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TRANSLATION

Independent Auditor's Report

To the Shareholders of Naftna industrija Srbije a.d., Novi Sad Group

Opinion

We have audited the accompanying consolidated financial statements of Naftna industrija Srbije a.d., Novi Sad Group (the "Group"), whose parent entity is Naftna industrija Srbije a.d., Novi Sad, which comprise:

— the consolidated balance sheet as at 31 December 2020;

and, for the period from 1 January to 31 December 2020:

- the consolidated income statement;
- the consolidated statement of other comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated cash flow statement;

and

- notes, comprising a summary of significant accounting policies and other explanatory information

(the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting regulations effective in the Republic of Serbia.

Basis for Opinion

We conducted our audit in accordance with the Law on Auditing and the Law on Accounting of the Republic of Serbia and applicable auditing standards in the Republic of Serbia. Our responsibilities under those regulations are further described in the Auditor’s Responsibility for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for

Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Serbia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these

matters. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

Impairment of goodwill

As at 31 December 2020, carrying amount of goodwill: RSD 1,322,704 thousand (31 December 2019: RSD 1,354,508 thousand). For the year ended 31 December 2020, impairment losses: RSD 26,506 thousand (2019: RSD 180,004 thousand).

We refer to the consolidated financial statements: Note 8 “Intangible assets”, Note 36 „Other expenses”, Note 2.8 „Goodwill”, Note 2.9 „Intangible assets”, Note 3.4 „ Impairment of Goodwill”.

<i>Key audit matter</i>	<i>Our response</i>
<p>In prior years the Group recognized goodwill on business combinations which as at 31 December 2020 is carried at RSD 1,322,704 thousand. Pursuant to the relevant provisions of the financial reporting standards, goodwill should be tested for impairment on an annual basis or earlier when impairment indications exist. As disclosed in Note 8, based on its current year’s test, the Group recognized an impairment loss of RSD 26,506 thousand in respect of goodwill.</p> <p>The Group monitors goodwill either on individual CGUs or a group of cash generating units (“CGUs”). The recoverable amount of the underlying CGUs is determined by value-in-use calculations which are based on future discounted cash flows. Determination of the recoverable amount requires from the Group to make significant assumptions and judgments, in</p>	<p>In this area, our procedures included, among other things, the following:</p> <ul style="list-style-type: none"> — Considering the appropriateness of the Group’s value in use model (“impairment model”) applied to perform the annual impairment test, against the relevant requirements of the financial reporting standards; — Evaluation the appropriateness of asset grouping into CGUs, based on our understanding of the Group’s operations and business units; — Evaluating the quality of the Group’s forecasting by comparing future projections with the actual outcomes, and also tracing the forecast cash flows in the impairment model to management approved forecasts; — Assisted by our own valuation specialists:

particular those relating to future gross margin, discount rates and growth rates.

Complex models using forward-looking assumptions tend to be prone to greater risk of management bias, error and inconsistent application. These conditions necessitate our additional attention in the audit, in particular to address the objectivity of sources used for assumptions, and their consistent application.

Due to the above factors, we considered this area to be a key audit matter.

- challenging the reasonableness of the Group's key assumptions and judgments used in estimating the recoverable amount, including the average gross margin by reference to historical data of the Group, the discount and growth rates used by reference to publicly available market data,
- assessing the internal integrity of the impairment model including the accuracy of the underlying calculation formulas.
- Considering the sensitivity of the impairment model to changes in forecast gross margin, growth rates and discount rates to identify the assumptions at higher risk of bias or inconsistency in application;
- Assessing impairment-related disclosures in the consolidated financial statements against the requirements of the financial reporting standards.

Decommissioning and restoration provisions

Accounting policies and financial disclosures with respect to provisions for decommissioning and restoration are disclosed in Notes 2.19, 3.6, 21, 25, 33 and 35 to the consolidated financial statements.

Carrying amount of decommissioning and restoration provisions as at 31 December 2020: RSD 10,338,464 thousand; New decommissioning provisions and changes in estimates in decommissioning liability amount to RSD 345,084 thousand for the year 2020; Effects of unwinding of discount on decommissioning provision for the year 2020 amount to RSD 88,078 thousand; Income from release of provisions for the year 2020 amount to RSD 695,704 thousand.

<i>Key audit matter</i>	<i>Our response</i>
<p>Decommissioning and restoration provisions represent present value of estimated costs of removal of items of property, plant and equipment at the end of their useful life and restoration of the site (decommission assets). The obligation to remove the assets and to restore the site arises on installation of extraction equipment. Decommission assets are recorded in an amount equal to the estimated provision and depreciated in accordance with the adopted accounting policy. All changes in the decommissioning provision, other than changes resulting from the unwinding of the discount, which are recorded in profit or loss, are added to or deducted from the cost of the related decommission asset in the current period. Once an item of property, plant and equipment has been fully depreciated and the</p>	<p>In this area, our procedures included, among other things, the following:</p> <ul style="list-style-type: none"> — Obtaining understanding of the legal framework relating to the decommissioning and environmental protection and its effect on the Group's present or constructive obligation to decommission assets and to restore the site; — Evaluating the appropriateness of the accounting policies used against requirements of the relevant reporting framework and industry practice; — Testing the design and implementation of relevant internal controls over the identified business process for identifying obligating events, measurement and

asset has a net carrying amount (gross carrying amount less accumulated depreciation) of zero in the balance sheet, further changes in any related provision for decommissioning are recognised in profit or loss.

The Group reviews decommissioning and restoration provisions on an annual basis. This review incorporates the effects of any changes in local regulations, management's plans with respect to decommissioning and restoration including their expected timing, cost estimates and discount rate.

Determination of decommissioning and restoration provisions is the complex area and requires making a number of assumptions and judgments, in particular those relating to estimated costs and timing of decommissioning and restoration activities as well as discount rate. In addition, there is a large number of wells which makes the estimation process time consuming and prone to errors.

Due to the above, assessment of the appropriateness of these provisions required our increased attention in the course of our audit. As a consequence, we consider the area to be our key audit matter.

recognition of provision, subsequent changes in recognized provisions and use of provisions;

- Assessing the Group's discounted cash flow model against the relevant financial reporting standards, market practice and for internal consistency;
- Testing on a sample basis the accuracy of data with respect to the current status and depth of oil wells included in the provision to the underlying technical documentation;
- Evaluating appropriateness of assumed timing for dismantling and restoration activities by reference to documented oil reserves and approved production plans;
- Challenging the appropriateness of the discount rate by reference to publicly available market data.
- Analysing the sensitivity of the Group's estimate to changes in the discount rate and assessing whether its level indicates management bias;
- Examining whether the Group's disclosures in the consolidated financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework;

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2019 were audited by another

auditor who expressed an unqualified opinion on those financial statements on 26 February 2020.

Other Information

Management is responsible for the other information. The other information comprises the consolidated Annual Business Report for the year ended 31 December 2020. The consolidated Annual Business Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the consolidated Annual Business Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and we are required to report that fact.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the accounting regulations effective in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law on Auditing of the Republic of Serbia and applicable auditing standards in the Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law on Auditing of the Republic of Serbia and applicable auditing standards in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate

with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG d.o.o., Beograd

Signed on the Serbian original

Vladimir Savković
Engagement Partner
Licenced Certified Auditor

Belgrade, 10 March 2021

This is a translation of the original Independent Auditor's Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original.

However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

We assume no responsibility for the correctness of the translation of the Group's consolidated financial statements.

KPMG d.o.o., Beograd

Vladimir Savković

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Engagement Partner
Licenced Certified Auditor



Belgrade, 10 March 2021