Independent Auditor's Report

To the Shareholders and Board of Directors of Naftna Industrija Srbije a.d., Novi Sad:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Naftna Industrija Srbije a.d., Novi Sad (the "Company") and its subsidiaries (together "the Group") as at 31 December 2020, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

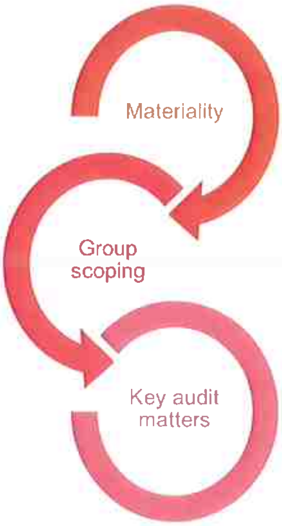
Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on auditing in the Republic of Serbia that are relevant to our audit of the consolidated financial statements in the Republic of Serbia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on auditing in the Republic of Serbia.

PricewaterhouseCoopers d.o.o.
Omladinskih brigada 88a, 11070 Belgrade, Republic of Serbia
T:: +381 11 3302 100, F:+381 11 3302 101, *www.pwc.rs*

Our audit approach

Overview



- Overall Group materiality: 1,019 million Serbian dinars (hereafter "RSD"), which represents 5% of the average result before tax for the past three years, being absolute values of loss before tax for the current year and profit before tax for years ended on 31 December 2019 and 31 December 2018.

- We conducted audit work at 6 reporting units in 4 countries.
- The group engagement team audited the Serbian subsidiaries and performed specified procedures for the Bulgarian and Romanian subsidiaries with the involvement of PwC network firms in the respective countries. Based on the engagement team's instructions, another firm performed directed audit procedures over specific financial statement line items for subsidiaries in Bosnia and Herzegovina.
- Our audit scope addressed 99% of the Group's revenues and 95% of the Group's absolute value of underlying loss before tax.

- Management assessment of COVID-19 impact
- Estimation of decommissioning and environmental protection provision

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	RSD 1,019 million (2019: RSD 1,437 million)
How we determined it	5% of the average result before tax for the past three years, being absolute values of loss before tax for the current year and profit before tax for years ended on 31 December 2019 and 31 December 2018.
Rationale for the materiality benchmark applied	Consistent with the benchmark used in prior year, we determined that our materiality should be based on three-year average result before taxation. This benchmark is supported by the significant fluctuations in the financial result due to the decline of crude oil prices and decline in demand for petroleum products as a result of the COVID 19 pandemic. We have chosen 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above RSD 49 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Management's assessment of COVID-19 impact Refer to note 2.1. Basis of preparation and note 3.1. Implications of COVID-19. The Group prepares its consolidated financial statements using IFRS, which is a going concern basis of accounting. We focused on the appropriateness of using a going concern basis of accounting given the recent volatility in global oil and commodity prices and potential impact on demand for petroleum products as a result of the COVID-19 virus. The ability of the Group to continue as a going concern is dependent on management's ability to maintain liquidity in order to repay its existing creditors.	In analysing the appropriateness of the management's assessment of COVID-19 impact on the going concern assumption used in preparing the consolidated financial statements, we performed the following: - Analysed the future cash flows expected by the Group during next 12 months from the date of this audit report; - Checked the mathematical accuracy of management's cash flow forecasts and validated the opening cash position; - Compared forecasted cash flows to the approved budget and previous year forecast to actual cash flow for 2020;

Management assessed the impact that COVID 19 virus had on Group performance as disclosed in note 3.1. Implications of COVID-19. The spread of COVID-19 virus and the preventive measures which led to decrease in the economic activity of market participants during 2020, as well as significant volatility in the commodity markets since March 2020, have negatively affected the Group's results in the reporting period. These developments resulted in decrease of sales, decline in EBITDA and loss for the period.

Management has also considered the impact of the COVID-19 virus on the Group's future sales and specifically the Group's cash flow. The virus may result in a sustained low oil price which may impact the price of petroleum products and a short-term decline in demand from customers which negatively impacts future cash inflows.

Management performed sensitivity analysis over their cash flow forecast to factor in the impact of a decline in oil prices. Management's assessment of going concern is based on cash flow projections and business plans, each of which is dependent on significant management judgement and can be influenced by management bias.

- Checked that the Group is in compliance with financial covenants in the borrowing agreements, if any;

- Reviewed the terms associated with the borrowings, the facilities available for drawdown and the amounts required to be repaid;

- Performed an analysis of management's underlying cash flow projections for the Group by analysing the key assumptions and agreeing data to either other external and internal sources as necessary, including recent sales volumes, USD/EUR exchange rate, published oil price forecasts, and comparing cost assumptions to historical actuals;

- Considered the financial condition of the Group's customers and the impact of a likely delay in their payments on the Group's cash flows; and

- Reviewed the adequacy and appropriateness of the management's going concern disclosures in the consolidated financial statements.

Based on the results of the work performed, we did not identify any inconsistencies with the information provided by the Group's management.

Due to the ability of the Group to secure enough financing, having performed the above, we satisfied ourselves that, even though the impact of COVID-19 on the Group is expected to negatively impact the Group's operating results and cash flows, management's use of the going concern basis of accounting was appropriate.

Estimation of decommissioning and environmental provisions

Provisions associated with decommissioning, environmental protection and restoration are disclosed in Note 28 to the consolidated financial statements; a description of the accounting policy and key judgements and estimates is included in Note 2 and Note 3.

The calculation of decommissioning and environmental protection provisions requires significant management judgement because of the inherent complexity in estimating future costs, discount rates and maturity of liabilities.

We critically assessed management's annual review of provisions recorded as at 31 December 2020. In particular, we focused on those assets where changes to the cost estimate directly impacted the consolidated statement of profit and loss and other comprehensive income rather than being recognised as an asset.

Testing involved understanding of the legal or constructive obligations with respect to the environmental protection and decommissioning of each asset based on the estimated useful life of assets and relevant cost to complete restoration.

The decommissioning of oil and gas infrastructure is an evolving activity and consequently there is limited historical precedent against which to benchmark estimates of future costs. These factors increase the complexity involved in determining accurate accounting provisions that are material to the Group's consolidated statement of financial position. Management reviews decommissioning and environmental protection provisions on an annual basis for upstream and refining assets. This review incorporates the effects of any changes in local regulations, management's expected approach to decommissioning, cost estimates, discount rates, maturity of liabilities and the effects of changes in exchange rates.	Of particular note, we performed the following procedures: - Identified and tested the cost assumptions which have the most significant impact on provisions by reviewing the actual costs incurred during the year and comparing them to the prior years; - Used valuation experts to evaluate reasonableness of the discount rate applied to the cost assumptions and compared it to the Serbian treasury notes for the similar periods; - Verified the mathematical accuracy of the underlying models; - Verified the completeness of data by cross referencing with other non-financial data and other work performed on property, plant & equipment; - Verified the change in oil well status compared to the prior year as the change in oil well status has a material impact on decommissioning provision calculation; - Tested the sensitivity analysis prepared by management for the change in key assumptions (discount rate and cost estimates). We have an internally developed range of acceptable discount rates for valuing of decommissioning and environmental protection provisions, which is based on the market yield on RSD treasury bonds in the Republic of Serbia as at 20 November 2020, published by Bloomberg. While our range is, itself, subjective for the purpose of valuing of decommissioning and environmental protection provisions, the discount rate adopted by management fell at the higher end of the range. We discussed with the management the rationale for the discount rate that they used (being the rate for the longest maturity period available per official data published by Public Debt Administration) and we agreed that the explanation was reasonable. We tested mathematical accuracy of calculations and concluded that the results were not materially different and were within a tolerable range.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the group scope of our audit work, we determined the nature and extent of work to be performed both at the reporting units and at the consolidated level. Where the work is performed by the local reporting unit auditors, we perform consolidated level oversight and review procedures to ensure sufficient evidence has been obtained to support our opinion on the consolidated financial statements taken as a whole. All reporting unit audit work was undertaken by us and PwC network firms, except for subsidiaries in Bosnia and Herzegovina for which another firm performed directed audit procedures over specific financial statement line items based on our instructions.

Our approach to determining the scope of the audit of the Group is a three-step process whereby reporting units are deemed to be within the scope for audit testing based on meeting one or more of the following criteria:

1) Significant contribution, greater than 15%, to loss before taxation, revenue or total assets. These reporting units are subject to full scope audits;
2) The presence of a significant risk, either at the reporting unit as a whole or relating to a specific financial statement line item. This includes financial statement line items impacted by the risks of material misstatement identified in our planning; or
3) The most significant other reporting units that enable us to satisfy our coverage criteria on each financial statement line item and to add elements of unpredictability in our scope.

Based on this process, we identified 6 reporting units in four countries that, in our view, required either full scope audit (Naftna Industrija Srbije a.d.) or directed audit procedures over specific financial statement line items. Together, these reporting units accounted for 99% of the Group's revenue and 95% of the Group's absolute value of underlying loss before tax.

As a result of its structure and size, the Group also has several small reporting units that are individually immaterial but, in aggregate, make up a material portion of its loss before taxation, revenue or total assets. These are covered by the work that we perform at the consolidated level, which includes three main components:

1) Overall analytical review procedures: A significant proportion of the remaining reporting units not selected for procedures at an individual component level were subject to analysis of year-on-year movements at the consolidated level, with a focus on higher risk balances and unusual movements. The reporting units not subject to the above overall analytical review procedures were individually, and in the aggregate, immaterial.
2) Tests of financial systems, processes and controls: We tested entity level controls applied at the consolidated level. Our audit work, in which we tested the design and operating effectiveness of systems and controls applicable for all subsidiaries in scope, was led by our group audit team. The results from this testing are reviewed throughout the year and considered in our continuous update of group audit scope.
3) Testing of specific transactions: In addition, at the consolidated level we performed transaction testing of material financial statement lines, including impairment of goodwill, cash balances and litigations.

Other information

Management is responsible for the other information. The other information comprises the Annual report (but does not include the consolidated financial statements and our auditor's report thereon), which 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 Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's 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 ISAs 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 ISAs, 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 to 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.

The engagement partner on the audit resulting in this independent auditor's report is Emmanuel Koenig.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o. Belgrade

Belgrade, Republic of Serbia

2 February 2021

PricewaterhouseCoopers d.o.o. pwc *Beograd*