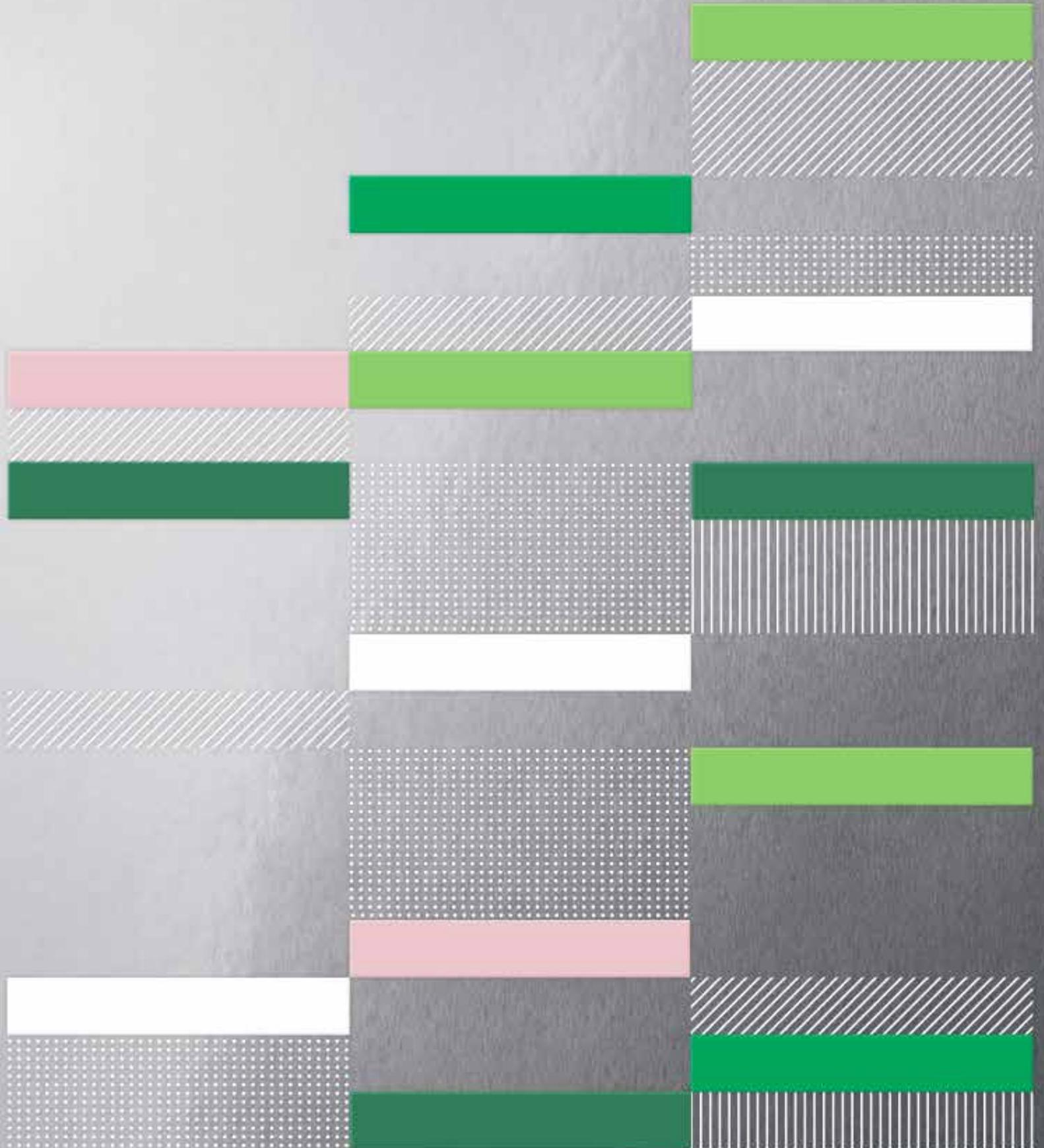


Report on Sustainable Development 2017



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Welcome to the NIS Report on Sustainable Development, which presents the Company's operations in 2017. Our aim is to provide safe and stable energy supply for the needs of the growing population while creating long-term value for our shareholders, employees and the community in which we operate.

The Report was prepared in compliance with the international standards of the Global Reporting Initiative GRI G4, with addendum on the Oil and Gas Sector. The compliance of the Report with the GRI guidelines as well as the accuracy of information provided in the Report which present the Company's business operation in 2017 were assessed and verified by the independent auditing company Ernst & Young. The report on sustainable development was prepared in Serbian, English and Russian. In case of any discrepancies, the Serbian version shall prevail.

**Kirill Tyurdenev**

CEO

NIS j.s.c. Novi Sad

A handwritten signature in black ink, appearing to read 'Kirill Tyurdenev', with a long horizontal line extending to the right.

Introduction by the CEO

Dear Friends,

Sustainable development means more than a responsible attitude towards the future. Sustainable development principles are already deeply interwoven into each and every business process at NIS, from our oil and gas exploration and production to our approach to human resources management. Our business and our leading market position are based on introducing and implementing modern technologies, improving operational efficiency, being environmentally responsible, ensuring the health and safety of NIS employees and all other citizens. We are committed to energy efficiency, rational use of resources and sharing best practices with external partners. Our priorities also embrace transparent reporting of our business activities to all stakeholders and investing in the continuous professional development of employees at all levels. In addition, NIS aspires to be a good neighbour and an exemplary active citizen, which is why our employees and NIS itself exert considerable effort every day to bring about positive change in the communities where we operate.

Owing to this commitment from all employees and positive market trends, NIS considerably improved its financial and operating indicators during 2017. In Upstream, we increased our hydrocarbon reserves and produced 1.4 million tonnes of oil and gas equivalent. Last year, we processed a record 3.6 million-tonne volume of crude and semi-finished products and gave strong impetus to second stage of modernising the oil refinery in Pančevo by launching the 'Bottom of the Barrel' project. At the same time, we continued to work steadily to improve the environmental protection, making the Pančevo refinery the first energy plant in Serbia to receive the Integrated Pollution Prevention and Control (IPPC) permit from competent state authorities. In the sales segment, we continued to develop and modernise our retail network and services, putting our 'customers first' approach into practice. In cooperation with our partners at Gazprom Energoholding, we signed a contract to construct a combined heat and power plant in Pančevo. This represents a major advance towards the construction of a modern plant producing environmentally-friendly energy for our

refinery, while providing additional quantities of electrical energy for the market. This marks another NIS contribution to Serbia's energy stability.

Having invested a total of RSD 26.5 billion in 2017, NIS remains one of the leading investors in Serbia, earmarking over RSD 4 billion for shareholder dividends. We organised over 200,000 hours of training for our employees, an investment of nearly RSD 200 million. We also adopted one of the best Collective Agreements in Serbia. As part of our contribution to community development and overall prosperity, we invested over RSD 379 million in corporate social responsibility projects. These included reconstructing kindergartens, building children's playgrounds and sports fields, supporting young talents, improving educational and providing health and social protection structure. In addition, we significantly increased our investments in environmental protection projects last year, allocating RSD 479 million. These results allow us to say with confidence that 2017 was one of the most important years in the development of NIS.

However, we live in the time of the fourth industrial revolution; the accelerated development of technology poses many challenges, which make us view last year's positive results as an incentive for further progress and technological advancement. The world is now more connected than ever, digitisation is changing production methods in our industry, new technologies are dictating shares in the energy mix of the future. The ways that our customers get their information and form their expectations are also changing. NIS needs to improve its operating results and to continue to provide the people of the Balkans with energy at competitive prices; at the same time, it needs to respond to expectations of reducing environmental impact and increasing energy efficiency while continuing to allocate funds earmarked for the benefit of the community. It is no exaggeration to say that the current set of circumstances present the entire energy industry with challenges that have no easy responses.

In an effort to best respond to global and regional trends, at NIS we formulated a plan in 2017 to further boost competitiveness, improve operation-

al efficiency and strengthen the business model to make it even more resilient to market fluctuations. We adopted the 'Corporate Development Strategy by 2025', which aims to make NIS more successful and create additional value for its shareholders and the communities where it operates.

We have set ourselves ambitious objectives: to increase the efficiency and security of business processes, to adjust our organisational structure to match strategic tasks and to improve our business through continuous innovation and modern technologies. Transformation is one of the major projects ahead of us, allowing us to maximise our results in all segments. Some projects have already started delivering benefits, confirming that we are on the right track. The modern equipment of our Science and Technology Centre has taken NIS's exploration and development drilling performance to the highest level, not only in the region but also against the parameters of Gazprom Neft Group production assets. Completion of the 'Bottom of the Barrel' project will put the Pančevo refinery among the global leaders in terms of processing depth and

energy efficiency. Environmental and occupational safety standards will also be improved and the environmental impact reduced.

That said, business success is not the sole priority for NIS. We will continue our dedication to supporting talented people, improving educational conditions, promoting science, culture, the art and sports and involving ourselves in philanthropic campaigns that contribute to wider prosperity. We will strive not only to maintain but also to expand our partnerships with local communities across Serbia. These have seen us jointly and successfully undertake over 900 projects since 2009. We will need a great deal of energy to accomplish these objectives. We will primarily find it in our employees, but also in those young people that are yet to have the chance to become a part of NIS's great team of around 11,000 employees. Sustainable development principles, which are part of every business process at NIS, provide strong support for long-term stability of all our projects on the path to further progress and for the benefit of all stakeholders.

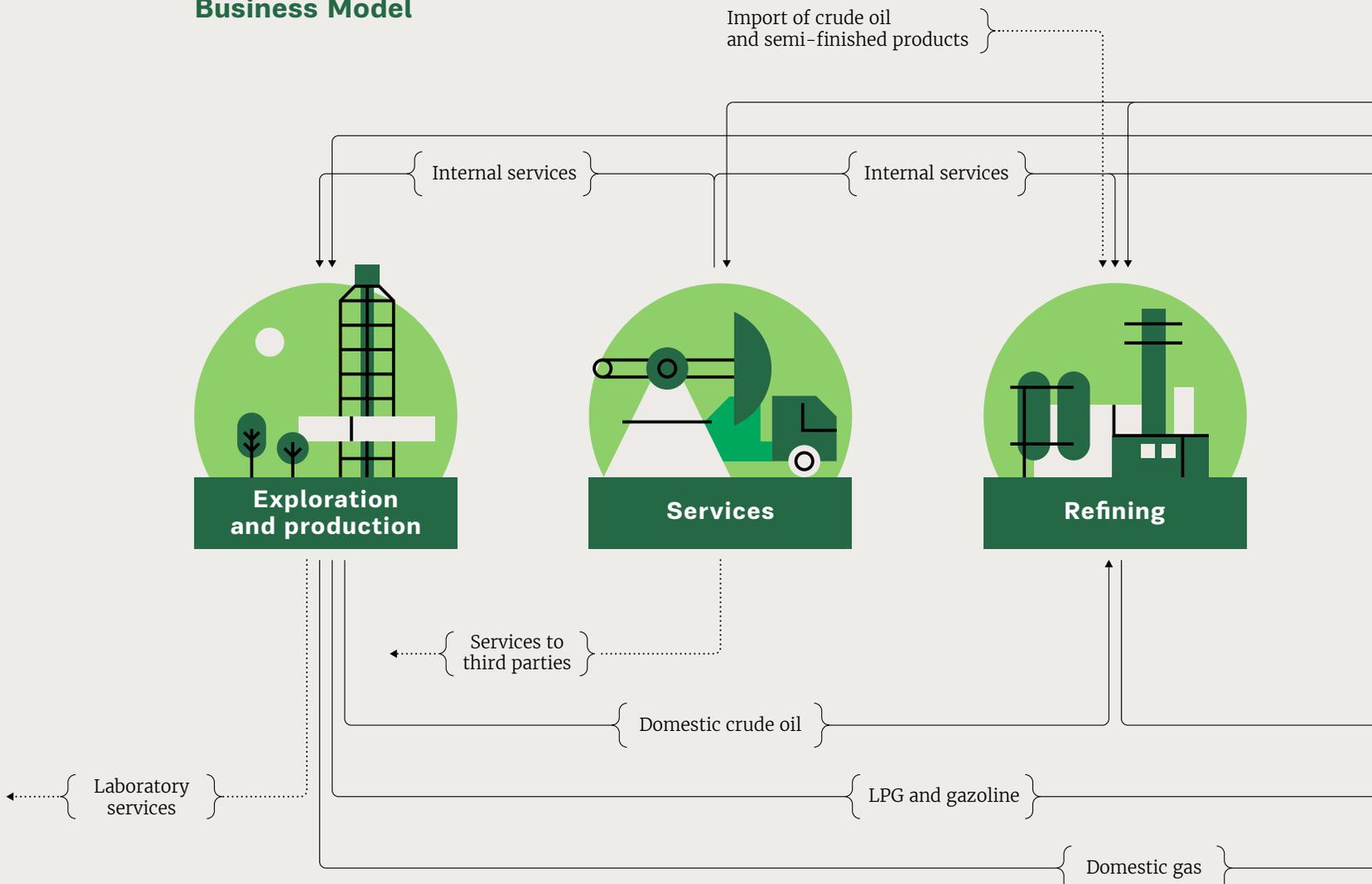
NIS Group

NIS Group is one of the biggest vertically integrated energy systems in South East Europe. The core activities of NIS group are crude oil and natural gas exploration, production and refining, sales and distribution of a wide range of petroleum and gas products as well as implementation of petrochemical and energy sector projects.

Products:

- Natural gas
- Compressed natural gas
- Motor fuels
- Aviation fuels
- Bunker fuels
- Energy fuels
- Oils and lubricants
- Bitumen
- Fuel oils
- Petrochemical products
- Other products

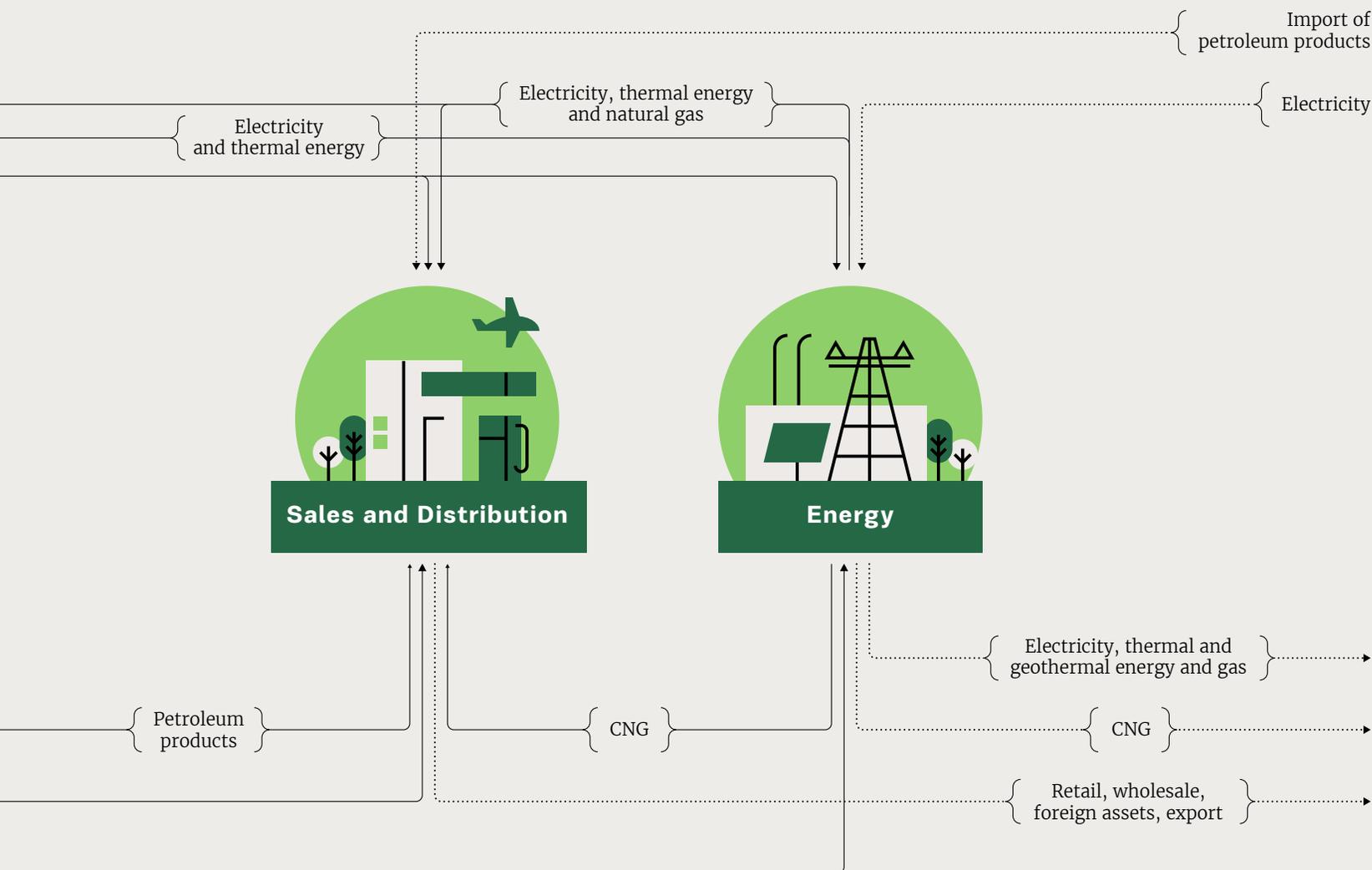
Business Model

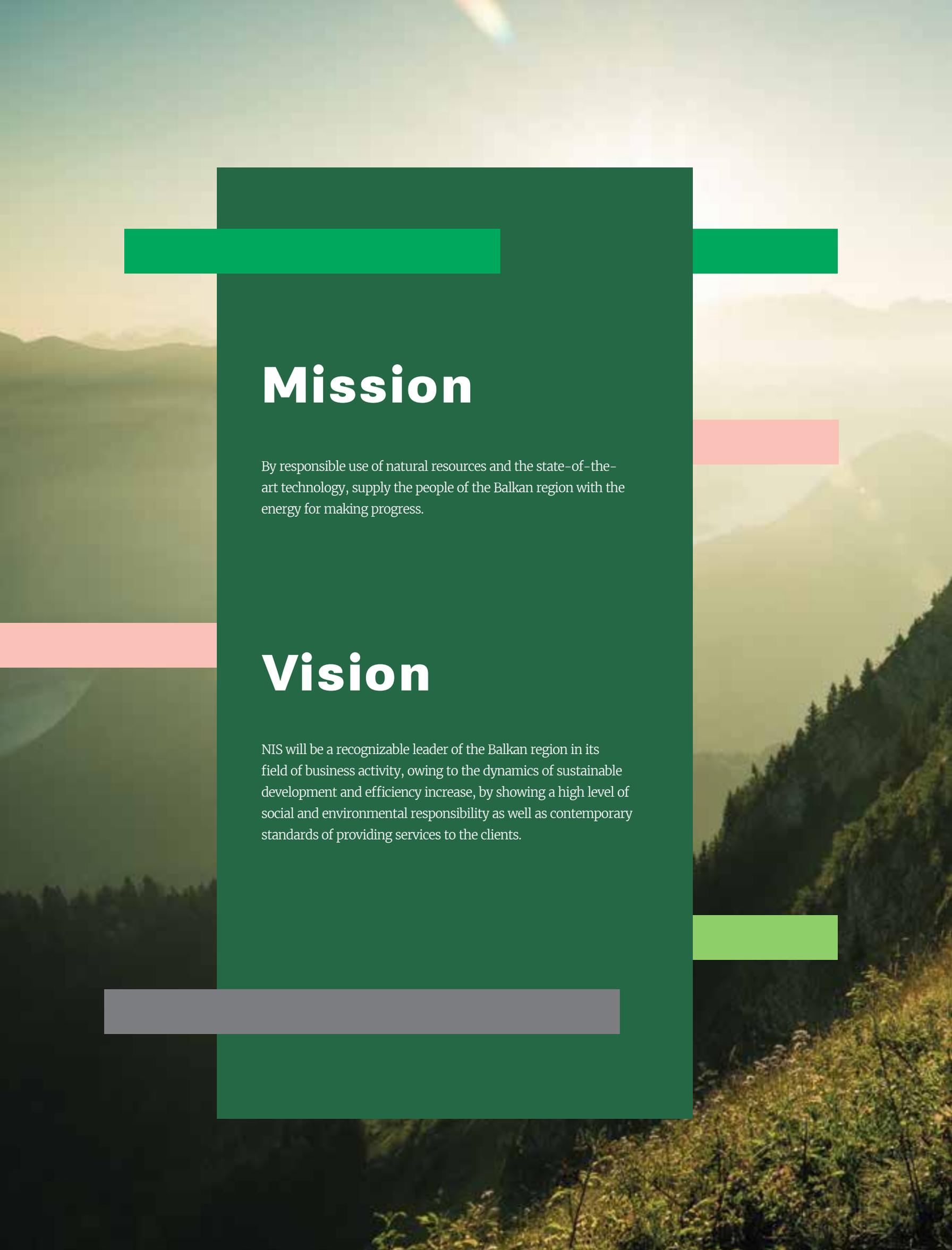




Awards and Acknowledgements

- 2017 Oscar for Quality – business excellence award:
 - Absolute champion in all business areas
 - Company with the highest number of points in the history of this award
- Captain Miša Anastasijević Award for the best corporate responsibility
- Belgrade Stock Exchange – golden plaque award for the best investor relations
- Stevie International Business Award for the best website for investors
- 2017 Serbian Chamber of Commerce Award for the business results
- TOP 50 – Special internal communication reward for NIS intranet portal





Mission

By responsible use of natural resources and the state-of-the-art technology, supply the people of the Balkan region with the energy for making progress.

Vision

NIS will be a recognizable leader of the Balkan region in its field of business activity, owing to the dynamics of sustainable development and efficiency increase, by showing a high level of social and environmental responsibility as well as contemporary standards of providing services to the clients.



Value statements

Professionalism

Acquiring up-to-date knowledge in order to permanently increase the level of professional expertise and the ability to implement it in specific business processes.

Initiative and Responsibility

Finding and proposing new solutions, both in the area of work responsibilities, as well as in the area of Company's interests.

Positive Attitude and Cooperation

Readiness to participate in multifunctional groups and projects, eagerness to meet demands of colleagues from other units of the company, willingness to exchange information, ability to work in teams.

Shared Results

Joint efforts in achieving visible and meaningful results, a desire to succeed accompanied by inescapable mutual assistance and cooperation of employees.

On the Report and reporting principles

Materiality Matrix

The Report focuses on challenges that the NIS business operation faced during 2017 and on the topics crucial to the business, both from the Company's perspective and those of stakeholders, as defined in the Materiality Matrix.

Audits of the Materiality Matrix are conducted biannually, using a structured process, which involves key stakeholders. This ensures that the defined topics reflect the key milestones of the Company's operations and future.

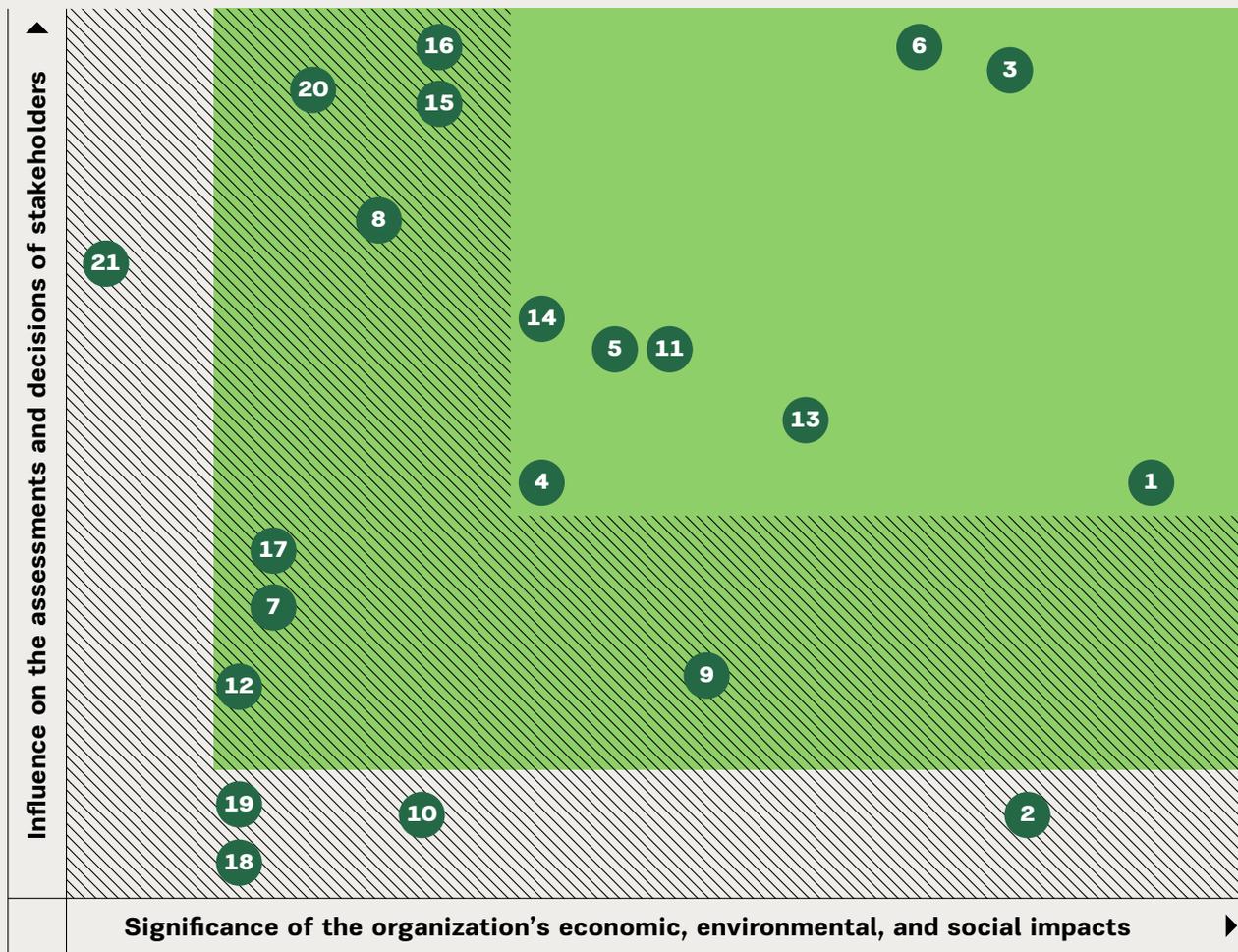
The company continues to engage in an active dialogue with stakeholders and regularly considers all the topics crucial to both sides. This Report also covers additional indicators that are relevant both for the NIS business operation and stakeholders and which exceed the requirements of the general reporting level defined by the GRI G4 standards.

The following methodological rules and principles of GRI guidelines were used as the basis for the preparation and drafting of the Report:

Materiality

By adhering to the materiality principle in the selection of topics, the Report also covers the topics that can have fundamental impact on the assessment and decisions of the management bodies and stakeholders.

The results of the researches conducted in the form of interviews with all stakeholders - as well as issues on Sustainable Development of other international oil and gas companies, and topics which are relevant for all the stakeholders and recommended by the GRI guidelines - were all used as the basis for the preparation of the Materiality Matrix



TOPIC	SDG	TOPIC	SDG
1 Accidents	6, 15	12 Legal issues	8, 16
2 Economic indicators	8, 13, 16	13 Oil and gas reserves	
3 Air emissions	12	14 Investments and impact on the local community	9, 11
4 Occupational safety and protection	3, 8	15 Water management	6, 12
5 Land protection and remediation	15	16 Waste management	6, 12
6 Product quality	12	17 Energy consumption management	7
7 Used materials	8	18 Technology management	3
8 Renewable energy sources	7	19 Transport management	
9 Relations with employees	5, 8	20 Impact on biodiversity and ecosystems	15
10 Supplier relation management	12, 16	21 Cooperation with educational institutions	4
11 Customer relation management	16		

Inclusion

The Report represents all stakeholders and the communication with them is set out in the Section – Dialogue with Stakeholders.

Sustainability

The Report contains data and activities of NIS on the territory of the Republic of Serbia. The Report presents the plans reflecting Company's commitment to sustainable development.

Completeness

The data presented in the Report refers to 2017 and where possible, comparative data for 2016 is included. Financial and economic indicators are derived from the consolidated financial statement (source: 2017 Annual Report, NIS).

The Report presents 83 indicators describing the activities of NIS related to the topics that are crucial for the Company's business operation as defined in the materiality matrix.

Balance

Information contained in the 2017 Report reflects the results and achievements of the Company as well as the challenges encountered by NIS during the year. Impartial presentation of information provides an opportunity for both positive and negative assessments.

Comparability

The Report has been prepared in accordance with the GRI guideline reporting methodology, which enabled comparison with previous NIS Sustainable Development Reports as well as with reports of other companies in Serbia and abroad.

Accuracy

NIS strives to present qualitative and quantitative data in its reports to the highest possible degree of accuracy. The Report lists the sources and methodology used for the collection of data, while financial and economic data can be found in the NIS 2017 Annual Report.

Timeliness

This Report is published annually and makes it possible for all stakeholders to make timely decisions about the Company and its business operation.

Clarity

The Report is suitable for all stakeholders owing to its clear and accessible wording. The specific nature of NIS business activity makes it difficult to achieve absolute clarity, particularly relating to environmental protection. All terms and abbreviations that may be unclear are explained in the glossary.

Reliability

The assessment of compliance of the Report with GRI guidelines as well as the accuracy of the listed information has been verified by independent auditing company Ernst & Young in Serbia.

Dialogue with stakeholders

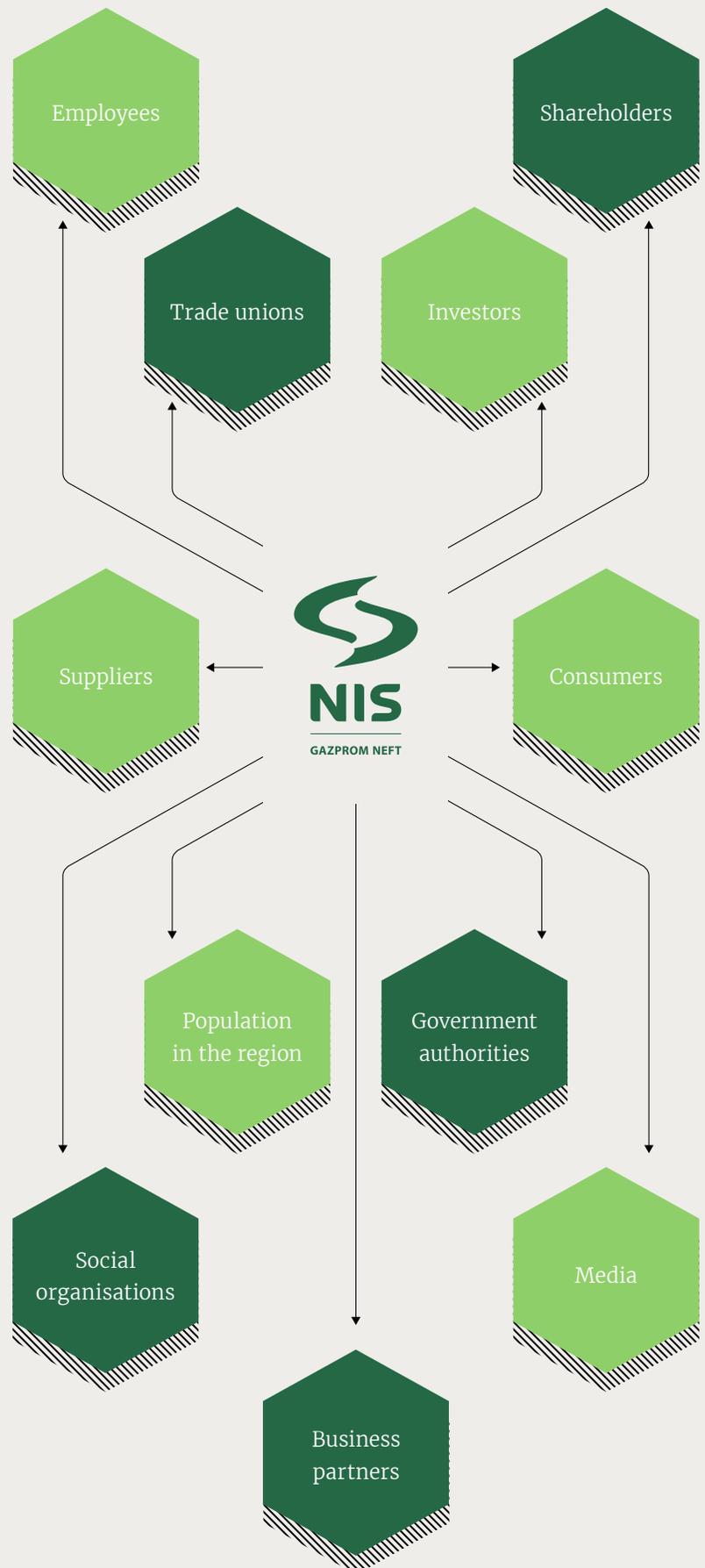
Transparent and timely notification of the public on all activities of NIS, as well as cherishing of a two-way communication with all interested parties, are not only one of the strategic priorities of the Company, but also our everyday activity.

The backbone of the sustainable development principle in NIS is made of: business transparency, responsible attitude towards the employees and the community where NIS performs its activities, environment protection, rational utilization of natural resources and energy efficiency, permanent modernization of equipment and working processes for the purpose of the product and service quality improvement. Furthermore, NIS continuously invests in the development of the society, especially young generations as the carriers of the positive energy and future development. Carefully monitoring the always growing requirements of the community and wishing to contribute to the general improvement, NIS cherishes mutually useful cooperation with the state institutions, local self-governments, trade and business entities, social, religious, political and other non-governmental organizations in Serbia and abroad.

The Company's priority in its relations with the business partners remains to be the compliance with the Business Ethics Code* and transparency in business activities. The Company strives towards realization of the top professional standards with simplified procedures.

Membership

The World Petroleum Council is the largest and oldest non-governmental organization in the field of oil and gas. Its national body is the National Petroleum Committee of Serbia, whose founder is NIS. The objective of this body is to improve activities in the oil and gas industry in the field of sustainable development. The National Petroleum Committee of Serbia was established in March 2011.



* More information on the Business Ethics Code is available at the web page: <https://www.nis.eu/o-nama/informacije-o-kompaniji/kodeks-poslovne-etike>

NIS is a member of several associations and Chambers of Commerce in Serbia and abroad, including the:

- National Petroleum Committee of Serbia of the World Petroleum Council (WPC), a member since 2011,
- Foreign Investors Council (FIC) since 2011,
- Chamber of Commerce of Serbia, since 1991,
- American Chamber of Commerce in Serbia (Am-Cham Serbia) since 2014,
- European Virtual Institute for Integrated Risk Management (EU-VRi), since 2007,
- Petroleum Committee in Bosnia and Herzegovina since 2016,
- European Union Research and Innovation Platform Vision 2020: The Horizon Network, since 2017.

Relations with Shareholders and Investors

The basic goal of NIS in its relations with investors and shareholders is establishing and development of long-term relations, which are based on trust through transparent publishing of information and two-way communication.

Special attention is paid by NIS to fostering of relations with investors and shareholders enabling them to access all relevant information on the Company's business activities, shareholders' rights, but also all other significant issues, in an easy and unified way. The following are responsible for communication with this group of interested parties:

- Sector for Relations with Minority Shareholders, servis.akcionara@nis.eu
- Special Call Centre for minority shareholders, telephone number (011) 22 000 55
- Section for Investor Relations, Investor.Relations@nis.rs
- Special segment of the corporate website - Investors, ir.nis.eu

The statutory reporting procedure is defined by special Company acts governing the method and process of publishing information and submitting information to the relevant authorities mostly to this end. However, in the field of sharing information, NIS goes a step further so the Company reg-

ularly, upon finishing of each quarter, organizes presentations of the achieved results, where the representatives of the highest level of management analyse in detail the business activities and the realized results in a direct communication with the investors. Moreover, NIS also participates at investors' conferences, and the Company's door is always open for those who wish to acquire more information at the individual meetings. Each year, the Investor's Day is organized, which is held in the Company's offices and where the important and significant projects are being presented. During 2017, the presentations on dividend payment were organized with the purpose to acquaint the shareholders with the dividend payment procedure, comparative analysis of NIS business activities and the activities of the surrounding oil companies, comparative analysis of dividend trends, dividend yield in NIS and in other oil companies in the neighbourhood.

An important source of information for all interested parties represents a special segment of the corporate website which is intended for notification of, and use by the investors and shareholders (<https://ir.nis.eu>), and whose design and content were significantly improved in 2017 for the purpose of better notifying and easier use of this form of communication by the shareholders and investors. In 2017, this segment of the NIS corporate website won the golden reward Stevie International Business Award in the category of specialized internet websites intended for informing of the investors and shareholders. NIS also received the Golden Plaque Award of the Belgrade Stock Exchange for the Best Investor Relations in 2017. This prestigious reward has been awarded to the Company for the fifth time.

Corporate Website

Informing of public on business and corporate activities, as well as on socially responsible projects of NIS are an extremely important segment of the two-way communication between the Company and the interested parties. All important information is published at the NIS website (www.nis.eu), in three languages: Serbian, Russian and English. In addition, the corporate website of NIS makes easily available to the visitors all the basic data on the Company, as well as on its products and ser-

VICES. Furthermore, the website publishes the information with regard to vacant positions, data on open tenders, procurements, information for potential NIS partners. A special segment of the website is dedicated to the investors. When it comes to sustainable development, the website nis.eu makes available electronic version of all reports published until the present day, which may inform the public in detail on efforts made by NIS in relation to sustainable development since 2010 when the Company, as the first one in Serbia, presented such a document. Furthermore, in the past two years, NIS also provided the preparation of the online version of the Report on Sustainable Development with interactive content adjusted to all mobile devices. In 2017, the home page of the corporate website was modernized in accordance with the latest trends. The section “Magazine” was also designed, where the visitors have the possibility to read the experts’ articles on the Company’s activities. The NIS cor-

porate website is adjusted for use on all devices. This also enhanced the presence of NIS within the on-line sphere and increased the number of visits to the corporate website.

Consumer Websites

At the retail market of Serbia and the region, NIS is presented with two brands – mass brand of NIS Petrol and premium brand of the fuelling stations GAZPROM. In order to make consumers more easily familiar with business activities and locations of our fuelling stations, as well as with the products, services and discount sales, which are ready for them at the largest retail network in Serbia, the internet websites nispetrol.rs and gazprom-petrol.rs. were initiated. Since the network of the GAZPROM fuelling stations is active in three more countries of the region, besides Serbia (Bosnia and Herzegovina, Bulgaria and Romania), the website of this



network is available in all countries of business, in the languages of these countries, as well as in English. At this website, the consumers, besides other things, may find out all they needed with regard to properties and advantages of usage of the premium G-Drive fuel.

Business development regarding oils and lubricants is of great significance for the Company that is one of the leaders in the region in this field. Constant improvement of the product quality and implementation of innovations made it possible for the brand NISOTEC to take the leading position at the market in Serbia and to make a significant regional step out. At the website of this brand - nisotec.rs, the consumers may get familiar with entire assortment of the NISOTEC products, they may obtain detailed data on oils, lubricants and technical fluids, and they can be advised on preparation of the vehicles during the winter conditions. At the same site, there is a map of sales locations available, as well as a list of authorized distributors, recommendations for selection of certain products.

Loyalty program "On the Road with Us" has been developed by NIS in Serbia and other countries of business for the purpose of rewarding of the consumers' loyalty. At the website sanamanaputu.rs, the consumers may find out in what way they can become the users of this program, how they can collect and use the bonus points, as well as all about the benefits of this card. Information on current sales activities is also available on this site.

Social Networks

As a company which strives towards transparency in informing of public on its activities and significant interaction with the consumers, NIS is also present on the social networks: Facebook, LinkedIn, Twitter, You Tube and Instagram. Through the profiles on the social networks, the visitors may be informed in an interesting and innovative way on NIS activities, they may participate in the Company's actions and they may become the winners of valuable prizes. Furthermore, a two-way communication and interaction, which is achieved by NIS with their followers at the social networks, is of special importance for the Company.

The consumers may also communicate with the Company by a free of charge call at the call-centre number 08 0000 8888, as well as by sending an email to the address: office@nis.eu.

Internal Communication

Providing information to employees and active developing the corporate culture are essential to meeting business objectives and improving business operation. The Company uses various channels of information and a large number of tools for promoting corporate values and key topics.

This includes providing timely, open and accurate information to employees on all current topics. These range from business results, development plans, development and training of personnel, safety at work to the social package and other employee benefits that directly affect the development of the corporate culture.

Corporate print media, such as monthly and quarterly magazines and special supplements that are printed with the magazine and other publications are used to provide information to employees in Serbia and the region.

Employees are also informed through electronic media, most notably via the intranet portal, which has more than 3,000 daily visitors. The intranet portal of NIS received the special award for corporate communication for 2017 of the PC Press magazine.

Other electronic channels include info mail and various types of email notifications. Due to the large number of employees working in the field with limited access to e-mail, information boards have been set up at more than 400 sites in Serbia to provide information on current topics.

Two-way dialogue between management and employees is crucial for achieving high-quality and transparent communication. In NIS, employee feedback is delivered using various tools, either via CEO meetings with first and second level managers or through meetings between employees and management. Here, everyone has the opportunity to openly discuss all important issues. Employees can also direct questions to management through

the section "Questions to Management" in the corporate media.

The existence and operation of "SOS Line for Business Ethics" as a part of the "Feedback" program prevents the violation of the Code of Business Ethics and is of great importance for developing the corporate culture. A special SOS telephone hotline and e-mail address, allows employees to report suspected violations of the Code, such as cases of corruption, theft, threats, discrimination, mobbing, administrative offenses and situations that endanger the health and safety of people. To facilitate the objective and timely resolution of reports, all cases are checked by the coordinator for implementation of the code of corporate ethics, as an independent body. Decisions on alleged violations of the corporate code as well as on measures to eliminate consequences and prevent repetition of similar incidents, are taken by the board of corporate culture and ethics. This is composed of representatives from various organizational within the Company.

SOS Line

SOS line is an internal channel of communication through which the employees may be informed on ethical norms of the Company and through which they can report the unlawful and unethical activities, i.e. activities which represent violation of provisions of the Business Ethics Code.

It is possible to contact the SOS line by the phone calling 021/481 5005 as well as by electronic mail to: soslinija@nis.eu. Besides this, a special phone line and electronic mail address were introduced for reporting of cases of corruption within the Company (phone: 064/888 5888, email address: dkz.ia@nis.eu).

In 2017, there were no determined cases of violation of ethics and business conduct in the Company, reported through the SOS line.

Sustainable Development Goals

The Sustainable Development Goals are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

These 17 goals build on the successes of the Millennium Development Goals, while including new areas such as climate change, economic inequality, innovation, sustainable consumption, peace and justice, among other priorities. The goals are interconnected – often the key to success on one will involve tackling issues more commonly associated with another.

The goals work in the spirit of partnership and pragmatism to make the right choices now to improve life, in a sustainable way, for future generations. They provide clear guidelines and targets for all countries to adopt in accordance with their own priorities and challenges. The SDGs are an inclusive agenda. They tackle the root causes of poverty and unite us together to make a positive change for both people and planet. The goals provide us with a common plan and agenda to tackle some of the pressing challenges facing our world such as poverty, climate change and conflict.



SUSTAINABLE DEVELOPMENT GOALS

03 Good Health and Well-Being



04 Quality Education



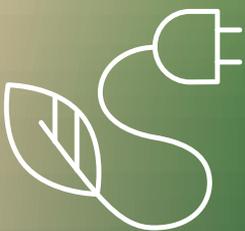
05 Gender Equality



06 Clean Water and Sanitation



07 Affordable and Clean Energy



08 Decent Work and Economic Growth



09 Industry, Innovation and Infrastructure



11 Sustainable Cities and Communities



12 Responsible Consumption and Production



13 Climate Action



15 Life on Land



16 Peace, Justice and Strong Institutions



3 Good Health and Well-Being



Ensuring healthy lives and promoting the well-being for all at all ages



Physical and mental health care and improvement, prevention of workplace injuries and promotion of healthful lifestyles are part of day-to-day care of employees exercised by NIS. We are strongly committed to the provision of sporting opportunities as well, so more than 2,000 employees took part in recreation activities in 11 cities and dozens of sports in 2017.

We are particularly proud of more than 200 employees representing the Company in various competitions.

Adopting best practice and recommendations from relevant organisations, preventive healthcare forms the backbone of employee healthcare management system at NIS.

With a view to improving physical and mental health, preventing workplace injuries and promoting healthful lifestyles, the following activities were implemented:

- Organisation of medical examinations of employees
- Monitoring, analysis and identification of measures to improve the health and well-being of employees
- Control and prevention of alcohol and drug misuse at work
- First aid, emergency aid for injured or affected employees and medical evacuation training
- Smoking prevention campaign
- Health improvement projects for employees eligible for accelerated retirement
- Awareness raising campaigns and other health education activities

The company strives in various ways to raise employee awareness of the importance of health pro-

tection through mandatory corporate training sessions, seminars, brochures, leaflets, videos and other communication channels, carried out independently or in concert with the Ministry of Health, the Occupational Safety and Health Administration and the Road Traffic Safety Agency.

A system has been introduced to monitor and analyse absence from work due to sickness or workplace injuries. Based on sickness absence records and an analysis of medical examinations, employee health profiles are created, targeted medical examinations programmes and health promotion initiatives proposed and educational campaigns, training and seminars organised accordingly.

In order to promote health in the workplace, educational movies were made to advise employees on reducing sedentary behaviour.

As part of the cardiovascular disease prevention programme, the company set up automated external defibrillators in its business centres and equipped more than 50 facilities with blood pressure monitors, but also expanded the scope of medical examinations to ensure early detection of heart diseases.

The company provides educational campaigns to employees on how to maintain good health at different ages, presenting latest nutritional developments, educating them on early detection of changes and cancers and organising lectures and workshops on mental health aiming to prevent the negative effects of stress on health.

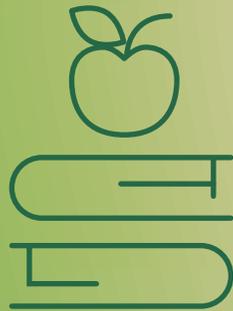
One of the major aspects of the Company's HSE policy is the development of corporate sports and provision of sports and recreation opportunities to employees, to choose from a range of activities arranged for by the Company. In 2017, over 2000 employees were engaged in recreation activities in eleven cities and more than ten sports. We are particularly proud of more than 200 employees representing the Company in various competitions, both local and regional, as well as in international corporate sporting events within Gazprom Neft Group in Kyrgyzstan and Russia. They won nearly a hundred medals and recognitions for their achievements as NIS' best recreational players in ten sports.



4 Quality Education



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all



“Energy of Knowledge” is a source of energy that best drives success; thanks to this corporate programme, NIS has become the first company to receive the St. Sava Award presented by the Ministry of Education, Science and Technology for contribution to education.

For the fifth year running, the Company was strongly committed to investing in the future by awarding scholarships to top students for Serbia and abroad through its “Energy of Knowledge” programme and by working closely with higher education institutions and science associations in Serbia.

In January 2017 NIS became the first company to receive the prestigious St. Sava Award, presented by the Ministry of Education, Science and Technology of the Government of the Republic of Serbia, for contribution to education in Serbia and the “Energy of Knowledge” programme.

In the domain of secondary education, NIS continued its cooperation with the Technical School in Zrenjanin. Internship opportunities were provided to 60 students and realised at the Zrenjanin Training Centre, production facilities and drilling and workover rig sites. The Ministry of Education selected NIS' internship model for high school students as one of the initial models of dual education in Serbia. In 2017, the first generation of 26 students completed their three-year education as operators of oil and gas plants. Fourteen students found employment in the Company, while four students are in the process of employment. In 2017, a memorandum of cooperation was signed with three secondary vocational schools in Pančevo, providing for a refurbishment of classrooms for vocational classes and the accreditation of a new curriculum aligned with the Company's demand.

In order to promote natural sciences, NIS supported and hosted three national knowledge Olympiads in natural sciences (mathematics, physics and chemistry) in cooperation with science associations in 2017. The Company teamed up with talented high school students representing our country at prestigious international Olympiads in the above fields with outstanding achievements: one gold, nine silvers and five bronzes. The programme also supported the finals of the Serbian robotics competition at the University of Novi Sad and their qualification for the European Robotics Competition in France.

In addition to the science Olympiads, special attention was paid to activities that help the affirmation and popularisation of the Russian language in Ser-

bia. NIS organised its fifth Russian language Olympiad in collaboration with the Slavic Association of Serbia, the Russian Centre of the Russian Peace Foundation, the Russian Centre of Science and Culture “Russian House“ and the Russian School with the Embassy of the Russian Federation. We continued to support bilingual education and the opening of new bilingual Serbian–Russian classes in Serbia. In January 2017, under the Together for the Community programme, a smart Russian classroom was opened in the Svetozar Marković Grammar School in Niš. In addition to five bilingual classes at the Jovan Popović Elementary School in Novi Sad, there are four more Russian–Serbian classes in the Aleksinac Grammar School and three in the Jovan Jovanović Zmaj Grammar School in Novi Sad. For the purpose of ensuring professional training and certification of Russian language teaching staff, NIS continued to pursue cooperation with the “Russian Home” and the Faculty of Education in Sombor, University of Novi Sad. A memorandum of cooperation was signed with the Grammar School in Pirot with the aim of encouraging learning and development of the Russian language. Also in 2017 we supported 25 students from two bilingual schools from Serbia to join a camp run by the Artek International Children's Centre in Crimea.

Aiming to improve the conditions for teaching and learning and science and research activities, we refurbished 29 computer classrooms and 20 laboratories at schools and faculties across Serbia. Under the Together for the Community programme, a new physics lab was opened in the First Belgrade Grammar School as well as the Park of Knowledge and a science classroom in Niš. A modern oil and petrochemical engineering laboratory was opened in an official ceremony at the Faculty of Technology of the University of Novi Sad in April.

We continued to foster strategic cooperation with universities and faculties, both in Serbia and abroad. A memorandum of cooperation was signed with the Faculty of Economics of the University of Belgrade to provide scholarship for one student for international graduate studies “Economics and Finance” run in cooperation with the University of London (London School of Economics - LSE). Also in 2017, new memoranda on strategic cooperation were signed with the Ministry of Education, Science and Technology, the Faculty of Philology of the

University of Banja Luka, Mihajlo Pupin Institute in Belgrade and the Organization of Serbian Students Abroad. We also continued partnerships with educational institutions: Mihajlo Pupin Faculty of Technical Sciences of the University of Novi Sad, Technical School of Applied Sciences in Zrenjanin, Faculty of Technology of the University of Novi Sad, Faculty of Mining and Geology of the University of Belgrade and University of Novi Sad.

To improve our partnerships in staff training and joint projects, we intensified cooperation in knowledge exchange with faculties. Thus in 2017 professors from partnering institutions gave various lectures to NIS' experts, who also gave a series of guest lectures at the Faculty of Economics of the University of Belgrade, Mihajlo Pupin Faculty of Technical Sciences and the Faculty of Technology of the University of Novi Sad.

In order to expand the current curriculum, NIS ran a series of student internship programmes and field visits to NIS, including a presentation on NIS Group and business processes and a site tour of its plants. In 2017, a second visit to NIS and the Pančevo Oil Refinery was organised for 30 students of the MBA programme of Yale University. Also, a one-day visit to the New Compound in Zrenjanin, Pančevo Oil Refinery and Jermenovci Oilfield was organised for 76 students of the Oil and Gas Engineering course of the Faculty of Mining and Geology, University of Belgrade, 91 students from the Department of Industrial Engineering in Oil and Gas Exploitation of the Faculty of the Mihajlo Pupin Faculty of Technical Sciences and 30 students of the Oil and Petrochemical Engineering course of the Faculty of Technology, University of Novi Sad. In 2017, summer internship programmes were organised for 43 NIS' scholarship awardees from Serbia and Russia, 42 students of the Mihajlo Pupin Faculty of Technical Sciences, 12 students of "oil faculties" from the Republic of Srpska and Bosnia and Herzegovina, three students of the Faculty of Mining and Geology, University of Belgrade, Geophysics Department and internship for students of the Zrenjanin Technical School. The Energy of Knowledge programme helped 14 students of the first generation of the Industrial Engineering in Oil and Gas Exploitation course of the Mihajlo Pupin Faculty of Technical Sciences to start internship at the Ukhta State Technical University.

In the academic year of 2016/2017, NIS had 43 scholarship contracts concluded with top students of targeted faculties of the Universities of Belgrade and Novi Sad as well as prestigious oil and gas universities from Russia. We are particularly proud of the achievements of our scholarship awardee Andrija Avramović, a third-year student of Moscow-based Russian State University for Oil and Gas "I. M. Gubkin" who received scholarship under "Energy of Knowledge" and was announced the best foreign student in the Russian Federation in 2017; Milan Krstajić, one of the best students of the Trinity College of the University of Cambridge; and Nebojša Obrknežev, the best master student of the Ukhta State Technical University. In 2017, three of NIS' awardees found employment with the company.

During 2017, NIS was represented on a series of conferences on dual education in Serbia, which were organised in collaboration with the Ministry of Education, Science and Technology and the Serbian Chamber of Commerce. NIS hosted the final dissemination meeting of the BAEKTEL Tempus project. Expert panel discussions and NIS' Day were organised at the Mihajlo Pupin Faculty of Technical Sciences and the Technical School in Zrenjanin. NIS was also represented on a project run by the Faculty of Mechanical Engineering of the University of Belgrade called "Support to Increasing Youth Employability" through a coaching and mentoring programme for students to gain basic business skills. "Energy of Knowledge" and its scholarship awardees took part in the second International Oil and Gas Forum held at Moscow-based Gubkin Russian State University of Oil and Gas, and was also presented at the largest youth festival in Sochi, under the National Committee of Serbia, which is supported by the Government of the Republic of Serbia and the Ministry of Youth and Sports.

In December 2017, a panel discussion entitled "Supporting Young Talents in Serbia - Mission Impossible, Yes or No?" was staged to mark the fifth anniversary of "Energy of Knowledge" in cooperation with the Exit Foundation, concluding that retaining young experts and investing in their education are the top priorities of Serbia as well as NIS.

5 Gender Equality



Achieve gender equality and empower all women and girls

Improve gender equality and the position of women and men in the Republic of Serbia; contribute to increasing the role of women in business decision-making and society in general



Creating a working environment in which every employee can realise their full potential regardless of gender, race, nationality or religion, as well as preventing any kind of discrimination and unjust differentiation in how we treat employees, job candidates, business partners and customers are the strategic priorities of NIS' operation.

NIS operates to the highest corporate responsibility standards and is committed to the principles of business ethics, legal compliance and observation of human and labour rights.

The company provides an environment in which every employee can demonstrate their full potential and prevents any unjust differentiation between or unequal treatment of employees, candidates, business partners, suppliers, clients and other third parties the Company cooperates with.

NIS operates to the highest corporate responsibility standards and is committed to the principles of business ethics, legal compliance and observation of human and labour rights. In business, it maintains high standards for a fair and safe work environment for all employees and all clients. The company seeks to provide an environment which unconditionally observes the human rights guaranteed by the Constitution of the Republic of Serbia and confirmed by international anti-discrimination agreements and laws and the rights of employees guaranteed by the Labour Law, Collective Agreement and company policies, all in accordance

with the UN Declaration on Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

All business activities in NIS are conducted regardless of race, colour, origin, nationality, national identity or ethnicity, language, religion or political beliefs, gender expression, gender identity, sexual orientation, property status, birth, genetic features, health status, disability, marital and family status, convictions, age, appearance, membership in political, trade union and other organisations and other real or assumed personal qualities.

Having recognised the importance of banning discrimination in the field of labour and human rights, NIS is especially devoted and committed to:

- Providing equal employment opportunities for all male and female job candidates;



- Reviewing and evaluating job applications regardless of candidates' personal traits and evaluating only job-specific competencies;
- Seeking only those qualifications and skills that are directly related to specific duties;
- Announcing vacancies by putting a special focus, when appropriate, on motivating male and female candidates from particularly vulnerable groups;
- Using gender-sensitive/neutral language in job advertisements, and
- Announcing vacancies in different accessible formats and at places accessible to different candidate groups.

In an effort to ensure an effective exercise of the right to fair working conditions, NIS is committed to informing every employee about their employment status in writing. In this respect, working hours, annual leave, wages, benefits, etc. are har-

monised with applicable laws, by-laws and business standards. The salary management system in place is based on the principle of internal equity and external competitiveness and aligned with the international job evaluation methodology, thus reducing the possibility of discrimination in the workplace. NIS supports the freedom of association and collective bargaining and cooperates with the representative trade union.

If discrimination in the workplace is suspected, employees can contact their line manager, HR business partner of their respective organisational unit or SOS line (soslinija@nis.eu) and submit all relevant evidence that can point to the existence of discrimination. After all documentation is collected, it is referred to the labour law team to inform the authorities, after consideration on the grounds of the complaint and potential further actions as needed.

6 Clean Water and Sanitation



Ensure availability and sustainable management of water and sanitation for all



Continuous improvements in wastewater treatment are not only aimed at ensuring compliance with domestic and European regulations, but also form a fundamental commitment of NIS' environmental policy.

In 2017, fourteen new separators for oily wastewater treatment were installed at filling stations and five separators were replaced during the construction of new filling stations upon demolition of the existing ones.

Year 2017 saw a continuation of water consumption rationalisation efforts, taking into account the use of least sensitive water intakes, monitoring of groundwater and effluent quality prior to discharge, establishment and improvement of the efficiency of wastewater treatment plants, reuse of condensate recovery at the Pančevo Oil Refinery and injection of fully separated formation water during oil exploitation.

The precondition for a strategic wastewater management is to look at all generating processes in terms of quality and quantity, the existing and missing wastewater treatment plants and recipients of effluent on discharge. To this end, the Analysis of Wastewater Treatment Plants/Equipment at NIS j.s.c. was completed in 2017 and the demand was reviewed for constructing new plants

and reconstructing or optimising the existing plants in order to meet legislative requirements of water preservation and environmental protection. The study covers all organisational units and prioritises future activities with a view to improving the current situation and meeting both domestic and European legislation in this field.

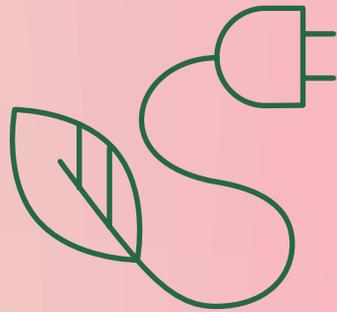
In 2017, fourteen new separators for oily wastewater treatment were installed at filling stations and five separators were replaced during the construction of new filling stations upon demolition of the existing ones. This led to a total of 300 separators (at 89% of the filling stations), with plans to install another 34. A coalescer was installed at the new compound in Zrenjanin and a wastewater treatment plant put into operation at the Novo Miloševo landfill.



7 Affordable and Clean Energy



Ensure access to affordable, reliable, sustainable and modern energy for all



NIS' energy policy is based on a carefully designed development and investment concept that promotes energy efficiency in all production processes, ensures the conservation of natural resources and investing into renewable energy sources.

The energy policy pursued by the Company is primarily based on energy management, carefully designed development and investment concept entailing energy efficiency increase in all production processes, plants and facilities, reducing energy costs and increasing the Company's competitiveness while reducing greenhouse gas emissions and preserving natural resources. Being a part of the energy management system (EMS) of the Republic of Serbia, by managing energy systematically and in compliance with international standard ISO 50001, the Company rationalises energy use and consumption in order to successfully meet the statutory requirements placed before it.

By implementing the Programme (3-year plans) and the Action Plan (a detailed annual plan of measures and expected effects), the Company increases its energy performance, especially in the areas of significant energy consumption (refining, energy generation, oil and gas exploration and production).

The system of energy consumption monitoring and analysis and a corresponding staff training system that is in place and provision of information across the board facilitate operational management of the energy systems and decision-making in relation to energy management. The Company's energy performance is monitored and analysed through a set of energy indicators, the trend of which has been followed since 2013.

The Company's development policy and modernization of all business segments are centred on the application of best global practices in this field. NIS' strategic investment decisions are focused on the Bottom of the Barrel Project with a delayed coker unit, which will maximise white product output increase while maximising the optimization of all costs, primarily the energy costs.

The joint project of NIS and Gazprom Energoholding for the construction of a gas-fired combined cycle power plant in Pančevo with a capacity of over 140 MW is slated to ensure reliable supply of thermal energy to the Refinery at acceptable cost and with minimum negative impact on the environment. This Combined Cycle Power Plant in Pančevo will also have sufficient capacity to place significant quantities of electricity on the market. Elec-

tricity sales in 2017 went up by almost 15% compared to the 2016 sales level.

Associated gas, previously flared due to non-compliance with the quality requirements for feeding into the gas network, has been in use as a fuel source in the cogeneration plants since 2013. Today, there are cogeneration plants at nine locations and their total installed capacity exceeds 14 MW. These cogeneration plants managed to reduce the cost of procuring fuel for infrastructure facilities and allowed NIS to be present on the electricity market since 2014.

In addition to the rationalisation of energy and optimal use of natural resources, one of the highlights are gas monetisation projects, namely the construction of compressed natural gas plants for wholesale opened in Palić and in the Ostrovo gas field near Požarevac. This allowed for supplying this energy product to industrial consumers that are not part of the gas infrastructure and that are fired by coal or heavy fuel oil.

With respect to renewable energy sources, NIS contributes to meeting the Republic of Serbia's 2020 target of 27% gross final energy consumption from renewable sources.

NIS is particularly devoted to promoting renewable sources of energy, primarily geothermal energy. NIS develops renewable energy sources and utilises geothermal resources by carrying out projects that are aimed at expanding geothermal capacities. In recent years, the industry has significantly increased the use of geothermal energy to heat buildings, sanitary water, indoor and outdoor pools, greenhouses, etc. The use of geothermal energy allows for reducing purchasing costs of fuel for heating gas facilities and ensures NIS presence in the Serbian energy market. The renewable energy projects, geothermal energy projects, significantly increase energy efficiency. The aim of the programme is to introduce energy rationalisation and energy efficiency increase into practice and to implement new technologies to reduce energy consumption.

Particular emphasis should be given to NIS' share in the development of a wind power generation project. NIS has teamed up with partners to finance and participate in the Plandište Wind Farm project

encompassing the construction of a wind generator of nearly 100 MW of power and with an annual output of up to 290 GWh.

In line with the requirements of the European Union and the Energy Community, our company is ready to blend biofuel with top-quality Euro 5 quality diesel. This project was completed and tested in the Pančevo Refinery two years ago. Preparations for blending of bio-components in Euro 5 motor gasoline have also started.



8 Decent work and economic growth



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all



NIS' recognition as one of Serbia's most attractive employers stems from its continual care to ensure a suitable work environment, its professional development and benefits it provides to employees.

NIS Group is one of the biggest employers in Serbia and the region, hiring around 11000 employees from 20 countries around the world. NIS is recognised as one of the most attractive employers in the labour market. As a leader in the regional energy market, NIS strives to make its employees leaders too in their respective fields, able to meet all the demands of the modern business.

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To this end, NIS invested 196 million dinars in the development of knowledge, skills and competencies of employees in 2017 alone. NIS' principal goal is to create an environment that allows them to fully develop.

During 2017, NIS Corporate University continued to build up a system of continuous learning, improvement of managerial and leadership skills and competencies in line with global standards. Blended learning, which combines classic in-class training with modern tools and methodologies such as e-learning, workshops, sessions and business simulations, has helped to fully align the development activities with the actual needs of employees.

Corporate University programmes were attended by more than 1,500 employees, from department directors to specialists, in 2017.



Leadership programmes follow employees on their career paths from their current position up the career ladder. In 2017, the Corporate University focused on increasing the scope of training and covering more employees by the curriculum every year. Each training course is custom-made in cooperation with renowned business schools from the country and the region, training and development partners and leading lecturers. This approach brings many benefits, from bespoke training courses through organisational level-specific programmes, introduction of recognised training methodologies to certification.

At the same time, the company continues to develop a coaching and mentoring culture through training courses certified by world-renowned organizations.

NIS promotes the freedom of association and collective bargaining and a new Collective Agreement for NIS employees was signed in 2017, allowing the Company to maintain its position among the leaders in Serbia and the region with the severance package and benefits it provides to employees. With the new Collective Agreement, NIS managed to maintain the position of an employer with the Collective Agreement that serves as a model for other employers to look to.

9 Industry, Innovation and Infrastructure





**Build resilient infrastructure,
promote inclusive and sustainable
industrialization and foster
innovation**



With rapid advancement of technology in the world today, NIS builds its development on across-the-board innovation, modern technologies and digitalisation of business processes.

The modernisation of refining capacities in Pančevo is one of the key strategic projects of NIS, aiming to achieve business effects, but also to bring environmental benefits to employees and the community.

NIS' position of a market leader rests on its continual introduction of innovative technologies, use of state-of-the-art equipment and processes in all business segments, from oil and gas exploration to HR management, and on-going improvement of the quality of products and service delivery. As a responsible company that puts the customer first, NIS makes constant efforts to deliver advanced product and clean energy to the Balkan region, while reducing adverse environmental impacts. For this reason, the use of modern technologies is NIS' top priority in all segments of operation.

The modernisation of refining capacities in Pančevo is one of the key strategic projects of NIS, aiming to achieve business effects, but also to bring environmental benefits to employees and the community. A capital project under the second stage of modernization of the Pančevo Refinery is the Bottom of the Barrel project, namely the construction of a delayed coking unit planned for completion by end-2019. With the completion of this project worth

over 300 million euros in investments, the Refinery in Pančevo will become one of the most modern refineries in Eastern Europe. The new unit will increase the depth of refining to above 95%, which is in the range of the world's top refineries. This also means ending the production of heavy fuel oil with high sulphur content, while increasing the production of highest quality gasoline and diesel and liquefied petroleum gas. The new plant will bring coke, which is currently imported, into the Pančevo Oil Refinery's product basket. The main environmental aspect of the project is that fuel that causes significant sulphur emissions into the atmosphere will no longer be available on the Serbian market. Also, emissions of particulate matter will be further reduced, while the Refinery's energy efficiency and process safety will be upgraded.

One of the Company's activities is the project "Modernisation and Reconstruction of Tank Farms in Niš, Novi Sad and Smederevo." The project covers the upgrade of NIS storage capac-



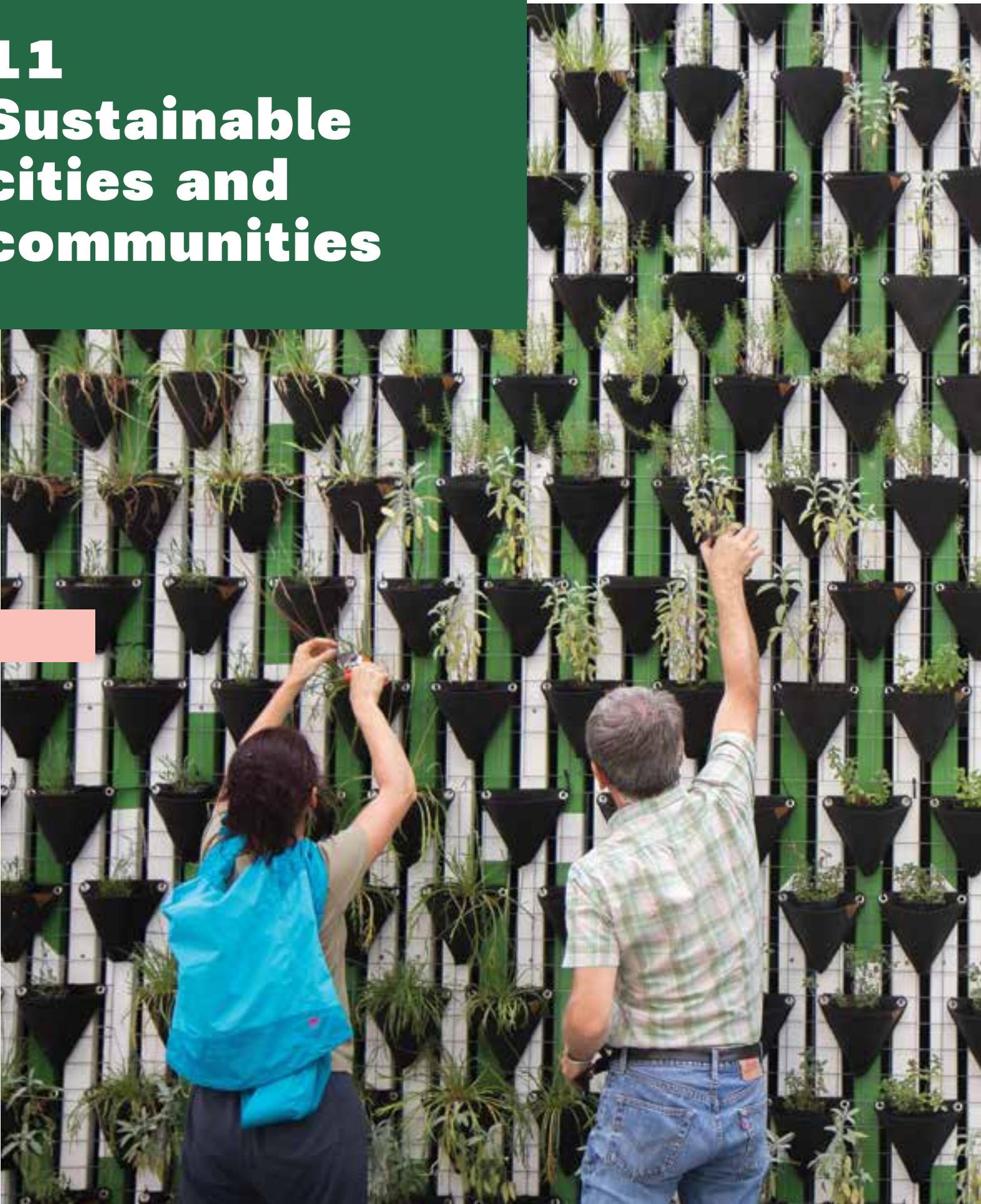
ities to achieve reduction in operating costs and loss of petroleum products, process automation and higher operational efficiency. The project will increase the level of process safety and environmental protection and reduce exploitation risks in accordance with the regulations of the Republic of Serbia and EU directives.

One of the priorities of NIS is the construction of Combined Cycle Power Plant (so-called “TE-TO”) within the Pančevo Oil Refinery. In cooperation with Gazprom Energoholding, NIS signed an agreement for the TE-TO construction project with Shanghai Electric Group in 2017, an investment of 180 million euros. This new green plant is planned for commissioning in 2020. The project covers the construction of a cogeneration station that combines the steam and gas technologies into one, while also producing electrical and thermal energy. This is currently the best technology in terms of energy efficiency and environmental performance. Electricity will primarily be used to meet

the Refinery’s growing demand, while the remaining volumes will be fed into Serbia’s distribution system, which will be an additional contribution of NIS to the energy stability of the country. The plant will have an annual output of around 1,400 GWh, which is sufficient for an annual supply to 230,000 average households.

The key to NIS’s further development is new technologies and digitisation of production process. This will allow the Company to respond to the challenges of the modern market, where new emerging technologies rapidly change customer habits. One of the major upcoming projects is a digital transformation of the business so NIS will start developing the Digital Transformation Concept in 2018. As for specific projects, NIS has already digitised the complete database of drilling data, accelerating analytics multiple times. In addition, the introduction of new technologies will be one of the ways for the Company to attract young experts, who will become a resource base for NIS’ further development.

11 Sustainable cities and communities





Make cities and human settlements inclusive, safe, resilient and sustainable

Turn business success into general prosperity, support community development



NIS' strategic commitment in the corporate social responsibility segment is focused on development of communities in which Company operates, supporting young talents and promoting true values in society. In 2017 more than 370 million dinars were invested in socially responsible projects across Serbia.

Being one of the largest companies in Serbia, NIS is fully aware of its responsibility towards the community it operates in. Thus it strives to translate its good business results into energy for positive change. NIS' social responsibility concept is not only a part of the corporate strategy, but rather a demonstration of the firm commitment of all employees to contribute to the overall progress of the society. Under the slogan "Future at Work" NIS supports the development of culture and sports, promotes healthful lifestyles, works to improve the quality of educational infrastructure cooperating with science and educational institutions, strives to improve living conditions in local communities and supports talented individuals to fully develop their talents.

NIS has played a leading role in socially responsible investing in Serbia for years. Over 370 million dinars were invested into socially responsible projects across Serbia in 2017 alone. NIS strives to promote genuine values and has a tradition of supporting the development of theatre and children's arts, affirmation of the culture and art of the Balkan region and young talents. Furthermore, NIS contributes to the development of infrastructure in this area by supporting the refurbishment of a part of the Children's Cultural Centre in Belgrade. In order to support youth arts and the development of modern arts, NIS financed the creation of a mural in downtown Belgrade entitled "Green City - New Energy."

Furthermore, NIS supports the development of sports infrastructure across Serbia with a view to providing a wide number of citizens with free sporting opportunities, which is a majorly important aspect of the health of the nation. In this area, NIS is particularly focused on supporting youth development and organises various events that popularise sports and healthful lifestyles among children. One of these campaigns is NIS' free tennis school run in collaboration with the Serbian Tennis Federation. NIS also wants to highlight the significance of fair play and tolerance and thus joined the campaign "Sports against Violence" covering more than 30,000 children across Serbia.

With respect to the popularisation of science among youth and creating better conditions for young scientists in Serbia, NIS' efforts include

support to the Petnica Science Centre, one of the key science and education institutions that has spawned many talents in the region. In pursuit of its policy that investing in education means investing in the future, NIS has been one of Petnica's most significant partners since 2009 and apart from financial support and support in purchasing cutting-edge equipment for young scientists, experts from the Company hold lectures at seminars run by this institution.

It is also important to highlight that NIS' employees are massively involved in philanthropic and charitable campaigns aimed at supporting vulnerable categories and raising environmental awareness. Seven volunteer initiatives were undertaken in 2017 involving NIS employees. In addition to on-going cepomdoosmeha.org.rs initiatives, employees and top managers joined the initiatives to refurbish a part of the Botanical Garden, to clean the Đuro Strugar Park in Belgrade and part of the Deliblato Sands and streams of Fruška Gora. NIS' employees also dedicated their time to the children housed in the Veternik Centre and helped prepare New Year's gifts for children on treatment at the Tiršova Children's Clinic and the Children's Hospital in Novi Sad, as well as for those housed in the Centre in Zvečanska Street in Belgrade. The Company CEO and other senior managers also helped pack the holiday gifts for the youngest. NIS' employees initiated a fundraising campaign for the Company and its customers to collect funds to purchase modern medical equipment for Novi Sad-based Institute for Child and Youth Healthcare of Vojvodina. In this way the Company continued to support medical institutions of vital importance for the society, having previously provided funds for the Tiršova University Children's Clinic in Belgrade. In addition to this, NIS made a donation to the Centre for Protection of Infants, Children and Youth in Belgrade and thus continued its long-established tradition of supporting vital public institutions on employee initiative.

NIS is particularly proud of its collaboration with the eleven communities in Serbia, on-going since 2009. This partnership that is growing every year has so far yielded more than 900 successful projects worth in excess of one billion dinars. These projects helped to significantly improve living conditions for the people of Belgrade, Novi Sad, Niš, Čačak, Zrenjanin, Pančevo, Kikinda, Kanjiža, Novi

Bečej, Srbobran and Žitiste. In 2017, corporate social responsibility programmes focused on capital projects with a long-term impact on the entire community. NIS thus supported the implementation of 42 projects worth 110.5 million dinars in five areas – sports, culture, ecology, science/education and public health and social services. In line with the cooperation goals, a survey of local communities and strategic plans, up to five projects of key importance for the wider community were financed under a tender in each city or municipali-

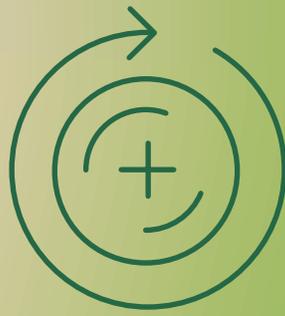
ty. For each community, three areas were selected for stakeholders to apply. In this way, NIS supports the construction of playgrounds, reconstruction of key institutions and facilities and improvement of sports infrastructure, creating better conditions for young artists, strengthening educational and scientific infrastructure and promoting communal development. By implementing these projects, NIS demonstrates its commitment to applying its business success to bring about positive social change and overall progress too.



12 **Responsible Consumption and Production**



Ensure sustainable consumption and production patterns



NIS' goal is to have no injuries or negative environmental impact from work processes. A total of 479 million dinars went to environmental projects in 2017 alone and the environmental aspects of business activities are aligned with best global practices.

NIS has invested more than 12.78 billion dinars in environmental projects since 2009. A total of 479 million dinars were allocated for this area in 2017 alone and the environmental aspects of the Company's operations were aligned with best global practices.

Crude oil production and processing involves complex processes that pose a great environmental challenge. In order to minimize the impact of our activities on the environment, it is necessary to identify the sources of pollution, types and quantities of pollutants in the environmental media - air, water and land - and their pathways and consequences to the ecosystem (the biotope and biocenosis) at our operational sites and their impact zones.

Year 2017 was declared the Year of Ecology at GPN and NIS joined this initiative implementing activities aimed at reducing and mitigating the negative impact of process plants on the environment: through remediation of contaminated land and polluted water resources, by positioning as a socially responsible company through intensified co-

operation with local governments and state bodies, by educating employees, contractors and local communities and raising their awareness in the field of environmental protection.

In addition, NIS has invested more than 12.78 billion dinars in environmental projects since 2009. A total of 479 million dinars were allocated for this area in 2017 alone and the environmental aspects of the Company's operations were aligned with best global practices. Total surface of remediated land restored to its original condition through applied measures is 13 hectares. Also, all drilling rigs used by NIS in 2017 were equipped with the "dry location" system (metal and concrete pools serving for disposing waste mud generated while drilling).

2017 also saw the introduction of practice of covering drilling sites with PVC foil to prevent negative process impact on the environment - land and underground water.

Furthermore, responsibility in resource management is one of the underlying principles of the Company's operation. NIS will continue to make significant investments in exploration and production in order to maintain its production indicators and an upward trend of hydrocarbon reserves growth. In 2017, NIS Exploration and Production produced a total of 1,385 million tons of oil and gas equivalent while increasing hydrocarbon reserves. While exploring for new oil and gas reservoirs, seismic acquisition was completed at the exploration areas of Južni Banat I, Turija III and Morović and the Južni Banat II project was launched. In foreign concessions, it is particularly important to highlight the completion of drilling of Teremia 1000 with a promising outcome.

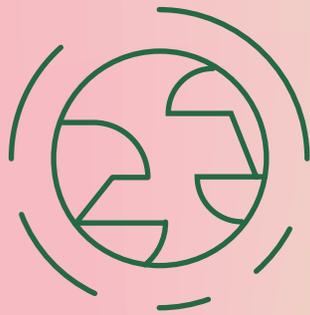
In 2017, the Pančevo Oil Refinery became the first energy facility in Serbia to receive the IPPC license, the most important document in the field of environmental protection an operator can obtain. Thus the Pančevo Oil Refinery was ranked among Europe's first-rate producers and recognised as a relevant factor for ensuring controlled environmental conditions. Also, the license obligates the Refinery to continue to manage responsibly all of its activities and to invest substantially into environmental protection by applying best available techniques (BAT).



13 Climate Action



Take urgent action to combat climate change and its impacts



In 2017, The Pančevo Oil Refinery became the first energy facility in the Republic of Serbia to obtain the IPPC license, which proves that the production process in the Refinery is entirely aligned with the highest domestic and European standards in the area of environmental protection.

One of the goals in 2017 was to define a methodological framework for the assessment of environmental risks as an across-the-board basis for risk identification, assessment and ranking.

One of the goals in 2017 was to define a methodological framework for the assessment of environmental risks as an across-the-board basis for risk identification, assessment and ranking.

To reduce negative impacts from operations on air quality at plants and in the impact zones, on-going projects were continued and some new projects launched. The Pančevo Oil Refinery completed its ejector gas scrubbing project at the Vacuum Distillation Unit, aiming to reduce SO₂ emissions into the air. Also, to ensure continuous monitoring of pollutant emissions into the air, a project was launched to install a CEMS at the Hydrogen Unit and it will greatly help not only to obtain accurate data on the volume of these emissions, but also allow for taking timely action to maintain proper operation of the unit.

In order to ensure compliance of the plants with the Industrial Emissions Directive 2010/75/EC and more stringent air pollutant emission limits, the Pančevo Oil Refinery developed a plan for harmonising the existing plants with future requirements, there are plans to install Low NO_x burners on process furnaces, amine scrubbers on the Atmospheric Distillation Unit II, EC filters at the FCC Unit as well as some other measures.

With the reconstruction of roofs on motor gasoline tanks and the installation of fixed roofs with a floating aluminium membrane, vapour recovery units at petroleum product reservoirs and systems for petrol vapour recovery from underground tanks and vehicle tanks at filling stations, efforts have already been made to ensure compli-



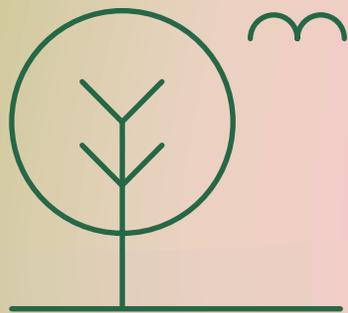
ance with the requirements of the VOC Petrol Directives (94/63/EC, 2009/126/EC and 2014/99/EU) Petrol Vapour Recovery Stage I and II.

Furthermore, the very nature of feedstock we use and finished products (motor fuels, oils and lubricants, bitumen and other special products) and technological processes inevitably lead to the presence of hydrocarbons in wastewater. The techniques applied in the treatment of oily wastewater classify NIS as an environmentally responsible company and have a significant role in creating our Company's image of a leader in environmental protection in our country. The wastewater treatment plant at the Novo Miloševo landfill is currently in the trial operation phase and the installation of separators at filling stations is on-going.

15 Life on Land



Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss



NIS takes constant care of biodiversity and development of environmental awareness of individuals and the entire community through projects aimed at ensuring strict compliance with highest environmental standards, efficient and responsible use of available resources, energy efficiency increase and use of renewable energy.

NIS' environmental action and performance are continually upgraded with a view to raising environmental awareness of individuals and the entire community.

Responsibility towards water resources is crucial for NIS' environmental efforts and investing in environmental protection is one of the Company's main priorities. NIS is committed in this area and carries out various projects to ensure strict compliance with highest environmental standards, efficient and responsible use of available resources, energy efficiency increase and use of renewable energy. NIS' environmental action and performance are continually upgraded with a view to raising environmental awareness of individuals and the entire community.

To mark the World Environment Day, an environmental campaign for cleaning the streams of Fruška Gora was organised at the Fruška Gora National Park on 5 June. A campaign entitled "A Day at Work for Nature" attracted nearly a hundred representatives of NIS, Provincial Secretariat for Urban Planning and Environmental Protection, public utility "Nacionalni park Fruška Gora" and Provincial Institute for Nature Conservation, who joined forces to clean up the areas of the Rakovac, Dobočaš and Điros Streams. The campaign was aimed at raising environmental awareness towards a more responsible attitude towards the environment, waterways in particular, given the fact that the streams of Fruška Gora present important ecological corridors linking Fruška Gora with the rivers of Sava and Danube.

Care for biodiversity means care for the future, because endangerment of plant and animal species and their habitats by man undermines the purpose of industrial development and urbanization. NIS conducts exploratory works, exploits oil, gas and thermal water and sells petroleum products in 11 business facilities located near protected natural assets – Đerdap National Park, special natural reserves (Deliblato Sands, Okanj Lake, Meadows of Great Bustard near Mokrin, Koviljsko-Petrovaradinski Rit), Palić Nature Park, nature monuments (Junaković Park Forest and city garden in Zrenjanin), strictly complying with the requirements of the competent institutions (Institute for Nature Conservation of Serbia and Institute for Nature Conservation of Vojvodina Province).

In 2017, remedial action was continued at historical contamination sites as well as agricultural land restoration and elimination of the risks of pollution of land, groundwater and air. A total of 14 primary mud pits and one drainage pit at the Jermenovci dispatch station on a surface area of 11,740 m² were remediated. This marks the completion of remediation of a total of 186 primary mud pits and one draining pit and the total surface area of remediated land increased to 131,105 m².



16 Peace, justice and strong institutions



Promote peaceful and inclusive societies, provide access to justice for all and build effective, accountable and inclusive institutions at all levels



NIS is committed to improving the legislative framework and consistent enforcement and harmonisation with highest international standards in an effort to help develop the business culture and safeguarding customer interests.

Being a socially responsible company founding its business activities in strict compliance with the law, NIS strives to give its full contribution to upgrading the legislation in the countries it operates in and harmonisation with international standards. The aim is to create equal conditions for all market players and to protect the customer by regulating product quality standards and improving environmental aspects. NIS was thus committed to improving the regulations on the marking and quality assurance of petroleum products, the amendment of which also helped combat the grey market. The fuel marking obligation in Serbia is prescribed by the Law on Energy, and the marking process is more closely regulated by the Fuel Marking Regulation. The procedure was introduced with the aim of harmonisation with EU regulations and preventing fuelling outside of registered filling stations.

The programme of marking unleaded motor fuel and diesel motor fuel started on 1 February 2014, while marker inspections of filling stations started from 1 August 2014. In mid-October 2015, the marking of fuel was extended to cover liquefied petroleum gas.

The technological nature of inspections, findings of on-site marker controls and the powers of the Market Inspection Authority in the marking process allow for withdrawing substandard petroleum products from the market, which significantly reduces the volume of illegal trade in the oil sector.

According to reports issued by the Ministry of Trade, Tourism and Telecommunication of 4 February 2015, 29 January 2016, 31 January 2017 and 31 January 2018, the following data can be found in the sections of reports by the Market Inspection Sector on the control of presence and concentration of markers in petroleum products based on the control of samples conducted in the period 2014-2017:

Period	Number of controlled samples	Number of inadequate samples	Percentage of inadequate samples
01.08.-31.12.2014.	2,782	30	1.1 %
01.01.-31.12.2015.	6,862	41	0.6 %
01.01.-31.12.2016.	6,527	66	1.0 %
01.01.-31.12.2017.	5,825	103	1.8 %

The introduction of marking and inspection of petroleum products have considerably increased revenues from the excise duty on petroleum products.

According to the Public Finance Bulletin for December 2017, the government's Consolidated Balance Sheet shows that the total revenues from petroleum product excise duty in the budget of the Republic of Serbia for 2014-2017 are as follows (in million dinars):

It should be noted that in addition to the increased collection of excise duties, consequently there is an increase in the VAT on the basis of increased trade in petroleum products.

NIS will continue to contribute to achieving a better business environment in Serbia and the regional countries and to highlight the necessity of unhindered and full enforcement of current regulations.

2014	2015	2016	2017
121,332	127,371	143,933	147,821



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Specific Standard Disclosures

EC 1 Direct Economic Value Generated and Distributed

Distributed economic value in thousand RSD	2016	2017
Directly generated value	193,591,952	236,087,804
Distributed economic value	176,810,679	211,600,427
Operating costs	148,299,864	179,931,250
Employee earnings and other remuneration	18,301,051	18,761,914
Interest on received loans	7,100,837	6,865,850
Taxes*	2,880,635	5,829,036
Investments in the community **	228,292	212,377
Increase in the economic value of the Company	16,781,273	24,487,377

* Indirect taxes are not included in the given amount.

** On the basis of official financial statements, the amount of investments in the community for 2016 has been corrected.

EC 2 Financial implications and other risks and opportunities for the organization's activities due to climate change

The Climate Change Week was celebrated as part of preparations for ratification of the Paris Agreement on UN Framework Convention on Climate Changes, in the period from 15th May to 16th June.

This year, the “National Week of Fight against Climate Changes” with participation of our mother company was held in the Russian Federation. Our Company celebrated the “Week of Climate Changes” through various activities: the employees were acquainted with the terminology related to climate change through preparation of a Glossary of expressions from the field of climate change, through printing of leaflets and publishing of a text on the Intranet Portal whose topic

were the climate changes and energy efficiency, as well as through organization of a Workshop with the energy efficiency and climate changes topic with participation of representatives of the Climate Changes Department of the Ministry of Agriculture and Environment Protection of the Republic of Serbia, as well as the relevant experts and employees from various organizational units of the Company. The most important EU legal regulations from this field, Chapter 27 and climate changes, Project EU MiReCOL – implementation results (2014-2017), Amine Production Unit – CO₂ separation from natural gas and energy efficiency in our Company, were presented at the Workshop.

EC 3 Coverage of the organization's defined benefit plan obligations

The Company calculates obligations related to severance and pension payments to the employees and for jubilee awards.

EC 4 Financial assistance received from government

Financial assistance received from government	
Program	2017
Agreement on the establishment of mutual rights and obligations in the implementation of the programs and measures of the active employment policy under the NIS Chance project with the APV for 2017	32,922
Agreement on the establishment of mutual rights and obligations in the implementation of the NIS Chance project with the City of Pancevo for 2017	6,125
Agreement on the establishment of mutual rights and obligations in the implementation of the programs and measures of the active employment policy under the NIS Chance project with the City Assembly of Kikinda for 2017	766
Total in thousand RSD	39,812

EC 5 The lowest earnings in the company and legally prescribed minimum earnings at the more significant locations

The minimum monthly basic gross salary in NIS amounts is higher than the minimum gross salary in Serbia.

EC 6 Proportion of senior management hired from the local community at significant locations of operation

Employees up to a level of department director - age structure, gender structure and nationality						
	Number/Level	CEO	CEO Ad- visers and Deputies	Function / Block Director	Function / Block Director Advisers and Deputies	
Age	NIS j.s.c. Novi Sad	1	7	13	12	
	<30	0	0	0	0	
	30-50	1	3	10	9	
	>50	0	4	3	3	
	Representative offices and branches	0	0	0	0	
	<30	0	0	0	0	
	30-50	0	0	0	0	
	>50	0	0	0	0	
	Local subsidiaries	0	0	0	0	
	<30	0	0	0	0	
	30-50	0	0	0	0	
	>50	0	0	0	0	
Gender	NIS j.s.c. Novi Sad	1	7	13	12	
	Men	1	6	11	11	
	Women	0	1	2	1	
	Representative offices and branches	0	0	0	0	
	Men	0	0	0	0	
	Women	0	0	0	0	
	Local subsidiaries	0	0	0	0	
	Men	0	0	0	0	
	Women	0	0	0	0	
	Nationality	NIS j.s.c. Novi Sad	1	7	13	12
		Domestic	0	4	1	3
		Foreign	1	3	12	9
Representative offices and branches		0	0	0	0	
Domestic		0	0	0	0	
Foreign		0	0	0	0	
Local subsidiaries		0	0	0	0	
Domestic		0	0	0	0	
Foreign		0	0	0	0	
Total		1	7	13	12	

Subsidiary Director	Department Director	Department Director Advisers and Deputies	Representative Office Director
0	73	2	0
0	0	0	0
0	66	2	0
0	7	0	0
0	0	0	5
0	0	0	0
0	0	0	4
0	0	0	1
4	4	0	0
0	0	0	0
3	3	0	0
1	1	0	0
0	73	2	0
0	55	2	0
0	18	0	0
0	0	0	5
0	0	0	5
0	0	0	0
4	4	0	0
4	2	0	0
0	2	0	0
0	73	2	0
0	46	0	0
0	27	2	0
0	0	0	5
0	0	0	1
0	0	0	4
4	4	0	0
3	2	0	0
1	2	0	0
0	77	2	5

* The management category includes: top management, senior management and middle management. Lower management (starting from section managers and lower levels) is not included in the management category.

EC 7 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement

Besides the business results, NIS pays great attention to development of the communities where it operates. General progress, promotion of genuine values, improvement of educational and health infrastructure, support to the young generations and talented individuals are not only a strategic commitment of NIS, but our firm resolution to provide the community with the energy needed for striving towards the better. Besides this, NIS has strongly decided to share its best business practices with the partners in order to improve the business culture in our country. It is of special

importance that the business policy of NIS is such to primarily engage domestic companies as business partners, and to continuously give a chance to young experts to make their first professional steps in NIS, with further continual professional development. We are especially proud on our long-standing partnership with local communities in Serbia, which was in the preceding years confirmed by realization of more than 900 mutual projects that contributed to the improvement of quality of life of the local population.

EC 8 Significant indirect economic impacts, including the extent of impacts

For NIS, not only business successes are important, but also the way in which they are achieved. A responsible attitude towards natural resources, safety at work, people's health and environment protection, are a segment of every business process. The NIS's goals are the activities without injuries at work and without negative impact to environment. Due to this, NIS strives towards

continuous modernization of the existing equipment and introduction of innovative technologies, which shall, besides economic, have certain significant ecological benefits. We transfer our business policy in this field to our business partners in order to collectively contribute to development of the HSE (Health, Safety, Environment) culture in Serbia.

EC 9 Proportion of spending on local suppliers at significant locations of operation

The main principles guiding the implementation of procurement processes are:

- Process cost-effectiveness and efficiency, and
- Bidder competitiveness and equality

These principles and business logic are always accompanied by the standardization of business processes through adopted documents: rulebooks, policies, standards and instructions. NIS prior-

itizes the competitive selection of suppliers and contractors. In cases where the business situation requires a non-competitive mode of selection, this must be explained by the procurement initiator. The competitive selection is based on the analysis of alternative offers and the selection of a supplier that submitted a technically acceptable and favourable offer in terms of price, delivery/ completion time, warranty period, securities or additional benefits.

Procurement structure excluding Gazprom Neft

Year	Total procurement value in thousand RSD	Number of suppliers of the Company	Total procurement value of local suppliers in thousand RSD	Total number of local suppliers	Percentage of procurements from local suppliers - value	Percentage of local suppliers in total number of suppliers
2016	136,094,176	2,746	64,276,439	2,188	47%	80%
2017	158,194,863	2,629	70,642,989	2,151	45%	82%

Procurement structure including Gazprom Neft

Year	Total procurement value in thousand RSD	Number of suppliers of the Company	Total procurement value of local suppliers in thousand RSD	Total number of local suppliers	Percentage of procurements from local suppliers - value	Percentage of local suppliers in total number of suppliers
2016	165,996,048	2,747	64,276,439	2,188	39%	80%
2017	195,818,326	2,629	70,642,989	2,151	36%	82%

EN 1 Materials used by weight or volume

Used materials			
Raw materials/materials	UoM	Quantities used	
		2016	2017
Crude oil – domestic	t	924,560	879,059
Crude oil – imported	t	2,179,502	2,459,838
Natural gas *	t	88,360	84,475
Geothermal water **	m ³	443,409	449,443
Raw water ***	m ³	29,109	26,537

* For hydrogen production

** Water sold to external customers

*** Water used as a raw material for the production of drinking water

Overview of crude oil - domestic and imported by type			
Raw materials/materials	UoM	Quantities used	
		2016	2017
Crude oil – paraffin light	t	485,999	478,264
Crude oil – paraffin heavy	t	185,520	146,306
Crude oil – naphthenic	t	253,033	254,489
Crude oil – REB	t	1,369,335	709,878
CPC BLEND	t	112,687	186,868
Crude oil – Kirkuk	t	609,574	1,278,007
Crude oil – Forcados	t	87,906	0
Crude oil – Novy Port	t	0	285,021
Crude oil – Timisoara	t	0	64.73

Overview of semi-finished products

Semi-finished products/ materials	UoM	Quantities used	
		2016	2017
Pyrolytic gasoline	t	96,601	106,714
MTBE	t	9,109	7,637
Isobutane and gasoline from Elemir Plant	t	2,094	4,810
Imported vacuum gas oil (VGO)	t	11,369	40,951
Imported gas oil	t	3,812	0
Additives and polymer mass	t	1,151	0
Slop (including degraded products)	t	6,436	6,080

The semi-finished products that are presented in the table are external products used for refining and slop (resulting from processes of refining and handling in refineries).

EN 2 Percentage of materials used that are recycled input materials

Overview of packaging materials

Material	UoM	Quantities used	
		2016	2017
Paper and paperboard	t	112	118
Wood	t	131	154
Plastic	t	515	509
Metal container	t	111	86

Materials used in the production processes originate from non-renewable resources and can be found in the final product, petroleum products, energy sources and drinking water.

Due to the nature of its operations, the Company does not use recycled materials as raw materials for production.

EN 3 Energy consumption within the organization

Overview of energy consumption					
Energy type	UoM	Used quantities		Used quantities in GJ	
		2016	2017	2016	2017
Natural gas and associated gas	m ³	194,024,777	222,360,503	6,468,466	7,413,132
Fuel own consumption (gasoline, diesel)	t	3,710	3,569	166,999	160,727
Fuel own consumption (fuel oil, refinery gas, coke, torch oil, off gas)	t	385,080	372,610	9,561,233	8,659,647
LPG	t	260	249	11,423	10,962
Steam (shown in height pressure steam)	t	2,213,237	2,379,109	7,572,366	7,684,707
Electrical energy supplied externally	MWh	318,625	328,195	1,147,051	1,181,502
Produced electric power	MWh	68,950	61,790	248,219	222,442
Thermal energy	MWh	9,871	9,649	35,535	34,735

Energy by source

Internally produced

Purchased from suppliers

Sold

2016

2017

2016

2017

2016

2017

375,431,502

379,364,134

0

0

175,533,784

113,823,118

3,710

3,569

0

0

0

0

385,080

372,610

0

0

0

0

260

249

0

0

0

0

2,338,778

2,494,392

5,874

0

4,761

26

0

0

318,625

328,195

0

0

147,505

153,772

0

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78,555

91,982

0

0

9,871

9,649

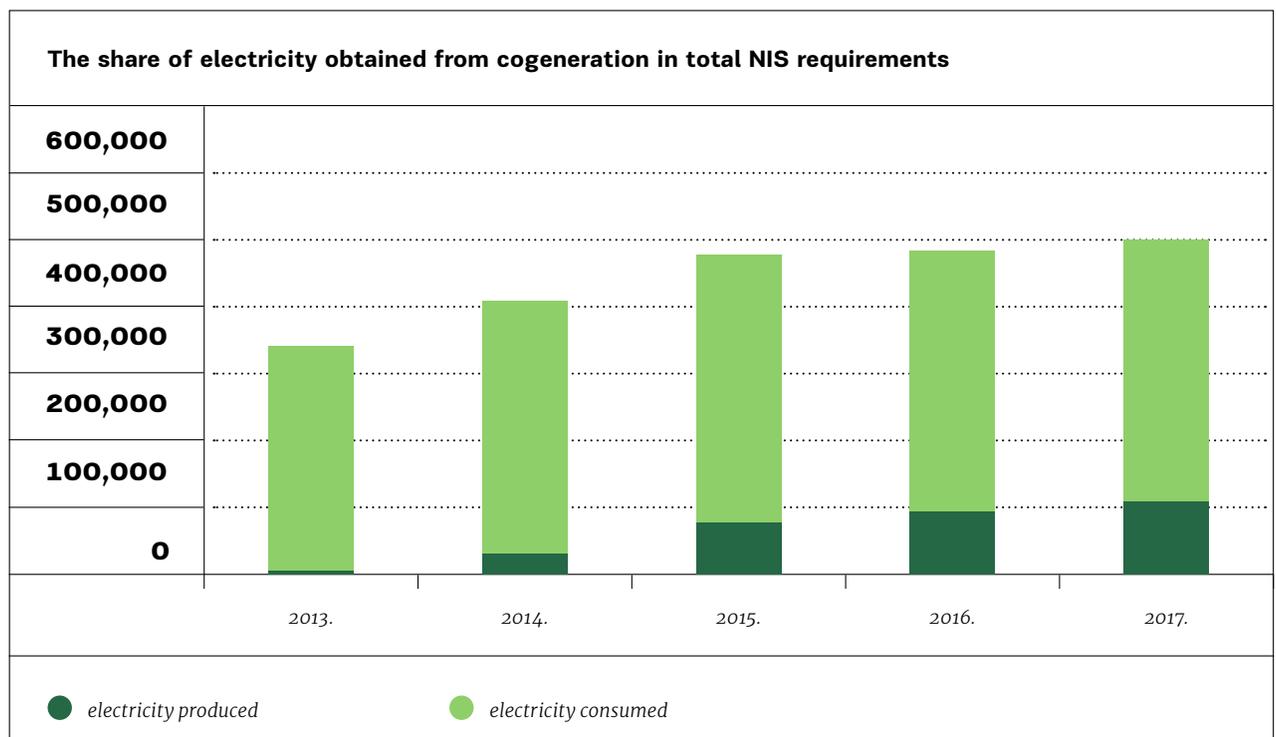
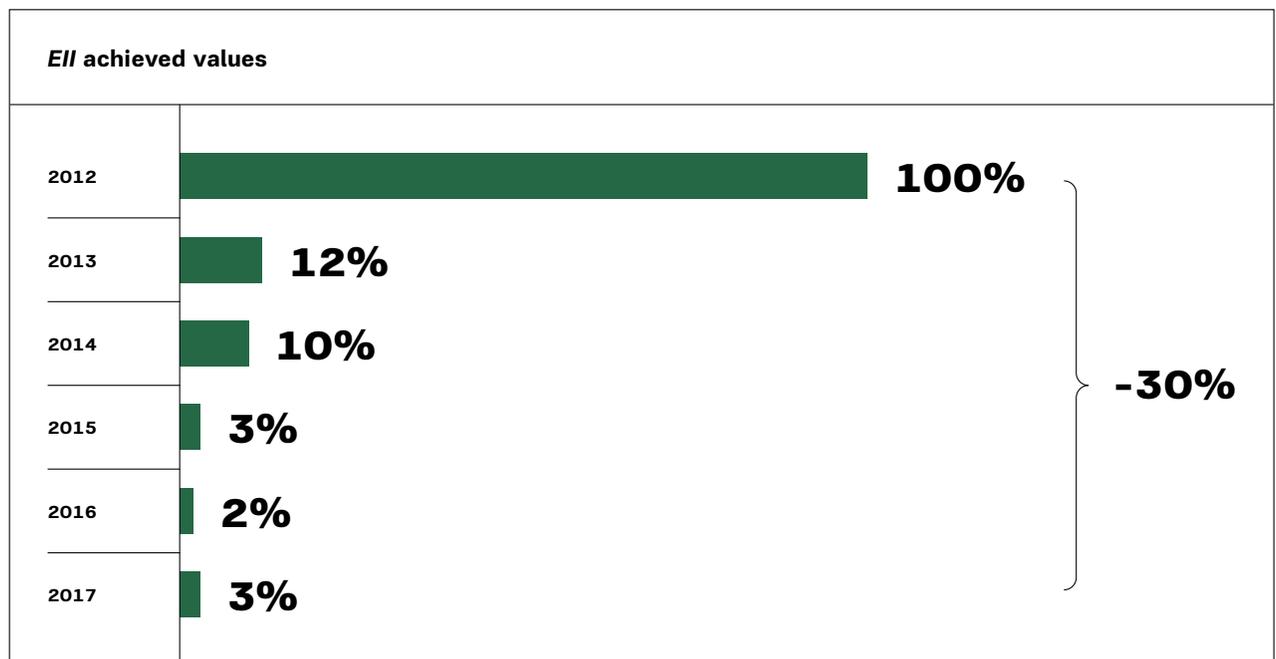
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EN 5 Energy efficiency

The best indicator of the continuous improvement of energy efficiency in the area of intense energy consumption is the EII – Energy Intensity Index, which is the ratio between the actual energy consumption and standard energy consumption. The standard energy consumption is the consumption

projection at HSB Solomon Associates LLC, (the most widely used methodology of a comparative analysis of oil refineries in the world that covers over 85% of the refining capacity in over 70 countries around the world).



Using 2012 as the reference year, the total increase in energy efficiency was 30 % percent in the period 2012–2017.

Associated gas, which was previously flared, is now used to generate power and heat. The share of electricity obtained from cogeneration in the total consumption increased by 2.3 percent compared with 2016.

The application of cogeneration power plants reduces procurement costs of energy resources for infrastructure facilities. It also ensures the presence of the Company on the market, where it has had a presence since 2014. In 2017, the electricity sales volumes have increased approximately by 15% compared with 2016.

The Company now disposes of its own capacity for electricity generation and meets 39.5 percent of its own needs.

EN 6 Reduction of energy consumption

The most significant projects/measures which were realized or whose realization started in 2017:

- Sucker rod balancing
- Replacement of ESP pumps with bottom-hole pumps
- Installation of frequency regulators on electric motors of air coolers
- Replacement of the existing economizer
- Reconstruction of the heating mode of buildings and facilities by using condensate heat
- Installation of a modern-type thermal insulation on vales and critical points
- Installation of insulation of condensate separators, flanges and fittings
- Replacement of inlet valves on boilers

- Installation of a reactive energy compensation system for 30 fuelling stations
- Rationalization of the operation of air handling units in the Business Centre in Novi Sad

Operational measures:

- Reduction of cooling water in circulation
- Maintaining optimal temperature on drains and associated equipment
- Continuous dry cleaning of furnaces

The implementation of projects and measures defined under 2017 Action Plan resulted in energy savings of almost 466 TJ.

Overview of planned and realized energy savings

Energy source	Planned savings in 2017 (GJ)	Realized savings 2017 (GJ)	Realized savings in 2017 (%)
Electricity	28,860	29,395	101.90
Heat	71,517	62,237	87.02
Fuel	308,163	324,959	105.45
Additional measures	-	49,391	-
Total	408,540	465,982	114.06

EN 7 Reductions in energy requirements of products and services

At a time of major changes on the energy market, one energy source that still manages to claim the title of the fuel of the future is compressed natural gas (CNG). CNG is natural gas compressed to a pressure of 220 to 250 bar. The main ingredient is methane, which compared to other derivatives, has the lowest CO₂ emission coefficient and therefore, contributes to preserving environmental quality.

CNG is used both as alternative fuel for all types of vehicles and as an energy source in the industry. There are several reasons why experts still call it the fuel of the future. The main advantage is its energy, i.e. calorific value, which is much higher than other engine fuels as well as its octane number, a criterion of fuel quality.

It is favoured because it is the least polluting petroleum product for the environment. In addition to the reduced emissions of damaging gases, CNG does not contain sulphur or toxic additives of organic lead nor benzene. Using this energy source as an engine fuel also significantly reduces noise, by as much as 50 percent compared to diesel engines. In addition, practice has shown that CNG vehicles have greater agility and performance and a longer engine life.

In addition, savings from the use of CNG, depending on the type of a vehicle, are up to 50 percent. CNG environmental features are particularly important given that the European Commission adopted a Directive in 2007 where new cars must reduce CO₂ emissions. Substantial savings can be made in citizens' household budget by owning a CNG car. If an average vehicle travels 100 km using around 7.5 l of gasoline, equivalent to about 6.0 l of diesel, the same distance will be covered using around 4.4 kg of CNG. This is more cost-effective than LPG, where vehicles need about 8.6 l of this product to cover 100 km.

In 2017, the Company had two active retail projects in Novi Sad and Čačak. In 2017, the plan a CNG plant was commissioned in the Ostrovo gas field for the needs of wholesale, i.e. industrial consumption. Year 2018 will see one more retail CNG project implemented at PS Žarkovo 2 in Belgrade and CNG plant reactivated at the Palić gas field for the wholesale needs. In 2019, it is planned to implement and commission the retail CNG project at the Block 45 fuelling station in Belgrade.

EN 8 Total water withdrawal by source

Quantity and share of water withdrawn by source					
Type of the water withdrawal	2016 m ³	Relative share	2017 m ³	Relative share	Relative change 2017/2016
River water withdrawal	3,072,412	78 %	3,019,488	76%	-1,7%
Public water supply	542,566	14 %	565,321	14%	+4%
Ground water	320,062	8 %	401,175	10%	+25%
Total water withdrawn	3,935,040	100 %	3,985,984	100 %	+1,3%

EN 9 Water sources significantly affected by withdrawal of water

A responsible attitude towards water resources is measured not only on the basis of quantity, but also according to its origin and quality. The majority of water used comes from the least sensitive resources - the Danube River and the Danube-Tisa-Danube Canal (76 percent). With the use of water from the least sensitive resource, the Company preserves water intended for public water supplies, food industries and agricultural irrigation.

Water withdrawn from the Danube for the functioning of the Oil Refinery Pančevo amounted to 2,805,965 m³ in 2017 at a withdrawal level of 89 l/s. This represents 0.0017 percent of the average annual Danube flow.

Water withdrawn from the Danube-Tisa-Danube Canal for the functioning of Petroleum Products Warehouse in Novi Sad (at the location of former Oil Refinery in Novi Sad) amounted to 212,123 m³ in 2017, at a withdrawal level of 6.7 l/s. This represents 0.011 percent of the flow of DTD Canal near Novi Sad.

Withdrawal of the specified quantities of water from the Danube and Danube-Tisa-Danube does not threaten their potentials, considering that this is considerably less than 5% of their average annual flow.

EN 10 Percentage and total volume of water recycled and reused

In 2017, the amount of recycled water (condensate recovered from production processes) in the Oil Refinery Pančevo amounted to 1,341,454 t. This allowed the withdrawal of raw water from the Danube

to be reduced by 48 percent on the Refinery level (in 2016, it amounted to 41 %), and at NIS level, the total water withdrawn was reduced by 34 percent.

EN 11 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas

Overview of protected areas adjacent to the Company's operational sites			
Type of protected natural resources	Name of protected natural resource	Name of adjacent NIS facility	Status of NIS facility in 2017
Special nature reserve	Deliblato sands	HTS Devojački Bunar Db - 1/H	In operation
	Deliblato Sands	Tilva GGS	Out of operation
	Okanj Lake	Oil and gas preparation and transport plant	In operation
	Okanj Lake	Well Eli-1	In operation
	Pastures of Great Bustard	SMS Mokrin zapad and KS-2 Mokrin zapad	In operation
	Kovilj-Petrovaradin marshes	SSG Novi Sad 6	In operation
Nature park	Palić Lake	HTS Palić (1 Pj - 1/H, Pj - 2/H)	In operation
	Palić Lake	Pć-24	In operation
Natural monument	Junaković Forest	HTS Prigrevica – Junaković Spa (Pb - 1/H)	In operation
	County Park - town gardens in Zrenjanin	SSG Zrenjanin 1	In operation
National park	Đerdap	SSG Donji Milanovac	In operation

EN 12 Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas

Caring for biodiversity is caring for future, since by endangering of plant and animal species and their habitats, the man makes the purpose of industrial development and urbanization totally absurd. NIS performs exploration works, exploits oil, gas and thermal waters and performs sales of products in 11 business facilities in the vicinity of protected natural reserves – national park Đerdap, special nature reserves (Deliblato Sands, Okanj Lake, Pastures of Great Bustard near Mokrin, Kobilj-Petrovaradin marshes), nature park Palić, natural monument (Junaković Forest and County Park – town gardens in Zrenjanin), by strictly acting in compliance with the conditions of the competent institutions (Institute for Nature Conservation of

Serbia and the Institute of Nature Conservation of Vojvodina Province).

During 2017, 2 piezometers were constructed between Pć-24 and Ludoško Lake, in line with the order of the Institute of Nature Conservation of Vojvodina Province, in order to monitor the occurrence of hydrocarbon in underground waters and prevent any possible pollution.

3D seismic surveys were continued during 2017 at the territories of Slano Kopovo and Deliblato Sands, and at the new exploration areas of Morović and Turija II in line with the Decisions on nature's protection conditions.

EN 13 Habitats protected or restored

In 2017, activities relating to historic pollution remediation, restoring agricultural land to its original state and eliminating the risk of pollution of land, groundwater and air were continued. A total of 14 primary mud pits and one drainage pit

occupying a total area of 11,740 m² in surface, were remediated. Thus, the total of remediated primary mud pits increased to 186, and the total area of recultivated land amounts to 131,105 m².

EN 14 Total number of red list species and national conservation list species with habitats in areas affected by operations, by level of extinction risk

The International Union for Conservation of Nature (IUCN) created its Red List of Threatened Species at the global level. This list provides an overview and criteria of vulnerability for around 49,000 species, sub-species, varieties and sub-populations, based on which threatened species are classified into IUCN categories.

Preservation of protected wild species of plants, animals and fungi in the Republic of Serbia is conducted in accordance with the Law on Nature Protection, Regulation on the Proclamation and Protection of Strictly Protected and Protected Wild Species of Plants, Animals and Fungi, and the Regulation on the Criteria for Determining Habitat

Types, Vulnerable, Endangered, Rare and Habitat Types of Priority for Protection and Safety Measures for their Conservation. Before undertaking any activities, the Company obtains nature protection conditions from the competent authorities, which contain relevant conservation measures, and which NIS strictly adheres to.

According to the data on natural species listed on the IUCN Red List, there is a habitat of strictly protected species of birds – the Great Bustard (*Otis tarda*) in the pastures of the Great Bustard, near Mokrin, in the vicinity of the sites where the Company operates.

EN 15 Direct greenhouse gas (GHG) emissions

A preliminary assessment of CO₂ emission was performed in the Company for the production units which were foreseen for participation in EU ETC in line with the methodology defined by the Decision on Monitoring and Reporting 601/2012 EC upon currently available quality of data required for calculation, which, for 2017 was 1.013.010 tCO₂.

In 2017, realization of the EOP project of injection of CO₂ separated at the Amine Production Unit in the Oil and Gas Preparation Facility Plant in Elemir, into the Rusanda reservoir in order to maintain the reservoir pressure and increase of production, was continued. Total amount of 49.810.128 m³ CO₂ was injected.

For purpose of corporate social responsibility, the Company implements measures for reducing CO₂ emissions by implementing projects to construct cogeneration power plants. These use associated gas, which was previously flared, and now is used for the production of heat and electricity.

NIS will, in the coming period, harmonize its operations with the legislation relating to GHG emission management. In addition, it will harmonize its methods of quantifying all direct and indirect GHG emissions resulting from Company's operation, as well as definition and implementation of mitigation measures, i.e. activities that the Company will undertake in order to reduce and limit GHG emissions.

EN 20 Emissions of ozone-depleting substances

The Company does not produce, import or export ozone-depleting substances.

EN 21 NO_x, SO_x and other significant air emissions

Amounts of air pollutants emitted (t/g)	2016	2017
SO ₂ emission	3,649	4,720
NO _x emission	905	959
Emission of particular matter (PM)	51	148

The main cause of the increase in the amount of air pollutants emitted in the air compared to the previous year is the fact that there has been an increase in the volume of crude oil processing, as well as a greater number of operating hours of process plants during which capital turnaround was

conducted. The share of imported Kirkuk crude oil is more than doubled compared to last year, and as this oil has high sulphur content, causing the high sulphur content in the refinery gas (fuel oil) and heavy fuel oil, which are used as fuel for individual process plants.

EN 22 Total water discharge by quality and destination

List of discharged waste water in m ³ , depending on treatment and destination				
Treatment type	Destination	2016 m ³	2017 m ³	Relative change 2017/2016
External treatment	Watercourse	1,403,580	1,350,966	-4%
Physical, physical-chemical	Watercourse, public sewerage	766,354	714,373	-7%
Sanitary waste water	Public sewerage	50,302	41,807	-17%
Total waste water discharge		2,220,236	2,107,146	-5%

The Company reduced the total quantity of wastewater by 5% compared to the previous year. The largest quantity of wastewater is generated in the Oil Refinery Pančevo. The volume of wastewater was decreased by 6.5% even though the crude oil

refining volume was increased. The quantity of discharged wastewater per ton of refined crude oil in the Oil Refinery Pančevo in 2017 was 0.52 m³/t, which is less than 0.60 m³/t in 2016.

EN 23 Total weight of waste by type and disposal method

Overview of generated and disposed waste in tons		
Waste type	Waste generated in 2017	Waste disposed in 2017
Non-hazardous	9,833	10,164
Hazardous	12,322	12,384
Total	22,155	22,548

Overview of waste disposed by type in tons		
Disposal method	2017	
	Non-hazardous	Hazardous
Bioremediation	-	567
Disposal	614	14
Recycling	9,510	247
Solidification	39	1,143
Co-combustion	-	10,413

Hazardous waste generated mostly consisted of mud and sludge as well as oil-contaminated waste resulting from maintenance and cleaning of tanks and separators. Of all types of non-hazardous waste generated in 2017, metal waste accounted for 92% of the total.

Waste was disposed by 39 operators who hold waste management licenses issued by the competent authorities of the Republic of Serbia.

Most waste, primarily metals and packaging, was handed over for recycling, whereas hazardous waste (mud, sludge, and oil contaminated waste), depending on the concentration of hydrocarbons, was handed over for co-combustion, solidification and bioremediation.

A prior notification of the movement of hazardous waste is regularly carried out through the National Register of Pollutants, and for 2017, the generated and disposed quantities are delivered.

EN 24 Total number and volume of significant spills

Number of environmental accidents by type		
Accident type	2016	2017
Spillage of oil and petroleum products on soil	15	22
Spillage of waste water	1	0
Chemical spills	0	2
Gas emissions	0	1
Other	0	5
Total	16	30

During 2017, 30 spills were recorded with a total volume of 21.611 m³. Of the total number of spills, 10

are perforations with a quantity of spilled substance greater than 1 barrel per soil.

Causes of environmental accidents	2017
Working activity	27 %
Technological breakdown or failure – process	6,5 %
Oil pipeline perforation	33 %
Damage of structural facilities	6,5 %
Other	27 %
Total	100%

Location of environmental accidents	2017
At NIS' sites	67 %
Outside of NIS' sites	33 %
Total	100%

EN 25 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel convention² annex i, ii, iii, and viii, and percentage of transported waste shipped internationally

In 2016 there was no transported, imported and exported waste that was deemed hazardous ac-

ording to the Annex to the Basel Convention I, II, III and VIII.

EN 26 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff

The Company obtains water acts for the facilities where it operates and from where it discharges wastewater. According to these, there is no information stating that the water bodies into which the Company discharges treated wastewater are classified as water bodies with special protection statues and biodiversity value.

The International Commission for the Protection of the Danube River (ICPDR) was established in 1998 with the purpose of protecting the Danube water and environment. Serbia is one of the member countries. The Danube is a watercourse that receives more than 90 percent of all Company's waste waters:

- Treated atmospheric water from the Oil Refinery in Pančevo is discharged to the Azotara canal in the southern industrial zone of Pančevo, which flows into the Danube - 406,718 m³,
- Technological waste water from the Oil Refinery in Pančevo is treated in a waste water treatment plant in HIP PHK, from where it is discharged into the Danube - 1,341,985 m³,
- Treated waste water from the Petroleum Products Warehouse in Novi Sad is discharged indirectly through the public sewage system of the City of Novi Sad - 150,880 m³,

- Treated waste water from the Warehouse in Smederevo is discharged directly into the Danube -15.677 m³.

One of the recipients of Company's treated wastewaters is Rovača stream, one of the streams of Fruška Gora, which takes water from higher grounds of Fruška Gora to the Sava river. It represents a recipient for treated technological, sanitary and sewage and atmospheric water from the Plant for the production of drinking water in Jazak in an amount of around 15,000 m³ p.a.

The Jegrička is the biggest river in a southern loess terrace in Bačka region. It is 65 km long and consists of a series of connected ponds through which water runs to its confluence with the Tisa and from there into the Danube. Approximately 270 m³ of treated wastewater is discharged in the Jegrička from the Zmajevu fuelling station.

Treated wastewater, in an amount of around 3,500 m³ p.a. is discharged from the Warehouse of "Sales and Distribution" in Požega into Skrapež, a category I river in western Serbia.

EN 27 Extent of impact mitigation of environmental impacts of products and services

The Company particularly protects its customers. In order to reduce environmental impact, NIS continuously develops new products and improves existing ones.

In 2017, the Company continued to develop biodegradable and environmentally friendly lubricants. During 2016, the development of the NISOTEC KOM-PRESOL PAG 150 product was finished, which is intended for the lubrication of industrial compressors for gas compression (methane, ethane, propane,

carbon dioxide), and which, due to its biodegradability above 60%, is more environmentally acceptable than other products with the same purpose.

The number of potential places of application in Serbia for biodegradable oils, including compressor oils, is very low. During 2017, we succeeded in expanding the application of the PAG 150 compression oil from one to two places, which resulted in a 46% increase in sales of this product in 2017 compared to 2016.

EN 28 Percentage of products sold and their packaging materials that are reclaimed by category

Guided by the provisions of the Law on Packaging and Packaging Waste, the Company hired an operator responsible for the packaging waste management system that holds the appropriate license for performing these activities.

In agreement with the operator, and for the purpose of meeting national objectives set for 2017, the packaging waste that was picked up and collected in 2017 was re-used, recycled or disposed of during the current year.

The Company organized the collection of packaging waste in branded containers (paper and PET packaging and used cans) in all larger NIS facilities.

NIS business operations include production of drinking water in Jazak as well as production of different brands of oils and lubricants in the Lubricants Department in Novi Sad.

An overview of the packaging placed on the Serbian market

Material	UoM	2016		2017	
		Jazak	Lubricants Department	Jazak	Lubricants Department
Plastic	PET	266	71	249	46
	Other types of plastic	48	130	48	166
Metal	Iron	0	111	0	86
Paper and cardboard	Paper and cardboard	58	54	56	62
Wood	Pallets	31	100	51	103
Total	t		869		867

EN 29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

In 2017, two cases of economic offence were recorded in relation to which a fine in the amount of RSD 1,000,000 was paid.

EN 30 Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce

The last link in the supply chain for petroleum products is the distribution to end-users, where the transport of goods is performed by road freight vehicles.

A series of precautionary actions are conducted, and a clear system of corporate and social responsibility and normative framework has been established, increasing the safety of both employees and other road traffic users in Serbia and the region as well as offering environmental protection.

Modernization of the NIS fleet resulted in the reduction of the adverse impact of road freight on the environment, by procurement of the additional number of cargo vehicles, tow-vehicles and truck vehicles, with EURO 6 category engines, which realized the participation of the freight vehicles of EURO 5 and EURO 6 categories in 2017 of 78% in total driven kilometres, by which, the emission of CO₂ was reduced for 6% in comparison to 2016.

Modernization of the fleet was accompanied by the procurement of vehicles with the compressed natural gas drive (CNG), which reduced the emission of CO₂ and other gases.

Optimization of the fleet structure has reduced levels of noise from the drive unit on vehicles, the airflow around the vehicle body and interaction of the tire tread and road surface of motor vehicles and trailers.

All vehicles used for transporting of dangerous goods hold ADR certificates. Therefore, only vehicles fitted with equipment for preventing the discharge of cargo in the event of an accident are used. Sales and Distribution Block also holds an Energy Management certificate, the result of the implementation of measures to monitor and control of electricity consumption and fuel consumption in accord with the requirements of DIN EN ISO 50001.

EN 31 Total expenses related to environment protection and investments per kind

Total environmental protection expenses in 2016 in million RSD	
Waste treatment and management	249.783
Emission treatment	178.980
Investment in purchase and maintenance of equipment and related costs of professional staff	68.203
Environmental liability insurance	0,01
Costs of rehabilitation (remediation of land)	63.738
Environmental education and training	2.030
External services of environmental impact management	242.281
External services of management system certification 1.5	2.393
Additional costs of installing green technologies	47.291
Costs of environmental studies	7.762
Costs of remediation of accidental spills	3.459
Water use fee and discharged water fee, water land use fee	77.195
Environmental protection and improvement fee – oil and petroleum product transport fee	170.126
Fee for protection, improvement and pollution of the environment	87.106

EN 34 Number of complaints about environmental impacts filed, addressed, and resolved through formal complaint mechanisms

The Company responsibly and with due seriousness considers all filed complaints which refer to the environment, which is enabled by formalized mechanisms for complaints, as well as through the Call centre.

During 2017, 7 complaints and complaints in relation to impacts to the environment were filed through citizen's reports based upon which, the unscheduled inspection supervisions were performed (during which, there were no non-compliances detected), as well as one citizen's complaint filed through the call centre.

The submitters of all 7 complaints during 2017 were the citizens as the interested party, and the complaints referred to emission of polluting substances into the air nearby the fuelling stations, and the pollution of soil with oil and oil products in the vicinity of the fuelling stations and oil wells.

In the period from 2011 to 2016, 19 cases related to impacts on environment were registered in total, 16 of which were resolved, 2 of which during 2017, while 3 proceedings are still ongoing.



LA 1 Total number and rates of new employee hires and employee turnover by age group, gender and region

Overview of employee turnover			
Organizational unit	December 31, 2016		
	Direct	Leasing	Total
Exploration and Production	782	222	1,004
Services	84	24	108
Refining	775	30	805
Sales and Distribution	964	2,796	3,760
Energy	245	20	265
NIS–expert services	1,048	460	1,508
Representative offices and branches	66	0	66
NIS j.s.c. Novi Sad	3,964	3,552	7,516
Naftagas – Oilfield Services	600	770	1,370
Naftagas–Technical Services	396	479	875
Naftagas –Transport	96	272	368
STCNIS Naftagas	300	23	323
Subsidiaries in the country	1,392	1,544	2,936
Total:	5,356	5,096	10,452

December 31, 2017			
Direct	Leasing		Total
802	220		1,022
88	24		112
836	32		868
965	2,799		3,764
248	26		274
1,089	462		1,551
60	0		60
4,088	3,563		7,651
569	889		1,458
391	488		879
97	292		389
309	30		339
1,366	1,699		3,065
5,454	5,262		10,716

Overview of employee qualification structure by contract type

Year		PhD	M.Sc./MA	BSc	
2016	NIS j.s.c. Novi Sad	Direct	9	86	1,868
		Leasing	0	4	490
	Subsidiaries in the country	Direct	7	18	437
		Leasing	0	1	87
	Total		16	109	2,882
	2017	NIS j.s.c. Novi Sad	Direct	7	81
Leasing			0	7	493
Subsidiaries in the country		Direct	8	15	454
		Leasing	1	1	110
Total		16	104	3,000	

Overview of gender structure by contract type

Year		Men	Women	Total	
2016	NIS j.s.c. Novi Sad	Direct	2,770	1,128	3,898
		Leasing	2,184	1,368	3,552
	Subsidiaries in the country	Direct	1,219	173	1,392
		Leasing	1,501	43	1,544
	Total		7,674	2,712	10,386
	2017	NIS j.s.c. Novi Sad	Direct	2,876	1,152
Leasing			2,178	1,385	3,563
Subsidiaries in the country		Direct	1,187	179	1,366
		Leasing	1,647	52	1,699
Total		7,888	2,768	10,656	

	PSE	HS	EL.S	HQ	Q	SQ	LQ	Total
	277	1,120	2	133	403	0	0	3.898
	330	1,805	21	89	809	4	0	3.552
	56	410	3	112	349	0	0	1.392
	43	453	91	46	805	11	7	1.544
	706	3,788	117	380	2,366	15	7	10,386
	286	1,187	2	131	391	0	0	4.028
	335	1,842	16	79	787	4	0	3.563
	55	391	3	112	328	0	0	1.366
	50	515	89	43	871	14	5	1.699
	726	3,935	110	365	2,377	18	5	10,656

Management-to-staff ratio					
		Management		Employees	
Year		Number of managers	% share in the total number of managers	Number of employees	% share in the total number of employees
2016	Men	220	72.61%	3,769	75.58%
	Women	83	27.39%	1,218	24.42%
	Total	303	100%	4,987	100%
2017	Men	239	73.54%	3,824	75.44%
	Women	86	26.46%	1,245	24.56%
	Total	325	100%	5,069	100%

* Data on representative offices, branches, subsidiaries abroad and other subsidiaries as well as leasing employees are not included to allow comparison with data for the previous year

** Manager category include: Top Management, Senior Management and Middle Management. Lower management (department managers and lower) is not included in the manager category.

Overview of employee age structure				
Year		up to 20	20–29	30–39
2016	NIS j.s.c. Novi Sad	27	1,967	2,383
	Subsidiaries in the country	4	550	875
	Total	31	2,517	3,258
2017	NIS j.s.c. Novi Sad	46	1,891	2,413
	Subsidiaries in the country	24	559	915
	Total	70	2,450	3,328

* The representative offices, branches, subsidiaries abroad and other subsidiaries are not included in the table

Employee turnover	Men	
	2016	2017
Men	199	264
Women	191	195
Total	390	459

* The data for subsidiaries abroad and other subsidiaries are not shown in the table

**Ratio of new employees and employee headcount at the beginning of the observed period amounted to 6.61%.

***Ratio of employees that left the Company and employee headcount at the beginning of the period amounted to 4.78%.

Employee turnover by age structure	up to 19		20–29		30–39	
	2016	2017	2016	2017	2016	2017
Employment	0	11	123	191	103	97
Employment termination	0	0	48	52	97	87
Total	0	11	171	243	200	184

* The data for subsidiaries abroad and other subsidiaries are not shown in the table

	40-49	50-59	over 60	Total
	1,799	1,140	134	7,450
	822	598	87	2,936
	2,621	1,738	221	10,386
	1,863	1,212	166	7,591
	832	620	115	3,065
	2,695	1,832	281	10,656

Women		Total	
2016	2017	2016	2017
87	90	286	354
61	61	252	256
148	151	538	610

40-49		50-59		over 60		Total	
2016	2017	2016	2017	2016	2017	2016	2017
43	44	12	11	5	0	286	354
51	58	34	32	22	27	252	256
94	102	46	43	27	27	538	610

LA 2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation

There are no differences between the benefits which are provided for the permanently employed employees in comparison to the employees with a contract on temporary employment.

Some of the rights guaranteed in the Collective Agreements and other internal documents of the Company include: Special protection of the employees with illnesses as well as employees with disabilities, preventive recuperation of the employ-

ees working at high-risk positions, and other employees in order to prevent occupational illnesses and disabilities; Wide range of solidarity assistance paid out to employees (in case of an illness/death of the employee or a member of their family, damage to their households, birth of a child in families with several children, etc.); Scholarships during the regular education of the children of killed and deceased employees; Collective employee insurance in case of accidents.

LA 3 Return to work and retention rates after parental leave, by gender

Dynamics of going on maternity leave and returning to work in 2016			
Organizational unit	Employees whose leave began in 2016	Employees returning to work from leave in 2016	Employees whose leave began in 2017
NIS j.s.c. Novi Sad	56	71	67
Leasing	119	106	108
Total	175	177	175

* The representative offices, branches, subsidiaries abroad and other subsidiaries are not included in the table

LA 4 Minimum notice periods regarding operational changes, including whether these are specified in collective agreements

In the event there is a need to transfer an employee to another job or change other important elements of the Employment Contract, the Company is obliged to submit an offer to the employee for the conclusion of an annex to the Employment Con-

tract, with a validity date for stating an opinion on the offer within eight working days of receipt. This offer clarifies and justifies the reasons for the transfer of the employee and the elements of the Employment Contract that are to be changed.

Employees returning to work from leave in 2017	Employees returning to work after maternity leave between December 31, 2016 and December 31, 2017	Remaining number of employees expected to return from maternity leave in 2018 and 2019	Employees who left the company in less than a year after maternity leave	Employees returning to work after leave, who are still employed by the Company after 12 months from the end of their absence
56	122	75	9	119
119	125	122	112	114
175	247	197	121	233

LA 5 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs

In line with the provisions of the Collective Agreement, NIS established Boards of Occupational Health and Safety (BOHS) in all organizational units:

- BOHS NIS
- BOHS Exploration and Production
- BOHS Refining
- BOHS Sales and Distribution
- BOHS Services
- BOHS Energy

Each of the BOHSs now has seven members, i.e. four employee representatives (labour union) and three employer representatives. In 2017, more than 99 % of total employees were covered.

The Instructions UP-09.01.00-001: Operation of the Board for Occupational Health and Safety, which more precisely regulates the method of operation and other issues significant for preparation and holding of the sessions of the Board for Occupational Health and Safety of the Company was adopted.

During 2017, there were 14 Meetings of the Board for Occupational Health and Safety held in accordance with the previously adopted Plan, where the following issues were discussed:

- Analysis of the conditions related to occupational health and safety
- Proposal of measures for improvement of occupational health and safety,
- Procurement of the PPE for the employees' requirements,
- Discussion of the works with increased risk and programs of protection of employees performing such works,
- Consideration of the reports on medical conditions of employees, based upon periodical medical examinations,
- Discussion of injuries at work and professional illnesses,
- Cooperation with the expert services in the field of occupational health and safety,
- Introduction of preventive measures of employees' protection.

LA 6 Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender

HSE indicators	2016	2017
Workplace injuries	99	119
Workplace injuries-with sick leave	30	27
Workplace injuries-deaths	0	3
Number of days lost	343	517
Days of sick leave due to workplace injuries	2,436	2,332
Number of days of absence from work	309,284	265,524
Number of hours of regular operation	18,433,375	18,861,531
Injury rate (IR)	5%	6.31%
Absence rate (AR)	16.78%	9.09%
Lost days rate (LDR)	0.13%	2.74%
Numbers of fires	26	27
Number of traffic accidents	13	8
Number of environmental accidents	16	30
Number of visits of inspection authorities	770	903
Number of measures undertaken by inspection authorities	275	159
Types of injuries	2016	2017
Employees fall	21	30
Thermal and chemical injuries	5	4
Mechanical injuries 63 34	34	32
Traffic	10	14
Fall from height	2	2
Other	27	37
Total	99	119

LA 7 Workers with high incidence or high risk of diseases related to their occupation

Under the framework of the Act on the Risk Assessment at the Workplace and in the Working Environment, which is regularly being revised, it is defined that NIS has 2,393 work positions with increased

risk, where 5,316 employees are engaged. NIS endeavours to reduce the already recognized risks by introducing new technological improvements.

LA 8 Health and safety topics covered in formal agreements with trade unions

OHS issues are covered within a formal agreement with the labour union and defined in the Collective Agreement. The Company's management and employees improve HSE performances through their personal examples and actions and demonstrate commitment to HSE principles.

Employee benefits do not depend on the duration of the agreement.

Some of the areas covered by the Collective Agreement are:

- Exercising and protection of employees' rights
- Work hours, vacations and leaves
- Employee redundancy
- Education, professional training and development
- Occupational Health and Safety
- Damage compensation
- Accommodation needs, and
- Employee strike rights

LA 9 Average hours of training per year per employee by gender, and by employee category

Training costs in million RSD	2016	2017
Training costs	238	192
Costs of professional training	232	189
Costs of consultancy	2	0
Costs of membership fees for professional	4	3
Costs of training organization	7	4
Total	245	196

Training statistics						
	Hours of training according to gender		Number of employees according to gender		Hours of training according to category	
	Men	Women	Men	Women	Managers	Employees
Directly	138,425	30,450	2,107	851	26,969	141,906
Leasing	33,003	3,270	780	135	746	35,487

A total of 1,843 training sessions were held in cooperation with external providers, with 6,542 participants, while the in-house training sessions were attended by more than 4,500 attendees. Our employees gained support in expansion of the professional knowledge from the leading world companies in the field of exploration and production but also from the best domestic companies. The trainings enhanced development of both professional and personal skills and skills necessary for successful team management. Important world conferences were attended where the best trends and the best world practice from the field of company business operation were being followed, such as St. Petersburg International Economic Forum, Russian Energy Week, Oil and Gas Industry Supply Chain NEFTE GAZ SNAB.

During 2017, NIS continuously worked on increase of efficiency and the Lean Six Sigma trainings were organized in priority organizational units. The program was divided into 3 levels (yellow, green and black belt) and in cooperation with the provider Six Sigma South East Europe, as well as with the help of internal trainers, over 320 employees were trained which represents the first step in order to provide the maximum efficiency of business operations, reliability of production and safety activities and inclusion of all employees in the culture of constant improvements.

Various programs for professional development of employees which are adjusted to the requirements of the core business of the Company are constantly being conducted in NIS.

Number of employees according to category		Costs of training in thousands of RSD		Number of training hours	
Managers	Employees	Total	Per employee	Total	Per employee
576	2,382	177,688	32.94	168,875	31.31
33	882	18,477	3.51	36,273	6.89

Program	Organizational unit	Description
Rotation program with OAO "Gazprom Neft"	Exploration and Production	In the period from September until December, rotation for 25 employees of the Exploration and Production Block was realized with the purpose of professional improvement in OAO "Gazprom Neft" and its daughter companies in the Russian Federation. The rotation period lasted from two weeks to two months. In the rotation, there were geologists, mining and mechanical engineers, specialists in the field of HSE and HR included. The employees gained new knowledge, increased their level of professional competencies, got familiar with the best practices in oil industry and established cooperation with the colleagues from Tyumen, Noyabrsk, Orenburg, Khanty-Mansiysk, Megion, Sankt Petersburg.
Cooperation with the Technical School from Zrenjanin	Exploration and Production, Services	Under the framework of the program of vocational training, 497 of employees attended the training required for acquisition of the educational profile: Manager of the facility units for production of oil and gas. The goal is to continue this way of training of employees in 2018.

Program of "Learning the foreign languages" is intended for improvement of knowledge of English, Russian or Serbian language of the employees, with the purpose of more efficient performance of works. During 2017, 252 employees were included in group or individual lectures.

E-Learning programs

Following the world trends, in 2017, we continued with creation of contemporary electronic trainings for employees in the Company's E-Learning trainings. Modern and efficient technologies enabled the content of the training to be presented in an interesting and interactive way.

The advantages of the E-Learning training were first observed in the field of Occupational health and safety as well as in case of the newly employed workers of the Company.

On-Boarding program

In order for the newly employed workers to fit easily in the new working environment, at the beginning of their working engagement they first must take part in various “on-boarding” activities. Through the Introductory training, the new employees get familiar with the business processes, organizational units of NIS as well as with the data on business activities in order to as easy as possible adjust to future work.

Following the contemporary world trends, a segment of the Introductory training is also an educational film “Welcome to NIS”, which enables the employees to get familiar with NIS from their work position through 32 educational films.

Talent development

During the year, a Plan of employees’ career development at the level of the entire Company was defined, and so were the plans of employees’ career development in the Blocks. The career development plan transparently reflects the steps in career advancing of the employees. Through the steps, presented in the Plan of career development, NIS enables a continual development of employees at all levels, from the entering one to higher, managing positions.

In 2017, the Centres for assessment organized over 100 participants with the purpose of determination of potential and the fields of development of the employees in various organizational units, as well as for the purpose of selection and choosing of employees. During 2017, first internal centres for assessment, realized by the employees in the Sector for Training and Development were created and realized.

A regular cycle of evaluation of employees by competences was conducted. According to this program, employees receive a quality and structured feedback on their work over the previous period.

Within the Staff Pool program of succession, NIS implemented individual programs of development of employees who acquired the top level of readiness to assume key positions.

In 2017, multiple activities were undertaken with regard to improvement of safety of employees in traffic, as well as the entire level of traffic safety, as follows:

- Safety in Traffic Week in cooperation with the Ministry of Civil Construction Engineering, Traffic and Infrastructure, Agency for Safety in Traffic, with topics:
 - Safe participation of children in traffic,
 - Activities for safe participation of the young in traffic,
 - Presentation of statistics of safety in traffic in the RS, with emphasis on participation of motorcyclists in traffic and practical training,
 - Traffic safety indicators in NIS, transportation of hazardous substances, working hours of the fleet crew members in road traffic,
 - CNG, pneumatics, braking systems – impacts to safety in traffic
 - Driver’s challenge 6 – competition of drivers
- Practical and theoretical trainings of drivers in cooperation with the Ministry of Defence, at the military polygon in Kraljevo, such as:
 - Driving of the freight vehicles under various conditions
 - Eco and safe driving of the passenger vehicles
 - Driving of the passenger vehicle under various conditions
 - Driving of light terrain vehicle under various conditions, etc.

LA 10 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings

The employees face numerous challenges imposed by the modern business. In order for the NIS employees to be ready to respond to business challenges, NIS invests into development of its personnel and contributes to improvement of employees' potential, thus working on development of professional resources of the entire NIS Group.

In 2017, the Company did not implement any redundancy programs. In the past, the Company endeavoured to provide assistance to employees that leave through redundancy by providing workshops with representatives of the National Employment Service.

LA 11 Percentage of employees receiving regular performance and career development reviews, by gender and by employee category

At the annual level, in the Company there is a regular assessment of employees in relation to their competencies, which covers all the NIS employees, classified in three main categories – managers,

specialists and workers. All the employees receive a qualitative and structural feedback information on the assessment results.

LA 12 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity

In 2017, the Board of Directors consisted of 9 male members and 1 female member, 5 of which are in

the age group 30-50, whereas 5 members are over 50 years of age.

LA 13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation

The Collective Agreement, under which the basic salaries of the employees are defined in accordance with the job grade, guarantees that the level of salaries in NIS is the same as that in oth-

er leading companies in Serbia. Each grade has a clearly defined range - from the minimum to the maximum amount of the basic salary, regardless of gender.

LA 16 Number of filed, processed and resolved complaints related to the Labour Law

In 2017, 1 new labour proceeding was initiated against the Company (excluding the complaints which were initiated with regard to determination of mobbing) while 848 labour proceedings are active from the preceding period.

efit and 131 proceedings with the detrimental effect for the Company with negative financial effect of 3,881,641 RSD) as well as 1 court proceedings from the current period (at the Company's expense with negative financial effect of 34,000 RSD).

Out of total number of the labour proceedings in 2017, 405 proceedings initiated in the preceding period were finalized (274 for the Company's ben-

Total value of the labour proceedings which ended at the Company's expense is 3,916,141 RSD.

HR 3 Total number of cases of discrimination and corrective measures that were undertaken

During 2017, not even one case related to discrimination in the Company was identified.

HR 4 Cases of threatened freedom of association and collective negotiations and the undertaken measures

NIS supports the freedom of trade union association and collective negotiations, so during 2017, an intensive cooperation with the representative trade unions of employees was continued (in NIS j.s.c. Novi Sad and the subsidiaries). Furthermore, in 2017, the Collective Agreements in NIS j.s.c. Novi Sad and the subsidiaries in the Republic of Serbia

were concluded (in Naftagas-Oilfield Services Ltd. Novi Sad; Naftagas-Transport Ltd. Novi Sad; Naftagas-Technical Services Ltd. Zrenjanin and Scientific and Technological Centre NIS-Naftagas Ltd. Novi Sad). There were no recorded cases where the freedom of association and collective negotiations was threatened.

Number of employees in representative Trade Unions		
Name of the Trade Union	2016	2017
Uniform union organisation at NIS j.s.c.	2,651	2,659
UO Oilfield Services	307	313
UO NTC NIS Naftagas	76	92
UO Special works (Naftagas – Oilfield Services)	177	152
UO Technical Services	213	194
UO Transport	44	45
Total	3,468	3,455

HR 5 Business processes and important suppliers who were identified as those with a significant risk of child labour existence, and measures undertaken in order to contribute to effective banning of the child labour

The Company operates in accordance with the laws and other regulations and ratified international

conventions, in case of child labour as well as in other fields of business operations.

HR 6 Business processes and important suppliers who were identified as those with a significant risk of forced labour existence, and measures undertaken in order to contribute to elimination of all forms of the forced labour

The Company operates in accordance with the laws and other regulations and ratified international

conventions, in case of forced labour as well as in other fields of business operations.

HR 12 Number of complaints which refer to violation of the human rights, processed and settled through official mechanisms for complaints

During 2017, 7 new proceedings were initiated in the Company with regard to mobbing while the existence of 20 proceedings from the preceding period was determined.

of which in favour and 2 of which at the expense of the Company.

Out of total number of proceedings in 2017, 6 proceedings from the preceding period were settled, 4

Total value of the proceedings, which were settled at the Company's expense, is 700,000 RSD.

SO 3 Total number and percentage of the organizational units for which the corruption related risk was assessed and significant identified risks

In all organizational units of the Company, the main corruption related risks have been continuously analysed. A permanent monitoring of the indicators of corruption* is being performed, primarily in the field of procurement of goods and services, in business operations with purchasers, as well as through the process of verification of the candidates for employment, appointing to managing and other managerial positions within the Company, and in the process of verification of the business and economic entities at the time of entering into the contractual relationship and approval of the contracted and normative and methodological documents.

The area of business activities that is especially exposed to the corruption related risk is procurement of goods and services, considering the direct communication with the suppliers and significant cash flow, and the initiative for corruptive behaviour may originate both from the supplier and the client. However, corruption activities are also characteristic for the field of business operations with the customers, most usually through the privileges given to some, so-called "large" purchasers, but also thorough favouring upon the parity, method of transportation or dispatch time. The most widespread aspect of giving privileges to the customers is expressed through entering into contract or delivery of the larger quantity of goods, regardless the unsettled financial liabilities, occurring from the preceding contracts and deliveries. Through risk assessment, as a specifically difficult form of corruption, there is corruption identified in cases when the competent commercial executives of the contract, deceive the managers and other participants in the process of approval of the contracting documents, by inputting of imprecise or incorrect data into proposals and the approval lists.

* The expression "corruption" implies the definition used for the analysis which is taken from the National Anti-Corruption Strategy: Corruption is a relationship based upon the abuse of given authorizations in public and private sector for the purpose of gaining of personal benefit or any benefit for another person. This is a broader interpretation of corruption, which is not reduced only to the generally adopted opinion that it is related to giving or receiving a bribe, but it also implies any action which originates, partially or fully, from the socially unacceptable motifs.

During 2017, multiple indications pointing to elements of possible corruptive activities were analysed, especially in procurement sections. By risk assessment, the following risks were identified as the main corruption related risks:

- Abuse of the responsible person's position, whereas the occurrence factors, there are: irresponsible attitude towards entrusted property of the Company; insufficient protection of the Company's property; nonexistence or incompleteness of internal control procedures; omissions in work of the line and functional managers; unlawful actions undertaken by the employees.
- Unconscientious work within the section
- Embezzlement within the section
- Disclosure of a business secret

Goals for the future

1. Development and deepening of the awareness of the Company's employees on recognition and harmfulness of the existing forms of corruption.
2. Preventive activities which would improve the business atmosphere and reduce the possibilities of the corruptive operation.
3. Trainings, lectures and professional workshops as the expert help to the management in recognizing of elements of corruption.
4. Participation in preparation and approval of internal normative documents for the purpose of establishing of controlling mechanisms for reducing of the possibility of corruptive actions to a minimum.
5. Cooperation, improvement and coordination of the measures and activities at suppression of corruptive activities with the competent state authorities.



SO 4 Communication and training related to the rules and procedures against corruption

Managing authorities

Members of the NIS' managing authorities are made familiar with anti-corruption rules and procedures through the Resolution of the CEO from 2014, adopting the standard form of the Agreement on Anti-Corruption Behaviour. Also, members of the managing authorities were able to gain insight into the Company's Policy in the area of fight against corruption and fraud, in particular into the clause on compliance with legislation in the area of fight against fraud and corruption. All members of the managing authorities are familiar with the rules and procedures that are currently implemented in NIS, and are related to anti-corruption activities, these being the Board of Directors, Advisory Board Council and the members of the Board of Directors Committees (Audit Committee, Appointment Commission and Remuneration Commission).

New employees

In 2017, communication of anti-corruption policies and procedures has been carried out continuously, so that all new employees have been included in the induction training that included corruption issues. For the purpose of educating about anti-corruption procedures an induction training has been designed for new employees entitled "Fight against Corruption and Organised Crime". It indicates the basic elements of implementation of the anti-corruption policy of the Company, the preventive measures against corruption development, disclosure of developed corruption capacities, and tasks of the service in charge of providing support to decision makers enabling them to recognize corruption elements, and cooperation in the area of prevention of corruptive behaviours of individuals with competent state authorities.

Employees

In 2017, the Company implemented direct forms of training of employees on topics which, inter alia, indicated the anti-corruption issues. The topics were related to classified activities, the protection

of information, and exchange of confidential data with the state authorities and the mother company. The subject trainings included 62 employees in total. Also, any organized form of contact with certain categories of employees is used for guidance and training, mainly through the control activities of retail and other facilities of the Company and in the process of approval of contract documents.

Business partners

NIS concluded Agreements on Anti-Corruption Behaviour with all business partners with whom it entered into a contractual relationship, in order to preserve and ensure a favourable business environment through preventive and specific action in the fight against corruptive and/or illegal actions and treatment. CEO Decision also envisages the procedure in cases where a business partner refuses to sign the Agreement. Then, the initiator of the conclusion of the Agreement from NIS informs the competent authorities, after which measures and actions are being taken on the establishment of the actual reasons that led to failure to sign the Agreement, and then a harmonized decision is being made on further action. The Security Department also takes measures within its competence in the field of anti-corruption operation, as well as verification of the approved contracts and of the consistency and validity of anti-corruption agreements.

Goals for the future

Continue the constant exchange of data with the Company's organizational units management, especially with those whose scope of work includes conduction of the procurement activity, as well as the sales of goods and products of the Company and perform the assessment of the need for additional trainings/lectures or workshops related to the employees' actions with regard to recognition and implementation of the anti-corruption measures.

SO 5 Confirmed cases of corruption and undertaken measure

Against employees whose actions or omissions resulted in harmful consequences for the Company, and which were based on corruptive motives, 226 proposals were submitted to the competent managers in 2017 to initiate disciplinary or misdemeanour proceedings. In addition, there were criminal offenses of embezzlement filed against 72 persons, of which 71 were filed against third parties, and one against a NIS employee from the category of medium managers. The highest number of criminal complaints filed against third parties, 69 of them, relate to the criminal offense of theft, and are related to the theft of derivatives by removing the perpetrators after the refilling of derivatives at the Company's retail facilities without paying the bill. The remaining two criminal charges against third parties relate to the criminal act of causing bankruptcy, which resulted in harmful consequences for the Company in the amount of more than 400 million RSD and the criminal act of causing the general danger. A total number of 52 employees from the category of engineers, technicians and workers were fired from the Company.

In 2017, 70 cases were registered where the contract with the business partners was cancelled or where the already existing contract on business cooperation was not renewed. The reasons are as follows:

- Unprofessional attitude towards contractually defined liabilities, noncompliance with the agreed deadlines and dynamics (6 cases);

- Suing of the partner companies due to failure to settle the contractually defined liabilities which resulted in adverse financial and other consequences for the Company (54 cases);
- Unprofessional attitude to undertaken liabilities in the form of accepting of the work, and then withdrawal from it before contracting (2 cases);
- Refusal of communication of the partner company's representatives with the competent persons of the Company and invoicing of the works that were not realized at all (1 case);
- Installation of inadequate and not contracted equipment (4 cases);
- Offering by the partner companies to the Company, of equipment per several times higher prices in conditions when it has a sole right to offer the subject products at the Serbian market (1 case);
- Based upon the order from the mother company (2 cases).

Out of the registered 70 cases in which the contract was terminated or a contract with a business partner was not renewed, there were no, in the narrow sense, non-renewable contracts, the reasons for which are of a corrupt nature, whereas in the wider sense, 57 cases can be classified under the causes of corruption.

SO 6 Total value of contributions to political parties per country and per support user

According to the adopted document "External Policy", the official position of the Company is that it does not finance operation of the political parties.

SO 7 Total number of legal proceedings due to anti-competitive and monopolistic conduct, according to the result

In 2017, there were no cases of initiated proceedings and there were no disputes against the Com-

pany due to anti-competitive and monopolistic behaviour.

SO 8 Monetary value of significant fines and the total number of the non-cash penalties due to incompliance with the laws and regulations

In 2017, there were neither significant fines nor monetary penalties for the Company due to incompliance with the laws and regulations.

SO 9 Percentage of new suppliers that were analysed from the aspect of the society impact criteria (corruption, lobbying, non-competitive behaviour, incompliance with the law)

By participating in the procedures of approval of procurements in the Company, the competent service complexly examines the potential economic entity with which the Company can enter into a contractual relationship. In this regard, the financial indicators of the business of potential customer, professional and expert competence, the personnel potential, the number and the essence of conducting of possible court proceedings (separately in the capacity of the respondent, and separately in the capacity of the plaintiff), as well as possible previous participation in the acts that can be classified under corruption.

In 2017, 9,065 business entities with which business cooperation was planned were verified, while 68 or 0.75% of them were not approved for various reasons. Non-approval refers not only to established or grounded suspicions of corruption, but to all expressed verified elements. A non-approved client is the one for whom the analysis determine that by establishing a contractual relationship with the same, business risks per Company may occur.

The reasons for non-approval of a potential customer may be as follows:

- Illiquidity (current or frequent)
- Non-economic property – value of the item does not comply with the market conditions, and the business with smaller number of companies is being favoured
- Unreliability in business (or potential unreliability), which may imply that the potential client does not have the necessary (requested) references, that he/she does not possess the certificates required for performance of the contracted liabilities, that because of the prevalence of a large number of current jobs, the available working

capacities have been reduced, that he/she does not possess the necessary funds for performing contractual liabilities

- Incompetence – a business entity is not registered for performance of the activity which was foreseen, or it is registered but it engages the subcontractors which are not registered for the required activity
- Disloyalty (or potential disloyalty) – e.g. in the list of references, the company provided information on its engagement on similar works for the needs of another company that is a competitor of the Company, which represents the risk of the Company's business data leak
- Conflict of interest, etc.

Also, the relevant service participated in the approval of 6,503 contracts, of which 138 or 2.12% were not approved.

An analysis of all 665 new suppliers in 2017 was made, and the consent was not given to 68 potential contractors, in which the existence of a real or potential negative impact on the Company was established. Potential customers are analysed from the aspect of corporate security and potentially negative impacts on the Company's business before the selection of suppliers, which prevents the possibility of signing the contract if the contractor is not approved.

The relationship between the supplier and the contractual liabilities and the experience from the previous business cooperation, incorrectness and abuse of relations, in accordance with the provisions of the Law on Obligations and Business Customs, invoicing the bills for non-performed and unrealized services / works / goods, delivery of used and depreciated materials and other were all tak-

en into consideration. In addition, the connection of the technical or commercial persons themselves with the representatives of the contractors was analysed in cases where there was a suspicion of the presence of a real or potential negative impact on the Company in the field of procurement activities.

In order to eliminate the business risks, in NIS, there is a List of unreliable suppliers, buyers and contractors, which includes companies that in the previous period failed to meet contractual liabilities

in the work with the Company (improperly performed works, improper business cooperation, abuse, etc.).

In addition to 68 suppliers, which in 2017 were reported to have a negative impact on NIS's business and which were added to the List of unreliable suppliers, 21 of them were excluded from the existing List as a result of improving of the business climate and removing of non-approval, thus making them qualified again for potential suppliers of the Company.

SO 10 Significant real or potential negative impacts to society under the framework of the supply chain

Considering the cooperation with a significant number of partners in Serbia, by the examples of good practice in the business, NIS positively influences the elevation of business standards and the willingness of other companies to provide services of better quality, which contributes to improving of the business climate in the country.

Apart from internal lectures, complex activities on affirmation of economic security at the market of the Republic of Serbia have been undertaken.

The lectures that were given to the attendants of the 61st class of the General Staff's development, which under the framework of corporate and economic security, pointed to the measures taken and the results achieved in the fight against corruption, are stressed out as being significant. Furthermore, covering this issue, the lectures were also given to the attendants of the Defence and Security Studies of the Serbian Armed Forces, in which they got familiar with the activities of the Company in preventing corruptive activities.

SO 11 Number of filed, processed and settled complaints related to the Company

In 2017, there were no determined cases of violation of ethics of business conduct in the Company, reported through the SOS line.

PR 1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures

Continuous modernization and the introduction of innovative technologies in all areas of business are the foundations upon which NIS bases its strategic position of the leader at the regional energy market. In a world that is constantly changing and technologically advances, NIS introduces modern technologies to meet the growing demands of consumers, but also to respond to the need for further improvement of environmental protection.

For that purpose, NIS has initiated two capital projects whose realization will bring numerous business and ecological benefits. In the Pancevo Oil Refinery, the "Bottom of the Barrel" project is under way, by whose finalization, the NIS processing plants will be ranked among the most modern ones in Eastern Europe. In addition to the large quantities of the highest quality fuels, as well as the domestic production of coke that has been imported to Serbia so

far, the completion of the "Bottom of the Barrel" project shall also imply the occurrence of conditions for the cessation of production of high-sulphur fuel oil that will have a positive impact on environmental protection in Serbia and the region.

Furthermore, in 2017 NIS made a significant step towards the construction of the Thermal Power Plant and the Heating Plant (TE-TO) Pancevo, whose technology is currently the best in terms of energy efficiency and ecology, thus representing economically the most feasible technical solution for the use of natural gas as a fuel. The realization of this project will also contribute to the energy stability of the Republic of Serbia, as significant quantities of electricity produced will be directed to the domestic energy system. At the same time, the construction of this modern power plant will enable the production of environmentally clean energy.

PR 2 Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes

In 2017, no sanctions were imposed on the Company due to non-compliance with regulations and voluntary codes concerning impact of products and

services on consumer's health and safety during the entire life cycle of products and services.

PR 3 Type of product and service information required by the organization's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements

As a socially responsible company, NIS consistently introduces and implements all measures required by the EU and the ECHA to protect human health and the environment from risks arising from the use of chemical products. The Company labels its products in accordance with current legislation, providing information on the hazards and potential impact to human health and the environment. Information on the chemical composition and properties of the product, type of storage, product handling, transport and disposal of waste is contained in a safety data sheet and on labels. Elements of product labels, such as pictographs and the corresponding markings and phrases indicating hazardous properties, are shown on packaging.

Product Liability and Compliance with EU Regulations

The Safety Data Sheet (SDS) is a legally prescribed document that has been mandatory since 2013. It is the main instrument of communication from suppliers to consumers as manufacturers and importers have to provide information about how their substances or mixtures can be used safely for human health and the environment. The Safety data sheet content is tailored to the needs of professional users and provides them with information about the real predictable physical and chemical hazards arising from the properties of chemicals and their associated risks to human health and the environment.

The Safety Data Sheet also contains information relevant to others, such as those engaged in the transport of dangerous goods or that are responding to chemical accidents.

REACH (Registration, Evaluation, Authorization and Chemicals) is a prerequisite for exporting the Company's products to the European Union. Given that the Company exports a significant portion of its products to the EU, extensive studies and activi-

ties were conducted within NIS in order to fulfil the requirements of REACH.

All REACH requirements are fulfilled in accordance with set deadlines, and a positive decision by the on the registration of substances produced by NIS was received from the ECHA.

In 2017, the REACH / SDS project was implemented. The REACH and SDS was formed on the Company's website in the product and service section, within which this mandatory documentation will be made available to buyers in the RS (Safety Data Sheet) and importers of NIS products in the EU (in Serbian, English and optionally in languages of importers). In addition to complying with the legislation, this enabled NIS to provide up-to-date information the customers and stakeholders, improve safety and compliance with ecological norms, provide timely information on products and changes in the supply chain and reinforce the Company's operations and image in an efficient manner.

Future Objectives

- The study of the chemical composition of products that have the lowest possible negative impact on the environment, and,
- Providing information and user training on understanding the elements of labelling and their application of instructions on safe use and disposal.

PR 4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling

In 2017, no sanctions were imposed on the Company due to non-compliance with regulations and

voluntary codes concerning labelling of products and services.

PR 5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction

Currently, customer satisfaction is measured and monitored through a Tracker study aimed at tracking drivers' habits and attitudes. It is a continuous loyalty and customer satisfaction monitoring study. The study was first conducted in 2014 and from 2016, it is implemented annually.

NIS, as an absolute leader in the market, enjoys stable and high customer satisfaction in 2018, with 95% of satisfied regular users at NIS Petrol and 98% at Gazprom fuelling stations. The main factors influencing the high satisfaction are the wide network of fuelling stations and the customer service. The appearance of the stations, quality and variety of fuel products are also very positively evaluated aspects.

PR 6 Sale of banned or disputed products

No sales of products that are banned or are the subject of a public debate on certain markets were conducted in the Company in 2017.

PR 7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes

In 2017, no sanctions were imposed on the Company due to non-compliance with regulations and

voluntary codes concerning marketing communication, advertising, sponsorship and promotions.

PR 8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data

In 2017, there were no procedures initiated due to the violation of customer data privacy.

PR 9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services

In 2017, there were no fines imposed for non-compliance with laws and regulations concerning provision of services and use of Company products.

OG 1 Volume and type of estimated proved reserves and production

In accordance with the laws of the Republic of Serbia, the Company is not in a position to report on the

estimated quantity and value of oil and gas reserves.

OG 3 Total amount of renewable energy generated by source

The Serbian economy largely depends on fossil, non-renewable sources of energy (oil, coal), which represent a potential threat to the environment. An analysis of potential showed that the sector for development of renewable sources of energy is one of the main contributors to fulfilling environmental protection development plans, power generation and energy efficiency at the global level, and the potential of renewable and alternative sources of energy is a major challenge for the future.

NIS has paid special attention to the development of renewable sources of energy, primarily geothermal energy. NIS develops renewable energy sources and utilizes geothermal resources by implementing projects aimed at expanding the geothermal capacities. In recent years, the industry has significantly increased the use of geothermal energy to heat buildings, sanitary water, open and closed pools, greenhouses, etc. The use of geothermal en-

ergy makes it possible to reduce the costs of purchasing energy-generating products for heating infrastructural facilities and ensure the presence of NIS in the energy market of Serbia. The projects in the field renewable energy sources and geothermal energy projects have a significant impact on increasing energy efficiency. The objective of the program is to introduce the practice of using energy rationally and increasing energy efficiency as well as implementing new technologies for reducing energy consumption.

Particular emphasis should be given to the participation of NIS in the development of a wind power generation project. NIS, together with its partners, finances and participates in the Plandište Wind Farm project where it plans to build wind generators with a power of nearly 100 MW and produce up to 290 GWh per year.

OG 5 Volume and disposal of formation or produced water

Volume and disposal of formation or produced water (m ³)	2016 m ³	2017 m ³	Relative change 2017/2016
Produced formation water	5,146,612	4,782,849	-7%
Disposed formation water	5,146,612	4,782,849	-7%

Entire quantity of produced formation water is injected.

During oil and gas exploitation and execution of the mining operations in the wellbores, a significant quantity of the formation (reservoir) water is also exploited. This water contains hydrocarbons, salts, originating from geological formations. Hydrocarbons, suspended and dissolved substances

are separated from formation water and purified formation water is, through the systems for preparation and injection, injected to a certain depth into selected wellbores which are out of function. Thus, the possibility of pollution of water and geological layers is prevented.

OG 6 Volume of flared and vented hydrocarbon

In 2017, the amount of flared free and dissolved gas in Exploration and Production amounted to 18,669,746 m³. The estimated quantity of gas

vented into the atmosphere without being flared in the Severni Banat Production Unit amounted to 90,176 m³.

OG 7 Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal

Drilling waste is non-hazardous waste which consists of a mix of materials from drilled rocks (sandstone, marl, limestone, etc.) and drilling mud, a viscous liquid used for flushing out cuttings during well drilling.

In 2017, as part of regular activities related to the drilling of new oil wells, a total of about 25,000 t of waste drilling material was generated. This was disposed of immediately after generation. All waste generated during drilling was collected immediately and disposed of at the Novo Miloševo Waste Mud Landfill.

In 2017, all the drillings rigs that were equipped with metal mud pools that are installed on the surface, thus excluding the concrete pools buried in the ground. In addition to these, the process of covering locations with PVC foil was made a practice, so that environmental protection was raised to an even higher level and the contact between the mud and surrounding land disabled even in the case of accidents.

OG 8 Benzene, lead and sulphur content in fuels

Fuels in the Company are produced in accordance with the prescribed quality according to the requirements of the national regulation.

OG 10 Number and description of significant disputes with local communities and indigenous people

In 2017, there were 5 new disputes initiated in the Company due to compensation for damage for unused land or due to recultivation and 22 disputes were determined to exist from the previous period.

Of the total number of disputes in 2016, 6 disputes were, 5 from the previous period and 1 from 2017, 4 in favour of the Company and 2 against the Company.

The total value of disputes finalized at the expense of the Company amounts to 4,239,150 dinars.

OG 12 Operations where involuntary resettlement took place, the number of households resettled in each and how their livelihoods were affected in the process

In 2017, no involuntary resettlement cases took place and no proceedings and disputes were initiated and conducted against the Company.

OG 13 Number of process safety events, by business activity

Industrial Safety

The industrial safety management system includes key hazard identification processes, risk assessments and management of risks related to processes and process equipment. With the modernization of production, application of advanced technological solutions and training of employees, such a system ensures adequate prevention, monitoring and a timely and efficient response in emergency situations.

Process safety

- Based upon the conducted detailed analysis of the status of the process safety, places within the system which require systematic improvements are recognized. A series of workshops were held with operational personnel, during which various tools for efficient risk management and making of the adequate decisions were practically tested, being: HAZID, Bow-tie, ALARP, change management, etc. The workshops that were held served as the entrance for updating of normative and methodological documents and preparation of plans for training in 2018.
- The transparency of reporting of events related to process safety was significantly increased, through analysis by which a timely undertaking of adequate technical measures was enabled. The transparency of minor and potential events was increased even for 12 times.

Plans for 2018 from the field of process safety:

- Improvement and implementation of process safety elements
- Integrity of equipment and reliability
- Identification of threats and assessment of risks (tools: HAZID, Bow-tie, etc.)
- Change management (technical and technological)
- Implementation of isolation and locking of equipment
- Conduction of trainings for the on-field employees and the line managers
- Implementation of the target supervisory visits

- Realization of the international project “Smart resilience”

Fire protection

In accordance with new legal regulations of the RS, passed Resolution on categorization of the Company’s facilities, as well as the newly occurred technical and technological changes at the locations/ facilities, the updating of the existing and the preparation of a large number of new Plans for fire protection were performed. For the purpose of increase of the level of compliance with the legal and sublegal acts in the field of fire protection, NIS hired new members of the firefighting brigades in Elemir and Nis.

The additional procurement of the necessary radio devices for the requirements of functioning both during the regular operation and during the emergency situations was performed.

The funds for procurement of a service of the ten-year-long service of hydraulic arm and platform in VJ Pancevo were provided, and so were the funds for procurement of thermal vision cameras for the requirements of the firefighting brigades, which increase the safety of the members of the firefighting units during the interventions through better insight into the conditions (temperature field) of elements where the intervention is being performed.

Increase of operational efficiency and effectiveness of the firefighting brigades is performed through trainings but also through procurement of new or repair of the existing equipment. For that purpose, 6 members of the firefighting brigades passed a prestigious training for fire protection at the University in Sankt Petersburg. Furthermore, two new firefighting trucks were purchased for the requirements of the newly formed firefighting brigades.

For the purpose of creation of more favourable legal framework, there was the initiative with the competent ministry for amendments of the sublegal act which regulates the liabilities related to personnel and technical equipping of industrial firefighting

brigades. A strong cooperation with the sector for emergency situations of the Ministry of Internal Affairs was established, at all levels, and especially from the scope of work of the firefighting brigades (joint drills, exchange of information on technical novelties, etc.). Moreover, the cooperation was also improved in the field of inspection supervision which differs, in comparison to the preceding period, in the aspect of a constant trend of decline of the number of ordered measures, regardless the fact that the number of performed inspection supervisions is growing.

Emergency situations

- In 2017, the Republic of Serbia adopted new regulations regulating the area emergency situations. In accordance with the legal requirements, NIS adopted new emergency situations documents and revised the existing ones.
- The focus of activities during 2017 was on improving cooperation with the neighbouring SEVESO operators in certain NIS facilities in the field of communication and assistance in case of technical and technological accidents. Several joint drills were undertaken with the participation of competent state authorities.
- Better working conditions were provided for the teams which are activated in case of emergency situations in NIS. The Hall for operation of the Support group for the team for management of catastrophes – crises was determined and equipped with the interactive board, computer, as well as with multiple connections to the local network of the Company. In this way, a better and safer connection of the NIS teams with the competent state authorities was realized.
- Improved cooperation with the representatives of local self-government and competent state authorities was established in the field of natural disasters and other emergencies.
- The practice of conducting practice drills with teams for response in emergency situations continued. Four joint command and defence and rescue drills were conducted in NIS in 2017, which involved participation of the crisis-catastrophe management team, emergency preparedness and response teams in the Blocks and organizational units in the Blocks in solving the most complex situations in the event of emergency and disruption of continuity of operations. In 2017, the electronic HSE notification system in NIS was improved as well as reporting to Gazprom Neft.
- For the purpose of improvement of the risk management processes in the field of emergency situations/crises and enabling of automated coordination of response to the emergency situation/crises (timely and efficiently), the activities related to the project of crises/emergency situation management automation in cases of any kind of emergency situation (natural disasters and technological accidents-technogenic catastrophes), i.e. suspension of continual business activities due to these or other reasons (declaration of the state of emergency in the country), a longer interruption of the infrastructural sources of energy, pandemics, terrorism, etc., were initiated.

OG 14 Volume of biofuels produced and purchased meeting sustainability criteria

Member states of the Energy Community as well as European Union member states are obliged to meet the conditions of the Renewable Energy Directive 2009/28/EC. The completion of the project “Blending of bio components with diesel fuel in the Oil Refinery Pančevo“ will allow NIS to fully fulfil the expected requirements relating to diesel fuel in the transport sector, at the moment of enactment of future RS biofuel and bioliquid regulation.

Options for blending bio components into motor fuels are currently being considered in accordance with the applicable National Action Plan for renewable sources of energy. Due to the characteristics of individual bio components for fuels, the blending option is also being considered in the Oil Refinery Pančevo and in certain petroleum products warehouses. In 2017, the Company did not procure or blend bio components into Euro Diesel and consequently Euro Diesel B7 was not produced.

Auditor's Report



WHAT WE DID TO FORM OUR CONCLUSIONS

In order to form our conclusions we performed (but were not limited to) the steps outlined below:

- Performed interviews with Management executives in order to understand the Company's corporate responsibility processes, policies and activities during the reporting period.
- Reviewed information in order to substantiate data and statements regarding the Company's sustainability performance in 2017, as these are presented in the Report.
- Reviewed the Company's processes for determining material issues to be included in the Report, as well as the coverage of these material issues within the Report, material issues covered by media, and sustainability reports of selected peers.
- Interviewed specialists responsible for managing, collating and reviewing data related to the GRI G4 General and Specific Disclosures under the scope of our engagement, for internal and public reporting purposes.
- Reviewed relevant documentation and reporting systems, including collation tools, templates used, and guidance documents.
- Reviewed the Report for the appropriate presentation of the GRI G4 General and Specific Standard Disclosures under the scope of our engagement, which included discussions of limitations and assumptions relating to the way data are presented.
- Reviewed the GRI G4 Content Index and the references included therein, against the GRI G4 requirements for the "In accordance - Core" option.

LEVEL OF ASSURANCE

Our procedures were designed in order to obtain a limited level of assurance (as set out in ISAE 3000-revised) on which we formed our conclusions. The extent of these procedures is less than those designed to obtain a reasonable level of assurance and therefore a lower level of assurance is obtained.

LIMITATIONS OF OUR REVIEW

- Our review was limited to the Serbian version of the Report. In the event of any inconsistency in translation between the English, Russian and Serbian versions, as far as our conclusions are concerned, the Serbian version of the Report prevails.
- We do not provide any assurance relating to future information such as estimates, expectations or targets, or their achievability.
- The scope of our work did not include any review of third party activities or performance, nor attending any stakeholder engagement activities.
- Our review did not include testing of the Information Technology systems used or upon which the collection and aggregation of data was based by the Company.



CONCLUSIONS

Based on our review and according to the terms of reference and the limitations of our work, we report the following conclusions. Our conclusions are based on the appropriate application of the selected criteria and should be read in conjunction with the "What we did to form our conclusions" section above.

1. How complete and accurate are the quantitative data and how plausible is the qualitative information related to the GRI G4 General Standard Disclosures under the scope of our engagement?
 - Nothing has come to our attention that causes us to believe that any reporting unit, according to the set boundary and time period stated in the Report, is not included in the quantitative data of the Report related to the GRI G4 General Standard Disclosures under the scope of our engagement.
 - Nothing has come to our attention that causes us to believe that errors or inaccuracies exist in the collation of the qualitative data related to the GRI G4 General Standard Disclosures under the scope of our engagement, or in the transposition of these data to the Report, that would materially affect the way they are presented.
 - We have reviewed information and explanations on selected Management statements (qualitative information) related to the GRI G4 General Standard Disclosures, as these are presented in the Report and no material misstatements came to our attention.
 - Nothing has come to our attention that causes us to believe that materiality analysis is inaccurately presented based on the procedures followed by the Company.
2. How complete and accurate are the quantitative data (performance indicators) and how plausible are the statements (GRI G4 Disclosures on Management Approach) related to the GRI G4 Specific Standard Disclosures under the scope of our engagement?
 - Nothing has come to our attention that causes us to believe that any reporting, according to the set boundary per material issue and the time period stated in the Report, is not included into the quantitative data (performance indicators) of the Report related to the GRI G4 Specific Standard Disclosures under the scope of our engagement.
 - Nothing has come to our attention that causes us to believe that errors or inaccuracies exist in the collation of the data related to the GRI G4 Specific Standard Disclosures under the scope of our engagement, or in the transposition of these data to the Report that would materially affect the way they are presented.
 - We have reviewed information and explanations on selected Management statements (GRI G4 Disclosures on Management Approach) related to the GRI G4 Specific Standard Disclosures, as presented in the Report and no material misstatements came to our attention.
3. Does the Report meet the GRI G4 requirements of the "In accordance - Core" option?
 - Based on our review, nothing has come to our attention that causes us to believe that the Report does not meet the requirements of the "In accordance - Core" option, as presented in the GRI G4 Content Index.



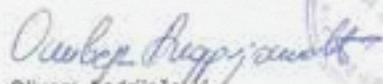
INDEPENDENCE

We conducted our assurance engagement in accordance with International Assurance Standards, particularly ISAE 3000 (revised). These regulations require that we comply with ethical standards and plan and perform our assurance engagement to obtain limited assurance about the specific scope explained above.

We apply International Standard on Quality Control 1 (ISQC 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements in law or regulation.

We comply with the independence and other ethical requirements of the IESBA Code of Ethics for Professional Accountants, which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Belgrade, 21 May 2016


Olivera Andrijašević
Authorized Auditor
for Ernst & Young d.o.o. Beograd



Glossary

Abbreviation	Meaning of Abbreviations
REACH	Regulation on registration, evaluation, authorization and restriction of chemicals
Grade	Level that is defined for certain tasks as a result of task assessment. Tasks allotted the same grade have approximately the same relative value in the Company regardless of the function or organizational part they belong to.
MAC	Maximum Allowed Concentration
ELV	Emission Limit Value
PCB	Polychlorinated biphenyls
GDP	Gross Domestic Product
GRI	<i>Global Reporting Initiative</i> GRI is an international non-profit organization founded in 1997 with an aim to achieve the highest quality of corporate reporting on sustainable development
Interested parties	All private individuals and legal entities interested in the business activities of the Company who have influence on Company's business results or are under its influence
Directly Generated Value	Income from sale + financial revenue + lease revenue + interest revenue + net result on the basis of the sale of capital assets.
Operating costs	Procurement cost of the sold goods + cost of material + other business expenses – various kinds of taxes.
Remediation	A term generally used for cleaning and renewal-restoration (recultivation, revitalization, regeneration) of a polluted spot – area or otherwise damaged environment as a result of human activity.
EBITDA	Earnings before calculated interests, income taxes and depreciation.
MHC/DHT	Mild hydrocracking/hydro treating unit
NO₂	Nitric oxide
SO₂	Sulphur (IV) oxide

Abbreviation	Meaning of Abbreviations
H₂S	Hydrogen sulphide
CO₂	Carbon dioxide
Drilling mud	Drilling fluid with multiple purpose in the wellbore during the drilling of oil wells (bringing the drilled material to the surface, control of the layer pressure, prevention of inflow of layer fluids into the wellbore, prevention of the fall of the bore wall).
Drilling cutting	Particles of drilled rocks carried out by drilling mud from the bottom of the well to the surface.
Waste drilling mud	Spent drilling mud during the well drilling process which is disposed in the primary mud pits near the well.
FCC	<i>Fluid catalytic craker</i> Fluid catalytic cracker.
Injuries Rate	<i>IR</i> Total number of injuries / total number of work hours*1000000
Lost days Rate	<i>ODR</i> Total number of lost days /total number of work hours*1000
Absence rate	<i>LDR</i> Sick leaves due to work-related injuries / Total number of work hours*1000
Association	Voluntary and NG organization based on freedom of association of several private individuals or legal entities, founded with a view to achieving or improving certain mutual or common goals and interests, which is not prohibited under the Constitution or any law.
CCS	Carbon capture and storage is the process of injection of carbon dioxide and deposit gas for the purpose of increasing utilisation of a deposit so that carbon dioxide is not emitted in the air
ECHA	European Chemicals Agency
FSS	Fuel supply station
HTS	Hydro-thermal system
GSS	Gas supply station
SMS	Supply and measuring station
FS	Fuelling station (petrol station)
ESP	Electrical submersible pumps

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