



NIS

GAZPROM NEFT



NAFTNA INDUSTRIJA SRBIJE
BUSINESS REPORT 2010.



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“ NIS strategy includes international development closely intertwined with Gazprom Neft leadership. ”

Foreword

Naftna industrija Srbije is a strategically important company for Gazprom Neft. NIS is the first European company owned by Gazprom Neft as its majority shareholder, and is seen as the best starting point for Gazprom Neft's expansion into the European market. That is why we invest heavily into NIS's overall improvement and development, so that NIS can become a leading player in the country and the region.

The objectives of NIS development involve production of oil derivatives complying with the highest European Union standards, as well as the increase of refining volumes along with reducing Refinery's harmful effects on the environment. As a result, we expect that NIS's share of the domestic market of oil derivatives will be up to 70%, and a substantial expansion of NIS presence outside of Serbia.

Over the course of last year we made efforts to create the basis for long-term stability of the company: NIS strengthened its market position, expanded its resource base, increased its internal efficiency and commenced implementation of a number of large projects in production, refining and sales of oil derivatives. Summing up 2010 business results we can say that this year was truly successful for NIS.

Gazprom Neft's role in the development of NIS represents, above all, the implementation of one of the largest investment projects in Serbia so far. It is an investment of more than 500 million Euros in the development of production facilities of the company. Construc-

tion of the hydrocracking and hydrotreating complex in Pancevo Oil Refinery, a major element of the complex process of modernization, will enable NIS to equally compete with European players. In addition, Gazprom Neft has decided to expand its investment program and invest significant resources, not only in the MHC/DHT, but also in the construction of hydrogen and spent sulphuric acid regeneration plant as part of the Refinery modernization.

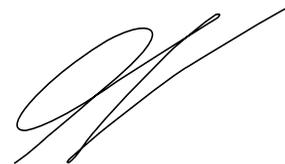
It is important that as a basis for its activities NIS pursues efficiency and constructive dialogue in business relationships with shareholders, partners and the public. The company development occurs under close cooperation between the two largest shareholders. Without constant support and constructive dialogue with Serbian Government these remarkable results would be impossible to achieve. In the second half of 2010, the company was transformed into an open joint stock company; it has adopted its own Corporate Governance Code and created mechanisms of interaction with minority shareholders, having the largest number of shareholders in global practice so far. This is why NIS corporate governance received most favourable appraisals by the Serbian Chamber of Commerce and the World Bank, which represents a significant step in improving the company's business operations in accordance with international standards.

NIS strategy includes international development closely intertwined with Gazprom Neft

leadership. In 2010, NIS emerged on the international scene by establishing a company in the Republic of Srpska and starting to look into opportunities for cooperation with neighbouring countries: Bulgaria, Romania, Macedonia, Montenegro and Croatia.

Growing global energy market capacity combined with high NIS potential represent a good basis for further improvement of company's basic financial and production indicators. I am sure that by the end of 2012, NIS will not only maintain its position, but will

significantly strengthen it and become an efficient leader in the Balkans. We are optimistic about the future and we expect another successful year.



Vadim Yakovlev

Chairman of Board of Directors
Naftna Industrija Srbije





“ NIS has an enormous potential and we hope that in ten years time we will emerge as the most efficient company of the region and become one of the strongest players in the Southeast Europe ”

The year that is now behind us we can consider as crucial in the Company's development. One of the main challenges – efficient cost management and the increase of profitability has been successfully met. The year of 2010 was the first in the recent history of NIS when the company posted positive business results, specifically: we met the year's end with an exquisite achievement of net profit of RSD 16.5 billion, being the first positive outcome after many years.

Inevitably, external factors directly affected the Company's business operations: poor macro-economic situation on the market was not at all helpful, high inflation rate, as well as large fluctuations in the RSD exchange rate, certainly influenced the financial results achieved, those of the first six months in particular. However, during the second half of the year foreign exchange losses decreased and were supplemented with the achievement of good production results, implementation of new technologies and cost reductions, giving rise to the positive business result in 2010.

Increased crude oil and gas production, operational costs reduction and internal efficiency improvement were the main sources of profit in 2010.

It should be noted that in the past year we have managed to create a solid basis for further development of the company, primarily due to positive results in the production. 2010 was the most successful year in the production of oil and gas in the past ten years. By successful implementation of measures for increase of efficiency, last year's volume of production of domestic crude oil and gas was

exceeded by 33% and has reached 1,229.4 tons of conditional tones. In addition, last year we extended our license for geological research over the exploration region south of the Sava and Danube rivers for 10 years, and now we have the opportunity to perform geological exploration works and develop production over the 10-year period. Other than that, we have increased our oil reserves, despite the growth in production.

As for the structure of refining, the share of domestic crude processing increased in 2010, while a growth in production of European quality oil derivatives was increased and production of leaded petrol was terminated. This is extremely important for a business operation in a country making European integration its priority, and NIS has actively been involved in activities related to Serbia joining the EU.

When it comes to petroleum products sales, in 2010 NIS increased its market share in Serbia. Other than that, an overhaul of petrol stations network was positively appraised: last year alone NIS reconstructed as many petrol stations as it has reconstructed over the last nine years, while more than 200 petrol stations have been automated.

For the Company as a whole, the most important event is the beginning of construction of a hydrocracking facility within the Pancevo Oil Refinery. This represents an investment project of an utmost importance for not only development of NIS, but the economy of entire Serbia and its neighboring countries. Modernization of Refinery is at the same time a major environmental project, with tangible environment protection effects. Due to this

project NIS will be able to produce all of its derivatives in accordance with EU quality standards and will become a competitive company compared to the foreign producers on the market, while Serbia will gain the most modern oil refining facility compliant with all European standards. Apart from reconstruction and construction of hydro-cracking facility in Pancevo, the Refinery underwent a capital overhaul this year.

A complex modernization of the Pancevo Refinery is one of the pre-requisites for a successful business operation in Serbia's oil derivatives market, which was liberalized on January 1, 2011. We are aware that market liberalization is necessary for all serious market participants, and for us it is an important stimulating phase of our development. We shall make every effort to boost our efficiency, improve quality of our products and expand our retail network. In pursuit these aims, it was in the year of 2010 that we commenced a significant petrol stations automation project that will result in the reduction of costs. Besides that, the first fully operational unmanned petrol service station was set up in Belgrade last year. I hope that there will be much more of these petrol stations this year and that we will commission them at supermarkets and car dealerships.

As for the outlook, it is important to note that we have started to develop a ten year development strategy in 2010. NIS has an enormous potential and we hope that in ten years time we will emerge as the most efficient company of the region and become one of the strongest players in the Southeast Europe. We are already making our first steps toward the achievement of our aim for NIS to



become a competitive international Company. Some of these steps are: obtaining new licenses, big volume of business deals based on contracts with business partners outside of Serbia, mostly in Turkmenistan, expansion of our operations in the Republic of Srpska by setting up a joint venture „Jadran-Naftagas“. Furthermore, we are actively exploring and analyzing possibilities for our expansion in the region.

Last year was also marked by the most valuable investment projects since the incorporation of our company, most prominently the modernization of the Pancevo Refinery. A great success has been achieved: investments in 2010 increased by 87% compared to 2009. This year, we expect large investments, in excess of EUR 400 million, not only in the Refinery, but also in infrastructure, petrol stations network expansion and crude oil and gas production innovations.

Other than that, the year of 2010 was marked by yet another important step. NIS was listed on Prime Market of the Belgrade Stock Exchange. We met the set deadline for transformation into an open joint stock company and listed NIS shares on the stock market. Due to share transfer, our company now has five million shareholders and we are aware of our responsibility to Serbia's citizens, but we are certain that we will live up to their expectations by becoming the most successful oil Company not only within the country but also across the region.

The year ahead of us holds new challenges – running business in a liberalized market and managing the largest investments up to date. In the period to come, along with further

improvements of business efficiency, production growth and cost optimization, assuming a stable RSD exchange rate, we hope that we will achieve even better business results.

Kirill Kravchenko

General Manager
Naftna industrija Srbije



GENERAL INFORMATION



General information on Company as of December 31st 2010.

Business Name:	NIS a.d. Novi Sad
Company Identity Number	20084693
Address:	Novi Sad, Narodnog fronta 12
Tax ID	104052135
Web site:	www.nis.rs
e-mail:	office@nis.rs
Activity:	0610 – crude oil exploitation
Number and date of reg. with BRA:	BD 92142, 29.09.2005
Equity as of 31.12.2010.	47,018,714,000 RSD
Share capital as of 31.12.2010.	81,530,200,000 RSD
Number of employees as of 31.12.2010.	10,041*
Audit firm that has audited financial report for 2010:	PricewaterhouseCoopers d.o.o. Omladinskih brigada br. 88a Belgrade (Novi Beograd)

* without employees from service providers

Issued shares

Number of issued common shares:	163,060,400
Face value:	500.00 RSD
CFI code:	ESVUFR
ISIN number:	RSNISHE79420

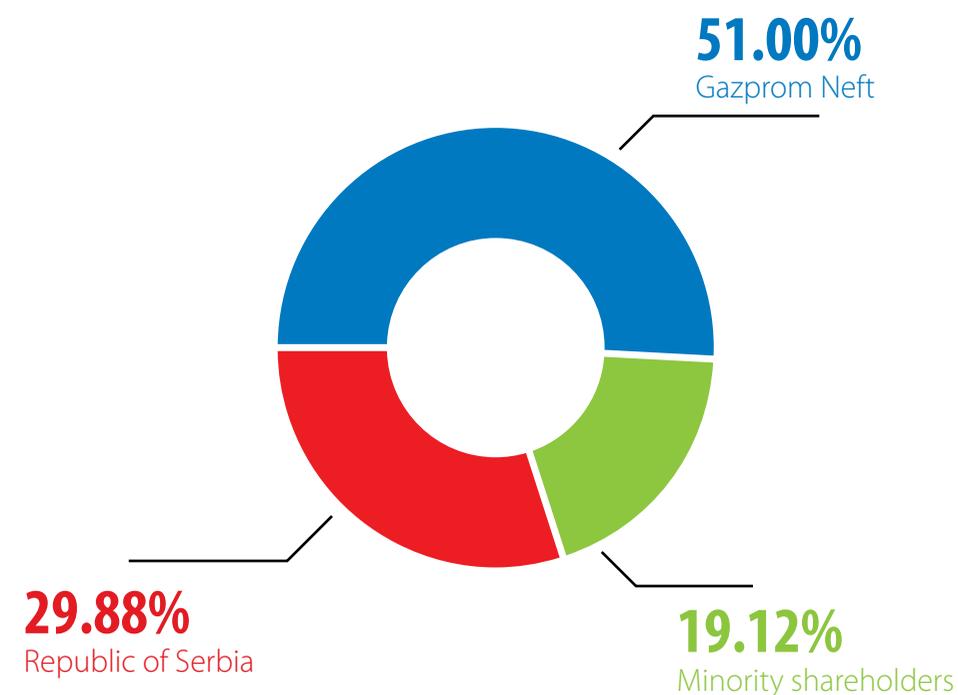
Organized Market where Shares of the issuer are traded in

Belgrade Stock exchange
Omladinskih brigada br. 1
11070 Novi Beograd

Under the decision of the Belgrade Stock Exchange Commission for listing and quotation on 23.08. 2010 shares of NIS were listed on listing A – Belgrade Stock Exchange Prime market.

Shareholder structure as of December 31st 2010.

Gazprom Neft	51.00%
Republic of Serbia	29.88%
Minority shareholders	19.12%



Shareholders *

Business name	Number of shares	Part in share capital (%)
Gazprom Neft	83,160,800	51.0000%
Republic of Serbia	48,719,344	29.8781%
Societe Generale Serbia - custody account	752,661	0.4616%
Bdd M&V Investments a.d.	223,202	0.1369%
Unicredit Bank - custody account	220,000	0.1349%
ЗБ Инвест д.о.о.	201,871	0.1238%
Societe Generale Serbia - custody account	190,330	0.1167%
Hypo Custody 4	157,976	0.0969%
Citadel financial advisory d.o.o.	103,503	0.0635%
Dunav Re a.d.	103,502	0.0635%
Other shareholders	29,227,211	17.9242%
Total number of shareholders as of 31.12.2010.	4,186,620	

*as of 31.12.2010.

Information on subsidiaries

Company	Activity	Part in share capital (%)
O ZONE a.d. Belgrade Marsala Birjuzova, 3-5, Belgrade, Serbia	Hotels and motels with a restaurant	100%
OOO „NIS OVERZIS“, Moscow, Russian Federation Bolyshoj Golovin pereulok 12, Moscow, Russian Federation	Activities in accordance with the registered business activity of the founder	100%
NIS-OIL Trading GmbH, Frankfurt am Main Mendelssohn str. 59, Germany (in the liquidation process under the founder's decision in 2010))	Wholesale and retail trade; import and export of crude oil, oil derivatives, chemicals and petrochemicals, etc.; mediation and representation activities in trade with above products	100%
„Jadran - Naftags“ d.o.o. Banja Luka Ivana Franje Jukica 7, Banja Luka, BH	Exploration and production of oil and gas	66%
NIS – SVETLOST d.o.o., Bujanovac Industrial zone bb, Bujanovac, Serbia	Wholesale of solid, liquid and gaseous fuels and similar products	51.32%
OOO „SP Ranis“, Moscow district, Chernogolovka, Russian Federation Moscow oblast, Chernogolovka, Russian Federation	Scientific research and development in the field of natural and technical sciences	51%
Jubos d.o.o. Bor Djordja Vajferta 29, Bor, Serbia	Production of copper	51%



MISSION, VISION AND STRATEGY

Mission and Vision of the Company

MISSION

To give the people of Balkan region energy for movement towards better by responsible use of natural resources and modern technology.

VISION

Vertically integrated oil company NIS will emerge as a leader in its industry across the entire Balkan region through its sustainable growth and increased efficiency, demonstrating high social and environmental responsibility and high customer service standards.

Company Values

- Professionalism
- Initiative and responsibility
- Culture of mutual result
- Positive attitude and willingness to cooperate

Strategy

- NIS development strategy is based on a detailed analysis of the situation in the local oil industry and in the region, as well as on the forecast of its further development. The focus is placed on the production, refining,

retail and oilfield services as the key strategic business segments which provide for the balanced development of entire NIS.

Short-term strategy

The short term strategic goal of NIS is to join the ranks of the most stable and the most efficient oil companies in Europe and to build a base for further quality business growth perspective, which involves:

- Growing volume and low costs of production
- Refining with increased white products yield and operating costs reduction
- Leading sales network in the Republic of Serbia
- Marketing of the products on the Balkan and European market

Long-term strategy

The long term strategic goal of NIS is to become a competitive company on the southeastern European market and the regional player with the fastest growing production, refining, sales and distribution volumes and profitability in the Balkans. In order to reach this goal it is necessary to provide:

- Increase of oil and gas production and of hydrocarbon reserves due to geological exploration
- Production of motor fuels in accordance with EU standards
- Leadership market position in the Republic of Serbia with stable growth in supply to the local and Balkan's market
- Possibility to make joint ventures and strategic partnership with company-partners in Serbia and abroad

Strategy Implementation Stages

Creation of basis for qualitative development of Company

Implementation of major projects that provide long term growth and development

New dimensions of business, international activity

2011 until 2013 until 2020



ГРАДИМО

ДУНОСТ

2010 HIGHLIGHTS

January – March

- **01.01.**
Newly constructed gas station „Krusevac 5“, built in accordance with the modern market requirements and strict environmental regulations was opened.
- **05.02.**
Naftna Industrija Srbije and University of Novi Sad signed an Agreement on strategic cooperation that involves realization of activities in the field of education, research and knowledge transfer.
- **12.02.**
The first batch of lubricants under the brand of NISOTEC, including various types of lubricating oils and liquids was produced
- **25.03.**
An Agreement with the bank “Vojvodjanska Banka a.d. Novi Sad” was signed. Under this Agreement this bank is engaged to act as a corporate agent of NIS a.d.

April – June

- **16.04.**
NIS and “Neftegazinkor”, the subsidiary company of JSC “Zarubezhneft”, signed Memorandum of understanding on cooperation development in geological exploration and production of hydrocarbons in the Republic of Serbia and in Bosnia and Herzegovina.
- **27.04.**
Construction of two-way gas pipeline Gospodjinci-Banatski Dvor was completed.
- **01.06.**
Start of the first well drilling in the Caspian Sea in Turkmenistan, under the Contract signed by the end of 2009 with oil company “Dragon Oil” from UAE.
- **07.06.**
Signed Agreement on Cooperation with the Government of Vojvodina for stable social and economic development of Autonomous Province of Vojvodina and increase of life standards. standards.
- **16.06.**
NIS and the University of Belgrade signed Contract on strategic cooperation in education.
- **21.06.**
Decision was made to transform NIS into open joint stock company.

Start of hydrocracking and hydrotreating complex construction within the modernization of processing activities.

July - September

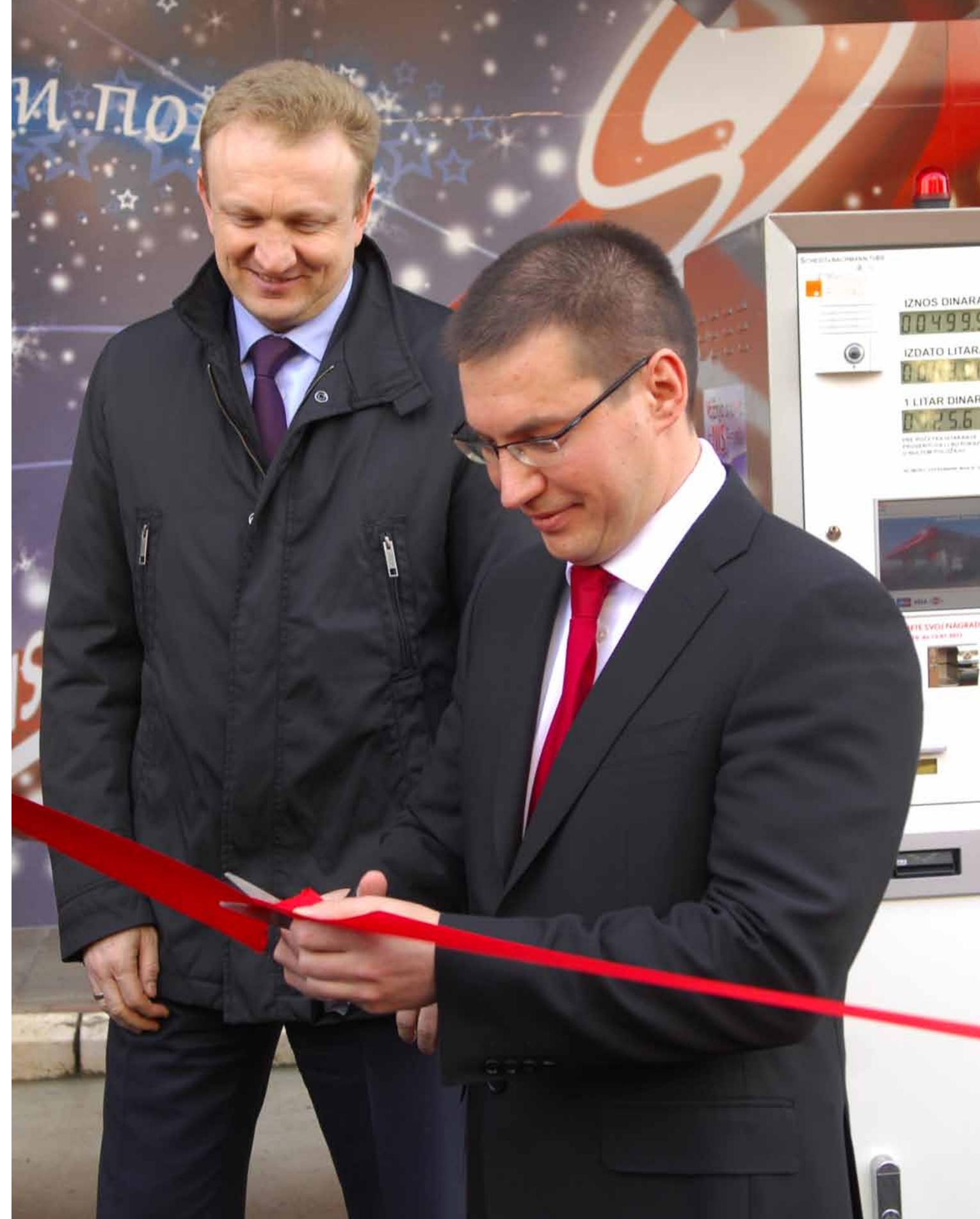
- **15.07.**
Agreement between NIS a.d and HIP-Petrohemija a.d.Pancevo on long-term strategic cooperation in restructuring was signed.
- **16.07.**
Memorandum on founding a joint company of NIS and Neftegazinkor, a subsidiary company of Zarubezhneft, for oil exploration and production in the Republic of Srpska (BH) was signed.
- **31.07.**
Agreement on strategic cooperation in the field of culture signed with the city of Belgrade.
- **19.08.**
Start up of the oil production system Sabacka at oil field “Kikinda Varos”.
- **23.08.**
Belgrade Stock Exchange issued acceptance for NIS shares to be included into listing A - Prime Market.
- **31.08.**
The first day of NIS stock trade at Belgrade Stock Exchange.
- **01.09.**
Agreement on Social and Economic Cooperation signed with the city of Nis.
- **24.09.**
Contract between Secretariat for Energy and Mineral Resources of the Autonomous Region and NIS for the geological exploration on the territory of Vojvodina was signed.

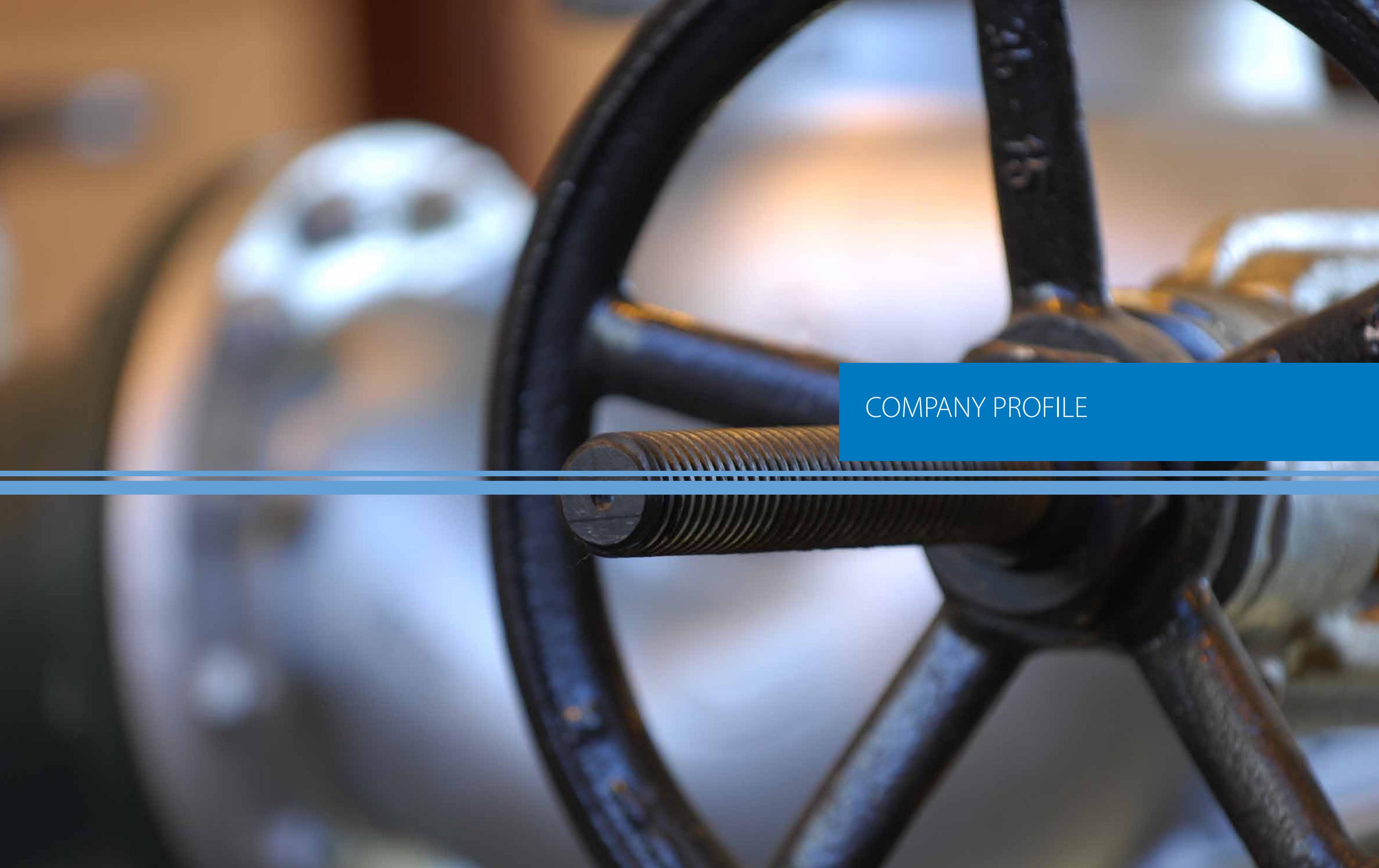
October – December

- **01.10.**
Commencement of new organizational chart implementation with less management tiers.
- **07.10.**
“AddBlue”, a new environment friendly product from a NISOTEC group of products, designed for commercial consumers of EURO diesel, was put on the market.
- **11.10.**
Commencement of Pancevo Oil Refinery annual reconstruction.

The biggest primary plant for crude oil refinement, atmospheric distillation (S-2100), in Pancevo Oil Refinery was launched.
- **15.10.**
Two year corporate MBA education program for 15 NIS managers started at Novi Sad University. Education on business education program MBA is part of Agreement on cooperation with Novi Sad University.
- **01.11.**
Launching of new modul of business system SAP for BULK and DAS processes which provides logistics in processes of production, transportation and refining of crude oil, import of crude oil, LPG and commercial products, export and wholesale of oil derivatives, marketing of lubricants and lubricating materials, procurement and inventory management in retail, and also the process of transportation and storage of oil derivatives.

- **10.11.** New petrol station Backa Topola was opened. Under the program of reconstruction of existing and building of new petrol stations by the end of year modern retail objects in Kladovo, Nova Varos, Loznica, Sid and Nis will be opened.
- **22.11.** Annual plan for production of oil and gas was performed.
- **26.11.** Team of experts from the Serbian Chamber of Commerce and International Finance Corporation have positively estimated NIS corporate management system.
- **20.12.** A branch in Nojabrsk, Russian Federation, was founded.
- **22.12.** The first unmanned gas station in Serbia was put into operation.
- **23.12.** Limited liability company for oil exploration and production „Jadran-Naftagas“ was founded in the Republic of Srpska as a joint company between NIS and Neftgazinkor, an affiliate



A close-up photograph of a mechanical assembly. The central focus is a dark, cylindrical threaded shaft that passes through a large, dark metal wheel with several spokes. The background is blurred, showing other parts of the machinery and a bright light source. A blue horizontal bar is overlaid across the middle of the image, containing the text 'COMPANY PROFILE' in white capital letters.

COMPANY PROFILE

Company History

The predecessor company of NIS was the Enterprise for Crude Oil Exploration and Production, founded in 1949 by the Resolution of the Government of the Federative National Republic of Yugoslavia, and named Naftagas in 1953. Naftagas was later transformed into a company incorporating the refineries in Pancevo and Novi Sad, as well as Pancevo Azotara, a fertilizer plant. By the end of 1973 Naftagas integrated the retail enterprises Jugopetrol – Belgrade and Jugopetrol - Novi Sad.

In 1991 NIS was established as a public company for exploration, production, refining and sales of crude oil, oil products and natural gas. At that time, it comprised Naftagas, Gas, Energogas, Jugopetrol, Naftagas Promet and Engineering, and the production enterprises Pancevo Oil Refinery, Novi Said Oil Refinery, Belgrade Oil Refinery and Krusevac Lubricant Factory.

From this company the current NIS, Srbijagas and Transnafta have been formed in 2005. On 1 October 2005 NIS became a joint stock company dealing with production of crude oil and gas, crude oil refining and sales of oil products, production and marketing of liquid petroleum gas.

In 2009, JSC Gazprom Neft acquired 51% of NIS shares, and the Government of the Republic of Serbia remains the owner of 49% of shares.

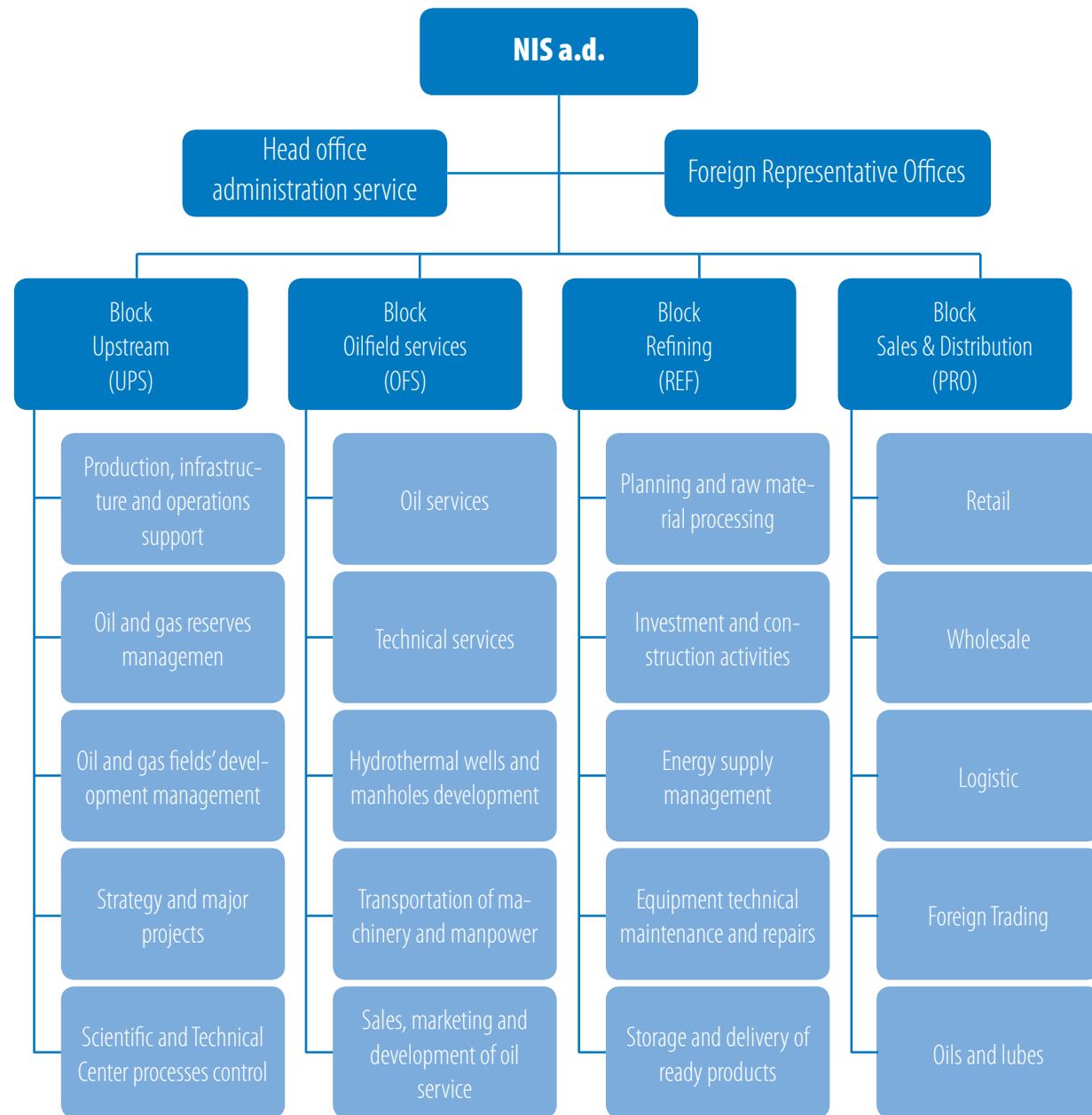
In January 2010, 19,08% of shares owned by the Republic of Serbia pass into the ownership of the citizens of the Republic of Serbia, employees and ex-employees of NIS.

In June 2010, NIS was transformed into open joint stock company.

Key Events

- **2010**
On the 6th of January 19,08% of the shares owned by the Republic of Serbia pass into the ownership of the citizens of Serbia, employees and ex-employees of NIS. Hydrocracking and hydrotreating complex in Pancevo Oil Refinery launched in June that means the beginning of NIS refinery complex modernization. On June 21st, NIS became an open joint stock company. On August 23th Belgrade Stock Exchange Commission for listing and quotation decided to accept NIS shares for Listing A – Prime Market, while on August 30th shares trading in Belgrade Stock Exchange started.
- **2009**
51% of NIS acquired by Gazprom Neft; 49% remains under control of the Republic of Serbia. Production modernization project was launched in September.
- **2005**
The Company became a joint stock company
- **1999**
NATO bombing of NIS facilities
- **1991**
Establishment of the Public Company Naftna industrija Srbije
- **1985**
Beginning of the Angola crude oil production (concession)
- **1982**
Geological exploration of oil and gas in Montenegro started
- **1979**
Horgos-Batajnica gas pipeline was put into operation
- **1968**
Novi Sad and Pancevo Oil refineries started operation. The oil field Velebit was discovered
- **1963**
Completion of the first main gas transmission line Mokrin-Kikinda-Elemir-Velika Greda-Pancevo
- **1953**
Construction of the first petrol stations started
- **1952**
First crude oil fields discovered
- **1951**
Gas transportation system improvement was launched
- **1949**
Naftagas established, the first gas fields discovered

Business structure of Company



Field of Activities

Naftna industrija Srbije (NIS) is one of the largest vertically-integrated companies in the southeast Europe. It deals with exploration, production and refining of the oil and natural gas, as well as with the sales of wide range of oil derivatives. The Company's registered headoffice and its main production capacities are located in the Republic of Serbia which, thanks to its geographic position, is the heart of trade and investment in the Balkans.



Business activities of NIS in 2010 were organized within the four blocks:

- Block Upstream
- Block Oilfield Services
- Block Refining
- Block Sales and Distribution

Partly decentralized functions/directorates

- Function for Finances, Economics, Planning and Accounting
- Function for Material, Technical and Service Support
- Function for Organizational Issues and
- Directorate for Industrial, Environmental Safety, Occupational Safety and Health

And centralized functions

- Function for Strategies and Investments
- Function for Legal and Corporate Affairs
- Function for Corporate Security
- Function for Business Development and External Affairs
- Function for Internal Audit
- Function for Public Relations and Communication

Block Upstream is involved in exploration and production of oil and gas, including production, infrastructure and operational support, oil and gas reserves management, oil and gas fields' development management, major projects in the field of exploration and production as well as Research Centre process control and Scientific and Technical Centre processes control. NIS has entered into three contracts for share of the Angola crude oil (PSA, Production Sharing Agreement):

[PSA, Block 3/05](#)

[PSA, Block 3/05A](#)

[PSA, Block 3/85 and PSA, Block 3/91](#)

The Block includes the Elemir natural gas refinery, designed for production of approximately 60.000 t of liquefied gas (propane, butane) and gasoline.

Block Oilfield Services provides main support in exploration and production in all oil and gas upstream activities, from geophysical services, through drilling and overhaul of wells, to the transportation of the machinery and manpower, machinery maintenance as well as construction and maintenance of oil and gas systems and facilities.

Block Refining deals with oil derivatives production at two separate locations in Pancevo and Novi Sad. They produce a whole range of oil derivatives – motor fuels, feedstock for petrochemical industry, motor oil, and other crude oil products. Average annual refining volume in the last several years was about 3 million tons of crude oil, while the maximum capacity of the refinery units in these two refineries is approximately 7 million tons of crude oil annually.

Block sales and Distribution covers foreign and domestic trade, wholesale of all oil derivatives, and the retail which includes the finished derivatives, liquid petroleum gas and accessory merchandise. NIS has 509 operating retail facilities (petrol stations, loading stations for LPG, LPG bottles sales points), 7 utility facilities, 31 storage facilities all over across the territory of Serbia and 6 tank farms.

Products and services

NIS Refineries produce a wide range of oil products and natural gas products, conforming to the international quality standards and the manufacturing specifications of the refineries:

1. Automotive fuels

- Liquid petroleum gas for motor vehicles
- Unleaded motor gasoline BMB 95 „EURO Premium”
- Unleaded motor gasoline BMB 95 „Premium”
- Unleaded motor gasoline BMB 92 “Regular”
- Motor gasoline MB 95 “Premium” (production was suspended in November, 2010)
- Euro diesel
- Diesel D2

2. Liquid petroleum gas

- Mixture of propane & butane in tanks
- Mixture of propane & butane in cylinders
- Iso-butane
- Butane

3. Aviation fuel

- GM-1 – for jet fuel engines
- JET A-1 – for jet fuel engines (in accordance with „Defense Standard”)

4. Lubricating oil and grease

- Motor oil
- Transmission oil
- Service liquids
- Industrial lubricants

5. Fuel oil

6. Bitumen

7. Petrochemical products (virgin naphtha, propylene)

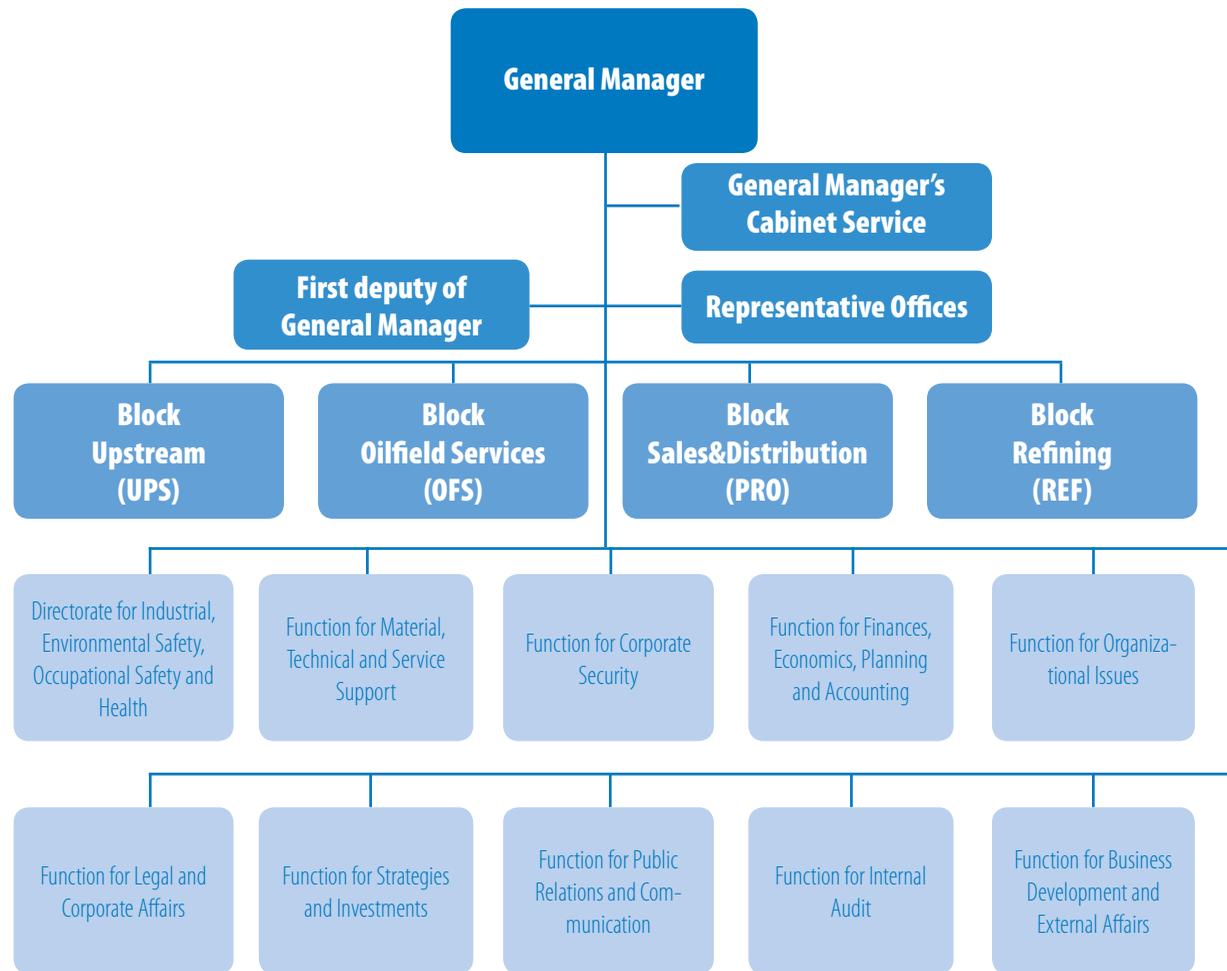
8. Distillates and raffinates

9. Other products (benzene, toluene, liquefied sulfur, special naphtha)

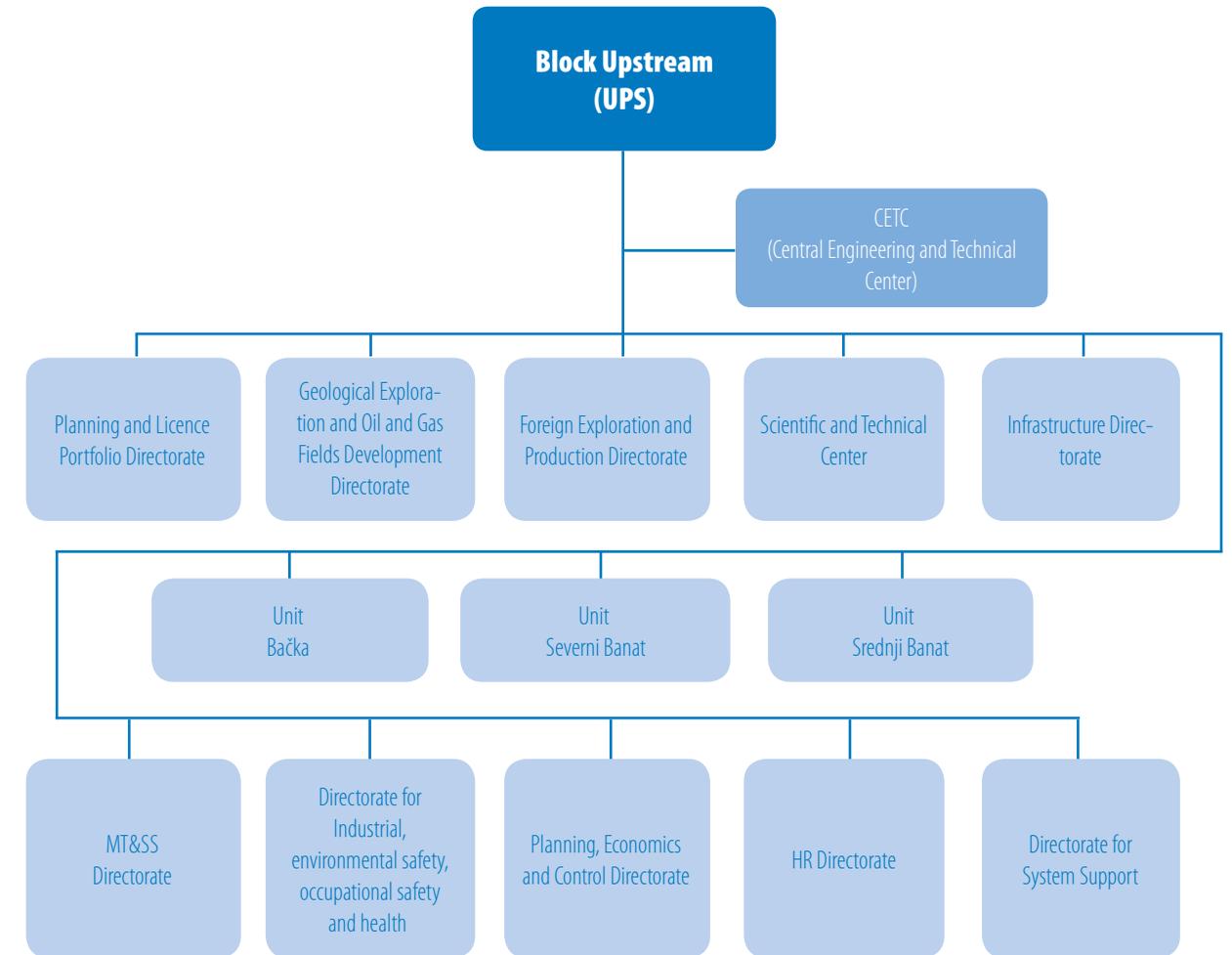
NIS also produces drinking water “Jazak”.

Apart from that NIS has an ample offer of services, among which are toll processing of oil, transport and storage of oil products, laboratory testing and oilfield services (drilling, equipping and overhaul of oil, gas and geothermal wells, geophysical testing and measuring, maintenance and construction of oil and gas production systems, equipment maintenance and repair, construction and maintenance of transport pipelines, drilling, equipping and overhaul of drinking water wells, materials and equipment transportation) and services of Scientific and Technical Centre processes control (design of geological research, geophysical study and field development, designing and other engineering services).

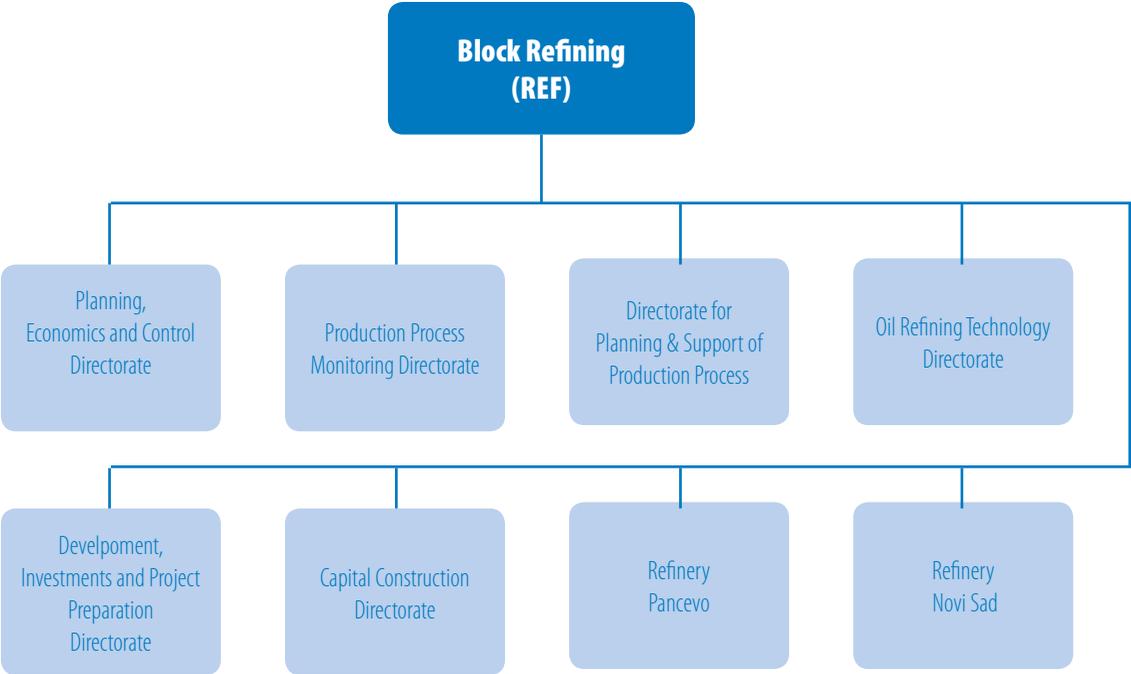
NIS Business Structure (Headquarters)



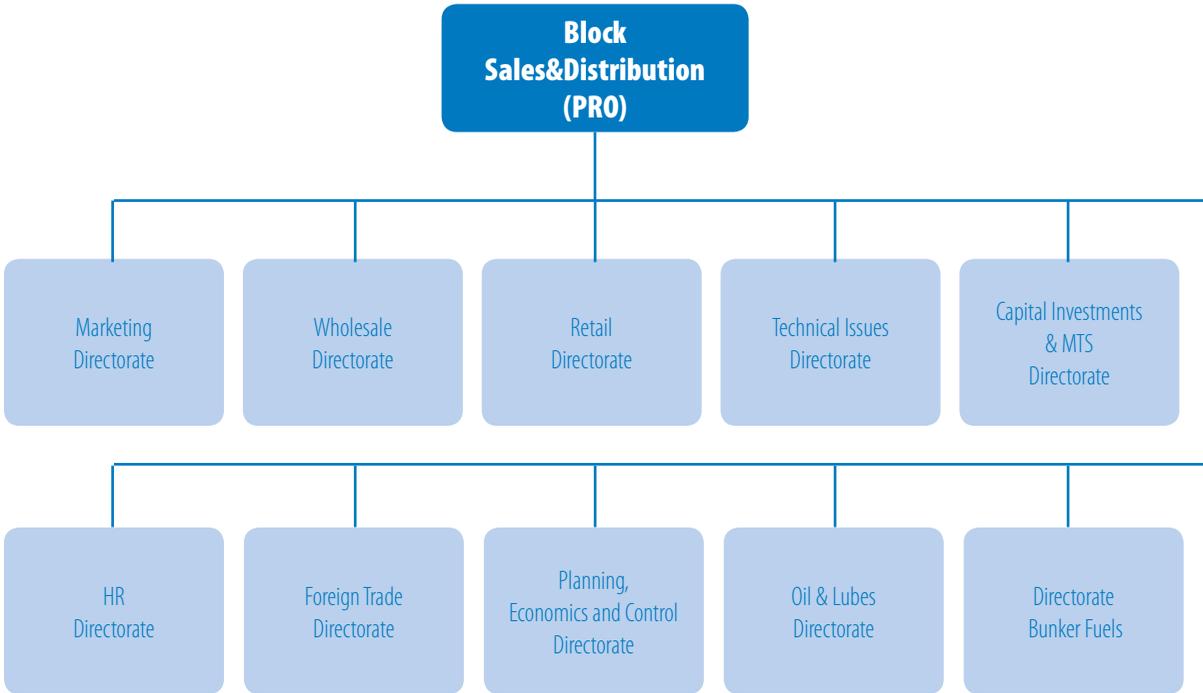
Business structure of Block Upstream



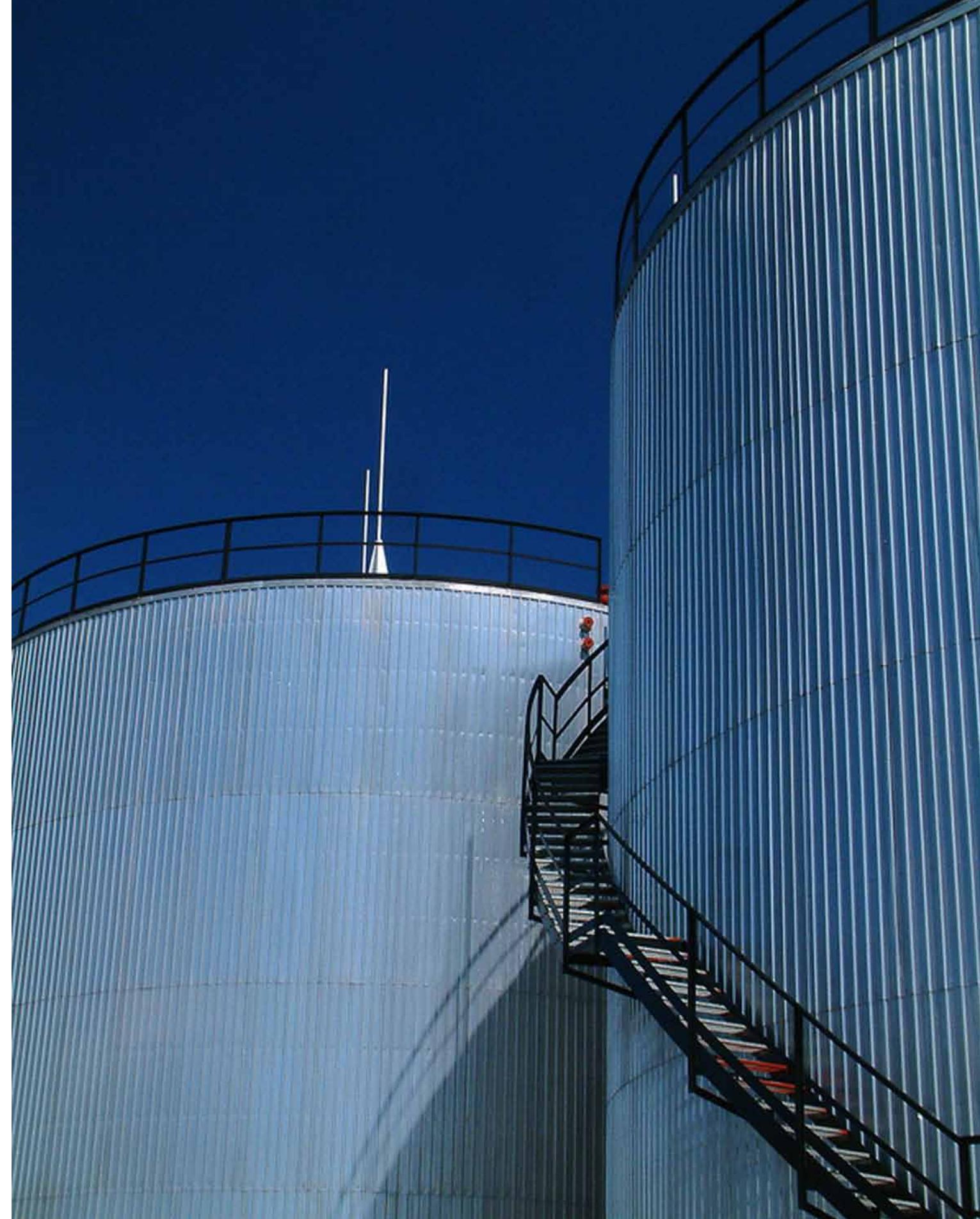
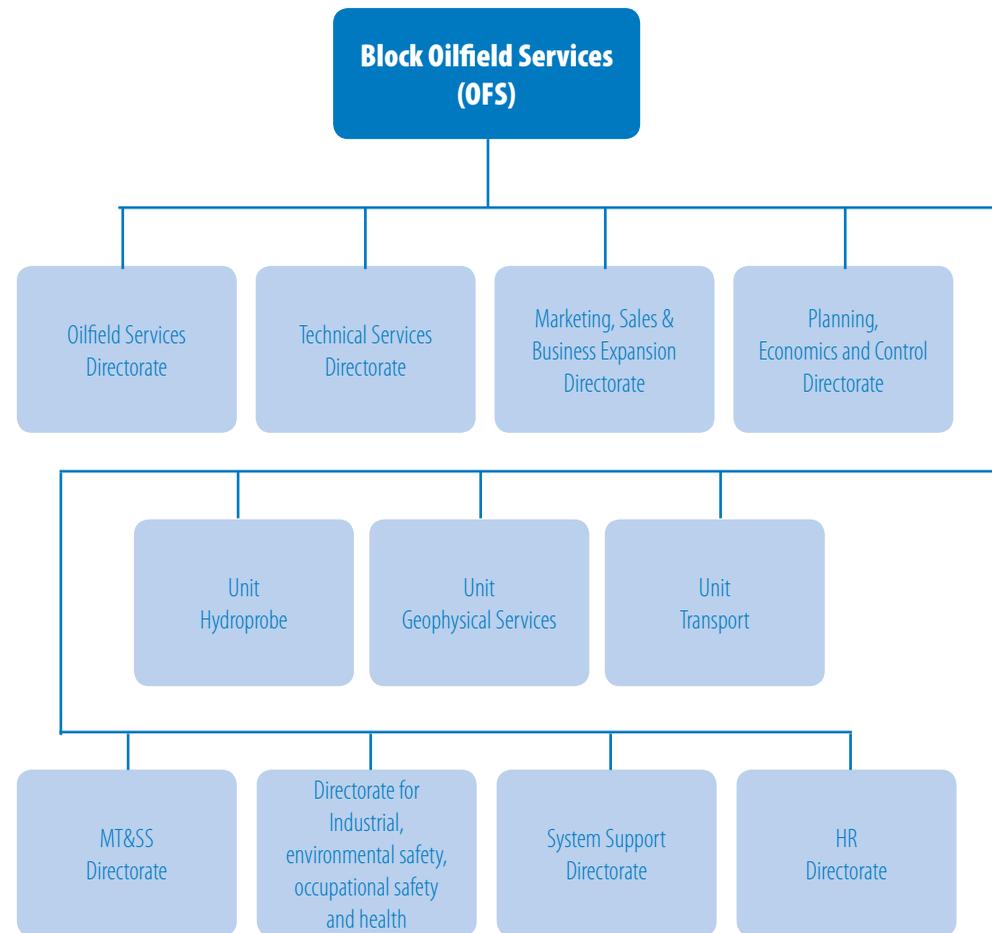
Business structure of Block Refining



Business structure of Block Sales and Distribution



Business structure of Block Oilfield Services





KEY INDICATORS



Key indicators of business activity

Key indicators	Measurement units	2009	2010	Change	
				Amount	%
Urals	\$/bbl	60.76	78.10	17.3	29%
Net loss (profit)	bln. RSD	-4.4*	16.5	20.9	475%
Net loss (profit) before foreign exchange	bln. RSD	-0.2	27.7	27.9	14090%
Net FX loss	bln. RSD	-4.2	-11.3	-7.1	-168%
EBITDA	bln. RSD	10.4*	32.4	22.0	212%
Sales (excise tax excluded)	bln. RSD	118.4	161.2	42.8	36%
OCF	bln. RSD	17.6	17.8	0.2	1%
Paid taxes and fiscal obligations **	bln. RSD	73.9	83.8	9.9	13%
Domestic oil and gas production	thousand cond. tons***	922.1	1,229.4	307.3	33%
Domestic oil production	thousand tons	662.7	864.9	202.2	31%
Oil processing volume including third parties	thousand tons	2,871.7	2,856.9	-14.9	-1%
Oil processing volume excluding third parties	thousand tons	2,621.0	2,849.7	228.7	9%
Total sales of oil products	thousand tons	2,571.1	2,614.2	43.1	2%
Oil derivatives local market sales	thousand tons	2,248.2	2,260.9	12.8	1%
Retail	thousand tons	586.7	562.8	-23.9	-4%
Light oil derivatives sales	thousand tons	1,474.1	1,620.4	146.3	10%
CAPEX from GPN loan****	mln. EUR	58.7	113.2	54.50	93%
Inflow of funds from GPN (cumulative from 2009.)	mln. EUR	61.2	210	148.8	243%
CAPEX from OCF (NIS projects)	bln. RSD	3.3	5.1	1.8	55%
Total debt to banks	mln. USD	793	611	-182	-23%
Total bank indebtedness*****	mln. USD	1,026	644	-382	-37%
Market share in Republic of Serbia	%	65.2%	66.5%	1.30	2%

Calculation of percentage values is based on values expressed in millions of RSD.

All possible discrepancies in values expressed in relative and absolute values are due to rounding error.

Values for CAPEX from GPN loan and CAPEX from OCF are without VAT

**Before opening balance adjustments on 2nd February and before impairment of the fixed assets (see presentation "General data about NIS on 31 December 2009 page 50 for further detail.) In compliance with IFRS after Gazprom Neft acquired 51% in ownership corrections of opening balance were made in assets and liabilities values as of February 2nd 2009. Independent appraiser was hired in order to determine real value of assets and liabilities and based on his report impairment of assets was carried out.

** Taxes paid and fiscal obligations includes taxes, duties, fees and other public revenues

*** 1.256 m3 gas = 1 conditional ton of oil

**** Under the Agreement of sale and purchase of shares of NIS a.d Novi Sad, clause 8.1.2, JSC Gazprom Neft (GPN) has an obligation to provide EUR 500 million to NIS a.d. Novi Sad by way of special purpose loans in order to implement NIS Novi Sad technological complex reconstruction and modernization program. CAPEX from GPN loan does not include letters of credit. CAPEX with letters of credit (VAT excluded) in 2010 amounted to 135,4 million EUR.

***** Total bank indebtedness = Total debt to banks + letters of credit

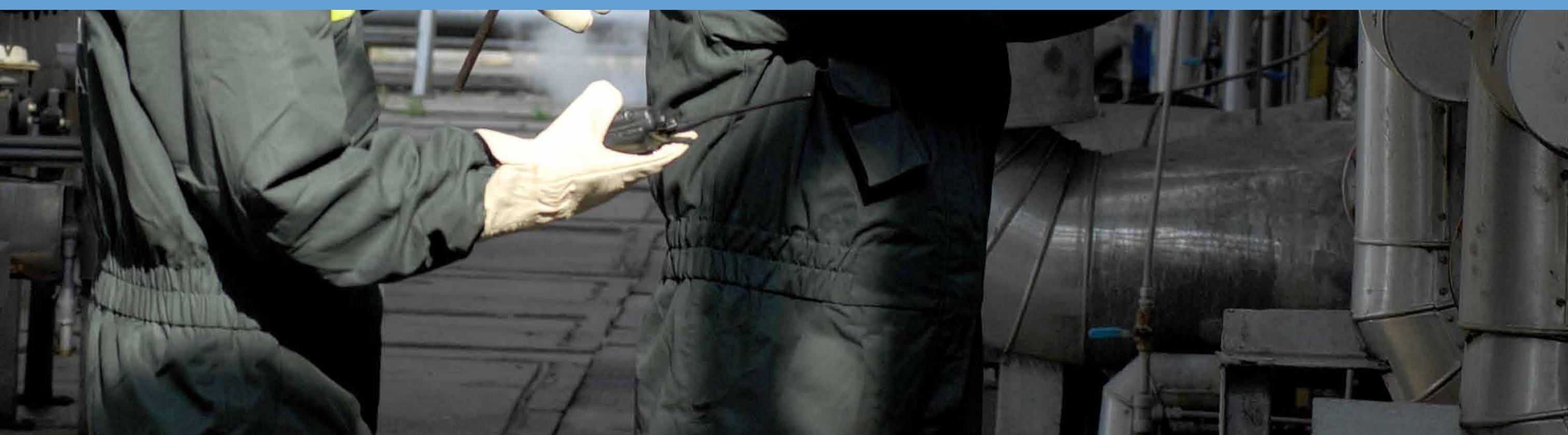
Ratios

Ratio	2009	2010	Change	
			Amount	%
Return on total capital (Gross profit/total capital)	-122%	26%	148%	121%
Net return on equity (Net profit/shareholders equity*)	-43%	19%	62%	144%
Net business profit (Gross profit/net revenues from sales)	-2%	17%	19%	999%
Debt to Equity ratio (total liability/equity)	108%	126%	19%	17%
Debt to Capital ratio (total liabilities/total capital)	291%	234%	-56%	-19%
1st level of liquidity/cash ratio (cash and cash equivalents/current liabilities)	16%	17%	1%	6%
2nd level of liquidity/Quick Ratio (liquid assets/current liabilities)	48%	57%	9%	20%
Working capital turnover ratio	-10%	11%	21%	210%

*Shareholders equity = Share capital and other capital



HUMAN RESOURCES

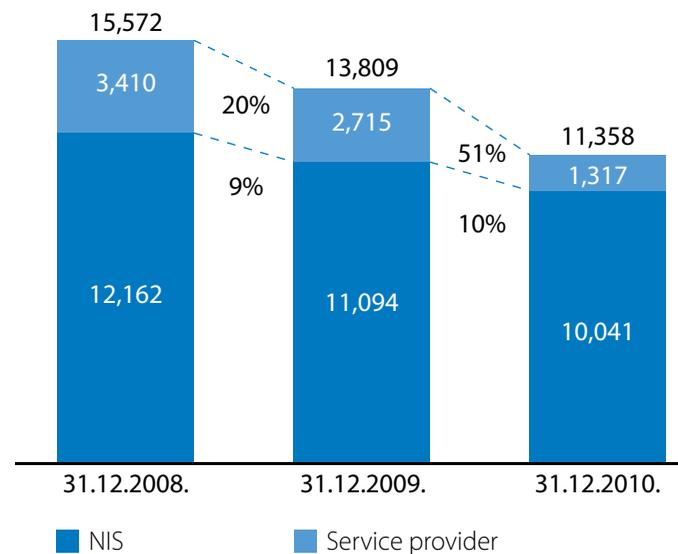


Number and structure of employees

Trends in number of employees

Total number of employees in NIS as of December 31st, 2010 was 10,041, which represents decrease of 9,5% (1,053 employees) in comparison to 11,094 employees at the end of 2009.

Average number of employees in 2010 was 10,583.



Employees' qualification and age structure and grounds for termination of employment

Employees' qualification structure as of December 31st 2010

NIS by Blocks	PhD	MSc	BSc	ABSc	HS	ES	HQ	Q	SQ	NQ	Total
NIS Headquarters	3	58	708	118	296	6	38	71	2	2	1,302
NIS - Block UPS and OFS	6	30	614	125	828	8	186	957	21	22	2,797
Block Sales and Distribution	2	30	441	348	1,591	42	635	675	18	3	3,785
Block Refining	1	8	291	119	1,275	1	251	178	8	25	2,157
Total	12	126	2,054	710	3,990	57	1,110	1,881	49	52	10,041

Employees age structure as of December 31st 2010

NIS by Blocks	< 20	20-30	30-40	40-50	50-60	> 60	Total
NIS Headquarters	0	132	477	370	283	40	1,302
NIS - Block UPS иOFS	1	149	762	1,023	775	87	2,797
Block Sales and Distribution	0	148	997	1,518	1,051	71	3,785
Block Refining	0	132	528	734	709	54	2,157
Total	1	561	2,764	3,645	2,818	252	10,041

Grounds for termination of employment

	2008	2009	2010
Retirement	27	52	63
Program of voluntary leave	259	1,238	1,237
Other	138	72	133
Total	424	1,362	1,433

According to an Agreement on sale and purchase of NIS shares and a signed social program, NIS can offer voluntary termination of employment to employees, provided that NIS makes one-time severance payment to employee in the amount of 750 EUR per each year of employment as well as four average salaries at the company.

Program of voluntary leave is carried out in strict compliance with the obligations taken

by NIS after the arrival of the new majority shareholder. A decision to leave the company can only be made via mutual voluntary agreement between the employee and the employer.

In 2010 total number of 1.075 employees has left the company under this program.

Human Resources Management Policy and Occupational Safety

NIS Human Resource Management Policy

As every successful company, NIS regards its employees as most important and most valuable asset. Investment in HR for NIS is a base and precondition for achieving efficiency in operations and acquiring the status of the most respected company in the Balkans in the area of oil and oil products production and sales.

- HR selection
- HR development
- Reward system
- Social responsibility
- Occupational safety and health

HR Selection

Following the changes in management and Company ownership structure, HR selection is established on the totally new concept, with a primary goal- to correlate it with the new NIS mission and strategy, and contribute to their fulfilment. In order to achieve the goals which are highly set, NIS requires, in addition to the significant investments, the specially qualified personnel with knowledge and experience in the special technology of production, refining, and sales of oil and oil products That is why

HR selection process is constantly revised and improved. New rules for personnel selection are applied for all positions in the Company, from the management team to the lower positions in hierarchy. Special attention is paid to bringing the best quality young professionals to NIS. One of the key projects for provision of the young quality experts is the project of cooperation with universities.

This project includes the Days of NIS event at university, choosing the best students and granting them NIS Corporate scholarship, including the opportunity for student internship and specialization at various NIS departments. This way NIS wants to attract the most talented students, and by employing them, make the business socially responsible by creating attractive environment for quality professionals in the Republic of Serbia. Project „First Chance“ organized by NIS and National Employment Service provides an opportunity for young, hardworking and ambitious graduates to link their theoretical skills with the experience of a large company in order to broad their knowledge and experience. Within the framework of the project “First Chance 2010” NIS has engaged 66 volunteers, while for the First Chance 2011 the company is planning to engage much more volunteers.

Project „First Chance“ in 2010

	Volunteers	Probationers
Graduate Mining engineer	16	13
Graduate Geological engineer	4	2
Graduate Civil engineer	16	13
Graduate Electrical Engineer	12	10
Graduate industrial engineer	18	12
Total	66	50

HR Development

NIS invests actively in development of employees' knowledge and skills. By building the quality and continuous training system, NIS wants to insure that its employees are receiving training and acquiring high qualifications equivalent to the European and international standards in production, processing and sales of the crude oil and oil products. In 2010 NIS invested RSD 81 million in HR development. Employees training program is designed to suit the needs of the Company business processes and corporate culture that NIS wants to create. A number of basic directions

is covered by already worked out training programs: professional trainings that raise the knowledge level of the professional personnel, trainings for implementation of corporate culture changes and management and business skills development, and finally, trainings that help building the staff reserves.

Reward system

NIS established the reward system for its employees based on the evaluation of all job positions according to the universal criteria: professionalism, qualification, complexity of work, quantity and quality of work. Strategies for short term and long term employees' motivation systems are formulated as well as the immaterial rewards as a special form of motivation.

Within the mentioned strategies in 2009, NIS, introduced for the first time, the evaluation of the employees on the quarterly and annual basis, and the adequate reward system through the variable performance-based remuneration and the premiums for excellent individual contribution, and has continued to use this system in 2010. The variable part of employee remuneration depends on the mark that he/she got in the specific three-month period as well as on the performance indicators of NIS in the whole, and is equal to 15% of the basic employee's remuneration in that quarter.

NIS management by applying the motivation plan, wants to gain specific benefits that will lead to the higher work efficiency, better organizational climate with high employees motivation and loyalty towards NIS, and at the same time, by retaining the existing and attracting the highest quality staff from the neighbouring areas, to make NIS one of the most attractive employers in the region.

Social responsibility

The employees in NIS are provided with high level of social protection, regulated by the Collective Agreement and Social program.

Special benefits for the employees

Collective Agreement and Social Program regulate the special benefits for the employees in NIS:

- Conditions for continuous improvement and development of employees
- Special protection for the people who became disabled or sick while at work
- Additional voluntary retirement insurance
- Guarantee that the NIS employee remunerations are at the same level as in other Serbian majors and adjustment to the retail price increase plus real growth depending on the business results and GDP
- Right to solidarity funds
- Right to receive the jubilee award
- Special stimulation leaving pays in case of redundancy
- Educational and professional fund for employees

Occupational safety and health

The nature of operations in any oil industry requires high level of health and safety at work and presents one of the priorities and preconditions for the success of a company. In order to insure the highest possible efficiency and quality of the occupational safety, the Occupational safety and health committee is established in NIS and the appropriate internal acts are adopted that simplify the application of the Collective Agreement in this field of operation.

Continuous rising of the safety level and regular monitoring of employees health is carried out, besides regular medical checkups, by continuous health control of the workers who do their jobs in special working conditions.



CORPORATE GOVERNANCE



Corporate Governance

As one of the largest Serbian companies, NIS is aware that the high level of corporate governance is important for successful operation, maintenance of the market share and competitiveness, protection of the shareholders' interests and contribution to the overall economy growth.

NIS has been making great efforts to fully comply both with the local legislation and the generally accepted international standards and practice, through the ongoing development and improvement of corporate governance system.

The corporate governance system is directed towards:

- protection of the rights and interests of shareholders and company's interests;
- shareholders equal treatment;
- control of the company executive bodies by the Board of Directors and the Board of Directors responsibility before the shareholders;
- transparency of the decision-making process by managerial body;
- professionalism and ethics of the managerial bodies and supervisory bodies;

- timely, complete and correct reporting and announcing of all important information;
- effective control of finance and business activities of the company in order to defend the shareholders rights and legitimate interests;
- development of business ethics and corporate social responsibility.

NIS strategic corporative objective:

- professional and responsible management,
- efficiency of the Board of Directors and Executive Board acting in the best interests of the company and its shareholders in order to increase the assets and value of the company
- high level of the transparency and publicity of the company business activity.

On November 26th, 2010 the system of corporate governance in NIS was highly rated by a team of experts from the Serbian Chamber of Commerce and IFC - International Finance Corporation.

Corporate Governance Code

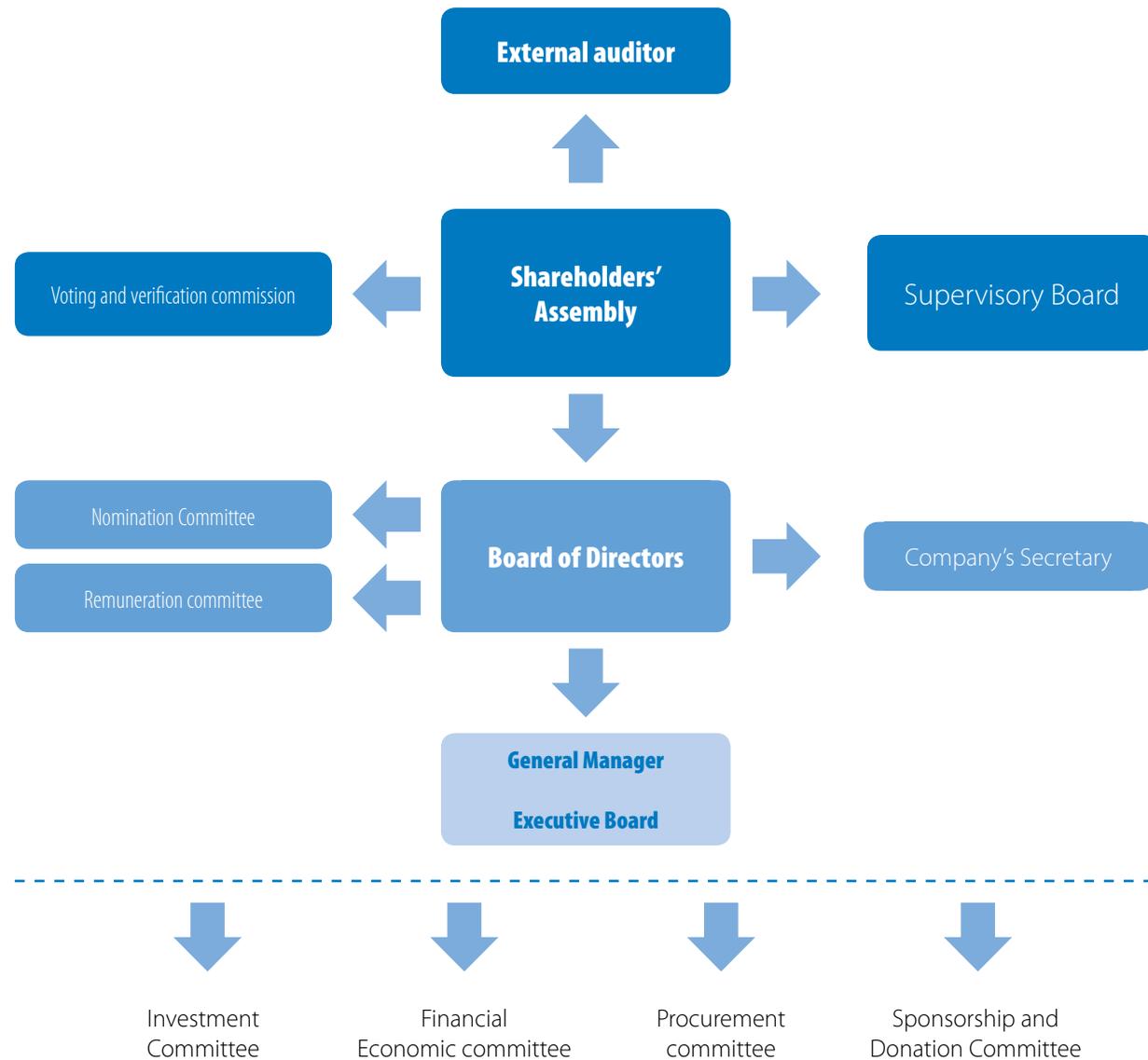
Corporate Governance Code establishes the principles of corporate governance practices and organizational culture that the corporate governance performers shall comply with, mainly with the shareholders rights, framework and way of their activities, publicity and transparency of the business activity.

Goal of the Corporate Governance Code is to implement fair trade practices in the area of corporate governance which should enable the balance of influence of its performers,

control system consistency and increase of shareholders and investor's confidence, all in order to ensure long-term business development.

NIS has decided for his own Corporate Governance Code.

Structure of corporate bodies



Company Bodies

Shareholders' Assembly

The Shareholders' Assembly is the top management body of NIS, through which the shareholders adopt and approve fundamental corporate decisions. Under the Constituent Act the Shareholders' Assembly is responsible, among other things, to make decisions on:

- Changes in the Memorandum of Association and the Articles of Association;
- Changes in status, legal form, registered business activity and registered seat of the Company;
- Acquisition and disposal of high value property in accordance with the Company Law ;
- Acceptance of the financial statements, Board of Director's Report and Audit Report related to the financial statements;
- Remuneration and bonus policy for Board of Director members;
- Election and removal of the Board of

- Directors members;
- Election and removal of the Board of Auditors;
- Appointment and dismissal of the auditor;
- Increase or decrease in the Company share capital;
- Termination of NIS.

As long as the Republic of Serbia has at least 10% of NIS share capital, the affirmative vote of the Republic of Serbia is required for the Shareholders' Assembly make decisions on: acceptance of the financial statements and auditor reports, changes in the Memorandum of Association and the Articles of Association, increase or decrease in the Company share capital, changes in status, acquisition and disposal of high value property of NIS, changes in registered business activities and registered seat of the Company and termination of NIS.

Board of Directors

General governance of NIS is under the competence of the Board of Directors which plays a central role in the system of corporate governance.

An efficient, professional and independent Board of Directors is essentially important for the implementation of good corporate governance practice. Under the Incorporation Act of NIS the Board of Directors is responsible, among other things, to make decisions on:

- Convening the Shareholders' Meeting, approval of the agenda and Shareholders' Assembly decisions;
- Adoption of the Company development strategy, establishing or approving of a business plan;
- Control of the financial reports and information accuracy;
- Approval of interim financial statements and periodic reports on activities which acceptance is out of the Shareholders' Assembly responsibility;
- Appointment and dismissal of the General Manager and members of the Executive Management Board;
- Deciding on the distribution of profits and covering losses in accordance with the Law on Enterprises
- Adoption of NIS Code of Corporate Governance.

Supervisory Board

The Supervisory Board is an internal supervisory body of NIS responsible for NIS financial and accounting activities control, as well as monitoring compliance with laws and regulations, and reporting to the Shareholders' Assembly on the issues herein.

The Supervisory Board also reports to the Shareholders' Assembly on the External Auditor qualification and extent of independence, and contracts signed between NIS and associated entities, particularly with Board of Director members.

The Supervisory Board members report to the Shareholders' Assembly.

The Supervisory Board also controls and reviews with the Board of Directors and External Auditor, if appropriate, the following: adequacy and completeness of NIS financial statements and the basis for proposals for distribution of profit and other distributions to the shareholders the adequacy and completeness of the Company's disclosure of financial and other information to the members; compliance of organization and operation of the Company with the code of conduct; suitability of Company business policy and its compliance with law; settlement of objections raised by shareholders, Company bodies or other persons, as well as basis of chaise of the External Auditor and remuneration for his services.

Executive Board and General Manager

Executive Board is a corporate executive body of NIS responsible for executing decisions of the Board of Directors.

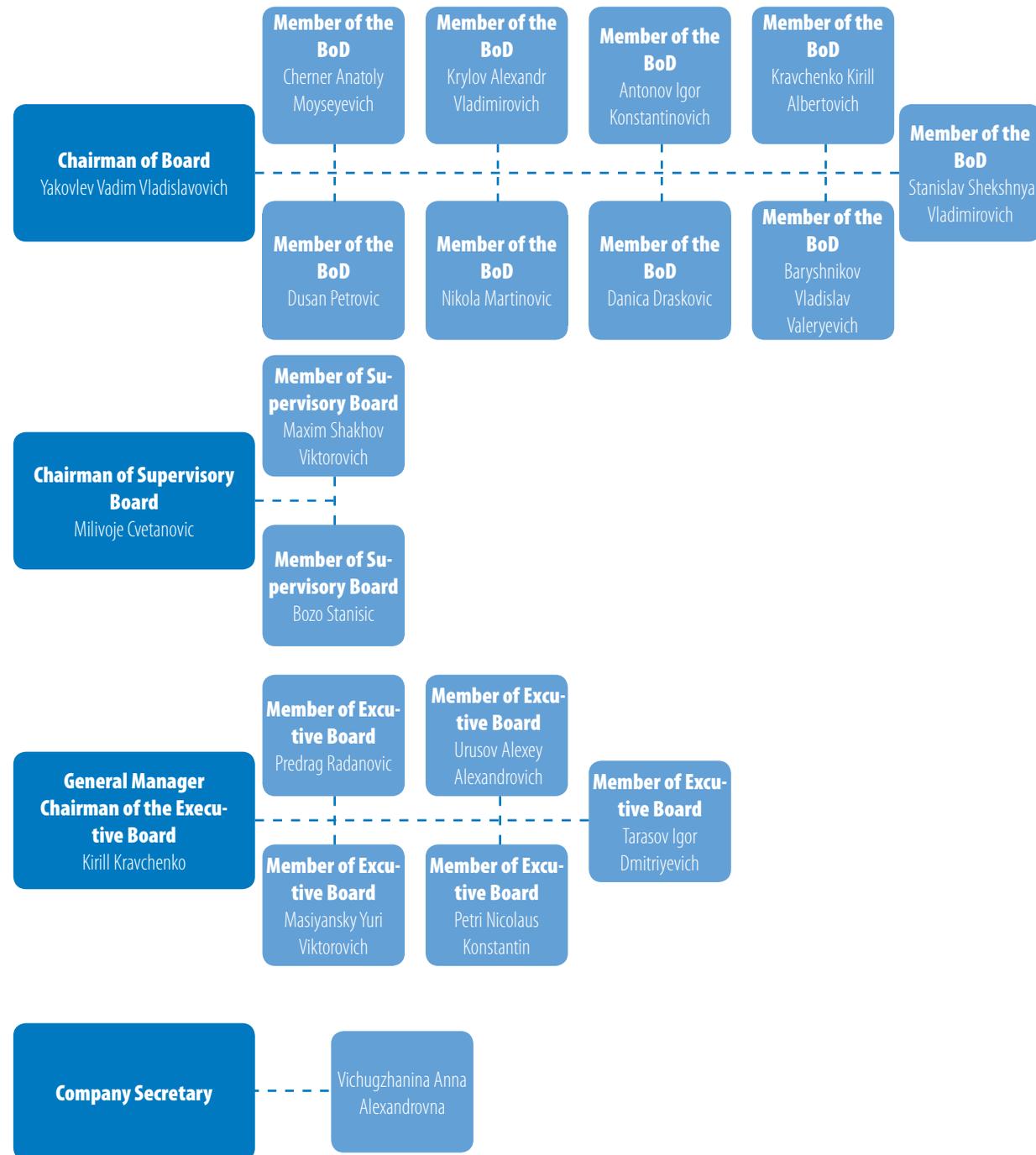
Executive Board is responsible for the issues of NIS everyday management and daily operation. The Executive Board is also responsible for the NIS development strategy creation and implementation.

General Manager is an independent executive body of NIS.

The General Manager, who is a Chairman of the Executive Board at the same time, is elected by Board of Directors and he reports to the Board of Directors. The General Manager and Executive Board are responsible for timely and consistent execution and implementation of the Executive Board decisions, as well as all issues regarding everyday management and daily operation of NIS.

The General Manager of NIS is not a Chairman of the Board of Directors. The General Manager is a legal representative of NIS.

Members of Board of Directors, Supervisory and Executive Board



Members of Board of Directors



Yakovlev Vadim Vladislavovich

Deputy Chairman of the Executive Management Board in JSC Gazprom Neft, First Deputy General Manager, CFO in Gazprom Neft JSC

Born on September 30th, 1970. In 1993, graduated from Moscow Institute of Physics and Engineering (majors: applied nuclear physics). In 1995 graduated from Higher School of Finance at the International University in Moscow. In 1999 qualified as certified accountant as a member of the ACCA. In 2009, got a degree at the Institute of Directors (ID) in the United Kingdom.

In 1995-2001 in PricewaterhouseCoopers occupied different posts ranging from consultant through to audit manager. In 2001-2002 worked as Deputy Head, Financial and Economic Department, CJSC YUKOS EP. In 2003-2004 Financial Director, JSC YuganskNeft'egaz NK YUKOS. In 2005-2006 Deputy General Director for Economy and Finance, LLC SIBUR-Russian Tyres.



Antonov Igor Konstantinovich

Deputy General Director for Corporate Security in JSC Gazprom Neft

Born in 1951 in Leningrad. In 1974 graduated from the Leningrad Institute for Aviation Devices. 1977-1995 employed with the state security authorities. 1995 – 2000 Information Protection Director in „Bank Saint Petersburg“. In 2000-2005 General Director of PE Informatika in Saint Petersburg. In 2005 – 2007 Vice-President for the security issues in Sibneft. Since 2007, Deputy General Director for Corporate Security in Gazprom Neft



Baryshnikov Vladislav Valeryevich

Executive Management Board member, Deputy Director General of Gazprom Neft in charge of international business development

Born on 25 March 1965 in Petrozavodsk. In 1987 graduated from Krasnoznamensky Military Institute. In 2001 he completed a course of study at the Department of "State and Municipal Administration" at North-West Academy of Civil Service under the aegis of the Presidium of the Russian Federation. In the period 1991 - 1999 worked in various positions at City Executive Committee of Leningrad, subsequently as member of Foreign Affairs Committee in Saint Petersburg Mayor's Office. In the period 1999-2000 was an adviser to the Vice-Governor of Saint Petersburg, director of a non-profit partnership "Center for Cooperation with Asian and Pacific Region. In the period 2000 - 2002 worked in the Administration of the President of the Russian Federation as an advisor to the Staff of Authorized Representative of the President of the Russian Federation in the North-Western Federal District. Between December 2002 and April 2009 he was director of "Gazprom" Representation in China, director of regional offices in the countries of Asian and Pacific Region. Since April 2009 he has been Deputy Director General of Gazprom Neft in charge of international business development. He is Councilor of State 3rd Grade of the Russian Federation.



Danica Drašković

Board of Directors Member

Born in 1945 in Kolašin. Graduated from the University of Belgrade – Faculty of Law in 1968. In 1968-1972 financial inspector in SAS (SDK). In 1972-1974, a police court magistrate. In 1977-1986, Director of Legal and General Affairs in the public company Termovent. In 1990 founded the Srpska Reč newspaper, and shortly after that a publishing house, where she has been its director to date. Since February 2009 she has been a member of NIS Board of Directors.



Dušan Petrović

Agriculture Minister, Democratic Party Deputy President

Born on September 8, 1966 in the city of Šabac, where he completed elementary and high school. Graduated from the Faculty of Law in Belgrade. In 1992 -2000 worked as a lawyer. In 2000-2004 President of the Šabac Municipal Council and deputy in the House of Citizens in the Parliament of Federal Republic of Yugoslavia. In 1992, joined Democratic Party, in 1996 elected President of the Democratic Party Municipal Committee in Šabac. In 2000-2001 member of the Democratic Party Presidency. Since 2003 he has been a member of Serbian Parliament. Since 2004 he has been a vice president of Democratic party. In 2006 he was elected for a deputy president of Democratic party. From 2007 to 2008 he was the Minister of Justice in the Government of the Republic of Serbia. Since February 2009, he has been a member of NIS Board of Directors. In March 2011 appointed as Minister of Agriculture.



Kravchenko Kirill Albertovich

Executive Board member, Deputy of the General Manager for Management of Foreign Assets in JSC Gazprom Neft, NIS a.d. General Manager, Chairman of the Executive Management Board NIS a.d.

Born on May 13, 1976 in Moscow. Graduated sociology with distinction from Lomonosov Moscow State University in 1998. In 2002-2003 studied at the Open University in Great Britain (Financial Management), in 2003-2004 - IMD Business School. He is a professor and holds a Ph.D. in Economics. In 2000-2004 occupied various posts in YUKOS oil company in Moscow and Western Siberia. In 2001-2002 staff member of Schlumberger (under partnership program with NK Yukos), posted in Europe and Latin America. Elected to the Boards of Directors of the following companies Lifos, NGK Slavnafta, Emaliansa. In 2004-2007 – Administrative Director, JSC MHK Eurohim. In April 2007 appointed Vice-President in charge of organizational issues, JSC Gazprom Neft. In February 2009 appointed General Director of Serbia's oil company NIS.



Krylov Alexandr Vladimirovich

Director, Regional Sales Directorate, JSC Gazprom Neft

Born on March 17th, 1971 in Leningrad. In 1992 graduated from LMU (Leningrad), in 2004 from Leningrad University Law School, and in 2007 majored in Strategic Management in Entrepreneurship and acquired MBA at MIRBIS, Moscow International High School for Business. In 1994 – 2005, in the capacity of president or general manager worked in property sales companies PetroBuild (Russian Canadian joint venture), Alpol Ltd. Between 2005 and 2007 Deputy Manager in Sales Directorate of Sibur LLC. Since 2007 has been the manager in Oil Products Purchase Department, Regional Sales Department Manager and Director of the Regional Sales Directorate at JSC Gazprom Neft



Cherner Anatoly Moyseyevich

Deputy Chairman of the Executive Management Board, Deputy CEO for Logistics, Refining and Sales in JSC Gazprom Neft

Born on August 27th, 1954. Graduated from Groznyy Oil Institute in chemical technology for oil and gas refining in 1976. From 1976 until 1993 he worked at the “Sheripov” Groznyy Refinery, where he rose through the ranks from machine operator to become refinery director. In 1996 Mr. Cherner started to work in “SlavNeft” as Head of the Oil and Oil Products Sales Department, and later he was appointed Vice-President of NKG “SlavNeft”. He was appointed Vice-President for refining and marketing in “SibNeft” (from June 2006 – Gazprom Neft’) in April 2006.



Nikola Martinović

Board of Directors Member

Born on December 3, 1947. Gained M.Sc. at Faculty of Economy in Subotica; majored in „Tax system transformation with introduction of VAT in Serbia. In 1985 -1990 he was the manager of „Solid“, Subotica, and and next two years until 1992 he was Assistant to the Minister of the Interior in The Ministry of the Interior of the Republic of Serbia. In 1992.-2000 worked as Assistant General Director for Finance in NIS and General Director of Naftagas Promet from 1996 until 2000. Special advisor in NIS in 2005. In 2004-2008 a member of NIS Board of Directors, and appointed again to the same position in February 2009



Stanislav Shekshnya Vladimirovich

INSEAD International Business School Professor

Born on 29 May 1964th year. Citizen of France. Head of practice at the “Talent Performance and Leadership Development Consulting” Department. Director of Talent equity Institute. Senior Partner with Ward Howell. Professor of entrepreneurial leadership at the INSEAD International Business School. For more than 10 years he has been in the realm of practical management. He held following positions: general manager of Alfa Telecom, President and CEO of Millicom International Cellular, Russia and CIS, Chief Operating Officer of Vimpelkom, director of personnel management OTIS Elevators, Central and Eastern Europe. Presently, Chairman of Human Resources and Awards of Supervisory Council DTEK (Ukraine), he was Chairman of the Board of JSC SUEK “and CJSC “Vimpelkom-R.”

Members of Supervisory Board



Bozo Stanišić

Born on February 18, 1966 in Užice. Graduated in 1993 from the Faculty of Technology and Metallurgy, Technological Operations. He worked in Rekord, Rakovica, Pancevo Oil Refinery as an engineer in charge of petrol. In 1999 he was involved in the construction of the refinery infrastructure and held the position of Commercial Sector Director. He was a member and coordinator of various commissions in NIS. Furthermore, he was President of the Board of Directors at HIP Petrohemija, Pancevo, and a member of the Committee for Implementation of Governmental Measures in Magnohrom, Kraljevo. From November 1, 2006 to September 30, 2009 served as Deputy CEO at a private oil company Petrobart d.o.o. As of October 12, 2009 has held the post of Advisor to the President of Serbia's Chamber of Commerce.



Milivoje Cvetanović

Born on December 1, 1941. Graduated in 1963 from Belgrade University - Faculty of Economics and followed this with an MA in 1973. He is a certified auditor. Retired partner from Deloitte Central Europe. After retiring from partnership, he served as a consultant for the practical application of IFRS, creating and implementing customer information systems, including internal control systems. Holds membership in Serbia's Certified Auditors Chamber and its Examiners Commission for „Auditing and Professional Ethics” within the auditor certification curriculum. Commands extensive work experience in Central and Eastern Europe, Russia, Ukraine, Moldova and Macedonia.



Maxim Shakhov Viktorovich

Head of Methodology Unit, Internal Audit JSC Gazprom Neft

Born May 14, 1972 in Yaroslavl, Russia. In 1994 he graduated from the Faculty of Chemical Technology at Yaroslavl Technical University. Currently in Gazprom Neft as Head of Methodology Unit within Internal Audit Service. Maxim Shakhov was Director of Internal Audit, Head of Section for the Functional Review, and Manager of Financial Statements Audit Department at RUSAL Global Management B.V Company, Moscow. In ZAO BDO Yunikon company he held the following positions: Senior Manager, Manager, Lead Auditor, Senior Auditor, expert at the the Department for metallurgical and mining enterprises audit. Maxim Shakhov was awarded following professional certificates: Russian Finance Ministry Certificate for General Audit, he is a certified expert in international financial reporting (DiplFR), International Certificate of internal auditor (CIA).

Members of Executive Board



Kravchenko Kirill Albertovich

Executive Board member, Deputy of the General Manager for Management of Foreign Assets in JSC Gazprom Neft, NIS a.d. General Manager, Chairman of the Executive Management Board NIS a.d.

Born on May 13, 1976 in Moscow. Graduated Sociology with distinction from Lomonosov Moscow State University in 1998. In 2002-2003 studied at the Open University in Great Britain (Financial Management), in 2003-2004 - IMD Business School. He is a professor and holds a Ph.D. in Economics. Up to 2000 in consulting business. In 2000-2004 holds various posts in YUKOS oil company in Moscow and Western Siberia. In 2001-2002 posted in Europe and Latin America as a staff member of Schlumberger (under partnership program with Oil Company Yukos). In 2004-2007 – Administrative Director, JSC MHK Eurohim. On numerous occasions elected to the board of directors in major companies. In April 2007 appointed Vice-President JSC Gazprom. Since January 2008 Vice-President of JSC Gazprom Neft Executive Management Board, Deputy CEO in charge of organizational issues. As of March 2009 Deputy CEO JSC Gazprom Neft for Foreign Assets Management. Since February 2009 General Director Member of Board of Directors of Serbia's oil company NIS.



Masiyansky Yuri Viktorovich

Deputy General Manager, Head of Business Development and Foreign Relations Dept.

Born on 31 March, 1966. He graduated in Automation and Management Process from Leningrad Electrotechnical Faculty. Between 1997 and 1999 he was at the helm of Rot-Front company. From 1999 to 2007 in charge of material and technical support (until 2003) and general administration director in Ilim Palp (until 2007). From 2007 he worked as the General Administration and HR Director in Ilim Group and director of Corporate University of Ilim Group.



Petri Nicolaus Konstantin

Deputy General Manager, Head of Function for Investment and Development. In charge of investment evaluation and analysis, project control and strategic planning of investments.

He graduated in 2002 from Harvard University with BA in Natural Sciences and Philosophy. From 2002 to 2003 he worked as analyst in Bain Capital, London and Boston. From 2003 to 2006 he was a senior consultant with McKinsey & Co. From 2006 to 2009 he was Director of Investment Department in SIBUR.



Predrag Radanović

NIS Naftagas Executive Director. Executive Board member in NIS a.d.

Born on May 21, 1969. Graduated as mining engineer from the Faculty of Mining and Geology in Belgrade. In 1995-2002 NIS Naftagas – operational engineer in Srednji Banat Plant. In 2002-2006 Head of Production of the Srednji Banat Operation Plant.



Tarasov Igor Dmitriyevich

Deputy General Manager, Director of Function for Corporate Security. In charge of economic and information security management and security issues management.

Born on 2 July, 1952 in Moscow. Served in Russia's National Security Services for 38 years. Two tenures in the Embassy of Russian Federation in Belgrade: 1994 to 1999 and 2001 to 2006.



Urusov Alexey Alexandrovich

Deputy General Manager, Head of Economics, Finance, Planning and Accounting. In charge of financial operations, accounting and audit, business planning and business performance analysis.

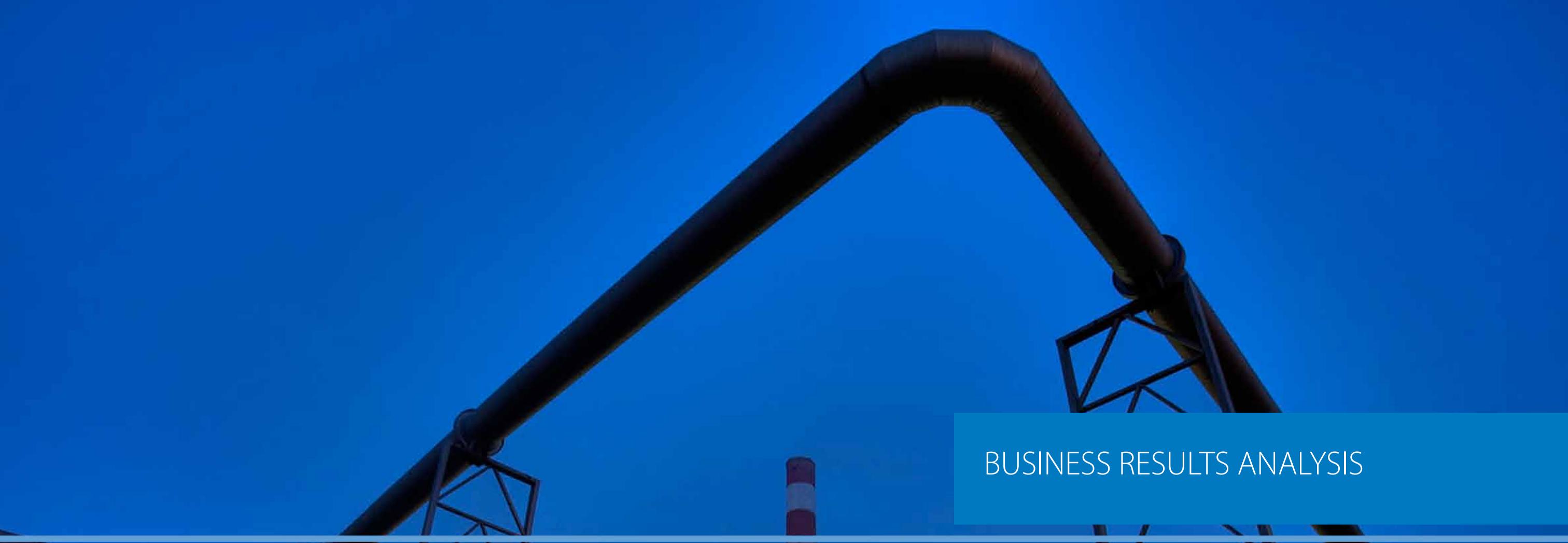
Born on November 17, 1974. He graduated from Tyumen State University (majors: Finance and Credit) and Wolverhampton University in Great Britain (majors: Business Administration). Followed this with an MA degree at the Tyumen State Oil and Gas University. Earned American CPA Certificate (Certified Public Accountant). In 2002-2006 served as Executive Deputy Chairman for Planning and Business Management and Control in the Integra Group. During a three-year stint with TNK-BP held the post of Chief Financial Director at TNK-BP Ukraine. Director of Planning in the group for monitoring and control at the Board of Directors in TNK IH.

Company Secretary



Vichugzhanina Anna Alexandrovna

Born on June 21, 1980 in Russian city Tyumen. Holds a university degree in International Law after graduating from Moscow State Institute for International Relations under the auspices of Russia's Foreign Ministry in 2002. Currently in NIS as Director of Corporate Secretariat. Anna Vichugzhina previously worked as Deputy Director for Legal Matters with CEAC Shared Services doo in Podgorica, Montenegro. Before that, as Senior Legal Advisor with Moscow Representation of TELE2 Russia International Cellular B.V. She was a senior legal consultant with Russian "Nezavisimost" company based in Moscow

A large, dark industrial pipe arches across the top of the frame against a deep blue twilight sky. The pipe is supported by a metal truss structure. In the background, a tall, red-and-white striped chimney is visible.

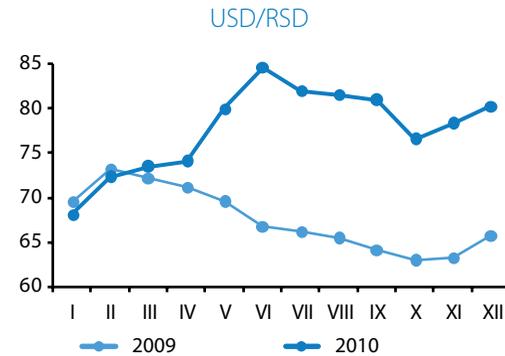
BUSINESS RESULTS ANALYSIS



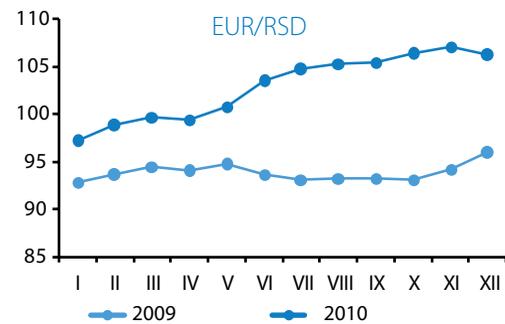
Influence of the macroeconomic indicators on the achieved results

Exchange rate movements – USD/RSD and EUR/RSD

- Inflation of USD/RSD in 2010 was 18,8% or + RSD 12,55 (the rate change of USD/RSD was from RSD 66,7285 on 01.01.2010 up to RSD 79,2802 on 31.12.2010)
- Inflation of USD/RSD in 2009 was 6,1% or RSD 3,83 (the rate change USD/RSD was changed from RSD 62,9000 on 01.01.2009 up to RSD 66,7285 on 31.12.2009)

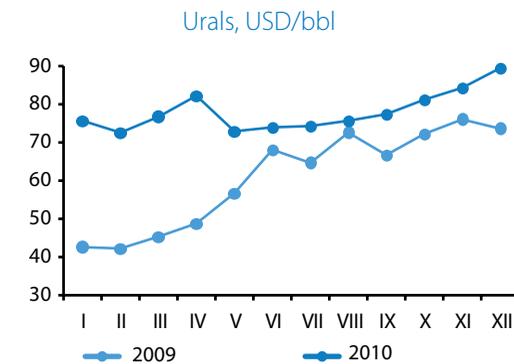


- Inflation of EUR/RSD in 2010 was 10% or +RSD 9,61 (the rate of EUR/RSD changed from RSD 95,8888 on 01.01.2010 to RSD 105,4982 on 31.12.2010)
- Inflation of EUR/RSD in 2009 was 8,2% or RSD 7,29 (the rate of EUR/RSD changed from RSD 88,6010 on 01.01.2009. to RSD 95,8888 on 31.12.2009)



Crude oil price fluctuation

- In 2010 there was no major price fluctuation for crude oil in the global market



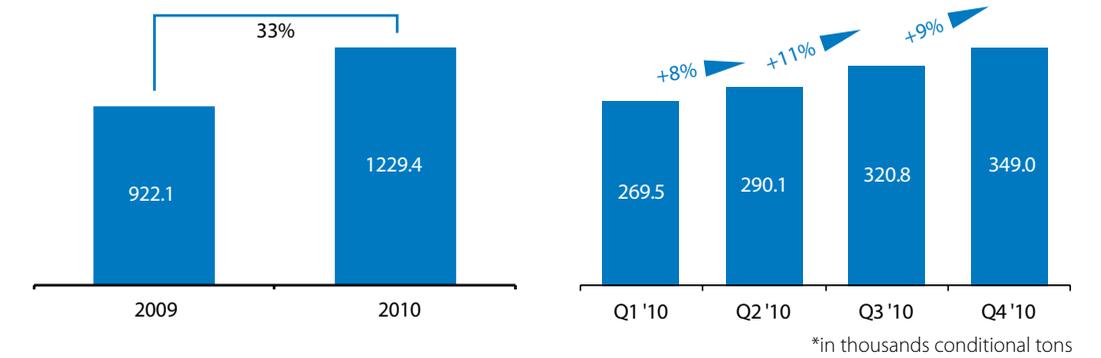
Production

Progress that has been achieved in the previous year was continued in 2010 with even better results. In 2010 NIS has achieved the best results in the production of oil and gas within the last 10 years. Domestic oil and gas production volume comprised 1.229,4 thousand conditional tons, which is 33% more than in 2009. Resource potential was also increased in comparison with 2009.

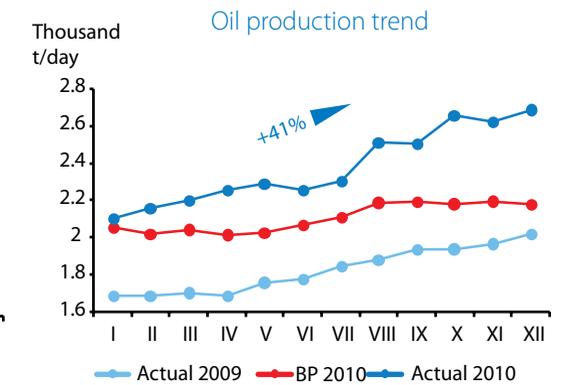
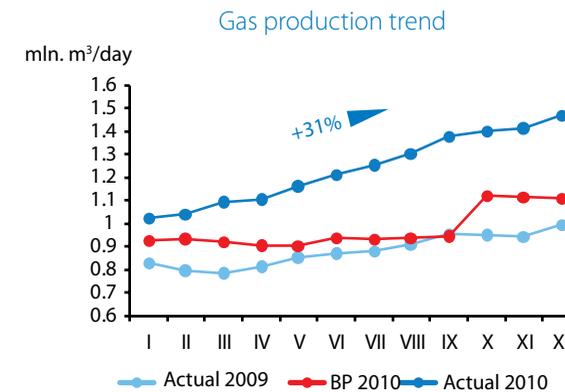
Such production results have been achieved mostly due to:

- Installation of ESP deep well pumps
- Hydraulic fracturing implementation
- Start up of exploitation of gas deposit in the Velebit field
- Start up of well exploitation in the gas deposit Mokrin-Zapad
- Reactivation of gas well in the Srednji Banat Plant
- Activation of the major number of wells that have been out of production.

Production of domestic oil and gas

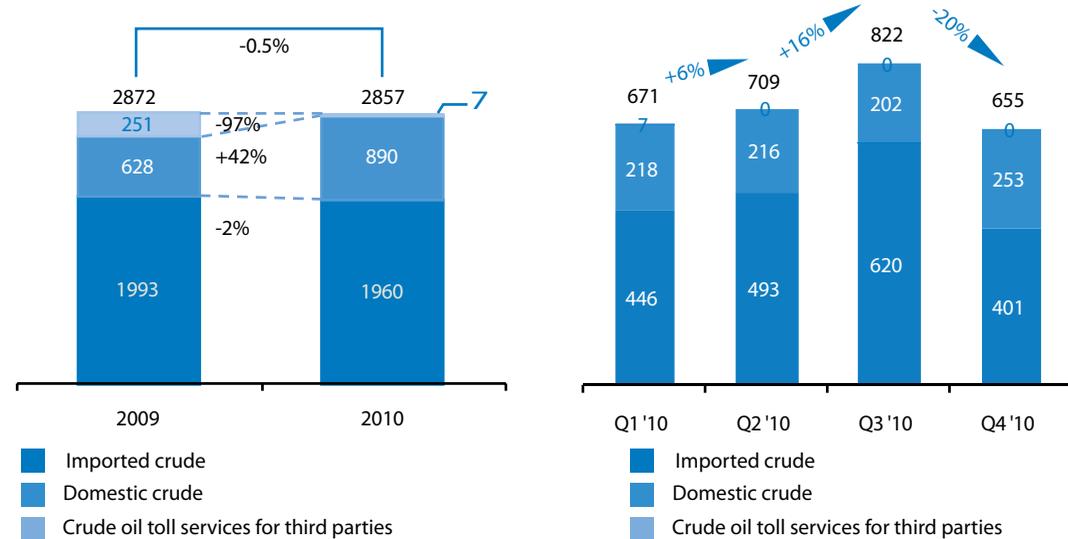


Oil and gas production trends



Refining

Oil processing including third parties (in thousand tons)

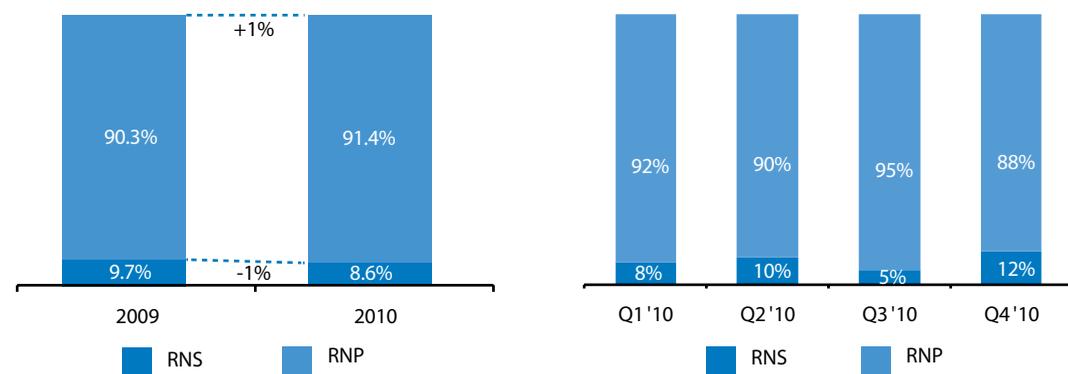


Total volume of the processed oil (including the third party) is on the level of processing in 2009. Domestic oil processing share was increased in the yield of totally processed quantities. Total volume of NIS oil processing (without third parties) was increased by 9%, from 2,621 thousand tons to 2,849.7 thousand tons.

Production of motor gasoline, virgin naphtha and jet fuel was also increased, while production of diesel fuels and oil fuel was reduced. Leaded gasoline production was stopped, while EURO 5 gasoline production was commenced.

Oil processing per refinery (in thousand tons)

Production at Novi Sad Refinery was launched also in 2010 and 245 thousand tons of oil type Velebit as well as 35 thousand tonnes of eurodiesel were processed in it.



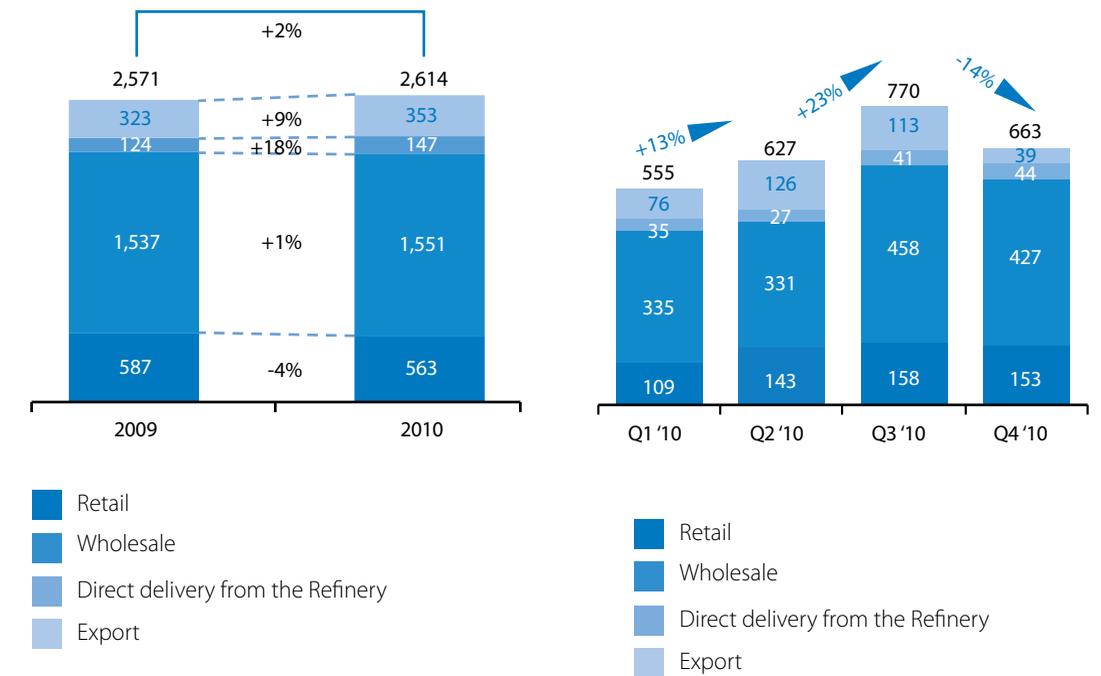
Sales and Distribution

NIS sales on domestic market are on the level of the sales of oil products in 2009. (2,248 thousand tons) and comprised 2,261 thousand tons.

Due to decrease of total consumption, sales volume of leaded gasoline MB-95 was

reduced, while sales of unleaded gasoline BMB-95 and Eurodiesel was increased. Due to "gas crisis" sales of oil derivatives in January 2009. was extremely high (higher in comparison with 2010), while, taking into consideration period of February-December, sales of oil derivatives in 2010 was higher than in 2009.

Oil derivatives sales (in thousand tons)

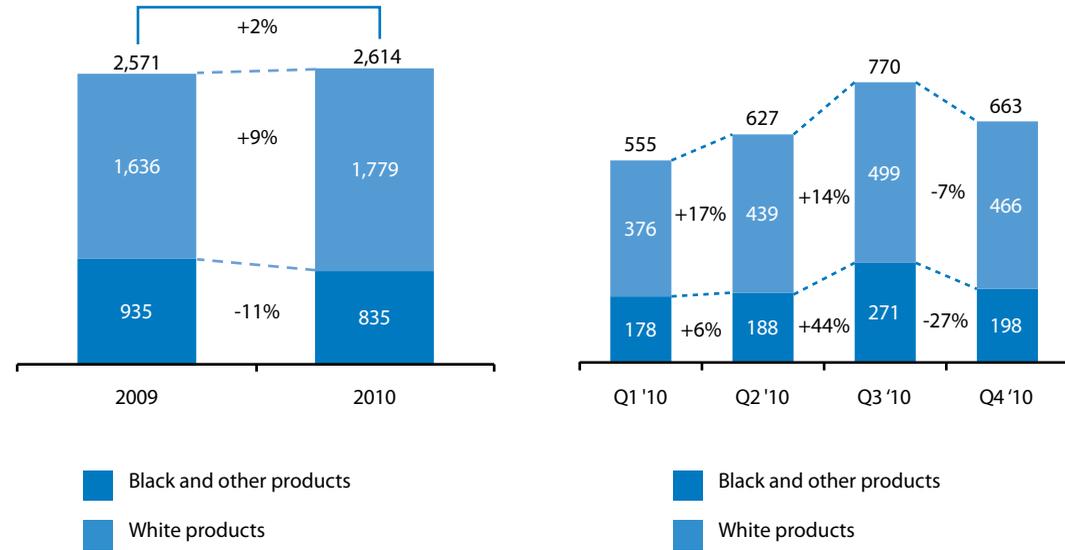


Wholesale on the level of 2009 and direct deliveries from the refineries increased by approximately 18% (in 2010 Agreement for the supply of virgin naphtha to HIP Petrohemija

was signed). Export was increased from 323 thousand tons in 2009 to 353 thousand tons in 2010.

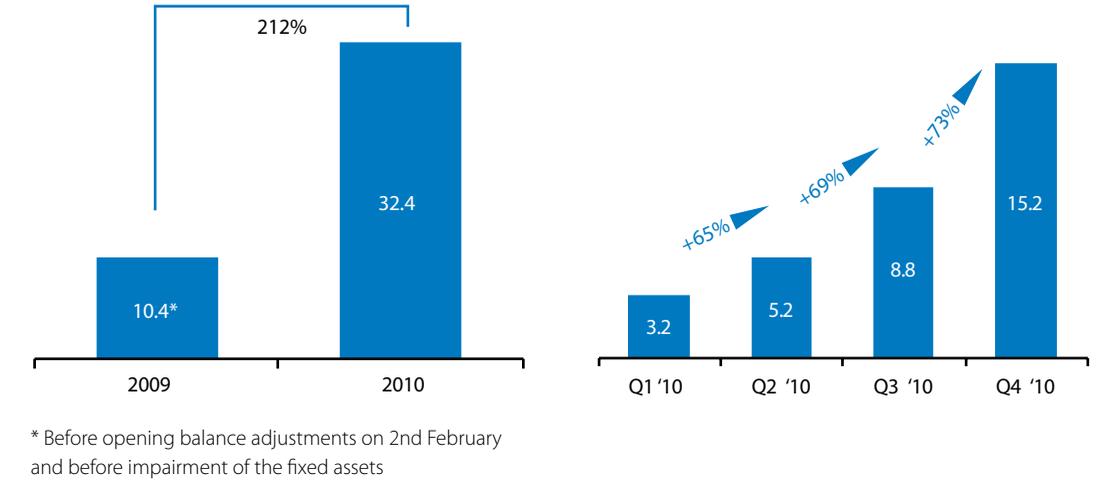
Sales structure per oil derivatives (in thousand tons)

In sales structure by oil derivatives increase of the white products participation in total sales is recorded.



Financial indicators

EBITDA (in billion RSD)

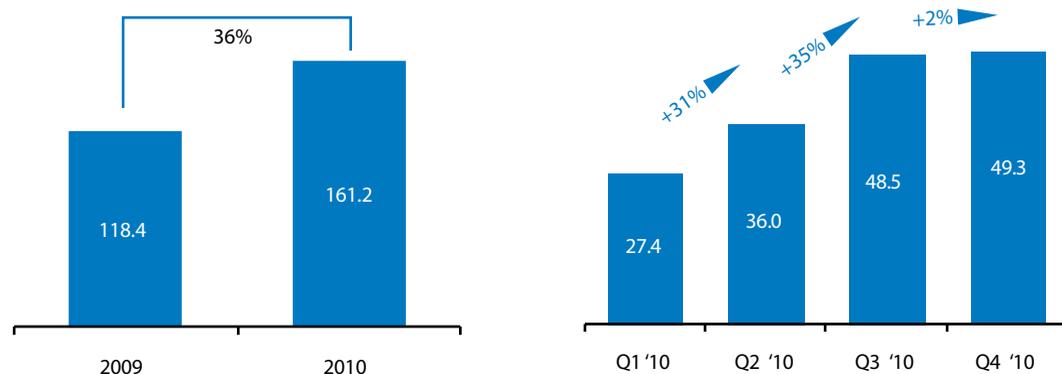


* Before opening balance adjustments on 2nd February and before impairment of the fixed assets

In 2010 EBITDA has increased by 212% in comparison with 2009, due to the increase of business efficiency (increase of domestic oil and gas production) and reduce of operating costs. The growth of EBITDA in Q4 2010 also includes positive accounting adjustments in

amount of app. 1.4 billion for the reclassification of the amortization costs of investment in Angola, from operating expenses to amortization costs.

Sales (in billion RSD)



* Before opening balance adjustments on 2nd February and before impairment of the fixed assets

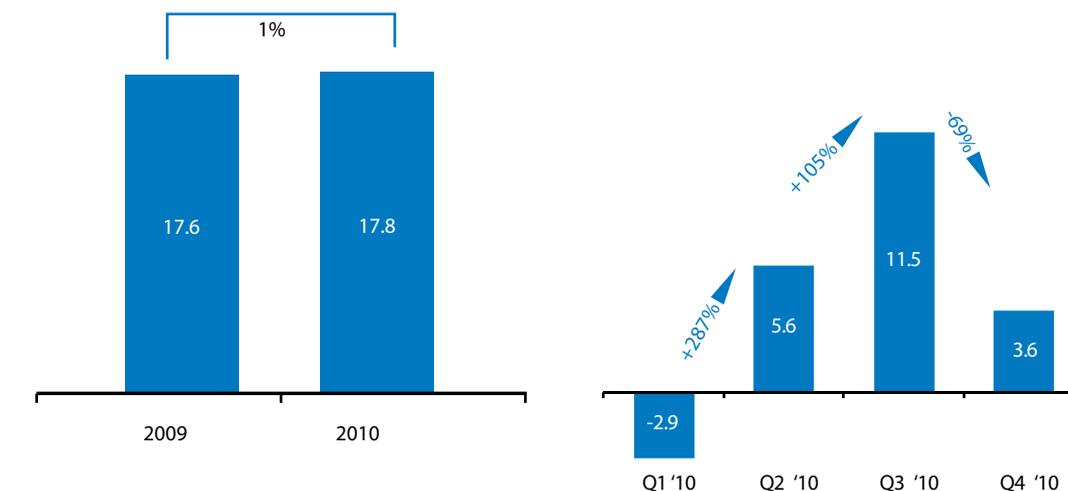
Revenues from sales increased by 36% in comparison with 2009. In 2010 selling prices for oil derivative are higher than previous year for 39%, due to the growth of oil price on the global market and rise in the US dollar. Turnover of oil derivatives increased by 2%.

Sales of white products on domestic market increased for 10% compared to previous year, and this also affected sales increase.

Retail prices of oil derivatives increased in 2010 for app 20% compared to 2009:

- BMB 95: increase in retail price for 18% (average prices in 2009 were app 96 RSD for liter, and 114 RSD for liter in 2010)
- Д2: increase in retail price for 22% (average prices in 2009 were app 83 RSD for liter, while in 2010 average price was app 101 RSD for liter)

OCF (in billion RSD)



NIS had stable operating cash flow.

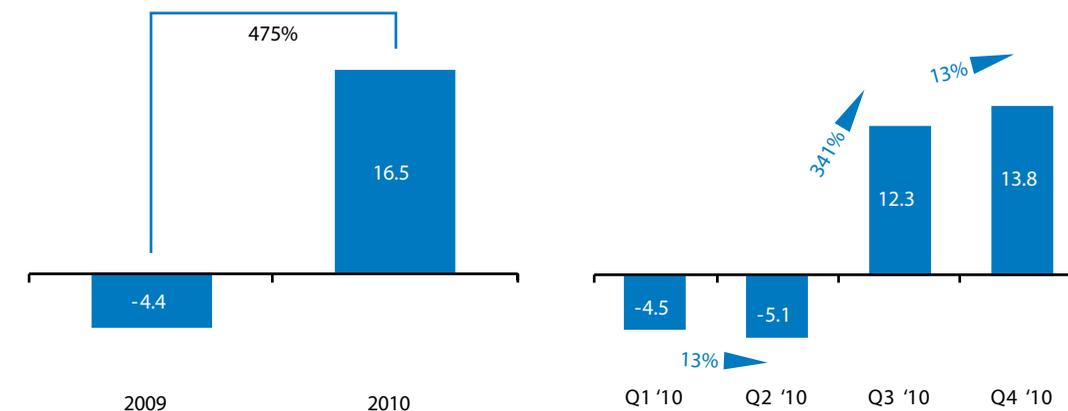
Net profit/loss (in billion RSD)

Despite previous year, when the loss was reported, in 2010 a net profit in the amount of RSD 16.5 billion was recorded as a result of the increased business efficiency (domestic oil and gas production increase).

This amount of net profit also includes positive accounting adjustments made on basis of recognition of deferred tax assets arising

from unused tax credits that can be reversed depending on future results in the amount of 5 billion approximately RSD. Thus, the real net profit without accounting adjustments for 2010 amounts to 11 billion RSD.

Net foreign exchange costs in 2010 are approximately 3 times bigger compared to 2009.



* Before opening balance adjustments on 2nd February and before impairment of the fixed assets

Financial Statements (stand alone) for NIS a.d.

Income statement

	2009*	2009	2010
	<i>(before adjustment)</i>	<i>(adjusted)</i>	
Operating income	118,275	118,275	169,540
Sales	118,375	118,375	161,149
Work performed by the entity and capitalized	724	724	2,907
Increase in the value of finished goods and work in progress	(1,195)	(1,195)	5,358
Other operating income	371	371	126
Operating expenses	(115,125)	(120,376)	(143,350)
Cost of goods sold	(6,009)	(6,009)	(5,384)
Cost of material	(68,610)	(68,610)	(95,345)
Cost of salaries, benefits and other personnel expenses	(19,834)	(19,834)	(21,270)
Depreciation and provisions	(7,448)	(13,952)	(8,383)
Other operating expenses	(13,224)	(11,971)	(12,968)
Net operating income (loss)	3,150	(2,101)	26,190
Financial income	11,122	11,122	6,312
Financial expenses	(15,878)	(15,878)	(19,113)
Other income	3,349	5,858	5,205
Other expenses	(6,461)	(38,520)	(6,556)
Income (loss) before income tax	(4,718)	(39,519)	12,038
Income tax	274	1,883	4,446
Income tax expense	-	-	(832)
Deferred tax income (expenses)	274	1,883	5,278
Net Profit (Loss) for the period	(4,444)	(37,636)	16,484
Including impairment of assets (based on the independent appraiser's report)	(14,481)	-	-
Including adjustment of balance as of 2 February 2010	(18,711)	-	-
Net losses after tax including impairment of assets (based on the independent appraiser's report) and adjustment of balance as of 2 February 2010	(37,636)	-	-

* in millions of RSD

*Before opening balance adjustments on 2nd February and before impairment of the fixed assets (see presentation "General data about NIS on 31 December 2009 page 50 for further detail.) In compliance with IFRS after Gazprom Neft acquired 51% in ownership corrections of opening balance were made in assets and liabilities values as of February 2nd 2009. Independent appraiser was hired in order to determine real value of assets and liabilities and based on his report impairment of assets was carried out.

Balance Sheet

	2009	2010
	<i>(Adjusted)</i>	
Non-current assets	95,734	108,326
Intangible assets	4,793	4,836
Property, plant and equipment	84,132	98,014
Investment property	500	1,393
Investments in equity instruments	2,919	2,579
Other long term investments	3,390	1,504
Current assets	48,317	63,996
Inventories	23,056	34,000
Non-current assets held for sales	135	-
Trade receivables	11,391	12,946
Receivables for overpaid income tax	42	-
Short term financial investments	876	2,514
VAT and prepaid expenses	4,145	3,940
Cash and cash equivalents	8,672	10,596
Deferred tax assets	-	4,805
Total assets	144,051	177,127
Off-balance sheet assets	151,212	88,793
Equity	32,283	47,019
Share capital	87,128	87,128
Reserves	889	889
Revaluation reserves	-	-
Unrealized gains from securities	130	48
Unrealized losses from securities	(28)	(49)
Retained earnings	-	16,484
Loss	(55,836)	(57,481)
Long-term provisions and liabilities	56,694	67,429
Long-term provisions	16,040	18,502
Long-term loans	34,734	26,645
Other long-term liabilities	5,920	22,282
Short-term liabilities	53,142	61,221
Short-term financial liabilities	18,567	21,806
Trade and other payables	23,367	24,945
Other short-term liabilities	3,885	6,394
Liabilities for VAT and other taxes and deferred income	7,323	7,457
Income tax liabilities	-	619
Deferred tax liabilities	1,932	1,458
Total liabilities	144,051	177,127
Off-balance sheet liabilities	151,212	88,793

* in millions of RSD

Cash Flow Statement

	2009	2010
Cash flows from operating activities		
Cash inflow from operating activities	185,018	254,607
Cash outflow from operating activities	(167,399)	(236,816)
Net cash inflow from operating activities	17,619	17,791
Cash flows from investing activities		
Cash inflow from investing activities	7	46
Cash outflow from investing activities	(9,470)	(17,913)
Net cash outflow from investing activities	(9,463)	(17,867)
Cash flows from financing activities		
Cash inflow from financing activities	82,002	27,471
Cash outflow from financing activities	(85,522)	(25,530)
Net cash inflow (outflow) from financing activities	(3,520)	1,941
Net cash flows	4,636	1,865
Cash and cash equivalents at beginning of period	3,990	8,672
Currency translation gains on cash and cash equivalents	144	880
Currency translation losses on cash and cash equivalents	(98)	(821)
Cash and cash equivalents at end of period	8,672	10,596

* in millions of RSD

Statement of changes in equity

	Share capital	Other capital	Reserves	Revaluation reserves	Unrealized gains from securities	Unrealized losses from securities	Accumulated loss	Total
Balance as at January 1, 2009	81,530	5,598	889	61	137	(33)	(18,200)	69,982
Income								
- Loss	-	-	-	-	-	-	(37,636)	(37,636)
- Gains/ losses from securities	-	-	-	-	(7)	5	-	(2)
Reversal of Revaluation Reserves				(61)				(61)
Increase (decrease) through transfers and other changes, equity	-	-	-	-	-	-	-	-
Balance as at December 31, 2009	81,530	5,598	889	-	130	(28)	(55,836)	32,283
Balance as at January 1, 2010	81,530	5,598	889	-	130	(28)	(55,836)	32,283
Income:								
- Profit	-	-	-	-	-	-	16,484	16,484
- distribution of profit recorded before 2009							(1,645)	(1,645)
- Gains/ losses from securities	-	-	-	-	(82)	(21)		(103)
Balance as at December 31, 2010	81,530	5,598	889	-	48	(49)	(40,997)	47,019

* in millions of RSD

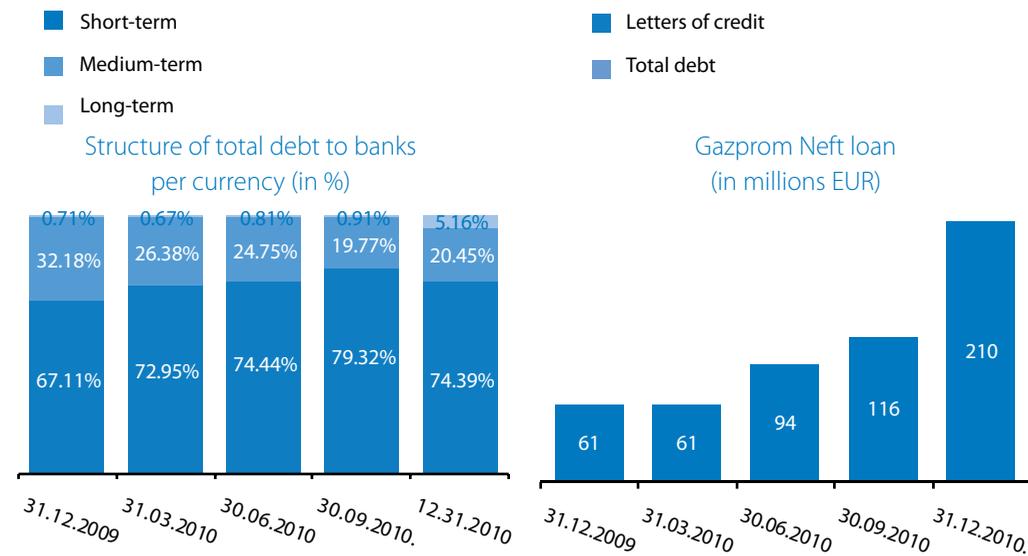
Indebtness

At the end of 2010 the total indebtedness to banks comprised USD 644 million, which represents a decrease in the amount of USD 382 million compared to 2009.

Total debt of NIS to the banks in 2010 was reduced by 23%, from USD 793 million at the end of 2009 to USD 611 million at the end of 2010, while the credit amount

reduced by 86%, from USD 233 million to USD 33 million.

Bank credits structure regarding the maturity period was changed in respect to 2009, and at the end of 2010 it is presented in the following way: 4% of short-term credits (maturity date is up to one year), 71% medium term (maturity date up to 5 years) and 25% long-term credits (above five years).*



All possible discrepancies in percentage values and total values are due to rounding errors
*Debt structure by maturity is shown based on agreements signed with banks and not based on their maturity as of December 31st 2010.

Segments results

TIn 2010 business activities of the Company were organized into five operating segments:

- Exploration and production of oil and natural gas – Block Upstream,
- Block Oilfield services
- Production of oil products – Block Refining,
- Oil and oil products trading – Block Sales and Distribution,
- Other – NIS Headquarters.

Assets and liabilities of operating segments as of December 31st 2010

	Upstream	Oilfield services	Refining	Sales and Distribution	Headquarters	Total
Assets	30,433	7,766	74,666	32,569	31,693	177,127
Liabilities	(11,598)	(1,346)	(23,261)	(10,445)	(83,458)	(130,108)
Net assets	18,835	6,420	51,405	22,124	(51,765)	47,019

*in million RSD

The reportable segments derive their revenue in following manner:

- Upstream derive its revenue from sale of crude oil and gas to Refinery and Srbija-gas
- Oilfield services derive revenue from drilling services, constructing and services of geophysical measurement and transportation services
- Refining derives its revenue from sale of oil derivatives to NIS Sales and Distribution
- Sales and Distribution derive revenue from retail and wholesale activities.

Reportable segments results as of December 31st 2010

	Upstream	Oilfield services	Refining	Sales and Distribution	Headquarters	Total
Segment revenue	73,739	9,702	163,313	211,107	10,801	468,662
Inter-segment revenue	57,190	8,707	151,025	74,915	7,285	299,122
Total revenue	16,549	995	12,288	136,193	3,515	169,540
Operating income (expenses)	38,759	(3,020)	(6,731)	1,526	(4,344)	26,190
Financial income (expenses)	631	8	(168)	1,880	(15,152)	(12,801)
Other income (expenses)	(218)	487	30	(1,173)	(478)	(1,351)
Profit / (loss) before tax	39,172	(2,525)	(6,869)	2,234	(19,974)	12,038
Deferred tax	-	-	-	-	5,278	5,278
Income tax expense	-	-	-	-	(832)	(832)
Net profit / (loss)	39,172	(2,525)	(6,869)	2,234	(15,528)	16,484

*in million RSD

Changes more than 10% compared to the previous year

Assets	Change more than 10%	Explanation
Property, plant and equipment	17%	Increase in property, plant and equipment in 2010 amounting to 23,766,875 RSD is mainly related to investments in the MHC/DHT project (investment in plant for mild hydrocracking and hydrotreating) in the amount of 2,882,742 RSD. Balance of advances paid to suppliers on that basis as of 31 December 2010 amounted to 6,589,809 RSD. Also, provision for reclamation of active wells for the year ended on 31 December 2010. in total amount of 2,636,353 RSD is recognized as increase in property, plant and equipment.
Investment property	179%	Increase in value of Investment property as of 31 December 2010. compared to 31 December 2009. mainly is related to gains arising from the fair valuation of investment property in the amount of RSD 575,786 thousand RSD as well as to transfer to Property, plant and equipment in amount of 455 926 thousand RSD.
Investments in equity instruments	-12%	In 2010 Company made impairments of the investment in O Zone a.d. Belgrade in the amount of 410,992 RSD by taking into account the fact that subsidiary continued to operate with loss in 2010.
Other long term investments	-56%	Decrease of other long-term financial investments as of 31 December 2010 compared to 31 December 2009. is mainly related to the exclusion of rescheduled receivables, which mature in period up to one year.
Inventories	47%	Increase of Inventories as of 31 December 2010. compared to 31 December 2009 is mainly related to the Increase in the value of finished goods and work in progress caused by both increase in production and increase in cost of finished goods
Trade receivables	14%	The increase of receivables as of 31 December 2010. compared to 31 December 2009. and sales increase in 2010. Is completely related to increase in sales of products and services.
Short term financial investments	187%	The increase in short-term financial investments as of 31 December 2010. compared to 31 December 2009. s mainly related to the exclusion of part of reprogrammed receivables due within one year
Cash and cash equivalents	22%	Increase in cash and cash equivalents as of 31 December 2010. compared to 31 December 2009. is mainly related to the increase of term deposits at commercial banks, with maturities up to 30 days

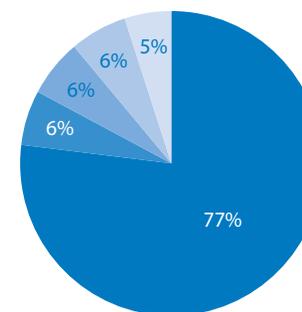
Liabilities	Change more than 10%	Explanation
Unrealized gains from securities	-63%	Decrease of the unrealized gains from securities as of 31 December 2010. compared to 31 December 2009. year completely relates to increase of value of investments in securities available for sale on the basis of reducing the value of investments at fair (market) value.
Unrealized losses from securities	75%	Increasing of the amount of unrealized losses from securities as of 31 December 2010. compared to 31 December 2009. in general refers to the reduction in value of investments in securities available for sale on the basis of reducing the value of investments at fair (market) value.
Long-term provisions	15%	In accordance with the applicable legislation, the Company has obligations under the Law on Environment Protection. At the balance sheet date the Company has made provisions for the above-mentioned obligations in amount of 962,968 RSD, based on management's estimates of the amount of necessary costs of cleaning and remediation of contaminated facilities of the Company. In addition, the Company made a provision for the reclamation of active wells for the year ended on 31 December 2010. in total amount of 2,636,353 RSD. The provision is recognized as an increase of property, plant and equipment.
Long-term loans	20%	Increase of long-term liabilities as of 31 December 2010. compared to 31 December 2009. is mainly related to the withdrawal of new tranches of loans granted by parent company Gazprom Neft in the amount of 15,708 million RSD and the new withdrawals from banks in the country and abroad.
Short-term liabilities	15%	Increase of short-term liabilities as of 31 December 2010. compared to 31 December 2009. is mainly related to increase of short-term financial obligations based on allocations of long-term liabilities falling due in the period of one year. Also, this increase has affected the increase of other current liabilities and obligations for the dividend. In 2010, the majority shareholder acknowledged liability for dividend distribution from 2008 profit in accordance with the Decision adopted by Shareholders on January 29, 2009. The Decision was adopted before the acquisition of shares by Gazprom Neft and relates to distribution of dividends to companies controlled by the Government of the Republic of Serbia at that time the sole shareholder of NIS a.d. The additional liability for dividends in the amount of 1.645.944 thousand RSD was formed towards the Government of the Republic of Serbia in accordance with the decision.

Result	Change more than 10%	Explanation
Net profit (loss)	144%	Positive trend of financial results is mainly related to the improvement of operational efficiency as well as cost optimization of the Company, then to the improvements in product range and transfer of know-how from parent company Gazprom Neft to the Company.

Compared to December 31st 2009 – after corrections

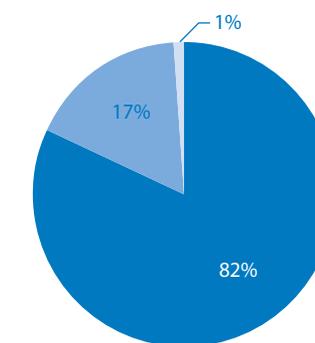
Main buyers and suppliers

Main buyers
(in period 01.01. -31.12.2010.)



Other
Lukoil-Beopetrol
OMV Srbija
Srbijagas
HIP Petrohemija

Main suppliers
(as of 31.12.2010.)



Gazprom Neft Trading
Other
Srbijagas

Forming of transfer prices

In 2010 transfer prices were defined by "Procedure of calculating transfer prices for oil from domestic production, oil products, petroleum gas, natural gas, oil and lubricants and water Jazak in NIS for management accounting" being in use since 01.01.2010.

In the procedure for transfer pricing in 2010 a "market principle" was applied. The principle "One product, one transfer price" was applied as well.

The principle "One product, one transfer price" means that the lower price shall be applied as a transfer price to the product which has two or more wholesale prices.

Transfer prices that are being used to form internal revenues between business segments of NIS are set in the way to reflect market position of each business segment.

The following transfer prices are being in use:

- Transfer price of domestic oil, set in accordance with so called "export parity". Calculation of transfer price for domestic oil: quotation price for benchmark oil on global market + premium/discount for the quality compared to benchmark oil – transport costs to the regional market;
- Transfer price of natural gas (between Upstream and Refining), a sale price of natural gas at which NIS sales natural gas to JP Srbijagas;
- Transfer prices for oil products (between Refining and Sales&Distribution) comprise minimal wholesale prices on domestic market i.e. prices that Block Refining, if it was separate legal entity, could achieve at the domestic market.

Reserves

	31.12.2010.	31.12.2009.
Reserves, in thousand RSD	889,424	889,424
Revaluation reserves, in thousand RSD	39	39
Method of creation	Reserves in the amount of 889.424 thousand RSD completely refer to the legal reserves formed in the previous period in compliance with previously valid Company Law. Pursuant to the foregoing law the Company was liable to set aside 5% of net profit each year until the legal reserve reaches at least at least 10% of share capital.	
Use	-	

Cases of uncertainty (Uncertainty of collection)

As a part of NIS a.d. Novi Sad Financial Statements, company management makes accounting estimates and assumptions regarding the future events. The results of the estimates will, by definition, rarely be equal to actual results. The most significant estimates and assumptions are estimated provisions for decrease of value of receivables, provisions for expected effects of negative outcome of litigations as well as provisions for environment protection.

Receivables from customers are initially recognized at fair value. Provisions for reduction in value of receivables are established when there is actual evidence that the Company will be unable to collect all receivable amounts in conformity with initial conditions.

For the first class of clients (clients whose receivables represent 80% of total receivables on the balance date) payment risk is estimated by taking into account indicators of decrease of selling value of receivables includ-

ing: term structure of receivables, estimated collectability of receivables according to client's financial capabilities and current history of delayed payments. Accordingly, provision is made for impairment of receivables on account of expenses for the period.

For the second class of clients (clients whose receivables represent 20% of total receivables at the balance date) payment risk is estimated by taking into account delay in the execution of payments, and allowance for impairment for these clients is formed if the payment is not executed: in sixty (60) days after due date for entry of foreign currency into the country or, in ninety (90) days after the due date for receivables for liquid gas, delivered goods/energy to domestic consumers that fall in category "remote heating systems" (heating plants), receivables from budgeted financed clients (military, police, health, education, railways, etc.).

Accounting value of receivables is decreased with impairment, and amount of reduction is recognized in Profit and Loss Statement, under the item "other expenses". When receivables are uncollectible, they are written-off on account of impairment of receivables' value. On December 31st, 2010 Company formed impairment for roughly 67% of gross value of total receivables.

On December 31st, 2010 Company reserved totally RSD 4.533.590 thousands (2009: RSD 5.936.069 thousands) on the basis of the expected effects of negative results of litigations. The estimation of the Management of Company is that litigations will not cause significant losses over amounts for which provisions were made on December 31st, 2010.

Management of Company estimated and made provisions for environment protection which on balance sheet date amounts to 962.968 thousands RSD based

on internal estimate of the level of compliance with legislative of Republic of Serbia. Accordant to sales and purchase agreement Company hired independent consultant - D'Appolonia, Italy in order to estimate compliance of company's activities with Law on Environmental Protection of Republic of Serbia and international legislative. D'Appolonia Report is still not finished. Management of Company thinks that, based on current legislative on environmental protection, expenses related to issues of environmental protection will not be significantly over expenses already taken into account. If D'Appolonia Report shows incompliance of activities with Law on Environment Protection of republic of Serbia, which were not predicted by Management, additional provisions are possible.

Key business events that occurred from the balance date to the report date

Decision on free import of oil and petroleum products

On January 1, 2011 Serbian Government has adopted a decision on the abolition of customs restrictions and introducing the free import of oil and petroleum products, based on the on Central European Free Trade

Agreement (CEFTA), as well as the Decision on termination of Decision on free pricing of petroleum products in the market of the Republic of Serbia.

Publishing takeover bid to minority shareholders by the Gazprom Neft

On January 31, 2011 according to the Sales and Purchase Agreement, Gazprom Neft announced offer to acquire share of minority shareholders i.e. 31,180,256 ordinary shares, making a total of 19.12% of the common shares.

The offer was valid for 45 days starting from the date of publication – from January 31 until March 16, 2011. The offered price per share was 506,48 RSD which is RSD value for 4,80996€ per share.

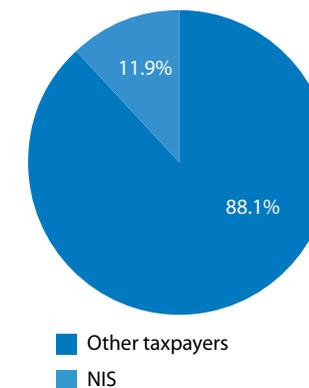
The offer was closed on March 16, 2011. Total number of deposited shares was 8.405.087, i.e. 5,15% of total number of issued shares. After the closure of takeover bid Gazprom Neft owns 91.565.887 NIS shares or 56,15% of total number of issued shares. After the closure of takeover bid minority shareholders own 22.775.169 or 13,97% of total number of issued shares. Number of shares owned by Republic of Serbia remained unchanged.

Taxes

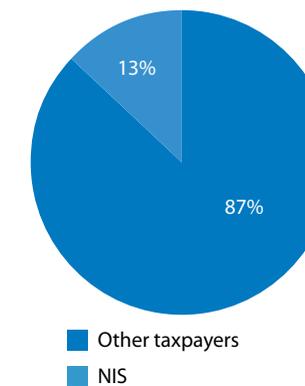
According to the information on revenues and expenditures of the budget of the Republic of Serbia for 2009, totally planned public revenues for 2009 were RSD 615 bln. In 2009, NIS share in replenishing the budget was

about RSD 73 billion for paid taxes. In 2010, public revenues amounting to RSD 660 billion were planned, whereat NIS share in replenishing the budget was about RSD 83 billion

NIS share in total public revenues in 2009



NIS share in total public revenues in 2010



Analytical review of liabilities for public revenues (in million RSD)

Обавезе по основу јавних прихода	2009.	2010.
Excise	51.1	57.4
VAT	12.5	14.99
Customs and other import duties	0.9	1.05
Mineral royalties	0.6	1.4
Other tax expenses	7.9	8.4
Total	73.0	83.2*

* Total tax amount is RSD 83.8 bln out of which RSD 83.2 bln is in the Republic of Serbia and RSD 0.6 bln in Angola

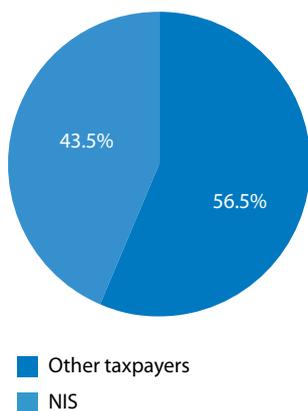
According to the Budget Law for 2009 and 2010, excise was a significant financing source of the Republic of Serbia with percent share in total public revenues of 19.09% in 2009 and 20.3% in 2010. The largest part of excise revenues is realized by the Republic of Serbia by collecting the

excise on oil products which makes more than 50% of total excise revenues. The analysis of total liabilities that NIS had for excise leads to a conclusion that NIS had significant contribution to the planned budget revenues from excise.

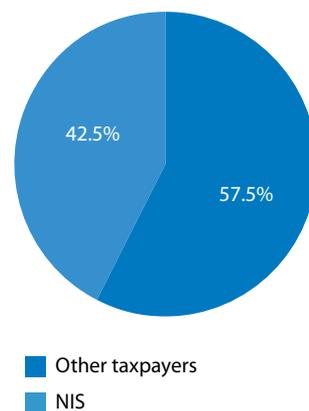
NIS share in total public revenues from excise in the Republic of Serbia

	2009	2010
NIS share in total public revenues of the Republic of Serbia from excise	43.54%	42.54%
NIS share in public revenues of the Republic of Serbia from oil products excise	85.6%	87.69%

NIS share in total public revenues from excise in 2009



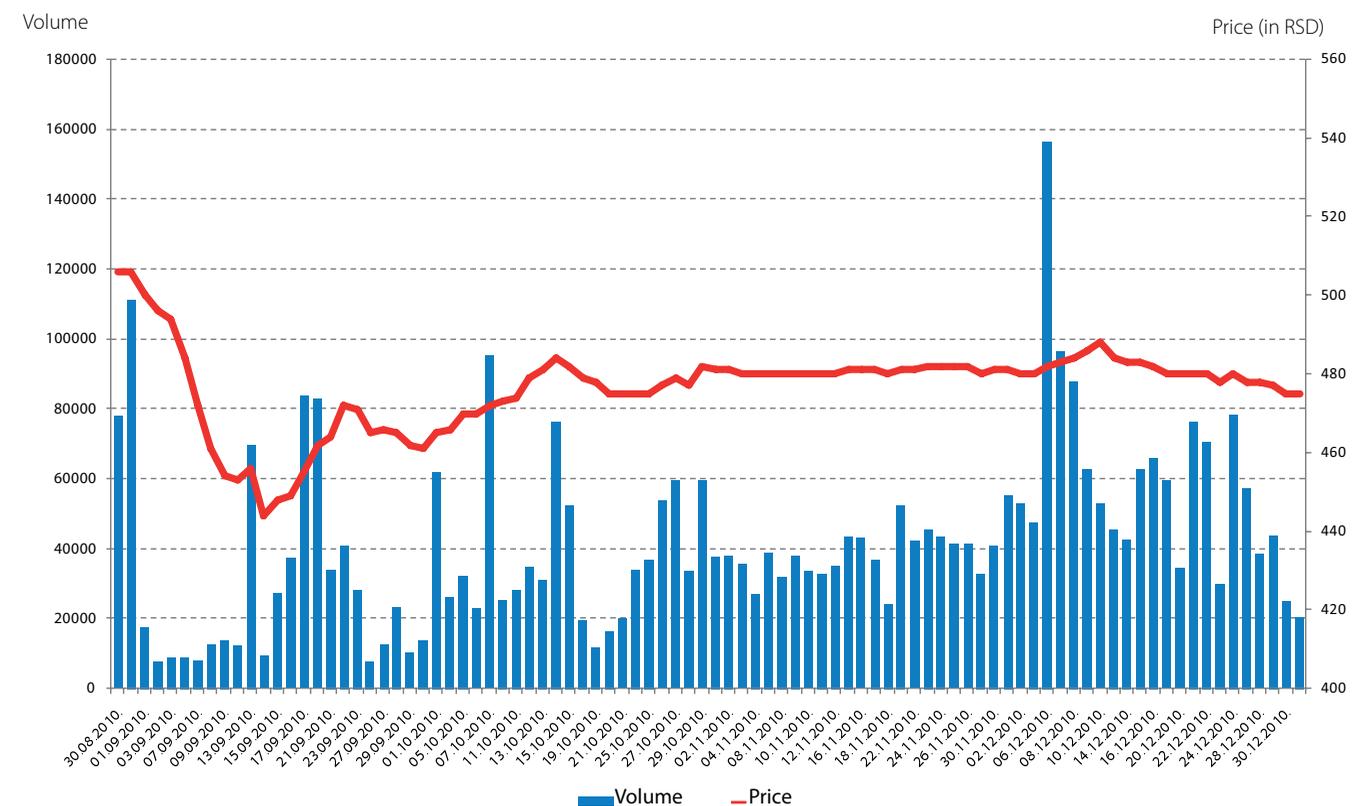
NIS share in total public revenues from excise in 2010



Trading with NIS shares

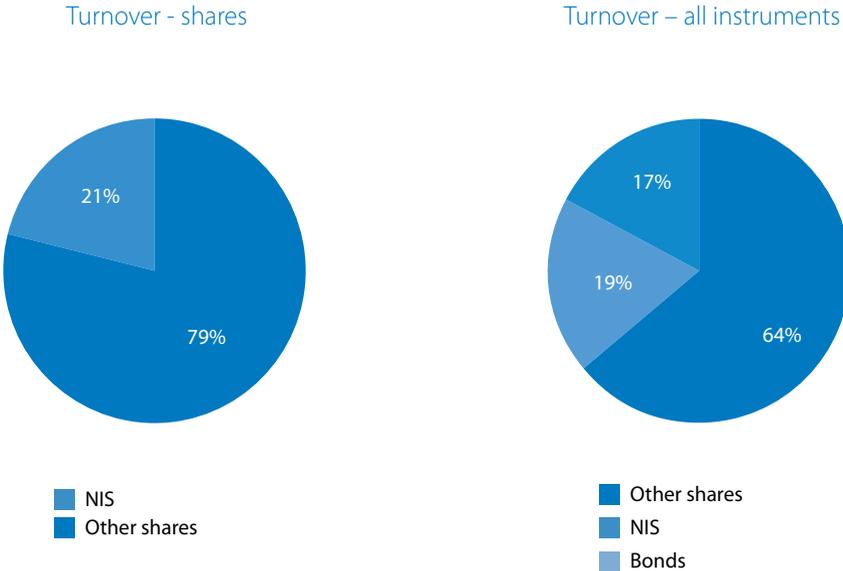
Trading with NIS shares on Belgrade Stock Exchange (30.08.2010. – 31.12.2010.)	
Last price	475 RSD
High	550 RSD
Low	442 RSD
Turnover	1,814,478,190 RSD
Volume	3,796,012 shares
Number of transactions	670,729
Market Capitalization as of 31.12.2010.	77,453,690,000 RSD
EPS as of 31.12.2010.	101.09 RSD
P/E	4.70
Book Value as of 31.12.2010.	288.35
P/BV	1.65

Price and Volume movements

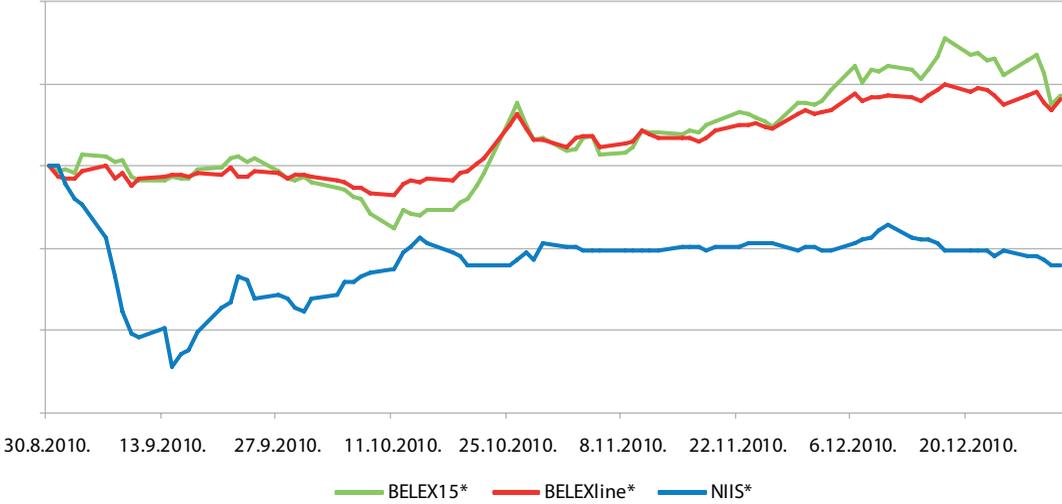


NIS shares participation in total turnover of Belgrade Stock Exchange (30.8.-31.12.2010.)

Since first trading day for NIS shares (30.08.2010.), until the end of the year, NIS shares participation in total turnover on Belgrade Stock Exchange was 21%.



NIS share price and Belgrade Stock Exchange indices movements



*adjusted values





NIS PETROL

A large, modern gas station canopy with a prominent red and white logo on the left and the words "NIS PETROL" in large, white, sans-serif letters on a red background to the right. The canopy is supported by several grey pillars.

MARKET POSITION



Market share

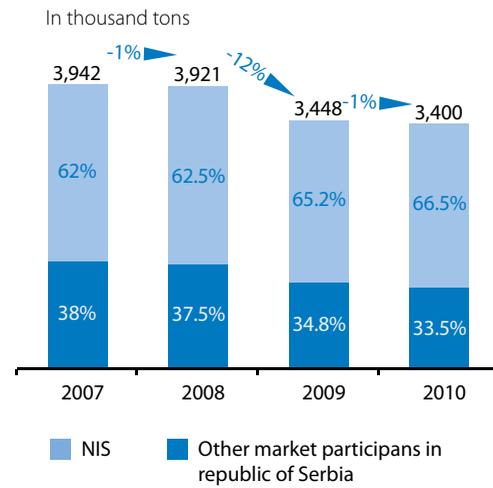
Slowed economic activity and rising inflation caused decline of real earnings and reduction of the share of transport costs in the total household consumption structure.

Total consumption of oil products in 2010 was declined from 3.448 thousand tons in 2009 to 3.400 thousand tons in 2010.

The share of NIS in the domestic market increased to 66.5%, compared to 2009 when it was 65.2%, in contrast to other participants in the domestic market, whose share has dropped.

*Source:

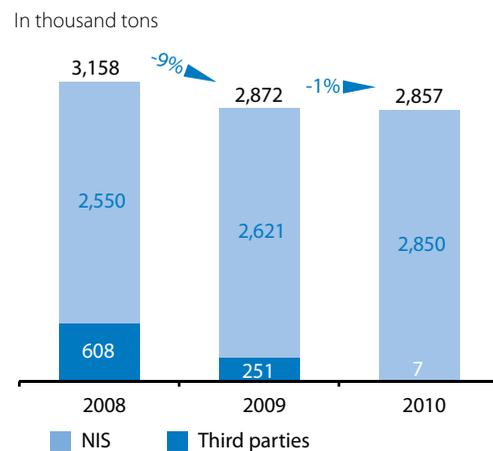
NIS records, data of the Customs Administration of RS



Market share in refining

As compared to 2009, oil processing for own needs increased by 8.7% and was 2,850 thousand tons.

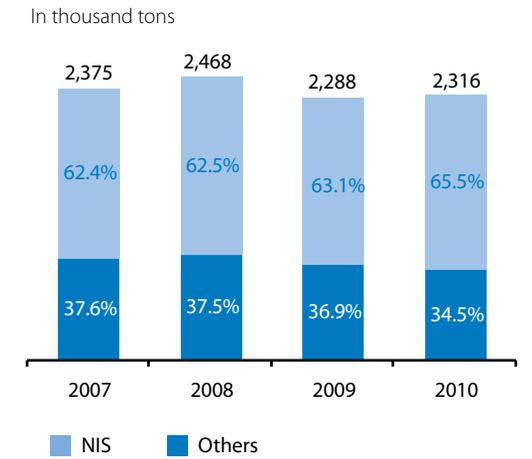
After competition of processing crude oil under the contract from the previous year, starting from February 2010 there was no crude oil processing in NIS refineries for the needs of third parties.



Market share in retail

Total market

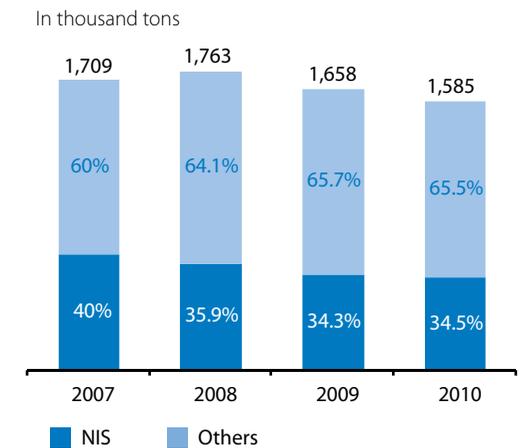
NIS share in total retail market in 2010 was increased by 2.4% comparing to previous year.



Sales on petrol stations

NIS share in retail market in sales on petrol stations was 34.5%, which is by 0.2% more than NIS participation in this market in 2009.

Increase in market share was particularly noticeable in second and fourth quarter of the year. Slight decrease in third quarter is result of traffic on highway E75, where foreign tourists rely on well-known brand and additional services at petrol stations.





INVESTMENT ACTIVITIES



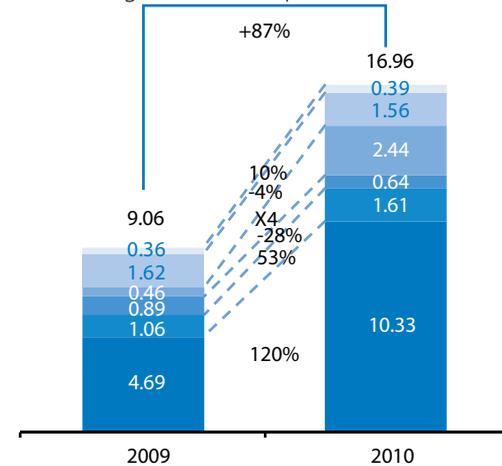
The largest capital investments

On the Investment Committee meeting a medium-term investment program has been adopted (further on ICM), where an investment plan for CAPEX was foreseen for the period of 2010 – 2012. According to ICM main investments in 2010 were addressed to the realization of the following groups of the project - MHC/DHT+H2, ecological projects, processing projects, sales, oil and gas production, and a number of projects implemented in the services of the corporate headquarter.

In 2010 RSD 16,96 billion were spent for investments. At the same time, investments were increased to 87% in comparison with the previous year.

The most significant investments in the oil and gas production in 2010 were for the following projects:

- drilling of the development wells



- MHC/DHT project
- Ecology
- Angola
- Projects with direct economic effect
- Projects without direct economic effect
- Other

- Hydraulic fracturing
- Installation of ESP pumps (electric submersible pumps)
- Geological research works
- Angola

The most significant capital investment concerning ecology issues was implemented in Pancevo Oil Refinery through the following projects:

- FCC unit reconstruction
- construction of a new unit for the regeneration of spent sulphur acid
- Reconstruction and modernization of jetty at Pancevo Oil Refinery at the Danube River
- Reconstruction of railway loading/unloading facilities
- Reconstruction of HPV unit – sludge treatment unit

In 2010 investments were increase to 87% in accordance with 2009. The growth of investments per investment projects is as follows:

MHC/DHT project – more of investments into MHC/DHT project in 2010 due to the on-site work execution commence and further purchase of the equipment (in accordance with the project realization trend), in contrast to 2009, when only advance payments for the equipment and design expenditures were made.

Ecology – larger investments in 2010 mainly due to the start of investing into construction of a new unit for the regeneration of spent sulfur acid, and larger investments into such projects as FCC, reconstruction and modernization of the jetty on the Danube river at Pancevo Oil Refinery, reconstruction of railway loading/unloading facilities and reconstruction of HPV unit.

Angola – investments in 2010 are larger than it was planned

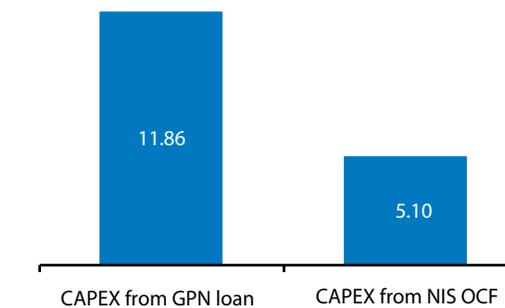
Projects without direct economic effect – in 2010 a slight decline in contrast to 2009 was observed.

Projects with direct economic effect – larger investments in 2010 were caused by a large number of the approved, commenced and finished projects in Upstream and Sales&Distribution.

Sources of investments in billion RSD (VAT excluded)

	2009	2010
CAPEX from GPN loan (without letters of credit)*	5,75	11,86
Ecology	1,06	1,57
MHC/DHT	4,69	10,29
CAPEX from NIS OCF	3,32	5,10
Ecology	0	0,04
MHC/DHT	0	0,04
Angola	0,89	0,64
Projects with direct economic effect	0,46	2,44
Projects without direct economic effect	1,62	1,56
Other	0,36	0,39
Total:	9,06	16,96

CAPEX from GPN loan and CAPEX from OCF in billion RSD (VAT excluded)



*Under the Agreement of sale and purchase of shares of NIS a.d Novi Sad, clause 8.1.2, JSC Gazprom Neft (GPN) has an obligation to provide EUR 500 million to NIS a.d. Novi Sad by way of special purpose loans in order to implement NIS Novi Sad technological complex reconstruction and modernization program. CAPEX from GPN loan does not include letters of credit. CAPEX with letters of credit (VAT excluded) in 2010 amounted to 135.4 million EUR.

Other significant investments

Besides the investments in operating capacities in 2010, NIS made significant investments in developing and upgrading of the information system. The largest investments amounting to RSD 0.49 billion were made in SAP software, which included the upgrading of the system and the existing modules and implementation of new logistic modules „Bulk“ and „DAS“.

RSD 0.14 billion Investment was made for the purchase of computer equipment and software (workstations, upgrading of server infrastructure, new licenses for upgrading work platforms with Windows XP and Office 2003 on Windows 7 and MS Office 2007).

Retail station Krnjaca was purchased for RSD 0,225 bln.

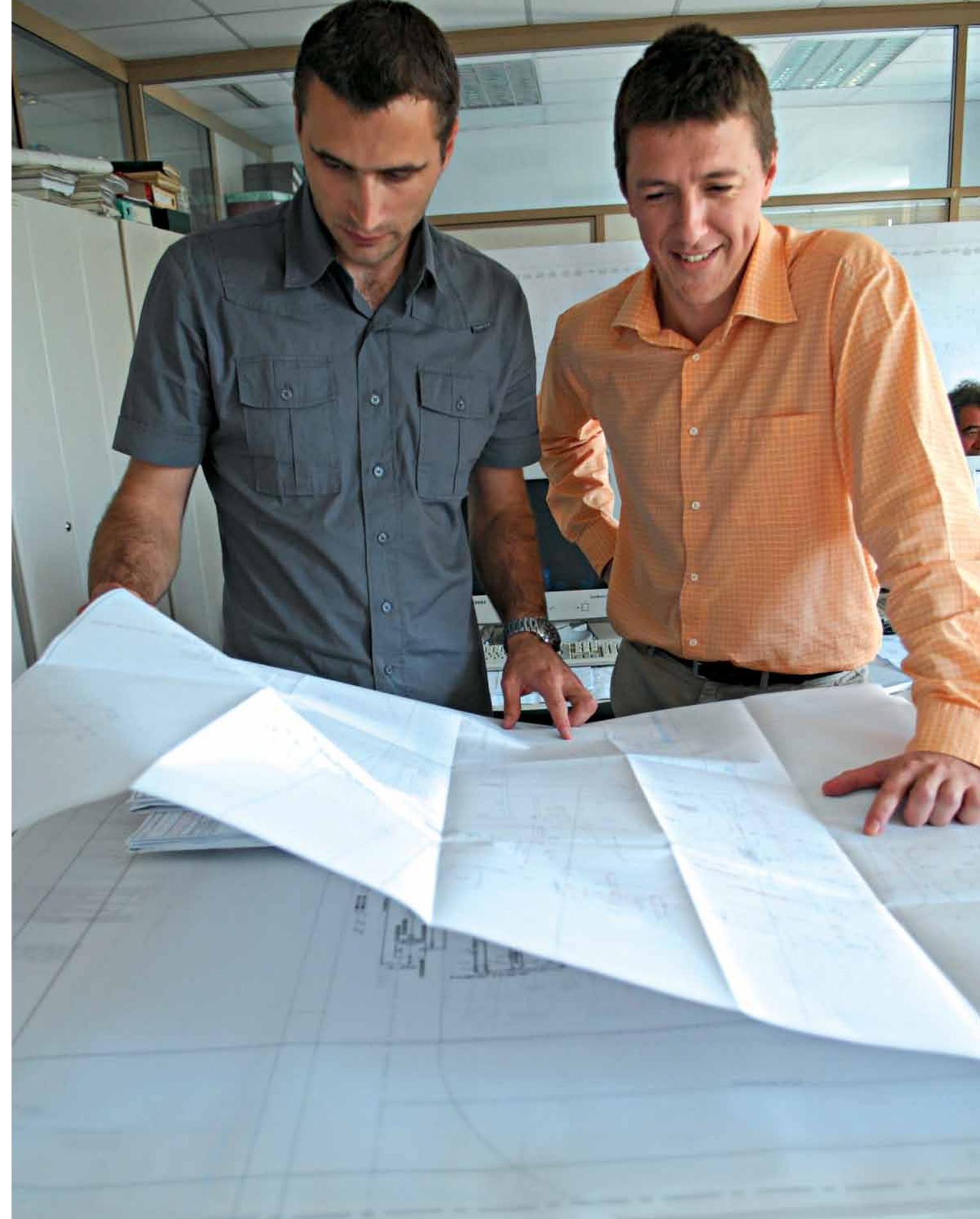
Investments in Human Resources

NIS is committed to continuous professional development of employees, as one of the Company's most important resource. During

2010, NIS rationalized the existing professional development programs and earmarked about RSD 81.2 million for these purposes.

Training costs	2008	2009	2010
Costs of professional education	130.1	44.6	71.8
Costs of consultancy	34.8	4.5	8.8
Costs of business association membership fees	1.1	1	0.6
Total	166	50.1	81.2

*in billion RSD





STRATEGY

Development strategy in 2010

By late December 2010 NIS successfully completed its Five Year Strategic Development Plan. This document sets forth clear-cut targets for overall NIS development strategy, and specifies its breakdown for each business operation segment for the 2011-2013-2020 spell. This development strategy is a result of a thorough analysis of possible turns NIS expansion can take, expected market environment fluctuations and competition assessment and provides an optimum development model for NIS and recommends the implementation of measures to bring about strategic goals.

NIS development strategy is based on a detailed analysis of the situation in the local oil industry and the region, as well as on the forecast of its further development. The key segments of operation are focused on the production and refining of crude, oil products retail and oil services enhancement. These segments are to balance NIS development comprehensively.

NIS is committed to implement best world practices in running its business and along these lines over the course of 2010 a number of its departments underwent an upgrade of existing management models, which made them conform to international standards ISO. Here follows a list of departments that started implementation of certified management system (QMS – stands for the quality per SRPS ISO 9001:2008, EMS – environment per SRPS ISO 14001:2005, HACCP- for safety of food-stuffs):

- Exploration and Production Block (QMS and EMS)
- Exploration and Production Block Scientific and Technical Center processes control (QMS and EMS)
- Refining Block Pancevo Refinery (QMS)
- Refining Block Novi Sad Refinery (QMS and EMS)
- Oilfield Services Block, Oil Services Directorate Drilling Services Unit (QMS and EMS)
- Oilfield Services Block, Oil Services Directorate Drilling Unit (QMS and EMS)
- Oilfield Services Block, Oil Services Directorate Overhaul Unit (QMS and EMS)
- Oilfield Services Block Technical issues Directorate, Maintenance Unit (QMS and EMS)
- Oilfield Services Block Technical issues Directorate, Construction Development Unit (QMS and EMS)
- Oilfield Services Block Transportation Unit (QMS and EMS)
- Oilfield Services Block Hydrothermal Wells and Manholes Development Unit (QMS and EMS)
- Oilfield Services Block Geophysical Services Unit (QMS and EMS)
- FOP, Potable Water Production Unit (QMS and HACCP)

Organizational department Directorate for Oils and Lubes within Sales and Distribution Block has been undergoing the final stages of quality management system implementation.

Three tiers of NIS development horizons – until 2020

As a part of its five years strategy until 2020, NIS plans to achieve the growth in values, increase its efficiency and financial stability and reduce the debt in comparison to the operating revenues up to the level of the best practice companies in Europe. By business segments, NIS projects a three-fold increase in exploitation by 2020. With the Pancevo Refinery reconstruction finalization the refining volume will increase by more than 50% and engine fuels produced will comply with the European quality. The plan is to have essential improvement in the sales system, by increasing not only the market share, but also the efficiency of each retail entity. One of the goals of the five year strategy is also to achieve the internal efficiency.

The following goals are defined in order to implement this strategy:

- Increase in the indicators of production, refining and sales network growth

- Increase in the oil products market share in the Republic of Serbia
- Increase in oil products sales through the own retail network
- Export increase
- Target markets - Republic of Serbia and Balkans
- Lower production costs
- Lower refining costs

Total volume of capital investments projected by this strategy until 2014 will be RSD 90 billion. Almost half of the amount will be spent on the modernization project of the refining capacities and on environmental projects.

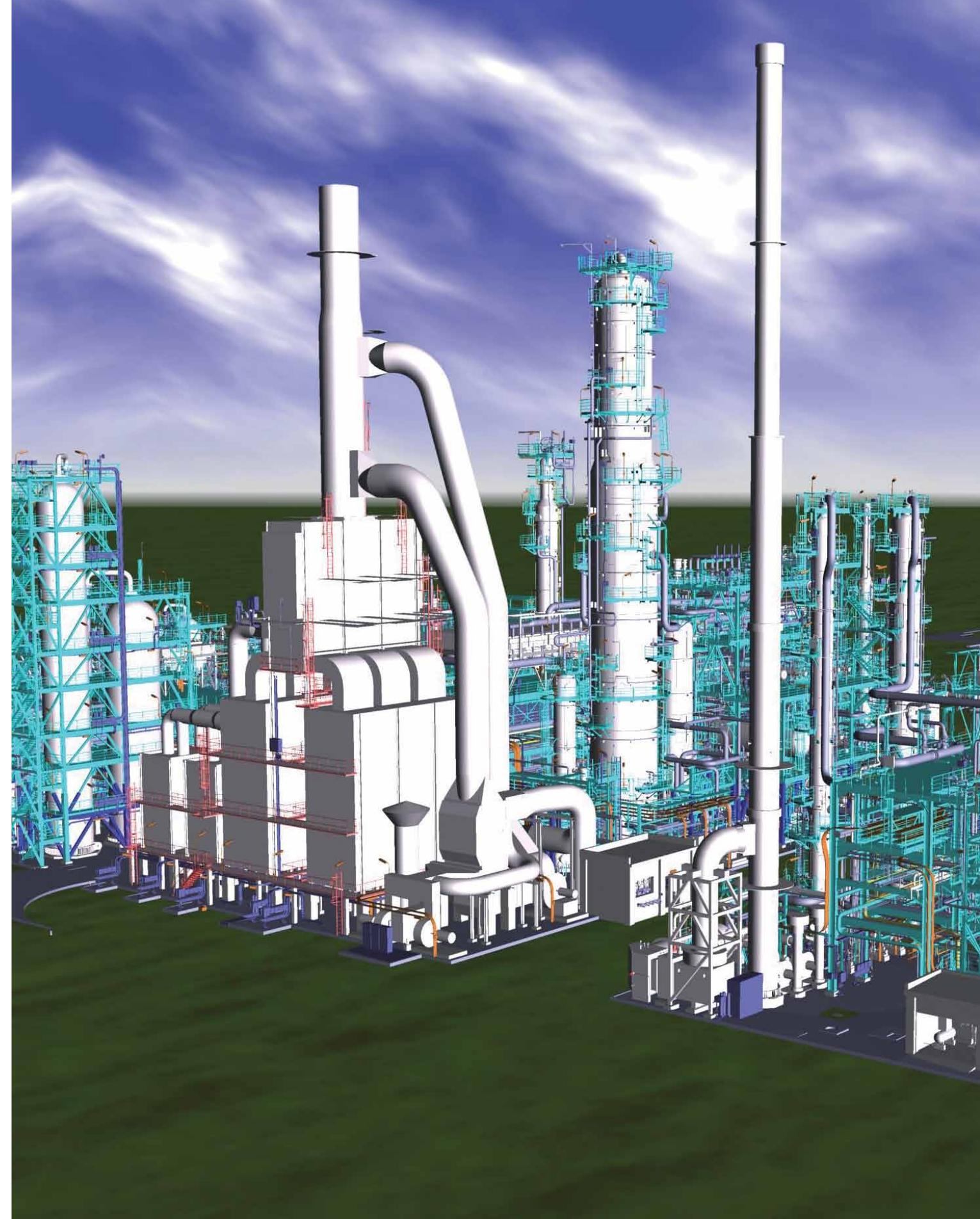
Company's Development Activities

Construction of the Mild Hydrocracking Unit and Hydrotreating Unit in the Pancevo Refinery (MHC/DHT)

Construction of the MHC/DHT+H₂ Complex (mild hydrocracking unit) will provide NIS with the possibility to produce motor fuel in accordance with the Euro 5 Standards. Implementation of this project commenced in 2009, and completion is scheduled for 2012. The Complex will include five new process units. In addition to the newly built facilities, the project will reconstruct, build and modernize 19 industrial infrastructure facilities required for operation of the hydrocracking and hydrotreating units.

The purpose of the project is to make NIS competitive on the liberalized Serbian market of crude oil products, scheduled for the end of 2010, and insure maximum compliance with the domestic and EU environmental standards.

New ways of energy supply will have favorable effects on prices of the oil products by creating prerequisites for their lowering thanks to the reduced consumption of electric energy, and on the environment owing to the installation of the additional treatment devices which will contribute significantly to the decrease in the air pollution in Pancevo and its surrounding area. Besides, the project envisaged establishment of the industrial waste system, which will prevent air, ground and surface water, and soil pollution.





INDUSTRIAL SAFETY OCCUPATIONAL
SAFETY AND HEALTH

Industrial Safety, Occupational Safety and Health

HSE activities (industrial safety, occupational safety and health, fire, explosion and disaster protection, environmental protection) were organized and performed in accordance with the effective legislation of the Republic of Serbia and in planned extent. In 2010 there were

more significant (compared to previous year) activities on solving historic pollution remediation and organizing HSE activities based on Gazprom Neft and EU experience.

Industrial Safety

To prevent accidents and downtime caused by the worn-out equipment in 2010 NIS carried out a comprehensive survey of its 12 plants, specifically:

Oil and Gas Production

- Backa Unit (Oil preparation point – US “NADRLJAN”, thermal system Bc-2-X, CO2 facility);
- Srednji Banat Unit (Booster Pump Station and Gas Separation SS I ELEMIR);
- Overhaul Unit
- Maintenance Unit

Oil Refining

- Pancevo Refinery;
- Novi Sad Refinery;

Oil Products Sales

- Storage Novi Sad;
- Central Storage LPG Novi Sad;
- Storage Surcin;
- Petrol Station Novi Sad 4;
- petrol Station Negotin 1;

LPG

- Gas Refinery at Elemir;

A tender procedure awarded this assignment to the Russian company ZAO „Tehnologii: Analiz i upravljenie“, Moscow (hereinafter referred to as TAU).

On top of status assessment from the industrial safety point of view, the TAU Company proposed measures to diminish unexpected losses caused by accidents taking place at NIS facilities under survey.

Based on the results other NIS venues status is being examined as part of the Action Plan for Industrial Safety Enhancement.

Occupational Safety and Health

In 2010, the Company did not sustain any accidents with lethal outcome or work-related disability cases owing to the application of the prevention measures, employee training for safe work, introduction of the advanced technologies, better working conditions and ambient, and the use of the personal and collective means of protection in the work process.

A number of standards and decisions were adopted in 2010:

- On notification and alerting of events within NIS,
- On safe driving in Road Carriage within NIS,
- On functional HSE activities interconnection.

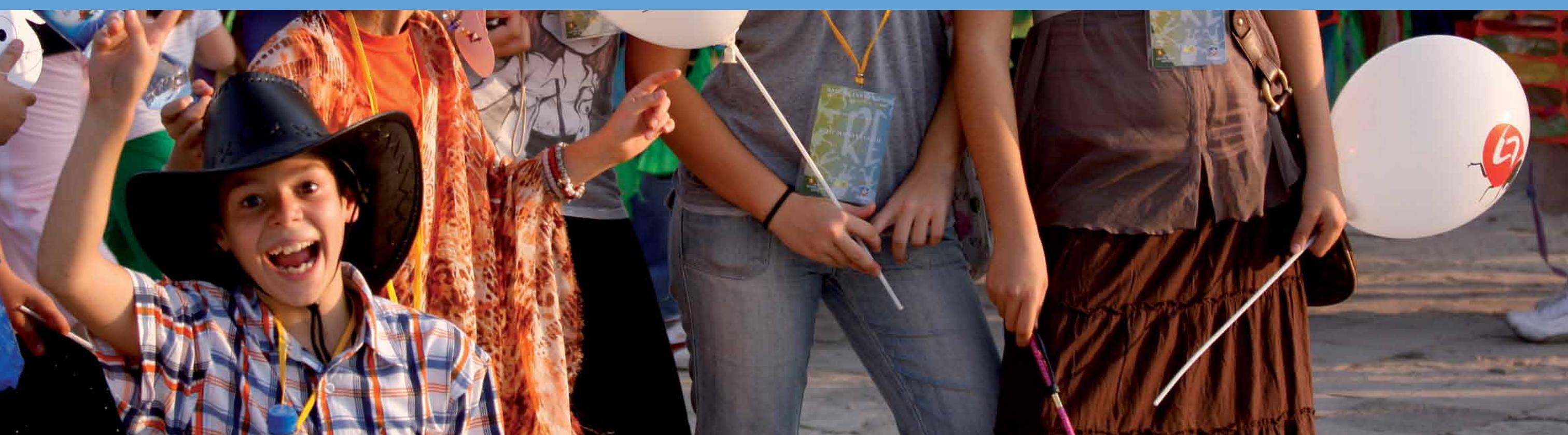
The above decisions and standards unequivocally specify rights and responsibilities of employees, management and NIS executives and establish a closer connection with Gazprom Neft and EU standards, increase transparency of events of HSE concern and creates safer work environment for employees.

A consistent application of Fundamental Code of Conduct within NIS facilities has been provided which stipulates:

1. prohibition of open flame use in hazard zones and permission of exclusive use of explosion-proof electrical appliances
2. prohibition of entrance, work and stay to persons intoxicated by alcohol or otherwise, and alcohol bringing through and consumption
3. obligation to comply with all rules and procedures enforced in facilities and zones, where employees are present together with application of all requirements of system of permissions for safe work.
4. adherence to traffic rules
5. obligation to report all accidents, i.e. all safety-affecting situations and circumstances
6. obligation to act on spotting a non-safe development
7. prohibition of smoking and designation of smoking areas
8. prohibition of weapons-bearing
9. prohibition of audio- and video recording, unless explicitly permitted



SOCIAL RESPONSIBILITY



Social responsibility

Development of the Naftna industrija Srbije as the industry leader in the Balkan region is not possible without its favorable image in the Serbian and international community. The social responsibility strategy of NIS is based on the following principles of charity and sponsorship:

Regional principle - Charity projects in the regions where the Company has production, commercial or other interests related to business development. This principle is a feature of NIS as a reliable partner who creates friendly environment and stable favorable perception of the population about NIS operations.

Outlook - Being concerned for enlargement of its market, NIS considers donations and sponsorship as an investment into its future, in the fields regarded as prospective for business development.

Efficiency - Sponsorship and donation projects must be highly effective both in terms of spending by the recipients and the favorable effects on the Company image in the regional public and fruitful relations with the authorities. An important result is also creation of the favorable climate for implementation of the investment and business development projects.



Accessibility and transparency of the charity activities - These are necessary preconditions for efficient spending of assets. On the one hand, the projects for implementation should be adequate for the requirements and acceptable for the population, and on the other hand, they should provide transparency in costs control.

Self-reliance - To avoid conflict of interest in most of the projects, NIS prefers not to participate with the competitors.

In 2010, NIS allocated RSD 305 million to support the social responsibility programs. In accordance with its socially responsible business strategy and adopted Sponsorship and Donation Policy, NIS has grouped sponsorship and donations into five priority programs:

Energy of Sports

The program oriented towards the top-level sports, clubs and national teams, predominantly in basketball, tennis, volleyball, auto-racing sports, and sports for children. The whole program is aimed to promote sports and healthy living style.

The key Energy of Sport project is sponsorship of the Partisan basketball club which, for the third time in a row, is one of the eight best clubs in Euro league championship.

NIS proudly represents its 2010 sponsorship of Serbia's historical Davis Cup winning Team

NIS is a general sponsor of the Volleyball Club NIS Vojvodina, the most successful volleyball club in the country, which has won 13 national championships, 10 cups, and 2 times

third places in the European champions cups.

As regards the support NIS gives to the sports for children, NIS is a general sponsor of the Mini Basket movement, the basketball organization for the youngest players.

In addition to the aforementioned sports clubs and organizations, NIS supports women's Vojvodina Basketball Club, NIS Karate Club, Spartak Basketball Club and women's Volleyball club Spartak.



Culture without Borders

This program is intended to support important national and European cultural events and festivals in different Serbian regions, as well as the Russian-Serbian cultural cooperation. It includes, but is not limited to, the following events:

Gucha - The Serbian trumpet festival. This event promotes Serbian culture and tradition with more than half a million visitors every year.

Nishville - The largest jazz festival in southeast Europe. The most prominent jazz players in

the world take part in this event.

Belgrade Philharmonic Orchestra – Serbia's most revered and significant classical music institution founded 88 years ago.

Other sponsorships within the Culture without Border are International rock music festival EXIT, Sterijino Pozorje, the children's festival Zmaj Children Games and the Joy of Europe children gathering.

Science and Young Talents

The purpose of this program is the support for and development of the scientific potentials at the faculties related to this industry, support of the research work and scientific innovations, and development of the talented pupils and students. In 2010, NIS supported the educational programs of the Petnica science center devoted to the young population all over Serbia.

Cooperation for Development

The projects contained in this program should strengthen the partnership relations with the regions in which the Company has its operations, the local authorities and citizens. The program promotes social care, cultural, sport and humanitarian values and it is created according to the regional priority projects; it is implemented in cooperation with the local authorities through the Agreements on social and economic cooperation. In the Cooperation for Development Program, special focus is on the openness and transparency principle.

Large number of projects has thereby been put into practice focusing on environment and health protection, promotion of sports and cultural activities and intended to the society across the board: socially vulnerable and disabled individuals, children, youth and inventive and gifted people. Various institutions benefitted from the Cooperation for Development Programme like schools, Red Cross organization, safe homes, hospitals, and nursery schools, institutions promoting ethnical heritage, jazz music, and painting. We carried out afforestation of vast areas surrounding local communities and set up green landscaped city

The Petnica science center is a unique institution of the kind in Serbia. In the last two and a half decades of its successful work, it organized more than 2.500 various courses, camps and workshops attended by more than 40.000 school children.

squares. We donated ultrasound scanners and medical equipment for laparoscopy, furnished access ramps for the disabled, children playgrounds, athletic schools and sponsored free meals at soup kitchen for the disadvantaged, and restored a religious shrine. In cooperation with the Petnica Science Centre and the city of Pancevo we developed a project „School Environmental Groups“.

In 2010, our programme went beyond the cities and municipal centres in Vojvodina to include other major Serbian cities as Belgrade and Niš, where we sponsor its National Theatre and were involved in a culture project “Beogradizacija Beograda”.

The most significant outcome of these projects is boosting and strengthening interaction with local communities and cities involved, understanding for the problems facing them and multiple interconnections between the community and business. We intend to make this cooperation a long-running project that will bring about a sustainable community development.



Humanitarian Projects

The program includes the aid projects for the socially vulnerable persons or public organizations, as well as the aid for disaster victims. By implementing such donation programs, NIS demonstrates its willingness to take active role not only in the industrial and economic,

but also in the social areas of interest for the whole community. NIS acts as a friendly partner of the community and a business partner of the state in solving of the social problems.



ENVIRONMENTAL RESPONSIBILITY

Responsibility for the Environment

Environmental protection is one of the main priorities and the integral part of the successful NIS management strategy. The Company environmental policy is based on:

- process operation conformity with national legislative requirements for environment protection, international standards and Gazprom Neft standards;
- minimization of the adverse effects of NIS production process on the environment and improvement in the fuel quality specification affecting the environment;
- provision of safe work conditions in the whole NIS, production process in particular, and developing and implementation of environment protection program based on common and integrated program of management up to 2014,
- Company's voluntary initiative to preserve and renew natural resources.

The Company has undertaken large projects targeted to harmonize the production process with the European standards, maximize reduction in pollutants emission/leakage and create an advanced system of environmental monitoring which enables quick efficient response to the environmental incidents.

In 2010, the investment in the environmental projects amounted to RSD 1,61 4.2 billion, or almost 100% more than in 2008, when the investment was RSD 2.1 billion. Most of the investments in the environmental protection were used for:

- FCC Facility reconstruction (Pancevo Refinery)
- Construction of a new Sulfuric Acid Regeneration Unit (SARU) (Pancevo Refinery)

- Reconstruction and modernization of the Pancevo Refinery Danube Jetty (Pancevo Refinery)
- Reconstruction of the rail loading/unloading facility (Pancevo Refinery)
- Reconstruction of HPV unit – sludge treatment facility (Pancevo Refinery)
- Remediation and reconstruction of oily sewage system (Novi Sad Refinery)
- Continual monitoring of emissions and imissions system installation (Novi Sad Refinery)
- Contaminated soil remediation (Oil and gas production)

The projects of technological development and environmental protection in NIS are primarily driven by the concept of clean production and application of the best available methodology, in terms of integrated protection and prevention/mitigation of air, water and land pollution and waste management control.

By the end of 2010 a comprehensive environmental survey of Company's 12 production venues was completed. These include: oil and gas refineries, storage facilities, refueling stations, oilfield service complexes, and booster pump stations at the oilfields. The Survey author, D'Applonia Company, provided NIS with Reports containing: environmental assessment (subsoil, surface water, soil, water, waste) of the consequences of NIS economic activity:

- Assessment of existing and potential environment risks,
- Assessment of environment protection management system;

- Identification of corrective measures for the improvement of environmental status and mitigation of environmental and economic risks.

Based on the Project conclusions, a Programme for the improvement of environment status and risk reduction will be developed, which will subsequently serve as a basis for the future environmental investments. This Programme, among other things, will include projects pertaining to:

- remediation and reclamation of contaminated soil and underground water,
- process waste treatment and disposal,
- identification of all significant environment pollution sources and implementation of measures reducing the pollution and similar activities.



GLOSSARY

ISO	International Organization for Standardization
BMB	Unleaded motor gasoline
BELEX15	Index of the most liquid shares at Belgrade Stock Exchange (NIS shares are not included into the index basket)
BELEXline	General index of Belgrade Stock Exchange (NIS shares are included into the index basket)
EBITDA	Earnings before interest, taxes, depreciation and amortization
ESP pumps	Electric submersible pumps
MB	Motor gasoline
OCF	Operation current flow
OHSAS	Occupational Health and Safety Management System
HOV	Securities
MIP	Medium- term investment plan
FCC	Fluid catalytic cracker
RNP	Pancevo Oil Refinery
RNS	Novi Sad Oil Refinery

APPENDICES

Auditor's report (stand alone financial statements)



INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Naftna Industrija Srbije a.d., Novi Sad

We have audited the accompanying financial statements of Naftna Industrija Srbije a.d., Novi Sad (the "Company") which comprise the balance sheet as of 31 December 2010 and the income statement, statement of changes in shareholder's equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes. The statistical annex is an integral part of these financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia.


Milivoje Nesovic
Licensed Auditor




PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 23 February 2011

PricewaterhouseCoopers d.o.o., Omladinskih brigada 88a, 11070 Belgrade, Republic of Serbia
T: +381 11 3302 100, F: +381 11 3302 101, www.pwc.rs

This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Auditor's report (consolidated financial statements)



INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Naftna Industrija Srbije a.d., Novi Sad

We have audited the accompanying consolidated financial statements of Naftna Industrija Srbije a.d., Novi Sad (the "Parent") and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2010 and the consolidated income statement, consolidated statement of changes in shareholder's equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes. The statistical annex is an integral part of these consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia.


Milivoje Nesovic
Licensed Auditor




PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 7 March 2011

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This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Consolidated Financial Statements

Income statement

	2009	2009	2010
	<i>(before adjustments)</i>	<i>(adjusted)</i>	
Operating income	118,702	118,702	169,779
Sales	118,578	118,578	161,380
Work performed by the entity and capitalized	725	725	2,908
Increase in the value of finished goods and work in progress	(981)	(981)	5,358
Other operating income	380	380	133
Operating expenses	115,759	121,010	143,753
Cost of goods sold	6,186	6,186	5,385
Cost of material	68,676	68,676	95,394
Cost of salaries, benefits and other personnel expenses	19,984	19,984	21,346
Depreciation and provisions	7,493	13,996	8,414
Other operating expenses	13,420	12,168	13,214
Net operating income (loss)	2,943	(2,308)	26,026
Financial income	11,125	11,125	6,321
Financial expenses	(15,885)	(15,885)	(19,116)
Other income	3,371	5,880	5,177
Other expenses	(6,469)	(38,528)	(6,118)
Income (loss) before income tax	(4,915)	(39,716)	12,290
Income tax	341	1,950	4,446
Income tax expense	0	0	(832)
Deferred tax income (expenses)	341	1,950	5,278
Net Profit (Loss) for the period	(4,574)	(37,766)	16,736
Including impairment of assets (based on the independent appraiser's report)	(14,481)	0	0
Including adjustment of balance as of 2 February 2010	(18,711)	0	0
Net losses after tax including impairment of assets (based on the independent appraiser's report) and adjustment of balance as of 2 February 2010	(37,766)	0	0

*in millions of RSD

Balance Sheet

	2009	2010
	<i>(adjusted)</i>	
Non-current assets	96,357	108,928
Intangible assets	4,800	4,841
Property, plant and equipment	87,299	100,925
Investment property	500	1,393
Investments in equity instruments	366	263
Other long term investments	3,392	1,506
Current assets	48,344	64,375
Inventories	23,031	34,017
Non-current assets held for sales	136	262
Trade receivables	11,394	12,998
Receivables for overpaid income tax	42	0
Short term financial investments	861	2,514
VAT and prepaid expenses	4,157	3,947
Cash and cash equivalents	8,723	10,637
Deferred tax assets	0	4,805
Total assets	144,701	178,108
Off balance sheet assets	151,212	88,793
Equity	32,020	47,033
Share capital	87,149	87,149
Reserves	889	889
Revaluation reserves	0	0
Unrealized gains from securities	131	49
Unrealized losses from securities	(28)	(49)
Retained earnings	0	16,736
Loss	(56,121)	(57,741)
Long-term provisions and liabilities	57,482	68,217
Long-term provisions	16,112	18,575
Long-term loans	34,733	26,645
Other long-term liabilities	6,637	22,997
Short-term liabilities	53,267	61,400
Short-term financial liabilities	18,567	21,806
Trade and other payables	23,337	24,964
Other short-term liabilities	4,047	6,552
Liabilities for VAT and other taxes and deferred income	7,315	7,457
Income tax liabilities	1	621
Deferred tax liabilities	1,932	1,458
Total liabilities	144,701	178,108
Off-balance sheet liabilities	151,212	88,793

* in millions of RSD

Cash Flow Statement

	2009	2010
Cash flows from operating activities		
Cash inflow from operating activities	185,401	254,422
Cash outflow from operating activities	(167,901)	(236,816)
Net cash inflow from operating activities	17,500	17,606
Cash flows from investing activities		
Cash inflow from investing activities	9	46
Cash outflow from investing activities	(9,372)	(17,740)
Net cash outflow from investing activities	(9,363)	(17,694)
Cash flows from financing activities		
Cash inflow from financing activities	82,002	27,472
Cash outflow from financing activities	(85,522)	(25,530)
Net cash inflow (outflow) from financing activities	(3,520)	1,942
Net cash flows	4,617	1,854
Cash and cash equivalents at beginning of period	4,060	8,723
Currency translation gains on cash and cash equivalents	144	881
Currency translation losses on cash and cash equivalents	98	821
Cash and cash equivalents at end of period	8,723	10,637

* in millions of RSD

Statement of changes in equity

	Share capital	Other capital	Reserves	Revaluation reserves	Unrealized gains from securities	Unrealized losses from securities	Accumulated loss	Non-controlling interest	Total
Balance as at January 1, 2009	81,530	5,621	889	61	138	(33)	(18,572)		69,634
Accounting error correction and changes in accounting policies		(23)					3	20	
Adjusted Balance as at January 1, 2009	81,530	5,598	889	61	138	(33)	(18,569)	20	69,634
Income:									
- Loss	-	-	-	-	-	-	(37,622)	5	(37,617)
- Gains/losses from securities	-	-	-	-	(7)	5	-	-	(2)
Increase (decrease) through transfers and other changes, equity	-	-	-	(61)	-	-	66	-	5
Balance as at December 31, 2009	81,530	5,598	889	-	131	(28)	(55,125)	25	32,020
Balance as at January 1, 2010	81,530	5,598	889	-	131	(28)	(55,125)	25	32,020
Income									
- Profit	-	-	-	-	-	-	16,736	-	16,736
- distribution of profit recorded before 2009							(1,646)		(1,646)
- Gains/ losses from securities	-	-	-	-	(82)	(21)			(103)
Increase in equity									-
Increase (decrease) through transfers and other changes, equity							26		26
Balance as at December 31, 2010	81,530	5,598	889	-	49	(49)	(41,009)	25	47,033

* in millions of RSD

Financial highlights** – historic (in million RSD)

	2008	2009	2010
Income total	186,274	135,255	181,056
Expenses total	194,185	174,774	169,018
Net Profit (Loss)	(8,023)	(4,444)*	16,484
Sales	168,458	118,376	161,149
OCF	(11,781)	17,619	17,791
EBITDA	7.9 bln. RSD	10.4* bln. RSD	32.4 bln. RSD
Non-current assets	112,753	95,734	108,326
Current assets ***	47,854	48,317	68,801
Total assets	160,607	144,051	177,127
Equity	69,982	32,283	47,019
Long-term provisions	7,846	16,040	18,502
Long-term liabilities	12,340	40,654	48,927
Short-term liabilities	66,624	53,141	61,221
Total liabilities	160,607	144,051	177,127

* Before opening balance adjustments on 2nd February and before impairment of the fixed assets

**Data from stand alone financial statements

***Current assets include deferred tax assets

Naftna industrija Srbije a.d. Narodnog fronta 12,
Novi Sad

ID number: 20084693

Tax ID number: 104052135

Business Report for 2010 was approved at the meeting
of the Board of Directors on 13.05.2011.

Vadim Yakovlev

NIS a.d. Novi Sad
Chairman of the Board of Directors



Company for exploration, production, refining, distribution and
sales of crude oil and oil products, and exploration and production
of natural gas Naftna Industrija Srbije a.d
Serbia, Novi Sad, Narodnog Fronta 12

