

1.10 Corporate Governance

Statement on Application of Code of Corporate Governance

In accordance with Article 368 of the Company Law (hereinafter 'The Law'), NIS j.s.c. Novi Sad hereby states that it applies the Code of Corporate Governance of NIS j.s.c. Novi Sad (hereinafter 'The Code') which is available on the company website. This Statement contains a detailed and comprehensive outline of corporate governance practices implemented by the Company.

central role in the corporate governance. The Board of Directors is responsible for the implementation of the objectives set and the achievement of results, while shareholders exercise their rights and control primarily through the Shareholders' Assembly.

The provisions of the Articles of Association fully and clearly differentiate between the scope of work of the Board of Directors and the scope of work of the Shareholders' Assembly, General Director of the Company and the bodies set up by corporate governance bodies.

The Code supplements the rules contemplated by the Law and Articles of Association of NIS j.s.c. Novi Sad (hereinafter 'The Articles'), which are to be complied with by the persons responsible for the corporate governance of the Company. The corporate Board of Directors ensures the application of the principles established under the Code, monitors the implementation thereof and the compliance of the company's organisation and actions with the Code and the Law.

Shareholders' Assembly and Shareholders' Rights

As the highest authority of the Company, the Shareholders' Assembly is made up of all shareholders. All NIS j.s.c. Novi Sad shares are ordinary shares that give their owners the same rights, wherein one share carries one vote. The corporate Acts do not impose restrictions that would apply to the number of shares or votes that a person may have at a Shareholders' Assembly meeting.

Corporate Governance System

The Company has established a one-tier governance system, where the Board of Directors has the

The Shareholders' Assembly meetings may be ordinary and extraordinary. Ordinary meetings are convened by the Board of Directors no later than six months after the end of a fiscal year. Extraordinary



<http://ir.nis.eu/en/corporate-governance/code-of-corporate-governance/>



<http://ir.nis.eu/en/corporate-governance/companys-regulations/>

meetings are convened by the Board of Directors at its discretion or at the request of shareholders holding at least 5% of the company shares.

<http://ir.nis.eu/corporate-governance/shareholders-assembly/#c41>

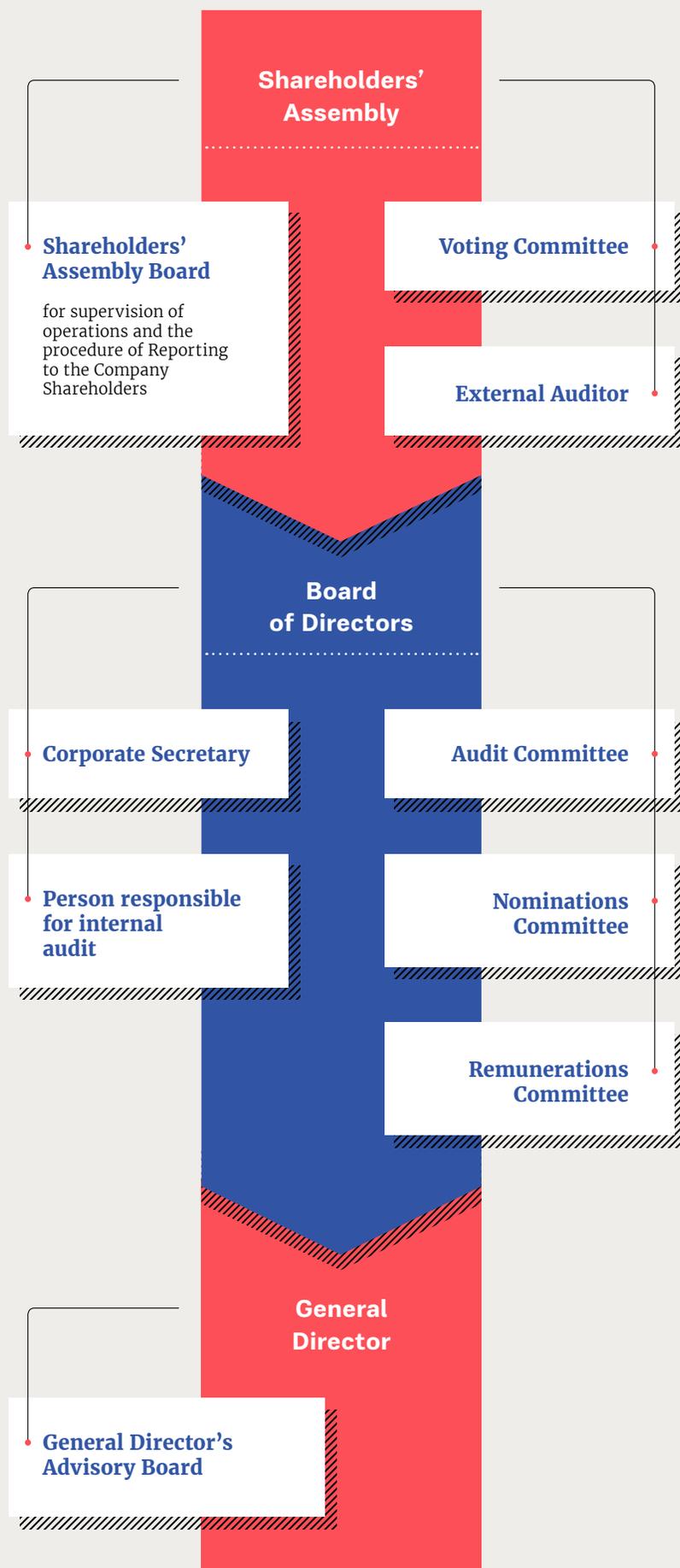
The rules regarding the method of convening meetings, operation and decision-making process of the Shareholders' Assembly, and particularly the issues relating to how shareholders exercise their rights in connection with the Shareholders' Assembly, are laid down in advance and incorporated into the corporate Rules of Procedure of the Shareholders' Assembly, which are made public and available to all shareholders.

A call for a meeting of the Shareholders' Assembly is posted on the corporate website (www.nis.eu), Serbian Business Registers Agency's website (www.apr.gov.rs) and the regulated market website (www.belex.rs) no later than 30 days before the date of an ordinary meeting and 21 days before an extraordinary meeting. At the same time, materials for the Shareholders' Assembly meeting are also made public and available for inspection to each shareholder or their proxy at the company headquarters pending the date of the meeting.

In addition to the information about the meeting time, venue and agenda, the call for a meeting of the Shareholders' Assembly also includes information on how the materials for the meeting have been made available to the shareholders, explanations of the shareholders' rights, manner and deadlines for the exercise of such rights, as well as information on the Shareholders' Day. Furthermore, proxy forms and ballots for voting in absentia, which are also available at the company headquarters, as well as electronic ballots, are also published along with the call.

Any decisions adopted by the Shareholders' Assembly are published on the corporate website together with the Voting Committee's report on voting results, minutes of the Shareholders' Assembly meeting, the list of attendees and invitees and the list of attending and represented company shareholders.

Calls and materials for Shareholders' Assembly meetings, decisions adopted and other documents



Corporate Bodies of NIS j.s.c. Novi Sad

published following a Shareholders' Assembly meeting are available in Serbian, Russian and English.

Special Shareholder Rights

The agreement for the sale and purchase of the shares of NIS j.s.c. Novi Sad, which was entered into on 24 December 2008 between PJSC 'Gazprom Neft' and the Republic of Serbia, stipulates that, as long as the parties to such agreement are shareholders of NIS j.s.c. Novi Sad, neither party shall sell, transfer or otherwise dispose of ownership of the shares package, in part or in its entirety, for the benefit of any third party, unless it previously offers to the other party the option of purchasing the shares package under the same terms as offered by the third party.

In accordance with Article 4.4.1 of the Agreement, as long as the Republic of Serbia is the shareholder holding no less than a 10-percent equity interest, it shall be entitled to such number of members on the Board of Directors as proportional to its equity interest.

Right to Participate in the Operation of the Shareholders' Assembly

The right to participate in and vote at the Shareholders' Assembly meeting is held by all shareholders who own NIS j.s.c. Novi Sad shares on the Shareholders' Day, which is the tenth day prior to the Shareholders' Assembly meeting, based on the records of the Central Securities, Depository and Clearing House.

The right to participate in the operation of the Shareholders' Assembly includes the rights of shareholders to vote and participate in the discussion about the issues on the agenda of the Shareholders' Assembly meeting, including the right to put forward motions, ask agenda-related questions and receive answers in accordance with the Law, Articles of Association and Rules of Procedure of the Shareholders' Assembly, which specifically establish the procedures for exercising such rights.

In accordance with the Articles of Association, the right to personally participate in the Shareholders' Assembly meeting is held by a company shareholder having at least 0.1% shares of the total number of

company shares, i.e. a proxy representing at least 0.1% the total number of company shares. Company shareholders who individually hold less than 0.1% the total number of company shares are eligible to participate in the Shareholders' Assembly meeting through a joint proxy, to vote in absentia or to vote electronically, regardless of the number of shares held, whereby all of the above voting methods have the same effect. The stipulation of a threshold for personal participation is due to the fact that the Company has a very large number of shareholders (about 2.1 million) and a threshold in these circumstances is necessary in order not to compromise the efficiency and rationality in terms of planning and holding Shareholders' Assembly meetings.

The Company makes it possible for all shareholders to grant an online proxy and vote online prior to the meeting, wherein the proxy, i.e. the ballot must be signed by a qualified electronic signature in accordance with the law governing electronic signatures.

Proposing Amendments to the Agenda

In accordance with the Articles of Association and the Law, one or more company shareholders holding at least 5% voting shares may put forward a motion to the Board of Directors with additional items for the agenda of the Shareholders' Assembly meeting which are put forward for discussion, as well as additional items put forward to the Shareholders' Assembly for decision-making.

Right to Raise Questions, Obtain Answers and Put Forward Motions

A company shareholder entitled to participate in the Shareholders' Assembly meeting may raise questions relating to the agenda items to be discussed in the Shareholders' Assembly meeting, as well as other company-related questions to the extent to which the answers to such questions are necessary for an adequate assessment of the issues relating to the agenda items of the Shareholders' Assembly meeting. Members of the Board of Directors answer any questions raised.

Voting Majority

As a rule, decisions of the Shareholders' Assembly are adopted by a simple majority of votes of attending company shareholders entitled to vote on the issue concerned, unless the Law, the Articles of Association or other regulations require more votes for certain issues.

Exceptionally, as long as the Republic of Serbia holds at least a 10-percent equity interest, the affirmative vote of the Republic of Serbia is required for the decisions of the Shareholders' Assembly concerning the following issues: adoption of financial statements and audit reports, amendment to the Articles of Association, decrease and increase in capital, status changes, acquisition and disposal of the Company's major assets, changes in core activity, corporate headquarters and dissolution of the Company.

Shareholders' Assembly Activities in 2017

In 2017, 9th Ordinary Shareholders' Assembly meeting was held in Belgrade, at the NIS Business Centre, at 1 Milentija Popovića Street (on 27 June 2017), and no extraordinary meetings were held.

At the 9th ordinary meeting, the Shareholders' Assembly adopted the financial and consolidated financial statements of the Company for the year 2016 with the independent auditor's opinion and appointed the auditor for 2017 (PricewaterhouseCoopers d.o.o. Beograd). In addition, it also adopted the 2016 Annual Report and the Report by independent auditor on the Audit of the Annual Report, the Report on the Analysis of the Operation of the Board of Directors and Committees of the Board of Directors, Annual Report of the Board of Directors of NIS j.s.c. Novi Sad on Accounting Practices, Financial Reporting Practices and Compliance of Business Operations with the Law and Other Regulations and the Report of the Shareholders' Assembly Board. Additionally, the Shareholders' Assembly adopted the Report on Suitability of the Composition of the Board of Directors and Number of Members of the Board of Directors of NIS j.s.c. Novi Sad to the Company Needs, and the Report on Evaluation of the Amount and Structure of Remuneration of the Members of the Board of Directors of NIS j.s.c. Novi Sad, which were prepared with the assistance of external experts.

Apart from this, the Shareholders Assembly adopted the Decision on Profit Distribution for 2016, Dividend Payment and Determination of the Total Amount of Retained Profit of the Company, deciding to allocate 25% net profit earned in 2016 for dividend payment, i.e. to pay a total of RSD 4.021 billion to the company shareholders.

The Shareholders' Assembly also appointed members of the Board of Directors as well as the Chairman and members of the Shareholders' Assembly Board for the Supervision of Operations and the Procedure for Reporting to the Company Shareholders for the current term of office and adopted information on the approval of transactions involving personal interest.

Shareholder Relations and Information Provision

In addition to the reports which NIS, being a public joint stock company, publishes in compliance with legislation and which are publicly available to all interested parties, including reports on business results presented to shareholders at the Shareholders' Assembly meeting, the Company has also developed a two-way communication with shareholders and investors, who are able to obtain all the necessary information on the Company and their rights throughout the year through the Offices for Minority Shareholders Relations in Novi Sad and Belgrade, a separate call centre, an e-mail service through which each shareholder may ask questions and receive answers online, as well as through the Investor Relations Service.

Besides, the Company arranges special presentations for shareholders and investors on the most important events and participates in the meetings with investment community representatives. Quarterly performance presentations are regularly attended by representatives of the top management. Both the results of the previous period and future plans and strategies of the Company are discussed in these presentations.

NIS j.s.c. Novi Sad applies the highest standards in terms of information provision, while respecting the principles of equal treatment of all information users and ensuring that the information published is equally and easily accessible to all stakeholders in the shortest time possible, making most use of its corporate website for this purpose. A special segment



More information
on dividend
payment
on page 79



More information
on Investor
Relations
on page 80

of the website intended for shareholders and investors contains the most important news, decisions of corporate bodies, responses to the most frequent shareholder questions in the previous period, as well as all relevant information on shares, shareholders' rights and dividends. All information and documents published on the website are available in Serbian, Russian and English. During 2017, the design of this segment of the website was significantly improved and the content was additionally enhanced to improve information provision and make this form of communication user-friendly for shareholders and investors. The mandatory reporting procedure is specified under special company acts governing the method and process of providing information and submitting it to competent authorities.

A mechanism for preventing and resolving potential conflicts between minority shareholders and the Company is also in place. There is a five-member committee to resolve complaints by minority shareholders, which acts in compliance with its Rules of Procedure.

The Rules, which are available on the corporate website, govern the procedures for minority shareholders to address the Committee, the operation during the meetings, duties and responsibilities of its members and other relevant issues.

Board of Directors

The Board of Directors has a central role in corporate governance. It is collectively responsible for the long-term success of the Company, for setting main business objectives and identifying the company's further courses of development, as well as for identifying and controlling the effectiveness of the corporate business strategy.

Members of the Board of Directors

Members of the Board of Directors are appointed and dismissed by the Shareholders' Assembly. By 27 June 2017, the Board of Directors had 11 members. However, 10 members of the Board of Directors were appointed at the 9th ordinary meeting of the Shareholders' Assembly. The members elect the Board of Directors' Chairperson, with the roles of the Board of Directors' Chairperson and the General Director being separated. Members of the

Board of Directors possess an appropriate combination of the required knowledge, skills and experience relevant to the type and scope of business activities conducted by NIS j.s.c. Novi Sad.

Member of the Board of Directors candidates may be proposed by the Nomination Committee or company shareholders owning individually or jointly at least 5% of the Company's shares.

The Board of Directors consists of executive and non-executive directors. Until 22 March 2017, the Board of Directors consisted of two executive members, with the other members of the Board of Directors being non-executive. Since 22 March 2017, it has had one executive member, while the other members are non-executive members, two of whom are also independent members of the Board of Directors meeting special statutory requirements.

The Board of Directors has a considerable number of foreign members with international experience and understanding of the challenges faced by the Company. Of the 10 members of the Board of Directors, six are Russian nationals, two are Serbian nationals, one is a French national, and one is an Austrian national.

Members of the Board of Directors must meet the requirements laid down by law, as well as special requirements laid down by the Articles of Association, whereof they make statements at the beginning of their term of office and are obliged to inform the Company of any changes in their status, especially those that might render them no longer eligible for members of the Board of Directors or which could present a conflict of interest or violate the non-compete obligation.

The term of office of the Board of Directors' members ends at the next ordinary meeting of the Shareholders' Assembly, except in the case of co-optation, when the term of office of co-opted members of the Board of Directors lasts until the first following Shareholders' Assembly meeting. When their term of office expires, every member of the Board of Directors may be reappointed without any restrictions as to the number of terms of office.



<http://ir.nis.eu/usefull-information/#c1745>



Changes in the Composition of the Board of Directors in 2017

At the 9th Ordinary Meeting of NIS j.s.c. Novi Sad held on 27 June 2017, the following members of the Board of Directors were appointed: Vadim Yakovlev, Kirill Tyurdenev, Danica Drašković, Alexey Yankevich, Kirill Kravchenko, Alexander Krylov, Nikola Martinović, Wolfgang Ruttendorfer, Anatoly Cherner, Stanislav Shekshnia, while Goran Knežević ceased to be a member of the Board of Directors of NIS j.s.c. Novi Sad on the day of the above-mentioned Shareholders' Assembly meeting.

Board of Directors' Members as of 31 December 2017



Vadim Yakovlev

Chairman of NIS j.s.c. Novi Sad Board of Directors
*Deputy Chairman of the Executive Board of PJSC
 "Gazprom Neft"; First CEO Deputy, in charge of
 exploration and production, strategic planning and
 mergers and acquisitions*

Born in 1970.

In 1993, Mr Yakovlev graduated from the Moscow Engineering Physics Institute, Department of Applied Nuclear Physics. Mr Yakovlev graduated from the Faculty of Finance at the International University in Moscow in 1995. Since 1999, he has been a qualified member of the ACCA (the Association of Chartered Certified Accountants). In 2009, he earned a degree from the British Institute of Directors (IoD). During his employment with PricewaterhouseCoopers from 1995 to 2000, Mr Yakovlev held various positions, from Consultant to Audit Manager. In the period 2001 to 2002, he served as Deputy Head of Finance and Economics Department, YUKOS EP c.j.s.c. From 2003 to 2004, he was the CFO of Yugansk Neftegaz, NK Yukos. From 2005 to 2006, Mr Yakovlev held the position of CEO Deputy in charge of economics and finance at SIBUR-Russian Tyres. From 2007 to 2010 he was CEO Deputy in charge of Economics and Finance at PJSC 'Gazprom Neft'. Since 2007, he has been Deputy Chairman of the Executive Board of PJSC 'Gazprom Neft'. From 2010 to 2011, he was the CFO of PJSC 'Gazprom Neft'. Since 2011, he has been the first deputy of the CEO of PJSC 'Gazprom Neft'.

Mr Yakovlev was elected member of the NIS j.s.c. Novi Sad Board of Directors on 10 February 2009. He was elected Chairman of the NIS j.s.c. Novi Sad Board of Directors on 31 July 2009.



Kirill Tyurdenev

General Director of NIS j.s.c. Novi Sad
Member of NIS j.s.c. Novi Sad Board of Directors

Born in 1977.

Graduated with honours from the School of International Relations (Bachelor's Degree with specialisation) and then obtained a Master's Degree in International Law (with specialisation) from the Moscow State Institute of International Relations (MGIMO). Also obtained a Master of Law (LL.M) degree from the University of Manchester. Completed executive education programmes at the international business school INSEAD and London Business School. From 2000 to 2004, worked for A.T. Kearney and Unilever. In 2004, joined McKinsey & Co. From 2007 to 2012, worked as Deputy CEO for Strategy and Corporate Development with SIBUR – Fertilisers. In 2012, joined JSFC Sistema, as Executive Vice-President and Executive Board Member. Before his arrival at NIS, Mr Tyurdenev held the position of the President and Chairman of the Executive Board at United Petrochemical Company, which was being acquired by JSFC Sistema at the time, and as Chairman of the Board of Directors of Ufaorgsintez. In April 2016, he joined NIS in the position of First Deputy of General Director for Refining, Sales and Distribution. Mr Tyurdenev was appointed General Director of NIS j.s.c. Novi Sad on 22 March 2017.

Mr Tyurdenev was elected member of the NIS j.s.c. Novi Sad Board of Directors on 8 December 2016.



Danica Drašković

Member of NIS j.s.c. Novi Sad Board of Directors

Born in 1945.

Ms Drašković graduated from the Faculty of Law, University of Belgrade in 1968. From 1968 to 1990, she worked in the field of finance in the banking sector, and in the field of law and commerce within the economic sector, and as a Belgrade City Magistrate. Ms Drašković is the owner of the publishing house Srpska Reč, founded in 1990. She has authored three books written in the opinion journalism style.

Ms Danica Drašković was a member of the NIS j.s.c. Novi Sad Board of Directors from 1 April 2009 to 18 June 2013, having been re-elected on 30 June 2014.



Alexey Yankevich

Member of NIS j.s.c. Novi Sad Board of Directors

CEO Deputy for Economics and Finance at PJSC 'Gazprom Neft'

Born in 1973.

In 1997, Mr Yankevich graduated from Saint-Petersburg State Electrical Engineering University (LETI), majoring in Optical Instruments and Systems. In 1998, he completed a course at LETI-Lovanium International School of Management in Saint-Petersburg. Mr Yankevich was employed with CARANA, a consulting company from 1998 to 2001. In the period 2001 to 2005, he served as Deputy Head of Planning, Budgeting and Controlling Department at YUKOS RM o.j.s.c. (business unit responsible for logistics and downstream operations). In 2004, he became a Certified Management Accountant (CMA). From 2005 to 2007, he worked as deputy CFO at LLK-International (production and sale of lubricants and special petroleum products; part of the LUKOIL group). From 2007 to 2011, he held the post of Head of Planning and Budgeting Department and was Head of Economics and Corporate Planning Department at PJSC 'Gazprom Neft'. Since August 2011 he has served as acting CEO Deputy for Economics and Finance at PJSC 'Gazprom Neft'. Mr Yankevich has been a member of the Management Board of PJSC 'Gazprom Neft' and Deputy CEO of PJSC 'Gazprom Neft' for Economics and Finance since March 2012.

Mr. Yankevich was elected member of the NIS j.s.c. Novi Sad Board of Directors on 18 June 2013.



Kirill Kravchenko

Member of NIS j.s.c. Novi Sad Board of Directors
*CEO Deputy for Organisational Affairs
 at PJSC 'Gazprom Neft'*

Born in 1976.

In 1998, Mr Kravchenko graduated with honours from Lomonosov Moscow State University with a degree in Sociology. He completed postgraduate studies at the same university. He continued his studies at the Open British University (Financial Management) and IMD Business School from 2003 to 2004. He holds a PhD in Economics and is a professor. Mr Kravchenko worked in consulting until 2000. From 2000 to 2004, he held various positions at YUKOS in Moscow and Western Siberia and at Schlumberger (under partnership programme with NK Yukos). In the period 2004 to 2007, he was the Administrative Manager at JSC MHK EuroChem Mineral and Chemical Company. On several occasions, Mr Kravchenko was elected member of the Board of Directors in major Russian and international companies. In April 2007, he was appointed Vice-Chairman at PJSC 'Gazprom Neft'. From January 2008 to March 2009, he was Deputy Chairman of the Management Board of PJSC 'Gazprom Neft', as well as CEO Deputy for Organisational Affairs. In the period from March 2009 until July 2017, he was CEO Deputy of PJSC 'Gazprom Neft' for Foreign Asset Management. Since July 2017 he has been CEO Deputy for Organisational Affairs at PJSC 'Gazprom Neft'. From February 2009 to 22 March 2017, he was General Director of NIS j.s.c. Novi Sad.

Mr Kravchenko was elected member of the NIS j.s.c. Novi Sad Board of Directors on 10 February 2009.



Alexander Krylov

Member of NIS j.s.c. Novi Sad Board of Directors
*Director of the Regional Sales Department
 at PJSC 'Gazprom Neft'*

Born in 1971.

In 1992, Mr Krylov graduated from LMU (Leningrad) and in 2004, he graduated from the Faculty of Law of Saint Petersburg State University. In 2007, he earned an MBA degree from Moscow International Business School MIRBIS, specialising in Strategic Management and Entrepreneurship. From 1994 to 2005, Mr Krylov held managerial positions in the field of real estate sales (Chief Executive Officer, Chairman) with the following companies: Russian-Canadian SP Petrobild; c.j.s.c. Alpol. From 2005 to 2007, he was Deputy Head of the Sales Department at Sibur Ltd. Since April 2007 to date, Mr Krylov has been serving as Head of the Petroleum Product Supply Department, Head of the Regional Sales Department and Director of the Regional Sales Department at PJSC 'Gazprom Neft'.

Mr Krylov was elected member of the NIS j.s.c. Novi Sad Board of Directors on 29 November 2010.



Nikola Martinović

Member of NIS j.s.c. Novi Sad Board of Directors

Born in 1947.

Mr Martinović completed his primary education in Feketić, and secondary in Srbobran. He graduated from the Faculty of Economics in Subotica, where he also defended his Master's Thesis, titled 'Transformation of Tax System in Serbia by Implementing VAT'. From 1985 to 1990, he was the CEO of Solid from Subotica, and from 1990 to 1992, he served as Assistant Minister of the Interior of the Republic of Serbia. From 1992 to 2000, Mr Martinović held the position of Assistant CEO of Naftna Industrija Srbije in charge of financial affairs and was the CEO of Naftagas Promet from 1996 to 2000. From 2005 to 31 August 2013, Mr Martinović worked as a Special Advisor at NIS j.s.c. Novi Sad. On 1 September 2013, he was appointed Special Advisor to the CEO of O Zone a.d. Beograd, and from 15 December 2013 until retirement on 17 November 2014, he performed the duties of the Advisor to the Director of NTC NIS Naftagas d.o.o. Novi Sad. He has been a member of the Council of the Governor of the National Bank of Serbia since 22 November 2011.

Mr Martinović was a member of the Naftna Industrija Srbije/NIS j.s.c. Novi Sad BoD from 2004 to 2008, and he was re-elected on 10 February 2009.



Wolfgang Rutenstorfer

Independent Member of NIS j.s.c. Novi Sad Board of Directors

Born in 1950.

In 1976, he majored in Economics and Business Administration at the Vienna University of Economics and Business. He holds a PhD degree. Mr. Rutenstorfer's career started with the Austrian OMV in 1976. In 1985, he was transferred to the Planning and Control Department and in 1989, he became responsible for the strategic development of the OMV Group. Being appointed Marketing Director in 1990, he became a member of the Executive Board in 1992 and was in charge of finance and chemical products. He was a member of the OMV EB by early 1997, when he was appointed Deputy Minister of Finance. On 1 January 2000, he was re-appointed a member of the OMV EB, being in charge of finance by April 2002 and gas operations by December 2006. In the period from 1 January 2002 to 31 March 2011, Mr Rutenstorfer was the Chairman of the Executive Board of the OMV Group. Mr. Rutenstorfer was or still is a member of the Board of Directors of companies such as VIG, Roche, RHI AG and Telekom Austria.

He was elected Independent Member of the NIS j.s.c. Novi Sad Board of Directors on 20 April 2012.



Anatoly Cherner

Member of NIS j.s.c. Novi Sad Board of Directors
Deputy Chairman of the Executive Board, CEO Deputy for logistics, refining and sales at PJSC 'Gazprom Neft'

Born in 1954.

Mr Cherner graduated from Grozny Oil Institute in 1976, majoring in Oil and Gas Chemical Engineering. From 1976 to 1993, he was employed with the Sheripov Grozny Refinery, starting as an operator and ending up as a refinery director. In 1996, he joined SlavNeft as Head of the Oil and Petroleum Product Trading Department and was later appointed Vice-Chairman of the company. In April 2006, he was appointed Vice-Chairman for refining and marketing at SibNeft (Gazprom Neft since June 2006).

Mr Cherner was elected member of the NIS j.s.c. Novi Sad Board of Directors on 10 February 2009.



Stanislav Shekshnia

Independent Member of NIS j.s.c. Novi Sad Board of Directors
Professor at the International Business School INSEAD

Born in 1964.

Mr Shekshnia serves as the Chief of Practice at the Talent Performance and Leadership Development Consulting Department. He is the manager of Talent Equity Institute and a senior partner at Ward Howell. He teaches Entrepreneurial Leadership at the International Business School INSEAD. Mr Shekshnia has more than 15 years of hands-on experience in management. He held the following positions: CEO of Alfa Telecom, Chairman and CEO of Millicom International Cellular, Russia and CIS, Chief Operating Officer at Vimpelkom, Head of Personnel Management at OTIS Elevator, Central and East Europe. He was a member of LLC SUEK and c.j.s.c. Vimpelkom-R Boards of Directors.

Mr Shekshnia was elected Independent Member of the NIS j.s.c. Novi Sad Board of Directors on 21 June 2010.

Composition of the Board of Directors as at 31 December 2017

Position	Name and surname	Date of first appointment for BoD	Executive Director	Non-Executive Director	Independent Director	Citizenship
BoD Chairman	Vadim Yakovlev	10 February 2009		X		Russian
General Director	Kirill Tyurdenev	8 December 2016	X			Russian
BoD Member	Alexey Yankevich	18 June 2013		X		Russian
BoD Member	Kirill Kravchenko	10 February 2009		X		Russian
BoD Member	Alexander Krylov	29 November 2010		X		Russian
BoD Member	Nikola Martinović	24 September 2005 ¹		X		Serbian
BoD Member	Danica Drašković	1 April 2009 ²		X		Serbian
BoD Member	Wolfgang Ruttendorfer	20 April 2012		X	X	Austrian
BoD Member	Anatoly Cherner	10 February 2009		X		Russian
BoD Member	Stanislav Shekshnia	21 June 2010		X	X	French

1 Nikola Martinović was a member of the NIS j.s.c. Novi Sad Management Board (today known as the Board of Directors) from 24 September 2005 to 29 February 2008 and was re-elected a member on 30 September 2008. Prior to his appointment to the Management Board of NIS j.s.c. Novi Sad, he was a member of the Management Board of the public enterprise NIS – Naftna Industrija Srbije from 1 April 2004 to 23 September 2005.

2 Danica Drašković was a member of the NIS a.d. Novi Sad Board of Directors (former Management Board) from 1 April 2009 to 18 June 2013 and was reappointed a member of the Board of Directors on 30 June 2014.

Board of Directors' Activities in 2017

The Board of Directors held 2 meetings with personal attendance of the members and 19 correspondence meetings. Average attendance of members at the meetings of the Board of Directors was 99.24%, with the lowest percentage of attendance at a meeting of the Board of Directors being 90.90%.

In addition to the regular activities such as consideration of the Annual Report of NIS j.s.c. Novi Sad, corporate Financial Statements and Consolidated Financial Statements for 2016, adoption of periodic (quarterly) corporate reports in 2017, convening of a regular shareholders meeting, adoption of the corporate Business Plan, determining the day, procedure and method of dividend payment to company shareholders, the following was also on the agen-

da of the Board of Directors: decision to approve conversion of a part of the receivables of NIS j.s.c. Novi Sad from HIP Petrohemija a.d. Pančevo into the equity of HIP Petrohemija a.d. Pančevo, to sell the shares of Jubmes banka a.d. Beograd and Dunav osiguranje a.d.o. Beograd, wind up the company branch office in Turkmenistan, terminate the participating interest in DOO Jedinstvo Velika Greda and approve a change in the repayment period of subordinated and financial loans between NIS j.s.c. Novi Sad and the subsidiaries abroad (NIS PETROL EOOD, Republic of Bulgaria, NIS PETROL S.R.L. Romania and NIS PETROL doo Banja Luka, Republic of Srpska). The Board of Directors also appointed a new General Director of the Company, as well as the representative of the company branches in the Republic of Serbia, and also approved several proposals for dismissal and appointment of the company

representatives in the bodies of NIS j.s.c. Novi Sad subsidiaries. With a view to achieving the projected objectives of the Company, overseeing company performance and quality of corporate governance, the Board of Directors considered business analyses for the reporting period with forecasts of NIS j.s.c. Novi Sad business operations by the end of 2017 in its quarterly reports, as well as its Report on the Post-Investment NIS j.s.c. Novi Sad Project Monitoring in Serbia and Abroad. In view of reviewing its own performance, the Board of Directors analysed its own work as well and submitted a relevant Re-

port for the 9th Ordinary Meeting of the Shareholders' Assembly. The Board also reviewed the results with reference to key performance indicators for 2016, as well as the system of the key performance indicator evaluation for 2017. The Board of Directors also adopted the Integrated Corporate Development Strategy of NIS j.s.c. Novi Sad for the period by 2025.

In 2017, the Board of Directors rendered 66 decisions, and their enforcement was monitored through periodic reports on the implementation of the decisions and orders of the Board of Directors.

Attendance at the Meetings of the Board of Directors and Board of Directors' Committees

BoD Member	Board of Directors		Audit Committee		Remunerations Committee		Nominations Committee	
	% of attendance	Number of meetings	% of attendance	Number of meetings	% of attendance	Number of meetings	% of attendance	Number of meetings
Vadim Yakovlev BoD Chairman	100%	21/21	-	-	-	-	-	-
Kirill Tyurdenev ¹ General Director	100%	21/21	-	-	-	-	-	-
Alexey Yankevich	100%	21/21	100%	6/6	-	-	-	-
Kirill Kravchenko ²	100%	21/21	-	-	-	-	100%	1/1
Alexander Krylov	100%	21/21	-	-	-	-	-	-
Nikola Martinović	100%	21/21	100%	-	-	-	-	-
Goran Knežević ³	91.67%	11/12	-	-	-	-	100%	1/1
Danica Drašković	100%	21/21	-	-	-	-	-	-
Wolfgang Rutenstorfer	100%	21/21	100%	6/6	-	-	-	-
Anatoly Cherner	100%	21/21	-	-	100%	2/2	-	-
Stanislav Shekshnia	100%	21/21	-	-	100%	2/2	100%	1/1
Members of the BoD's Committees who are not members of the BoD								
Nenad Mijailović	-	-	100%	6/6	-	-	-	-
Zoran Grujičić	-	-	-	-	100%	2/2	-	-
<p>¹ General Director since 22 March 2017.</p> <p>² General Director until 21 March 2017.</p> <p>³ Member of the Board of Directors and Chairman of Nomination Committee until 27 June 2017.</p>								

Board of Directors' Rules of Procedure and Meetings

The Rules of Procedure of the Board of Directors and Committees of the Board of Directors of the Company (hereinafter 'The Rules of Procedure of the Board of Directors') govern the operation and decision-making process of the Board of Directors and Committees of the Board of Directors of the Company, including the procedure for convening and holding meetings.

The Board of Directors adopts a work plan for each fiscal year which includes all issues to be considered in accordance with the relevant laws and company business needs and establishes the deadlines for these issues to be considered in the meetings of the Board of Directors. In addition to planned issues, the Board of Directors also considers other issues under its competence, as required.

In order for the members of the Board of Directors to be adequately informed before making decisions and to keep up to date with the activities of the Company, the General director and the Management of the Company ensure that the members of the Board of Directors receive timely, accurate and complete information on all issues considered at meetings, as well as on all other important issues concerning the Company. Meetings of the Board of Directors are prepared with the help of the Corporate Secretary and under the supervision of the Chairman of the Board of Directors, so that each member can provide an adequate contribution to the work of the Board of Directors.

The Board of Directors takes decisions by a simple majority of votes of all members of the Board of Directors, except for the decision to co-opt, which is made by a simple majority of votes of attending members, and decisions requiring a different majority under the Law and/or the Articles of Association. Each member of the Board of Directors has one vote.

Board of Directors and Committee Members' Remunerations

Remuneration Policy – In 2016, the Shareholders' Assembly adopted the current Policy for Remunerating Members of the Board of Directors and Members of Committees of the Board of Directors. The Policy provides that the remuneration should be attractive and competitive to attract and retain the persons meeting professional and other criteria required for the Company as members of the Board of Directors and members of the Committees of the Board of Directors. At the same time, the remuneration should not significantly deviate from the compensation paid to members of the Board of Directors and members of the Board of Directors Committees in other companies with the same or similar activities, size and scope of operations.

The remuneration policy provides that remuneration for executive directors is specified under an employment contract or another contract of hire for each executive director of the Company, without them receiving any compensation for membership on the Board of Directors and Committees of the Board of Directors, except for the compensation of costs and professional liability insurance in connection with the membership and work as part of the Board of Directors and its Committees.

Remuneration Structure – The remuneration policy stipulates that the remuneration consists of:

- Fixed portion;
- Reimbursement of expenses; and
- Liability insurance of members of the Board of Directors and Committees of the Board of Directors.

Fixed (permanent) portion of the remuneration to members consists of a fixed portion of the annual membership fee for the Board of Directors and the fixed annual fee for participation in the Committees of the Board of Directors. Such type of remuneration includes the fee for the time and effort of the members of the Board of Directors or members of the Committees of the Board of Directors, with respect to their role and is related to the preparation and active participation in the meetings of the Board of Directors or Committees of the Board of Directors, which requires the members to study the documents in advance, be present and take an active part in the meetings.

Reimbursement of expenses – Members of the Board of Directors and Committees of the Board of Directors are entitled to reimbursement for all expenses incurred in connection with their membership on the Board of Directors or Committees of the Board of Directors, within the limits of norms determined by internal corporate acts.

Liability insurance of members of the Board of Directors – Members of the Board of Directors are entitled to liability insurance (Directors & Officers Liability Insurance) in accordance with internal corporate acts.

Amendment to the Remuneration Policy – In order to maintain the remuneration at an appropriate level, the Remuneration Policy is subject to periodic reviews and analyses, and should reflect the needs, abilities and interests of the Company and other changes in relevant criteria. As recommended by the Remuneration Committee, the Shareholders' Assembly Meeting adopted the current Remuneration Policy for the members of the Board of Directors and Committees of the Board of Directors on 28 June 2016, when the previous policy version ceased to apply.

Remuneration Committee Report – At least once a year, the Remuneration Committee prepares a report on the assessment of the amount and structure of remuneration for the Shareholders' Assembly of the Company. Acting within its competence, the Remuneration Committee carried out a 2017 evaluation of the adequacy of the amount and structure of remuneration of members of the Board of Directors against the principles, framework and criteria defined by the current Remuneration Policy. Consequently, it compiled an appropriate Report adopted in the 9th ordinary meeting of the Shareholders Assembly, held on 27 June 2017. Based on the results presented and the analysis of the remuneration market, this Report concludes that the annual amount of the fixed remuneration for non-executive members of the Board of Directors is at the level of the appropriate reference group,

that the structure of monetary compensation for independent members of the Board of Directors corresponds to current market practice, and that the fee amount and structure for the members of the Board of Directors is in accordance with the principles, framework and criteria provided for by the current Policy for Remunerating Members of the Board of Directors and Members of Committees of the Board of Directors.

Long-Term Incentive Programme

The long-term incentive programme for non-executive directors and members of governing bodies is subject to separate Rules on the Long-Term Incentive Programme for Non-Executive Directors and Members of Governing Bodies, which lay down the programme's underlying principles and parameters.

The programme is one of the key elements of the incentive system for non-executive directors and members of governing bodies of the Company, aimed at stimulating non-executive directors and members of governing bodies towards the fulfilment of the Company's long-term objectives.

The purpose of the long-term incentive programme is to create a link between the interests of programme participants and the long-term interests of the Company and Company Shareholders, ensure incentives for programme participants enabling a sustainable development of the Company in the long run and the fulfilment of its strategic objectives, which incentives, in turn, reflect the possibilities and requirements of the Company and are tied to the positive performance of the Company during a period sufficient to establish that an added value has been made for Company Shareholders.

The long-term incentive programme is divided into consecutive cycles. Programme parameters and method of inclusion into the programme are defined in advance in the foregoing Rules, whereas the premiums are paid following the completion of a full cycle.

Total amount paid to Board of Directors members in 2017, net RSD

BoD Members	175,436,178
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Induction and Training of the Board of Directors' Members

Upon appointment, members of the Board of Directors are introduced to the Company's operations, allowing them greater insight into how the Company does business, its strategy and plans, the key risks that it faces, and their expedited active involvement in the activities of the Board of Directors. This includes, among other things, becoming familiarised with internal company acts, providing basic information about the Company, corporate governance, persons appointed to managerial positions, information on the corporate performance, business strategy, business plan, objectives, and other information necessary for them to perform their duties.

The Company also organises special programmes for additional training and development and provides special funds for these purposes in cases where members of the Board of Directors express the need for this.

Analysis Of The Board of Directors' Activities

The Board of Directors analyses its work and the work of the Committees on an annual basis in order to identify potential problems and propose measures to improve the work of the Board of Directors.

The work is analysed on the basis of a survey completed by members of the Board of Directors and containing two groups of key questions to evaluate the work of the Board of Directors. The first group comprises criteria for evaluating the work of the Board of Directors with respect to objectives, duties and responsibilities of the Board of Directors, while the second group comprises criteria for evaluating

the procedures applied in the work of the Board of Directors.

The evaluation results, based on the responses of members of the Board of Directors to the survey, are presented to the Shareholders' Assembly in a special report.

Strategic Meetings

In strategic meetings during 2017, members of the Board of Directors continued to consider and review both the priority development objectives of the Company, the forecasts of key performance indicators and the assumptions for the long-term development of the Company. The work on developing and approving the updated Corporate Development Strategy by 2025 was intensified, so, at the meeting held on 7 June 2017, members of the Board of Directors discussed the information on the approval status of the Integrated Corporate Strategy of NIS j.s.c. Novi Sad by 2025. The final version of the Strategy was adopted in the meeting of the Board of Directors on 29 November 2017.

Membership in Other Companies' Boards of Directors or Supervisory Boards

Vadim Yakovlev	<ul style="list-style-type: none"> • JSC NGK Slavneft • JSC SN-MNG • LTD GPN Development (Chairman of BoD) • JSC Gazprom Neft – NNG (Chairman of BoD) • LTD Gazprom Neft – East (Chairman of BoD) • LTD Gazprom Neft – Hantos (Chairman of BoD) • LTD Gazprom Neft – NTC (Chairman of BoD) • LTD Gazprom Neft – Orenburg (Chairman of BoD) • LTD Gazprom Neft – Sahalin • Salim Petroleum Development N.V. (Supervisory Board member) • JSC Tomskneft VNK (Chairman of BoD) • LTD Gazprom Neft Shelf
Kirill Tyurdenev	–
Alexey Yankevich	<ul style="list-style-type: none"> • JSC NGK Slavneft • JSC Gazprom Neft – Aero • LTD Gazprom Neft – SM • LTD Gazprom Neft Business-Service (Chairman of BoD) • Gazprom Neft Lubricants Italy SPA (Chairman of BoD) • LTD Gazprom Neft Marine Bunker • LTD Gazprom Neft Shelf
Kirill Kravchenko	<ul style="list-style-type: none"> • Vice-Chairman of the National Petroleum Committee of the Republic of Serbia • Serbian Tennis Federation (BoD Member) • SAM Managing Board Member – Serbian Association of Managers • LTD ITSK (Chairman of BoD)
Alexander Krylov	<ul style="list-style-type: none"> • JSC Gazprom Neft – Novosibirsk (Chairman of BoD) • JSC Gazprom Neft – Tyumen (Chairman of BoD) • JSC Gazprom Neft – Ural (Chairman of BoD) • JSC Gazprom Neft – Yaroslavl (Chairman of BoD) • JSC Gazprom Neft – Northwest (Chairman of BoD) • LTD Gazprom Neft Asia (Chairman of BoD) • LTD Gazprom Neft – Tajikistan (Chairman of BoD) • LTD Gazprom Neft – Kazakhstan (Chairman of BoD) • LTD Gazprom Neft – Centre (Chairman of BoD) • JSC Gazprom Neft – Terminal (Chairman of BoD) • LTD Gazprom Neft – Regional sales (Chairman of BoD) • JSC Gazprom Neft – Transport (Chairman of BoD) • LTD Gazprom Neft – Krasnoyarsk (Chairman of BoD) • LTD Gazprom Neft – Corporate Sales (Chairman of BoD) • LTD Gazprom Neft – Belnefteprodukt (Chairman of BoD) • JSC Gazprom Neft – Alternative Fuels (Chairman of BoD) • LTD ITSK • LTD Gazprom Neft – Laboratory (Chairman of BoD)
Nikola Martinović	–
Danica Drašković	–
Wolfgang Ruttenstorfer	<ul style="list-style-type: none"> • Flughafen Wien AG, Vienna (Member of the Supervisory Board) • RHI AG, Vienna (Member of the Supervisory Board) • Telekom Austria (Chairman of the Supervisory Board)
Anatoly Cherner	<ul style="list-style-type: none"> • JSC NGK Slavneft • JSC Gazprom Neft – ONPZ (Chairman of BoD) • JSC Slavneft – JANOS • JSC Gazprom Neft – MNPZ • JSC Gazprom Neft – Aero (Chairman of BoD) • JSC Saint-Petersburg International Mercantile Exchange • LTD Gazprom Neft – SM • LTD Gazprom Neft Marine Bunker (Chairman of BoD) • LTD Gazprom Neft – Logistics (Chairman of BoD) • JSC Mozirski NPZ • Gazprom Neft Lubricants Italy SPA • LTD Gazprom Neft – Catalytic Systems (Chairman of BoD) • LTD Automatica-Service (Chairman of BoD)
Stanislav Shekshnia	<ul style="list-style-type: none"> • Dentsu Aegis Network Russia (Member of BoD) • NLMK (Member of BoD) • LTD Russian Fishery Company (Member of BoD)

Board of Directors' Committees

With a view to ensuring the efficient performance of its activities, the Board of Directors established three standing committees as its advisory and expert bodies providing assistance to its activities, especially in the consideration of issues within its scope of competence, preparation and control of the enforcement of decisions and documents adopted, and performance of certain specialised tasks for the Board of Directors.

The Board of Directors established the following committees:

- Audit Committee
- Remuneration Committee and
- Nomination Committee.

As appropriate, the Board of Directors may establish other standing or *ad hoc* committees to deal with the issues relevant for the activities of the Board of Directors.

Each of the three committees is composed of three members, appointed and relieved of duty by the Board of Directors. One of the members is appointed by the Board of Directors as a Chairperson to manage the activities of the Committee, prepare, convene and chair its meetings, and perform other activities required for the activities within its scope of competence.

Most members of each committee are non-executive directors and at least one member must be an independent director of the Company. The Board of Directors may also appoint persons who do not hold managerial positions at the Company but who have the relevant skills, competencies and professional experience to perform the Committee's activities.

The role, scope of competence and responsibilities of the Committees are defined by the Law and the Rules of Procedure of the Board of Directors, which also provide for the composition, appointment criteria and number of members, term of office, dismissal, work method and other relevant issues relating to the activities of the Board of Directors' committees.

At least once a year, the Board of Directors' Committees are to prepare and submit reports to the Board of Directors on the issues falling within their scope of competence, and the Board of Directors may request that the reports on all or certain issues within their competence be submitted in a shorter period of time.

The Board of Directors and its Committees may make use of the professional advice of independent experts if this is required for an efficient discharge of their obligations.

Audit Committee

In addition to the general requirements regarding the composition of the Board of Directors' Committees, the position of the Chairperson of the Audit Committee must be held by an independent director of the Company, while at least one member must be a certified auditor or a person having relevant knowledge and professional experience in finance and accounting and not being employed by the Company.

The term of office of members of the Audit Committee in the previous term lasted until the 9th Ordinary Shareholders' Assembly meeting of NIS j.s.c. Novi Sad, i.e. until 27 June 2017, by which time this Committee was composed as follows:

- Wolfgang Ruttenstorfer, Chairman of the Audit Committee,
- Alexey Yankevich, Member of the Audit Committee, and
- Nenad Mijailović, Member of the Audit Committee.

Until the end of their term of office in 2017, the Audit Committee held 2 meetings with the personal attendance of the members, and 4 correspondence meetings. Among other things, the Committee analysed the Quarterly Report, Financial Statements and the Consolidated Financial Statements for the first quarter of 2017, giving appropriate recommendations thereon to the Board of Directors of Directors. The Audit Committee also examined the Annual Report, Financial Statements and Consolidated Financial Statements for 2016, as well as the reports of the independent auditor PricewaterhouseCoopers d.o.o. Beograd on the audit of these reports. The Committee gave its opinion on

the competence and independence of the auditor PricewaterhouseCoopers d.o.o. Beograd in relation to the Company. Further, the Audit Committee formulated an Annual Plan for Conducting the Internal Audit Procedure at NIS j.s.c. Novi Sad in 2017, discussed the audit findings and significant audit issues for 2016 and monitored the implementation of the auditor's recommendations provided in the letter to the management ('Management Letter Points') of NIS j.s.c. Novi Sad in 2016 as at 28 February 2017. The Audit Committee reviewed the Report of the Internal Audit Function with results of the internal audit of NIS j.s.c. Novi Sad for 2016 and submitted an appropriate report on its activities to the Board of Directors.

Remuneration Committee

The term of office of members of the Remuneration Committee in the previous term lasted until the 9th Ordinary Shareholders' Assembly meeting of NIS j.s.c. Novi Sad, i.e. until 27 June 2017, by which time this Committee was composed as follows:

- Stanislav Shekshnia, Chairman of the Remuneration Committee,
- Anatoly Cherner, Member of the Remuneration Committee, and
- Zoran Grujičić, Member of the Remuneration Committee.

Until the end of their term of office in 2017, the Remuneration Committee held 1 meeting with personal attendance of the members and 1 correspondence meeting. The Committee reviewed the results of fulfilment of key performance indicators for 2016 and prepared a proposal for the fees for the auditor of Financial and Consolidated Financial Statements of NIS j.s.c. Novi Sad for 2017. The Remuneration Committee prepared the Report on Evaluation of the Amount and Structure of Remuneration of Members of the Board of Directors of NIS j.s.c. Novi Sad, which was submitted for consideration to the Shareholders' Assembly, at the meeting held on 27 June 2017. The Committee also submitted an appropriate report on its activities to the Board of Directors.

Nomination Committee

The term of office of members of the Nomination Committee in the previous term lasted until the 9th Ordinary Shareholders' Assembly meeting of NIS j.s.c. Novi Sad, i.e. until 27 June 2017, by which time this Committee was composed as follows:

- Goran Knežević, Chairman of the Nomination Committee,
- Kirill Kravchenko, Member of the Nomination Committee and,
- Stanislav Shekshnia, Member of the Nomination Committee.

Until the end of their term of office in 2017, the Nomination Committee held 1 correspondence meeting. The Nomination Committee prepared a Report on Suitability of the Composition of the Board of Directors and Number of Members of the Board of Directors of NIS j.s.c. Novi Sad to the Needs of NIS j.s.c. Novi Sad, which was submitted for consideration to the Shareholders' Assembly at the meeting held on 27 June 2017, and the Committee also submitted an appropriate report on its activities to the Board of Directors.



Shareholders' Assembly Board

The Shareholders' Assembly Board for the Supervision of Operations and the Procedure for Reporting to Company Shareholders (hereinafter 'The Shareholders' Assembly Board') is a body of advisors and experts providing assistance to the Shareholder's Assembly with respect to its activities and consideration of issues within its scope of competence. Members of the Shareholders' Assembly Board report to the Shareholders' Assembly, which appoints them and relieves them of duty.

In accordance with the powers provided by the Articles of Association, the Shareholders' Assembly Board provides its opinion, among other things, on the following matters: reporting to the Shareholders' Assembly on the application of accounting practices, financial reporting practices at the Company and its subsidiaries; reporting to the Shareholders' Assembly concerning the credibility and completeness of reports to the company shareholders on relevant facts; proposed methods for profit distribution and other payments to company shareholders; procedures for performing independent audit of the Company's financial

statements; internal audit activities within the Company and assessment of internal audit activities at the Company; proposals for the incorporation or liquidation of companies in which the Company holds a share in equity, as well as the Company's branch offices; proposals for the acquisition and sale of shares, stakes and/or other interests the Company holds in other companies, and the assessment of how the Company handles complaints filed by company shareholders.

Members of the Shareholders' Assembly Board as at 31 December 2017

At the 9th Ordinary Shareholders' Assembly held at 27 June 2017, all members of the Shareholders' Assembly Board whose term of office ended were re-elected. As a result, there were no changes in the composition of the Shareholders' Assembly Board in 2017 and its members are as follows:

- Nenad Mijailović (Chairman),
- Zoran Grujičić (Member),
- Alexey Urusov (Member).



Nenad Mijailović

Chairman of the Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders

Born in 1980.

Mr Mijailović graduated from the Faculty of Economics, University of Belgrade in 2003. In 2007, he obtained a Master's Degree from the University of Lausanne, Switzerland. In 2010, he started his PhD studies at the Faculty of Economics, University of Belgrade. In 2011, he obtained an international CFA licence in the field of Finance. From 2003 to 2009, he worked as a finance and banking consultant and manager in the following companies: Deloitte Belgrade, AVS Fund de Compensation Geneve, JP Morgan London, and KBC Securities Corporate Finance Belgrade. From December 2009 to August 2012, Mr Mijailović served as Advisor to the Minister in the Ministry of Economy and Regional Development, Department of Economy and Privatisation. In August 2012, he was appointed Deputy Minister of Finance and Economy of the Republic of Serbia. Since August 2014, he has been serving as the State Secretary in the Ministry of Finance of the Republic of Serbia. Mr Mijailović was a member of NIS j.s.c. Novi Sad BoD from 18 June 2013 to 30 June 2014.

He was appointed Chairman of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders on 30 June 2014.



Zoran Grujičić

Member of the Shareholders' Assembly Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Novi Sad Shareholders

Born in 1955.

Mr Grujičić graduated from the Faculty of Mechanical Engineering, University of Belgrade. From 1980 to 1994, he was employed with Heat Transfer Appliances Plant 'Cer' in Čačak, where he held a variety of positions, including General Manager, Technical Manager, Production Manager and Design Engineer. From May 1994 to February 1998, he served as Advisor to the General Manager of Interkomerc, Belgrade. From February 1998 to June 2004, he was Managing Director of MNG Group d.o.o. Čačak. From June 2004 to February 2007, he was Managing Director of the Trading Company Agrostroj j.s.c. Čačak, Managing Director of the limited partnership company Leonardo from Čačak and Managing Director of the Vojvodina Highway Centre. Since February 2007, Mr Grujičić has been employed with NIS j.s.c. Novi Sad and has held the following positions: Deputy Director of Logistics Department, Jugopetrol; Head of RC Čačak at Retail Department – Čačak Region; Retail Network Development Manager at Development Department, Sales and Distribution. From 1 October 2012 to January 2016, he served as Advisor to the Sales and Distribution Director, and in February 2016, he became Advisor to the Director of External and Governmental Relations. Since October 2017, he has been Advisor to the General director.

He was appointed member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders on 30 June 2014.



Alexey Urusov

***Member of the Shareholders' Assembly Board for
the Supervision of Operations and Procedure for
Reporting to NIS j.s.c. Novi Sad Shareholders
Director of Economics and Corporate Planning
Department at PJSC 'Gazprom Neft'***

Born in 1974.

Mr Urusov graduated from the Tyumen State University (specialist in finance) and the University of Wolverhampton in the United Kingdom (BA (Hons) Business Administration). Mr Urusov holds a Master's Degree in Sociology. From 2006 to 2008, he worked as executive vice-president for planning and performance management at the Integra Group. From 2002 to 2006, he worked at TNK-VR. From 2002 to 2003, Mr Urusov was a member of TNK BoD's Group for monitoring and control, and in period from 2004 to 2006 worked as CFO at TNK-VR Ukraine. From 2009 to 2012, Mr Urusov was employed with NIS j.s.c. Novi Sad as Chief Financial Officer. Since 2012, he has been the Director of Economics and Corporate Planning Department at PJSC 'Gazprom Neft'.

He was appointed member of the NIS j.s.c. Novi Sad Board for the Supervision of Operations and Procedure for Reporting to NIS j.s.c. Shareholders on 25 June 2012.

Activities of the Shareholders' Assembly Board in 2017

In 2017, the Shareholders' Assembly Board held 9 correspondence meetings. The Shareholders' Assembly Board reviewed the Company's periodic reports: quarterly reports, quarterly financial and consolidated financial statements for the first, second and third quarters of 2017. In addition to the foregoing, the Shareholders' Assembly Board also considered proposals for: approving the conversion of a part of the receivables of NIS j.s.c. Novi Sad from HIP Petrohemija a.d. Pančevo into the equity of HIP Petrohemija a.d. Pančevo, sale of shares of NIS j.s.c.

Novi Sad shares in Jubmes banka a.d. Beograd and Dunav osiguranje a.d.o. Beograd, winding up of the Company branch office in Turkmenistan, termination of the participating interest in DOO Jedinstvo Velika Greda and approving a change in the repayment period of subordinated and financial loans between NIS j.s.c. Novi Sad and its subsidiaries abroad (NIS PETROL EOOD, Republic of Bulgaria, NIS PETROL S.R.L. Romania and NIS PETROL doo Banja Luka, Republic of Srpska). In 2017, the Shareholders' Assembly Board made 42 conclusions.

A total amount of fees paid to SAB members in 2017, net RSD

Members of SAB

17,371,154



Membership In Other Companies' Boards of Directors or Supervisory Boards

Nenad Mijailović	-
Zoran Grujičić	-
Alexey Urusov	<ul style="list-style-type: none"> • Gazprom Neft Marine Bunker Balkan S.A. (Member of the Supervisory Board) • AS Baltic Marine Bunker (Member of BoD) • LTD Gazprom Neft – Catalytic Systems (Member of BoD) • LTD Gazprom Neft Energoservice (Member of BoD) • LTD Gazprom Neft Business Service (Member of BoD) • LTD ITSK (Member of BoD) • LTD Noyabrskneftegazsvyaz (Member of BoD)

General Director

The Board of Directors appoints one of its executive members to act as the General Director. General Director coordinates the activities of the executive members of the Board of Directors and organise the Company's activities. In addition to this, the General Director is responsible for day-to-day management and is authorised to decide on matters which do not fall within the competence of the Shareholders' Assembly and the Board of Directors. The General Director is a legal representative of NIS j.s.c. Novi Sad.

General Director's Advisory Board

The General Director's Advisory Board is a professional body that helps the General Director in their activities and in the consideration of matters within their responsibilities. The General Director decides on the composition of the Advisory Board and its members are General Director first deputies, Directors of Corporate Blocks and Functions, Deputy Director General for Petrochemical Affairs and Regional Director of NIS j.s.c. Novi Sad for Romania. The Advisory Board is managed by the General Director and provides them with assistance in relation to the issues concerning the Company's operational management. Apart from the issues concerning the Company's current operations (monthly and quarterly business results, annual business plans, monthly investment plans), the Advisory Board deals with strategy and development policy, the foundation of which is laid by the Shareholders Assembly and the Board of Directors of the Company.

Members of Advisory Board as at 31 December 2017**Vladimir Paltsev**

*First Deputy
of General Director*

**Andrey Tuchnin**

*First Deputy of General
Director for Downstream*

**Irek Khabipov**

*Exploration and
Production Director*

**Valery Proskurin**

Services Director

**Vladimir Gagić**

Refining Director

**Alexey Chernikov**

*Sales and Distribution
Director*

**Ivan Kuznetsov**

Acting Energy Director

**Goran Stojković**

*General Director's Deputy
for Petrochemical Operations*

**Viacheslav
Zavgordnii**

*General Director's Deputy
Strategy and Investments
Director*



Igor Tarasov

General Director's Deputy
Corporate Security Director



Anton Fedorov

General Director's Deputy
Finance, Economics, Planning
and Accounting Director



Sergey Fominykh

General Director's Deputy
Legal and Corporate
Affairs Director



Natalia Bylenok

General Director's Deputy
Organisational Affairs Director



Evgeny Kudinov

General Director's Deputy
External and Governmental
Relations Director



Vadim Smirnov

Acting General Director's Deputy
Public Relations and
Communication Director
NIS j.s.c. Novi Sad Regional Director
for Romania



Maxim Kozlovskiy

General Director's Deputy
MTSS and CC Director



Jelena Popara

Internal Audit Director



Ulrich Peball

HSE Director



Biographies of members of the Advisory Board can be found on the corporate website <https://www.nis.eu/en/about-us/company-information/management>

Activities of the Advisory Board in 2017

In 2017, the General Director Advisory Board of NIS j.s.c. Novi Sad held 27 meetings. Each of them discussed the reports on HSE incidents and initiatives from the previous period, as well as the operating reports of the Block Directors. Operating reports of the Function Directors were reviewed once a month, along with the Operating Plans and Forecasts for Key Performance Indicators, Reports on the Implementation of the Investment Plan for the current month, and a summary of the cumulative results achieved for the previous period. The Company's quarterly performance reports were also presented to the General Director Advisory Board.

Reports on the status of foreign projects, plans and performance of subsidiaries abroad were considered at the meetings of the General Director's Advisory Board every second month in 2017.

The Internal Audit presented reports on the implementation of recommendations pertaining to performed audits, as well as the report on the implementation of key risk management activities.

Besides the aforementioned regular reports, the members of the General Director Advisory Board discussed the corporate business strategy, the results of the inventory of assets and liabilities, as well as the reports on the activities of various corporate committees. One of the most important topics during the previous year had to deal with the project 'Transformation of NIS', which aims to transform the Company into a business system where all key processes are integrated and synchronised and where there is a clear allocation of powers and responsibilities.

Company Management Succession Plan

With a view to reducing potential Company risks and increasing operational efficiency, there are special processes and systems in place to ensure that any vacant top operational management posts can be filled. This includes the delivery of specific training programmes, meaning that continuous investment in the development of knowledge, skills and competencies reduces any potential risk related to key management positions at the Company in the long run.

Additionally, potential successors are assessed and special successor lists are drawn up, specifying their full names, current posts, and plans for their development.

Acquisition and Disposal of Company Shares by Managers and Related Parties

Pursuant to Article 84a of the Law on Capital Market and Corporate Standard 'Ensuring Compliance with Legal Requirements for Insider Information and Maintaining Insider List', all persons acting as managers at the Company are banned from carrying out transactions for their own account or for the account of a third party in relation to equity or debt securities of the Company or other related financial instruments for a period of 30 days prior to the release of the annual, semi-annual or quarterly financial statements. A special written consent of the Company may be given for trading during the ban period if there are any requirements stipulated by law and acts of the Securities Commission.

Moreover, all persons in managerial positions within the Company, as well as their related persons (as defined under such law), must report any acquisition or sale of company shares for their own account to the Securities Commission and the Company within 5 days if the value of the individual acquisitions or sales exceeds RSD 100,000 and if the sum of individual acquisitions or sales in the course of a calendar year exceeds RSD 500,000.

In 2017, the Company received no information about either the acquisition or sale of company shares by members of corporate bodies or persons related thereto.

Number and Percentage Of NIS j.s.c. Novi Sad Shares Owned by BoD Members

Name and surname	Number of shares	% in total number of shares
Nikola Martinović	224	0.0001%

Number and Percentage Of NIS j.s.c. Novi Sad Shares Owned by SAB Members

Name and surname	Number of shares	% in total number of shares
Nenad Mijailović	5	0.000003066%

Internal Audit Activities

The regulatory framework for internal audit at NIS j.s.c. Novi Sad is established under the Company Law, Internal Audit Charter, Internal Audit Standard and other relevant internal regulations.

Internal audit provides services of independent and objective verification and assessment of corporate governance, risk and internal controls management, with the aim of improving processes, adding value and increasing the overall efficiency of the Company. Additionally, consultancy support to management is provided in compliance with the principles of independence and objectivity.

Internal audit activities include:

- Examination and assessment of the adequacy and effectiveness of corporate governance, risk and internal controls management;
- Control of the compliance of Company's operations with the law, other regulations and Company acts;
- Supervision of the implementation of accounting policies and financial reporting;
- Checking the implementation of the risk management policy;
- Monitoring the compliance of the organisation and activities of the Company with the Code of Corporate Governance;
- Evaluation of policies and processes at the Company, as well as proposing the ways to improve them.

Internal audit activities are carried out within the Internal Audit Function. The organisational and functional independence of internal audit is pro-

vided by the Internal Audit Charter. The Internal Audit Function, through the person responsible for the internal control of business operations appointed by the Board of Directors, is functionally subordinate to the Audit Committee, with the General Director as its line manager. As a rule, the person in charge of internal control of business operations plays the role of the Director of the Internal Audit Function. The Director of the Internal Audit Function reports twice a year to the Audit Committee on the performance of the Internal Audit Function and the assessment of the internal audit and risk management systems at the Company. Among other things, the Audit Committee is authorised to:

- Adopt the Internal Audit Charter,
- Adopt the Annual Internal Audit Plan,
- Propose the appointment and dismissal of the person in charge of internal control of the Company's operations in accordance with the Company Law, while the Board of Directors of the Company adopts the Decision on the Appointment and Dismissal of said person (who, as a rule, performs the duties of the Director of Internal Audit Function),
- Verify if there is any potential restriction on data access (scope constraints) or resource constraints for performing internal audit activities.
- Monitor the existing risks and measures for managing those risks.

Regarding risk management, the Company has put in place a Risk Management Policy, a Risk Management Standard and Risk Management Methodology Guidelines. Additionally, risk management measures have been developed and their implementation has been monitored continuously. It is at a semi-annu-



al level that the management reviews risk reports, risk register and a list of measures for minimising/eliminating risks in the coming period, including information on the resulting damage from the risks realised and results of the measures taken.

External Auditor

Audit of Financial Statements

In accordance with the Law and Articles of Association, Company Auditor is appointed by the Shareholders' Assembly following a proposal of the Board of Directors. Company Auditor is selected at each ordinary Shareholders' Assembly meeting. Given the fact that NIS j.s.c. Novi Sad is a public joint stock company, the Law on Capital Market stipulates that the legal entity conducting the audit may conduct a maximum of five successive audits of annual financial statements.

The reports on the audit of financial statements and consolidated financial statements of the Company for 2016 were adopted on 27 June 2017 at the 9th Ordinary Shareholders' Assembly meeting, attended by the auditor PricewaterhouseCoopers

d.o.o. Beograd, which must be invited to the ordinary Shareholders' Assembly meeting in accordance with the law. On this same occasion, PricewaterhouseCoopers d.o.o. Beograd was selected as the auditor of the 2017 financial statements.

Pursuant to the law, the auditor's statement on independence whereby the auditor confirms its independence in relation to the Company and informs the Audit Committee of the additional services provided by the auditor to the Company was submitted to the Audit Committee. The said statement is part of the material for the 9th ordinary Shareholders Assembly meeting.

Other Services of the Auditor

Apart from auditing the 2017 financial statements and consolidated financial statements, PricewaterhouseCoopers d.o.o. Beograd or its affiliated companies provided NIS with other additional services in 2017. In view of the knowledge and experience required for the provision of such services, it was deemed more efficient to engage PricewaterhouseCoopers d.o.o. Beograd rather than a third party.

Integrated Management System

An integrated management system (IMS) is in place in compliance with the requirements of international standards for management systems (ISO 9001, ISO 14001, OHSAS 18001, ISO 50001, and CAC/RCP 1). The IMS is implemented and developed across the Company, in accordance with the Certification Strategy, the implementation of which is supervised by the IMS Committee.

Business processes are identified and classified across the Company. The defined business processes are mapped in accordance with the Mapping Plan, and the way in which the business processes are implemented is described by appropriate normative and methodological documents in compliance with standardisation plan. KPIs (key performance indicators) are also developed for business processes defined in this way.

Compliance with the above international standards is verified by accredited certification bodies, which issue appropriate certificates following inspection.

Apart from external audits, the Company also conduct internal audits of business processes and management systems in place, according to the annual internal audit programme.

The results of these audits are formalised through reports, based on which business process owners at the Company define measures for eliminating the causes of identified or potential non-conformities, with the aim of continuous improvement of IMS and business operations as a whole.

Transactions Involving Personal Interest and Non-Competition

Transactions Involving Personal Interest – A person entrusted with special duties at the Company in accordance with the law must notify the Board of Directors without delay of any personal interest (or interest of the parties related thereto) in a legal transaction entered into by the Company, i.e. a legal action taken by the Company.

The Company identifies legal transactions and legal actions with related parties to ensure that they only take place if they are not detrimental to

Company operations. Legal transactions and legal actions with related parties are authorised by the Board of Directors in compliance with the law.

The Board of Directors submits information on the approval of transactions involving personal interest to the Shareholders' Assembly in its first subsequent meeting.

Non-Competition – To monitor compliance with the non-competition obligation, there is a practice of quarterly surveys of members of the Board of Directors on the circumstances of their current engagement, as well as their memberships on Boards of Directors and Supervisory Boards at other companies. Information on membership in governing bodies of other companies is regularly published in the Company's Annual and Quarterly Reports.

By entering into the Agreement on Providing for Mutual Rights and Obligations with the Company, members of the Board of Directors become additionally informed of their obligation to notify the Company if they happen to enter into legal transactions with the Company, as well as of the non-competition obligation and other specific duties of members of the Board of Directors.

Related-Party Transactions

In 2017, NIS Group entered into business partnerships with its affiliates. The most important related-party transactions were made based on the supply/delivery of crude oil, petroleum products and electricity. An outline of related-party transactions is part of the Notes to the Financial Statements.

Insider Information

Insider trading in shares is strictly prohibited under the penalties imposed by the Law on Capital Market. Therefore, the Company requires that all persons with constant or occasional access to such information fully observe laws, by-laws and corporate regulations pertaining to insider information and confidential information.

The criteria according to which certain persons are deemed insiders, their rights and duties, the obligations of the Company with a view to ensuring the confidentiality of insider information, the pro-

cedure for disclosing insider information, as well as the rules relating to the compiling, keeping and updating of a list of insiders, have been specifically governed under internal company regulations.

Code of Conduct

NIS Code of Conduct sets out detailed rules and ethical norms defining relationships with colleagues, clients, business partners, government and local self-government authorities, the general public and competitors.

The principles underpinning the Code provide clear recommendations for making ethically balanced decisions in various situations, and the Code defines the norms and rules of conduct based on corporate values, which the Company expects all staff members to adhere to.

All staff members and members of governance bodies of NIS j.s.c. Novi Sad, as well as the persons on a contract of hire with NIS j.s.c. Novi Sad must comply with the Code of Conduct of NIS j.s.c. Novi Sad. They are all obliged to report any illegal or unethical actions related to the Company and representing a violation of the Code.

Corruption and Fraud Prevention Policies

The Company adopted Corruption and Fraud Prevention Policy with a view to preventing and prohibiting involvement in any form of corruption or fraudulent practices.

The Policy ensures requirements for a timely discovery, prevention and minimisation of risks of illegal, unethical and corrupt conduct, based on a unified standard of conduct, values, principles of legal business and basic rules of fight against corruption and fraud.

The Policy stipulates that in the event of any reasonable suspicions with respect to engagement in or preparation of corruptive or fraudulent practice, or in the event of the discovery thereof, all persons are obliged to submit appropriate information via pre-defined and protected communication channels, with confidentiality guaranteed. The Policy defines the measures for protecting the persons submitting such information and how they are implemented, ensuring that the persons reporting corruptive or fraudulent practices via such channels are not in any way jeopardised.

Relations with Stakeholders and Corporate Social Responsibility

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More information is provided in the Sustainable Development Report and on page 142 of this Report

In relations with stakeholders, NIS fosters constant communication, mutual trust, partnership and an open dialogue. It is essential for NIS to understand stakeholder requirements and expectations.



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<https://www.nis.eu/en/about-us/company-information/code-conduct>

