



НИС а.д. Нови Сад / NIS j.s.c Novi Sad
Народног фронта 12 / Narodnog Fronta 12
ОДБОР ДИРЕКТОРА / BOARD OF DIRECTORS
Број (№):85/OD-iz/CX-1a
Датум (Date): 15.05.2018

Pursuant to Article 9, Item 9.6, Subitem 37 of the Articles of Association of NIS j.s.c. Novi Sad (hereinafter referred to as: the Company, NIS, or NIS j.s.c Novi Sad) No. 70/SA-od/VI-11a dated 30.06.2014 (consolidated text), and Article 14.1 of the Code of Corporate Governance of NIS j.s.c. Novi Sad No. 85/OD-od/XXVI-3a dated 27.01.2014 (hereinafter referred to as: the Code or the Code of Corporate Governance), 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 OF NIS J.S.C. NOVI SAD
IN THE PERIOD APRIL 2017 – MARCH 2018

INTRODUCTION

Governed by internationally recognized principles and the best global practices, as well as by the aspiration to establish a responsible and efficient system of corporate governance, in January 2014 the Board of Directors of NIS j.s.c Novi Sad (hereinafter: Board of Directors or BoD) adopted the applicable version of the Code of Corporate Governance which supplements the rules contained in the Law on Commercial Entities and the Articles of Association of NIS j.s.c Novi Sad (hereinafter referred to as: the Articles of Association), in accordance with which the bearers of Company corporate governance should act.

As the Board of Directors ensures the application of the principles established by the Code, in line with provisions of Article 14 Item 14.1 of the Code, the BoD of NIS has conducted the eighth analysis of its operation, presented herein.

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' meetings, 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 analysing 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	
<p><i>Drawing up of the Strategy and the Company Business Plan</i></p>	<p>All BoD members support and take part in the discussion on the strategy and the corporate values of the Company.</p> <p>In strategic meetings during 2017, members of the Board of Directors continued to consider and identify the Company's priority development objectives, as well as the forecasts of key performance indicators and assumptions for the long-term development of the Company. The work on developing and approving the updated Corporate Development Strategy until 2025 was intensified, so, at the meeting held on 7 June 2017 members of the Board of Directors considered information on the status of approval of the Integrated Corporate Development Strategy of NIS j.s.c. Novi Sad until 2025. The final version of the Strategy was adopted at the meeting of the Board of Directors of 29 November 2017.</p> <p>The BoD members actively collaborated in the reporting period as well with the Company management on issues regarding Company business activities and objectives.</p> <p>In line with the adopted Activity Plan of the BoD for 2017, members of the Board of Directors reviewed and adopted NIS j.s.c. Novi Sad Business Plan for 2018.</p>
<p><i>Monitoring of the Adopted Business Plan</i></p>	<p>The BoD regularly and in line with a routine schedule 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>Major decisions of the BoD and the forms of the reviewed reports are specified in the part of the Report titled 'Activities of the Board of Directors and Major Decisions'.</p> <p>Based on the reviewed reports and the assessment of business results, the Board of Directors has managed Company business operation by issuing 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 other 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. The results of the analysis of fulfilment of key performance indicators of NIS j.s.c. Novi Sad for 2017 showed that key performance indicators in 2017 were met with a high overall rating.</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</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>

Oversight and Risk Management

- 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, and
- Other important issues regarding the existing and future Company business activities.

The BoD and Company management give special attention to key risks, which can considerably impact on Company business activities, and take measures with a view to minimizing or removing them. 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 also established the following forms of oversight and control:

- Audit Commission,
- Internal Audit,
- Integrated risk management system.

Audit Commission

For the purpose of consideration in the following meetings of the Audit Commission, the Internal Audit, under the authority of the Person responsible for the Internal Audit of NIS operations, prepared the following during the reporting period:

- Report of the Internal Audit with the results of internal audit operations in 2017 (which includes the results of implementation of the Audit Plan and the results of activities of Organisation and Monitoring of the Integrated Risk Management System), followed by
- Annual Internal Audit Plan for 2018 and
- Internal Audit Charter.

Internal Audit

The BoD appointed the Person responsible for the internal audit of business operations at the proposal of the Audit Commission. The Person responsible for the internal audit of business operations regularly reports on conducted audit of business operations to the Audit Commission, which in turn oversees the operation of internal audit at the Company.

The person responsible for the internal audit of business operations is Jelena Popara, who is also Director of the Internal Audit. The person responsible for internal audit is obligated to regularly report on the audit performed to the Audit Commission of the Board of Directors in accordance with the adopted Activity Plan of the body. The aforementioned person meets the statutory requirements for the position of internal auditor. 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:

- Internal Audit Charter of NIS j.s.c. Novi Sad (PO-13.01.02),
- Corporate Standard – Internal Audit Management (SD-13.01.03)
- Instructions on the Operation of Internal Audit.

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 performance of the Company. Internal Audit acts

	<p>in accordance with the mandatory guidelines of professional internal audit practice of the global Institute of Internal Auditors and the abovementioned internal audit normative and methodological documents, adopted at the corporate level.</p> <p>Integrated Risk Management System</p> <p>The Company has established an integrated risk management system (IRMS), which is a set of processes, methodological framework and tools aimed at ensuring the efficiency and effectiveness of the corporate risk management process, mainly governed by the following documents:</p> <ul style="list-style-type: none"> • Risk Management Policy at NIS j.s.c. Novi Sad (PO-13.02.02), • Corporate Standard – Risk Management (SD-13.02.01), • Instructions Methodological Guidelines for Risk Management (UP-13.02.01-001). <p>Risks are managed by management in charge of individual business processes, whereas the Section for Monitoring Risk Management System within the Internal Audit coordinates this process. Management reviews the risk register and risk management measures once a year at a minimum. The key risk register along with the measures forms an integral part of the Company Business Plan adopted by the Board of Directors. Management quarterly reports on the results of the implemented risk management measures to the Section for Monitoring Risk Management System and the Advisory Board of the General Director in the form of quarterly reports on business operations analysis. In addition, the Section for Monitoring Risk Management System reports once a year at a minimum to the Advisory Board of the General Director on the results of the measures implemented.</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. 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 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 decisions 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>Division of Competences and Control of the Work of the General Director and Company Management</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 Association No. 70/SA-od/VI-11a dated 30.06.2014 (consolidated text). 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, 99/2011, 83/2014 – other law and 5/2015) 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</p>

	<p>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 performance indicators; these indicators are at the same time a reward 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 established the system for evaluating key performance indicators of the General Director and the Company Management for 2017. The adoption of the results of achieving the key performance indicators of the General Director and directors of Blocks and Functions of the Company for 2017 is planned for the BoD meeting to be held in the first half of 2018.</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 Meetings of the Shareholders Assembly</i></p>	<p>In the reporting period, the IX Ordinary Company Shareholders Assembly Meeting was held (on 27 June 2017) and all the conditions required for the meeting had been met.</p> <p>In line with the Articles of Association 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 suggest the agenda, as well as the deadlines for their use, the description of the procedures for voting through authorized representatives, voting in absentia, i.e. granting power of attorney and voting by electronic means (the power of attorney and/or the voting form must be signed by a qualified electronic signature in compliance with the law regulating electronic signature), 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 SA-od/VIII-10a dated 28.06.2016 (consolidated text), which are available to the general public on the Company webpage (www.nis.eu).</p> <p>The invitation for shareholders to attend the IX Ordinary Meeting of the Shareholders Assembly was published on 26 May 2017 on the Company webpage (www.nis.eu), 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 IX Ordinary Meeting of the Shareholders Assembly, as well as other relevant documents (the Report of the Voting Commission on the voting results) 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 above meeting of the Company Shareholders Assembly was held.</p> <p>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>

Activities of the Board and Major Decisions

In the reporting period, the Board of Directors held 2 meetings personally attended by the BoD members, as well as 19 correspondence meetings. The attendance of the Board of Directors' meetings by BoD members was 98.26% on average.

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 2017, the following major decisions were taken:

- Decision on Determining the Draft Decision of the Shareholders' Assembly of NIS j.s.c. Novi Sad on the Election and Remuneration of the Auditor of Financial Statements and Consolidated Financial Statements of NIS j.s.c. Novi Sad for 2017;
- Decision on Determining the Draft Decision of the Shareholders' Assembly of NIS j.s.c. Novi Sad on the Adoption of the Report on the analysis of the operation of the Board of Directors and Commissions of the Board of Directors of NIS j.s.c. Novi Sad in the Period April 2016 - March 2017;
- Decision on Convocation of the IX Ordinary Meeting of the Shareholders' Assembly of NIS j.s.c. Novi Sad;
- Decision on reviewing the Report on post-investment monitoring of projects of NIS j.s.c. Novi Sad in Serbia and abroad as of 30.06.2017;
- Decision on adoption of the Report on the Annual Inventory of Assets and Liabilities of NIS j.s.c. Novi Sad, for 2017;
- Decision on reviewing of the Annual Report on the analysis of NIS j.s.c. Novi Sad performance for 2016;
- Decision on reviewing of the Report on the activities of the Internal Audit with the results of activities of the Internal Audit of business operations in NIS j.s.c. Novi Sad for 2016;
- Decision on reviewing of QPR-1 (Quarterly performance review for 3 Months 2017 and Forecast until the end of 2017);
- Decision on reviewing of QPR-2 (Quarterly performance review for 6 Months 2017 and Forecast until the end of 2017);
- Decision on reviewing of QPR-3 (Quarterly performance review for 9 Months 2017 and Forecast until the end of 2017);
- Decision on reviewing of NIS j.s.c. Novi Sad Business plan for 2018;
- Decision on reviewing of Information on the status of approval of the Integrated Corporate Development Strategy of NIS j.s.c. Novi Sad until 2025;
- Decision on the reviewing of the proposal of Integrated Corporate Development Strategy of NIS j.s.c. Novi Sad until 2025;
- Decision on reviewing the evaluation system and indicators for rewarding the General Director, Directors of Blocks and Functions of NIS j.s.c. Novi Sad for 2017;
- Decision on the changes in the composition of NIS j.s.c. Novi Sad Committee for Procurement/Sale of Crude Oil;
- Decision on Determining the Date, Procedure and Manner of Dividend Disbursement for 2016 to NIS j.s.c. Novi Sad Shareholders;
- Decision on reviewing the Proposal for dismissal from the position of the General director and approval of the candidacy to the position of the General director of NIS OVERSIZ Ltd, Russian Federation;
- Decision on reviewing of the Proposal for dismissal from the positions and approval of the candidacies to the positions of the Managing Director and members of the Board of Directors in „O ZONE“ j.s.c. Belgrade;
- Decision on approval of the conversion of part of the receivables of NIS j.s.c. Novi Sad towards HIP Petrohemija j.s.c. Pancevo into share capital of HIP Petrohemija j.s.c. Pancevo;
- Decision on reviewing the Report on the implementation of Decisions and Orders

	<p>of NIS j.s.c. Novi Sad Board of Directors, as at 30.06.2017;</p> <ul style="list-style-type: none"> • Decision on Establishing NIS j.s.c. Novi Sad 23 Branches (for the purpose of registration of hospitality services in retail facilities – NIS j.s.c. Novi Sad petrol stations and for their registration in the Tourism Register of the Business Registers Agency, in accordance with the provisions of the Article 59 of the Law on Tourism); • Decision on dismissal and appointment of the Representative of NIS j.s.c. Novi Sad branches; • Decision on approval of the conclusion of Subordinated and/or Financial Loan Contracts between NIS j.s.c. Novi Sad and NIS PETROL S.R.L. Romania for 2018; • Decisions on Amendments to the Decisions on Approval of the Conclusion of Subordinated and Financial Loan Contracts between NIS j.s.c. Novi Sad and subsidiaries abroad (NIS PETROL EOOD, Republic of Bulgaria, NIS PETROL S.R.L. Romania and NIS PETROL doo Banja Luka, Republic of Srpska); • Decision on approval of sale of Jubmes banka j.s.c. Belgrade shares owned by NIS j.s.c. Novi Sad; • Decision on liquidation of Company's Branch Office in Turkmenistan; • Decision on approval of sale of Dunav Insurance Company j.s.c., Belgrade shares owned by NIS j.s.c. Novi Sad; • Decision on approval of withdrawal of NIS j.s.c. Novi Sad from participation in the company LLC "JEDINSTVO Velika Greda". <p>During the reporting period, the BoD took 73 decisions, and the enforcement of the decisions taken was monitored through the Report on the Implementation of Decisions and Orders of the BoD.</p>
<p>Observing the Principles of Corporate Governance</p>	<p>The current and valid Code of Corporate Governance of the Company was adopted on 27.01.2014 by the Board of Directors.</p> <p>The Company is committed to the application of high standards in the domain of corporate governance based on internationally recognized principles and the best world practices. In this way, the necessary prerequisite for successful business operations is ensured – the stable and sustainable development of the Company and the increase of its value.</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 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 2017.</p> <p>The Annual Report of the Company for 2017 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 Company (www.nis.eu) and the webpage of the Belgrade Stock Exchange.</p> <p>The said Questionnaire is a form providing an overview of observing the current</p>

	<p>practice of corporate governance of the Company on the part of the Belgrade Stock Exchange.</p>
<p><i>The Influence of the Board of Directors on Improving the Corporate Image</i></p>	<p>The contribution of the BoD to the observance of a positive image of the Company is reflected, among other things, in continued efforts to improve the system of corporate governance and increase the transparency of communication with all the interested parties.</p> <p>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 operations 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.</p> <p>The Company 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.</p> <p>For the fifth time since the award was established, NIS received the 'Golden Plaque Award' of the Belgrade Stock Exchange for the best investor relations in 2017 and Gold Stevie International Business Award in the category of websites specialised in providing information to investors and shareholders.</p> <p>In 2017, NIS also won the 'St. Sava Award' for its contribution to education in Serbia and the 'Captain Miša Anastasijević' Charter as the best corporate social responsibility company. When it comes to the 'Oscar of Quality' Award, NIS was declared the supreme business excellence champion, having achieved the highest score in the history of this prestigious business award. All of this goes to prove the Company's strong performance and ever-improving business processes.</p> <p>Also, the BoD contribute in creating a positive image of the Company dedicated to improving HSE culture in the Company. During the reporting period, BoD continuously supervised the fulfilment of HSE objectives to ensure the effective functioning and continuous improvement of the HSE management process. The year 2017, declared as the Year of Ecology, saw the implementation of the Programme at 100%, development of NIS Environmental Risks Register and formulation of environmental risks reduction measures. The intensity of communication and collaboration with the competent authorities and operators was improved through various workshops and environmental campaigns aimed at caring about the nature. In 2017, NIS was declared the 'National Champion' in the category of Environmental Protection and Sustainable Development as part of the European Business Awards competition.</p> <p>Further, the trend of reducing the Lost Time Injury Frequency (LTIF) continued compared to 2016, along with the 100-percent implementation of corrective measures in relation to the investigated HSE incidents. In 2017, the RAR indicator (the coefficient of the number of major and medium traffic incidents compared to the total number of kilometres travelled) was decreased by 38% compared to 2016.</p>
	<p>The applicable Remuneration Policy for members of the Board of Directors and members of the Commissions of the Board of Directors of the Company (Remuneration</p>

**Remuneration of
Members of the
Board of
Directors and its
Commissions**

Policy) was adopted by the Shareholders Assembly in accordance with the recommendation of the Remuneration Commission on 28.06.2016, when its previous version dated 18.06.2013 ceased to be effective. The Remuneration Policy is publicly available on the Company's website (www.nis.eu).

The structure of remunerations – The Remuneration Policy stipulates that a remuneration shall consist of the following:

- The fixed (standing) portion
- Cost reimbursement, and
- Liability insurance for the members of the Board of Directors and members of the Commissions of the Board of Directors.

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.

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 his/her function and is associated with the preparation and active participation in the BoD meetings, requiring its members to pre-study the documents, attend and actively participate in the meetings of the Board of Directors.

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.

The Remuneration Policy stipulates that remunerations for executive directors shall be defined by the employment contract or the temporary service agreement for each of the executive directors at the Company. Said directors do not receive remuneration for membership in the Board of Directors and the Commissions of the Board of Directors, except in the part related to cost reimbursement and liability insurance pertaining to membership and work in the Board of Directors and the commissions.

In line with its powers, the BoD Remuneration Commission carried out the 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 and in relation thereto drew up an appropriate report, adopted in the IX Ordinary Meeting of the Shareholders Assembly of the Company held on 27 June 2017. Based on the results provided and the analysis of the remuneration market, the aforesaid Report concludes that the annual amount of the fixed remuneration for non-executive members of the NIS j.s.c. Board of Directors is at the level of Group 2 (including such companies as Amec, Cairn Energy, Petrofac, Statoil, Tullow Oil plc, MOL, OMV Group, PgiNG and PKN Orlen), that the structure of monetary premiums for independent members of the NIS j.s.c. Novi Sad Board of Directors corresponds to current market practices, and that the amount and structure of remunerations for members of the NIS j.s.c. Novi Sad Board of Directors are compliant with the principles, frameworks, and criteria set forth in the applicable Remuneration Policy for members of the Board of Directors and members of Commissions of the Board of Directors in NIS j.s.c. Novi Sad.

The BoD Remuneration Commission will prepare its next Report on evaluation of the amount and structure of remuneration of members of the BOD for the next meeting of

	<p>the Company Shareholders Assembly, planned for June 2018.</p> <p>In order to maintain the BoD members remuneration at an appropriate level, it has been prescribed that the Remuneration Policy is to be subject to periodic reviews and analysis, and in this respect, in compliance with the needs, abilities and interests of the Company, the Remuneration Commission makes recommendations or presents its opinion to the Board of Directors on the Remuneration Policy as well as on the amount of remuneration for members of the Board of Directors.</p>
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 corporate governance practices.</p> <p>The number of members and the criteria for appointment of BoD members shall be determined under the Articles of Association of the Company, taking into account the need for quick 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 the 10 members of the Board of Directors appointed at the IX ordinary meeting of NIS Shareholders Assembly held on 27 June 2017, 6 are Russian citizens, 2 are citizens of the Republic of Serbia, one director is a citizen of France and one a citizen of Austria.</p> <p>The Board of Directors consisted of one executive and ten non-executive directors through to and inclusive of 26 June 2017. Then, since 27 June 2017, it has had one executive and nine non-executive directors. 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"> • Management; • Strategy; • 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.

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

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

At the IX Ordinary Meeting of the Shareholders Assembly of NIS held on 27 June 2017, the following members of the Board of Directors were appointed:

1. Vadim Vladislavovich Yakovlev (Chairman – Non-Executive Director)
2. Kirill Vladimirovich Tyurdenev (Executive Director)
3. Kirill Albertovich Kravchenko (Non-Executive Director)
4. Alexander Vladimirovich Krylov (Non-Executive Director)
5. Alexey Viktorovich Yankevich (Non-Executive Director)
6. Anatoly Moyseyevich Cherner (Non-Executive Director)
7. Nikola Martinovic (Non-Executive Director)
8. Danica Draskovic (Non-Executive Director)
9. Stanislav Vladimirovich Shekshnia (Independent Director)
10. Wolfgang Rutenstorfer (Independent Director),

while the membership of Goran Knezevic on NIS Board of Directors stopped on the date of the NIS Shareholders Assembly meeting mentioned above.

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 IV Ordinary Meeting of the Shareholders Assembly of NIS j.s.c. Novi Sad and is available on the Company's website (www.nis.eu)).

In line with its powers, the BoD Appointments and Government Commission carried out an assessment of suitability of the composition of the BoD and number of members of the BoD to the needs of the Company and prepared in relation thereto the Report adopted in the IX Ordinary Meeting of the Shareholders Assembly of NIS held on 27 June 2017.

In the aforesaid Report, drawn up based on the use of experience of PricewaterhouseCoopers Consulting d.o.o. Belgrade (hereinafter: PWC), acquired as the result of work with a large number of clients, a detailed analysis of 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 was performed, in terms of the composition, size and structure of Board of Directors. Based on the performed analysis, it was established that the size and composition of the Board of Directors of NIS j.s.c. Novi Sad followed the practice of large oil and gas companies in Western Europe, that the current composition of the Board of Directors of NIS j.s.c. Novi Sad had knowledge from all business areas of NIS j.s.c. Novi Sad, that its members held adequate ACCA international certificates, MBA and CMA qualification, that its composition included persons with professional experience with government authorities and oil and gas sector, and that it consisted of both men and women.

	<p>Pursuant to Article 409 of the Law on Commercial Entities, the Report on Suitability of the Composition of the BoD and Number of Members of BoD to the Needs of Company will be submitted by the NIS Board of Directors at the next meeting of the Company Shareholders Assembly, planned for June 2018.</p>
<p><i>Obligation to Report Transactions Involving Personal Interest and Non-Competition</i></p>	<p>Upon entering into the Agreement regulating mutual rights and obligations with the Company, all BoD Members were additionally introduced to the obligation to report to the Company in case of any legal transactions 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 Law of Commercial Entities. 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. In addition, in order to keep track of any competitors, the Company has introduced the practice of carrying out quarterly surveys of the BoD members regarding circumstances of their current engagement and their membership in 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>The information on concluded related party transactions, approved by the BoD in the period April 2016 to March 2017, was submitted to the IX Ordinary Meeting of the NIS j.s.c. Novi Sad Shareholders Assembly, held on 27 June 2017. For the period April 2017 – March 2018, the BoD will, in line with the Law of Commercial Entities, forward the relevant information on concluded related party transactions to the Company Shareholders Assembly meeting planned for June 2018.</p>
<p><i>Role of the BoD Chairman and Relation with Other BoD Members</i></p>	<p>In this reporting period, the surveyed BoD Members, based on the Code criteria, have rated the performance of the BoD Chairman high, 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. He undertakes all the necessary measures for the purpose 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 meeting schedules and the manner of convening the scheduled meetings.</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>Meetings 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 the Company's operations, the General Director and the management executives shall ensure that the BoD Members are provided with accurate and complete information on the full scope of the Board's activities in a timely manner, advising on key Company-specific issues, as well.</p>

Therefore, special attention has been given to the matters of both informing of the BoD members and convening and holding meetings under the Rules of Procedure of the BoD and the BoD Meetings. BoD Meetings 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.

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

Matters are distributed by Meetings of the Board of Directors (Meetings with BoD Member Attendance and Correspondence Meetings) 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 makes it possible for members of the Board of Directors to decide beforehand on the matters which require personal attendance of members of the Board of Directors and thus ensure the efficiency of BoD meetings.

BoD Members meet sufficiently frequently. The duration of the Meetings 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.

Meetings take place based on 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 meetings and the decisions made shall be properly documented. Each member of the BoD shall have access to and insight into the documents enacted by corporate bodies. For purposes of the BoD members, the Company has created and is continually updating a special intranet portal that contains materials for the meetings 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 Meetings are high-quality, comprehensive and contain sufficient information to take a stand on any issue. With a view to preparing the materials in a timely fashion, the management of NIS prepares an appropriate Plan on the preparation and submission of material and reports on key business issues in NIS. The said 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 meetings are held in three languages (Serbian, Russian and English). However, as the Company has arranged for simultaneous interpretation in all three languages, no negative impacts have been detected so far when it comes to the discussions in the

	<p>Meetings of the Board of Directors. Additionally, the entire correspondence with members of the BoD and the documents considered in meetings of the BoD are submitted in three languages (Serbian, Russian and English).</p>
Activity Plan of the Board of Directors	<p>The BoD adopts its Activity Plan for each business year (on an annual or semi-annual basis) and it 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 Activity Plan sets deadlines for reviewing issues presented at the BoD Meetings, 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 - Ensuring the Activity of Bodies of NIS j.s.c. Novi Sad, Version 4.0, dated 29.09.2016.</p>
Induction into Business, Training for the BoD Members	<p>Upon appointment, the BoD Members are introduced to the business activities policy applied in the Company, thus enabling a better insight into the business operations, Company strategy and plans, key risks the Company is faced with, as well as their active participation in the operations of the BoD as soon as practicable. This involves, among other things, introduction to 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 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 programmes, providing special resources for that purpose.</p>
BoD Commissions	<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 were 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 for the composition of the Commissions, the rule that one member of a Commission should be an independent director of the Company and that the majority of members should be non-executive directors is followed when Commission members are appointed.</p> <p>In this process, the BoD also ensures that 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 their effectiveness.</p> <p><u>Audit Commission</u></p> <p>Pursuant to Article 409 of the Law on Commercial Entities, the BoD appointed the members of the Audit Commission. In accordance with the provision set forth under Article 410, Paragraph 5 of the Law on Commercial Entities, 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 within 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.

The previous term of office of members of the Audit Commission lasted until the date when the IX ordinary meeting of NIS j.s.c. Novi Sad Shareholders Assembly was held, i.e. 27 June 2017, by which time the Commission was composed as follows*:

- Wolfgang Rutenstorfer, Chairman of the Audit Commission,
- Aleksey Viktorovich Yankevich, Member of the Audit Commission and
- Nenad Mijailovic, Member of the Audit Commission.

**On 2 April 2018, the same members of the Audit Commission were appointed for the current term of office.*

The Audit Commission held 3 correspondence meetings within the reporting period. The key issues discussed within the Audit Commission within the reporting period include: review of the content of the Financial Statement and Consolidated Financial Statement of NIS for the first quarter of 2017, along with the Quarterly Report of NIS for Q1, 2017. In addition, the Audit Commission gave an opinion on the qualifications and independence of the Auditor PricewaterhouseCoopers d.o.o. Belgrade relating to the Company. The Audit Commission also monitored the status of implementation of the auditor's recommendations provided in the Management Letter ("Management Letter Points") for NIS j.s.c Novi Sad in 2016.

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;
- Compiling, 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 previous term of office of members of the Appointment and Government Commission lasted until the date when the IX ordinary meeting of NIS j.s.c. Novi Sad Shareholders Assembly was held, i.e. 27 June 2017, by which time the Commission was composed as follows*:

- Goran Knezevic, 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.

**It is planned to subsequently appoint members of the Appointment and Government Commission.*

Within the reporting period, the Appointment and Government Commission held 1 correspondence meeting, producing the Report on its Activities for the period from April 2016 to March 2017 and 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 Needs of Company.

Remuneration Commission

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

- Preparing Draft Decisions on Remuneration Policy applying to the Executive Directors of the Board of Directors;
- 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 Meeting 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.

The previous term of office of members of the Remuneration Commission lasted until the date when the IX ordinary meeting of NIS j.s.c. Novi Sad Shareholders Assembly was held, i.e. 27 June 2017, by which time the Commission was composed as follows*:

- Stanislav Vladimirovich Shekshnia, Chairman of the Remuneration Commission,
- Anatoly Moyseyevich Cherner, Member of the Remuneration Commission and
- Zoran Grujicic, Member of the Remuneration Commission.

**On 2 April 2018, the same members of the Remuneration Commission were appointed for the current term of office.*

Within the reporting period, the Remuneration Commission held 1 correspondence meeting, producing, among other things, the Report on its Activities for the period from April 2016 to March 2017 and the Report on the Evaluation of the Amount and Structure of Remuneration of Members of the Board of Directors of NIS j.s.c. Novi Sad and establishing of the proposal of the amount of fee for auditor of Financial and Consolidated Financial Statements of NIS j.s.c. Novi Sad for 2017.

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. The decision of the Board of Directors on the establishment of other Commissions as well as the decision on their standing or ad hoc status shall be based on the need for better and more efficient management and resolution of complex issues within its purview. As evaluated by the BoD members, the BoD presently has the appropriate number and types of Commissions.

3. Overview of meetings and decision-making of the Board of Directors, and participation of members of the Board of Directors in its work in the reporting period

Within the reporting period, the Board of Directors held 2 meetings with personal attendance and 19 correspondence meetings. The information on the participation of each BoD member in BoD meetings in 2017 has been published in the Company's Annual Report for 2017.

Statistics of participation of the BoD members in BoD meetings

Member of BoD	BOARD OF DIRECTORS		Audit Commission		Remuneration Commission		Appointment and Government Commission	
	% presence	Number of meetings	% presence	Number of meetings	% presence	Number of meetings	% presence	Number of meetings
Vadim Vladislavovich Yakovlev <i>Chairman of BoD</i>	100%	21/21	-	-	-	-	-	-
Kirill Vladimirovich Tyurdenev <i>General Director</i>	100%	21/21	-	-	-	-	-	-
Kirill Albertovich Kravchenko ¹	100%	21/21	-	-	-	-	100%	1/1
Aleksander Vladimirovich Krylov	95,23%	20/21	-	-	-	-	-	-
Alexey Victorovich Yankevich ²	100%	21/21	100%	3/3	-	-	-	-
Anatoly Moyseyevich Cherner ³	100%	21/21	-	-	100%	1/1	-	-
Nikola Martinovic	100%	21/21	-	-	-	-	-	-
Goran Knezevic ⁴	85.71%	6/7	-	-	-	-	100%	1/1
Danica Draskovic	100%	21/21	-	-	-	-	-	-
Stanislav Vladimirovich Shekshnya ⁵	100%	21/21	-	-	100%	1/1	100%	1/1
Wolfgang Ruttendorfer ⁶	100%	21/21	100%	3/3	-	-	-	-
Members of BoD's Commissions who are not members of BoD								
Nenad Mijailovic ⁷	-	-	100%	3/3	-	-	-	-
Zoran Grujicic ⁸	-	-	-	-	100%	1/1	-	-

¹ Member of the Appointment and Government Commission by 27.06.2017

² Member of the Audit Commission by 27.06.2017

³ Member of the Remuneration Commission by 27.06.2017

⁴ Member of the Board of Directors and Chairman of the Appointment and Government Commission by 27.06.2017

⁵ Chairman of the Remuneration Commission and member of the Appointment and Government Commission by 27.06.2017

⁶ Chairman of the Audit Commission by 27.06.2017

⁷ Member of the Audit Commission by 27.06.2017

⁸ Member of the Remuneration Commission by 27.06.2017

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 meeting discussions, adequacy of the form of the meetings, 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 adequately performed its role of the central governing body of the Company. In accordance with its competence and responsibilities, the BoD discussed all issues important for the Company, including the questions of strategic, investment, and budget planning, determining business results, as well as the issues of senior Company management incentives.

In the upcoming period the Board of Directors plans to intensify work on monitoring the implementation of major development projects launched by the Company in line with the objectives set in the adopted NIS Development Strategy until 2025, ensuring the conditions for Company business operations resulting in profit in the long term, and linking the interests of Company shareholders, investors, employees, creditors, customers and other stakeholders, and the public interest.

Participation of the members of the Board of Directors in meetings of the BoD in the reporting period was 98.26% on average.

Members of the BoD actively participated in their self-assessment, which points to the commitment to the adopted principles of the best corporate governance practices. In the next reporting period, the Board of Directors intends to continue assessing its own performance and methods of operation with the aim of maintaining the level reached and improving the system of corporate values, ethical and social responsibility of the Company. Also, the BoD intends to constantly monitor HSE improvement process in accordance with the adopted HSE Strategy and three-year 'HSE Culture Improvement' Project.

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