



НИС а.д. Нови Сад / NIS j.s.c. Novi Sad
Народног фронта 12 / Narodnog fronta 12
ОДБОР СКУПШТИНЕ АКЦИОНАРА / SHAREHOLDERS' ASSEMBLY BOARD
Број (№): 70-3/SA-iz/XXI-2a
Датум (Date): 11.05.2017

**REPORT OF THE SHAREHOLDERS' ASSEMBLY BOARD
FOR SUPERVISION OF OPERATIONS AND PROCEDURES FOR REPORTING TO THE
SHAREHOLDERS of NIS j.s.c. NOVI SAD
FOR THE PERIOD APRIL 2016 – MARCH 2017**

Pursuant to Article 329, paragraph 1, item 16, of the Law on Commercial Entities, and Article 8.23 of the Articles of Association of NIS j.s.c. Novi Sad, for the purpose of reporting to Shareholders at the Shareholders' Annual General Meeting, the Shareholders' Assembly Board for Supervision of Operations and Procedures for Reporting to the Shareholders, within the scope of its authorizations and competencies, hereby submits the following report for the NIS j.s.c. Novi Sad Shareholders' Annual Meeting (hereinafter "Shareholders' Meeting"), scheduled for June 2017:

- **Giving opinion on reporting on accounting and financial reporting practices in NIS j.s.c. Novi Sad and in its subsidiaries**

Shareholders' Assembly Board for Supervision of Operations and Procedures for Reporting to the Shareholders (hereinafter "SA Board") monitored the application of the accounting practice and financial reporting practice, analyzed annual and quarterly financial and consolidated financial statements and reports on business operations, discussed them with management and received explanations, giving opinion that mentioned reports could be reviewed on meetings of the competent authorities. Financial reports are prepared in compliance with the regulations of the Republic of Serbia, as well as with the International Financial Reporting Standards, and the reports on business operations in compliance with the Corporate Governance Code. Accounting policies applied during preparation of the annual and quarterly financial reports for 2016, were specified in the remarks with financial reports, on which the independent auditor gave its positive opinion. The applied accounting policies were aligned with the legal regulations of the Republic of Serbia and, correspondingly, the financial reports of the Company were aligned with the regulations as well. Based on the aforesaid, SA Board passes its opinion to the Shareholders' Assembly that all financial reports and Reports on business operations for 2016, to be adopted by the Shareholders' Assembly, are valid and complete.

The Audit Commission is in charge of supervision of the reporting on accounting practice and financial reporting practice, which, in compliance with the Law on Commercial Entities, was appointed by the NIS j.s.c. Novi Sad Board of Directors. SA Board members attended the Audit Commission meetings and provided the Commission members with information relevant for decision-making.

The SA Board analyzed financial statements of NIS' subsidiaries in the Republic of Serbia and abroad, gave opinion that these financial statements can be reviewed at the meetings of

the competent authorities. The SA Board also gave its recommendations to the Board of Directors and the Audit Commission with respect to improvement of the procedures for reporting and financial situation of the subsidiaries.

- **Reporting on NIS's business operations and compliance of NIS j.s.c. Novi Sad business activity with legal and other requirements of regulatory bodies and monitoring of the contracts entered into with related party in terms of the Law on Commercial Entities**

The SA Board monitored business operations of NIS on regular basis, by means of analyzing documents delivered for review and giving opinions. The aforesaid documents include reports on business operations, contracts with related party involving personal interest, contracts in the value exceeding EUR 5 million, as well as other documents related to business operations of the Company. Based on the analysis of the aforesaid documents, the SA Board did not find any business affairs that could be against legal regulations or the Corporate Governance Code. Members of the SA Board also participated in all Board of Directors meetings as well as meeting of the Remuneration Commission of the Board of Directors.

When analyzing reports on business operations, the SA Board gave its recommendations for improving these reports, by indicating key elements which have an impact on business results. When performing this operation, the SA Board cooperated with the Audit Commission of the Board of Directors. Members of the SA Board also participated in all meetings of the Audit Commission.

- **Monitoring work of the Independent Auditor in terms of competence, independence, and skills of the Independent Auditor of NIS j.s.c. Novi Sad**

The SA Board monitored the performance of Independent Auditor PricewaterhouseCoopers d.o.o. Belgrade, by attending meetings with the auditors and the management, directly or via conference calls, where audit results were discussed.

The Independent Auditor performed the audit professionally, in compliance with procedures set forth by the International Auditing Standards. Based on the data obtained through the work monitoring and cooperation with the Independent Auditors, the SA Board determined that the Independent Auditors conducted the audit efficiently and expressed positive opinion on annual individual and consolidated financial statements for 2016, prepared in compliance with the regulations of the Republic of Serbia, as well as on financial statements prepared in accordance with the International Auditing Standards. The Independent Auditors prepared a special report on findings and observations made through the audit, which are considered relevant for improvement of business operations of the Company. The SA Board analyzed the report and gave opinion for its reviewing at the Audit Commission meeting. Members of the SA Board also attended the Audit Commission meeting where this report was reviewed.

The Audit Commission, with which the SA Board cooperated on a regular basis, is in charge of monitoring the work of the Independent Auditor. The Audit Commission prepared the activity report in which it was stated that the Independent Auditor was qualified and independent of the management of the Company, as well as that it performed a high-quality audit in compliance with the International Auditing Standards.

- **Decision on Profit Distribution for 2016**

The SA Board reviewed the proposal under the Decision on Profit Distribution for 2016, dividend payment, and determining the total amount of retained profits of NIS j.s.c. Novi Sad. By this draft of the Decision it was proposed to pay up dividends to shareholders in the amount of 25% of the generated profit shown in the income statement of NIS j.s.c. Novi Sad. The Agreement for Sale and Purchase of shares of NIS stipulates that the payment of the dividends shall be in made the amount of up to minimum 15 % of the generated profit, therefore the proposed decision was in accordance with the regulations and Agreement for Sale and Purchase of shares of NIS.

- **Other activities of SA Board**

For the purpose of monitoring the Company's business activity, the SA Board engaged a chief expert and two experts to monitor business activity and implementation of the strategy, who prepared layouts for financial report analysis, 2017 Business Plan analysis, analysis of proposed investment decisions as well as for regular business operations monitoring. The SA Board reported to the members of the Board of Directors. Members of the SA Board attended meetings of the Board of Directors' Commissions and meetings of Commission for Crude Oil Purchase/Sale, as well as by attending other meetings to which it was invited.

11.05.2017

CHAIRMAN OF SA BOARD

Nenad Mijailovic