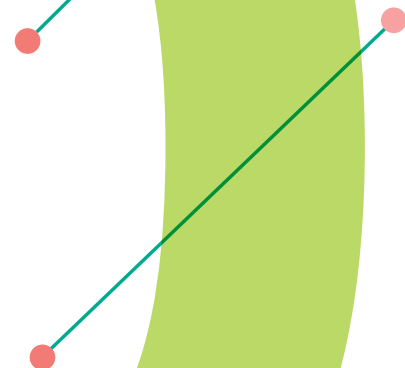
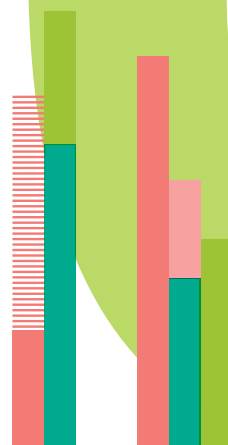
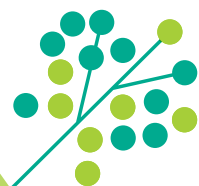
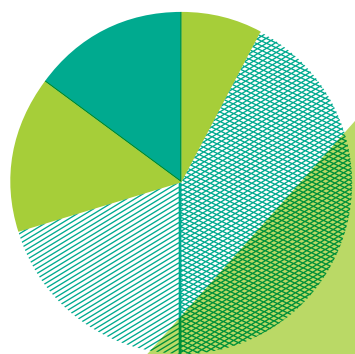
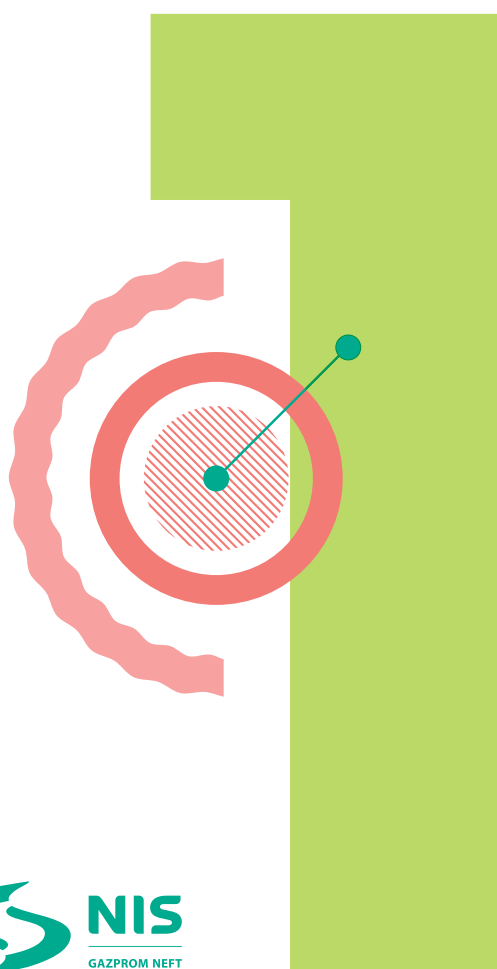


# Report on Sustainable Development



Future at Work



**2014**

# **REPORT ON SUSTAINABLE DEVELOPMENT**

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This is the fifth NIS Sustainable Development Report, prepared in compliance with the international standards of the Global Reporting Initiative (GRI G4) applicable to the Oil and Gas Sector. Through the presentation of 69 indicators, we have achieved significant improvement in comparison with the previous Sustainable Development

Report and have shown that NIS does not lag behind international trends. The compliance of the Report with the GRI guidelines, as well as the accuracy of information provided were assessed and verified by the independent auditing company KPMG Ltd, Belgrade, Serbia.

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**Kirill Kravchenko**

CEO

NIS j.s.c. Novi Sad

Sustainable development is not only the strategic choice of NIS, but also the fundamental practice which is continuously perfected in order to improve the quality of life in the community we work in, to develop human and maintain natural resources.

This means that we operate in compliance with strict procedures and standards which ensure environmental protection and care of employee health and safety. Also, we constantly expand our relations with partners and the society we work in, and introduce new technologies into our operations in order to become better and more efficient.

#### Confident of Employee Safety

„Man is the measure of all things” – this is a saying originating in ancient times. For us, in NIS, people always come first. Having in mind that HSE is the only business area where success is measured by the lowest, not the highest numbers achieved, we can say that, in the previous period, we have reduced the number of negative parameters. Thus, in the period between 2010 and 2014, the number of traffic accidents was reduced by almost 60%, whereas the number of environmental accidents dropped by 26%. The number of work-related injuries and days lost was reduced by 12%, and the number of fires by 5%.

The increase in employee personal safety was driven by a range of programs and trainings aimed at raising employee awareness of safe work procedures, ensuring that they are observed. In 2014, we adopted the Instructions for Developing HSE Competences. This document

defines a range of requirements which must be met by employees so that they can complete their tasks with minimum risk, in compliance with the law and internationally adopted practice. In this way we seek to improve further the safety of all employees.

#### Responsible Toward Nature

We have proven our responsibility toward nature through numerous environmental projects and significant investments in environmental protection projects. We have streamlined our equipment and reduced pollutant emission; we have invested in modern technologies, dedicated ourselves to soil rehabilitation and waste treatment. In 2014, we invested a total of *RSD 983 million* in environmental projects.

NIS's future operation is motivated by transformation from an oil company into an efficient regional energy holding. In 2014, we completed the construction of four small power plants with five production units for the conversion of gas into heat and electrical energy. During the previous year, we sold the first quantities of electricity produced in those plants, whereby NIS became the only producer in Serbia, apart from *«Elektroprivreda Srbije»*, offering electrical energy on the free market.

#### Young Talent Support

Support of the upcoming generations and investment in the education of young and gifted people has remained one of the strategic choices of NIS, despite the crisis we are facing.

In 2014, NIS continued the tradition of employing young people who had just graduated from high school or university and had no work experience whatsoever. As a part of the

„NIS Chance” project, 88 young graduates and technicians were hired in 2014, whereas we had hired more than 660 young people through the program in the last three years.

Through the „Energy of Knowledge” programme, whose aim is investing in education and science in order to support talented high school and university students, we adapted and equipped 19 computer classrooms and 4 laboratories only in the last year. We continued our cooperation with Belgrade and Novi Sad Universities and faculties and schools in Serbia. In 2014, we invested a total of RSD 20 million in the student scholarship program and RSD 60 million in cooperation with and donations to educational institutions in Serbia.

#### Continuous Investment in Personnel

As for our HR policies, it has to be said that NIS, regardless of the difficult economic situation and the drop in the crude oil prices, has remained the leader in Serbia

and the region in terms of employee benefits and perks offered to its employees. We have signed new collective bargaining agreements and aligned them with the Labour Law, which was amended last year. We cherish our constructive relations with the Trade Union and keep working on the improvement of social dialogue in the Company.

At the same time, we have continued educating our employees; therefore, in 2014, we provided RSD 265 million for the professional development of our colleagues. In this manner, we develop high-quality staff that can contribute to the development of the Company.

#### Partnership with the Local Community

In 2014, we continued supporting the local community and helping its development. Through our five corporate programmes: „Energy of Sports”, „Culture Without Limits”, „Energy of Knowledge”, „Humanitarian Projects” and „Together for the Community”, we invested more than RSD 592 million in 2014.

The “Together for the Community” programme alone enabled the implementation of 164 projects in the area of sports, culture, education, humanitarian and environmental work in 11 municipalities and cities. Through public competitions, we motivated associations, humanitarian and non-governmental organizations to propose their own projects which might solve certain problems or improve the existing situation in their local communities.

As soon as first information on the floods were published last May, our Company swiftly responded. The Company and the employees – not only NIS, but Gazpromneft, as well – provided donations in fuel, potable water, equipment, food, toiletries and money. Total NIS flood-related expenses amounted to about RSD 5 billion.

#### Business Efficiency – This is Our Focus

Further improvement of business efficiency and relying on internal resources in order to overcome the current crisis will remain the focus of the Company. Still, we will not give up on our key investments, and in that, we have the support of our both major shareholders – *Gazpromneft* and the Serbian Government. We will continue investing, primarily in the increase of oil and gas reserves. We are also awaiting the start of implementation of the second stage of modernization of our processing capacities. We will remain a reliable supplier of our clients and will not give up on the expansion and modernization of the gas station network in Serbia and the region. Concurrently, we will continue to draw on new partner resources and develop our youngest branch – energy production.

We will not stop investing in socially responsible projects, either, and will continue caring both for our employees and for the local communities in which we operate. In this manner, we prove and show in practice that, even in the time of crisis, sustainable development has remained Company priority.

# On The Report and the Reporting Principles

Materiality Matrix

As the largest company in Serbia, NIS tries to follow international trends and improve its operation each year, as well as to prepare high-quality annual Sustainable Development Reports, informing stakeholders of the efforts the Company makes in remaining a reliable partner in all areas of business.

Through adjustments in the Sustainable Development Report, in accordance with the GRI G4 requirements, the Company has developed a materiality matrix, which is intended to be a comparative review of key business issues from the Company aspect, on one hand, and from the stakeholder aspect, on the other hand. The horizontal axis ranks issues by importance from the Company aspect, whereas the vertical axis positions the same issues in order of importance defined by the stakeholders. Through a GRI indicator analysis, indicators and issues have been connected, so, the materiality matrix has become the basis of future reports, and will contribute to the improvement of the business process, as well. The Sustainable Development Report includes issues which can have fundamental influence on the assessment and decision-making of the management and stakeholders.

The Sustainability Report covers topics that can profoundly impact the assessment and decisions made by management bodies and stakeholders.

In the future, just like till now, the Company shall maintain active dialogue with the stakeholders and shall regularly update the materiality matrix. In 2014, the Company prepared the report in compliance with the GRI G4 reporting standard, all in accordance with the general reporting level. The Report before you provides information on additional indicators relevant both for the NIS business operation and the stakeholders, as well, which exceeds the requirements of the general reporting level defined by the GRI G4 standard.

The following GRI methodological rules and principles were used as the basis for the preparation of the Report:

Materiality

The report includes issues important for the Company operation which can have fundamental impact on the assessment and decisions of the management and stakeholders. The results of research conducted in the form of an interview with all stakeholders, as well as issues included in Sustainable Development Reports of other international oil and gas companies, and issues relevant for all the stakeholders and recommended by the GRI guidelines were all used as the basis for the preparation of the materiality matrix.

Inclusion

Communication with stakeholders takes place on a daily basis and is described in the “Dialogue with the Stakeholders” chapter.

- 01

Impacts on biodiversity and ecosystem
- 02

Water management
- 03

Waste management
- 04

Renewable energy resources
- 05

Occupational health and safety
- 06

Corruption
- 07

Reduction of negative influence of products
- 08

Air pollution emissions
- 09

Transportation management
- 10

Protection or remediation of polluted soil
- 11

Investments
- 12

Investment into the local community
- 13

Accidents

14

Product Quality

15

Relations with employees

16

Consumer satisfaction

17

Oil and gas reserves

18

Energy consumption management

19

Economic indicators

20

Technical asset management

21

Corporate management

22

Supplier relation management

23

Legal issues

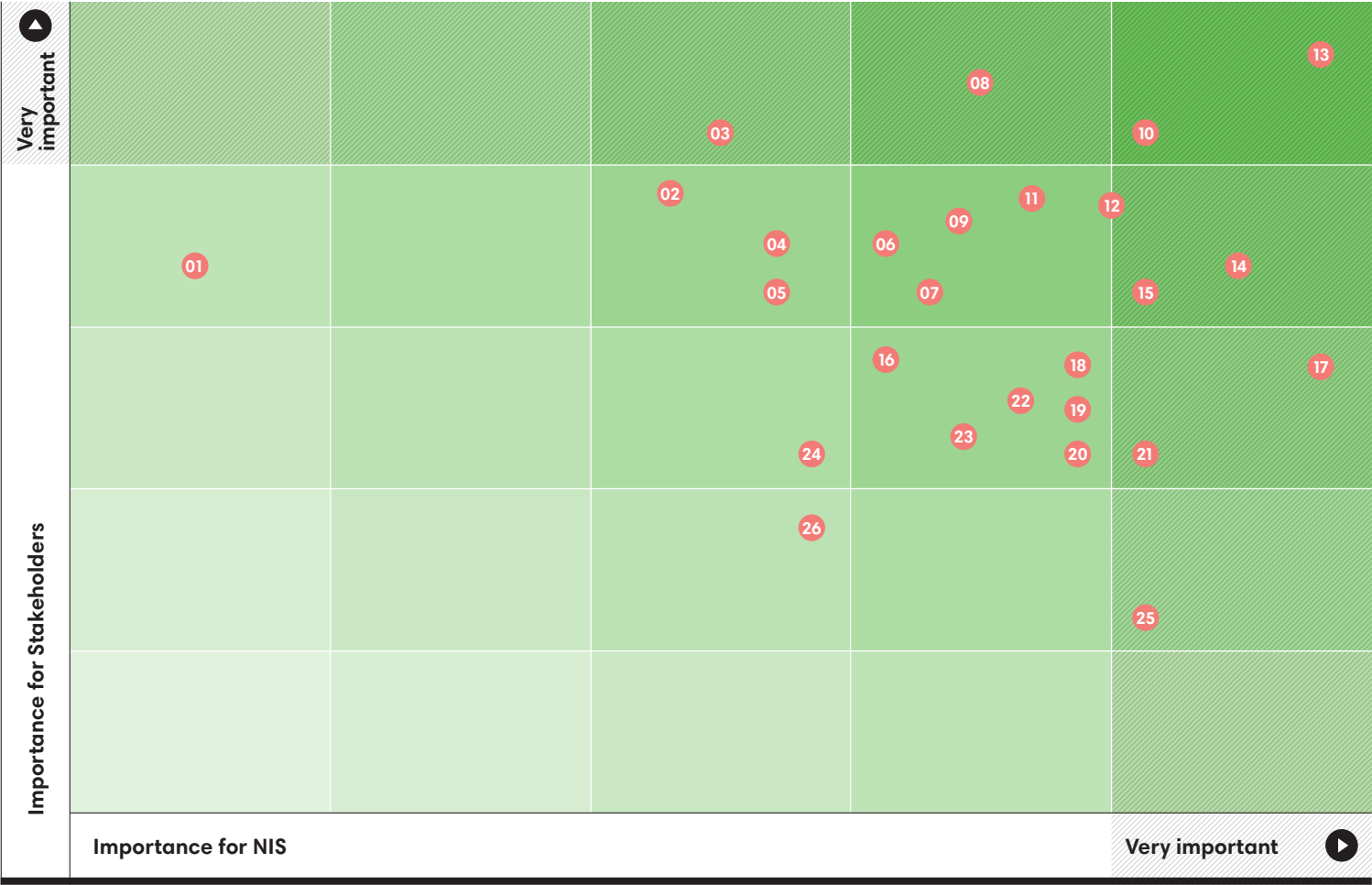
24

Cooperation with educational institutions

25

Lobbying

26

Used materials



**Sustainability**

Data and activities described in the Report are provided at the level of the Republic of Serbia. The Report also presents the plans reflecting Company commitment to sustainable development.

**Completeness**

The Report presents the 2014 data, as well as comparative 2013 data where this is possible. Financial and economic indicators were taken over from the consolidated financial report (source: 2014 Annual Report, NIS).

**Balance**

The 2014 Report includes information on the results the Company achieved, but also on the difficulties NIS encountered during the year. Balanced and objective presentation of information makes a realistic view of the Company operation possible.

**Comparability**

The Sustainable Development Report was prepared in accordance with the GRI guideline reporting methodology, which enabled comparison with the 2013 NIS Sustainable Development Report published on 9 July 2014, as well as with the reports of other companies in the country and abroad.

**Accuracy**

The Company strives to include qualitative and quantitative data with the highest possible degree of accuracy in its reports. The Report lists the sources and methodology used for the collection of data, whereas the financial and economic data can be found in the NIS 2014 Annual Report.

**Timeliness**

The annual publishing of the Sustainable Development Report provides a possibility to all stakeholders to make timely decisions about the Company and its operation.

**Clarity**

The clear and comprehensible style used for the preparation of the Sustainable Development Report is adapted to all stakeholders. Achieving complete text clarity is hindered by the specific nature of the business, especially in the part referring to environmental protection. All expressions and abbreviations which might cause any doubts are explained in the Glossary.

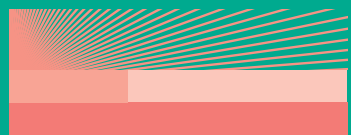
**Reliability**

The assessment of compliance of the Report with the GRI guidelines, as well as the accuracy of the listed information were verified by the independent auditing company "KPMG" Ltd. Belgrade, Serbia.





# Company Profile





# Company Profile

## Responsibility, transparency, innovation – key words of the future at work

With its business steeped in long tradition while resting on the latest standards today, NIS is one of the largest vertically-integrated energy companies in Southeast Europe. Following its mission, vision and value statements, NIS is a dependable and reliable partner strengthening its leadership and extending its influence as a highly socially responsible company through active dialogue with stakeholders.

## Effects

Constant monitoring and introduction of European standards in all business segments

Openness to dialogue and strengthening of partnerships

Faster application of new technologies in the energy and oil and gas industries and assuming regional leadership

Business development in

10

countries





# 01

## Company Profile

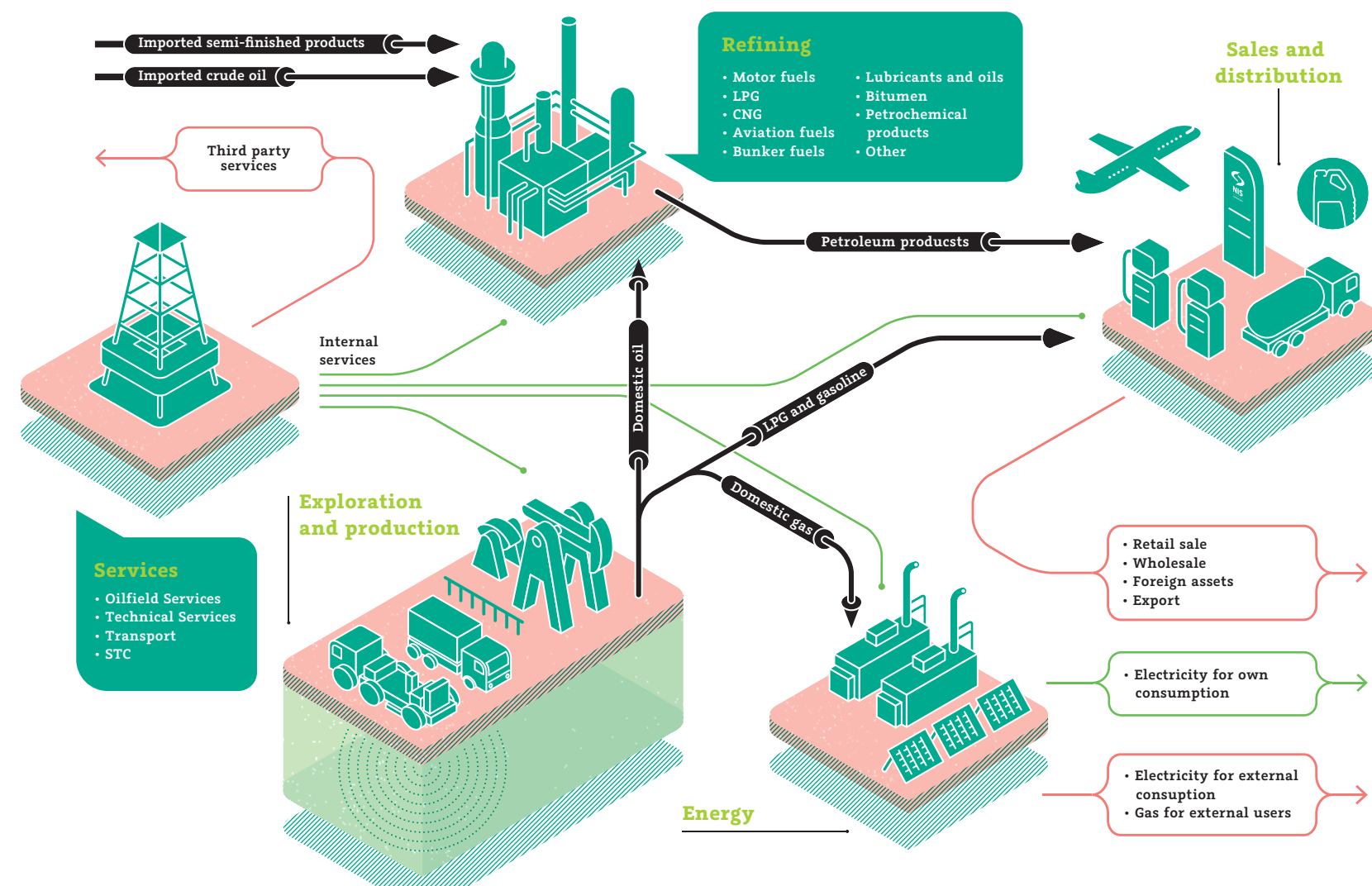
NIS is one of the biggest vertically integrated energy systems in South East Europe. It includes administrative headquarters in Novi Sad and Belgrade, and it has production facilities all over Serbia dealing in exploration, production and refining of oil and natural gas, the sale of a wide range of oil and natural gas products, as well as the implementation of projects in the area of energy production. NIS is an international group with a multi-national team of experts operating in 10 countries.

In accordance with the strategic aim to reach the regional leader position, NIS undertook its first steps

towards business expansion in 2011. The regional expansion takes place in two directions: in the area of exploration and production and through sale increase.

Exploratory works in cooperation with partner companies are performed in Bosnia and Herzegovina, Hungary and Romania.

NIS has the largest retail network on the territory of the Republic of Serbia, but it has also expanded it to the territories of the neighbouring countries: Bosnia and Herzegovina, Bulgaria and Romania.



## History

**1949**

Naftagas Company incorporated.  
First gas deposits discovered.

**1952**

First oil deposits discovered.

**1963**

Construction of first main gas pipeline Mokrin – Kikinda – Elemir – Velika Greda – Pančevo completed.

**1979**

Gas pipeline Horgoš – Batajnica commissioned.

**2005**

The Company obtained the status of a joint-stock company.

**2009**

OJSC “Gazprom neft” became a majority shareholder of NIS.  
Start of modernization of refining facilities

**2012**

First stage of Pančevo Oil Refinery modernization completed and the start of Euro 5 quality fuel production.

**2013**

Payout of dividends for the year of 2012 to the total of RSD 12.4 billion.  
Start of NIS’ transformation into an energy company.

1930

1940

1950

1960

1970

1980

1990

2000

2010

2020

**1951**

Gas transportation system launched.

**1953**

Commencement of construction of first petrol stations.

**1968**

Start of operations of Pančevo and Novi Sad oil refineries.  
Velebit oil deposit discovered.

**1985**

Start of oil exploitation in Angola (concessions).

**1991**

Incorporation of the public enterprise “Naftna Industrija Srbije” incorporated.

**2010**

NIS became an open joint-stock company with 4.8 million shareholders and was listed on the Belgrade Stock Exchange.

**2011**

Start of NIS’ expansion in the region: in Bosnia and Herzegovina, Romania, Hungary and Bulgaria.

**2014**

Sale of first quantities of electricity in the market.  
NIS launched new fuel on the market – ULTRA D, branded premium Euro Diesel





## Mission

Using the natural resources and modern technologies responsibly to provide the people of the Balkan region with energy for moving forward.

## Vision

Vertically integrated energy company NIS JSC Novi Sad will become a recognized industry leader in the Balkan region through its sustainable development dynamics, all the time demonstrating a high level of social and environmental responsibility and observing the modern standards of services provided to its clients.



## Values

### Professionalism

Acquiring modern knowledge with a view to constant improvement of the expertise and ability to apply it in specific work processes.

### Initiative and responsibility

Finding and suggesting new solutions, both in terms of work tasks and beyond – in areas of interest for the Company.

### Positive attitude and cooperation

Readiness to participate in cross-functional teams and projects, responsiveness to requests for assistance by colleagues from other parts of the Company, readiness to share information, capacity for teamwork.

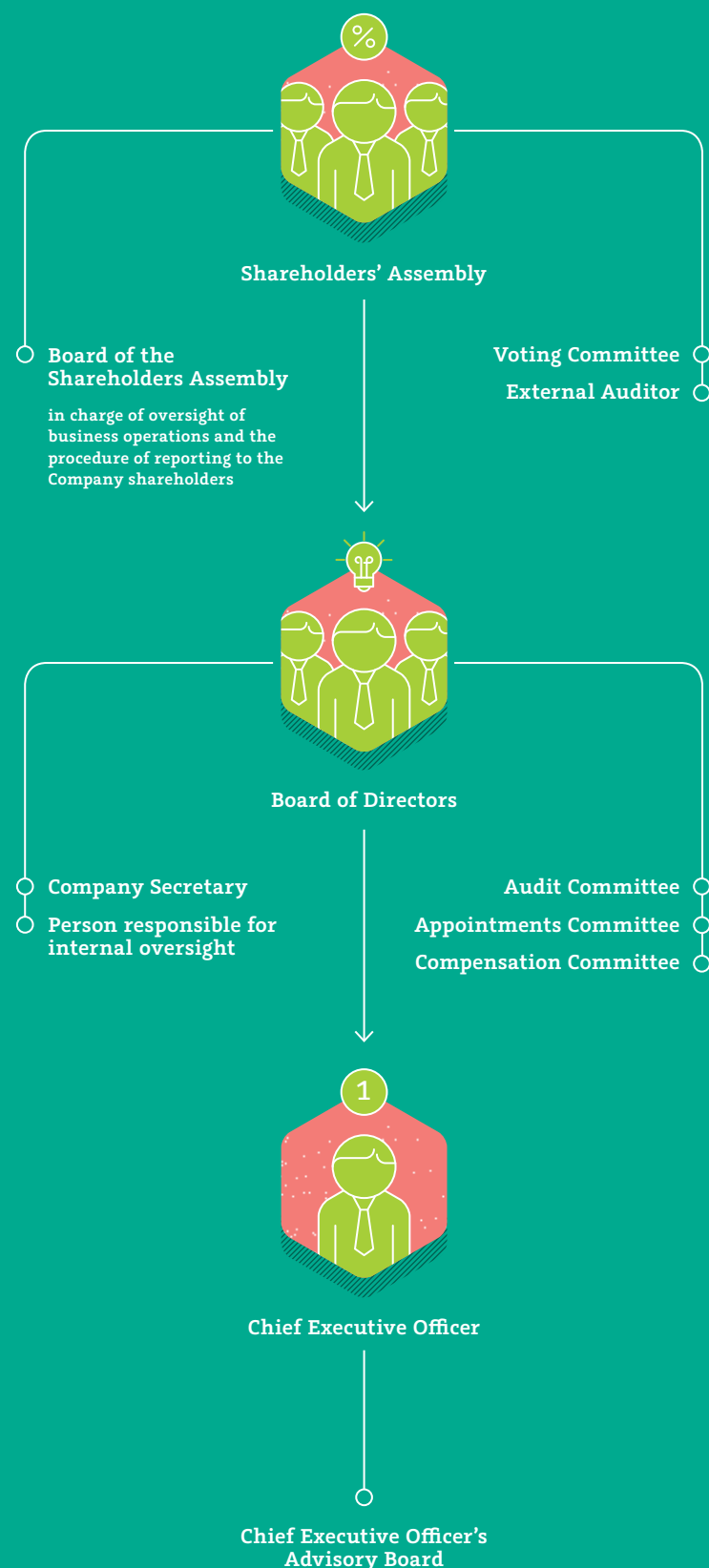
### Joint results

Joint efforts in order to achieve remarkable and impressive results, always striving for success by helping each other and through employee cooperation.





## Structure of corporate bodies of NIS j.s.c. Novi Sad



## Corporate Management

Successful operation of the Company and its stable and long-term growth mostly depend on the efficient, responsible and transparent corporate management.

Only such a management approach can create value for NIS shareholders, but also inspire trust both in local and foreign investors, business partners, as well as in the employees and the general public.

NIS strategic corporate goals should ensure:

- protection of shareholders' rights and professional and responsible management,
- efficient control of financial and business activities of the Company,
- transparent business operations.

NIS has established a one-tier management system, based on which NIS has:

- Shareholders' General Meeting,
- Board of Directors,
- Chief Executive Officer.

Apart from the above mentioned management bodies, NIS also includes:

- Shareholders' Meeting Board for monitoring business activities and NIS shareholders' notification procedure (Shareholders' Meeting Board),
- NIS CEO Advisory Board.

### Shareholders' Meeting

The Shareholders' Meeting is the highest management body in NIS. All NIS shareholders make the Shareholders' Meeting, and its task is to make and approve the most important corporate decisions, control activities, monitor the achievement of results in the previous year and define the organizational structure of other bodies in NIS.

The Statute of NIS clearly defines the duties and competences of the Shareholders' Meeting, as well as its relationship to other bodies and structural units of NIS. The procedure for convening and conducting meetings and the method of work and decision-making

**All NIS shareholders make the Shareholders' Meeting, and its task is to make and approve the most important corporate decisions, control activities, monitor the achievement of results in the previous year and define the organizational structure of other bodies in NIS.**

## NIS is strongly committed to applying the principle of equality and equal treatment of all shareholders.

ing of the Shareholders' Meeting are defined by the Rules of Procedure of the NIS Shareholders' Meeting.

The Shareholders' Meeting decides on all issues within its scope of competence according to the Law and Statute, including such issues as: adoption of

NIS Annual Reports, which include its Financial Statements, appointment and dismissal of members of the Board of Directors, profit distribution decisions, decisions on the selection of an external auditor, adoption of Statute amendments, increase or decrease in NIS basic capital, acquisition and disposal of assets of high value, status and legal form changes, remuneration of the members of the Board of Directors, i.e. definition of remuneration rules.

NIS is fully committed to the observance of the principle of equality and just treatment of all shareholders.

### Board of Directors

A major part in the success of NIS is played by the Board of Directors, whose competences include setting main business goals and defining the direction of future development of the Company, as well as the establishment of NIS business strategy and the monitoring of results of its implementation.

The Board of Directors consists of 11 members, 10 men and one woman, who are all appointed by the Shareholders' Meeting. Members choose the Chairman of the Board of Directors, whereas the functions of the Chairman of the Board of Directors and the CEO are separate. Members of the BoD possess the adequate combination of the necessary knowledge and experience relevant for the type and scope of activities performed by NIS.

Out of 11 members of the Board of Directors, six members are Russian Federation nationals, three are citizens of the Republic of Serbia, one is French and one an Austrian citizen.

At the time of appointment and during their term, all Board members must observe the no-competition rule.

The Board of Directors has established three permanent committees (Audit Committee, Appointment Committee and Remuneration Committee), which act as advisory and expert bodies helping the Board in its work.

### Chief Executive Officer

The Board of Directors appoints the Chief Executive Officer from among Board of Directors members. The CEO organizes the activities of the Company and coordinates the work of executive directors of the Board of Directors. Apart from that, the CEO performs daily management activities and is authorized to decide on issues outside the competence of the Shareholders' Meeting and the Board of Directors. The CEO is the only representative of NIS.



## Serbia

- *My Choice 2014* – awarded to the socially most responsible company in Serbia (awarded by the *My Serbia Association*)
- Annual award of the Serbian Association of Managers:
  - For the socially most responsible company in 2014
  - Regional project of the year («Supercard» Loyalty Project)
- *CSR Leader in Change 2014* (awarded by AmCham)
- Award for the socially responsible operation (awarded by the *Serbian Chamber of Commerce*)
- The Best Social Media Presence in 2014 (awarded by *PC Press* magazine)
- Award for the development of sports in Serbia (awarded by *Sport* magazine)
- *Kapetan Miša Anastasijević* Award for „Outstanding Corporate Achievements in Legal Affairs” awarded to Sergei Fominykh (awarded by *MEDIA INVENT*)

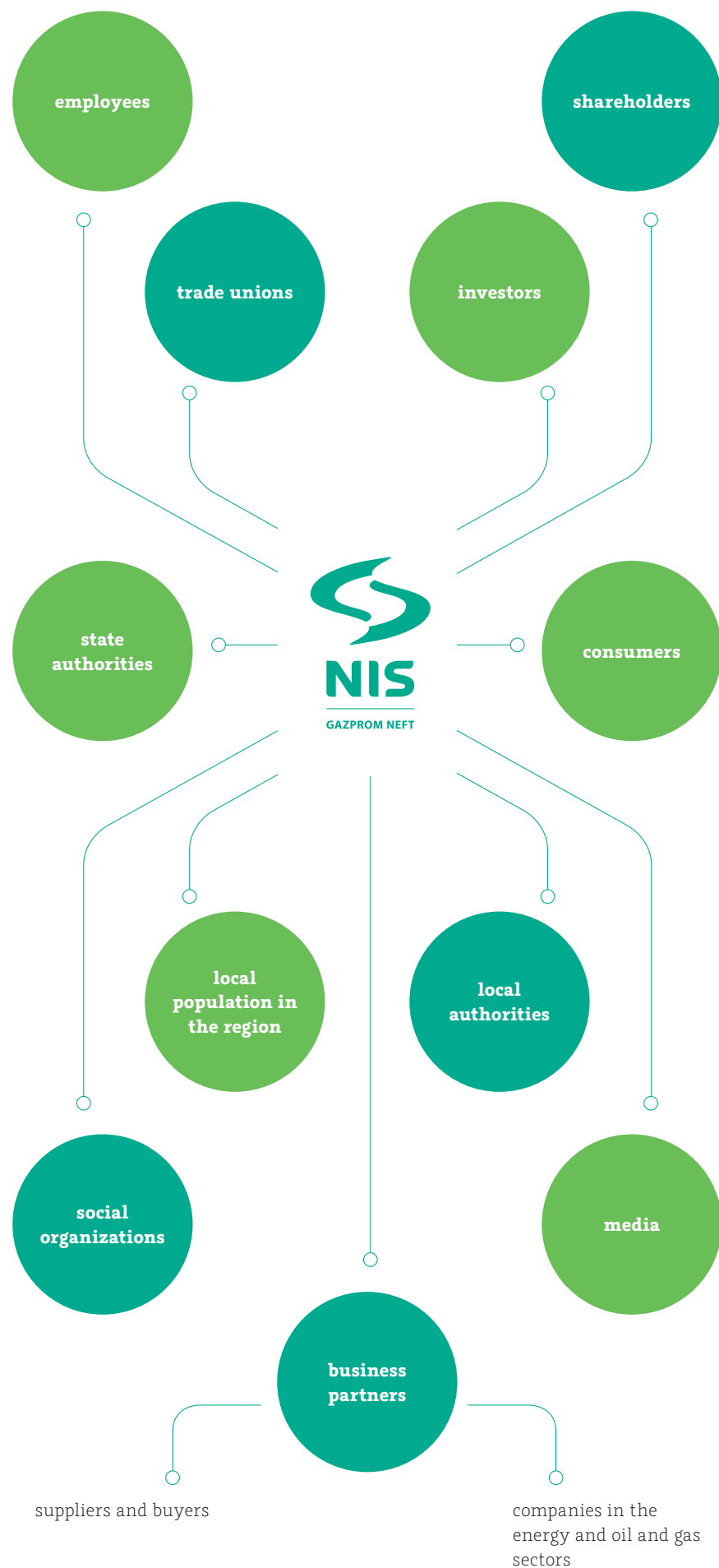
## Region

- *Silver Winner SAP Quality Award 2014* in the «Business Transformations» category, Czech Republic (awarded by *SAP Central and Eastern Europe*)
- Economic category „Trade and Services” Ivan Kostadinov – NIS Petrol Bulgaria (awarded by *Economic magazine*)
- *Superbrands B&H* for the „Gazprom” Filling Stations brand (awarded by *Superbrands*)
- Golden award for the best presentation on the International Economy Fair in Mostar (awarded by the *Mostar Fair*)

## Recognitions

- Recognition for the support of the international mini-basketball festival (awarded by the *BFS Mini-Basketball Association*)
- Recognition of the *Basketball Federation of Serbia*
- Recognition of the *Headquarters for Emergency Management* for the remediation of consequences of floods





## Memberships

NIS is a member of various associations on the territory of Serbia and abroad, as follows:

- The *National Petroleum Committee* of Serbia, as the national body of the World Petroleum Council (WPC) since 2011,
- Foreign Investor Council (FIC) since 2011,
- GS1 Serbia (as part of the GS1 Association Brussels, a leading global organization for creating and application of supply chain identification standards and solutions) since 1998,
- The Chamber of Commerce of the Republic of Serbia,
- *Balkan and Black Sea Petroleum Association* (BBSPA), Bulgaria, since 2012.

The *World Petroleum Council* is the largest and oldest non-governmental oil and gas organization, whose aim is to improve the sustainable development aspect of the oil and gas business. The national body of the said Council is the National Oil Committee of Serbia founded in March 2011 by NIS. The Chief Executive Officer of NIS, Kirill Kravchenko is the vice chairman and a member of the Executive Board of *National Oil Committee of Serbia*.

## Dialogue With Stakeholders

Active dialogue with the stakeholders is fundamental for the understanding of their needs and expectations of the Company.

Establishing ongoing communication and relations in the spirit of trust, partnership and open dialogue with all stakeholders is of utmost importance for NIS. Key groups NIS cooperates with include:

- employees,
- shareholders,
- trade unions,
- investors,
- state authorities,
- consumers,
- local population in the region,
- local authorities,
- business partners – suppliers and buyers,
- business partners – companies in the energy and oil and gas sectors investing in joint projects with NIS,
- social organizations,
- media.

NIS places special emphasis on reaching European standards in energy, oil and gas industry and ecology. In order to achieve that, NIS maintains constant and efficient dialogue with **state authorities** and participates actively in the efforts of the competent ministries to create a relevant legal framework.

**Offices for relations with minority shareholders** in Belgrade and Novi Sad provide NIS shareholders with information about the Company, their rights as shareholders and all matters regarding NIS shares. Shareholders can get all information in person, by contacting a separate Call Centre at: 011/22 000 55, or by e-mail at: servis.

## Achieving European standards in the energy and oil and gas industries and environmental protection has special importance to NIS.

akcionara@nis.eu. In order to provide the shareholders with as much information on the dividend disbursement as possible, a special section has been made available on the ir.nis.eu website with all information, notifications and decisions on dividend disbursement.

### Investor Relations

NIS maintains active communication with investors. This communication takes place in the form of regular quarterly presentations of achieved business results enabling stakeholders to communicate directly with Company management, as well as in the form of meetings with investors and participation at investor conferences. All information intended for the investors is published in a special section of the corporate website for investors and shareholders – <https://ir.nis.eu>.

In compliance with the business transparency principle and new standards of corporate management in Serbia,

NIS continues the policy of the corporate “open door” for representatives of banks, brokerage firms, investment funds, and financial analysts, informing, thus, the investing public about all important aspects of its business. After the presentation of financial results and after an open and constructive dialogue between the representatives of NIS and the investor public, participants were informed about the project aiming at the increase of operative efficiency of the Company.

Ethical and transparent operation is Company priority in relations with **business partners**, as well as its efforts to simplify procedures in order to achieve the highest professional standards. NIS has several websites it uses to inform the public of its business operations.

**Corporate website**, [www.nis.eu](http://www.nis.eu), is a source of regularly updated information on the Company, its operation, products and services. Here, one can also find information on job opportunities at NIS, current tenders, as well as current news, expert articles, interviews, photos. The site can be used on all devices, and information is available in three languages – Serbian, English and Russian.





On the **consumer website** of the NIS Petrol retail network - [www.nispetrol.eu](http://www.nispetrol.eu) – the public can find information on products, services, campaigns and operation of this retail brand.

In 2014, the Company launched a website dedicated solely to its premium filling stations brand - Gazprom - [www.gazprom-petrol.rs](http://www.gazprom-petrol.rs) for the four countries where this brand is present.

On the NISOTEC site: [www.nisotec.rs](http://www.nisotec.rs), one can find extensive information on the products from the oil and lubricants and additive liquids product ranges.

NIS is also present on social networks: Facebook, LinkedIn, Twitter, Instagram, YouTube, and Pinterest.

**“Intranet Portal” is the largest intranet in the region, with over 10,000 users in five countries.**

Active communication with consumers has helped the Company identify positive and negative issues encountered by consumers on a daily basis. Consumers can communicate their needs and objections by phone: 08-0000-8888, or send them by e-mail to [office@nis.eu](mailto:office@nis.eu), on social networks and the Company website.

NIS **Intranet portal** is the most important communication channel for employees and has quickly proven itself to be an efficient and preferred way of internal cooperation and communication. Apart from different news on NIS business activities, key issues related to employee rights and obligations, work conditions, as well as other service information, the Intranet portal offers employees a possibility to exchange information and know-how with colleagues and management. This is the largest internal network in the region, with more than 10,000 users in five countries. The Intranet portal presents the organizational parts of the Company and their activities, i.e. 30 portals of NIS organizational parts and more than 150 portals intended for different projects and applications.

**Proactive customer communication has helped the Company identify the positive and negative sides our customers encounter every day.**

Apart from the portal, employees are informed through other electronic media, as well: e-news (weekly review of current information), Infomail, as well as TV news – a review of current information distributed through corporate TV sets available in business centres.

**“My NIS” corporate magazine** is yet another internal communication channel. This monthly magazine is distributed in 5,000 copies and covers the latest topics on Company operations through reports, interviews, field reports and stories, and in-depth analyses.

**„Energize” magazine** is published quarterly in English and Serbian and deals with both corporate issues and a wide range of energy-related topics; its target audience includes partners, representatives of state authorities, the local and international professional public and media.

**Information Cascade Program** has been developed with a view to improving work efficiency and the system of providing employees with information within the Company. The program is divided into three sub-programmes:

1. Advisory Board's extended meeting (ABEM) – a quarterly meeting of the CEO with first- and second-tier managers;
2. Direct dialogue - a meeting between the CEO/ first- and second-tier managers and employees, where employees have an opportunity to discuss business and HR issues with the management;
3. Monthly info-package – materials covering current topics on Company operation, current events and news for employees. Every month, managers on all levels receive an info-package by e-mail and are required to inform their subordinates through internal briefings about all current matters and news from the material they received.

Regardless of the schedule of the said meetings with the management, questions to management can be sent to a special e-mail address: [pitanja.rukovodstvu@nis.eu](mailto:pitanja.rukovodstvu@nis.eu), asked by telephone, or posted on the Portal. NIS seeks to improve further this system of direct communication.

**A dialogue with trade unions** is an inexorable part of NIS business activities, especially in resolving important personnel issues.

**Dialogue with media** is very important to the Company. NIS organizes press conferences, press tours and interviews, as well as educational seminars in the energy and oil and gas areas. The Company is open to all forms of cooperation, which means that journalists have opportunities to make suggestions on the further improvement of mutual relations.

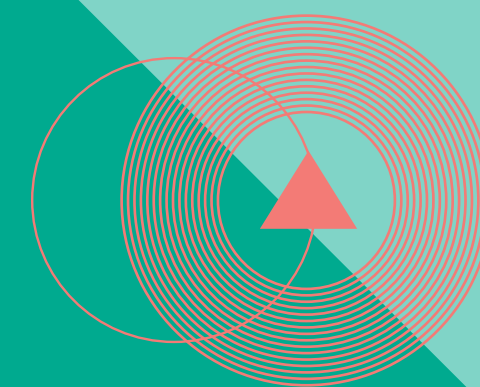


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# Economic Development



An abstract graphic featuring a large, dark teal number '2' that dominates the left side of the page. To the left of the upper curve of the '2' is a cluster of approximately 15 small red dots. At the bottom right of the '2' is a solid red rectangular block with a thin, wavy white line pattern across its top edge.





# Economic Development

## Efficiency across the board – a formula for business success

To change for the better, yet to remain recognisable and consistent – this is the basic principle of NIS' recent history.

NIS distinguished itself as a company that continually strives for progress. Despite unfavourable global trends, in 2014 we increased performance in sales and distribution, upgraded oil and gas refining and production technologies and expanded the network of “NIS Petrol” and “GAZPROM Petrol Stations.”

## Effects

RSD

63.4

billion in EBITDA

RSD

27.8

billion in Net Profit

RSD

39.4

billion in CAPEX

RSD

13.08

billion for dividend

Across-the-board cost cuts – improving energy efficiency





# 02

## Economic Development

NIS has managed to maintain profitability and proved its capacity to adapt to volatile economic conditions, to duly set development priorities and to operate even more efficiently.

The previous year will be remembered for the great economic and political changes in the worldwide market, which also affected the NIS business results. Despite the difficult situation, NIS managed to preserve its profitability and proved it was capable of adapting to swift economic changes, of timely setting of priorities for future development and of operating even more efficiently.

A great drop in oil prices, which were nearly halved, as well as in the value of the national currency in comparison to the USD, which dropped by almost a fifth, affected NIS' operating and financial indicators and was the main reason for the decrease in operating profit, i.e. net profit in 2014 when compared to previous year. The decline in key business indicators was not so prominent due to the consistent implementation of the programme aimed at increasing internal efficiency, whose effects were better than expected.

Despite the negative trends, in 2014, NIS maintained the trend of increasing sales. Further improvements were introduced to the network of more than 400 «NIS Petrol» and «Gazprom» filling stations in Serbia and the region. The efficiency of business processes in the oil and gas refining and production was significantly increased – the production of the best-quality, so called «white» derivatives – gasoline and diesel fuel saw an additional increase. We started using new raw materials and other types of oil. Also, we reduced administrative costs and increased energy efficiency by producing our own electricity. Apart from that, late in 2014, NIS became the second largest exporter in Serbia.

### Dividends

In 2014, for the second year in a row, NIS paid out dividends in the amount of 25% of net profits. The disbursed dividends amounted to RSD 13.08 billion. NIS will continue implementing its long-term dividend policy and will use a balanced approach to separating profits into the part intended for the funding of further development and the part intended for dividend disbursement.

Directly Generated and Distributed Economic Value, in RSD mil.	2013	2014
Directly Generated Value	264,532	262,889
Distributed Economic Value	207,255	233,031
Operating Costs	172,223	185,476
Employee Earnings and Other Remunerations	23,613	19,286
Interest on Loans and Dividends *	3,388	16,170
Taxes	7,851	12,098
Investments in the Community	180	168
Increase in the Economic Value of the Company	57,277	29,691

\* The table does not include dividends disbursed to shareholders in 2013

### Exploration and Production

Total production of domestic oil and gas in 2014 amounted to 1,596 thousand conditional tons. Domestic oil production dropped by approx. 4% due to the change in drilling dynamics and reduced investments. Domestic gas production was increased by 1% in comparison with the previous year, and amounted to 558 million cubic meters.

### Oil Field Services

In 2014, apart from Serbia, the Oil Field Services were also active in Bosnia and Herzegovina and Romania.

Due to the use of integrated services (telemetry + engines + chisels), well equipment time was reduced, which enabled additional savings. Also, by moving drilling rigs – the “disassembly + moving + reassembly” cycle was shortened by up to 3 days. Drilling quality was improved by using different types of mud during the drilling process.

9%

increase in oil and gas reserves in Serbia and Angola compared to 2013

The production volume of domestic oil and gas in thoudsand toe -2,8%



Drilling services, No. of operations +31,9%







Refining

In 2014, the total scope of oil refining, as well as of oil and intermediate product processing amounted to 3,104 thousand tons, which was an increase of 1% in comparison with the previous year. In September 2014, main refining facilities were overhauled. That shutdown was used to continue the streamlining of facilities which would enable greater production of „white“ derivatives: highest-quality gasoline, diesel and jet fuel in compliance with Euro 5 standard, as well as greater energy efficiency of the NIS refining processes.

To benchmark its performance and market position, NIS has opted for independent refinery benchmarking metrics – “Solomon Associates.”

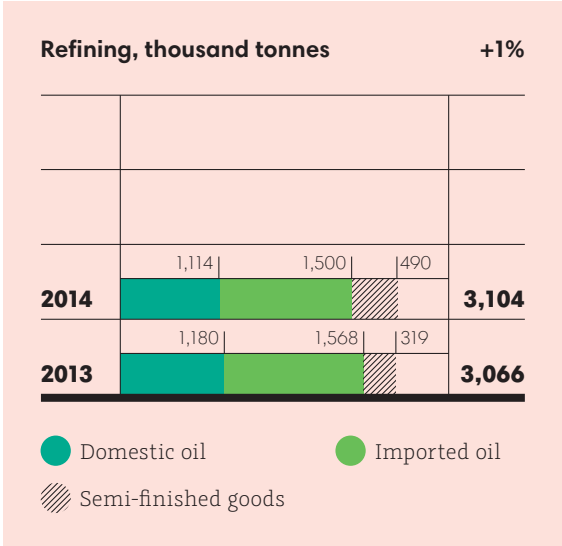
With a view to monitoring business performances and its market position, NIS chose to apply an independent methodology for the monitoring of refining efficiency.

With this in mind, it selected the methodology applied by Solomon Associates, as the best-known methodology in the world covering more than 85% of refining capacities in more than 70 countries in the world.

NIS refining facilities have been implementing this programme since 2008, when they started measuring

key performance indicators and planning future target values, accompanied by the preparation of the Programme for the Achievement of the Set Goals.

Since 2008, NIS refineries have recorded a positive trend in all key operation parameters. The achievement of the adopted milestones of the Efficiency Increase Programme ensures the maintenance of the positive trend of development of NIS Refining operation and its position of a leader in efficient operation on the territory of Central and South Europe.



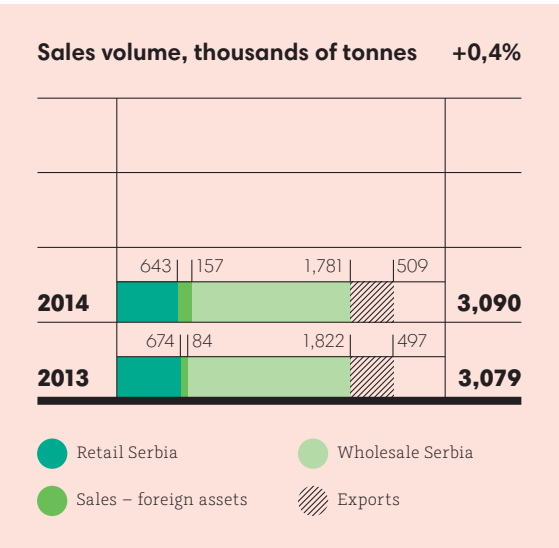
Sales and Distribution

In 2014, the Company recorded a 0.4% increase in sales and distribution in comparison with the previous year, achieving, thus, the total scope of sales and distribution in Serbia and its foreign operations of 3,090 thousand tons.

- 1) Retail – 5% drop in the retail sector.
  - The drop in the retail results was primarily caused by reduced sales to the agricultural sector. A part of the diesel fuel intended for the agricultural sector was sold through the wholesale channel,
  - NIS occupies the first place in the country in terms of average daily sales at filling stations, both in the premium (7.1 t/day) and the mass segments (5.2 t/day).
- 2) Wholesale – 2% drop
  - The drop was caused by the 32% reduction in the sale of primary gasoline,
  - Increase in the motor fuel sale of +5%, which includes the 6% increase in the diesel fuel sale,
  - Increase in the jet fuel sale by +60%,
  - Increase in the masute (+1.4%) and bitumen sales (32%).
- 3) Export – 2% increase
  - An increase in export in comparison to 2013 was recorded in case of diesel (62%), bitumen (4.9%) and jet

fuel (25%). A drop was recorded in case of gasoline (36%) and masute (11%).

- 4) Foreign operations – 86% increase
  - Foreign operations recorded an increase in the sale of motor fuels (87%); i.e. a 67% increase in gasoline sale and 91% increase in diesel sale.







### Energy

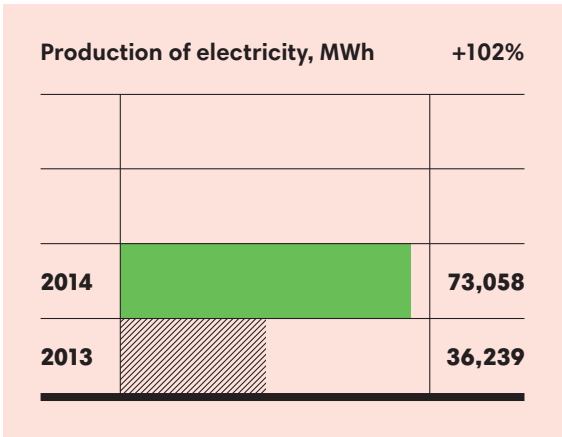
In 2014, the construction of four microgenerators with the total power of 3,650 kWe was completed. With these microgenerators, the total power of the power plants has been increased, which means that NIS now has its own facilities for the production of electricity, which can meet 20% of its own needs.

The Company has prepared projects for the construction of five new microgenerators with the total power of 6,160 kWe, whose implementation should start in 2015; this will increase the total power production of the Company to 13,560 kWe.

In 2014, NIS sold the first batch of electricity produced in NIS cogeneration units. Thereby, NIS became the only producer in Serbia, apart from Elektroprivreda Srbije, selling electricity in the free market.

The first compressed natural gas (CNG) facility in oil and gas fields was commissioned mid 2014 at the Palic metering and dispatch station and it produces about 5,500 kg of compressed gas per day. The construction of the first CNG facility at the filling stations was contracted in October 2014 for the "Novi Sad 10" filling station. The

commissioning of that production plant should take place in 2015. The Company identified 18 filling stations allowing the construction of CNG production facilities, and the Company planned to construct such facilities at 2 filling stations, at the least, in 2015.



### Corporate Security

The Company believes that socially responsible and ethical behaviour is an important factor in achieving long-term business success. As a renowned business partner and employer, NIS is dedicated to ethical operation, and has adopted its Business Ethics Code compliant with that dedication.

#### NIS is heavily focused on the prevention of any illegal and harmful practices.

The Business Ethics Code is designed to help employees resolve all potential dilemmas they might encounter in the daily performance of their

tasks in terms of potentially corrupt practices, protection of information privacy, abuse of Company assets, etc. The Company organizes trainings and pays great attention to this issue in order to enable NIS to continue being the best example, proving that ethical operation is a prerequisite, not a choice.

The specificities of operation and a great number of business partners have caused NIS to pay special attention to the activities aimed at the prevention of all forms of illegal or deleterious operation, which has or might have adverse effects on Company operation and its rating on the Serbian market and beyond.

The Company has introduced several standards whose aim, among everything else, is to neutralize the possibility of corrupt practices in or towards the Company and its employees.

Corruption-related risks are continuously analyzed, both on the level of the entire Company and on the level of its business processes. In 2014, the Company analyzed corruption-related risks of all business-process owners at NIS (16 business processes or 100%), as well as 73.3% of business units. Due to the specificities of operation and a great number of business partners, the highest risk was present in the organizational parts in charge of cooperation with business partners (suppliers, buyers, contractors).

Risk assessments showed that the main corruption-related risk comes from the possible official misconduct and other tortious actions, and the following elements were pointed out as risk factors:

- Irresponsible treatment of Company assets, lack of loyalty and connections with criminal structures,
- Insufficient protection of Company assets,
- Incomplete internal control procedures,
- Negligence in the work of responsible parties, failures of protection systems, etc.,
- Tortious actions of employees.

In the analysis, the term "corruption" was used as defined in the „National Anti-Corruption Strategy", which states that corruption is the practice of abuse of authority in the public and private sectors with a view to acquiring personal benefits or enabling third parties to acquire such benefits.

All members of management bodies have been acquainted with the currently applicable anti-corruption rules and procedures in the Company, i.e. the Board of Directors, the Advisory Board and members of the Board of Directors' Committees, and have all been given access to the NIS Anti-Corruption and Anti-Fraud Policy. The Company has adopted the model of Annex to the currently applicable contractual documents, the Anti-Corruption Annex and the model of the „Agreement on Anti-Corruption Behaviour".

All staff employed in 2014 was acquainted with the rules and procedures of anti-corruption practices in the Company.

In 2014, a certain number of employees attended trainings on corruption and protection of information in the business environment; the said trainings were attended by 48 employees in the Refining and 23 employees in the Exploration and Production. Also, the total number of 21 middle-tier managers attended such trainings.

In 2014, 264 suggestions on the initiation of disciplinary or penal proceedings were submitted to the competent managers against the employees whose corruption-motivated actions had caused adverse consequences for the Company. The following actions were pointed out as characteristic examples of corrupt practices: failure to submit and appropriating daily earnings, abuse of Company cards with a view to acquiring financial benefits, unlawful disposal of motor fuel, frauds involving foreign drivers converting currency at Company retail outlets, payouts for the rental of equipment on sites which were not actually used, conflict of interests, etc. The Company terminated the total number of 180 employment agreements.

All business partners having contractual relations with NIS have also signed Anti-Corruption Annexes, and after the CEO decision made in September 2014, the Company started concluding Agreements on Anti-Corruption Behaviour. The aim of these documents is to maintain and ensure beneficial business environment through pre-emptive actions in the struggle against corrupt and illegal practices and actions. One of their prerequisites specifies that, if the counterparty refuses to conclude the said Agreement, a NIS initiator immediately should inform the competent department about it, and the said department would undertake the required measures.

The process of harmonization of all procurements in the Company requires a complex assessment of all legal entities with which the Company may establish contractual relations (assessment of financial operation indicators, of their professional competences and expertise, staff capacities, review of the number of



**The Code of Business Ethics and the so-called SOS Line enable employees and other persons hired by and for the Company to report any violation of business ethics.**

and basis for the possible legal disputes, as well as previous involvement in actions which might be defined as corrupt).

In 2014, the total number of 10,469 prospective business partners were analyzed, 769 of which were new suppliers with which the Company had never cooperated before. A total of 226 prospective partners were not approved, which made for 2.15 % of their total number. The Corporate Security department also participated in the review of 5,934 proposed agreements, 385, i.e. 6.48% of which were not approved.

A non-compliant partner is a partner for whom the Company determines, through analysis, that the establishment of a contractual relation with them might incur business risks to the Company. Reasons for non-compliance include illiquidity of the prospective partner (current or recurring); lack of cost-effectiveness (the value of the subject is not in accordance with the market conditions, business with a lower number of companies is supported); unreliability in business transactions (or potential unreliability), which can all mean that the prospective partner lacks the necessary and required references, that it does not have valid certificates necessary for the fulfilment of its contractual obligations, that, due to the over-involvement in a large number of operations, at the moment, its business capacities are reduced, that it does not have the means necessary for the fulfilment of contractual obligations; lack of expertise (company is not registered for the business activities whose performance is intended, or is registered for it, but it cooperates with subcontractors who are not registered for the performance of the subject activity); lack of loyalty (or potential lack of loyalty, e.g. company list of references provides data on the provision of similar services to other companies which are direct competitors of the Company – this presents a risk of revealing Company business data); conflict of interest and other possible cases.

**NIS’ goal in corporate social responsibility within the supply chain is to encourage others to follow its lead and join today the fight for a better tomorrow.**

The Company keeps a List of Unreliable Business Partners, which includes legal entities that have failed to meet their contractual obligations, so far. Next time, when such business partners submit their proposals for the establishment of business relations, they cannot be accepted based on the lack of economic security.

In 2014, the List of Unreliable Business Partners included a total of 131 partners whose business cooperation agreements were terminated or were not renewed. Reasons for the above said included:

- Defaulting on the agreed deadlines, poor quality of provided services and non-observance of the mandatory HSE terms and conditions (the total of 15 cases),

- Initiating legal proceedings against a business partner due to its defaulting on contractual obligations (the total of 107 cases).

In the total of 9 cases, business cooperation agreements were terminated or not renewed due to corrupt practices.

The analysis or revision of the List of Unreliable Business Partners is performed annually, and in 2014, it was determined that there was no basis for 24 business partners to remain on the said List.

NIS Business Ethics Code and the operation of the so-called SOS line (phone number: 021/481 5005; e-mail address: soslinija@nis.eu) provided a possibility to employees, as well as to other persons involved with the Company, to report on all breaches of Business Ethics Code they were aware of. Upon the acquisition of such information, the Company should undertake necessary measures in accordance with the Instructions for the SOS Line Operation.

In 2014, the total number of 17 breaches of Business Ethics Code were reported in the Company. Two cases initiated in 2014 were in the final stage of resolving; whereas, in two cases, it was determined that the Business Ethics Code had really been breached – in one case, the disciplinary/ethical rules were breached, whereas in the other case, the HR Policy was breached.

**Suppliers**

As the largest company in Serbia, NIS is highly aware of the importance of and need for the education of business partners it cooperates with in the supply chain.

NIS actively strives to introduce processes which would ensure that Company suppliers operate in an ethical, environmentally-friendly and socially responsible manner.

One of the goals is the improvement of the understanding of the concept of socially responsible operation in the supply chain; another goal is for the Company to set an example and incite others to join actively efforts to create a better future today.

One basis for the maintenance of NIS competitiveness on the market is successful cooperation with suppliers, who are classified into three categories in geographic terms:

- Local – suppliers from the Republic of Serbia,
- Regional – suppliers on the SEE level,
- Global – worldwide suppliers.

Successful cooperation with the suppliers includes successful completion of procurement processes, i.e. timely provision of materials and services necessary for the implementation of production and business processes in the Company.

The main principles guiding the procurement processes are:

- Process cost-effectiveness and efficiency principle,



- Bidder competitiveness and equality principle.

All business processes have been standardized through the adoption of different documents: rules, policies, standards and instructions. Priority is given to the competitive selection of suppliers or contractors. In case current business needs require the no-competition selection of a supplier/contractor, the

said needs must be explained and corroborated by the procurement initiator or business user. The competitive selection of partners is based on an analysis of alternative market offers and the selection of a supplier which has submitted a technically acceptable and, in terms of price, delivery/completion time, warranty period, securities or additional benefits for NIS – optimal offer.

Proportion of spending on local suppliers in 2014		
1	Total value of procurements in 2014 (million RSD)	213,869
2	Total value of procurements in 2014, except the procurement of crude oil from foreign suppliers (million RSD)	117,977
3	Total value of procurements from local suppliers (million RSD)	73,902
4	Percent of procurements from local suppliers (3/1)	35%
5	Percent of procurements from local suppliers in 2014, except the procurement of crude oil from foreign suppliers (RSD) (3/2)	63%
6	Total Number of suppliers the Company cooperates with	2,989
7	Total Number of local suppliers	2,423
8	Percent of local suppliers providing goods/services in 2014 (7/6)	81%



Buyers

In order to justify its market leader position, NIS pays great attention to the quality of its products. The Science and Technology Centre includes laboratories providing quality assessment services during the entire oil production and refining process.

Quality control process starts by field testing of the quality of crude oil in facility laboratories, it is continued with the testing of crude oil prepared for refining, the testing of quality of certain processes and intermediate products important for the monitoring and control of operation of refining facilities, and finishes with the quality control of the final refining products and the issuance of a Test Report. The Test Report confirms that the quality of produced fuels is in compliance with the quality required by the national rules and regulations.

Laboratory tests performed as the final quality control, prior to the delivery of fuel to end users, are undertaken in order

to ensure the quality of fuel during the transport from the refinery to filling stations and to prevent possible degradation of fuel in transport.

These procedures guarantee the quality of fuels produced by the Company.

Raising the level of customer satisfaction to the highest level possible is one of the Company priorities. In order to analyze and monitor customer satisfaction, the Company conducts different customer satisfaction surveys.

The survey of corporate client satisfaction determined that 95% of NIS fuel card users had evaluated their satisfaction with the cooperation with NIS as very high. The NIS FS network was given the same satisfaction

grade (95%), and, at the same time, was listed as the main reason for selecting NIS as a corporate card partner. Also, 95% of customers were satisfied with the quality of service, the fuel range and the terms of the concluded agreements.

The Company still uses the concept of the «secret buyer» as one of the mechanisms used for monitoring and assessment of work at retail outlets. Filling station checks include visual

inspection (assessing the cleanliness and store appearance) and control purchase of fuel at any time of day or night (assessment of the service provided). The goal of this research is the improvement of filling station operation, resulting in higher customer satisfaction.

Maximising customer satisfaction is among the top priorities of NIS.

Since it exports substantial amount of products to the EU market, NIS has carried out extensive research and activities in order to meet its obligations under REACH.

Product Liability and Compliance of Company Operation with European Union Regulations

Communication between suppliers and customers requires producers and importers to provide information on the environmentally-friendly and safe use of their substances or mixtures – the main instrument in such communication is the Safety Sheet.

The safety sheet is a statutory document whose use has been mandatory since 2013. Compliance with REACH (Registration, Evaluation, Authorisation and Chemicals) is a prerequisite for the export of Company products to the European Union.

Since a significant part of its products is exported to the European Union market, NIS has undertaken extensive tests and activities with a view to fulfilling its REACH obligations. A total of 14 Company products have been registered as REACH-compliant.

All REACH obligations have been met in accordance with the set deadlines and a positive decision has been obtained from the European Chemicals Agency on the registration of substances produced by NIS JSC Novi Sad. This has ensured free marketing and sales of NIS products on the European Union market.

Product Labelling

Considering the nature of its business activities, which include handling a great number of different chemicals, the Company pays special attention to the adequate labelling of products – by observing the REACH regulations, whose aim is to introduce mandatory labelling of products in order to provide information on the hazards of possible impact of chemicals on human health and environment. With a view to adequate product labelling, according to the NIS CEO decision, in 2013 and 2014, NIS changed the visual indentity of NISOTEC products packaging. Labelling elements on the new NISOTEC packaging are compliant with the CLP/GHS system. This system is much more complex and demanding than the previous DSD/DPD system; therefore, although the date set for the transition to the new labelling system is nearing, the market still has few products and brands with CLP/GHS-compliant labelling. NIS is the first and, for the time being, the only domestic lubricant producer whose labelling system is in accordance with the CLP/GHS requirements.

During the year, no inspection proceedings were initiated due to the non-compliance with the legal regulations defining the provision of information on products and/or services of the Company.

Company activities so far resulted in the fact that, in 2014, no proceedings were initiated against NIS and the Company participated in no disputes, i.e. there were no cases claiming that products or services had any impact on the health and safety of customers.

It is especially significant that, in 2014, no proceedings were initiated against NIS citing any non-compliance

with the regulations and unwritten codes related to marketing communications, or any breach of customer privacy.

Taxes and Other Public Revenues

The total amount of public revenue liabilities payable by NIS and its subsidiaries developed from the NIS organizational structure in Serbia amounted to RSD 128.1 bln in 2014, which was RSD 9.8 bln, i.e. 8% more than in the same period last year.

In terms of dividends, NIS also paid RSD 3.9 bln to the Serbian Budget as non-tax related property income (in 2013: RSD 3.7 bil.).

The total amount of calculated public revenue liabilities payable by the NIS Group for 2014 amounted to RSD 136.2 bil, which was RSD 15.6 bil, i.e. 13% more than in 2013.

Investments

In accordance with the Medium-Term Investment Plan, in 2014, main investments were directed to the completion of environmental projects, projects related to refining, sales and distribution and production of oil and gas, as well as the Professional Services.

Most important investments in the Exploration and Production Block in 2014 included:

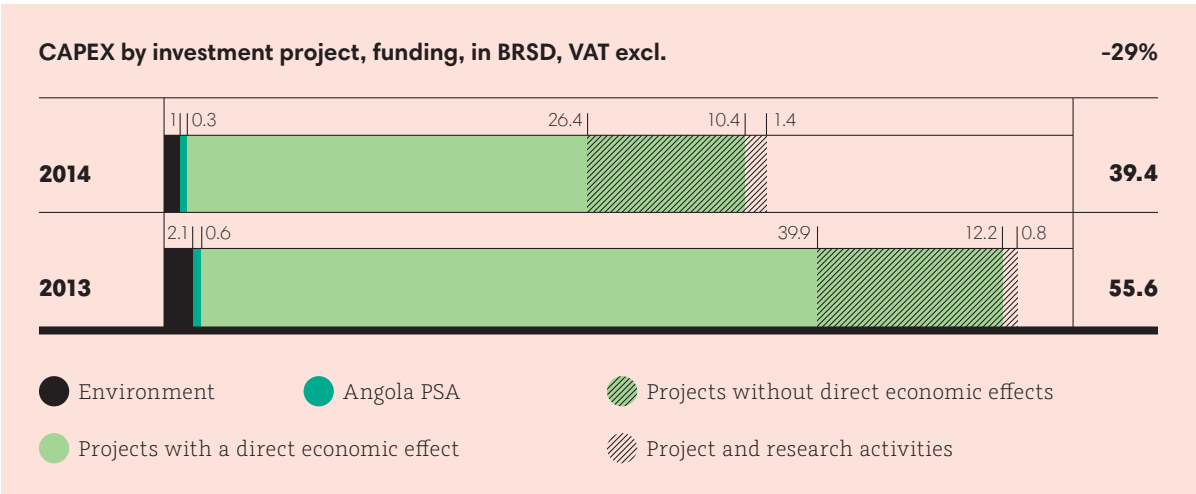
- Drilling development wells,
- 3D seismic exploration programme and drilling exploration wells in the Republic of Serbia,
- Geological exploration of unconventional gas,
- Investments in concession rights,
- Compressor station in the Velebit oil and gas field with the pertaining infrastructure,
- Separating CO2 from natural liquid gas,
- Remediation of GP system accidents.

The most important capital investments in 2014 in the Refining were made in the following projects:

- Production of industrial base oils,
- Reconstruction of tanks and technological systems intended for oil transport,
- Connecting distribution transformer stations and rehabilitation of process transformer stations,
- Installing a stationary vibration gauging system on rotating equipment,
- Construction of a new water demineralization plant in Pancevo Oil Refinery,
- Construction of a Steam Condensate Purification Plant in Pancevo Oil Refinery,
- Production Automation and Management.

In 2014, the most significant capital investments in environmental protection at the Pancevo Oil Refinery included:

- Construction of a closed drainage system,
- Construction of a closed production sampling system,
- Reconstruction of the vehicle-loading facility,
- Blending diesel with biodiesel.





## Strategic goals

Due to significant macro-economic changes in the last couple of years, NIS has revised its current development strategy. NIS will continue developing in order to form strong foundations which should ensure stable growth in the future, but, at the same time, it will diversify its risks and business opportunities.

The strategic objective of NIS has been and has remained to become the most efficient, fastest-growing energy company in the Balkans and to remain the leader on the domestic market.

### Exploration and Production

In the upcoming period, just like so far, the focus shall remain on the exploration and production:

- Special attention shall be paid to the increase of efficiency and yield of the existing reservoirs, as well as to measures for the reduction of production losses,
- Intensification of exploration activities in Serbia, as well as,
- Potential exploration of opportunities in the unconventional resources sector in the mid-term period.

With a view to ensuring long-term sustainable growth, NIS plans to increase its activities in concession projects, as well as to analyze prospective business opportunities in the region and beyond.

### Oilfield Services

Further development of oilfield services will primarily be directed to the support of implementation of Company plans in the Exploration and Production domain.

**NIS' strategic goal has been and still is to become the most efficient, fast-growing energy company in the Balkans and to retain its leadership in the domestic market.**

The improvement in the quality of provided services, higher exploitation of capacities and an increase in the efficiency of operation are key priorities for the development of oilfield services in the upcoming period.

### Refining

Only the most complex refineries in Europe will have an opportunity to compete equitably with the refining capacities in the Middle East and maintain long-term profitability. The petrochemical industry in Europe is in an even more difficult position and cannot compete, in terms of costs and prices, with the Middle East and North America. In accordance with that, NIS is considering possibilities of continuing the development of its refining capacities, primarily through their further streamlining, accompanied by an increase in the operative efficiency initiated as early as 2009. The Company plans further increase in the efficiency of all relevant indicators.

### Sales and Distribution

In the sales sector, NIS shall continue strengthening its position in the regions where it currently operates and, if possible, shall expand its operations in those regions. In order to surmount the significant negative market trends, NIS will especially pay attention to the implementation of operative efficiency programmes in the entire value chain in sales and distribution, and, at the same time, it will work on the implementation of innovative sales formats in the retail sector, making its product range more streamlined, and, simultaneously, more attractive to the customers.

### Energy

Energy, as the youngest business in the NIS portfolio, is a fast-growing segment with ambitious development plans in Serbia, which include complete monetization of the Company's own natural gas, construction of gas power plants and production and sale of compressed natural gas. This will maximise the effects of Company's own energy sources and will meet the internal energy needs, as well as the customer needs on the market. Simultaneously, the Energy Block is developing and diversifying its energy sources used for the production of electricity and heat, its conventional resources and the renewable sources of energy.





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# Human Resources



The background features a large, bold teal number '3' on the left side. To its left, a cluster of small red dots is arranged in a semi-circular pattern. Below the '3', there are several red triangles of varying sizes, some filled and some outlined. In the upper right, a red circular shape with a dashed outline is visible. The bottom right corner contains a large, faint, concentric circular pattern made of many thin lines. A thin white line runs horizontally across the top of the page, and another runs horizontally across the bottom.



# Human Resources

## Professionalism is guaranteed

Through employee benefits, investment in professional development and various youth support programmes, employees have always been a particular focus of NIS’ attention. Investing in their professionalism through an advanced motivation system guarantees that each employee is an expert in their respective field.

## Effects

We have developed a motivation programme by the name of “I Have an Idea” as a tool for all employees to put forward proactive proposals for operational and process efficiency improvement

Over  
**400**  
ideas nominated through  
“I Have an Idea”

Cooperation with  
**17**  
faculties through the programme  
“NIS Chance”

Continuous training, courses  
and guidelines for health and  
safety at work

RSD  
**265**

million for professional development in 2014





## 03

## Human resources

The Company pays special attention to human resources management, as one of the most significant factors in business.

The aim of each area of human resources management is attracting the best candidates and retaining employees with best results and highest quality of performance of work tasks. Mechanisms for finding and attracting candidates, as well as for motivating and developing the employees are constantly improved in order for the Company to cement its leading position thanking to successful and satisfied employees.

### Equal Opportunities

The Company strives to be recognized as the most desirable employer.

The equal opportunities principle is consistently applied in employment, which guarantees that the selection of a candidate is based on his/her professionalism, experience and knowledge as the key factors. At the same time, the Company forbids all forms of discrimination when selecting candidates and implementing other HR processes.

Organizational Unit	2013	2014
NIS – Professional Services	1,280	1,350
Exploration and Production	1,000	1,043
Oilfield Services	1,303	1,277
Refining	904	870
Sales and Distribution	1,035	959
Energy	225	235
<b>Total</b>	<b>5,747</b>	<b>5,734</b>

\* On Dec. 31, 2014, 136 persons were employed through the „NIS Chance Programme“.

### Qualification Structure on Dec. 31, 2014

		PhD	M.Sci.	B.Sci.	College	HS	Elem.	HQ	Q	SQ	NQ	Total
2013	permanent employment	14	181	2,011	397	1,803	5	305	832	0	4	5,552
	temporary employment	0	3	136	1	43	0	0	12	0	0	195
	total	14	184	2,147	398	1,846	5	305	844	0	4	5,747
2014	permanent employment	15	165	2,178	393	1,745	5	286	800	0	4	5,591
	temporary employment	0	1	123	3	15	0	0	1	0	0	143
	total	15	166	2,301	396	1,760	5	286	801	0	4	5,734

### Fluctuation in the Number of Employees

On Dec. 31, 2014, NIS employed the total of 5,734 employees.

On Dec. 31, 2014, NIS had 5,591 permanent employees (which made up 97.5% of all employees), and 143 temporary employees working full time. NIS had no part-time or underage employees.

The Company operates in compliance with the law and other regulations, as well as in compliance with the ratified international conventions in all areas, including forced and child labour.

**The mechanisms for recruiting new people and for motivating and developing employees are constantly upgraded so that, with successful and satisfied employees, the Company would ensure its leadership.**

### Permanent and Temporary Employees by Gender

		Men	Women	Total
2013	permanent employment	4,204	1,348	5,552
	temporary employment	105	90	195
	Total	4,309	1,438	5,747
2014	permanent employment	4,189	1,402	5,591
	temporary employment	83	60	143
	Total	4,272	1,462	5,734



**Management/Employee Ratio**

		Number of Managers*		Number of Employees	
		Number of Managers	% in the total number of managers	Number of Employees	% in the total number of managers
2013.	Men	235	70.8	4,074	75.2
	Women	97	29.2	1,341	24.8
	Total	332	100	5,415	100
2014.	Men	233	72.1	4,039	74.6
	Women	90	27.9	1,372	25.4
	Total	323	100	5,411	100

\* This includes the I (Block and Function directors), II (Department directors) and III (Sector directors) tier managers

**Employees to the Department Director Level**

Number \ Level	Age			Gender		Nationality		Total
	<30	30-50	>50	Women	Men	Domestic	Foreign	
General Manager	0	1	0	0	1	0	1	1
GM Advisers and Deputies	0	5	3	2	6	4	4	8
Function / Block Director	0	12	3	2	13	2	13	15
Function / Block Director Advisors and Deputies	1	13	2	2	14	7	9	16
Subsidiary Directors	0	4	0	0	4	3	1	4
Department Directors	3	69	4	20	56	47	29	76
Department Director Advisors and Deputies	0	7	1	1	7	5	3	8

**Age Structure**

	18-19	20-29	30-39	40-49	50-59	od 60	Total
Management* in 2014	0	13	139	121	43	7	323
Employees 2014	1	686	1,530	1,822	1,281	91	5,411
Total 2014	1	699	1,669	1,943	1,324	98	5,734
Management* in 2013	0	11	156	110	46	9	332
Employees in 2013	2	725	1,572	1,835	1,210	71	5,415
Total 2013	2	736	1,728	1,945	1,256	80	5,747

\* Including I-, II- and III-tier managers

**Employee Fluctuation**

	Men		Women		Total	
	2013	2014	2013	2014	2013	2014
Employed	286	298	154	159	440	457
Employment Terminated	2,298	336	563	134	2,861	470

**Age Fluctuation**

	18-19		20-29		30-39		40-49		50-59		60+		Total	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Employed	2	1	231	250	152	134	40	52	13	19	2	1	440	457
Employment Terminated	0	0	134	159	572	97	1,005	99	1028	86	122	29	2,861	470



### Maternity Leave Dynamics in 2014

Employees whose leave started in 2013	53
Employees returning from the leave in 2013	67
Employees whose leave started in 2014	67
Employees returning from the leave in 2014	52
Employees returning to work after the leave by Dec. 31, 2013 and Dec. 31, 2014	116
Remaining number of employees expected to return to work in 2015 and 2016	71
Left the Company within less than a year after the return from the maternity leave	23
Employees returning to work after the leave and remaining employed with the Company 12 months after the return from the leave	64

### Basis for Employment Termination

In 2014, 470 employees left NIS, 6 of whom retired and 178 employees left the Company by mutual agreement and with the employees receiving a severance package. The employment of 286 employees was terminated for other reasons – the employer terminated their employment agreements, employment was terminated at the request of the employee, completion of the temporary employment period, death of the employee, etc.

If the Company needs to transfer an employee to another position or to change other important elements of its employment contract, the Company has the obligation to offer the employee the conclusion of an Annex to the Employment Agreement and the employee has eight work days as of the date the offer is made to accept or decline it.

Basis for Employment Termination	2013	2014
Retirement	6	6
Consensual Termination of Employment against a Severance Package	2,258	178
Other	597	286
<b>Total</b>	<b>2,861</b>	<b>470</b>

### Trade Union Cooperation

As a socially responsible company, NIS supports the freedom of association and collective bargaining; there-

fore, in 2014, it continued its intensive cooperation with the representative employee trade union.

NIS has one representative trade union:

Number of Employees in Representative Trade Unions	2013	2014
Uniform union organization at NIS j.s.c.	2,590	3,643
Uniform union organization at Naftagas	1,543	0
<b>Total</b>	<b>4,133</b>	<b>3,643</b>

Note: the total number of employees who were members of unions in 2014 was 3,719, of which 3,643 were members of the representative trade union, whereas 76 employees were members of other Company Trade Unions. Uniform union organization at „Naftagas” lost its representative status in 2014, which caused the decrease in the number of trade union members.



In 2014, the representative status of trade unions was reviewed in accordance with the Labour Law. One of the two representative unions at NIS - Uniform Union Organization of „NIS Naftagas” lost its representative status and joined the other representative trade union.

Employee rights specified in the Collective Agreement and the Labour Law are exercised, among everything else, through constructive relationship with the unions, daily consultations, regular meetings with a view to presenting the results of business operations and improvement of social dialogue, as well as through task forces, which include union and employer representatives, whose aim is to monitor the implementation of the Collective Agreement.

The Collective Agreement sets out employee rights, especially HSE issues, as well as the wide range of rights to remunerations and benefits, and provides a high de-

gree of employee social security. The participation of unions in the resolution of these issues is especially important.

The new Collective Agreement signed on Dec. 17, 2014 retained the employee rights corpus and harmonized the provisions of the Collective Agreement with the provisions of the Labour Law (for example, provisions on higher remuneration per work hour, the so-called years of service which are considered only as related to the current employer, as well as the issue of severance package only in reference to the current employer).

On Dec. 31, 2014, 64% of NIS employees were members of the representative union.

Some of the rights guaranteed in the Collective Agreement and other internal documents of the Company included:





- Special protection of people with work-related illnesses and of those suffering from work-related disabilities, as well as preventive recuperation of employees working on high-risk positions, as well as of all other employees with a view to preventing professional illnesses and disabilities,
- Wide range of solidarity assistance paid out to employees (in case of an illness/death of the employee or a member of his/her nuclear family, destruction or damage of their households, birth of a child in families with numerous children, etc),
- Scholarships during the regular education of the children of killed and deceased employees,
- Collective employee insurance in case of accidents,
- Voluntary retirement insurance paid by the Company to the Fund for all employees,
- Resolving employee accommodation issues by allotting housing loan subsidies.

An HR portal has been created with a view to informing employees on all benefits and terms and conditions of using the said benefits under the Collective Agreement and the internal documents of the Company.

### Candidate Recruitment and Selection

The recruitment and selection of candidates in NIS is a highly transparent process implemented in accordance with the pre-defined steps presented in advance to the

candidates and colleagues initiating the process. This allows the selection of candidates who are best-fitted for a certain position and its requirements.

Internal candidates have priority, their competitive advantage being the fact that they know the Company, whereas positions which cannot be filled from internal resources are offered to candidates outside the Company.

The leading position of our Company facilitates this process, but in our striving to get the very best, we keep competing with companies which are also highly positioned on the labour market. Because of that, we put our emphasis on different recruitment methods and techniques, we attend a large number of events organized with a view to strengthening the Company image, we expand the network of prospective candidates and establish contacts which enable us to find the best candidates as soon as possible.

Candidate selection includes interviewing candidates and their profiling through a clearly defined group of tests, which was improved and adapted to different job descriptions late in 2014.

#### „NIS Chance“

In 2014, NIS continued its tradition of employing young people who had only just graduated from technical high schools or universities, and had no experience in the field.

Since its first stage in 2012, the programme has enjoyed high interest among prospective candidates, which is proven by a high number of applications – about 5,000 for each stage of the programme.

The programme lasts for 9 months for high-school graduates and 12 months for university graduates. In case of certain education profiles in the organizational units dealing with oil exploration and production, the programme lasts for 24 months, which is estimated as the period necessary for the independent work of young experts and the takeover of business projects.

The structure of programme attendants is quite diverse. Our employees come from 17 different faculties and more than 10 different technical vocational schools. In geographical terms, employees work in most towns and cities where the Company operates and come from more than 20 different cities.

The fact that as many as 80% of the total number of employees who started this programme – i.e. 460 young people with a university degree and 206 people with a high school degree are still with the Company – can be regarded as evidence of great positive energy exchanged between the Company and its employees, in whose development the Company keeps investing, whereas the employees, even after the formal expiry of the programme, opt for continuing their careers with NIS.

Late in 2014, the programme was modified and in the next stage it would be focused on profiles suiting the main business activity of the Company, i.e. on candidates graduating from technical faculties.

In accordance with the 2014/2015 schedule, 88 candidates were employed.

#### „Repatriation“ Programme

NIS understands the importance and value of professionals with education and experience acquired outside Serbia, but with desire to apply them in their homeland. With a view to employing Serbian citizens working abroad, the Company has started the „Repatriation“ programme.

Through the initiation of this programme and the cooperation with a range of organizations which already gather people fitting the said profile, as well as with all individuals interested in continuing their professional career with our Company, we want to promote the return of highly-qualified professionals who are willing to take over leadership and use their knowledge and skills in NIS in Serbia.

### Professional Development of Employees

One of the goals of NIS is to establish a high-quality and continuous training system and to contribute to the success and competitive advantage of the Company through active investment in the development of employee knowledge, skills and professional qualifications.

Based on the individual educational needs of the employees in accordance with the business requirements of the Company, employees are enabled to attend different training programmes (technical/professional trainings, trainings intended for the development of corporate competences, legally required trainings and licences, foreign language courses), seminars and conferences.

In 2014, NIS allotted RSD 254 mil. for the professional development of its employees.

Training costs <sup>1</sup> (in million RSD)	2013	2014
Professional education costs	265	240
Consultancy cost	23	11
Business associations membership costs	2	3
<b>Total:</b>	<b>290</b>	<b>254</b>
Organizational costs for training		11
<b>TOTAL:</b>		<b>265</b>

1 NIS j.s.c. Novi Sad with subsidiary companies established in 2012 from the organizational structure of NIS j.s.c. Novi Sad (NTC NIS – Naftagas d.o.o., Naftagas – Transport d.o.o., Naftagas – Tehnicki servisi d.o.o. and Naftagas - Naftni servisi d.o.o.); Training costs do not include the costs of the Energy of Knowledge project



Apart from trainings intended for the fulfilment of the individual needs of employees, the Company also organizes corporate development programmes intended for the development of target groups of employees.

#### New Employee Orientation Programme

NIS pays great attention to the integration of individuals into the team and the Company in general. The orientation programme is a part of the introduction of new employees to the Company's operations, which acquaints them with work organization, colleagues, organizational culture and business environment. In 2014, 366 new employees participated in this programme.

The programme includes lectures on the vision, goals and values of the Company, the organizational structure and the main roles of each organizational unit, as well as the visits to the NIS museum and oil field.

**„Leader” Programme** is intended for the development of the leadership potential of the lower and middle tiers of the Company management. The implementation of the “2014 Leader” programme included 20 participants chosen on the basis of their managerial capacities and development potential. Goals of the programme are the development of leadership skills and innovative thinking in business and thorough understanding of the manner in which the Company operates and of its long-term strategies.

**Staff Reserve / „Inheritance Programme”** is a corporate development programme, whose strategic goal is the development of members of the lower, middle and top management of the Company as the heirs of the key positions in Company in the near or more distant future. The programme was initiated in order to meet the Company needs for having employees with sufficient knowledge, experience, skills and abilities who would take over pre-defined positions within the Company.

In 2014, 164 employees participated in this programme. The programme is implemented through series of trainings tailored by the best qualified consultants in Serbia in accordance with the needs of the Company and the participants in the programme:

- Modular Leadership Programme,
- EU Integrations,
- Oil and Gas Industry Basics,
- Finance for the Inexperienced,
- Project Management.

**The standard “NIS Payroll Management Principles” establishes a grading system which is harmonised with the international job assessment methodology.**

**RSD**  
**265**  
**million earmarked for professional development**

NIS also offers opportunities to talented students to acquire experience within the **“Summer Internship” programme**. The Summer Internship programme motivates the best students of final years of undergraduate studies to acquire new experiences and get acquainted with the operation of the Company and the principles of international practices applied here. **In 2014, 101 students attended this programme**, coming mostly from the Mining and Geology Faculty, Faculty of Economics, Faculty of Technology and Faculty of Technical Sciences, whereas 117 university and high school students visited NIS for a day.

#### Incentive System

In order to achieve a higher efficiency of operation, NIS keeps improving the incentive system and providing conditions helping it to become one of the most attractive employers in the region.

NIS continuously works on the development and improvement of the total employee incentive system, which includes:

- Earnings system (basic and variable earnings, benefits, premiums, non-financial incentives, etc.),
- Employee development,
- Balanced ratio of work hours and leisure time, and
- Assessment of performance and work results.

This system ensures all employees are motivated to achieve Company goals through a well-developed incentive system.

#### Basic Salary

The Collective Agreement, under which the basic salary of the employees is defined in accordance with the job grade, guarantees that the level of salaries in NIS is on the same level as that in the leading companies in Serbia. Each grade has a clearly defined salary range – from the minimum to the maximum amount of the basic salary.

The salary range covering all grades is defined based on the referential labour market median, according to research on salaries conducted by independent organizations, which ensures the competitiveness of employee salaries.

The grading system ensures the observation of principles of internal equality and external competitiveness of employee salaries. In this manner, the Company creates an environment and culture where employees, through their work results, can directly impact their salaries, influencing, thus, the business result of the entire Company.

Minimum monthly **basic** gross salary in NIS, defined in the Collective Agreement, amounts to RSD 45,000.00 and is higher than the minimum gross salary in Serbia, which amounted to RSD 28,582 in December 2014. NIS does not discriminate on any basis whatsoever when defining employee salaries.



The “NIS Employee Earnings Management” standard applied since January 2014 defines a grading system aligned with the international methodology used for job evaluation.

#### Variable Part of the Salary

In accordance with the provisions of the Collective Agreement, employee performance assessment is performed on a monthly, quarterly and annual levels, whereas the results are rewarded in the form of the variable part of the salary.

There are three basic forms of variable remunerations in the Company: variable remunerations in the production and technical organizational units, variable remunerations in sales and variable remunerations in administration – and now each employee has the right and possibility to impact its earnings through its own efforts.

In 2014, the second regular employee competence assessment cycle was undertaken, which included all NIS employees classified into 3 main categories – managers, specialists and workers. All employees receive feedback on the assessment results.

#### Non-Financial Incentives

Direct managers use the non-financial incentive programme to increase the motivation of their employees.

The Company has developed several programs, as follows:

- “Best in the Field” – three selection categories are defined within this programme on the individual level: best employee, best expert and best manager,
- “I have an idea!” – programme rewarding creative and constructive ideas of the employees, especially those leading to significant savings or financial efficiency,
- “HSE Awards” – programme intended to increase personal safety and safety of colleagues around us. This program assesses each implemented HSE activity, suggestions for HSE improvements, as well as reporting for medical examinations and HSE trainings,
- “Instant Rewarding” – the direct-line manager receives a certain number of vouchers which can be granted to employees who show outstanding work results,
- “Open Door” – programme within which members of senior management define the day and time



when they are available to employees who want to ask them questions or resolve any problems they might have in eye-to-eye communication,

- "Discount System" – the discount system offers discounts to NIS employees for various purchases - mostly for shopping, tourism or cultural events (discounts on food, clothes, footwear, travel arrangements, tickets for cultural events, etc.).

Sports Activities

In 2014, NIS continued supporting its employees in order to improve their mental, physical and emotional health, as well as to create a positive working environment, which all contributed to the further enhancement of the Company's image.

In accordance with the action plan adopted by the management and the amended Standard for the Organization of Sports Activities, the following was implemented:

- Educational activities - presentations on the impact of physical activities and healthy food were given in more than 7 towns throughout Serbia. About 20 texts were published and more than 3,000 brochures were distributed as a part of the "NIS Fitness Programme". The Company filmed an educational film called "5 Steps to Health" where employees shared personal experiences in health improvement through physical exercise and a presentation was created called "Where can you exercise?", which is available on the internal Company portal.
- Preventive activities – the continuation of sports and diagnostic examinations contributed to the definition of employee health, both individually and collectively, which created the basis for the plan on how to improve their work abilities. About 1,905 employees were examined, and were allotted more than 4,000 personalized plans for health improvement, as well as plans for well-balanced nutrition.
- Weekly recreational activities contribute to the implementation of health improvement plans, which raises the level of work productivity – more than 4,500 employees participate during a year.
- Competitions – at more than 10 sports events, employees have won more than 11 awards for their achievements, and have earned recognition in the corporate sports world for their competitive spirit and result-orientation.
- Promotional activities with different institutions – through cooperation with the Health and Exercise Centre, the Veternik Children's Home – Novi Sad, "Block Out" VC, Belgrade, «Lions» SC, Novi Sad, «Vozdovac» TC, Belgrade, »Adut» HC, Novi Sad, employees and their family members, especially children, had an opportunity to train for free in different sports schools, as well as to watch various sports events for free.

For the first time, 14 employees were rewarded for their contribution to the development of healthy life in the corporate environment, and 11 colleagues were rewarded for the achieved sports results at the Company Day.

Occupational Health and Safety

Occupational Health and Safety of all NIS employees and business partners is one of the strategic goals of the Company: the Company strives to reduce continuously the number of workplace-related injuries and professional illnesses. The Company constantly applies prevention principles with a view to improving work conditions and decreasing the number of adverse HSE events. Activities on the development of HSE competences of all employees and contractors have been continued.

In the field of Occupational Health and Safety, Company standards and the existing practice are stricter than the current legal requirements. All business decisions in NIS are above legally defined minimum and are made in compliance with the national statutory requirements in order to ensure efficient risk management. The Company implements activities related to the management of contractor safety, and the said contractors are expected to observe Company standards.

Upon an analysis of the undertaken HSE measures and activities, as well as of the data obtained for the key HSE indicators in the five-year period – between 2010 and 2014 – a drop in all values was determined. Thus, the number of traffic accidents (RAR category) was reduced by almost 60%, the number of environmental accidents was reduced by 26%, and the number of workplace injuries and days lost by 12%; the number of fires was reduced by 5% despite the conditions requiring permanent increase in transparency of adverse event reporting.

The Company believes that safe operation of facilities is a prerequisite and key element of success; therefore, it strives to operate with no injuries at all. Safe operation also means avoiding environmental hazards and adverse impact on the local communities.

With a view to the safe performance of work processes, the Company has defined 10 fundamental rules:

1. Do not obstruct or circumvent safety and environmental protection measures, and do not allow others to do it, regardless of his/her level in the hierarchy. Intervene whenever you witness unsafe or environmentally unacceptable actions. All rules and procedures applied in the facilities and other areas must be observed, and all requirements related to the permits for safe and secure work must be met.
2. For the performance of any task, all rules related to the wearing and carrying of personal protection equipment must be observed.
3. All traffic safety rules must be obeyed. The maximum speed allowed in the facilities is 10 km/h.
4. In danger areas, open flame must not be used and only explosion-proof electric equipment can be used.
5. Insulation and locking procedures applicable to different sources of energy must always be observed.
6. Smoking is not allowed on Company premises, except in areas allotted and specially labelled for that purpose.
7. Weapons are not allowed on Company premises.

8. Taking photos and making audio and video recordings is not allowed, except with a special approval and in compliance with set procedure.
9. Persons under the influence of alcohol and/or drugs cannot enter, work or stay in Company facilities.
10. All events and accidents, all situations and occurrences which are unsafe and environmentally unacceptable must be reported immediately.

The Company has defined a list of Key Performance Indicators (KPI), both in terms of personal safety (safety of the employees and all persons which might be influenced by their activities), and in terms of

process safety, whose monitoring and management represent a Company effort to reduce all risks to the bare minimum and ensure employee and environmental safety.

HSE Indicator Review

In 2014, NIS continued the practice of recording HSE indicators from two aspects – from the aspect of events which are under the direct impact of the Company and those which are outside NIS' direct influence, i.e. it created a registry focusing on NIS and a registry focusing on contractors.

HSE Indicators	2013	2014
Workplace Injuries	89	87
Workplace Injuries – with Sick Leave	58	51
Number of Days Lost	1,664	2,112
Days of Sick Leave due to Workplace Injuries	14,928	23,368
Days of Absence from Work	295,207	232,447
Hours of Regular Work	11,569,680	9,781,976
Injury Rate (IR)	7.69	8.89
Absence Rate (AR)	25.52	23.76
Lost Days' Rate (LDR)	1.29	2.39
Number of Fires *	43	41
Number of Traffic Accidents**	64	27
Number of Environmental Accidents	89	67
Number of Inspections by the Authorities	774	1090
Number of Measures Undertaken by the Authorities	692	453

Types of Injuries	2014
Employee Falls	30
Heat and Chemical Injuries	2
Mechanical Injuries	35
Traffic	9
Long Falls	1
Miscellaneous	10
Total	87



After the review of 2014 HSE indicators, one can say that significant improvement had been made in all categories, except in the number of authority inspections, but one has to emphasise that the inspection ratio (number of measures ordered/number of visits) was reduced by 54% in comparison with the said ratio in 2013.

Of the total number of work-related injuries in 2014, one resulted in death. In September 2014, on the local road between Novi Becej and Becej, a traffic accident occurred and an employee hired from a leasing company lost his life. The accident involved a frontal crash between the company vehicle and a third-party vehicle. Such accidents remind us how important it is to observe regulations prescribed by the Law on Road Traffic Safety, as well as internal company rules and recommendations in order to avoid such accidents.

**NIS is a company that has incorporated occupational safety and health into a formal agreement with the trade union, translated into the Collective Agreement.**

**Activities of the Board for Occupational Health and Safety**

In accordance with the amendments to the provisions of the Collective Agreement, NIS has established new Boards for Occupational Health and Safety (BOHS) in all organizational units:

- BOHS NIS,
- BOHS Exploration and Production,
- BOHS Refinery,
- BOHS Sale and Distribution,
- BOHS Oil Field Services (OFS) and,
- BOHS Energy.

Each Board for Occupational Health and Safety has seven members now (prior to the amendment to the Collective Agreement, each had five members): four employee representatives (trade union) and three employer representatives, and in 2014 more than 98% of employees were covered.

Reports on the activities of these Block Boards are submitted to the Board on the NIS corporate level. The Boards meet at regular intervals during the year, and their role is extremely significant, especially in the following areas:

- Considering OHS issues and making relevant proposals,
- Reviewing drafts of special documents having significant impact on work conditions and OHS,
- Considering and participating in the preparation of a Special Document on Personal Protection Equipment and Means,
- Cooperation with professional services in the OHS area and monitoring the implementation of the provisions of the Agreement regulating this area,
- An analysis of the condition in the OHS and proposing measures for its improvement,
- Analysis and conducting of periodical machine and device inspections and tests of physical and

chemical hazards related to the micro-climate in the working environment; proposing extraordinary tests and controls if needed,

- Proposing and requesting the introduction of preventive employee protection measures,
- Initiatives for the determination which jobs entail higher risks and for the introduction of employee protection programmes at such jobs,
- Reviewing employee health reports based on periodical medical check-ups and controlling the regularity of employee medical check-ups,
- Reviewing work-related injuries and professional illnesses, their sources and causes and proposing measures for their prevention,
- Mediation in the reimbursement negotiations related to the damage suffered by employees due to work-related injuries or professional illnesses,
- Reviewing other issues significant for the achievement of employee occupational health and safety.

In 2014, NIS top management continued their regular topical meetings chaired by the CEO and the HSE management. Meetings are organized on a quarterly basis at different locations in NIS.

Safe work conditions for all our employees and business partners and environmental protection are one of the strategic goals of our Company.

In the previous years, NIS employee risk assessment was undertaken. The conclusion of the Document on Workplace and Work Environment Risk Assessment defined that NIS had 1,206 high-risk positions.

Records on the high-risk workplaces are kept in the prescribed form (Form 1 of the Rules on Occupational Health and Safety Records).

NIS strives to reduce the number of identified risks through the introduction of new technological improvements.

NIS is a company which has covered all Occupational Health and Safety issues in a formal agreement with the trade union included in the Collective Agreement. By setting an example and taking steps towards the improvement of the HSE performances, the management and the employees demonstrate their dedication to the HSE principles.

Some of the areas covered by the Collective Agreement are:

- Education, professional trainings and development,
- Working hours, vacations and leaves,
- Occupational Health and Safety,
- Damage reimbursement,
- Employee redundancy,
- Meeting accommodation needs,
- Exercising and protecting employee rights,
- Exercising employee strike rights.

NIS makes its business decisions in accordance with the requirements of the national legislation and strives



**Safe working conditions for all employees and business partners and environmental protection are among the Company's strategic goals.**

to keep them above the legally defined minimum with a view to ensuring more effective risk management.

Companies operating in the area of oil and gas exploration, production, refining and distribution are companies whose work, by its very nature, involves huge risks of situations which can have catastrophic consequences, such as multiple fatalities, large-scale environmental impact, significant property damage, huge economic impact on the society, as well as great impact on the local community.

One way in which accidents can be prevented is by defining safe methods for the execution of regular tasks based on direct risk assessment.

This was achieved by creating an entire list of Safe Work Instructions (SWI) based on the identified potential dangers and hazards present during the performance of standard activities in the Company.

The Safe Work Instructions are prepared in accordance with the needs of the line management provided in the

Standardization Plan, the introduction of new work technologies, as well as the corrective measures arising from the analyzed HSE events.

HSE Training, Development of HSE Competences and Employee Awareness

**HSE Competences**

In 2014, the "Instructions on the Development of HSE Competences in NIS JSC Novi Sad" were developed and adopted. The Instructions define the process of development of HSE competences an employee should have according to the category of its position in order to perform his/her tasks with minimum HSE risks, in compliance with the legal regulations, requirements of internal normative and methodological documents and the international HSE practice. These competences have three components: knowledge, skills or abilities to apply things one has learnt and the positive attitude which refers to the willingness to apply the aforesaid.

HSE competences define the level of HSE knowledge and skills necessary for:

- Ensuring that employees perform their tasks in the manner which reduces adverse impact on human health and safety, environment, processes and property all in accordance with the legal reg-



- ulations, requirements of the internal normative and methodological documents and international best practice,
- Contributing to the improvement of the HSE management system and raising the HSE culture within the Company.

#### HSE Training Assessment

In order to determine the effectiveness of the HSE trainings, in 2014, the Company developed and adopted the “Methodology for the Assessment of Effectiveness of HSE Trainings at NIS JSC Novi Sad”.

The methodology for the assessment of HSE training effectiveness is based on the Kirkpatrick Model, which has four levels of training evaluation, which jointly provide the full picture of training effectiveness on all levels at NIS, including the impact of HSE trainings on business indicators.

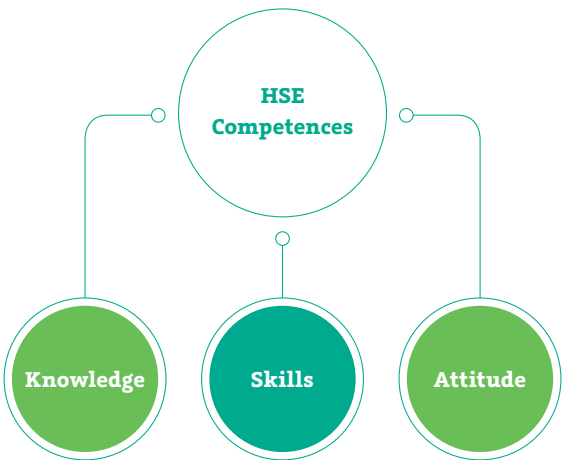
#### HSE training evaluation takes place on 4 levels:

- Level 1 – Assessment of the satisfaction of participants with the training itself (based on the developed Training Evaluation Form),
- Level 2 – Assessment of the acquired knowledge through the testing of participants before and after the training in order to determine the acquired and retained knowledge,
- Level 3 – Change in behaviour, which is used as an indicator of the manner and degree in which the employees apply the knowledge acquired in training,
- Level 4 – Business results.

#### Improving HSE Competences of Line Management

With a view to improving HSE competences, 25 trainings were organized in order to improve the knowledge of employees related to the recognition, control and management of risks during the performance of high-risk activities. A total of 448 line managers and permit-issuing employees successfully passed these trainings.

Also, 24 employees attended trainings intended to prepare them for the state exam in the area of Fire Safety and Occupational Health and Safety.



#### Improving Employee HSE Competences

During the year, with a view to improving employee HSE competences, „NEBOSH International General Certificate“ and „NEBOSH Technical Certificate in Oil and Gas“ trainings were organized on the corporate level and were attended by 20 employees. Also, “IRCA OHSAS 18001 Lead Auditor Training” was organized and was attended by 7 employees, as well as „IRCA EMS 14001 Lead Auditor Training“, which was attended by 8 HSE employees.

#### Development of Instructions and Educational Materials

“HSE Training Instructions” were prepared for all trainings within M1, M2 and M3 modules (Introductory HSE Training, Workplace Training and HSE Management System Training) in order to define the scope and contents of the materials adopted, as well as the time necessary for the training of the employees and the list of laws and regulations in the Republic of Serbia, i.e. Company NMD and other technical documentation including HSE requirements, whose contents should be processed, studied or resented during the HSE training. Also, for the Instructions related to these 3 HSE Training Modules, educational materials were developed (“Power Point” presentations and films), as well as knowledge tests.

HSE Trainings Modules	Number of Trainings	Number of Attendants	Time Used (h)
M1 – Introductory Training	94	2,481	4,267.5
M2 – Workplace Training	143	2,966	3,263.5
M3 - HSE System Management Training	161	1,916	6,597.5
M4 – External Trainings	124	1,777	19,368
NIS J.S.C.	522	9,140	33,496.5



#### HSE Campaigns

In 2014, NIS implemented 19 different HSE campaigns. HSE campaigns were executed in the form of a dialogue between professionals and employees, visitors and contractors at the Company, as well as by developing and distributing educational posters and brochures.

#### Safe Driving Training – „NAVAK” Training

The Company worked hard on the reduction of risks related to the transport of employees and equipment, as well as to the delivery of fuel to customers. The Company actively promotes the use of LNG in transport in order to reduce CO2 emissions, and, in accordance with that, more than 30% of company vehicles were equipped with LNG devices.

It was estimated that the use of organized transport of employees to and from work resulted in the saving of 719,822 liters of fuel.

In 2014, NIS continued working on the improvement of driver skills and competences. Two projects were im-

plemented: procurement of driver testing consoles for safe driving in order to prevent traffic accidents and safe driving trainings in cooperation with the «NAVAK» National Driving Academy.

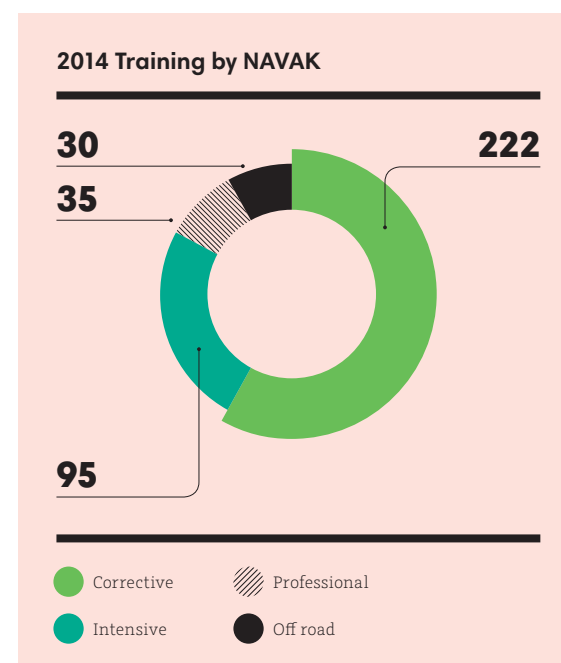
In 2014, on the NIS level, about 700 users of company vehicles were tested on specialized consoles (including professional drivers, too).

The following trainings were implemented at the NAVAK Training Centre:

- Corrective training – intended for employees who were involved in traffic accidents or committed a traffic offence,
- Intensive training – intended for employees who use Company vehicles frequently or for longer periods of time,
- Professional training – intended for professional drivers of passenger Company vehicles,
- Professional “Off-Road” training - for freight and terrain vehicle drivers.

In 2014, the safe driving programme was completed by 382 participants.

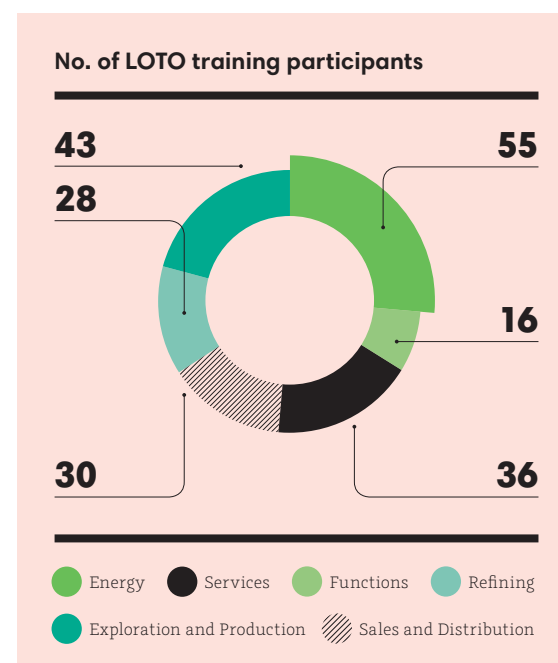




The above diagram shows the number of participants in each of the four training programmes, as well as the total number of participants, i.e. the number of employees attending any of the safe driving trainings.

#### Lock-Out, Tag-Out Training

In October and November 2014, employees attended the lock-out/tag-out training for dangerous forms of energy. The goal of the training was to acquaint the employees with the Lock-Out/Tag-Out concept (LOTO), raise their awareness, allow them to acquire knowledge and skills relevant for the lock-out and tag-out of dangerous forms of energy (electricity, pneumatic, hydraulic, kinetic, gravity, etc.) with a view to ensuring safe operation of



the equipment, devices and tools, preventive actions and elimination of potential risks which might cause fatal/severe injuries to the employees and contractors. During the two days of training, employees got acquainted with basic theoretical information on the dangerous energy lock-out/tag-out concept, but also had an opportunity to get acquainted with the equipment and the lock-out/tag-out process in practice in selected facilities.

The training was outsourced and implemented by "Te-hpro" in 22 sessions on 3 sites: Novi Sad Oil Refinery, Elemir Oil and Gas Production and Transport Facility and Pancevo Oil Refinery. The training was attended by the total of 208 employees from all Blocks, as well as from the HQ.





# **Responsibility Towards the Community**





# Responsibility Towards the Community

## Responsibility – the road to a better future

Social responsibility is both a continual and a progressive concept. Inventing ever-new practices that bring NIS closer to the communities in which it conducts its business is an indispensable part of NIS' mission.

Being socially proactive, encouraging young talents and involving stakeholders in a joint drive for a better future are some of NIS' principles that make the business responsible and the local community a better place to live in.

### Effects

RSD

592.5

million put up for social programmes

RSD

43%

more social investments year on year

Five community investment programmes: Energy of Sports, Culture without Borders, Energy of Knowledge, Humanitarian Projects and Together for the Community

RSD

110.5

million for funding

164

projects through the public contest  
“Together for the Community”

19

NIS IT Classrooms and

4

NIS Labs equipped and  
refurbished





# 04

## Responsibility Towards the Community

Corporate social responsibility is a part of our strategic operation. In 2014, we adopted the Corporate Brand Repositioning Strategy and defined a social responsibility platform under the “Future at Work” slogan. It is primarily strategically focused on talented young people, who are supported to achieve their full potential, but on the support to the development of the entire community, as well.

The Company is not involved in the activities of political parties. Through a dialogue with the representatives of state authorities, local government and business community, we create partnerships with the society in order to create a better future for everyone.

Through its five programmes: “Energy of Sports”, “Culture without Borders”, “Energy of Knowledge”, “Humanitarian Projects” and “Together for the Community”, the Company invested more than RSD 592.5 million in 2014.

**In 2014, we adopted the Corporate Brand Repositioning Strategy and established the social responsibility policy under the slogan “Future at Work.”**

### Energy of Sport

The “Energy of Sports” programme supports professional and children's sports, and promotes healthy lifestyles. Special attention is paid to the proper development of children and youths and promotion of new talent.

NIS is a long-term partner of the Partizan Basketball Club, and in the last two years, it has also been the general sponsor of that club. Feeling the need to reward club's fans and supporters, in cooperation with Partizan BC, NIS started the traditional “Strike Three for Season Tickets” campaign.

Within its endorsement of the Basketball Federation of Serbia, for the third consecutive year, NIS supported the BFS sports campaign – Mini Basketball League, a mini-basketball tournament for children up to 12 years of age.

NIS is also the general sponsor of the Tennis Association of Serbia and supports the best tennis players of Serbia competing in Davis and FED Cups. As a part of this cooperation, NIS and the Tennis Association of Serbia organized the third consecutive “Open School of Tennis” for children from all parts of Serbia. More than 4,000 children had the opportunity to take their first tennis steps with the help of professional trainers, and all that for free.

The Company and the Tennis Association of Serbia, in cooperation with the Ministry of Education, Science and Technological Development, initiated the “Sports against Violence” campaign intended to promote sports values, non-violence culture and fair play in sports, as a very important element in the healthy development of children. The “Sports against Violence” campaign was presented in all parts of Serbia in more than 300 elementary schools during the



2014/15 school year. So far, more than 6,000 children have had an opportunity to learn true sports values through tennis.

Support for car racing and top results in that field is reflected in the cooperation with the European champion Dusan Borkovic, a member of the NIS Petrol Racing team, who proved through the results he achieved, fair play and team spirit that our trust in him was well-placed.

The Company allotted RSD 197.4 million for sports sponsorship projects.

### Culture Without Limits

The goal of the “Culture without Limits” programme is to uphold cultural values, fund cultural institutions

and festivals of national and international renown and support young talented people.

For the fifth time in a row, NIS was the general sponsor of the FEST International Film Festival, whose 2014 slogan was “Things are not black and white”. With a view to inspiring the creativity in young people, NIS organizes an Instagram video competition called “Film NI-Spiration”. The author of the best video selected by the jury received a three-day trip for two to the “Karlovy Vary” International Film Festival in the Czech Republic.

Like in the past, in 2014, NIS also supported a significant music event promoting musical tradition and national heritage in Serbia: for the sixth time, the Company was the strategic partner of the Guca Trumpet Festival.

With a view to promoting cultural values and supporting art development, this programme was used to



**The programme “Energy of Knowledge” covers partnerships with the leaders of the domestic educational system: universities, faculties, secondary schools, professional associations and scientific societies.**

support the largest jazz festival in Southern Serbia, as well. This year, NIS enabled the best young, anonymous musicians to participate in the musical competition called “Nisvil Strings Attached?” With the Company support, a total of 31 musicians played at the festival.

For the second consecutive year, NIS, as the general sponsor, supported the international cultural and musical festival

in Brussels called “Balkan Traffic” aimed at the promotion of Balkan art.

Children’s creativity was supported through the largest and most significant events of the kind in Serbia – the International Children’s Festival “Joy of Europe” and “Zmajevе decje igre”.

In 2014, the Company invested more than RSD 21.3 million in the implementation of the programme.

**Energy of knowledge**

The concept of the NIS’ “Energy of Knowledge” programme is based on partnerships with educational

leaders in the country: universities, faculties, high schools and expert scientific associations; with investments in the educational system, pupils and students achieving best results during their education, all with a view to getting highly-qualified experts NIS needs.

The “Energy of Knowledge” programme is directed towards strategic cooperation with universities, not only in the scientific and research segment, but also towards programme cooperation aimed at the improvement of the curriculum, creation of modern conditions through the reconstruction and equipment of classrooms and laboratories and the modification and adaptation of university curricula in accordance with the labour market needs.

In 2014, within the “Energy of Knowledge” programme, the following projects were implemented as a part of the cooperation with universities:

- A new study program called “Industrial Engineering in the Oil and Gas Exploitation” was developed and accredited on the undergraduate level at the “Mihaјlo Pupin” Technical Faculty in Zrenjanin, Novi Sad University. A total number of 50 students was enrolled at the new department in the 2014/2015 academic year.
- The NIS CEO gave two lectures on leadership to the students of the Novi Sad and Belgrade Universities; NIS experts also gave several lectures with a view



to acquainting the students with the NIS business processes.

As for the cooperation with elementary and high schools, in 2014, the 6<sup>th</sup> “Knowledge Olympics” – a competition in natural sciences – mathematics, physics and chemistry - for the total of 160 finalists took place on the NIS premises in Novi Sad. NIS was also a partner of the national teams representing our country at the International Olympics in those areas.

The Project places special emphasis on the Russian language. Apart from the organization of the Russian Language Olympics for the total of 888 participants, key results achieved in this area include the accreditation and opening of 3 bilingual Serbian/Russian classes:

- One 1<sup>st</sup> grade and one 2<sup>nd</sup> grade class at “Jovan Popovic” Elementary in Novi Sad,
- One class at the Aleksinac Grammar School.

At the Company initiative, the Technical School in Zrenjanin re-introduced the “Oil and Gas Production Facility Operator” educational profile, which was selected by 30 students in the 2014/2015 school year; as soon as they graduate from high school, these students will be qualified for work in the oil industry.

Within the „Energy of Knowledge” programme, the Company introduced a scholarship project supporting

the most successful students, whose goal is to provide financial support to and invest in the development of students through internship programmes in the Company, attendance of summer schools in the Russian Federation, learning Russian and, upon the completion of the scholarship period, employment with the Company. In the 2014/2015 school year, the scholarship programme included a total of 47 students, 19 of which were students of technical and technological faculties of the Universities in the Republic of Serbia, 25 Serbian students at the oil and gas universities in the Russian Federation and 3 winners of the first “Knowledge Olympics”.

One of the segments of the „Energy of Knowledge” programme is the adaptation and equipment of NIS classrooms and laboratories with a view to modernizing studying conditions there. In 2014, 4 NIS laboratories were adapted and officially opened, 19 NIS classrooms – IT laboratories were adapted and equipped at the educational institutions selected on the basis of the results of the most successful participants of the NIS „Knowledge Olympics” in natural sciences and the Russian language for high-school students in 2013 and 2014.

**Petnica Research Station**

A part of the collaboration with scientific institutions, NIS continued its cooperation with the Petnica Research Station, as well. As the sponsor of programme





**For the third year running, a public contest has been organised in cooperation with 11 local governments as part of the programme “Together for the Community.”**

activities in 2014, the Company helped the implementation of 151 programs (courses, seminars, camps and workshops) at the Petnica Research Station, which were attended by 2,640 participants and 680 visiting associates and lecturers.

In 2014, the Company invested about RSD 105.2 million in the implementation of this programme.

### Humanitarian projects

Within the programme whose aim is to help and support vulnerable groups, several important projects were implemented in 2014.

Immediately upon receiving first information on the floods, NIS organized emergency response teams. Their task was to protect the health and safety of employees, reduce adverse environmental impacts, minimize stoppage risks, and protect Company assets and organize rehabilitation and damage assessment activities. It provided state authorities with fuel, but also with Company vehicles, construction machinery and other technical equipment, pumps, as well as with people who participated in the rescuing of people from flooded areas as needed.

NIS started the “Help Now!” campaign for help to areas hit by the floods. The employees of NIS, its subsidiaries in the region, as well as of the parent company *Gazprom Neft* joined this humanitarian campaign. Just like in the previous years, NIS and *Gazprom Neft* now also donated funds in the amount equivalent to the amount donated by their employees. All funds donated by the employees were paid to the account of the Serbian Government, whereas the funds donated by NIS and *Gazprom Neft* were used for the equipment of physics and chemistry classrooms at elementary and high schools in the flooded areas. Through joint efforts of the employees and the Company, financial aid was also provided to the NIS employees directly hit by the consequences of floods.

By mid-July, NIS initiated a two-month humanitarian campaign called “You are our guy!” with Red Star FC and Partizan BC as partners, with a view to raising funds to help the flooded areas. NIS wanted this campaign to motivate the supporters of both clubs and all interested parties to show their social awareness. By using a specially designed application and sending a message to 9001, visitors had the possibility to “rent” a space for their photo which would be placed on the numbers on the

jerseys worn by the “Red Star” and “Partizan” players all season. All funds were paid onto the Serbian Government bank account opened for the collection of aid for the flood victims.

### Together for the Community

The objective of this programme is strengthening relations with local communities wherein the Company operates. Within the programme, a public competition was organized for the third consecutive year in cooperation with 11 local units: Belgrade, Novi Sad, Nis, Pancevo, Zrenjanin, Kikinda, Novi Becej, Zitiste, Kanjiza, Srbobran and Cacak. Only in 2014, 164 projects were selected through that public competition, and the implementation of those projects was intended to contribute to the development of local communities, facilitate the operation of numerous institutions and improve the operation of cultural, educational and sports institutions.

In 2014, through the local communities cooperation programme, NIS invested RSD 110.5 million.

In 2014, NIS started cooperating with the City of Belgrade, and that cooperation, among everything else, resulted in the implementation of projects for the modernization and sprucing up of children park in Busije settlement (RSD 500,000), the “Sumski Raj” picnic area in the very vicinity of Zeleznik was renovated (RSD 1 million) and a part of the Belgrade Car Museum was refurbished and adapted (RSD 4,990,000).

In Novi Sad, the Company helped the basic refurbishment of the „Veseljko” kindergarten, funding the adaptation of its premises and the purchase of a part of the needed furniture with an amount of RSD 635,000.

Apart from that, NIS invested RSD 1,394,600 in the “Audio Library – New Aid for Us” Programme. This is an audio library for the daily stay of persons with polio and cerebral palsy, but of other persons with disabilities, as well.

On the territory of the City of Nis, among other things, the Company allotted funds for the “Classroom in the Nature” project, enabling the construction of a summer classroom in the schoolyard providing a more interesting learning method (RSD 646,820).

As a part of the support provided for the Cacak projects, one should mention the funding of the skateboard park construction on the Morava bank and of a children playground (RSD 3 million), as well as the project of equipping the yard of the „Radost” kindergarten with paths and playground equipment (RSD 1.3 million).

On the territory of the Novi Becej municipality, the Company funded the installation of photovoltage devices for electricity production and the use of solar energy to heat water in the national park (RSD 880,748), and the necessary works on the “Kotarka” Heritage Museum in Novo Milosevo (RSD 600,000).



In 2014, in Srbobran, attention was directed to the completion of the works on the playground in the „Ladybug” kindergarten in Nadalj (RSD 450,000), as well as to the reconstruction and adaptation of the stadium in Turija, the value of which works amounted to RSD 346,184.

On the territory of Zitiste, among other things, the Company funded the reconstruction of the “Dombacka” tower and its vicinity – before the celebration of 200th anniversary of the opening of the park (RSD 519,356) and the development of Becej sports fields (RSD 420,000).

In Zrenjanin, an open-air gym was erected for children, youth and all citizens of Belo Blato (RSD 501,900), a great number of trees rich in pollen was planted in the area of Elemir settlement (RSD 200,000) and the Becej bank was reforested (RSD 400,000).

In the municipality of Kikinda, former horse stables next to an old military facility were converted into a

museum called „TERRA” (RSD 2.5 million), a building intended for the International Youth Centre was refurbished (RSD 1 million), as well as open sports fields (RSD 1 million); also, a combined metal playground for children was erected in Zeleznicki Red area (RSD 930,000).

On the territory of the Kanjiza municipality, the “Children Corner on Strand” project was implemented with the total value of RSD 261,937 – a children playground made of natural and recycled materials was erected. We also have to mention the refurbishment of sports terrains in Horgos, which amounted to RSD 400,000, and improved the conditions for the development of sports and healthy lifestyle.

In Pancevo, apart from everything else, the Company funded the refurbishment of locker rooms and other facilities used by children in the local football club (RSD 2.5 million).





# Health and Environmental Protection



# Health and Environmental Protection

## Environmentally responsible

NIS is constantly improving on its environmental activity and performance with the aim of raising environmental awareness of both the individuals and the entire community. The results emphasize the importance of environmental investments, application of new technologies and innovative solutions for a more efficient and greener business and the importance of ensuring a healthier environment.

## Effects

4.1%

less energy consumption per product unit

Apart from the Electric Power Industry of Serbia, NIS is the only producer in Serbia that supplies electricity to the free market

Efficient use of gas resources through cogeneration

Noxious emissions have declined:

SO<sub>2</sub>

-16%

NO<sub>2</sub>

-21%

particulate matter

-57%

compared with last year





05

# Health and Environmental Protection

Sustainable environmental management in NIS entails care for environmental protection through the implementation of projects for the reduction of pollutant emissions into the air, water and soil, waste reduction, energy efficiency increase and use of renewable sources, eradication of historical and accident-related pollution, as well as the implementation of technical and technological measures in accordance with the best available techniques.

In 2014, NIS, as a socially responsible company, continued its operation in accordance with the “Policy of Environmental Protection, Industrial Safety and Occupational Health and Safety at NIS JSC” (adopted in 2013), the “HSE Policy Statement” (November 2014) and the principles of sustainable development, reduction of adverse effects of Company operations on the environment and human health, as well as the constant improvement and efficient management of the environmental protection system.

In 2014, the HSEnet software application was created with a view to automation and optimization of the HSE process management in the Company. At the moment, this software application has 12 modules, 3 of which are associated with

environmental protection management. Processes related to the management of chemicals, environmental risk assessment and environmental condition monitoring are all automated.

## Investments in the Environment

In 2014, the Company continued investing significant funds in environmental projects, whose aim was the streamlining of equipment and the reduction of emissions of pollutants into the environment, the remediation and recultivation of polluted sites, the monitoring of environmental conditions, etc. In 2014, RSD 983 million was invested in environmental projects, whose aim was the improvement of environmental conditions.

In 2014, various projects started in the previous years were completed. The reconstruction of the vehicle-loading facility in Pancevo is expected to have significant environmental effects in the form of a reduction in the emission of pollutants into the air.

The completion of the project of rehabilitation and reconstruction of the facility for the processing of oil-contaminated water at the Novi Sad Refinery significantly reduced the emissions of easily evaporating hydrocarbons and unpleasant odours, enabled the reaching of the required levels of quality of waste waters and reduced the adverse impact on the environment.

983

million dinars invested into environmental projects

Current Environmental Protection Expenses (in 000 RSD)	2013	2014
Air Protection	13,264	23,459
Waste Water Protection	187,613	174,117
Waste Management	48,907	108,472
Protection and Rehabilitation of Soil and Water	13,213	123,225
Natural Protection	6,890	13,224
Protection Against Noise and Vibrations	562	/
Fees and Remunerations	/	299,463
Management System Certification	/	158,012
Other Related to EP	295,689	421,626
Total	565,576	1,321,598

The streamlining of boilers and furnaces at the Pancevo Energy Plant, which included the implementation of combustion of water and masute emulsion and the replacement of burners, resulted in the decrease in the emission of pollutants into the air from the boiler outlet.

zation, employee EP trainings, maintenance of equipment and devices used for EP (separators, e.g.).

## Materials Used

Current expenses related to the environmental protection amounted to RSD 1,321 million (Table No. 1). Other EP costs include significant funds necessary to cover monitoring costs (underground and waste waters and soils), costs of waterway development and well legali-

Materials used in the production processes are obtained from non-renewable sources and are included in the final product. Due to the nature of its business activities, our Company cannot use recycled materials as raw materials for production.

Used Materials				
No.	Raw Materials/Materials	MU	Quantities Used	
			2013	2014
1	Crude Oil - Domestic	t	1,179,662	1,112,301
2	Crude Oil - Imported	t	1,567,708	1,499,400
3	Natural Gas	m³	132,775	133,502
4	Geothermal Water	m³	523,410	441,063
5	Raw Water	m³	23,420	50,093



**List of Crude Oil – Domestic and Imported by Types:**

No.	Raw Materials/Materials	MU	Quantities used	
			2013	2014
1	Crude Oil - Paraffinic, Light	t	625,492	561,113
2	Crude Oil – Paraffinic, Heavy	t	201,377	213,035
3	Crude Oil – Naphthenic	t	352,793	339,706
4	Slop - Domestic Oil – Mix from the Novi Sad Oil Refinery	t	26,756	14,893
5	Crude Oil REB	t	o	1,222,859
6	Crude Oil ES SIDER	t	o	o
7	Crude Oil Syrian Light Crude Oil	t	302,018	o
8	Crude Oil Siberian Light Crude Oil	t	11,017	79,412
9	CPC BLEND	t	o	197,120

**List of Intermediate Products**

No.	Intermediate Products/Materials	MU	Quantities used 2014
1.	Platformate	t	71,489
2.	Heavy Gasoline, S8+ Fraction	t	54,449
3.	Light Catalyst Cracked Gasoline – LCCG	t	84,267
4.	Heavy Catalyst Cracked Gasoline – HCCG	t	116,088
5.	Alkylate	t	18,098
6.	Raw Gasoline	t	6,616
7.	Light Gasoline	t	34,800
8.	Raffinate	t	40,741

**Packing materials (paper, cardboard, plastics), list of packaging**

No.	Materials	MU	Quantities used	
			2013	2014
1	Paper and Cardboard	t	80	126
2	Wood	t	81	100
3	Plastics	t	569	572
4	Metal Containers	t	121	87

As a socially responsible company, NIS observes all provisions of the legal regulations referring to the marketing and management of packaging and packaging of waste.

## Energy Consumption

Increase in energy efficiency is an important element of the Company's energy policy, which contributes significantly to stable energy supply and reduction of the adverse impact on the environment. During the last three years, as a part of the operating efficiency increase project, NIS has implemented a programme for energy efficiency increase. The aim of this programme was to introduce the practice of saving and rational use

of energy in all segments of Company operation, as well as to implement new energy-efficient technologies.

By upgrading the existing management system in accordance with the requirements of the ISO EN 50001:2011 international standard, i.e. SRPS EN ISO 50001:2012, in 2013, the Company started the implementation of the Energy Management System (*EnMS*), whose limited scope was certified late in December 2013. During 2014, the scope of *EnMS* was expanded, and it was certified by *Bureau Veritas*.

NIS keeps repeating the cycle of strategy development, planning and implementation of measures for the increase in the energy efficiency.

**Completed Projects**

Lighting Modernization

Installing State-of-the-Art Energy-Saving Equipment

Construction of Small Cogenerators – 11 Facilities with the Total Power of 12.5 MW

Reconstruction of the Electricity Network in Pancevo Oil Refinery

Operative and Technical Measures for the Reduction of Steam and Heat Losses

Adaptation of the Heating System in the Novi Sad Energy Plant

Construction of Modern Oil Refining Facility (MNS – New Hydrocracking and Hydrotreating Complex)

Implementation of the Automated System for Material Energy Balance Monitoring

New Geothermal System Users

Alternative/Renewable Energy Source Projects Initiated





In 2014, the Company introduced a new methodology for energy consumption review (analysis of energy use and consumption) and defined indicators (EnPI) for the monitoring of the achievement of the set goals and the performance check (energy performance).

The programme intended to save energy and increase energy efficiency at NIS defines the measures, responsibilities and the necessary resources for the improvement of energy performances in the period between 2015 and 2017.

**EII (Energy Intensity Index)** – In accordance with the Company’s strategic direction, NIS refineries were included in the comparative analysis programme in accordance with the „Solomon” methodology (the most prevalent methodology for the comparative analysis of oil refineries in the world). In accordance with that, the Company monitors the Energy Intensity Index, which is regarded as the indicator of the ratio of the actual energy consumption and the standard energy consumption. The standard energy consumption is the projection of consumption in Solomon Company having in mind the capacity use and process parameters.

Total consumption of different energy sources in 2014 amounted to 22.48 million GJ.

The table lists energy consumption in the Company:

Power consumption per produced petroleum products, 10<sup>-3</sup> toe/t

	10	46	30	
2014.				86
2013.	9	47	34	90

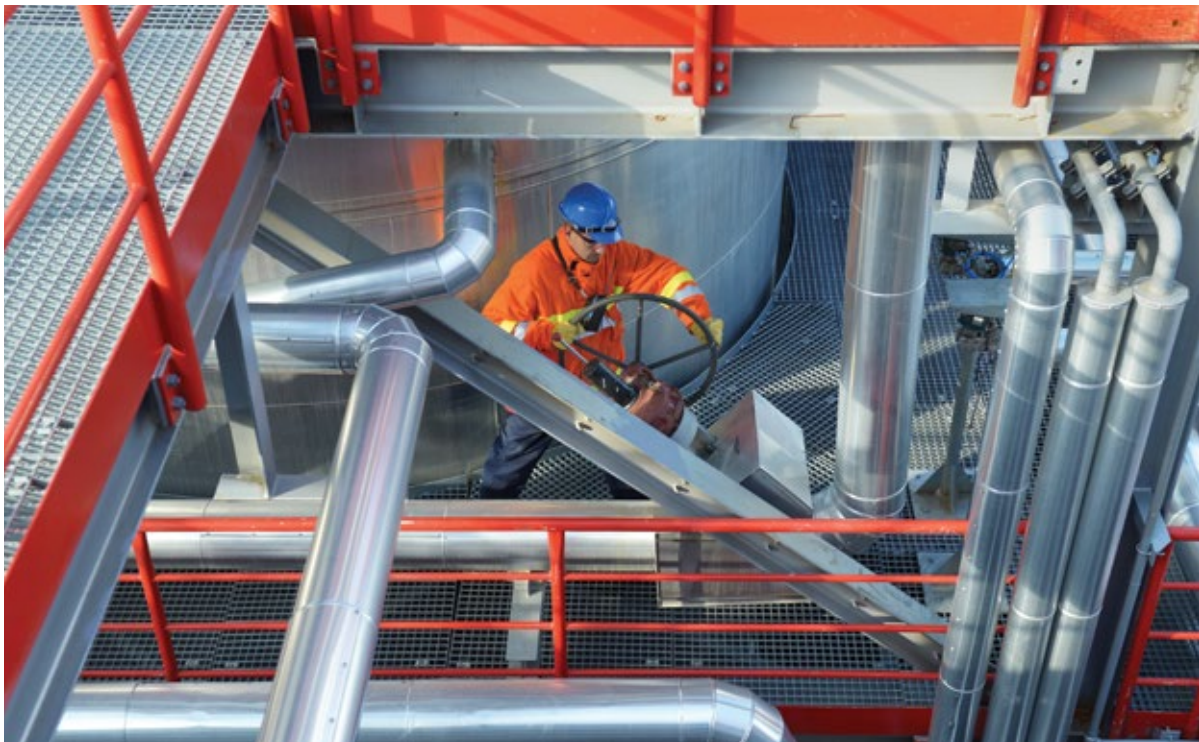
Electricity      Natural gas      Other fuels

EII – Energy Intensity Index (Solomon Methodology)

Period	Value
2013 - fact	142
2014 – fact	122

Energy Source	MU		IP	RNP & RNS	PRO	SER	JAZ	PC	ENE	Total
Electricity	MWh	2013	74,193	199,278	31,233	3,236	827	10,675	0	319,442
		2014	89,297	226,375	28,306	3,624	821	11,005	14,105	369,909
Electricity Produced	MWh	2013	0	0	0	0	0	0	36,237	36,237
		2014	0	0	0	0	0	0	71,966	71,966
Fuel – own consumption (gasoline, diesel)	t	2013	1,496	605	1,889	5,889	0,33	0	605	10,484
		2014	885	0	2,192	16,040	0	0	0	19,117
Fuel oil, fuel gas, coke – own consumption	t	2013	0	51,857	0	0	0	0	11,321	63,168
		2014	0	77,269	114	0	0	0	7,580	84,849
Steam	t	2013	0	2,331,152	5,306	0	0	0	0	2,336,458
		2014	0	1,975,279	3,747	0	0	0	93,854	2,072,880
Natural Gas	m³	2013	61,823,397	290,221,309	0	252,186	73	0	84,721,930	437,018,895
		2014	85,491,454	83,216,625	50,446	71,775	0	0	91,740,907	260,571,207
LNG	t	2013	0	0	0	0	0	0	0	0
		2014	0	0	223	883	38	0	0	1,144





The energy consumption trend on the Company level in 2014 was based on:

- The increase in the electricity consumption due to the change in the crude oil and gas exploitation in the “Exploration and Production” Block,
- The reduction in the natural gas consumption due to the increase in the use of oil-well gas for its own uses in the “Exploration and Production” Block and the implemented energy efficiency measures in the boiler facilities in “Energy” and “Refinery” Blocks,
- The reduction in energy losses in the Pancevo Oil Refinery facilities,
- The increase in the consumption of oil-well gas due to the intensive introduction of cogenerators for the production of electricity and heat,
- The reduction in the consumption of other fuels caused by the implementation of energy efficiency measures (reduction in the consumption of fuel gas in furnaces and other measures).

The completed cogenerators in 2014 increased the participation of Company’s own electricity in the satisfac-

tion of the total needs of the Company, and this participation shows a further increase tendency.

### Water management

#### Total Captured Water by Intake

Significant quantities of water are needed for the Company production and technological processes, for steam production, the functioning of cooling systems, fire safety, potable water bottling, as well as for the sanitary facilities on the premises. In accordance with that, care for water resources is one of the Company priorities.

The installation of water gauges in the wells on the premises of the “Sales and Distribution” Block and the introduction of monthly water consumption records in all facilities increased significantly water consumption gauging accuracy.

Quantities in % of Captured Water by Intake (m³/ %)	2013.	2014.
речни водозахват	3,096,137	3,050,303
јавни водовод	578,951	456,107
подземна вода	273,476	191,639
Укупно захваћена вода	3,948,564	3,698,049

#### Intakes Significantly Burdened by Water Capturing

The structure of captured water by intake follows the trend defined in the previous years, i.e. the major part of water used comes from the Danube and the Danube-Tisa-Danube canal (as much as 83%), whereas the use of water from public supply systems vouched for 12% and water from wells made for 5% of the total consumption. The above said structure reflects our responsible treatment of water resources, since the Company uses water from the least sensitive source. Both Danube and the DTD canal are high-capacity waterways, and capturing their waters does not jeopardize their potential.

#### Percent and Total Quantity of Recycled and Reused Water

The practice of significant savings of water resources in Pancevo Oil Refinery is continued due to the return of condensate. The quantity of the returned condensate in 2014 was 1,225,057 tons. In this manner, the intake of raw water from the Danube was reduced by 45.50% on the RNP level, i.e. by 33.13% of the total captured water at NIS level, which was similar to the 2013 level.

#### Total Water Discharge by Quality and Recipient

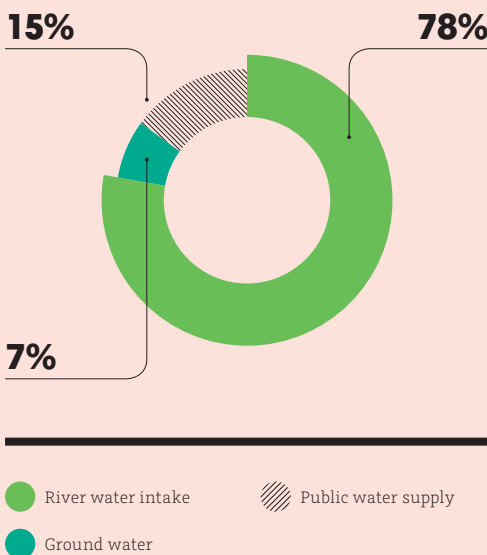
In 2014, the Company developed the “Instructions for Waste Water Management at NIS JSC”, dealing with the processing of industrial and oil-contaminated waters, with a view to meeting the legally defined quality of discharged processed waste waters, the practice used in standard conditions of production and in case of accidents. The Instructions include a MDK/GVE register of values for waste waters depending on their origin, recipient and scope of testing, which includes some specific parameters depending on the process in which waste water is produced.

The Instructions also include a Register of Waste Water Processing Facilities at NIS JSC Novi Sad and the Water Permit Register at NIS JSC Novi Sad.

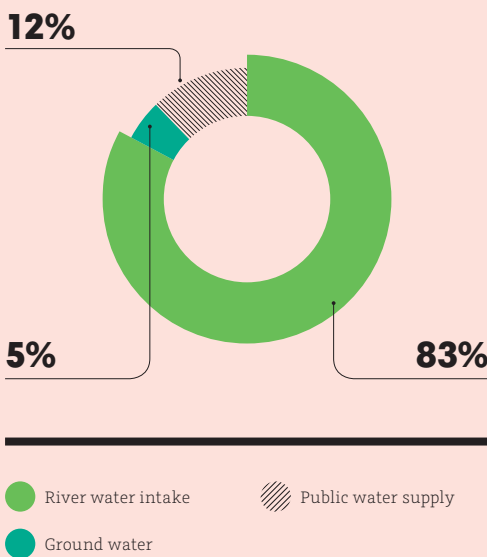
In 2014, the Company continued installing missing separators for oil-contaminated atmospheric waters at filling stations in the “Sales and Distribution” Block. The Company installed 67 separators, so that 84% (269) of filling stations are now equipped with facilities separating mineral oils from water prior to its discharge into the intended recipients. In 2015, the Company plans to install the remainder of separators wherever there are technical conditions for their installation. In some facilities, where there are no technical conditions for the connection to the public sewers, waste waters are collected in collection pits, which are periodically emptied in accordance with the regulations.

**The nature of the business activity dictates that considerable water resources are used in production and technological processes, so water resource management is given priority in our Company.**

#### Structure of water intake 2013



#### Structure of water intake 2014



In 2013 and 2014, the Novi Sad Oil Refinery facility for waste water treatment was automated, which rationalized the consumption of chemicals used in the purification process, and enabled the control of input and output parameters of the waste water in the facility.

At the end of the year, the total of 310 waste water treatment facilities were registered at NIS JSC.



The total quantity of the generated waste water was reduced in 2014 by 30% - from 2,822,751m³ to 1,985,611m³. The quantity of the primarily treated industrial waste water from the Pancevo Oil Refinery sent for external treatment to HIP Petrohemija was reduced by 8.5%; the quantity of sanitary waters discharged into the public

sewers from the administrative facilities was reduced by 14%; whereas the quantity of all other processed waste waters was halved, which resulted in lower costs for the Company, as well as in the reduction of the environmental impact.

List of Discharged Waste Waters (m³) by Treatment and Recipient			
	2013	2014	2014/2013
Untreated Waste Water - Public Sewers	50,674	43,535	85.91%
Externally Treated	1,386,948	1,268,876	91.49%
Treated Waste Water	1,385,129	673,200	48.60%
Total	2,822,751	1,985,611	70.34%

Waste waters whose treatment is outsourced make for as much as 64% of the total waste waters.

#### Quantity of Produced and Disposed Layer Water

Layer (reservoir) waters are generated during oil and gas production and in case of mining works in wells. This water may contain hydrocarbons, salts and heavy metals originating from the geological formations they were found in. Layer water is treated in order to separate hydrocarbons, suspended and dissolved substances, and is injected into the selected unused wells at a certain depth through the system for the preparation and injection, so that there is no possibility of contamination of geological layers or water resources.

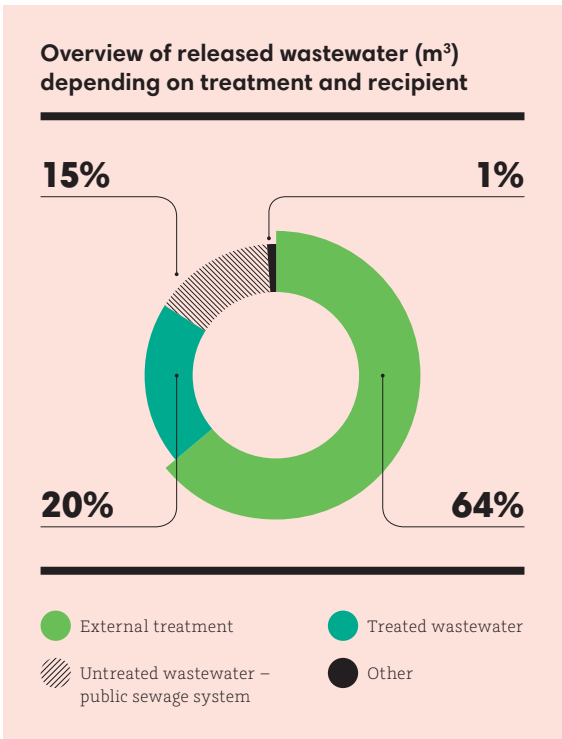
In 2014, the total of 5,387,692m3 layer water was injected into wells, i.e. approx. 19% more than in 2013.

#### Quantity of Hydrocarbons Discharged into the Air

During the exploitation of oil and gas, a certain quantity of dissolved and free gas, which cannot be used for Company's own consumption or distributed into the PE «Srbijagas» network due to its poor chemical contents, is combusted in flares. In 2014, the "Exploration and Production" Block combusted the total of 73,442,863 m³ gas in flares, whereas it is estimated that the "Backa" plant discharged about 100,000 m³ of gas without combustion.

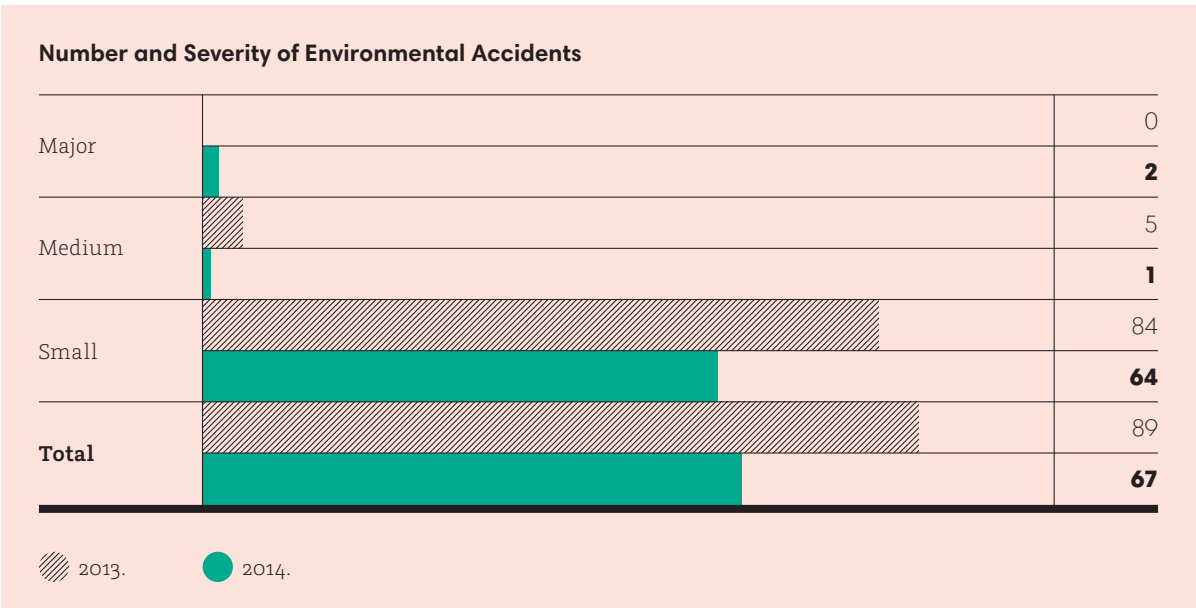
In the upcoming period, through the implementation of cogeneration projects and the commissioning of new compressors, the Company expects to reduce further the quantity of

With the cogeneration project, the gas that has previously been flared off will now be used for plant operation and for heat and electricity generation.



	2014	2013	%
Layer Water m³	5,387,692	4,537,324	118.74

flare-combusted gas and of the gas released into the air without combustion, because such gas will be used for the operation of cogenerators, i.e. the production of heat and electricity.



### Environmental Accidents

NIS strives to reduce the number of environmental accidents, to respond swiftly to them and to remediate efficiently their consequences.

In 2014, 67 environmental accidents were registered, which number was significantly lower (25%) than last year, when 89 environmental accidents were recorded.

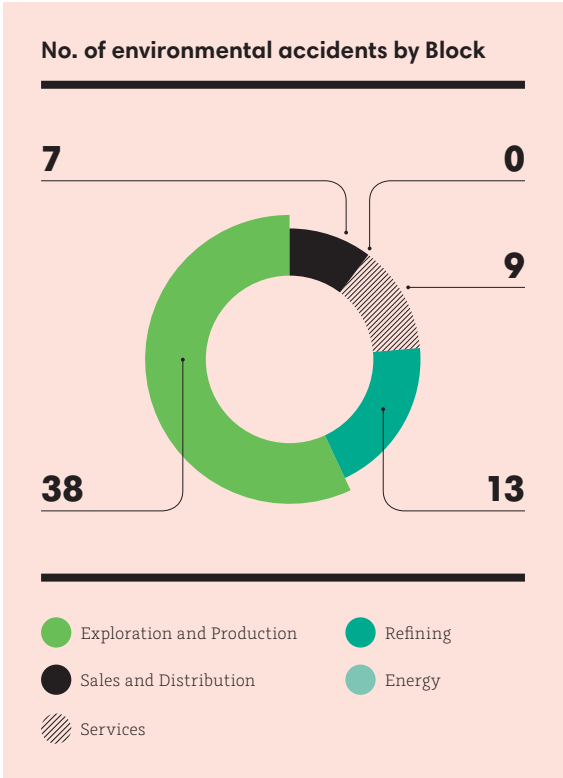
According to the event classifier, the majority of environmental accidents in 2014 were classified as minor – 64 events; one event was classified as medium and two events were classified as major. These events mostly included oil and oil product spillages onto the ground, and these were primarily caused by oil and gas pipeline perforations and technological defects or process failures. Consequences of these environmental accidents were successfully remediated in the shortest time possible.

In 2014, the quantity of spilled products amounted to 373.07 m3, which was an increase in comparison to the previous year, when the quantity of spilled products was 134.71 m³. The increase in the quantity of spilled products in comparison with the previous year was caused by one of the said two major events, when 250 m³ of Euro diesel leaked from the area inside the bundwall around the tank during the filling of the tank from a tank car. The accident was immediately remediated and all environmental hazards were immediately removed.

This year, the Company plans to appoint a quick-response team in the "Exploration and Production" Block in case of major accidents, which would additionally improve response effectiveness.

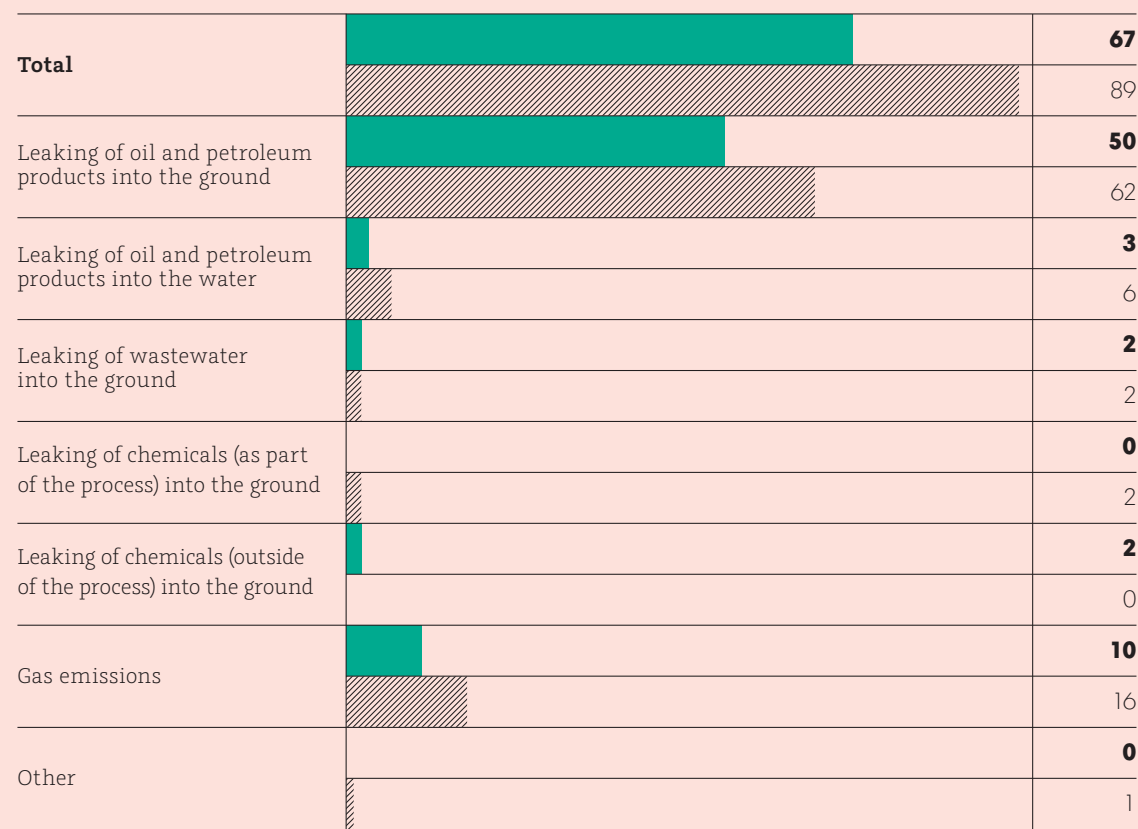
NIS aims to decrease the number of environmental accidents, to ensure faster emergency response and to be efficient in mitigating any consequences.

30% decrease in total waste water generated



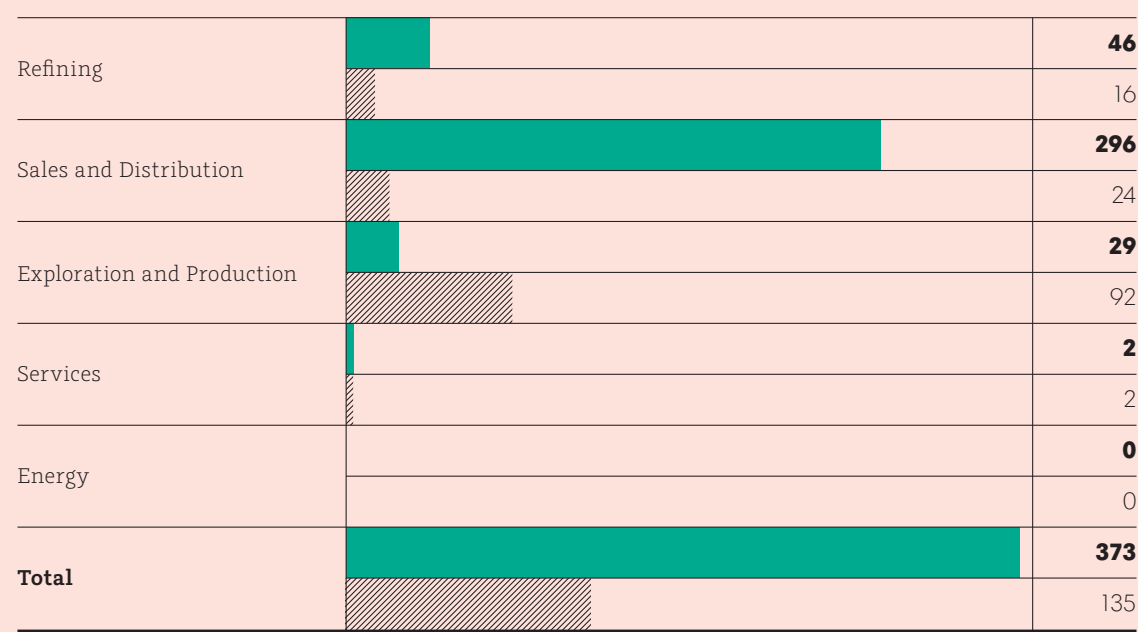


### Type of Environmental Accidents



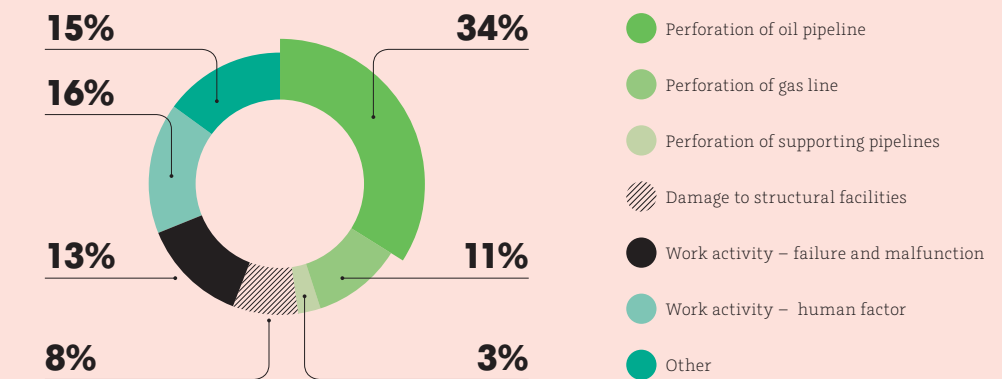
2013 2014

### Quantities of leaked substances (m³)



2013 2014

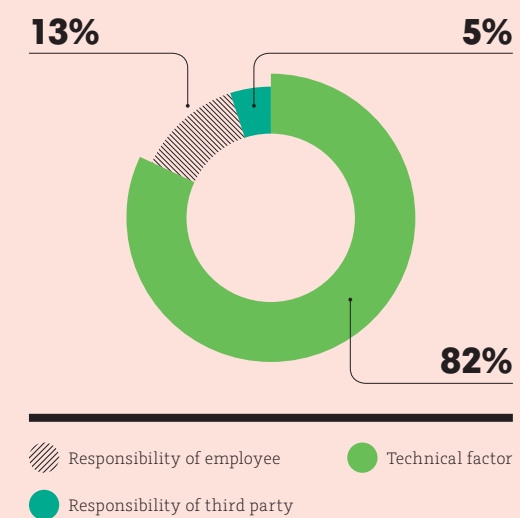
### Causes of Environmental Accidents



### Responsibility for Environmental Accidents

Блокови	Number of Events in 2014			Number of Events in 2013		
	Employee Responsibility	Third-Party Responsibility	Technical Factor	Employee Responsibility	Third-Party Responsibility	Technical Factor
REF	5	1	7	2	10	4
PRO	2	2	3	5	4	0
UPS	0	0	38	0	2	50
OFS	2	0	7	2	0	4
EHP	0	0	0	1	0	1
<b>Total</b>	<b>9</b>	<b>3</b>	<b>55</b>	<b>10</b>	<b>16</b>	<b>63</b>

### Responsibility for the accident



### Impact on Biodiversity

Biodiversity is of inestimable value for the healthy and safe development of society and we have the obligation to keep it intact for generations to come. At the same time, the threat to the natural species and ecosystems has never been greater than today; therefore, one must apply strategies for the maintenance of the existing and the revitalization of the jeopardized biodiversity wherever this is possible.

Protected areas include protected natural resources characterized by distinctive geological, biological, ecosystem and/or landscape diversity. These are defined as protected areas of public interest through the adoption of the Decision on Protection. Areas which are significant for the survival of migrating species in accordance with the international regulations are placed under a special protection regime (I, II and III category), whereas cross-border connection with the protected areas in other countries is also possible.



Protected areas can be classified as:

- National Park,
- Nature Park,
- Area of Special Distinction,
- General Nature Reserve,
- Special Nature Reserve,
- Natural Monument,
- Protected Habitat.

The Company obtains the opinions and conditions of the competent authorities (*Institute for Nature Conservation of Serbia, Institute for Nature Conservation of Voivodina Province*), which make integral parts of Environmental Impact Assessment Studies, implements environmental protection measures and monitors the environmental impact.

Sites where NIS JSC operates, which are situated in the protected areas or in their vicinity include:

1. SSG Donji Milanovac – in the Djerdap National Park,
2. SGS Tilva and HTS Devojacki bunar in the Deliblato Sands Special Nature Reserve,
3. Oil and Gas Preparation and Transport Facility in the vicinity of and Eli-1 well in the Okanj Lake Special Nature Reserve,
4. SOS Mokrin South and KS1 Mokrin West in the vicinity of the “Meadows of Great Bustard” Special Nature Reserve,
5. SSG Novi Sad 6 in the vicinity of the Kovilj – Petrovaradin Marshes Special Nature Reserve,
6. HTS Palic 1 and the Subotica LNG Storage in the vicinity of Palic Lake Nature Park,
7. HTS Prigrevica on the verge of the Jankovic Forest Natural Monument,
8. SSG Zrenjanin 1 in the vicinity of the Zupanijski Park Natural Monument, the city garden in Zrenjanin.

Facilities of the „Sales and Distribution” Block, SSG Iriski venac in the Fruska Gora National Park and SSG Golubac in the vicinity of Djerdap National Park are out of order and are planned to be torn down in accordance with the Decisions obtained from the competent authorities.

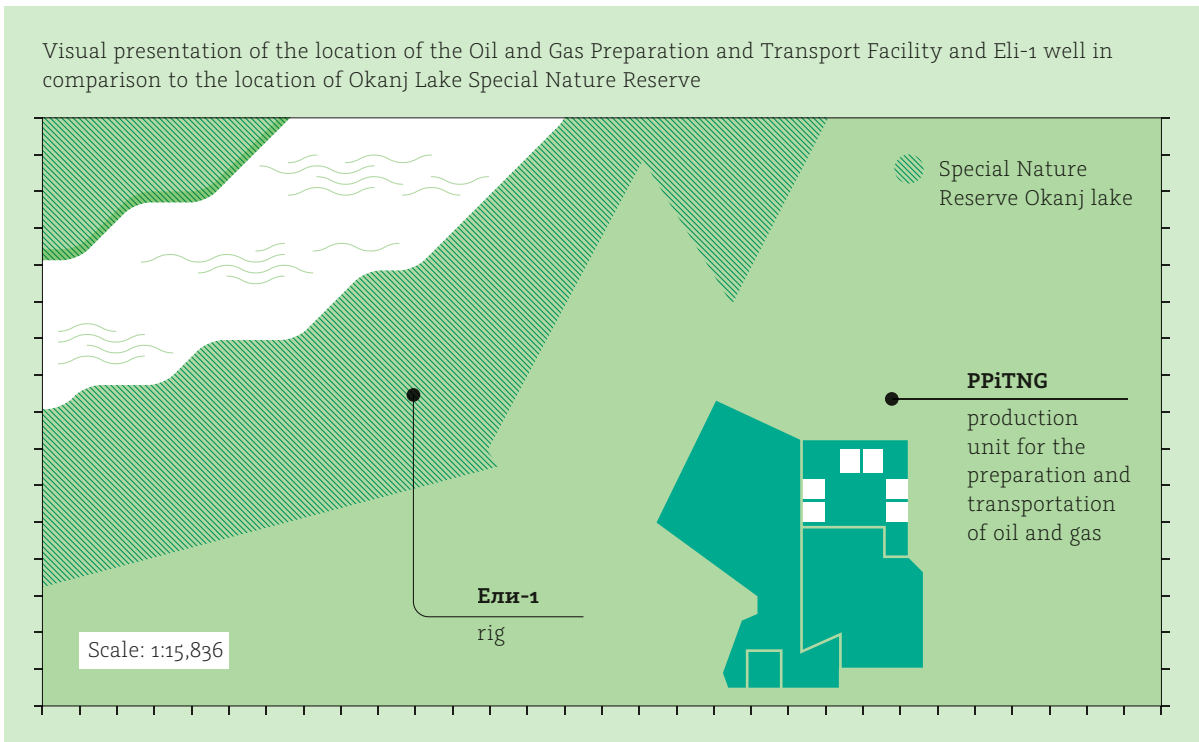
#### Protected or Restored Habitats

Environmental protection is one of the main priorities and an integral part of the strategy for efficient company management.

In 2014, NIS continued its activities on the remediation of historical pollution and restoration of the soil to its original – agricultural purpose. Thus, in 2014, the Company remediated the total of 7 primary mud pits (historical pollution) with the total area of 5,705m<sup>2</sup>, as well as 13 “new” mud pits with the total area of 10,358m<sup>2</sup>. The total number of remediated primary mud pits was increased to 125, and the total area of restored soil amounted to 91,063m<sup>2</sup>. The restoration and remediation of soil where exploration, oil and gas well drilling, and oil and gas exploitation activities took place remove the hazards threatening the health of the local population and the employees in such facilities, but also the hazards of soil, underground water and air pollution.

#### Pollutant Emissions

At the moment, climate changes are regarded as the most intensive meteorological phenomenon with global impact on the economic, commercial and social systems of many countries. Since NIS is one of the highly intensive companies in terms of energy consumption, and it operates in the area of exploration, production,



refining, transport and storage of oil and oil products, as well as due to the fact that Serbia is in the process of implementation of EU regulations defining this area, having in mind the impact of its business activities on climate changes, the Company has undertaken certain steps in order to establish a system for the monitoring of and reporting on greenhouse gas emissions and the reduction of such emissions.

NIS actively participates in the operation of the task force for the implementation of the “Creation of a Monitoring, Reporting and Verification System for the Successful Implementation of EU Emissions Trading System” Twinning Project.

With a view to preparing for the future implementation of the EU ETS Directive (2003/87/EC) and the Directive 2009/27/ EC, NIS has prepared a CO<sub>2</sub> Emitter Register. In the upcoming period, the Company plans gradually to introduce mechanisms for the harmonization of calculations with all the requirements of the Decree 601/2012, which provides detailed instructions on the methods for the monitoring of and reporting on greenhouse gas emissions, as well as for the

monitoring of parameters necessary for more precise emission calculations.

#### Amine Facility for the Separation of CO<sub>2</sub> from Natural Gas

In 2014, the Company completed the construction of amine facility for the separation of CO<sub>2</sub> from natural gas in Elemir. Natural gas contains CO<sub>2</sub>, which reduces the calorie value of gas, even in concentrations of up to 3%. For that reason, gas with higher CO<sub>2</sub> contents does not comply with the distribution requirements; therefore, CO<sub>2</sub> must be separated from it. Upon the implementation of this project, the natural gas would meet the distribution requirements. The technology installed is the best available technology for the separation of CO<sub>2</sub> from natural gas. The separated CO<sub>2</sub> will not be discharged into the air, but it will be compressed and reinjected into the Rusanda reservoir, which will both increase the quality of natural gas (by reducing the CO<sub>2</sub> contents to 0.05%), and reduce the greenhouse gas emissions into the air.

Having in mind the accession to the European Union, and the opening of the negotiation process regarding Chapter 27 – Environment and Climate Change, we have to emphasize the active participation in the operation of the Permanent Task Force, established on the NIS level for the selection of the relevant EU Directives, their analysis and

**In 2014 NIS continued with historical waste remediation and reclamation of land to its original – agricultural purpose.**



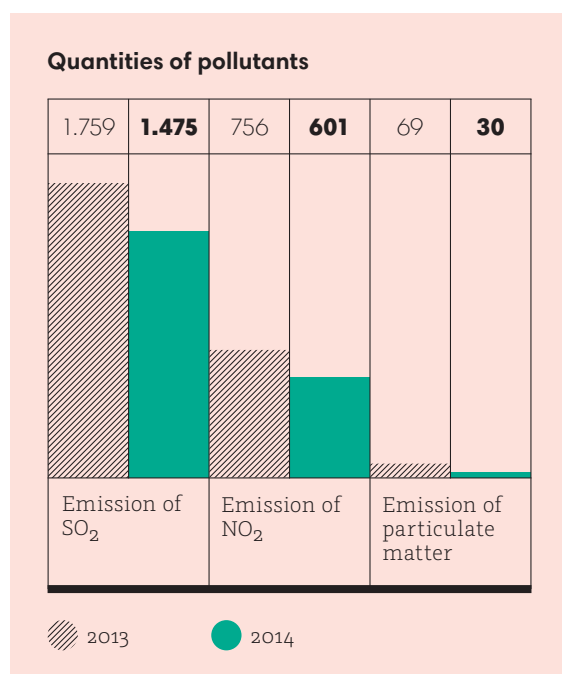
consideration of the future obligations, risks and possibilities arising from their implementation.

Measuring the emission of pollutants into the air - SO<sub>2</sub>, NO<sub>x</sub> and dust (DE) - was performed by authorized and accredited laboratories and through the continuous emission monitoring system (CEMS) installed on the emitters of the boiler room at Pancevo Oil Refinery and the processing facility emitters, and they confirmed the already determined trend of decreasing pollutant emissions into the air. The implementation of environmental projects, initiated in the previous period, which was quite intensive in 2014, resulted in a significant impact on further reduction in the emission of pollutants into the air.

NIS especially protects its consumers and care for them always comes first. All filling stations are continually inspected and all products and services are controlled in order to ensure that their supply is always in compliance with the legal regulations.

With a view to reducing its environmental impact, NIS produces and sells *AdBlue*, which is a 32.5% solution of urea, and is used as an agent for the reduction of vehicle exhaust fumes, i.e. of nitrogen oxides, by converting it into safe gas - N<sub>2</sub>. Nitrogen oxides are hazardous both for the environment and for the human health.

*AdBlue* is stored in a special tank in the vehicle, wherefrom it is sent to the exhaust fume treatment



device, the so-called SCR (Selective Catalytic Reduction) device.

As of September 2015, the *Eypo 6* standard will include all categories of passenger vehicles. This will further increase the consumption of *AdBlue*.

Year	2011	2012	2013	2014
RS Market, t	4,010	5,250	7,900	8,800
<i>NISOTEC AdBlue, t</i>	2	47	166.6	495.7

## Waste Management

Waste Management at NIS is a matter of public interest. The Company implements an organized and well-designed waste management system in accordance with the internal Standards and Instructions achieving positive results in the environmental protection.

In 2014, the generation of both non-hazardous and hazardous waste was increased. The implementation of infrastructural projects led to an increase in the generation of non-hazardous waste, primarily of concrete and different types of metal. Maintenance and cleaning of tanks and separators, as well as the cleaning of oil sewage caused an increase in the generation of hazardous waste, primarily of mud and sludge, as well as of oil-contaminated waste.

Waste Category	01.01.2014.	Waste Generated in 2014	Waste Disposed in 2014	31.12.2014.
Non-Hazardous	1,431.4	14,732.3	9,885.0	6,278.7
Hazardous	1,112.3	10,784.0	9,295.9	2,600.4
Total	2,543.7	25,516.3	19,180.9	8,879.1

List of Disposed Waste by Type		
Disposal Methods	MU	2014
Bioremediation	t	559.04
Cleaning and Washing / Recycling		41.48
Export		10.23
Composting		2.00
Mechanical Treatment / Oil and Water Separation		1,136.77
Disposal		130.44
Recycling		10,285.81
Storage / Combustion		3.98
Storage till Exported		21.78
Solidification		4,933.23
Combustion		2,036.80
Re-Refining (Re-Use of Waste Oils)		15.04
Storage / Disposal		4.12

The generation and disposal of waste is monitored on daily level for all types of waste through Daily Waste Records kept by the waste generator, whereas total quantities of the generated and disposed-of waste (hazardous and non-hazardous) are reported to the Environmental Protection Agency through their information system.

In 2014, 10.23 tons of waste was exported, which made for 0.04% of the total disposed waste. *Miteco* Knezevac exported to Romania 3.92 tons of PCB transformer originating in the Oil Industry of Serbia, and 4,692 tons of PCB condenser was exported to Switzerland, whereas „Eco Logistics” exported 1,621 tons of absorbents to Poland.

### Implementation of Pilot Project of Co-Combustion of Oil-Contaminated Sludge in Lafarge Cement Factory in Beocin

In 2014, the pilot project of co-combustion of oil-contaminated waste sludge generated in the oil exploration and production process was implemented in the Beocin

Cement Factory. The total amount of treated materials was about 2,000 tons. Preparatory activities lasted for a year (waste analysis and procurement of the necessary equipment), and the co-combustion treatment was implemented for the first time within the Company.

Based on the performed technical and economic analyses, it has been determined that the two main benefits of this type of treatment of oil-contaminated waste include:

- Environmental – no waste landfills (the total quantity of waste is combusted, and the ash, i.e. the combustion products are used as raw materials in cement production),
- Economic – waste is used as alternative fuel (this waste has high calorie value ranging between 8 and 30 MJ/kg).

### Quantity of Drilling Waste

Drilling waste (waste mud) is a mix of:



- Mud, i.e. liquid, viscose fluid used for the flushing of drilled material during well drilling and the overcoming of pressure of drilled layers. All mud types used in NIS JSC (lignite - sulphate, bentonite, gypsum, Duratherm system and KCL system) are water-based. According to the chemical contents – these are fluids based on suspension of very active absorbent clay (bentonite), with certain additives (biopolymers and synthetic polymers),
- Material from drilled rocks (sandstone, marl, lime-stone, etc.).

All drilling rigs used by NIS have a dry drilling system in place which stores waste mud material while drilling.

According to its chemical contents, waste mud is mostly non-hazardous (except when contaminated by hydrocarbons) – and, as such, is disposed of at non-hazardous waste landfills. In 2010, NIS commissioned the Novo Milosevo waste mud landfill, which was designed and constructed for permanent and safe disposal of waste mud. In 2014, during the works on the new oil wells (the total of 59 wells was drilled), the total of 40,000 tons of waste mud was generated, of which 33,000 tons was disposed of, whereas the remaining quantity of about 7,000 tons will be disposed of during 2015.

In 2014, within the “Oil Field Services” Block, the implementation of the “Dry Locations” project was completed; therefore, all drilling rigs used at NIS JSC now have metal or concrete pools used for the disposal of waste mud during the drilling process (instead of primary mud pits, which were used in the previous years). The implementation of this project prevents the hazardous effects of waste mud on the environment, i.e. the Company created conditions

for swift and safe disposal of such materials immediately after their generation.

Packaging and Packaging Waste

For more than six years now, NIS has operated bottled water production facilities in Jazak, as well as facilities for the production of different brands of oils and lubricants in the Lubricants Department in Novi Sad.

The “Jazak” bottled water production facility and the Lubricants Department – as parties responsible for the packaging, filling and packaging delivery, in accordance with the Law on Packaging and Packaging Waste (“Official Gazette of RS” No. 36/2009), must take care of the packaging waste remaining after the use of their products, i.e. must provide for its takeover and collection, as well as its re-use, recycling or disposal.

The Company hires operators responsible for the management of the packaging waste system, which have all necessary permits for the performance of the said activity.

Operators are required to ensure that the packaging waste they take over and collect in 2014 is re-used, recycled or disposed of by the end of the year in order to meet the defined national goals for the year in question.

*Ekostar Pak* collected and handed over for re-use 47,872,878t (31.28%) of packaging waste of the total quantity of 153,040.96t submitted by its clients, whereas another operator - *Ceneks* - collected 2,277.07t (30.41%) of 7,488.44t packaging submitted. The Decree on the Plan for the Reduction of Packaging Waste in the period between 2010 and 2014 specifies that 30% of the marketed packaging must be re-used, which requirement was met by the operators we hired.

List of Sold Products per Type of Product

Type of Products	Quantity of Products on the Market (t)
Different Oil and Lubricant Brands	4,234

Biofuels

The production of biofuels is one of the areas included in the NIS strategy. The use of this type of fuels reduces the impact of Company activities on the environment through the reduction of greenhouse gases and the production of energy from renewable sources, and, at the same time, all sustainability criteria are met.

Biodiesel production is the production of first-generation fuel, since it is based on materials and raw

materials used in the food industry. In 2014, Pancevo Oil Refinery did not blend biocomponents with Euro diesel, which meant that Euro diesel B7 was not produced. The refinery dispatched supplies remaining from the previous year in the amount of 204,828 t. This fuel was dispatched to Romania. The Company is considering the possibility of production of the second-generation fuel based on the agricultural production waste.

List of Packaging on the Serbian Market in tons

Type of Packaging	Type of Packaging Material	Quantity of the Packaging Placed onto the Market (t)	
		„Jazak”	Lubricants Department
Plastic	PET	282,224	62,460
	Other Types of Plastic	51,155	175,690
Metal	Iron	0	87,420
Paper and Cardboard	Paper and Cardboard	63,215	62,700
Wood	Pallets	61,740	38,100
Total:		458,334	426,37



# Appendices

The background is a solid teal color. It features several abstract geometric elements: a large, dark teal, irregular shape on the left side; a cluster of small red dots near the top of this shape; a semi-circular shape with red lines radiating from its center in the upper right; a large, light teal circular shape with a dark teal ring in the center on the left; and two red triangles at the bottom, one on the left and one on the right, both with lines radiating from their vertices. There are also several thin white lines, including horizontal ones at the top and bottom, and curved ones on the right side.



# GRI Indicators

Profile	Description	Status	Page number
G4-1	Provide a statement from the most senior decision-maker of the organization (such as CEO, chair, orequivalent senior position) about the relevance of sustainability to the or- ganization and the organization's strategy for addressing sustainability	●	RSD p 4
G4-3	Report the name of the organization	●	RSD p 108
G4-4	Report the primary brands, products, and services	●	RSD p 14, AR p 24
G4-5	Report the location of the organization's headquarters	●	RSD p 108
G4-6	Report the number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	●	RSD p 14
G4-7	Report the nature of ownership and legal form	●	RSD p 108
G4-8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	●	RSD p 14
G4-9	Report the scale of the organization, including: Total number of employees, Total number of operations, Net sales (for private sector organizations) or net revenues (for public sector organizations), Total capitalization broken down in terms of debt and equity (for private sector organizations), Quantity of products or services provided	●	RSD p 14, 24, 40
G4-10	a. Report the total number of employees by employment contract and gender b. Report the total number of permanent employees by employment type and gender c. Report the total workforce by employees and supervised workers and by gender d. Report the total workforce by region and gender e. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors f. Report any significant variations in employment numbers (such as seasonal varia- tions in employment in the tourism or agricultural industries)	●	RSD p 44
G4-11	Report the percentage of total employees covered by collective bargaining agreements	●	RSD p 48
G4-12	Describe the organization's supply chain	●	RSD p 34
G4-13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	●	RSD p 6
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization	●	AR p 30
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	●	RSD p 20
G4-16	List memberships of associations (such as industry associations) and national or interna- tional advocacy organizations in which the organization: Holds a position on the govern- ance body, Participates in projects or committees, Provides substantive funding beyond routine membership dues, Views membership as strategic	●	RSD p 20

Profile	Description	Status	Page number
G4-17	a. List all entities included in the organization's consolidated financial statements or equivalent documents b. Report whether any entity included in the organization's consolidated financial state- ments or equivalent documents is not covered by the report	●	RSD p 6, AR p 42, 216
G4-18	a. Explain the process for defining the report content and the Aspect Boundaries b. Explain how the organization has implemented the Reporting Principles for Defining Report Content	●	RSD p 6
G4-19	List all the material Aspects identified in the process for defining report content	●	RSD p 7
G4-20	For each material Aspect, report the Aspect Boundary within the organization	●	RSD p 98
G4-21	For each material Aspect, report the Aspect Boundary outside the organization	●	RSD p 98
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	●	RSD p 6
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	●	RSD p 6
G4-24	Provide a list of stakeholder groups engaged by the organization	●	RSD p 20
G4-25	Report the basis for identification and selection of stakeholders with whom to engage	●	RSD p 20
G4-26	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	●	RSD p 20
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns	●	RSD p 7
G4-28	Reporting period (such as fiscal or calendar year) for information provided	●	RSD p 6
G4-29	Date of most recent previous report (if any)	●	RSD p 8
G4-30	Reporting cycle (such as annual, biennial)	●	RSD p 6
G4-31	Provide the contact point for questions regarding the report or its contents	●	RSD p 108
G4-32	a. Report the 'in accordance' option the organization has chosen b. Report the GRI Content Index for the chosen option (see tables below) c. Report the reference to the External Assurance Report, if the report has been exter- nally assured. GRI recommends the use of external assurance but it is not a require- ment to be 'in accordance' with the Guidelines	●	RSD p 106
G4-33	a. Report the organization's policy and current practice with regard to seeking external assurance for the report b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided c. Report the relationship between the organization and the assurance providers d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report	●	RSD p 106
G4-34	Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts	●	RSD p 18
G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	●	RSD p 16



Topic	Indicator	Description	Status	Page number
Accidents	EN 24	Total Number And Volume Of Significant Spills	●	RSD p 85
Economic indicators	EC 1	Direct Economic Value Generated And Distributed	●	RSD p 29
	EC 3	Coverage Of The Organization'S Defined Benefit Plan Obligations	●	RSD p 103
	EC 4	Financial Assistance Received From Government	●	RSD p 102
Air pollution emissions	EN 20	Emissions Of Ozone-Depleting Substances (Ods)	●	RSD p 103
	EN 21	Nox, Sox, And Other Significant Air Emissions	●	RSD p 90
	OG 6	Volume Of Flared And Vented Hydrocarbon	●	RSD p 84
Consumer satisfaction	PR 5	Results Of Surveys Measuring Customer Satisfaction	●	RSD p 36
	PR 8	Total Number Of Substantiated Complaints Regarding Breaches Of Customer Privacy And Losses Of Customer Data	●	RSD p 36
Occupational health and safety	LA 5	Percentage Of Total Workforce Represented In Formal Joint Management–Worker Health And Safety Committees That Help Monitor And Advise On Occupational Health And Safety Programs	●	RSD p 56
	LA 6	Type Of Injury And Rates Of Injury, Occupational Diseases, Lost Days, And Absenteeism, And Total Number Of Work-Related Fatalities, By Region And By Gender	●	RSD p 55
	LA 7	Workers With High Incidence Or High Risk Of Diseases Related To Their Occupation	●	RSD p 56
	LA 8	Health And Safety Topics Covered In Formal Agreements With Trade Unions	●	RSD p 56
Protection or remediation of polluted soil	EN 13	Habitats Protected Or Restored	●	RSD p 88
Investments	EN 31	Total Environmental Protection Expenditures And Investments By Type	●	RSD p 76
Product Quality	OG 8	Benzene, Lead And Sulfur Content In Fuels	●	RSD p 36
	PR 3	Type Of Product And Service Information Required By The Organization'S Procedures For Product And Service Information And Labeling, And Percentage Of Significant Product And Service Categories Subject To Such Information Requirements	●	RSD p 36
	PR 4	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning Product And Service Information And Labeling, By Type Of Outcomes	●	RSD p 36
	PR 6	Sale Of Banned Or Disputed Products	●	RSD p 103
	PR 9	Monetary Value Of Significant Fines For Non-Compliance With Laws And Regulations Concerning The Provision And Use Of Products And Services	●	RSD p 103

Topic	Indicator	Description	Status	Page number
Used materials	EN 1	Materials Used By Weight Or Volume	●	RSD p 77
	EN 2	Percentage Of Materials Used That Are Recycled Input Materials	●	RSD p 77
Corporate management	Is not related to any specific indicator		●	RSD p 18
Corruption	SO 3	Total Number And Percentage Of Operations Assessed For Risks Related To Corruption And The Significant Risks Identified	●	RSD p 33
	SO 4	Communication And Training On Anti-Corruption Policies And Procedures	●	RSD p 33
	SO 5	Confirmed Incidents Of Corruption And Actions Taken	●	RSD p 33
Lobbying	SO 6	Total Value Of Political Contributions By Country And Recipient/Beneficiary	●	RSD p 103
Renewable energy resources	OG 14	Volume Of Biofuels Produced And Purchased Meeting Sustainability Criteria	●	RSD p 93
Relations with employees	EC 5	Ratios Of Standard Entry Level Wage By Gender Compared To Local Minimum Wage At Significant Locations Of Operation	●	RSD p 52
	EC 6	Proportion Of Senior Management Hired From The Local Community At Significant Locations Of Operation	●	RSD p 46
	LA 1	Total Number And Rates Of New Employee Hires And Employee Turnover By Age Group, Gender And Region	●	RSD p 44
	LA 2	Benefits Provided To Full-Time Employees That Are Not Provided To Temporary Or Parttime Employees, By Significant Locations Of Operation	●	RSD p 49
	LA 3	Return To Work And Retention Rates After Parental Leave, By Gender	●	RSD p 48
	LA 4	Minimum Notice Periods Regarding Operational Changes, Including Whether These Are Specified In Collective Agreements	●	RSD p 48
	LA 11	Percentage Of Employees Receiving Regular Performance And Career Development Reviews, By Gender And By Employee Category	●	RSD p 53
	LA 12	Composition Of Governance Bodies And Breakdown Of Employees Per Employee Category According To Gender, Age Group, Minority Group Membership, And Other Indicators Of Diversity	●	RSD p 18, AR p 35
	LA 13	Ratio Of Basic Salary And Remuneration Of Women To Men By Employee Category, By Significant Locations Of Operation	●	RSD p 52



Topic	Indicator	Description	Status	Page number
Relations with employees	HR 3	Total Number Of Incidents Of Discrimination And Corrective Actions Taken	●	RSD p 44
	HR 4	Operations And Suppliers Identified In Which The Right To Exercise Freedom Of Association And Collective Bargaining May Be Violated Or At Significant Risk, And Measures Taken To Support These Rights	●	RSD p 48
	HR 5	Operations And Suppliers Identified As Having Significant Risk For Incidents Of Child Labor, And Measures Taken To Contribute To The Effective Abolition Of Child Labor	●	RSD p 45
	HR 6	Operations And Suppliers Identified As Having Significant Risk For Incidents Of Forced Or Compulsory Labor, And Measures To Contribute To The Elimination Of All Forms Of Forced Or Compulsory Labor	●	RSD p 45
Legal issues	EN 29	Monetary Value Of Significant Fines And Total Number Of Non-Monetary Sanctions For Non-Compliance With Environmental Laws And Regulations	●	RSD p 103
	PR 2	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning The Health And Safety Impacts Of Products And Services During Their Life Cycle, By Type Of Outcomes	●	RSD p 36
	PR 7	Total Number Of Incidents Of Non-Compliance With Regulations And Voluntary Codes Concerning Marketing Communications, Including Advertising, Promotion, And Sponsorship, By Type Of Outcomes	●	RSD p 36
	SO 7	Total Number Of Legal Actions For Anti-Competitive Behavior, Anti-Trust, And Monopoly Practices And Their Outcomes	●	RSD p 103
	SO 8	Monetary Value Of Significant Fines And Total Number Of Non-Monetary Sanctions For Non-Compliance With Laws And Regulations	●	RSD p 103
	SO 11	Number Of Grievances About Impacts On Society Filed, Addressed, And Resolved Through Formal Grievance Mechanisms	●	RSD p 34
Oil and gas reserves	OG 1	Volume And Type Of Estimated Proved Reserves And Production	●	RSD p 103
Cooperation with educational institutions	EC 7	Development And Impact Of Infrastructure Investments And Services Supported	●	RSD p 66
Reduction of negative influence of products	EN 27	Extent Of Impact Mitigation Of Environmental Impacts Of Products And Services	●	RSD p 90
Investment into the local community	EC 7	Development And Impact Of Infrastructure Investments And Services Supported	●	RSD p 66
	OG 10	Number And Description Of Significant Disputes With Local Communities And Indigenous Peoples	●	RSD p 103
	OG 12	Operations Where Involuntary Resettlement Took Place, The Number Of Households Resettled In Each And How Their Livelihoods Were Affected In The Process	●	RSD p 103

Topic	Indicator	Description	Status	Page number
Water management	EN 8	Total Water Withdrawal By Source	●	RSD p 82
	EN 9	Water Sources Significantly Affected By Withdrawal Of Water	●	RSD p 83
	EN 10	Percentage And Total Volume Of Water Recycled And Reused	●	RSD p 83
	EN 22	Total Water Discharge By Quality And Destination	●	RSD p 83
	OG 5	Volume And Disposal Of Formation Or Produced Water	●	RSD p 84
Supplier relation management	EC 9	Proportion Of Spending On Local Suppliers At Significant Locations Of Operation	●	RSD p 35
	SO 9	Percentage Of New Suppliers That Were Screened Using Criteria For Impacts On Society	●	RSD p 33
	SO 10	Significant Actual And Potential Negative Impacts On Society In The Supply Chain And Actions Taken	●	RSD p 33
Waste management	EN 23	Total Weight Of Waste By Type And Disposal Method	●	RSD p 90
	EN 25	Weight Of Transported, Imported, Exported, Or Treated Waste Deemed Hazardous Under The Terms Of The Basel Convention2 Annex I, Ii, Iii, And Viii, And Percentage Of Transported Waste Shipped Internationally	●	RSD p 90
	EN 28	Percentage Of Products Sold And Their Packaging Materials That Are Reclaimed By Category	●	RSD p 92
	OG 7	Amount Of Drilling Waste (Drill Mud And Cuttings) And Strategies For Treatment And Disposal	●	RSD p 91
Energy consumption management	EN 3	Energy Consumption Within The Organization	●	RSD p 81
	EN 5	Energy Intensity	●	RSD p 81
Technical asset management	OG 13	Number Of Process Safety Events, By Business Activity	●	RSD p 56, 85
Transportation management	EN 30	Significant Environmental Impacts Of Transporting Products And Other Goods And Materials For The Organization'S Operations, And Transporting Members Of The Workforce	●	RSD p 59
Impacts on biodiversity and ecosystem	EN 11	Operational Sites Owned, Leased, Managed In, Or Adjacent To, Protected Areas And Areas Of High Biodiversity Value Outside Protected Areas	●	RSD p 88
Is not related to any topic	HR 8	Total Number Of Incidents Of Violations Involving Rights Of Indigenous Peoples And Actions Taken	●	RSD p 103
<div><div>● Complete</div><div><div>RSD</div>Report on Sustainable Development 2014</div><div><div>AR</div>2014 Annual Business Report</div><div><div>CGC</div>Corporate Governance Code</div></div>				



An overview of subsidies in 2013 and 2014				
Name of programme	Amount of subsidy per agreement	Funds paid in		
		2013	2014	Total
The "First Chance" Agreement – National Employment Service Serbia		562,397.92		562,397.92
The Agreement of establishing mutual rights and obligations in the implementation of the project "NIS Chance" with APV and the City of Pančevo 2012.	6,394,762.74	3,850,128.90	-	3,850,128.90
The Agreement of establishing mutual rights and obligations in the implementation of the project "NIS Chance" with APV for 2013.	21,922,228.80	21,922,228.80	-	21,922,228.80
The Agreement of establishing mutual rights and obligations in the implementation of the project "NIS Chance" with The City of Pančevo for 2013.	11,235,141.28	3,288,335.04	6,167,897.58	9,456,232.62
The Agreement of establishing mutual rights and obligations in the implementation of the project "NIS Chance" with The City of Zrenjanin for 2013.	10,207,536.89	-	8,494,865.52	8,494,865.52
The Annex to the Agreement of establishing mutual rights and obligations in the implementation of the programmes or measures of active employment policy with the APV for 2014.	12,237,755.43	-	12,237,755.43	12,237,755.43
Total		29,623,090.66	26,900,518.53	56,523,609.19

**EC 3** – The company calculates in the liabilities for the payment of severance pay and pensions for employees as well as for anniversary rewards

**EN 20** – The Company does not engage in production, import, or export of substances which deplete the ozone layer

**PR 6** – In 2014, the Company did not sell products which are prohibited or subject to public debate in certain markets

**PR 9** – In 2014, there were no penalties due to non-compliance with laws and regulations relating to the provision of services and use of Company products

**SO 6** – According to the adopted document "Foreign Policy", the official view of the Company is that it does not fund the operation of political parties.

**EN 29** – In 2014, one instance of economic infraction was noted on record relating to the pollution of air in Pančevo, resulting in an imposition of a fine in the amount of 2b, which has been paid.

**SO 7** – In 2014, there were no open legal proceedings or legal actions against the Company on account of anti-competitive and monopolizing behaviour

**SO 8** – In 2014, no significant penalties or fines were imposed against the Company on account of non-compliance with the laws and regulations.

**OG 1** – In line with the legislation of the Republic of Serbia, the Company is unable to report on the assessed quantity and value of oil and gas reserves.

**OG 10** – In 2014, 4 legal actions were taken on account of compensation of the damage for non-use of land or re-cultivation. One legal action was resolved by out-of-court settlement.

**OG 12** – In 2014, there were no actions taken or ongoing against the Company on account of dislocating of population or affecting their lives in the process.

**HR 8** – In 2014, there were no violations of the local population's rights.



# Glossary

REACH	Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals.
Grade	level allotted to certain positions based on task assessment. Jobs allotted the same grade have approximately the same relative value in the Company regardless of the function or organizational part they belong to
MAC	Maximum Allowed Concentration
ELV	Emission Limit Value
PCB	polychlorinated biphenyls
БДП	бруто друштвени производ
GRI (Global Reporting Initiative)	The Global Reporting Initiative GRI is an international non-profit organization founded in 1997 in order to achieve the highest quality of corporate reporting on sustainable development. GRI standards are improved each year and since 2006 G3, a so-called third generation of reporting on sustainable development has been applied. G3 consists of the principles and indicators which define the frame for the content and quality of reports on sustainable development, as well as guidance for setting the limits in reporting. G3 principles can be used by small companies, big multinational companies, public sector, non-governmental and other organizations throughout the world.
Stakeholders	all private individuals and legal entities interested in the business activities of the Company who have influence on the business results of the Company or are under its influence
Directly Generated Value	income from sale + financial revenue + lease revenue + interest revenue + net result on the basis of the sale of capital assets
Operating Costs	procurement cost of the sold goods + cost of material + other business expenses – various kinds of taxes
Remediation	a term generally used for cleaning and renewal-restoration (recultivation, revitalization, regeneration) of a polluted spot – area or otherwise damaged environments as a result of human activity
EBITDA	earnings before interest, taxes and depreciation and amortization

MHC/DHT	mild hydrocracking / hydrotreating unit
NO <sub>2</sub>	nitrate oxide.
SO <sub>2</sub>	sulphur (IV) oxide
H <sub>2</sub> S	hydrogen sulfide
CO <sub>2</sub>	carbon dioxide
Drilling mud	drilling fluid with multiple purpose in the wellbore during the drilling process of oil wells (bringing the drilled material to the surface, control the layer pressure, prevent inflow of layer fluids into the wellbore, prevent the fall of the bore wall)
Drill Cuttings	particles of drilled rocks carried out by the drilling mud from the bottom of the well to the surface
Waste drilling mud	spent drilling mud during the well drilling process which is disposed in the primary mud pits near the well
FCC	Fluid catalytic craker
Injuries Rate (IR)	Total number of injuries / total number of work hours*1000000
Lost Days Rate (ODR)	Total number of lost days /total number of work hours *1000
Absence rate (LDR)	Sick leaves due to work-related injuries / Total number of work hours *1000
Association	voluntary and NG organization based on freedom of association of several private individuals or legal entities, founded with a view to achieving or improving certain mutual or common goals and interests, which is not prohibited under the Constitution or any law





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## TRANSLATION

### Limited Assurance Report on the Report on Sustainable Development

TO THE BOARD OF MANAGERS

NIS A.D. NOVI SAD

#### Scope and Responsibility

We have reviewed the Report on Sustainable Development for 2014 of the NIS a.d. Novi Sad (the "Company"). Management is responsible for the preparation of the Report on Sustainable Development in accordance with the G4 Global Reporting Initiative Guidelines (GRI), as set out in "On the Report and Reporting Principles" section. Management is also responsible for determining the Company's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues, and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived. Our responsibility is to issue this report based on our review.

#### Performed Procedures

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

These procedures included:

- comparison of information and data presented in the "Economic Development" section of the Report on Sustainable Development to the corresponding information and data included in the Company's consolidated financial statements as at and for the year ended 31 December 2014, on which auditor issued report dated 4 March 2015 in accordance with accounting regulations effective in the Republic of Serbia;
- analysis of the functioning of key processes for generating, recording and managing quantitative data presented in the Report. In particular we performed the following procedures:
  - interviews and discussions with management of the Company to gather information on the IT, accounting and reporting systems used in preparing the sustainability report, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the office that prepares the Report;

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NIS a.d. Novi Sad  
Limited Assurance Report on the Report  
on Sustainable Development  
31 December 2014

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

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

The Report on Sustainable Development includes the corresponding information and data of the prior year report for comparative purposes, with respect to which reference should be made our report dated 1 July 2014.

#### Opinion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Report on Sustainable Development for 2014 of the Company is not prepared, in all material respects, in accordance with the G4 GRI - Global Reporting Initiative, as set out in "On the Report and Reporting Principles" section.

As indicated by the directors in "On the Report and Reporting Principles" section of the Report on Sustainable Development for 2014, the Company intends to continue to extend the reporting scope of the Report through further standardisation of the existing information and data gathering procedures.

Belgrade, 30 June 2015

KPMG d.o.o. Beograd

(L.S.)

James Thornley  
Partner

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

Belgrade, 30 June 2015



KPMG d.o.o. Beograd

James Thornley  
Partner

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