



НИС а.д. Нови Сад / NIS j.s.c Novi Sad
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ОДБОР ДИРЕКТОРА / BOARD OF DIRECTORS
Број (№): 85/OD-iz/XXXIV-5a
Датум (Date): 15.05.2014

Pursuant to Article 9, Item 9.6, Subitem 37 of the Articles of Associations of NIS j.s.c. Novi Sad (hereinafter referred to as: the Company, NIS, or NIS j.s.c Novi Sad) No. 70/IV-12a dated 25 June 2012, and Article 14.1 of the Code of Corporate Governance of NIS j.s.c. Novi Sad No. 85/OD-od/XXVI-3a dated 27 January 2014 (hereinafter referred to as: the Code), the Board of Directors of NIS j.s.c. Novi Sad hereby submits the following:

REPORT
ON THE ANALYSIS OF THE OPERATION OF THE BOARD OF DIRECTORS AND COMMISSIONS OF
THE BOARD OF DIRECTORS NIS J.S.C NOVI SAD
IN THE PERIOD MAY 2013 – MARCH 2014

INTRODUCTION

The Board of Directors of NIS j.s.c. Novi Sad (hereinafter referred to as: the Board of Directors or BoD) adopted on 27 January 2014 a new version of the Code which supplements the rules contained in the Law on Commercial Entities and the Articles of Associations of NIS j.s.c Novi Sad (hereinafter referred to as: the Articles of Associations), and which establishes the principles of corporate practice and organizational culture in accordance with which the bearers of Company corporate governance should act.

In line with the adopted principles of corporate governance and the provisions of Article 14.1 of the Code, the BoD has conducted the fourth analysis of its operation, which is presented in the subject Report.

The basic goal of the assessment of the BoD and BoD Commission operation is to provide encouragement for taking into consideration issues such as:

- The role and function of the Board of Directors and its Commissions;
- The obligations of the members of the Board of Directors;
- Priorities in the operation of the Board of Directors and its Commissions;
- What combination of knowledge, skills, experiences, and personal qualities should all the members of the Board of Directors have;
- The current and valid work procedures of the Board of Directors, forms of Board of Directors' sessions, inclusive of the practice of preparing and holding meetings, their regularity, and the issues of informational security of the Board of Directors' operation.

For the purposes of analyzing the operation of the BoD, identifying possible operation problems, and proposing measures to improve the operation of the BoD, a Questionnaire for the assessment of the BoD operation has been developed (hereinafter referred to as: the Questionnaire), which is to be filled in by the BoD members. The Questionnaire contains two groups of key questions for the assessment of BoD operation. The first group of questions contains the BoD operation assessment criteria, with respect to the objectives, tasks, and responsibilities of the BoD; the second group contains the criteria for the assessment of the procedures applied in BoD operation.

The BoD operation assessment found in this Report is based on the replies of BoD members obtained from filled-in Questionnaires, as well as on BoD operation analysis carried out on the basis of BoD meetings in the reporting period.

1. INDICATORS OBTAINED FROM OBJECTIVES, TASKS, AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

All BoD members support and take part in the discussion on the strategy and the corporate values of the Company.

<p><i>Drawing up the Strategy and the Company Business Plan</i></p>	<p>With a view to monitoring the implementation of the long-term NIS Development Strategy by 2020 (adopted by the Decision of the Board of Directors No. 80/XXXIII-1 dated 30 March 2011) and drawing up an updated Company Development Strategy by 2030, together with the Company management and the representatives of the shareholders with a significant share in the Company assets, the BoD members held the second “NIS STRATEGY 2013“ meeting on 15 May 2013. In this meeting, the prioritized lines of development of the Company were discussed, as well as the projections of key business indicators and assumptions for Company development in the long term, with the aim of defining optimal business objectives which should result in the best possible business results of NIS.</p> <p>During the monitoring of the adopted Strategy and developing an updated Company Development Strategy by 2030, BoD members actively collaborate with the Company management on issues regarding Company business activities and objectives, shareholder expectations, an objective assessment of the market situation, the financial situation of the Company, business risks and other factors impacting on the financial and economic activities of the Company.</p> <p>Work on the drawing up and approval of the final version of the Company Development Strategy by 2030 has continued in 2014 as well.</p>
<p><i>Monitoring of the adopted Business Plan</i></p>	<p>The BoD regularly monitors and assesses the implementation of the set objectives, the adopted Business Plan, and the efficiency of Company business activities through the appropriate forms of Company quarterly reports (Quarterly Reports, financial statements, consolidated financial statements, reports by specific business directions, reports on the enforcement of BoD decisions and orders etc.), as well as Reports on the analysis of Company business activities in the previous period and the business projections for the upcoming period (by the end of the reference year)</p> <p>Based on the reviewed reports and the assessment of business results, the Board of Directors has issued appropriate orders to Company management with a view to achieving the related Company business indicators.</p> <p>BoD members have a clear picture of the Company business activities and strategic goals, as well as of the financial and human resources necessary to achieve Company objectives. They regularly review the key business indicators by actively participating in the process of drawing up and assessing the implementation of the Company Business Plan.</p> <p>The BoD and the management share the views regarding the setting of business objectives and establishing the criteria to assess whether the objectives have been achieved.</p> <p>BoD members have a joint responsibility for achieving the results that the BoD as a governing body has towards the Company and the shareholders, and the Board of Directors as a joint body fulfils them.</p>
<p><i>Business activity control, internal oversight, and risk management</i></p>	<p>In the observed reporting period, the BoD members controlled Company business activities by reviewing quarterly reports on the analysis of Company business activities, which include among other things issues regarding:</p> <ul style="list-style-type: none"> • Business activities, revenues, and the financial situation of the Company, (financial and economic business indicators) • Profitability of Company business activities, • Market trends in the countries of the region, • Key business operations and events which are significant for business activities and liquidity of the Company, • Company development project implementation status,

- Key risk management activity implementation status and
- Other important issues regarding the existing and future Company business activities

The BoD and Company management give due attention to basic risks, which can impact on Company business activities.

As a basic form of internal oversight, the Company has established internal controls of key processes, activities, and procedures, which are integrated into the system with the aim of ensuring greater efficiency of business processes and risk management. Apart from the internal control system, the Company has established the following forms of oversight and control:

- The Audit Commission,
- Internal Audit,
- Integrated risk management system
- Internal tests of business processes and established management systems;
- Tests of implementation of occupational safety and health measures.

At the suggestion of the Audit Commission, the BoD appointed the Person responsible for the internal oversight of business activities. This person reports on conducted oversight of business activities to the Audit Commission, which in turn oversees the operation of internal oversight in the Company.

The person responsible for the internal oversight of business activities is Aleksandra Samardžić, Director of Internal Audit in the Company. This person meets the requirements prescribed for the position of internal auditor per the law.

As Internal Audit is established as an organizational unit of the Company, which unit is concerned with issues in internal audit (internal oversight), the issues from Article 452 of the Law on Commercial Entities are largely regulated by the following documents:

- The policy of internal audit at NIS j.s.c. Novi Sad (PO-13.00.01),
- The Rulebook on conducting internal audit (PR-13.01.01.) and the associated Internal Audit Instructions.

Internal Audit has been established with a view to providing an independent and objective confirmation of the adequacy of corporate governance processes, risk management and internal controls, adding value and contributing to an increase in overall efficiency and to improving the Company. Internal Audit acts in accordance with the international framework of professional practice of the Institute of Internal Auditors (which provides basic guidelines for the internal audit profession), and the abovementioned internal audit normative and methodological documents, which are adopted by the Company.

The Company has established an integrated risk management system (IRMS), which is a systemic, ordered, unified, and continuous process of identifying, assessing, developing, and monitoring the implementation of risk management measures. Risks are managed via the management of individual business processes, whereas Risk Assessment Section coordinates this process within Internal Audit. Risk management measures are integrated in business plans, and the process of risk management is regulated by a separate internal Company document. Key risks are tied to the Company objectives, identification is carried out by the management, and the Board of Directors adopts them by adopting Company business plans, an integral part of which are the assessment of key risks, the management strategy, and the resources necessary for implementing the planned risk management measures. A Risk Register has been created in the Company, and is defined for every year.

In addition to the internal checks conducted by trained internal controllers recruited from

	<p>NIS j.s.c. Novi Sad employees, checking the compliance with the said standards is carried out by external accredited certification bodies; based on the carried-out controls, these bodies award certificates of conformity such as:</p> <ul style="list-style-type: none"> • The certificate issued by the Lloyd's Register Quality Assurance (LRQA) assessment body, which serves to confirm that the quality of the management system in refining is compliant with the requirements of the reference standard SRPS ISO 9001:2008, which confirms the validity of the certificate for the period of three years, • The certificates of the certification bodies IQNet and YUQS, awarded to "Exploration and Production", confirming that the quality management system, the environmental protection management system, and occupational safety and health management system are compliant with the standards ISO 9001:2008, ISO 14001:2004, and OHSAS 18001:2007, as well as to "Services", for compliance with the standards SRPS OHSAS 18001:2008, • The certificates of the certification body TÜV NORD CERT GmbH, awarded to the Lubricants Department of Sales and Distribution for the quality management system, and of the certification body BUREAU VERITAS, for the quality management system and environmental protection management system, which confirms the compliance of these systems with the standards ISO 9001:2008, and ISO 14001:2004; • The certificate of the certification body TÜV SÜD for the quality management system and HACCP (Hazard Analysis and Critical Control Point), which confirms that the system is compliant with the standard ISO 9001:2008 and HACCP food safety principles, etc. <p>As part of the management system, regulated by the Company normative and methodological documents, the Company business processes are defined and classified, the processes are described by relevant documents, and KPIs (key performance indicators) are defined; the KPIs are regularly measured and monitored, analyzed and used as a basis for the development of programmes and process improvement measures. Internal checks of the management system are conducted by business process, in line with the Internal Check Programme. Internal checks are carried out in a planned fashion, once a year for each business process, whereas unscheduled internal checks are carried out if a problem or process non-conformity is determined to exist.</p> <p>The results of these checks are used to draw up reports, based on which the bearers of Company business processes determine measures to remove the causes of the identified non-conformities or measures to improve processes.</p> <p>Regarding internal oversight carried out by the responsible person, the Audit Commission and the BoD, the Board of Directors submits a special report to the Shareholders Assembly.</p>
<p>Operation of the BoD and reporting to the BoD non-executive members</p>	<p>The responses of the surveyed BoD members show that the BoD members are generally well prepared for the meetings, and that the BoD efficiently manages its operation. The operation of the BoD focuses on key issues which are discussed actively, openly, and thoroughly before the BoD takes its decision, which contributes to making constructive decisions on the part of BoD, as well as to the productivity of BoD meetings. The BoD members work as a team – in the spirit of partnership, based on mutual respect for fellow members, and in line with the interests of the Company.</p> <p>Members of the Board of Directors have an adequate interaction with the Company management and receive relevant, full, and timely information on all issues taken into consideration in the meetings.</p> <p>The non-executive members of the BoD are regularly reported to by the Company</p>

	<p>General Director on all issues impacting on business activities, the financial situation, and potential risks in the Company business activities, through the corresponding forms of management and financial reporting (quarterly and annual financial statements and consolidated financial statements, quarterly and annual Company reports, reports on the analysis of business activities and projections for business activities for the upcoming period, reports on the implementation of the decision and orders of the Board of Directors, etc.). The General Director and the Company management provide relevant information in an appropriate amount and within the appropriate time frame to the members of the Board of Directors at their request.</p>
<p><i>Division of competences and control of the work of the General Director and Company management</i></p>	<p>The scope, competences, and responsibilities of the Board of Directors and the Company General Director as an executive BoD member are delimited by the NIS Articles of Associations No. 70/IV-12a dated 25 June 2012. The scope of operation of the BoD includes BoD competences prescribed by the provisions of Article 398 of the Law on Commercial Entities (The Official Gazette of the Republic of Serbia No. 36/2011 and 99/2011) as well as other additional competences in line with the Company business activities, which competences are sufficiently clear and distinct from operational competences of the NIS General Director.</p> <p>The BoD acts sufficiently independently from the management and with mutual respect and trust; in addition, the Company management responds in an appropriate manner to the requests and needs of the BoD, and the BoD supports the management in achieving the set objectives.</p> <p>The BoD assesses the work of the General Director and the Company management a minimum of once a year based on the defined indicators used to assess their work, as well as the results in achieving the defined Company business activity indicators; these indicators are at the same time a rewarding system for the General Director and Company management, tied to the long-term objectives of the Company.</p> <p>During the reporting period, the BoD reviewed the results of achieving the key indicators of the business activities of the General Director, and directors of Blocks and Functions of the Company for 2012 and 2013, as well as the system of assessment of key indicators of business activities of the General Director and Company management for 2013 and 2014.</p> <p>Through the Company system of management by objectives, the Board of Directors defines efficient motivational mechanisms which impact on the formation of a highly professional team of higher-ranking managers, which is reflected in the continual growth, internal efficiency of business activities, and the implementation of investment programmes.</p>
<p><i>Ensuring Regular (Annual) Meeting of the Shareholders Assembly</i></p>	<p>In the reporting period, the Fifth Regular Company Shareholders Assembly Meeting was held and all the conditions required for the meeting to be held had been met. In line with the Articles of Associations of the Company, the Rules of Procedure of the Shareholders Assembly, and the Decision of the BoD, the Invitation to the Company Shareholders Assembly meeting contains all the mandatory elements and information, inclusive of the information on the date of announcement of the invitation, the time and place of the meeting, the agenda, the availability of the materials for the agenda, the shareholders' day, accompanied by the information on the rights of shareholders to participate in the work of the Shareholders Assembly and suggesting the agenda, as well as the deadlines for their use, the description of the voting procedures through authorized representatives, voting in absentia with the appropriate forms of documents for the exercise of rights of Company shareholders.</p> <p>The content of the invitation to a Shareholders Assembly meeting is regulated by the Company Shareholders Assembly Rules of Procedure (No. 70/IV-13a dated 25 June</p>

	<p>2012), which are available to the general public on the Company webpage (www.nis.eu).</p> <p>The Invitation for shareholders to attend the Fifth Regular Meeting of the Shareholders Assembly was published as on 17 May 2013 on the Company webpage (www.nis.rs), the webpage of the Belgrade Stock Exchange, and the webpage of the Register of Companies (www.apr.gov.rs)</p> <p>All the decisions taken at the Fifth Regular Meeting of the Shareholders Assembly, the Report of the Voting Commission on the voting results in the Fifth Regular Meeting of the Shareholders Assembly, and the Minutes of the Fifth Regular Meeting of the Shareholders Assembly of NIS j.s.c. Novi Sad were published by the Company on the Company webpage (www.nis.eu), within the deadline stipulated by the law after the meeting of the Company Shareholders Assembly was held. All the decisions, materials, and other published documents pertaining to the operation of the Shareholders Assembly are drawn up and published in English as well, and are available on the Company webpage (www.nis.eu).</p>
<p>Activities of the Board and major decisions</p>	<p>In the reporting period, the Board of Directors held three meetings personally attended by the BoD members, as well as 16 correspondence meetings. The attendance of the Board of Directors' meetings by BoD members is at 99.5% on average, and the lowest attendance rate was 90%.</p> <p>As part of the held meetings of the Board of Directors, in addition to the decisions regarding the reviewing of quarterly and annual NIS reports, the financial statements and consolidated financial statements of the Company for 2013, the following major decisions were taken:</p> <ul style="list-style-type: none"> • The Decision on defining the Draft Decision of the NIS j.s.c. Novi Sad Shareholders Assembly on the selection of the auditor of Financial Statements and Consolidated Financial Statements of NIS j.s.c. Novi Sad for 2013; • The Decision on convening the Fifth Regular Meeting of the Shareholders Assembly of NIS j.s.c. Novi Sad; • The Decision on reviewing the information pertaining to the System of Human Resource Development for the positions of top management and working with the talent pool at NIS j.s.c. Novi Sad; • The Decision on reviewing the Report on the Analysis of Business Activities of NIS j.s.c. Novi Sad for Q1 of 2013, and the Assessment of Business Activities of NIS j.s.c. Novi Sad by the end of 2013; • The Decision on reviewing the system of assessments and indicators for the purposes of rewarding the General Director and directors of Blocks of NIS j.s.c. Novi Sad for 2013; • The Decision on reviewing the system of assessments and indicators for the purposes of rewarding directors of Functions of NIS j.s.c. Novi Sad for 2013; • The Decision on reviewing the results of the fulfilment of key indicators of business activities of the General Director, directors of Blocks and Functions of NIS j.s.c. Novi Sad for 2012; • The Decision on reviewing the Consolidated Financial Statements of NIS j.s.c. Novi Sad (drawn up in accordance with the International Standards of Financial Reporting (IFRS) with the report of the independent auditor for the year ending on 31 December 2012); • The Decision on the approval of the increase in capital assets of NIS PETROL EOOD Bulgaria; • The Decision on setting the day, procedure and manner of payment of dividends for 2012 to the NIS j.s.c. Novi Sad shareholders; • The Decision on the approval of the termination of participation of NIS j.s.c. Novi Sad in the limited liability joint enterprise RANIS by means of its liquidation;

	<ul style="list-style-type: none"> • The Decision on co-opting the members of the Board of Directors of NIS j.s.c. Novi Sad; • The Decision on reviewing the project "Production of base oils at NIS j.s.c. Novi Sad" at the Novi Sad Refinery, whose value exceeds EUR 100 million; • The Decision on reviewing the Report on postinvestment monitoring of the projects of retail network development of NIS j.s.c. Novi Sad Sales and Distribution in Serbia and abroad; • The Decision on appointing the members of the Audit Commission of the NIS j.s.c. Novi Sad Board; • The Decision on appointing the members of the Appointment Commission of the NIS j.s.c. Novi Sad Board; • The Decision on appointing the members of the Remuneration Commission of the NIS j.s.c. Novi Sad Board ; • The Decision on the adoption of the Programme to resolve the issue of redundant employees due to organizational changes at NIS j.s.c. Novi Sad, No. 2; • The Decision on reviewing the QPR-3 (Quarterly report for 9 months and the projection by the end of 2013); • The Decision on reviewing the NIS j.s.c Novi Sad Business Plan for 2014; • The Decision on the approval for concluding Annex 1 of the Contract of Intercompany Loan between NIS j.s.c. Novi Sad and NAFTAGAS-Oilfield Services d.o.o Novi Sad; • The Decision on appointing the person responsible for the internal oversight of business activities of NIS j.s.c. Novi Sad; • The Decision on adopting the Code of Corporate Conduct of NIS j.s.c. Novi Sad; • The Decision on adopting the report on the results of the annual inventory of assets and liabilities of NIS j.s.c. Novi Sad for 2013; • The Decision on the acquisition of a 50% share in the capital assets of RAG Kiha Ltd, Hungary, and • a number of decisions approving the proposals to relieve from duty and appoint the representatives of NIS in the bodies of the companies in which NIS has a share in the capital. <p>During the reporting period, the BoD took 62 decisions, and the enforcement of the decisions taken was monitored through periodic reports on the implementation of decisions and orders of the BoD.</p>
<p>Observing the principles of corporate governance</p>	<p>In line with the proposed measure in the previous report, in 2013 a new Code of Corporate Governance of the Company was developed and adopted on 27 January 2014.</p> <p>The Company aims to also apply the internationally accepted principles and rules of corporate governance, considered as the best practice, by incorporating them into its own Code and other documents with a view to establishing good business customs and high standards in the area of corporate governance; this should provide a balance of influence of corporate governance bearers, consistency in the system of control and strengthening the trust of the shareholders, investors, and other interested parties, with the aim of enabling a long-term, sustainable development of the Company.</p> <p>The Board of Directors ensures the application of the principles established by the Code, monitors its implementation and the compliance of the organization and Company activities with the Code and the law.</p> <p>An overview of the most important practices of corporate governance implemented by</p>

	<p>the Company as well as a detailed explanation of the deviations from the principles defined by the Code are provided in the Statement on the application of the code of corporate governance, which is an integral part of the Annual Report of the Company for 2013.</p> <p>The Annual Report of the Company for 2013 is available on the Company webpage (www.nis.eu), as well as on the webpage of the Belgrade Stock Exchange and within the Public Company Register of the Securities Commission of the Republic of Serbia.</p> <p>In addition to the adoption of the Statement on the application of the code of corporate governance, the BoD members also reviewed and approved the responses to the questions on NIS corporate governance practices, contained in the Questionnaire of the Belgrade Stock Exchange j.s.c. Belgrade, published on the webpage of the Belgrade Stock Exchange.</p> <p>The said Questionnaire is a form providing an overview of observing the current practice of corporate governance in light of the completed reform of company law in the Republic of Serbia in 2012.</p>
<p><i>The influence of the Board on improving the Company image</i></p>	<p>The contribution of the BoD to the creation of a positive image of the Company is reflected, among other things, in continued efforts to establish a higher-quality system of corporate governance and increase the transparency of communication with all the interested parties.</p> <p>In November 2013, for the third year running, NIS was awarded the Belgrade Stock Exchange Plaque for Best Relations with Investors in 2013.</p>
<p><i>Remuneration of Members of the Board of Directors and its Commission Commissions</i></p>	<p>The Shareholders Assembly at its Fifth Regular Session held on 18 June 2013, based on the proposal of the Board of Directors, adopted the revised Remuneration Policy for members of the Board of Directors and members of the Commissions of the Board of Directors of the Company (Remuneration Policy), prepared on the basis of the Report of the external consultant on the analysis of market remuneration for Non-Executive Directors of the Board of Directors of the selected reference group . The Remuneration Policy is publicly available on the Company's website (www.nis.eu).</p> <p>The Policy stipulates that remuneration should be attractive and competitive to attract and retain persons acting as members of BOD and BOD Commission who meet the professional and other criteria required by the Company, and at the same time not significantly different from remunerations paid to the members of the Board of Directors and the Commissions of the Board of Directors in other companies of the same or similar activities, size and volume of business.</p> <p>Fixed (standing) portion of the remuneration to the members consists of the fixed annual fee for membership in the BoD and the fixed annual fee for participation in the work of the BoD Commissions, as defined on the basis of a number of criteria determined under the Remuneration Policy , including the previously mentioned criteria. This form of remuneration implies remuneration for the time and effort of a member of the BoD in relation to its function and is associated with the preparation and active participation in the BoD sessions, requiring its members to pre- study the documents, attend and actively participate in the sessions of the Board of Directors.</p> <p>The fixed part of the remuneration for members of the BoD is paid on a monthly basis in the amount of 1/12 of the annual remuneration.</p> <p>In addition to the fixed part, the Remuneration Policy envisages the existence of the Long-term Motivation Program to stimulate the members with the status of non-executive directors of the BOD, which is closely regulated by the separate Rules governing the Long-term Motivation Program applying to the non-executive directors of the Company.</p> <p>In order to maintain the BoD members remuneration at an appropriate level, it has been</p>

	<p>prescribed that the Remuneration Policy is to be subject to periodic reviews and analysis, and in this respect, in compliance with the needs, corporate abilities and interests of the Company, and changes in other eligibility criteria.</p> <p>Considering the fact that scoring process determining the adequacy of the amount and structure of remuneration for each member of the BOD in relation to the principles, frameworks and criteria laid down under the applicable Remuneration Policy falls within the competence of the Remuneration Commission of the BoD, this Commission shall, in respect of the above, forward an appropriate report to the Shareholders Assembly of the Company.</p>
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2. INDICATORS RELATED TO THE COMPOSITION AND PROCEDURES OF THE BOARD OF DIRECTORS

<p><i>Number of members and structure of the Board of Directors</i></p>	<p><u>BOD Size</u> BoD consists of 11 members, which, according to the BoD members, is considered to be the optimal size taking into account the needs of the Company and the best practices of corporate governance.</p> <p>The number of members and the criteria for appointment of the BoD members shall be determined under the Articles of Associations of the Company, taking into account the need for rapid and effective decision-making, but also the requirement set forth under eligibility criteria applying to the members comprising the Board of Directors, possessing, as a whole, the necessary knowledge, skills and professional experience required for the successful performance of duties within the scope of the Board of Directors and management of the Company, making sure that size and composition of the Board of Directors fit the size and structure of the company, the nature of activities performed by the Company as well as the corporate goals and objectives the Company wants to achieve.</p> <p>In accordance with the above referenced principles, the BoD is composed of the members of different background, age, experience and skills. The BoD includes a significant number of foreign members who bring international experience tailored to suit the challenges faced by the Company and add value to the functioning of the BOD and the decision-making process. Out of 11 members of the Board of Directors in total, 6 are Russian citizens, 3 are citizens of the Republic of Serbia, whereas one director is a citizen of France, and another one a citizen of Austria.</p> <p>The Board of Directors consists of one executive and 10 non-executive directors, of which two non-executive directors act as independent members of the Board of Directors as well.</p> <p>According to the members of the Board of Directors, the BoD composition reflects the required balance between professionalism and independence of the BOD members.</p> <p><u>Separation of the General Director and the BoD Chairman roles</u> The BoD consists of a majority of non-executive directors of the BoD (including independent members of the BoD), with the roles of the General Director and the BoD Chairman completely separated.</p> <p><u>Skills and experience within the BoD</u> The relevant skills and experience represented within the BoD are as follows, inter alia:</p> <ul style="list-style-type: none"> - <input type="checkbox"/> Management - <input type="checkbox"/> Strategy
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- Finance
- Risk Management
- Accounting
- HR Development and Remuneration and Compensation Management;
- Entrepreneurship
- International Affairs
- Oil and Gas Processing Technology
- Familiarity with the core business of NIS j.s.c.

The current number of the members and the BoD composition reflect an appropriate mix of skills and experience, on the whole, required to ensure the successful performance of duties within the BoD.

Changes in the composition of the Board of Directors during the reporting period

At the Fifth Regular Session of the Shareholders Assembly of NIS held on 18 June 2013, the BoD members relieved of duty include Igor Konstantinovich Antonov, Slobodan Milosavljevic and Danica Draskovic, whereas, in addition to the BoD members reappointed hereof, the new members of the Board of Directors have been appointed accordingly: Alexey Viktorovich Yankevich, Nenad Mijailovic and Negica Rajakov.

On 05 July 2013 Mr. Vladislav Valerievich Baryshnikov resigned as a Member of BoD, and the vacancy in the Board of Directors was filled by co-option on 22 July 2013 when Alexander Arturovich Bobkov was elected.

On 31 August 2013, the Employment Contract between Nikola Martinovic and NIS expired, and the named person was therefore appointed to the BoD as a Non-Executive Director - NED BoD.

In view of the aforementioned, the Board of Directors is composed of the following members:

1. Vadim Vladislavovich Yakovlev (Chairman – Non-Executive Director - NED)
2. Kirill Albertovich Kravchenko (Executive Director)
3. Alexander Vladimirovich Krilov (Non-Executive Director - NED)
4. Alexey Viktorovich Yankevich (Non-Executive Director - NED)
5. Anatoly Moyseyevich Cherner (Non-Executive Director - NED)
6. Alexander Arturovich Bobkov (Non-Executive Director - NED)
7. Nenad Mijailovic (Non-Executive Director - NED)
8. Nikola Martinovic (Non-Executive Director - NED)
9. Negica Rajakov (Non-Executive Director - NED)
10. Stanislav Vladimirovich Shekshnia (Independent Director)
11. Wolfgang Rutenstorfer (Independent Director).

All currently appointed members of the BoD have confirmed compliance with the requirements for appointment to the Board of Directors, filling out the Questionnaire for members of the BOD at their first appointment to the BOD, and in addition the Agreement regulating the mutual rights and obligations between the Company and the BoD members contains analogous provisions (Form of the Agreement was approved at the Fourth Regular Session of the Shareholders Assembly of NIS j.s.c. Novi Sad and is available on the Company's website (www.nis.eu)).

In view of the fact that assessment of the compliance of the current number and composition of the Board of Directors of NIS j.s.c. Novi Sad with the needs of NIS j.s.c. Novi Sad and principles referred to under Article 5.1. of the Code, falling under the competence of the BoD Nomination Commission, the Commission shall submit a special report to the General Assembly advising on the present issues.

BoD Members, including the newly appointed members of the BoD, by entering into

<p><i>Obligation to report matters involving personal interest and restriction on competition</i></p>	<p>the Agreement regulating mutual rights and obligations with the Company, have been additionally introduced to the matters concerning reporting to the Company in case of any legal affairs they may enter into with the Company, their obligation not to act as a competitor to the Company and other special duties assigned to the BoD members.</p> <p>The methods of approving matters involving the conflict of interest and engagement of members of the Board of Directors considered as competitive is set forth under the provisions of the Company Law. Within the reporting period, upon decision-making and approval process relating to the matters involving personal interests of the BoD members, as stipulated under the Law, the votes of such members of the BoD were excluded from the voting results assessment.</p> <p>In addition, in order to keep track of any competitors, the Company has introduced the practice to carry out quarterly surveys of the BoD members regarding circumstances of their current involvement, and on their membership in the managing and supervisory boards in other companies and the results obtained are included in the quarterly and yearly reports of the Company accordingly.</p>
<p><i>Role of the BoD Chairman and its relation with other BoD members</i></p>	<p>The survey results demonstrate that, based on the Code criteria, the BoD Members have rated high the performance of the BoD Chairman, in terms of duties assigned and efficiency demonstrated within the reporting period observed.</p> <p>The BoD Member ratings point to organizational and leadership capabilities, extraordinary professional reputation and personal integrity of the BoD chairman, earning thus the full confidence of the Company shareholders and other BoD members.</p> <p>He undertakes all the necessary measures for the sake of: Building a trust-based relationship between the BoD members, encouraging open discussion and constructive criticism of the proposed decision, increasing the efficiency of interaction between executive management and members of the Shareholders Assembly Board of the Company.</p> <p>Management style and communication attributed to the Chairman of the BoD, contributes to the efficiency of decision-making and constructive discussions. The Chairman of the BoD makes sure that the rest of the BoD are up-to-date, providing all the information necessary to perform their duties, taking care of session schedules and the manner of convening the scheduled sessions.</p> <p>The Chairman of the BoD and the General Director of the Company have highly-effective cooperation with the mutual exchange of professional knowledge and experience .</p>
<p><i>Sessions and Administrative matters</i></p>	<p>In order to keep the BoD Members up to date and adequately informed before decision-making, and capable of monitoring operations within the Company, the General Director and the management executives shall ensure providing the BoD Members with complete information on the full scope of activities conducted within the Board in a timely manner, advising on the key Company-specific issues as well.</p> <p>Therefore, special attention has been given to the matters of both informing of the BoD members and convening and holding sessions under the Rules of Procedure of the BoD and the BoD Commissions. BoD Session are prepared with the assistance of the Secretary of the Company and under the supervision of the Chairman of the BOD, so that each member of the BOD would be able to provide an appropriate contribution to the work of the Board of Directors.</p>

In accordance with the established regulations and procedures governing preparation of the BoD Sessions, a set of materials is to be prepared for each item on the agenda which requires a timely presentation at the BoD Session, enabling each member of the BOD to express his opinion and take a stand on the respective issue.

Matters are distributed by sessions of the Board of Directors (Sessions with BoD Member Attendance and Correspondent Sessions) within the process of the BoD Work Plan harmonization and approval between the members of the Board of Directors and the Company's management. This ensures that the members of the Board of Directors decide beforehand on the sessions which require personal attendance of members of the Board of Directors in order to have a discussion and expression of views by all members of the Board of Directors.

BoD Members meet sufficiently frequently. The duration of the sessions shall be tailored to suit the issues on the agenda discussed – the time allowed is enough for a comprehensive review of the issues on the agenda.

Sessions evolve around the properly prepared agenda, which covers all of the Company's major issues, including matters of strategic investment and budget planning, determination of operating results, as well as motivation of the senior management of the Company.

Interaction between the BoD Members and the management of the Company is satisfactory as well as the information exchange ratio.

Discussions held at the sessions and the decisions made shall be properly documented. Each member of the BoD shall have access to and insight into the documents enacted on the level of the Company. For purposes of the BoD members, the Company has created and is continually updating a special intranet portal that contains materials for the sessions and official documents of the Company, available to all BoD members via Internet .

Based on the survey results of the BoD members, it was agreed that the materials for the BOD Sessions are high-quality, comprehensive and contain sufficient information to take a stand on any issue. In view of the exceptional cases of late preparation of materials, the BoD issued a corresponding order to the NIS management. Under its orders, the management of NIS prepared an appropriate Plan on the preparation and submission of material and reports on key business issues in the NIS for 2014. The present Plan includes detailed elaboration of the activities and deadlines for their implementation to ensure timely preparation and approval of the material to be presented for review at the BoD .

According to the members of the BOD, the reporting period observed provided adequate conditions and adequate resources for the work of BOD, rating the Secretary of the Company as an effective channel for transmission of information to the Board of Directors and support the BoD Chairman and non-executive directors.

The only difficulty seems to be arising from the fact that discussions in the sessions are conducted in three languages (Serbian, Russian and English), however, as the Company has arranged for simultaneous translation in all three languages, no negative impacts have been detected so far when it comes to the conduct of discussions in the sessions of the Board of Directors.

<p>Work Plan of the Board of Directors</p>	<p>At the beginning of the fiscal year, the BoD adopts the Work Plan of the Board of Directors, which contains a range of questions that must be discussed by the BOD in accordance with the legal requirements, the needs of the Company and reporting needs of the BoD members. This Work Plan sets deadlines for reviewing issues presented at the BoD Sessions, whereas the procedures and deadlines for the timely preparation of relevant materials for members of the Board of Directors of the Company are regulated under special Company Standard SD -10.02.07 - Preparation of materials and control of the execution of decisions and orders of the Board of Directors and the General Assembly of NIS j.s.c.Novi Sad, Version 3, dated 17 October 2013.</p>
<p>Introducing into Business, Training Sessions intended for the BoD members</p>	<p>Upon completion of the appointment procedure, the BoD Members are introduced into business activities policy applied in the Company, enabling thus their active participation in the operations of the BoD at the earliest convenience. This implies, among other things, introduction of the internal documents and rules of procedure, basic information and key facts on the Company, management of the Company, persons holding managerial positions in the Company, key figures on business operations conducted, strategies, business plans, goals and objectives, and other information relevant to the position and the duties assigned.</p> <p>In case it is deemed necessary by the members of the Board of Directors, the Company shall arrange special additional training programs, providing special resources for that purpose.</p>
<p>BoD Commissions</p>	<p>Upon adoption of the Rules of Procedure applying to the BoD and the BoD Commissions No. 85/1-3a dated 25.06.2012, the following Commissions have been constituted by the Board of Directors:</p> <ul style="list-style-type: none"> • Audit Commission; • Appointment and Government Commission; • Remuneration Commission <p>In accordance with the legal requirements regarding the composition of the Commissions, each of the 3 Commissions have one member acting as an independent director of the Company, whereas the majority of the members are non-executive directors.</p> <p>According to the BoD members, the Commissions are properly constituted and composed of highly qualified professionals with the required knowledge and experience in the scope of work assigned to the Commissions, and that the Commissions are headed by the persons who ensure the effectiveness of the Commission.</p> <p><u>Audit Commission</u></p> <p>Pursuant to Article 409 of the Company Law, the BoD appointed the members of the Audit Commission. In accordance with the provision set forth under Article 410, paragraph 5 of the Company Law, the Chairman of the Audit Commission is acting as an Independent member of the BoD with a proven track record of required knowledge and professional experience in accounting and finance. The proven track record of required knowledge and professional experience in accounting and finance, apart from the Chairman, has been demonstrated by the members of the Audit Commission as well.</p> <p>Key matters falling with the competence of the Audit Commission are:</p> <ul style="list-style-type: none"> • Preparing, proposing and testing the implementation of accounting policies and risk management policies ; • Proposing appointments/ dismissals to the Board of Directors relating to persons responsible for internal audit duties assigned by the Company and overseeing the performance of the internal audit of the Company ;

- Assessment of the accounting standard application in the preparation of financial statements and evaluation and review of the content of financial statements;
- Conducting Auditor elections and proposing candidates for Auditors, expressing an expert opinion on their competence and independence in relation to the Company strategy, as well as supervising the audit process .

Members of the Audit Commission are:

- Wolfgang Ruttenstorfer, Chairman of the Audit Commission,
- Aleksey Aleksandrovich Urusov, Member of the Audit Commission and
- Nenad Mijailovic, Member of the Audit Commission.

On 13 September 2013, Aleksey Jankevich was appointed as the member of the Audit Commission by the Board of Directors, whereas on 24 October 2013, this member position was replaced with Aleksey Urusov appointed thereof.

There were 2 Sessions with BoD Member Attendance and 3 Correspondent Sessions held within the reporting period by the Audit Commission. The key issues discussed within the Audit Commission within the reporting period observed imply: referring appointments proposals to the Board of Directors relating to persons responsible for internal audit duties assigned by NIS, review of the content of financial statements and Consolidated financial statements for a 9-month period of 2013 and 2013, along with the Quarterly Report of NIS for Q3 of 2013 and the Annual Report for 2013. With respect to the issues reviewed, the Commission forwarded the corresponding recommendations to the BoD.

Appointment and Government Commission

Scope of Work of the Appointment and Government Commission:

- Proposing candidate members of the Board of Directors, expressing opinion and recommendation on the respective appointments
- Proposing qualification criteria for candidate members of the Board of Directors and appointment procedures;
- Compile, at least once a year, a report on adequacy of the composition of the Board of Directors and the number of BoD members and providing recommendations relating to these matters;
- Reviewing human resource policy applied in the Company, concerning managerial position appointments.

The members of the Appointment and Government Commission are:

- Nikola Martinovic, Chairman of the Appointment and Government Commission,
- Kirill Albertovich Kravchenko, Member of the Appointment and Government Commission and
- Stanislav Vladimirovich Shekshnia, Member of the Appointment and Government Commission.

Within the reporting period, the Appointment and Government Commission convened 4 Correspondent Sessions discussing multiple proposals for appointment/dismissal of the NIS representatives in the companies NIS participates in the shared capital and delivered appropriate referrals from the BoD accordingly. In addition, the Commission reviewed the system for candidate selection and recruitment applied in subsidiaries of NIS j.s.c. Novi Sad abroad.

Remuneration Commission

Duties falling under the competence of the Remuneration Commission imply the following:

- preparation of Draft Decisions on Remuneration Policy applying to the

	<p>Executive Directors of the Board of Directors;</p> <ul style="list-style-type: none"> • proposing compensation amounts and structures for each executive director of the Board of Directors separately, along with forwarding the remuneration proposal to the Auditor; • compiling, at least once a year, a report for the General Assembly Session presenting the results of the assessment of compensation amounts and structures for each executive director of the Board of Directors separately and • preparing proposals for reference of the executive directors of the Board of Directors on compensation amounts and structures for persons holding managerial positions in the Company. <p>Members of the Remuneration Commission:</p> <ul style="list-style-type: none"> - Stanislav Vladimirovich Shekshnia, Chairman of the Remuneration Commission, - Anatoly Moyseyevich Cherner, Member of the Remuneration Commission and - Negica Rajakov, Member of the Remuneration Commission. <p>Within the reporting period observed, the Remuneration Commission held 3 Sessions with BoD Member Attendance and 2 Correspondent Sessions. The key issues discussed at these Sessions imply results of fulfillment of key performance indicators for the purpose of rewarding the General Director, Directors of the Blocks and Functions operating within NIS j.s.c. Novi Sad for 2013, and the evaluation system based on performance for the purpose of rewarding the General Director, Directors of the Blocks and Functions operating within NIS j.s.c. Novi Sad for accomplishments in 2014, as well as drafting Rulebook on Long-Term Motivation Program intended for employees of NIS j.s.c. Novi Sad for 2014. With respect to the issues reviewed, the Commission forwarded the corresponding recommendations to the BoD.</p> <p>In addition to the Commissions required by law, the Board of Directors may establish, under a separate decision, other standing or ad hoc Commissions in charge of reviewing issues relevant to the work of the Board of Directors. Decision on the establishment of other Commissions as well as the decision on their standing or ad hoc status of Board of Directors shall be based on the need for better and more efficient management and resolution of complex issues within its purview. According to the ratings of the BoD members at any given moment, the BOD has the appropriate number and types of Commissions in charge.</p> <p>By finalizing appointment of the Commission members, the BoD completed the task, designated as a high-priority one under the previously submitted BoD Report. .</p>
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3 Overview of sessions and decision-making of the Board of Directors, and participation of members of the Board of Directors in its work in the reporting period

There were 3 Sessions with Member Attendance convened by the Board of Directors within the reporting period and 16 Correspondence Sessions. Information on participation in BoD Sessions in 2013 available for each BoD Member, have been published in the Annual Report of the Company for 2013.

Statistics of participation of the BoD members in BoD sessions.

* Члан Board of Directors до 18.06.2013 године

BoD Member	BoD Sessions with BoD Member Attendance: 4, 5, и 6				Correspondence BoD Sessions: XIV, XV, XVI, XVII, XVIII, XIX, XX, XXI, XXII, XXIII, XXIV, XXV, XXVI, XXVII, XXVIII и XXIX																		
	4. 14.05. 2013	5. 09.09. 2013	6. 10.12. 2013		XIV 14.05. 2013	XV 23.05. 2013	XVI 17.06. 2013	XVII 18.06. 2013	XVIII 08.07. 2013	XIX 22.07. 2013	XX 08.08. 2013	XXI 13.09. 2013	XXII 23.09. 2013	XXIII 24.10. 2013	XXIV 18.11. 2013	XXV 27.12. 2013	XXVI 27.01. 2014	XXVII 60.02. 2014	XXVIII 06.03. 2014	XXIX 28.03. 2014		%	
Vadim Vladislavovich Yakovlev Chairman of the Board of Directors	+	+	+	3/3	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	16/16	100	
Kirill Albertovich Kravchenko General Director	+	+	+	3/3	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	16/16	100	
Alexander Vladimirovich Krilov	+	+	+	3/3	+	+	+	+	-	+	+	+	+	+	+	+	+	+	+	+	15/16	95	
Anatoly Moyseyevich Cherner	+	+	+	3/3	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	16/16	100	
Alexey Viktorovich Yankevich		+	+	2/2					+	+	+	+	+	+	+	+	+	+	+	+	16/16	100	
Alexander Arturovich Bobkov		+	+	2/2							+	+	+	+	+	+	+	+	+	+	16/16	100	
Nenad Mijailovic		+	+	2/2					+	+	+	+	+	+	+	+	+	+	+	+	16/16	100	
Negica Rajakov		+	+	2/2					+	+	+	+	+	+	+	+	+	+	+	+	16/16	100	
Nikola Martinovic	+	+	+	3/3	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	16/16	100	
Stanislav Vladimirovich Shekshnia Independent Director	+	+	+	3/3	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	16/16	100	
Wolfgang Ruttenstorfer Independent Director	+	+	+	3/3	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	16/16	100	
Igor Konstantinovich Antonov*	+			1/1	+	+	+	+													4/4	100	
Slobodan Milosavljevic*	+			1/1	+	+	+	+													4/4	100	
Danica Draskovic*	+			1/1	+	+	+	+													4/4	100	
Vladislav Valerievich Baryshnikov**	+			1/1	+	+	+	+													4/4	100	

**Члан Board of Directors до 05.07.2013 године

CONCLUSION

Assessment of the Board of Directors was conducted taking into account the results of completed surveys on key issues relating to the work of the BoD, including: participation in the goal- setting process and monitoring their reach ratio, participation in BoD session discussions, adequacy of the form of the sessions , role , duties , powers and responsibilities of the Board of Directors , composition of the Board of Directors and its Commissions , Members, levels of information etc.

Based on the results of the Analysis of responses/scores obtained from the members of the BoD, it has been determined that within the reporting period observed, the Board of Directors, acting as a central governing body of the Company , in accordance with the prescribed competence and responsibilities for the sake of achieving a long-term success of the Company, discussed issues related to basic business goal setting and directions of further development of the Company, was responsible for monitoring the effectiveness of the Company's business strategy . Through its work and decision-making, the Board of Directors ensured that the Company generates an operating profit, while respecting the interests of Shareholders , investors , employees, creditors , customers , other stakeholders , along with the public interest .

The reporting period observed outlined a positive trend in the work of the Board of Directors from the perspective of an increasing number of issues addressed by the BoD (62 decisions have been promulgated by the BoD) as well as from the perspective of active participation of the members of the Board of Directors in sessions of the BoD (BoD Member participation ratio - nearly maximum– 99,5).

An active standpoint of the BoD in their self-assessment confirms the commitment of the members to the implementation of the best practices of corporate governance. For the next reporting period, the Board of Directors intends to continue evaluation of its own performance and business conduct for the sake of raising the best practices of corporate governance to the international level.

Chairman of the Board of Directors

Vadim Yakovlev
(signature and stamp)

To be served to:

1. Shareholders
2. Chairman and members of the NIS j.s.c. Novi Sad Board of Directors
3. Corporate Secretary
4. Archive