



BUSINESS REPORT
FOR FIRST HALF OF 2011





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FOREWORD

Evaluation of business performance in first half of 2011

US dollar to the dinar exchange rate fluctuations over the period January-June 2011 had favorable macroeconomic effect on the company's financial performance, while average price for Urals crude oil was \$108 per barrel.

Domestic crude oil and gas produced in the first six months of 2011 exceed by 30% the same period last year and amount to 730 thousand tons of oil equivalent. Crude oil refining volume in the first half of 2011 is reduced by app. 14% as compared to last year. Greater deal of domestic crude oil participates in the structure of refining in this period and equals 43% of the total refining (1H 2010: 31%). Also a slight drop in sales of 3% was on record as against the same period last year, whereby the sales were reduced within the lowest margin segment – export, while the outstanding two segments – retail and wholesale remained on practically the same level.

Financial results achieved in the first half of 2011 are better than those achieved a year ago due to growth in production of domestic crude oil and increases business efficiency. First quarter exchange rate fluctuation trend was continued in the second quarter, so the aggregate exchange rate fluctuation effect in the first half of the year positively influenced the financial outcome. Profit before foreign exchange differences amounted to app. 15.1 billion dinars and this represents a 144% growth compared with the first half of 2010. When we add positive exchange rate differences of app. 6.4 billion dinars to this result we come to net profit of 21.4 billion dinars. The company scored 83.1 billion dinars in sales, excluding excise, an increase of 31% when compared to last year's first half. EBITDA of the first half of 2011 reached 20.5 billion dinars, which by 144% exceeds this result registered in the first six months previous year.

In early April 2011, NIS Board of Directors adopted a long-term development strategy of company in the Balkans' market by 2020. This strategy stipulates in 2020 oil and gas production volume of 5 million tons, refining volume of 5 million tons and sales volume of 5 million tons through the channels with premium margin rate, as well as Euro 5 standard of products. The main goal of NIS strategy is to become leader in the Balkans in terms of efficiency, i.e. to become leading energy company, with the top ranking among the competitors in South East European market, as well as to become the fastest growing player in the Balkans.

The first steps towards this strategic goal were taken by signing of memorandums of understanding and letters of intent with companies in Bulgaria, Romania and Hungary.

NIS' long-term development strategy defines the main tasks and development directions of NIS, which are divided into three horizons of objectives throughout the period of 2011-2013-2020. We made a good start in implementation of the strategy by achieving good results in the first half of 2011. We hope that if we achieve defined plans in the upstream, refining and sales, and with favorable macroeconomic conditions, we will successfully accomplish the first horizon of NIS long-term development strategy by the end of 2011.

*Kirill Kravchenko
General Manager
NIS a. d. Novi Sad*



GENERAL DATA

Basic data

Business name:	NIS a.d. Novi Sad
Company ID number:	20084693
Address:	Novi Sad, Narodnog fronta 12
Tax ID Number:	104052135
Web site:	www.nis.rs
e-mail address:	office@nis.rs
Industry:	0610 - exploitation of crude oil
Number and date of registration with BRA:	BD 92142, September 29 th , 2005
Equity as of June 30th, 2011	68,420,912,000 RSD
Share capital as of June 30th, 2011.	81,530,200,000 RSD
Number of employees as of June 30th, 2011	9,731*
Audit company that audited the last financial report (dated 31st December 2010)	"PricewaterhouseCoopers d.o.o." Omladinskih brigada 88a Belgrade, Serbia

*Without employees from servicing organizations

Issued Shares

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

Organized Market where Shares of the Issuer are traded

Belgrade Stock Exchange
Omladinskih brigada 1
Belgrade, Serbia

Shareholders*

Business name	Number of shares	Part in share capital (%)
Gazprom Neft	91,565,887	56.1546%
Republic of Serbia	48,715,379	29.8757%
Erste Bank a.d. Novi Sad – custody account	697,856	0.4280%
Zagrebacka banka	590,326	0.3620%
The Royal Bank of Scotland	204,682	0.1255%
Citigroup Global Market Ltd	152,750	0.0937%
Julius Baer Multipartner	97,986	0.0601%
Hypo custody 4	76,706	0.0470%
Unicredit Bank Austria	75,253	0.0462%
East Capital Asset Manag.	66,357	0.0407%
Other shareholders	20,817,218	12.7666%
Total number of shareholders as of June 30th, 2011		2,839,003

*as of June 30th, 2011

Corporate Management

Board of Directors

Full name; position	Education	Current employment	Member of MB or SB other companies	Number and % of NIS shares
Yakovlev Vadim Vladislavovich , Chairman of Board of Directors	The Moscow Institute of Engineering-Physics (applied nuclear physics); Finance College of the International University of Moscow;	Deputy Chairman of the Executive Board in JSC Gazprom Neft, First Deputy General Manager, CFO in Gazprom Neft JSC	<ul style="list-style-type: none"> • OJSC NGK „Slavneft“, • OJSC „MNGK“, • Sibir Energy plc, • LLC „Jamal razvoj“ • OJSC „Gazprom Neft – NojabrskNeftegasv“ 	-
Kravchenko Kirill Albertovich , BoD Member	State University of Moscow M.V. Lomonosov (Sociology); he studied at British Open University (financial management) and IMD school of business. He has PhD in economic sciences and he is a professor.	Executive Board member in Gazprom Neft JSC, Deputy of the General Manager for Management of Foreign Assets in JSC Gazprom Neft	<ul style="list-style-type: none"> • Chairman of Board of Directors of associated company NIS a.d Novi Sad, „Ozone“ a.d. Belgrade 	-
Krylov Alexandr Vladimirovich BoD Member	LMU (Leningrad), Law Faculty SpbGU, Moscow international business school «MIRBIS» MBA, specialty: „ Strategic management and entrepreneurship“	Head of Department for oil derivatives supply, Head Of Department for regional sales and Manager of regional sales department in JSC „Gazprom Neft“.	<ul style="list-style-type: none"> • CJSC "Gazprom Neft Kuzbass", • OJSC "Gazprom Neft Novosibirsk", • OJSC "Gazprom Neft Omsk", • OJSC "Gazprom Neft Tumen", • OJSC "Gazprom Neft Ural", • OJSC "Gazprom Neft Jaroslavlje", • CJSC "Gazprom Neft -North-West", • LLC "Gazprom Neft Asia", • LLC "Gazprom Neft Tadžikistan", • LLC "Gazprom Neft Kazakhstan" 	-
Baryshnikov Vladislav Valeryevich , BoD Member	Military Institute of Krasnozamsk; North/west Academy of state service at President of Russian Federation (department „State and Municipal Administration“)	GM Deputy JSC „Gazprom Neft“ for development of international business; state consultant of Russian Federation of the 3 rd category.	-	-
Cherner Anatoly Moiseyevich BoD Member	Petroleum Institute of Grozensk (chemical processing of oil and gas)	Deputy Chairman of the Executive Board, Deputy of the General Manager for logistics, processing and trade „Gazprom Neft“;	<ul style="list-style-type: none"> • OJSC NGK „SlavNeft“; • OJSC „Gazprom Neft-ONPZ“; • OJSC „Gazprom Neft-Janos“; • OJSC „Moskovski NPZ“; • CJSC „Gazprom Neft-Aero“; • CJSC „St. Petersburg International trade-raw material market “ 	-
Antonov Igor Konstantinovich , BoD Member	St. Petersburg Institute for Production of Airspace Devices	Deputy of the General Manager for safety issues in „Gazprom Neft“;	-	-
Nikola Martinovic , BoD Member	Faculty of Economics in Subotica;;	Special Consultant in NIS a.d;	-	224 shares or 0.0001%
Danica Draskovic , Independent BoD Member	Belgrade Law Faculty	General Manager of publishing company „Srpska Reč“;	-	-

Stanislav Shekshnya Vladimirovich Independent BoD Member	MBA, Northeastern University, Boston, USA Ph. D. (Economics), Moscow State University, Russia	General Manager of „Talent Equity Institute“; Senior partner of company „Ward Howell“; Operating Chief in Department „Talent Performance and Leadership Development Consulting“; professor of enterprise leadership of the International School of Business INSEAD.	<ul style="list-style-type: none"> Supervisory Board Member of DTEK BV Chairman of Board for Staff and Awards of the Observing Council DTEK (Ukraine); 	-
Slobodan Milosavlevic BoD Member	University of Economics in Belgrade, Ph. D. in Economics	Counselor in Serbian Chamber of Commerce	<ul style="list-style-type: none"> 	-

Total amount of net reimbursements paid to members of Board of Directors in period January 1st – June 30th 2011 was RSD 8,150,270.73, while total amount of net reimbursements paid to General Manager in the same period was RSD 6,905,234.75

Audit Committee

Full name position	Education	Current employment	Member of MB or SB other companies	Number and % of NIS shares
Milivoje Cvetanovic Chairman of Audit Committee	Faculty of Economics, Belgrade University	Consultant of practical application of MSFI, creation and implementation of information systems, including the system of internal control; member of Board of Examiners of the Chamber of Authorized Auditors for exams in „Auditing and professional ethics“ program for certificates in authorised revision; member of Chamber of Authorized Auditors; internal auditor in DIPOS DOO Company, Belgrade; owner of the company „Cvetanovic Consulting“ d.o.o. Belgrade;	<ul style="list-style-type: none"> Chairman of the Supervising Board Tigar a.d. Pirot; 	-
Bozo Stanisic, AC Member	Faculty of Technology-Metallurgy (Department of Technological Operations).	Consultant of the President of the Chamber of Commerce	<ul style="list-style-type: none"> MB Vice president of “Industry of machines and tractors“; (IMT) New Belgrade; MB President of Association of Citizens Bicycle Race ‘Through Serbia“. 	-
Maxim Shakhov Viktorovich AC Member	Faculty of Chemistry-Technology of the Technical University of Jaroslav (high level of technical education);	Head of Department for audit of the exploration and production in JSC Gazprom Neft	<ul style="list-style-type: none"> LLC “National oil consortium“ (Russian federation); ZAD “Gazprom Neft aero“ (Russian federation) 	-

Total amount of net reimbursements paid to members of Audit Committee in the period 1st January –30th June, 2011 was: 3,678,745 RSD.

OPERATING RESULTS

Business results

Key indicators

Key indicators	Units of measurement	1H '10	1H '11	Change	
				Value	%
Urals	\$/bbl	75.7	108.34	32.6	43%
Net profit (loss) before foreign exchange differences	billion RSD	6.2	15.1	8.9	144%
Net foreign exchange differences	billion RSD	-15.8	6.4	22.2	141%
Net (loss) profit	billion RSD	-9.6	21.4	31.0	323%
EBITDA*	billion RSD	8.4	20.5	12.1	144%
Sales (without excise tax)	billion RSD	63.4	83.1	19.7	31%
OCF	billion RSD	2.6	12.9	10.3	390%
Paid taxes and fiscal obligations**	billion RSD	39	40	1	3%
Domestic oil and gas production	thousand tons of oil equivalent***	560	730	170	30%
Domestic oil production	thousand tons	398	498	99	25%
Oil processing volume including third parties	thousand tons	1380	1180	-200	-14%
Oil processing volume excluding third parties	thousand tons	1373	1180	-192	-14%
Total sales of oil products	thousand tons	1179	1139	-40	-3%
Oil products local market sales	thousand tons	978	987	9	1%
Retail	thousand tons	251	252	2	1%
Light oil products sales	thousand tons	722	731	9	1%
CAPEX from GPN loan****	million EUR	29.6	56.6	27.0	91%
Inflow of funds from GPN (cumulative from 2009.)	million EUR	94	255	161	171%
CAPEX from OCF (NIS projects)	billion RSD	1.6	2.9	1.4	88%
Total debt to banks	million USD	720	574	-146	-20%
Total bank indebtedness*****	million USD	830	648	-182	-22%

All possible discrepancies in percentage values and total values are due to rounding errors

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

*EBITDA = Sales (without excise tax) – inventories (of oil, oil products and other products) – operational expenditure (OPEX) – other costs, which management cannot affect

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

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

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

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

Macroeconomic Indicators

- > In 1H 2011. RSD exchange rates grew stronger versus US dollar and euro
- > Decline of USD/RSD rate in 1H 2011 was -10.9% or -8.64 RSD
(USD/RSD rate changed from 79.2802 RSD as of January 1st, 2011; to 70.6398 RSD as of June 30th, 2011)
- > Decline of EUR/RSD rate in 1H 2011 was -2,88% or -3,0351 RSD
(EUR/RSD rate changed from 105.4982 RSD as of January 1st, 2011; to 102.4631 RSD as of June 30th, 2011)
- > Incline of USD/RSD rate in 1H 2010 was +28,1% or +18,75 RSD
(USD/RSD rate changed from 66.7285 RSD as of January 1st, 2010; to 85.4794 RSD as of June 30th, 2010)
- > Incline of EUR/RSD rate in 1H 2010 was + 8.85% or +8.48 RSD
(EUR/RSD rate changed from 95.8888 RSD as of January 1st, 2010; to 104.3704 RSD as of June 30th,2010)
- > Crude oil price in 1H 2011 crossed the 100 USD/bbl level

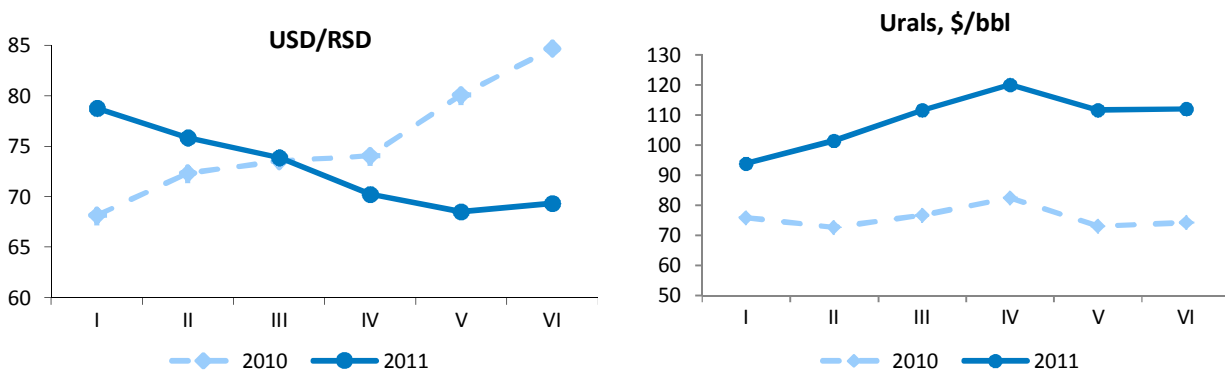


Figure 1: Graph of trends of USD/RSD exchange rate and oil price trends

Operating Indicators

1. Oil and gas production

- > Increase in domestic oil and gas production by 30% compared to the same period last year, as well as increase of 4% in second quarter compared to first quarter of 2011
- > Realization of geological-technical measures project
- > Drilling of new wells

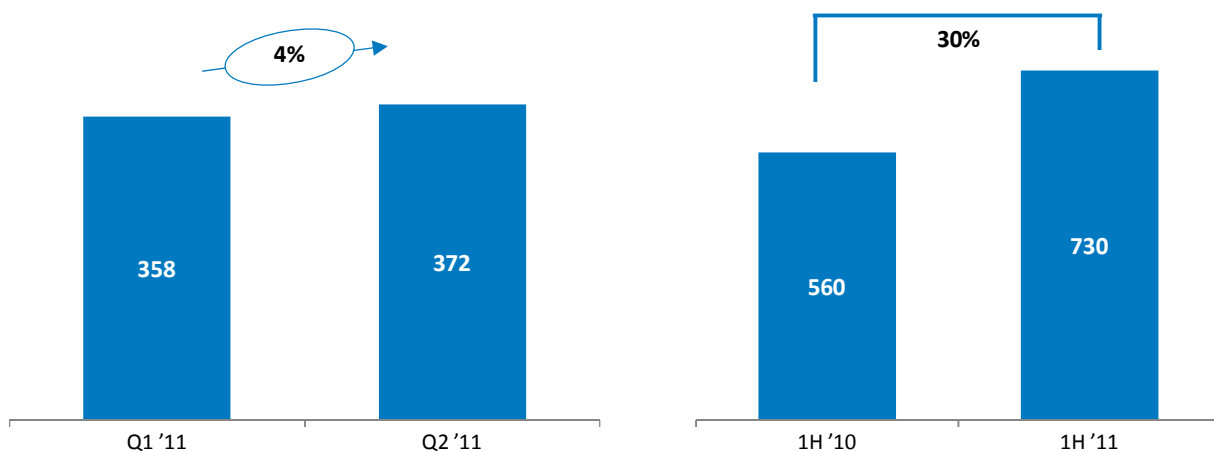


Figure 2: Domestic oil and gas production (in thousands of conditional tons)

2. Refining

- > In the first half of 2011 refining volume without third parties decreased by 14% comparing to the same period last year.
- > In the first half of 2011 refining volume with third parties decreased by 14.5% comparing to 1H 2010.
- > In March 2011 Pančevo Refinery didn't work from March 5th until April 8th due to planned overhaul of FCC facility
- > To boost efficiency in 2011 Euro quality oil products were partly provided from import
- > Refining in Novi Sad Refinery, in comparison with first half of 2010, grew by 5% due to increased refined oil produced

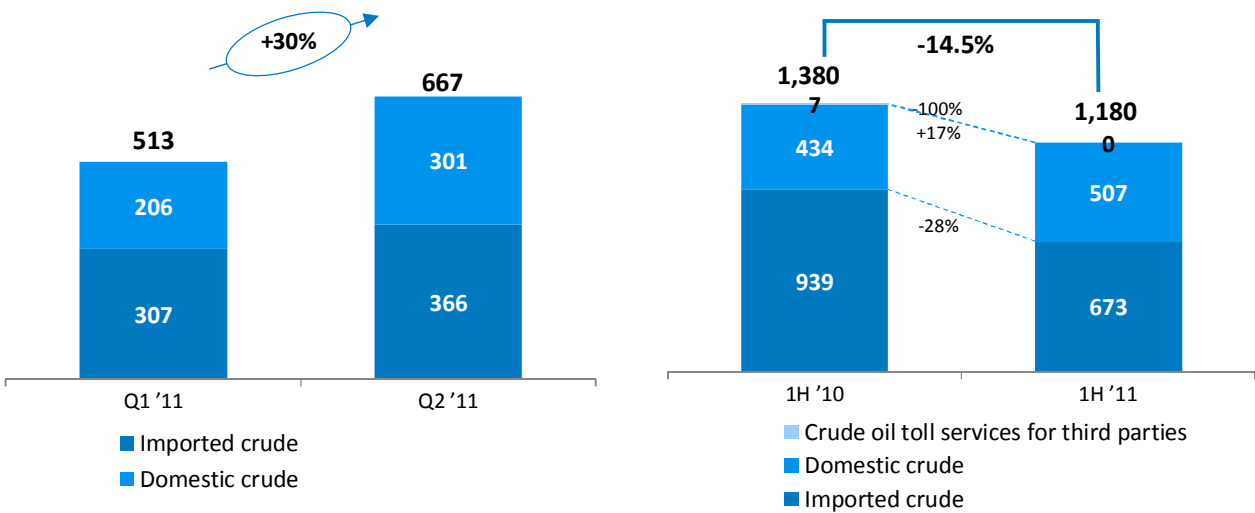


Figure 3: Oil refining including third parties (in thousands of tons)

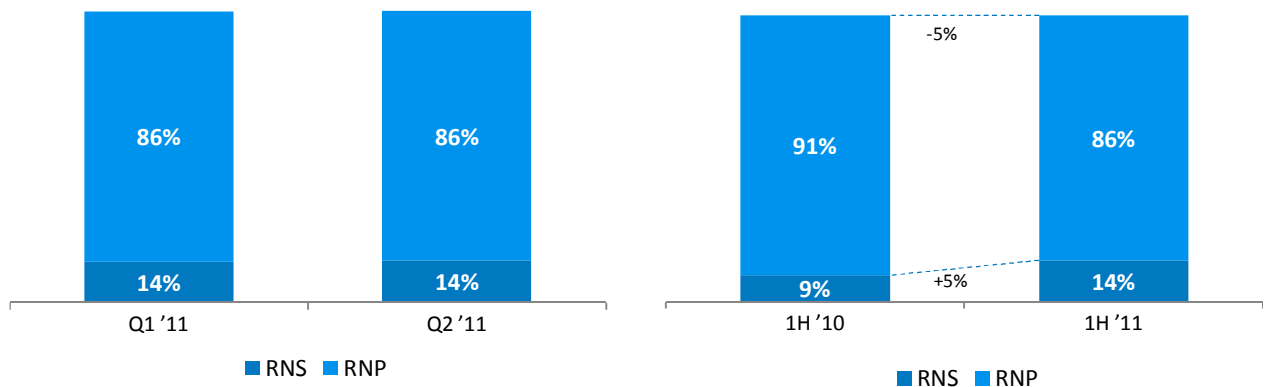


Figure 4: Oil refining per refineries
RNP – Oil Refinery Pančevo, RNS – Oil Refinery Novi Sad

3. Sales and distribution

- > Sales of oil derivatives decreased by 3% compared to 1H 2010
- > **Retail**
 - Increased sales of LPG for motor vehicles
 - Reduced motor gasoline sales volume due to dieselization trend
- > **Wholesale** – on the same level in the first half of 2010:
 - Sales structure change:
 - Increased sale of bitumen
 - Reduced motor gasoline sales volume, despite MB95 substitution with BMB95 and Euro Premium
 - Naphtha sales growth
 - Decline in sales of fuel oil
- > **Export** – reduction of export in the first half of 2011 by 24%, due to lower exports of gasoline components and fuel oil

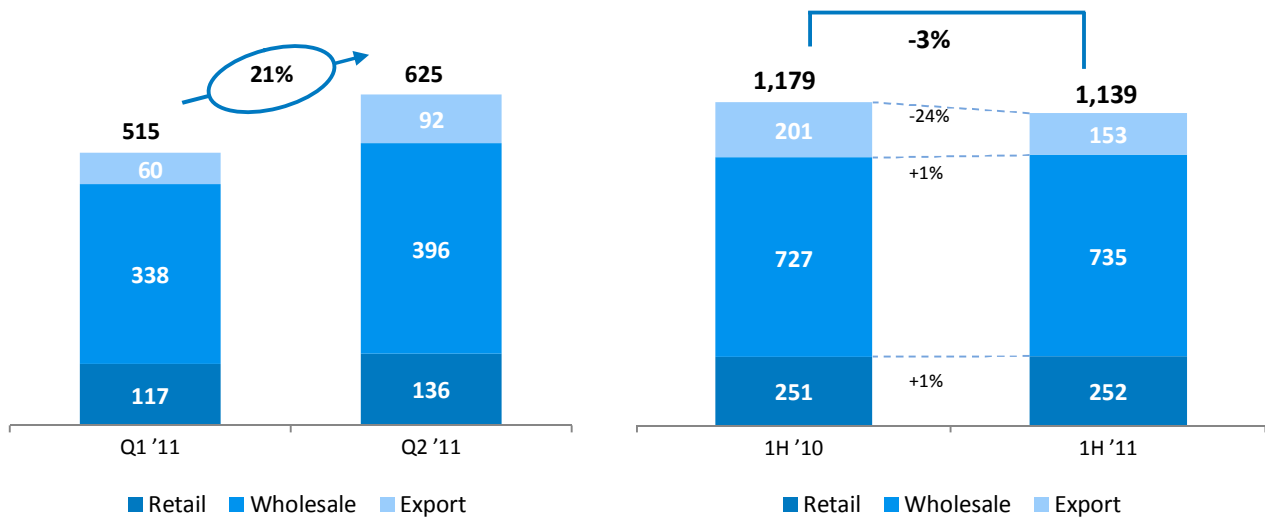


Figure 5: Oil derivatives sales (in thousands of tons)

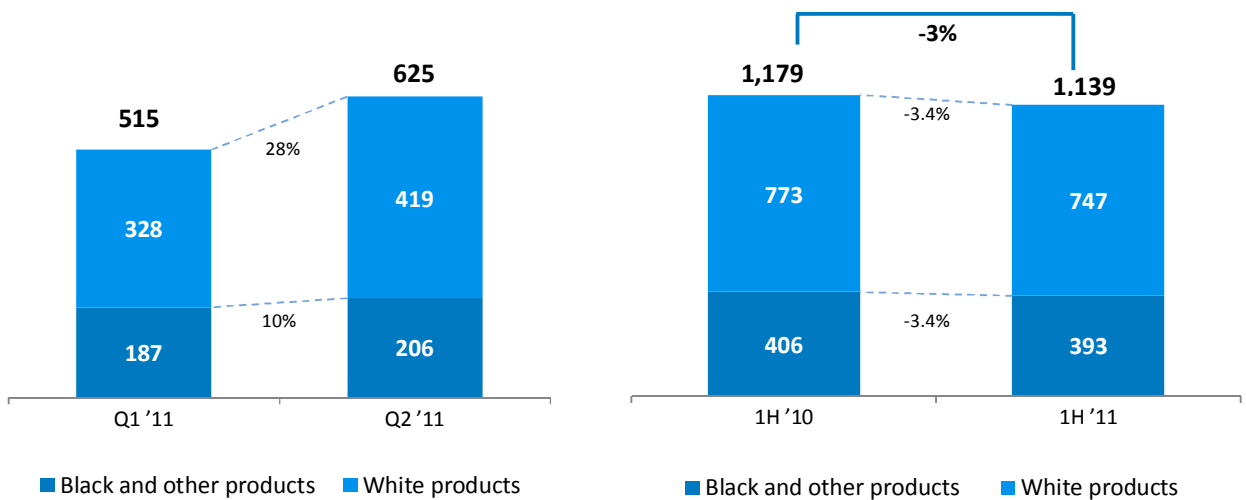


Figure 6: Sales structure per oil derivatives (in thousands of tons)

Bank Indebtedness

> Total bank indebtedness increased by 4 million dollars compared to December 31st, 2010.

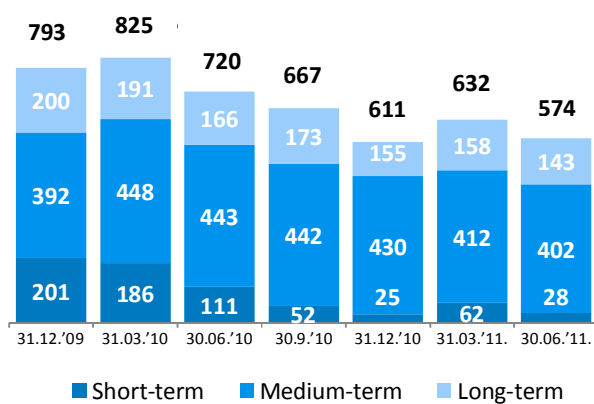


Figure 7: Total debt to banks trend
(In millions of USD) *

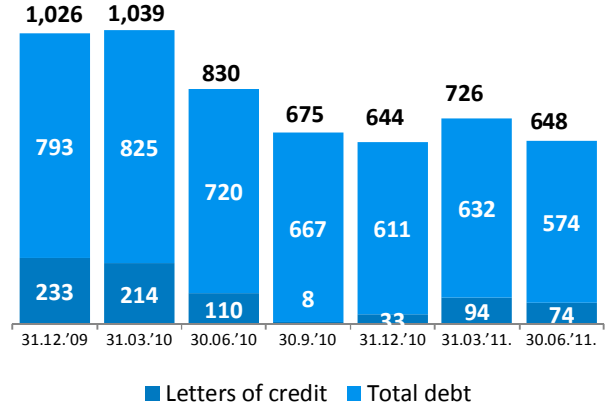


Figure 8: Total bank indebtedness trend
(In millions of USD)

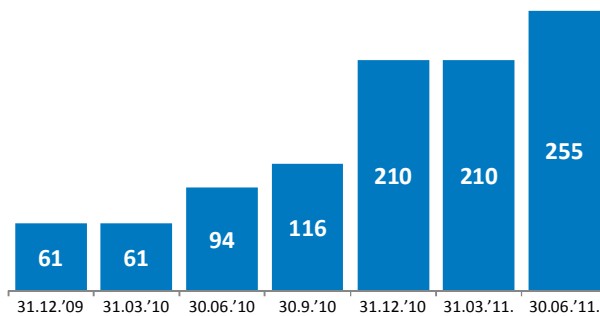


Figure 9: GPN loan (in millions of EUR, VAT excluded and without letters of credit)

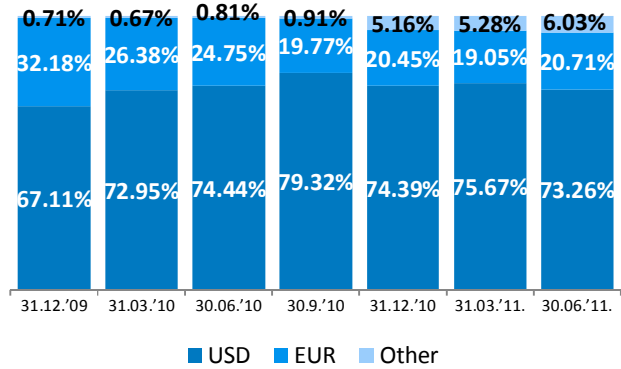


Figure 10: Structure of the total debt to banks per currency

*Term structure of the debt to banks is shown according to Contract terms and not by maturity of the debt as of June 30th, 2011

Market position

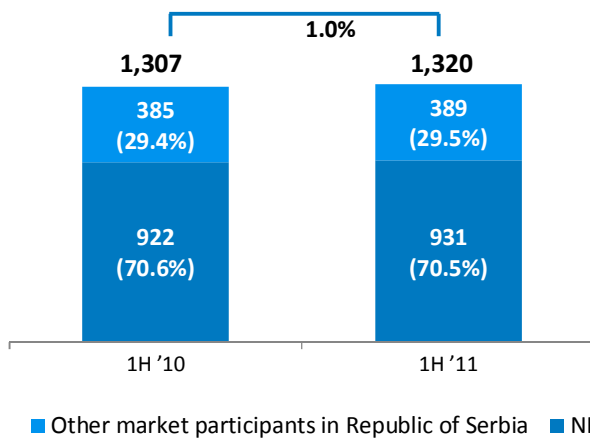


Figure 11: Share structure of Serbian market (in thousands of tons)
*Serbian oil derivatives market (retail and wholesale) is shown without naphtha and derivatives not produced by NIS (oil coke, base oils, vaseline, paraffin, various solvents and other)

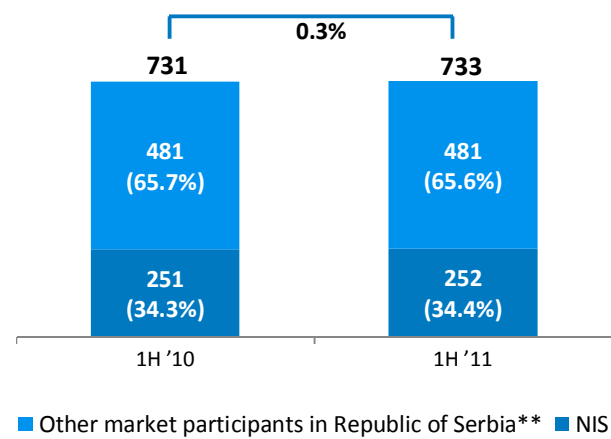


Figure 12: Share structure of Serbian retail market
**Only sales of autogas, petrol and diesel included

- > NIS market share on oil derivatives marker in Republic of Serbia is stable
- > The growth of industrial production in May of 6.8% (seasonally adjusted growth of 3.5%), and slightly lower growth in other months of the Q2 2011, contributed to annulations of drop in consumption in the Q1 2011, and thus consumption in 1H 2011 is at approximately the same level as in the 1H 2010.
- > Growth in gasoline consumption in second quarter influenced on the fact that the decline in the six-month period was 3.3%
- > Eurodiesel consumption rose (7.3%), and despite the drop in consumption of D2 (2%), total consumption of diesels increased (3.8%)
- > Strike of framers in May and June influenced negatively to the consumption in second quarter of 2011, and due to roadblocks the deliveries from the Refineries were disabled.

Ratios

Ratio	1H '10	1H '11	Change	
			Value	%
Return on total capital (Gross profit/total capital)	-43%	33%	77%	177%
Net return on equity (Net profit/shareholders equity*)	-11%	25%	36%	323%
Operating net profit (operating profit/net sales income)	9%	22%	13%	136%
Degree of leverage (short term and long term liabilities/total capital)	481%	168%	-312%	-65%
Degree of leverage (short term and long term liabilities/ shareholders equity*)	125%	132%	7%	6%
1st degree liquidity (cash and cash equivalents/short term liabilities)	12%	20%	8%	67%
2nd degree liquidity (working assets/stocks/short term liabilities)	45%	62%	16%	36%
Net working fund ratio	-6%	21%	26%	464%

*Shareholders equity = Share capital and other capital

Per share Indicators

Indicator	Value
Last price	719.00 RSD
High	850.00 RSD
Low	442.00 RSD
Market capitalization as of June 30th, 2011.	117.240.427.600.00 RSD
EPS for period January 1st - June 30th,2011	131.32 RSD
EPS for period January 1st- December 31st,2010	101.09 RSD
P/E*	7.11
Book Value as of June 30th, 2011	419.60 RSD
P/BV	1.71
Dividends paid	2010. Company reported net profit of 16,484,381,000.00 RSD.**
(in last three years)	2009. Company reported loss of 37,636,111,000.00 RSD
	2008. Company reported loss of 8,022,615,000.00 RSD

* Price as of June 30th 2011 in compare to EPS for period January 1st - December 31st 2010

** BoD reached the decision that profit is to be distributed for covering of accumulated losses from previous years

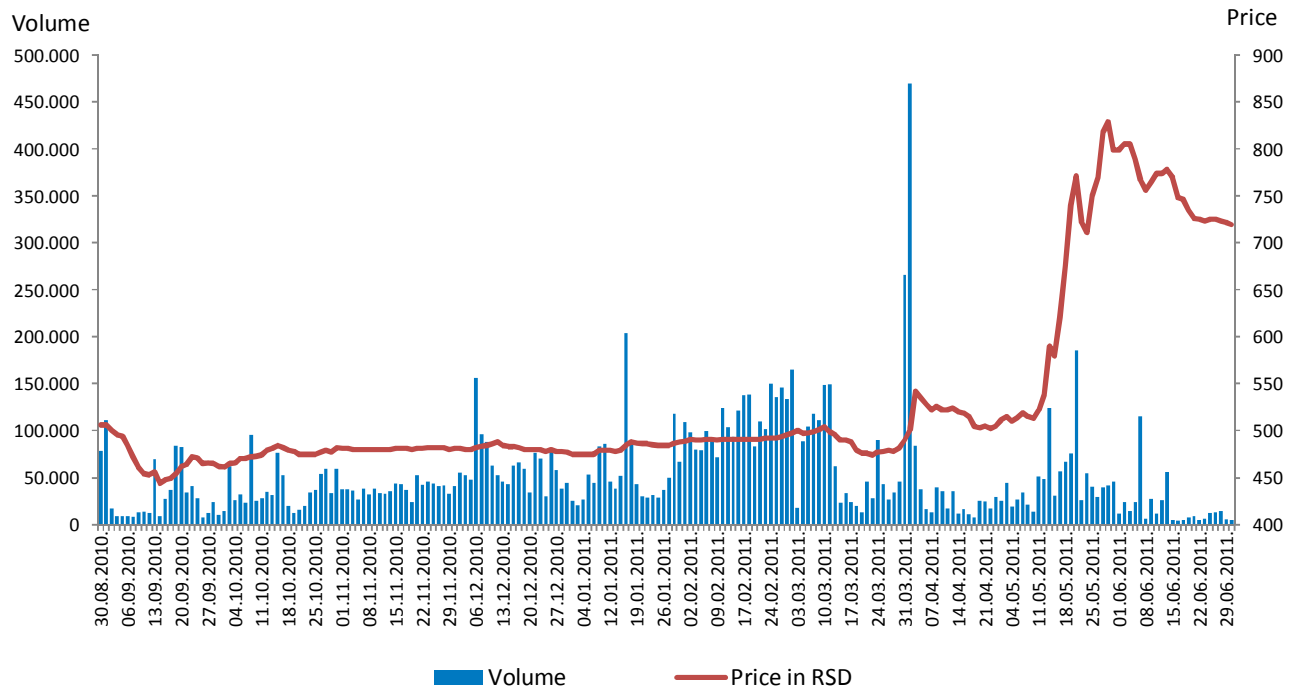


Figure 13: Display of price and turnover movements

Balance Sheet (condensed)

ASSETS	June 30 th , 2011	December 31 st 2010
	<i>(unaudited)</i>	
Non-current assets	116,118,695	108,326,343
Intangible assets	4,779,504	4,835,761
Property, plant and equipment	106,014,884	98,014,391
Investment property	1,428,918	1,393,170
Investments in equity instruments	2,583,240	2,578,753
Other long term investments	1,382,149	1,504,268
Current assets	87,515,431	68,800,658
Inventories	42,180,126	33,999,967
Trade receivables	21,866,939	12,945,719
Short term financial investments	2,043,979	2,513,880
VAT and prepaid expenses	3,389,020	3,940,358
Cash and cash equivalents	13,230,463	10,595,830
Deferred tax assets	4,804,904	4,804,904
Total assets	203,704,126	177,127,001
Off-balance sheet assets	84,597,244	88,793,346
LIABILITIES		
Equity	68,420,912	47,018,714
Share capital*	87,128,024	87,128,024
Reserves	889,424	889,424
Revaluation reserves	12	39
Unrealized gains from securities	46,690	48,417
Unrealized losses from securities	(58,128)	(49,236)
Retained earnings (loss)	(19,585,110)	(40,997,954)
Long-term provisions and liabilities	67,866,542	67,428,694
Long-term provisions	18,422,144	18,501,540
Long-term loans	23,243,814	26,645,540
Other long-term liabilities	26,200,584	22,281,614
Short-term liabilities	65,552,189	61,221,058
Short-term financial liabilities	17,341,195	21,805,638
Trade and other payables	34,433,473	24,944,688
Other short-term liabilities	6,034,532	6,394,456
Liabilities for VAT and other taxes and deferred income	7,234,379	7,456,869
Income tax liabilities	508,610	619,407
Deferred tax liabilities	1,864,483	1,458,535
Total liabilities	203,704,126	177,127,001
Off-balance sheet liabilities	84,597,244	88,793,346

*in ,000.00 RSD

*Basic capital in the amount of RSD 87,128,024,000.00 is comprised of the share and the other capital. The value of the registered share capital in the amount of RSD 81,530,220,000, registered with the Business Registers Agency is based on the assessment of the value of in kind contribution on 31 May 2005, that was made for the purpose of preparation of division balance and establishment of NIS a.d. Novi Sad by decision of the Government of the Republic of Serbia. Auditor of the financial statements for 2005 has determined that in the accountancy records of NIS a.d. Novi Sad the value of the share capital is higher for the amount of RSD 5,597,804,000 when compared to the amount registered with the Business Registers Agency. Upon order of the auditor this difference is presented as the other capital. In 2009, the amount of RSD 20,000 is moved to the position Other capital in order to bring into line position between the value of the share capital registered with the Central Registry (RSD 81,530,200,000) and the value in the business records (RSD 81,530,220,000) which is shown in the statement for 2009 as the changes in the capital.

Income Statement (condensed)

	Six-month period ended June 30 th	
	2011.	2010.
	<i>(unaudited)</i>	<i>(unaudited)</i>
Operating income	87,529,759	68,942,966
Sales	83,057,785	63,402,191
Work performed by the entity and capitalized	1,356,198	932,885
Increase in value of finished goods and work in progress	2,983,189	4,543,995
Other operating revenue	132,587	63,895
Operating expenses	(70,756,394)	(63,197,359)
Cost of goods sold	(5,933,319)	(1,037,333)
Cost of material	(44,592,864)	(42,649,421)
Cost of salaries, benefits and other personnel expenses	(10,026,035)	(11,154,093)
Depreciation and provisions	(3,757,377)	(3,411,869)
Other operating expenses	(6,446,799)	(4,944,643)
Net operating income (loss)	16,773,365	5,745,607
Financial income	7,999,286	2,797,797
Financial expenses	(2,261,011)	(19,650,421)
Other income	2,323,248	3,803,491
Other expenses	(1,994,762)	(2,522,725)
Income (loss) before income tax	22,840,126	(9,826,251)
Income tax	(1,427,282)	231,915
Income tax expense	(1,021,333)	(73,949)
Deferred tax (expenses) income	(405,949)	305,864
Net Profit (Loss) for the period	21,412,844	(9,594,336)
Basic earnings (loss) per share		
- from continuing operations	0,13	(0,06)
- from discontinuing operations	-	-
Diluted earnings (loss) per share		
- from continuing operations	-	-
- from discontinuing operations	-	-

**in ,000.00 RSD*

Major Buyers

Buyer	Turnover in mln. RSD	Share in total income
OMV Srbija d.o.o	6,712	6.85%
LUKOIL Srbija a.d. Beograd	6,609	6.74%
HIP Petrohemija a.d. Pančevo	6,051	6.17%
SRBIJAGAS JP Novi Sad	5,994	6.11%
Total:	25,366	25.87%
Other buyers	72,681	74.13%
TOTAL:	98,047	100%

**for period January 1st - June 30th, 2011.*

Major Suppliers

Suppliers	Total debt in mln. RSD	Share in the total liabilities to suppliers
Gazprom Neft Trading Austria	24,307	73.2%
Glencore Energy UK	4,765	14.4%
Total:	29,072	87.6%
Other suppliers	4,130	12.4%
TOTAL:	33,202	100%

** as of June 30th, 2011*

Forming of transfer prices

In 2011 transfer prices were defined by "Procedure of calculating transfer prices for oil from domestic production, oil products, petroleum gas, natural gas, oil and lubricants and water Jazak in NIS for management accounting" being in use since January 1st, 2010.

In the procedure for transfer pricing in 2011 a "market principle" was applied. The principle "One product, one transfer price" was applied as well.

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

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

The following transfer prices are being in use:

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

Changes of more than 10% on assets, liabilities and net profit

Assets	Changes of more than 10%	Explanation
Inventories	24%	Inventories increase as of June 30 th 2011 is mostly related to increase of inventories of imported crude oil.
Trade receivables	69%	Increase in trade receivables as of June 30 th 2011 comparing to December 31 st 2010 and related increase in Sales relates to increase in sales of products and services of the Company.
Cash and cash equivalents	25%	Increase in cash and cash equivalents as of June 30 th 2011 compared to December 31 st 2010 is mainly related to accumulation of funds for payment of crude oil due on July 6 th 2011.
Short term financial investments	-19%	Decrease in short term financial investments as of June 30 th 2011 compared to December 31 st 2010 is mainly related to decrease of short term loans given to employees
VAT and prepaid expenses	-14%	Decrease of VAT and prepaid expenses as of June 30 th 2011 comparing to December 31 st 2010 is mainly related to decrease of accrued income.
Liabilities	Changes of more than 10%	Explanation
Unrealized losses from securities	18%	Increase in unrealized losses from securities as of June 30 th 2011 compared to December 31 st 2010 is entirely related to decrease in value of investments in securities intended for sale on the grounds of calculating the value of the investment at fair (market) value.
Retained earnings	130%	Increase in retained earnings as of June 30 th 2011 comparing to December 31 st 2010 is related to increase of net profit in first six months of 2011.
Long-term loans	-13%	Decrease in long-term loans as of June 30 th 2011 comparing to December 31 st 2010 is related to USD/RSD and EUR/RSD exchange rate changes as well as transfer of part of loans which are due in up to a year in current maturity from long term loans on to short term financial liabilities.
Other long term liabilities	18%	Increase in other long-term liabilities as of June 30 th 2011 compared to December 31 st 2010 is mostly related to the withdrawal of new tranches of loans granted by parent company Gazprom Neft in the amount of 4,413 million RSD.
Short-term financial liabilities	-20%	Decrease in short term financial liabilities as of June 30 th 2011 compared to December 31 st 2010 is mainly related to settlement of loans due in six months of 2011 as well as reprogramming of debt to banks.
Trade and other payables	38%	Increase in trade and other payables as of June 30 th 2011 compared to December 31 st 2010 is mainly related to the increase of liabilities to related party – Gazprom Neft Trading Austria and to increase in liabilities to suppliers abroad – in first line Glencore Energy, London, for crude oil procurement.
Income tax liabilities	-18%	Decrease of income tax liabilities as of June 30 th 2011 comparing to December 31 st 2010 relates to payments for income tax for 2010.
Deferred tax liabilities	28%	Decrease of deferred tax liabilities as of June 30 th 2011 comparing to December 31 st 2010 relates to provisional differences between accounted depreciation and depreciation recognized for tax purposes.
Result	Changes of more than 10%	Explanation
Net profit (loss)*	323%	Positive trend of financial results is mainly related to the improvement of operational efficiency as well as cost optimization, then to the improvements in product range and transfer of know-how from parent company Gazprom Neft to the Company.

*Compared to June 30th 2010

Investments

On 39th session of Investment Committee from November 8th 2010 Mid-term Investment Program (MTP) was adopted in which the plan for CAPEX investments in period 2010-2013 was presented.

In accordance with MTP main investment directions in 2011 are oriented towards realization of the following groups of projects: MHC/DHT+H2, environmental projects, projects in refining, sales and distribution, oil and gas production, as well as certain number of projects in corporate headquarters.

In the first half of 2011 8.62 billion dinars was invested, which is by 90.55% more than in same period last year.

The most significant investments in oil and gas production in 1H 2011 are:

- > Angola
- > Geological exploration in Vojvodina
- > Project of automation and reconstruction of oil and gas deposits infrastructure
- > Hydraulic fracturing of wells
- > Reconstruction of BOKA system
- > Implementation of ESP
- > Extraction of CO₂ from natural gas

The most significant capital investments related to ecology in 1H 2011 were carried out in Pančevo Refinery through following projects:

- > Construction of facility for regeneration of used sulfur acid
- > Reconstruction and modernization of pier on Danube river
- > Reconstruction of railway filling station

Sources of investment funding	1H '10	1H '11
CAPEX from GPN loan (without letters of credit)	2.96	5.68
Ecology	0.91	0.86
MHC/DHT	2.05	4.82
CAPEX form NIS OCF	1.56	2.94
Ecology	0.00	0.13
MHC/DHT	0.00	0.02
Angola	0.26	0.17
Projects with direct economic effect	0.50	1.58
Projects without direct economic effect	0.79	1.03
TOTAL:	4.52	8.62

**in bln RSD, VAT excluded*

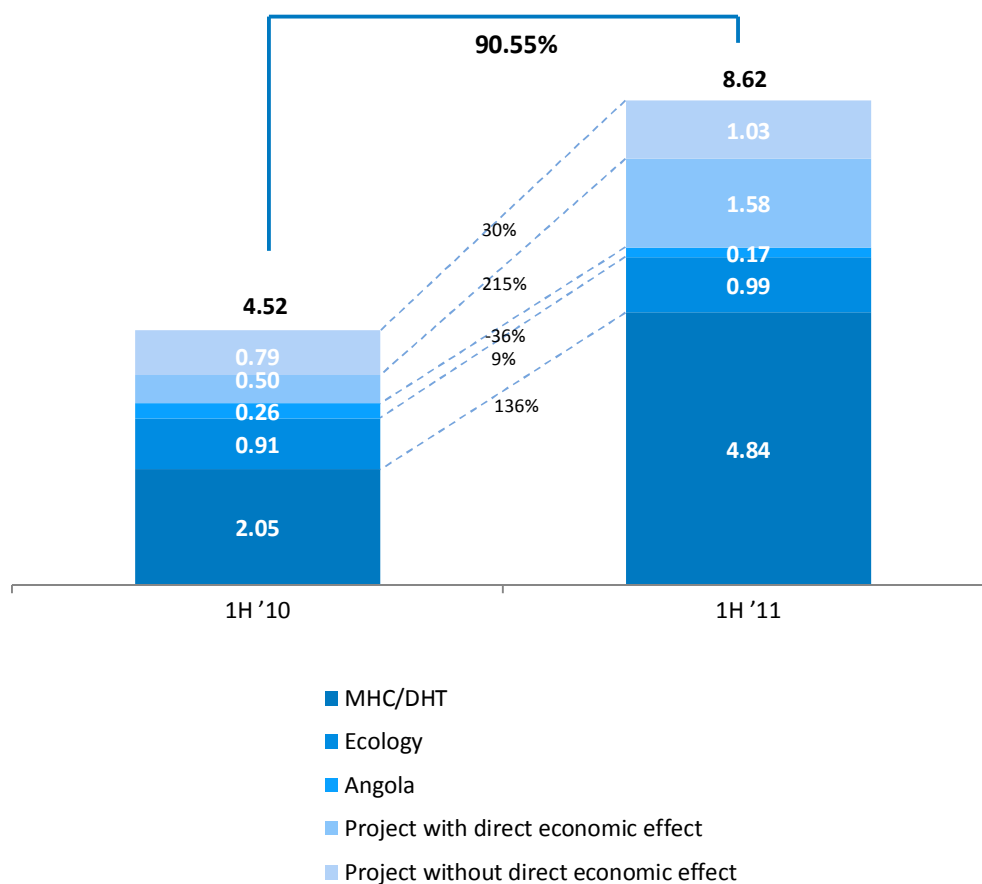


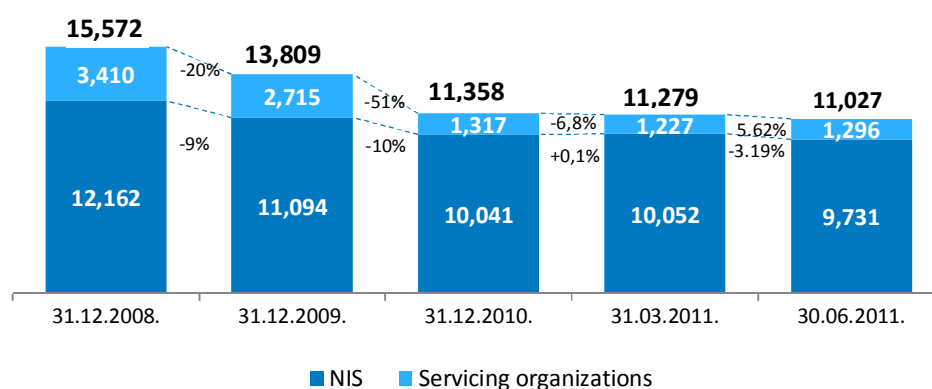
Figure 14: Graph of investments realized from GPN loan and OCF (in billions of RSD, VAT and letters of credit excluded)

Reserves

	30.06.2011	31.12.2010
Reserves in 000 RSD	889,424	889,424
Revaluation reserves in 000 RSD	12	39
Method of creation	Reserves in the amount of 889,424 thousand RSD completely refer to the legal reserves formed in the previous period in compliance with previously valid Company Law. Pursuant to the foregoing law the Company was liable to set aside 5% of net profit each year until the legal reserve reaches at least at least 10% of share capital.	
Use	-	

Number of employees

Organizational part	As of March 31 st , 2011			As of June 30 th , 2011			Change (%)
	NIS	Servicing organizations	Total	NIS	Servicing organizations	Total	
	2	3	4(2+3)	5	6	7(5+6)	8(7:4)
Block Upstream	1,202	0	1,202	1,197	0	1,197	-0.42%
Block Oilfield services	1,539	234	1,773	1,491	246	1,737	-2.03%
Block Sales and Distribution	3,675	991	4,666	3,483	1,048	4,531	-2.89%
Block Refining	2,074	0	2,074	2,064	0	2,064	-0.48%
NIS Corporate headquarters	1,562	2	1,564	1,496	2	1,498	-4.22%
TOTAL	10,052	1,227	11,279	9,731	1,296	11,027	-2.23%



„Program 750“

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

Program of voluntary leave is carried out in strict compliance with the obligations taken by NIS after the arrival of the new majority shareholder. A decision to leave the company can only be made via mutual voluntary agreement between the employee and the employer.

Total number of employees who left the company by accepting the programs of voluntary leave in first half of 2011 is 337.

Subsidiaries

Business name	Head office address	Share in original capital (%)
O Zone a.d. Beograd	Maršala Birjuzova 3-5, Belgrade, Serbia	100%
NIS – OIL Trading gmbh Frankfurt	Germany, Mendelssohn str. 59 (In liquidation process based on decision of a founder from 2010.)	100%
NIS Oversiz o.o.o.	Russian Federation, Moscow, Balsoy golovin perulok, 12	100%
Jadran - naftagas d.o.o. Banja Luka	Ivana Franje Jukića 7, Banja Luka, Bosnia and Herzegovina	66%
NIS – Svetlost d.o.o. Bujanovac	Industrijska zona bb, Bujanovac, Serbia	51.32%
JUBOS d.o.o Bor	Đorđa Vajferta 29, Bor, Serbia	51%
OOO „SP Ranis“	Russian Federation, Moscow area, Chernogolovka, Institute prospekt 14	51%



Cases of uncertainty (uncertainty of collection)

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

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

For the first class of clients (clients whose receivables represent 80% of total receivables on the balance date) payment risk is estimated by taking into account indicators of decrease of selling value of receivables including: term structure of receivables, estimated collectability of receivables according to client's financial capabilities and current history of delayed payments. Accordingly, provision is made for impairment of receivables on account of expenses for the period.

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

Accounting value of receivables is decreased with impairment, and amount of reduction is recognized in Profit and Loss Statement, under the item "other expenses". When receivables are uncollectible, they are written-off on account of impairment of receivables' value.

Management of Company estimated and made provisions for environment protection which on balance sheet date amounts to 962.968 thousands RSD based on internal estimate of the level of compliance with legislative of Republic of Serbia. Accordant to sales and purchase agreement Company hired independent consultant - D'Appolonia, Italy in order to estimate compliance of company's activities with Law on Environmental Protection of Republic of Serbia and international legislative. According to D'Appolonia report in order to achieve this goal there is a number of programs that need to be implemented and their adoption is still in the process. Management of Company believes that, expenses related to issues of environmental protection will not be significantly over expenses already taken into account. If the expenses of the implementation of adopted programs are higher than predicted amount additional provisions is possible.





OTHER

Significant events after balance date

There were no significant events after balance date.





NOTES

1. NIS a. d. Novi Sad has adopted a Code of Corporate Governance which is published on the company web site www.nis.rs in the Investors and Shareholders section.
2. NIS a.d. Novi Sad did not buy back own shares.

Alexey Urusov
NIS a.d. Novi Sad
General Manager Deputy,
Head of Function for finance, economics, planning
and accounting





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