



**NAFTNA INDUSTRIJA SRBIJE a.d., Novi Sad**  
**INDEPENDENT AUDITOR'S REPORT**  
**AND CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR YEAR 2023**

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## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF NAFTNA INDUSTRIJA SRBIJE a.d., Novi Sad**

#### ***Opinion***

We have audited the consolidated financial statements of NAFTNA INDUSTRIJA SRBIJE a.d., Novi Sad (hereinafter: the Company) and its subsidiaries (together hereinafter: the Group) which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### ***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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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. 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. We identified the following key audit matters:

##### ***Estimation of decommissioning and environmental protection provisions***

Information on applied accounting policies and estimates of provisions associated with the decommissioning and environmental protection are disclosed in note 2, note 3 and note 27 to the consolidated financial statements. As described in the notes to the consolidated financial statements, the Group recognized provisions in the amount of RSD 11,841,243 thousand.

Provisions for decommissioning and environmental protection require significant management judgment due to numerous assumptions that are influenced by future activities, economic factors, and the legislator environment in which the Group operates. The most significant estimates include the estimate of future costs to settle the present obligation, inflation and discount rates, and exploitation period.





## **INDEPENDENT AUDITOR'S REPORT (Continued)**

### **TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF NAFTNA INDUSTRIJA SRBIJE a.d., Novi Sad**

#### ***Key Audit Matters (Continued)***

Auditing this area of the consolidated financial statements is a complex process as it requires us to evaluate assumptions for future cost estimates for which there is limited comparative data as decommission of gas and oil infrastructure is an emerging area. The assessment of the mentioned factors affects the determination of the exact amount of provisions, which represents a materially significant item in the consolidated financial statements.

The management performs an annual review of the provisions for the decommission and environmental protection, namely for funds for exploration and evaluation and funds for the production and processing of oil and oil derivatives. The review by the management includes an analysis of changes in legislation in the Republic of Serbia, cost estimates, inflation and discount rates, and maturity of obligations.

#### **Audit approach:**

Our audit procedures included an understanding of the legal obligations regarding the decommission and environmental protection, and in accordance with the provisions of the Law on Mining and Geological Research and the Law on Environmental Protection, to which the Group is obliged to, during and after the completion of works on exploitation, recultivation of the land and to prevention of the further spread of pollution caused by the accident, to take remedial measures according to the protection plans at its own expense.

We have also performed the following audit procedures:

- We have performed testing of arithmetic accuracy of the model that the Group have used when calculating provisions;
- We reviewed the status of the wells on a sample basis and compared them with the status within the well fund, which is the foundation for the calculation of provisions;
- We have compared the changes in the status of the wells in the current year to the previous year, since the change in the status of the wells can have a material impact on the calculation of provisions;
- We have tested the completeness of the data, comparing it with other information within the business records and auditing procedures related to real estate, plants and equipment;
- We have assessed the justification of the applied discount rate as one of the assumptions for the calculation of provisions by comparing it with the rate on government bonds of the Republic of Serbia taken over from the National Bank of Serbia;
- We have evaluated and we have gained understanding of the assumptions related to the costs necessary for the liquidation and recultivation of the land;
- We have performed a review of the sensitivity analysis prepared by management for the main assumptions;
- We have gained an understanding of the Group's procedures applied by the management to estimate and record long-term provisions. This included understanding whether there was a legal or contingent obligation to establish a provision.





## INDEPENDENT AUDITOR'S REPORT (Continued)

### TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF NAFTNA INDUSTRIJA SRBIJE a.d., Novi Sad

#### **Key Audit Matters (Continued)**

##### *Acquisition of additional shares in HIP - Petrohemija d.o.o., Pančevo*

As disclosed in Note 38 to the consolidated financial statements, in accordance with the Strategic Partnership Agreement signed on December 24, 2021, between the Ministry of Economy of the Republic of Serbia, NIS a.d. Novi Sad, and HIP Petrohemija d.o.o. Pančevo, the Group acquired control and registered the acquisition of additional shares in the capital of HIP Petrohemija d.o.o. from the previous 20.86% to 90% on June 9, 2023, with an obligation for a cash capital injection of RSD 17,591,055 (150 million EUR) and the construction of a polypropylene production facility with a capacity of at least 140,000 tons per year within six years.

The acquisition of additional interests is treated as a business combination in accordance with IFRS 3 Business Combinations, which involves recognizing and measuring acquired identifiable assets, assumed liabilities, each non-controlling interest in the acquired entity, and recognizing and measuring goodwill or gain from a bargain purchase. As disclosed in Note 38 to the consolidated financial statements, the fair value of the acquired net assets is RSD 9,909,172 thousand, the fair value of the non-controlling interest is RSD 990,917 thousand, and the gain from a bargain purchase is RSD 8,918,255 thousand.

We have identified this as a key audit matter due to the significance of the business combination and its effects on the audit of the Group's financial statements, the complexity in the accounting treatment of business combinations, and the judgments management applied in identifying and determining the fair values of acquired assets and liabilities.

#### Auditor approach:

We have reviewed the Strategic Partnership Agreement concluded on December 24, 2021 between the Ministry of Economy of the Republic of Serbia and NIS a.d. Novi Sad and HIP Petrohemija d.o.o., Pančevo, to understand the business combination.

We have performed the following audit procedures as well:

- We have assessed whether the transaction was identified as a business combination and accounted for in accordance with IFRS 3;
- We have evaluated the methodological approach in the identification and recognition of acquired assets and liabilities, as well as the participation without control rights, taken on the date of acquisition;
- We have assessed the integrity, independence, impartiality and the expertise of the external consultant engaged by the Company;
- We have engaged experts to evaluate the changed methodology in assessing the fair value of acquired assets;
- We have performed an accounting check of the recognised and measured profit from a favourable purchase;
- We have evaluated the justification of the discount rate applied to the financial model used for the purposes of calculating the economic write-off;
- We will assess the adequacy of the disclosures in the notes to the Group's financial statements.





## **INDEPENDENT AUDITOR'S REPORT (Continued)**

### **TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF NAFTNA INDUSTRIJA SRBIJE a.d., Novi Sad**

#### ***Other Information***

The Management is responsible for the other information. The other information comprises the consolidated Annual business report for the year ended December 31, 2023.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above, when they are available to us, 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.

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.

#### ***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 the 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 financial statements.







## **INDEPENDENT AUDITOR'S REPORT (Continued)**

### **TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF NAFTNA INDUSTRIJA SRBIJE a.d., Novi Sad**

#### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)***

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 and its associates and jointly controlled entities 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.



## INDEPENDENT AUDITOR'S REPORT (Continued)

### TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF NAFTNA INDUSTRIJA SRBIJE a.d., Novi Sad

#### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)*

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, related safeguards.

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.

Belgrade, January 30, 2024



Srđan Božović  
The engagement partner on audit project  
Licensed auditor