



PETROLEUM INDUSTRY OF SERBIA



GENERAL INFORMATION ABOUT NIS

on December 31, 2009



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This presentation may contain forward-looking statements. Forward-looking statements are statements that are not historical facts; they include statements about our beliefs and expectations and the assumptions underlying them. These statements are based on plans, estimates and projections as they are currently available to the management. Forward-looking statements therefore speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. By their very nature, forward-looking statements involve risks and uncertainties. A number of important factors could therefore cause actual results to differ materially from those contained in any forward-looking statement.





Last year was extremely complex for Serbia. We conducted business in complicated macro-economic conditions, which resulted from the global financial crisis and which had adverse effects on the operating results of most of the oil companies in the Balkans.

The turbulent fuel market coincided with the changes made in the Company share capital. In 2009, Gazprom Neft, a part of the Gazprom Group, became a strategic investor in NIS. The change in the ownership structure brought new objectives for NIS: to increase the cost and operating efficiency significantly for the sake of greater competitiveness and better market position. We had to adjust to the new working conditions quickly and prepare NIS for the implementation of the largest investment project in the history of the Company: the modernization of the refinery complex.

2009 was devoted to higher profitability and cost reduction, the results of which are already being seen. We also stabilized the Company's financial situation and achieved a positive operating cash flow, which amounted to RSD 17.6 billion in 2009, according to NIS statements.

Costs were greatly reduced, and despite the losses in the first three months of 2009, significant profit was made in the last three quarters of the year. Payables and receivables were reduced; the 2009 investment program achievement was above 90 percent. For the first time in the last 17 years NIS increased the production of its own crude oil and gas, which according to the 2009 NIS figures exceeded 922,000 tons of conditional fuel.

Special attention was paid to improvement in the refining sector: production of unleaded gasoline was increased, and stable production of Euro Diesel commenced in our refineries, approximately up to 25 tons monthly. Within the Pancevo Oil Refinery Modernization Project, NIS entered into the over 160 million euro contracts in 2009. In accordance with the project parameters, after completed modernization project, NIS will fully shift to production of the fuels conforming to the European quality standards.

In 2009 NIS experienced major structural and control changes. Today, the Company has a professional management team consisting of the best experts from Serbia, Russia, and other European countries. We have succeeded in building a sound foundation for the transformation of NIS into a company which will soon become a strong competitor in the Balkan oil market.

The biggest success in 2009 was the preparation of the NIS Five Year Strategic Development Plan. In the years to come, NIS will become a reputable and efficient oil company in the Balkans, maintaining its leadership in the Serbian market. We will strive to balance all business segments by increasing the production and refining volume of oil from our own resources, and spreading our retail network to provide maximum direct sale of our products to customers.

Among the main strategic goals of NIS is the increase in value, as well as in the Company's efficiency and financial stability. By 2014, the volume of production is projected to increase by 40%, hydrocarbon reserves by 20%, and the refining volume by 150%. Special focus will be placed on the sales system development, with the key objective to increase the market share both in wholesale and retail, and the efficiency of each single retail entity.

All this will help us to achieve our set goal - to become the most efficient oil company in the Balkans.

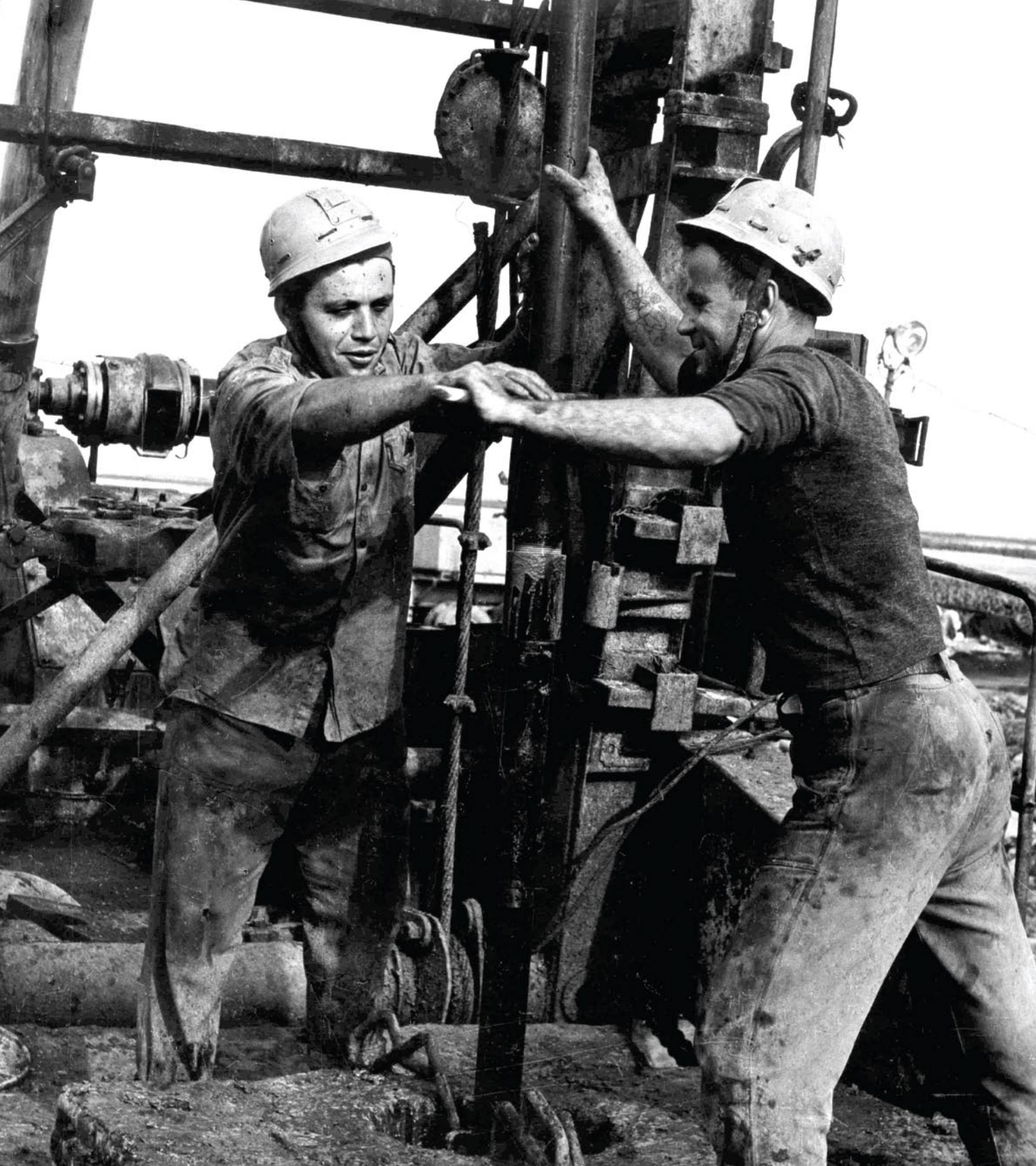
Vadim Yakovlev
Chairman of Board of Directors
Oil Industry of Serbia

Kirill Kravchenko
General Director
Oil Industry of Serbia



MAIN
DATA





COMPANY HISTORY

The predecessor of NIS was the Enterprise for Crude Oil Exploration and Production, founded in 1949 by the Resolution of the Government of the Federative National Republic of Yugoslavia, and named Naftagas in 1953.

Naftagas was later transformed into a company incorporating the refineries in Pancevo and Novi Sad, as well as Pancevo Azotara, a fertilizer plant. By the end of 1973 Naftagas had integrated the retail enterprises Jugopetrol – Belgrade and Jugopetrol - Novi Sad (NAP).

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

On 1 October 2005 NIS became a joint stock company involved in the production of crude oil and gas, crude oil refining and sales of oil products, production and marketing of liquid petroleum gas.

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

Key Events

1949 - Naftagas established; first gas fields discovered

1952 - First crude oil fields discovered

1953 - Construction of the first petrol stations started

1963 - Completion of the first main gas transmission line
Mokrin-Kikinda-Elemir-Velika Greda-Pancevo

1968 - Novi Sad and Pancevo Oil refineries started operation.
Velebit, the largest oil field in the country, discovered.

1982 - Ecological exploration of oil and gas in Montenegro started

1985 - Beginning of crude oil production in Angola

1991 - Establishment of the Public Company Oil Industry of Serbia

2005 - The Company becomes a joint stock company

2009 - 51% of NIS acquired by Gazprom Neft; 49% remains under the control of the Republic of Serbia. Production modernization project launched in September.



MISSION, VISION AND VALUES OF THE COMPANY

Besides preserving NIS as the foundation of energy stability in the country, our Company's goal is to focus on social responsibility and creation of new business quality standards in the period to come. We see that increase in competitiveness, efficiency of the company and improvement in business management as our key goal. With these goals at our core, we have formulated our mission, vision and the key values of the Company.

Mission

To give the people of the Balkan region energy for improvement by responsible use of natural resources and high technology.

Vision

Vertically integrated oil company NIS will become a leader in its industry for the entire Balkan region in the sphere of stabile growth and increase of efficiencies, demonstrating high social and ecological responsibility and high standards of customer service.

NIS values:



- › Professionalism
- › Initiative and responsibility
- › Compliance with rules and culture of good conduct
- › Positive attitude and willingness to cooperate



COMPANY INFORMATION On December 31th 2009

Business Name:	NIS a.d. Novi Sad
Company Identity Number:	20084693
Address:	Novi Sad Narodnog fronta 12
Tax ID:	104052135
Web site; e-mail:	www.nis.rs; office@nis.rs
Activity:	Extraction of crude oil - 11101
Date of incorporation:	01 October 2005
Share Capital:	RSD 81,530,200,000.00
Number and date of registration with Business Registers Agency:	BD 92142, 29.09.2005.
Number of employees:	11.094
Number of shareholders:	2

Shares on December 31th 2009

Shareholders	Number of Shares	Interest
 JSC Gasprom Neft	83.160.800	51%*
 Republic of Serbia	79.899.600	49%*
Total number of shares:	163.060.400	
Nominal value:	500,00 RSD	
CFI Code:	ESVUFR	
ISIN No:	RSNISHE79420	

* On January 6th 2010 the Government of the Republic of Serbia transferred 19.08% of NIS shares to Serbian citizens and NIS employees and ex-employees

Field of Activities

Oil Industry of Serbia (NIS) is one of the largest vertically-integrated companies in southeast Europe. It is involved in the exploration, production and refining of crude oil and natural gas, as well as with the sales of a wide range of crude oil products. The Company's registered seat and its main production capacities are in the Republic of Serbia which, thanks to its geographic position, is at the heart of trade and investment in the Balkans.

The business activities of NIS in 2009 were organized among the three branches, NIS Naftagas, NIS Petrol, NIS LPG and the centralized functions of the Company.

NIS Naftagas covers the exploration and production of crude oil and gas, including the oil services supporting the upstream activities. These oil services are varied in nature and follow all phases of crude oil and gas exploration and production, from geophysical services, drilling and workover, to the transportation, maintenance and production of drinking water. NIS Naftagas has three contracts for participation in Angola crude oil production (PSA, Production Sharing Agreement.):

1. PSA Block 3/05
2. PSA, Block 3/05A
3. PSA, Block 3/85 & PSA, Block 3/91

NIS Naftagas includes the Elemir natural gas refinery, designed for the production of approximately 60.000 tons of liquid gas (propane, butane) and gasoline.

NIS Petrol deals with the crude oil and oil products processing and trade. The processing complex consists of two crude oil refineries, one in Pancevo and one in Novi Sad. They produce a whole range of oil products –motor fuels, feedstock for the petrochemical industry, motor oil, and other crude oil products. The average annual refining volume in the last few years was about three million tons of crude oil, while the maximum annual capacity of the refinery units in these two refineries is approximately seven million tons of crude oil. Trade activity includes domestic and foreign trade, wholesale of all oil products, and the retail activity which includes the finished products, liquid petroleum gas and ancillary products. NIS Petrol has 476 operating petrol stations, 8 tank farms and 31 storage facilities throughout the territory of Serbia.

NIS LPG deals with liquid petroleum gas production and trade, and has seven LPG storage facilities.



Products and Services

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

1. **Automotive fuels**
 - › Liquid petroleum gas for motor vehicles
 - › Unleaded motor gasoline BMB 95 „Premium“
 - › Unleaded motor gasoline BMB 92 „Regular“
 - › Motor gasoline MB 95 „Premium“
 - › Euro diesel
 - › Gas oil D2
2. **Liquid petroleum gas**
 - › Mixture of propane & butane in tanks
 - › Mixture of propane & butane in cylinders
3. **Aviation fuel**
 - › GM-1 – for jet fuel engines
 - › JET A-1 – for jet fuel engines (in accordance with Defense Standard)
4. **Lubricating oil and grease**
 - › Motor oil
 - › Transmission oil
 - › Service liquids
 - › Industrial lubricants
5. **Fuel oil**
6. **Bitumen**
7. **Petrochemical products (virgin naphtha, propylene)**
8. **Other products (benzene, toluene, liquefied sulphur, special naphtha)**
9. **Natural gas, Jazak drinking water.**

In addition to the sales on the domestic market, NIS exports motor fuels, benzene, toluene and industrial bitumen to EU countries, Ukraine, Croatia, Montenegro and Bosnia-Herzegovina.

NIS is also involved in the toll processing of crude oil, the transport and storage of oil products, laboratory testing and oil services.

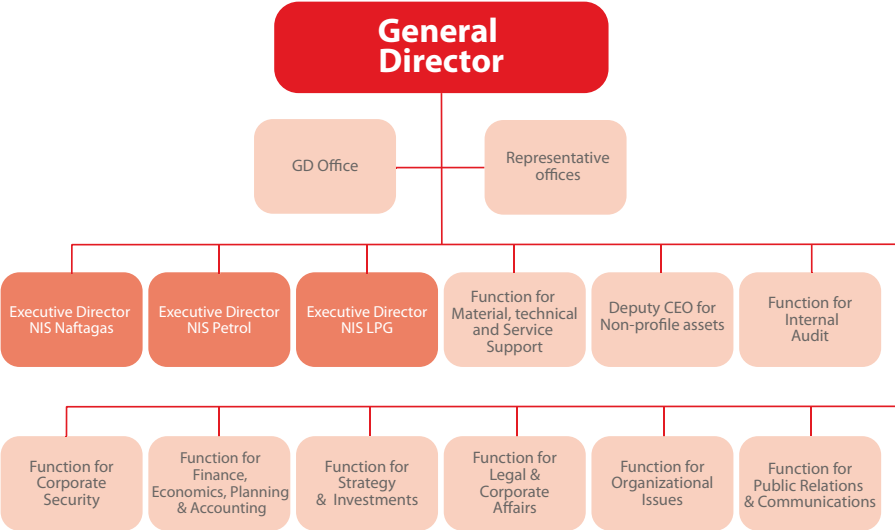
Crude oil and product quality is inspected throughout the entire cycle – from crude oil and natural gas exploitation, refining, to the storage of the products. Quality inspection is also carried out during the transportation process (pipelines, vessels, railway tank cars and road tank trucks), up to the discharge of the fuel into the petrol station tanks.

Product quality inspection is carried out by the certified laboratories of the NIS organizational units (Naftagas, Pancevo Oil Refinery, Novi Sad Oil Refinery) and the laboratories involved in the petrol trade. All laboratories are certified in accordance with the ISO/IEC 17025 Standard.

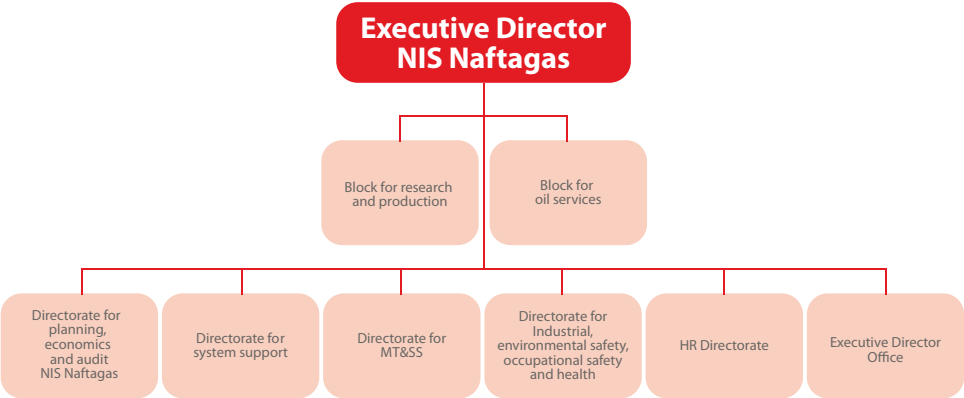




Organizational Chart of NIS a.d.

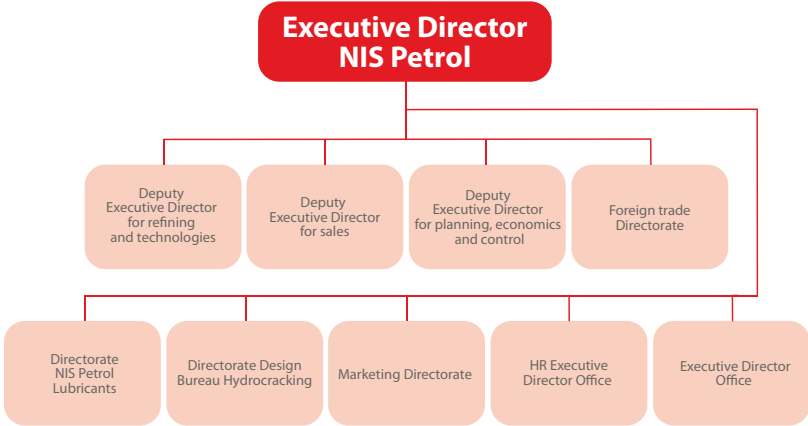


Organizational Chart of NIS Naftagas

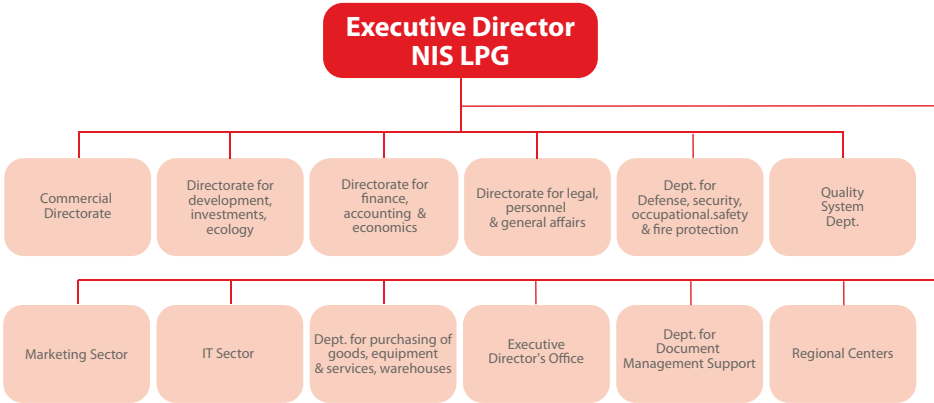


* On December 31th 2009

Organizational Chart of NIS Petrol



Organizational Chart of NIS LPG



* On December 31th 2009

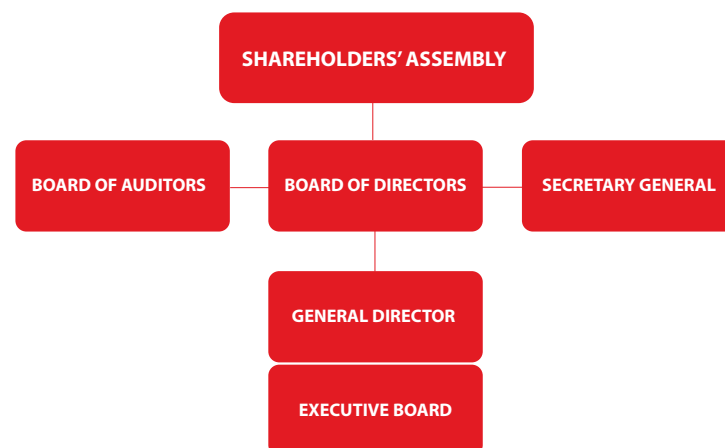
CORPORATE GOVERNANCE

As one of the largest Serbian companies, NIS is aware that high standards of corporate governance are important for the success of its operations, the maintenance of market share and competitiveness, the protection of the shareholders' interests and contribution to the economic growth of Serbia.

The corporate governance system at NIS is based on the Company Law and the Company Memorandum of Association. NIS has been making great efforts to comply fully with both local legislation and with generally accepted international standards and practice, through ongoing corporate governance development and improvement.

The corporate governance system at NIS is directed towards the protection of the rights and interests of shareholders, their equal treatment, transparency of the decision-making process, and the professional and ethical conduct of the management and employees.

In accordance with the Memorandum of Association, the Company's governing bodies are the Shareholders' Assembly, Board of Directors, Board of Auditors, General Director (President of the Executive Board), Executive Board and the SECRETARY GENERAL.



COMPANY BODIES

The Shareholders' Assembly is the top management body which represents the interests of shareholders and makes decisions on various matters, including the following:

1. Changes in the Memorandum of Association and the Articles of Association;
2. Changes in status, legal form, registered business activity and registered seat of the Company;
3. Acquisition and disposal of high-value property in accordance with the Company Law;
4. Acceptance of the financial statements, Board of Director's Report and Audit Report related to the financial statements;
5. Remuneration and bonus policy for Board of Directors members;
6. Election and removal of the Board of Directors members;
7. Appointment and dismissal of the auditor;
8. Increase or decrease in the Company's share capital.

General governance is under the responsibility of the Board of Directors. Its membership is international and has the following specific responsibilities. Protection of the shareholders' rights and interests:

1. Long-term development and continuous increase in the value of Company property
2. Creation of the efficient mechanisms of internal control for the Company's financial and economic activities
3. Creating effective mechanisms of internal control over Company's financial and economic activities

The Board of Directors has 11 members (9 active) elected by the Shareholders' Assembly by cumulative voting, at each annual Meeting of the Shareholders, for a one-year term with the possibility of re-election.

Pursuant to the Memorandum of Association the activities of the Board of Directors include:

1. Adoption of the Company development strategy and business plan
2. Appointment of the General Director and members of the Executive Board
3. Control of the financial and production parameters
4. Convening the Shareholders' Meeting
5. Approval and control of implementation of the NIS technological complex reconstruction and modernization project

The current members of the Board of Directors are international, experts with vast experience in this sector.



Key decisions in the Company are taken by the Executive Board whose responsibilities include:

1. Implementation of the decisions made by the Board of Directors
2. Operating management of NIS
3. Development and implementation of corporate strategy

In addition to the implementation of the Board of Directors' decisions, the General Director and Executive Board are responsible for all issues regarding the daily operations and management of the Company, save for issues which are the responsibility of the Board of Directors and the Shareholders' Assembly.

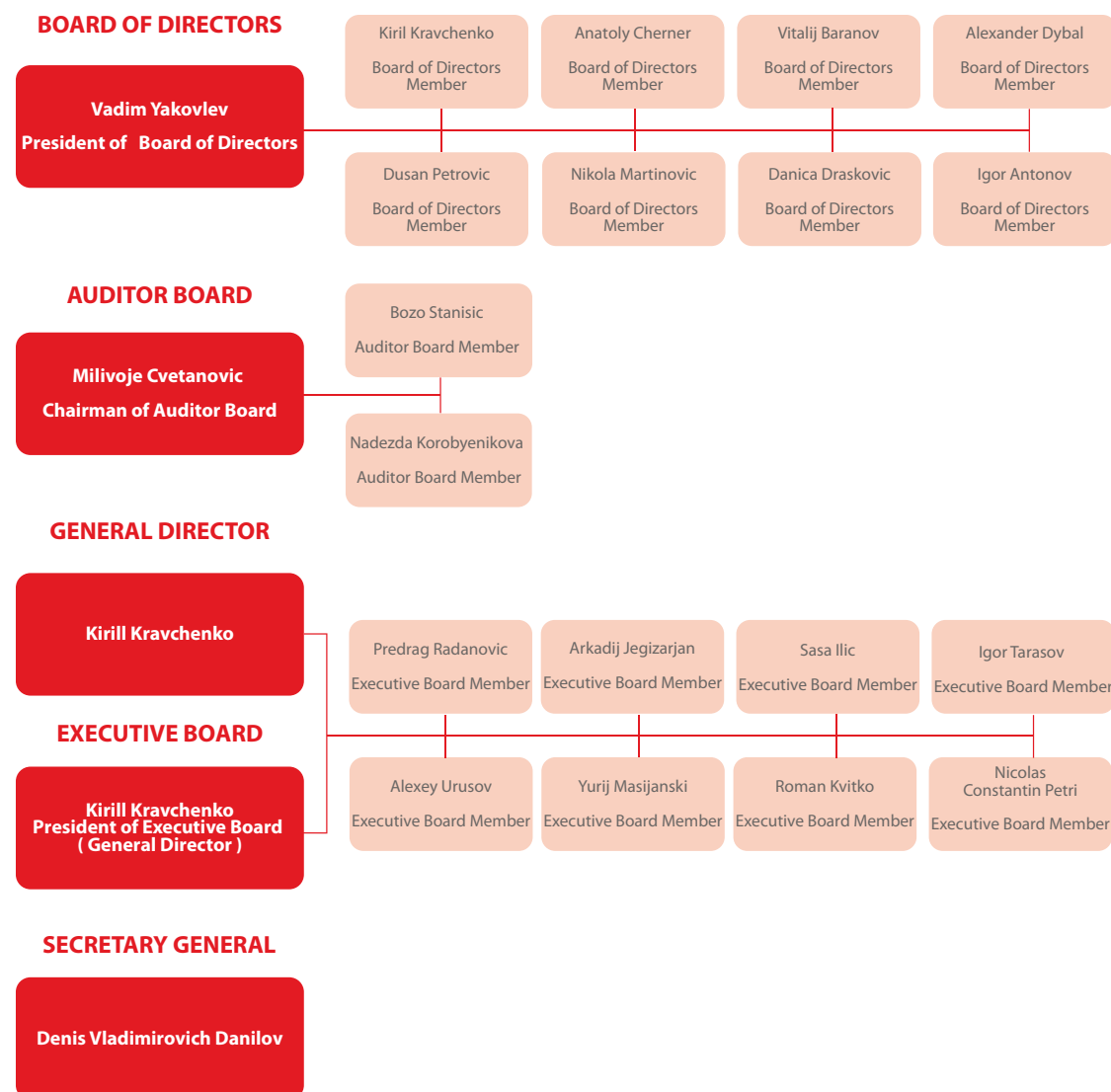
The Board of Directors elects the General Director by a simple majority vote, and nominates other members of the Executive Board on the proposal of the General Director. The Executive Board is made up of the General Director, the Executive Directors of the branches, and function directors.

The Auditor Board is a supervisory body with three members nominated by the Shareholders' Meeting. Pursuant to the Sales and Purchase Agreement and the Memorandum of Association, as long as the Republic of Serbia is a Company shareholder with minimum 10% in the share capital, it has the right to nominate the president and most of the members of the Auditor Board. The most important responsibilities of the Auditor Board are as follows:

1. Reporting to the Shareholders Assembly about accounting practices, statements, and the financial reporting of the Company and its associated companies, the compliance of Company operations with law and legislation, and the contracts made between the Company and the members of the Board of Directors or the associated entities in accordance with the Company Law.
2. Reviewing, together with the Board of Directors, of the adequacy and completeness of the annual and other financial statements of the company and the basis for proposals for distribution of profit and other distributions to members; the adequacy and completeness of the Company's disclosure of financial and other information to the members; the compliance of organization and operations of the Company with the code of conduct; the suitability of Company business policy and its compliance with law; the settlement of objections raised by shareholders, Company bodies or other persons
3. Submission of reports on its work to the Shareholders' Assembly.

The secretary general is elected by the Board of Directors for the 5 year term, and is responsible for:

1. Keeping the book of decisions
2. Preparing meetings
3. Taking the minutes from the Shareholders' Meeting, Board of Directors and Executive Board meetings.





BOARD OF DIRECTORS



Vadim Jakovlev, President of the NIS Board of Directors, Deputy President of the Executive Board of JSC Gazprom Neft, Deputy General Director for Economics and Finance, JSC Gazprom Neft

Born on September 30, 1970. 1993 Graduated from Moscow Engineering Physics Institute (in Applied Nuclear Physics). 1995 graduated from Higher School of Finance at the International University in Moscow. 1999 qualified as certified accountant and became a member of the ACCA. 1995-2001 Consultant, financial expertise manager at PricewaterhouseCoopers. 2001-2002 worked as Deputy Head, Financial and Economic Department, CJSC YUKOS EP. 2003-2004 Financial Director, JSC YuganskNeft'egaz NK YU-KOS. 2005-2006 Deputy General Director for Economy and Finance, LLC SIBUR-Russian Tyres. December 2006 joined JSC Gazprom Neft, as Head of Budget Planning Department. January 2008 became Deputy President of the Executive Board of JSC Gazprom Neft, Deputy of the General Director for Economics and Finance.



Vitalij Baranov, Member of the Executive Board, JSC Gazprom Neft, Deputy of the General Director for Organization

Born on June 19, 1966 in Leningrad. Graduated from St. Petersburg University of Economics and Finance in the area of Economics and Production Management. From 1993 to 1997 DSK-RAS Deputy Director. From 1997 to 1999 GSK Invest General Director. 1999 - Head of Corporate Debts Profit Center of St. Petersburg North-West branch of Guta Bank Commercial Bank. From 2000 to 2003 Deputy Head of JSC TorsionInvestmentLimited Representative Office. From 2003, worked for SIBUR Group, where he took the positions of Advisor to the President for General Issues and Head of the President Support Section. May 2006 Vice President for Organization in SIBUR. March 2009, Deputy CEO for Organization, JSC Gazprom Neft July 2009 member of NIS Board of Directors.



Kirill Kravchenko, NIS a.d. General Director, Deputy President of the Executive Board of JSC Gazprom Neft, Deputy General Director for Management of Foreign Assets, JSC Gazprom Neft

Born on May 13, 1976 in Moscow. Graduated in Sociology with a distinction from Lomonosov Moscow State University. 2002-2003 studied Financial Management at the Open University (UK) 2003-2004 - IMD Business School. He is a Doctor of Economic Science and professor. Until 2000 worked in consulting 2000-2004 - YUKOS company in various positions in Moscow and Western Siberia. 2001-2002 worked at Schlumberger (under partnership program with NK Yukos in Europe and Latin America. 2004-2007 - Administrative Director, JSC MHK Eurohim. Elected to the Boards of Directors of several large companies. on many occasions. April 2007 appointed Vice-President, JSC Gazprom Neft. January 2008 - Deputy Chairman of Management Board of JSC Gazprom Neft, Deputy General Manager for Administration. February 2009 appointed General Director of NIS and member of the NIS Board of Directors. From March 2009 - Deputy General Director for Overseas Assets Management of Gazprom Neft.



Alexander Dybal, Member of the Management Board, JSC Gazprom Neft, Deputy CEO for Corporate Communications

Born 3 November 1966 in Leningrad. 1991 graduated from the Leningrad Electric and Technical Institute as a specialist in automatic control systems. 1991-1995 and 1997-2001, Commercial Director of Radio Baltica (St. Petersburg). 1995-1997 - Director-General of the state-owned TV and radio company Peterburg -5 Channel. 2001 - Deputy Manager of the North-West Strategic Elaboration Centre. In the same year appointed Manager of JSC Gazprom Neft Information Policy Department. 2003 - 2004 General Director of JSC Gazprom-Media. July 2004 Chairman of JSC Gazprom Media's Board of Directors. February 2007 - Vice-President and Head of Corporate Communications Department JSC Gazprom Neft. Adviser to Chairman of JSC Gazprom Management Board. January 2008 - member of JSC Gazprom Neft Management Board, Deputy CEO for Corporate Communications. January 2010 - member of NIS Board of Directors.



Anatoly Cherner, Deputy chairman of the Management Board, Deputy CEO for Logistics, Refining and Sales, Gazprom Neft

Born on August 27, 1954. 1976 - Graduated from Grozny Oil Institute (chemical technology for oil and gas refining) In the same year started to work at the Sheripov Grozny Refinery, where he rose through the ranks from machine operator to become refinery director until 1993. 1996-2006 Head of the Oil and Oil Products Sales Department of Sla vNeft. April 2006 Vice-President of SlavNeft. Joined SibNeft (from June 2006 - Gazprom Neft) as Vice-President for refining and marketing. Since January 2008, Deputy chairman of the Management Board of JSC Gazprom Neft and Deputy CEO for Logistics, Refining and Sales. Since 2009 a member of NIS Board of Directors



Dusan Petrovic, Deputy President of Democratic Party

Born on September 8, 1966. Graduated from the Faculty of Law in Belgrade. 1992 -2000 worked as a lawyer. 2000-2004 President of the Sabac Municipal Council and Deputy in the House of Citizens in the Parliament of Federal Republic of Yugoslavia. 2000-2001 member of the Democratic Party Presidency. Since 2003 member of Serbian Parliament. Since 2004 he Vice- President of Democratic Party. 2006 elected Deputy President of Democratic Party. 2007 - 2008 Minister of Justice in the Government of the Republic of Serbia. February 2009, member of NIS Board of Directors.



AUDITOR BOARD



Nikola Martinovic

Born on December 3, 1947. Masters in Tax System Transformation with Introduction of VAT in Serbia, Faculty of Economy, Subotica 1985 -1990 Manager of Solid, Subotica. 1990-1992 Assistant to the Minister of the Interior of the Republic of Serbia. 1992.-2000 Assistant General Director for Finance in NIS. 1996 – 2000 General Director of Naftagas Promet. 2005 - Special advisor in NIS. 2004-2008 member of NIS Board of Directors, February 2009 – again nominated as a member of NIS Board of Directors.



Milivoje Cvetanovic

Born on December 1, 1941. 1963 – Graduated from the Faculty of Economics, Belgrade University. 1973 - Obtained Masters degree from Belgrade University. a certified auditor. Retired partner from Deloitte Central Europe worked as a consultant for the practical application of IFRS, creating and implementing information systems for the clients, including the internal control systems. member of Chamber of certified auditors of the Republic of Serbia and a member of the examiners commission for the exam "Auditing and Professional Ethics" for the auditor certification programme. He has extensive work experience in Central and Eastern Europe, Russia, Ukraine, Moldova and Macedonia



Danica Draskovic

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



Bozo Stanisic

Born on February 18, 1966 in Uzice. 1993 – Graduated from the Faculty of Technology and Metallurgy in Technological Operations. worked in Rekord, Rakovica, - Pančevo Oil Refinery as a petroleum engineer in charge of petrol. 1999 – Director of Commerical Sector and involved in the construction of refinery infrastructure. member and coordinator of the various commissions in NIS. President of the Board of Directors, HIP Petrohemija, Pancevo, and a member of the committee for implementation of the governmental measures in Magnohrom, Kraljevo. 2006 – 2009 Deputy CEO, Petrobart d.o.o, ta private oil company 2009 Advisor to the President of the Serbian Chamber of Commerce



Igor Antonov, Executive Board Member, Deputy General Director for Corporate Security in Gazprom Neft

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



Nadezda Korobeynikova

Born on April 4, 1975 in Moscow. graduated in Economics from the Faculty of Economic Cybernetics at the Russian Academy of Economics Financial Director, Petrocraft - Baltic Oil Terminals, Director of Internal Auditing, Deputy Director of Department for Internal auditing in the YUKOS oil company (Moscow). Worked as an expert in the Department for Controlling and Auditing, OAO Bank MENATEP (, Moscow). certified auditor in accordance with the certificate issued by the Russian Federation Ministry of Finance. Director of the Internal Auditing in NIS.



EXECUTIVE BOARD



Kirill Kravchenko, NIS a.d. General Director, Deputy President of the Executive Board in JSC Gazprom Neft, Deputy of the General Director for Management of Foreign Assets in JSC Gazprom Neft

Born on May 13, 1976 in Moscow. Graduated sociology with distinction from Lomonosov Moscow State University. In 2002-2003 studied at the Open British University (financial management), in 2003-2004 - IMD Business School. He is a Doctor of Economic Science and professor. Until 2000 worked in consulting. In 2000-2004 - in YUKOS company on various positions in Moscow and Western Siberia. In 2001-2002 employed with Schlumberger (under partnership program with NK Yukos) in Europe and Latin America. In 2004-2007 - Administrative Director, JSC MHK Eurohim. Been elected to the Boards of Director of different large companies for many times. In April 2007 appointed Vice-President, JSC Gazprom Neft. From January 2008 - Deputy Chairman of Management Board of JSC Gazprom Neft, Deputy General Manager for Administration. In February 2009 was appointed General Director of NIS and member of the NIS Board of Directors. Starting from March 2009 - Deputy General Director for Overseas Assets Management in JSC Gazprom Neft.



Sasa Ilic, NIS LPG Executive Director. Responsible for refining, logistics and sales of LPG products

He was born on August 24, 1964. Graduated from the Faculty of Mechanical Engineering, Novi Sad. 1990 -1991 taught vocational subjects in the Mechanical Secondary School, Novi Sad. 1991 - 2005 Dispatcher, Head of Maintenance, Head of Development, Technical Director and Deputy Director, NIS Gas, 2006 - 2007 Executive Director of NIS LPG 2007-2008 General Manager, Srbijagas.



Predrag Radanovic, NIS Naftagas Executive Director. Responsible for crude oil exploration and exploitation, reserves and geology.

Born on May 21, 1969. Graduated from the Faculty of Mining and Geology Belgrade (Diploma in Mining Engineering), 1995-2002 - Operational Engineer, Srednji Banat Plant, NIS Naftagas. 2002-2006 - Head of Production, Srednji Banat Plant.



Igor Tarasov, Deputy General Director, Director of Corporate Security. In charge of economic and information security management and security issues.

Born on 2 July, 1952 in Moscow. Worked for 38 years in state security services. 1994 - 1999 and 2001 - 2006 employed in the Embassy of Russian Federation in Belgrade



Arkadiy Yegizaryan, NIS Petrol Executive Director. In charge of crude refining, logistics and sales of crude and petroleum products.

Born on October 18, 1974. 1996 graduated from the Faculty of Economics and Finance, University of St. Petersburg, in International Economics. 2003 Completed a Masters of Business Administration at St. Petersburg International Faculty of Management, where he became with a Master of Business Administration. Commercial Director, JSC Plex-auto Deputy CEO, JSC Industrial Group Petrosyuz. 2005 - 2006 Deputy CEO (Economics and Finance), Tomskneftim, a petrochemical company, one of the largest in Russia, and a part of the SIBUR group. 2007 Manager of of Tomskneftim.



Alexey Urusov, Deputy General Director, Head of Economics, Finance, Planning and Accounting. In charge of financial operations, accounting and auditing, business planning and business performance analysis

Born on November 17, 1974 graduated from Tyumen State University (specializing in finance and credit) and Wolverhampton University (UK) (specializing in Business Administration).. Obtained American Certified Public Accountant certificate 2002-2006 Executive Deputy Chairman for planning and business management and control in the Integra Group (a company listed on the London Stock Exchange). main Financial Director in the business unit of TNK-BP Ukraine. Director of Planning in the group responsible for monitoring and control at the Board of Directors, TNK IH. 2006 Executive Deputy President for planning and operations management in the Integra Group



Juriy Masiyanski, Deputy CEO for Organization

Born on 31 March ,1966. Graduated from Leningrad Electrotechnical Faculty, in automatization and management processes. 1997-1999 Manager of Pot-Front. 1999-2007 in charge of material and technical support (until 2003) and General Administration Director at Ilim Palp 2007 general administration and HR director in Ilim Group and Director of the Corporate University of the Ilim Group.



Roman Kvitko, Deputy CEO, Director of Function for Legal and Corporate Affairs. In charge of legal and corporate business support

Born on 17 August 1976 in Uglich in Yaroslavl District. 1998, graduated from Uliyanov State University, in Law and Linguistics. 2005 - Completed his LLM at the University of London 1998 - 1999 worked in the Ministry of Justice of the Russian Federation. 1999 - 2001, worked as a lawyer at Volga-Dnyepar, an aerospace company. 2001 - 2003 lawyer at the Osnovni Element Company. 2003 - 2006 practiced law. 2006 - 2007, Chief Expert for Legal Affairs, SIBUR 2007 Deputy Head of the Legal Department and Deputy Head of legal support for corporate projects, i Gazprom Neft.



Nikolas Konstantin Petri, Deputy CEO, Head Investment and Development. In charge of investment evaluation and analysis, project control and strategic planning of investments.

2002 graduated from Harvard University with a BA in Natural Sciences and Philosophy. 2002 - 2003 Analyst, Bain Capital, London and Boston. 2003 - 2006 Senior Consultant, McKinsey & Co. 2006 - 2009 Director of the Investment. Department, SIBUR.

SECRETARY GENERAL



Denis Vladimirovich Danilov

Born on December 6, 1976. 1999, graduated from the Ivanov State Academy in Law and Management. Worked as a lawyer in the Property Management Committee of Ivanov District and as an Assistant Professor at the Department of Civil Law., Ivanov State University. October 2004 Manager of the Corporate Law Department of the Legal Directorate, LUKOIL-Neftehim. February 2007 Project Manager for legal support for corporate projects in the Legal Department of OAO Gazprom Neft, Head of the Administration for subsidiary and joint companies, Directorate for Corporate Regulations. June 2009 - Deputy Director of Legal and Corporate Affairs, 2009 – 2010 NIS Secretary*.

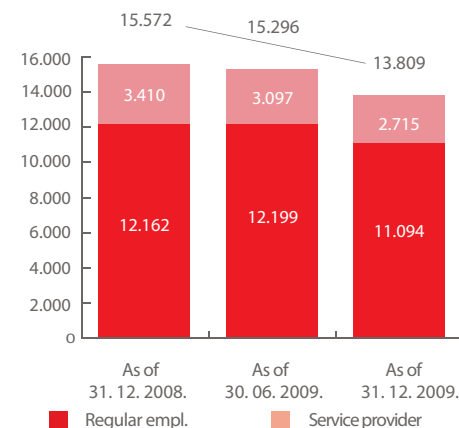
* On January 28, 2010, Ana Vichugzanjina was appointed secretary general



HUMAN RESOURCES

Total number of employees in NIS on December 31, 2009 is 11 094, or 8.78% (1 068 employees) less in comparison to 12 162 employees at the end of 2008

Employee trends in the period December 31, 2008 – December 31, 2009



With the goal of achieving higher work efficiency and productivity in 2009, the organizational structure was changed and the number of employees was reduced through a program of voluntary redundancies. The redundancy pay was EUR 750 (gross) per year of service and four times the average salary within NIS.

Grounds for termination of employment	2008.	2009.
Retirement	27	52
Voluntary redundancy	259	1238
Other grounds	138	72
Total	424	1362

1. HR selection
2. HR development
3. Reward system
4. Retirement compensation and jubilee awards
5. Social responsibility
6. Occupational health and safety

HR Selection

Following the changes in management and Company ownership structure, HR selection was reformulated in line with the new NIS mission and strategy. In order to achieve its goals, NIS requires specially qualified personnel with knowledge and experience in production technology, refining, and sales of oil and oil products. That is why the HR selection process is constantly revised and improved. New rules for personnel selection have been applied for all positions in the Company, from the management team downwards. Special attention is paid to bringing the best quality young professionals to NIS. One of the keys to recruiting top-quality young experts is the cooperation project with universities. This project includes the NIS Day events, granting NIS Corporate scholarships to top students, and providing opportunities for student internships in NIS organizational units. NIS wants to attract the most talented students, and by employing them, demonstrate its commitment to social responsibility. This helps to ensure the retention of quality professional staff in the Republic of Serbia.

HR Management and Occupational Safety Policy

NIS HR Management Policy

NIS regards its employees as vital to the success of the company. Investment in HR for NIS is a precondition for achieving efficiency in operations and becoming the most successful company in the Balkans in the area of oil and oil products production and sales. In 2009, the following aspects of personnel development and improvement in staff potential were rethought and reestablished:

HR development

NIS invests actively in the development of its employees' knowledge and skills. Through its high-quality system of continuous training, NIS seeks to ensure that its employees receive excellent training and acquire high qualifications equivalent to European and international standards in the production, processing and sales of the crude oil and oil products. In 2009, NIS invested RSD 50 million in HR development. The employee training program is designed to suit the needs of Company business processes and to foster the development of the corporate culture that NIS wants to create. Training programs currently include: professional training that increases the knowledge level of professional personnel, training for the implementation of corporate culture changes, as well as management and business skills development.



Reward system

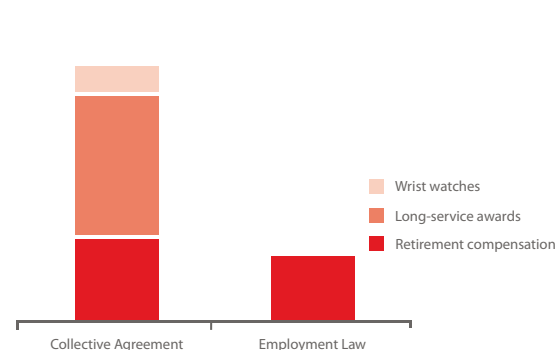
NIS has established a reward system for its employees based on the evaluation of all job positions according to the following criteria: professionalism, qualifications, complexity of work, quantity and quality of work. Strategies for short-term and long-term employee motivation have been formulated, as well as the non-cash rewards as a special form of motivation.

In 2009, NIS introduced, a system for the evaluation of the employees on a quarterly and annual basis, and reward system involving variable performance-based remuneration and premiums for individual excellence. The variable employee remuneration depends on the mark that they were awarded in the specific three-month period, as well as on the general NIS performance indicators, and is equal to 15% of the employee's basic remuneration in that quarter.

By applying the motivation plan, NIS management wants to promote work efficiency, and employee motivation and loyalty towards NIS. At the same time, by retaining the existing high-quality employees and attracting new ones from the neighboring areas, NIS management seeks to make NIS one of the most attractive employers in the region.

Retirement compensations and long-service (jubilee) awards

In accordance with the Employment Law of the Republic of Serbia, the Company is responsible for paying a retiring employee a sum equal to at least three times the average salary in the Republic of Serbia. The Company is not obliged to pay long service awards. Compensation received by NIS employees in accordance with the Collective Agreement is 6.5 times higher than that provided for by the Employment Law.



If NIS made payments to employees as provided for by the Employment Law, the total amount for 2010 would be RSD 100 million. The Total cost for 2010 according to the actuary report is RSD 639 million:

- › Retirement compensation - 157 million dinars
- › Long-service awards - 469 million dinars
- › Wrist watches - 13 million dinars

Social responsibility

NIS employees are provided with a high level of social protection which is regulated by the Collective Agreement and Social Program.

Special benefits for the employees

The Collective Agreement and Social Program regulate the special benefits for the employees in NIS. These include:

- › Special protection for employees who become disabled or sick while at work
- › Additional voluntary retirement insurance
- › Guarantee that the NIS employee remunerations are at the same level as in other Serbian majors and adjusted to retail price increases, plus real growth depending on business results and GDP
- › Right to solidarity funds
- › Right to receive long-term service awards for continuous service in NIS
- › Special leaving pay in case of redundancy
- › Housing fund amounting to 0.3% of total NIS income
- › Educational and professional fund for employees

Occupational safety and health

The nature of operations in any oil industry requires a high level of health and safety at work and is one of the priorities and preconditions for the success of a company. In order to insure the highest possible efficiency and quality of occupational safety, the Occupational Safety and Health Committee has been established in NIS and appropriate internal measures have been adopted to simplify the application of the Collective Agreement in this field.

In addition to regular medical checkups, the health of employees who work in special conditions is continuously monitored.



COMPANY
BUSINESS



BUSINESS ANALYSIS

2009 was a challenging year for NIS due both to difficulties within the Company, which primarily involved the oversized and inefficient system, and the negative effects of the global economic crisis. In spite of this, the Company management succeeded in achieving an increase in production and processing, making significant investments aimed at the reconstruction of the existing production, capacity, realizing a positive cash flow, and performing significant organizational changes in order to improve business efficiency.

In 2009, there was a fall in price of crude oil on the global market, as compared to the previous year, from USD 96.99 per barrel to USD 61.51 per barrel. The RSD-USD exchange rate, after an initial increase in January, declined for most part of 2009 and ranged from RSD 70 against USD 1 in January to RSD 66 against USD 1 in December of the same year. Excise on oil products was increased, from 23.5% on unleaded gasoline to 57% on diesel. The increase in excise and in the exchange rate and oil price fluctuations on the world market had the most significant impact on the increase in retail prices of oil products (from RSD 72 to RSD 106 per liter for unleaded gasoline and from RSD 54.60 per liter to RSD 94.1 per liter for diesel). The decline in economic activity caused by the economic crisis and the decline in gross national income resulted in the decreased consumption of oil products in Serbia.

Production results:

- › Production: the volume of domestic oil and gas production was 922,000 tons of conditional fuel, which is 7% more than the 2008 indicators. The resource base was increased in comparison with 2008 (for the first time in several years)
- › Processing: the processing volume was 2,621,000 tons (without toll processing), which is by 3% more than the 2008 indicators (2,550,000 tons)
- › Product improvements: Euro diesel (10 ppm)
- › Sales: Sales on the domestic market amounted to 2,248,000 tons (a decrease of 9% compared to 2008)

Pancevo Refinery reconstruction and modernization:

- › The reconstruction and modernization project was initiated. Contracts with suppliers to the value of EUR 160 million were signed. JSC Gazprom Neft invested 60 million EUR, which was paid out to suppliers

Reorganization of NIS:

- › Major organizational changes were carried out in cooperation with NIS trade unions: new organizational structures were configured in NIS Naftagas and NIS Petrol, and key functions in the Corporate HQ were centralized
- › Functions for internal audit, as well as general security, quality and safety system were significantly improved
- › The number of administrative employees and personnel under contract was reduced by about 20%

Financial results:

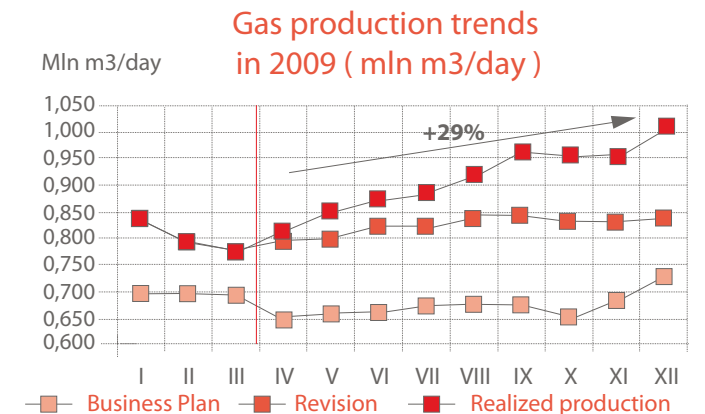
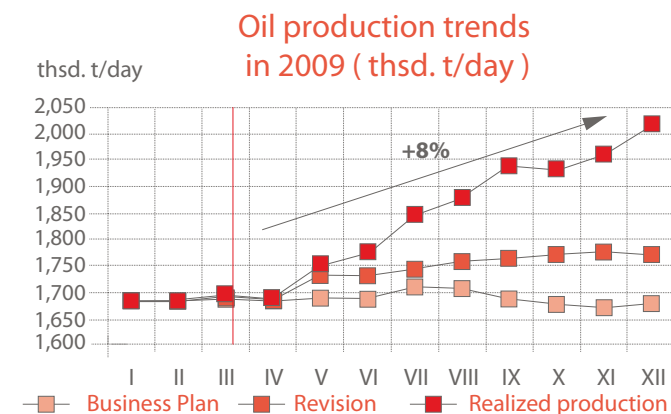
- › Operating cash flow was positive: RSD +17.6 billion (in 2008 it was negative: RSD -11.8 billion).
- › Net profit for the period February-December 2009 (the period of JSC Gazprom Neft governance) was RSD +2.7 billion, EBITDA RSD +9.6 billion
- › Costs reduction program was initiated
- › The structure of bank credit portfolio by maturity at the end of 2009 was 25% short-term, 50% medium-term, 25% long-term
- › The length of time time involved in of current assets turnover was improved from 124 days to 90 days.

Production and processing

Despite the fall in oil prices and decrease in sales volume on the market, NIS recorded progress in its business as compared to 2008, with positive results recorded in the production and processing sectors.

For the first time in a number of years, oil and gas reserves increased compared to the previous year.

An increase of 7% in the volume of domestic oil and gas production was achieved compared to the previous year. The 2009 Business Plan for domestic oil production was surpassed by 8% (665.5 thousand tons) and for gas production by 29% (322 million of cubic meters).





The total quantity of processed oil was reduced by 9% compared to 2008, due to reduced demand and measures undertaken to reduce oil product stocks. The share of NIS own oil in the total yield of processed oil was increased. The total quantity of NIS own oil processing was increased by almost 3%, from 2,550,000 tons to 2,621,000 tons. Production of motor gasoline, fuel oil and diesel fuels was increased, while production of virgin naphtha, aviation fuel and bitumen was reduced. In the second half of the year, Pancevo Refinery commenced processing of domestic heavy oil of the Velebit type. Euro diesel was improved (10 ppm), which enriched the NIS product range. The total costs of processing per unit of measurement were lower by 3.2% compared to estimated costs. A decrease in total stock volume of 24% was achieved at the end of 2009 as the result of stock optimization.

Sales of oil products

Due to the negative effects of the economic crisis on domestic consumption, NIS sales on domestic market amounted to 2,248,000 tons which represented a decrease of 9% compared to 2008 (2,457 thousand tons). Retail was reduced by 10% due to reduced market demand. Wholesale was reduced by 5% due to reduced construction activity and lower demand for bitumen. Deliveries to private petrol stations increased, as well as direct deliveries from the refinery.

Export (primarily fuel oil and diesel fuels) increased from 173,000 tons in 2008 to 323,000 tons in 2009.

Pancevo Refinery reconstruction and modernization

In 2009, the reconstruction and modernization project at the Pancevo Refinery, the largest plant of this type in Serbia, was initiated.

Business improvement

In 2009, numerous activities aimed at improving the business of organizational units were implemented.

In the field of oil and gas exploration and production the process of continuous operational planning and production monitoring was introduced. In NIS Naftagas, pilot projects for new drilling were successfully implemented along with projects for the reviewing of nonoperational oil-wells, conditions for gas pricing and internal oil pricing were changed, and cost optimization processes were improved, from annual planning to daily operational monitoring.

With regard to oilfield services the reengineering of transportation and maintenance processes was carried out, and the organizational structure changed, in order to streamline direct processes in exploration and production. Nonproductive time was reduced, drilling time was reduced, and in the field of oil-well 24-hour work days were introduced. Utilization of production capacity was increased and logistics efficiency was improved.

With regard to processing, NIS Petrol mastered the production of Euro diesel in the Novi Sad and Pancevo refineries, and improved daily reporting on production. The dispatch and records system at the Pancevo Refinery jetty was automated, the water supply system was repaired, wastewater quantities were reduced, steam production was increased, electrical energy consumption was reduced, and overhaul costs were reduced.

Internal reorganization project

For the purpose of achieving greater efficiency and productivity, as well as further harmonization of the Company's internal business with modern principles of corporate management, major organizational changes were made during 2009, in close consultation with NIS trade unions:

- › New organizational structures were devised:
 - › Exploration and production of domestic oil and gas, and oilfield services business, in NIS Naftagas
 - › Refinery processing and production of oil products and sales in domestic and foreign markets, in NIS Petrol
- › Previously decentralized key functions in the Company HQ were centralized
- › Functions for internal audit, as well as general security, quality and safety system were significantly improved
- › The number of administration employees and personnel under contract was reduced by about 20%
- › New organizational structures were formed to support the main business orientations and governance: Function for material, technical and service support; Deputy CEO for non-profile assets; Function for internal audit; Function for corporate security; Function for finance, economics, planning and accounting; Function for strategies and investments; Function for legal and corporate affairs; Function for organizational issues; Function for public relations and communications.

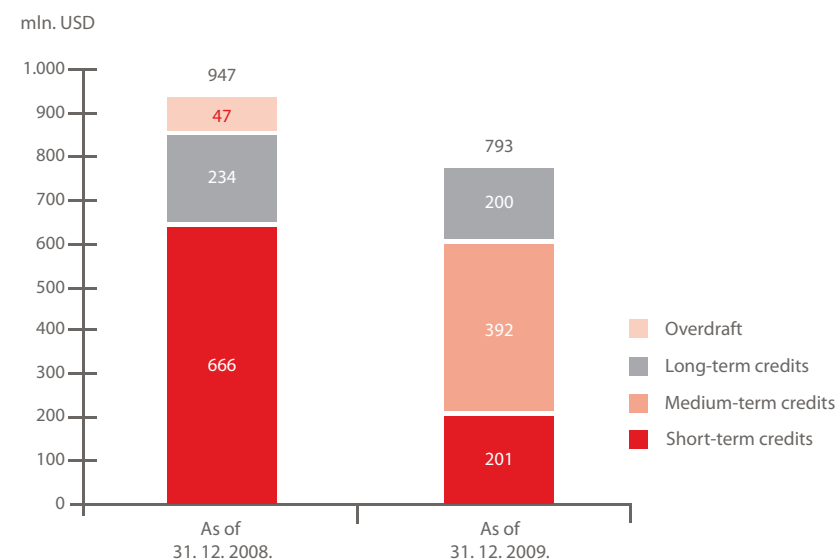
Financial results

In 2009, an operating income with excise of RSD 168 billion was generated. For most of the year, NIS operated with profit, but due to the significant losses in the first quarter of 2009, losses on impairment of assets, the adjustment of the opening balance as at 2 February 2009 and additional costs related to reducing the number of employees, a net loss of RSD 37.6 billion was realized. Net profit for the period from 2 February 2009 (beginning of JSC Gazprom Neft governance) to December 2009 was RSD 2.7 billion, while EBITDA was RSD 9.6 billion.

The positive operating cash flow amounted to RSD 17.6 billion (in 2008 it was negative RSD -11.8 billion). The length time involved in current assets turnover was improved from 124 days to 90 days. A costs reduction program was initiated.

The total debt of NIS to financial institutions was reduced and the bank credit portfolio was restructured. Total NIS debt to banks was reduced by 16%, from USD 947 million at the end of 2008 to USD 793 million at the end of 2009.

The share of medium-term and long-term credits in the total debt was significantly improved, from 25% to 75%. The structure of bank credits by maturity at the end of 2009 was: 25% short-term credits (with maturity periods of up to one year), 50% medium-term credits (with maturity periods of up to five years) and 25% long-term credits (with maturity periods of over five years).



In accordance with the assumed obligations under the Agreement between the Government of the Republic of Serbia and JSC Gazprom Neft, the financing of reconstruction, modernization and new investment projects amounting to EUR 60 million for 2009 was provided by JSC Gazprom Neft.

Development strategy

Preparation of the five-year strategic plan for NIS development was successfully completed by the end of February 2010. The strategic development plan defines clear goals for NIS as a whole, as well as goals for each individual business segment for the period 2010-2014. The development strategy is the result of an extensive analysis of, possible trends for NIS orientation, the market situation, expected market development trends and competition, and also includes the model of optimal NIS development and the activity that should be undertaken in order to implement strategic initiatives.





Key Business Indicators

Key indicators	2008.	2009.
Operating income with excise - in billions of RSD	169,2	168,4
Operating income without excise - in billions of RSD	132	118,3
EBITDA - in billions of RSD	7,9	10,4*
Net loss - in billions of RSD		
Before adjustment as at 2 February 2009 and before impairment of fixed assets	8,0	4,4
After adjustment as at 2 February 2009 and after impairment of fixed assets	8,0	37,6
OCF - in billions of RSD	-11,8	17,6
Taxes - in billions of RSD	53	74**
Quantity of domestic oil and gas - in thsd. ton conditional fuel	865,3	922,1
Including quantity of domestic oil - thsd. tons	638,5	665,5
Quantity of processed feedstock (without third parties) - thsd. tons	2.549,5	2.621,0
Quantity of oil products delivery on domestic market - thsd. tons	2.457	2.248
Including retail quantity - thsd. tons	650	587
Including sales of white oil products - thsd. tons	1.830	1.656
Export quantity - thsd. tons	173	323
CAPEX from GPN credits - in bln RSD/mln EUR	0	5,75/61,2
CAPEX from OCF - in billions of RSD	8	3,3
Contracting in accordance with MHC/DHT project - in mln EUR	0	160,0

* Before adjustment as at 2 February 2009 and prior to impairment of fixed assets

** Total tax amount is RSD 74 billion of which about RSD 73 billion is in the Republic of Serbia, and about RSD 1 billion in Angola

Review of financial statements (Unconsolidated financial statements)

Balance sheet

	in mln RSD	
Assets	31. 12. 2008.	31. 12. 2009.
Non-current assets	112.753	95.734
Intangible assets	5.454	4.793
Property, plants, equipment	96.199	83.221
Investment properties	739	500
Long-term financial investments	10.361	7.220
Current assets	47.854	48.317
Inventories	24.526*	23.056
Non-current assets available for sale	0	135
Trade receivables	14.419	11.391
Income tax overpaid	507	42
Short-term investments	2.645*	876
Value added tax and prepaid expenses	1.767*	4.145
Cash and cash equivalents	3.990*	8.672
Total property	160.607	144.051
Total assets	160.607	144.051
Off balance sheet assets	106.529	151.212
Equity and liabilities	2008.	2009.
Equity	69.982	32.283
Share capital and other capital	87.128	87.128
Reserves	889	889
Revaluation reserves	61	0
Unrealized gains on securities	137	130
Unrealized losses on securities	-33	-28
Accumulated profit (losses)	-18.200	-55.836
Long-term provisions and liabilities	20.186	56.694
Long-term provisions	7.846	16.040
Long-term borrowings	12.249	34.734
Other long-term liabilities	91	5.920
Short-term liabilities	66.624	53.142
Short-term financial liabilities	47.408	18.567
Trade payables	11.655	23.367
Other short-term liabilities	4.032	3.885
Current tax payable (VAT) and other public expenses payable and accrued expenses	3.370	7.323
Income tax payable	159	0
Deferred tax liabilities	3.815	1.932
Total equity and liabilities	160.607	144.051
Off balance sheet liabilities	106.529	151.212

* The Company reclassified comparative data (Note 2.1.1. to Financial statements) which had an impact on:

- › Inventories - transfer of receivables from excise amounting to RSD 0.6 billion and
- › Cash - transfer of deposits with maturity period up to 90 days to the amount of RSD 3.4 billion

Statement of Income

Statement of income	31. 12. 2008.	31. 12. 2009.	in mln RSD 2009 before adjustment of balance as of 2 February 2009
Operating income with excise	169.224	168.402	168.402
Excise	-37.213*	-50.127*	-50.127*
Operating income without excise	132.011	118.275	118.275
Revenue from goods and services	168.458	118.375	118.375
Income from activating own products and goods	694	724	724
Decrease in inventories of finished goods	-225	-1.195	-1.195
Other operating income	297	371	371
Operating expenses	-164.244	-120.376	-115.125
Cost of goods sold	-39.401	-6.009	-6.009
Material costs	-93.189	-68.610	-68.610
Costs of salaries, fringe benefits and other personal expenses	-14.087	-19.834	-19.834
Depreciation and provisions expenses	-6.915	-12.699	-7.448
Other operating expenses	-10.652	-13.224	-13.224
Operating profit (losses)	4.980	-2.101	3.150
Financial income	8.524	11.122	11.122
Financial expenses	-18.927	-15.878	-15.878
Other income	8.526	5.858	3.349
Other expenses	-11.014	-38.520	-6.461
Losses before tax	-7.911	-39.519	-4.718
Income tax	-112	1.883	274
Taxable expenses of the period	-112	0	0
Deferred tax income (expenses) of the period	0	1.883	274
Net losses after tax	-8.023	-37.636	-4.444
Including impairment of assets (based on the independent appraiser's report)	0	0	-14.481
Including adjustment of balance as of 2 February 2010	0	0	-18.711
Net losses after tax including impairment of as-sets (based on the independent appraiser's report) and adjustment of balance as of 2 February 2010	0	0	-37.636

* Excise contained in realized products

Cash flow statement

	2008.	in mln RSD 2009.
Cash flow from operating activities	-11.781*	17.619
Cash inflow from operating activities	175.317	185.018
Cash outflows from operating activities	-187.098	-167.399
Cash flows from investing activities	-10.445	-9.463
Cash inflows from investing activities	1.104	7
Cash outflows from investing activities	-11.549	-9.470
Cash flows from financing activities	25.244	-3.520
Cash inflows from financing activities	26.103	82.002
Cash outflows from financing activities	-859	-85.522
Total net cash flow	3.018	4.636
Cash at beginning of period	1.784	3.990
Foreign exchange difference - cash and cash equivalent	-812	46
Cash at end of period	3.990	8.672

* The Company reclassified comparative data (Note 2.1.1. to Financial statements) which had an impact on:

- › Cash flows from operating activities - transfer of deposit with maturity period up to 90 days from short-term financial investments to cash to the amount of RSD 3.4 billion





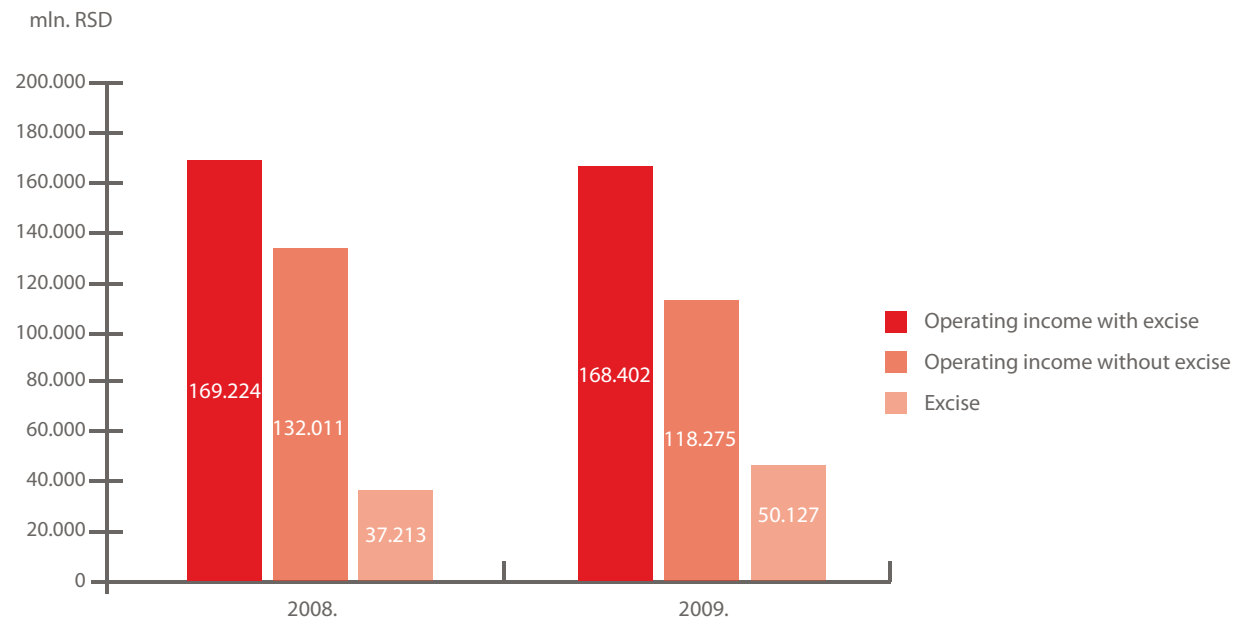
Statement of changes in equity

	in mln RSD							
	Share capital	Other capital	Reserves	Revaluation reserves	Unrealized gains on securities	Unrealized losses on securities	Accumulated profit (losses)	Total
Balance as of January 1, 2008	81.530	5.598	485	276	0	0	-6.721	81.168
Available-for-sale financial assets	0	0	0	-215	137	-33	0	-111
Transfer to reserves 5%	0	0	404	0	0	0	-404	0
Income tax adjustment	0	0	0	0	0	0	-23	-23
Effect of deferred tax decrease	0	0	0	0	0	0	755	755
Dividends for 2007	0	0	0	0	0	0	-4.048	-4.048
Dividends decrease	0	0	0	0	0	0	264	264
Losses	0	0	0	0	0	0	-8.023	-8.023
Balance as of December 31, 2008	81.530	5.598	889	61	137	-33	-18.200	69.982
Balance as of January 1, 2009	81.530	5.598	889	61	137	-33	-18.200	69.982
Unrealized profit (losses) on available-for-sale securities	0	0	0	0	-7	5	0	-2
Abolition of revaluation reserves	0	0	0	-61	0	0	0	-61
Other	0	0	0	0	0	0	0	0
Losses	0	0	0	0	0	0	-37.636	-37.636
Balance as of December 31, 2009	81.530	5.598	889	0	130	-28	-55.836	32.283

Changes in property, plants and equipment in 2009

	in mln RSD							
	Land	Buildings	Machines and equipment	Property, plant and equipment under preparation	Other property, plant and equipment	Investments in not one's own property, plant and equipment	Advances	Total
Year ended December 31, 2009								
Opening balance of net book value	10.808	40.343	36.683	8.067	89	110	99	96.199
Total increases during the period	401	4.745	1.468	5.057	0	0	5.385	17.056
Total decreases during the period	-724	-9.060	-11.041	-8.514	-43	-103	-549	-30.034
Net book value as of December 31, 2009	10.485	36.028	27.110	4.610	46	7	4.935	83.221
As of December 31, 2009								
Acquisition	11.209	53.599	53.912	8.709	89	111	5.012	132.641
Accumulated depreciation	-724	-17.571	-26.802	-4.099	-43	-104	-77	-49.420
As of December 31, 2009	10.485	36.028	27.110	4.610	46	7	4.935	83.221

Operating income with and without excises

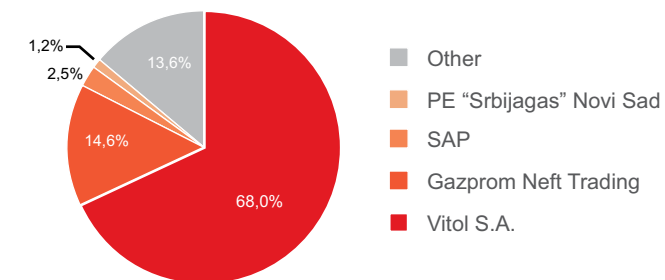


Operating income by activities

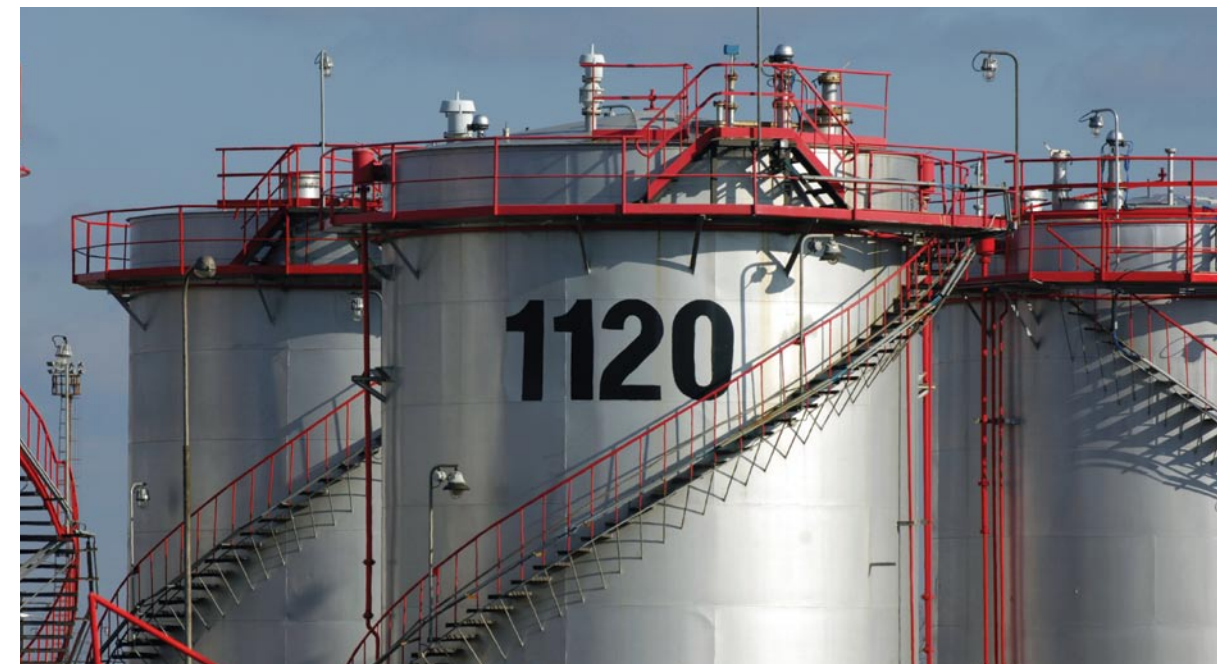
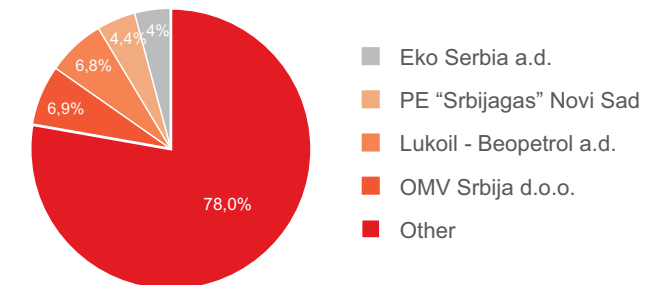
	2008.	in mln RSD 2009.
Income from sales of oil and oil products	164.450	163.847
Income from sales of services	1.167	569
Other income	3.607	3.986
	169.224	168.402

Main suppliers and buyers

Liabilities to the largest suppliers as at December 31, 2009



Review of the largest buyers by sales in 2009



ANALYSIS OF ACCOUNTING RESULTS

	in mIn RSD						
	2008.	2009.	2009 before adjustment January 2009	2009 before adjustment Feb.-Dec. 2009.	2009 before adjustment Total	Adjustments Balance as of 2 Feb.	Adjustments Impairment
	I	II=V+VI+VII	III	IV	V=III+IV	VI	VII
Operating income							
Revenues from goods and services	168.458	118.375	8.813	109.562	118.375	0	0
Income from activating own products and goods	694	724	24	700	724	0	0
Increase (decrease) in inventories of finished goods	-225	-1.195	-1.402	207	-1.195	0	0
Other operating income	297	371	23	348	371	0	0
Total operating income	169.224	118.275	7.458	110.817	118.275	0	0
Operating expenses							
Cost of goods sold	-39.401	-6.009	-655	-5.354	-6.009	0	0
Material costs	-93.189	-68.610	-4.524	-64.086	-68.610	0	0
Costs of salaries, fringe benefits and other personal expenses	-14.087	-19.834	-1.176	-18.658	-19.834	0	0
Depreciation and provisions expenses	-6.915	-12.699	-545	-6.903	-7.448	-5.251	0
Other operating expenses	-10.652	-13.224	-592	-12.632	-13.224	0	0
Total operating expenses	-164.244	-120.376	-7.492	-107.633	-115.125	-5.251	0
Operating profit (losses)	4.980	-2.101	-34	3.184	3.150	-5.251	0
Financial income without foreign exchange differences	882	1.630	226	1.404	1.630	0	0
Financial expenses without foreign exchange differences	-2.769	-2.889	-183	-2.706	-2.889	0	0
Net positive (negative) foreign exchange differences	-8.516	-3.497	-7.166	3.669	-3.497	0	0
Other income	8.526	5.858	133	3.216	3.349	2.509	0
Other expenses	-11.014	-38.520	-123	-6.338	-6.461	-15.969	-16.090
Profit (losses) from regular operation before tax	-7.911	-39.519	-7.147	2.429	-4.718	-18.711	-16.090
Income tax	-112	1.883	0	274	274	0	1.609
Taxable expenses of the period	0	0	0	0	0	0	0
Deferred tax income (expenses) of the period	-112	1.883	0	274	274	0	1.609
Net profit (losses) after tax	-8.023	-37.636	-7.147	2.703	-4.444	-18.711	-14.481

In spite of the difficult macroeconomic situation, for most of the year NIS operated with profit, but for the entire year, the net loss was RSD 4.4 billion before assets and liabilities adjustments, as at 2 February 2009, and the impairment of assets. This loss was due to the significant losses in the first quarter of 2009, numerous unresolved problems from the past which resulted in recognition of losses on impairment of assets, and additional costs related to reducing the number of employees.

Net profit for 2009 before foreign exchange differences and severance payment under the Employees' Voluntary Redundancy Program was RSD 3.1 billion.

Net losses for January 2009 referred mostly to the negative foreign exchange differences generated by the sudden depreciation of the domestic currency (RSD 7.1 billion). In the period February-December 2009, NIS realized profit from operations amounting to RSD 3.2 billion which was used for redundancy payments under the Employees' Voluntary Redundancy Program (RSD 2.9 billion), and profit from foreign exchange differences of over RSD 3 billion due to RSD appreciation against USD. In accordance with IFRS, in the Company's opening balance sheet, after the acquisition of shares in NIS by Gazprom Neft, the assets and liabilities adjustments were made as at 2 February which resulted in losses amounting to RSD 18.7 billion.

In order to determine the actual value of assets and liabilities, NIS engaged an independent appraiser who identified total losses amounting to RSD 37.6 billion.



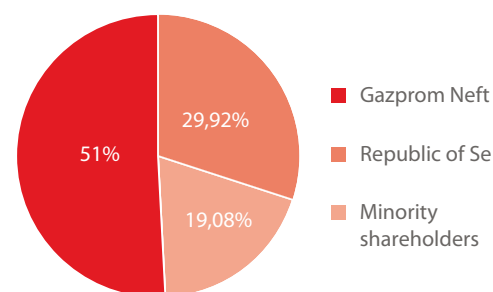
IMPORTANT BUSINESS EVENTS THAT OCCURRED BETWEEN BALANCE SHEET DATE AND DATE OF REPORT

On 6 January 2010, the NIS shareholder structure changed by virtue of the Law on the Right to Free Shares and the government's Decision on Distribution of Free Shares to Citizens of Serbia, NIS Employees and Ex-Employees. The share capital structure of as at 6 January 2009:

JSC Gazprom Neft	51%
Republic of Serbia	29,92%
Minority shareholders	19,08%

There were no other materially significant events after the balance sheet date (December 31, 2009)

Share capital structure of NIS a.d.
as of January 6, 2010



BUSINESS RESULT BY SEGMENTS (DIVISION)

The business activities of NIS are organized in four basic groups:

1. Exploration and production of oil and natural gas
2. Oil processing
3. Sales of LPG, oil and oil products
4. Other

Assets and liabilities of segments as at December 31, 2009

	Exploration and production	Processing	Sales	Other	in RSD mln Total
Total assets	42.788	58.488	26.145	16.630	144.051
Total liabilities	-9.913	-26.074	-8.926	-66.855	-111.768
Net assets	32.875	32.414	17.219	-50.225	32.283

Income by report segments derives from the following:

- › Exploration and production of oil and natural gas generate revenue through sales of oil and gas to the refineries and Srbijagas
- › Processing generates revenue through sales of oil products to the Sales of Oil and Oil Products segment
- › Sales of Oil and Oil Products generates revenue through the network of retail and wholesale facilities

Transactions with subsidiary companies were performed at market prices, namely NIS official pricelists.

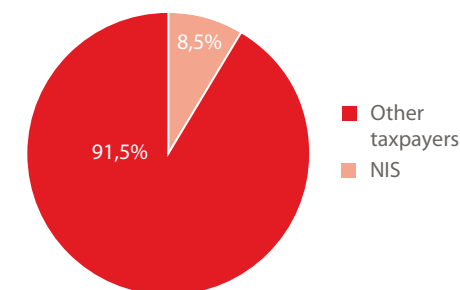
Results of report segments in 2009

	Exploration and production	Processing	Sales	Other	Adjustment of balance as of 2 February 2009 and impairment of assets	in mIn RSD Total
Operating income of segment	11.829	19.461	86.985	0	0	118.275
Internal segment accounting	6.416	60.983	224	0	0	67.623
Total income	18.245	80.444	87.209	0	0	185.898
Operating profit/losses	7.858	3.529	-7.686	-551	-5.251	-2.101
Financial income (expenses)	235	374	952	-6.317	0	-4.756
Other income (ex- penses)	-471	-12.847	13.399	-3.193	-29.550	-32.662
Profit (losses) before tax	7.622	-8.944	6.665	-10.061	-34.801	-39.519
Deferred tax	0	0	0	274	1.609	1.883
Net profit /(losses) after tax	7.622	-8.944	6.665	-9.787	-33.192	-37.636

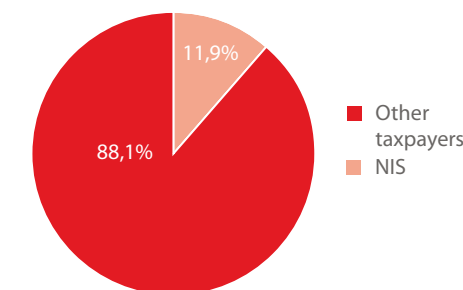
TAXES

According to the information on revenues and expenditure in the budget of the Republic of Serbia for 2008, total planned public revenue for 2008 was RSD 624 billion. In 2008, NIS paid RSD 53 billion in taxes. In 2009, public revenues amounting to RSD 615 billion were planned, and NIS paid 73 billion in taxes.

NIS contribution to total public revenue in 2008



NIS contribution to total public revenue in 2009



Analytical review of liabilities for public revenues

	2008.	2009.
Excise	37.865	51.114
VAT	7.491	12.538
Customs and other import duties	1.115	849
Mineral royalties	423	576
Other tax expenses	6.137	7.964
Total	53.031	73.041**

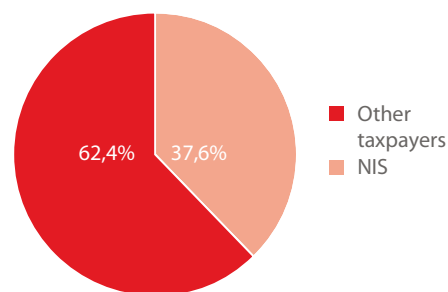
** Total tax amount is RSD 74 billion of which about RSD 73 billion is in the Republic of Serbia and about RSD 1 billion in Angola.

According to the Budget Law for 2008 and 2009, excise was a significant financing source of the Republic of Serbia with a share in total public revenue amounting to 10.38% in 2008 and 19.09% in 2009. The largest part of excise revenues is the excise on oil products which makes up more than 50% of total excise revenues. The analysis of the total excise liabilities of NIS shows that NIS made a significant contribution to the planned budget revenue from excise.

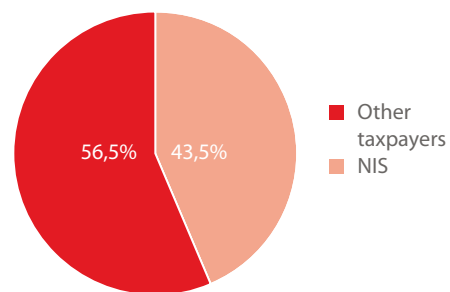


	2008.	2009.
NIS share in total revenues of the Republic of Serbia from excise	37,6%	43,5%
NIS share in revenues of the Republic of Serbia from excise on oil products	74,2%	85,6%

NIS contribution to total public revenues from excise in 2008



NIS contribution to total public revenue from excise in 2009

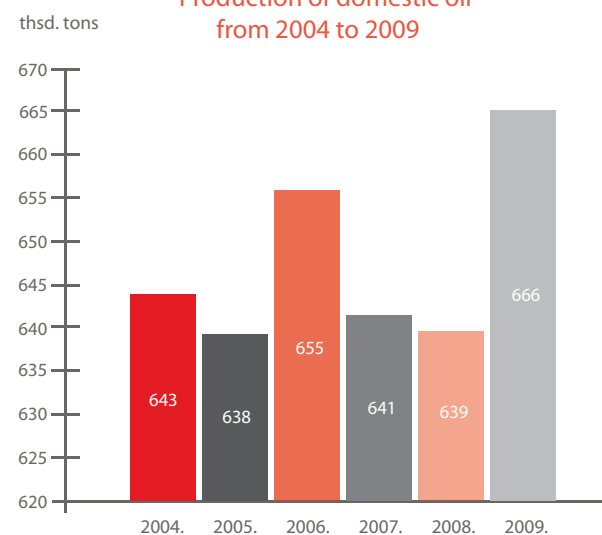


MARKET POSITION AND MAJOR COMPETITORS

Production of domestic oil

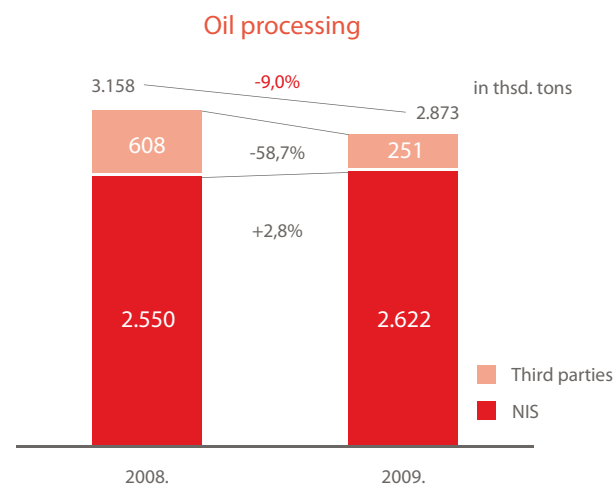
NIS is the only oil and gas producer in the domestic market. Production of domestic oil (665,500 tons) and gas (322 million cubic meters) in 2009 set the record for the past six years. Introduction of new, modern methods in oil and gas exploitation and the use of modern equipment for oil production all had an effect on the significant production increase.

Production of domestic oil from 2004 to 2009

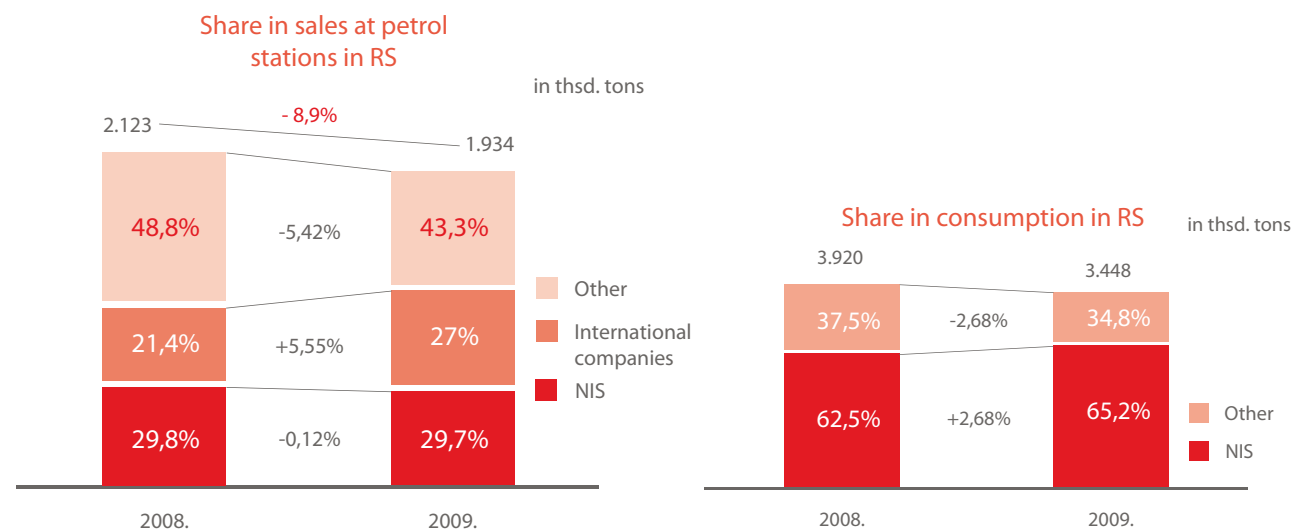


Position on the oil processing market

Compared to 2008, oil processing for the Company's own needs increased by 3% to 2,622,000 tons. At the same time, declining and unstable demand for oil products, with frequent disparities between the import and cost-based price, caused a decrease in crude oil processing in NIS refineries for third parties.



Competition on the retail market of oil products



Decline in gross national income (GNI) of 2.8%, as well as the significant decrease in the construction industry (11%) and transportation industry (6%), led to a decrease in the total consumption of motor fuels (motor gasoline, diesels and auto-gas), and retail sales of fuels.

Due to the decrease in oil processing for the needs of third parties, NIS share in the consumption of motor gasoline and D2 increased, as well as in total sales of motor fuels, which went up by 1.94% compared to 2008.

On the other hand, since September 2009 NIS has only been importing LPG, which resulted in the the lowest share in the import of oil products for NIS since 2005. Due to the impact of these factors, the share of NIS and international companies in the motor fuels retail market changed, depending on the type of motor fuels. In spite of the decrease in total consumption of motor fuels, NIS's share in the total consumption in the Republic of Serbia increased (from 62.5% to 65.2%).

A large number of vehicles in Serbia can use both LPG and gasoline and consumption depends mainly on the price of these products. In addition to this, as the result of the global trend of switching to diesel engines, the total consumption of these oil products has been in decline for the past few years. In 2009, a decline of 0.6% was recorded, with a decrease in motor gasoline MB95 of 20.5%, while an increase of 3.5% was recorded for unleaded motor gasoline BMB95.

The decline in consumption of D2 compared to Euro diesel continued in 2009. This fact, in addition to growing presence of newer diesel engines, is also affected by the difference in price, which provides larger profits for companies when they replace D2 with imported Euro diesel.

Due to the above-mentioned factors, the share in motor fuels retail market varies, so that while the NIS's share decreased by 0.12%, international oil companies' share increased by 5.55%, and the share of other players in the oil products market decreased by 5.42%.

INVESTMENT ACTIVITIES

The largest capital investments

According to the plan originally adopted, capital investments for 2009 amounted to EUR 423 million (RSD 34.3 billion at the exchange rate of RSD 80 effective at that time). After the change in ownership structure, the plan for 2009 was reviewed and in April a new investment plan was defined, according to which capital investments amounted to EUR 91.2 million (RSD 9.1 billion at the planned exchange rate).

In 2009, the contracts for the project of construction of the hydrocracking and hydrotreating complex at the Pancevo Refinery (MHC/DHT+H₂), to the value over EUR 160 million, were signed, which will enable fuel production in accordance with Euro 5 standards. This project is the most significant NIS investment planned for the next three years.

In addition to the above-mentioned project, work on the following NIS Petrol facilities was completed in 2009:

- › Reconstruction of three petrol stations (Sabac, Pozarevac, Adasevci Sever)
- › Construction of one new petrol station (Krusevac 5)
- › Fitting and installations for LPG (liquefied petroleum gas) at 9 petrol stations



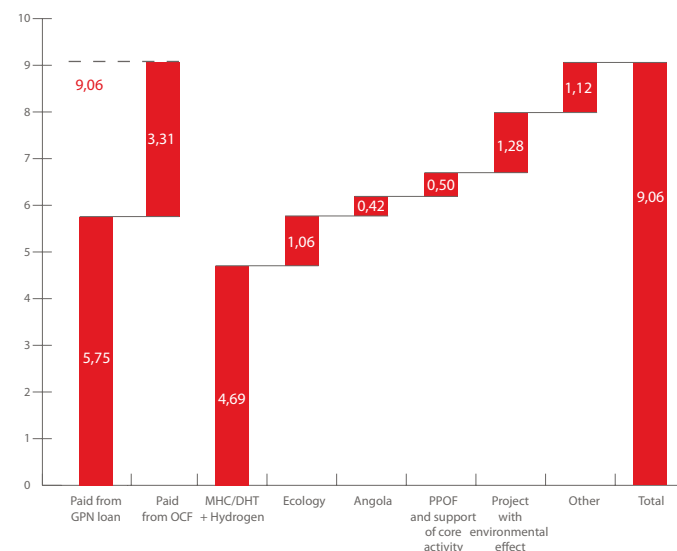
Significant investments were also made in NIS Naftagas on projects to increase oil and gas production:

- › Fracturing
- › ESP pumps (electric submersible pumps)
- › New drillings in the area of Kikinda municipality.
- › Angola

The most significant capital investments related to ecology were made in the Pancevo Refinery, where RSD 0.8 billion was invested. The most significant investment projects in this domain are:

- › Reconstruction of jetty
- › FCC (fluid catalytic cracking)
- › Reconstruction of tank truck loading facility

Payment for capital investments in 2009 in bln RSD

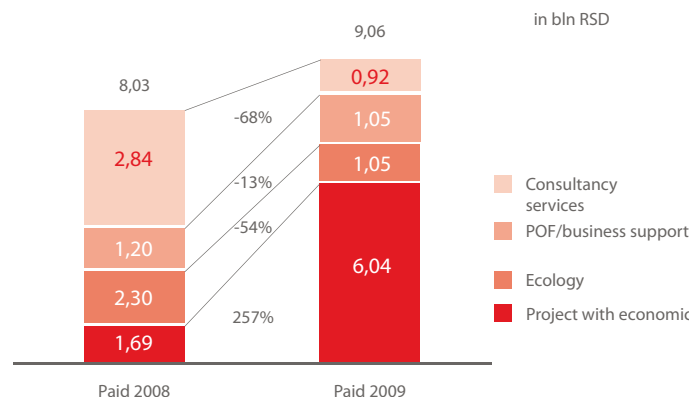


The budget structure of capital investments was improved: RSD 6 billion of total investments are investments with economic effect (positive net present value).

Description of other significant investments

Besides the investment in operating capacities in 2009, NIS made significant investment to develop and upgrade the information system. The largest investments, amounting to RSD 0.64 billion, was made in SAP software, which included the upgrading of the system and the existing modules. At the same time, organizational preparations and training for the introduction of the bulk logistics were carried out.

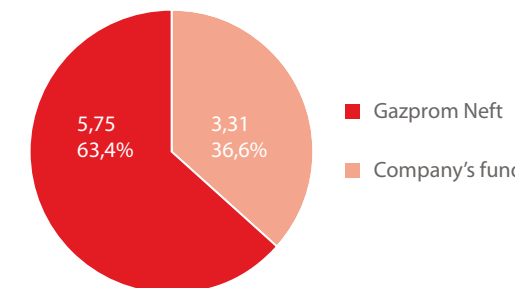
An investment of RSD 0.2 billion was made for the purchase of computer equipment and software (workstations, servers for connecting petrol stations, new licenses for upgrading work platforms with Windows XP and Office 2003 on Windows 7 and MS Office 2007).



Financing method

Sources of financing

Financing from JSC Gazprom Neft funds	RSD 5.75 bln
Financing from the Company's funds	RSD 3.31 bln
Total	RSD 19.06 bln



Investment in human resources

NIS is committed to the continuous professional development of its employees, who are one of the Company's most important resources. In 2009, NIS rationalized the existing professional development programs and earmarked about RSD 50 million for the purpose of professional development.

Costs of employee training

Training costs	in mln RSD	
	2008.	2009.
Costs of professional education	130,1	44,6
Costs of consultancy	34,8	4,5
Costs of business association membership fees	1,1	1,0
Total	166	50,1





STRATEGIC AND DEVELOPMENT PLANS



BUSINESS POLICY, LONG-TERM AND SHORT-TERM COMPANY STRATEGY

The NIS development strategy is based on a detailed analysis of the situation in the local oil industry and the region, and the forecast for its development. The focus is placed on production, refining, retail and oil services as the key strategic business segments which provide for the balanced development of NIS as a whole. NIS is committed to the standardization of all business processes and policies of the management system certification in accordance with ISO 9001, ISO 14001 and OHSAS 18001, oriented especially towards the processes which communicate with the market directly.

The long-term goal of NIS is to become a competitive company in the south-eastern European market and the company with the fastest growth in the production, refining and retail volume in the Balkans, which involves:

- › Increased production of oil and gas and hydrocarbon reserves thanks to geological exploration
- › Production of motor fuels in accordance with EU standards
- › Leading market position in the Republic of Serbia with stable growth in supply to the local and regional Balkan market
- › Joint ventures and strategic partnerships with partners in Serbia and abroad

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

- › Increasing volume and lowering production costs
- › Refining with increasing yield of white products and reduction in operating costs
- › Increasing sales network in the Republic of Serbia
- › Broadening placement of the products on the Balkan and European markets

NIS FIVE-YEAR STRATEGIC PLAN

As a part of its five year strategy up to 2014, NIS plans to achieve the growth in value, to increase its efficiency and financial stability and to reduce its debt in comparison to operating revenues in line with the best practice of companies in Europe., NIS projects 40% and 20% increases in exploitation and hydrocarbon reserves, respectively until 2014. With the completion of the Pancevo refinery reconstruction the refining volume will increase by more than 50%, and the greater part of the oil production capacity will be in accordance with

European quality. The plan is to have essential improvements in the sales system, by increasing not only the market share, but also the efficiency of each retail entity. Another key goal in the five-year strategy is to achieve the internal efficiency.

Implementation of this strategy requires:

- › Increase in the indicators of production, refining and sales network growth
- › Increase in the oil products market share in the Republic of Serbia
- › Increase in oil products sales through NIS's retail network
- › Increase in exports
- › Focus on the target markets of the Republic of Serbia and the Balkans
- › Lower production costs
- › Lower refining costs

According to this strategy, the total volume of capital investment up to 2014 will be RSD 101 billion. Almost half of the amount will be spent on modernizing refining capacities and on ecological projects.



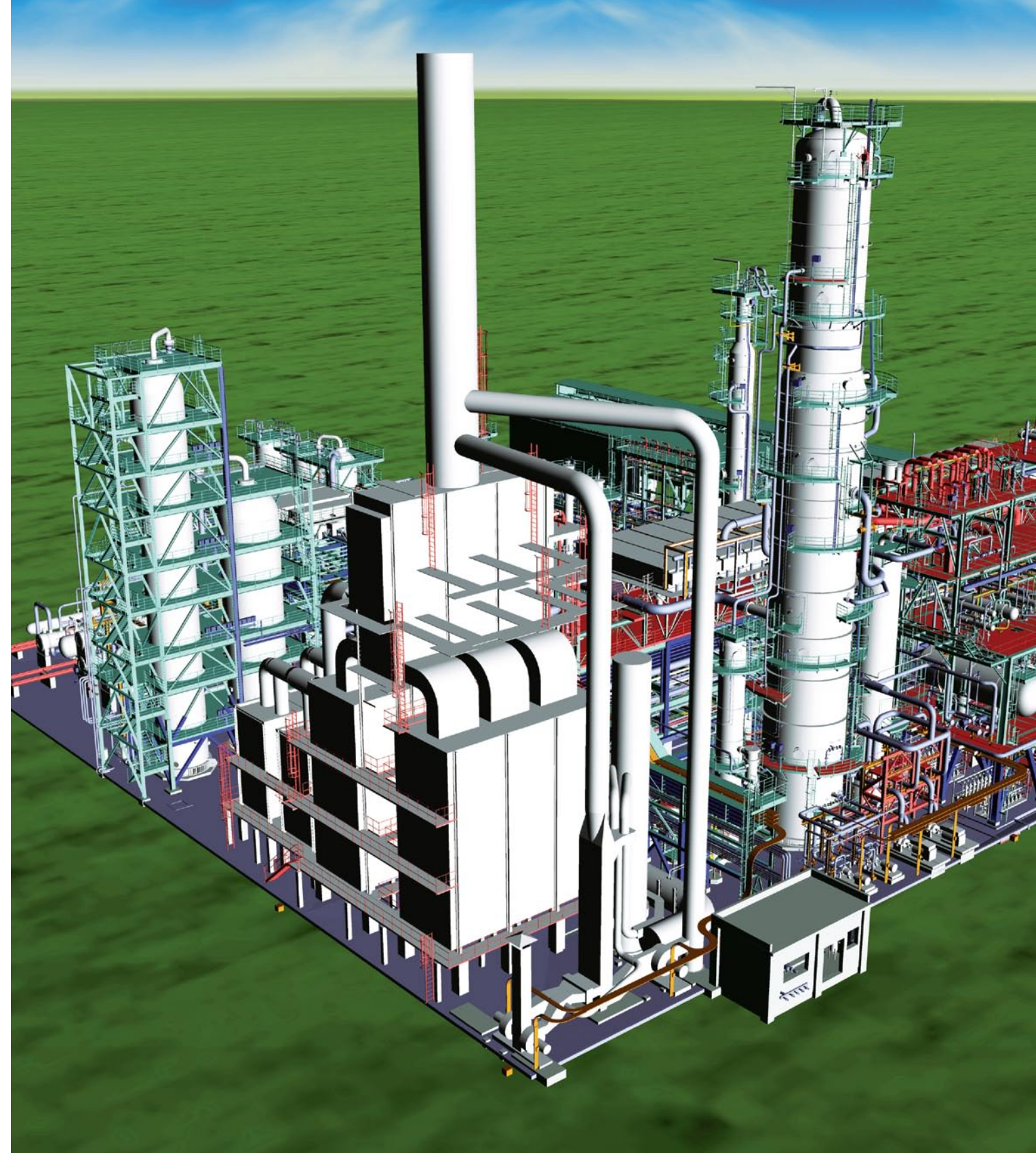
NIS DEVELOPMENT ACTIVITIES

Construction of the Mild Hydrocracking Unit and Hydro Treating Unit at the Pancevo Refinery (MHC/DHT)

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

The purpose of the project is to make NIS competitive in the liberalized Serbian market for crude oil products, and to ensure full compliance with domestic and EU environmental standards. The project is scheduled for completion by the end of 2010.

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





INDUSTRIAL SAFETY

OCCUPATIONAL
SAFETY

AND HEALTH





INDUSTRIAL SAFETY, OCCUPATIONAL SAFETY AND HEALTH

Industrial Safety

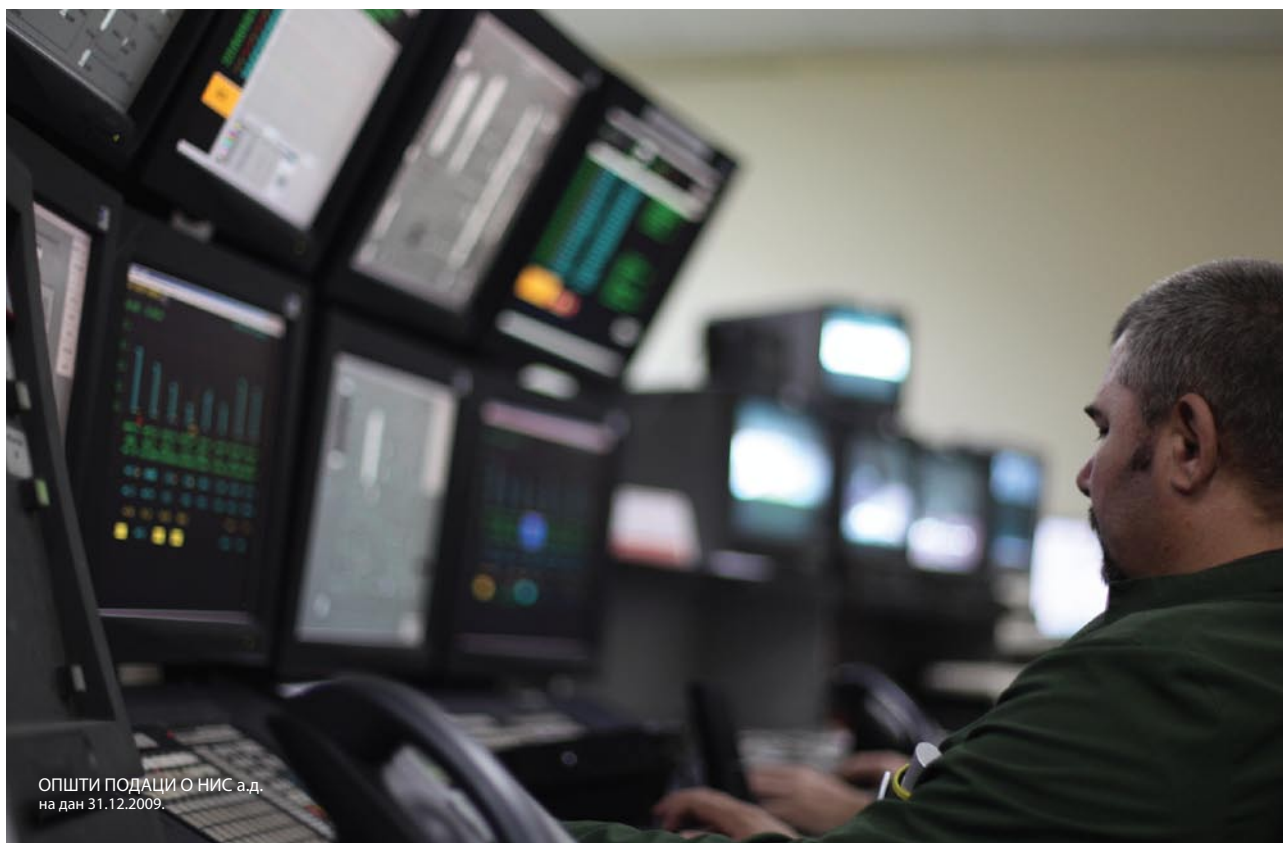
In 2009, HSE activities (industrial safety, occupational safety and health, fire, explosion and disaster protection, environmental protection) were performed in accordance with the relevant legislation of the Republic of Serbia and the related standards of the Gazprom Neft Group and NIS.

In order to reduce the adverse impact of NIS's activities on safety and health of employees, contractors, and other persons present in the working environment, the HSE risk management has been established pursuant to the Occupational Safety and Health Law, ILO Convention No. concerning occupational safety, health and the working environment, and EU Directive 89/391/EEC on the introduction of measures to encourage improvements in the safety and health of workers at work.

In 2009, the ISO 9001/ISO 14001 management system certification process continued in NIS Naftagas, Pancevo and Novi Sad Refineries, including the certification of the reference and testing laboratories. In the same period, a project to enhance industrial safety, environmental protection and risk management (ESPRIT) was implemented.

Occupational Safety and Health

It is important to point out that in 2009 the Company did not have any fatal accidents or work-related disability cases. This is owing to the application of preventative measures, employee safety training, the introduction of advanced technologies, better working conditions, and the use of both personal and collective means of protection in the workplace.





SOCIAL AND ECOLOGICAL **RESPONSIBILITY**





SOCIAL RESPONSIBILITY

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

- › **The Regional Principle** - Charity projects in the regions where the Company has production, commercial or other interests related to business development. This principle promotes the favorable perception of NIS as a reliable company which makes a positive contribution to society.
- › **Looking to the future** - Concerned as it is with the enlargement of its market, NIS considers donations and sponsorship, in areas suitable for business development, as an investment in its future.
- › **Efficiency** - Sponsorship and donation projects must be highly effective in terms of spending by the recipients, the favorable effects on the Company image among the regional public, and fruitful relations with the authorities. Important too is the creation of a favorable climate for the implementation of investment and business development projects.
- › **Accessibility and transparency** - These are necessary preconditions for efficient spending of assets. Projects for implementation should meet requirements and be acceptable to the population. They should also provide transparency in cost control.
- › **Uniqueness** - To avoid conflicts of interest, NIS prefers not to participate with its competitors.

In 2009, NIS allocated RSD 167 million to support social responsibility programs.

In accordance with its socially responsible business strategy and Sponsorship and Donation Policy, NIS has grouped sponsorship and donations into five priority programs:

Sporting Energy

This program is oriented towards the top-level sports, clubs and national teams, predominantly in basketball, tennis, volleyball, auto-moto sports, and sports for children. The program is aimed at promoting sports and healthy lifestyles.

The key Energy of Sport project is the sponsorship of the Partisan Basketball Club which, for the third year in a row, is one of the eight best clubs in the Euro League Championship.

NIS is a general sponsor of the NIS Vojvodina Wallyball Club, the most successful wallyball club in the country, which has won 13 national championships, 10 cups, and has twice come third in the European Championship.

NIS is a general sponsor of the Mini Basket Movement, the basketball organization for younger players.

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





Culture without Borders

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

Exit - The largest festival of pop music in southeast Europe. It has been awarded several prizes as the best festival in Europe. Every year it has over 200,000 visitors, of whom at least 50,000 come from other countries.

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

Nisville - The largest jazz festival in southeast Europe. The most prominent jazz players in the world take part in this event.

Other sponsorships within the Culture without Borders program include Sterijno Pozorje, the children's festival Zmaj Children Games and the Joy of Europe children's gathering.





Science and Young Talents

The purpose of this program is to support the development of the scientific potential of students at institutions related to this industry, research work and scientific innovation, and the development of talented students.

In 2009, NIS supported the educational programs of the Petnica Science Center devoted to young people all over Serbia.

The Petnica Science Center is a unique institution in Serbia. In the last two and a half decades, it has organized more than 2,500 courses, camps and workshops attended by more than 40,000 school children.



Cooperation for Development

The projects in this program will strengthen the partnerships with the regions in which the Company has its operations, the local authorities and citizens. The program is organized according to regional priority projects and is implemented in cooperation with the local authorities through the agreements on social and economic cooperation. In the Cooperation for Development Program, special focus is placed on openness and transparency.

Driven by wish to help the progress of all aspects of life in Serbia, especially in the areas of Company operations, NIS entered into an agreement with the Vojvodina Executive Council on strategic cooperation in the areas ecology, economic development, investment climate improvement and in the solution of social problems in the region.

In accordance with this agreement, other separate agreements were signed with municipalities and cities, including Novi Sad, Pancevo, Kikinda, Zrenjanin, Novi Becej, Srbobran and Kanjiza.

Through its close relations with local government in regions of relevance to the Company, NIS provides financial resources for local government and citizens' priority projects. Last year, the Cooperation for Development Program was implemented for ecological projects, cultural events, and supported institutions like children's nurseries, schools, sports centers, clubs, homes of culture, safe homes, day centers for children with special needs, and the purchase of ultrasound apparatus for the Pancevo Hospital. The agreement on social and economic cooperation is a proof of the awareness that corporate industrial development is impossible without a balanced and responsible approach to the society.

Humanitarian Projects

The program includes aid projects for socially vulnerable persons or public organizations, as well as aid for disaster victims. By implementing such donation programs, NIS demonstrates its willingness to take an active role not only in the industrial and economic sphere, but also in social areas of interest to the whole community.

NIS is a friendly partner of the community and a business partner of the state in solving social problems.





ECOLOGICAL RESPONSIBILITY

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

1. Minimization of the adverse effects of production, and improvement in fuel quality specification
2. Voluntary initiatives taken by the Company to preserve and replenish natural resources.

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

In 2009, investment in environmental projects amounted to RSD 4.2 billion, almost twice the amount in 2008, when the investment was RSD 2.1 billion. Most of the investments in environmental protection were used for:

1. projects related to the construction of the new MHC/DHT units which meet the EU environmental requirements both for the operation of these units and the quality of their products.
2. reconstruction of rail and truck loading/unloading facilities, installation of the vapor recovery system, reconstruction of retail stations.
3. monitoring of emissions, ground and waste water, land reclamation/remediation, oily sewage remediation in the refineries, etc.

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



GLOSSARY

BMB - Unleaded motor gasoline

GNI - Gross National Income

GLD - Geology land development

GTM - Geological technical measures

Company - Petroleum Industry of Serbia a.d Novi Sad

ESP pumps - Electric submersible pump

ZGD - Deputy General Director

ISO - International Standardization Organisation

OHSAS - Occupational Health and Safety Management System - Internationally recognized standard for assessment of health and management system safety

Sales-Purchase Agreement - Agreement on sales of 51% interest in NIS between Gazprom Neft and the Republic of Serbia

M5 - Motor gasoline

MHC/DHT+H₂ - Mild hydrocracking and direct hydro treatment + hydrogen unit

IFRS - International Financial Reporting Standards

NAP - Naftags Promet

NGS - Naftagas

Overdraft - Allowed exceeding of deposits

MIP - Medium-term investment plan

PSer - Professional services

LPG - Liquid petroleum gas

t of cond.fuel - Tons of conditional fuel

FCC - Fluid catalytic cracker

FNRY - Federative National Republic of Yugoslavia

HSE - Occupational safety and health, fire, explosion and accidents protection, environmental protection

CO₂ - Carbon dioxide





Appendix 1 – Auditor’s Report on Financial Statements



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INDEPENDENT AUDITOR’S REPORT

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

We have audited the accompanying financial statements of Naftna Industrija Srbije a.d., Novi Sad (the “Company”) which comprise the balance sheet as of 31 December 2009 and the income statement, statement of changes in shareholder’s equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes. The statistical annex is an integral part of these financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

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



Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia and disclosures in the Note 2 to the financial statements.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following matters:

- (a) The Company incurred a net loss of RSD 37,636,111 thousand during the year ended 31 December 2009 (31 December 2008 – RSD 8,022,615 thousand) and, as of that date the Company’s net assets are RSD 32,283,167 thousand (net assets as of 31 December 2008 – RSD 69,981,542) and the share capital amounts to RSD 87,128,024 thousand (31 December 2008 – RSD 87,128,024 thousand). In accordance with the Company Law of the Republic of Serbia, if the Company has incurred losses higher than 50% of its registered share capital, shareholders of the Company must be informed of this event in order to take the actions mandated by law. Furthermore, if the net asset value of the Company is below the minimum share capital required by the Company Law for that form of company, and remains in that manner for a period of six months from the moment it becomes first apparent, adverse consequence may follow. The ultimate outcome of this matter cannot presently be determined and, consequently, the financial statements do not include adjustments or disclosures to reflect these issues.
- (b) In accordance with the Agreement of Sale and Purchase of Share of Naftna Industrija Srbije a.d., Republic of Serbia, as a Seller, is obliged to give written official consent for Naftna Industrija Srbije a.d. to register its title or right of use to all immovable properties recorded in Fixed Assets Register as at 31 December 2007. Until 31 December 2009, such a written consent was not issued and transfer of ownership of properties on the Company’s name is still in progress.
- (c) In accordance with the Agreement of Sale and Purchase of Share of Naftna Industrija Srbije a.d., Republic of Serbia, as a Seller, is obliged to ensure that if operations of the Company’s equipment that existed at the date of the Agreement result in violations of environmental requirements due to obsolescence or physical wear, no sanctions are applied against Naftna Industrija Srbije a.d with respect to such non-compliance until such equipment is modernized or replaced. The Company has engaged independent consultant to assess exposure of the Company to environmental requirements of Republic of Serbia as of the date of the Agreement. The consultant’s report is pending and as such the total environmental exposure of the company is still under evaluation.

Milivoje Nesovic
Milivoje Nesovic
Licensed Auditor



PricewaterhouseCoopers d.o.o.
PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 31 March 2010

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



Appendix 2 – Consolidated Financial Statements

Balance Sheet

Assets		31. 12. 2008	31. 12. 2009.	RSD mil
Non-current Assets		113.525	96.357	
Intangible assets		5.463	4.800	
Property, plants, equipment		100.145	86.388	
Investment properties		739	500	
Long term financial investments		7.178	4.669	
Current Assets		47.669	48.344	
Inventories		24.424*	23.031	
Non-current assets available for sale		0	136	
Trade receivables		14.249	11.394	
Income tax over paid		507	42	
Short-term investments		2.658*	861	
Value added tax and pre-paid expenses		1.771*	4.157	
Cash and cash equivalents		4.060*	8.723	
Total property		161.194	144.701	
Total assets		161.194	144.701	
Off balance sheet assets		106.529	151.212	
Liabilities		2008.	2009.	
Capital		69.634	32.020	
Share capital and other capital		87.152	87.157	
Reserves		889	889	
Revaluation reserves		61	0	
Unrealized gains through securities		137	130	
Unrealized losses through securities		-33	-28	
Undistributed profit (loss)		-18.572	-56.128	
Long-term provisions and liabilities		21.007	57.482	
Long-term provisions		7.879	16.112	
Long-term borrowings		12.245	34.733	
Other long-term liabilities		883	6.637	
Short-term liabilities		66.671	53.267	
Short-term financial liabilities		47.409	18.567	
Trade payables		11.509	23.337	
Other short-term liabilities		4.218	4.047	
Current VAT payable and other public expenses payable and accrued expenses		3.374	7.315	
Income tax payable		161	1	
Deferred tax liabilities		3.882	1.932	
Total liabilities		161.194	144.701	
Off balance sheet liabilities		106.529	151.212	

*The Company reclassified benchmark data (Note 2.1.1. to the Financial Statements) affecting:

- › Inventory – assignment of receivables from excise tax amounting to RSD 0.6 billion and
- › Cash – transfer of deposit with up to 90 days maturity amounting to RSD 3.4 billion

Profit and Loss Account

Profit and Loss Account		31. 12. 2008.	31. 12. 2009.	As of 02. 02. 2009.	RSD mil.
Operating income with excise		169.607	168.829	168.829	
Excise		-37.213*	-50.127*	-50.127*	
Operating income without excise		132.394	118.702	118.702	
Revenue from goods and services		168.903	118.578	118.578	
Income from activating own products and goods		697	725	725	
Decrease in inventories of finished goods		-226	-981	-981	
Other operating income		233	380	380	
Operating expenses		-164.812	-121.010	-115.759	
Cost of good sold		-39.582	-6.186	-6.186	
Material costs		-93.033	-68.676	-68.676	
Employ expenses, and benefit		-14.170	-19.984	-19.984	
Depreciation and provision expenses		-6.976	-12.744	-7.493	
Other operating expenses		-11.051	-13.420	-13.420	
Operating profit (loss)		4.795	-2.308	2.943	
Financial income		8.505	11.125	11.125	
Financial expenses		-18.908	-15.885	-15.885	
Other income		8.553	5.880	3.371	
Other expenses		-11.022	-38.528	-6.469	
Losses before tax		-8.077	-39.716	-4.915	
Income tax		-113	1.950	341	
Taxable expenses of the period		-111	0	0	
Deferred tax income (expenses) of the period		-2	1.950	341	
Net loss		-8.190	-37.766	-4.574	
Including impairment of assets (according to the independent evaluators' report)		0	0	-14.481	
Including adjustments as at 02. 02. 2010		0	0	-18.711	
Net loss Including impairment of assets (according to the independent evaluators' report) and adjustments as at 02. 02. 2010.		0	0	-37.766	

* Excise tax included in goods sold



Cash Flow Statement

	2008.	RSD mil 2009.
Cash flows from operating activities	-12.106*	17.500
Cash flow from operating activities	174.874	185.401
Cash outflow from operating activities	-186.980	-167.901
Cash flows from investing activities	-10.550	-9.363
Cash flow from investing activities	1.030	9
Cash outflow from investing activities	-11.580	-9.372
Cash flow from financing activities	25.666	-3.520
Cash flow from financing activities	26.102	82.002
Cash outflow from financing activities	-436	-85.522
Total net cash flow	3.010	4.617
Cash at the beginning of period	1.862	4.060
Foreign exchange difference – cash and cash equivalents	-812	46
Cash at end of period	4.060	8.723

* The Company reclassified benchmark data (Note 2.1.1. to the Financial Statements) affecting:

- › Cash flow from operating activities – transfer of deposits with up to 90 days maturity from short-term financial investments to cash of RSD 3.4 billion



Statement of Changes in Capital

	Share capital	Other capital	Capital reserve	Revaluation reserves	Unrealized gains through securities	Unrealized losses through securities	Undistributed profit (loss)	RSD mil. Total
As of January 1, 2008	81.530	5.619	484	276	0	0	-6.921	80.988
Financial assets available for sale	0	0	0	-215	137	-33	0	-111
Transfer to reserves	0	0	405	0	0	0	-405	0
5% Profit tax adjustment	0	0	0	0	0	0	-23	-23
Effect of decrease in deferred tax liabilities	0	0	0	0	0	0	755	755
Other	0	3	0	0	0	0	-4	-1
Dividends for 2007	0	0	0	0	0	0	-4.048	-4.048
Dividends received deduction	0	0	0	0	0	0	264	264
Loss	0	0	0	0	0	0	-8.190	-8.190
Balance at December 31, 2008	81.530	5.622	889	61	137	-33	-18.572	69.634
Balance at January 1, 2009	81.530	5.622	889	61	137	-33	-18.572	69.634
Unrealized gains (losses) through securities available for sales	0	0	0	0	-7	5	0	-2
Revaluation reserves not required	0	0	0	-61	0	0	0	-61
Other	0	0	0	0	0	0	215	215
Loss	0	5	0	0	0	0	-37.771	-37.766
Balance at December 31, 2009	81.530	5.627	889	0	130	-28	-56.128	32.020



PETROLEUM INDUSTRY OF SERBIA

Company for exploration, production, refining, distribution and sales of crude oil and oil products, and exploration and production of natural gas
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