



## 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 financial statements present fairly, in all material respects, the financial position of Naftna Industrija Srbije a.d. (the "Company") as at 31 December 2021, and the Company's financial performance and cash flows for the year then ended in accordance with the Law on Accounting in the Republic of Serbia.

### What we have audited

The Company's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the income statement for the year then ended;
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

---

### Basis for opinion

We conducted our audit in accordance with the Law on Auditing in the Republic of Serbia. Our responsibilities under this law are further described in the Auditor's responsibilities for the audit of the 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 Company 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 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.



---

## Our audit approach

### Overview

---

<b>Materiality</b>	<ul style="list-style-type: none"><li>Overall Company materiality: 949 million Serbian dinars (hereafter “RSD”), which represents 5% of the average result before tax for the past three years, being absolute values of profit before tax for the current year and year ended on 31 December 2019 and loss before tax for year ended on 31 December 2020.</li></ul>
<b>Key audit matters</b>	<ul style="list-style-type: none"><li>Estimation of decommissioning and environmental protection provision</li></ul>

---

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the 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.

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

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the 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 financial statements as a whole.



---

<b>Overall Company materiality</b>	RSD 949 million
<b>How we determined it</b>	5% of the average result before tax for the past three years, being absolute values of profit before tax for the current year and year ended on 31 December 2019 and loss before tax for year ended on 31 December 2020.
<b>Rationale for the materiality benchmark applied</b>	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 change of crude oil prices. We have chosen 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

---

We agreed with the those charged with governance that we would report to them misstatements identified during our audit above RSD 46 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<b>Estimation of decommissioning and environmental protection provisions</b>  Provisions associated with decommissioning, environmental protection and restoration are disclosed in Note 23 to the 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.  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 Company's balance sheet.	We critically assessed management's annual review of provisions recorded as at 31 December 2021. In particular, we focused on those assets where changes to the cost estimate directly impacted the income statement 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. 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;

---



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.

- 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 tested mathematical accuracy of calculations and concluded that the results were not materially different and were within a tolerable range.

---

### Reporting on the other information including the consolidated Annual report

Management is responsible for the other information. The other information comprises consolidated Annual report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information.

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

With respect to the consolidated Annual Report we also performed procedures required by the Law on Accounting in the Republic of Serbia. Those procedures include considering whether the consolidated Annual Report includes the disclosures required by the Law on Accounting in the Republic of Serbia.

Based on the work undertaken in the course of our audit, in our opinion:

- the consolidated Annual Report has been prepared in accordance with the requirements of the Law on Accounting in the Republic of Serbia; and
- the information given in the consolidated Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

In addition, considering the knowledge and understanding of the Company and its environment obtained during the audit, we are required to report if we have identified material misstatements in the consolidated Annual Report. We have nothing to report in this regard.



---

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Law on Accounting in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

---

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements.

As part of an audit in accordance with the Law on Auditing 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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 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 licensed auditor engaged as partner on the audit resulting in this independent auditor's report is Sonja Ralenac.

*Sonja Ralenac*  
Sonja Ralenac  
Licensed Auditor



*PricewaterhouseCoopers d.o.o.*  
PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 3 March 2022