obliged to offer to a staff member a replacement job position. Staff are obliged to either accept or reject this offer within 8 working days of the day of receiving the offer.

NIS does not employ under-age persons.

	Grounds for Employment Termination	
	2010	2011
Retirement	63	95
Voluntary Leave Program	1,237	1,090
Miscellaneous	133	116
Total:	1,433	1,301



Staff Attrition Rate							
	Men		Women		Total		
	2010	2011	2010	2011	2010	2011	
Full-time Employment	313	226	163	110	476	336	
Employment Terminations	1,116	1,032	317	269	1,433	1,301	

Age Structure													
	up to 19		20-29		30-39		40-49		50-59		over 60		Total
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	
Full-time Employment	0	0	154	136	214	153	83	37	23	10	2	0	476
Employment Terminations	0	0	8	18	89	143	227	307	774	623	335	210	1,433
													1,301



DIALOGUE WITH TRADE UNIONS

As a socially responsible company, NIS supports the freedom of association and collective negotiation, which makes trade unions representing employees key social partners of the management. Constructive communication

Constructive communication with trade unions enables employees to exercise their rights provided for in the Collective Agreement, Social Program and Labor Law.

with trade unions enables employees to exercise their rights provided for in the Collective Agreement, Social Program and Labor Law. Other than daily consultations between NIS management and representative trade unions, communication includes weekly and quarterly meetings aimed at presenting the results of business operations and improvement in social dialogue.

There are two representative trade unions within NIS:

It is essential that agreements with trade unions ensure the protection of occupational health and safety, whereby trade unions are expected to take an active role in addressing issues concerning personal protective gear, complaints submission procedure, exercising the right to reject

Number of Staff in representative trade unions	2010	2011
Unified Trade Union Organisation of NIS a.d (representing the blocks „Sales and Distribution“, „Refining“ and „HQ“)	5,886	5,111
Unified Trade Union Organisation of Naftagas (representing the blocks „Exploration and Production“ and „Oilfield Services“)	2,395	2,207
Total	8,281	7,318



hazardous work operations, defining budget being allocated for training in occupational health protection, as well as conducting periodical inspections.

As of 31 December 2011, 81% of NIS employees are members of representative trade unions, which means that the constant headcount reduction did not result in a significant reduction in trade union membership.

COLLECTIVE AGREEMENT

The New Collective Agreement of NIS signed on May 9th, 2011 represents the result of an agreement reached during negotiations conducted by the Employer and Representative Trade Unions.

The Collective Agreement is applied equally to all NIS staff, whether they work in the country or abroad, and stipulates all benefits provided for full-time employees.

The Agreement introduces novelties concerning the launch of the grading system determining the wage rate, incentive remunerations, defining the amount and criteria of payment of annual bonuses to staff, opportunity to take annual vacation in parts, while for the staff members in work stations with special working conditions or work positions

The New Collective Agreement of NIS signed on May 9th, 2011 represents the result of an agreement reached during negotiations conducted by the Employer and Representative Trade Unions.

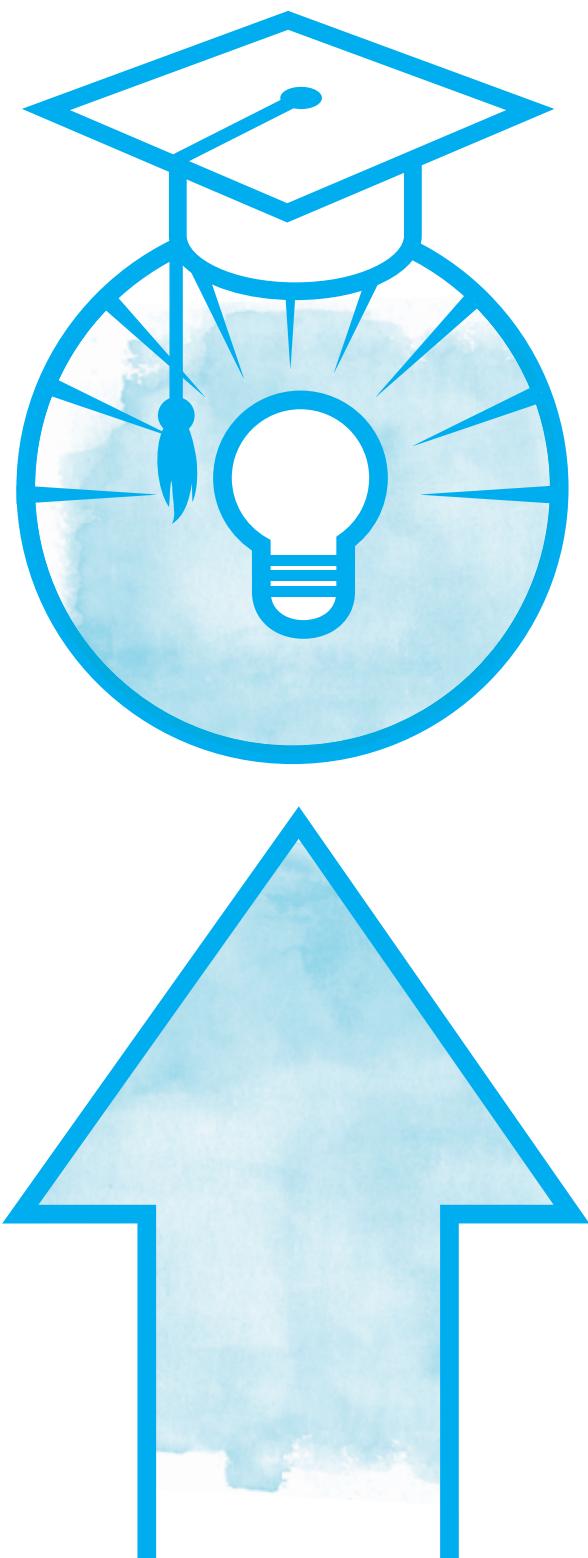
with privileged status the Company provides preventive 15-day rehabilitation.

The new Collective Agreement supersedes the 2007 Collective Agreement.

STAFF RECRUITMENT

The Company's new management and changes to its ownership structure brought about an overhauled process of personnel selection, based on an entirely new concept intended to contribute to the accomplishment of the new mission and strategy of NIS and be in compliance with it.

Special attention is devoted to young experts coming onboard NIS, one of the key projects in providing quality young personnel being the cooperation with universities.



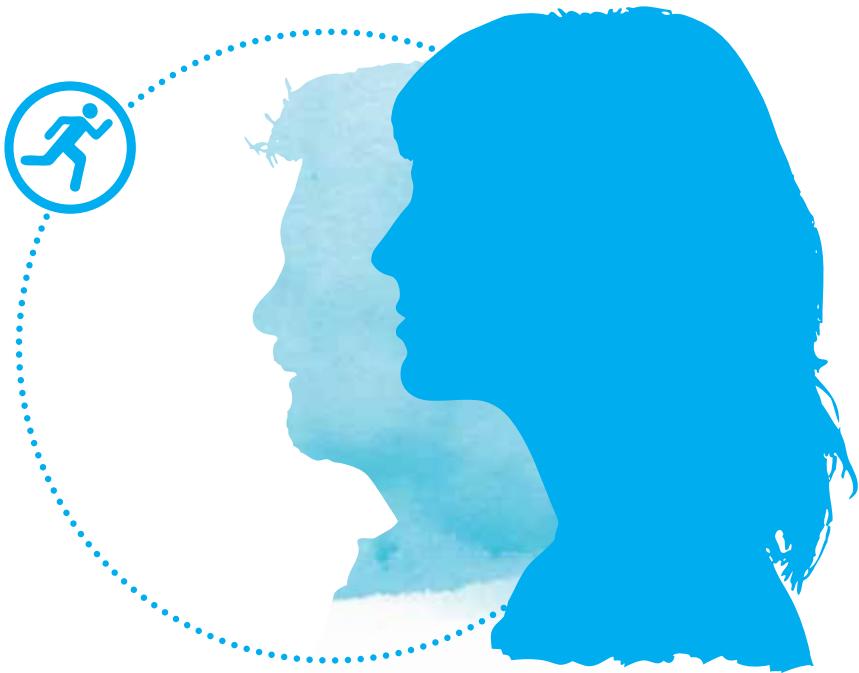
Cooperation with Universities

Cooperation with universities is a concept of partnerships with the country's leading educational institutions. Partners of NIS in this area are the Universities in Belgrade and Novi Sad with which strategic partnership agreements have been signed. This is an important area of development for the Company. The table below shows the results of this mutually beneficial cooperation in 2011:

.....

Partners of NIS in this area are the Universities in Belgrade and Novi Sad with which strategic partnership agreements have been signed.

.....



The most important activities and results in 2011

NIS Staff Professional Development:

MBA Studies	13 NIS Staff
HSE Technical training	48 NIS Staff
	25 NIS Staff

Joined forces in conducting research programs for NIS

Completion of research entitled „Exploring possibilities to boost energy efficiency tapping into energy potential as shown in the case of NIS- Naftagas“

External audit of projects and studies for NIS

Preparation of young petroleum experts

Scholarships	11 students
Professional practice in NIS for	67 students
Educational Trips	70 students

NIS experts delivered 2 lectures to students and professors at University

Assistance to students participating in international competitions

Allocated in total 12,8 million dinars for the above activities

BESIDES CONSTRUCTION
OF NEW UNITS AND
INSTALLATION OF TECHNICAL
EQUIPMENT, NIS INVESTS
SIGNIFICANT FUNDS INTO
DEVELOPMENT OF HUMAN
RESOURCES AS WELL.

Project «First chance»

The “First Chance” Project carried out by NIS in association with the National Employment Bureau provides an opportunity to young, diligent and ambitious graduates to apply their theoretical knowledge in the operation of a major company, thus upgrading their knowledge and experience.

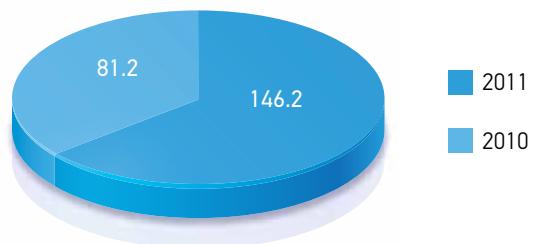
Staff Members' Professional Development

With its extensive investments in the development of knowledge and skills of its staff members, and setting up a system of quality and permanent training NIS creates an opportunity for its staff to be provided with necessary training and to acquire qualifications, which conform to European and international standards in production, refining and sales and distribution of crude and petroleum products.

Plan of trainings and development of staff members is devised to meet the requirements of the Company's business processes. In this regard the following trainings are organized:

- Technical trainings (professional training in specific business areas – handling special equipment etc.),

Total Cost for Training and Development
(in million dinars)



- Non-technical trainings intended for development of managerial and leadership skills (Soft skills, seminars, conferences, symposia),
- Foreign languages (as per business needs),
- Statutory trainings, licenses and other.



	HQ	REFINING	OFS	UPS	SALES AND DISTRIBUTION	TOTAL
Cost of training and development (in million dinars)	90.9	21.2	7.9	22.6	3.5	146,2
Total number of trainings:	232	91	41	55	205	624
Total number of attendants:	1.777	708	282	861	3.722	7,350
Average number of attendants per training:	7.66	7.78	6.88	15.65	18.16	11,78
Professional exams (blocks only):	-	14	27	77	5	123
Licenses (blocks only):	-	23	27	46	55	151

NIS has long had a tradition of organizing numerous in-house training courses to ensure the implementation of up-to-date knowledge and technologies, and to train both new employees, and those who are posted in different work positions. Over the course of 2011, in-house training courses

were intensified in comparison with previous periods.

Great importance is being attached to tailor-made training programs for employees, for example "Succession Pool", "Leader 2013", "Project Manager", "Young Experts" etc. Each of these programs is aimed at the development of competences



in certain groups of staff and their common purpose is to enable staff to take part in achieving the Company's long-term ambitious objectives.

Succession Pool represents a group of staff members, tapped for executive positions within the Company's structure. Advantages of long-term investment in own professionals instead of protracted headhunting on the labor market compelled NIS in 2010 to draft and subsequently, in 2011, to adopt the Standard to Set-up and Work with Succession Pool.

Leader 2013 Program has been devised for employees with best leadership potential, for those Succession Pool members who continuously accomplish excellent results. The Program's main objective is to provide succession for the Company's top-management positions.

The purpose of "**Project Management**" is to determine the professional qualities required for the job position "Investment Project Manager", as well as to distribute investment projects for the current year.

"Young Experts" are a special group of younger people who before joining NIS had short work experience, and joined the company right after high school or college. For these young professionals the company is providing a structured practical training program to run for two years.

Project "New Chance"

As a socially responsible company, NIS has launched the "New Chance" Project, which helps employees interested in participating in social Program 750, and all those who are thinking about developing a career outside the Company. Transition centers were established in Novi Sad and Belgrade where employees can get information on how to exercise their legal rights of labor and social protection, possibilities for finding new job vacancies in the labor market, opportunities for retraining, additional training or organization, if they want to start their own business, professional assistance in connection with opportunities of investing in their own business, learning about public tenders and subsidy programs and self-employment.

Besides this, the center provides social support through individual and group work (organizes psychological workshops on various topics: anti-stress program, assertiveness, emotions, etc.). Using existing channels of communication follows the activities of employees who left the Company.

The Center is open every day (8 a.m. – 4 p.m.) and you may contact its staff by phone (021/481-2087, 021/481-2139, 021/481-2097) or in person.



SALARIES AND INCENTIVES IN NIS

In order to improve its efficiency the Company has developed a new motivation system that covers all workplaces. Thus, NIS as a responsible company, created conditions that will make it one of the most attractive employers in the region.

This is corroborated by the fact that the level of salaries in NIS is at the level of leading companies in Serbia, which is guaranteed by the Collective Agreement. Generally, salaries at NIS are twice the average in the Republic of Serbia.

For the purpose of motivation, NIS conducts monthly

Average gross salary in December 2011

REPUBLIC OF SERBIA*	61,116
NIS	115,439

*Data cited by Economic Advisor magazine

Expertise, qualifications, job complexity, quantity and quality are the basic criteria for the award.

assessment of employees, whose results are evaluated through a reward system of variable earnings. Expertise, qualifications, job complexity, quantity and quality are the basic criteria for the award. Rewarding employees based on their results applies to all workplaces. Payments of quarterly and annual bonuses to employees, bonuses for special achievements and participation in investment projects are based on the Company Regulation on Payment of Bonuses,

In addition to financial incentives, the system of motivation of employees in NIS includes intangible rewards, as defined by internal regulations.

Work Performance Evaluation

Evaluating performance of all employees is defined by the Collective Agreement of NIS, a procedure for evaluating employees is carried out based on the system of quarterly bonuses, and evaluation of management through a system of



management by objectives (UPC), which was taken over from Gazprom Neft.

Previously mentioned innovations that are established by the Collective Agreement apply to the introduction of the Grade System for determining the level of earnings. The main objective of the Grade System is to improve the system of payments, to create clear-cut criteria of development in the workplace and employee development within the company, creating a unified salary system for all levels of jobs. In such a system the rate of remuneration of employees depends solely on the evaluation of their job position (Grade), personal effectiveness (professional category) and additional (special) knowledge and skills. The new system enables company employees to influence the level of their profits through professional development and training.

NIS management expects that the plan of motivation and

NIS management expects that the plan of motivation and reward for employees shall bring about greater efficiency and better organizational climate in which employee motivation and loyalty to NIS will be high.

reward for employees shall bring about greater efficiency and better organizational climate in which employee motivation and loyalty to NIS will be high.

Corporate Sports

Sport is a way of life, and NIS employees are increasingly aware of this. Their participation in many competitions and winning of numerous awards best reflects this. Some of the competitions, where NIS employees were highly awarded are Spartakijada, Naftijada, Olympic Workers in Vojvodina, and many others. Prizes won and the interest of employees shown give impetus to the Company to continue to invest and help all initiatives in this area.

GUARDIANS OF THEIR OWN SAFETY

Safety and health of employees, third parties who work in NIS, as well as visitors, is a priority of the Company.

NIS through its management policy in the field of environmental protection (EP), industrial safety (IS) and



occupational safety (OS) pays attention to the safety and health at work, as well as reducing the number of accidents and injuries.

Special attention is given to:

1. safety and health of employees, contractors, third parties, and the local population in areas of business
 2. protection from fire, explosions and accidents
 3. physical and technical security of employees, jobs and the availability of funds for personal protection
 4. monitoring and protection of events and processes that pose a potential environmental risk
-

Fundamental Rules

1. Do not disturb or bypass security measures and environmental protection, or let someone else do it, regardless of hierarchical level. Intervene whenever you see that someone is unsafe or environmentally unacceptable. It is mandatory to comply with all rules and procedures applicable to facilities and areas in which they reside, as well as all applicable requirements of the
-

system permitting safe and secure work.

2. Performance of any work assignment must respect the rules on wearing of personal protective equipment.
 3. Be sure to follow the rules of safety. The maximum speed limit within the facility is 10 km/h.
 4. In the danger zone it is prohibited to use an open flame and only the use of electrical devices in Ex version is allowed.
 5. Procedures for the isolation and locking of different forms of energy must always be respected.
 6. Inside the complex, smoking is prohibited, except in specially marked places.
 7. Bringing of weapons to the locations of the Company is prohibited.
 8. Taking of photographs, audio and video recording is prohibited except with special permission and procedure.
 9. Entrance, loitering and working by persons under the influence of alcohol and other substances is strictly prohibited.
 10. All events and accidents, all events and phenomena that are not safe and environmentally acceptable, must be reported immediately.
-



Reducing the number of incidents in 2011

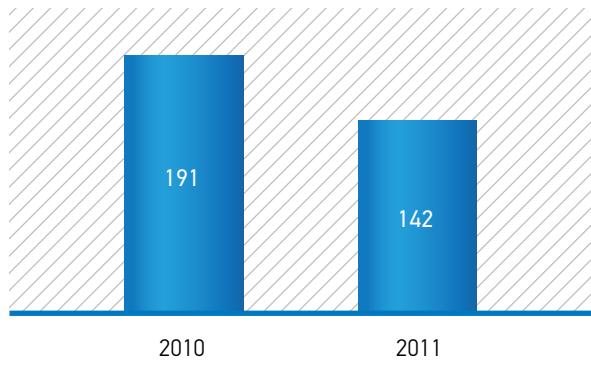
A key task in the field of health and safety at work is to provide conditions for reducing the number of incidents and accidents, including injuries, in all business segments. That is why analysis of their causes intensified through June 2011. Investigations show that the occurrence of events is mainly due to „the human factor”. This analysis of events and resulting actions have contributed to reducing the number of incidents (including injuries) compared to 2010.

In October 2011, a significant result was achieved - million hours without occupational injuries in refining process modernization in the Pancevo refinery, the project MHC / DHT. This was accomplished through compliance with all measures of industrial safety, occupational safety and health of workers, and good coordination of activities between department blocks "processing" of NIS and the contractor.

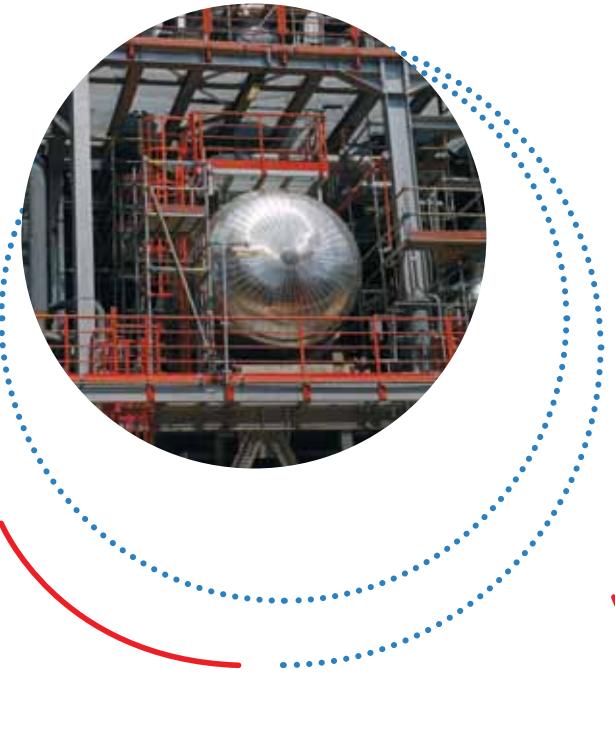
In 2011, 142 occupational injuries were recorded, which is 25.65% less than the number of injuries that occurred in 2010 (191 injuries), with 125 injuries that resulted in absence from work, and 17 without absence from work.

In 2011, there were no deaths or cases of disability. Nevertheless, a significant number of injuries (39%) still applies to employee falls (fall in line, tripping, tripping or

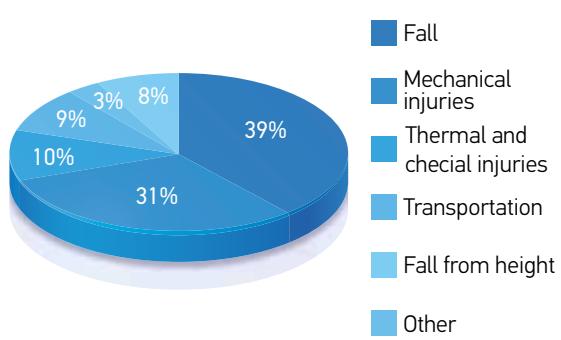
Number of injuries



Million hours without occupational injuries in refining process modernization in the Pancevo refinery.



Type of injuries



Occupational injuries

2011

Number of injuries	142
Number of injuries resulting in sick leave	125
Number of lost days	3,794
Injury rate(IR)	8.67
Lost days rate (ODR)	2,65
Rate of Absence from Work(LDR)	26.14

Definitions provided in Annex 3

falling through), which indicates the need to improve the arrangement of working places, the surface used for the movement of people, as well as work on raising awareness of employees about the consequences.

During all these events are done talking with the workers (STOP-SAT), be sure to investigate the causes of events which were prescribed corrective and preventive measures to avoid

similar cases in future. Based on the investigation of events have been created about the events (the description of events, causes and preventive measures) that are placed on the company's portal, and on bulletin boards in NIS, and serve as teaching material.

For all these events interviews are conducted with workers (STOP-SAT), causes of events are investigated with



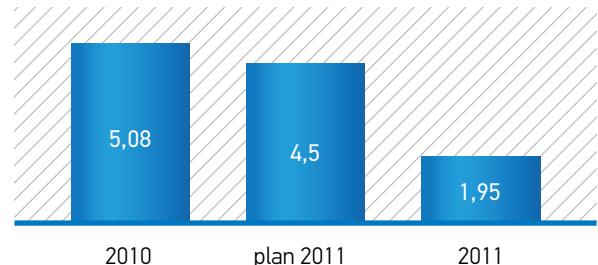
corrective and preventive measures prescribed to avoid similar events in the future. Based on the investigation of events, Information About the Events is created (description of event, causes and preventive measures) which is placed on the company's portal, and on bulletin boards in NIS, and serves as teaching material.

In 2011 there was a significant decrease in the number of traffic accidents, compared to 2010 as a result of implementing the Standard Safe Driving of Vehicles and Transport by Road in NIS. The standard defines the basic requirements for organizing driving, and provides the same increase in driving safety. The introduction of GPS, both in commercial as well as in passenger cars, greatly enhanced the speed of control of vehicles, leading to a reduction in the number of offenders, and thus reduced the risks associated with speeding.

Coefficient of Road Safety (RAR-Road Accident Rate - the number of traffic accidents in relation to one million

In 2011, there were no deaths or cases of disability.

RAR



kilometers) also shows a declining trend in 2011 compared to 2010 of 61.61%.

Occupational Health and Safety Committee Activities

Seeking to improve the protection of health and safety at work NIS stipulates in its Collective Agreement the establishment of the Occupational Health and Safety Committee (OHSC). Occupational Health and Safety Committee Activities are stipulated by Rulebooks on Activities. In 2011 committees were established within the following business units:

- 1. OHSC NIS
- 2. OHSC Block «Exploration and Production»
- 3. OHSC Block «Refining»
- 4. OHSC Block «Sales and Distribution»

Each Occupational Health and Safety Committee has five members, three representatives of employees (union), and two members of employer's representatives.

In 2011 at NIS the joint management-worker health and safety issues committees covered over 80% of the total workforce.

The union and trade union organizations, the Committee's work, actively participate in continuous improvement in working conditions of employees. Throughout 2011 the union was very instrumental in drafting the Collective Agreement. Following the adoption of the text of the Collective Agreement, with whose contents all employees were made familiar, the Union engaged in drafting the Ordinance on Exercising Acquired Rights of Disabled Persons and Persons with Professional Illnesses. Unions have launched a new initiative to establish privileged positions in the Block "Refining" and Block "Exploration and Production." Trade Union Activities in the field of health and safety at work were performed in the following areas:

- Working conditions of employees
- The issue of disposal of protective clothing in the Block Refining
- Issues of personal protective equipment
- Drafting the Act on Assessment of Risks in the Workplace and Working Environment
- Organization of medical examinations.

In addition to the defined work of the Occupational Health and Safety Committee, in 2011, a practice was established to hold regular monthly meetings of NIS top management, including the CEO with the management of the Directorate for Industrial and Environmental Safety, Occupational Safety and Health, at various locations in NIS. The meetings are used for analyzing in detail the situation regarding health and safety at work, environmental protection, and fire protection in the past. Conclusions from the meetings result in concrete measures and tasks whose implementation contributes to improvements in this area. At the same time, organized exercises and readiness of employees for emergency

The union and trade union organizations, the Committee's work, actively participate in continuous improvement in working conditions of employees.

situations (fires, environmental accidents, etc..) are held, with the participation of firefighting units of the Serbian Ministry of Interior. The exercises have shown a high level of readiness of employees of NIS, as well as excellent cooperation and coordination with the Serbian Ministry of Interior.

Training staff in industrial safety and occupational health protection

Each NIS employee is required to attend training for safety and health at work and mandatory firefighting training. Also, depending on the specific job, they are also required to undergo some specialized training.

In addition to mandatory training for employees, the Company takes into account the safety of contractors and third parties engaged by NIS. In contracts with contractors the risks and dangers of each individual job are specifically defined, as well as responsibilities from prior to, during and after the execution of the job. Furthermore, the Annexes to the contract on the safety and health at work clearly define duties and responsibilities of all parties (contractor, subcontractor, NIS employees) related to safety and health, environmental and fire protection.

Competent departments of NIS control the proper informing of contractors and subcontractors with the regulations, and compliance with these regulations.





BASIC MID-TERM PLANS

Improvement of systems of evaluation and reward of employees in NIS

Introduction of the evaluation of training by line managers, and systematic monitoring of training and training in the Company

Development, harmonization and adoption of standards on awarding grants for home loans

Raising awareness of employees and all parties through internal channels of communication on matters of health and safety at work

Reduction of staff injuries

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RESPONSIBLE
TOWARDS
COMMUNITY

5

programs of investment into community are being realized

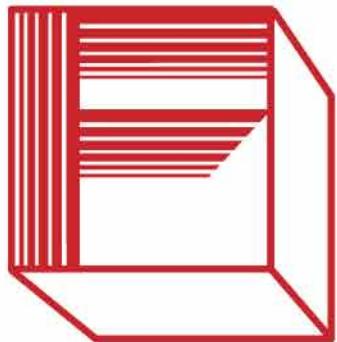
For the program Culture without Borders

32

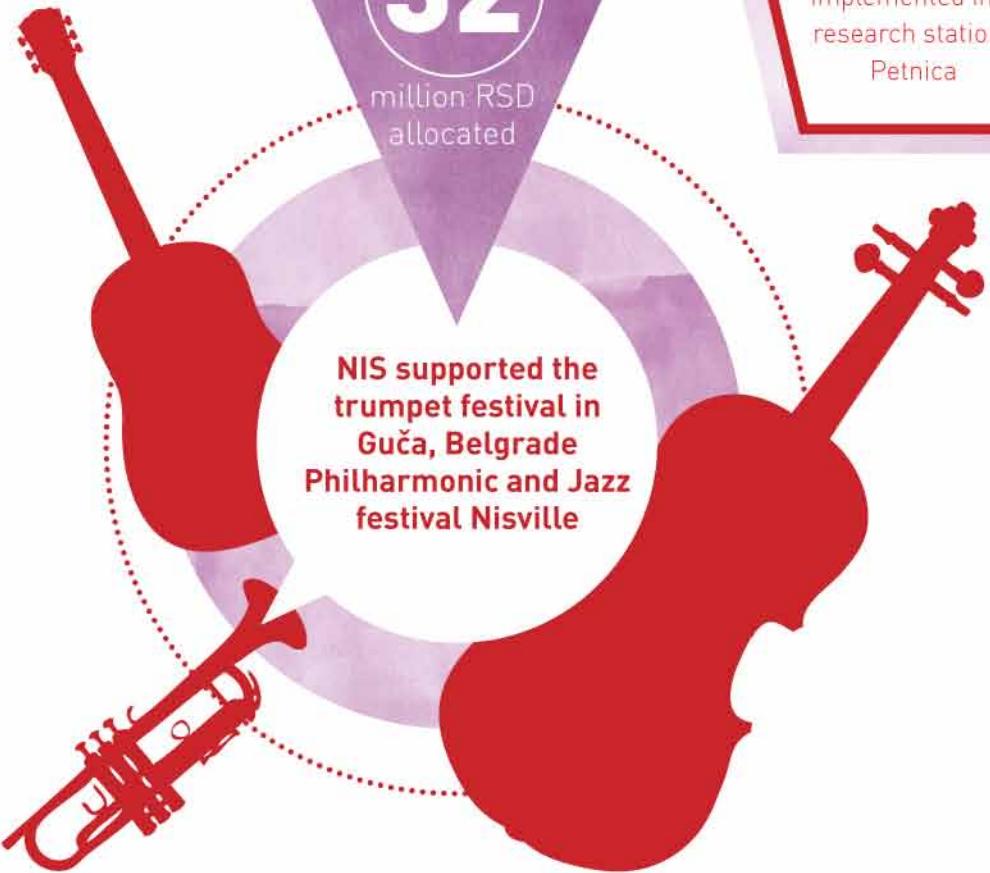
million RSD allocated

102 programs for more than 2000 attendees implemented in research station Petnica

100,000 visitors at Film festival FEST



NIS supported the trumpet festival in Guča, Belgrade Philharmonic and Jazz festival Nisville



Total funds NIS invested in programs of local communities

275.8

million RSD

For the program of
Development of Science
and Young Talents

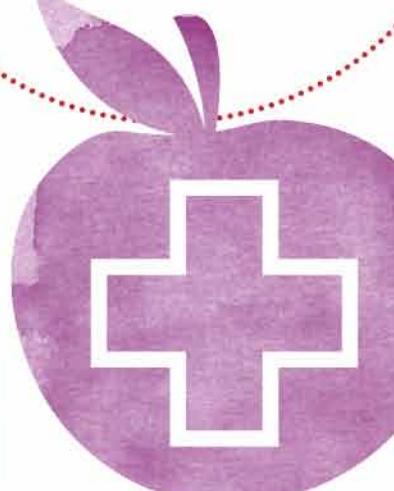
14.9
million RSD



For humanitarian
projects

29.3

million RSD allocated



For the program
of Cooperation Based Development

113.3 million RSD allocated

Particular attention
paid to children

7,000 pupils
from 12 towns of
Serbia participated
in Mini Basket
League



For the program
of Energy of Sport

86.3

million RSD
allocated

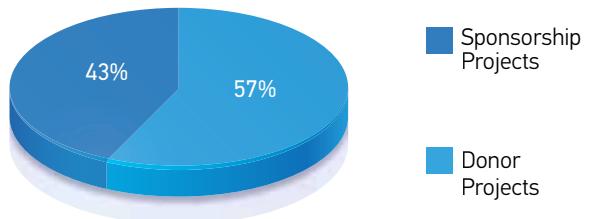
RESPONSIBLE TOWARDS THE COMMUNITY

NIS participates in the promotion of socially important projects, connecting the economy and society, promoting solidarity and togetherness and creating partnership relations in order to ensure a better future for the society and community.

NIS does not participate in the work of political parties, but creates a system of a dialog among representatives of business community, state government and local self-governments on the basis of a sensible balance among the interests of business, state and society.

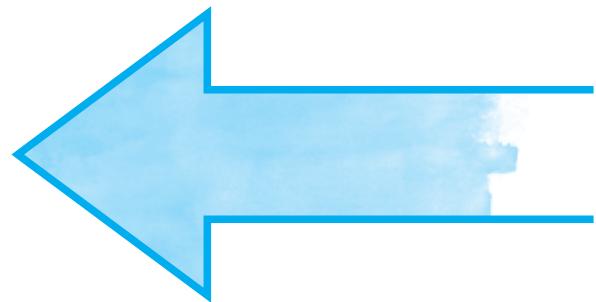
In 2011, NIS continued its support within the framework of previously defined programs and 275.8 million dinars were invested into the implementation of programs in the local community.

Share of donation and sponsorship projects in total budget



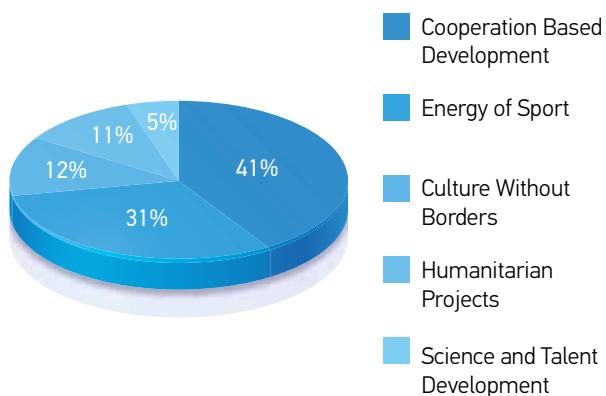
In 2011, NIS continued its support within the framework of previously defined programs and

275.8



million dinars were invested into the implementation of programs in the local community.

Five programs for investment into communities:



"NIS Philanthropy"

The main aim is to include employees into humanitarian activities, which implies providing aid to underprivileged groups of the Serbian population. Within the first activity of this kind, which was conducted at the end of 2011, under the name "Let us show that we care", NIS employees collected humanitarian aid (clothes, footwear, toiletries, etc.), and sent them to the Center for Social Work and the Safe House in Novi Sad, as well as to the Children's Shelter in Belgrade. Such activities encourage solidarity, empathy and humanism, and having in mind that employees responded exceedingly well, it was planned that it should become a regular project to be realized quarterly.

In each of these segments, the choice is a promotion of top values, the development of potentials, activities leading to general progress. Budget definition, planning, selection, realization and control of these programs are all under the competence of the Committee for Sponsorships and Donations. In 2011, NIS had allocated 275.8 million dinars for realization of social responsibility programs.

Energy of Sport

The "Energy of Sport" program is directed at supporting professional and children's sports, and promotion of a healthy way of living. Major projects in 2011 were realized with the children's Mini Basketball League, the Cycling Federation of Serbia, the Basketball Club Partizan, the Davis Cup tennis representation, the Volleyball Club Vojvodina, the actual European vice champion in mountain racing, Dusan Borkovic, etc.



NIS pays special attention to proper development of young generations, discovering and promoting talents and children's sports. In 2011, in competitions within the traditional Mini Basketball League dedicated to children and youth, which was organized by the Basketball Federation of Serbia, over 7000 children participated from more than 200 clubs and schools. With the support of the Company, a "Make-believe European Championship" was organized in front of the business facilities of NIS in Novi Beograd. On this occasion, the players of the Basketball Club Partizan were cheering for the young talents.

Combining care for youngsters and promotion of ideas on healthy and safe living, NIS, as a general sponsor, took part in the project called "Cycling in Schools – the School League of Serbia". Together with the Cycling Federation of Serbia, it helped in the education of elementary school pupils in Serbia on this useful and beautiful sport, but also on traffic safety.

NIS pays special attention to proper development of young generations, discovering and promoting talents and children's sports.

There was significant interest, including over 2000 children in 20 cities throughout Serbia.

In 2011, the Company allocated 86.3 million dinars for sponsorship projects in the field of sports.

Culture Without Borders

Within the program "Culture Without Borders", NIS supports cultural institutions and festivals with local, national and international significance, as well as projects of Russian-Serbian cooperation.

For years, NIS has been a friend and a sponsor of traditional manifestations like the "Sterija's Theatre" ("Sterijino pozorje") (a festival of Serbian drama and theatre), "Zmaj's Children's Games" ("Zmajeve decije igre") and "The Joy of Europe" ("Radost Evrope") (important children's manifestations of the region), the Trumpet Festival in Guca, "Nishville" Jazz Festival, the FEST, the largest film festival in South-Eastern Europe and the Belgrade Philharmonic Foundation.

The "Sterija's Theatre" is the most significant international theater festival in our country, with a 56-year long tradition. Respecting the tradition and supporting new theatrical ideas which it brings, NIS enabled better organization of the "Theater". Each year, several performances are given on the



For three years now, NIS has been a partner of the FEST, and only in 2011, the Company's support enabled presentation of over 70 films, and the visit of more than 100,000 people.

stage of NIS, at the Business Center Novi Sad, which makes the Company an active participant in festival realization.

From year to year, NIS accompanies "Zmaj's Children Games", helping in presentation of a high-quality and creative program to the children. For its loyalty and efforts, for several years in a row, the Company has been awarded a plaque of the "Great Zmaj" – a friend of the Games.

For three years now, NIS has been a partner of the FEST, and only in 2011, the Company's support enabled presentation of over 70 films, and the visit of more than 100,000 people.

In 2011, the Belgrade Philharmonic had held 33 concerts with the support of NIS while, through a program of art decentralization, there were also orchestra performances in Novi Sad and Smederevo and the performance by a string quartet in the Gerontology Center in Subotica and in the Music School in Gnjilane. Group visits of pupils from Serbia, Bosnia

and Herzegovina and Kosovo and Metohija were organized for the Belgrade Philharmonic concerts in Belgrade. On that occasion, NIS donated gifts containing school equipment for the young visitors.

In 2011, 32 million dinars were invested in the realization of the "Culture Without Borders" program.

Science and young talents' development

The goal of the "Science and young talents' development" program is support for scientific-research activities, as well as development of scientific potential and of talented pupils and students.

Cooperation with the Research Station Petnica, which for decades has been gathering the most talented young researchers, is of particular interest. The support of NIS had impacted grossly the successful realization of regular activities in Petnica in 2011, thus enabling realization of 102 programs (in the form of seminars, camps, summer schools) with more than 2000 attendees including pupils, students and teachers, as well as the realization of the Conference of research papers – "A Step into Science".

A program, the "School Eco Groups" was realized in Pancevo with participation of 15 elementary and secondary

schools. The program dealt with air pollution testing with mobile equipment, which was donated to schools for usage, seminar organization for teachers, and the acquainting of attendees with work of school ecological groups in the region.

Cooperation with the Research Station Petnica is of particular interest.

NIS donation greatly contributed to the continued functioning of educational program systems intended for young people from all parts of Serbia and initiation of new programs for secondary school pupils and students.

In 2011, 14.9 million dinars were donated under the "Science and talents' development program".

Humanitarian projects

Humanitarian projects are part of one of the Company's activities in helping and supporting disadvantaged categories of the population.

During 2011 special attention was dedicated to children. Thus, aid was provided to Zvecanska Children's Centre, to the National Association of Parents of Children with Cancer (NURDOR), to the "Praise to a Hand" Association for their workshop and the children with special needs paintings' exhibition, to Association Per Art for putting on a show prepared by children with the Down's syndrome, to SPENS for its humanitarian concert for children with Batten disease, to Kladovo municipality for construction of the "City of Children", to B92 Fund for their "Battle for Babies" activities, to the Auto Moto Club "Harley Davidson" for the humanitarian concert and aid sent to Kosovo and Metohija to the humanitarian organization "Our Serbia" for friendship cards and activities related to children from Kosovo, etc.

In September 2011, at NIS's initiative and with the help of the Auto Moto Club "Harley Davidson", during the semi finals of the Davis Cup, 20 children from the most disadvantaged Serbian enclaves from Kosovo and Metohija were guests in Belgrade. NIS, as a good host, made the Belgrade stay attractive and interesting. Namely, a meeting between children and tennis players, members of the Davis Cup representation was arranged, and that opportunity was used for donating gifts, while a mini tennis match between them was organized.

This type of activity, first of all because of the children's great joy, was also realized prior to the New Year's holidays. In cooperation with the humanitarian organization "Our Serbia",

a three-day stay of one hundred children from Kosovo and Metohija was organized in Belgrade. The children had the opportunity to get acquainted with city landmarks, cultural life, and a special program was organized at the skating rink at the Nikola Pasic Square, where, along with the Children's Belgrade Philharmonic, they were given New Year's presents.

The total funds donated through humanitarian projects in 2011 amount to 29.3 million dinars.

Cooperation Based Development

The "Cooperation Based Development" program has been conducted since 2009 and the aim is the strengthening of partnerships with the regions and local communities, in which the Company is doing business, connecting businesses and society, fulfilling the needs of citizens and of general social development.

In 2011, NIS signed the agreement on strategic cooperation with the Autonomous Province of Vojvodina, which included activities related to the environment, economic development, improvement in the investment climate and solving of the social problems of local communities. In accordance with this agreement, other specific social-economic agreements were signed with the municipalities and cities in Vojvodina such as Novi Sad, Pancevo, Kikinda, Zrenjanin, Kanjiza, Novi Becej.

In 2011, similar agreements were also signed with the cities of Belgrade and Nis.

The local community itself defines priority projects which contribute to general development, and which are realized with the support of NIS. In this way, a reconstruction of the city library (in the amount of 3 million dinars) was carried out in the city of Pancevo, which improved availability of the city library to all categories of users, creating the possibility for all persons with restricted mobility to use the space and services of all library departments, 8 air conditioners and an elevator for persons with special needs were installed, which all increased the number of users of the library. The funds for the functioning of the Safe House in Pancevo (in the amount of 1.5 million dinars) have been allocated for construction and equipping of the house with furniture, electrical appliances and all other necessities which enabled functioning of this facility. Furthermore, by greening and park and garden planning in the city of Pancevo, based on the designs of the landscape architects (in the amount of 1.9 million dinars), the public areas in the block settlements, Tamis river banks and in the local community of Vojlovica were renovated and arranged.

The project of basketball court construction in the settlement called Detelinara (in the amount of 9 million dinars) was realized on the territory of Novi Sad. This basketball court was built in an area where, in the last two years, there was an increase in juvenile delinquency and drug abuse. The construction of the





court was an attempt for the children, but also for others, to be directed toward a healthy way of living and sports, especially due to the fact that this was the only sports court in this part of the city.

On the territory of the city of Zrenjanin, a scholarship project for young talents in the field of natural and social sciences, music and creative art was realized (in the amount of 5 million dinars), including pupils and students with excellent grades from the second to the fourth grade of secondary school (13 pupils), from the second to the final academic year (126 students), as well as students in their Master and Doctorial studies (56 graduates). The Technical school in Zrenjanin received a donation of protective equipment (in the amount of 1.1 million dinars) in order to improve teaching conditions.

On the territory of Kikinda municipality, aid was given to the Center for Social Work Kikinda (total value of 3.1 million dinars), through hygiene packages (packages for 420 socially

disadvantaged families from the territories of Kikinda, Idjos, Sajana, Mokrin, Basaid, Backa Topola, Rusko Selo, Kozarac and Nakovani), lunch providers (the transport of meals and lunch packages for the most disadvantaged citizens who live in villages of the Kikinda municipality), fuel (two cubic meters of wood were provided for each of 120 socially disadvantaged families) and purchase of IT equipment for the improvement of working conditions of the Center. Furthermore, through the project of the Environmental Fund of the Kikinda municipality (total value of 3 million dinars), a pump for hydrant supply network for the Pupil's Home "Nikola Vojvodic" was installed, the land where the European Championship in Aviation was rehabilitated, the equipment for measuring of emissions for the Public Health Institution was provided. On the territory of this municipality, a project related to the reduction of underground water levels in the local community Mokrin was realized (in the amount of 1.5 million dinars).



On the territory of Kanjiza municipality, aid was given to the elderly and the ill (in the amount of 1.6 million dinars), and the same activity was realized during August and September, when more than 20 cooked meals were sent and delivered to disabled and elderly persons. Two nurses and one physician were engaged who, when needed, visited these persons and provided adequate help to them. On the territory of this municipality, besides some other projects, a project of rehabilitation and renovation of the Roman Catholic church in Tresnjevac was realized (800,000 dinars). The exterior repair of the church, replacement of the window glass and the beginning of interior work were performed.

Computer equipment was donated to the Geology Metallurgical School in Belgrade.

Besides projects in the municipalities and cities that NIS cooperates with under this program, aid was also given to monasteries in Kosovo and Metohija. The Sveti Vraci Monastery

for renewal and revitalization of the monastery complex (1 million dinars), and the Duboki potok monastery was given aid for renovation of the monastery church, small lodgings and the courtyard of the monastery (2 million dinars).

The plan for 2012 introduced a somewhat changed principle of monetary funds' allocation within the "Cooperation Based Development" program: 50 percent was to be allocated by the municipality/city independently, and the other 50 percent was to be allocated to projects selected through public tender. Thus, the associations, humanitarian and nongovernmental organizations, individuals - young talents and other interested parties, should be able to apply for the support of NIS independently.

Total funds donated through the "Cooperation Based Development" program amounted to 113.3 million dinars.



BASIC MID-TERM PLANS

To introduce new methodology of selection of sponsorship and donation projects within the framework of cooperation with local municipalities in 2012, in order to achieve a more efficient process of providing support to local communities in which the Company operates and to promote further development of dialogue with the community, and through the public tenders

To improve the process of providing charity programs and organization of at least four initiatives including employee engagement in 2012

To expand activities and implement at least one joint project with humanitarian organizations in 2012

HE
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PRO

HEALTH AND ENVIRONMENT PROTECTION AGENCY

Emission
of powder
substances
in RNP
reduced
more than

INSPECTIONS AT
189 LOCATIONS
PERFORMED FOR
ONE YEAR

TOTAL
INVESTMENT
PROGRAM IN 2011
AMOUNTED TO

3
TIMES

ACTIVITIES RELATED
TO RESEARCH AND
CONSUMPTION OF
RENEWABLE
ENERGY SOURCES
CONTINUED

BILLION RSD,
WHICH IS 41%
HIGHER IN
COMPARISON TO
INVESTMENTS IN
PREVIOUS YEAR

.41

AT

10

PETROL
STATIONS NEW
EQUIPMENT
WHICH IS TO
REDUCE
ENVIRONMENTAL
IMPACT
INSTALLED

NUMBER OF
ECOLOGICAL ACCIDENTS
REDUCED BY
24%

Performed
remediation
of 43 clean
primary
mud pits

THE VOLUME OF
RELEASED WASTE-
WATERS IN 2011
REDUCED BY
960
THOUSAND CUBIC
METERS

The volume of consumed
water is reduced by
2.47
million cubic meters

THE MOST FREQUENT CAUSE
OF ECOLOGICAL ACCIDENTS IN
2011 ARE PERFORATIONS OF OIL
PIPELINES



HEALTH AND ENVIRONMENT PROTECTION

A strategic commitment of NIS is to achieve compliance of business activities with the principles of sustainable development through minimization of the negative impacts of the Company on the environment and the health of people, as well as through constant improvement and efficient management of environmental protection, industrial safety and occupational safety and the system of health protection.

In 2010, the Company adopted the Policy of Environmental Protection (EP), Industrial Safety (IS) and Occupational Safety and Health Protection (OSH) based on which numerous activities were realized during 2011. A normative and methodological regulation within the field of industrial safety, occupational safety and health and environmental protection was continued and 68 normative documents, standards, instructions were prepared both at the level of the Company and at the level of the Blocks. The practice of supervisory visits at the NIS facilities was introduced, and the review of 189 locations was performed with the purpose of raising the level of environmental protection, industrial safety and occupational safety and health protection, with direct control over implementation of measures and the support of introduction of top standards within this field.

In NIS, significant financial assets were allocated and spent for the realization of ecological projects directed at modernization of equipment, construction of new plants, remediation and recultivation of polluted sites (historical pollution), monitoring of environmental status, etc.

During 2011, the Standard OHSAS 18001 was introduced in the Exploration and Production Block, which allowed for additional improvement of occupational safety and health protection.

ENVIRONMENTAL PROTECTION ACTION PLANS

Based on the environmental audit conducted in 2010 by the D'Appolonia S.P.A. Company, in 2011, Action Plans for the improvement of environmental conditions were prepared for 10 NIS facilities. The Action Plans defined technical and technological measures in accordance with the best world practice which are to be implemented in order to reduce to a minimum the negative impact of the Company's activities on the environment, as well as financial assets which are to be invested by NIS in order to realize these measures within anticipated time periods.

The Action Plans specifically define the measures which shall contribute to better air, water and land protection, improve the waste management system and increase energy efficiency. Besides significant investment and technological activities, the activities of temporary waste storage location arrangement, replacement and overhaul of worn out tanks and pipelines, sewage system reconstruction, diagnostics and replacement of outdated equipment, improvement of the monitoring system of environmental conditions at other NIS facilities are also planned.

Leading foreign and domestic companies are engaged for carrying out these operations. Action Plans are adopted through the procedure of approval by the Ministry of Environment, Mining and Spatial Planning of the Republic of Serbia.

The most significant environmental projects in 2011

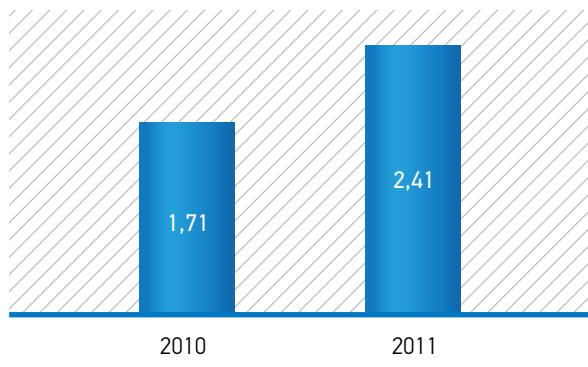
During 2011, the allocation of significant financial assets for the realization of projects within the area of environmental protection continued. Besides projects with direct ecological effects, an investment program for the period 2009–2014 was defined, which included infrastructural projects with significant ecological effects (projects related to pipeline replacement, replacement of the sewage system, plant modernization, flares, etc.), reconstruction and modernization of petrol stations, projects of energy efficiency and risk reduction.

Projects completed in 2011 contributed to a decrease in the negative impacts on the environment, thanks to equipment and plant modernization and introduction of new technologies for more reliable operation.

Graphical presentation is possible

Total investments in the Investment program in 2011 amounted to 2.41 billion RSD, which is 41% higher when compared to investments realized in the previous year, when they amounted to 1.71 billion RSD.

Total investments in the Investment program (billion RSD)



Projects completed in 2011 contributed to a decrease in the negative impacts on the environment, thanks to equipment and plant modernization and introduction of new technologies for more reliable operation.

Ecological projects in 2011:

Air protection

- Reconstruction of the rail tank car filling station in the Oil Refinery Pancevo was completed, which has direct impact on the reduction in the emission of highly volatile hydrocarbons into the atmosphere during the reloading of oil products, as well as avoiding possible ground water and land pollution.
- Reconstruction of the fluid catalytic cracking plant (FCC) in the Oil Refinery Pancevo was completed, where through construction of a new, fourth degree of filtration, the emission of powdered substances into the atmosphere has been reduced, thus ensuring conditions for its three-year period of operation without any standbys and improving the catalyst regeneration process.
- Within the Oil Refinery Pancevo, a plant for refining of spent sulfuric acid (SARU) was constructed, which completely refines the spent sulfuric acid into concentrated sulfuric acid, thus reducing the emission of SO₂ into the atmosphere.



Water protection

- The first phase of reconstruction of the oily sewage and waste water purification facility was completed at the Oil Refinery Novi Sad, which prevents the spillage of oil and oil derivatives into land and which improves the quality of waste waters.
- The installation of the oily water separator was completed at nine reconstructed petrol stations, with the purpose of prevention of ground water and land pollution from oily waste waters.

Soil protection

- The NIS experts, in cooperation with the external contractor, realized a pilot-project of bioremediation of soil at the „Turija“ field, which resulted in the elimination of the further pollution of land and ground waters and recultivation of land, which may be returned to its original purpose.
- The installation of tanks with a double shell was completed at nine reconstructed petrol stations with the function of environment protection and complete elimination of the possibility of leakage of oil derivatives which were stored in them.
- Installation of separators at ten petrol stations.
- Procurement of 2 tank trucks for tank cleaning at petrol stations.

Waste management

- A project for treatment of oily land and oil sludge was initiated at Company level.

EMISSION OF POLLUTANTS

The air emission of pollutant substances in NIS is mostly related to the operation of process facilities and combustion in process heaters at the refineries in Pancevo and Novi Sad, and they mostly depend on the kind and quality of the fuel used. The advantages of using natural gas are multiple, but at the moment there are no objective conditions for transfer to natural gas, because the capacities of the existing gas pipeline are not sufficient.

This fact does not contest the progress which is achieved by realization of the projects directed at environmental protection.

Besides measures already taken for reducing emissions of pollutants, activities are also directed at projects for decrease in nitrous oxide (NO_2) emissions in the smoke gases of refineries. This shall be achieved by implementing production and combustion the system of water-oil fuel emulsion. Besides this, decrease in hydrogen sulfide (H_2S)



emissions is planned by commissioning a new plant for treatment of Claus waste gas, within the framework of construction of the MHC/DHT plant at the Oil Refinery Pancevo. By commissioning the new plant, the percentage of conversion of hydrogen sulfide will increase from today's 95%, at the existing Claus plant, to 99.9% at the new plant. Furthermore, gases from the existing Claus plant will be sent

to the new plant, thus allowing conversion at this plant also to reach 99.9%. Until construction of a new Claus plant, the Oil Refinery Pancevo is taking measures related to installation of new regulatory equipment and additional automation of the existing plant (phase one), as a necessary prerequisite for integration into the new plant (phase two).

Quantities of emissions of pollutants	2010	2011
Emission of SO ₂ (t)	8,274	5,392
Emission of NO ₂ (t)	2,601	1,957
Emission of powdered substances (t)	664	186

Chart of emission of pollutants for the NIS facilities which are subject to the issuing of an integrated permit (Oil Refinery Novi Sad, Oil Refinery Pancevo, Production unit for preparation and transportation of oil and gas, Elemir)

■ 2010 ■ 2011

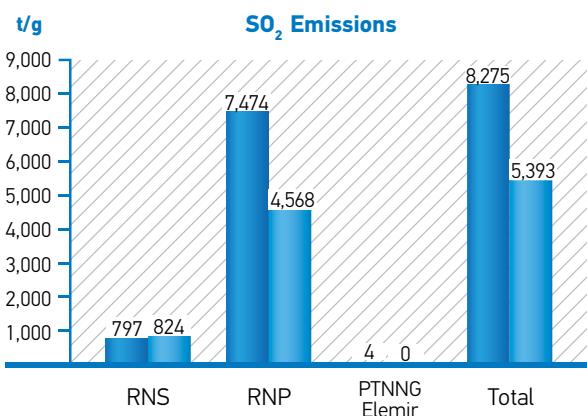
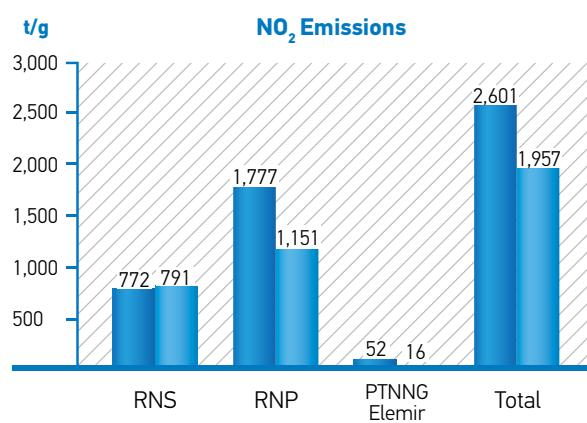
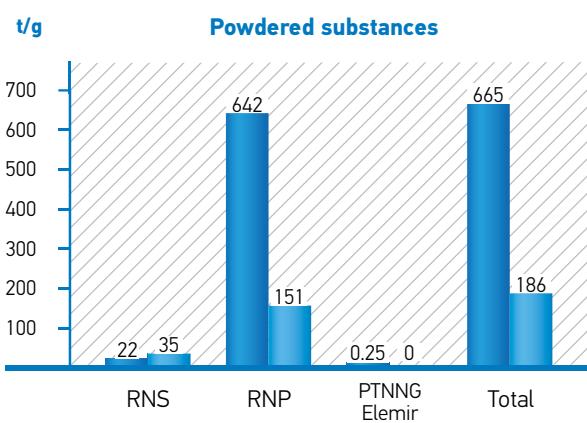


Chart of emission of pollutants for the NIS facilities which are subject to the issuing of an integrated permit (Oil Refinery Novi Sad, Oil Refinery Pancevo, Production unit for preparation and transportation of oil and gas, Elemir). The trend of reduction in emission of pollutants continued in 2011 compared to 2010. The trend of reduction is evident, first of all, in the Oil Refinery Pancevo, which is the consequence of utilization of fuel oil with lower sulfur content, commissioning of the reconstructed fluid catalytic cracking (FCC) plant, and a greater share of low-sulfur oil in refining, at the level of 40%, for the purpose of reduction of sulfur compounds emissions from the Oil Refinery Pancevo plants and reduction of the percentage of sulfur in products, especially fuel oil. In the following period, additional reduction of the sulfur content in oil products is expected after the construction and commissioning of the MHC/DHT plant by the end of 2012.



EUROPEAN QUALITY FUEL

In 2010, NIS stopped production of ethylized (leaded) gasoline. Motor gasoline appeared on the Serbian market, a gasoline of domestic production, which entirely meets environmental norms of the European Union. In 2011, the volume of production of this fuel increased. Exclusively environmentally friendly fuel – non-ethylized (unleaded) gasoline of class EuroPremium was produced. This kind of fuel is produced in all European countries.

By comparing quality parameters in new generation gasolines and diesel fuels, lower threshold values can be observed, which indicates a reduction of harmful effects on the environment.

Modernization of production units will enable a complete

Motor gasoline	Motor gasoline MB	Unleaded motor gasoline	Euro unleaded motor gasoline
Lead content (max)	400 mg/l	13 mg/l	5 mg/l
Sulfur content (max)	1,000 mg/kg	650 mg/l	10 mg/l
Diesel fuel	Eco 350 diesel	Eco 50 diesel	Euro diesel F
Polycyclic aromatic hydrocarbons content (max)	11% (M/M)	11% (M/M)	11% (M/M)
Sulfur content (max)	350 mg/kg	50 mg/kg	10 mg/kg

transfer of production to production of environmentally clean fuels, as well as production of larger quantities of fuel, whose quality will meet European Union norms. At the same time, this is one of the main conditions for NIS to take up a strategically significant position of leader on the regional fuel market, to follow market demands and to contribute strategically to the environmental protection.

WASTE

In compliance with the Strategy of Waste Management for the Period 2010-2019, adopted by the Government of Serbia (Official Gazette of the Republic of Serbia No. 29/2010), and statutory regulations in the area of waste management, the Company Standard was established – Waste Management in NIS. This Standard defines the procedures of management of hazardous and non-hazardous waste, the obligation for record keeping of waste quantities on a daily basis and preparation of annual waste reports. Waste handling is in direct correlation with statutory regulations and capacities of each organizational unit for waste management.

Hazardous waste is waste which in its origin, content or concentration of hazardous substances may cause danger to the environment and the health of people and which has at least one of the hazardous characteristics defined by special regulations, including the packaging in which such hazardous waste is kept or stored.

Non-hazardous waste is waste which does not have the characteristics of the hazardous waste.

Total quantity of accumulated waste (hazardous and non-hazardous) is determined and reported to the Environmental Protection Agency. The storage of waste is performed on location where waste is generated, with the exception being facilities of the Sales and Distribution, petrol stations and storages facilities, from which the collected waste is transported to the nearest organized site for temporary waste disposal. The collected waste is delivered to authorized external companies, which have the permit of the competent body for waste management, for further handling (storage, treatment, export).

The Company's goal for the following period is to direct activities at prevention of formation and reduction of waste, i.e. its permanent disposal.

USE OF WATER RESOURCES

Fresh water for supply of all parts of NIS is tapped from river water intakes, municipal water supply systems and ground waters. Water intake in NIS is primarily used for normal and undisturbed operation of production and technological process plants, for steam production, for fire protection systems, for cooling systems and for sanitary needs.

The trend of reduction of total quantities of water taken from river water intakes, municipal water supply systems and ground waters (wells), was initiated in 2010 and has been continued in 2011.

In NIS, the largest portion of the water intake is used from river water intakes, and water utilization does not endanger the potential of the Danube River.



Survey of quantities of total water intake in NIS	2010	2011
River water intake (m ³)	4,830,131	3,327,366
City water supply system (m ³)	1,315,776	482,545
Ground water (m ³)*	274,653	138,112
Total water intake in (m³)	6,420,560	3,948,023

*water taken from wells which are located at NIS facilities is used as technological water for sanitary needs, for fire protection needs, etc.

NOTE: Methodology of determination of water intake quantities in NIS is the following: for river water intake, the flowmeter is used in the Oil Refinery Pancevo and in the Oil Refinery Novi Sad the evaluation upon the capacity and the time of operation of the pump is performed; as for the city supply system, the flowmeters are used both in the Oil Refinery Pancevo and the Oil Refinery Novi Sad.

During 2011, a significant reduction in losses was achieved through realization of the pipeline rehabilitation project, especially pipelines which transport water from the site of water intake to the facilities for chemical preparation of water in the Oil Refinery Pancevo. Water consumption is monitored daily, both of the raw water from the water intake and of sanitary water from the municipal supply system. Every anomaly in consumption is instantly detected and causes are removed immediately. Due to overhaul at the Oil Refinery Pancevo in 2011, production was decreased, which additionally affected reduction in water intake quantities. The quantity of the taken and consumed water has also been

reduced in the Oil Refinery Novi Sad in like manner.

In the following period, the Company is planning some measures and will also realize some projects which will contribute to further reduction of water consumption from all resources.

WASTE WATER TREATMENT

During 2010 and 2011 NIS had realized numerous projects related to decrease in the negative effects of waste waters as part of its environmental protection strategy.



Thus, in the Oil Refinery Pancevo, activities started on the project of construction of a closed system of drainage in production and a closed system of sample taking in production.

In the Oil Refinery Novi Sad, the first phase of reconstruction of the oily sewage system was completed, which primarily prevents further pollution of soil and ground waters, and significantly impacts the efficiency of the operation of waste water treatment plants and waste water quality.

In Sales and Distribution, during 2011, the oily waste water purification separator was installed at 10 petrol stations. The end effects which are expected due to these activities are

refined waste waters without any presence of a hydrocarbon phase and solid particles which are discharged to recipients. Separator installation and the procurement of two tank trucks for cleaning the tanks, provide regular, safe and undisturbed collection and transportation of oily sludge for the purpose of environment protection.

With the realization of the mentioned projects, the trend of decrease in discharged waste water quantities, initiated in 2010, was continued in 2011.

Due to specificity of NIS activities, during production of oil from the wells, a certain type of water is obtained, i.e. the fluid

Survey of discharged quantities of waste waters (in m³)	2010	2011
Recipient (m ³)	627,747	218,417
External refinement (m ³)	1,729,756	1,374,531
City sewage (m ³)	1,023,912	826,522
Total water discharge in (m³)	3,381,415	2,419,470

NOTE: A flowmeter is used in the Oil Refinery Pancevo as a method for calculating discharged water quantities and in the Oil Refinery Novi Sad this quantity is assessed on the basis of capacity and duration of pump operation (due to materiality principle, the note was entered only for the largest users)

– the water-oil mixture. In the production facilities, such a fluid is separated into water and oil and only this water is prepared and injected in the wells where there are systems for injection. Formation water is at all times in a closed system and is used exclusively for these purposes. Thus, in 2011, the volume of 2,928,511 m³ of formation water was used for injection into wells.

The waste water system contains oily and atmospheric waters.

Oily waters of the Oil Refinery Pancevo go through the oil sewage system to the API separator for primary treatment. This primarily treated water is transferred through the pipeline to HIP Petrohemija for further treatment with biofilters. After the end of refinement, water is discharged into the HIP canal, so-called Azotara (Fertilizer Plant) canal – the Danube River as a recipient (the second class of waters).

Atmospheric waters are collected from grass surfaces and through the atmospheric sewage system, and as clarifier/sludge precipitate (solid particles precipitate) are discharged into waste waters of the so-called HIP canal, and then into the Danube River as the recipient.

REMEDIATION OF POLLUTED SOIL AND GROUND WATERS

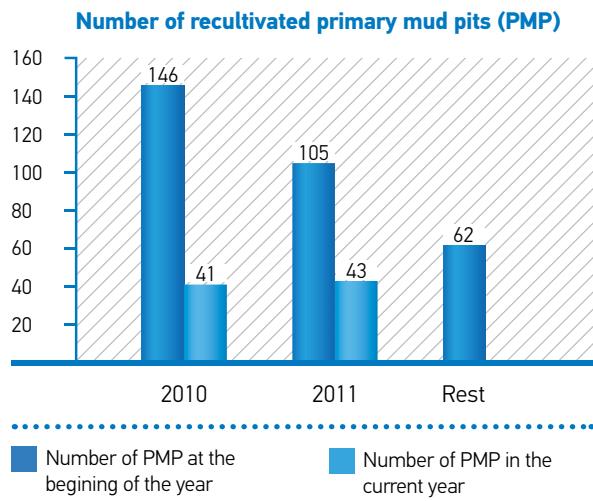
In NIS, activities related to remediation of polluted soil, formed due to activities of production, refining and turnover of oil and oil products are continued. During the drilling process, large quantities of drilled material and waste drilling mud occur, and they are disposed of in primary mud pits. These sites are subject to recovery and remediation of soil and its return to the original purpose.

For defining the location of ground water pollution, for the first time in the region at sites of the Pancevo and Novi Sad refineries and at the petrol station Obrenovac grad, geoelectric explorations (geoelectric scanning) were carried out. The method of geoelectric scanning is entirely non-destructive and non-invasive, and is also cheaper than exploration drilling and enables preparation of 2D models of electric resistance for different geological environments (2D ground resistivity model).

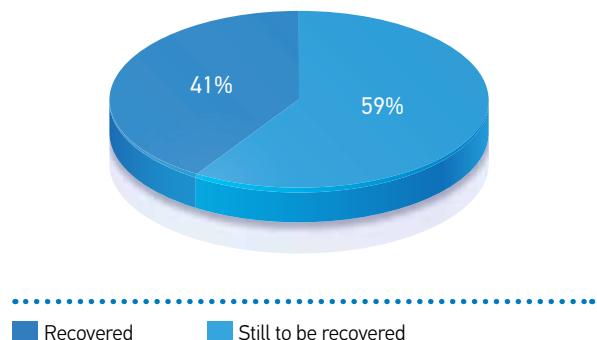
In Exploration and Production, the realization of the Project of remediation of the historic soil pollutions was continued. During 2011, a rehabilitation of 43 pure (not oily) primary mud pits was performed and a pilot project for recovery of one oily primary mud pit was realized, using the method of

PMP – before and after the recovery





Recovery of Primary Mud Pits in NIS in 2011



bioremediation at the Turija oil field.

Rehabilitation and remediation of polluted soil was also performed in the Oil Refinery Pancevo. For this kind of operation, NIS engaged a domestic authorized company, which by the end of 2011 recultivated 708.8 m³ of oily soil using the bioremediation method on the territory of the Pancevo refinery.

In the upcoming period, NIS will continue its activities related to remediation of polluted soil, but also operations for improving its business activities, for the purpose of prevention of the negative impact on the environment.

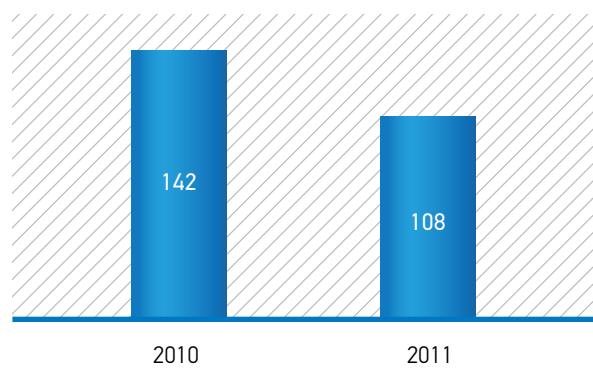
ENVIRONMENTAL ACCIDENTS

Within the scope of industrial safety, one of the Company's goals is to gradually reduce the number of accidents, injuries at work and occupational illnesses.

Corporate norms and standards and compliance with them contributed to the reduction in the number of environmental accidents in 2011. The number of environmental accidents in 2011 dropped compared to 2010 for 24%, where the majority related to minor events of spillage of substances from oil pipelines, during the manipulation process, and which

Within the scope of industrial safety, one of the Company's goals is to gradually reduce the number of accidents, injuries at work and occupational illnesses.

Number of environmental accidents



were mostly caused by technical problems and condition of the equipment, but whose consequences were remedied immediately.

According to the severity of the consequences, environmental accidents in NIS are divided into major, moderate and minor. The classification was performed

according to severity of the event and the criteria for classification are defined in detail in the Classification of Events in NIS.

In 2011, only one moderate event was recorded in May, when during the initiation of fuel loading into a barge tank, the seal ruptured and the spillage of 1,000 liters of diesel fuel

Severity of events	Number of ecological accidents	%
Major	0	0
Moderate	1	1
Minor	107	99
Total:	108	100

Number and type of environmental accidents in organizational units of NIS		
	Environmental accidents	Total
Oil or oil derivatives spillage	In water In ground	7 81
Waste water spillage (industrial or fecal)	In water In ground	4
Spillage of chemicals (within the scope of technological operations)	In water In ground	1
Spillage of other substances outside the technological processes (chemicals, used oils, etc.)	In water In ground	4
Gas emission	In air	11
Total		108

Quantity of spilled substances in 2011

Organizational unit	Spilled substances (m ³)
Refining – Oil Refinery Pancevo	23.57
Refining – Oil Refinery Novi Sad	0.30
Sales and Distribution	1.02
Exploration and Production	45.52
Total	70.41

occurred within the boundaries of the protective dam on the Danube. The consequences of this accident were completely recovered.

It is important to note that all spillages in Refining and in Sales and Distribution, although they are registered as spillages into the ground, are spillages which actually occur on concrete surfaces and are directed to the sewage system for oily waters, where collection is performed in order to prevent direct soil pollution.

The most frequent cause of ecological accidents in 2011, were oil transportation pipeline perforations. Total number of pipeline perforations has been reduced for 40% when compared to 2010, which is the consequence of realization of the Program for reduction of number of perforations. On the basis of diagnosed conditions, pipelines which were estimated to have the highest risk of perforation were replaced. A unified database on pipelines was created, which includes the assessment of the pipelines' conditions.

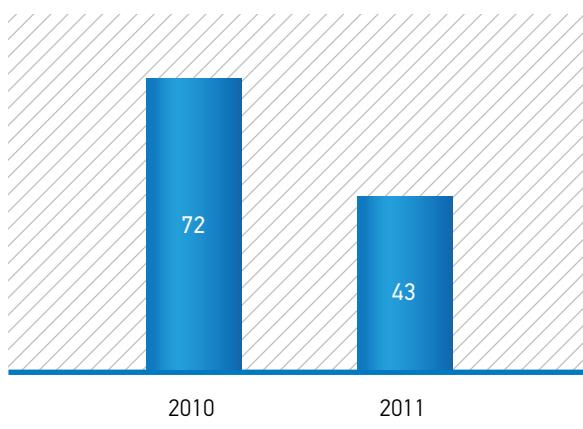
In 2011, the total reported quantity of the spilled substances was 70.41 m³, mostly oil and oil derivatives.

EXPLORATION AND USE OF RENEWABLE ENERGY SOURCES

During 2011, activities related to exploration and use of renewable sources of energy continued. Having this in mind, the CEO's Decision on Amendments and Modifications of the Organizational Structure of NIS was passed and a new organizational unit was formed in the company - Energy.

The Energy unit was formed in accordance with the development strategy of the Company, which recognizes several key activities: positioning of NIS as the energy company in Serbia and the region, increased use of renewable sources of energy (biomass, sun, wind and geothermal energy) and production of energy (cogeneration of gas and electrical

Total number of perforations



energy production through realization of the thermal power plant construction project).

In November 2011, NIS and the Government of Vojvodina signed the Memorandum on Cooperation in the Field of Geothermal Energy. Common activities of NIS and the Government of Vojvodina will be directed at defining opportunities for implementation and development of renewable energy, even regional development and development of local potentials, provision of conditions for access to European funds, production of thermal energy, stimulation and development of agricultural production, sports and recreational spa tourism.

Development of alternative sources of energy represents one of the key strategic activities of NIS and is in compliance with the global tendency towards preservation of the environment and sustainable development.



ENVIRONMENTAL PROTECTION PROJECTS IN NIS

SARU

Construction of sulfuric acid regeneration unit SARU.

- Non-waste technology allows complete refinement of spent sulfur acid into concentrated sulfur acid;
- It increases environmental safety due to decrease of SO₂ in the atmosphere through implementation of modern technology.



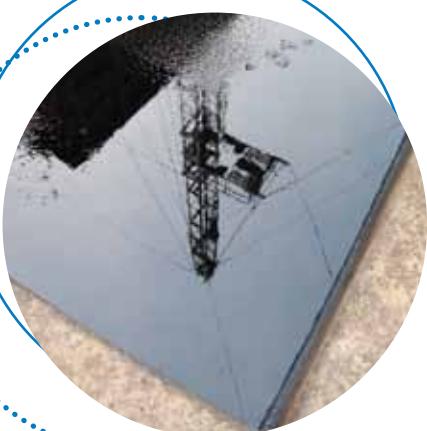
RECONSTRUCTION OF PORTS

- Tank reconstruction: fixed roof, floating membrane and double shell tanks for the storage of volatile oil products,
- Installation of a vapor recovery unit (VRU),
- Prevention of air pollution during the oil product reload;
- Elimination of possibility of ground and surface water pollution;



RECONSTRUCTION AND OPTIMIZATION OF PLANTS FOR WASTE WATER TREATMENT

- Repair of physical damages of equipment, replacement of worn out equipment and modernization of the management system;
- Waste waters quality improvement;
- Decrease of risk of ground and surface water pollution;



REHABILITATION AND RECONSTRUCTION OF THE OILY SEWAGE SYSTEM

- All oily waters are transferred by the existing technological sewage system with a length of 13 km, to the waste water treatment plant, where they are purified, prior to discharge into the recipient (city collector)
- Reduction and complete elimination of the possibility of ground and surface waters pollution



RECONSTRUCTION AND MODERNIZATION OF PETROL STATIONS

- Construction of petrol stations in accordance with latest world standards
- Installation of separators for purification of oily waste waters
- Installation of tanks with double shells
- Energy efficient facilities
- Noise reduction
- Adequate ground water and soil protection



PROJECT OF OIL REFINERY PANCEVO MODERNIZATION (MHC/DHT)

- Reduction in emissions of hazardous substances into the atmosphere
- Positive effect on the environment in Serbia through reduction in sulfur oxide emissions into the atmosphere
- Reaching EU standard 2009+ for production of gasoline and diesel fuel with reduced sulfur content
- Energy optimization of the oil refining process



BASIC MID-TERM PLANS

Systematic directing of all production activities and processes at reducing the negative impact on the environment in accordance with the principles of sustainable development

Prevention of waste generation and reduction, i.e. increase in the use of natural resources and reduction in quantities and/or hazardous characteristics of generated waste

Replacement of 20 km of worn out pipelines for the purpose of prevention of land pollution by 2015

Transfer of operation of the Oil Refinery Pancevo plants from liquid to gas fuels until 2018 and reduction in air emissions by 70%.

ANNEX 1

SUSTAINABLE DEVELOPMENT REPORTING PRINCIPLE APPLICATION

Preparation of Sustainable Development Report that shall be useful for all interested parties requires adherence to certain rules. Acting in compliance with such approach, NIS obeys those principles in this report preparation process in order to ensure report quality according to GRI standards. The report has been verified by an independent audit company - KPMG d.o.o. Belgrade in Serbia which has assessed the report's conformity with GRI guidelines, as well as the accuracy of information stated in the document. The assessed level of conditions met by NIS Sustainable Development Report for 2011 according to GRI methodology is B+.

Materiality

In this report preparation NIS uses materiality principles defined by the Standards, policies and programs referring to its social, economic and environmental activities, and which the company has adopted as the key ones for its business operations; topics included in Sustainable Development Reports of other international oil and gas companies; as well as topics of significance for interested parties.

Participation

The structure of NIS stakeholders, procedures used to identify and approach them are described in the chapter called

"Dialog with the Stakeholders". The company welcomes feedback on the content and quality of this report and shall consider it in the preparation of the next report. Contact information and the manner in which feedback can be sent, are given at the end of the Report.

Sustainability

This report presents data or described activities at the national level, as well as medium-term plans for every sustainable development segment. Plans are given at the end of every chapter and present the Company's commitment to business operations which are in accordance with sustainable development principles. The Company plans to continue to expand the scope of reporting by additional standardization of existing procedures for collection of information and data.

Completeness

The report also includes topics identified in the assessment of all aspects of sustainability. Organizational units included in the Report have been selected based on the level of their influence in relation to each topic. The report provides information and data up 31 December 2011, and when available, comparative data from the previous year is also provided. Financial and economic indicators have been taken from the consolidated financial statements (see NIS Annual Report 2011).

Balance

NIS endeavours to provide information on all topics included in the presented GRI indicators which are significant for all stakeholders. Topics are also presented by achieved and accomplished results, as well as by challenges and difficulties encountered by the company. In such a way it is also possible to give both positive and negative grades.

Comparability

By applying GRI standards and presenting certain indicators in Annex 2, it is possible for the report users to locate different indicators proposed by these guidelines and thus to do the Report comparison with the reports of other companies. The same measuring and assessment methods are used in the comparable periods, and in the case of their deviation, reasons for this are clearly defined. In this respect most indicators in this Report have been presented for the first time, it is not possible to do a complete comparison with the NIS Sustainable Development Report issued last year.

Accuracy

NIS has endeavoured to provide adequate qualitative and quantitative data with the maximum possible level of accuracy. Sources and methodology of data collection are stated in the

Report, and financial and economic data can also be found in the NIS Annual Business Report for 2011.

Timely decision-making

The process of report preparation and its presentation give the possibility to interested parties to make timely decisions on the company and its business operations.

Unambiguousness

The Report text is adjusted to all stakeholders and understandable and unambiguous wording has been used wherever possible. Because of the specific nature of NIS activity, certain terms and abbreviations which have been used are explained in Annex 3.

Reliability

According to the reporting principles accepted by the company, an independent assessment is an important instrument of information provision and data reliability. In relation to it, independent audit and verification of this Report has been carried out by an audit company - KPMG d.o.o. Belgrade.

ANNEX 2

Profile Disclosure	Description	Reported	Explanation
1. Strategy and Analysis			
1.1	Statement from the most senior decision-maker of the organization.	●	SR 4-7
1.2	Description of key impacts, risks, and opportunities.	●	AR 56-57
2. Organizational Profile			
2.1	Name of the organization.	●	SR 12; AR 24
2.2	Primary brands, products, and/or services.	●	AR 30
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	●	AR 28-48; 90-98
2.4	Location of organization's headquarters.	●	SR 12; AR 24
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	●	SR 13
2.6	Nature of ownership and legal form.	●	SR 43; AR 82-86
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	●	SR 13
2.8	Scale of the reporting organization.	●	SR 12; AR 60,103
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	●	SR 43; AR 82-86

Profile Disclosure	Description	Reported	Explanation
2.10	Awards received in the reporting period.	●	SR 22
3. Report Parameters			
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	●	SR 2
3.2	Date of most recent previous report (if any).	●	SR 2
3.3	Reporting cycle (annual, biennial, etc.)	●	SR 2
3.4	Contact point for questions regarding the report or its contents.	●	SR 120
3.5	Process for defining report content.	●	SR 106-107
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	●	SR 106-107
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	●	SR 106-107
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	●	SR 106-107
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	●	SR 106-107
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g.,mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	●	SR 106-107
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	●	SR 106-107
3.12	Table identifying the location of the Standard Disclosures in the report.	●	SR 108-115
3.13	Policy and current practice with regard to seeking external assurance for the report.	●	SR 118-119
4. Governance, Commitments, and Engagement			
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	●	SR 18-21; AR 32-48
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	●	SR 20-21; AR 35
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	●	AR 35
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	●	SR 23-27

Profile Disclosure	Description	Reported	Explanation
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	●	AR 34 CCG 11-12
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	●	CCG 15
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	●	CCG 2-14
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	●	SR 16-17
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	●	CCG 12-14
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	●	SR 18-21
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	●	AR 56-57
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	●	SR 21-22
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	●	SR 21-22
4.14 _{COMM}	List of stakeholder groups engaged by the organization.	●	SR 23
4.15	Basis for identification and selection of stakeholders with whom to engage.	●	SR 106-107
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	SR 23-27
4.17 _{COMM}	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	●	SR 27

STANDARD REPORT PART II: DISCLOSURES ON MANAGEMENT APPROACH (DMAs)

ECONOMIC

DMA EC	Disclosure on Management Approach EC
Aspects	Economic performance
	● SR 34-37
	Economic performance

Profile Disclosure	Description	Reported	Explanation
EC1 _{COMM}	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	<input checked="" type="radio"/>	SR 35
EC2 _{COMM}	Financial implications and other risks and opportunities for the organization's activities due to climate change.	<input type="radio"/>	
EC3	Coverage of the organization's defined benefit plan obligations.	<input type="radio"/>	
EC4	Significant financial assistance received from government.	<input type="radio"/>	
Market presence			
EC6 _{COMM}	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	<input type="radio"/>	
EC7 _{COMM}	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	<input type="radio"/>	
DMA EC	Disclosure on Management Approach EC		
Aspects	Indirect economic impacts	<input checked="" type="radio"/>	SR 76-77
Indirect economic impacts			
EC8 _{COMM}	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	<input checked="" type="radio"/>	SR 80-83
Environmental			
Materials			
EN1 _{COMM}	Materials used by weight or volume.	<input type="radio"/>	
EN2 _{COMM}	Percentage of materials used that are recycled input materials.	<input type="radio"/>	
Energy			
EN3	Direct energy consumption by primary energy source.	<input type="radio"/>	
EN4	Indirect energy consumption by primary source.	<input type="radio"/>	
DMA EN	Disclosure on Management Approach EN		
Aspects	Water	<input checked="" type="radio"/>	SR 95
Water			
EN8 _{COMM}	Total water withdrawal by source.	<input checked="" type="radio"/>	SR 96
EN9 _{COMM}	Water sources significantly affected by withdrawal of water.	<input checked="" type="radio"/>	SR 95
DMA EN	Disclosure on Management Approach EN		
Aspects	Ecosystem services including biodiversity	<input checked="" type="radio"/>	SR 98
Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	<input type="radio"/>	

Profile Disclosure	Description	Reported	Explanation
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.		
EN13	Habitats protected or restored.		SR 98-99
DMA EN	Disclosure on Management Approach EN		
Aspects	Emissions, effluents and waste		SR 95-98
Gas emissions, effluents and waste			
EN16 _{COMM}	Total direct and indirect greenhouse gas emissions by weight.		
EN17 _{COMM}	Other relevant indirect greenhouse gas emissions by weight.		
EN19	Emissions of ozone-depleting substances by weight.		
EN20 _{COMM}	NOx, SOx, and other significant air emissions by type and weight.		SR 93
EN21	Total weight of waste by type and disposal method.		SR 97
EN22 _{COMM}	Total weight of waste by type and disposal method.		
EN23 _{COMM}	Total number and volume of significant spills.		SR 100
DMA EN	Disclosure on Management Approach EN		
Aspects	Products and services		SR 94
Products and services			
EN26 _{COMM}	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.		SR 94-95
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.		
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.		
Social: Labor Practices and Decent Work			
DMA LA	Disclosure on Management Approach LA _{COMM}		
Aspects	Employment		SR 52
Employment			
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.		SR 53
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.		SR 54-55
DMA LA	Disclosure on Management Approach LA _{COMM}		
Aspects	Labor/management relations		SR 57
Labor/management relations			
LA4	Percentage of employees covered by collective bargaining agreements.		
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.		SR 54

Profile Disclosure	Description	Reported	Explanation
DMA LA	Disclosure on Management Approach LA _{COMM}		
Aspects	Occupational health and safety		SR 64
Occupational health and safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.		SR 69
LA7 _{COMM}	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.		SR 67
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.		
LA9	Health and safety topics covered in formal agreements with trade unions.		SR 56-57
DMA LA	Disclosure on Management Approach LA _{COMM}		
Aspects	Training and education		SR 60-62
Training and education			
LA10	Average hours of training per year per employee by gender, and by employee category.		
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.		SR 62
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.		SR 63-64
DMA LA	Disclosure on Management Approach LA _{COMM}		
Aspects	Diversity and equal opportunity		SR 52
Diversity and equal opportunity			
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.		SR 53
Equal remuneration for women and men			
Social: Human Rights			
Investment and procurement practices			
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.		
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.		
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.		
DMA HR	Disclosure on Management Approach HR		

Profile Disclosure	Description	Reported	Explanation
Aspects	Non-discrimination	<input checked="" type="radio"/>	SR 52
Non-discrimination			
HR4	Total number of incidents of discrimination and corrective actions taken.	<input type="radio"/>	
DMA HR	Disclosure on Management Approach HR		
Aspects	Freedom of association and collective bargaining	<input checked="" type="radio"/>	SR 56-57
Freedom of association and collective bargaining			
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	<input checked="" type="radio"/>	SR 56-57
DMA HR	Disclosure on Management Approach HR		
Aspects	Child labor	<input checked="" type="radio"/>	SR 54
Child labor			
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	<input checked="" type="radio"/>	SR 54
Prevention of forced and compulsory labor			
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	<input type="radio"/>	
Assessment			
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	<input type="radio"/>	
Remediation			
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	<input type="radio"/>	
Social: Society			
Local communities			
S01	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	<input type="radio"/>	
Corruption			
S02	Percentage and total number of business units analyzed for risks related to corruption.	<input type="radio"/>	
S03	Percentage of employees trained in organization's anti-corruption policies and procedures.	<input type="radio"/>	
S04	Actions taken in response to incidents of corruption.	<input type="radio"/>	
DMA SO	Disclosure on Management Approach SO		
Aspects	Public policy	<input checked="" type="radio"/>	SR 76-77
Public policy			
S05 _{COMM}	Public policy positions and participation in public policy development and lobbying.	<input type="radio"/>	

Profile Disclosure	Description	Reported	Explanation
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	●	SR 76-77
Compliance			
S08 _{COMM}	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	○	
	Social: Product Responsibility		
Customer health and safety			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	○	
Product and service labelling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	○	
Marketing communications			
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	○	
DMA PR	Disclosure on Management Approach PR		
Аспекты	Compliance	●	SR 115
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	●	SR 115
PR9	In relation to non-compliance with laws and regulations related the sale of products and provision of services during 2011, NIS was involved in several proceedings before the courts and other state authorities and no penalty was imposed or paid.	●	

ANNEX 3

GLOSSARY

Acquisition – A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm.

BDP – Gross domestic product

GRI Global Reporting Initiative (Global Reporting Initiative)

– GRI is an international non-profit making organization founded in 1997 with the aim of achieving the top quality in corporate sustainable development reporting. In this respect GRI standards have been improved from year to year, G3 i.e. "third generation" of sustainable development reporting has been applied since 2006. G3 consists of the principles and indicators that provide the framework for the content and quality of sustainable development reporting and instructions for setting limits during reporting. G3 principles can be used by small enterprises, big multinational companies, public sector, non-governmental organizations and other organizations worldwide.

Stakeholders – All private individuals and legal entities interested in the Company's business operations, which impact the Company's business results or are influenced by the Company.

Direct generated value – net sales income plus financial income, interest income and lease income

Operating costs – costs of goods sold + costs of materials + other operating expenses – leaseing expense - customs costs, property tax and other taxes, emergency situation compensation costs and oil exploitation compensation costs

EBITDA - Earnings before interest, tax, depreciation and amortization

MHC/DHT – Mild Hydro Cracking and Distillate Hydro Treating Complex

NO₂ - Nitrogen oxides

SO₂ - Sulphur oxides (IV)

H₂S - Hydrogen sulphide

Drilling mud – flush out drilling fluid has a number of uses in the drill string while an oil well is being drilled (to flush out rock cuttings, seal off porous zones, maintain pressure so that oil does not escape, strengthen the sides of the drill channel)

Drill cuttings –rock cuttings flushed out by the drilling mud and carried from the bottom of the well to the surface
Contaminated mud – used mud in the process of drilling to be deposited into primary mud pools located in the vicinity of oil wells

Contaminated mud – used mud in the process of drilling to be deposited into primary mud pools located in the vicinity of oil wells

OHSAS (Occupational Health and Safety Management System) – Internationally accepted standard of Occupational Health and Safety Management System assessment

OHSAS 18001 Standard called "Occupational Safety and Professional Disease Prevention Management Systems". Requests from the series of " Occupational Safety and Professional Disease Prevention Assessment" (version 2007) – one of the most frequently applied standards in Employees' Occupational Safety and Health Management.

OECD (Organisation for Economic Co-operation and Development) – Organization for Economic Cooperation and Development

FCC Fluid catalytic cracker – Fluid catalytic cracker
Injuries (IR) = Total number of injuries/Total number of working hours*1000000

Lost days (ODR)=Total number of lost days /Total number of working hours*1000

Absence from work (LDR)=Sick leave because of injuries at work/Total number of working hours*1000

RAR (Road Accident Rate) - traffic safety coefficient (number of road accidents in relation to million passed kilometres)



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TRANSLATION

Limited Assurance Report on the Report on Sustainable Development

TO THE BOARD OF MANAGERS
NIS A.D. NOVI SAD

Scope and Responsibility

We have reviewed the Report on Sustainable Development for 2011 of the NIS a.d. Novi Sad (the "Company"). Management is responsible for the preparation of the Report on Sustainable Development in accordance with the Global Reporting Initiative Guidelines (GRI) issued in 2006, as set out in the "Application of the Sustainable Development Reporting Principle" section. Management is also responsible for determining the Company's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues, and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived. Our responsibility is to issue this report based on our review.

Performed Procedures

We carried out our work in accordance with the criteria established for review engagements by "International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000)", issued by the International Auditing and Assurance Standards Board (IAASB). That Standard requires that we comply with applicable ethical requirements (the Code of Ethics for Professional Accountants issued by the International Federation of Accountants, IFAC), including independence requirements, and that we plan and perform the engagement to obtain limited assurance about whether the report is free from material misstatement. A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the sustainability report, and applying analytical and other evidence gathering procedures, as appropriate.

These procedures included:

- comparison of information and data presented in the "Economic Development" section of the Report on Sustainable Development to the corresponding information and data included in the Company's consolidated financial statements as at and for the year ended 31 December 2011, on which auditor issued report dated 10 February 2012 in accordance with the Law on Accounting and Auditing of the Republic of Serbia;
- analysis of the functioning of key processes for generating, recording and managing quantitative data presented in the Report. In particular we performed the following procedures:
 - interviews and discussions with management of the Company to gather information on the IT, accounting and reporting systems used in preparing the sustainability report, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the office that prepares the Report;

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državom.

- sample based analysis of related documents used in preparing the Report serves the purpose of confirming process effectiveness, their adequacy with respect to described goals, as well as that the internal control system is properly managing data and information included in the Report;
- analysis of reconciliation of qualitative information included in the Report, with guidelines noted under Scope and Responsibility, as well as general consistency, especially in the sense of strategy and policy of sustainable development and assignment of material issues for each category of interested parties;
- analysis of the process of involvement of interested parties in terms of methods used and completeness of participants, based on review of minutes from meetings or through all other available information on identified key factors;
- receipt of presentation letters from the Company's legal representative on compliance with guidelines set out under Scope and Responsibility, as well as reliability and completeness of information and data presented therein.

The extent of evidence gathering procedures performed in a limited assurance engagement is compliant with ISAE 3000 and provides a lower level of assurance in that we would potentially have identified significant issues and events in an audit.

The Report on Sustainable Development includes the corresponding information and data of the prior year report for comparative purposes, with respect to which reference should be made our report dated 15 July 2011.

Opinion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Report on Sustainable Development for 2011 of the Company is not prepared, in all material respects, in accordance with the GRI - Global Reporting Initiative issued in 2006, as set out in the "Application of the Sustainable Development Reporting Principle" section.

As indicated by the directors in "Application of the Sustainable Development Reporting Principle" section of the Report on Sustainable Development for 2011, the Company intends to continue to extend the reporting scope of the Report through further standardisation of the existing information and data gathering procedures.

Belgrade, 21 June 2012

KPMG d.o.o. Beograd

(L.S.)

James Thornley
Partner

*This is a translation of the original Limited Assurance Report issued in the Serbian language.
All due care has been taken to produce a translation that is as faithful as possible to the original.
However, if any questions arise related to interpretation of the information contained in the
translation, the Serbian version of the document shall prevail.*

Belgrade, 21 June 2012

KPMG d.o.o. Beograd



James Thornley
Partner



CONTACT DETAILS AND FEEDBACK

We are interested to hear your opinion.

NIS is open for your comments and questions. It is in our mutual interest that the public is timely and accurately informed.

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