



НПС
ГАЗПРОМ НЕФТ

BUSINESS REPORT FOR
FIRST QUARTER OF 2011





Contents

FOREWORD	3
Evaluation of business performance in the first quarter of 2011.....	3
GENERAL DATA	4
OPERATING RESULTS	7
Business results.....	7
Key Performance Indices	7
Microeconomic Indicators	8
Operating Indicators	8
Bank Indebtedness.....	10
Market position	10
Ratios	11
Share Indicators	11
Balance Sheet (condensed)	13
Income Statement (condensed)	14
Major Buyers.....	15
Major Suppliers.....	15
Forming of transfer prices	15
Changes of more than 10% on assets, liabilities and net profit	16
Investments	17
Reserves.....	18
Number of employees	19
Subsidiaries	19
Cases of uncertainty (Uncertainty of collection)	20
OTHER	21
Significant events after balance date	21
NOTES	22
DISCLAIMER	23



FOREWORD

Evaluation of business performance in the first quarter of 2011

After the successful end of 2010, successful beginning of 2011 followed. The first quarter of 2011 showed good results in oil and gas production, and with positive trends of dinar exchange rate versus dollar this contributed to good financial results. Due to political events in Libya, Syria and Yemen oil prices on global market increased over the 100 dollars per barrel limit.

High prices of oil derivatives on Serbian market had impact on reduced demand in the first quarter of 2011.

Oil and gas production in first quarter of 2011 justified our expectations and exceeded not only the production in the same period last year, but also the business plan. In the first quarter of this year 357 thousand conditional tons of oil and gas were produced, which is by 33% more than the production in first quarter last year. Oil refining volume decreased, as well as sales and distribution volume. On domestic market we had increase of 8% in retail due to increased sales of eurodiesel.

Financial results for first quarter of 2011 exceeded the results for the same period last year. Primary, net profit of 9,8 billion dinars was achieved. Sales amounted to 36,7 billion dinars, which is by 34% more than sales in first quarter last year. In first quarter of 2011 exchange rates movements had positive effect and the result is positive net foreign exchange differences of 4,6 billion dinars. EBIDA in first quarter of 2011 reached 7,8 billion dinars – 144% more than this indicator in first quarter last year.

There was change in shareholders structure in first quarter of the year. In accordance with Sales and purchase Agreement, the majority shareholder initiated takeover bid for acquiring the shares of minority shareholders on January 31st. The takeover bid was closed after 45 days, i.e. on March 16th, and the Gazprom Neft share in NIS after the takeover bid is 56,16%.

We started this business year with good results in oil and gas production and good financial results followed. We expect that positive trend in NIS operations will continue, and if situation on oil market and foreign exchange market stabilizes, and with further increase of efficiency we hope for good results on the end of this year.

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:	БД 92142, 29.09.2005
Equity as of March 31 st , 2011:	56.849.165.000 RSD
Share capital as of March 31 st , 2011:	81.530.200.000 RSD
Number of employees as of March 31 st , 2011:	10.052*
Audit company that audited the last financial report (dated 31 st December 2010)	PricewaterhouseCoopers д.о.о. 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 in

Belgrade Stock Exchange Omladinskih brigada 1 Belgrade, Serbia
--

Shareholders*

Business name	Number of shares	Part in share capital (%)
Gazprom Neft	91.565.887	56,15458%
Republic of Serbia	48.717.074	29,87670%
Raiffeisenbank a.d. Belgrade – custody account	517.018	0,31707%
Julius Baer Multipartner-Balka.	97.986	0,06009%
Vojvođanska banka a.d. Novi Sad – custody account	92.963	0,05701%
Unicredit Bank - custody account	31.959	0,01960%
Erste Bank a.d. Novi Sad – custody account	25.000	0,01533%
Goran Rajić	21.455	0,01316%
Melisma trading l.t.d.	21.293	0,01306%
Raiffeisenbank a.d. Belgrade – custody account	21.000	0,01288%
Other shareholders	21.948.765	13,46051%
Total number of shareholders as of March 31st 2011:		3.150.863

*as of march 31st 2011

Corporate Management

Board of Directors

Full name; position	Education	Current employment	Member of MB or SB other companies	Number and % of NIS shares
Vadim Jakovljević, BoD President	The Moscow Institute of Engineering-Physics (applied nuclear physics); Finance College of the International University of Moscow ;	Vice President of the Executive Board „Gazprom Neft“ , GM Deputy for Economy and Finances;	<ul style="list-style-type: none"> • OAD NGK „Slavneft“, • OAD „MNGK“, • Sibir Energy plc, • DOO „Jamal razvoj“ • OAD „Gazprom Neft – NojabrskNeftegasv“. 	-
Kiril Kravcenko, 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.	GM Deputy for Management of Foreign Activities „Gazprom Neft“	<ul style="list-style-type: none"> • MB President of associated company NIS a.d Novi Sad, „Ozone“ a.d. Belgrade 	-
Kirilov Aleksandar 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 OAD „Gazprom Neft“.	<ul style="list-style-type: none"> • ZAD "Gazprom Neft Kuzbass", • OAD "Gazprom Neft Novosibirsk", • OAD "Gazprom Neft Omsk", • OAD "Gazprom Neft Tumen", • OAD "Gazprom Neft Ural", • OAD "Gazprom Neft Jaroslavlje", • ZAD "Gazprom Neft -North-West", • DOO "Gazprom Neft Asia", • DOO "Gazprom Neft Tadžikistan", • DOO "Gazprom Neft Kazahstan" 	-
Vladislav Barisnjikov, BoD Member	Military Institute of Krasnozamsk; North/west Academy of state service at President of Russian Federation (department „State and Municipal Administration“)	GM Deputy, OAD „Gazprom Neft“ for development of international business; state consultant of Russian Federation of the 3 rd category.	-	-
Anatolij Cerner, BoD member	Petroleum Institute of Grozensk (chemical processing of oil and gas)	Vice President of the Executive Board „Gazprom Neft“; GM Deputy for logistics, processing and trade „Gazprom Neft“;	<ul style="list-style-type: none"> • OAD NGK „SlavNeft“; • OAD „Gazprom Neft-ONPZ“; • OAD „Gazprom Neft-Janos“; • OAD „Moskovski NPZ“; • ZAD „Gazprom Neft-Aero“; • ZAD „St. Petersburg International trade-raw material market “ 	-
Igor Antonov, BoD Member	St. Petersburg Institute for Production of Airspace Devices	GM Deputy 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, BoD Member	Belgrade Law Faculty	Director of publishing company „Srpska Reč“;	-	-
Stanislav Seksnja, BoD Member	MBA, Northeastern University, Boston, USA Ph. D. (Economics), Moscow State University, Russia	Director 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"> • SB Member of DTEK BV • President of Board for Staff and Awards of the Observing Council DTEK (Ukraine); 	-

Total amount of net reimbursements paid to members of Management Board in the period 1st January – 31st March, 2011 was: 2.507.111,19* RSD.

*The amount of 2.507.111,19 RSD consist of payments on NIS a.d. Novi Sad BoD membership basis (payments to Mr. Dusan Petrovic also included until March 16th 2011). Stated amount does not include salaries and other reimbursements to BoD members employed in NIS a.d. Novi Sad.

Supervisory Board

Full name position	Education	Current employment	Member of MB or SB other companies	Number and % of NIS shares
Milivoje Cvetanovic, President	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"> • Vice President of the Supervising Board Tigar a.d. Pirot; 	-
Bozo Stanisic, 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”. 	-
Maksim Sahov, Member	Faculty of Chemistry-Technology of the Technical University of Jaroslav (high level of technical education);	Employed in „Gazprom Neft“ as a head of Department for Methodology of the Sector for internal revision;	<ul style="list-style-type: none"> • DOO "National oil consortium" (Russian federation); • ZAD "Gazprom Neft aero" (Russian federation) 	-

Total amount of net reimbursements paid to members of Supervisory Board in the period 1st January – 31st March, 2011 was: 1.880.333,40 RSD.

OPERATING RESULTS

Business results

Key Performance Indices

Key indices	Unit of measurement	Q1 2010	Q1 2011	Change	
				Amount	%
Ural	\$/bbl	75,0	102,2	27,2	36%
Net loss (profit)	bln. RSD	-4,5	9,8	14,3	318%
Net profit before foreign exchange differences	bln. RSD	1,7	5,3	3,6	209%
Net foreign exchange differences	mln. RSD	-6,2	4,6	10,8	174%
EBITDA	bln. RSD	3,2	7,8	4,6	144%
Sales (without excise tax)	bln. RSD	27,4	36,7	9,3	34%
OCF	bln. RSD	-2,9	-1,0	1,9	64%
Taxes Paid and fiscal obligations *	bln. RSD	16,9	16,8	-0,1	-1%
Domestic oil and gas production	Thousand of conditional tonnes**	270	358	88	33%
Domestic oil production	Thousand tonnes	193	246	53	27%
Oil processing volume including third parties	Thousand tonnes	671	513	-158	-24%
Oil processing volume excluding third parties	Thousand tonnes	664	513	-151	-23%
Total sales of oil products	Thousand tonnes	553	515	-38	-7%
Oil products local market sales	Thousand tonnes	477	455	-23	-5%
Retail	Thousand tonnes	108	117	9	8%
Light oil products sales	Thousand tonnes	331	328	-4	-1%
CAPEX from GPN loans***	mln. EUR	13,9	9,0	-4,9	-35%
Inflow of funds from GPN (cumulative from 2009.)	mln. EUR	61	210	149,0	244%
CAPEX from OCF (NIS projects)	bln. RSD	0,9	1,4	0,5	50%
Total bank indebtedness ****	mln. USD	825	632	-193	-23%
Total debt to banks	mln. USD	1.039	726	-313	-30%

Percentage amounts are calculated based on the amounts expressed in millions of RSD.

CAPEX from GPN loan and CAPEX from OCF are VAT excluded.

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

**1.256 m3 gas = 1 conditional ton of oil

***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

Microeconomic Indicators

- > In first quarter of 2011. RSD exchange rates grew stronger versus US dollar and euro.
- > Decline of USD/RSD rate in first quarter of 2011 was -7,64% or -6,06 RSD (USD/RSD rate changed from 79,2802 RSD as of 01.01.2011; to 73,2224 RSD as of 31.03.2011)
- > Decline of EUR/RSD rate in first quarter of 2011 was -1,8% or -1,9 RSD (EUR/RSD rate changed from 105,4982 RSD as of 01.01.2011; to 103,5951 RSD as of 31.03.2011)
- > Incline of USD/RSD rate in first quarter of 2010 was 11,47% or +7,65 RSD (USD/RSD rate changed from 66,7285 RSD as of 01.01.2010; to 74,3814 RSD as of 31.03.2010)
- > Incline of EUR/RSD rate in first quarter of 2010 was 4,04% or +3,87 RSD (EUR/RSD rate changed from 95,8888 RSD as of 01.01.2010; to 99,7604 RSD as of 31.03.2010.)
- > Crude oil price in first quarter of 2011 crossed the 100 USD/bbl level

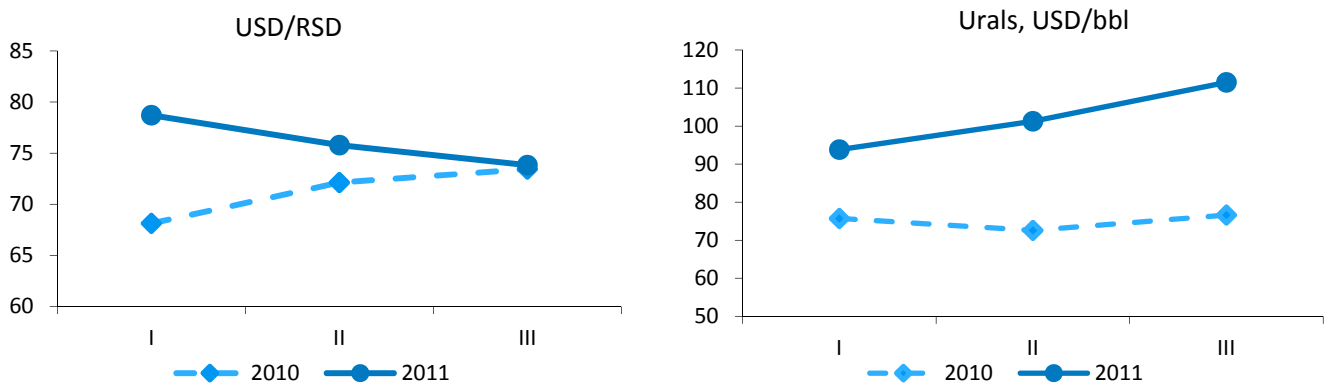


Figure 1: Graph of trends of USD/RSD exchange rate and oil price trends

Operating Indicators

1. Oil and gas production

- > In first quarter of 2011 domestic oil and gas production increased by 33% comparing to the same period last year
- > The realization of ESP pumps implementation project was continued
- > Fractioning of oil deposits

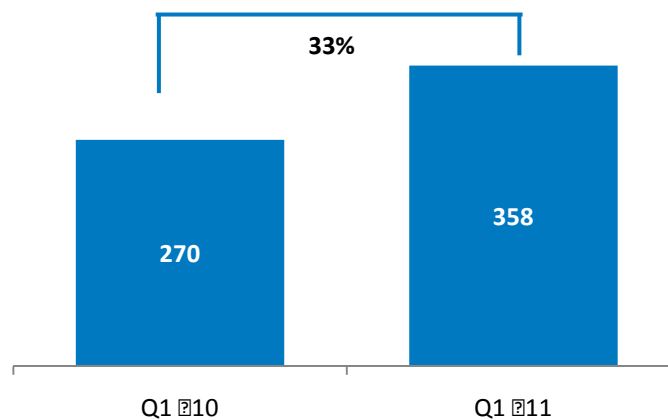


Figure 2: Domestic oil and gas production (in thousands of conditional tons)

2. Refining

- > In first quarter of 2011 refining volume without third parties decreased by 23% comparing to the same period last year.
- > In first quarter of 2011 refining volume with third parties decreased by 24% comparing to first quarter 2010.
- > In March 2011 Pančevo Refinery didn't work from march 5th until April 8th due to planed overhaul of FCC facility
- > Refining volumes in Novi Sad refinery was increased by 6% comparing to the same period last year due to production of raffinates

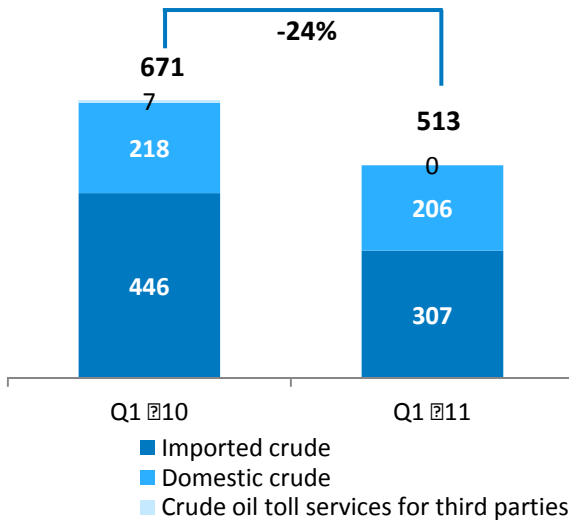


Figure 3: Oil refining including third parties (in thousands of tons)

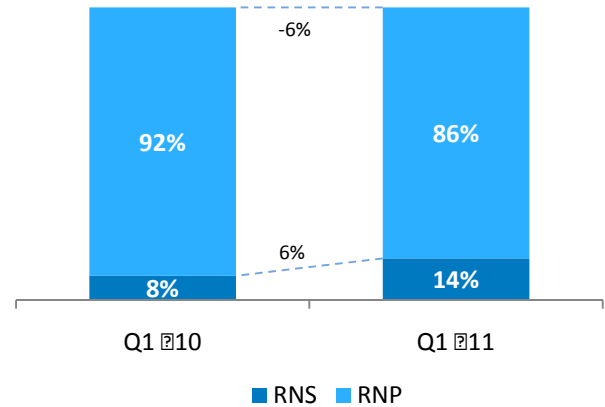


Figure 4: Oil refining per refineries
RNP – Oil Refinery Pančevo, RNS – Oil Refinery Novi Sad

3. Sales and distribution

- > Sales of oil derivatives decreased by 7% compared to the first quarter of 2010 due to increased competition, liberalization of the markets and reduced demand
- > **Retail** – retail sales increased compared to first quarter of 2010 due to increased sales of eurodiesel
- > **Wholesale** – decreased comparing to the first quarter last year due to reduced demand
- > **Export** – exports decreased in the first quarter of 2011. year by 21% due to lower exports of oil fuel

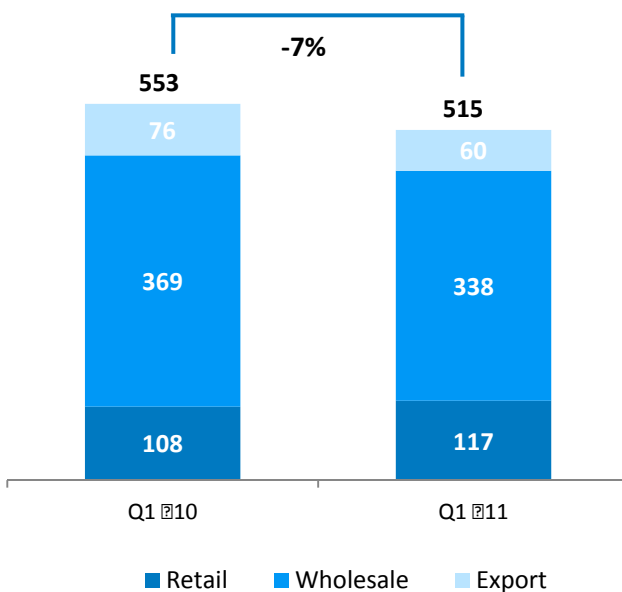


Figure 5: Oil derivatives sales (in thousands of tons)

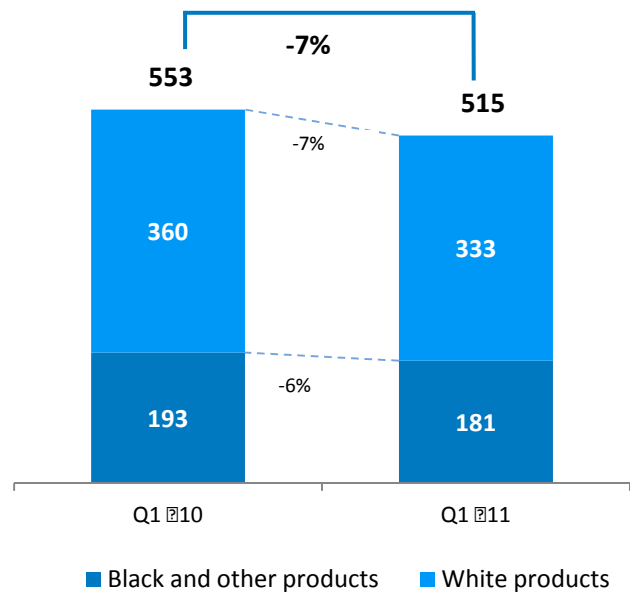


Figure 6: Sales structure per oil derivatives (in thousands of tons)

Bank Indebtedness

> Total bank indebtedness increased by 82 million dollars compared to December 31st, 2010.

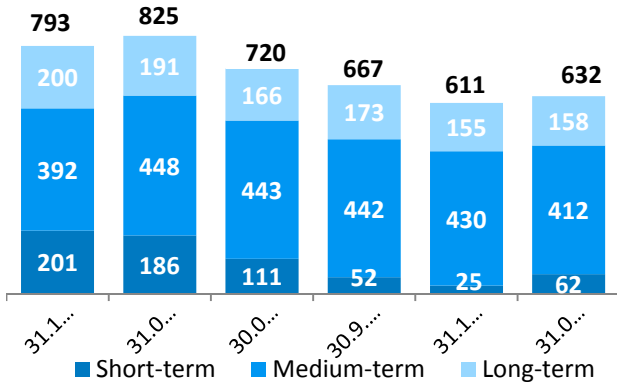


Figure 7: Total debt to banks trend
(In millions of USD)

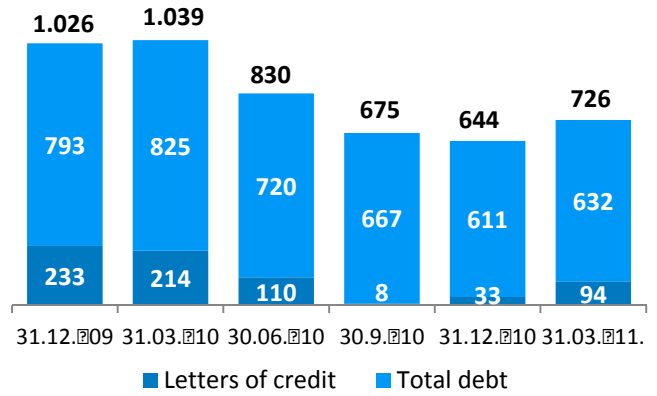


Figure 8: Total bank indebtedness trend
(In millions of USD)

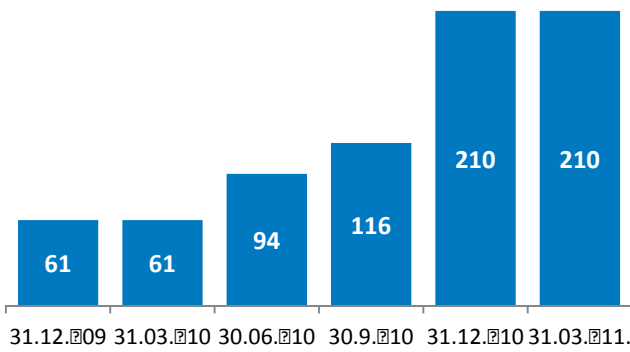


Figure 9: GPN loan (in millions of EUR, VAT excluded and without letters of credit)

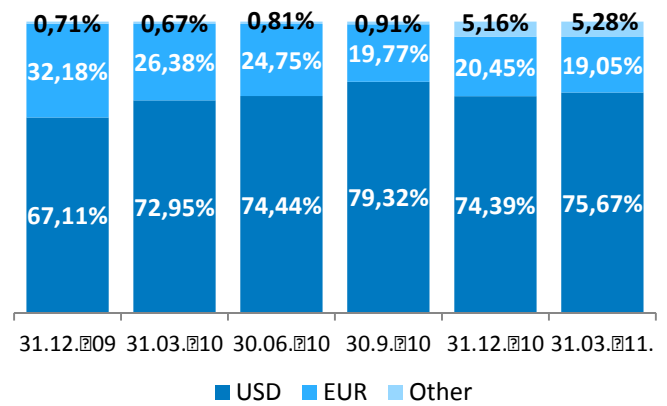


Figure 10: Structure of the total debt to banks per currency

*Term structure of the debt to banks is shown according to Contract terms and not by maturity of the debt as of march 31st, 2011

Market position

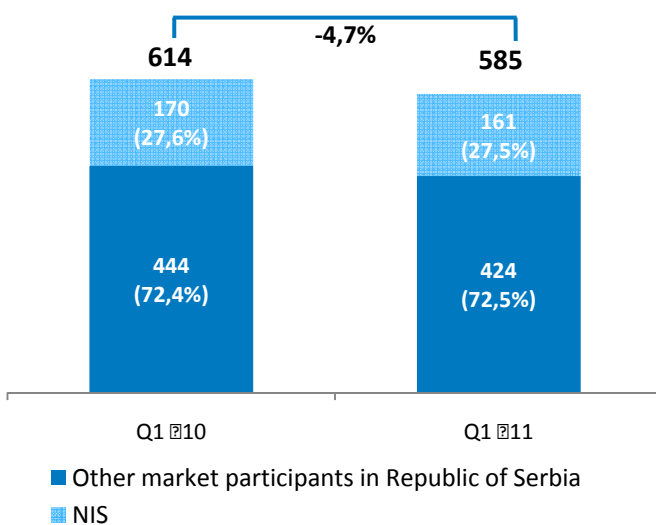


Figure 11: Share structure of Serbian market (in thousands of tons)

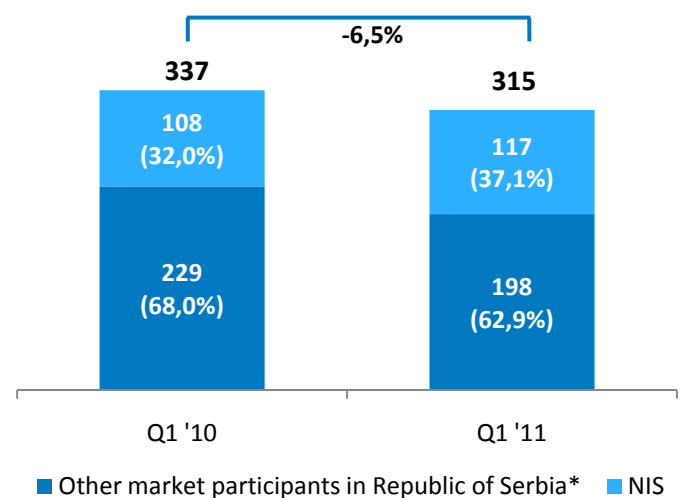


Figure 12: Share structure of Serbian retail market
*Only sales of autogas, petrol and diesel included

- > In first quarter of 2011 there was decrease of motor fuels consumption, but even though consumption of oil derivatives increased by 1% compared to the same period in 2010
- > Decreased oil and intermediate products refining as well as increased import of oil and other companies influenced on NIS market share reduction on overall market of all oil derivatives.
- > Rapid decline in overall retail sales in Serbia (1,3% in January and 2,4 in February –an annual level) is even more pronounced in oil derivatives sales
- > If we would analyze the consumption excluded of products which NIS does not produce, as well as naphtha, NIS market share is slightly increased from 72,4% to 72,5%.
- > On the retail market NIS had increase of market share for 5,1%. NIS market share for the first quarter of 2011 is bigger than average retail market share in 2010 (34,6%)

Ratios

Ratio	Q1 2010	Q1 2011	Change	
			Amount	%
Proceeds on total capital (net profit/average operating liabilities)	-16%	18%	34%	213%
Net proceeds on equity (net profit/average equity)	-5%	11%	16%	318%
Operating net profit (operating profit/net sales income)	10%	16%	6%	65%
Degree of leverage (short term and long term liabilities/total capital)	121%	113%	-8%	-7%
Degree of leverage (short term and long term liabilities/equity)	380%	173%	-207%	-55%
1st degree liquidity (cash and cash equivalents/short term liabilities)	12%	13%	1%	7%
2nd degree liquidity (working assets/stocks/short term liabilities)	39%	55%	16%	41%
Net working fund ratio	-10%	11%	20%	211%

Share Indicators

Indicator	Value
Last price	490 RSD
High	550 RSD
Low	442 RSD
Market capitalization as of 31.03.2011.	79.899.596.000 RSD
EPS	60,29 RSD
P/E	8,13
Book Value as of 31.03.2011.	348,64 RSD
P/BV	1,41
Dividends paid (in last three years)	2010. Company reported net profit of 16.484.381.000 RSD which is retained. 2009. Company reported loss of 37.636.111.000 RSD 2008. Company reported loss of 8.022.615.000 RSD

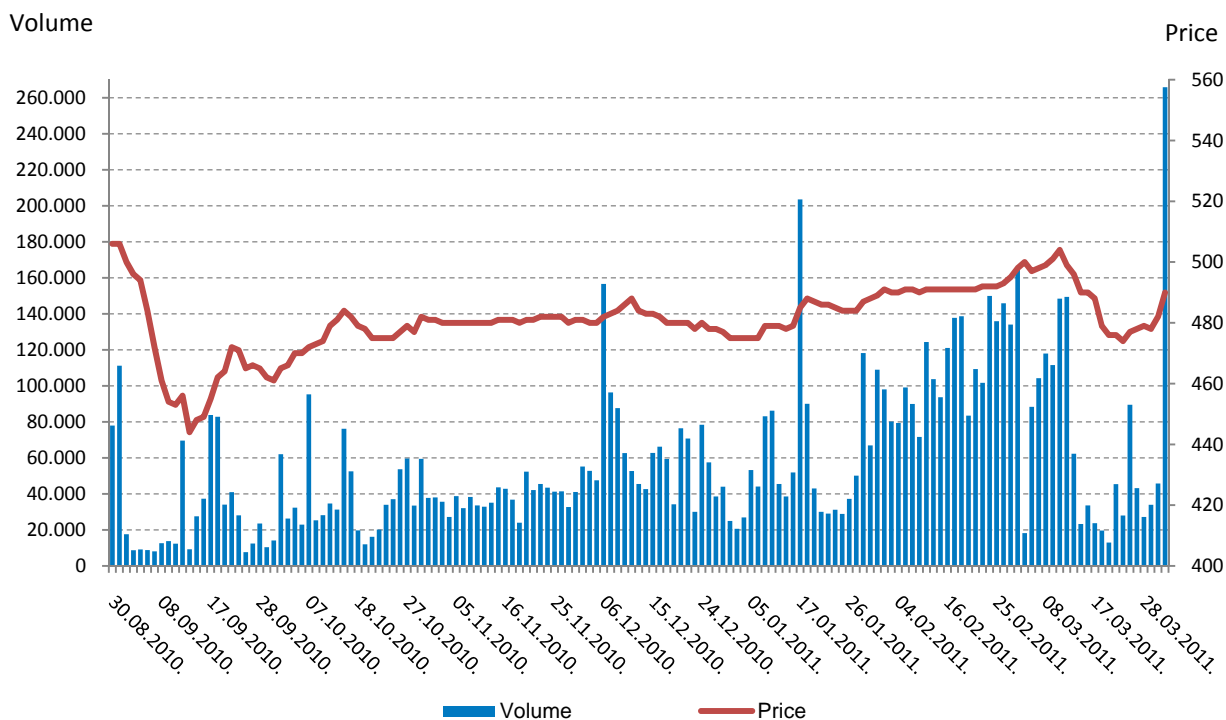


Figure 13: Display of price and turnover movements

Takeover bid

On January 31, 2011 according to the Sales and Purchase Agreement, Gazprom Neft announced offer to acquire share of minority shareholders i.e. 31,180,256 ordinary shares, making a total of 19.12% of the common shares. The offer was valid for 45 days starting from the date of publication –until March 16th, 2011. The offered price per share was 506,48 RSD which is RSD value for 4,80996€ per share.

Total number of deposited shares was 8.405.087, i.e. 5,15% of total number of issued shares. After the closure of takeover bid Gazprom Neft owns 91.565.887 NIS shares or 56,15% of total number of issued shares. After the closure of takeover bid minority shareholders own 22.775.169 or 13,97% of total number of issued shares. Number of shares owned by Republic of Serbia remained unchanged.

Balance Sheet (condensed)

ASSETS	March 31 st 2011 <i>(unaudited)</i>	December 31 st 2010
Non-current assets	110.037.167	108.326.343
Intangible assets	4.869.875	4.835.761
Property, plant and equipment	99.725.672	98.014.391
Investment property	1.393.170	1.393.170
Investments in equity instruments	2.598.092	2.578.753
Other long term investments	1.450.358	1.504.268
Current assets	64.533.496	68.800.658
Inventories	30.567.510	33.999.967
Trade receivables	16.696.153	12.945.719
Short term financial investments	2.269.804	2.513.880
VAT and prepaid expenses	3.154.003	3.940.358
Cash and cash equivalents	7.041.122	10.595.830
Deferred tax assets	4.804.904	4.804.904
Total assets	174.570.663	177.127.001
Off-balance sheet assets	92.108.798	88.793.346
LIABILITIES		
Equity	56.849.165	47.018.714
Share capital*	87.128.024	87.128.024
Reserves	889.424	889.424
Revaluation reserves	39	39
Unrealized gains from securities	51.608	48.417
Unrealized losses from securities	(52.099)	(49.236)
Retained earnings	26.314.504	16.484.381
Loss	(57.482.335)	(57.482.335)
Long-term provisions and liabilities	63.142.981	67.428.694
Long-term provisions	18.326.866	18.501.540
Long-term loans	22.945.155	26.645.540
Other long-term liabilities	21.870.960	22.281.614
Short-term liabilities	53.293.405	61.221.058
Short-term financial liabilities	23.375.701	21.805.638
Trade and other payables	16.857.617	24.944.688
Other short-term liabilities	5.970.625	6.394.456
Liabilities for VAT and other taxes and deferred income	6.720.242	7.456.869
Income tax liabilities	369.220	619.407
Deferred tax liabilities	1.285.112	1.458.535
Total liabilities	174.570.663	177.127.001
Off-balance sheet liabilities	92.108.798	88.793.346

*in .000,00 RSD

*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 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 and the Central Registry. 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 as the changes in the capital.

Income Statement (condensed)

	Three months period ended March 31 st	
	2011. <i>(unaudited)</i>	2010. <i>(unaudited)</i>
Operating income	37.206.434	30.250.250
Sales	36.742.340	27.431.890
Work performed by the entity and capitalized	338.547	478.619
Increase in the value of finished goods and work in progress	62.465	2.299.941
Other operating income	63.082	39.800
Operating expenses	(31.719.523)	(27.633.441)
Cost of goods sold	(2.446.818)	(415.821)
Cost of material	(19.073.201)	(18.813.233)
Cost of salaries, benefits and other personnel expenses	(5.363.308)	(4.320.027)
Depreciation and provisions	(2.005.402)	(1.819.847)
Other operating expenses	(2.830.794)	(2.264.513)
Net operating income (loss)	5.486.911	2.616.809
Financial income	5.355.145	1.026.070
Financial expenses	(1.154.721)	(7.914.463)
Other income	1.685.986	2.082.142
Other expenses	(1.141.116)	(2.209.284)
Income (loss) before income tax	10.232.205	(4.398.726)
Income tax	(402.082)	(107.513)
Income tax expense	(575.504)	(25.653)
Deferred tax income (expenses)	173.422	(81.860)
Net Profit (Loss) for the period	9.830.123	(4.506.239)
Basic earnings (loss) per share		
- from continuing operations	0,06	(0,03)
- 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
SRBIJAGAS JP Novi Sad	2.815	6%
HIP Petrohemija a.d. Pančevo	2.812	6%
OMV Srbija d.o.o.	2.748	6%
LUKOIL Srbija a.d. Beograd	2.684	6%
Total:	11.059	25%
Other buyers	32.334	75%
TOTAL:	43.393	100%

**for period 01.01.-31.03.2011.*

Major Suppliers

Suppliers	Total debt in mln. RSD	Share in the total liabilities to suppliers
Gazprom Neft – Trading GMBH	6.947	42%
MOIL-COALTRADING CO. LIMITED	5.447	33%
Total:	12.394	75%
Other suppliers	4.118	25%
TOTAL:	16.512	100%

** as of 31.03.2011*

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 01.01.2010.

In the procedure for transfer pricing in 2010 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	-10%	Inventories decrease as of March 31 st 2011 comparing to December 31 st 2010 mainly relates to decrease of raw materials and other materials inventories.
Trade receivables	29%	Increase in trade receivables as of March 31 st 2011 comparing to December 31 st 2010 and related increase in Sales relates to increase in sales of products and services and increase in sales prices and crude oil prices.
Cash and cash equivalents	-10%	Decrease in cash and cash equivalents as of March 31 st 2011 comparing to December 31 st 2010 mainly relates to decrease of term deposits with commercial banks with maturity to 30 days since deposits were used to pay obligations for crude oil.
VAT and prepaid expenses	-20%	Decrease of VAT and prepaid expenses as of March 31 st 2011 comparing to December 31 st 2010 is mainly related to decrease of accrued income.
Liabilities	Changes of more than 10%	Explanation
Retained earnings	60%	Increase in retained earnings as of March 31 st 2011 comparing to December 31 st 2010 is related to increase of net profit in 2011.
Long-term loans	-14%	Decrease in long-term loans as of March 31 st 2011 comparing to December 31 st 2010 is related to USD/RSD and EUR/RSD exchange rate changes as well as transferred part of loans which are due in up to a year in current maturity of long term loans.
Short-term liabilities	-13%	Decrease in short term liabilities as of March 31 st 2011 comparing to December 31 st 2010 is mainly related to decrease of trade and other payables.
Trade and other payables	-32%	Decrease of trade and other payables as of March 31 st 2011 comparing to December 31 st 2010 is mainly related to reduction of obligations for crude oil towards Gazprom Neft Trading, which is related party.
Liabilities for VAT and other taxes and deferred income	-10%	Increase in liabilities for VAT and other taxes and deferred income as of March 31 st 2011 comparing to December 31 st 2010 due to decrease of liabilities due to full settlement of obligations arising from VAT and other obligations.
Income tax liabilities	-40%	Decrease of income tax liabilities as of March 31 st 2011 comparing to December 31 st 2010 relates to payments for income tax for 2010.
Deferred tax liabilities	-12%	Decrease of deferred tax liabilities as of March 31 st 2011 comparing to December 31 st 2010 relates to differences between accounted depreciation and depreciation for tax purposes.
Result	Changes of more than 10%	Explanation
Net profit (loss)	318%	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.

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 first quarter of 2011 2,32 billion dinars was invested which is at the same level with investments in the same period in 2010.

The most significant investments in oil and gas production in first quarter of 2011 are:

- > Angola
- > Project of automation and reconstruction of oil and gas deposits infrastructure
- > GTM (Geological and Technological Measures) project
- > Implementation of ESP
- > Geological research projects

The most significant capital investments related to ecology in first quarter of 2011 were carried out in Pančevo Refinery through following projects:

- > Reconstruction of FCC facility
- > Reconstruction and modernization of pier on Danube river
- > Reconstruction of railway filling station

Sources of investment funding	Q1 2010	Q1 2011
CAPEX from GPN loan (without letters of credit)	1,38	0,94
Ecology	0,45	0,14
MHC/DHT	0,93	0,80
CAPEX form NIS OCF	0,92	1,38
MHC/DHT	0,00	0,02
Ecology	0,00	0,04
Angola	0,11	0,17
Projects with direct economic effect	0,24	0,58
Projects without direct economic effect	0,57	0,56
TOTAL:	2,30	2,32

**in bln RSD, VAT excluded*

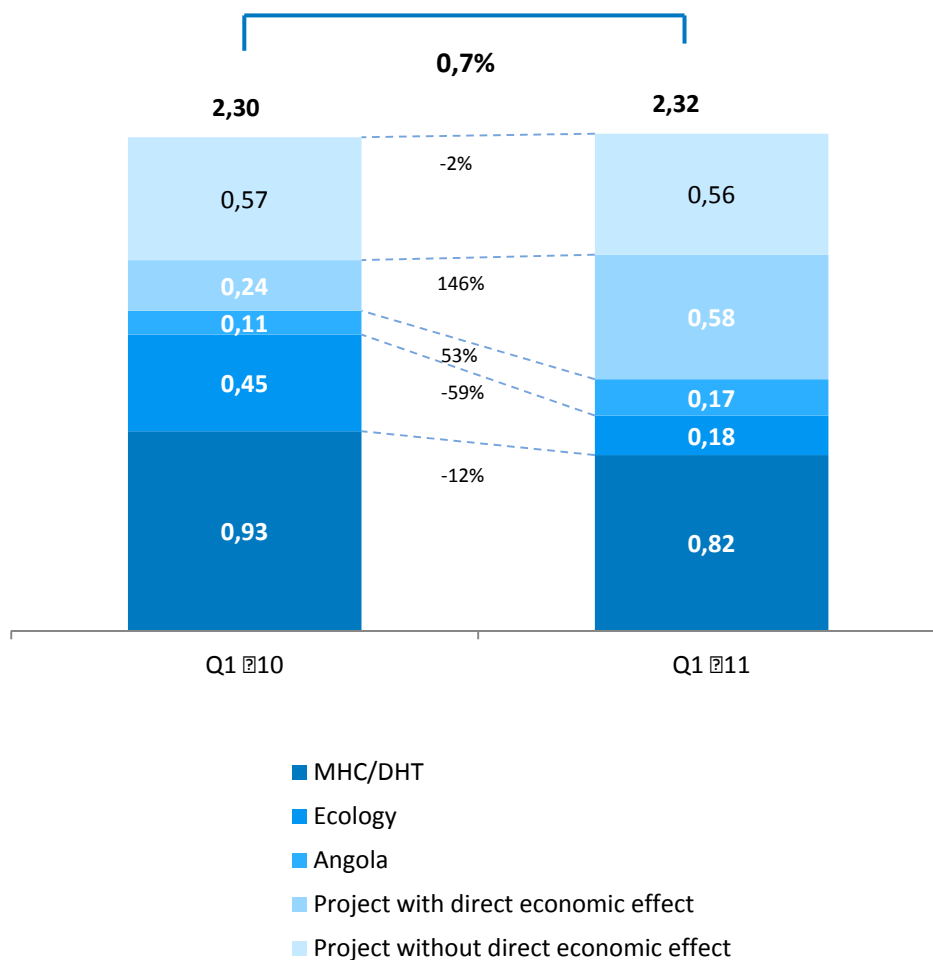


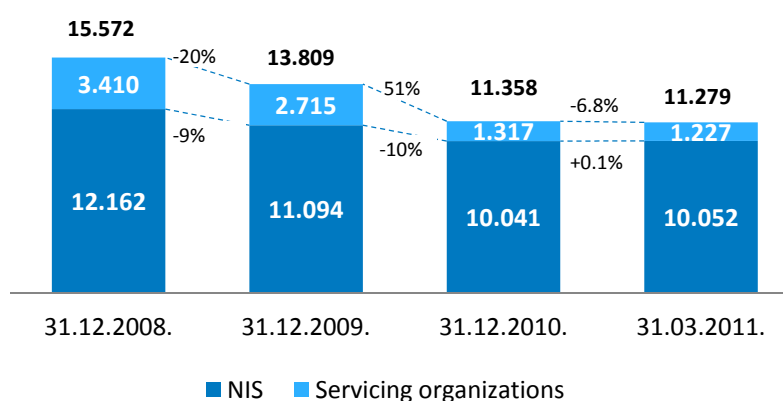
Figure 14: Graph of investments realized from GPN loan and OCF
(In billions of RSD, VAT and letters of credit excluded)

Reserves

	31.03.2011	31.12.2010
Reserves in 000 RSD	889.424	889.424
Revaluation reserves in 000 RSD	39	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 31.03.2011.		
	NIS	Servicing organizations	Total
Block Upstream	1.202	0	1.202
Block Oilfield services	1.539	234	1.773
Block Sales and Distribution	3.675	991	4.666
Block Refining	2.074	0	2.074
NIS Corporate headquarters	1.562	2	1.564
TOTAL	10.052	1.227	11.279



„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 under this program in first three month of 2011 is 297.

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. On March 31st, 2011 Company formed impairment for roughly 72% of gross value of total receivables.

On December 31st, 2010 Company reserved totally RSD 4.533.590 thousands (2009: RSD 5.936.069 thousands) on the basis of the expected effects of negative results of litigations. The estimation of the Management of Company is that litigations will not cause significant losses over amounts for which provisions were made on December 31st, 2010.

Company reserved totally 4.143.045 thousands RSD (2010: 4.533.590 thousands RSD) on the basis of the expected effects of negative results of litigations. The estimation of the Management of Company is that litigations will not cause significant losses over amounts for which provisions were made on March 31st, 2010. 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. D'Appolonia Report is still not finished. Management of Company believes that, based on current legislative on environmental protection, expenses related to issues of environmental protection will not be significantly over expenses already taken into account. If D'Appolonia Report shows incompliance of activities with Law on Environment Protection of republic of Serbia, which were not predicted by Management, 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



DISCLAIMER

This document has been prepared by NIS a.d. Novi Sad (the “Company”), and comprises the information for a document to investors concerning the Company. This document does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase or subscribe for, any shares or other securities representing shares in the Company, nor shall it or any part of it nor the fact of its document or distribution form the basis of, or be relied on in connection with, any contract or investment decision.

Any reader of this document considering a purchase of such securities is hereby reminded that any such purchase should be made solely on the basis of the information contained in the prospectus or other offering document prepared in relation thereto and will be subject to the selling restrictions set out therein. No reliance may be placed for any purposes whatsoever on the information contained in this document, or any other material discussed at any document or on its completeness, accuracy or fairness. The information in this document should not be treated as giving investment advice. Care has been taken to ensure that the facts stated in this document are accurate, and that the opinions expressed are fair and reasonable. However, the contents of this document have not been verified by the Company. Accordingly, no representation or warranty, express or implied, is made or given by or on behalf of the Company or any of its members, directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained in or discussed at this document. None of the Company or any of their respective members, directors, officers or employees or any other person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

The information in this document includes forward-looking statements. These forward-looking statements include all matters that are not historical facts, statements regarding the Company’s intentions, beliefs or current expectations concerning, among other things, the Company’s results of operations, financial condition, liquidity, prospects, growth, strategies, and the industry in which the Company operates. By their nature, forward-looking statements involve risks and uncertainties, including, without limitation, the risks and uncertainties to be set forth in the prospectus, because they relate to events and depend on circumstances that may or may not occur in the future. The Company cautions you that forward looking statements are not guarantees of future performance and that its actual results of operations, financial condition and liquidity and the development of the industry in which the Company operates may differ materially from those made in or suggested by the forward-looking statements contained in this document. In addition, even if the Company’s results of operations, financial condition and liquidity and the development of the industry in which the Company operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in future periods. The information and opinions contained in this document are provided as at the date of this document and are subject to change without notice.

No person is under any obligation to update or keep current the information contained herein.

By reading the document you agree to be bound by the foregoing limitations