



*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/XXXI-2a*  
*Датум (Date): 07.05.2018*

**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 2017 – MARCH 2018**

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' Ordinary (Annual) 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 2018:

- **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 2017, 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 2017, to be adopted by the Shareholders' Assembly, are valid and complete.

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 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 business plans, reports on business operations, reports on post-investment monitoring, contracts with related party involving personal interest, reports on contracts in the value exceeding EUR 5 million, as well as other documents related to business operations of the Company. The SA Board monitored the selection of contractors performing works and the process of realization of the Bottom of the Barrel project, asked questions of importance regarding the project and inspected the received documentation, due to the importance and complexity of the project as well as the inconsistency and risks that were brought to light. The SA Board shall continue to monitor the course of realization of the project.

During the analysis of the documents on business operations, 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. The SA Board gave approvals to the ponderers, targets and amtargets within Performance contracts as well as the management evaluations of the targets fulfillment in compliance with the methodology, providing overall evaluation within the MBO system. Regarding the above, the SA Board asked questions to which adequate answers were given.

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, via conference calls, where audit results were discussed.

The Independent Auditor conducted 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 Auditor, the SA Board determined that the Independent Auditor conducted the audit efficiently and expressed positive opinion on annual individual and consolidated financial statements for 2017, 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 SA Board analyzed the reports submitted by the Independent Auditor and gave opinion for its reviewing at the Audit Commission meeting and meetings of other competent authorities.

The Audit Commission, with which the SA Board cooperated on a regular basis and attended all its meetings, is in charge of monitoring the work of the Independent Auditor.

The SA Board reviewed the General Director Decision on Election of PriceWaterhouseCoopers d.o.o. Beograd as the Auditor of 2018 Financial Statements of NIS j.s.c. Novi Sad. The SA Board gave its approval and recommended the NIS j.s.c. Novi Sad

Shareholder's Assembly Board to elect PriceWaterhouseCoopers d.o.o. Beograd as the Auditor of Financial Statements of NIS j.s.c. Novi Sad for 2018.

- **Decision on Profit Distribution for 2017**

The SA Board reviewed the proposal under the Decision on Profit Distribution for 2017, 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 2017 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.

- **Cooperation with the Internal Audit**

The SA Board monitored activities of the Internal Audit by analyzing Activity Plans and individual Reports on conducted audits. The SA Board is of the opinion that internal audits and reports were made in accordance with standards of the professional practice.

Having analyzed the business activities of NIS and its subsidiaries, the SA Board gave recommendations to the Internal Audit to conduct audits of business activities of some subsidiaries and business processes, whenever they observed risks which, according to their estimation, the Management was to be acknowledged about.

Having reviewed results of the conducted internal audits, the SA Board learned that the recommendations to the Internal Audit were justified. Based upon findings of the Internal Audit the Management took adequate measures to correct the unsatisfactory performance and to improve the efficiency of business operations.

- **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, 2018 Business Plan analysis, analysis of the Integrated Development Strategy of NIS until 2025, analysis of proposed investment decisions and Report on post-investment monitoring 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 Commission for Crude Oil Purchase/Sale, as well as other meetings to which they were invited.

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CHAIRMAN OF SA BOARD

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Nenad Mijailovic