

BUSINESS REPORT FOR
FIRST 9 MONTHS OF 2011





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FOREWORD

Evaluation of business performance in first 9 months of 2011

In spite of growth of dollar vs. dinar exchange rate during the third quarter of 2011, total change of this exchange rate from beginning of the year until September 30th records the drop of -5,8%, which had positive effect on business result as positive foreign exchange differences. For the first nine months in 2011 the average Urals oil price was app. 109.8% per barrel.

Production of domestic oil and gas during the first nine months in 2011 made 1108.6 thousand conditional tons, and is app. 26% higher compared to the same period last year. Comparing oil refining in the first nine months in 2011 to the same period last year, we see a decrease of app. 20% this year. The share of domestic oil in refining structure increased to app. 41% of total refining (last year domestic oil made app. 29% of total refining). March 5 – 8 regular maintenance was carried out in the Pancevo Oil Refinery, and the new one was commenced on Sept. 20 and finished on October 10th. In the first nine months of this year sales app. 7.7% less than the same period last year, mostly due to import decrease by 33% for the purpose of optimization the sales structure. Decrease in retail for 4,5% compared to same period last year is due to lease of petrol stations (44 in Q3 and 55 for 2011), as well as closing of petrol stations for reconstruction (in Q3 and in 2011 average number of petrol stations closed for reconstruction was 6). Low water levels of rivers and the inability of navigation, according to NIS information, on Danube started on August 28th and lasted in total inability of navigation until September 29th (at the moment navigation is still difficult), while navigation on Sava river was totally suspended in sector Slavonski Šamac since August 27th (navigation was difficult since August 15th) and it still lasts. So low water levels in so long period was not recorded for last 20 years and it precluded eurodiesel distribution by waterways. However, NIS managed to import some amount of eurodiesel by rail and thus prevented disruption in market supply.

The financial result achieved in the first nine months on 2011 is better than the result of the same period last year due to domestic oil production increase, oil price growth and increased business efficiency. The profit before foreign exchange differences made RSD 22.7 billion and has a growth of 71% compared to the first nine months in 2010. When we add to this result positive foreign exchange differences of app. RSD 4.4 billion we come to net profit of RSD 27.1 billion. Sales income excluded excises makes RSD 133 billion, 18.8% more than the same period last year. EBITDA reached RSD 32.3 billion, which is 88% more than the first nine months last year.

Numerous regional activities were recorded in third quarter of 2011. The process of registration of subsidiaries NIS Petrol d.o.o. in Republika Srpska, NIS Petrol EOOD in Bulgaria, and NIS Petrol S.R.L. in Romania was completed in September, while process of registration for Panon Naftagas kft in Hungary was completed on October 3rd 2011. Purchase of one petrol station in Republika Srpska was also completed in this period.

In period July-September 2011 4 totally reconstructed petrol stations (Kragujevac 5, Mali Požarevac, Kragujevac 2 and Vršac 2), one new petrol station (Plandište) and 11 LPG installations were put into work. From beginning of year until September 30th 7 reconstructed petrol stations, 2 new petrol stations as well as 22 LPG installations all over Serbia were put to work. .

Following the Decision on Amendments to Organizational Structure of NIS a.d. a new organizational part of the Company was formed - Block Energy (ENR). Block Energy was formed in accordance with the Company's Development Strategy foreseeing several key activities: positioning NIS as a significant energy company both in Serbia and the region, increase of renewable energy sources utilization (solar, wind and geothermal energy) and energy production (cogeneration of gas and electro-energy production by execution of thermo power plant project).

In July, for the first time in Serbia, NIS produced and presented the Report on Sustainable Development in accordance with the highest standards in corporate reporting set forth by the international community Global Reporting Initiative and AccountAbility, and the report review was published by independent auditor, KPGM.

We are just one quarter away from the end of 2011 and according to the results achieved and with the expected in macroeconomic factors fluctuation coming to present, NIS is on a good path to realize the first horizon of its long-term strategy.

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 September 30th, 2011.	74,138,288,000 RSD
Share capital as of September 30th, 2011.	81,530,200,000 RSD
Number of employees as of September 30th, 2011	9,625*
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	48,714,029	29.8748%
ErsteBank a.d. Novi Sad – custody account	644,541	0.3953%
UniCredit Bank Srbija a.d. – custody account	605,634	0.3714%
The Royal Bank of Scotland	156,978	0.0963%
UniCredit Bank Srbija a.d. – custody account	152,750	0.0937%
Julius Baer Multipartner-Balka	133,686	0.0820%
UniCredit Bank Srbija a.d. – custody account	100,000	0.0613%
Vojvodjanska banka a.d. Novi Sad	80,247	0.0492%
Hypo Alpe-Adria Bank a.d. Belgrade	68,173	0.0418%
Other shareholders	20,838,475	12.7796%
Total number of shareholders as of September 30th, 2011.		2,747,307

*as of September 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 to GM in Gazprom Neft JSC	<ul style="list-style-type: none"> • OJSC NGK „Slavneft“, • GazpromNeft Development LLC • LLC Sever Energija and its affiliates; • GazpromNeft NNG OJSC. • LLC GazpromNeft Vostok • LLC GazpromNeft Hantos • LLC GazpromNeft NTC • Salim Petroleum Development N.V. (Supervisory Committee member) 	-
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 Ph.D. 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 regional sales in OAD „Gazprom neft“.	<ul style="list-style-type: none"> • CJSC "Gazprom NeftKuzbass", • OJSC "Gazprom Neft Novosibirsk", • OJSC "Gazprom Neft Omsk", • OJSC "Gazprom NeftTumen", • OJSC "Gazprom Neft Ural", • OJSC "Gazprom NeftJaroslavlje", • CJSC"Gazprom Neft - North-West", • LLC "Gazprom Neft Asia", • LLC "Gazprom NeftTadžikistan", • LLC "Gazprom NeftKazahstan" • LLC "Gasprom njeft Razvoj" 	-
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 Moyseyevich 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"> • OJSCNGK „SlavNeft“; • OJSC „Gazprom Neft-ONPZ“; • OJSC „Gazprom Neft-Janos“; • OJSC „MoskovskiNPZ“; • 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“; Manager of department „Talent Performance and Leadership Development Consulting“; professor of enterprise leadership of the International School of Business INSEAD.	• Independent member of BoD ENER1	-
Slobodan Milisavljevic BoD Member	University of Economics in Belgrade, Ph. D. in Economics	Counselor in Serbian Chamber of Commerce; Member of “International Advisory Board UniCredit bank ” Rome, Italy		

Total amount of net reimbursements paid to members of Board of Directors in period January 1st – September 30th 2011 was RSD 11,966,737.38, while total amount of net reimbursements paid to General Manager in the same period was RSD 10,358,892.46.

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 Tigara.d.Pirot; • Member of Supervisory Committee of Energoprojekt Holding a.d 	-
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”. 	149 shares or 0,000001%
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 Neftaero” (Russian federation) 	-

Total amount of net reimbursements paid to members of Audit Committee in the period 1st January – 30th September, 2011 was: 5,506,943.60 RSD.



OPERATING RESULTS

Business results

Key indicators

Key indicators	Units of measurement	9M '10	9M '11	Change	
				Value	%
Urals	\$/bbl	75.8	109.8	34	45%
Net profit (loss) before foreign exchange differences	billion RSD	13.3	22.7	9.4	71%
Net foreign exchange differences	billion RSD	-10.6	4.4	15.0	142%
Net (loss) profit	billion RSD	2.7	27.1	24.5	914%
EBITDA*	billion RSD	17.2	32.3	15.1	88%
Sales (without excise tax)	billion RSD	111.9	133	21.06	18.8%
OCF	billion RSD	14.2	17.4	3.2	23%
Paid taxes and fiscal obligations**	billion RSD	61.9	61.9	-	-
Domestic oil and gas production	thousand conditional tons***	880.4	1,108.6	228.2	26%
Domestic oil production	thousand tons	621.8	747.9	126.1	20%
Oil processing volume including third parties	thousand tons	2.202	1,754	-448	-20%
Oil processing volume excluding third parties	thousand tons	2.195	1,754	-441	-20%
Total sales of oil products	thousand tons	1,948	1,799	-149	-8%
Oil products local market sales	thousand tons	1,634.3	1,589.5	-44.8	-2.7%
Retail	thousand tons	407.7	389.1	-18.6	-4.6%
Light oil products sales	thousand tons	1,180.0	1,146.1	-33.9	-2.9%
CAPEX from GPN loan****	million EUR	49.8	116.7	66.9	134.3%
Inflow of funds from GPN (cumulative from 2009.)	million EUR	116	323	207	178.4%
CAPEX from OCF (NIS projects)	billion RSD	2.95	4.53	1.6	54%
Total debt to banks	million USD	667	506	-161	-24%
Total bank indebtedness*****	million USD	675	562	-113	-17%

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 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

Macroeconomic Indicators

- > Decline of USD/RSD rate in the first 9 months of 2011 was 5.81% or 4.6026 RSD (USD/RSD rate changed from 79.2802 RSD as of January 1st; to 74.6776 RSD as of September 30th, 2011.)
- > Decline of EUR/RSD rate in the first 9 months of 2011 was 4.1% or 4.325 RSD (EUR/RSD rate changed from 105.4982 RSD as of January 1st; to 101.1732 RSD as of September 30th, 2011.)
- > Incline of USD/RSD rate in the first 9 months of 2010. was 17.1% or +11.4 RSD (USD/RSD rate changed from 66,7285 RSD as of January 1st, 2010; to 78.1099 RSD as of September 30th, 2010.)
- > Incline of EUR/RSD rate in the first 9 months of 2010. was 10.7% or +10.3 RSD (EUR/RSD rate changed from 95.8888 RSD as of January 1st, 2010; to 106.1748 RSD as of September 30th, 2010.)
- > Average crude oil price in the first 9 months of 2011 was 109,8 USD/bbl

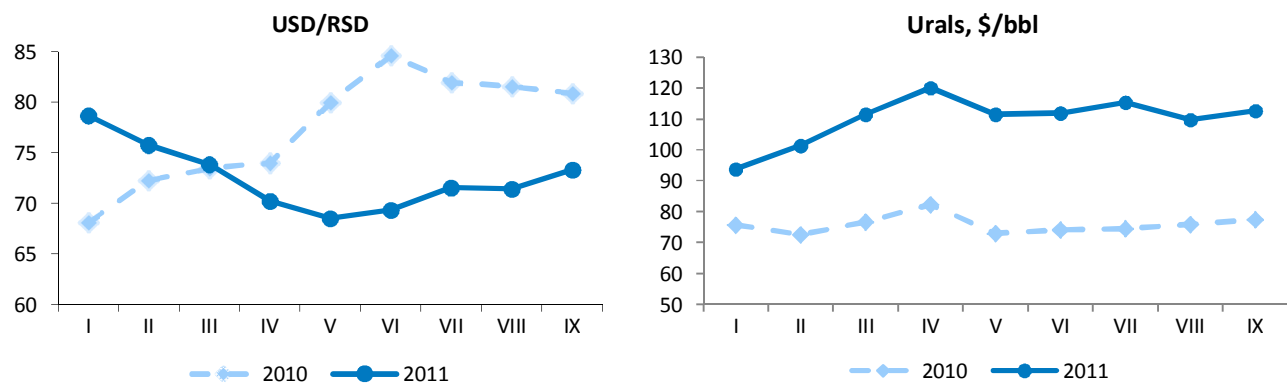


Figure1: Graph of trends of USD/RSD exchange rate and oil price trends

Operating Indicators

1. Oil and gas production

- > Increase in domestic oil and gas production by 26% compared to the same period last year, as well as increase of 2% in the third quarter compared to second quarter of 2011
- > Optimization of production wells with ESP pumps (Production wells optimization by means of ESP pumps)
- > Rehabilitation of inactive wells (Restoring idle wells to operational status)

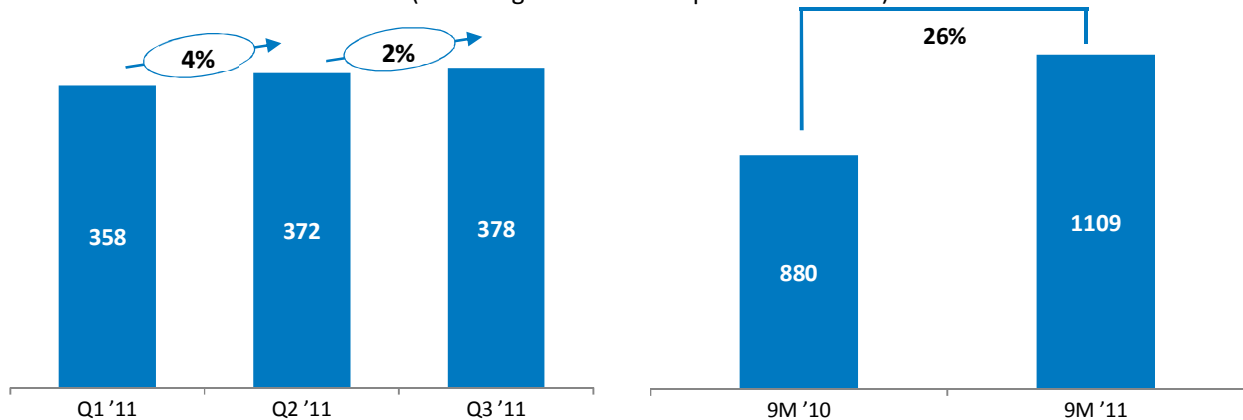


Figure 2: Domestic oil and gas production (in thousands of conditional tons)

2. Refining

- > In the first nine months of 2011 refining volume without third parties decreased by 20% comparing to the same period last year.
- > In the first nine months of 2011. refining volume with third parties decreased by 20% comparing to 9M 2010
- > In March and September a planned maintenance was carried out and Pancevo Oil Refinery operated at the minimum capacity
- > Compared to the first nine months in 2010, refining in Novi Sad oil Refinery was increased by 6% due to the increase of raffinate production

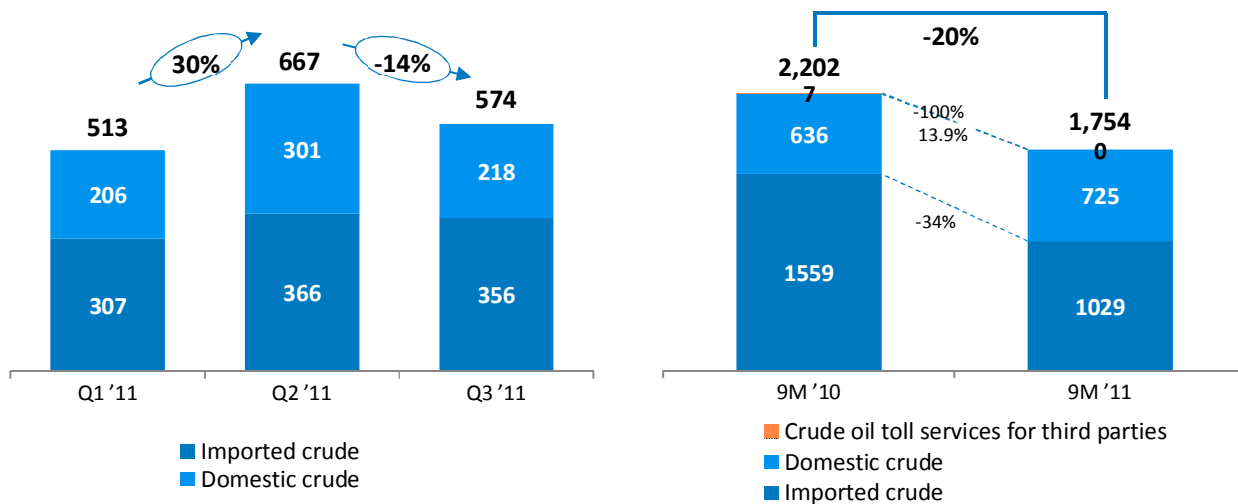


Figure 1: Oil refining including third parties (in thousands of tons)

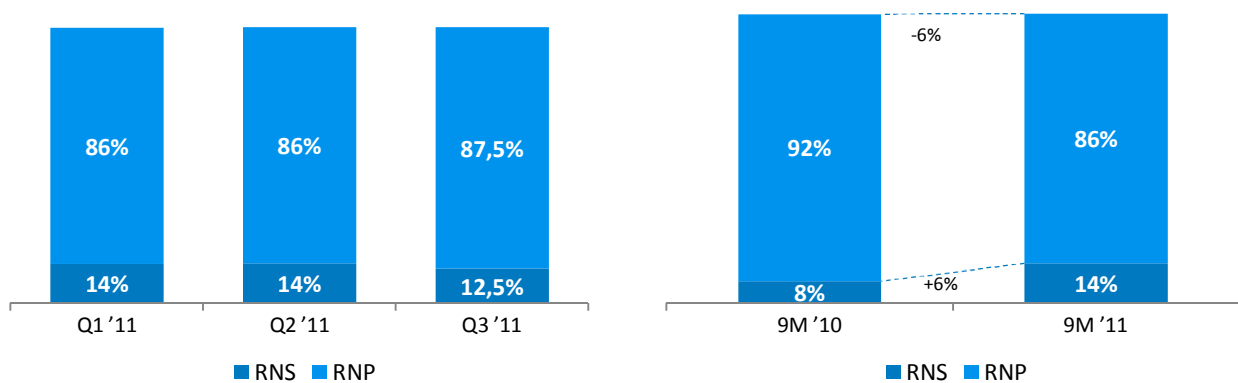


Figure 4: Oil refining per refineries
RNP – Oil Refinery Pančevo, RNS – Oil Refinery Novi Sad

3. Sales and distribution

- > Sales of oil derivatives decreased by 8%, compared to 9M 2010
- > **Retail - reduction for 5%:**
 - Farmers strike in May and June and road blockage prevented delivery of oil products from the refinery, thus causing drop in sales
 - Low water level of rivers that lasted a month, which was not recorded for last 20 years, precluded distribution of eurodiesel by waterways
 - Decrease of purchasing power and farmers uniting due to crisis and oil products price growth
 - Delay in exploitation of new petrol stations and petrol stations under reconstruction
 - Less sales volume of motor fuels due to the change of vehicle fleet structure and increasing orientation of consumers to Euro Diesel and LPG
- > **Wholesale – reduction for 2%:**
 - Reduction in sale volumes of euro Diesel, propane-butane mix at the beginning of the year, while in the second and third quarter there has been an increase in sale volumes.
 - Reduction in oil fuel demand as a result of gasification and extremely warm weather in the third.
- > **Export – in order to optimize structure of production in Refinery Pančevo export was decreased by 33%**

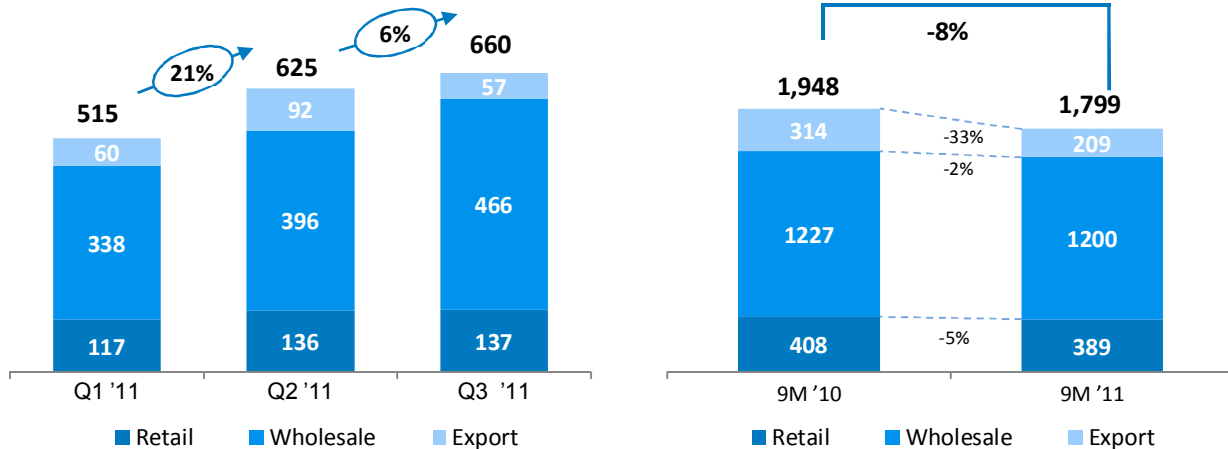


Figure 2: Oil derivatives sales (in thousands of tons)

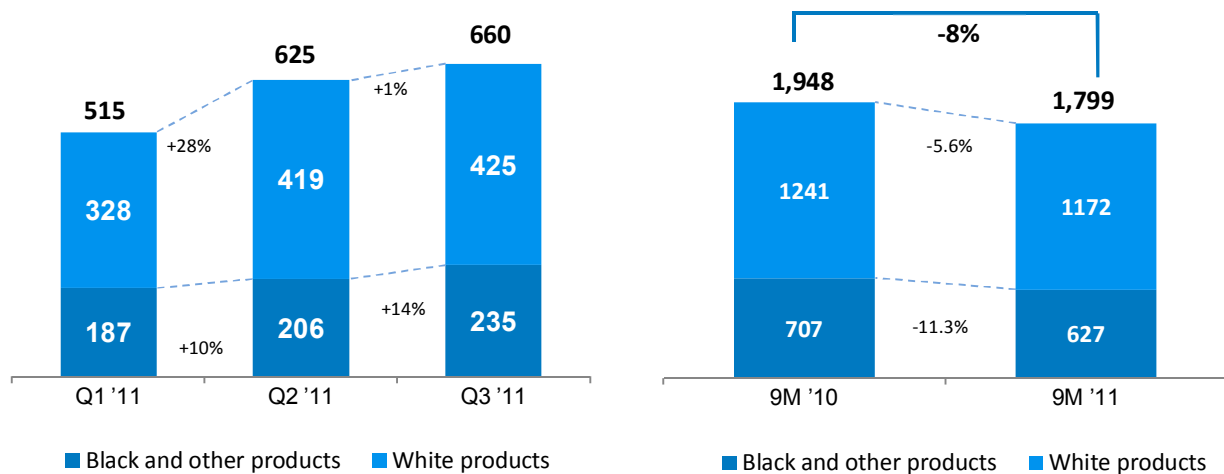


Figure 3: Sales structure per oil derivatives (in thousands of tons)

Bank Indebtedness

- > Total bank indebtedness decreased by 82million dollars compared to December 31st, 2010.
- > Debt to banks (for period 2011-2014) restructuring was performed in second quarter of 2011. After the restructuring most of the debt that was due in 2011 and 2012 was postponed for 2013 and 2014.

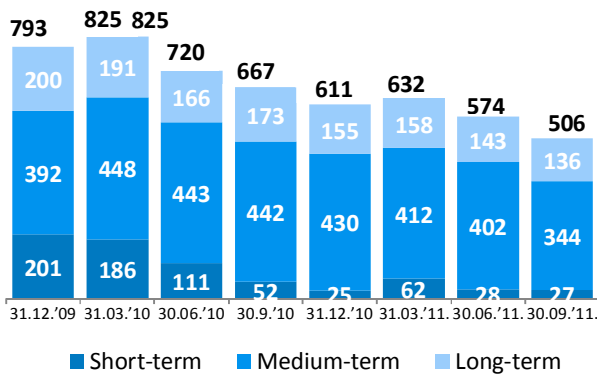


Figure 4: Total debt to banks trend
(In millions of USD) *

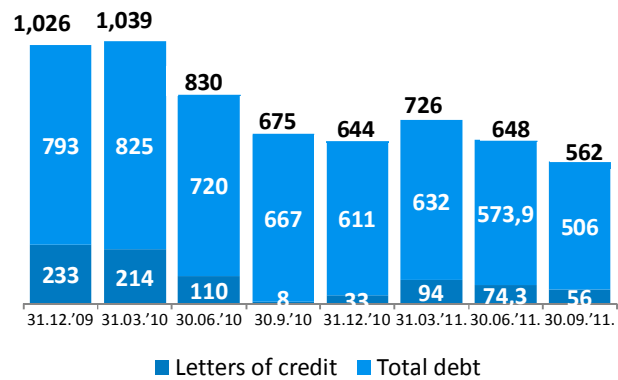


Figure 5: Total bank indebtedness trend
(In millions of USD)

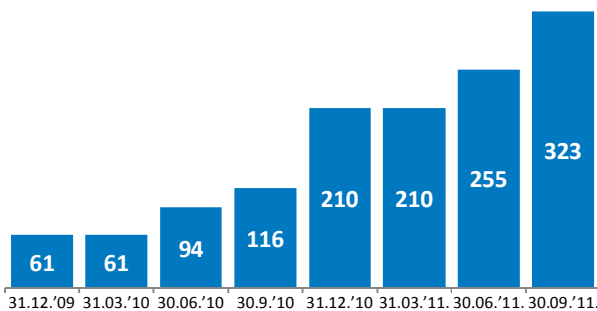


Figure 6: GPN loan (in millions of EUR, VAT excluded and without letters of credit)

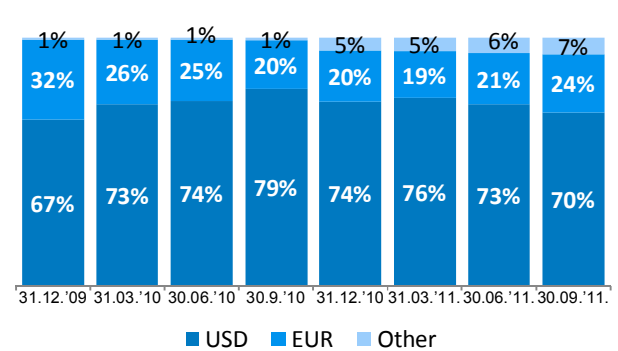


Figure 7: Structure of the total debt to banks per currency

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

Market position

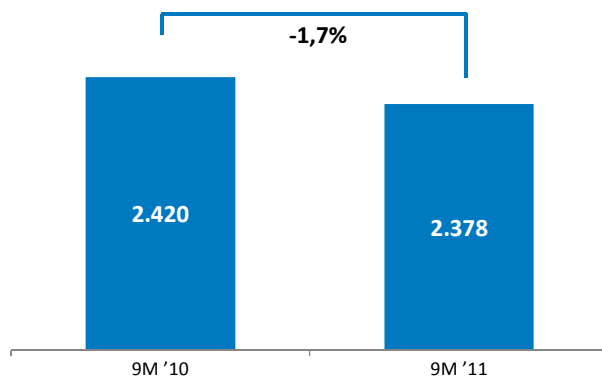


Figure 8: Share structure of Serbian market (in thousands of tons)
Source: Ministry of infrastructure and Energetics, Serbian Chamber of Commerce, Ministry of Finance

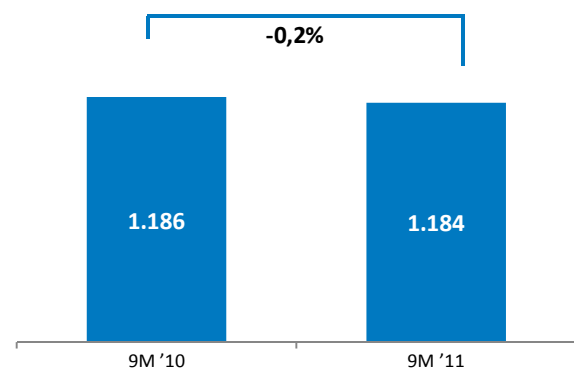


Figure 9: Share structure of Serbian retail market

- > According to data from SORS (Statistical Office of Republic of Serbia) for period January-August 2011, comparing to same period last year, the increase of industrial production of 3% was recorded. At the same time decline in funds available for transport in the structure of household consumption was recorded (8.9% in Q2 2011 compared to 9.1% in Q1 2011).
- > Consumption of diesel fuels is still on the rise, and one part of consumption of D2 is substituted with fuel oil EL, which is intensively imported by other market participants since May. When we include this derivative in the consumption of motor fuels, middle derivatives consumption growth is 2.0%
- > Imports of Euro EL heating oil grows exponentially from May to September. Since this derivative is sold without excise tax, price is very competitive and it took a significant part of consumption of D2.
- > Low cost companies at the Belgrade Airport, increased the consumption of jet fuel
- > Intensification of infrastructure works resulted in a significant increase in the consumption of bitumen. As at the same time production of bitumen in refineries increased, the share of imported bitumen in consumption is reduced to only 4%.

Ratios

Ratios	9M '10	9M '11	Change	
			Value	%
Return on total capital (Gross profit/total capital)	7%	39%	32%	475%
Net return on equity (Net profit/shareholders equity*)	3%	31%	28%	914%
Operating net profit (operating profit/net sales income)	12%	22%	10%	77%
Degree of leverage (short term and long term liabilities/total capital)	328%	148%	-180%	-55%
Degree of leverage (short term and long term liabilities/ shareholders equity*)	131%	126%	-5%	-4%
1st degree liquidity (cash and cash equivalents/short term liabilities)	16%	22%	6%	38%
2nd degree liquidity (working assets/stocks/short term liabilities)	51%	75%	25%	48%
Net working fund ratio	2%	32%	30%	1931%

*Shareholders equity = Share capital and other capital

Per share Indicators

Indicator	Value
Last price	624 RSD
High	865 RSD
Low	442 RSD
Market capitalization as of September 30th, 2011.	101,749,689,600.00 RSD
EPS for period January 1st - September 30th, 2011	166.46 RSD
EPS for period January 1st - December 31st, 2010	101.09 RSD
P/E*	6.17
Book Value as of September 30th, 2011	454.67 RSD
P/BV	1.37
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 September 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

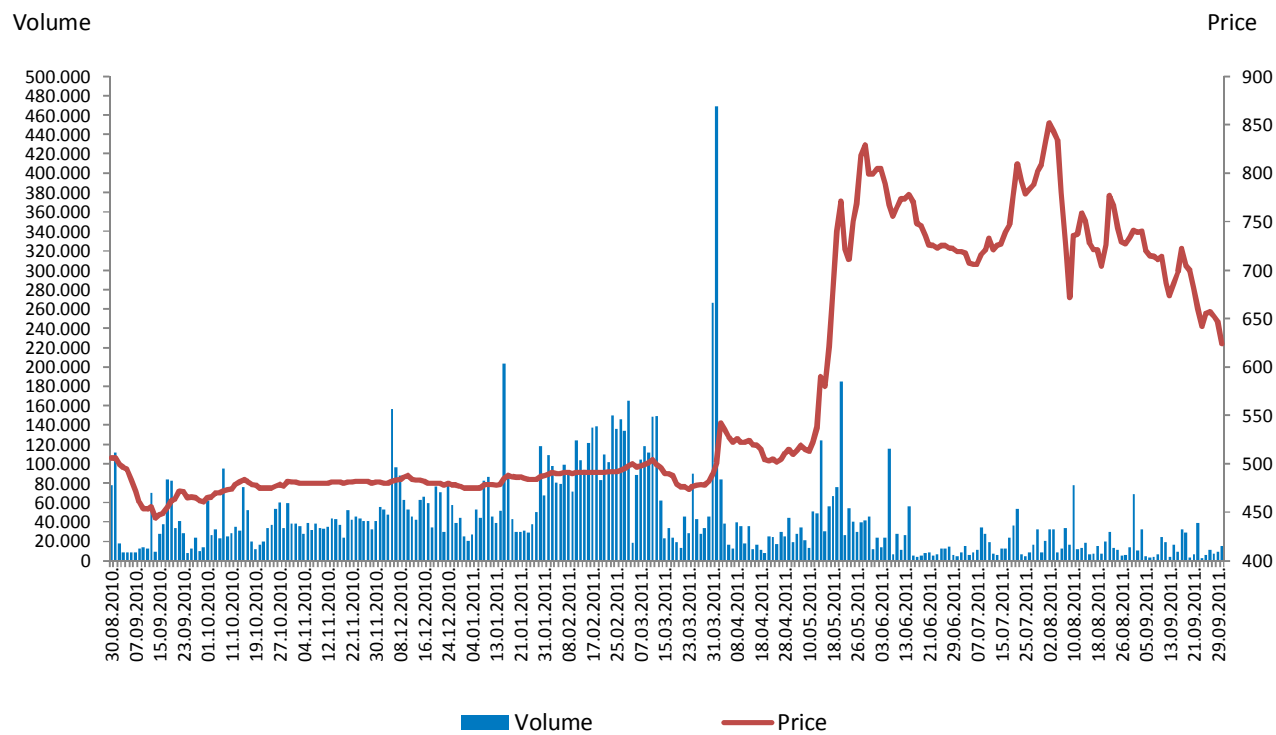


Figure 10: Display of price and volume

Balance Sheet (condensed)

ASSETS	September 30 th , 2011	December 31 st , 2010
	(unaudited)	
Non-current assets	125,126,550	108,326,343
Intangible assets	4,671,296	4,835,761
Property, plant and equipment	115,049,889	98,014,391
Investment property	1,469,937	1,393,170
Investments in equity instruments	2,554,148	2,578,753
Other long term investments	1,381,280	1,504,268
Current assets	74,126,875	68,800,658
Inventories	35,862,166	33,999,967
Trade receivables	20,525,673	12,945,719
Short term financial investments	2,503,915	2,513,880
VAT and prepaid expenses	3,916,847	3,940,358
Cash and cash equivalents	11,318,274	10,595,830
Deferred tax assets	4,804,904	4,804,904
Total assets	204,058,329	177,127,001
Off-balance sheet assets	78,684,286	88,793,346
LIABILITIES		
Equity	74,138,288	47,018,714
Share capital*	87,128,024	87,128,024
Reserves	889,424	889,424
Revaluation reserves	12	39
Unrealized gains from securities	39,102	48,417
Unrealized losses from securities	(62,709)	(49,236)
Retained earnings (loss)	(13,855,565)	(40,997,954)
Long-term provisions and liabilities	77,437,801	67,428,694
Long-term provisions	18,366,664	18,501,540
Long-term loans	26,343,464	26,645,540
Other long-term liabilities	32,727,673	22,281,614
Short-term liabilities	50,700,052	61,221,058
Short-term financial liabilities	11,483,072	21,805,638
Trade and other payables	24,857,580	24,944,688
Other short-term liabilities	6,422,155	6,394,456
Liabilities for VAT and other taxes and deferred income	7,212,635	7,456,869
Income tax liabilities	724,610	619,407
Deferred tax liabilities	1,782,188	1,458,535
Total liabilities	204,058,329	177,127,001
Off-balance sheet liabilities	78,684,286	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)

Nine months period ending on September 30th

	2011. <i>(unaudited)</i>	2010. <i>(unaudited)</i>
Operating income	138,091,064	119,577,606
Sales	132,958,057	111,897,485
Work performed by the entity and capitalized	2,795,279	1,654,814
Increase in value of finished goods and work in progress	2,116,242	5,941,110
Other operating revenue	221,486	84,197
Operating expenses	111,189,342	106,124,968
Cost of goods sold	9,774,609	2,582,352
Cost of material	70,111,785	74,803,286
Cost of salaries, benefits and other personnel expenses	15,979,952	15,201,142
Depreciation and provisions	5,657,504	4,991,359
Other operating expenses	9,665,492	8,546,829
Net operating income	26,901,722	13,452,638
Financial income	6,510,855	6,063,365
Financial expenses	3,063,141	17,828,513
Other income	2,858,015	4,111,235
Other expenses	4,274,245	3,433,040
Income before income tax	28,933,206	2,365,685
Income tax		
Income tax expense	1,467,163	42,331
Deferred tax(expenses) income	(323,654)	353,814
Net Profit for the period	27,142,389	2,677,168
Basic earnings per share		
- from continuing operations	0.17	0.02
- from discontinuing operations		
Diluted earnings 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.	11,144	7%
LUKOIL Srbija a.d. Beograd	10,823	7%
Srbijagas JP Novi Sad	10,084	6%
HIP Petrohemija a.d. Pancevo	10,066	6%
Total:	42,117	27%
Other buyers	115,360	73%
Total:	157,477	100%

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

Major Suppliers

Suppliers	Total debt in mln. RSD	Share in the total liabilities to suppliers
Gazprom Neft Trading GmbH	17,601	73%
OMV PETROM S.A.	706	3%
Total:	18,307	76%
Other suppliers	5,735	24%
Total:	24,042	100%

** as of September 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
Property, plant and equipment	17%	The most important investment of the Company in the period of nine months, ending on Sept. 30, 2011, are made in MHC/DHT project (investments in mild hydrocracking unit and hydrotreatment), in amount of RSD 10,198,330 thousand. The advance payments made to suppliers on the same basis as of Sept. 30 2011 make RSD 9,524,574 thousand.
Receivables	59%	Receivables growth as of Sept. 30, 2011 compared to Dec. 31 2010, and consequent sales growth in 2011, fully relates to growth in oil product and Company services sales, extension of maturities of receivables as well as increase of receivables from Serbiagas Novi Sad (in amount of 2,294 million RSD).
Liabilities	Changes of more than 10%	Explanation
Unrealized gains from securities	-19%	Decrease of amount of Unrealized gains from securities as of September. 30, 2011, compared to Dec 31, 2010, fully related to decrease of investments in securities intended for sale of investment amount to fair (market) value. (Luka Dunav a.d. Pančevo; Linde gas Serbia a.d. Bečej, Komercijalna banka a.d. Belgrade, Jubmes banka a.d. Belgrade)
Unrealized loss from securities	27%	Increase in n Unrealized loss from securities as of Sept. 30, 2011 compared to Dec. 31, 2010 fully relates to decrease in decrease of investments in securities intended for sale of investment amount to fair (market) value. (Politika a.d. Belgrade, Poštanska štedionica Bank a.d. Belgrade, Dunav osiguranje a.d. Belgrade, SPC Pinki a.d. Belgrade).
Unallocated earnings	65%	Unallocated earnings as of Sept. 30, 2011 fully relates to the result achieved in the nine month period that ended on Sept. 30, 2011
Loss	-29%	Decrease of loss as of Sept. 30, 2011, compared to Dec. 31, 2011 relates to loss coverage from the previous years and the gains achieved for 2010
Other long term liabilities	47%	Growth of other long term liabilities as of Sept. 30, 2011 compared to Dec. 31, 2010 mostly relates to withdrawal of new loan tranches, approved by mother company GazpromNeft, in amount of RSD 10,473 mln
Short term financial liabilities	-47%	Decrease of short term liabilities as of Sept. 30, 2011 compared to Dec. 31. 2010 mostly relates to settling due payments in period of nine months in 2011, as well as to reprogramming of liabilities towards VUB (Banca Intesa) Slovakia, Erste Bank Netherlands, Alpha Bank Belgrade and Vojvodjanska Bank Novi Sad.
Liabilities from income tax	17%	Increase of liabilities from income tax as of Sept 30, 2011 compared to Dec. 31 2010 relates to including income tax, based on the tax assessed for tax return for 2010.
Deferred tax expenses	22%	Growth of deferred tax expenses as of Sept. 30, 2011 compared to Dec. 31, 2010 relates to temporary differences based on depreciation calculated for book keeping and depreciation recognized for taxation.
Result	Changes of more than 10%	Explanation
Net income (loss)*	323%	The positive tendency of results fluctuation mostly relates to improvement of operational efficiency as well as optimization of Company's cost, improvement of product line and transfer of know-how from the mother company Gazprom Neft to the Company.

*Compared to September 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 nine months of 2011 16.32 billion dinars was invested, which is by 103% more than in same period last year

The most significant investments in oil and gas production in the first nine months of 2011 are:

- > PSA (Production Sharing Agreement) y 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
- > Drilling of development wells

The most significant capital investments related to ecology in the first nine months of 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
- > FCC reconstruction – decrease of solids emission into atmosphere

Sources of investment funding	9M '10	9M '11
CAPEX from GPN loan (without letters of credit)	5.09	11.79
Ecology	1.06	1.43
MHC/DHT	4.03	10.35
CAPEX from OCF (NIS funds)	2.95	4.53
Ecology	0.00	0.07
MHC/DHT	0.00	0.02
Angola	0.45	0.17
Projects with direct economic effect	1.17	2.69
Projects without direct economic effect	1.33	1.58
TOTAL:	8.04	16.32

**in bln RSD, VAT excluded*

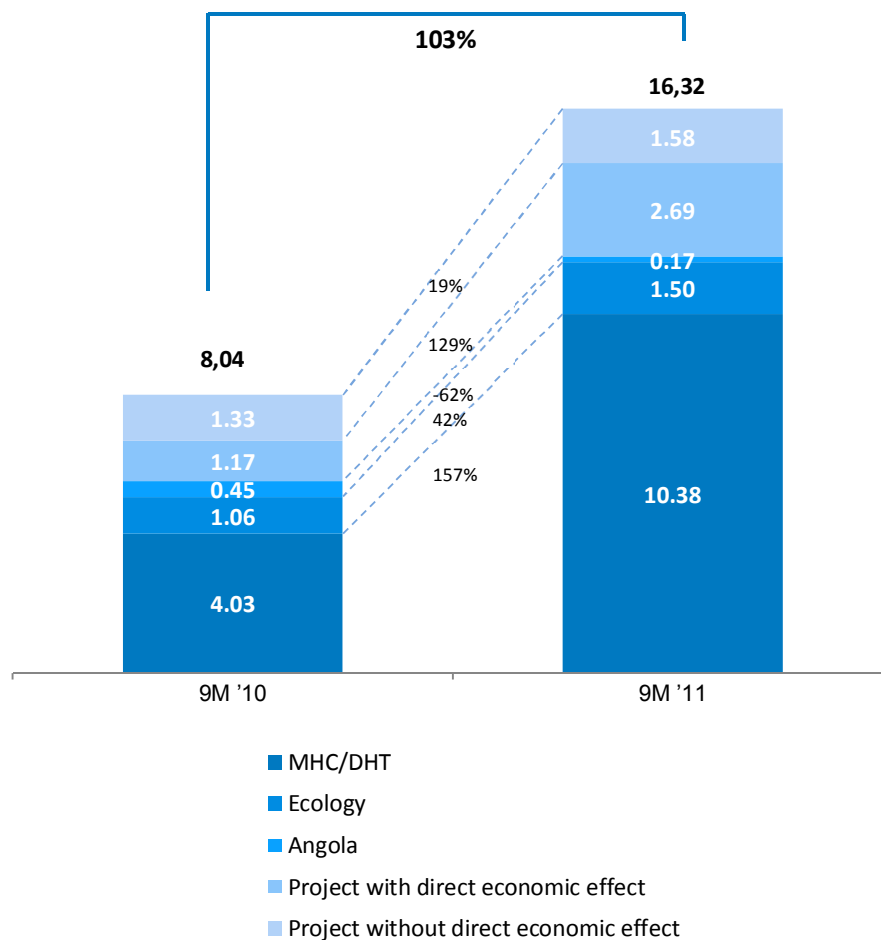


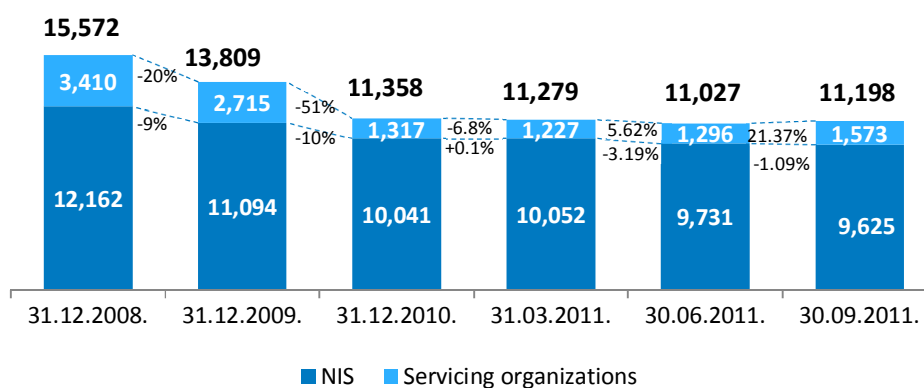
Figure 11: Graph of investments realized from GPN loan and OCF
(in billions of RSD, VAT and letters of credit excluded)

Reserves

	30.09.2011	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 889,424thousand 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 June 30 th , 2011			As of September 30 th , 2011.			Change (%)
	NIS	Servicing organizations	Total	NIS	Servicing organizations	Total	
1	2	3	4(2+3)	5	6	7(5+6)	8(7:4)
Block Upstream	1,197	0	1,197	1.199	12	1.211	1,17%
Block Oilfield services	1,491	246	1,737	1.877	382	2.259	30,05%
Block Sales and Distribution	3,483	1,048	4,531	3.484	1.177	4.661	2,87%
Block Refining	2,064	0	2,064	1.826	0	1.826	-11,53%
Block of Energy	-	-	-	2	0	2	-
NIS Corporate headquarters	1,496	2	1,498	1.237	2	1.239	-17,29%
TOTAL	9,731	1,296	11,027	9.625	1.573	11.198	1,55%



„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 that left the company by accepting stimulating programs was 472 in first 9 months, while stimulating leave programs in this period were accepted by additional 310 employees for which formal termination of employment was after September 30th 2011 (this makes total of 782 employees).

Subsidiaries

Business name	Head office address	Share in original capital (%)
O Zone a.d. Beograd	Maršala Birjuzova 3-5, Belgrade, Serbia	100%
NIS Oversizo.o.o.	Russian Federation, Moscow, BalsoyGolovinperulok, 12	100%
„NIS Petrol“ EOOD Bulgaria	Oborište br. 10, Stolična, Sofia, Bulgaria	100%
„NIS Petrol“ S.R.L. Romania	Daniel Danielopolu 4-6/3, Bucharest, Romania	100%
„NIS Petrol“ d.o.o., Laktaši, Republic of Srpska	Prijedorska bb; Laktaši, Bosnia & Herzegovina,	100%
„Panon Naftagas“ kft. Budapest, Hungary	1093 Budapest, Hungary , Kozraktar u., 30-32	100%
Jadran – naftagas d.o.o. BanjaLuka	Ivana Franje Jukića 7, Banja Luka, Bosnia & 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%
ООО„SP Ranis“	Russian Federation, Moscow area, Chernogolovka, Institute prospekt 14	51%

**Registration of new founded company “Panon Naftagas”KFT, Budapest, Hungary was completed on October 3rd 2011*



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.

As of September 30th 2011 formed impairments for app 56% of gross value of total receivables.

Management of Company estimated and made provisions for environment protection which on balance sheet date amounts to 881.162 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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