



НИС а.д. Нови Сад / NIS j.s.c. Novi Sad
Народног фронта 12 / Narodnog fronta 12
ОДБОР СКУПШТИНЕ АКЦИОНАРА / SHAREHOLDERS' ASSEMBLY BOARD

**REPORT OF THE SHAREHOLDERS' ASSEMBLY BOARD
FOR THE SUPERVISION OF THE BUSINESS AND THE PROCESS OF REPORTING TO
SHAREHOLDERS IN NIS j.s.c. Novi Sad - JUNE 2013**

Pursuant to Article 329, paragraph 1, point 16, of the Company Law, and Article 8.26 of the Act of Incorporation of NIS j.s.c. Novi Sad, purporting to report to Shareholders at Shareholders' Annual General Meeting, the Shareholders' Assembly Board for the supervision of the business activity and the process of reporting to shareholders, within its authorizations and competencies, hereby submits the report as follows:

- **Reporting on accounting and financial reporting practices in NIS j.s.c. Novi Sad as well as in its subsidiaries**

Shareholders' General Meeting Board for the supervision of the business and the process of reporting to shareholders (hereinafter as SGM Board) monitored the application of the accounting practice and financial reporting practice, analyzed annual and quarterly individual and consolidated financial statements and reports on business operations, giving its consent to those reports. Financial reports are prepared in compliance with the International Financial Reporting Standards and reports on business operations in compliance with Code of Corporate Management. Accounting practices applied during preparation of the annual and quarterly financial reports for 2012, were disclosed in details in the remarks to financial reports, on which the auditor expressed his positive opinion. Applied accounting policies were aligned with the legal regulations of the Republic of Serbia, this meaning that the financial reports were aligned with the regulations.

SGM Board analyzed financial statements of NIS' subsidiaries and the performance of their supervisory bodies, with a direct insight in the performance of the subsidiaries in Romania and Bulgaria. Based on such analysis SGM Board reported to the Board of Directors on the risks the subsidiaries were confronted with.

- **Reporting on NIS's business operations regarding compliance of its business activity with legal and other requirements of regulatory bodies and monitoring of the contracts concluded with subsidiaries**

SGM Board monitored business operations of NIS on regular basis through analysis of the documents delivered for review. The said documents include the contracts with subsidiaries involving personal interest, contracts whose value is higher than EUR 5 million, as well as other documents in relation to business operations. Based on analysis of the said documents, SGM Board did not encounter business affairs that would be against legal regulations.

- **Monitoring work of the independent auditor regarding competence, independence, and skills of the independent auditor of NIS j.s.c. Novi Sad**

SGM Board monitored the performance of independent auditor PricewaterhouseCoopers by means of participating in meetings with the management, directly, or through conference

calls, where audit issues were discussed.

The Independent Auditor performed the audit professionally, in compliance with procedures set forth by the International Standards on Auditing. Based on the data obtained through the work monitoring and cooperation with the Independent Auditor, the Board determined that the Independent Auditor conducted the audit efficiently and expressed positive opinion on financial statement for 2012.

Supervisory Board examined management's proposal on the election of the auditor for 2013, whereby proposing to reelect through direct bargain the same audit firm PriceWaterhouseCoopers again for the audit of financial reports for 2013, the latter being also the auditor of the majority shareholder. Considering that offered price for the financial reports audit for 2013 was on the same level as the price for 2012, and that internal procedure in NIS allows direct bargain, SGM Board agreed with the proposal under the Decision on the selection and gave recommendations to the Shareholders' General Meeting to select the firm PriceWaterhouseCoopers as the auditor of financial reports for 2013.

- **Decision on Profit Distribution**

SGM Board examined the proposal under the Decision on Profit Distribution in NIS j.s.c. Novi Sad for 2012, whereby it was proposed to pay up dividends to shareholders in the amount of up to 25% of the realized profit. The Purchase and Sale Contract foresaw that the payment of the dividends shall be in the amount of up to at least 15 % of the realized profit, this meaning that the proposed decision was in accordance with the regulations and Purchase and Sale Contract.

SGM Board gave consent to that decision, whereas it proposed to pay attention to the financing of investment projects while adopting the decision.

Beside the above decision, management proposed to transfer the reserves from the profit, whose intention was not specified, as well as the remaining not registered capital, which was recorded in previous years, into undistributed profit. SGM Board gave its consent to such Decision, explaining that adoption of such decision was not in conflict with the law and regulations of the Republic of Serbia.

- **Other activities**

For the purpose of monitoring of the Modernization Program according to the Purchase and Sale Agreement, SGM Board engaged a group of experts who monitored the realization of that Program on a daily basis until its completion. Work of that expert group was financed from the budget of the SGM Board, which was approved on the previous regular session of the Shareholders' General Meeting. SGM Board extended the engagement of experts purporting to continue monitoring of the investment activities, primarily in the field of increasing the refining depth, production of base oils, production of material balance, etc.

In view of the effects of the economic crisis and the difficulties as regards the placement of the derivatives, which emerged as result of delay in the realization of the sale measures on the markets of Romania and Bulgaria, SGM Board intensified monitoring of all business activities directly connected to the implementation of the adopted strategies.

16 April, 2013

PRESIDENT OF THE SUPERVISING BOARD

Milivoje Cvetanovic