



SUSTAINABILITY REPORT 2010



# BRIEF DESCRIPTION OF THE COMPANY'S BUSINESS AND OPERATIONS

NIS is one of the largest vertically integrated petroleum companies in Southeast Europe. NIS owns two refineries, located in the towns of Pancevo and Novi Sad, as well as an LPG plant in Elemir. NIS produces annually around 1.3 million tons of crude equivalent in its operations in Serbia, Angola, Bosnia and Herzegovina. The total volume of crude refining is around 3 million. The company has 480 petrol stations and oil depots. NIS is the leading supplier of petroleum products in Serbia. The company has over 10,000 employees.

The Sustainability Report prepared by NIS presents an overview of the company's approach to the management of economic, social and environmental issues in the context of sustainable development, as well as related results of business operations for 2010 and medium-term plans. Appendix 1 presents in detail the Principles, limitations and scope of the Report. Appendix 2 contains the list of indicators set out in the report. Appendix 3 provides the list of abbreviations and terms used in the Report.

# **CONTENTS**

- 4 Introduction
- 10 Company Profile
  - 13 NIS in Numbers
  - 15 Countries where NIS does
    Business
  - 16 Mission, Vision and Values
  - 17 Corporate Governance
  - 20 Awards and Recognition
- 24 Vision of Sustainable Development
  - **26** Sustainability Report
  - 29 NIS and its Stakeholders
- **36** Economic Development
  - **39** Production
  - 40 Refining
  - **42** Sales and Distribution
  - 44 Year of Financial Recovery
  - **45** Capital Investments
  - **48** NIS Development Strategy
- 54 Employee Development and Support
  - 56 Approach to Personnel Management

- **58** Personnel Structure
- 61 Cooperation with Trade
  Unions and Social Support
- 64 Recruitment and Personnel Training
- 66 Professional Development
- 68 Motivation of Employees
- **72** Social Responsibility
  - 76 Sponsorship and Donation Committee
  - 76 Projects in 2010
- 88 Health, Safety and the Environment
  - 90 Steps Towards Safe Development
  - 102 Health and Safety on the Job
- 110 Appendix 1. Application of the Principle on Sustainability Reporting
- 112 Appendix 2. Performance Indicators disclosed in the Report
- 114 Appendix 3. Terms and Abbreviations



Commitment to the principle of sustainable development, maximum openness to society and readiness to accept dialogue, besides growth in industrial power, represent the cornerstones of NIS's future leadership in the region.

"

NIS is the first and largest European acquisition of the Gazprom Neft Group, to whose development we give high priority. Briefly, NIS represents the basis for our development of energy sector projects in the Balkans. It is precisely for this reason that, since the first day we started participating in the company's management, Gazprom Neft is providing strong support to NIS in the development of all of its activities, including production, personnel and social aspects.

The first results of our cooperation are already visible: 2010 has proven to be a crucial year for the revitalization of stable business operation in NIS. After the arrival of new management, the company realized a profit for the first time, significantly improved the majority of its business indicators, and strengthened the confidence of investor community in the company. An important step is also the preparation of a long term development strategy of NIS, whose integral part is the policy of sustainable development, as one of the crucial principles which the company observes in its business operations.

The development of the Company's business operations, new market conditions, structural and management changes, pose new challenges to us in the area of sustainable development. This report presents our efforts in this direction in 2010.

The priorities of the company for the year were: realization of production and environmental safety improvement programs, professional training of employees and development of the system of motivation, providing social support

to employees, as well as taking part in the social and economic development of business regions. In spite of difficult economic conditions, we have succeeded in managing these programs more efficiently, in directing resources towards the implementation of strategic goals and defining priorities in line with the complex market and economic situation.

Commitment to the principle of sustainable development, maximum openness to society and readiness to accept dialogue, besides growth in industrial power, represent the cornerstones of NIS's future leadership in the region. By issuing a report in compliance with GRI international standards (GRI-G3) and AA1000APS (2008), NIS demonstrates its readiness to work on the improvement of all production and management processes. In this way, with the support of Gazprom Neft, NIS stands to become one of the largest European energy companies, both in the area of production indicators, as well as in the area of socially responsible business operation.

We believe that this Report will further strengthen our relationship with our stakeholders, build on mutual trust and establish a set of common values, while setting an example to other companies in Serbia.

Vadim Yakovliev

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



NIS is committed to taking an active part in social life and to safeguarding the interests of the government, shareholders, investors, employees, clients and all other stakeholders.

77

It is an honor to present to you this Sustainability Report of NIS for 2010 – the first report of this kind, verified by an independent auditing house, which our company is presenting to the public. The publication of this report is an important step in our long standing socially responsible way of doing business.

The company's Sustainability Report presents the balance between the company's financial, production, social and environmental business activities and represents an integral part of our long term strategy. We are certain than only by being transparent towards our main stakeholders - shareholders, government bodies and local government representatives, social organizations, customers, suppliers and employees – we can establish a foundation for successful Company development.

In 2010 we were actively involved in streamlining the organizational structure of the Company, we developed a long term strategy, and intensively developed projects in the area of environment protection and occupational health.

We are implementing a series of measures for the modernization of the refining complex in Pancevo Oil Refinery. The major element of this modernization is the construction of the mild hydrocracking and hydrotreating complex (MHC/DHT). Owing to the realization of this project during 2012, NIS will completely transform its production and will start producing fuels in compliance with European quality standards.

One of the major achievements in 2010, I would like to point out is the implementation of international principles of corporate management for which, at the end of 2010, NIS received an excellent assessment from the team of professionals from the Serbian Chamber of Commerce and IFC (International Finance Corporations) organization. One of these principles is the principle of socially responsible business operation, and publication of this report is only one step on our path to future development and improvement in the system of corporate management.

We are fully aware of the great significance of dialogue with major shareholders for the company. In 2010 NIS had over four million small shareholders with whom it had an ongoing dialogue throughout the year. We held a series of educational presentations for small shareholders, and opened special telephone lines and offices in Belgrade and Novi Sad for providing information.

We are actively developing dialogue on other levels as well: we are concluding social and economic agreements with local communities, holding meetings with government officials, who have facilitated the implementation of dozens of projects that contributed to improvements in the standard of living of the citizens of Serbia and to improvements in the social climate. Many initiatives of NIS that have been presented in this Report received public recognition, awards and commendations from government institutions, as well as social and professional organizations.

Since success would be impossible without a strong team, we believe that our major asset are our employees. In 2010 we endeavored to develop the system of employee motivation and to increase the level of professional expertise of our employees. The new system of motivation is based on common objectives and the development of a uniform corporate culture. We are building a positive work environment on such foundations, and environment in which each employee is appreciated and is given an opportunity to improve and develop further.

Environment protection is one of the strategic areas to which social responsibility extends. Our objective is to reduce all negative effects of our business operations on the environment. We are working intensively on reducing emissions of harmful substances. By improving the system for monitoring the environment, we ensure prompt and efficient reaction to changes occurring in all areas of our activities. An equally important facet is the protection of employees' health and industrial safety. The success of the company is reflected in the reduction in the number of accidents, work injuries and incidence of occupational illness. Therefore, we are introducing advanced international practices in the area of techniques, technologies and industrial safety management, safety at work and environmental protection in all production facilities of the company.

In 2010, we started developing the ten year strategy for the Company which is geared at international development in the area of close cooperation with companies in the region. In 2010, we made the first steps towards European integration of NIS, consisting of the development of hydrocarbons production projects in Romania and Hungary, in cooperation with oil companies in these countries. The long term goal of NIS is to become not only an oil, but an energy company, extending its activities to the development of gas treatment, realization of renewable and alternative energy sources proj-

ects, with a view to extending its share of the energy market of Serbia and the European Union as an energy company. In parallel with its main activity, NIS will develop synergies in related fields – production of base oils, petrochemistry. Therefore, our goal is for NIS to take its place in several segments of the energy sector.

NIS is the first company in Serbia to have published the Sustainability Report according to the principles and standards of the Global Reporting Initiative (GRI-G3) and AA 1000 APS (2008). It is an honor to be counted among international companies whose sustainability reports 2010 have been made in compliance with the most stringent criteria.

This first Sustainability Report will contribute to strengthening dialogue with stakeholders. In this way NIS is undertaking the obligation of taking an active part in social life and of safeguarding the interests of all stakeholders.

Such a transparent approach will enable us to achieve our goal – to become the most efficient energy company in the region.

Kirill Kravchenko

CEO NIS a.d. Novi Sad







# **Company Profile**

NIS is one of the biggest vertically integrated petroleum companies in Southeastern Europe. It deals with production and refining of crude oil and natural gas, and sells a broad range of petroleum products. The company's headquarters and its main production capacities are located in the Republic of Serbia, which, owing to its geographical position, represents the center of trade and investments in the Balkans.

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

In 1991 NIS was established as a public company for the exploration, production, refining and trade in crude oil, petroleum products and natural gas. At the time it integrated the following companies: Naftagas, Gas, Energogas, Pancevo Oil Refinery, Novi Said Oil Refinery, Belgrade Oil Refinery and Krusevac Lubricants Factory (FAM).

It is out of this company that in 2005 today's NIS and companies Srbijagas and Transnafta were established. On October 1, 2005, NIS was transformed into a joint

stock company whose area of business operation remained the exploitation of crude oil and gas, crude refining and trading in petroleum products, production and sale of liquefied petroleum gas.

In 2009, 51 % of NIS's shares were acquired by the Russian company Gazprom Neft, while 49% of its shares remains the property of the Government of the Republic of Serbia.

As of December 31, 2010, the Government of the Republic of Serbia holds 29.88% of the company's shares, while the remaining 19.12% of shares have been distributed free of charge to citizens, and to former and current employees of the Company.

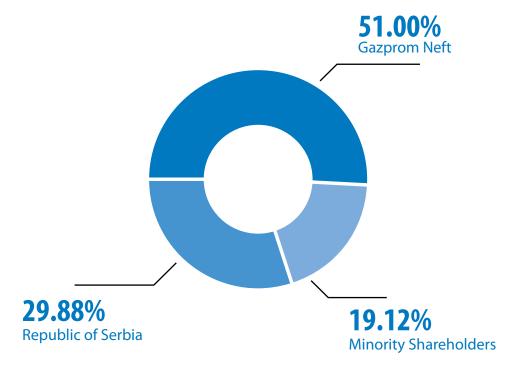
The company's shares are being traded through the Belgrade Stock Exchange, on the Prime Market – the most prestigious section of stock exchange trading. As of December 31, 2010, the Company has around 4 million shareholders.

The majority of NIS oil and gas fields are located on the territory of Vojvodina. NIS owns production capacities in Angola and oil field services in Turkmenistan, as well as the companies Jadran Naftagas in the Republic of Srpska, a joint venture with the company Neftegazinkor.

The NIS refining complex consists of two crude processing refineries, located in the towns of Pancevo and Novi Sad, where the company produces a complete range of



### Structure of equity (as of 31 December 2010)



petroleum products – from motor gasolines and diesel fuel, to lube oils and feedstock for the petrochemical industry, as well as an LPG plant in Elemir.

NIS refineries produce a wide range of petroleum and natural gas products in compliance with international quality standards and refinery specifications, including motor and jet fuels, LPG, lubes, fuel oils, bitumenes, petrochemical products and other products.

In 2009, for the first time in Serbia, NIS started to market Euro Diesel, and in the following year, unleaded gasoline Euro Premium BMB 95, which are completely in compliance with European quality standards Euro-5. In parallel with the start of production of environmen-

tally clean motor fuel, the Company phased out the production of leaded gasoline.

NIS also produces drinking water Jazak from Fruska Gora, which received several awards at the most significant fairs. It was awarded commendations for quality "Healthy Food" and "The best from Vojvodina".

NIS owns 509 active retail facilities (petrol stations, LPG car filling stations, LPG bottle shops), 7 large installations, 31 depots across Serbia and 6 depots for LPG.

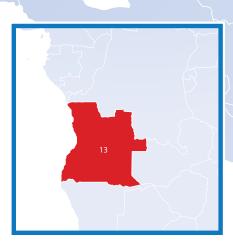
### Countries where NIS does business

- 1. Serbia
- 2. Bosnia and Herzegovina
- 3. Montenegro
- 4. Croatia
- 5. Hungan
- 6. Romania
- 7. Bulgaria
- 8. Ukraine
- 9. Poland
- 10. Austria
- 11. Slovenia
- 12. Turkmenistan
- 13. Angola

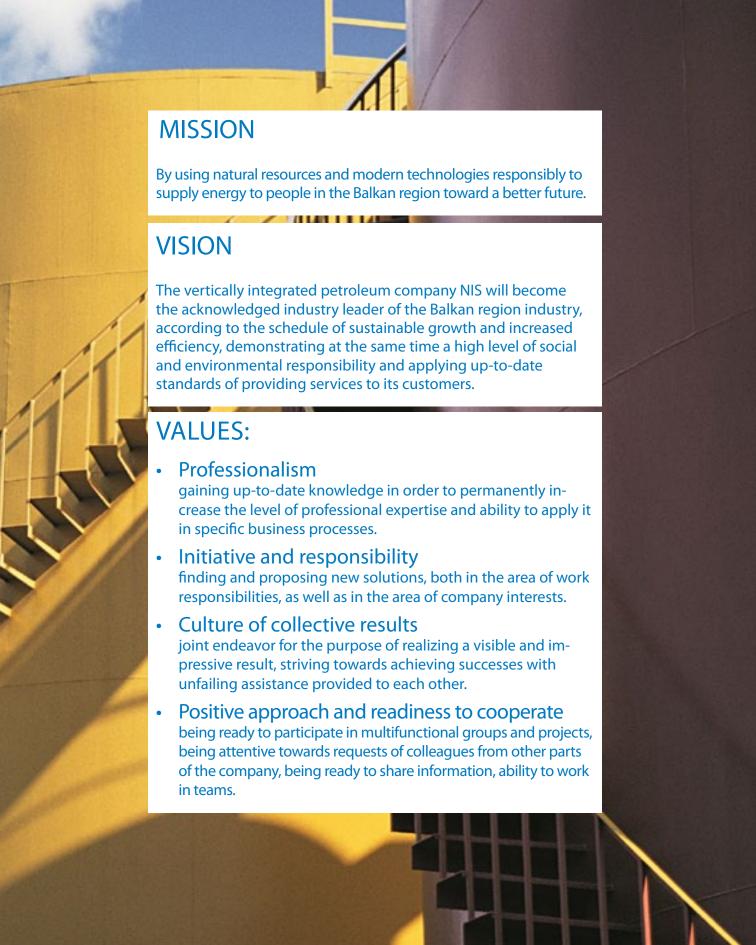
### Countries where NIS does business

NIS deals with the export of motor gasolines, benzole, toluole, road and industrial bitumens to EU countries, Ukraine, Croatia, Montenegro, Bosnia and Herzegovina, it supplies jet fuel to the Nikola Tesla Airport (Belgrade) and supplies ships on the river Danube with fuel.

The strategic goal of NIS is to become competitive on the Southeastern European market and a regional player with the fastest rate of development in terms of indicators of volumes of production, processing, sales and cost effectiveness. In order to realize these objectives, NIS set a priority direction modernization of the Pancevo Refinery and of its retail network.



The construction of a Mild Hydrocracking Complex and Hydrotreating unit in Pancevo Oil Refinery is the main element of the modernization program stipulated in the Sales Purchase Agreement. Modernization started in 2010 and is scheduled for completion in two years.



# Corporate Governance

As one of the largest companies in Serbia, NIS is aware of the importance of achieving a high standard of corporate governance. Corporate governance should ensure the protection of the rights of shareholders and interests of the company, control of executive bodies by the Board of Directors, transparency of work, complete and accurate reporting and publishing of all important information, efficient control of financial and business activities of the company, development of business ethics and of socially responsible business operation.

The NIS corporate management system was evaluated highly by the team of professionals from the Serbian Chamber of Commerce and the IFC – International Finance Corporation (part of World Bank).

> The NIS corporate management system was evaluated highly by the team of professionals from the Serbian Chamber of Commerce and the IFC – International Finance Corporation (part of World Bank).

In this respect, NIS is investing significant efforts in order to ensure overall conformity with local regulations, as well as adoption of international standards and practices, continuously developing and improving its system of corporate management.

In June 2010 the Board of Directors of NIS adopted the Code of Corporate Management which establishes the principles

of corporate practice and organizational culture. NIS management is governed by these principles.

The structure of management bodies of NIS includes: Shareholders' Assembly, Board of Directors, collective executive management body (Management Board) and General Director, Auditing Committee.

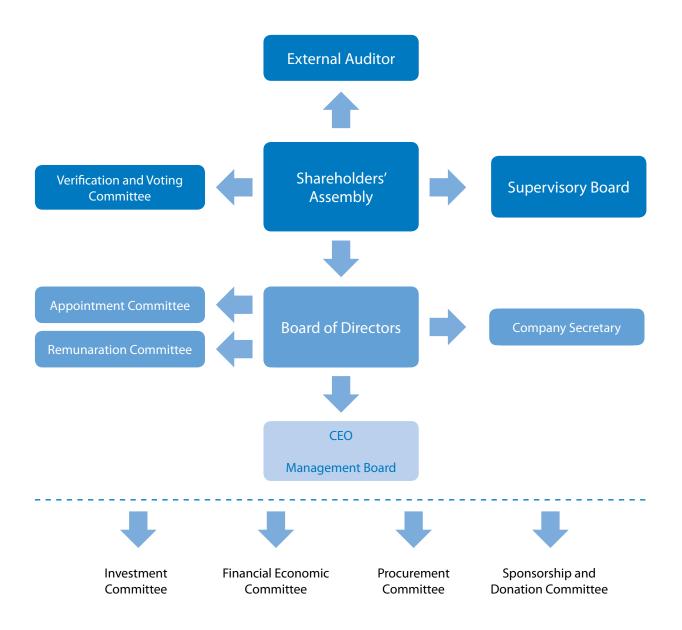
Shareholders' Assembly is the highest governing body of NIS: It is through this body that shareholders pass and adopt basic corporate decisions and appoint members to the Board of Directors, which is in charge of general management of NIS.

The Board of Directors appoints the General Director and other members of the Executive Board, which is also in charge of implementing decisions of the Board of Directors, operational management of NIS, development and realization of the strategy of Company development.

In October 2010 NIS Management Board adopted a decision on long term development strategy of NIS until 2020. The strategic development plan defines clear strategic goals for NIS as an entity, as well as goals for each of its individual business segments for the period 2011-2013-2020.

The General Director and top management regularly monitor the implementation of decisions that are directly linked to strategy, allowing the company to react

### Structure of Corporate Governing Bodies



promptly and efficiently.

Application of international standards for management systems plays a significant role in the implementation of our goals, which are directly linked to our mission and vision. Starting from our commitment to applying best international practice in organizational management, the management system was implemented and certified in the following organizational units (QMS - for quality according to SRPS ISO 9001:2008, EMS - for the environment according to SRPS ISO 14001:2005, HACCP – for food safety):

- **Exploration and Production Block (QMS** and EMS)
- **Exploration and Production Block Sci**ence-Technical Center (QMS and EMS)
- Refining Block RNP (QMS)
- Refining Block RNS (QMS and EMS)
- Services Block, Oil Field Services Division, Drilling Services plant (QMS and EMS)
- Services Block, Oil Field Services Division, Drilling plant (QMS and EMS)
- Services Block, Oil Field Services Division, Workover plant (QMS and EMS)
- Services Block, Technical Division, Maintenance (QMS and EMS)
- Services Block, Technical Division, Construction plant (QMS and EMS)
- Services Block, Transport (QMS and EMS)
- Services Block, Hidrosonda plant (QMS and EMS)
- Services Block, Geophysical Services plant (QMS and EMS)
- FOP, drinking water plant (QMS and HACCP)

The organizational unit of the Lube Oil Division in Block Sales and Distribution is currently in the final phase of the quality management system implementation process.

The Company defines the strategic directions of further application of international standards and of certification by paying particular attention to the integration of already established management systems. NIS actively works on the standardization of all defined business processes which implies documenting business processes and defining of key performance indicators for the processes, based on which efficiency is being evaluated. In the selection of the model of business process management, as a rule we apply the practice which is established in Gazprom Neft, the majority owner of the Company.

### Awards and Recognition NIS received in 2010

11 January 2010 - NIS CEO, Kirill Kravchenko, won the first place on the list of 50 most influential foreigners in Serbia, which is prepared every year by the editorial staff of the daily paper Blic in Serbia.

3 February 2010 – NIS received an award for the best calendar for 2009 at the traditional exhibition of the finest calendar and promotion material, organized by Art director club Serbia and marketing agency Publicite.

5 February 2010 – The corporate website of NIS a.d. is one of three best corporate sites in Serbia, according to a survey conducted by the specialized publication PCPRESS.

19 May 2010 – At the 77th International Fair of Agriculture in Novi Sad, NIS brend NISOTEC was awarded a gold medal. Medals for quality were awarded to the products: NISOTEC ANTIFRIZ EURO 100 was awarded a large gold medal, motor oil NISOTEC FAVORIT EURO was awarded a gold medal, and the special motor oil for gas engines(LPG) NISO-TEC GAS SAE 15W-40 was awarded a silver medal.

10 June 2010 – NIS received the Plague for the most successful company in 2009, awarded by the Regional Chamber of Commerce in Novi Sad.

16 June 2010 – NIS was awarded a special award named "Business Partner 2010", for

successful management and implementation of international standards in corporate governance, organized and awarded by Mass Media International.

24 June 2010 – NIS springwater "Jazak" for the third time in a row was awarded a gold medal for quality in Slovenia, awarded by the International Committee for Quality Assessment in the category of juices, soft drinks and water.

29 June 2010 - NIS received the Plaque of Friendship from the University of Novi Sad, awarded for strategic cooperation.

24 August 2010 – Fruska Gora spring water "Jazak" received two gold medals for quality at the 48th international fair of agriculture "Agra" in Gornja Radgona in Slovenia.

15 October 2010 – At the 6th International Energy Fair NIS won an award for the best promotion awarded by the Association of Economic Advertisers of Serbia.

17 December 2010 – NIS' system of corporate governance was highly rated by the team of experts from the Serbian Chamber of Commerce and the organization IFC-International Finance Corporation (a part of World Bank group).

29 December 2010 – NIS, once again, won recognition for the most successful company in Novi Sad in 2010, according to a survey conducted by the agency SCAN.

# Social Responsibility **Award** Considering the commitment to social responsibility which NIS demonstrated in 2010, the magazine The Man awarded the NIS CEO, Kirill Kravchenko, recognition as the Corporate man of the year Social Responsibility.





# Vision of Sustainable Development

Sustainable business development implies systematic and efficient management of economic, environmental and social risks and opportunities with the purpose of consistently increasing long term shareholders' value in the Company. Essentially, the concept of responsible development is synonymous with the term «corporate responsibility».

### Key components of sustainable development:

Economic Development	raising capitalization through increased production, in conformity with the corporate strategy, increased production and distribution efficiency, offering high quality products and services at fair prices, as well as creating a favorable business atmosphere for suppliers, based on clear and transparent conditions of business operation
Development and Support for Employment	investing into our employees – opening new job positions, application of a unified system of motivation and incentives, training and increase of qualification levels.
Development of Society	investment into social infrastructure and quality of social services, aid to socially underprivileged
Regional Development	investment into regions and local communities
Environmental Development	environment protection, protecting the health of employees and of local population by minimizing environmental risks. The rational use of resources based on strict conformity with environmental regulations, as well as timely reaction to incidents and accidents

NIS is a leader in the oil and gas sector in Serbia, and therefore it considers sustainable development as the only possible direction of development for a socially responsible company. We are publishing the Sustainability Report for the first time and are fully aware of the importance of preparing this report annually.

The report for 2010 presents data on the business activities of the Company in the

economic sphere, environmental protection, in the area of labor relations, and social sphere in the Republic of Serbia.

The Sustainability Report of NIS for 2010 represents an additional step towards the justification of socially responsible business operation. In line with global trends in the area of socially responsible business operation, as well as strategy of our majority owner Gazprom Neft, NIS published its first Sustainability Report for the period 1 January 2010 to 31 December 2010 in accordance with international standards of the Global Reporting Initiative (GRI-G3) and AA1000 APS (2008) standards.



GRI is an international non-profit organization established in 1997 with the purpose of achieving the highest quality in corporate reporting on sustainable development. In view of the fact that GRI standards have improved year to year, since 2006 until the present, G3, so called "third generation" of reporting on sustainable development has been applied. G3 consists of principles and indicators which define the framework for the contents and quality of the report in the area of sustainable development, and instructions for setting reporting limits. G3 principles can be used by small companies, large multinational companies, public sector, nongovernment organizations and other organizations around the world.

### www.globalreporting.org

Through interaction with recognized stakeholders in which their needs, reasonable expectations and interests were carefully considered, NIS defined key areas of its activity and reporting in compliance with its strategy of business development.

The Sustainability Report covers the entire business activity of the Company. The Company's commitment to sustainable development and to socially responsible behavior is an integral part of the Company's Strategy. Only transparent relations with all stakeholders will ensure improvement in the Company's economic performance, but the same also applies to social responsibility, employee relations and environment protection.

Socially responsible business operation in Serbia is nothing new. Successful entrepreneurs and companies have always dedicated particular attention to the social aspect of their business operations. Today corporate social policy is particularly relevant in Serbia in times of dynamic economic and social development, marked by the arrival of multinational companies to the country. Companies that are committed not only to generating profits, but also to creating added value for society, economy and environment are implementing sustainable development as one of their business principles.

For us, these ideas represent a precondition for the implementation of our strategic goals: long term competitiveness, efficiency and increase in the value of our shares. We believe that regular and efficient cooperation with stakeholders, with all actors on whom our business operations depend and whom they affect – is the foundation of stability and successful development of the Company's business operations.

### Sustainability Report

The Sustainability Report of NIS is based on the application of international standards of Global Reporting Initiative (GRI) and AA 1000.

### Key Principles of Sustainability Reporting are the Following:

Relevance	information is considered relevant when its absence or inaccuracy in the report may affect decisions and activities of interested parties of the organization submitting the report
Completeness of Information Submitted	assessment of the impact of the company upon the environment and people, including the opinions provided by all interested parties
Reaction	the company needs to react to the expectations of its stakeholders, even if it does not always agree with their opinions
Comparability	attitudes and information need to be selected and included into the report uniformly. The information needs to be presented in a manner that enables stakeholders to analyze changes in the productiveness of the organization and enables analysis and comparison with other organizations
Promptness	the company needs to publish the report promptly and thus to enable stakeholders to react adequately

NIS is the first company in Serbia to have prepared the Sustainability Report according to GRI (G-3) and AA 1000 APS (2008) standards.

This Report informs shareholders, employees, business partners and the public at large about the manner and pace at which the company is realizing its goals related to economic and environmental stability and social responsibility, according to its mission and strategic development plans.



Such a report provides multiple benefits to the Company – it enhances the trust of investors, clients and customers, engages and retains employees, enables the adoption of well founded long term strategic decisions, facilitates risk management and strengthens the company's reputation.

For the purpose of preparing the Sustainability Report for 2010, a task group was set up consisting of managers and personnel from those departments in the company whose field of activity includes the sectors of socially responsible business operation.

### NIS and its stakeholders

The first Sustainability Report will open topics for discussion and ensure the establishment of the feedback process.

As a method of efficient engagement of its stakeholders NIS selected the principle of partnership. In 2010 key groups of NIS's partners, i.e. organizations and individuals with whom an official agreement on cooperation is in place, were as follows:

- Companies for the production of oil and gas and petrochemical **companies** – through joint investments into new projects and cooperation among companies
- NIS Employees based on contracts of employment and collective agreement
- Regional government bodies and local **communities** – based on agreements on social and economic cooperation
- Suppliers and customers based on business contracts





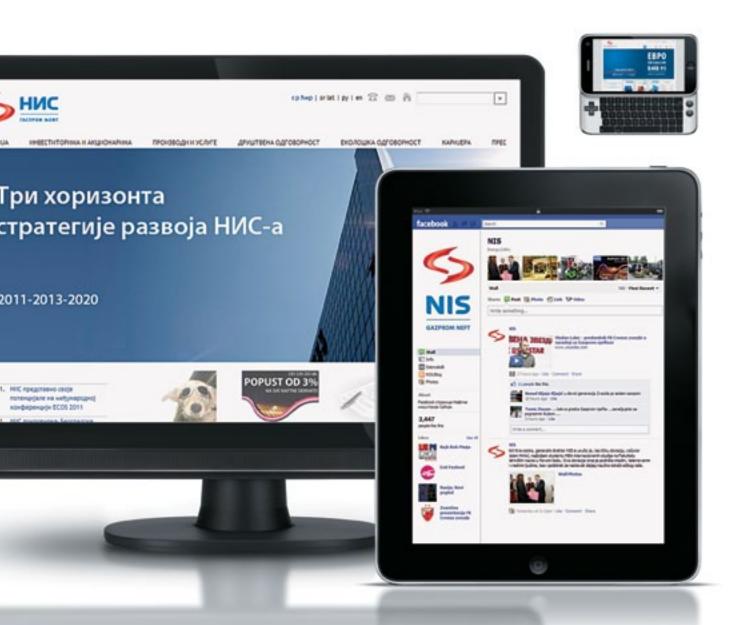
### **Transparent Stakeholder** Relations

The dialogue with stakeholders is important and NIS dedicates great attention to it, because it ensures that decisions are aligned, new approaches are elaborated, relations and cooperation are strengthened, common attitudes are achieved, and finally, the objective situation is defined.

Dialogue provides the Company with a complex understanding of occurred problems, issues, with identification and prompt reaction to expectations

and requests of stakeholders. This is an opportunity to prevent conflicts and disputes and to implement a well-balanced information policy. NIS believes that for the achievement of such results of dialogue, communicating information to stakeholders is crucial. Transparent reports of NIS facilitate an equal and free access to information for all interested parties.

After the transformation of the Company into an open joint stock company the number of stakeholders increased.



## Communication with **Stakeholders**

In 2010, the company significantly expanded the range of information available on the corporate web site www.nis.rs. All information is available in three languages - Serbian, Russian and English. The web site contains all necessary information about the company - the profile, history, structure, development strategy, corporate governance. It also contains data on all products and services that the Company offers, corporate news, including sections dedicated to stakeholders. Being a modern

company, which also extends to the area of communications, NIS has its profiles on the most popular social networks Facebook and Twitter, giving NIS a new opportunity for a direct contact with a modern, active and dynamic audience.

The Company's internet portal contains information on the area of social responsibility and activities of the Company related to environmental protection. For the purpose of developing dialogue with our stakeholders, this site contains telephone numbers,

Наше вредности су наша предност Запослени у НИС-у дефинисали су вредности као постулате у пословању наше компаније

e-mail and postal addresses through which it is possible to contact us and to ask questions, provide suggestions, comments, apply for jobs. Any kind of feedback represents a step forward in our dialogue!

A special form of a communication channel dedicated to employees is the corporate web portal. Only NIS employees have access to this portal, where they can find all the information relevant for the Company, both from the aspect of employees and management. The corporate portal contains the section named «Feedback», through which employees pose questions to the management.

In addition to working on the improvement of the corporate web site, NIS publishes its monthly magazine MyNIS, in a print run of 7000 copies. Although it is intended for an internal audience, the magazine contains useful information for a wider public and other stakeholders. Articles published in our magazine deal with current topics related to the life of the company and to trends in its development.

We are developing the program Direct Dialogue with our employees which includes quarterly meetings of managers with employees. Employees have meetings with the General Director, representatives of management and line managers. At these meetings, business results and plans are presented, while employees are given the opportunity to ask questions, which are subsequently published on the corporate portal together with the answers. Also, each year, traditional workers' sport games are organized and cor-



porate holidays are celebrated - which is a good way to develop and improve dialogue between management and employees in an informal atmosphere.

Active communication is in place with trade unions on a daily basis.

As an open joint stock company, NIS pays particular attention to its shareholders. In order to be able to provide them with high quality information, offices that work with minority shareholders were opened in Belgrade and Novi Sad, as well as the information telephone line(011/22 000 55), and an e-mail address (servis.akcionara@nis.rs). Also, a series of presentations on the topic of «Share Trading" has been held and special columns in printed and electronic media have been published.

With a view to providing the best possible quality of products and services to our customers, NIS continuously conducts surveys of customers' needs, desires and requirements. Also, we have introduced interactive communication with customers via the customer telephone line (08 0000 8888), internet portal, e-mail and postal services.

Citizens from municipalities and cities with which NIS cooperates can address us





through our Committee for Sponsorships and Donations. Working meetings are a means by which we communicate with the authorities in municipalities in which we operate, but also with government officials when strategic issues are concerned.

Any kind of feedback represents a step forward in our dialogue!

Based on the NIS initiative, the Government of the Republic of Serbia adopted the proposal to pronounce 1st October as the Day of Oil and Gas Industry Workers in Serbia. Therefore, our company has officially obtained its professional holiday, on which both official gatherings and informal gatherings with government bodies, partners and employees take place, and which also

provides an additional opportunity for dialoque with stakeholders.

NIS will continue to monitor the opinions of its stakeholders and to maintain regular dialogue with all interested parties. The following Sustainability Report for 2011 will incorporate all objections and suggestions received in the meantime. This will be implemented through systematization of dialogue with stakeholders. NIS believes this to be the only path to success for the company, which is also measured by the success of all of those who cooperate with us: our employees, customers, partners, shareholders, investors.



### MAIN MID-TERM PLANS

- Systematization of dialogue with stakeholders in 2011
- Publication of the Sustainability Report, by observing comments provided by stakeholders
- Improvement of the system of data collection, analysis, control and data processing related to sustainable development
- Development and adoption of sustainable development policy at the level of NIS as a whole

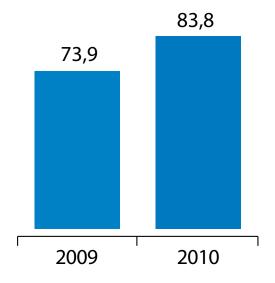




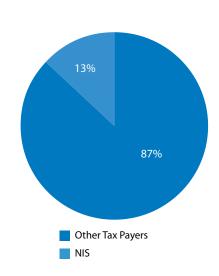
# NIS – Economic Development

The impact of NIS upon the Serbian economy is highly significant. The Company represents the major link in the chain of energy stability of Serbia, a reliable supplier of fuel for power plants, the army and police, the construction industry and other systems which provide the necessary conditions for the life of citizens. In addition, NIS is one of the largest contributors to the Serbian budget. In 2010 the Company participated in the state budget with around RSD 83.8 billion, through excise duties, VAT, custom duties and other import taxes, mining tax and other duties.





#### NIS share in total public revenue in 2010



#### Directly generated and distributed economic value, thousand RSD

Item	Amount
Directly generated value	162,899,164
Revenue	162,899,164
Distributed economic value	141,963,995
Operating costs	113,992,340
Salaries and other compensation	21,346,120
Paid interest on loans	3,084,330
Paid taxes	3,359,589
Investments in the community	181,616
Increased economic value of the Company	20,935,169

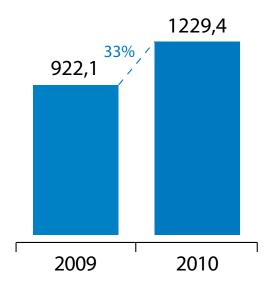
#### **Production**

The progress achieved in business operations in the previous year continued also into 2010, with even better results. Production volume of domestic crude and gas amounted to 1,229.4 thousand conditional tons, which is 33% higher than in 2009. Of particular significance is the fact that such an increase in production has been realized in a year that left a profound mark on many world economies due to the negative effects of the economic crisis.

#### Position in the Region

In order to achieve its strategic goal – to become a regional leader – it is necessary to secure NIS's entry into the international concessions market. At the same time this is the principal reason for the expansion of NIS's business to the Republic of Srpska (RS is a part of B&H). At the end of 2010, NIS founded a joint venture with the company Njeftegazinkor (subsidiary company of the Russian Zarubežnjeft) which will deal with geological

# Production of domestic crude and gas, in thousand conditional tons



exploration and production of hydrocarbons in the Republic of Srpska in B&H.

Preliminary estimates indicate a significant volume of hydrocarbon reserves on the territory of this country, which provides an opportunity for increased exploitation in the region and increased volume of production, starting as early as 2014.

#### Refining

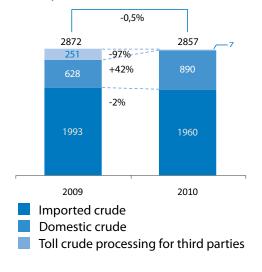
In 2010, the volume of refining, excluding third parties, was around 2,850 thousand tons, i.e. 9% higher than last year. Production volumes for high margin products increased (motor gasolines, jet fuel), while the level of production of diesel fuel which does not meet environmental standards, such as heavy fuel oil, was reduced.

#### End of an Era of Ethylised Fuel – Start of Environmentally Clean Fuel

At the end of June 2010 NIS discontinued the production of ethylised gasoline and started production of new, environmentally clean fuel – non-ethylised Euro Premium class gasoline.

An end to production and sale of ethylised gasoline intended to improve the environmental situation is a choice which has been made by other European countries already. Furthermore, phasing out of production of ethylised gasoline confirms the Company's

# Volume of crude refining including third parties, in thousand tons



dedication to meeting market needs and to producing a wide range of high quality fuels that the customers demand.

The first quantities of the new non-ethylised Euro Premium class gasoline were produced in the Pancevo Refinery. The Serbian market for the first time in history has a domestically produced motor gasoline which completely meets all EU environmental standards.





#### Sales and Distribution

Under conditions of economic crisis in Serbia and rising inflation, in 2010 the expected decrease in purchasing power of the population occurred, attended by a decrease in consumption volume of petroleum products. In spite of this, NIS is the only domestic petroleum products market player which succeeded in increasing its market share. Thus, total trade of petroleum products in 2010 amounted to 2,261 thousand tons, which is 0.6 % higher year on year. At the same time, wholesale sales volume in comparison

to 2009 remained unchanged, while direct deliveries from the refinery increased for around 18%.

In 2010 NIS exported 353 thousand tons of petroleum products, which is an increase of 30 thousand tons year on year. The Company's main directions for further developing trade with other countries target Bosnia and Herzegovina, Romania, Bulgaria, Macedonia, Montenegro, Slovenia and Hungary. Besides this, Company experts are currently considering the possibility of expansion to the retail markets of Bulgaria, Romania, Bosnia and Herzegovina.

# Reconstruction and Modernization of Petrol Station Retail Network

The Company's mid-term strategy also includes the development of NIS's retail network. Modernization of the petrol station retail network started in 2010. The Company plans to gradually reconstruct petrol stations in all regions of Serbia in order to offer customers a new, higher level of service.

During 2010, NIS invested significant assets into the development of the retail network, its reorganization and reconstruction. In the course of one year, more was achieved than over the previous nine years – more than 200 petrol stations were automated, 8 petrol stations were completely reconstructed and newly built, 22 additional LPG dispensers were installed and finally the project of expanding the LPG retail network based on the three year plan of increasing retail capacities was launched.

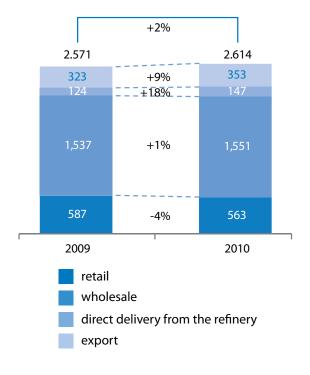
The modernization of petrol stations consists of redesigning them and installing technical equipment according to EU standards, to meet customer needs. Complete automated processes are put in place which are managed by computers – from unloading of petroleum products into the petrol station tanks to filling them into the customers' vehicles. All of this ensures a high level of business efficiency of each petrol station and facilitates three key characteristics – comfort, rate of filling gas tanks and quality of service.

At the end of last year, in Južni bulevar in Belgrade, NIS opened its first automated petrol

station in Serbia, where drivers can fill their fuel tanks every day, 24 hours a day, and pay for this service at the ATM machine which, in addition to credit cards, also accepts cash.

Besides this, the Company introduced a new kind of fuel card for corporate clients which helps them to manage their fuel costs efficiently and to save time.

# Total sale of petroleum products, in thousand tons



#### Year of Financial Recovery

Financially, 2010 was a very challenging year for NIS – the dinar exchange rate fell in comparison to the dollar, the price of crude rose, and market demand for petroleum products fell.

Nevertheless, NIS management, owing to the program of increased efficiency in financial management, succeeded in realizing a profit, as confirmed by the independent auditing company "PricewaterhouseCoopers" (PWC). According to results reported in the consolidated financial statements, NIS realized a profit of 16.7 billion RSD, which represents a five fold increase in comparison to 2009.

Factors contributing to the 2010 financial result included increased sales, increase in oil and gas production volumes, stabilization of the exchange rate of the dinar with respect to the dollar and the euro in the second half of the year, and in 2010 NIS optimized efficiency of its internal operations, stabilized operating cash flows, restructured its loans, reduced receivables levels and freed itself from burdensome assets.

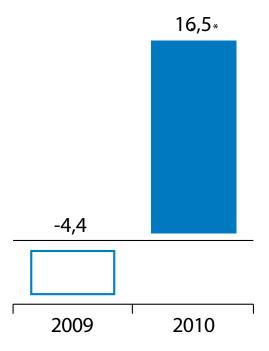
#### **Company Distribution of Profit**

NIS contributes significantly to the economic development of the country. In 2010 the Company provided 13% of the revenue to the Serbian budget through excise duties,

which represents a 2 percent increase year on year.

A large number of citizens of Serbia became shareholders in NIS in 2010, after receiving shares of the Company free-of-charge, in accordance with the national strategy for privatizing state owned companies. Then the shareholders' assembly of NIS adopted the decision on transformation of the company into an open joint stock company and on listing the company on the Belgrade Stock Exchange. This step certainly represents a challenge which will create an opportunity for NIS to attract new investors by being open towards shareholders.

#### Net profit (loss), in billion dinars



<sup>\* -</sup> according to separate financial statements of NIS

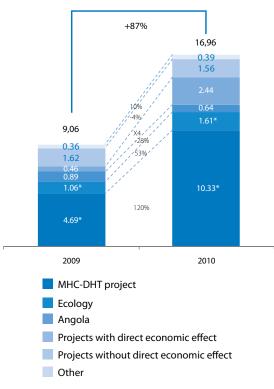
#### **Capital Investments**

In 2010 realized investments amounted to RSD 16.96 billion, which is 87% higher in comparison to the previous year.

The most important investments in the area of crude and gas production in 2010 were the following:

- Drilling of development wells
- Hydraulic fracturization of wells
- Installation of ESP deep pumps
- Geological prospecting works
- Angola.

# The largest capital investments, in bil RSD (exc. VAT)



<sup>\* -</sup> Without Letter of Credit

# Construction of the hydrocracking and hydrotreatment complex (MHC/DHT) in Pancevo Refinery

Modernization of the NIS refining complex represents a major condition for the Company to assume the strategically important position of leader on the Balkan market of petroleum products. The key element of the modernization program includes construction of the complex for mild hydrocracking and hydrotreating in the Pancevo oil Refinery, which is a process of secondary crude refining.

The new refining complex will allow for the increase in refining volume up to the maximum capacity 4,800,000 tons per year, which will satisfy not only demand of the Serbian market, but of exports to countries of the Balkan region as well.

The new refining complex will also result in qualitative changes in production parameters:

- Crude refining depth will be increased by 10%;
- Specific refining margin will also increase;
- The level of harmful substance emission will be reduced.

The start up of the hydrocracking and hydrotreating unit will enable NIS to fully convert to the production of motor gasolines and Euro Diesel with up to 10 ppm sulfur content, which is fully in compliance with the EU environmental requirements.

Once projected capacity of the unit is reached, production volume of motor gasolines will amount to 638 thousand tons per year. In addition, production volume of domestic Euro diesel produced in the Pancevo refinery will also increase significantly from current 230 thousand tons to 1,538 thousand tons per year.

The most up-to-date technologies available in the area of crude refining will be used in the Pancevo refinery, which will result in the reduction of emission of harmful materials into the atmosphere. Therefore, the construction of the complex has a significant environmental aspect.

The applied technical solutions in the process of hydrocracking and hydrotreatment relate to the removal of sulfur from motor fuels up to European norms. The start up of the new unit for Sulfur Recovery will allow for a reduction in industrial pollution originating in the Pancevo refinery.

Waste waters will be treated in the new water treatment system, and subsequently directed to final treatment to the unit for biological treatment, prior to being released to the environment.

Gazprom Neft is financing the project of Pancevo refinery modernization and ecological projects in the amount of 500 million EUR. The major portion of this amount, 396 million EUR, will be allocated to the construction of the hydrocracking complex, while the remaining part will be allocated to the construction of the hydrogen generation unit in the Pancevo oil refinery, as well as to the modernization and construction of industrial infrastructure in the refinery and realization of environmental projects.

Work on the modernization of the Pancevo refinery started immediately after the signing of Sales and Purchase Agreement with Gazprom Neft. The hydrocracking complex will become one of the biggest investments in Serbia and one of the largest building sites in the country.

During the construction of the hydrocracking and hydrotreating complex over 1,600 people will be employed at the building site.

The new hydrocracking complex is the cornerstone of the future high competitiveness and regional leadership of NIS, of a stable and successful future for the citizens of Pancevo and one of the most significant elements of energy stability in the Republic of Serbia.

The start-up of the complex is planned for the third quarter of 2012.

# БУДУЋНОСТ



#### NIS Development Strategy

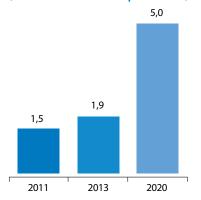
NIS started developing the long term strategy for the development of the Company up to 2020, which the Executive board of the Company adopted in November 2010. The strategy defines basic tasks and development trends of NIS in line with the three horizons of set objectives for the period 2011-2013-2020.

The strategic goal of NIS by 2020 is to become the leader in terms of efficiency in the Balkans, i.e. the leading energy company, the leader among competitors on the South European market, as well as a regional player with the fastest growth in terms of volume of production, refining and retail sales. Significant increase in the volume of production will be achieved based on concession activities of the Company in the region. In 2011 NIS plans to undertake the first steps in this area of project

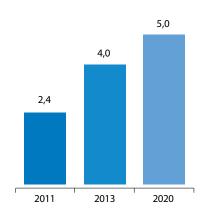
implementation in respect of exploration and production in Hungary and in Romania.

The new development strategy, named "Five Fives", will be developed in 2011, and consists of five components of successes which will be targeted by 2020: transformation into an energy company based on the development of petrochemisty and electricity generation, increase in production, refining and sales up to 5 million tons of petroleum products, production of petroleum products of the Euro 5 quality, entry on the international market, and consequent increase in the value of NIS shares up to 5.000 RSD. The strategy specifically focuses on the development of unconventional resources – geothermal energy sources, as well as on the application of solar energy and wind energy, which will allow for an increase in the Company's share of the energy market in the area of alternative energy resources.

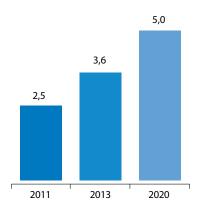
#### **Exploration and production** (million tons oil equivalent)

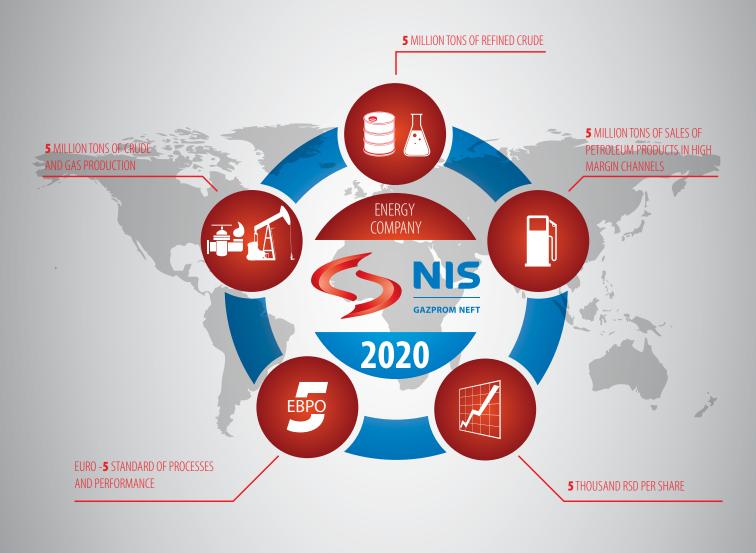


#### Refining (million tons)



#### Sales (million tons)





#### 2011 Vertically integrated company

Realization of the program of transformation and modernization which will allow for cost efficient and stable growth in the medium term

# 2013 A Growing player on the Balkan Market

Becoming a vertically integrated oil company with the fastest growth rate in the Balkans in the area of crude and gas production, production and sales of petroleum products

#### 2020 Leader in Efficiency in the Balkans

Becoming the leading energy company – the leader among competitors on the South European market. Becoming a regional player with the fastest growth rate in the Balkans based on volume of production, refining and retail sales



#### MAIN MID-TERM PLANS:

- Becoming a Balkan vertically integrated oil company with the fastest growth rate in the segments of crude and gas exploitation, production and trade of petroleum products.
- Main business indicators in 2013:
   Production of domestic crude and gas 1.9 mln. cond. tons,
   crude refining volume 4 mln. tons,
   sales of petroleum products 3.6 mln. tons
- Main financial indicators in 2013: EBITDA  $\approx$  60 bln. RSD, the value of one share at the level of 2000 RSD
- Investments into key business trends at the level of 90 bln. RSD until 2013





## **Employee Development and Support**

NIS is a dynamic company which follows international trends and market requirements. One of the priorities of the Company are its employees. Any success is possible only when there is a strong team, and investment into employee development is an investment into the future of the Company. NIS consistently works on the recruitment of highly qualified professionals, development of its candidate pool, development of a motivation system, increasing the level of employee competence and introduction of an integrated corporate culture. Employees receive competitive wages and adequate social support. The company supports employee initiatives and innovations, provides opportunities for self-actualization and career development.

## Approach to Personnel Management

Participation of Gazprom Neft, as a majority partner, in the ownership structure of NIS has brought about a crucial reorganization of the Company and changes in the management team. For the company to be successful it is important to have a system based on which every employee will be given an equal opportunity not only to offer his/her maximum contribution to the implementation of our collective objectives and values, but also to personally witness the results of their work.

NIS has a goal to create a working environment that will promote both personal and professional development. Employees are expected to show professionalism, responsibility, initiative, and enthusiasm. In order to increase efficiency and successfully implement the defined Company Strategy by 2020, NIS has initiated the project of defining corporate

culture. A survey was conducted on a specified number of employees who proportionally represent all corporate functions and business blocks of NIS. Based on the results obtained. a corporate culture of collective results was defined, according to which each employee is aware of their contribution to the common result, and management is able to reward such contribution adequately.

#### Improvements in the area of Human Resources

Prior to the arrival of new management, NIS had a decentralized system of personnel management. Personnel departments were autonomous for each of the company's branches, while the personnel department



of NIS dealt only with the recording of the recruitment of employees into the company and their leaving of the company. After the arrival of Gazprom Neft, an integrated and improved HR division was created, centralizing all processes in the area of personnel management.

One of the major organizational advantages introduced in the area of organization, is the modification of the Job Systematization Document which became operational and sufficiently flexible to incorporate day-today changes.

This created conditions for the recruitment of personnel and for education at all levels, creation and improvement of the

new system of motivation, and a system of integrated performance evaluation.

In 2010, NIS launched major changes in the area of personnel policy. The Company defined its key directions in the system of personnel management:

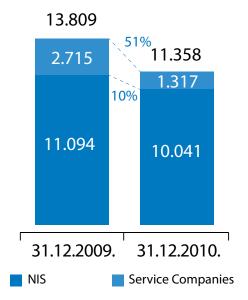
- Investing in people
- Developing a candidate pool
- Recruitment of highly qualified experts
- Creating a personnel development system
- Development of an integrated system of employee performance evaluation
- Introducing a new motivation model
- Development of an integrated corporate culture
- Investment into social assistance for employees

#### **Personnel Structure**

As of December 31, 2010 the total number of employees in NIS amounted to 10,041. Based on service agreements, NIS employs an additional 1,317 employees through subcontracted companies.

The average age of NIS personnel is 44 years, while the average number of service years is 20.

NIS does not employ underage persons.



#### Number of employees\*

	Phd	M Sc/ MA	OUD	HED	HS	TYHS	HQW	QW	SQW	NQW	Total
Total No. of employees	12	126	2,054	710	3,990	57	1,110	1.881	49	52	10,041

#### Age structure of employees as of December 31, 2010

up to 20	20-30	30-40	40-50	50-60	above 60	Total
1	561	2,764	3,645	2,818	252	10,041

#### Gender ratio:

	Male	Female	Total
Number of managers	213	120	333
Number of employees	7,743	1,965	9,708
Total	7,956	2,085	10,041

#### Number of full-time and part-time workers\*

	Phd	M Sc/ MA	OUD	HED	HS	TYHS	HQW	QW	SQW	NQW	Total
Full-time	12	126	2,053	709	3,987	57	1,109	1,879	49	52	10,033
Part-time	-	-	1	1	3	-	1	2	-	-	8

#### Employee fluctuation rate

Employee fluctuation	2009	2010
Full-time employees	297	476
Termination of employment	1,362	1,433

#### Basis for termination of employment

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

#### The number of full-time and part-time employees

As of December 31, 2010 NIS employed 10,033 full-time employees, and 8 part-time employees, with full 8 hours of working time. In NIS there are no employees working based on reduced hours.

Although there are investments in Angola and Turkmenistan, NIS did not employ any staff abroad during 2010.

when the employer intends to cancel a job, position or to reduce the number of employees in a certain organizational unit, he is required to provide to the employee an offer of a job transfer. The deadline for acceptance of such offer by an employee is 8 working days as of the date of receiving the offer.

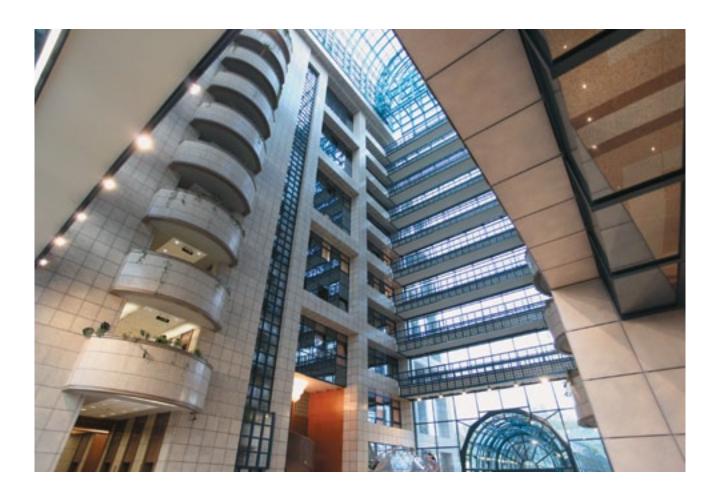
During employment by the Company, all employees are provided with the same opportunities to exercise their rights and obligations based on employment, and in compliance with statutory regulations, as well as based on defined policy and goals in the area of human resources. The Company provides protection from any kind of discrimination, regardless of nationality, gender, marital status, age and physical capabilities.

Trade unions actively monitor the status of employees.

HS - High School TYHS - Three-Year High School **Highly Qualified Worker** Qualified Worker

Semi Qualified Worker Non Qualified Worker

Phd - Doctorate Master Degree M Sc/MA - Master of Science / Master of Arts **OUD - Other University Degree HED** - Higher Education Degree



#### **Voluntary Severance Pay**

Based on the Agreement for the Purchase of NIS Shares and the approval of the trade union, the Company may offer termination of employment contract by consent, accompanied by one-off severance pay in the amount of 750 Euros for each year of service, plus four average salaries in NIS. The voluntary severance pay program is implemented strictly in compliance with the obligations assumed by NIS after the arrival of the new majority shareholder. The decision on voluntary termination of employment based on the program

is only possible through mutual consent between employee and the Company. In 2010, 1,238 employees took part in the voluntary severance pay program.

#### **Voluntary Severance Pay Program**

2009	1,237 employees
2010	1,238 employees

# Cooperation with Trade **Unions and Social Support**

Management values highly direct communication with employees. The key social partner of NIS management are the trade unions of employees in the Company. A constructive relationship with the trade unions contributes to the implementation of the rights of employees stipulated by the Collective Agreement, Social Program and Labor Law. Communication between NIS management and representative trade unions includes: everyday consultations, weekly and quarterly meetings with the purpose of presenting the results of NIS business operations and improvement in social dialog between the employer and the trade unions. The trade union understands the importance of transformations in the Company and by continuing to protect the interests of its members it is taking a constructive position.

There are two representative trade unions in NIS:

#### The number of employees in representative trade unions

Total	8,281
United Trade Union of NIS- Naftagas	2,395
United Trade Union of NIS	5,886

- United Trade Union of NIS which covers organizationally the blocks of "Sales and Distribution", "Refining" and "NIS headquarters" and
- United Trade Union of NIS-Naftagas, which covers the blocks "Exploration and Production" and "Services"

Representative trade unions participate in the preparation of internal company documents which regulate issues of safety and occupational health, and housing for employees.

NIS trade unions are members of the largest trade union headquarters in Serbia – the Independent Trade Union, the Energy Committee of the RoS, International Trade Union of Chemical, Energy and Mine Workers (ICEM) and Regional **Energy Trade Union Network of South East** Europe (RETUNSE).

In addition, NIS trade unions have excellent cooperation with trade unions of energy companies in the region (MOL in Hungary, INA in Croatia, Optima in the Republic of Srpska, Jugopetrol in Montenegro, Petrol in Slovenia, Petrom and Rompetrol in Romania, Hellenic Petrol in Greece, Petrol is in Turkey). NIS trade unions also have very good cooperation with the trade union of Gazprom, with the Omsk Refinery, as well as with energy trade unions in Ukraine and Belarus. This cooperation is reflected in the attendance of trade union congresses in these countries and in the exchange of information related to trade union topics.



Regarding sports activities, trade unions have a Sports Department which deals with the organization of competitions in all sports in which NIS employees take part (Naftijada, Spartakijada, different tournaments). Also, trade unions organize recreational activities for employees (volleyball, basketball, football, fitness, Pilates, bowling, swimming, fishing).

As of December 31, 2010, 83% of NIS employees are members of representative trade unions.

#### **Collective Agreement**

In January 2007 the current Collective
Agreement was signed, regulating the rights, obligations and responsibilities of all employees and the Employer in the area of labor relations. The Collective Agreement protects the rights of employees and defines labor relations in detail. The Collective Agreement specifies the obligation of the Employer to ask for the opinion of the Trade union in the procedure of adoption of internal company

documents that regulate the rights, obligations and responsibilities of employees.

In October 2010 representatives of trade unions and NIS management signed an Agreement regulating the agreement of signatories to undertake the modification of the existing Collective Agreement. The purpose of the Agreement was to jointly develop proposals and agree acceptable solutions, during the next six months, for the draft of the new Collective Agreement of NIS which is to be adopted in 2011.

The Collective Agreement applied to all employees in 2010 as well.

In compliance with the Collective Agreement employees are provided with solidarity and financial support:

- Solidarity aid provided to employees in case of their parent's death (or adopted parents).
- Solidarity aid provided to the family in case of death of an employee as a result of work accident, as well as in case of occupational illness.
- Solidarity aid provided to employees, members of employee's family and NIS pensioners in case of illness, rehabilitation or disability (for purchasing medicines, refunding of medical treatment costs and purchase of orthopedic aids).
- Solidarity aid provided due to destruction or damage of housing facility of the employee due to a natural catastrophe or other extraordinary incidents.
- Solidarity aid provided to employee

- for the birth of the third child and all subsequent children.
- Financial aid and scholarships during regular schooling of the children of deceased employees / employees who died in an accident.

All NIS employees are insured 24 hours against accidents (disability, death due to accident or death due to illness) and in case of surgery and more severe illnesses.

The Company supports employed disabled workers and employees suffering form occupational illnesses by providing job positions suitable for them based on their medical condition and physical and psychological capabilities. Employees, according to the Collective Agreement and Social program, are also provided with special benefits, such as:

- providing conditions for continuing education and training of employees
- additional voluntary pension insurance
- guarantees that the level of employee salaries in NIS will be at the level of salaries of leading companies in Serbia and also aligned with the consumer-price index increased for the actual growth in business performance results and growth in gross national product
- jubilee awards
- specific severance pay

The Collective agreement specifically treats retired employees: they are entitled to solidarity assistance for medical treatment, surgery, spas. Also they are entitled to use offices in business centers of Novi Sad, Belgrade and Pancevo for their meetings.

### Recruitment and Personnel Training

Particular attention is paid at NIS to the recruitment process.

In 2009 and 2010 the main business processes in this area were standardized:

- instructions for searching for candidates were standardized
- the procedure of verification of external and internal candidates, with which the Company wants to ensure the selection of the best candidates, was standardized
- the process of formation of the candidate pool, in order to ensure the continuous development and training of employees, who in the future might become key managers in the Company, was also standardized

Regarding the recruitment process, NIS policy is to fill all open and newly formed job vacancies primarily from internal sources of the Company (an advertisement is posted on the corporate intranet), and only when this is not possible, a search for candidates is initiated on the job market.

In order to be successful in the Company, it is necessary to be a professional, to respect colleagues, partners and society, share corporate values, demonstrate readiness to develop, cooperate and show tolerance towards cultural differences.

Particular attention is paid to the highest level of quality of young specialists who are coming to work in NIS. One of the key projects for attracting young and high quality experts is cooperation with universities, and in addition, in 2010 the Company took part in the Government program named First Opportunity.

#### Cooperation with Universities

In 2010 NIS and universities in Belgrade and Novi Sad signed agreements on strategic cooperation which are intended to strengthen links between education and industry in Serbia.

In the academic year 2010/2011 NIS awarded 6 scholarships to students of Novi Sad University who are interested in working in the energy sector.

#### "First Opportunity"

In 2010 our company joined the program set up by the Government of the Republic of Serbia – First Opportunity. This is one of the active measures to promote employment, providing an opportunity for undertaking internship programs, and also for the most successful candidates, an opportunity for full-time employment. A total of 66 volunteers have been hired, who at first underwent a 3 month professional training, and subsequently 50 young people were selected and offered an opportunity to enter internship programs in NIS.



#### **Candidate Pool**

The candidate pool represents a group of employees, potential candidates for being promoted to managerial positions in the Company structure. These are positions which, if left vacant even for a short period of time, could lead to a risk to the stability of the Company's business operations.

The benefit from investing into internally developed personnel, instead of hiring from the labor market, led to the development of the Standard for the Formation and Management of the Candidate Pool during 2010. The pool was developed based on recommendations made by managers and in compliance with established criteria.

## **Professional Development**

Education and personnel improvement in NIS is a continuous process which ensures development of human resources and improvement of knowledge, skills and competences. The importance attributed to employee training programs is best reflected by the Company's position in opting for gradual increase in job efficiency and development of competences as one of its priority tasks. In other words, opportunities for structured professional development of each employee are being opened. The Company is making every effort to provide all employees with a possibility to realize their maximum potentials, bearing in mind their capabilities, experience and interests.

In 2010 NIS invested 81.2 million RSD into the education of its employees.

By creating a system of high quality and continuous training, NIS wants to ensure that its employees will continuously gain new skills and increase their level of competence, in accordance with the standards in the area of production, refining and trade of oil and petroleum products.

We also started developing and implementing the corporate program of technical training, "rotation of professionals", with the purpose of providing them with an opportunity to become familiar with business processes in Gazprom Neft.

As a part of this program, employees get

#### Investment into human resources (million RSD)

	2009	2010
Cost of professional education	44.6	71.8
Conferences	4.5	8.8
Membership in business associations	1.0	0.6
Total	50.1	81.2

an opportunity to spend two weeks in organizational units of the Company in Muravljenko and Noyabarsk.

#### Integrated System of Performance Evaluation

NIS introduced a new program of management efficiency evaluation, a system of Management-by-Objectives (UPC), acquired from Gazprom Neft. According to this program all managers, from the CEO to line managers, are assigned clear annual tasks at the beginning of the year, based on strategic goals and the Company's business plan. Defined goals are then cascaded from the level of CEO and top management to lower management levels. At the end of the year, the contribution of managers is evaluated and achieved results are reviewed, based on which the work of managers is assessed. Thus, all managers are incorporated into a system of work efficiency control and are motivated to make extra effort in order to increase the operational efficiency of the Company.

# Number of training participants in 2010

NIS Headquarters				
Type of training	Number of participants			
Foreign languages	430			
Candidate pool trainings	222			
Personal requests (decisions)	24			
Team building programs	195			
Total	871			

UPS Block	
Technical trainings	146
Non-technical trainings	38
Licenses	108
Legally required programs	211
Total	503

Refining Block	
Technical trainings	17
Non-technical trainings	14
Licenses	3
Legally required programs	22
Total	56

Sales and Distribution Block	
External trainings	
Technical trainings	-
Non-technical trainings	25
Legally required programs	18
Licenses	
State license exams	2
Total	60

Internal tra	inings
Trainings for supervisors and regional managers	12
Basic training for shift supervisors	461
Additional training for shift supervisors	21
Basic training for petrol station attendants	82
Training for candidate pool for shift supervisors	29
Training for mentors- shit supervisors	51
Vocational retraining	28
Training ORFEJ POS and BOS for supervisors and deputy supervisors	720
Training ORFEJ POS and BOS for sellers	800
Training – workers from subcontracted companies	69
Total	2,273
Total NIS a.d.	3,763

# **Motivation of Employees**

One of the cornerstones of new corporate culture in NIS is the new system of motivation which covers all job positions. The introduction of a new system of motivation is one of the first steps that new management has taken, with the main purpose being to improve work efficiency of each employee individually and of the Company as a whole. Thus, a favorable organizational climate is being created in which the level of motivation and loyalty of employees towards the Company are raised. With such a system of employee motivation NIS, as a responsible company, is providing conditions which will contribute to its becoming one of the most attractive employers in the region, by retaining current and attracting the best professionals in the region.

Employee salaries in NIS are at the level of leading companies in Serbia, as is also guaranteed by the Collective Agreement. On average, salaries are almost double the amount of average gross salary in the Republic of Serbia.

	Average gross salary in 2010
Industry level in Serbia	44,875 RSD*
NIS	87,210 RSD

<sup>\*</sup>Data taken from Privredni Savetnik

In order to increase the level of motivation, NIS introduced monthly work assessment of employees whose work performance is evaluated using a remuneration system based on variable part of salary.

Performance based remuneration of employees extends to all job positions, according to the following criteria: expertise, qualification, job complexity, quantity and quality of work.

The regulation on work premium payments regulates quarterly and annual premium payments to employees, premiums for special achievements and participation in investment projects.

#### Social Package

In additional to material, the motivation system of employees in NIS also includes intangible remuneration. NIS employees are entitled to additional medical insurance. medical insurance in case of death caused by accidents, hospital and outpatient treatment, occurrence of work related occupational illnesses. NIS provides a budget for scholarships, jubilee awards, Women's Day, New Year's presents for children of employees, one-off payments due to termination of employment contract, retirement or due to loss of work capability, transportation costs. It finances the organization of cultural and sports events for employees.

Four thousand one hundred children of NIS employees, up to the age of 10, received New Year's presents in 2010.



#### **Corporate Sports**

We want to strengthen team spirit through a new strategy whose values are rooted in the Company's corporate culture, derived from the tradition of sporting events organized for our employees. Thus, in 2010 the Company organized for its employees the workers' sports games and corporate events. We thus demonstrate care for our employees, creating a pleasant work atmosphere. Our goal is to strengthen relations between organizational units, personal contacts between employees and to promote a healthy lifestyle.

Sports and recreation have been a part of NIS for more than 50 years. The Company finances activities related to sports and recreation

of employees, while trade unions deal with the issues of practical organization of those events.

In 2010 funds were allocated for different sports activities, such as:

- 14th Sports Event of the Workers of Oil and Gas Industry of Serbia (Naftijada)
- The 16th NIS Naftagas Workers' Sports Games held on Tara Mountain
- The participation of the NIS football team in a football tournament held in Moscow, where petroleum companies competed for the Gazprom Neft prize.



#### MAIN MID-TERM PLANS:

- Implementation of corporate culture, increasing the loyalty and motivation of employees
- Implementation of the system of key performance indicators, development of criteria for qualification categories for each job in NIS (grades)
- Increasing the number of young specialists through the program "First Opportunity" and expanding cooperation with universities and educational institutions
- Development, alignment with trade unions and adoption of the new Collective Agreement of NIS
- Expanding the program of professional training of employees and formation of corporate training centers





# Social Responsibility

The Company's business operations have a major impact on social and economic life in Serbia. NIS actively participates in addressing priority tasks of the country's regional development by cooperating with stakeholders in the regions where it operates, and implementing sponsorship and donations programs aimed at developing cultural and social infrastructure, education and upbringing of children and youth.

Regional Principle – implementation of donation projects in regions where the Company has its operational, commercial or other interests related to business development

Potential – NIS considers sponsorships and donations as investments into the future of areas which the company believes to have significant potential in terms of business development.

Efficiency – Sponsorships and donations projects need to provide the maximum effect, both from the aspect of providing funds, and spending of funds by those who receive them, as well as in regards to the position of securing the business interests of the company and establishing long term partnerships with local authorities and population. One of the important outcomes is the creation of a positive climate for the realization of investment projects, and projects related to business development.

Accessibility and transparency – of charitable activities are necessary conditions for ensuring the efficiency of spending. Projects that are being realized should match the current needs of the population of the region. In addition, a transparent and efficient system of control of spending of special purpose funds should be secured.

Singularity – in order to avoid a potential conflict of interest, the Company seeks to avoid participating in projects in which its competitors are already taking part.

Guided by the standards of best practice, NIS is building its social policy based on the principle of meeting the most important needs of society. We participate in projects that are changing life for the better, and thus contribute to Serbia's progress into the future.



## Sponsorship and Donation Committee

In 2009, the Company founded a Sponsorship and Donation Committee consisting of representatives of major organizational units of the Company. The Committee's functions include planning and control of implementation of programs of social and economic cooperation with cities and municipalities in Serbia, review and approval of sponsorship and donation projects,

control of spending of funds and analysis of achieved results. Particular attention is paid to control which is carried out, starting from the defining of the budget to individual realization of all projects. Decisions are made regarding future projects based on the success of realization of current ones.

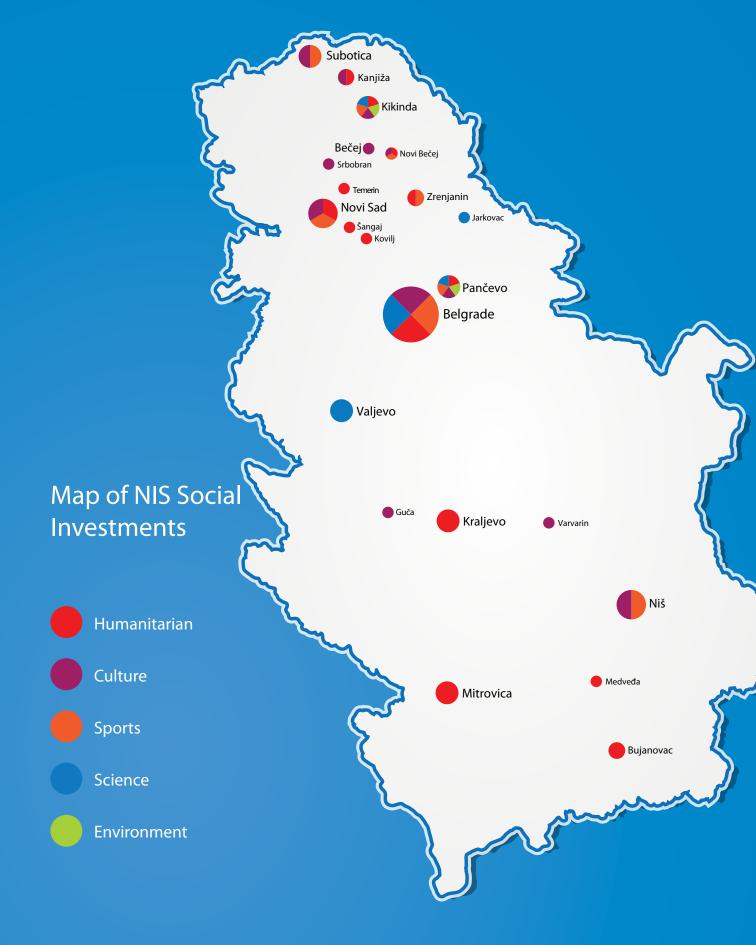
In 2010 NIS allocated around 305.2 million RSD for support of social responsibility programs.



In accordance with the strategy of socially responsible business operation and the adopted Sponsorship and Donation Policy, NIS selected the following priority programs:

# Projects in 2010

Energy of Sport	106 billion RSD
Culture Without Borders	48.7 billion RSD
Cooperation Based Development	13.8 billion RSD
Humanitarian projects	24 billion RSD
Development of Science and Young Talents	112.7 billion RSD
Total	305.2 billion RSD



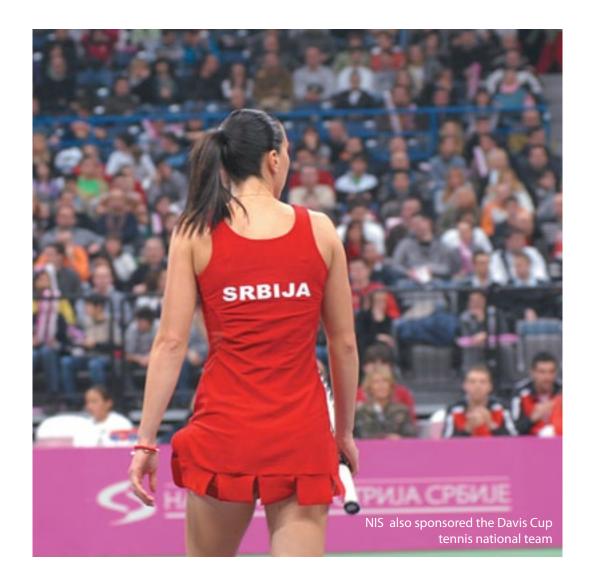


# **Energy of Sport**

This program is focused on supporting professional and children's sports, clubs and national teams, as well as the promotion of sports and of a healthy way of living. At present, the Company is implementing sponsorship projects in the area of basketball, tennis, volleyball, motor-car races.

In 2010 the Company allocated RSD 106 million for sport related sponsorship projects. The main projects are

- Basketball Club Partizan
- Volleyball Club Vojvodina
- Serbian Davis Cup Tennis Team
- Children's Mini Basket League (basketball tournaments for the children under the age of 12 across Serbia)



- "NIS Bike Rock Mission 2010" (a caravan of motorcyclists under the organization of Harley Davidson Club Serbia distributed humanitarian aid to citizens in the northern part of Kosovo)
- Basketball Club "Spartak" (Subotica)
- Clubs supported by the NIS trade union - karate club NIS, NIS Petrol Bowling Club and NIS Jugopetrol

Chess club in which NIS employees and their children participate actively



## **Culture Without Borders**

Under the program named "Culture Without Borders" NIS supports cultural festivals and institutions of national and international significance in different regions of Serbia. Besides this, NIS pays particular attention to

projects of Russian-Serbian cultural cooperation. The funds allocated for sponsorship projects within the program "Culture Without Borders" in 2010 amount to RSD 48.7 million.

Major cultural events in 2010:



- Guca Trumpet Festival (traditional competition of folk trumpet orchestras) and the International Nisville Jazz Festival
- Exit Festival (the largest international music festival in South East Europe)
- FEST 2010 (the biggest film festival in South East Europe)
- Belgrade Philharmonic Orchestra (the

- most prominent institution of classical music in Serbia)
- Sterijino Pozorje Festival (theater festival)
- Zmaj Children Games
- Children's festival "Joy of Europe".



# **Development of Science** and Young Talents

The goal of this program is to support the development of the scientific potential of related faculties, to support research and scientific discoveries and the development of talented secondary-school students and university students.

Total donated funds for the program of development of science and young talents program in 2010 amounted to RSD 13.8 Million.

The most important projects were:

- Petnica Science Center (the biggest research center dedicated to the young people from all over Serbia)
- Serbian Center of Talents
- Serbian Geological Association



## Humanitarian projects

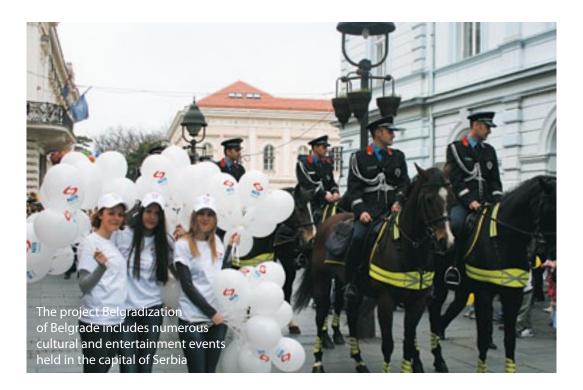
The program includes projects focused on supporting socially underprivileged categories of citizens or social organizations. The Company allocates funds for providing support to victims of natural disasters and technological accidents. Specific items in this respect represent projects related to Serbian and Russian friendship.

Total funds donated to humanitarian projects in 2010 amounted to RSD 24 million.

Among the humanitarian projects are the following:

- Support for the reconstruction of Hilandar Monastery,
- Mala matura veliko srce (initiative through which a group of final year elementary school pupils from Kosovo and Metohija stay for several days in Belgrade)
- support for the Association for Inclusion of People With Disabilities
- Construction of a safe house in Pancevo
- Planting of plane-trees in Belgrade

NIS provided urgent humanitarian aid to Kraljevo after the devastating earthquake in November 2010. In order to resolve the issue of drinking water shortages, 5 trucks with over 97 000 liters of Fruska gora's drinking water "Jazak" were delivered.



# **Cooperation Based Development**

The projects covered by this program are aimed at strengthening partnerships with the regions in which the Company has its operations, with local municipalities and the local population.

The program is based on regional priority projects, it is implemented in cooperation with local authorities, defined by the agreements on social and economic cooperation, with particular significance being given to the principle of openness and transparency.

In 2010 NIS signed an Agreement on Strategic Cooperation with the Govern-

ment of Vojvodina in the area of environment protection, economic development, improvement of investment climate and resolving of social problems in the region. In 2010 specific social and economic agreements with individual towns and municipalities in Vojvodina, Novi Sad, Pancevo, Kikinda, Zrenjanin, Novi Becej, Srbobran and Kanjiza, as well as with Belgrade and Nis, were also signed. Total donated funds for this purpose amounted to RSD 112.7 million.

Particular attention in these Agreements is paid to obligations of NIS in the areas of implementation of humanitarian projects in the regions. Priorities for the projects were assigned to sports, culture, science and development of young talents.





## MAIN MID-TERM PLANS:

- Optimization of costs dedicated to charity, considering strategic programs defined by the Policy of sponsorships and donations
- Improving the method for evaluation of effectiveness of sponsorship and donation projects
- Realization of all conditions defined in existing
   Agreements signed with the regions





# **Steps Towards Safe Development**

Environment protection is one of the major priorities and an integral part of the strategy of efficient management in NIS. As an oil company, the result of production and operational activities has a significant impact on the environment and is related to the use of natural resources and emission of harmful and hazardous materials into the atmosphere, soil, water and groundwater. As a company which is well aware of its responsibility for ensuring environmental protection and the protection of human health, NIS is oriented towards rational use of natural resources and mitigation of negative effects upon the life of people and the environment.

# Policy on environmental protection, industrial safety and safety at work

Being aware of the threats and risks present in the work processes in the oil industry, as well as of the impact on the environment, NIS management in 2010 adopted the Policy on Environmental Management, Industrial Safety and Safety at Work.

The policy defines the safety of employees, population and environment as one of the priorities in making decisions in the Company. NIS defined the following goals:

- constant reduction in the number of work related injuries, occupational illnesses, accidents and negative impacts upon the environment
- alignment of operational activity with the requirements of the national law in the area of environmental protection, industrial safety and safety at work, international standards (OH-SAS 18001 – Occupational health and safety management, ISO 14001 – environmental

- management) and standards in Gazprom Neft
- organization of safe operations at the level of NIS through introduction of a single integrated system of management by 2012.

#### **Environmental Audit**

In 2010, and in accordance with the Sales and Purchase Agreement, activities of a complex environmental audit were conducted with the purpose of identifying the environmental situation, the scope of historical pollution, as well as of assessing environmental risks at NIS facilities. Accordingly, 12 operational facilities of NIS were selected, including oil and gas refineries, storage facilities, petrol stations, collection and shipment stations at oil fields and service units.

For the purpose of conducting the audit, foreign independent companies were employed and their reports contain:

Environmental Assessment (ground



and surface waters, soil, air, waste) within the framework of NIS business operation

- the assessment of environmental conditions (ground and surface water, soil, air, waste) within the framework of NIS business activity
- estimation of existing and potential risks upon the environment
- assessment of the environmental management system
- identification of corrective measures for improving the environmental situation and mitigation of environmental and economic risks

Based on the results of the environmental audit, development of action plans related to measures and activities in the area of protection of air, water, soil, groundwater, waste management and environmental monitoring were initiated. The projects are related to elaborate analysis of the soil, bioremediation, construction or reconstruction of the sewage system, installation of separators, construction of waste disposal facilities, additional environmental monitoring plans, etc.

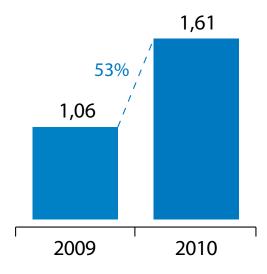
## Costs of Environmental **Protection**

The funds that NIS allocates for environmental protection are directed towards the modernization of equipment, establishment of an environmental monitoring system, remediation measures of contaminated sites, constant professional improvement and education of environmental specialists.

The key element of the modernization program is the construction of the complex for mild hydrocracking and hydrotreating (MHC/DHT) in Pancevo Oil Refinery. The implementation of this project will enable the production of gasoline and diesel exclusively in compliance with EU standards, better valorization of crude, reduction of the level of environment pollution and energy optimization in production.

In addition, capital investments related to the modernization of the Pancevo oil refinery are directed to the following projects:

#### Capital investment into environmental protection (billion RSD)



- reconstruction of the fluid catalytic cracking complex (FCC) – an ecological project which ensures that the emission of powder materials into atmosphere are lower than 50 mg/Nm3 (current national legal regulations prescribe maximum emission of powder matter up to 100 mg/Nm3)
- construction of the unit for the recovery of used sulfuric acid – owing to this unit sulfuric acid generated during production is recovered and can be used repeatedly in

- the same process. In this way, environmental accidents caused by the transportation of this hazardous material are prevented
- reconstruction and modernization of the Danube terminal in Pancevo oil refinery – there are plans for installing new technology of a closed loading/unloading system for vessels. Through reconstruction and modernization of the terminal, EU regulations regarding allowed emission levels at loading and unloading will be met.

Concurrently, as a part of the Pancevo oil refinery modernization program, other environmental projects will be implemented whose purpose is to reduce the emission of hazardous and harmful materials into the atmosphere, increasing energy efficiency and contributing to a significant reduction in soil and groundwater pollution.

## Major investments in Pancevo oil refinery, per project

Name of the project	Invested in 2010 (million RSD)
Reconstruction of FCC unit in order to reduce the emission of particles into the atmosphere	626
Recovery of used sulfuric acid	508
Reconstruction and modernization of RNP terminal on the Danube	192
Reconstruction of the railway loading station – measuring systems	73



# **Energy Consumption and Energy Efficiency**

The modernization and reconstruction of existing equipment will have a positive effect on the environment and will contribute to the increase in energy efficiency.

In order to enable rational use of energy, NIS implements the following projects:

- implementation of combustion of water and heavy fuel oil emulsion in boilers and heaters of RNP in order to reduce the emission of nitrogen oxides (NOx)
- adding of additives to fuel oil for boilers in the power station and condensate recovery in Novi Sad oil refinery
- use of refinery gas as a fuel for process heaters: fuel gases are returned to the production process, and replace the same amount of natural gas.

### Consumption of energy and fuel for NIS a.d. blocks

Organizational unit of NIS a.d.	Electricity (kWh)	Own fuel consumption (gasoline, diesel) (t)	Own consumption (fuel oil, fuel gas) (t)	Steam (t)	Gas (m3)
Refining block, RNP	119.589.764	3.381	200.223	1.729.462	-
Refining block, RNS	28.711.890	25	31.737	428.166	7.717.962
Exploration and production Block	38.654.945	2.122,7	-	-	43.973.765
Sales and distribution Block	29.893.467	-	-	-	38.121
Total	216.850.066	5.528,7	231.960	2.157.628	51.729.848

#### **Pollutant Emissions**

Emissions of hazardous and harmful materials into the air mostly result from combustion processes in process heaters and boilers in refineries, and a smaller part result from tank area emissions.

In 2010 the implementation of the project and program whose aim was to reduce significantly the total emission of pollutants was initiated.

Emissions of harmful and hazardous materials and their presence in the

atmosphere at NIS are regulated in the following ways:

- primary measures: prevention, control and technical/technological interventions affecting the combustion process
- secondary measures: elimination of harmful and hazardous gases by applying appropriate technological procedures, following recommendations, as well as best available technologies for the reduction of emissions
- measures for emission reductions comprise the use of fuel oil with low sulfur content, use of natural gas as a cleaner fuel and installation of burners which ensure low emission of nitrogen oxides

#### Data on harmful material emissions, per NIS blocks

Organizational unit		Po	llutant emissi	ons
of NIS a.d.		SO <sub>2</sub>	NO <sub>2</sub>	Powder materials
Dofining block DND	2009	7,527	1,886	383.6
Refining block RNP	2010	7,473	1,777	642
Refining block RNS	2009	1,342	726	90
	2010	797	772	22
Exploration and	2009*	-	-	-
production block and Services block	2010	4.14	52	0.25
T	2009	8,869	2,612	473.6
Total	2010	8,274.1	2,601	664.25

<sup>\*</sup> No Data Available



Significant improvements in environmental protection were realized owing to the modernization of equipment and units, and also through the introduction of new technologies:

- installation of fixed roofs with floating membranes on tanks for the storage of crude oil, intermediate products and finished products
- reconstruction of tank truck loading facilities and railway loading facilities and installation of vapor recovery system
- installation of the system for continual emission measurement at high emitters
- within the activity of exploration and production of crude and gas in 2010, the project of injecting the produced hydrocarbon gas from the reservoir "Melenci Duboko" into the gas cap of the reservoir "Rusanda II" was launched. With the realization of this project emission of CO2 (greenhouse effect gas) into the atmosphere is prevented, and its

- injection into the gas cap increases the utilization coefficient of the reservoir "Rusanda II", where additional quantities of crude and gas are obtained by maintaining the level of pressure in the reservoir
- at petrol stations the system for vapor recovery is introduced: vapors occurring in the course of loading and unloading processes of petroleum products and in the course of filling transportation vehicles with petroleum products are collected, condensed and returned to underground tanks

NIS is adjusting its activity to weather and climate conditions, with the purpose of minimizing unpleasant smells and harmful gases. At NIS facilities in Pancevo instruments for measurement of gas concentrations are in place. Depending on the climate and wind directions changes, operations are aborted.



#### **Fuel Production According** to EU standards

In 2010, NIS stopped producing leaded gasolines and started the production of unleaded motor gasoline Euro Premium BMB 95, which is fully compliant with the requirements of the SRPS EN 228 quality standard.

Negative effects of petroleum products upon the environment in 2010 were reduced in comparison to 2009, owing to:

- start of production of unleaded gasoline of Euro-5 quality standard (sulfur content below 10 ppm)
- increase in production of diesel fuel of Euro-5 quality sulfur content below 10 ppm)
- reduction in the production of D-2 diesel fuel (high sulfur content)
- reduction in the production of heating fuel oil with sulfur content up to 3%

These measures ensure, in addition to higher competitiveness of NIS products, a positive effect for environmental protection.

## Use of water resources and waste water treatment

Water for use in all parts of NIS is supplied from the river water catchment, public waterworks and groundwater.

In 2010, the amounts of total used and waste waters were reduced in comparison to the previous year.

#### **Waste Waters**

For the purpose of environment protection in 2010, the projects related to the mitigation of negative effects of waste water were either realized or started. The quality of waste water is controlled four times a year, in accordance with statutory regulations.

In Refineries the systems of storm and oily sewage were constructed, as well as waste water treatment plants. Also, at the facilities in the Sales and Distribution Block (storage and petrol stations) separators are installed – units for the separation of oil and water phases.

After primary treatment, storm water in the Pancevo Refinery is released into the

#### Consumption of fresh water per Blocks of NIS a.d., in 2009 and 2010

		Consumption of fresh water (m³)				
Org. unit		River	Public waterworks	groundwater	total	
Dofuing block DND	2009	2,524,434	389,169	-	2,913,603	
Refining block RNP	2010	2,645,331	367,530	-	3,012,861	
Dofining block DNC	2009	3,504,000	194,686	-	3,698,686	
Refining block RNS	2010	2,184,800	110,246	-	2,295,046	
Exploration and production block and Services block	2009	-	-	318,873	318,873	
	2010	-	23,000	274,653	297,653	
Sales and distribution Block	2009*	-	845,000	-	845,000	
	2010*	-	815,000	-	815,000	
<b>T</b> . 1	2009	6,028,434	1,428,855	318,873	7,776,162	
Total	2010	4,830,131	1,315,776	274,653	6,420,560	

<sup>\*</sup>In Sales and Distribution block, fresh water resources are used, however they are not recorded individually



channel of Azotara (surface water), while oily waste water is sent to the waste water treatment plant in Petrohemija. In the Novi Sad Oil Refinery storm and oily waste water is released after treatment into the town collector, which is considered public sewage.

For the purpose of soil and groundwater protection and ensuring the more efficient operation of the waste water treatment plant, the Novi Sad oil refinery is implementing a project for repairing and reconstructing oily sewage, as well as reconstructing and modernizing the waste water treatment plant.

For the purpose of reducing the amount of contaminating materials in waste water, the Pancevo oil refinery started the realization of the project for the construction of a closed drainage system in production which is intended to reduce the release of oily materials into the oil and storm sewage

#### Discharged water in 2009 and 2010, per Blocks

	Waste waters (m³)				
Organization part		Recipient	External treatment	Public sewage	Total
Refining block RNP	2009	294,730	1,691,099	-	1,985,829
Relining block kine	2010	269,467	1,729,756	-	1,999,223
Dofining block DNC	2009	-	-	1,223,197	1,223,197
Refining block RNS	2010	-	-	1,006,225	1,006,225
Exploration and production	2009	352,000	-	17,500	369,500
block and Services block	2010	358,280	-	17,687	375,967
Sales and distribution Block	There are no data available regarding waste waters in Sales and Distribution block			in Sales and	
Total	2009	646,730	1,691,099	1,253,881	3,578,526
	2010	627,747	1,729,756	1,023,912	3,375,822

systems, and to minimize subsequent overload of the waste water treatment plant in Petrohemija.

# Research and Use of **Renewable Energy Sources**

In 2010 NIS continued with the research of geothermal energy and supported projects which promote its use. During the last thirty years over 70 hydrothermal wells were drilled in Vojvodina. Hydrogeological conditions were defined and data systematization was performed, as well as geothermal regionalization of Vojvodina.

Besides this, significant attention is dedicated to the use of alternative energy sources, primarily, solar energy. By using solar collectors, the heat generated by solar energy is used for preparation of warm sanitary water, additional heating of water in heating systems and pools for the production of electricity. Application of these technologies is a part of NIS investment projects and has been implemented in recreational centers of Becici in Becici and in the hotel Splendido in Prcanj.



## Soil Use and Remediation

The Company performs the remediation of contaminated soil resulting from operational activities in the area of production, refining and sales and distribution of crude and petroleum products.

In the course of exploration and production of crude oil and gas, large amounts of drilling material and waste mud are deposited into primary mud pits. Such locations are subjected to remediation and recovery of the soil to original use. In NIS there are 142

non-remediated primary mud pits and three absorption pools. In 2010 the project of remediating historical contamination of soil was initiated, with its realization expected to reduce the negative impact on the environment, primarily on the soil, and indirectly on groundwater. In 2010 42 mud pits were remediated, as well as one absorption pool. There are plans for further remediation of absorption pools at several NIS production facilities where formation water or waste, resulting from the stimulation of wells by hot water and crude, are deposited.

In the Pancevo oil refinery preparations have been finalized and the procedure



of bioremediation of contaminated soil (around 1000 m3) resulting from a leaking pipeline was started. The environmental audit included examination of the soil from deeper layers (up to the level of groundwater) and surface soil, as well as examination of the quality of groundwater. The scope of soil and groundwater contamination by crude and petroleum products was defined and the limits, thickness, depths and layout of contamination were defined.

In the Novi Sad Oil Refinery the pilot bioremediation project of soil from the tank containment N-8 was finalized, which resulted in a significant reduction in the concentration of oil compounds in the soil, while the method of cultivation and fertilization was proven to be the most efficient in supporting the indigenous micro flora.

The remediation of contaminated soil is carried out not only at the refinery site, but also at all facilities at which petroleum products are used: petrol stations, storage and collection stations. NIS monitors the spreading of contamination and mitigates the consequences as promptly as possible.



# Health and Safety on the Job

The newly adopted Policy on the Environment, Industrial Safety and Safety on the Job pays particular attention to the issue of safety at work and of reducing the number of accidents and injuries on the job.

Considering the technogenic and "human" factors of potential risks, NIS works on increasing the level of readiness for operational and efficient reactions in crisis situations and for resolving their consequences.

In NIS, particular attention is paid to:

- safety and health protection of employees and the local population in the regions where the company has its operations
- protection against fires, explosions and accidents
- physical and technical security of employees, places of work and availability of personal protection equipment

- physical and technological security of third parties at NIS facilities
- monitoring and protection against incidents and processes bearing a potential environmental risk

Regular medical check-ups are undertaken in accordance with the recommendation of the Ministry of Health, as well as checkups in compliance with current company regulations. Every year managers of blocks prepare plans for specific medical check-ups for their employees.

# Reducing the Number of **Work Related Injuries**

The key task in the area of safety at work is to reduce the number of work related injuries, particularly in production. Owing to the

introduction of the Policy, statistical data are collected which represent the dynamics of work related injuries and their analysis.

Out of 191 injuries in 2010, one half is related to employees at retail facilities.

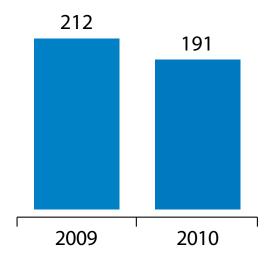
These injuries led to 5,241 days of absence due to sick leave.

Immediate causes of accidents, in 38% of cases, were fall accidents, including falls happening on the same level, trips, slips or fall-ins.

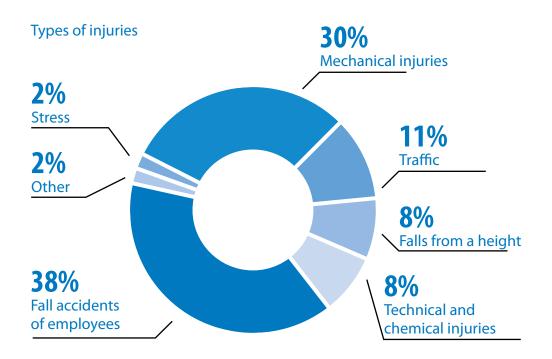
In comparison to previous years, in 2010 the number of work related injures was lower.

In 2010 there were no fatalities, nor disability cases. This is the result of the successful

#### Number of injuries



application of preventive measures: training of employees on safety at work and better application of collective and personal protective equipment in work processes.





# **Employee Training on Industrial Safety and Safety** at Work

Analysis of accidents shows that in the majority of cases the "human factor" was responsible for the occurrence of accidents. The new approach to safe operation, which was adopted from Gazprom Neft, requires for the main responsibility for elementary

measures of environmental protection, industrial safety and safety at work to be with immediate operators and their line managers.

Depending on his/her job, each employee at NIS is required to undergo a mandatory training program on fire protection, health and safety. An efficient method for raising the level of industrial safety and safety at work includes trainings and work meetings



which are regularly held in all organization units of NIS.

In addition to mandatory trainings for employees, the Company also takes care of the safety of third parties subcontracted to perform works for NIS. Agreements signed with subcontractors specify the risks and dangers of each specific job, as well as the obligations that the contractor needs to fulfill beforehand, in the course

of and after the work has been completed. Third parties need to be informed of the rights, dangers and risks of the job and of all necessary information provided by NIS, to properly handle operating equipment, tools and hazardous materials. Competent departments at NIS are charged with properly informing contractors and subcontractors about regulations, and with their observance.



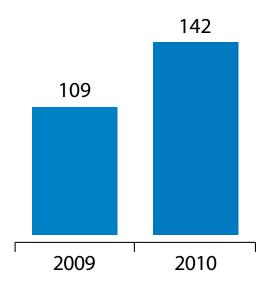
## **Ensuring Industrial Safety**

One of the major goals of the Company in the area of industrial safety is to gradually reduce the number of accidents, work related injuries and occupational illnesses.

The system of industrial safety management includes key processes of identification of hazards, assessment and management of professional risks, which implies gradual introduction of the practice from large oil companies in the area of technique, technology and management of industrial safety, safety at work and environment protection in all operational facilities of the Company.

Corporate norms and standards adopted by the Company in this area, as well as efforts in applying these standards are implemented in parallel with the modernization of production and introduction of advanced technological solutions, ensuring that serious consequences for the employees, the environment and the Company as a whole are minimized.

**Number of Environmental Accidents** 



It is important to point out that the number of environmental accidents in 2010 was higher than in the previous year, due to the significant improvement in the process of recording data on various kinds of accidents. Previously, only major accidents were recorded, but NIS adopted the Standard which specifies that all accidents are to be recorded, classified, analyzed, in order to identify the causes of accidents, analyze lessons learnt, adopt measures for the improvement of the situation and inform employees about accidents.

#### The number of environmental accidents in 2010, per block

Blocks		
Refining block RNP	16	spilling of crude or petroleum products into the soil
Refining block RNS	14	spilling of crude or petroleum products into the soil or water
Sales and Distribution Block	9	spilling of crude or petroleum products into the soil, or into water, emission of gas into air
Services Block	1	spilling of chemicals into the soil
Exploration and production block		spilling of crude to the soil
Total	142	

<sup>75</sup> percent of accidents occurred due to damages on installations.

NIS introduced an efficient system for reporting accidents by SMS messages. For the purpose of simultaneous informing of a larger group of users about the occurrence of an incident, the procedure is to send an SMS message to the mobile phone of the company server, with the application for automatic forwarding of messages to a larger group of users.

Incidents are classified based on internal regulations of NIS, according to which incidents are classified according to type, scope of impact, level of material damage.

Types of Environmental Accidents in 2010

Seriousness of accident	Number of environmental accidents	%
High	2	1
Medium	22	15
Low	118	84
Total	142	100

Two major accidents that occurred in 2010 were traffic accidents involving tank trucks during transportation, which led to the overturning of vehicles and spilling of several tons of petroleum products onto the road and into the environment, and led to the necessary remediation of environmental consequences.

Average accidents in 2010 were as follows:

- 19 incidents of oil pipeline perforations between facilities
- 1 incident of spilling of straight run naphtha during pump operations from tanks
- 1 breakage of hose during loading/unloading at terminal
- 1 breakage of tank truck chamber during bitumen loading

All accidents were remediated and competent government bodies were informed. In addition to returning equipment to technically adequate condition, spilled crude or petroleum products were collected, temporarily deposited and eventually treated.



## MAIN MID-TERM PLANS:

- Reduction in the number of accidents and mitigation of the negative impact on the environment, and the number of employee injuries
- Increasing the competence level of employees related to environment protection, industrial safety and fire protection
- Providing the latest personal protective equipment for employees
- Regarding environmental projects (investment and technological activities) continued implementation of projects according to adopted plan (primarily in the Pancevo refinery)
- Regarding norms related to environmental protection and safety, further development and adoption of standards in the area of environmental safety.

APPENDICES

# Appendix 1. Application of the Principle on Sustainability Reporting

The preparation of the Sustainability Report which will be useful to all stakeholders requires for certain rules to be observed. By using such an approach NIS follows these principles in the preparation of this report in order to ensure the quality of the report and compliance with the GRI (G-3) and AA 1000 APS (2008) standards. The following table presents the way these standards and principles were applied in the Sustainability Report for 2010.

### principles of reporting according to GRI (G-3) and AA 1000 APS(2008) standards

application of principles in preparation of the Sustainability Report for 2010

Materiality: In defining topics that should be included in this report, the Company was guided by recommendations on responsibilities and requirements of the AA1000 series of standards, using the so-called 'Materiality Filter". The process of selecting topics that will be an integral part of the report is based on an annual assessment of their materiality, which takes into account Company policy and commitments, as well as issues of concern to stakeholders and the media.

In the preparation of this report, NIS uses the following principles of materiality: Standards, policies and programs adopted by the Company and related to its social, economic and environmental activities. Topics covered in other reports prepared by other international oil and gas companies. Issues that are important for stakeholders, depending on how much the stakeholders were involved in the operation of the Company in 2010.

**Involvement of stakeholders:** The company conducts the process of identifying stakeholders, deals with them, and describes the results of this engagement in its reports, and analyzes problems that draw the attention of interested parties.

Structure of NIS stakeholders, procedures that were used to identify and approach them. Identification and communication are described in the chapter "NIS and interested groups". The company welcomes any feedback on the content and quality of this report and will take them into accounting preparing subsequent reports. Contact information and description of how to send feedback are given at the end of the Report

**Sustainability:** The company discloses available information on significant economic, environmental and social issues that are important to the general public. The company also strives to present its activities in the wider regional, national or industrial context.

This report presents data and describes activities at the national level, when such information is available.

**Completeness:** The company defines the scope of its report based on the assessment of materiality, allowing all stakeholders to form their own opinion on how the company deals with issues in areas that are of interest to them. As the company improves its management information system, reporting scope is gradually expanding. The Company's report contains descriptions of boundaries and time schedules.

The scope of the report is determined by the topics that are identified by the assessment of all aspects of sustainability. Organizational units included in the report were selected based on their impact on a particular topic. The report provides information and data for the calendar year 2010 (data for 2009 is included for comparative purposes when appropriate and available). The qualitative and quantitative information on financial and economic indicators of the company, which cover the consolidated financial report (see Annual Report of companies), are limited by the terms of business operation. All other qualitative and quantitative information, unless otherwise indicated and except for financial ratios are applicable to NIS a.d.

### principles of reporting according to GRI (G-3) and AA 1000 APS(2008) standards

### application of principles in preparation of the Sustainability Report for 2010

**Balance:** The company seeks to present both favorable and unfavorable information, and to describe the achievements and difficulties in its development and in its relations with stakeholders. A balanced approach allows stakeholders to see the full picture.

NIS strives to provide information on all topics identified in the report, and shown through achievements and challenges. Each chapter of the report contains mid-term plans of the Company.

		C	C+	В	B+	Α	A+
Mandatory	Self-Declared		@C				
Optional	Approved by an Independent House		GEI REPORT				
	Approved by GRI		SHART ORDER				

Comparability: The company strives to present all the quality indicators in a consistent manner and to ensure continuity of data presented to allow users of the report to follow changes in the work of the company in all reporting periods and to allow comparison with similar indicators, indicators of other companies. NIS has decided to rely on the G3 guidelines. The Index will help users to locate various indicators proposed in these guidelines, as given in Appendix 2. It is mainly intended to provide comparability of reporting with reports from other organizations.

**Accuracy:** The company strives to provide adequate qualitative and quantitative information on sustainability and aims to improve continuously the system used to collect and analyze this information.

In preparing this Sustainability Report, NIS uses the recommendations of the G-3 protocol indicators. Some of the consolidated information presented in this Report was obtained on the basis of expert assessments and other indicators are generated by using integrated calculations and data from different sources at several levels. The Company recognizes and accepts the fact that most of the presented social and environmental indicators inevitably depend on human factors, especially considering that the corporate system for sustainable management of th information is still under development.

**Timeliness:** The Company plans to publish reports on sustainable development on an annual basis, aligning the content and layout of reports with information contained in the Annual Report.

The process of preparing the Report is designed to be consistent with the presentation of consolidated financial statements and Annual Reports of NIS.

Clarity: In order to make the Sustainability Report interesting and understandable for the representatives of all stakeholders, the Company is working on presenting information in plain language and explaining the abbreviations used.

The report contains Appendix 3, where the reader can find definitions of terms and abbreviations used.

Reliability: The company is confident that all the information presented in the Report should be based on carefully collected and independently verified data.

According to the principles of reporting adopted by the Company, independent external assurance is an important instrument for providing information and data reliability. However, in preparing the first Sustainability Report, the Company decided to limit itself to the internal guarantees that those involved in the preparation of the Report were applying. The methods of assurance used include verification, analysis and comparison of data from different sources, and cross-checking.

# Appendix 2. Performance indicators disclosed in the Report

Profile	Description	Status	Description
Strategy a	and analysis		
1.1	Statement from the Chairman of the Board, Statement from the CEO	•	SR p. 4-9
Organizat	tional profile		
2.1	Name of the organization.	•	SR p. 20
2.2	Primary brands, products, and/or services.	•	SR p. 14; RBO p. 35
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	•	RBO p. 17, 32, 36-40
2.4	Location of organization's headquarters.		SR p. 120; RBO p. 14
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	•	SR p. 15; RBO p. 17; 33
2.6	Nature of ownership and legal form.		SR p. 12; RBO p. 14-16
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	•	SR p. 15
2.8	Scale of the reporting organization,		SR p. 12-15, 56; RBO p. 71, 140, 141
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	•	SR p. 12
2.10	Awards received in the reporting period.		SR p. 20
Report Pa	rameters		
3.1	Reporting period.		SR p. 25
3.2	Date of most recent previous report (if any).	n/a	This is the 1st report
3.3	Reporting cycle	•	SR p. 24
3.4	Contact point for questions regarding the report or its contents.	•	SR p. 119
3.5	Process for defining report content.		SR p. 24-29,110-111
3.6	Boundary of the report.	•	SR p. 110-111
3.7	Limitations on the scope or boundary of the report.	•	SR p. 110

Profile	Description	Status	Description
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	•	SR p. 110-111
3.9	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.	n/a	There are no comparative studies avaialble
3.10	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	n/a	There are no comparative studies avaialble
3.11	Table identifying the location of the Standard Disclosures in the report.	•	SR p. 112
Governance	e, Commitments and Engagement		
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	•	SR p. 17-19; RBO p. 36, 58-73
4.2	Indication whether the Chair of the highest governance body is also an executive officer.	•	RBO p. 63
4.3	For organizations that have unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	•	RBO p. 67
4.4	Mechanisms for shareholders and employees to provide recommendations or direction tithe highest governance body.	•	SR p. 29-33
4.14	List of stakeholder groups engaged by the organization.		SR p. 28
4.15	Basis for identification and selection of stakeholders with whom to engage.	•	SR p.
Economic I	Performance Indicators		
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	•	SR p. 38
Environme	ntal Performance Indicators		
Energy			

Profile	Description	Status	Description	
EN3	Direct energy consumption by primary energy source.	•	SR p. 91	
EN4	Indirect energy consumption by primary energy source.	0	SR p. 91	
Water				
EN8COMM	Total water supply per source		SR p. 95-97	
Emissions, eff	luents, waste			
EN20COMM	NOx, SOx and other significant emissions into the air, per type and mass	0	SR p. 92	
EN21COMM	Total amount of water discharged per quality and location of discharge	0	SR p. 95-97	
Human righ	ts			
Employment				
LA1COMM	Total workforce by employment type, employment contract, and region.	•	SR p. 56	
LA2COMM	Total number and rate of employee turnover by age group, gender, and region.	•	SR p. 57	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	•	SR p. 66	
Labor/Manag	ement Relations			
LA4COMM	Percentage of employees covered by collective agreements.	•	SR p. 60-61	
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	•	SR p. 57	
Training and	education			
LA10	Average hours of training per year per employee by employee category.	0		
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	0		
LA12	Percentage of employees receiving regular performance and career development reviews.	•	SR p. 66	
Diversity and Equal Opportunity				

Profile	Description	Status	Description	
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	•	SR p. 56; RBO p. 63-73	
Child labor				
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	•	SR p. 56	

Completely Partially 0 0 Under implementation Not applicable n/a SR Sustainability Report for 2010 RBO Report on Business Operations for 2010

# Appendix 3. Terms and Abbreviations

AA1000 (AccountAbility 1000) A series of standards developed by AccountAbility and addressing stakeholder engagement, sustainability reporting, and independent assurance of sustainability reports.

AccountAbility, The Institute of Social and Ethical AccountAbility, the developer of AA1000 series of standards, is an international non-profit organization established in the United Kingdom in 1995. Members of AccontAbitiliy include leading companies, as well as NGOs, research institutions, consultancies, and individuals from all over the world. AccountAbility's goal is to promote accountability of organizations for sustainable development.

**VIOC** Vertically integrated oil company

GRI Global Reporting Initiative. GRI is an international, non-profit organization, founded in 1997, with the purpose to achieve the highest quality in corporate reporting on sustainable development. Since GRI standards have been improving year to year, since 2006 G3 have been applied, so called "third generation" of reporting on sustainable development. G3 consists of principles and indicators which define the framework for the content an quality of the report in the area of sustainable development, and instructions for providing limits in reporting. G3 principles may be used by small companies, large multinational companies, public sector, non-government organizations and other organizations around the world.

EBITDA Earnings before tax, interest and amortization

Stakeholders All physical and legal persons interested in the business operation of the Company, who can influence the results of business operation of the Company or are under its influence

ISO International Organization for Standardization

ISO 9001 Quality Management Systems -Requirements (2000 version), one of the most widely used standards in the field of products and services quality management, developed by the International Organization for Standardization.

ISO 14001 Environmental Management Systems - Requirements with Guidance for Use (2004 version), one of the most widely used environmental management standards developed by the International Organization for Standardization.

MHC/DHT Mild Hydrocracking and Hydrotreating Complex

NO, Nitrogen oxides

**OHSAS** Occupational Health and Safety Management System. Internationally know standard for the assessment of health and safety of management system

OHSAS 18001 Occupational Health and Safety Management Systems - Requirements, a part of the Occupation Health and Safety Assessment Series (2007 version), one of the most widely used

occupational health and safety management standards.

**RNP** Pancevo Oil Refinery

**RNS** Novi Sad Oil Refinery

SO<sub>2</sub> Sulfur oxide (IV)

FCC Fluid catalytic cracker



KPMG d.o.o. Beograd

Kraljice Natalije 11 11000 Belgrade Serbia Telephone: Fax: E-mail:

Internet:

ne: +381 11 20 50 500 +381 11 20 50 550

info@kpmg.rs www.kpmg.rs Agencija za privredne registre

BD 7113

Matični broj 17148656 Račun 265-1100310000190-61 Raiffeisen banka a.d. Beograd

PIB 100058593

TRANSLATION

To the Board of Directors of Naftna industrija Srbije a.d.

## Limited Assurance Report on the 2010 Sustainable Development Report

#### Scope and Responsibilities

We have reviewed the 2010 Sustainable Development Report of the Naftna industrija Srbije a.d. (the "Company"). Directors are responsible for the preparation of the 2010 Sustainable Development Report in accordance with the Sustainability Reporting Guidelines issued in 2006 by GRI - Global Reporting Initiative and with the principles stated in the AA1000APS - AccountAbility Principles Standard (2008), issued by AccountAbility, as set out in the "Sustainable Development Report" section.

Directors are also responsible for defining 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.

#### Work performed

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. We have also conducted our engagement in accordance with criteria established by AA1000 Assurance Standard (2008) ("AA1000AS (2008)"), Type 2, which relates not only to the nature and extent of the Company adherence to the principles stated in the AA1000APS (2008), but also to the evaluation of the reliability of specified sustainability performance information. Guidance issued by AccountAbility indicates that the term "moderate assurance" used in AA1000AS (2008) is consistent with "limited assurance" as articulated in ISAE 3000. A limited assurance engagement on a 2010 Sustainable Development Report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the report, and applying analytical and other evidence gathering procedures, as appropriate.



#### These procedures included:

- comparing the information and data presented in the "Economic Development" section of the 2010 Sustainable Development Report to the corresponding information and data included in the Group's consolidated financial statements as at and for the year ended 31 December 2010, on which PricewaterhouseCoopers d.o.o. issued a report dated 23 February 2011 in accordance with the applicable Law on Accounting and Auditing of the Republic of Serbia and International Standards on Auditing;
- analyzing how the processes underlying the generation, recording and management of quantitative data included in the Sustainable Development Report operate. In particular, we have 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 Sustainable Development Report, on the processes and internal control procedures used to gather, combine, process and transmit data and information to the function that prepares the Sustainable Development Report, and on processes used to adhere and evaluate the conformity with the principles of "Inclusivity", "Materiality" and "Responsiveness" stated in the AA1000APS (2008);
  - sample-based analysis of documentation supporting the preparation of the Sustainable Development Report to confirm the effectiveness of processes, their adequacy in relation to the objectives described, and that the internal control system correctly manages data and information included in the Sustainable Development Report;
- analyzing the compliance of the qualitative information included in Sustainable Development Report with the guidelines referred to in Scope and Responsibilities paragraph and its overall consistency, in particular with reference to the sustainability strategy and policies and the determination of material issues for each stakeholder category;
- analyzing the stakeholder involvement process, in terms of methods used and completeness
  of persons involved, by reading the minutes of the meetings or any other information
  available about the salient features identified;
- obtaining the representation letter signed by the legal representative of the Company on the compliance of the sustainability report with the guidelines indicated in Scope and Responsibilities paragraph and on the reliability and completeness of the information and data contained therein.

Our work has been performed by a multidisciplinary team composed of sustainability and assurance specialists.

A review is less in scope than an audit carried out in accordance with ISAE 3000, and, therefore, it offers a lower level of assurance in the sense that we would have become aware of all significant matters and events that would be identified during an audit.

#### Limitations

As required by the guidelines set out in conclusion paragraph hereof, the Report at 31 December 2010 includes some data and information of the previous year for comparative purposes. As this is the first year the Report has been reviewed by independent auditors, such data and information have been examined by us to the extent that we considered to be necessary for the purposes of our engagement. Accordingly, this report does not extend to the data and information that we have not examined.



#### Recommendations

As indicated by the directors in the "Main Mid-term Plans" section of the Report, the Company intends to continue to extend the reporting scope of the sustainability report through further standardization of the existing information and data gathering procedures and to extend the set of information included in the Sustainable Development Report.

We will provide Company's management with a separate letter outlining our suggestions on areas of improvements relating to each of the AA1000APS (2008) principles. We present below our main recommendations, without prejudice to our conclusions presented above.

The Company adopted the principles stated in AA1000APS (2008) in 2010 for the first year. We suggest to continue the process to homogenize the data collection, evaluation, discussion with the stakeholders and reporting activities.

#### Inclusiveness

The Company's stakeholder engagement could be further strengthened by running open/interactive dialogue with stakeholders, by inviting different stakeholder groups to participate in joint sessions.

#### Materiality

The Company could communicate more explicitly the applied materiality and impact assessment processes.

#### Responsiveness

The Company could formalize the process for feedback to stakeholders, as well as communicate more clearly on how NIS deals with differences between the wishes and interests of stakeholders in its decision making process.

#### Opinion

Based on the scope of the assurance process, the following was observed with regard to performance information:

The findings of the assurance engagement provide confidence in the systems and processes used for managing and reporting sustainability performance information.

The majority of data and information presented were found to be accurate. Some data inaccuracies identified were found to be attributable to transcription, interpretation and aggregation errors. The development of data management protocols should be considered to ensure consistent and replicable reporting of performance.

The selected calculation methodology for some sustainability indicators has the ability to generate results of significant variance year on year. Such occurrences should be minimized.

Data trails selected were identifiable and traceable, and the personnel responsible were able to reliably demonstrate the origin and interpretation of data.



The sustainability performance disclosures presented within the report appropriately reflects environmental, social and economic performance achieved during the period.

Overall, it is our opinion that the information presented within the report is fair and accurate. The report was found to be a reliable account of Company's sustainability performance during the reporting period.

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2010 Sustainable Development Report of the Naftna industrija Srbije a.d. is not prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines issued in 2006 by GRI - Global Reporting Initiative and the principles stated in the AA1000APS (2008) issued by AccountAbility, as set out in the "Sustainable Development Report" section.

Belgrade, 15 July 2011

KPMG d.o.o. Beograd

(L.S.)

James Thornley Partner

This is a translation of the original Limited Assurance Report on the 2010 Sustainable Development 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, 15 July 2011

KPMG d.o.o. Beograd

James Thornley Partner

4

# Contact Details and Feedback

Any kind of feedback will be highly appreciated.

You can send your comments or questions regarding the Report by phone, to our e-mail or postal address.

NIS PR and Corporate Communications

Narodnog fronta 12 21000 Novi Sad

Tel: +38121 481 4021 Fax: +38121 481 4326

Milentija Popovića 1 11000 Belgrade

Tel: + 381 11 313 0116 Fax: + 381 11 222 9114

PRess@nis.rs



NIS a.d. Novi Sad Novi Sad, Narodnog fronta 12

www.nis.rs