

2012

REPORT ON SUSTAINABLE DEVELOPMENT 2012



REPORT ON SUSTAINABLE DEVELOPMENT **2012**



CONTENTS

THE CEO OPENING STATEMENT 4

ABOUT THE REPORT AND PRINCIPLES OF REPORTING..... 8

- The vision of sustainable development 10

COMPANY PROFILE 12

- NIS throughout the years.....18
- Mission, vision, values20
- Corporate management.....22
- Code of Business Ethics25
- Membership26
- Prizes and awards.....26
- Dialogue with stakeholders27

ECONOMIC DEVELOPMENT 30

- Exploration and production36
- The Center for Science and Technology
NIS Naftagas37
- Refining.....38
- Sales and distribution.....38
- Suppliers39
- Clients39
- Corporate security.....40
- Taxes42
- Investments43
- Regional development.....44
- Capital structure45
- Strategy46

HUMAN RESOURCES..... 48

- Equal opportunities.....53
- Fluctuation of headcount53
- Cooperation with trade unions57
- Personnel recruitment.....58
- Professional advancement of employees.....59
- Incentive system61

- Sport activity team63
- Occupational health and safety64

COMMUNITY RESPONSIBILITY 68

- Sport energy.....72
- Culture without limits.....74
- Energy of knowledge.....75
- Humanitarian projects77
- Cooperation to support development78

HEALTH AND SAFETY AND ENVIRONMENTAL PROTECTION..... 82

- Environmental protection86
- MHC/DHT.....87
- Overview of other completed enviromental
projects in 2012.....88
- Used materials89
- Energy consumption90
- Emission of pollutants90
- Waste management92
- Use of water resources94
- Waste water treatment95
- Recovery of contaminated soil
and subterranean waters.....96
- Environmental accidents.....97
- Research and use of renewable energy sources.....99
- Co-generation power plants99

THE MAIN MID-TERM PLANS 100

GRI INDICATORS 102

GLOSSARY 108

AUDITOR'S REPORT 110

CONTACT INFORMATION 112



Kirill Kravchenko

Managing Director NIS a.d. novi Sad

In 2012, NIS prioritized the technical and technological development of the Company. New technologies were introduced and new equipment procured throughout the year. This approach was applied in all areas of business – from production and refining to human resources. So it is no surprise that once again our investment program broke all records: 50.8 billion RSD were invested in Company development in 2012, which is an increase of 48% compared to 2011.

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The technical and technological development and the investment program were conducted in compliance with one of NIS's priority orientations – sustainable development. Our vision for the future includes energy efficiency based on increased use of renewable sources, while respecting the law and human rights, in combination with optimum use of available capacities and natural resources. Our objective is to protect people, goods and the environment, while ensuring a humane work environment and responsible business operations. For

this we rely on innovations, investments and open dialogue.

One of the most important activities in 2012 was the completion of the modernization project of the Refinery in Pančevo. This was one of the largest individual investment projects in Serbia with 550 million euro invested and is of great environmental importance. Namely, during its modernization, the available state-of-the-art technologies were implemented in the field of oil processing and environmental preservation. Thus, the emission of harmful matter into the atmosphere (benzene, oxide sulphur, oxide nitrogen and solid particles) has been substantially decreased.

Besides this, the beginning of operations at the Refinery have provided Serbia with continuous supply of top quality Euro 5 fuel. In this way, Serbia has become completely secure regarding energy supply and the needs of the national fuel market have been satisfied.

As far as the environment is concerned, NIS allocated 3.3 billion dinars for the realization of environmental protection projects in 2012. The realization of projects in 2012 further contributed to a lowering of the emission of polluting matter into the air (NO₂ and SO₂).

The application of corporate norms and standards in 2012 is a continuation of the trend of reducing the number of environmental incidents. The number of environmental

NIS's strategic orientation is socially responsible business. This is why the Company supports socially important projects and promotes solidarity and partnership

incidents in 2012 was reduced by 31% in comparison with 2011. Most environmental accidents (99%) have been qualified as minor as in the previous years.

Beside environmental protection, the development of alternative energy sources presents one of the key fields of the NIS strategy. It is for this reason that in 2012 the Company began the wind park project „Plandište“. This will be the first wind park in Serbia whose exploitation will provide the production of a minimum 212 GWh of electricity annually reducing gas emissions with a greenhouse effect into the atmosphere.

Another important result in 2012 was the expansion of NIS's business beyond Serbia's borders. Our petrol stations in Bosnia & Herzegovina, Bulgaria and Romania have begun operating and geological explorations have started with foreign exploitation projects. With the purchase of 100% of the OMV ownership in Bosnia & Herzegovina, we have acquired 28 petrol stations, gaining one of the strongest networks on that market. We opened 6 petrol stations in the Republic of Srpska, called

NIS Petrol. With this expansion, we have diversified our business and secured long-term income, providing profits for NIS and its shareholders.

In 2012 we rebranded around 200 NIS Petrol stations in Serbia, and with the purchase of modern petrol tankers, we have renewed the Company vehicle fleet. Separators for cleaning oily waste waters have been installed at 195 petrol stations so that 57% petrol stations are equipped with this system. The remaining petrol stations will also be equipped with them according to the Sales Block plan.

NIS's strategic orientation is a business which is responsible to society and the community. Thus the Com-

As all successful companies, NIS sees its employees as the most important and valuable resource it possesses

pany supports socially important projects and motivates solidarity and partnership. NIS tries to connect with society by creating partnerships in order to provide a better future to the community.

Projects within the program named „Cooperation for the Purpose of Development“ which is being implement-



ed as of 2009, have the objective of strengthening partnerships with regions in which NIS does business, with the local governments and the population. In 2012 support to the local population was continued to the local communities through the earlier defined programs and with regards to this 375.7 million dinars were invested.

As with any successful company, NIS sees its employees as the most important and valuable resource it possesses. It is for this reason that NIS's priorities for achieving business efficiency are investments in human resources.

It is specifically for this reason that NIS has a defined Human Resource Management Policy whose primary objective is the establishment of principles and to provide understanding of the HR role (HR Human Resources) at NIS. The objective is to successfully manage human capital, attract, win, develop, keep and award the real persons who will fulfill the set tasks and follow Company strategy. The management at NIS is devoted to the principles of employment equality, not only in the manner prescribed by the law but also by the principles of the mission, vision and corporate Company values.

NIS is aware of its responsibility and impact on the environment, employees, contractors and third parties with regards to environmental management and oc-

cupational health and safety. This is why the Company strives toward the rational use of natural resources and reducing the negative impact on human lives and the environment by enhancing the HSE culture at the Company.

NIS's financial results in 2012 confirmed the Company's serious role in the Serbian national economy participating with 8% of the GNP, which can be compared with

NIS's results in 2012 confirmed its significant role in the Serbian economy, since its contribution to GDP amounted to 8%, which can be compared with the GDP contribution made by country's total agricultural production.

the share of the country's entire agriculture production, where our participation has been continuously increasing since 2010.

We can surely say that NIS has become a regional participant. But this is only a foundation for the Company's future development which will become a regional giant and a market leader in Southeastern Europe.





ABOUT THE REPORT AND PRINCIPLES OF REPORTING

Before you is the third Report on Sustainable Development of the Company NIS, prepared according to the global standards of the Global Reporting Initiative (GRI 3). This Report presented NIS's attempts to provide a responsible approach to the environment and the community in which it does business.

The Report presents the objectives and outcomes which provide improved life, environmental protection as well as successful economic, cultural and social growth, and as such presents a substantial source of information to all stakeholders. It also emphasizes how the Company reacts to the principles of sustainability on the ever challenging and demanding energy market.

The Report on Sustainable Development for 2012 has been graded B+, having achieved substantial progress compared to 2011. NIS continues with publishing the Report on Sustainable Development at an annual level. As a basis for the preparation and drafting of the Report the following methodological rules and principles of the GRI standard have been used:

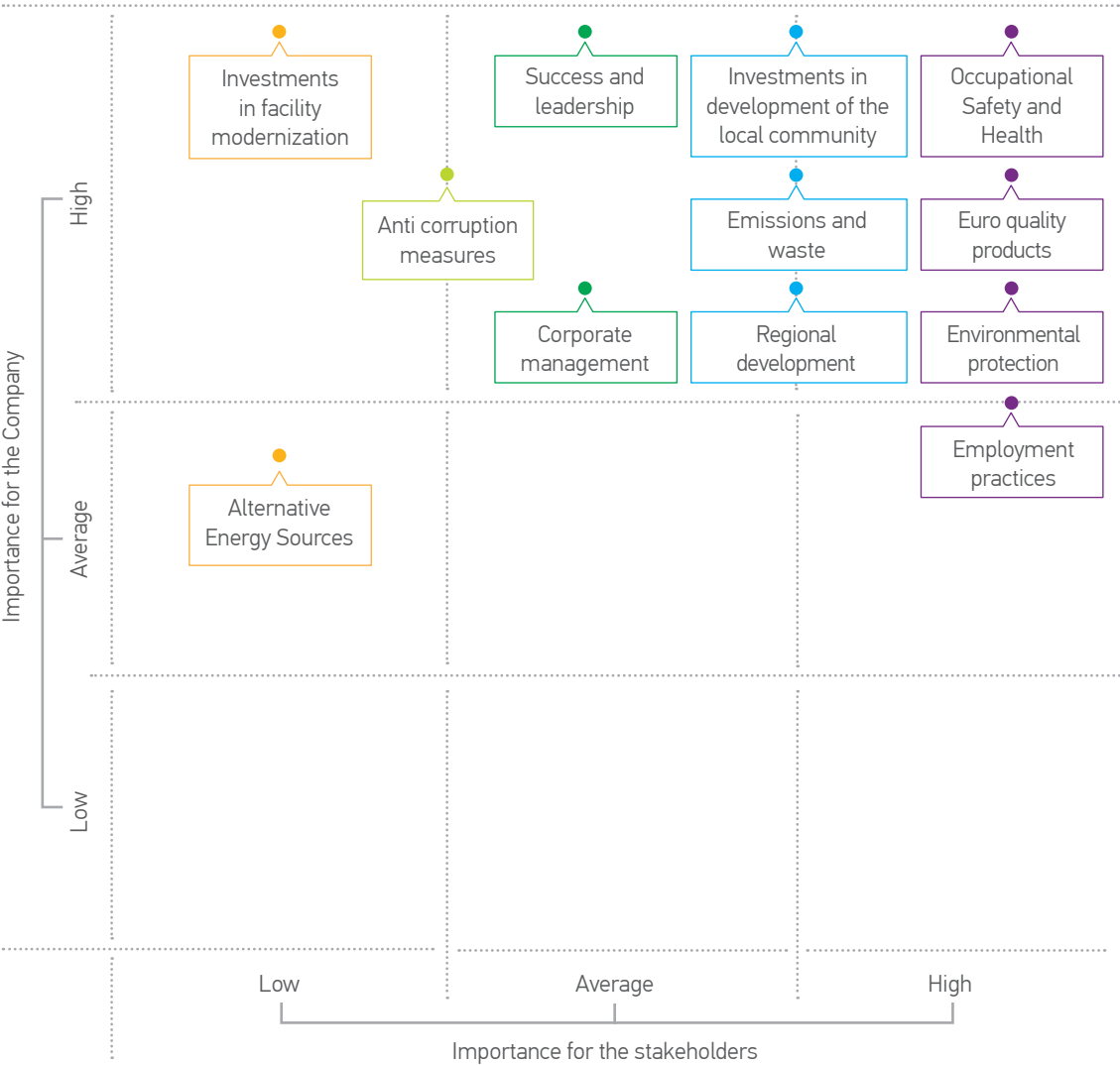
Tangibility

Respecting the tangibility principle on the selection of topics, the Report covers topics which could essentially impact assessments and decisions of managing bodies and stakeholders. As a basis for creating the tangibility pattern, the research results which surveyed the position NIS have been used, along with the defined standards, policies and programs pertaining to social, economic and environmental activities which the Company adopted as

essential for its business dealings. Topics elaborated in the reports were used on the sustainable development of other international oil and gas companies, as well as topics of interest to stakeholders.

Inclusiveness

The Report covers all stakeholders and communication with them is described in the chapter „Dialogue with the Stakeholders“ on page 27 of this Report.



Sustainability

The Report contains information and describes activities at the level of the Republic of Serbia. Information relating to NIS subsidiaries is presented within this Report. The end of each chapter contains plans which present the Company's tendencies toward sustainable development.

Integrity

The information presented in the Report relate to the period of 2012 and, where possible, comparable data has been presented for the previous year. The financial and economic indicators have been taken from the consolidated financial report (Annual Report for 2012, NIS).

Balance

The information contained in the 2012 Report points to the achieved results of the Company and difficulties which NIS has encountered during the year. As such, the provided information gives possibilities for giving both positive and negative grades.

Comparability

The Report on Sustainable Development has been prepared in compliance with the methodology of the GRI standard reporting and in this way, comparison with the previous year's reports on NIS's sustainable development is enabled, along with reports from other companies.

Accuracy

Through its reporting, NIS tends to provide and present adequate quality and quantity information with the greatest degree of accuracy. The Report provides the sources and methodology of data collection, while the financial and economic information may be found in the Annual NIS Report for 2012.

Timeliness

The Report on Sustainable Development is published on an annual basis and as such provides opportunities to

stakeholders for timely decision-making regarding the Company and its business.

Clarity

The text of the Report on Sustainable Development is adapted for all stakeholders and a clear and comprehensive writing style is used as much as possible. Particular operations make complete clarity difficult, so the terms and abbreviations which could cause confusion are explained in the Glossary.

Reliability

The assessment of the Report's compliance with the GRI guideline, as well as accuracy of information stated in the Report has been verified by the independent auditing firm KPMG d.o.o., from Belgrade, Serbia.

The vision of sustainable development

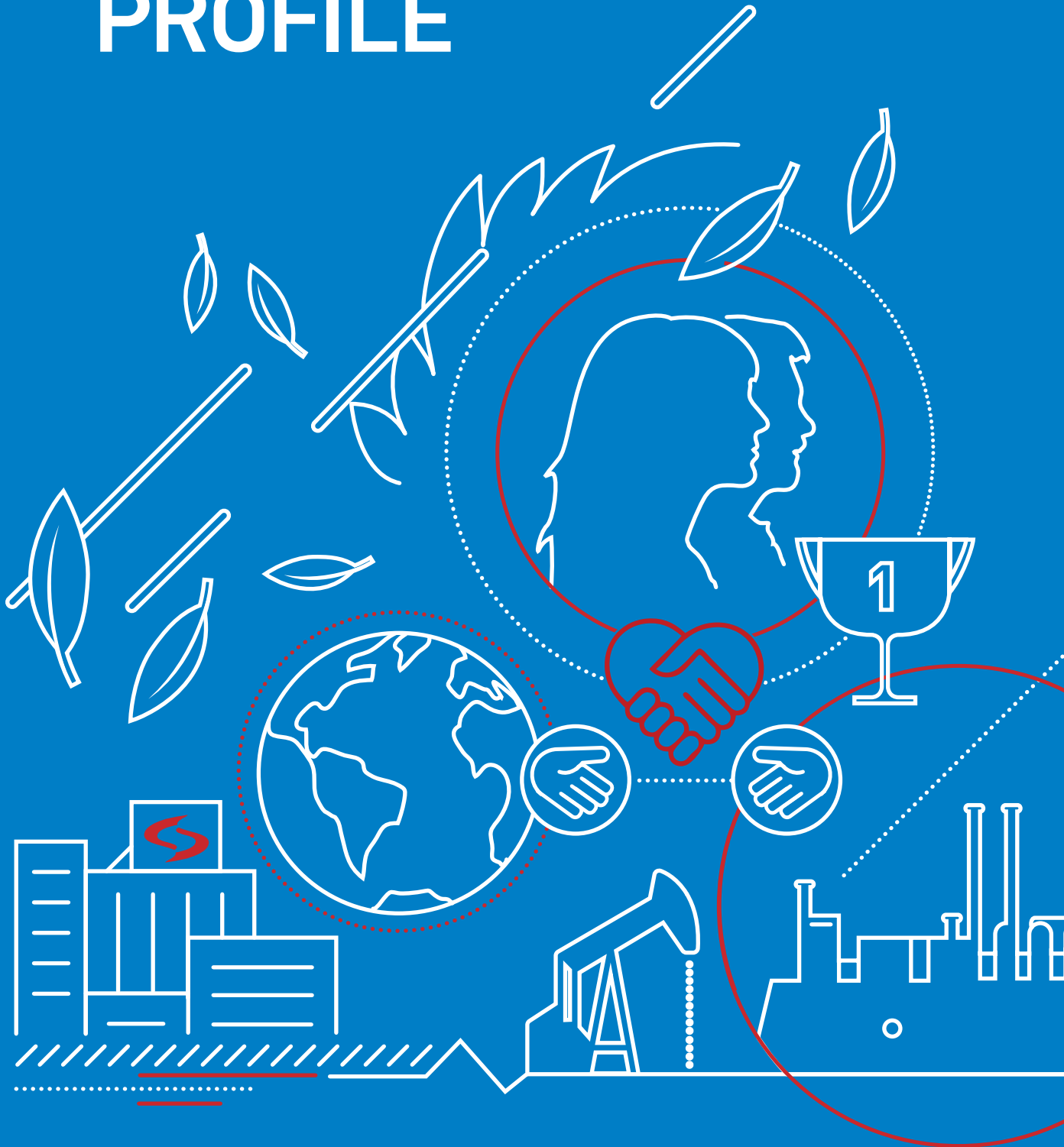
The vision of NIS's sustainable development focuses on responsibility toward future generations. The complex market environment as well as specificities of business, require constant attention directed at a healthy, secure and safe environment. In order to achieve this, NIS has been developing solid procedures and standards, introducing and using new clean technologies in all of its business areas and has been building a partnership relationship with all stakeholders.

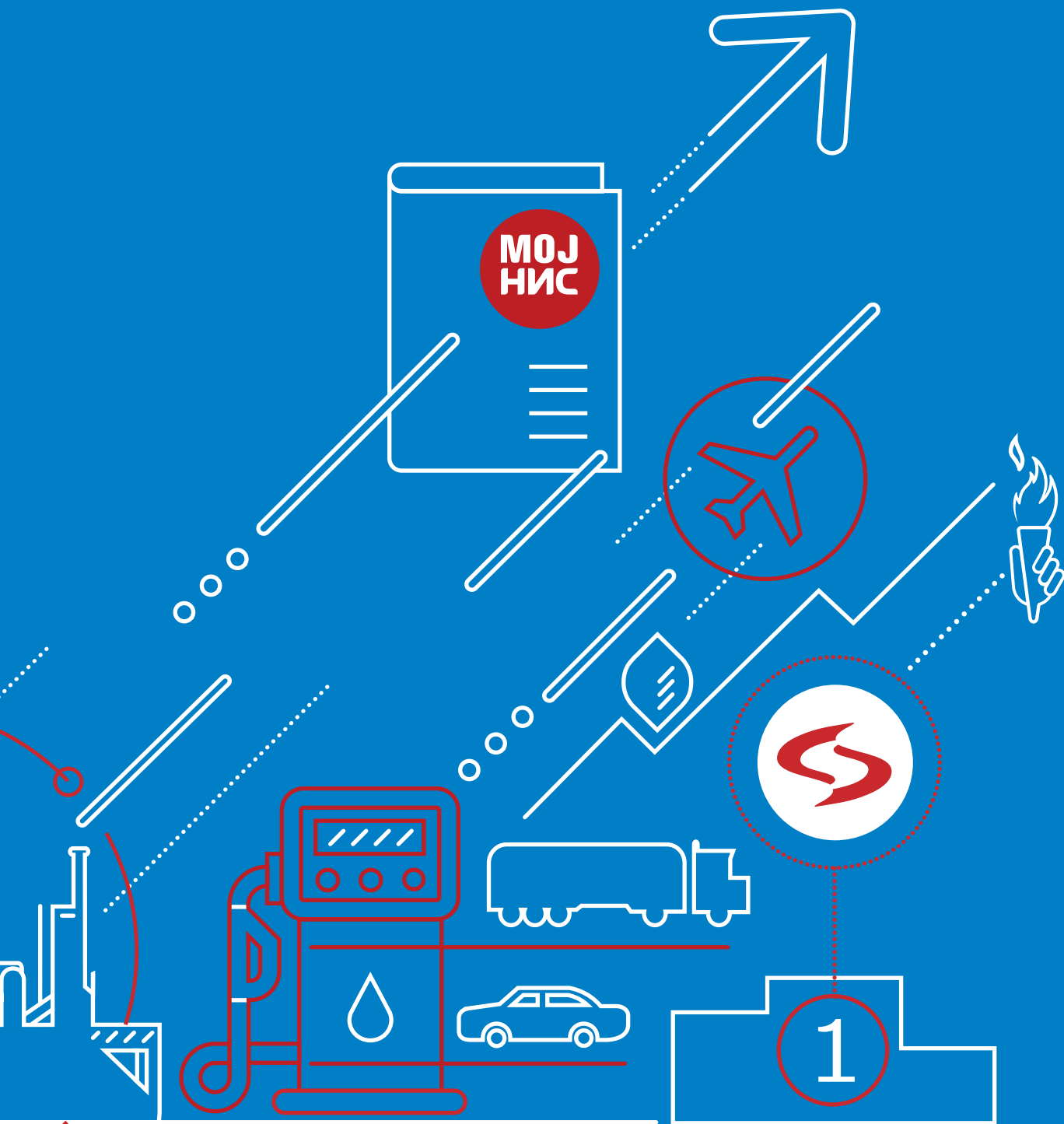
NIS's priorities are:

- Work safety and health of the employees and the local population
- Investing in employees
- Intensive care on the rational use of resources and environmental protection
- Preventive measures and timely reactions to incidents and accidents
- Investing in the local community, the quality of the social services and provision of aid to disadvantaged categories of the population.



COMPANY PROFILE





One of the most
attractive employers in
Serbia, employing

21500

workers

Largest
Serbian investor with
investments amounting to

5000

billion Dinars

NIS

is one of the largest
budget contributors in
the country

With the assistance of a team of international experts, NIS conducts its business activities in

10

countries

Annual net profit amounts to

42.5

billion Dinars

Total funds invested in local communities programs amount to

375

million Dinars



COMPANY PROFILE

NIS is one of the largest vertically integrated companies in south-eastern Europe which deals with the exploration, production, processing, distribution and sales of crude oil and oil products and realization of projects in the field of petrol-chemistry and energy.

The Company has administrative seats in Novi Sad and Belgrade, while major production and refining capacities are located throughout Serbia.

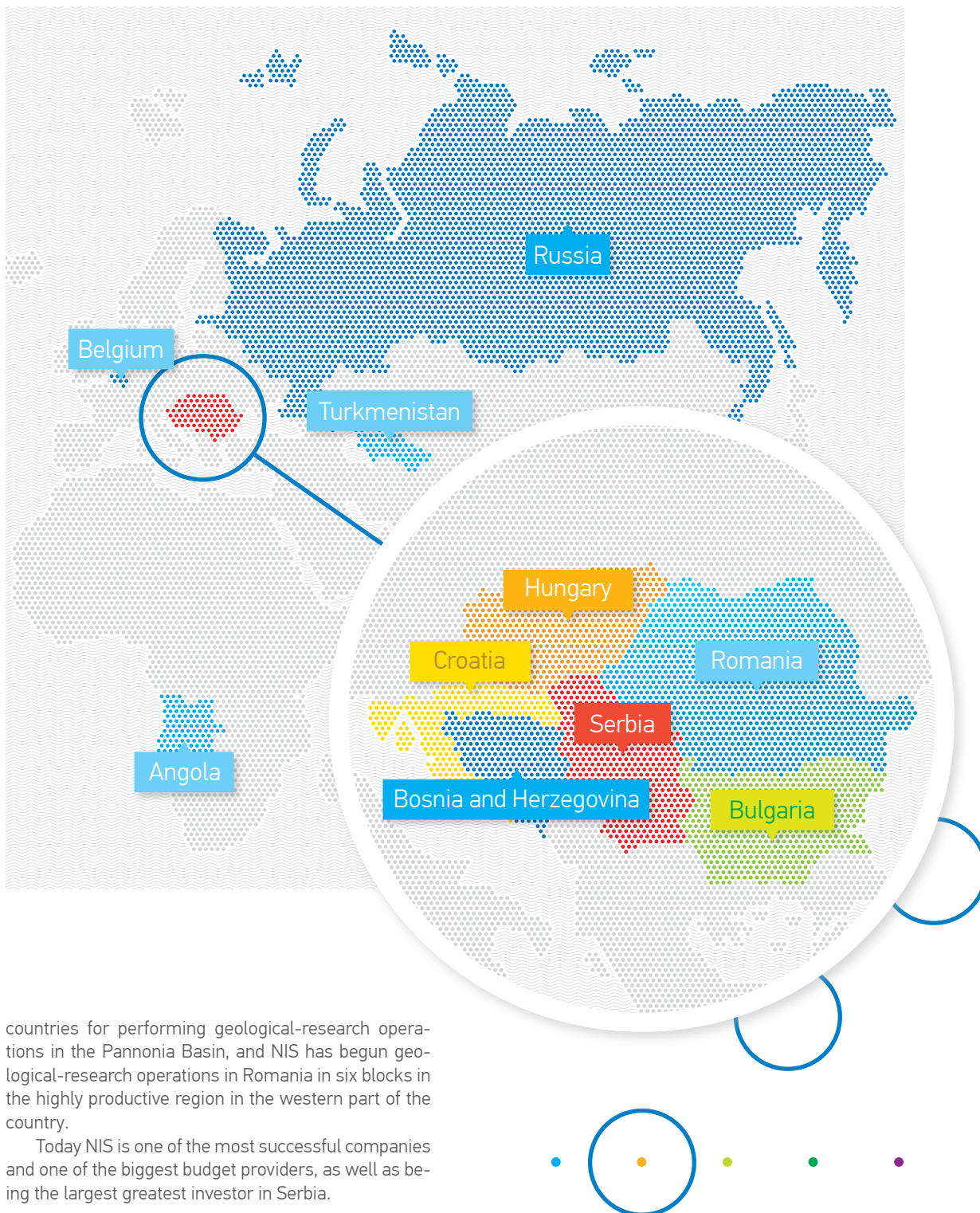
Most of the hydro-carbon deposits are located in Vojvodina, and NIS owns two refinery complexes in Pančevo and Novi Sad, a sales network of liquid gas and automobile gas, as well as a network of crude oil storage facilities. The Company also owns many auto filling stations.

NIS is a Serbian business giant. Its objective to become a regional leader is realized through modernization and increase in business efficiency.

With the help of an international team of experts, NIS is present in ten countries: Serbia, Bosnia and Herzegovina, Croatia, Hungary, Romania, Bulgaria, Russia, Belgium, Turkmenistan and Angola.

In 2012 NIS expanded its network of petrol stations in the region – Bosnia and Herzegovina, Bulgaria and Romania. Besides this, Hungary is one of the major

NIS is a Serbian business giant. Its objective to become a regional leader is realized through modernization and increase in business efficiency



NIS
throughout
the years:

1949.

The Company Naftagas was formed,
and the first gas deposits found

1951.

The development of the gas transport system initiated.

1952.

The first oil
deposits found

1953.

The construction
of the first petrol
stations began

1963.

The first major gas line Mokrin
– Kikinda – Elemir – Velika
Greda – Pančevo completed

1968.

The oil refineries
started working in
Novi Sad and Pančevo.
The oil deposit Velebit
discovered

1979.

The gas line Horgoš–Bata-
jnica was commissioned

1985.

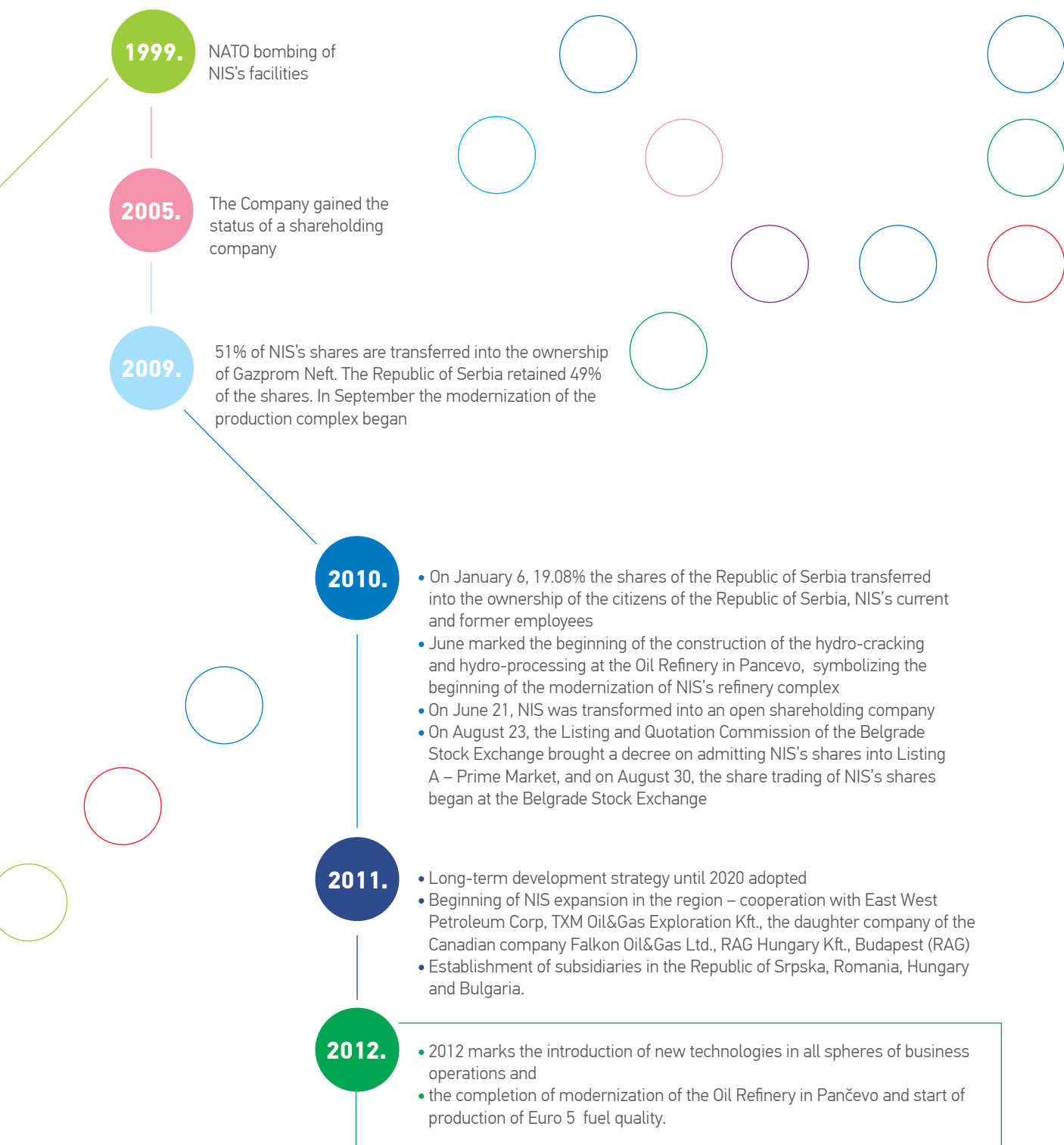
Oil exploitation began in
Angola (concessions)

1982.

Geological research of
oil and gas began in
Montenegro

1991.

The public enterprise
Petroleum Industry of
Serbia was established





OUR MISSION

Our mission is to use the natural resources and modern technologies in a responsible manner and provide the people of the Balkans with energy to move toward progress.

OUR VISION

The vertically integrated company NIS will become a renowned leader in its field of business in the Balkans, according to the dynamics of sustainable development and increased efficiency; expressing a high level of social and environmental responsibility, as well as modern standards of customer service.

OUR VALUES:

PROFESSIONALISM

Gaining modern knowledge for the purpose of continuous enhancement of expertise and ability to apply it in the actual work process.

POSITIVENESS AND COOPERATION

Readiness to participate in multi-functional groups and projects, readiness toward the colleagues' requests from other organizational company departments, readiness to exchange information and capacity for teamwork.

INITIATIVE AND RESPONSIBILITY

Finding and proposing new solutions, both in the domain of work duties and beyond, in the sphere of Company interests.

JOINT RESULT

Joint venture for the purpose of achieving a visible and distinctive result, tendency toward success with the unfailing help of others.



Corporate management

Efficient, responsible and transparent corporate management is one of the key factors which contributes to the successful business of the Company. It presents a necessary prerequisite for stable long-term company growth and further enhancement of competitiveness.

Guided by these principles, NIS is dedicated to the application of high standards in this field which is founded on internationally acceptable principles and experiences from the best global practice. This approach to corporate management implies that the existing structure and processes are constantly being revised and further developed.

In this way NIS ensures responsible company management directed at creating value for its shareholders and gaining the trust of domestic and foreign investors, business partners, employees and the public at large towards the Company and its management.

The strategic corporate objectives which NIS needs to realize are:

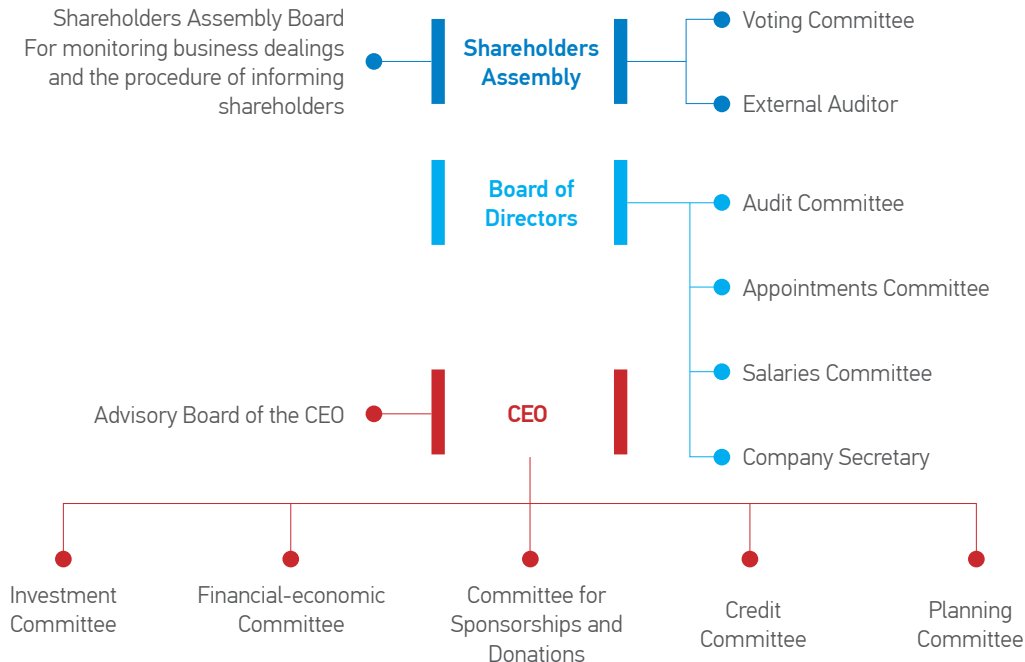
- Professional and responsible management
- Efficiency of management bodies which act in the best interest of the Company and shareholders in order to increase the value of the Company's assets
- High level of company transparency and public business dealings

In compliance with the provisions of the Law on Companies, a new NIS Statute was adopted at the 4th Regular Meeting of the Shareholders Assembly held on 25 June 2012 where NIS management is organized in a single mode and according to which the Company has a:

- Shareholders' Assembly
- Board of Directors
- CEO

Besides this, in compliance with the NIS Statute dated 25 June 2012 there is also a:

- Shareholders Assembly Board for monitoring business and the procedure of informing NIS shareholders (Shareholders Assembly Board) and the
- Advisory Board of the Company CEO.



The highest body at NIS is the Shareholders Assembly. The shareholders pass and approve the essential corporate decisions through the Assembly.

The position and the shareholders' rights are regulated by the Statute which clearly defines the authority of the Shareholders Assembly, as well as the relation of the Assembly and other corporate bodies of the Company. The Shareholders Assembly at NIS passed its own Work Rulebook which regulates issues regarding the way of convening and holding meetings and the manner in which the Shareholders Assembly operates and passes decisions at NIS.

NIS completely honors the principle of equal treatment of all Company shareholders. With regards to more adequate and more accurate informing of the minority shareholders, the Company has established the Office for Issues Concerning Minority Shareholders in Belgrade and Novi Sad. A shareholders Service was developed where each shareholder can raise questions and receive answers in electronic form. Besides this, an Info Call Centre has been set up for shareholders. In 2012 part of the NIS internet page was redesigned targeting investors and shareholders, through which shareholders are regularly informed about the most important news, decisions and Company reports. There are mechanisms at the Company which prevent and resolve

The position and the shareholders' rights are regulated by the Statute which clearly defines the authority of the Shareholders Assembly, as well as the relation of the Assembly and other corporate bodies of the Company

potential conflicts between the shareholders and the Company. The Company has a five member Committee which resolves minority shareholders' complaints and which operates pursuant to the Committee Work Rulebook which defines the procedures for addressing the Committee, meeting procedures, obligations and responsibilities of its members and other relevant issues.

NIS is orientated toward a single-mode management system, where the central role in Company management is held by the Board of Directors whose task is to set out the essential business objectives and orientation of further Company development, as well as controlling the success of the application of the Company's business strategy. Besides this, the Board of Directors is charged with making decisions relating to:

- Convening the Shareholders Assembly, determining the agenda and proposals of decisions of the Shareholders Assembly
- Determining the business strategy and managing company business



- Determining the internal organization
- Determining and approving the business plan
- Controlling the accuracy of the financial reports
- Adoption of periodic financial and periodic business reports whose adoption is not within the authority of the Shareholders Assembly
- Appointment and recall of CEO
- Adoption of the Code of Corporate Management at NIS

The Board of Directors consists of 11 members, 10 of whom are men and one woman. They are nominated or relieved of duty by the Shareholders Assembly. The elected members choose the Chairman of the Board of Directors. Members of the Board of Directors possess an adequate combination of necessary skills and experience relevant to the type and volume of activities performed by NIS.

The Board of Directors has executive and non-executive members, where the number of non-executive members is greater than the number of executive members. The Board of Directors has 9 non-executive members, 2 of whom are independent at the same time. The non-executive directors, who may not be employed by the Company, have international experience and un-

derstand the challenges the Company faces, while the executive directors understand well everyday operations at the Company.

The Board of Directors nominates the CEO from the order of the executive members. The CEO coordinates

Members of the Board of Directors possess an adequate combination of necessary skills and experience relevant to the type and volume of activities performed by NIS.

the operations of the executive members of the Board of Directors, performs everyday management work and current business and is authorized to decide on issues not under the jurisdiction of the Shareholders Assembly and the Board of Directors.

NIS honors the principles of good corporate management practice, so that the functions of the CEO and Chairman of the Board of Directors are separated. This means the Chairman of the Board of Directors is not the CEO at the same time. The CEO is the only legal representative of NIS.



Code of Business Ethics

In the second half of 2012 NIS made one more step forward by adopting the Code of Business Ethics.

The Code of Business Ethics defines the employees' rights and obligations, but also provides them with clear instructions on how to conduct themselves in certain situations. When it decided to initiate the Code of Business Ethics, the Company primarily wished for this highest document to be prepared in accordance with Company values.

Such an authentic document had to include all experiences and business traditions of the Company and for this reason the employees of the Company were included in the process of creating its contents from the very beginning.

More than one third of the employees in ten cities in Serbia actively worked on creating the Code of Business Ethics. First there was a work group established which

More than one third of the employees in ten cities in Serbia actively worked on creating the Code of Business Ethics

composed an outline and following its approval, focus groups and discussions were organized. The Company made every effort for the Code to be useful and effective for all employees. It contains all the existing legal norms and rules of the Company, as well as the corporate tradition, thus presenting an ultimate level document. Also, great accent is placed on the Code contents, making it simple in structure and very clear and easily applicable.

The Code primarily contains the primary values and Company philosophy. It defines the foundation rules and conduct norms in five basic business entities. The rules and norms defined by the Code thematically refer to the following:

- Occupational health and safety, industrial safety and environmental protection
- The employees, their attitude toward the Company, attitude toward other employees
- The Company's cooperation with business partners, buyers and suppliers
- Cooperation with the government and local self-government
- Finances and property security

The Code of Business Ethics defines the employees' rights and obligations, but also provides them with clear instructions on how to conduct themselves in certain situations

Each section presents a clear group of rules of behavior, restrictions and measures which cover certain topics as well as necessary contacts and relating documents.

However, in order for the Code to become truly effective in the Company, an SOS line was established which works nonstop. Each employee has the opportunity to report any kind of violation of the terms of the Code of Business Ethics. Each report goes through a developed system of controls in order for each case to be resolved in an objective manner. To this end an independent person not employed in the Company is engaged for this purpose. The whole implementation process of the Code, as well as its active everyday application, demonstrates that this ultimate document is actually the „Business Compass“ for all NIS business directions. The Company has in the hands of its employees, an instrument for the practical application of its corporate values which gives it inner strength to develop further.

Membership

The biggest and oldest NGO in the field of oil and gas is the World Petroleum Council. The national body of this Council is the Serbian National Petroleum Committee founded by NIS. The objective of this body is to facilitate operations in the field of sustainable development. The Serbian National Petroleum Committee was founded in March 2011. NIS CEO, Kirill Kravchenko, is the vice-pres-

ident and member of the Executive Board of the Serbian National Petroleum Committee.

NIS is also a member of the following:

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

Prizes and awards

The International Agricultural Fair in Novi Sad – the petroleum and lubricant product range NISOTEC was awarded the Silver Trophy as well as six big gold, six gold and two silver medals for quality and the assortment of motor and hydraulic oils.

The International Agricultural Fair in Novi Sad – NIS was awarded the Gold Champion Trophy for the Environment for its contribution to environmental protection after building a plant at the Oil Refinery in Pančevo.

Special award for improving the Internet –awarded by WebFest, the biggest regional internet festival



Award „The Oscar Quality“ for Leadership, Human Resources and Results – the Social Community – awarded by the Fund for Quality Culture and Excellence in cooperation with the Serbian Chamber of Commerce under the sponsorship of the Ministry of Economy and Regional Development of the Republic of Serbia

Award for the most successful investment in 2012: „Kapetan Miša Atanasijević“ – Awarded by the Agency for Market Communications Medija invent, Television of Vojvodina, Vojvodina Chamber of Commerce and the Technical Sciences Faculty in Novi Sad

Award „The Best from Serbia“ for 2012 in the category Corporate Brand – presented by the Serbian Chamber of Commerce, Ministry of Foreign and Domestic Trade and Telecommunications and the daily economic newspaper Economic Overview.

The Most Desired Employer-according to the candidates' opinion in 2012 – award presented by Infostud

NIS is the most successful business company according to the Serbian Business Registers Agency

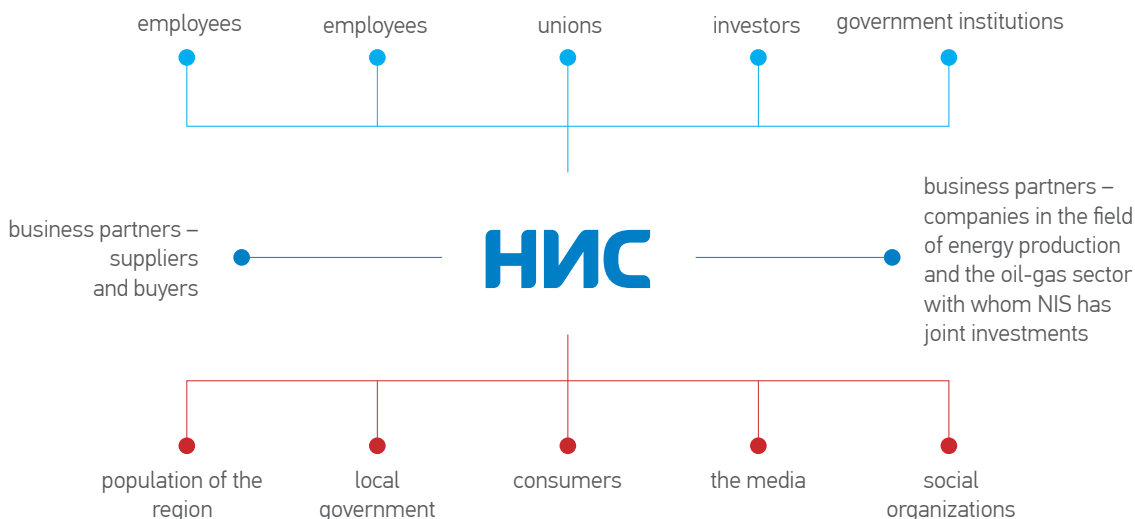
NIS has the best business relations with investors for the second year in a row.

Dialogue with stakeholders

For NIS it is of greatest importance to establish constant communication and relations characterized by trust, partnership and open dialogue with all stakeholders. NIS cooperates with them through ownership shares, agreements on cooperation or cooperation based on other common interests. The groups NIS works closely with are:

- employees
- shareholders
- unions
- investors
- government institutions
- consumers
- population of the region
- local government
- business partners – suppliers and buyers
- business partners – companies in the field of energy production and the oil-gas sector with whom NIS has joint investments
- social organizations
- the media

NIS fosters continuous and efficient dialogue with government institutions. The Company has a proactive approach to reaching European standards in energy production, oil and gas economy and the environment. In this respect, it actively takes part in the efforts of the





NIS has developed special mechanisms and procedures to prevent and resolve potential shareholders' complaints

authorized ministries in establishing a relevant legal framework.

The Office for Minority Shareholders in Belgrade and Novi Sad allows shareholders of NIS to submit their complaints. NIS has developed special mechanisms and procedures to prevent and resolve potential shareholders' complaints. In order to promote cooperation, a Committee has been formed for resolving complaints and its rulebook has been adopted. All shareholders

may direct their complaints by telephone at 011/22-000-55 or via e-mail: servis.akcionara@nis.eu.

Through its **Shareholders' ABC Book**, NIS participates in informing citizens of its stock market activities. The ABC Book is a manual with stock market terminology and is presented to citizens through the press. The internet sites of NIS and the Belgrade Stock Market regularly furnish NIS's business results.

In its relations with business partners, NIS puts effort into cultivating high ethics and transparency. The Company strives to achieve the highest professional standards with simplified procedures.

NIS's business results can be seen on its corporate site (www.nis.eu). Information is available in three languages – Serbian, English and Russian. The

site contains information relating to complexity and diversity of the petroleum-gas industry.

In 2012 NIS provided another communication channel with its consumers by creating the internet site of NIS Petrol – www.nispetrol.rs and www.nispetrol.eu. Here citizens can inform themselves about products, services and business activities of NIS Petrol. Besides this, NISOTEC has been launched (www.nisotec.rs) with various information on products from the range of oils and lubricants and refilling liquids branded as NISOTEC.

NIS is also present in the **social networks and other internet services: Facebook, YouTube, Twitter, Flickr and Wikipedia.**

Such communication has helped the Company in its effort to identify both positive and negative things consumers are faced with. First hand information on consumer problems provides quick and adequate reactions. Consumers can continue forwarding their requests by telephone (08-0000-8888), e-mail (office@nis.eu) or the Company website.

The Corporate web portal presents one of the most important employee communication channels. The web portal has proven to be an efficient and favorite way of internal communication in a very quick manner. Besides a large number of NIS business news items, it provides service information, presents NIS's organizational parts and their activities. The forums and topics posted on the corporate web portal provide open dialogue among all employees.

The corporate magazine „My NIS“ is yet another channel of internal communication. This monthly publication is published in 7,000 copies and covers in detail current topics of the Company's business through reports and analyses.

„Direct dialogue“ is a program with the idea of regular meetings between management and employees. Direct communication is achieved at meetings where initiative and directness are encouraged.

Regardless of the times of the Direct Dialogue meetings, questions to management may be addressed through a designated e-mail address (pitanja.rukovodstvu@nis.eu), by telephone, or posted on the portal. NIS strives to further enhance this system of direct communication.

The forums and topics posted on the corporate web portal provide open dialogue among all employees

Communication with unions is of special importance. Constructive dialogue with the unions on resolving staff issues is a necessary element in NIS's

Communication with unions is of special importance. Constructive dialogue with the unions on resolving staff issues is a necessary element in NIS's business.

NIS dedicates special attention and importance to its dialogue with the media. NIS's press service replies to each question addressed by the media. The Press Service organizes media conferences, press tours and briefings. An important part of their work is the organization of educational seminars in the field of energy, oil and gas topics. In anonymous news reporter surveys, NIS's Press Service was assessed as qualified and professional. In their communication with the Press Service, news reporters have an opportunity to make their suggestions for further improvement in cooperation.

To improve communication with the general public, the population in the region, municipalities and cities where it does business, NIS has ongoing dialogue with local government representatives. This facilitates realization of joint projects defined by agreements on cooperation.

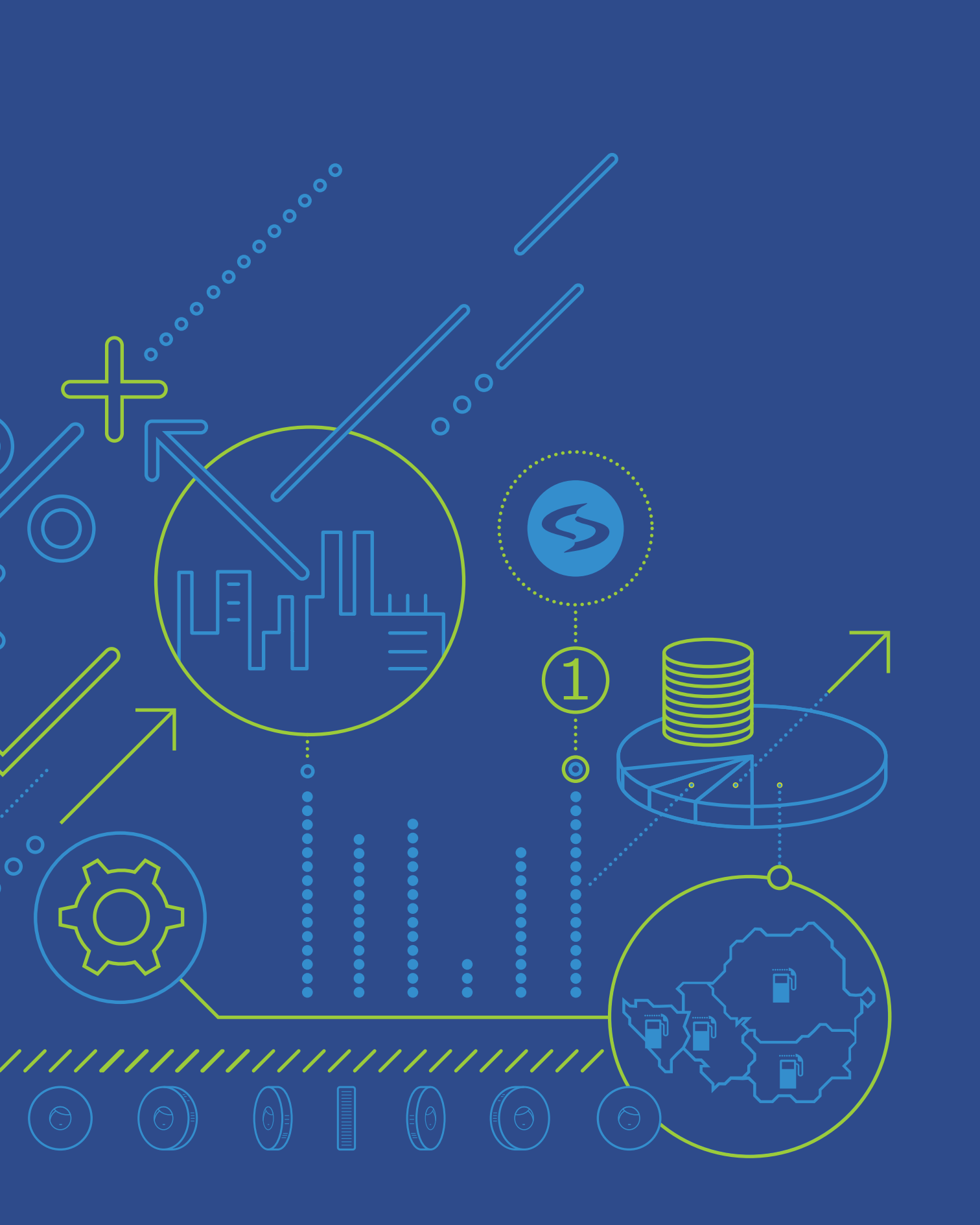
Besides this, there are additional tools which substantially help NIS in communicating with partners and other stakeholders, such as:

- Press conferences with NIS top managers, including the CEO of the Company;
- participation of NIS representatives at expert meetings and conferences in Serbia and abroad
- Quarterly presentations of Company results and business plans for the expert public at the Belgrade stock exchange;
- organization of press tours of Company facilities for domestic and foreign reporters for the purpose of forming a realistic picture of NIS's business operations;
- participation of NIS representatives at various exhibitions in Serbia and abroad.

The following activities are very important for NIS because they provide a chance for the Company to hear the opinions of all stakeholders and in this way determine important topics which will be included in the Report on Sustainable Development.

ECONOMIC DEVELOPMENT







Total debt
toward banks reduced
by USD

40

million

NIS
participation in total
GDP:

11%

Growth of EBITDA by

27%

Investments increased
by

40%



NIS's business operations in 2012 were characterized by accelerated technical development. Even though the biggest technical feat was the completion of the new refinery plant in Pančevo, NIS simultaneously initiated the introduction of new technologies in all business spheres.

High indebtedness and slow growth are the main features of the global economy in 2012. The euro zone crisis continued in 2012 and weakened financial institutions and inadequate policies in the major economies additionally influenced the negative results.

In Serbia, 2012 was characterized primarily by high inflation, decline in economic activities and a high unemployment rate.

In spite of the difficulties facing the Company, in 2012 it earned net profits in the amount of 49.5 billion dinars.

The decline of economic activities and increasing unemployment rate (around 27%) are two key factors which influence reduced engine fuel consumption. The increase in VAT and fuel taxes imposed on diesel fuel and LPG (liquid petroleum gas) had a negative impact on engine fuel consumption as of 1st October.

In spite of the difficulties facing the Company, in 2012 it earned net profits in the amount of 49.5 billion dinars.

In spite of the difficulties facing the Company, due to its efficient business, cost reductions, and increased share of petroleum and oil products on the domestic market, in 2012 NIS earned net profits in the amount of 49.5 billion

The direct generated and distributed economic value expressed in millions of dinars		
Position	2011	2012
Directly generated value	188,602	229,523
Income	188,602	229,523
Distributed economic value	146,663	165,331
Operational costs	120,800	134,606
Employee wages and other allowances	21,987	24,923
Paid interest on loans taken	2,319	1,728
Taxes	1,382	3,911
Community investments	173	163
Increase in economic value of the Company	41,939	64,192

*Information taken from consolidated reports Definitions of terms may be found in the Glossary

dinars, which presents growth of 22% compared to the previous year, which totaled 40.6 billion dinars.

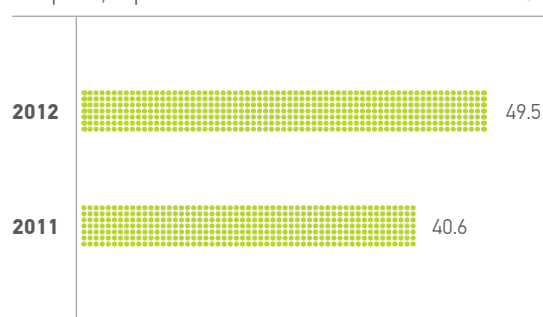
Assessment of NIS's successful business in 2012 is supported by the fact that the EBITDA indicator increased (income from calculated interest, income taxes and depreciation) and amounts up to 66.5 billion dinars, which presents an increase of 27% compared to the previous year.

Besides this, during 2012 total debt toward banks was reduced from 458 million dollars in the second half of 2011 to 418 million dollars in the second half of 2012, which presents a decrease by 9%. Total bank debt in 2012 was reduced by 10%, from 446 million dollars in the sec-

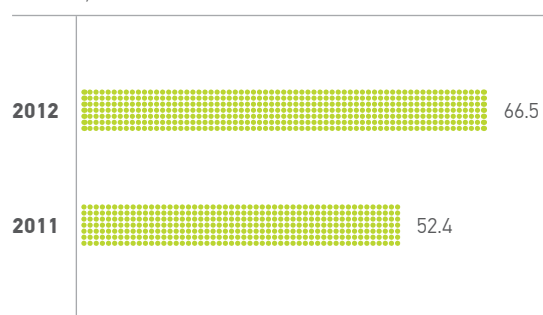
In 2012, NIS had net profits in the amount of



Net profit, expressed in billions of dinars **+22%**



EBITDA, in billions of dinars **+27%**

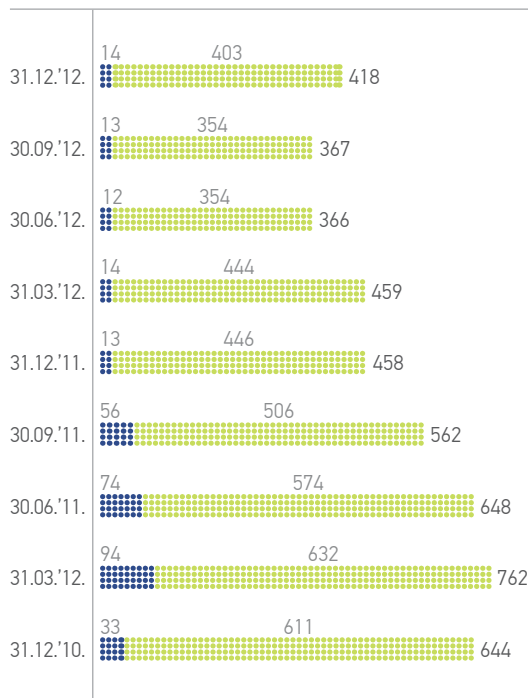




Total debt toward banks, expressed in millions of USD

-9%

● Letters of Credit ● Total debt



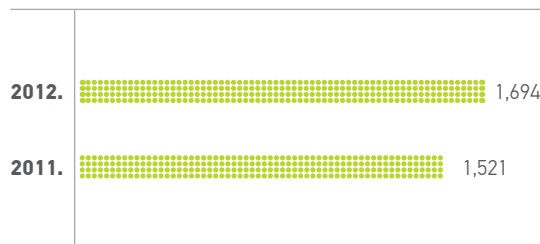
ond half of 2011 to 403 million dollars in the second half of 2012, while letters of credit increased by 8%, from 13 million dollars to 14 million dollars.

Exploration and production

Investments are directed at new technologies in the exploration and production of oil and gas and the application of geological-technological measures influenced the growth of total production of oil and gas. The total production of oil and gas in 2012 amounts to 1,694,000 conditional tons, which is an increase of 11% compared with 2011.

Production of oil and gas, expressed in thousands of conditional tons

+11%





The Center for Science and Technology NIS Naftagas

The Center for Science and Technology (CST), located in Novi Sad, was established in 2009 by merging several similar organizational parts within the Company in order to follow the Company's science and technological operations and to ensure innovations as part of the support to business operations.

The Center for Science and Technology (CST) was planned as a regional base and should satisfy the needs of NIS and Gazprom Neft and its daughter companies, providing external services to third parties outside of NIS and Serbia.

With the advantage of having qualified and experienced staff the Center for Science and Technology is in charge of preparing geological and exploration operations and of calculating reserves, processing seismic data, developing databases and software applications and of preparing projects for equipping oil wells. Also, within the CST there is a central laboratory which enables geological and exploration operations (core analyses, oil and fluid characteristics), monitoring geological and exploration operations to the model formation, monitoring development and planning of construction of infrastructural facilities and furnishing of oil wells.

Within the conception of developing innovative and scientific and technical operations at the Company, last year NIS successfully initiated the realization of a project

The Center for Science and Technology is in charge of preparing geological and exploration operations and of calculating reserves, processing seismic data, developing databases and software applications and of preparing projects for equipping oil wells

for exploring small oil and gas deposits by drilling small diameter holes (slim holes). This method was used for the first time in this region for the purpose of oil and gas exploration, and the project was completed at CST in NIS. By drilling slim holes, the newly discovered gas deposits will increase gas production and provide strategic reserves of this energy source.

Using this method, small oil and gas deposits, which are common for this region, can be discovered in a much easier, quicker and less expensive way. Beside economic effects, this method is characterized by an environmental aspect, because a much smaller land portion is occupied with this type of drilling. There is also much less material to drill and wash out with this kind of drilling.



Besides this, one of CST's most important activities in 2012 is the interpretation of recorded 3D seismic data in Serbia, pursuant to which the exploratory drilling plan was prepared for the period 2013-2015, as well as the interpretation of seismic data from the territory of the Republic of Srpska, which, accordingly, was instrumental in locating two exploratory wells in the Republic of Srpska whose realization is in progress.



Refining

In 2012 there was a decline in refining volume compared to the previous year by 9%, i.e. in 2012 2,142,000 tons of crude oil were refined, whereas in 2011, 2,359,000 tons of oil were refined. Oil refining in 2012 is in compliance with the operational plans formed pursuant to the market demands of petroleum and oil products. Besides that, the planned overhaul at the Oil Refinery in Pančevo, the completion of finishing work and testing prior to commissioning the new MHC/DHT plant at the u Oil Refinery in Pančevo, had significant impact on the decline of the refined volume.

Oil processing with the exclusion of third parties, expressed in thousands of tons **-9%**



2012	 2,142
2011	 2,359

Sales and distribution

In 2012 sales decline by 1% in comparison with the previous year with a total sales of 2,395,000 tons. The decline in sales in the amount of 8% was recorded in wholesale and was caused by reduced consumption of gasoline BMB 95, as well as reduced sales of D2. The lower wholesale volume of D2 was the result of directing certain quantities of this fuel into retail sales. The competition also contributed to the drop in sales which imported the Extra Light heating oil.

Retail sales recorded a 15% growth, and 9% increase in exports. This was caused by a sales increase of all oil

Oil product sales, expressed in thousands of tons **-1%**

2012	 2,395
2011	 2,428



products excluding BMB 95. Thus increased sales of diesel fuel were caused by the conclusion of agreements between NIS and the Ministry of Agriculture and due to the increase in VAT on fuel the price of heating oil rose. The expansion of the petrol stations network selling auto-gas also had an impact on stronger retail sales.

Suppliers

The successful cooperation with suppliers presents a basis for maintaining NIS's market advantage. In this respect suppliers are geographically divided into:

- local – suppliers from the Republic of Serbia,
- regional – suppliers in southeastern Europe rank and
- global – suppliers from around the world.

Even though the Company does not set priorities to local suppliers due to the nature of the business, market advantage is developed through various procurement processes and suppliers are provided with incentives for participating in a transparent procurement processes. NIS realizes its basic principles in procurement through the standardization of business processes. The principles are:

- cost-effectiveness and efficiency
- ensuring competition and equality among the bidders.

Clients

One of NIS's priorities is maximizing client satisfaction.

In order to achieve this objective, the Company conducted a survey in 2012 to determine its position and this result will be a basis for drafting the Strategy for Developing the NIS Brand up to 2020. Survey results have shown that the Company is considered to be the strongest and the most successful company, being a market leader with a high degree of trust in terms of product quality and services.

Besides this comprehensive Company survey, the conducted surveys are directed at customer satisfaction, particularly big buyers, with regards to its products at an annual level. During 2010/2011 a survey was conducted

It is particularly important that there were no cases of violating regulations or unwritten rules regarding marketing communication



on customer satisfaction regarding products from the NISOTEC range. The survey results (grading from 1 to 5) demonstrated that the degree of familiarity with NISOTEC products, assortment and supply were very good (over 4), the product quality was rated as good (over 3) or at competitor level. Since there were complaints concerning packaging, the Company began its improvement by rebranding labels, and in the second half of 2012, the three-colored alteration of the NIS brand began.

One of the mechanisms for monitoring and grading work at Company retail facilities is the Secret Customer. Controls are performed at petrol stations with the help of a visual audit (assessment of cleanliness and completeness of displayed products range). Such controls are carried out with the objective of improving operations at petrol stations, consequently enhancing buyer satisfaction.

NIS especially protects its consumers, with customer care being a constant priority. Continuous controls and checks of products and services at petrol stations in order to ensure customers are treated in line with codes and regulations.

The result is the fact that no claims have been filed against NIS in 2012 and no proceedings were initiated against the Company, nor were there cases of products or services endangering the wellbeing and health

of consumers or complaints regarding non-compliance with regulations when providing information on products and/or services.

It is particularly important that there were no cases of violating regulations or unwritten rules regarding marketing communication.

Corporate security

The specifics of operations and working with a large number of business partners caused NIS to pay special attention to all activities whose objective is prevention of any kind of illegal and harmful action which has or could have negative consequences on the Company's business and reputation on the Serbian market and beyond.

Risk analysis for corruption at both Company level and its business processes is conducted on an ongoing basis. In 2012 a risk analysis was conducted for

Risk analysis for corruption at both Company level and its business processes is conducted on an ongoing basis



corruption with all business process owners at NIS (16 business processes or 100%). The highest exposure to risk is present in organizational units which, because of the nature of their business, are involved in cooperation with business partners (suppliers, buyers, contractors). The analysis showed that high credit limit agreements were concluded with several legal entities – buyers. The agreements did not match the volume of their sales and this resulted in substantial loss for the Company (in the amount of 900 thousand euro). After checking and analyzing the daily sales at petrol stations, it was established that part or all of the sales were pocketed by the employees by creating fictitious or forged documentation in order to cover up the thefts.

In 2012, forty employees (one manager and 39 other workers, technicians, engineers) were fired from their jobs for disciplinary violations related to corruption. Cases of cashing fire department vehicle cards, oil product theft, misuse of company cards, cashing Diners Club cards and leaking business information regarding the most favorable offers to interested parties were noted.

Besides this, agreements were not renewed with seven companies due to fraud related incidents. There are particular cases of oil product theft and sales to

third parties, misuse of business contacts with NIS employees in order to gain information to adjust bids and procure contracts with the Company, use of falsified documentation in order to produce due payments. Such companies have been placed on the list of unreliable suppliers and buyers. Practically, this means that in response to offers for cooperation with the Company, the companies from the list of unreliable suppliers and buyers will be disqualified based on business security criteria.

In 2012, the Code of Business Ethics at NIS was adopted and is implemented with all employees with special emphasis on promoting anti-corruption within the Company

In 2012, the Code of Business Ethics at NIS was adopted and is implemented with all employees with special emphasis on promoting anti-corruption within the Company. The SOS Line (telephone number: 021/481 5005 and e-mail address soslinija@nis.eu) was set up and employees have been given an opportunity to react in cases of violations of the Code of Business Ethics.



In order to prevent the negative effects of corruption in NIS, employee training is ongoing related to anti-corruption policies and procedures in the Company. In respect of this issue, managers hired in 2012 (0.6% of the total number of employees or 13% of the total number of managers at the Company) were educated, had theoretical training, worked in small groups, had individual education and practical training, with emphasis on specific cases. Special attention has been paid to employee and management training of staff whose primary job is procurement of goods and services.

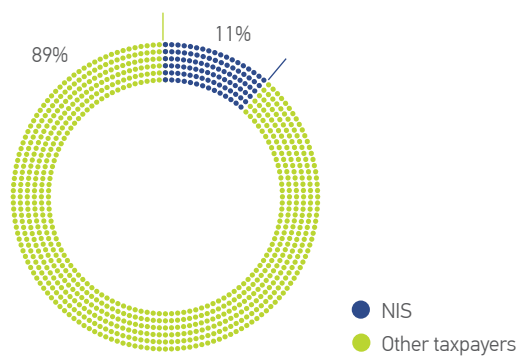
oil products which constitute almost 50% of total fuel tax revenues. After analyzing the dues NIS had, in relation to fuel taxes, it can be concluded that NIS had a substantial share in planned budget revenues related to fuel taxes.

Taxes

In 2012 planned public revenues amounted to a total of 829.6 billion dinars (source: the Law on Amendments and Annexes to the Law on the Budget of the Republic of Serbia for 2012), where NIS participates in the revenues of the state budget with around 91.4 billion dinars.

Regarding the budget for 2011 and 2012, fuel taxes constitute a substantial source of financing in the Republic of Serbia by participating with a total public income of 22.85% or 23.16% in 2012. The Republic of Serbia realizes most of the fuel tax income by charging fuel taxes on

NIS's share in total public income in relation to fuel taxes in 2012



Investments

The Company Board of Directors adopted, among other plans, the Medium-term Investment Plan (hereinafter MIP) in the last quarter of 2011 which presents the

investment plan for the period 2012-2014. According to this plan, in 2012 the main investments are directed at the realization of the following group of projects:

- MHC/DHT
- Environmental protection projects
- Exploration and production, refining and sales and distribution of oil and gas projects
- Certain number of projects in expert departments

Investments in 2012 were increased by



2012 marked the realization of 50.8 billion dinars for investments, which is 48% more in comparison to the same period in 2011.

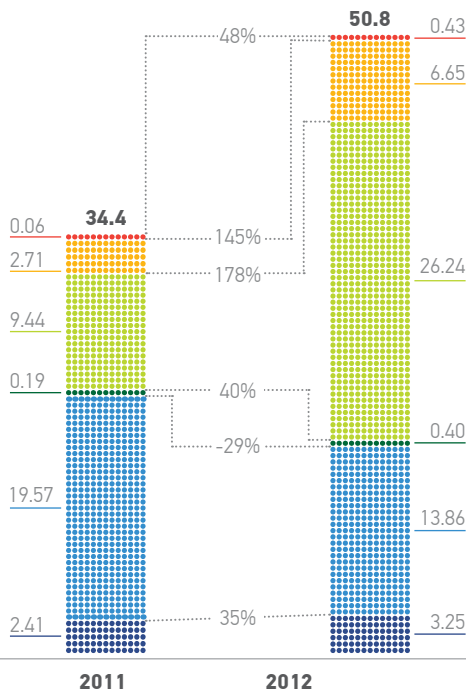
Most significant investments:

Exploration and production (increasing oil and gas production, increasing reserves)

- geological explorations in the Vojvodina region

SAREH according to investment projects, expressed in billions of dinars

+48%



● Projecting-exploration operations

● Projects with direct economic effects

● Projects with direct economic effects

● Angola

● MHC/DHT

● The environment

* PSA - Production Sharing Agreement



- geological explorations in the region of Bosnia and Herzegovina
- investments in concession rights
- fracturing wells
- drilling new development wells
- automating of production
- installation of electric submersion pumps

Refining (reconstruction and modernization of the Oil Refinery in Pančevo, environmental projects)

- construction of MHC/DHT and hydrogen plants
- construction of a regeneration plant
- reconstruction of the Pančevo port
- reconstruction of the auto-filling station in Pančevo
- reconstruction of the loading facility of liquid petroleum gas (LPG) in Pančevo

Sales and Distribution (development of the retail network)

- total reconstruction of petrol stations (nine petrol stations)
- installation of a LPG cistern
- purchase of new petrol stations (one petrol station)
- rebranding the existing petrol stations (231 petrol stations)

- regional development of sales in Bulgaria, Bosnia and Herzegovina and Romania.

Regional development

The year 2012 could be called the year of regional expansion. In 2012 NIS began the realization of the hydrocarbon exploration and production project in the following countries in the region:

- Bosnia and Herzegovina – there are undergoing preparations for drilling exploratory oil wells with the first oil quantities expected in 2013;
- Hungary – February 2012 RAG Hungary Limited and the Company began drilling exploratory oil wells pursuant to the Agreement signed in December 2011;
- Romania – there are undergoing geological-exploratory operations with the first results expected in 2013.

In 2012 NIS exported oil products to countries in the EU, Ukraine, Croatia, Montenegro, Bosnia and Herzegovina and Macedonia



NIS took over



petrol stations on the market of Bosnia and Herzegovina

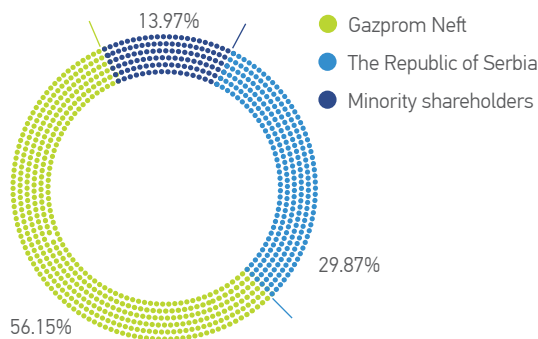
Activities on expanding the retail sales network are continuing. Petrol stations in the Republic of Srpska began operating. An Agreement was also signed on acquiring 100% of the ownership from the company OMV Bosnia and Herzegovina as a result of which NIS has acquired 28 petrol stations on the market of Bosnia and Herzegovina. 14 petrol stations were commissioned in Bulgaria and an oil base in Kostinbrod has been purchased.

In 2012 NIS exported oil products to countries in the EU, Ukraine, Croatia, Montenegro, Bosnia and Herzegovina and Macedonia.

Capital structure

In 2012 there were no substantial changes in the shareholding capital structure. Gazprom Neft, as the majority shareholder, still holds more than 56% of the issued shares while the Republic of Serbia owns 30% of shares with the remaining 14% owned by minority shareholders.

The capital structure on 31 December 2012



Strategy

The primary strategic objective of the Company is to become the most efficient, fastest growing energy company in the Balkans region by 2020 and to maintain the leading position on the Serbian market and to be among the three top companies in southeastern Europe.

The NIS strategy is divided into three horizons of development:

2011 - Vertically integrated company on the Balkans

.....

The realization of a transformation and modernization program which will enable cost-effective and stable growth in the medium-term perspective

2013 - Growing participant on the Balkans market

.....

To become a vertically integrated oil company with the fastest growth on the Balkans in the field of oil and gas production, refining and sales and distribution of oil products.

2020 - Efficiency leader on the Balkans

.....

To become the leading energy company-a leader among competitors in the southeastern market. To become a regional participant with the fastest growth on the Balkans according to production, refining and retail sales volume.

NIS's strategic plans to be accomplished by 2020 are:

- Increase in hydrocarbon production volume
- Increase the resource base
- Increase the volume of refining and production of European quality fuels
- Realize projects relating to renewable and alternative energy sources
- Development of the regional sales network
- Development of storage facilities, fuel depots and air service depots
- Development of gas refining and gas supply
- Development of basic oil and petrol-chemical production
- Access to part of the energy market of Serbia and the European Union
- Intensive project development abroad
- Increase of internal efficiency
- Focus on innovations and complex development projects in energy production



We will produce 5 million tons of petroleum and gas!

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



We will refine 5 million tons!

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



We will sell 5 million tons of petroleum products!

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



Euro 5 standard of processes and results!

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

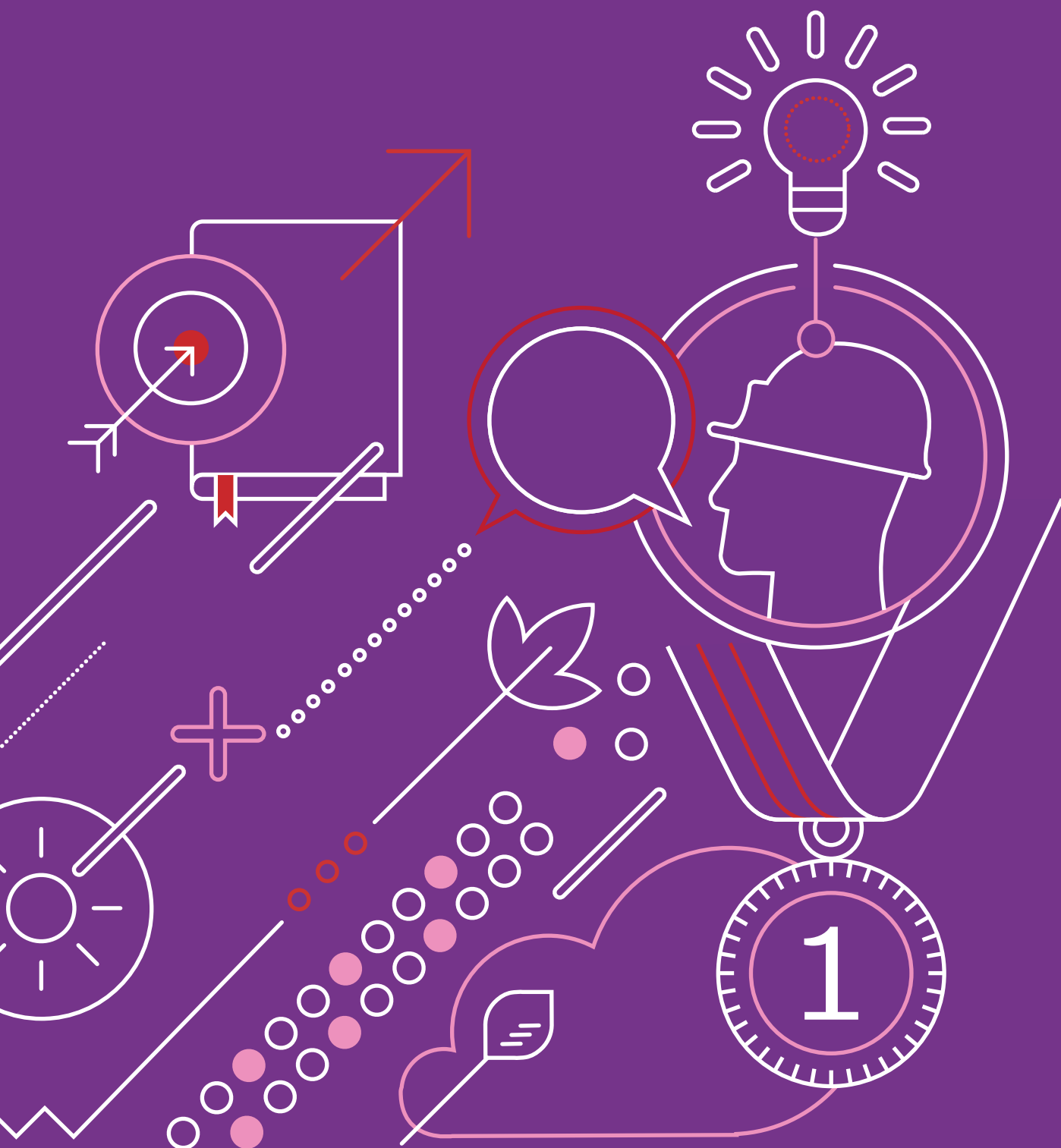


NIS's value of share: 5,000 RSD

- Leader according to economic efficiency in Eastern Europe
- Gross profit-130 billion RSD, the largest shareholder income for invested capital
- Public company with the best corporate management
- Balanced vertically integrated petroleum company which develops business in the field of energy and oil production
- Expansion of the geographical business territory-competitive participant at the European energy market

HUMAN RESOURCES





Within the “NIS
Chance” program, NIS
recruited

322

interns

By implementing
the Occupational Health
and Safety Management
System, the number of injuries
was reduced by

25%

Investment
in personnel
development increased by

63%

During the MHC/DHT
plant modernization project,

5

million working hours
were recorded without
accidents



As any successful company, NIS sees its employees as the most important and valuable resource it has.

Investments in human resources are a precondition for NIS to achieve business efficiency, as well as the status of the most respectable company in the Balkans in the domain of fuel and oil products, sales and distribution.

For this reason the Policy of Human Resource Management has been defined and its objective is to attract, win, develop, keep and reward the actual people who will carry out set tasks and follow Company strategy.

NIS is dedicated to the development of the complete potential of its employees and developing a climate where equal opportunities are a reality, both in terms of conduct and in terms of employment practices. For this reason NIS wishes to be recognized as a „Real Choice Employer“.

NIS management is devoted to the principles of equality in employment, not only in terms prescribed by the law, but also according to the principles of the mission, vision and corporate values of the Company.

Investments in human resources are a precondition for NIS to achieve business efficiency, as well as the status of the most respectable company in the Balkans in the domain of fuel and oil products, sales and distribution

Equal opportunities

NIS is an equal opportunity employer which, in practice, means no candidate or employee is discriminated according to gender, age, marital status, invalidity, religion, race, ethnicity, nationality etc. As an employer, NIS tends to completely exploit the talents and resources of all its employees and to ensure no candidate is privileged in comparison to others. The Company has no recorded cases of discrimination.

Fluctuation of headcount

The total number of employees at NIS on 31/12/2012 is 8,168, which presents a decline of 11.1% in comparison with 2011.

Organizational part	2011**	2012*
NIS – Professional Services	1,232	1,475
Naftagas	-	-
Exploration and production	1,141	868
Services	1,814	83
Refining	1,794	1,097
Sales and Distribution	3,207	2,374
Energy Production		205
Total NIS		6,102
Science – technical Center		315
Naftagas – Oil Services		782
Naftagas – Technical Services		702
Naftagas – Transport		267
Total daughter companies		2,066
Total NIS and daughter companies	9,188	8,168

The note refers to all tables pertaining to employee numbers and movements therein:

*There are 456 employees and 1 person hired through the NIS Chance Program with the last day of employment on 31/12/2012.

322 employees are hired through the NIS Chance Program as of 31/12/2012.

**A correction has been made in the previous report for 119 employees whose last day of employment is 31/12/2011.

The qualification structure on 31/12/2012												
	DR	M.S.	B.S.	A.D.	Sec.Ed.	Elem. Ed.	Highly qualified	Qual.	Semi-Qual.	Non-Qual.	Total	
2011	Employment for an indefinite period of time	11	138	2,040	661	3,559	44	983	1,596	25	36	9,093
	Employment for a limited period of time	0	5	76	1	7	0	2	3	0	1	95
	Total	11	143	2,116	662	3,566	44	985	1,599	25	37	9,188
2012	Employment for an indefinite period of time	11	155	1,989	569	2,861	34	764	1,346	16	50	7,795
	Employment for a limited period of time	0	40	219	0	81	0	1	27	0	5	373
	Total	11	195	2,208	569	2,942	34	765	1,373	16	55	8,168



As of 31/12/2012, NIS has 7,795 employees hired for an indefinite period of time and 373 employees hired for a limited period of time on a full-time basis. There are no part-time workers or employees younger than 18 years of age at NIS.

As an employer, NIS tends to completely exploit the talents and resources of all its employees and to ensure no candidate is privileged in comparison to others

Number of management employees and other employees					
		Management number*		Number of non-management employees	
		Number of man-agers*	% of participation of the total number of managers	Number of non-management employees	% of participation of the total number of non-management employees
2011.	Men	319	58.5	6,928	80.2
	Women	226	41.5	1,715	19.8
	Total	545	100	8,643	100
2012.	Men	261	66.8	6,060	77.9
	Women	130	33.2	1,717	22.1
	Total	391	100	7,777	100

*Includes I, II and III group managers



Age structure							
	Up to 19	20-29	30-39	40-49	50-59	60+	Total
Management*	0	51	244	140	94	16	545
Employees	1	547	2,299	3,165	2,451	180	8,643
Total 2011	1	598	2,543	3,305	2,545	196	9,188
Management *	0	19	172	132	59	9	391
Employees	4	783	2,115	2,766	1,990	119	7,777
Total 2012	4	802	2,287	2,898	2,049	128	8,168

* Includes I, II and III group managers

Employee fluctuation						
	Male employees		Female employees		Total	
	2011	2012	2011	2012	2011	2012
Employed	228	378	111	206	339	584
Termination of employment	1,048	1,304	286	300	1,334	1,604



Fluctuation according to age structure

	Up to19		20-29		30-39		40-49		50-59		60+		Total	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Employed	1	4	147	387	144	142	37	32	10	17	0	2	339	584
Termination of employment	0	0	18	31	145	219	319	422	635	734	217	198	1,334	1,604

Basis for termination of employment

In 2012, 1,604 employees left the company, 103 persons retired, 1,350 employees left the Company by mutual consent and 151 left for other reasons (termination of employment contract, termination of employment at employee's request, expiration of limited period of employment, employee death etc.).

In case the Company needs to change the employee's work place within an organizational unit, it is required to offer the change of work place with a response period of eight working days from the day the proposal has been made.

Basis of termination of employment

	2011	2012
Retirement	89	103
Voluntary termination of employment	1,127	1,350
Other	118	151
Total	1,334	1,604



Cooperation with trade unions

NIS supports the freedom of association and collective negotiating, so that key social partners of management include representatives of employee unions in the Company.

The constructive relations with the unions, daily consultations, weekly and quarterly meetings in order to present the business results and improve social di-

A high level of social security has been provided for NIS employees and this is regulated by the Collective Agreement and Social Program which apply to all employees.

alogue, contribute to the implementation of workers' rights from the Collective Agreement, Social Program and the Labor Law.

The agreements with the unions cover occupational health and safety issues, along with issues relating

There are two representative unions at NIS:

Number of employees in representative unions	2011	2012
Uniform union organization at NIS j.s.c. (covers the following Blocks: „Sales and Distribution“, „Refinery“ and “Headquarters”)	5,111	4,217
Uniform union organization Naftagas (covers the following Blocks: „Exploration and production“ and „Services“)	2,207	2,106
Total	7,318	6,323



NIS supports the freedom of association and collective negotiating, so that key social partners of management include representatives of employee in the Company

to personal protective equipment, mechanisms of petitioning complaints, rights to refuse hazardous jobs, defining the work protection training budget and realization of periodic inspections. Active participation of unions in resolving these issues is of special importance.

On 31/12/2012, 77% of employees are members of representative unions and this demonstrates that, in spite of the reduced number of unions, the number of representative union members has not been significantly reduced.

A high level of social security has been provided for NIS employees and this is regulated by the Collective Agreement and Social Program which apply to all employees.

The Collective Agreement and Social Program regulate special privileges for employees hired for an indefinite period of time at NIS such as:

- Special security for employees who are work disabled or have work related illnesses

- Supplementary voluntary retirement insurance
- Guaranteed income amounts which have to correspond to the ones at leading Serbian companies increased for realistic growth, in compliance with the business results and growth of the gross national product
- Entitlement to solidarity assistance
- Entitlement to jubilee awards
- Special lay-off pay
- Education and professional advancement funds for employees.

There is special significance in the fact that in 2012 there were no initiated legal procedures against NIS.

Personnel recruitment

Staff selection is a process which is continuously reviewed and enhanced at NIS. Along with substantial investments in order to realize high-set objectives, the Company needs highly qualified staff which possesses sufficient knowledge and experience in special technologies applied in the oil and gas industry. New staff selection rules are applied to every position in the Company,



from the management to the lower ranking positions of the hierarchy. Special attention is paid to the highest possible quality of young specialists arriving at the Company.

NIS Chance 2012

As part of its corporate social responsibility, in 2012 NIS continued with the realization of its own program NIS Chance 2012 and continued the tradition of the program of employing young persons, which started in 2010 and is continuously expanding. The program's objective is the employment of young university or secondary school graduates without work experience in a profession where they will use their knowledge, energy, ideas and readiness to continuously learn to strengthen the Company. The company will, in return, provide them with an opportunity to advance and gain knowledge from older and more experienced co-workers.

During 2012, the Program was realized together with local self-governments, where 322 trainees signed employment contracts with NIS. The Company's partners in subsidizing this program were the Autonomous Province of Vojvodina and local self-governments of Pančevo, Novi Sad, Kikinda, Zrenjanin and Novi Bečej.

Professional advancement of employees

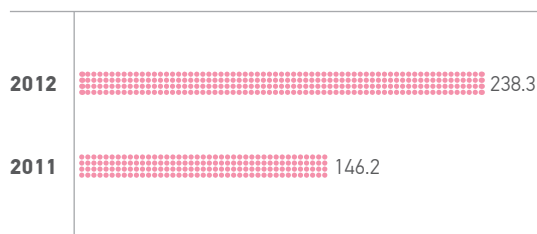
Stimulated by its wish to provide opportunities for its employees to receive training and gain high qualifications compliant with the European and international standards in the field of petroleum industry, NIS has been actively investing in the advancement of knowledge and skills of its employees. The training and advancement plan of employees is envisaged in such manner as to comply with the business processes of the Company and corporate culture developed by the Company.

With regards to this, the following types of trainings are organized:

- technical training (professional training in specific fields of business dealings – handling specific equipment etc.)
- non-technical training intended for developing management and leadership skills (so called soft skills, seminars, conferences, symposiums)
- foreign languages (according to business needs)
- legally mandated training, licenses, etc.

The total training and advancement costs for employees (expressed in millions of dinars)

+63%



Investments in employee training in 2012 increased by



	HQ	REFINING	OFS	UPS	PRO	ENERGY	TOTAL
Training and development costs (expressed in millions of dinars)	120.9	27.8	23.1	40.3	20.6	5.6	238.3
Total number of trainings	418	142	137	49	186	11	943
Total number of trainees	3,367	984	684	192	2,793	12	8,032
Average number of trainees per training	8	7	5	4	15	1	7
Professional exams (only Blocks)	-	29	19	170	11	-	229
Licenses (only Blocks)	-	46	29	49	33	1	158

Great care is dedicated at the company to the development of specific programs for employee training, especially the transfer program. With regards to this, the training development program such as Staff Reserve, Leader 2013, Investment Project Leader and Young Specialists have been continued.

Staff Reserve

This program implies the development program of a group of employees, potential candidates for management positions at the Company. In 2012, 462 employees participated in this program.

The Work Policy with Staff Reserves has been adopted.

Leader 2013

This program is designated for employees with the best leadership potentials who continuously realize ex-

cellent results and are part of the staff reserve, with the main objective of developing inheritors of top management positions at the Company. The Program was successfully realized with 27 employees.

Investment Projects Manager

This program is intended for all employees who will be or already are leaders of important projects within the Company. 72 participants took part in this program in 2012.

Young Specialists

The program is intended for the youngest co-workers employed at NIS in order to develop their professional, expert and leadership competencies in order to provide support from the beginning of their employment with the Company, relating to support in managing their career, and in the long-run, to contribute to the realization of strategic objectives. The Company has projected



a structured practical training program for these young professionals which will last two years. 120 employees have been included in this program in 2012.

Each of these programs is intended to develop competencies of certain employee groups and their common objective is the fulfillment of the Company's long-term ambitious targets.

The Company also organizes on-boarding introductory trainings for all new employees. In this way, the basic and necessary information is conveyed through a group or individual trainings to new co-workers, along with the necessary information about the Company, including training relating to work safety and human rights.

Incentive system

The incentive system in NIS covers all job positions and is particularly important for corporate performance improvement. As a socially responsible company, NIS ensures conditions which will contribute to its becoming one of the most attractive employers in the region, through the system of:

- financial incentives and
- non-financial incentives.

Financial incentives

The level of salaries in NIS equals the level in leading companies in Serbia, which is also guaranteed by the Collective Agreement.

Analyzing cities where the Company employs most of its staff, minimum gross salaries in NIS are higher than the minimum salary in Serbia, which amounted to 27,534 dinars in December 2012 (the source of information: Statistical Office of the Republic of Serbia).

An overview of the minimum gross salaries in NIS

city	minimum gross salary in dinars
Novi Sad	46,857
Zrenjanin	63,206
Pancevo	75,639
Belgrade	72,914
Kikinda	76,661
Nis	68,145
Becej	77,512
Smederevo	70,317

The average gross salary in NIS in 2012 amounted to 125,065.42 dinars.



The main criteria for incentives are competency, qualifications, job complexity, work volume and quality

In accordance with the provisions of the Collective Agreement, monthly employee performance assessment is carried out in NIS with the incentive system, where the variable part of the salary was based on results. The main criteria for incentives are competency, qualifications, job complexity, work volume and quality. Assessment of employees is performed in accordance with the quarterly bonus system, while management assessment is performed through the system of management by objectives (MBO) taken over from Gazprom Neft.

In 2012, NIS entered the second and final phase of implementation of its grading system, which give opportunities to employees to manage the level of their salaries through professional growth and development. Along with a good grading system, all other incentive programs help to upgrade the existing system. Eight new extensive programs for financial motivation of employees have been developed:

- Long-term incentive program for managers

- New quarterly bonus program
- New yearly bonus for all employees
- MHC bonus program
- Special bonus program
- Special bonus scheme for employees in Sales and Distribution (retail and wholesale sales)
- Incentive program in the Oil Field Services, specific for particular organizational units (e.g. the best brigade)

Non-financial incentive program

The role of non-financial incentives is identification and public recognition of the best workers and their results by awarding diplomas and token rewards. Non-financial incentive programs serve actually as tools for line managers to have a direct and instant influence on their employees' motivation.

Taking into consideration the heterogeneity of organizational units of the Company, several programs have been developed, such as:

- **The best in a specific line of business** – Incentive program covering the selection and recognition of the best workers and the best teams. As to the



individual level, there are three categories: the best worker, specialist and manager.

- **I've got an idea!** – The aim of this program is to identify and reward creative and constructive ideas of employees. If such ideas have economic effects, and if their application leads to a certain cost reduction or financial efficiency, employees who come up with them will also be rewarded by way of financial incentives. Among the implemented interesting ideas within this program was the chillout room in the Novi Sad Business Center.
- **HSE rewarding** – The main goal of the program is a higher level of personal safety of colleagues, and points are gained for each HSE activity performed. Apart from the HSE activities, the proposals for HSE improvements are also assessed, as well as the appearance at medical examinations and HSE trainings.
- **Instant rewarding** – Line managers have a certain number of vouchers, i.e. gift cards for distributing to the best employees for outstanding results at work, immediately after a job or task is well done.

- **Open door** – The Open Door policy means that top management is available at a certain period of time for employees to come and ask questions or try to solve a problem in direct communication with them.
- **Discount system** – The discount system offers discounts to NIS employees for various purchases and is available to Company staff. It refers mostly to shopping, tourism or cultural events (discounts on food, clothes, footwear, travel arrangements, tickets for cultural events).

Sport activity team

As a socially responsible company, NIS started a project in early 2012 aimed at increasing efficiency and productivity, supporting and improving health and well-being of employees. The project is in line with the Healthy Living Policy and its main elements are:

- preventive activities in order to improve employee health by way of:
 - educational courses for the employees on healthy living concepts and
 - diagnostics,

- recreational activities aimed at strengthening teamwork and a positive work environment,
- competitive activities in order to create a competitive spirit among employees and promote corporate values, and
- cooperation which sports institutions such as centers for sports and sports medicine through various educational activities, and also with basketball club Partizan, football club Crvena Zvezda and volleyball club Vojvodina, in order to promote sports, and furthermore, cooperation with corporate clubs in order to educate employees through various activities and sports promotion.

These activities are performed in cooperation with trade unions and good response and participation in competitions and numerous awards stimulate the Company to make further investments and support all initiatives related to this segment.

Occupational health and safety

Occupational safety and health of all NIS employees and third parties engaged by NIS is a priority issue for the Company.






Advantages of the Management system applied in the area of industrial safety, occupational safety and health and environmental protection are demonstrated by fewer accidents and injuries.

The management system is conceived in accordance with guidelines proposed by the Oil and Gas Producers Association reflecting thus at the same time NIS compliance with actual tendencies and processes going on in international petroleum companies.

Occupational safety and health of all NIS employees and third parties engaged by NIS is a priority issue for the Company

NIS has recognized that a significant percentage of accidents is the result of human actions and it has introduced a set of simple and easy-to-remember golden rules.

Five Golden Rules:

-  Observe all HSE rules. Stop all unsafe activities.
-  Perform risk assessment before any job.
-  Report any hazard, unsafe activity or incident.
-  Use the work permit system whenever necessary.
-  Observe road safety rules.

Fewer accidents in 2012 year

NIS is proud to report that an important cornerstone of occupational safety was laid in 2012. More precisely, during the MHC/DHT modernization project at the Pancevo refinery, the Company achieved FIVE MILLION work hours without any injuries. This success was the result of compliance with current best practices in the area of occupational safety and health and industrial safety, and it was also the result of good communication and coordination between NIS and project contractors.

NIS made significant improvements in reducing the number of accidents and injuries in 2011 by encouraging reporting and investigations of accidents. This initiative continued in 2012, focusing even more on the quality of investigation in order to identify the causes of accidents. Focusing more on the causes of HSE accidents and implementation of corrective measures contributed to a further decline in accidents in 2012.

Number of injuries **-25%**



Occupational injuries	2011	2012
Number of injuries	142	106
Number of sick leave injuries	125	79
Number of lost days	3,794	1,651
Sick leave days due to occupational injuries	43,376	22,488
Number of hours of absence from work	428,096	370,949
Number of hours of regular work	16,376,444	15,088,954
Injury rate (IR)	8.67	7.03
Absence rate (AR)	260.14	24.58
Lost day rate (LDR)	20.65	1.49

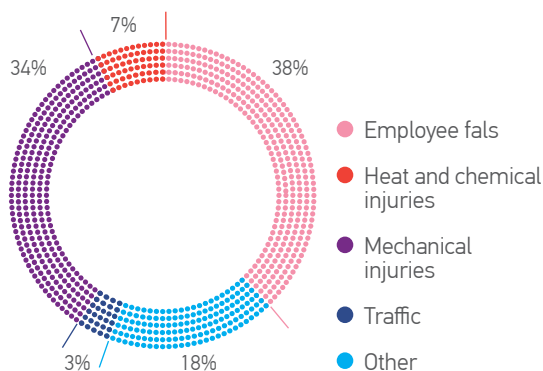
KINDS OF INJURY	
Employee falls	40
Thermal and chemical injuries	8
Mechanical injuries	36
Traffic	3
Stress	0
Fall from height	0
Other	19
Total	106

Given that the Company is responsible for protecting its employees' health, a project was launched in 2012 for identification of the main health issues reported by employees before and during 2012. The results of the project provided useful information to staff dealing with employees' health and enabled them to focus on identified health issues and to implement proactively preventive health measures.

Occupational safety

As part of safe work performance control, the work permit system was modified and improved so as to enable control of performance of hazardous and non-routine activities. The system was created in accordance with recognized international principles focusing on the need

Kinds of injuries in 2012



to make complete risk assessments and detailed checks of locations, where the work is performed before the beginning of activities in order to remove risk and increase safety.

Furthermore, special attention was paid to the improvement of training programs and courses in the Company. A lot of effort was made to provide proper training to NIS employees and contractors on all safety and health aspects, with the focus on workplace risk assessment. This training is now organized for new NIS employees.

The initiative which started in 2012 under the name "Risk Assessment in Two Minutes" requires each employee to assess risks related to his/her workplace and to make it safe for work. A pocket leaflet is available at all work sites and employees are encouraged to use it in the course of their regular work activities.

HSE incident investigations show that human behavior contributes significantly to the occurrence of accidents. Because of that, the introduction and application of this simple and elegant procedure significantly contributes to encouraging each individual to work in a safe manner.

NIS has recognized that driving poses a significant risk for employees, so that records are kept about the number of road accidents. A slight increase in the number of accidents (69) was noted in 2012 in comparison to 2011 (67). Extremely bad weather conditions at the beginning of 2012 caused a number of road accidents of NIS employees. Bad weather conditions in January and February caused 23 (33%) out of 69 road accidents. Based on these accident statistics, NIS introduced the advanced driving courses in 2013.

Activities of the committee for occupational health and safety

Pursuant to the provisions of the Collective Agreement, Committees for Occupational Health and Safety (COHS) were formed in the following organizational units:

- NIS COHS
- Exploration and Production COHS
- Refining COHS
- Sales and Distribution COHS
- Oilfield Services COHS
- Energy COHS

Each Committee for occupational safety and health has five members: three employees' representatives (trade union) and two employer's representatives.

Committees for health and safety issues covered over 70% of all employees in 2012.

Reports on the activities of these committees in blocks are submitted to the Committee at the level of NIS. These committees meet at regular intervals during the year, with special roles particularly in the areas of:

- arranging medical examinations
- working conditions for employees
- PPE issues
- participation in making workplace and work environment risk assessments in each of the blocks.

Furthermore, these committees actively supported the forming of a Sports committee in order to encourage NIS employees to participate in sports activities arranged in the Company, as well as in other sports activities.

The practice of holding regular monthly meetings of NIS top management, headed by the CEO and HSE management, at different NIS locations has been continued.

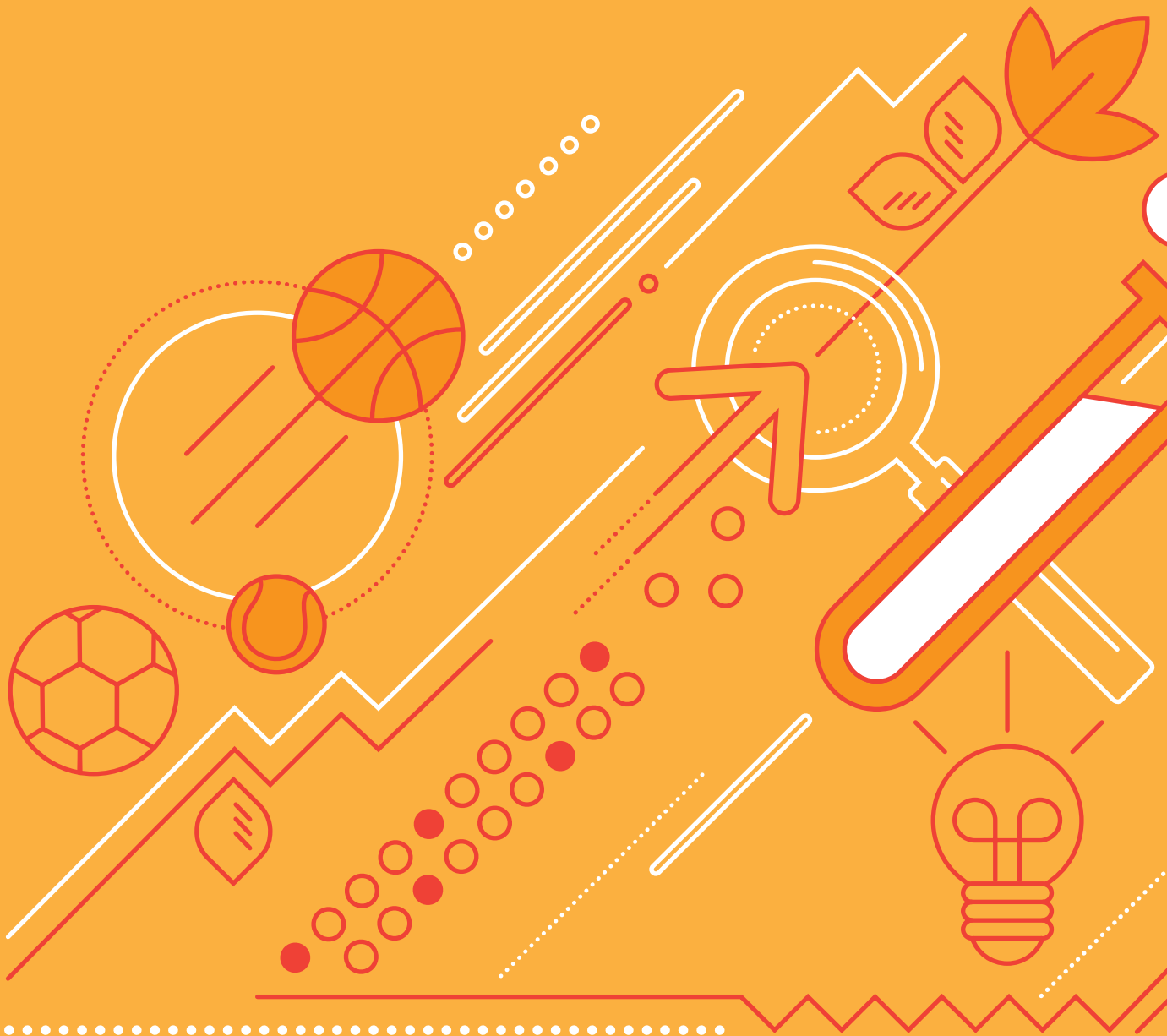
Education and training on occupational health and safety

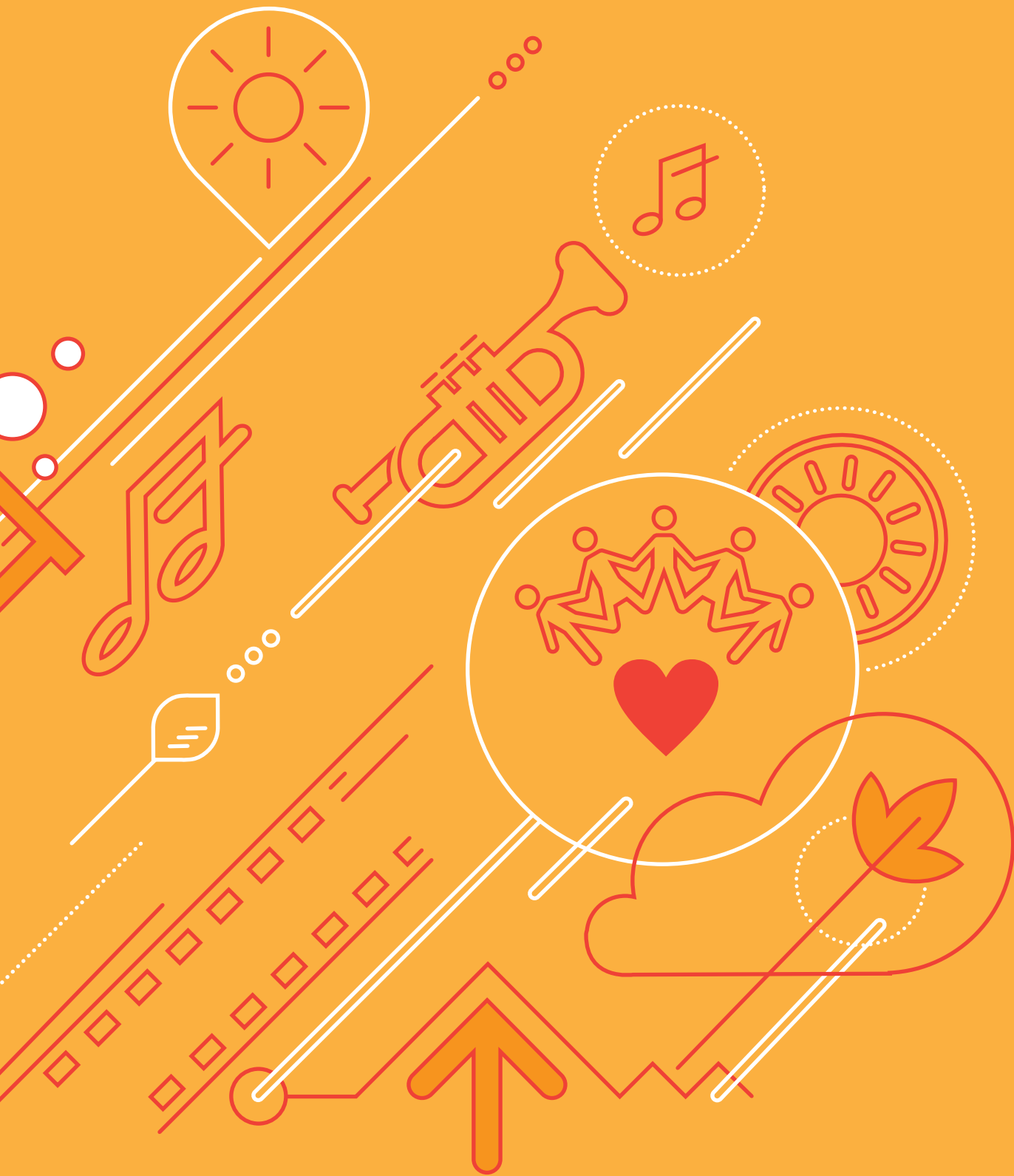
In 2012 NIS organized numerous training courses for employees on occupational safety and health as well as fire protection. Thus 240 employees upgraded their skills, acquiring qualifications from state certification programs on Fire Protection and Occupational Safety and Health.

Apart from the training courses for employees, the Company also organized in 2012 training courses for contractors engaged in occupational safety. The training course covered first aid, contractor safety management and fire protection.



RESPONSIBLY TOWARD THE COMMUNITY







Total funds that
NIS invested in local
communities programs
exceed

375

million Dinars

Within
the program
"Cooperation for
Development",

141

projects realized under
the slogan "Energy
of Life"

NIS
realized



programs of investments
in the community

Energy
of Sport

Culture
without
Borders

Energy
of Knowl-
edge

Hu-
manitarian
Projects

Cooperation
for
Development

THE
COMPANY
SUCCESSFULLY
COOPERATED WITH
UNIVERSITIES IN BELGRADE
AND NOVI SAD, AS WELL
AS WITH THE "PETNICA"
RESEARCH STATION



NIS strategy is business which is responsible towards the society and community. To that end, the Company supports socially important projects and encourages solidarity and common spirit.

The Company strives to create connections with society by creating partnership relations in order to provide a better future for the community.

NIS does not participate in the work of political parties. The Company builds a dialogue system between representatives of the business community, state authorities and local self-management bodies on the basis of a reasonable balance of business interests.

In 2012, support to local communities continued through previously set programs and 375.7 million dinars were invested to that end.

Sport energy

NIS supports professional and children's sports and promotes a healthy way of living through the "Energy of Sports" program.

Projects which marked 2012 were realized in co-operation with the Partizan basketball club, Davis Cup tennis team, The Cycling Federation of Serbia, Volleyball club Vojvodina, Belgrade Marathon, the European hill climbing champion Dusan Borkovic.

For four years in continuation the Company supports the best Serbian tennis players participating in Davis and Fed Cups, thus promoting the best sports values, team



spirit and top results. By supporting the Tennis Association of Serbia the Company helps to bring tennis closer to younger generations, providing support to junior players, supporting development of tennis camps and schools, with joint participation in humanitarian actions. As a result, the "NIS open school of tennis" was organized for children during the summer in Belgrade, Novi Sad, Pancevo, Nis, Kikinda, Zrenjanin, Novi Becej and Kaniza, where children make their first steps in tennis.

The 25th jubilee Belgrade Marathon, one of the most important and mass sports events, under the slogan "We can all do it", was supported by NIS thus demonstrating NIS's dedication to popularizing sports, healthy living and fair-play. Marathon and half marathon races brought together over 2,300 competitors from 35 countries and over 20,000 runners participating in the race for fun.

By promoting sports, health and team spirit among the youngest generations, NIS supported the Mini Basket Festival "We empower the start of the game, we are empowered by NIS" for 2,500 boys and girls from Serbia and the region. Over 140 teams played 224 games,

NIS supported the Mini Basket Festival "We empower the start of the game, we are empowered by NIS"

Total funds invested in the realization of social programs amount over

375 million RSD

where besides releasing their energy, the children demonstrated an enviable level of skill and joy in the game, and, moreover, a great number of young sports talents that are deserving of attention were affirmed.

The Company traditionally supports Basketball Club Partizan in their games at home and on the global scene, contributing to the promotion of Serbian sports in general. NIS also has good cooperation with the Volleyball club Vojvodina; in addition, the Company supported the international bicycle race through Serbia and has excellent cooperation with the current European Hill Climbing Champion Dusan Borkovic.

The Company allocated 151.4 million dinars for sports sponsorship programs.



Culture without limits

In order to provide a better future for culture in society and community, NIS created a special program "Culture Without Limits" for supporting cultural institutions and festivals on the local, national and international level, as well as projects of Russian-Serbian cooperation.

Traditional events supported by NIS in 2012 included the theater festival "Sterijino Pozorje", children's festival "Zmajeve Decije Igre" and children's music festival "Joy of Europe", Trumpet Festival in Guca, jazz festival "Nis-vil", film festival FEST, and the Belgrade Philharmonic Orchestra Fund.

NIS has maintained friendly relations for years and sponsored traditional manifestations such as "Sterijino pozorje", the most important festival of Serbian drama and theater. By supporting new theater trends which this festival brings, NIS has enabled better organization of the Pozorje. Festival performances were given on Novi Sad theater stages, but also on the NIS theater stage in the NIS Business Center Novi Sad, making the Company an active participant in the Festival.

NIS is proud of its continuous support each year for the "Zmajeve Decije Igre", helping children present a creative program of high-quality. The Company has been

NIS is proud of its continuous support each year for the "Zmajeve Decije Igre", helping children present a creative program of high-quality

awarded each year for several years on end, a plaque of appreciation "Great Dragon" - the friend of the Games.

NIS continuously, for three years, supports the biggest film festival in South-East Europe - FEST. By doing so, NIS wants to contribute to the dissemination of ideas, opening new horizons, promoting artistic talent in general, and supporting projects which improve cultural life of the community where the Company does its business. As part of its support to the 40th jubilee FEST held under the slogan "Among the Greats", NIS prepared a program which was conceived to encourage the visitors' creativity, with the awarding of the best short amateur film. Visitors could take photographs in film stenography on an old-timer motorcycle.

Support to the 52nd Dragacevo Festival, for four years on end, is conceived as the contribution to the promotion of Serbian musical tradition and creative musical achievements, as a way to present the Serbian culture and tradition to visitors coming from all parts of the world.



As part of its strategic partnership with the Trumpet Festival, NIS sponsored the concert "Trumpet Masters" in which the best Serbian trumpet players, including Dejan Petrovic and Dejan Lazarevic, took part.

With its support to the International children's folklore festival "Licidarsko srce" ("Gingerbread Heart"), the Company continues its projects which promote children's creativity. Twenty-one folklore troupes took part in the Festival, twelve from Serbia and nine from Spain, Hungary, Turkey, Greece, Poland, Belarus, Canada and the Republic of Srpska, and there were also various folklore workshops and game rooms and exhibitions during the Festival.

Over 37.2 million dinars were invested in this program in 2012.

Energy of knowledge

NIS pays special attention to its young employees, and with a view to having young properly qualified specialists it initiated a project "Energy of knowledge". Special attention was paid to cooperation with universities and with the Petnica Research Station.

Over 35 million dinars were invested in this program in 2012.

The concept of cooperation with universities includes development of partnerships with the leaders in the field of education in the country.

Cooperation with universities

The concept of cooperation with universities includes development of partnerships with the leaders in the field of education in the country. Particular attention is paid to cooperation with Belgrade and Novi Sad universities, where the following programs have been created:

- specialist courses "European Integrations" aimed at development of expertise required for activities in the European Union, for employees who are currently or will soon be on job positions requiring such expertise (16 participants)
- MBA (Master of Business Administration) course for development of expertise required for higher efficiency on currently occupied and future managerial positions (total number of participants: 13)

In 2012, a survey of students' opinions was conducted at these universities with a view to identifying how NIS ranks and how it is perceived. This survey provided the basis for activities that followed and that focused on:



- the strategy of revitalization of technical schools and faculties or, more precisely, raising interest in technical schools and faculties by establishing cooperation with:
 - the Faculty of Mining and Geology in Belgrade, in order to create conditions for setting up and having successful and versatile scientific and technical cooperation in the field of education of highly qualified technical specialists properly trained for jobs such as geological and mining exploration, refining and distribution of petroleum and petroleum products,
 - Association of Mathematicians of Serbia and Association of Physicists of Serbia aimed at supporting the organization and conducting of competitions in mathematics and physics on all levels,
 - secondary School of Geology and Hydrometeorology in Belgrade and Technical school in Zrenjanin (program "NIS grade") aimed at contributing to proper training of qualified technical specialists with secondary education for work in NIS, and to the preparation of secondary school students and their motivation to continue their education in faculties with which the Company cooperates.
- popularization of the Russian language in schools in Serbia and in the region by organizing language competitions in cooperation with the Slavic Society
- Improvement of skills and raising student awareness of NIS business processes, providing a chance for additional development of skills through practical experience before completing the courses. For this reason, cooperation was established with the Faculty of Economics and the Faculty of Organizational Sciences at Belgrade University.
- holding presentations about the Company in faculties within Belgrade University (such as the Faculty of Philology, Electrical Engineering, Economics, Technology and Metallurgy, Mining and Geology, Transport and Traffic Engineering, Mechanical Engineering) and in faculties within Novi Sad University (such as the Faculty of Technical Sciences, Technology, Natural Sciences and Mathematics)
- granting Scholarships to the best secondary school and university students in the Republic of Serbia
- giving a chance to talented students to get experience by working in the Company within the programs "Summer internship", "internship 10 hours a week", "Compulsory Internship" which was attended by over 100 students in 2012.



Cooperation with the Petnica Research Station

As sponsor of the Petnica Research Station, and taking into account its importance for the development of science, culture, literacy and education in Serbia, NIS allocates funds on a yearly basis for the normal and uninterrupted operation of the Station, and for organizing courses, summer schools, camps and seminars. Owing to NIS support, Petnica Research Station had 88 programs in 2012 (courses, seminars, camps, or workshops) with participation of 2,080 attendees and 735 guest experts and lecturers. Among other projects, the Conference of research activities "A Step into Science" was held again this year. On that occasion the Company donated to Petnica Research Station a collection of geological material, as educational material for future generations.

Humanitarian projects

Through its humanitarian projects NIS helps and supports the deprived categories of the population.

Petnica Research Station had 88 programs in 2012 with participation of 2,080 attendees and 735 guest experts and lecturers.

Particular attention was paid to children in 2012. This includes the help provided to the B92 fund "March for babies", to Pcinski district for recovery from the consequences of a natural disaster, to Student center Pristina for heating purposes, to the National Association of Parents of Children with Cancer in the form of fuel cards, to the auto moto club "Harley Davidson" for a humanitarian concert and help to Kosovo and Metohija.

In 2012, the Company joined the humanitarian action "Love heals everything" organized by the National Association of Parents of Children with Cancer. NIS employees provided the funds for the adaptation and equipping of a parental home in the city of Nis by purchasing Easter gingerbread cakes. Owing to the philanthropic contributions of the employees the action became philanthropic in nature.

Through the humanitarian project, the Company donated 35.1 million dinars in 2012.



In late 2012, NIS and its employees joined the action "Battle for Maternity Hospitals" in order to give a chance to new life and support the battle for those who need help the most. On this occasion a unique system was applied by the Company for donating funds in the total amount of provided funds by the employees. The provided funds were intended for the procurement of CTG units for hospitals throughout the Republic of Serbia.



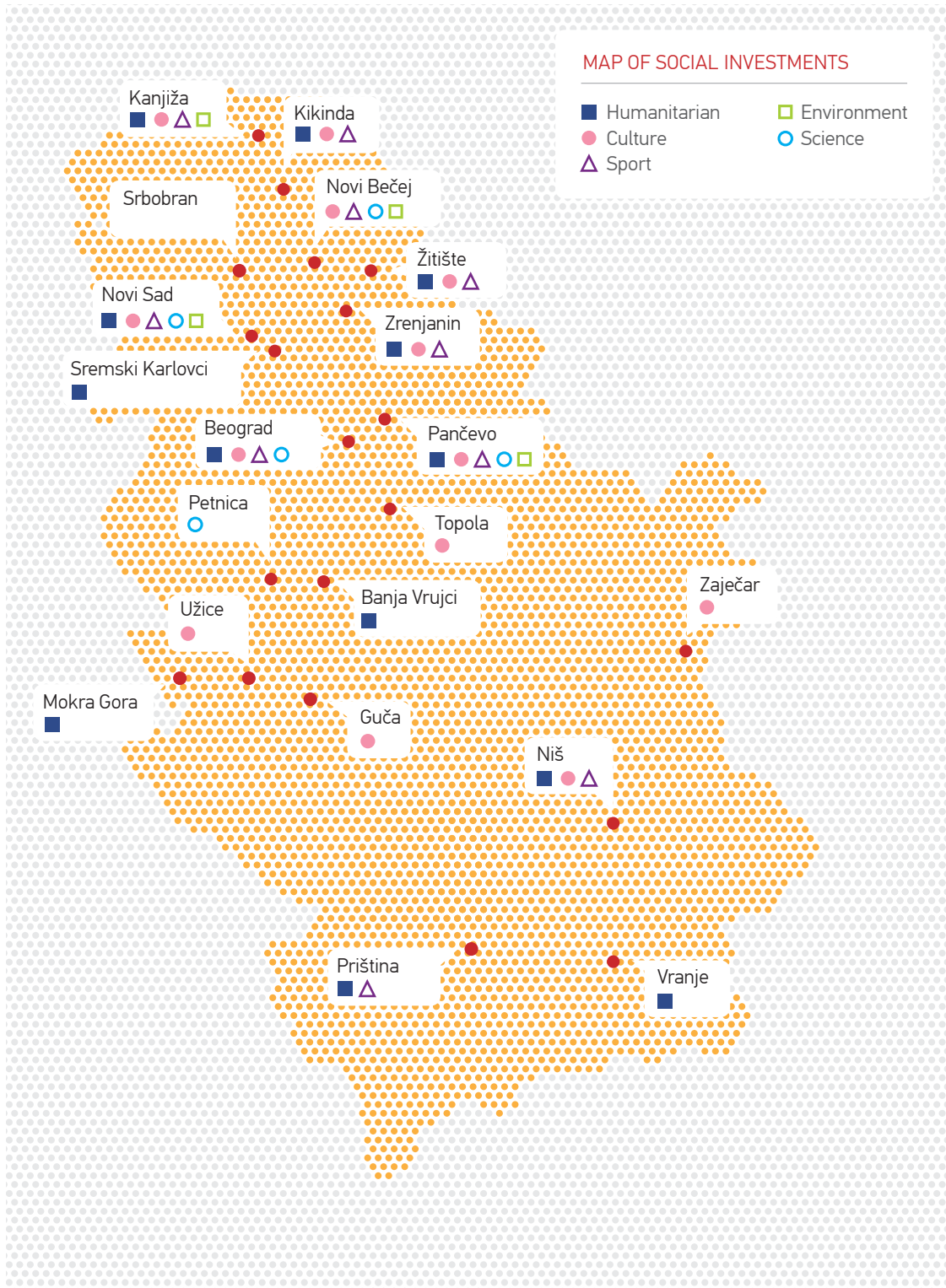
projects
realized
through the
program Life
Energy

Cooperation to support development

HNIS continued the program "Cooperation to Support Development" with the intention of making stronger partnership relations with regions where the company conducts its business, their local authorities and populations. This year a new concept was introduced for support to activities helping the development of local communities. One half of the funds specified in separate agreements were distributed through public tender, and the other half was intended for priority projects to be used at the discretion of municipalities and cities with which NIS has signed agreements on cooperation.

For four years already NIS has had a strategic cooperation with the Government of the autonomous region of Vojvodina and local self-management authorities in Vojvodina - Novi Sad, Pancevo, Kikinda, Zrenjanin, Novi Becej, Kaniza, Zitiste. Furthermore, the Company signed the agreements on social and economic cooperation with the cities of Belgrade and Nis.

The aim of such strategic cooperation is the improvement of the quality of everyday life and social infrastructure in the local community, development of sports, science and culture, inflow of investments and higher participation of NIS in solving specific local problems.





In 2012 only, NIS invested over 116.8 million dinars in projects in local communities.

Under the slogan "Energy of Life" 141 projects were implemented in 2012, the intention of which was to motivate and support creativity and responsibility of organizations and individuals, and create a better future and a more humane society.

NIS continued the program "Cooperation to Support Development" with the intention of making stronger partnership relations with regions where the company conducts its business, their local authorities and populations

In Pancevo, among other activities, the Company helped to renew an old clock mechanism on the Catholic Church of Carlo Boromejski by providing 350,000 dinars, thus demonstrating its care for immovable cultural heritage and its preservation.

In addition, NIS invested 950,000 dinars in arranging the city beach, specifically, in the reconstruction of green areas and river bank and introduction of new programs in order to improve the living conditions in the city of

Pancevo, use of available natural resources and revival of its residents' tradition of gathering and spending time on the City beach.

On the territory of the city of Zrenjanin, among other activities, funds in the amount of 1.5 million dinars were allocated for the adaptation of the Children's Unit at the General Hospital "Djordje Jovanovic" for the reconstruction of the water supply and sewage network, partitions and electrical services.

In addition, a project of providing adequate sound support on the municipal website for the blind and partially sighted was carried out in the amount of 400,000 dinars, enabling access to information to all citizens of Zrenjanin and thus giving everyone an equal chance of participating in the decision making process on issues which are important for the city.

The amount of 350,000 dinars was invested in the landscaping of the city.

As part of its support to projects in Novi Sad, there is a project of procurement of equipment and multimedia programs for uninterrupted improvement in the operation and progress of the residents of the Home for Children and Youth with disabilities "Veternik" (400,000 dinars), and work engagement of autistic persons (200,000 dinars).



On the territory of Kikinda municipality in the Kikinda Municipality building a support platform for an elevator was built (3.5 million dinars) enabling easier access to the Ceremonial Hall of the Municipality building, and also to all offices on the upper floor. The support platform provides communication between the ground floor and the first floor for disabled persons, especially for persons in wheelchairs, but also for pregnant women and persons with movement difficulties.

Citizens of Kaniza got a new playground next to the school for talented students in Totovo village (project in the amount of 500,000 dinars).

A running track worth 250,000 dinars was built in the city, giving a more versatile choice for active recreation of the local population, especially the youth in the city and in the municipality of Kaniza.

In cooperation with the Society of Serbian-Russian friendship „Vlosinov“ the Russian cemetery in Novi Becej (500,000 dinars) was restored.

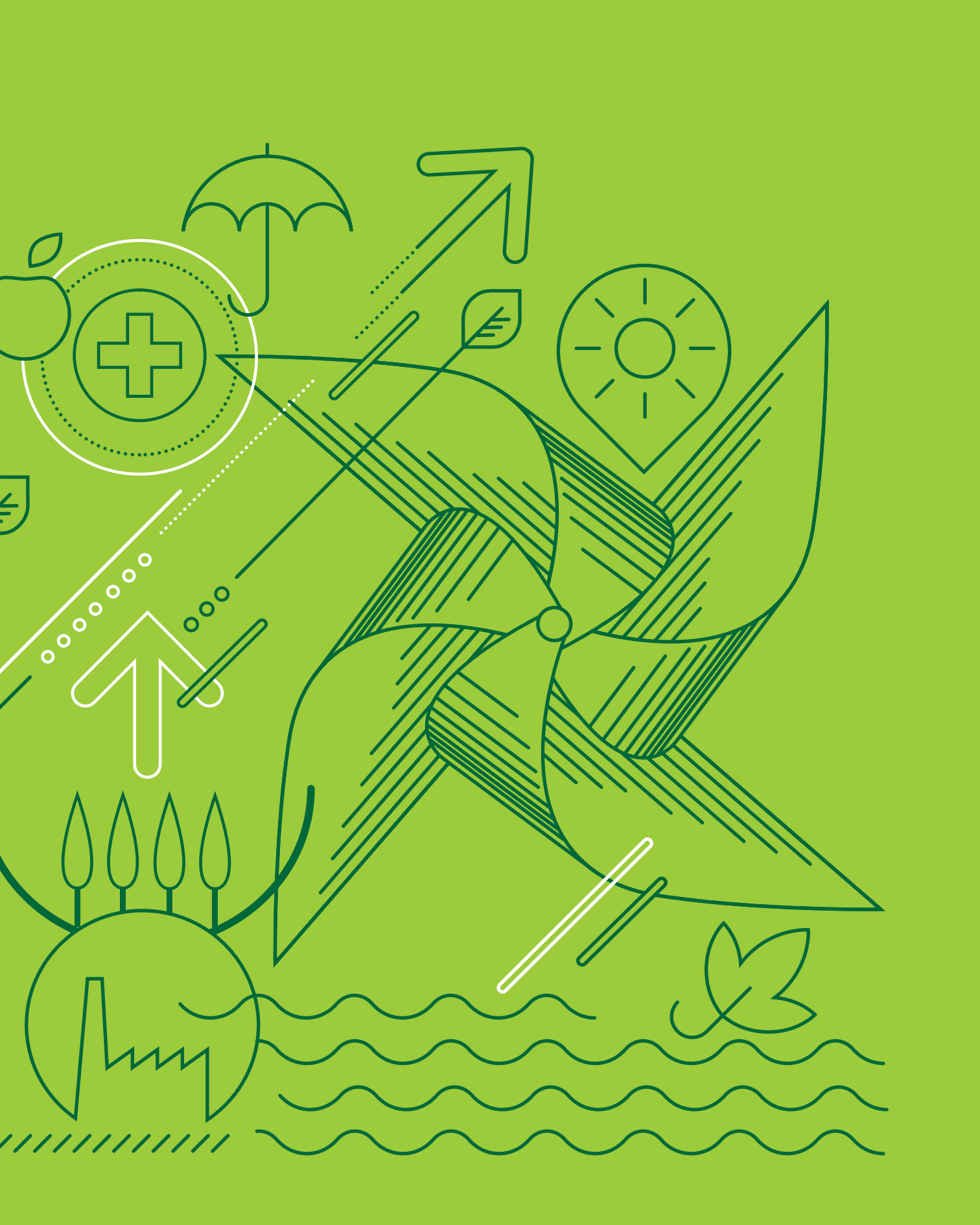
In Zitiste, the focus was on the municipal arrangement – procurement of trash cans in the amount 1 million dinars for the local population. For the purposes of better, more efficient and organized waste management and waste removal in the municipality, the inhabitants of 12 local communities received 500 trash cans.

Among other activities, NIS allocated funds in this municipality for the provision of building material for the most socially deprived citizens in the amount of 400,000 dinars, and in addition it co-financed the construction of a sports ground (1 million dinars).

The funds for Srbobran municipality were spent on the reconstruction of a part of the kindergarten “Pcel-ica” (“Little bee”), investment maintenance of toilets in the Elementary School “Vuk Karadzic”, Grammar School “Svetozar Miletic” and the School for Children With Special Needs “Milan Petrovic” (a project worth 5 million dinars). Owing to the reconstruction and maintenance of such facilities, better conditions for the activities of all preschoolers and students have been created.

This year’s “Belgradization of Belgrade” (a project worth 30 million dinars) will be remembered owing to numerous cultural events which were intended for all citizens of the capital city in the last weekend in the month. Within this project, inter alia, a replica of Terazije in the 30-ties of the last century was made in Novi Beograd. Visitors to this unique park stretching on 4,500m² could experience past times in the capital city with the accompaniment of jazz music, seeing the authentic costumes from that period and replicas of hotels “Moscow” and “The Balkans”.

A vibrant green line-art illustration representing sustainable development. The composition includes a central wind turbine, a person running at the bottom, a car on the left, a handshake in the upper left, and a head profile in a circle. The background is filled with various geometric shapes, arrows, and organic forms like leaves, all rendered in white lines on a solid green field.



Investments
in realization of
environmental protection
projects increased by

33%

Remediation
of

17

primary mud pits
executed

The
number of
environmental accidents
was reduced by

31%

and the most frequent cause of
accidents are perforations in
the oil transport
pipeline

Volume of used waters
in 2012, reduced by

75%

cubic meters



HEALTH AND SAFETY AND ENVIRONMENTAL PROTECTION

NIS is aware of its responsibility and impact on the environment, employees, contractors and third parties when managing environmental protection, i.e. health and occupational safety.

That is why the Company advocates more rational use of natural resources and reduction in the negative influence on the life of people and the environment by improving HSE Culture in the Company.

NIS continuously works on the implementation of high standards in the area of industrial safety, health protection, in accordance with the global trends and regulations and actively manages its exposure to risk with a view to its exposure to the risk, in order to keep it at the lowest possible level.

Environmental protection

Sustainable management of the environment in NIS means that the Company cares about the environmental protection through the implementation of projects for lowering the emission of pollutants in the air, water and soil, waste minimization, increase in energy efficiency and use of renewable sources, removal of historic and accidental pollution, as well as the application of technical and technological measures in accordance with the best accessible techniques.

The most important activities in 2012 focused on the implementation of projects specified in the action plans for environmental protection, and the completion of the Pancevo refinery modernization project.

In order to identify and assess the impact of all potential pollution sources in NIS on the environment and define measures for minimizing them, the following documents were created:

- CO₂ Emitter Register,
- Tank Register containing a database on all tanks, enabling identification of the need for reconstruction and replacement in order to reduce emission of volatile organic compounds (VOC)
- Water Facility Register (water containers - wells, separators, waste water treatment units, piezometers) for the purpose of identifying the status and improving water resource management.

In order to solve in the optimum way the long-standing issue of oily mud and oily soil in NIS, an International Conference was organized on environmental pollution related to oily waste management, cutting-edge tech-

The most important activities in 2012 focused on the implementation of projects specified in the action plans for environmental protection, and the completion of the Pancevo refinery modernization project

Investments in the realization of environmental protection increased by



nologies and best global practices in the treatment of this kind of waste.

Environmental projects in 2012

In 2012, significant funds were allocated for the implementation of environmental protection projects. Such projects focus on equipment upgrades and reduction in pollutant emissions into the environment, remediation and recultivation of polluted sites (historical pollution), monitoring of the environment, etc.

NIS invested 3.3 billion dinars in 2012 in environmental protection projects, while operating expenses for environmental protection amounted to 359 million dinars.

Operating expenses for environmental protection (in thousand dinars)

Air protection	Waste water	Waste	Protection and remediation of soil and water	Nature protection	Other issues related to the environmental protection	Total
26,377	1,922	19,236	31,839	4,336	275,723	359,433

MHC/DHT

2012 saw the completion of one of the biggest individual investment projects in Serbia - modernization of the Pancevo refinery with the construction of MHC/DHT unit in accordance with the established time schedule. Exactly two years, four months and ten days passed from the beginning of the complex construction to the ceremony of putting the facility into operation.

The completion and putting into operation of the MHC/DHT unit marks the beginning of the production of motor fuels (gasoline and diesel) in full compliance with the Euro 5 standard, which will have a positive effect on the overall environmental situation in the country.

The total amount of investments in the modernization and reconstruction of the Pancevo refinery and environmental projects amounted to 547 million Euro.

The purpose of the unit for mild hydrocracking and hydro treatment is to increase the depth of crude refining by 10% and to remove, to the maximum extent possible, sulphur and other chemical compounds negatively affecting the quality of the final product - fuel.

The project will also enable better flexibility in the selection of the types of crude oil for refining, from low-sulphur to high-sulphur types, and increase in refining volume up to 4.8 million tons a year, which will satisfy the demand on the Serbian market and enable export in the Balkan region.

The volume of production of Euro 5 motor fuels will amount to 638,000 tons a year and the volume of production of Euro diesel will amount to 1,538,000 tons a year.

The project will also enable better flexibility in the selection of the types of crude oil for refining, from low-sulphur to high-sulphur types, and increase in refining volume up to 4.8 million tons a year

The use of fuel with up to 10ppm sulphur content will reduce emissions of sulphur oxide into the atmosphere by 9,913 tons a year.

The unit construction project was carried out by 28 contractors - 24 domestic companies and 4 foreign contractors.

About 10,000 thousand people were engaged on the project, and on peak activity days over 2000 employees worked on the site.

Since January 2010, 5 million hours of work were achieved without occupational injuries.

Overview of other completed environmental projects in 2012

The following projects were carried out in 2012:		
Block	Name of the Project	Purpose of the Project
Exploration and Production	Procurement of geoelectrical scanning equipment	The processed results obtained after scanning give information about the location and volume of pollution of ground water with hydrocarbons
	Regeneration of spent sulphuric acid	Reduction of hazardous waste quantity - spent sulphuric acid is processed, thus considerably decreasing emissions into the air
Refining	Revitalization of flare gas recovery unit C-1000	Significantly reduced quantity of gas burned on the flare, and gas which is returned for combustion in the furnace previously undergoes the process of extraction of sulphuric compounds
	Replacement of safety valves in Block 5	Owing to the installation of new equipment emissions into the air are significantly reduced
	Reconstruction and modernization of LPG loading and unloading installations	Automation and modernization of processes and installations, reduction of emissions into the atmosphere
	Reconstruction of HPV unit for mud processing	Prevention of mud access to raw water system, reduction of sewerage system cleaning costs and higher operational safety
Sales and distribution	Installation of separator on nine petrol stations	Installed separator on petrol stations prevents pollution of surface and ground water and soil
Reconstruction of waste water treatment system on PK Sangaj	Reconstruction of waste water treatment system on PK Sangaj	After the installation of bio disk the efficiency of sanitary waste water treatment was increased

The implementation of projects of environmental protection which had started in the previous period continued in 2012.

Used materials

The following materials were used in the course of work in 2012:

Raw materials - materials	Spent quantity	
	Unit of measurement	2012
1 Crude oil - domestic	t	1,113,902
2 Crude oil - imported	t	1,028,406
3 Natural gas	m ³	23,938
4 Geothermal water	m ³	673,023
5 Raw water (raw material for Jazak)	m ³	26,789

An overview of crude oil - domestic and imported by type:

Quantity of refined crude oil by type	Unit of measurement	2012
CRUDE OIL - PARAFFIN LIGHT	t	659,362
CRUDE OIL - PARAFFIN HEAVY	t	120,615
CRUDE OIL - NAPHTHENIC	t	101,326
SLOP - DOMESTIC OIL MIX FROM PHC	t	232,598
CRUDE OIL REB	t	917,312
CRUDE OIL ES SIDER	t	670
CRUDE OIL SIBERIAN LIGHT CRUDE OIL	t	110,424



Energy consumption

In view of the large number of locations where the Company conducts its business (crude oil production and refining, transportation, storage and retail sales of oil products) with various kinds of energy used in the processes, NIS can be considered an energetically highly intensive company.

Direct energy consumption by source of energy means consumption of natural gas as the source of energy and consumption from other sources of energy using oil products and semi-products (furnace oil, refinery gas oil, coke, LPG).

Indirect energy consumption by the primary source includes electricity consumption (from supplier) and produced electricity, as well as indirect consumption of other sources of energy (produced steam, geothermal water, etc).

Source of energy	Electricity	Produced electricity	Own consumption of fuel (gasoline, diesel)	Own consumption (furnace oil, gas oil, coke)	Water steam	Natural gas
Unit of measurement	MWh	MWh	t	t	t	m ³
IP	58,422		235			61,055,271
PANCEVO REFINERY	82,279	36,268	1,165	153,732	2,519,353	33,130
NOVI SAD REFINERY	19,161			10,019	40,253	12,587,137
SALES AND DISTRIBUTION	39,711		1,143		7,652	0
OIL FIELD SERVICES	3,669		2,325			5,293,435
JAZAK	910		1,193			
BUS. CEN.	10,958					
TOTAL	215,110	36,268	6,061	163,742	2,567,258	78,968,973

Total consumption of various energy carriers, reduced to GJ, amounts to about 18 million GJ.

Emission of pollutants

Greenhouse gas emissions

Through implementation of the Pancevo refinery modernization project, and other environmental projects, NIS has recognized the impact of its business activities on climate changes and the environment and decided to create a proactive strategy for the reduction and control of greenhouse gas emissions.

In order to implement the Emission Trading Directive (2003/87/EU) and Directive 2009/27/EU the Register of NIS CO₂ emitters was made and steps for reduction in

the effects of the Company's activities on climate changes were defined. Therefore, in 2013 NIS plans to carry out CO₂ emission monitoring, quantification of CO₂ emissions and setting up a carbon strategy and measures for reducing CO₂ emission into the atmosphere.

An Environmental Impact Study was made for the Amine Unit Construction Project (for CO₂ extration from natural gas) in the Elemir Production unit for preparation and transport of oil and gas. The purpose of the Project is to extract CO₂, which is a by-product in the natural gas treatment process, from natural gas (received from the deposits located at a distance between 10 and 30 km from the Elemir Production unit). The extracted CO₂ is not released into the atmosphere; it is compressed and



again injected in the Rusanda deposit, thus increasing the degree of exploitation of the deposit at the same time. The applied technology is the best available technique for CO₂ extraction from natural gas. Furthermore, it is the optimum way for solving the problem related to CO₂ extraction from natural gas and meeting all environmental protection standards.

Emission of pollutants

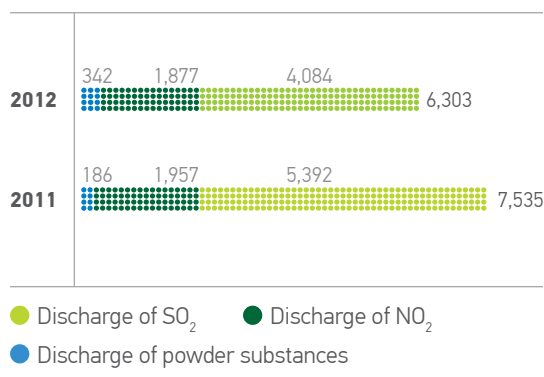
Emission of pollutants into the air in the case of NIS are primarily related to the processing units. There are certainly multiple advantages of using natural gas, but currently, due to insufficient capacity of existing gas pipelines, there are no conditions for switching to natural gas. Implementation of environmental projects in 2012 resulted in further reduction of pollutant emissions into the air (NO₂ and SO₂).

Further reduction of powdery substance emission can be expected in the coming period, since the FCC (Fluid Catalytic Cracking) unit and reactor in Pancevo Refinery will be reconstructed in 2013.

Emission of pollutants into the air in the case of NIS are primarily related to the processing units

The quantity of pollutant emissions (in tons)	2011	2012
SO ₂ emission	5,392	4,084
NO ₂ emission	1,957	1,877
Powder substance emission	186	342

Amount of discharged pollutant substances (in tons)



Waste management

In the course of its activities NIS generates both harmless and hazardous waste which is treated in accordance with the legislative requirements.

Waste management is regulated by the Company's internal regulatory documents developing a sustainable waste management system regarding all kinds of waste, including daily monitoring of quantity, type and content of waste, and annual reports on waste; prevention of waste generation and reduction of quantities disposed; recycling and removal of all kinds of waste.

Summary of waste movement per type (in tons)



Overview of waste movement by type (in tons)

Kind of waste	01/01/2012	Waste generated in 2012	Waste removed in 2012	31/12/2012
Harmless waste	1,642	1,537	2,874	304
Hazardous waste	1,126	1,996	1,676	1,445
Total	2,768	3,532	4,551	1,750

Overview of waste movement by organizational unit (in tons)

Block	01/01/2012	Waste generated in 2012	Waste removed in 2012	31/12/2012
Exploration and Production	114	634	6	742
Sales and Distribution	271	639	910	-
Pancevo Refinery	1,979	1,431	3,023	388
Novi Sad Refinery	291	360	341	309
Oil Field Services	114	320	129	304
Business Centers	-	142	142	-
Production unit Jazak	-	6	-	6
Total	2,768	3,532	4,551	1,750



The main reasons for increased generation of hazardous waste in 2012 include the scheduled cleanup of reservoirs and separators in production facilities and the reconstruction of waste water treatment unit and sewage network.

The total quantity of generated waste (hazardous and harmless) is reported to the Environmental Protection Agency. Classified and properly marked waste is removed to the nearest temporary storage area until passing to the authorized external waste management companies licensed by relevant authorities for further processing (storage, treatment, export).

In 2012 the focus was on removal of waste generated mostly in the process of production unit and equipment maintenance (such as mud and sediment, catalyst, spent and hydraulic oils, stone wool, etc.), while in 2011 the task was to remove spent sulphuric acid. Along with the new MHC/DHT unit in Pancevo Refinery a SARU unit was constructed, which enabled total processing of spent sulphuric acid into concentrated sulphuric acid.

In order to save energy and natural resources for future generations, the Company has established a permanent target of reducing and preventing waste generation, respecting the waste management hierarchy.

In 2012, the procurement of a mobile system for reservoir cleanup and oily mud treatment was initiated in the

The use of water is not harmful to the Danube potential, nor is it harmful to the DTD canal potential, since these have a high water flow

Refining Block. Investment in equipment will enable reservoir mud treatment on the centrifuge unit. The separated oil phase will go back to the production process and the solid residue, as waste, will be removed by a licensed operator.

Implementation of the environmental project of hazardous waste recovery related to the waste generated in the gas dehydration process started in the Novi Sad Refinery. This is a NIS environmental project created as a result of scientific and research work of NIS specialists, which enables recovery, i.e. spent tri-ethylene-glycol (TEG) treatment. TEG is formed in the natural gas dehydration process and has a gas moisture absorption property over a certain period of time (about a year), after which period it becomes soiled and loses its moisture absorption properties. For that reason new quantities of TEG need to be procured every year because this is necessary for the gas production process, while the spent TEG becomes a hazardous waste and an environmental issue and must be removed after temporary storage in production units. The Project is very important from the environmental point of view, and in addition, it pays off economically and is very efficient.



Its implementation will bring savings regarding the purchase of new quantities of TEG and cost reduction related to hazardous waste exports.

Use of water resources

NIS needs considerable amounts of water for production and processing, steam production, cooling systems, fire protection, bottling and for sanitary use.

The water supply for all parts of NIS is provided by using:

- river surface water
- raw groundwater, and
- water from the public water system,

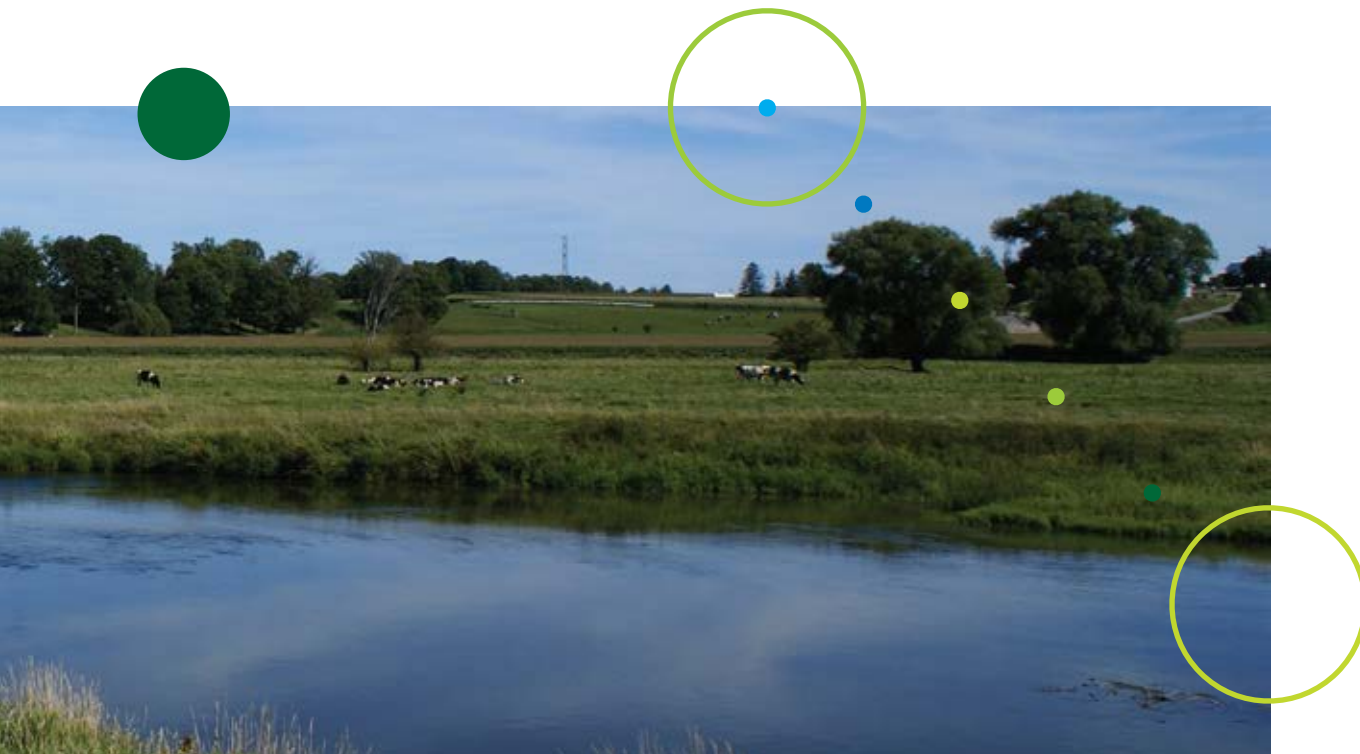
while in the Jazak water plant natural mineral water is grabbed for bottling.

The total grabbed quantity of water is reduced from 3,948,023 m³ in 2011 to 3,161,252 m³ in 2012, which means a reduction by 20%.

The structure of grabbed quantity of water by source in 2012 is identical to the previous year's structure. Proportion of grabbed quantities from rivers, public systems and ground recourses demonstrates the responsible use of water resources in the sense that almost three fourths of the total used water come from surface water - from the Danube river and Danube-Tisa-Danube (DTD) canal. The use of water is not harmful to the Danube potential, nor is it harmful to the DTD canal potential, since these have a high water flow.

After the identification of the need to use water resources rationally, the reconstruction of the pipeline in Pancevo Refinery and the hydrant network in Novi Sad Refinery

Overview of the quantity of the grabbed water (in m ³)	2011	2012
River	3,327,366	2,265,411
Municipal water supply system	482,545	596,922
Ground water	138,112	298,919
Total quantity of grabbed water	3,948,023	3,161,252



were continued in 2012, and, furthermore the rationalization of consumption was carried out, in addition to faster removal of defects on distribution and hydrant networks and monitoring of quantities of grabbed water.

Stoppage of work of certain parts of the refinery in Novi Sad resulted in considerably lower quantities of grabbed water from the DTD Canal and from the public water supply system of JKP Vojvodina Kanalizacija Novi Sad.

In Sales and distribution the number of facilities was reduced in 2012 because of the lease or shutdown of petrol stations, which resulted in reduced water consumption.

In the coming period the Company plans to take measures for further rationalization of use of water from all sources.

Waste water treatment

NIS pays considerable attention to waste water treatment, taking into account the fact that oily waste water and precipitation water pose a real risk to recipients.

The quantity of waste water is approximately at the same level as in 2011. In 2012, flow meters were installed on several outlets, so that measuring is more precise now than before when assessments were made on the basis of hours of operation of the pumps.

Certain reductions in the quantity of waste water were detected in the Novi Sad Refinery due to the reduction in the production volume, while in the Pancevo Refinery there was a certain reduction in the quantity of precipitation water (resulting from the reconstruction of

Overview of the quantities of waste water (m ³)	2011	2012
Untreated waste water (public sewerage)	218,417	51,541
Treated waste water (watercourse, public sewerage)	826,522	1,206,010
External treatment	1,374,531	1,297,426
Total	2,419,470	2,554,977

the pipeline, greater handling care, which lead to lower discharge into the precipitation sewerage and because of a smaller quantity of precipitation in 2012).

Waste water treatment was upgraded in the Novi Sad Refinery through the installation of a bio-disk enabling in the first place prevention of further soil and ground water contamination, and also increasing the efficiency of the waste water treatment unit and positively changing the quality of the waste water.

The installation of separators on petrol stations continued in 2012. Thus a total of 195 petrol stations were equipped with separators for oily waste water treatment, which is 57% of the total number of the Company's petrol stations. The installation of the separators is expected to continue in accordance with the plan of the Sales and Distribution Block.

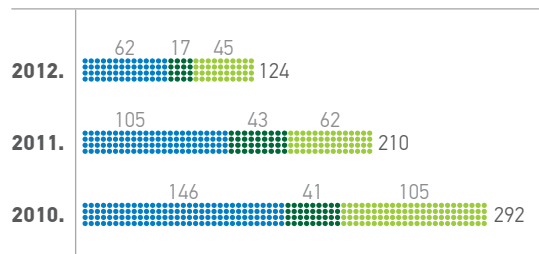
Recovery of contaminated soil and subterranean waters

In 2012, NIS continued the recovery of contaminated soil as a result of activities in production, refining and sale of oil and oil products. The recovery process includes the extraction of the liquid phase (oil) which is returned to the production system, while the residue undergoes bioremediation.

NIS pays considerable attention to waste water treatment, taking into account the fact that oily waste water and precipitation water pose a real risk to recipients

In the Exploration and Production block, the implementation of the Project of historical soil contamination remediation continues. Throughout the year a total of 17 mud pits were recovered (four with oily mud and 13 "clean" mud pits) covering an area of 26,494 m², or 29% of the total number of mud pits at the beginning of the year.

Number of recultivated primary mud holes (PMH)



- Total number of PMH at the beginning of the year
- Recultivated PMH during the year
- Remaining PMH for recultivation



After a successful pilot project in 2011 on the oily mud pits, four oily mud pits were recovered in the area of Srbobran in 2012. Waste from 13 "clean" mud pits was disposed at the NIS drilling mud landfill in Novo Milosevo for which NIS has a permit issued by the relevant Ministry.

In 2012, the implementation of the Project "Recovery of contaminated groundwater on the jetty of Pancevo Refinery" continued. In order to solve the issue of oil soil contamination with oil products in the area around the jetty in Pancevo Refinery the Study was prepared on identification of local conditions for creating and spreading of pollution. The Study recommended a method of "pumping and treatment" for decontamination of ground water and a pilot project was carried out for pumping out by making three extraction wells and one drainage well.

Procurement geoelectrical scanning equipment of the latest generation for the purpose of detection of soil and groundwater contamination

With a view to further upgrading the geophysical method of geoelectrical scanning NIS (Scientific and Technical Center) bought new modern equipment with the modern system for acquisition and processing of data acquired by geoelectrical scanning. New equipment will allow 2D and 3D seismic exploration, automatic data acquisition, making the exploration more efficient and cheaper, and it will increase the Company's competitiveness for Clients with projects of this kind of environmental exploration.

Environmental accidents

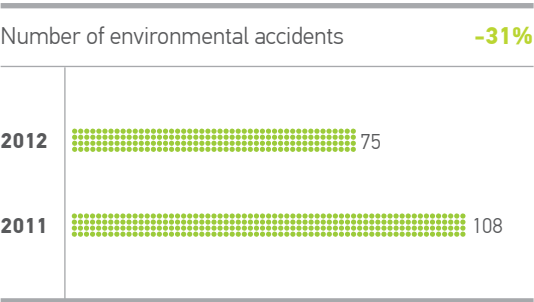
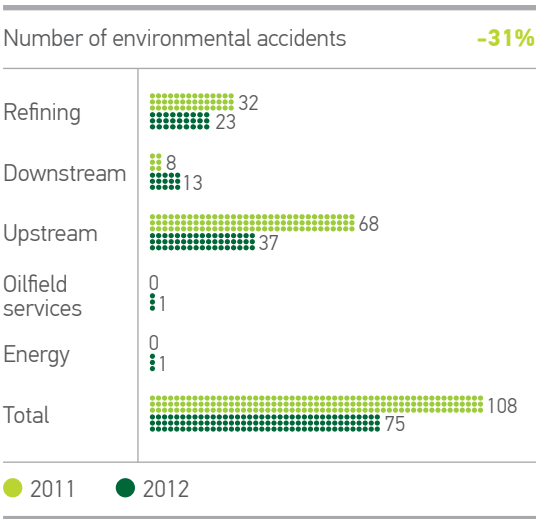
One of the targets of the Company in the field of industrial safety is gradual reduction of the number of accidents, occupational injuries and professional illnesses.

Owing to the application of corporate norms and standards a downward trend in the number of environmental accidents continued in 2012. The number of en-

One of the targets of the Company in the field of industrial safety is gradual reduction of the number of accidents, occupational injuries and professional illnesses

vironmental accidents in 2012 was lower by 31% than in 2011. Most environmental accidents (99%) were classified according to seriousness as light, just as in previous year. According to the type of accident in most cases this involved oil and oil product spillage on the soil or in the water (55 accidents out of 75 in total), while total spilled volume was reduced from 70.41 m³ in 2011 to 65.39 m³ in 2012. The consequences of all these environmental accidents were successfully removed.

The decline is particularly noticeable in the Exploration and Production block (from 68 accidents in the previous year to 37) which is the consequence of the replacement of old pipes on the oil pipeline, where perforations were the major cause of accidents with spills of contaminants.



Seriousness of incident	Number of environmental accidents	%
Serious	0	0
Medium	1	1
Light	74	99
Total	75	100

Number and type of environmental accidents in organizational units of NIS

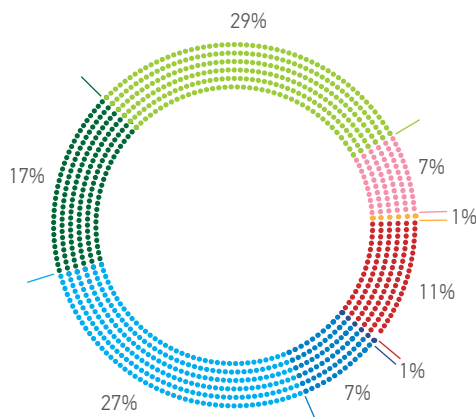
Type of Incident	Number of spills	%
Oil or oil product spillage - soil	55	73
Oil or oil product spillage - water	11	15
Waste water spillage - soil	3	4
Waste water spillage - water	0	0
Spillage of chemicals (process) - soil	0	0
Spillage of chemicals (process) - water	0	0
Spillage of chemicals (out of the process) - soil	1	1
Spillage of chemicals (out of the process) - water	0	0
Gas emission	5	7
Other	0	0
NIS	75	100

Quantity of spilled substance in 2012

Blocks	Spilled substances (m3)*	%
Refining	16.31	25
Sales and distribution	20,717	32
Expl. and Prod.	27,855	43
Oil Field Services	0.2	0
Energy	0.3	0
Jazak	0	0
Functions of NIS	0	0
Nis	65,382	100

Causes of environmental incidents

- Oil pipeline perforation
- Gas pipeline perforation
- Perforation of accompanying ducts
- Damage to structural facilities
- Work activity - failure or defect
- Work activity - human factor
- Technological defect or failure - proces
- Other



For a more efficient response in case of accident situations a vehicle was bought for the Refining block with cutting edge equipment for efficient removal of accident spills of contaminants and is currently the only one of its kind in the Republic of Serbia. Its role is to take oil away from oily surfaces and remove possible consequences of accidents on watercourses. Apart from preventive actions, it also has ADR certificate which allows safe transport of waste in accordance with all environmental rules and regulations after full recovery and flushing of the oil contaminated area.

Research and use of renewable energy sources

Development of alternative energy sources are one of the key elements of the NIS strategy and fit into the global trend of environment preservation and sustainable development. Hence the Company started an important project in 2012:

Windpark "Plandiste"

In accordance with the Company's development strategy up to 2020 an agreement on the construction of a windpark near Plandiste was signed with Energowind. This marked the beginning of a big energy project which will include the installation of 34 wind generators and building of a powerful 102 MW windpark. The wind power plant Plandiste will be the first windpark in Serbia,

which will provide the production of at least 212 GWh of electricity a year, with lower greenhouse gas emission into the atmosphere. According to the current regulations, electricity produced in the windpark will be bought out by the public company EPS. The estimated investment amounts to 160 million Euro.

Through these projects NIS will affirm its strategic goal for transforming into a leading energy company in the Balkans.

Co-generation power plants

The energy block started the construction program of small co-generation power plants up to 1 MW which concurrently produce heat and electricity. In late 2012 the procurement procedure was initiated for the first power plant to be built on the Gathering and Dispatch Station Sirakovo (GDS Sirakovo – in the Exploration and Production block). The power plant will be placed in a container, heat will be delivered to consumers on location (heating up the oil and gas tanks), and the produced electricity will be sold to the EPS and incentive prices set by the Government of the Republic of Serbia. Gross electric power is 850 KW and the power plant will deliver to the electric grid about 6.5 thousand MWh / year. The power plant will be supplied by Czech Tengero. The construction cost will be over a million Euro, and the plant is expected to be put into operation towards the end of the second quarter 2013. In the mid-term, the construction of at least 13 such cogeneration plants is planned on NIS fields.

THE MAIN MID-TERM PLANS:

- making and adoption of a business strategy up to 2030
- making and adoption of a brand strategy up to 2020
- making of mid-term strategy of sustainable development of the Company
- preparatory activities to reach a higher level of reporting on sustainable development
- further regional development of the Company, particularly regarding exploration and production in Romania, Bosnia and Herzegovina and Hungary
- development of business with alternative recourses in Serbia, Hungary and Romania
- continuation of modernization of Pancevo Refinery – Bottom of the Barrel Project
- introducing the public bidding system based on the 100% principle within cooperation with local communities in 2013 in order to help more efficiently local communities in which the Company conducts its business and in order to further develop dialogue with the communities, with the possibility for all interested parties to participate.
- improvement of charity programs and organizing at least two actions involving employees in 2013



• development of a management system through establishing a centralized planning and reporting system, process automation and development of the HSE training system

• development of an Environmental protection, health and occupational safety management system through the development of a health awareness program, lectures for contractors, audit performance regarding high risk jobs

• development of economic and environmental risk management through the development of safety and emergency response management process, setting a plan for GHG gas emission monitoring and balance, improvement of waste storage practice

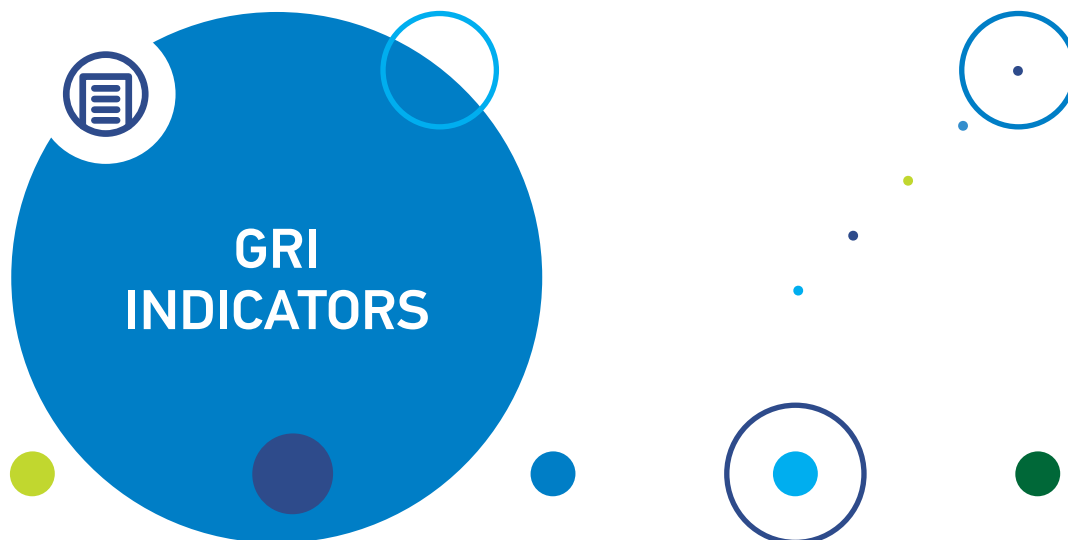
• introduction of new practices in cooperation between HSE and state authorities

• trainings for employees and encouraging the incident reporting in order to develop a proactive process of safe management

• introduction of electronic, safe and environment protection system by which information processing is improved for more efficient management

• creating long-term relations with contractors.

• improvement and simplification of the work permit approval system for non-routine and high risk jobs



Profile	DESCRIPTION	Status	Page
Strategy and Review			
1.1	Statement of the highest decision maker in the organization	●	RSD, page 4-6
1.2	Description of key impacts, risks and possibilities	●	AR p. 65-67
Organizational profile			
2.1	Name of the organization	●	RSD page 112; AR page 23
2.2	Main brands, products and/or services	●	AR p. 28
2.3	Operational organization structure, including main organizational units	●	AR p. 26-27; 102-116
2.4	Headquarters of the organization	●	RSD page 16; AR page 23
2.5	Number of countries in which the organization operates	●	RSD p. 17
2.6	Nature of ownership and form of public property	●	RSD p. 22-26 AR p. 93-96
2.7	Markets in which the company operates	●	RSD p. 17
2.8	Scope of reporting organization	●	RSD page 8-10; AR page 69
2.9	Significant changes in reporting period	●	RSD page 22-26; AR page 93-99
2.10	Rewards received in the reporting period	●	RSD p. 26-27

Profile	DESCRIPTION	Status	Page
Report parameters			
3.1	Reporting period	●	RSD p. 8-10
3.2	Date of publication of the last report	●	RSD p. 8-10
3.3	Reporting cycle	●	RSD p. 8-10
3.4	Contact details for issues related to the report or its contents	●	RSD p. 112
3.5	Reporting methodology and procedure of defining report contents	●	RSD p. 8-10
3.6	Reporting scope	●	RSD p. 8-10
3.7	Scope limitations or reporting scope	●	RSD p. 8-10
3.8	Basis for reporting on joint companies	●	RSD p. 8-10
3.9	Data measurement techniques and basis for calculations on which assessments are based	●	RSD p. 8-10
3.10	Explain possible corrections of data from the previous report	●	RSD p. 8-10
3.11	Significant changes in comparison to previous reporting periods	●	RSD p. 8-10
3.12	GRI indicators	●	RSD p. 102-107
3.13	Auditor's report	●	RSD p. 110-111
Management, liabilities and involvement of stakeholders			
4.1	Management structure of the organization	●	RSD page 22-26; AR page 30-60
4.2	Mention whether the Manager of the highest managerial body is CEO at the same time	●	RSD page 22-26; AR page 30-60
4.3	For organizations with unique structure of corporate management, state number and gender structure of the highest management body members	●	AR p. 37
4.4	Mechanism through which shareholders and employees submit recommendations or guidelines to the highest managerial body	●	RSD p. 27-29
4.5	Interconnections between compensations for members of the highest management body, top management and business results of the organization	●	AR p. 36; CGC p. 11-12
4.6	Procedures for preventing conflicts of interests	●	CGC p. 15
4.7	Procedures for appointing members of management bodies	●	CGC p. 11-12

Profile	DESCRIPTION	Status	Page
4.8	Company mission, vision and values	●	RSD p. 20-21
4.9	Procedures of the highest managerial body for supervision of economic, environmental and social performance of the organization	●	CGC p.12-14
4.10	Processes for own results evaluation of the highest managerial bodies	●	AR p. 30-60
4.11	Risk management	●	AR p. 65-66
4.12	Externally created economic, environmental and social agreements, principles or other initiatives that the organization is obliged to observe or which it complies with	●	RSD p. 26-27
4.13	Membership in associations	●	RSD p. 26
4.14	List of stakeholders	●	RSD p. 27
4.15	Basis for identification and selection of stakeholders	●	RSD p. 27-29
4.16	Attitude towards engagement of stakeholders	●	RSD p. 27-29
4.17	Key issues emerging from stakeholder engagement	●	RSD p. 9

AREAS AND INDICATORS

Economy

EC1	Directly generated and distributed economic value	●	RSD p. 35
EC5	Relation between minimum wage in the company and legally prescribed minimum wage on significant locations	●	RSD p. 61
EC8	Development and impact of infrastructural investments and service provision for public benefit	●	RSD p. 78-81

Environment

EN1	Materials used	●	RSD p. 89
EN3	Direct consumption of energy by primary energy source	●	RSD p. 90
EN4	Indirect consumption of energy by primary energy source	●	RSD p. 90
EN8	Total water consumption	●	RSD p. 94-95
EN9	Water sources significantly influenced by water consumption	●	RSD p. 95
EN13	Habitats that are protected or renewed	●	RSD p. 96-97

Profile	DESCRIPTION	Status	Page
EN20	NOx, SOx and other important air emissions by type	●	RSD p. 90-92
EN21	Total water discharge	●	RSD p. 95-96
EN22	Total quantity of waste	●	RSD p. 92-94
EN23	Total number and quantity of significant spills	●	RSD p. 97-99
EN30	Total expenses related to environmental protection and investments per type	●	RSD p. 87
Labor practice			
LA1	Total labor force by type of employment, gender structure	●	RSD p. 53-56
LA2	Total number and rate of recruiting new employees and rate of employment termination by the employees, per age group, gender and region	●	RSD p. 53-56
LA3	Benefits guaranteed to full time employees	●	RSD p. 58
LA15	Return to job and rate of staying after maternity leave, per gender	●	RSD p. 107
LA4	Percentage of employees included in collective negotiations	●	RSD p. 57-58
LA5	Minimal notice period for important business changes, including the information as to whether it is defined by collective agreement or not	●	RSD p. 56
LA6	Total percentage of employees who participate in official committees for occupational health and safety	●	RSD p. 66
LA7	Rate of injuries, professional illness, lost working days and absence from work	●	RSD p. 64-65
LA9	Issues of occupational health and safety regulated by official agreements with trade unions	●	RSD p. 57-58
LA12	Percentage of employees who are regularly subject to evaluation and assessment of professional development	●	RSD p. 62
LA13	Structure of managerial bodies and structure of employees according to categories, gender, age, minority groups etc.	●	RSD p. 22-26
LA14	Relation between base salary of women and men per employee category	●	RSD p. 62
Human rights			
HR4	Total number of discrimination cases and collective measures taken	●	RSD p. 53
HR5	Identified activities and key suppliers for which there is a possibility of violation of rights of association and collective negotiation	●	RSD p. 57-58

Profile	DESCRIPTION	Status	Page
HR6	Activities and key suppliers for which it has been determined that there is a significant risk from occurrence of incidents, use of child labor and measures taken for elimination of child labor	●	RSD p. 54
HR7	Activities and key suppliers for which it has been determined that there is a significant risk of concurrence of incident of forced or mandatory labor, and measures taken for eliminating all forms of forced or mandatory labor	●	RSD p. 58
HR9	Total number of cases of violation of rights of natives and measures taken	●	RSD p. 107
Society			
S02	Percentage and total number of business units in which corruption risk review has been conducted	●	RSD p. 40-42
S03	Percentage of employees who are trained in anti-corruption policy and procedures of the organization	●	RSD p. 40-42
S04	Measures taken as a response to corruption cases	●	RSD p. 40-42
S06	Total value of financial contributions and contributions in material goods to political parties, politicians and appropriate institutions by the state	●	RSD p. 92-94
S07	Total number of legal proceedings for anti-competition, anti-monopoly behavior	●	RSD p. 107
Responsibility for product			
PR2	Noncompliance with regulations and voluntary codes related to impact of products and services on health and safety during their life cycle	●	RSD p. 39-40
PR4	Noncompliance with regulations and voluntary codes regarding products and services information and labeling	●	RSD p. 39-40
PR5	Practices related to customer satisfaction, including results of customer satisfaction surveys	●	RSD p. 39-40
PR7	Noncompliance with regulations and voluntary codes regarding marketing communication, including advertizing, promotion and sponsorship	●	RSD p. 39-40
PR9	Monetary value of significant penalties for noncompliance with laws and regulations related to procurement and use of products and services	●	RSD p. 107

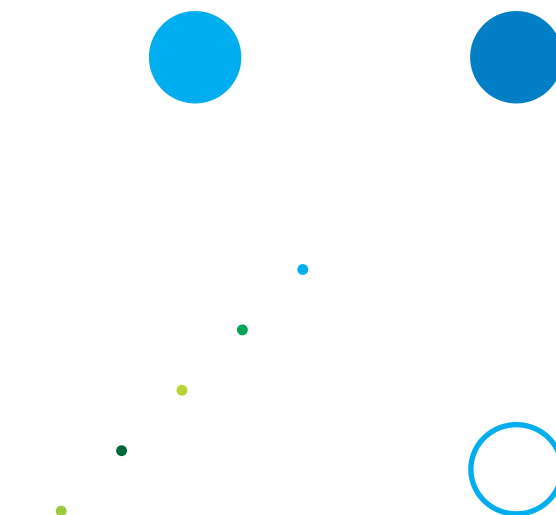
LA15 - NIS does not terminate employment contracts with women returning from maternity leave so that the total number of women on maternity leave with an employment contract with NIS in 2012 amounted to 23.

HR9 - There were no initiated legal actions in 2012 and there were no legal actions against the Company, i.e. there were no cases of violations of the rights of the local population.

S07 - There were no legal actions in 2012 against NIS regarding unfair competition, antitrust and monopoly regulations.

PR9 - In 2012, several legal processes were conducted in the courts and other state bodies related to non-compliance with legislation and regulations on the sale of products and service provision, but no fines was pronounced or paid.

● Completed	RSD	Report on Sustainable Development
	AR	Annual Report
	CGC	Corporate Governance Code



Acquisition – a form of company takeover when one company acquires a controlling package of shares in another (if the other company is a joint stock company), or buys it, taking over ownership

Letter of credit – a payment instrument by way of which the issuer of the letter of credit puts at the disposal of the user of the letter of credit, through the bank, a certain amount of money which can be collected by the user after fulfillment of certain terms and conditions, i.e. obligations towards the issuer of the letter of credit

GDP – Gross Domestic Product

GRI – Global Reporting Initiative GRI is an international non-profit organization founded in 1997 in order to achieve the highest quality of corporate reporting on sustainable development. GRI standards are improved each year and since 2006 G3, a so-called third generation of reporting on sustainable development has been applied. G3 consists of the principles and indicators which define the frame for the content and quality of reports on sustainable development, as well as guidance for setting the limits in reporting. G3 principles can be used by small companies, big multinational companies, public sector, non-governmental and other organizations throughout the world.

Stakeholders – all natural and legal persons interested in the business activities of the Company who have influence on the business results of the Company or are under its influence

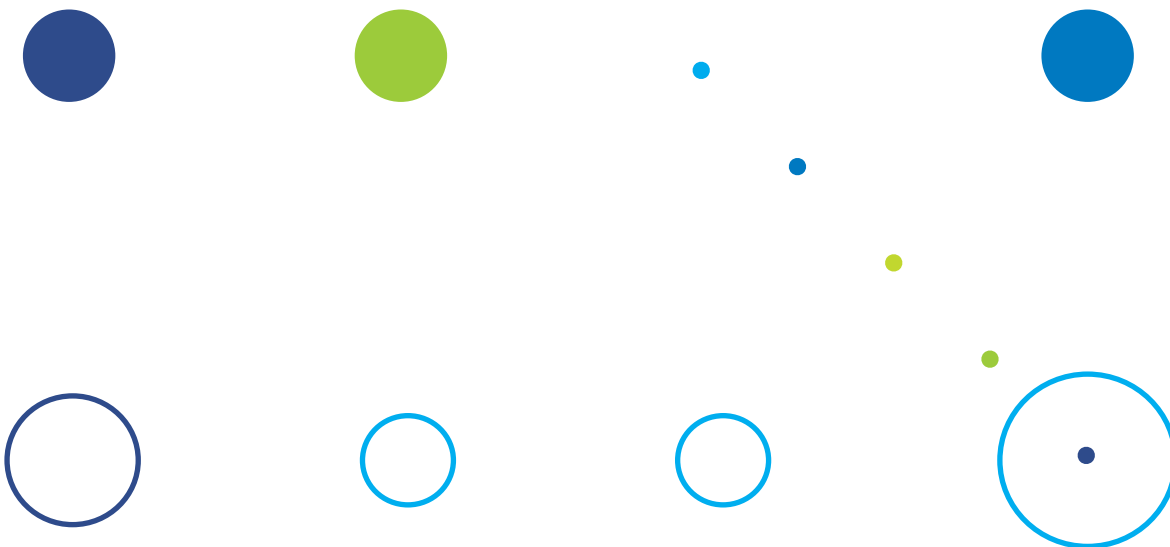
Directly generated value = income from sale + financial revenue + lease revenue + interest revenue + net result on the basis of the sale of capital assets

Operating costs = procurement cost of the sold goods + cost of material + other business expenses – various kinds of taxes

Piezometer – hydrogeological well performed in such a way that the water level in it corresponds to the ground-water level in its surrounding area and is used to measure the distance from the fixed point of its structure to the water level, and if necessary, it can be used also for water temperature measuring and for taking the samples of water for the analysis of its quality

Remediation – a term generally used for cleaning and renewal-restoration (recultivation, revitalization, regeneration) of a polluted spot – area or otherwise damaged environments as a result of human activity

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization



MHC/DHT – mild hydrocracking / hydrotreating unit

NO₂ – nitrogen dioxide

SO₂ – sulphur dioxide (IV)

H₂S – hydrogen sulfide

Drilling mud – drilling fluid with multiple purpose in the wellbore during the drilling process of oil wells (bringing the drilled material to the surface, control the layer pressure, prevent inflow of layer fluids into the wellbore, prevent the fall of the bore wall)

Drilled material – particles of drilled rocks carried out by the drilling mud from the bottom of the well to the surface

Waste drilling mud – spent drilling mud during the well drilling process which is disposed in the primary mud pits near the well

FCC – Fluid catalytic cracker

Injury rate (IR) = the total number of injuries / the total number of hours of work*1000000

Lost Days Rate (LDR) = the total number of lost days because of occupational injuries / the total number of hours of work *1000

Absence rate (AR) = The total number of days of absence / the total number of hours of work*1000

REFINING – Refining Block

OFS – Exploration and Production Block

UPS – Oil field Services Block

SALES AND DISTRIBUTION – Sales and Distribution Block



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TRANSLATION

Limited Assurance Report on the Report on Sustainable Development

TO THE BOARD OF MANAGERS

NIS A.D. NOVI SAD

Scope and Responsibility

We have reviewed the Report on Sustainable Development for 2012 of the NIS a.d. Novi Sad (the "Company"). Management is responsible for the preparation of the Report on Sustainable Development in accordance with the Global Reporting Initiative Guidelines (GRI) third generation issued in 2006, as set out in the "About the report and principles of reporting" section. Management is also responsible for determining the Company's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues, and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived. Our responsibility is to issue this report based on our review.

Performed Procedures

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

These procedures included:

- comparison of information and data presented in the "Economic Development" section of the Report on Sustainable Development to the corresponding information and data included in the Company's consolidated financial statements as at and for the year ended 31 December 2012, on which auditor issued report dated 25 February 2013 in accordance with the Law on Accounting and Auditing of the Republic of Serbia;
- analysis of the functioning of key processes for generating, recording and managing quantitative data presented in the Report. In particular we performed the following procedures:
 - interviews and discussions with management of the Company to gather information on the IT, accounting and reporting systems used in preparing the sustainability report, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the office that prepares the Report;

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

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

The Report on Sustainable Development includes the corresponding information and data of the prior year report for comparative purposes, with respect to which reference should be made our report dated 21 June 2012.

Opinion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Report on Sustainable Development for 2012 of the Company is not prepared, in all material respects, in accordance with the GRI - Global Reporting Initiative third generation issued in 2006, as set out in the "About the report and principles of reporting" section.

As indicated by the directors in "About the report and principles of reporting" section of the Report on Sustainable Development for 2012, the Company intends to continue to extend the reporting scope of the Report through further standardisation of the existing information and data gathering procedures.

Belgrade, 1 July 2013

KPMG d.o.o. Beograd

(L.S.)

James Thornley
Partner

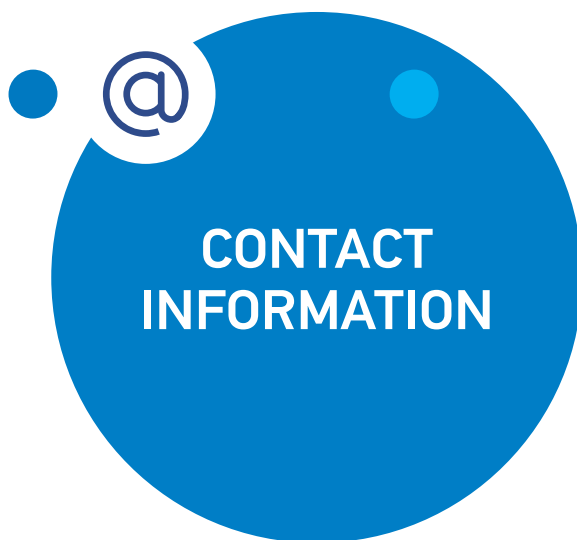
*This is a translation of the original Limited Assurance Report issued in the Serbian language.
All due care has been taken to produce a translation that is as faithful as possible to the original.
However, if any questions arise related to interpretation of the information contained in the
translation,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

Belgrade, 1 July 2013



KPMG d.o.o. Beograd

James Thornley
Partner



NIS is open for your questions and comments because it is in our common interest to keep the public fully informed in timely fashion.

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141
projects have been
implemented within
the "Cooperation for
Development" program
under the slogan
"Energy of Life"

The Company successfully
cooperates with the
universities in Belgrade
and Novi Sad, as well as
with the Petnica
Exploration Station

TOTAL FUNDS INVESTED IN SOCIAL PROGRAMS

(million dinars)

