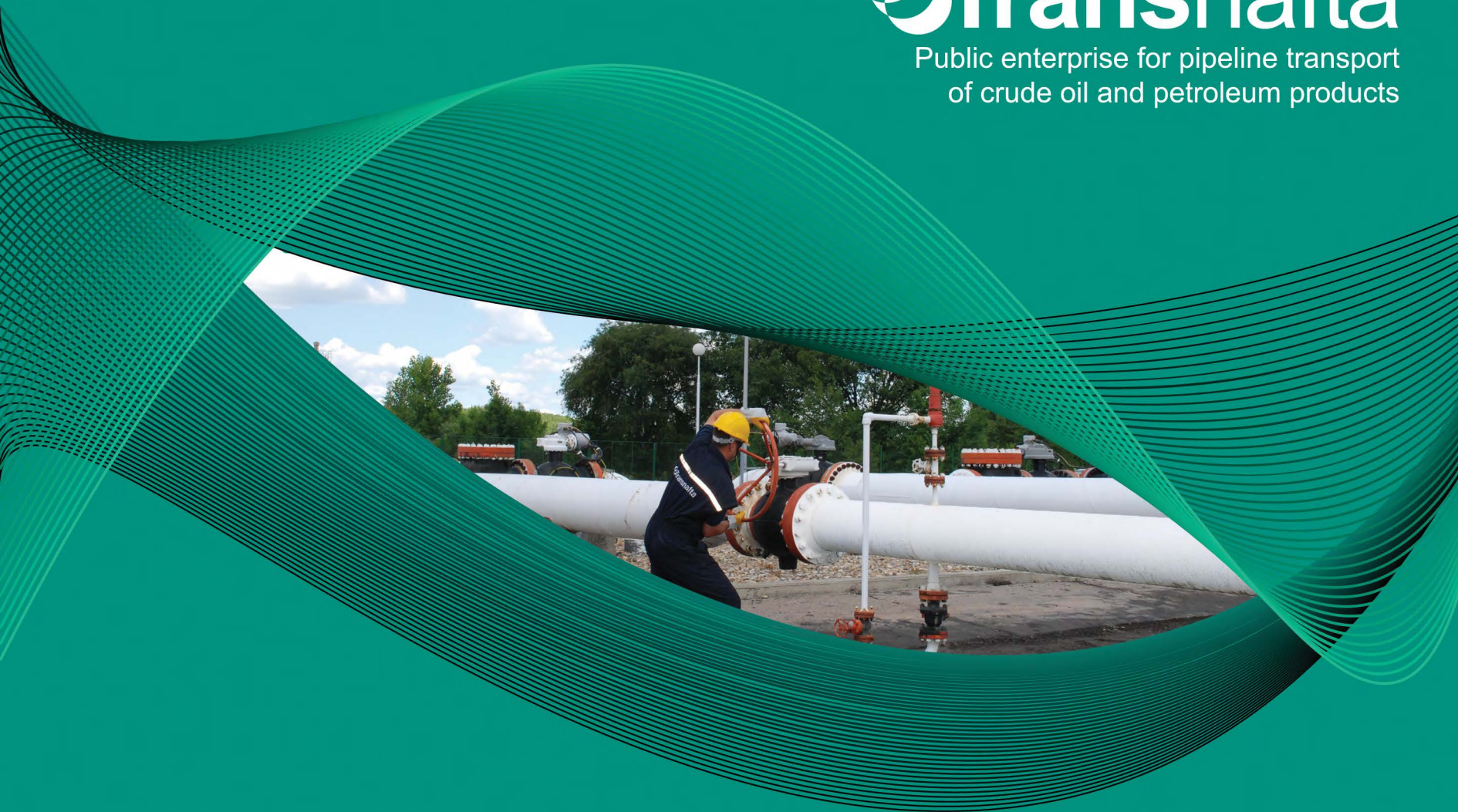




Public enterprise for pipeline transport
of crude oil and petroleum products





Transnafta

COMPANY'S PROFILE

The public enterprise Transnafta was founded by the Government of the Republic of Serbia in the year 2005, for the purpose of performing activities of public interest. The company's main task is creating conditions for the secure, safe and reliable transport of crude oil via pipeline, thereby ensuring the continuity of crude oil supply. The Company, having been established during the reorganisation process in the oil industry and has continued with the activities within the energy sector, nowadays it is proud of the knowledge and experience gained over the past thirty years of pipeline management.



At the time of establishment, the core activities that the Company performed were crude oil and petroleum products pipeline transport throughout the territory of the Republic of Serbia. Since then, thanks to the efficient business policies, professional staff and the ambitious ideas, the Company has grown and has developed, and its activities have been extended to the storage and crude oil, petroleum products and bio-fuels trade.

Transnafta also deals with design, construction, supervision and pipeline maintenance, provides engineering and consulting services in the field of pipeline transportation, and in accordance with the law performs foreign trade within the registered activities. Transnafta operates at several different locations in the territories of Pancevo, Novi Sad and Belgrade. Within the Refinery Novi Sad and the Refinery Pancevo are terminal and metering station managed by Transnafta.

The management structure of the company is made up of the Managing board as the business managing entity, the Supervisory board as the business supervisory entity and the General Manager as the head of operations.



MISSION-VISION-GOALS

MISSION

The mission is to position itself with significant business entities in the energy sector by providing quality services, acceptable prices and professional management, to contribute in raising the energy, environmental, economic and overall business efficiency, so as to ensure constant living standards growth of its employees, their professional development and the sense of security, belonging and loyalty to the Company.

VISION

The company's vision is to become one of the significant companies in the Southeastern region of Europe in the crude oil and petroleum products transport activities, so as to become known in the region for efficient, quality and reliable pipeline transport and crude oil and petroleum products storage.



GOALS

The goals of the company's are: providing reliable crude oil storage and continuous crude oil transportation; provision of regular users of its services, appropriate revenue and profit, so as the conditions for constant growth and development; providing conditions for the new crude oil and petroleum products storage capacities implementation; providing conditions for crude oil and petroleum products trade; providing conditions for the PanEuropean pipeline (PEOP) pre-investment study implementation through Serbia; participation in PEOP project together with Romania, Croatia, Italy and Slovenia, with the support from the European Union; petroleum products pipeline transport development (pipeline system through Serbia, with the connection to similar systems in the region); preparation of conditions needed for diversification of services – development of telemetry, cable, TT, IT, TV and other communication installations in the pipeline zone.



Energy policy of the Republic of Serbia, the policy that specifies the terms of energy sector and therefore the business of Transnafta, includes measures and activities for achieving long-term objectives in energy sector, in particular:

- Safe, reliable and quality energy supply
- Balanced development of the energy sector for the purpose of providing required amount of energy to meet the needs of costumers'
- Stimulating competitiveness in the market on the principles of non-discrimination, transparency and encouraging competition
- Creating the conditions for the safe and reliable operation of energy systems
- Provision of energy infrastructure development and introduction of modern technologies
- Providing conditions for the improvement of energy efficiency in carrying out energy activities and energy consumption
- Creating transparent, attractive and stable conditions for investment in construction, reconstruction and modernisation of energy facilities and systems, so as creating conditions for their connection with energy systems in other countries
- Creating conditions for stimulating the use of renewable energy sources and combined production of electric and thermal energy
- Environmental protection improvement
- Decentralisation of planning and implementation of development programmes in energy sector.

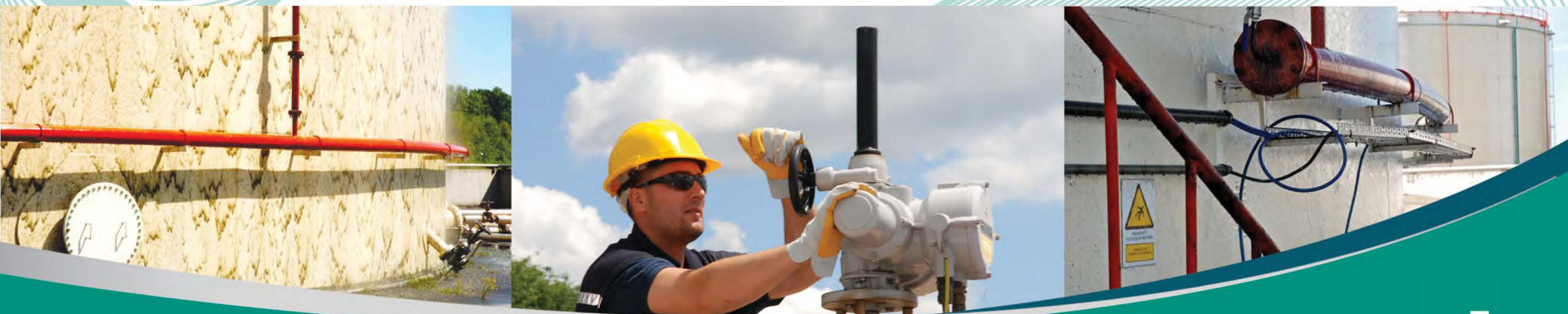


INTEGRATED MANAGEMENT SYSTEM – IMS

Transnafta's basic commitment is to meet the demands and expectations of consumers and other interested parties, at the high technical, economic and security level, with care for employees and the environment. The Company consistently respects and enhances the quality management system, environmental protection and safety and health at work in accordance with the requirements of standards ISO 9001:2008, ISO 14001:2004, BS OHSAS 18001:2007, with the participation of all employees. The application process approach and ongoing work in increasing the effectiveness and efficiency of the process, ensures fulfilment of the consumers' requirements and a constant increase in their satisfaction with services that company provides.

In Transnafta employees are the most valuable resource. Therefore the Company is dedicated to their training and professional development in work tasks they perform, as well as in the field of environmental protection and health and safety at work. Because of the activities the Company performs, special attention is focused on accident prevention, soil pollution prevention, surface and ground water and air pollution prevention, as well as prevention of injuries related to work.

In order to achieve continuous, systematic improvement of all issues related to quality, environment and health and safety at work, general annual and specific objectives are set and their effects are monitored. The objectives and the overall functioning of the Integrated management systems are regularly reviewed by the senior management and if necessary, preventative and/or corrective measures are taken.



BUSINESS ACTIVITIES

Transnafta performs crude oil pipeline transport via a pipeline that stretches from the river Danube on the border with Croatia, to Pancevo, a total of 154.4km. Associated pipeline infrastructure consists of a terminal in Novi Sad with four crude oil tanks of 10.000m³ each, the dispatching centre and pumping station, the metering station in Pancevo and eight block stations along the route.

The decision regarding the establishment of the Company includes the obligation of the Company to ensure, in accordance with the law, the work conditions and uninterrupted transport system, security, regular maintenance, development and technical and technological integration into unified crude oil and petroleum products pipeline transport system in the Republic of Serbia, so as the measures that will contribute to linking these systems with other countries' crude oil and petroleum products transport systems.

In conditions of high energy dependence, it is important to ensure the stabile supply of crude oil and petroleum products. Crude oil and petroleum products storage activities have a significant role in nowadays economic conditions and energy demands. Storage of mandatory reserves of crude oil and petroleum products is regulated by EU directives that member states must incorporate into national legislation in order to ensure secure supply of petroleum products.



Bearing in mind the need for harmonization of legislation of the Republic of Serbia with the European legislation, and hence the need for regulation of the crude oil and petroleum products mandatory reserves system, the Company plans to provide the crude oil and petroleum products commercial storage service on its own storage installations, so as to develop storage capacities for crude oil and petroleum products mandatory reserves, based on long-term cooperation with a legal entity that will perform the tasks of creation, preservation and maintenance of mandatory reserves for the state.

For that purpose, Transnafta has established cooperation with the Army of the Republic of Serbia on the joint use of reservoirs and storage capacities owned by the Army of the Republic of Serbia.

New legislation shall define terms and mode of formation, preservation, maintenance and monitoring of crude oil and petroleum products mandatory reserves, so as the way of establishing the necessary structures for mandatory reserves.

In accordance with the mandatory reserves established structure, and in order to ensure the availability of crude oil to refineries and motor fuels to customers, it is expected that storage space is next to the existing pipeline for crude oil reserves and next to the planned motor fuels pipeline.



FINANCIAL INDICATORS

| In million dinars | 2011 | 2010 | index in % |
|---------------------------|-------|-------|------------|
| Operating income | 465 | 484 | 96 |
| Total assets | 4,362 | 4,451 | 98 |
| Net assets | 4,198 | 4,224 | 99 |
| Profit before tax | 23 | 133 | 17 |
| Number of employees | 114 | 100 | 114 |
| EBITDA | 44 | 63 | 70 |
| EBITDA MARGIN | 9.46 | 13.02 | 73 |
| Current liquidity ratio | 17 | 13 | 131 |
| Net working capital | 1,282 | 1,297 | 99 |
| Customers turnover period | 28 | 35 | 80 |
| Equity ratio | 96.24 | 94.90 | 101 |
| Return on assets | 0,57 | 2,69 | 21 |
| Operating cash flow | 46 | 127 | 36 |

Liquidity indicators

In Transnafta, in the year 2011, 1 dinar of short-term liabilities was covered with 17 dinars of liquid assets, and in the year 2010 with 13 dinars of liquid assets, respectively. From the long-term resources 92% were funded, and in the year 2010 were funded 94% of net assets that all implies a very high company's current liquidity.

Efficiency indicators

Costumers claims were remunerated 10 times in the year 2010, and 13 times in the year 2011, respectively.

Debt indicators

Equity ratio high values, of 96% in the year 2011 and of 94,9% in the year 2010, were caused by the high percentage of company's equity in company's assets, without long-term liabilities that points to a stable financial structure.

Profitability indicators

Efficiency indicators of company's assets in the year 2011 show that 0,57 units of return were realized on every 100 units of average assets use, while in the year 2010 on every 100 units of assets - 2.7 units of income were realized.

Comparative data for companies in the same industry in the region (Romania, Croatia), for the year 2011

| | Transnafta | CONPET SA | Janaf | exchange rate |
|----------------------------------|------------|------------|------------|---------------|
| | | | | 104.6409 |
| Total income (EUR) | 5,655,819 | 74,481,000 | 55,840,984 | |
| Number of employees | 114 | 1,982 | 380 | |
| Income per employee (EUR) | 49,612 | 37,579 | 146,950 | |
| EBITDA | 44 | | 62 | |

DEVELOPMENT PROJECTS

The Five Year Development Plan for Transnafta, based on the country's energy needs and the available technical and human resources, compliant with the Energy Development Strategy of the Republic of Serbia and the Programme for implementation of the Energy Development Strategy of the Republic of Serbia, envisages development projects in areas of pipeline transportation and crude oil and motor fuels storage activity.

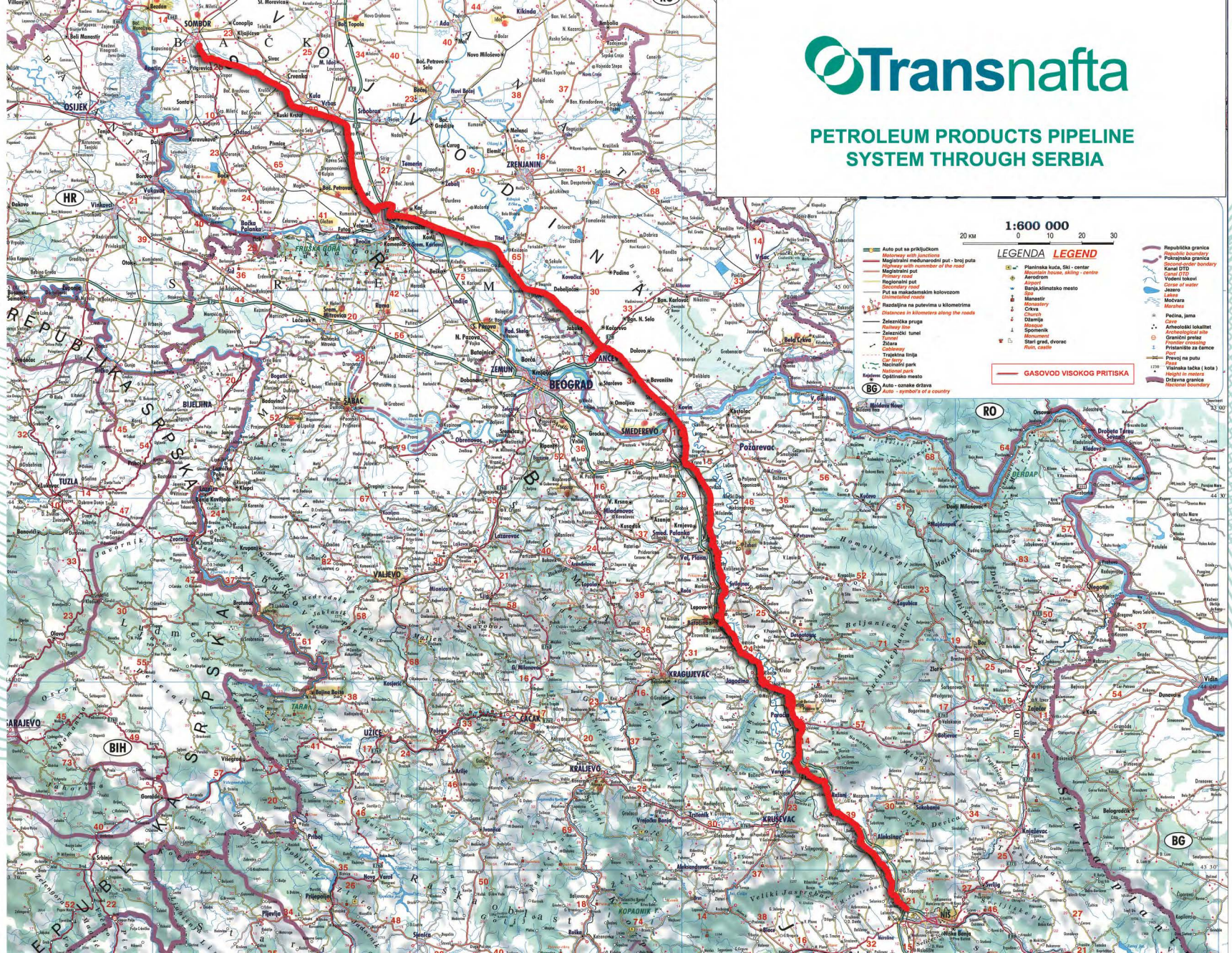
PETROLEUM PRODUCTS PIPELINE SYSTEM THROUGH SERBIA

Pipelines ensure the safest and the most cost-effective petroleum products transport to consumer centres, modern products management, reduced losses and reduced probability of leakages. Projected petroleum products transport (petrol and diesel fuel) will be conducted via pipelines with a total length of 400 kilometres, from the Refinery in Pancevo in three directions, via Novi Sad to Sombor, via Smederevo and Jagodina to Nis and Belgrade. These sites will have petroleum products storage terminals wherefrom the supply to gravitating regions would be performed.





PETROLEUM PRODUCTS PIPELINE SYSTEM THROUGH SERBIA



Activities related to the implementation of the Project:

- Pre-feasibility study for the Petroleum Products Pipeline System through Serbia is completed and revised, together with the Basic design and Environmental Impact Assessment
- The Government of the Republic of Serbia adopted the Spatial plan of special purposes for the Petroleum products pipeline system through Serbia for the route Sombor-Noví Sad-Pancevo-Belgrade-Smederevo-Jagodina-Nis, drafted by The Republic Agency for Spatial Planning
- The Memorandum of Understanding with the cities / municipalities through which the pipeline passes is signed
- The Memorandum of Cooperation on the petroleum products pipeline system through Serbia project implementation with the Serbian Ministry of Trade is signed
- The Agreement and the Annex to the Agreement with the NIS a.d. on mutual cooperation in the preparation of Feasibility study for the pipeline construction are signed
- The Feasibility study with the Basic design and the Environmental Impact Assessment for the construction of the first pipeline system facility (sections Pancevo-Smederevo and Pancevo-Noví Sad) are completed
- The Government of the Republic of Serbia declared a public interest for the construction of the first pipeline system facility
- The Location permit for the construction of the first pipeline system facility is obtained.

The future activities in the project implementation process are Detail design drafting, obtaining building permit and construction itself. Commissioning of the first facility of the Petroleum products pipeline system through Serbia is planned for 2014. At the same time, the conditions for the implementation of the second (Smederevo-Jagodina and Jagodina-Nis sections), and later of the third facility (Novi Sad-Sombor and Pancevo-Belgrade sections) would be prepared. Completion of construction works is planned for 2016.



STORAGE

Significant role in ensuring security of energy supply, especially in case of market disruption caused by shortages usually followed by energy prices increase, has the crude oil and petroleum products storage.

EU Directive 2009/119/EC obliges member states to maintain crude oil and petroleum products mandatory reserves to 90 days of average daily net imports or 61 days of average daily inland consumption. Signing the Agreement on Energy Community of South-East Europe and gaining the EU membership candidate status, in accordance with the mentioned Directive, the Republic of Serbia is obliged to provide conditions for keeping the required amount of crude oil and petroleum products that will amount 1 million tons in 2020.

Transnafta was registered in 2009 for crude oil and petroleum products storage activity. In September the same year, the Company obtained the license for crude oil storage in existing tanks, A5502 and A5504, at the terminal in Novi Sad. In January 2012, the Company obtained the license for crude oil, petroleum products and bio-fuels trade. Diversification of the activities and implementation of development projects will position Transnafta as an important factor in liquid hydrocarbons safe supply on the market. The Company plans to develop crude oil and petroleum products storage capacity within the activity of keeping crude oil and petroleum products mandatory reserves, so as the provision of commercial services in petroleum products storage and trade activities.



Crude oil

For crude oil storage activity, Transnafta plans to construct a 40.000m³ crude oil storage space at the terminal in Novi Sad. Detail design is completed and obtaining the building permit is in progress. The Project will be financed by a loan from the European Bank for Reconstruction and Development. Completion of construction is planned for 2013.

Petroleum products

The Conclusion of the Government of the Republic of Serbia, Contract on the use of real estate (signed between the Republic Directorate for Property and Transnafta) and The Cooperation agreement on the use of fuel and the storage space (signed between the Ministry of Defence and Transnafta), envisage that Transnafta and the Ministry of Defence share the fuel storage at five locations, with the following schedule of the locations takeover: Ledinci in 2011, Jemenska stena in 2012, Umac baza in 2013, Vrdnik in 2014, Knic in 2015. Total storage capacity is 138.000m³.

PEOP

PanEuropean pipeline (PEOP) is the energy corridor that provides sustainable and diversified sources of energy, both for the countries of the European Union and the countries along the corridor route. It is recognised as a project of pan-European interest with a mechanism that contributes to safe, sustainable, efficient and competitive European energy network.



Because there are important consumers along the route, PEOP is of great industrial importance, offering a new way of supplying large oil companies with the resources from the Caspian Sea region. Key markets for PEOP are the industrial inland of northern Italy, Germany, Austria and Czech Republic.

PEOP is the only rational solution, which supports economic development with minimal environmental risk for further increase of supply of European refineries with crude oil from the Caspian and the Black Sea region.

Petroleum products storage “Ledinci”

Petroleum products storage Ledinci is located in the populated areas of Stari Ledinci and Novi Ledinci, about 20km away from Transnafta Terminal and the Novi Sad Refinery. This storage is equipped with the petroleum products receiving/shipping infrastructure by waterway, road and potentially railway. Storage capacity at the site is 67.000m³.





CORPORATE RESPONSIBILITY

ENVIRONMENTAL PROTECTION AND HEALTH AND SAFETY AT WORK

The main advantage of using a crude oil and petroleum products pipeline transport is reflected in reduced fuel consumption, and thus in reduced emissions of pollutants and "greenhouse gases" into the environment, that may have impacts on the climate characteristics at the local, regional and global level.

Within the crude oil and petroleum products transportation, pipeline transport is far ahead of conventional modes of transport, according to all performances and in particular environmental protection.

In accordance with the Law on Environmental Protection, the Company monitors indicators of the impacts of its activities on the environment, and efficiency indicators of measures implemented to reduce or prevent the occurrence of pollution levels.

Rationalisation of the energy transport system improves the environment of the region, which indirectly affects the life of every individual.

Transnafta has good cooperation with all institutions and organisations dealing with specific areas of the environmental protection at local, national and international level.



Healthy and safe environment makes the base for Transnafta business and development. Therefore, one of the main segments of the business philosophy of the Company is related to the environmental protection and improvement, and the business is conducted in accordance with the environmental requirements and standards ISO 14001.

Transnafta continually assesses its actual and potential environmental impacts for the purpose of creating the bases for activities management that take into account environmental protection, and it analyses all environmental impacts, including impacts that might occur in accidental situations, impacts on air, water, soil, natural resources, flora, fauna and people.

Considering the type of services performed, the Company pays attention to activities for preventing possible accidents and to the prevention of soil pollution, surface water flows, groundwater and air, so as to prevent injuries and illnesses at work.



SOCIAL RESPONSIBILITY

Transnafta is a responsible company dedicated to the prevention and elimination of negative impacts on life, health and safety of local communities where it operates, as well as to their economic improvement and cultural development.

Accepting the concept of corporate social responsibility, which implies the need to invest part of the income into the community in which it was gained together with further investment to its own system development, over the last few years significant funds were given to the local community for the implementation of numerous projects.

In the form of sponsorships and donations from additional funds, Transnafta supports the activities of various associations, sports clubs, important cultural and humanitarian events. In accordance with basic principles of corporate social responsibility, contact with the local community is an essential part of the Company's business, through which it builds good relations. The significance given to the responsibility in creating economic and social values represents one of the vital segments of the business policy of the Company.



OUR COURSE

During these times of economic and political turbulence in the global oil and gas industry, the Company focuses its business on different business environment prone to constant changes that positively affect all phases of the business process, starting with the formation of the company's vision and mission, defining the objectives of the company, analysis of internal and external factors, to the final implementation of the desired Company's projects.

Pipelines are capital infrastructure facilities of a great strategic importance at the national and regional levels and as such are very complex and require the political, sociological and financial commitment of all project participants, especially the commitment of employees within the Company.

Consistency of energy policy within the European Union and in the environment determines the development processes of many parts of the economy in the region and the functioning of the integral market.



From the point of interest of Transnafta, as the carrier of major development projects, the purpose of implementation is reflected in increasing the economic efficiency of the Company and in reducing the currently high sensitivity to the impacts of operations happening nowadays in the economic and political environment. Expansion of business and projects implementation both contribute to the value of the Company since it is positioned on the national scale as an indispensable factor of safety and security of crude oil and petroleum products supply, and as a business entity whose infrastructural activities significantly contribute to the national crude oil and petroleum products market stability, establishing good relations with Southeast Europe in the field of crude oil and petroleum products pipeline transportation, and on the international scale as one of the key stakeholders in achieving cooperation between the European Union and Serbia in the field of development initiatives coordination in energy supply sector and the incorporation of Serbia into integral European energy market.

A wide-angle landscape photograph showing a lush green field with a path leading towards a line of trees. The sky is a mix of blue and orange, suggesting a sunset or sunrise. The text "INVISIBLY EVER-PRESENT" is overlaid in the center.

INVISIBLY EVER-PRESENT



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