NIS A.D. – Naftna industrija Srbije
Novi Sad

Consolidated Financial Statements and Independent Auditor's Report

31 December 2020

Novi Sad, 9 March 2021

This version of the financial statements is a translation from the original, which was prepared in the Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original Serbian language version of the document takes precedence over this translation

Contents

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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.

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Registration No.: 17148656
Tax Identity No.: 100058593
Bank Acc.: 265-1100310000190-61

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".

Key audit matter	*Our response*
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. 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	In this area, our procedures included, among other things, the following: — 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.

Key audit matter	*Our response*
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	In this area, our procedures included, among other things, the following: — 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
Engagement Partner
Licenced Certified Auditor

Belgrade, 10 March 2021

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED BALANCE SHEET

	AOP	Note	31 December 2020	31 December 2019
A. SUBSCRIBED CAPITAL UNPAID	**0001**		**-**	**-**
B. NON-CURRENT ASSETS (0003 + 0010 + 0019+ 0024 + 0034)	**0002**		**318,219,559**	**317,342,624**
I. INTANGIBLE ASSETS (0004+0005+0006+0007+0008+0009)	**0003**	**8**	**23,940,194**	**24,413,233**
1. Development investments	0004		11,770,444	11,439,829
2 Concessions, licenses, software and other rights	0005		2,040,880	1,988,931
3. Goodwill	0006		1,322,704	1,354,508
4. Other intangible assets	0007		888,189	924,956
5. Intangible assets under development	0008		7,917,977	8,705,009
6. Advances for intangible assets	0009		-	-
II. PROPERTY, PLANT AND EQUIPMENT (0011+0012+0013+0014+0015+0016+0017+0018)	**0010**	**9**	**291,598,823**	**289,781,916**
1. Land	0011		17,016,279	17,050,221
2. Buildings	0012		158,773,921	149,732,966
3. Machinery and equipment	0013		97,469,518	65,767,335
4. Investment property	0014		1,574,329	1,579,798
5. Other property, plant and equipment	0015		94,203	89,817
6. Construction in progress	0016		16,176,448	55,064,088
7. Investments in leased PP&E	0017		155,043	152,325
8. Advances for PP&E	0018		339,082	345,366
III. BIOLOGICAL ASSETS (0020+0021+0022+0023)	**0019**		**-**	**-**
1. Forest farming	0020		-	-
2. Livestock	0021		-	-
3. Biological assets in production	0022		-	-
4. Advances for biological assets	0023		-	-
IV. LONG-TERM FINANCIAL INVESTMENTS (0025+0026+0027+0028+0029+0030+0031+0032+0033)	**0024**		**2,595,390**	**2,913,291**
1. Investments in subsidiary	0025		-	-
2. Investments in associates and joint ventures	0026	10	1,747,430	1,851,101
3. Investments in other legal entities and other available for sales financial assets	0027		95,316	95,662
4. Long term investments in parent and subsidiaries	0028		-	-
5. Long-term investments in other related parties	0029		-	-
6. Long-term investments - domestic	0030		-	-
7. Long-term investments - foreign	0031		-	-
8. Securities held to maturity	0032		-	-
9. Other long-term financial investments	0033	11	752,644	966,528
V. LONG-TERM RECEIVABLES (0035+0036+0037+0038+0039+0040+0041)	**0034**		**85,152**	**234,184**
1. Receivables from parent company and subsidiaries	0035		-	-
2. Receivables from other related parties	0036		-	-
3. Receivables from sale of goods on credit	0037		-	-
4. Receivables arising out of finance lease contracts	0038		9,515	9,515
5. Claims arising from guarantees	0039		-	-
6. Bad and doubtful receivables	0040		-	-
7. Other long-term receivables	0041		75,637	224,669
C. DEFFERED TAX ASSETS	**0042**	**12**	**2,313,438**	**697,689**

(continued)

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED BALANCE SHEET (continued)

	AOP	Note	31 December 2020	31 December 2019
D. CURRENT ASSETS (0044+0051+0059+0060+0061+0062+0068+0069+0070)	**0043**		**64,738,800**	**97,223,713**
I. INVENTORY (0045+0046+0047+0048+0049+0050)	**0044**	**13**	**28,152,987**	**48,001,622**
1. Materials, spare parts and tools	0045		13,429,199	29,878,660
2. Work in progress	0046		4,130,186	4,855,798
3. Finished goods	0047		7,493,521	9,758,823
4. Merchandise	0048		2,695,319	2,986,653
5. Assets held for sale	0049		39,146	88,416
6. Advances for inventory and services	0050		365,616	433,272
II. TRADE RECEIVABLES (0052+0053+0054+0055+0056+0057+0058)	**0051**	**14**	**20,615,680**	**25,572,859**
1. Domestic trade receivables - parents and subsidiaries	0052		-	-
2. Foreign trade receivables - parents and subsidiaries	0053		-	-
3. Domestic trade receivables - other related parties	0054		1,525,369	1,184,469
4. Foreign trade receivables - other related parties	0055		121,631	100,451
5. Trade receivables - domestic	0056		18,487,194	23,265,532
6. Trade receivables - foreign	0057		481,486	1,022,407
7. Other trade receivables	0058		-	-
III. RECEIVABLES FROM SPECIFIC OPERATIONS	**0059**		**217,641**	**673,870**
IV. OTHER RECEIVABLES	**0060**	**15**	**1,775,523**	**935,757**
V. FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS	**0061**		**-**	**-**
VI. SHORT TERM FINANCIAL INVESTMENTS (0063+0064+0065+0066+0067)	**0062**	**16**	**343,069**	**1,843,473**
1. Short-term loans and investments - parent companies and subsidiaries	0063		-	-
2. Short-term loans and investments - other related parties	0064		-	-
3. Short-term loans and investments - domestic	0065		-	-
4. Short-term loans and investments - foreign	0066		-	-
5. Other short-term loans and investments	0067		343,069	1,843,473
VII. CASH AND CASH EQUIVALENTS	**0068**	**17**	**8,488,302**	**15,295,810**
VIII. VALUE ADDED TAX	**0069**		**117,430**	**452,571**
IX. PREPAYMENTS AND ACCRUED INCOME	**0070**	**18**	**5,028,168**	**4,447,751**
E. TOTAL ASSETS (0001+0002+0042+0043)	**0071**		**385,271,797**	**415,264,026**
F. OFF-BALANCE SHEET ASSETS	**0072**	**19**	**120,346,882**	**117,099,179**
A. EQUITY (0402+0411-0412+0413+0414+0415-0416+0417+0420-0421)	**0401**		**242,762,307**	**254,694,792**
I. EQUITY (0403+0404+0405+0406+0407+0408+0409+0410)	**0402**	**20**	**81,548,930**	**81,548,930**
1. Share capital	0403	20.1	81,548,930	81,548,930
2. Stakes of limited liability companies	0404		-	-
3. Stakes	0405		-	-
4. State owned capital	0406		-	-
5. Socially owned capital	0407		-	-
6. Stakes in cooperatives	0408		-	-
7. Share premium	0409		-	-
8. Other capital	0410		-	-
II. SUBSCRIBED CAPITAL UNPAID	**0411**		**-**	**-**
III. OWN SHARES	**0412**		**-**	**-**
IV. RESERVES	**0413**		**-**	**-**
V. REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT	**0414**		**79,755**	**79,755**
VI. UNREALISED GAINS FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	**0415**		**459,383**	**400,112**
VII. UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME	**0416**		**58,477**	**58,183**
VIII. RETAINED EARNINGS (0418+0419)	**0417**		**168,298,719**	**172,724,178**
1. Retained earnings from previous years	0418		168,298,719	156,127,776
2. Retained earnings from current year	0419		-	16,596,402
IX. NON-CONTROLLING INTEREST	**0420**		**-**	**-**
X. LOSS (0422+0423)	**0421**		**7,566,003**	**-**
1. Loss from previous years	0422		-	-
2. Loss from current year	0423		7,566,003	-

(continued)

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED BALANCE SHEET (continued)

	AOP	Note	31 December 2020	31 December 2019
B. LONG-TERM PROVISIONS AND LIABILITIES (0425+0432)	**0424**		**84,312,231**	**95,462,060**
I. LONG-TERM PROVISIONS (0426+0427+0428+0429+0430+4031)	**0425**	**21**	**10,332,213**	**11,419,129**
1. Provisions for warranty claims	0426		-	-
2. Provision for environmental rehabilitation	0427		9,561,809	9,882,315
3. Provisions for restructuring costs	0428		-	-
4. Provisions for employee benefits	0429		536,608	1,262,848
5. Provisions for litigations	0430		233,796	273,966
6. Other long term provisions	0431		-	-
II. LONG-TERM LIABILITIES (0433+0434+0435+0436+0437+0438+0439+0440)	**0432**	**22**	**73,980,018**	**84,042,931**
1. Liabilities convertible to equity	0433		-	-
2. Liabilities to parent and subsidiaries	0434		8,203,270	13,673,582
3. Liabilities to other related parties	0435		-	-
4. Liabilities for issued long-term securities	0436		-	-
5. Long term borrowings - domestic	0437		45,862,103	46,581,096
6. Long-term borrowings - foreign	0438		17,130,642	22,404,642
7. Finance lease liabilities	0439		1,868,666	1,326,436
8. Other long-term liabilities	0440		915,337	57,175
C. DEFFERED TAX LIABILITIES	**0441**	**12**	**-**	**-**
D. SHORT-TERM LIABILITIES (0443+0450+0451+0459+0460+0461+0462)	**0442**		**58,197,259**	**65,107,174**
I. SHORT-TERM FINANCIAL LIABILITIES (0444+0445+0446+0447+0448+0449)	**0443**	**23**	**12,196,715**	**6,761,897**
1. Short term borrowings from parent and subsidiaries	0444		-	-
2. Short term borrowings from other related parties	0445		-	-
3. Short-term loans and borrowings - domestic	0446		-	-
4. Short-term loans and borrowings - foreign	0447		-	-
5. Liabilities relating to current assets and held-for-sale assets attributable to discounted operations	0448		-	-
6. Other short term liabilities	0449		12,196,715	6,761,897
II. ADVANCES RECEIVED	**0450**		**4,170,271**	**2,323,105**
III. TRADE PAYABLES (0452+0453+0454+0455+0456+0458)	**0451**	**24**	**19,278,679**	**35,341,330**
1. Trade payables - parent and subsidiaries - domestic	0452		-	-
2. Trade payables - parent and subsidiaries - foreign	0453		3,204,199	10,500,427
3. Trade payables - other related parties - domestic	0454		975,060	1,208,375
4. Trade payables - other related parties - foreign	0455		183,963	543,563
5. Trade payables - domestic	0456		6,767,096	9,170,737
6. Trade payables - foreign	0457		7,981,985	13,786,047
7. Other operating liabilities	0458		166,376	132,181
IV. OTHER SHORT-TERM LIABILITIES	**0459**	**25**	**9,251,427**	**8,375,054**
V. LIABILITIES FOR VAT	**0460**		**2,270,118**	**1,088,459**
VI. LIABILITIES FOR OTHER TAXES	**0461**	**26**	**6,889,458**	**7,584,465**
VII. ACCRUED EXPENSES	**0462**	**27**	**4,140,591**	**3,632,864**
E. LOSS EXCEEDING EQUITY (0412+0416+0421-0420-0417-0415-0414-0413-0411-0402)>=0=(0441+0424+0442-0071)>=0	**0463**		**-**	**-**
F. TOTAL EQUITY AND LIABILITIES (0424+0442+0441+0401-0463)>=0	**0464**		**385,271,797**	**415,264,026**
G. OFF-BALANCE SHEET LIABILITIES	**0465**	**19**	**120,346,882**	**117,099,179**

Novi Sad, 9 March 2021

The person responsible for the preparation of consolidated financial statements

M.P.

"НАФТНА ИНДУСТРИЈА СРБИЈЕ" А.Д. НОВИ САД

Legal representative

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

	AOP	Note	Year ended 31 December 2020	2019
INCOME FROM REGULAR OPERATING ACTIVITIES				
A. OPERATING INCOME (1002+1009+1016+1017)	**1001**	**7**	**183,833,859**	**272,096,500**
I. INCOME FROM THE SALE OF GOODS (1003+1004+1005+1006+1007+1008)	**1002**		**29,785,309**	**65,592,808**
1. Income from sales of goods to parent and subsidiaries on domestic market	1003		-	-
2. Income from sales of goods to parent and subsidiaries on foreign market	1004		-	-
3. Income from the sale of goods to other related parties on domestic market	1005		4,033	1,312
4. Income from the sale of goods to other related parties on foreign market	1006		1,845	187,210
5. Income from sale of goods on domestic market	1007		8,504,984	27,314,259
6. Income from sale of goods on foreign market	1008		21,274,447	38,090,027
II. INCOME FROM SALES OF PRODUCTS AND SERVICES (1010+1011+1012+1013+1014+1015)	**1009**		**153,705,504**	**206,093,358**
1. Income from sales of products and services to parent and subsidiaries on domestic market	1010		-	-
2. Income from sales of products and services to parent and subsidiaries on foreign market	1011		-	-
3. Income from sales of products and services to other related parties on domestic market	1012		17,035,839	19,072,216
4. Income from sales of products and services to other related parties on foreign market	1013		288,092	405,754
5. Income from sales of products and services – domestic	1014		111,209,003	150,765,338
6. Income from sales of products and services – foreign	1015		25,172,570	35,850,050
III. INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS	**1016**		**1,045**	**-**
IV. OTHER OPERATING INCOME	**1017**		**342,001**	**410,334**
B. OPERATING EXPENSES (1019-1020-1021+1022+1023+1024+1025+1026+1027+1028+1029)>=0	**1018**		**191,237,985**	**248,735,954**
I. COST OF GOODS SOLD	1019		16,499,875	44,635,555
II. WORK PERFORMED BY THE ENTITY AND CAPITALIZED	1020		9,964,736	14,451,129
III. INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1021		-	-
IV. DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES	1022		2,993,931	3,437,901
V. COST OF MATERIAL	1023	28	105,883,608	136,940,194
VI. COST OF FUEL AND ENERGY	1024		4,597,008	4,371,248
VII. COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	1025	29	27,282,885	21,364,042
VIII. COST OF PRODUCTION SERVICES	1026	30	12,661,812	15,605,920
IX. DEPRECIATION, DEPLETION AND AMORTIZATION	1027	8,9	22,805,904	20,976,349
X. COST OF LONG-TERM PROVISIONING	1028		263,945	652,769
XI. NON-PRODUCTION COSTS	1029	31	8,213,753	15,203,105
C. OPERATING GAIN (1001-1018)>=0	**1030**		**-**	**23,360,546**
D. OPERATING LOSS (1018-1001)>=0	**1031**		**7,404,126**	**-**

(continued)

CONSOLIDATED INCOME STATEMENT (continued)

	AOP	Note	Year ended 31 December 2020	2019
E. FINANCE INCOME (1033+1038+1039)	**1032**	**32**	**2,775,056**	**2,563,129**
I. FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME (1034+1035+1036+1037)	1033		1,162,980	1,126,759
1. Finance income - parent company and subsidiaries	1034		1,152,788	1,103,117
2. Finance income - other related parties	1035		5,776	12,004
3. Share of profit of associates and joint ventures	1036		-	-
4. Other financial income	1037		4,416	11,638
II. INTEREST INCOME (from third parties)	1038		311,272	515,861
III. FOREIGN EXCHANGE GAINS (third parties)	1039		1,300,804	920,509
F. FINANCE EXPENSES (1041+1046+1047)	**1040**	**33**	**4,816,945**	**4,178,538**
I. FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES (1042+1043+1044+1045)	1041		2,009,285	2,066,382
1. Finance expense - parent company and subsidiaries	1042		1,867,161	1,901,458
2. Finance expense - other related parties	1043		11,319	14,330
3. Share of loss of associates and joint ventures	1044		103,671	129,287
4. Other financial expense	1045		27,134	21,307
II. INTEREST EXPENSE (from third parties)	1046		1,623,164	1,578,043
III. FOREIGN EXCHANGE LOSSES (third parties)	1047		1,184,496	534,113
G. PROFIT FROM FINANCING OPERATIONS (1032-1040)	**1048**		**-**	**-**
H. LOSS FROM FINANCING OPERATIONS (1040-1032)	**1049**		**2,041,889**	**1,615,409**
I. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**1050**	**34**	**259,147**	**121,212**
J. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS	**1051**		**154,834**	**134,564**
K. OTHER INCOME	**1052**	**35**	**2,296,523**	**1,265,910**
L. OTHER EXPENSES	**1053**	**36**	**2,085,221**	**1,868,685**
M. OPERATING PROFIT BEFORE TAX (1030-1031+1048-1049+1050-1051+1052-1053)	**1054**		**-**	**21,129,010**
N. OPERATING LOSS BEFORE TAX (1031-1030+1049-1048+1051-1050+1053-1052)	**1055**		**9,130,400**	**-**
O. NET INCOME ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS	**1056**		**-**	**-**
P. NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS	**1057**		**-**	**-**
Q. PROFIT BEFORE TAX (1054-1055+1056-1057)	**1058**		**-**	**21,129,010**
R. LOSS BEFORE TAX (1055-1054+1057-1056)	**1059**		**9,130,400**	**-**
II. INCOME TAX				
I. CURRENT INCOME TAX	1060	37	51,298	3,100,414
II. DEFERRED TAX EXPENSE FOR THE PERIOD	1061	37	285	1,443,301
III. DEFERRED TAX INCOME FOR THE PERIOD	1062	37	1,615,980	11,107
S. PERSONAL INCOME PAID TO EMPLOYER	**1063**		**-**	**-**
T. NET PROFIT (1058-1059-1060-1061+1062)	**1064**		**-**	**16,596,402**
V. NET LOSS (1059-1058+1060+1061-1062)	**1065**		**7,566,003**	**-**
I. NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1066		-	-
II. NET INCOME ATTRIBUTABLE TO THE OWNER	1067		-	16,610,847
III. NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1068		-	14,445
IV. NET LOSS ATTRIBUTABLE TO THE OWNER	1069		7,566,003	-
V. EARNINGS PER SHARE				
1. Basic earnings per share	1070	20.1	(0.046)	0.102
2. Diluted earnings per share	1071		-	-

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	AOP	Note	Year ended 31 December 2020	2019
A. NET PROFIT/(LOSS)				
I. PROFIT, NET (AOP 1064)	**2001**		**-**	**16,596,402**
II. LOSS, NET (AOP 1065)	**2002**		**7,566,003**	**-**
B. OTHER COMPREHENSIVE PROFIT OR LOSS				
a) Items that will not be reclassified to profit or loss				
1. Changes in the revaluation of intangible assets, property, plant and equipment				
a) increase in revaluation reserves	2003		-	-
b) decrease in revaluation reserves	2004		-	-
2. Actuarial gains (losses) of post employment benefit obligations				
a) gains	2005		-	-
b) losses	2006		52,595	45,334
3. Gains and losses arising from equity investments				
a) gains	2007		-	-
b) losses	2008		-	-
4. Gains or losses arising from a share in the associate's other comprehensive profit or loss				
a) gains	2009		-	-
b) losses	2010		-	-
b) Items that may be subsequently reclassified to profit or loss				
1. Gains (losses) from currency translation differences				
a) gains	2011		111,866	193,947
b) losses	2012		-	-
2. Gains (losses) on investment hedging instruments in foreign business				
a) gains	2013		-	-
b) losses	2014		-	-
3. Gains and losses on cash flow hedges				
a) gains	2015		-	-
b) losses	2016		-	-
4. Gains (losses) from change in value of available-for-sale financial assets				
a) gains	2017		-	7,267
b) losses	2018		294	-
I. OTHER COMPREHENSIVE PROFIT BEFORE TAX (2003+2005+2007+2009+2011+2013+2015+2017)-(2004+2006+2008+2010+2012+2014+2016+2018)>=0	2019		58,977	155,880
II. OTHER COMPREHENSIVE LOSS BEFORE TAX (2004+2006+2008+2010+2012+2014+2016+2018)-(2003+2005+2007+2009+2009+2011+2013+2015+2017)>=0	2020		-	-
III. TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD	2021		-	-
IV. TOTAL NET COMPREHENSIVE PROFIT (2019-2020-2021)>=0	**2022**		**58,977**	**155,880**
V. TOTAL NET COMPREHENSIVE LOSS (2020-2019+2021)>=0	**2023**		**-**	**-**
C. TOTAL NET COMPREHENSIVE PROFIT				
I. TOTAL COMPREHENSIVE PROFIT, NET (2001-2002+2022-2023)>=0	2024		-	16,752,282
II. TOTAL COMPREHENSIVE LOSS, NET (2002-2001+2023-2022)>=0	2025		7,507,026	**-**
D. TOTAL NET COMPREHENSIVE PROFIT / (LOSS) (2027+2028)=AOP 2024>=0 или AOP 2025>0	**2026**		**7,507,026**	**16,752,282**
1. Attributable to shareholders	2027		7,507,026	16,752,282
2. Attributable to non-controling interest	2028		-	-

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	AOP	Note	Year ended 31 December 2020	2019
A. CASH FLOWS FROM OPERATING ACTIVITIES				
I. Cash inflow from operating activities (1 to 3)	**3001**		**399,595,497**	**508,836,518**
1. Sales and advances received	3002		399,128,596	508,048,842
2. Interest from operating activities	3003		124,900	377,342
3. Other inflow from operating activities	3004		342,001	410,334
II. Cash outflow from operating activities (1 to 5)	**3005**		**369,891,800**	**451,903,613**
1. Payments and prepayments to suppliers	3006		146,960,952	210,583,641
2. Salaries, benefits and other personal expenses	3007		25,193,207	19,854,905
3. Interest paid	3008		1,672,794	1,705,155
4. Income tax paid	3009		1,346,537	4,329,868
5. Payments for other public revenues	3010		194,718,310	215,430,044
III. Net cash inflow from operating activities (I - II)	**3011**		**29,703,697**	**56,932,905**
IV. Net cash outflow from operating activities (II - I)	**3012**		**-**	**-**
B. CASH FLOWS FROM INVESTING ACTIVITIES				
I. Cash flows from investing activities (1 to 5)	**3013**		**2,166,948**	**317,597**
1. Sale of shares (net inflow)	3014		-	26,968
2. Proceeds from sale of property, plant and equipment	3015		518,404	282,172
3. Other financial investments (net inflow)	3016		1,644,270	-
4. Interest from investing activities	3017		-	-
5. Dividend received	3018		4,274	8,457
II. Cash outflow from investing activities (1 to 3)	**3019**		**28,254,220**	**46,878,392**
1. Acquisition of subsidiaries or other business (net outflow)	3020		41	-
2. Purchase of intangible assets, property, plant and equipment	3021		28,254,179	46,846,795
3. Other financial investments (net outflow)	3022		-	31,597
III. Net cash inflow from investing activities (I - II)	**3023**		**-**	**-**
IV. Net cash outflow from investing activities (II - I)	**3024**		**26,087,272**	**46,560,795**
C. CASH FLOWS FROM FINANCING ACTIVITIES				
I. Cash inflow from financing activities (1 to 5)	**3025**		**-**	**-**
1. Increase in share capital	3026		-	-
2. Proceeds from long-term borrowings (net inflow)	3027		-	-
3. Proceeds from short-term borrowings (net inflow)	3028		-	-
4. Other long-term liabilities	3029		-	-
5. Other short-term liabilities	3030		-	-
II. Cash outflow from financing activities (1 to 6)	**3031**		**10,494,899**	**10,584,793**
1. Purchase of own shares	3032		-	-
2. Repayment of long-term borrowings (net outflow)	3033	22	5,480,419	3,700,129
3. Repayment of short-term borrowings (net outflow)	3034		-	-
4. Repayment of other liabilities (net outflow)	3035		-	-
5. Financial lease	3036	22	589,021	367,140
6. Dividend distribution	3037	20.1	4,425,459	6,517,524
III. Net cash inflow from financing activities (I - II)	**3038**		**-**	**-**
IV Net cash outflow from financing activities (II - I)	**3039**		**10,494,899**	**10,584,793**
D. TOTAL CASH INFLOW (3001+3013+3025)	**3040**		**401,762,445**	**509,154,115**
E. TOTAL CASH OUTFLOW (3005+3019+3031)	**3041**		**408,640,919**	**509,366,798**
F. NET CASH INFLOW (340-341)	**3042**		**-**	**-**
G. NET CASH OUTFLOW (341-340)	**3043**		**6,878,474**	**212,683**
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**3044**		**15,295,810**	**15,480,830**
I. CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS	**3045**		**312,207**	**268,965**
J. CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS	**3046**		**241,241**	**241,302**
K. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (3042-3043+3044+3045-3046)	**3047**		**8,488,302**	**15,295,810**

(All amounts are in RSD 000 unless otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity components						Other comprehensive income components	
	AOP	Share capital	AOP	Loss	AOP	Retained earnings	AOP	Revaluation reserves
Balance as at 1 January 2019								
a) debit	4001	**-**	4055	-	4091	-	4109	**-**
b) credit	4002	**81,548,930**	4056	-	4092	**161,055,702**	4110	**79,755**
Adjustments of material errors and changes in accounting policies								
a) debit	4003	-	4057	-	4093	-	4111	-
b) credit	4004	-	4058	-	4094	-	4112	-
Restated opening balance as at 1 January 2019								
а) debit (1а+2а-2б)>=0	4005	**-**	4059	**-**	4095	-	4113	**-**
б) credit (1б-2а+2б)>=0	4006	**81,548,930**	4060	**-**	4096	**161,055,702**	4114	**79,755**
Changes in period								
a) debit	4007	-	4061	-	4097	6,517,524	4115	-
b) credit	4008	-	4062	-	4098	18,186,000	4116	-
Balance as at 31 December 2019								
а) debit (3а+4а-4б)>=0	4009	**-**	4063	-	4099	-	4117	**-**
б) credit (3б-4а+4б)>=0	4010	**81,548,930**	4064	-	4100	**172,724,178**	4118	**79,755**
Adjustments of material errors and changes in accounting policies								
a) debit	4011	-	4065	-	4101	-	4119	-
b) credit	4012	-	4066	-	4102	-	4120	-
Restated opening balance as at 1 January 2020								
а) debit (5а+6а-6б)>=0	4013	**-**	4067	-	4103	-	4121	**-**
б) credit (5б-6а+6б)>=0	4014	**81,548,930**	4068	-	4104	**172,724,178**	4122	**79,755**
Changes in period								
a) debit	4015	-	4069	7,566,003	4105	4,425,459	4123	-
b) credit	4016	-	4070	-	4106	-	4124	-
Balance as at 31 December 2020								
а) debit (7а+8а-8б)>=0	4017	**-**	4071	**7,566,003**	4107	-	4125	**-**
б) credit (7б-8а+8б)>=0	4018	**81,548,930**	4072	-	4108	**168,298,719**	4126	**79,755**

(continued)

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Other comprehensive income components							
	AOP	Acturial gain/(loss)	AOP	Gains (losses) from currency translation differences	AOP	Gains (losses) from change in value of available-for-sale financial assets	AOP	Total Equity
Balance as at 1 January 2019								
a) debit	**4127**	**-**	**4181**	**-**	**4217**	**60,082**		
b) credit	**4128**	**198,531**	**4182**	**52,968**	**4218**	**-**	**4235**	**242,875,804**
Adjustments of material errors and changes in accounting policies								
a) debit	4129	-	4183	-	4219	-		
b) credit	4130	-	4184	-	4220	-	4236	-
Restated opening balance as at 1 January 2019								
a) debit (1a+2a-2б)>=0	**4131**	**-**	**4185**	**-**	**4221**	**60,082**		
b) credit (1б-2a+2б)>=0	**4132**	**198,531**	**4186**	**52,968**	**4222**	**-**	**4237**	**242,875,804**
Changes in period								
a) debit	4133	45,334	4187	-	4223	-		
b) credit	4134	-	4188	193,947	4224	1,899	4238	11,818,988
Balance as at 31 December 2019								
a) debit (3a+4a-4б)>=0	**4135**	**-**	**4189**	**-**	**4225**	**58,183**		
b) credit (3б-4a+4б)>=0	**4136**	**153,197**	**4190**	**246,915**	**4226**	**-**	**4239**	**254,694,792**
Adjustments of material errors and changes in accounting policies								
a) debit	4137	-	4191	-	4227	-		
b) credit	4138	-	4192	-	4228	-	4249	-
Restated opening balance as at 1 January 2020								
a) debit (5a+6a-6б)>=0	**4139**	**-**	**4193**	**-**	**4229**	**58,183**		
b) credit (5б-6a+6б)>=0	**4140**	**153,197**	**4194**	**246,915**	**4230**	**-**	**4241**	**254,694,792**
Changes in period								
a) debit	4141	52,595	4195	-	4231	294		
b) credit	4142	-	4196	111,866	4232	**-**	**4242**	(11,932,485)
Balance as at 31 December 2020								
a) debit (7a+8a-8б)>=0	**4143**	**-**	**4197**	**-**	**4233**	**58,477**		
б) credit (7б-8a+8б)>=0	**4144**	**100,602**	**4198**	**358,781**	**4234**	**-**	**4243**	**242,762,307**

The accompanying notes on pages 10 to 65 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Open Joint Stock Company Naftna Industrija Srbije (the "Company") and its subsidiaries (together refer to as the "Group") is a vertically integrated oil company operating predominantly in Serbia. The Group's principal activities include:

- Exploration, development and production of crude oil and gas,
- Production of refined petroleum products,
- Petroleum products and gas trading and
- Electric generation and trading.

Other activities primarily include sales of other goods, works and services.

The Company was established in accordance with the Decision of the Government of the Republic of Serbia on 7 July 2005. On 2 February 2009, PJSC Gazprom Neft (''Gazprom Neft'') acquired a 51% of the share capital of NIS a.d. which became a subsidiary of Gazprom Neft. In March 2011, under the Company's Share Sale and Purchase Agreement, Gazprom Neft acquired additional 5.15% of shares, thereby increasing its percentage of ownership to 56.15%. PJSC Gazprom, owns 95.7% of the shares in the Gazprom Neft. The Russian Federation is the ultimate controlling party.

The Company is a public joint stock company listed on the Belgrade Stock Exchange.

These consolidated financial statements have been approved and authorized for issue by Chief Executive Officer and will be presented to Board of Directors for approval.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

These consolidated financial statements for the year ended 31 December 2020 were prepared in accordance with the Law on Accounting of the Republic of which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. The translation of IFRS which is confirmed and published by the Ministry of Finance comprises the basic texts of IAS and IFRS as published by the International Accounting Standards Board, including interpretations issued by the International Financial Reporting Interpretations Committee in the form in which they are published and which do not include basis for conclusions, illustrative examples, guidelines, comments, opposing opinions, developed examples and other additional explanatory materials which can be adopted in respect of the standards or interpretations, unless it is explicitly stated that they are integral to the standard or interpretation. Also, the Law on Accounting establishes the dinar (RSD) as the official reporting currency (functional and presentation currency).In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

- The financial statements are prepared in the format prescribed by the Ministry of Finance of the Republic of Serbia,
- "Off-balance sheet assets and liabilities" are recorded on the face of the balance sheet. Such items do not meet the definition of either an asset or a liability under IFRS.

As a result, the accompanying consolidated financial statements cannot be considered as financial statements prepared in full compliance with IFRS.

The preparation of financial statements in conformity with the Law on Accounting of the Republic of Serbia requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

The Consolidated Financial Statements have been prepared based on the going concern principle, which assumes that the Group will continue to operate in the foreseeable future. In order to assess the reasonability of this assumption, management reviews forecasts of future cash inflows. Based on these reviews, management believes that the Group will be able to continue to operate as a going concern in the foreseeable future (refer to note 3.1 for Implications of Going Concern and Implications of COVID-19) and, therefore, this principle should be applied in the preparation of these Consolidated Financial Statements.

At the date of signing consolidated financial statements, crude oil price increased since 31 December 2020 from 50.485 $/barrel to 68.735 $/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any major fluctuation of crude oil prices.

2.2. Basis of measurement

These consolidated financial statements are prepared on the historical cost basis, except certain financial assets and liabilities and investment properties measured at fair value.

2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors and the General Manager Advisory Board. The main indicator for assessing performance of operating segments is EBITDA, which is regularly reported to the chief operating decision-maker. The information on segment assets and liabilities are not regularly provided to the chief operating decision-maker.

2.4. Seasonality of Operations

The Group as a whole is not subject to significant seasonal fluctuation.

2.5. Foreign currency translation

(a) *Functional and presentation currency*

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Serbian dinars ("RSD"), which is the functional currency of the Company and presentation currency of the Group.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents and other monetary assets and liabilities are presented in the consolidated income statement within 'Finance income or expense'.

(c) *Group's Companies*

The result and financial position of all Group companies whose functional currency is different from the Group's presentation currency are calculated as follows:

I. assets and liabilities are translated into the RSD using the exchange rate as at reporting date;
II. income and expenses are translated at average exchange rates and all resulting foreign exchange differences are recognized in reserves as separate items in equity.

2.6. Principles of consolidation

The consolidated financial statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. An investor is exposed, or has the right to variable returns from its involvement with investee when the investor's return from its involvement has the potential to vary as a result of the investee's performance. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date when control commences until the date when control ceases.

In accessing control, Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group's interest in the assets, liabilities, expenses and revenue of the joint operation. All other investments are classified either as held-to-maturity or as available for sale.

(a) *Joint Operations and Joint Ventures*

A joint operation is a joint arrangement whereby parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.
A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:
- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

(b) *Transactions Eliminated on Consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) *Non-controlling interests*

In the consolidated financial statements, non-controlling interests in subsidiaries are presented separately from the Group equity as non-controlling interests. Non-controlling interest is measured at fair value or at its proportionate share in the acquiree's net identifiable assets. For each business combination a separate measurement principle is determined.

(d) *Investments in associates*

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associate are accounted for using equity method and are recognised initially at cost. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired.

2.7. Business combinations

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group and recognised goodwill or a gain from a bargain purchase. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

2.8. Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ('bargain purchase') is recognized in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated profit or loss. Transaction costs, that the Group incurs in connection with a business combination are expensed as incurred.

2.9. Intangible assets

(a) *Goodwill*

Goodwill that arises from business combination is included in intangible assets. Subsequently goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed (note 8).

(b) *Licenses and rights*

Separately acquired licenses are shown at historical cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. (average usefull life is 5 years)

Licenses and rights include Oil and Gas Upstream Exploration Rights, which are amortised in accordance with the terms and conditions of the rights.

(c) *Software*

These include primarily the costs of implementation the (SAP) computer software program. Acquired software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

These costs are amortised over their estimated useful lives (not to exceed 8 years).

2.10. Oil and Gas properties

(a) *Exploration and evaluation expenditure*

The Group follows the successful efforts method of accounting for its exploration and evaluation assets.

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

- Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies;
- Costs of carrying and retaining undeveloped properties;
- Bottom hole contribution;
- Dry hole contribution; and
- Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling costs and dry and bottom hole contributions are temporarily capitalised under the successful effort method and treated as Oil and gas assets within Property, plant and equipment.
Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are temporarily considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, that may include drilling of further wells, are likely to be developed commercially; then the costs continue to be carried as Oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification.

(b) *Development costs of fixed and intangible assets*

Development costs are incurred to obtain access to proven reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proven reserves as well as costs of production facilities.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalized within construction in progress according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortisation are charged during development.

(c) *Oil and gas production assets*

Oil and gas production assets comprise exploration and evaluation assets as well as development costs associated with the production of proved reserves.

(d) *Depreciation/amortization*

Oil and gas properties/intangible assets are depleted using the unit-of-production method. The unit-of production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

(e) *Impairment – exploration and evaluation assets*

Exploration property leasehold acquisition costs are assessed for impairment when there are indications of impairment. For the purpose of impairment testing, exploration property leasehold acquisition costs subject to impairment testing are grouped with existing cash-generating units (CGUs) of related production fields located in the same geographical region.

(f) *Impairment – proved oil and gas properties and intangible assets*

Proven oil and gas properties and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.11. Property, plant and equipment

As of the date of establishment, the Group's property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Land and works of art are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Description	Useful lives
Buildings	10 - 50
Machinery and Equipment:	
- Production equipment	2 - 35
- Furniture	3 - 10
- Vehicles	5 - 25
- Computers	3 - 10
Other PP&E	3 - 20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/expenses" in the consolidated income statement (notes 35 and 36).

2.12. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13. Investment property

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property principally comprises of petrol stations and business facilities rented out for a period exceeding one year.

Investment property is carried at fair value. Changes in fair values are recorded in the consolidated income statement as part of "Other income/expense".

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

2.14. Financial instruments

(a) ***Key measurement terms***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Amortized cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses *("ECL")*.

(b) ***Classification and measurement***

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

At initial recognition, the Group measures a financial asset as its fair value plus, in case of a financial assets not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at FVTPL are expensed in profit and loss. After the initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Factors considered by the Group in determining the business model include the purpose and composition of portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented separately.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest (''SPPI''), are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented separately.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Trade and other receivables. Trade and other receivables are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method, less provision for impairment. Trade receivables are amounts due from customers for products and merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortized cost using the effective interest method.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognized initially at fair value and subsequently carried at amortized cost using the effective interest method. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

(c) ***Write-off***

Financial assets are written-off, in whole or in part, when the Group has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(d) ***Recognition and derecognition***

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.
Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

(e) ***Modification***

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: significant change in interest rate or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

(f) ***Financial assets impairment***

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and recognises Net impairment losses at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated balance sheet net of the allowance for ECL. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

- General model of impairment of financial assets – three stage model

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL").

If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

When defining default for the purposes of determining the risk of a default occurring, Group applies a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate.

For the purposes of measuring expected credit losses, the estimate of expected cash shortfalls reflects the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately.

Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

- Simplified approach for impairment of receivables and lease receivables

Group applies simplified approach for trade receivables, contract assets and lease receivables and measure the loss allowance at an amount equal to lifetime expected credit losses ("Lifetime ECL").

Group uses a provision matrix in the calculation of the expected credit losses on trade receivables. Group use historical credit loss experience (adjusted as appropriate on the basis of current observable data to reflect the effects of the current conditions and its forecasts of future conditions) for trade receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the financial assets as relevant.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement.

Impairment losses are reversed through profit or loss if the amount of the impairment loss decreases and the decrease can be attributed to an event occurring after the impairment was recognized.

2.15. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises cost of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as “Other expense” (note 36).

2.16. Off-balance sheet assets and liabilities

Off-balance sheet assets/liabilities include: material received from third parties for further processing and other assets not owned by the Group, as well as receivables/payables related to collaterals such as guarantees and other warrants.

2.17. Share capital

The Company is registered as open joint stock company. Ordinary shares are classified as share capital.

2.18. Earnings per share

The Group calculates and discloses the basic earnings per share. Basic earnings per share is calculated by dividing the net income that belongs to shareholders, the owners of ordinary shares of the Company, by the weighted average number of ordinary shares issued during the period.

2.19. Provisions

Provisions for environmental restoration, asset retirement obligation and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as cost of provision and charged to consolidated income statement.

2.20. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized directly in equity, in which case deferred tax liability is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in Serbia, where the Group operates and generates taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.21. Employee benefits

(a) *Pension obligations*

The Group operates a defined contribution pension plan. The Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Employee benefits provided by the Collective Agreement*

The Group provides jubilee, retirement and other employee benefit schemes in accordance with the Collective Agreement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in consolidated statement of other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Serbian Treasury bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

(c) *Bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing based on an Individual performance assessment. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

In 2017, the Group has made decision to introduce new three-year (2018-2020) program for Group's managers which will be based on the Key Performance Indicators ("KPI") reached during the program (note 21).

2.22. Revenue recognition from contracts with customers

The Group recognizes revenue from sales of crude oil, petroleum products, gas and other products and services when it satisfies a performance obligation and control over goods and services is passed. For the most contracts control over goods or services passes to a customer at point of time and consideration is unconditional because only the passage of time is required before the payment is due.

Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is shown net of returns, rebates and discounts after eliminating sales within the Group.

Sales taxes

Revenue does not amounts collected on behalf of tax authorities – value added taxes (VAT), excise duties and other sales taxes (fee for improvement of energy efficiency).

The accounting for excise duties is based on the Group's assessment whether it is primarily obligated for payment of excise duties or whether it collects the amount from the customer on behalf of the tax authorities. This determination is made based on the analysis of the local regulatory requirements for each country in which the Group operates. Due to complexity and variety in tax legislations, significant judmenent is applied in the assessment whether excise duties would be accounted on gross or net basis.

Excise duties imposed during the inventory procurement process are included in the transaction price, revenue is determined on a gross basis and paid excise duties are also included in the cost of goods sold.

Excise duties incurred in production and sale of products are assessed as part of amounts collected on behalf of tax authorites and are accounted on a net basis.

(a) *Sales - wholesale*

The Group manufactures and sells oil, petrochemical products, liquefied natural gas and energy in the wholesale market. Sales of goods are recognised when control of the good has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales with discounts is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognised for expected volume discounts entitled to customers in relation to sales made until the end of the reporting period.

No element of financing is deemed present as the sales are made with a credit term of less than one year and is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) *Sales – retail*

The Group operates a chain of Petrol Stations. Sales of goods are recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit card. Group offers customer incentives mostly in the form of loyalty programs described under section d).

(c) *Sales of electricity*

The Group sells electricity on a short and long term basis with a contract terms generally accepted in the energy industry (via bilateral forward standardized general EFET agreements). Majority of sales are made on a wholesale market without structured trades.

In accordance with contract terms if Group expects to physically deliver factual agreed quantity of electricity revenue is recognized at gross basis in consolidated financial statements. In general, delivery of electricity represent transfer of a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer over time. Accordingly, delivery of electricity is treated as a single performance obligation to which transaction price is allocated. Revenue is recognized by applying a single measure of progress to the identified single performance obligation.

(d) *Customer loyalty program*

The Group operates a loyalty program where customers accumulate award points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire after the initial transaction. The transaction price is allocated to the goods sold and the award points on the basis of their relative stand-alone selling prices. A contract liability for the award points is recognized at the time of the sale. Contract liabilities arising from customer loyalty program are presented in the note 27.

(e) *Interest income*

Interest income is recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income, all fee received between the parties to the contract that are an integral part of the effective interest rate, all other premiums or discounts.

Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within 'finance income' line in profit or loss.

Fees integral to the effective interest rate include origination fees received or paid by the Group relating to the creation or acquisition of a financial asset, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the amortized cost.

2.23. Leases

The Group leases various offices, warehouses, retail stores, equipment and cars. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

	Useful lives in years
Land	25
Buildings	2 - 22
Machinery	3 - 15
Motor vehicles	2 - 10

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

2.24. Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the period in which the dividends are approved by the Group's shareholders.

2.25. Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. All other borrowing costs are expensed in the period in which they are incurred.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Preparing consolidated financial statements required Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and other facts that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimates are revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In addition to judgments involving estimations, Management also makes other judgments in the process of applying the Group's accounting policies. Actual results may differ from such estimates if different assumptions or circumstances apply.

Information on the effect of macroeconomic factors on the estimates with the greatest impact on the amounts reflected in these Consolidated Financial Statements is provided below.

3.1. Going concern and Implications of COVID-19

The spread of the coronavirus pandemic (COVID-19) and the preventive measures which led to decrease in the economic activity of market participants in the 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 result in Loss for the period of RSD 7,566,003 thousand and decline in EBITDA disclosed in note 7. On the other hand, local currency RSD maintained a relatively stable against the US dollar and EURO (note 6).

Given the recent volatility in global oil and commodity prices and potential impact on demand as a result of the COVID-19 virus management has 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 as well in short term decline in demand from customers which negatively impacts future cash inflows.

Management has performed the following assessment and concluded that there is no material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern:

- Assessment of going concern is based on cash flow projections and approved business plans. Contractual cash flows is analysed under note 6 – section related to liquidity risk;
- Compliance with debt covenants (note 6 – liquidity risk section);
- Management assess ability to secure financing. Despite the situation with the COVID 19 pandemic, during 2020 additional optimization of the loan portfolio indicator was performed in terms of reducing the financing price by about 8% compared to the end of 2019, while maintaining the average maturity to 3.02 years, at the end of 2020. A significant part of loan portfolio was restructured (early repayment of existing loans with withdrawal of new ones on more favourable terms and correction of conditions of existing loans, in terms of lowering the interest rate and / or extending the maturity, as well as regular repayments);
- Management performed sensitivity analysis over their cash flow forecast to factor in the impact of a decline in both oil prices and production as a result of the effects of the COVID-19 virus on the global economy;
- During 2020, management perform successfully optimisation of operational expenses and prioritization of the investments.

3.2. Estimation of Oil and Gas Reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved and probable reserves. Accounting measures such as depreciation, depletion and amortization charges and impairment assessments that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortization as well as impairment expenses.

Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Detailed disclosure about Oil and gas reserves was not given as these data prescribed by the law of the Republic of Serbia are classified as a state secret.

3.3. Useful Lives of Property, Plant and Equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the year.

Were the estimated useful lives to differ by 10% from management’s estimates, the impact on depreciation for the year ended 31 December 2020 would be to increase/decrease it by RSD 2,041,522 thousand (2019: RSD 1,900,267 thousand).

3.4. Impairment of goodwill

Goodwill is tested for impairment annually.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU. The estimated future cash flows include estimation of future costs to produce reserves, future commodity prices, foreign exchange rate, discount rate etc. (note 8)

3.5. Employee benefits

The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to calculate the present value of estimated future cash outflows which are expected to be required to settle the employee benefits obligations. In determining the appropriate discount rate, the Group takes into consideration the interest rates of Serbian Treasury bonds which are denominated in the currency in which pension liabilities will be settled and whose maturity dates approximate the maturity date of the related pension liability.

If the discount rate used to calculate the present value of employee benefit obligations had been 5.30% (rather than 4.30%) per year, the past service liability (DBO) for the whole NIS Group would decrease by about 9.25% for retirement indemnity and 5.71% for jubilee benefit. If pay increased by 1.0% higher than assumed on an annual basic, than the past service liability (DBO) for the whole NIS Group would increase by amount 5.73% for the retirement indemnity.

3.6. Decommissioning and environmental protection provision

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.
Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.
The amount recognised as a provision (note 21) is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

If the discount rate used to calculate the present value of decommissioning obligations had been 5.30% (rather than 4.30%) per year, the present liability would have decreased by approx. RSD 721,372 thousand (31 December 2019: 5.40% (rather than 4.40%) per year the present liability would have decreased by approx. RSD 419,182 thousand).

3.7. Contingencies

Certain conditions may exist as of the date of these consolidated financial statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 38).

3.8. Recoverability of carrying amount of Property, Plant and Equipment

In the line with changes in the crude oil price on the world market, management of the Group performed stress sensitivity analysis of its impact on recoverability of the Group PPE and overall business performance. Based on the currently available information and crude oil price forecast obtained from a reputable firm management believe that at reporting date recoverable amount of Group's PPE exceed its carrying value.

The management reviewed external and internal sources of information for assessing potential impairment indicators such as changes in the Group's business plans, changes in oil and commodity prices leading to sustained unprofitable performance, low plant utilisation, evidence of physical damage, changes in market interest rates, worseining performance of particular assets or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. The Group realized EBITDA in the amount of RSD 15,8 bln in the current year (FY 2019: RSD 44,5 bln) and net loss in the amount of RSD 7,5 bln. Net loss in the current year was impacted by the covid-19 implications which primarily affected the first half of 2020 when net loss was reported in the amount of RSD 10,2 bln while the recovery of business performance was restored in the second half of 2020 when the Group reported net profit in the amount of RSD 2,7 bln. The business plan of the Group for the FY 2021 predicts profitable operatons and restoring EBITDA to the historical level with further stabilization in the period FY 2022-23. The price of oil significantly restored by year end (31 December 2020) and subsequent to that date, currently exceeding all medium forecast projections for the period 2020-2025. In addition, the Group completed major contruction project during the last quarter of FY 2020 which will significantly increase the utilization of oil refineries and increase the efficiency of operations in the future periods. Details on this, recognized impairment losses and the result of assessment of impairment indicators are presented in the Note 8.

The Group assessed crude oil price volatility as main impairment indicator. If the actual crude oil price would decrease for 10$/barrel below the forecasted crude oil prices, sensitivity analysis shows that the recoverable amount is still above the carrying value of Group's PPE by RSD 57.2 bln (31 December 2019: RSD 46.5 bln).

Oil prices are based on the available forecasts from globally recognized research institutions such as Wood Mackenzie, Platts/PIRA, Energy Group and others.

Management will continue to monitor the crude oil price fluctuation and its influence on business performance in order to adequately take measure to mitigate impact.

4. APPLICATION OF NEW IFRS

The following amendments to the existing standards which became effective did not have any material impact on the Consolidated Financial Statements:

- Amendments to the Conceptual Framework for Financial Reporting (issued in March 2018 and effective for annual periods beginning on or after 1 January 2020);
- Definition of a Business − Amendments to IFRS 3 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Definition of Material − Amendments to IAS 1 and IAS 8 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020);
- Interest Rate Benchmark Reform − Amendments to IFRS 9, IAS 39 and IFRS 7 (issued in September 2019 and effective for annual periods beginning on or after 1 January 2020);
- COVID-19-Related Rent Concessions − Amendments to IFRS 16 (issued in May 2020 and effective for annual periods beginning on or after 1 June 2020);
- Lease Incentives – Amendments to Illustrative Example 13 accompanying IFRS 16 (issued in May 2020).

5. NEW ACCOUNTING STANDARDS

The following new standards and amendments to the existing standards are not expected to have any material impact on the Consolidated Financial Statements when adopted:

- IFRS 17 − Insurance Contracts (issued on 18 May 2017 and amended in June 2020, effective for annual periods beginning on or after 1 January 2023);
- Classification of Liabilities as Current or Non-Current − Amendments to IAS 1 (issued in January 2020 and amended in July 2020, effective for annual periods beginning on or after January 2023);
- Onerous Contracts − Cost of Fulfilling a Contract − Amendments to IAS 37 (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Property, Plant and Equipment: Proceeds before Intended Use − Amendments to IAS 16 (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Updating References to the Conceptual Framework − Amendments to IFRS 3 (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022);
- Annual Improvements to IFRS Standards 2018-2020 Cycle (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022):
  - Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities − Amendments to IFRS 9;
  - Subsidiary as a First-time Adopter − Amendment to IFRS 1;
  - Taxation in Fair Value Measurements − Amendment to IAS 41;
- Interest Rate Benchmark Reform (Phase 2) − Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued in August 2020 and effective for annual periods beginning on or after 1 January 2021);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued in September 2014 and effective for annual periods beginning on or after a date to be determined by IASB).

6. FINANCIAL RISK MANAGEMENT

6.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk, liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance and finance control department within the Company's Function for Economics, Finance, Planning and Accounting (further "FEPA") which under the policies approved by the Group identifies and evaluates financial risks in close co-operation with the Group's operating units.

In the normal course of its operations the Group has exposure to the following financial risks:

a) market risk (including currency risk, interest rate risk and commodity price risk);
b) credit risk and
c) liquidity risk.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates (c) commodity price, all of which are exposed to general and specific market movements. Management analyse and monitoring risk that may be accepted, however, the use of this approach does not prevent losses in the event of more significant market movements.

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD and EUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Management has set up a policy to manage its foreign exchange risk against its functional currency. In order to manage its foreign exchange risk arising from future transactions and recognised assets and liabilities, responsible persons in the finance department within the FEPA negotiate the best possible exchange rates for the purchase of foreign currency to be contracted on a daily basis based on the exchange rate applicable on the day the purchase is made. Foreign exchange risks arise when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group functional currency.

The Group has borrowings denominated in foreign currency mainly in EUR which predominantly expose Group to the foreign currency translation risk.

The carrying values (net of allowance) of the Group's financial instruments by currencies they are denominated are as follows:

As of 31 December 2020

	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Financial instrument at FVTOCI	95,316	-	-	-	95,316
Other long-term financial investments	84,336	662,568	5,740	-	752,644
Long term receivables	9,515	75,637	-	-	85,152
Current assets					
Trade receivables	18,293,378	797,131	95,424	1,429,747	20,615,680
Receivables from specific operations	42,945	16,749	149,953	7,994	217,641
Other receivables	1,233,026	481,239	3,220	58,038	1,775,523
Short term financial investments	116,181	226,888	-	-	343,069
Cash and cash equivalents	4,571,789	3,318,178	243,231	355,104	8,488,302
Financial liabilities					
Non-current					
Long-term liabilities	(14,198)	(72,721,977)	(120,107)	(1,123,736)	(73,980,018)
Current liabilies					
Short-term financial liabilities	(14,831)	(11,877,242)	(37,751)	(266,891)	(12,196,715)
Trade payables	(6,721,073)	(7,973,347)	(3,329,805)	(1,254,454)	(19,278,679)
Other short-term liabilities	(8,888,449)	(79,884)	(152,390)	(130,704)	(9,251,427)
Net exposure	**8,807,935**	**(87,074,060)**	**(3,142,485)**	**(924,902)**	**(82,333,512)**

As of 31 December 2019

	RSD	EUR	USD	Other	Total
Financial assets					
Non-current					
Financial instrument at FVTOCI	95,662	-	-	-	95,662
Other long-term financial investments	231,671	729,893	4,964	-	966,528
Long term receivables	9,515	224,669	-	-	234,184
Current assets					
Trade receivables	22,758,194	1,107,544	128,120	1,579,001	25,572,859
Receivables from specific operations	497,459	2,822	164,460	9,129	673,870
Other receivables	877,230	19,232	3,567	35,728	935,757
Short term financial investments	1,114,559	75,810	-	653,104	1,843,473
Cash and cash equivalents	6,206,398	5,408,179	2,148,914	1,532,319	15,295,810
Financial liabilities					
Non-current					
Long-term liabilities	(12,489)	(82,942,688)	(173,130)	(914,624)	(84,042,931)
Current liabilies					
Short-term financial liabilities	(15,559)	(6,462,042)	(36,162)	(248,134)	(6,761,897)
Trade payables	(9,280,442)	(8,013,428)	(16,284,376)	(1,763,084)	(35,341,330)
Other short-term liabilities	(7,860,308)	(227,495)	(168,997)	(118,254)	(8,375,054)
Net exposure	**14,621,890**	**(90,077,504)**	**(14,212,640)**	**765,185**	**(88,903,069)**

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2020	**31 December 2019**
EUR	117.5802	117.5928
USD	95.6637	104.9186

Sensitivity analysis

The Group has chosen to provide information about market and potential exposure to hypothetical gain / (loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis below reflects the hypothetical effect on the Group's financial statements and the resulting hypothetical gains/losses that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

As at 31 December 2020, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit and equity for the year would have been RSD 4,353,703 thousand (2019: RSD 4,503,875 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings and account payables.

As at 31 December 2020, if the currency had strengthened/weaken by 10% against the USD with all other variables held constant, pre-tax profit and equity for the year would have been RSD 314,249 thousand (2019: RSD 1,421,264 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated accounting payables.

Interest rate risk

Borrowings withdrawn at variable interest rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (Euribor or Libor) has a proportionate impact on the Group's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit and equity for 2020 would have been RSD 667,008 thousand (2019: RSD 718,111 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Commodity price risk

The Group's financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group's planning system calculates different scenarious for key performance facors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms. Such activities help to decrease risk to an acceptable level.

Credit risk

The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the balance sheet is as follows:

	Year end 31 December	
	2020	**2019**
Financial instrument at FVTOCI	95,316	95,662
Other long-term investments (note 11)	752,644	966,528
Long term receivables	85,152	234,184
Trade receivables (note 14)	20,615,680	25,572,859
Receivables from specific operations	217,641	673,870
Other receivables (note 15)	1,775,523	935,757
Short term financial investments (note 16)	343,069	1,843,473
Cash and cash equivalents (note 17)	8,488,302	15,295,810
Total maximum exposure to credit risk	**32,373,327**	**45,618,143**

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

*Limits. T*he Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower**.** Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:

- financial statements of the counterparty;
- scoring Serbian Business Register Agency, NIS and/or D&B reports;
- amount of registered pledges;
- data on customer's account blockade;
- history of relationships with the Group;
- planned sales volume;
- duration of relationship with the Group, including ageing profile, maturity and existence of any financial difficulties.

<u>Trade, Specific and Other receivables</u>

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which use a lifetime expected loss allowance.

To measure the expected credit losses, trade, specific and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 60 months before 31 December 2020 and 48 months before 1 January 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates were not adjusted with forward-looking information on macroeconomic factors as no correlation were identified that significantly affect ability of the customers to settle the receivables.

The credit loss allowance for trade, sprecific and other receivables is determined according to provision matrix presented in the table below.

At 31 December 2020 the provision matrix is based on the number of days that an asset is past due:

	Loss rate	**Gross carrying amount**	**Lifetime ECL**	**Total trade, specific and other receivables**
Trade, specific and other receivables				
- current	0.03%	21,105,745	(2,548)	21,103,197
- less than 30 days overdue	0.17%	941,970	(4)	941,966
- 31 to 90 days overdue	0.88%	106,502	(3,371)	103,131
- 91 to 270 days overdue	3.69%	158,376	(55,610)	102,766
- over 270 days overdue	98.53%	16,664,957	(16,307,173)	357,784
Total trade, specific and other receivables		**38,977,550**	**(16,368,706)**	**22,608,844**

At 31 December 2019 the provision matrix is based on the number of days that an asset is past due:

	Loss rate	Gross carrying amount	Lifetime ECL	Total trade, specific and other receivables
Trade, specific and other receivables				
- current	0.05%	24,959,646	(12,085)	24,947,561
- less than 30 days overdue	0.18%	1,313,262	(2,369)	1,310,893
- 31 to 90 days overdue	1.10%	124,561	(1,375)	123,186
- 91 to 270 days overdue	2.58%	113,860	(2,936)	110,924
- over 270 days overdue	96.09%	17,776,085	(17,086,163)	689,922
Total trade, specific and other receivables		**44,287,414**	**(17,104,928)**	**27,182,486**

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, advance payment or other security.

The Management of the Group regularly assesses the credit quality of trade, specific and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Group.

Management believes that not impaired trade, specific and other receivables and other current assets are fully recoverable.

Movements on the Group's provision for impairment of trade and lease receivables are as follows:

	Trade receivables			
	Individually impaired	Collectively impaired	**Lease receivables**	**Total**
As at 1 January 2019	**2,340,228**	**3,745,269**	**59,612**	**6,145,109**
Provision for receivables impairment	7,261	75,724	2,321	85,306
Unused amounts reversed (note 34)	(6,218)	(73,532)	(7,870)	(87,620)
Receivables written off during the year as uncollectible	-	(263,040)	(1,232)	(264,272)
Other	(953)	3,298	-	2,345
As at 31 December 2019	**2,340,318**	**3,487,719**	**52,831**	**5,880,868**
As at 1 January 2020	**2,340,318**	**3,487,719**	**52,831**	**5,880,868**
Provision for receivables impairment	4,402	101,789	5,126	111,317
Unused amounts reversed (note 34)	(6,660)	(113,101)	(11,634)	(131,395)
Receivables written off during the year as uncollectible	(87)	(609,650)	(284)	(610,021)
Other	(35)	(4,196)	-	(4,231)
As at 31 December 2020	**2,337,938**	**2,862,561**	**46,039**	**5,246,538**

Expenses that have been provided for or written off are included in fair value measurement loss within the income statement. Amounts charged to the allowance account are generally written off where there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned. The other classes within trade, sprecific and other receivables do not contain impaired assets.

Movements on the Group's provision for impairment of receivables from specific operations are as follows:

	Receivables from specific operations
As at 1 January 2019	**1,754,714**
Provision for receivables impairment	2,185
Unused amounts reversed (note 34)	(3,068)
Receivables written off during the year as uncollectible	(12,958)
Other	(480)
As at 31 December 2019	**1,740,393**
Provision for receivables impairment	5,126
Unused amounts reversed (note 34)	(552)
Receivables written off during the year as uncollectible	(30,209)
Other	175
As at 31 December 2020	**1,714,933**

Movements on the provision for other receivables:

	Interest receivables	Other receivables	Total
As at 1 January 2019	**2,130,865**	**7,417,765**	**9,548,630**
Provision for other receivables impairment	4,813	9,415	14,228
Unused amounts reversed (note 34)	(12,914)	(1,088)	(14,002)
Receivables written off during the year as uncollectible	(55,294)	(7,177)	(62,471)
Other	(2,629)	(89)	(2,718)
As at 31 December 2019	**2,064,841**	**7,418,826**	**9,483,667**
Provision for other receivables impairment	8,260	2,089	10,349
Unused amounts reversed (note 34)	(38,421)	(370)	(38,791)
Receivables written off during the year as uncollectible	(46,524)	(1,129)	(47,653)
Other	(541)	204	(337)
As at 31 December 2020	**1,987,615**	**7,419,620**	**9,407,235**

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	BBB and higher	Less than BBB	Without rating	Total
As at December 2020				
Cash and cash equivalents (note 17)	2,362,115	4,247,736	1,878,451	**8,488,302**
Deposits with original maturity more than 3 months less than 1 year (note 16)	-	-	266,224	**266,224**
As at December 2019				
Cash and cash equivalents (note 17)	4,156,429	6,447,759	4,691,622	**15,295,810**
Deposits with original maturity more than 3 months less than 1 year (note 16)	-	653,218	1,113,346	**1,766,564**
Deposits with original maturity more than 1 year (note 11)	-	-	158,079	**158,079**

The Group uses lifetime expected credit loss approach to measure expected credit losses for most of its financial assets.

As of 31 December 2020 and 2019 no significant credit loss allowance for impairment in respect of these assets was recognized.

Liquidity risk

Cash flow forecasting is performed as aggregated at the Group's level. The Company's finance function monitors rolling forecasts of the Group's liquidity requirements to ensure It has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the Group over and above balance required for working capital management are invested as surplus cash in time deposits.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at 31 December 2020	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1 - 5 years**	**Over 5 years**
Financial liabilities (debt+lease)	86,176,733	90,113,828	13,520,395	63,382,156	13,211,277
Trade payables and dividends	23,063,696	23,063,696	23,063,696	-	-
	109,240,429	**113,177,524**	**36,584,091**	**63,382,156**	**13,211,277**
As at 31 December 2019					
Financial liabilities (debt+lease)	90,804,828	96,685,828	8,528,198	83,672,824	4,484,806
Trade payables and dividends	39,122,022	39,122,022	39,122,022	-	-
	129,926,850	**135,807,850**	**47,650,220**	**83,672,824**	**4,484,806**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio. Net debt to EBITDA is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, other finance income (expenses) net, other non-operating income (expenses).

The Group's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	31 December 2020	**31 December 2019**
Total borrowings (notes 22 and 23)	86,176,733	90,804,828
Less: cash and cash equivalents (note 17)	(8,488,302)	(15,295,810)
Net debt	**77,688,431**	**75,509,018**
EBITDA	15,824,303	44,479,734
Net debt to EBITDA	**4.91**	**1.70**

The Group has committed (at the level of Gazprom Neft Group) to maintain debt cover ratio of total indebtedness and EBITDA not exceeding 3.0 during the terms of long-term borrowings agreements with certain commercial banks. Group constantly monitoring the established commitments to maintain the height of debt cover ration and there has been no breach of these obligation.

There were no changes in the Group's approach to capital management during the year.

The fair value of financial instruments traded in an active market (such as available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying amount of trade and other receivables, other current assets and trade and other payable due to their short-term nature is considered to be the same as their fair value. For the majority of the non-current receivables and non-current payables the fair values are also not significantly different to their carrying amounts.

7. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the years ended 31 December 2020 and 2019. Operating segments are components that engaged in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development and production of crude oil and natural gas and oil field services. Downstream segment (refining and marketing) processes crude oil into refined products and purchases, sells and transports crude and refined petroleum products (refining and marketing). Corporate centre and Energy business activities expenses are presented within the Downstream segment.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealized profits, mainly from the sale of crude oil and products, and other adjustments. Intersegment revenues are based upon estimated market prices.

EBITDA represents the Group's EBITDA. Management believes that EBITDA represents useful means of assessing the performance of the Group's on-going operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortization, finance income (expenses) net and other non-operating income (expenses). EBITDA is a supplemental non-IFRS financial measure used by management to evaluate operations.

Reportable segment results for the year ended 31 December 2020 are shown in the table below:

	Upstream	**Downstream**	**Eliminations**	**Total**
Segment revenue	30,291,847	183,613,051	(30,071,039)	183,833,859
Intersegment	29,491,961	579,078	(30,071,039)	-
External	799,886	183,033,973	-	183,833,859
Adjusted EBITDA (Segment results)	**16,154,650**	**(330,347)**	**-**	**15,824,303**
Depreciation, depletion and amortization	(12,770,569)	(10,035,335)	-	(22,805,904)
Impairment losses/Revaluation surpluses (note 35 and 36)	61,646	(771,504)	-	(709,858)
Writte off exploration works (note 9)	(136,812)	-	-	(136,812)
Share of loss of associates and joint ventures	-	(103,671)	-	(103,671)
Finance expenses, net	(276,348)	(1,661,870)	-	(1,938,218)
Income tax	(193,607)	1,758,004	-	1,564,397
Segment profit (loss)	3,367,063	(10,933,066)	-	(7,566,003)

Reportable segment results for the year ended 31 December 2019 are shown in the table below:

	Upstream	Downstream	Eliminations	Total
Segment revenue	48,317,499	272,263,504	(48,484,503)	272,096,500
Intersegment	47,501,435	983,068	(48,484,503)	-
External	816,064	271,280,436	-	272,096,500
Adjusted EBITDA (Segment results)	**34,188,266**	**10,291,468**	**-**	**44,479,734**
Depreciation, depletion and amortization	(11,402,076)	(9,574,273)	-	(20,976,349)
Impairment losses/Revaluation surpluses (note 35 and 36)	(18,054)	32,032	-	13,978
Writte off exploration works (note 9)	(377,207)	-	-	(377,207)
Share of loss of associates and joint ventures	-	(129,287)	-	(129,287)
Finance expenses, net	(365,574)	(1,120,548)	-	(1,486,122)
Income tax	(212,842)	(4,319,766)	-	(4,532,608)
Segment profit (loss)	21,632,035	(5,035,633)	-	16,596,402

Adjusted EBITA for the downstream segment includes Corporate centre EBITDA in the negative amount of RSD 6,150,081 thousand for the year ended 31 December 2020 (31 December 2019: negative EBITDA in the amount of RSD 6,679,539 thousand). Adjusted EBITDA for Downstream segment prior allocation of Corporate centre EBITDA is presented in the following table:

	Year ended 31 December 2020	2019
Adjusted EBITDA after allocation of Corporate centre	(330,347)	10,291,468
Corporate centre EBITDA	(6,150,081)	(6,679,539)
Adjusted EBITDA prior allocation of Corporate centre	**5,819,734**	**16,971,007**

Adjusted EBITDA for the year ended 31 December 2020 and 2019 is reconciled below:

	Year ended 31 December 2020	2019
Profit for the year	(7,566,003)	16,596,402
Income tax	(1,564,397)	4,532,608
Other expenses	2,085,221	1,868,685
Other income	(2,296,523)	(1,265,910)
Loss from valuation of assets at fair value through profit and loss	154,834	134,564
Income from valuation of assets at fair value through profit and loss	(259,147)	(121,212)
Finance expense	4,816,945	4,178,538
Finance income	(2,775,056)	(2,563,129)
Depreciation, depletion and amortization	22,805,904	20,976,349
Other non operating expenses, net*	422,525	142,839
EBITDA	**15,824,303**	**44,479,734**

*Other non-operating expense, net mainly relate to reversal of impairment, decommissioning and site restoration cost, allowance of receivables and other.

Oil, gas and petroleum products sales comprise the following (based on the country of customer incorporation):

	Year ended 31 December 2020		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	445,567	445,567
Sale of gas	362,369	-	362,369
Through a retail network	-	-	-
Wholesale activities	362,369	-	362,369
Sale of petroleum products	127,044,342	43,165,194	170,209,536
Through a retail network	49,100,165	10,910,927	60,011,092
Wholesale activities	77,944,177	32,254,267	110,198,444
Sales of electricity	1,160,202	298,446	1,458,648
Lease revenue	291,237	6,106	297,343
Other sales	8,232,649	2,827,747	11,060,396
Total sales	**137,090,799**	**46,743,060**	**183,833,859**

	Year ended 31 December 2019		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	824,057	665,186	1,489,243
Sale of gas	1,388,688	-	1,388,688
Through a retail network	-	-	-
Wholesale activities	1,388,688	-	1,388,688
Sale of petroleum products	186,520,141	70,167,285	256,687,426
Through a retail network	66,171,840	17,557,295	83,729,135
Wholesale activities	120,348,301	52,609,990	172,958,291
Sales of electricity	782,645	233,715	1,016,360
Lease revenue	351,477	6,439	357,916
Other sales	7,696,451	3,460,416	11,156,867
Total sales	**197,563,459**	**74,533,041**	**272,096,500**

Out of the amount of RSD 110,198,444 thousand (2019: RSD 172,958,291 thousand) revenue from sale of petroleum products (wholesale), the amount of RSD 16,743,010 thousand (2019: RSD 19,070,224 thousand) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Network for trading d.o.o. Belgrade in the amount of RSD 504,652 thousand (2019: RSD 309,224 thousand).

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of RSD 8,758,716 thousand (2019: RSD 8,828,683 thousand).

All performance obligations related to customers are satisfied at point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation.

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 137,090,799 thousand (2019: RSD 197,563,459 thousand), and the total of revenue from external customer from other countries is RSD 46,743,060 thousand (2019: RSD 74,533,041 thousand).

The breakdown of the major component of the total revenue from external customers from other countries is disclosed below:

	Year ended 31 December 2020	2019
Sale of crude oil	445,567	665,186
Sale of petroleum products (retail and wholesale)		
Bulgaria	10,190,296	14,559,719
Bosnia and Herzegovina	13,463,146	27,417,504
Romania	10,903,430	13,415,451
Croatia	1,656,265	2,431,173
Northern Macedonia	790,710	1,343,723
Hungary	779,414	1,610,845
Great Britain	903,215	1,063,213
Switzerland	453,057	1,888,635
All other markets	4,025,661	6,437,022
	43,165,194	70,167,285
Sales of electricity	298,446	233,715
Lease revenue	6,106	6,439
Other sales	2,827,747	3,460,416
	46,743,060	**74,533,041**

Revenues from the individual countries included in all other markets are not material.

Presentation of excise duties

The following table presents sales revenue earned and related calculated excise duties frot 2020 and 2019:

	2020	2019
Sales revenue	316,037,510	415,794,117
Excise duties	(132,203,651)	(143,697,617)
Net sales revenue	**183,833,859**	**272,096,500**

In the Republic of Serbia excise duties become payable when products subject of excise duties exit from excise warehouse. This incurs when the goods are loaded for transport either for direct sales to customers (wholesale) or for transport to own retail network. Calculated excise duties are payable in 15 days. The Group assessed that for excise duties levied in wholesale it bears no inventory risk nor significant credit risk. In retail sales, the Group estimates that average turnover of inventories approximates payment period for excise duties, and that there are no significant inventory or credit risk. Accordingly, since the Group bears no significant risks in both cases, excise duties are collected on behalf of tax authority and consequently deducted from revenue.

Non-current assets, other than financial instruments, deferred income tax assets, investments in joint venture and other non-current assets (there are no employment benefit assets and rights arising under insurance contracts), by country:

	31 December 2020	31 December 2019
Serbia	288,696,880	287,838,624
Romania	12,430,336	11,853,104
Bosnia and Herzegovina	7,649,494	7,276,613
Bulgaria	6,423,225	6,881,442
	315,199,935	**313,849,783**

8. INTANGIBLE ASSETS

	Development investments	Concessions, patents, licenses, software and other rights	Goodwill	Other intangibles	Intangible assets under development	Total
At 1 January 2019						
Cost	11,630,138	9,287,315	2,262,796	1,443,305	9,721,470	34,345,024
Accumulated amortization and impairment	(2,323,773)	(7,558,187)	(713,418)	(316,885)	(61,377)	(10,973,640)
Net book amount	**9,306,365**	**1,729,128**	**1,549,378**	**1,126,420**	**9,660,093**	**23,371,384**
Year ended 31 December 2019						
Additions	-	-	-	704	3,283,123	3,283,827
Transfer from assets under development	3,139,293	829,622	-	-	(3,968,915)	-
Amortization	(1,005,829)	(574,386)	-	(46,496)	-	(1,626,711)
Impairment (note 36)	-	-	(180,004)	-	-	(180,004)
Transfer to PP&E (note 9)	-	-	-	-	(42,660)	(42,660)
Other transfers	-	4,697	-	(1,457)	(108,081)	(104,841)
Transfer to right of use assets	-	-	-	(153,119)	-	(153,119)
Translation differences	-	(130)	(14,866)	(1,096)	(118,551)	(134,643)
Closing net book amount	**11,439,829**	**1,988,931**	**1,354,508**	**924,956**	**8,705,009**	**24,413,233**
As at 31 December 2019						
Cost	14,769,430	10,033,485	2,233,762	1,252,029	8,760,424	37,049,130
Accumulated amortization and impairment	(3,329,601)	(8,044,554)	(879,254)	(327,073)	(55,415)	(12,635,897)
Net book amount	**11,439,829**	**1,988,931**	**1,354,508**	**924,956**	**8,705,009**	**24,413,233**
At 1 January 2020						
Cost	14,769,430	10,033,485	2,233,762	1,252,029	8,760,424	37,049,130
Accumulated amortization and impairment	(3,329,601)	(8,044,554)	(879,254)	(327,073)	(55,415)	(12,635,897)
Net book amount	**11,439,829**	**1,988,931**	**1,354,508**	**924,956**	**8,705,009**	**24,413,233**
Year ended 31 December 2020						
Additions	-	-	-	-	1,335,647	1,335,647
Transfer from assets under development	1,474,226	661,805	-	9,946	(2,145,977)	-
Amortization	(1,143,611)	(610,561)	-	(46,584)	(4,719)	(1,805,475)
Impairment (note 36)	-	-	(26,506)	-	(58,941)	(85,447)
Transfer to PP&E (note 9)	-	-	-	-	122,924	122,924
Other transfers	-	782	-	-	49,464	50,246
Translation differences	-	(77)	(5,298)	(129)	(85,430)	(90,934)
Closing net book amount	**11,770,444**	**2,040,880**	**1,322,704**	**888,189**	**7,917,977**	**23,940,194**
As at 31 December 2020						
Cost	16,243,657	10,694,203	2,220,431	1,253,796	8,036,878	38,448,965
Accumulated amortization and impairment	(4,473,213)	(8,653,323)	(897,727)	(365,607)	(118,901)	(14,508,771)
Net book amount	**11,770,444**	**2,040,880**	**1,322,704**	**888,189**	**7,917,977**	**23,940,194**

Intangible assets under development as at 31 December 2020 amounting to RSD 7,917,977 thousand (31 December 2019: RSD 8,705,009 thousand) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 7,749,359 thousand (31 December 2019: RSD 8,538,201 thousand).

Impairment test for goodwill

Goodwill is monitored by the management on an individual CGU basis or groups of CGUs. Groups of CGUs relate to the whole retail network of one subsidiary in Bosnia and Herzegovina where goodwill is allocated on this basis.. The recoverable amount of each CGUs has been determined by independent appraisal based on higher of value-in-use and fair value less cost to disposed calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

The average key assumptions used in value-in use calculations:

	2020	2019
Average gross margin	23.3%	21.0%
Growth rate	1%	1%
Discount rate		
- Romania market	6.72%	6.99%
- Bulgaria market	5.84%	6.30%
- Bosnia and Herzegovina market	7.71%	8.73%

Management determined the budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relation to the relevant CGU. The following is a summary of goodwill allocation:

	Opening balance	Addition	Impairment	Translation differences	Closing balance
2020					
Bosnia and Herzegovina	482,387	-	-	(51)	482,336
Romania	278,560	-	-	(5,183)	273,377
Bulgaria	593,561	-	(26,506)	(64)	566,991
	1,354,508	**-**	**(26,506)**	**(5,298)**	**1,322,704**
2019					
Bosnia and Herzegovina	484,855	-	-	(2,468)	482,387
Romania	286,915	-	-	(8,355)	278,560
Bulgaria	777,608	-	(180,004)	(4,043)	593,561
	1,549,378	**-**	**(180,004)**	**(14,866)**	**1,354,508**

Except recognised impairment loss in Bulgaria in the amount of RSD 26,506 thousand (2019: RSD 180,004 thousand), impairment test in Bosnia and Romania shows that the recoverable amount calculated based on value in use / fair value exceeds carrying value.

If the revised estimated growth rate would be 0.5% instead of 1% and if applied discounted rate would be 1pp higher than the figures used in recoverable amounts calculation, the recoverable amount of tested assets where impairment initially has not been determined, still exceeds its carrying amount. If growth rate would be 0% in a combination with the applied discount rate as stated in the table above, recoverable amount also exceeds respective carrying amounts. With respect to the discount rate, impairment test is most sensitive for the Bosnia and Hercegovina market, where value in use exceeds carrying amounts of related assets at discount rate higher than 9.04%.

The management considers the average fuel gross margin as a part of the overall average gross margin to be the key assumption which affects the sensitivity of value in use calculation. The following table shows sensitivity of this calculation against the change in this assumption by showing how much the average fuel gross margin should decrease in order for value in use to be equal to the carrying amount of tested assets:

	Used assumption on average gross fuel margin	Decrease in pp
Romania market	24.3%	12.6pp
Bulgaria market	25.0%	8.3pp
Bosnia and Herzegovina market	20.7%	0.3pp

9. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment carried at cost

	Land	Buildings	Machinery and equipment	Construction in Progress	Other PP&E	Investments in leased PP&E	Advances to suppliers	Total
At 1 January 2019								
Cost	17,282,588	209,356,843	134,383,253	41,899,970	90,751	539,696	799,493	404,352,594
Accumulated depreciation and impairment	(300,931)	(66,529,570)	(66,652,875)	(2,003,696)	(2,019)	(327,298)	(37,982)	(135,854,371)
Net book amount	**16,981,657**	**142,827,273**	**67,730,378**	**39,896,274**	**88,732**	**212,398**	**761,511**	**268,498,223**
Year ended 31 December 2019								
Additions	-	777,397	1,676	38,786,941	-	-	2,226,024	41,792,038
Transfer from assets under development	36,531	16,021,521	6,770,855	(22,841,975)	1,634	11,434	-	-
Impairment charge (note 36)	-	(98,929)	-	(152,630)	(543)	-	-	(252,102)
Depreciation	-	(10,156,657)	(8,778,245)	-	-	(67,765)	-	(19,002,667)
Transfer from intangible assets (note 8)	-	-	-	42,660	-	-	-	42,660
Transfer to investment property	-	-	-	(10,016)	-	-	-	(10,016)
Transfer to non-current assets held for sale	(56,573)	(18,619)	(30,607)	-	-	-	-	(105,799)
Disposals and write-off	(2,836)	(117,232)	(147,252)	(611,682)	(22)	(3,686)	(2,642,072)	(3,524,782)
Transfer to right of use assets	-	(456,413)	(362,999)	-	-	-	-	(819,412)
Other transfers	-	967	(108,025)	49,464	(13)	-	-	(57,607)
Translation differences	(57,234)	(69,541)	(10,370)	(94,948)	29	(56)	(97)	(232,217)
Closing net book amount	**16,901,545**	**148,709,767**	**65,065,411**	**55,064,088**	**89,817**	**152,325**	**345,366**	**286,328,319**
At 31 December 2019								
Cost	17,202,401	224,462,317	139,661,505	57,064,616	91,807	547,316	372,108	439,402,070
Accumulated depreciation and impairment	(300,856)	(75,752,550)	(74,596,094)	(2,000,528)	(1,990)	(394,991)	(26,742)	(153,073,751)
Net book amount	**16,901,545**	**148,709,767**	**65,065,411**	**55,064,088**	**89,817**	**152,325**	**345,366**	**286,328,319**
Year ended 31 December 2020								
Additions	-	345,084	-	22,746,197	-	-	1,354,232	24,445,513
Transfer from assets under development	124,786	19,241,134	41,074,162	(60,468,951)	4,090	24,779	-	-
Impairment charge (note 36)	(45,771)	(3,025)	-	(655,841)	-	-	-	(704,637)
Depreciation	-	(10,875,319)	(9,517,841)	-	-	(22,059)	-	(20,415,219)
Transfer from intangible assets (note 8)	-	-	-	(122,924)	-	-	-	(122,924)
Transfer to non-current assets held for sale	(77,770)	(1,284)	(72,246)	-	-	-	-	(151,300)
Disposals and write-off	(32,023)	(60,891)	(106,497)	(256,424)	(578)	-	(1,360,417)	(1,816,830)
Other transfers	21,264	146,231	(186,276)	(49,527)	-	-	-	(68,308)
Translation differences	(19,484)	(27,746)	(4,287)	(80,170)	874	(2)	(99)	(130,914)
Closing net book amount	**16,872,547**	**157,473,951**	**96,252,426**	**16,176,448**	**94,203**	**155,043**	**339,082**	**287,363,700**
At 31 December 2020								
Cost	17,214,976	243,861,639	178,964,414	18,688,125	95,319	553,404	365,823	459,743,700
Accumulated depreciation and impairment	(342,429)	(86,387,688)	(82,711,988)	(2,511,677)	(1,116)	(398,361)	(26,741)	(172,380,000)
Net book amount	**16,872,547**	**157,473,951**	**96,252,426**	**16,176,448**	**94,203**	**155,043**	**339,082**	**287,363,700**
Investment property (note 9b)	**-**	**1,574,329**	**-**	**-**	**-**	**-**	**-**	**1,574,329**
Right of use assets (note 9d)	**143,732**	**1,299,970**	**1,217,092**	**-**	**-**	**-**	**-**	**2,660,794**
Total	**17,016,279**	**160,348,250**	**97,469,518**	**16,176,448**	**94,203**	**155,043**	**339,082**	**291,598,823**

In 2020, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 120,146 thousand (2019: RSD 168,790 thousand).

Of the total amount of activations in 2020 in the amount of RSD 60,468,951 thousand, the most significant part refers to the completion and commissioning of the Bottom of the Barrel Project at the Pancevo Refinery in the amount of RSD 38,844,486 thousand. The Bottom of the Barrel Project ensure optimal utilization of the capacities of the Pancevo Oil Refinery and an increase in the depth of refining to 99.2 per cent (up from 86 per cent in 2017). This implies increased output of high-quality fuels – diesel, gasoline and liquid petroleum gas, as well as the start of production of petroleum coke. This will give Group a competitive edge in the market and trigger its further growth.

The management of the Group assesses at each reporting date whether there is an indication that the recoverable amount of property, plant and equipment fell below its book value.

As at 31 December 2020, the Group assessed impairment indicators. In addition the Group considered value-in-use of cash generating units ("CGU") grouped on the segment level (upstream and downstream). Based on cash flow projections for the period of 20 years (2021-2040) the Group determined that recoverable amount of CGUs belonging to the Upstream and Downstream segment is higher than its carrying amount as at 31 December 2020. Cash flow projections were based on real terms, nominal WACC of 7.97% used as discount rate is reduced to 5.70%. Accordingly based on this and based on other factors considered in the note 3.8, the Group concluded that impaiarment indicators do not exist as at reporting date which would require detail impairment testing of the PPE. In addition, Group has assessed and recognized impairment losses in amount RSD 704,637 thousand (2019: RSD 252,102 thousand) for the individual asset which has disposed due to obsolete, physically damage or for assets under constructions for which exist indication that expected recoverable amounts would not recover carrying value of the assets. The most significant amount refers to the partial impairment of the temporary suspended Base Oil Project in Refinery Novi Sad in amount of RSD 683,196 of which RSD 58,941 thousands relates to impairment of intangible assets (as at 31 December 2020 outstanding amount is RSD 731,532 thousand). Decisions on the project's perspective are expected during 2021.

b) Investment property – carried at fair value

Investment properties are valued at the reporting date at fair value representing the investment property market value.

Movements on the account were as follows:

	2020	2019
As at 1 January	**1,579,798**	**1,615,391**
Fair value loss (note 35 and 36)	-	(8,290)
Transfer from PP&E carried at cost	-	10,016
Disposals	(5,469)	(37,319)
As at 31 December	**1,574,329**	**1,579,798**

As at 31 December 2020, investment properties amounting to RSD 1,574,329 thousand (31 December 2019: RSD 1,579,798 thousand) mainly relate to the petrol stations and business facilities that have been rented out under long-term lease agreements, and are valued at fair value as at the reporting date.

Fair value of investment properties

Valuation of the Group's investment properties comprised of rented petrol stations and other business facilities was performed to determine the fair value as at 31 December 2020 and 2019. The revaluation gain was credited to other income (note 35).

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value measurements at 31 December 2020 using:

	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Recurring fair value measurements			
Land and buildings			
− Shops and other facilities for rents	-	838,887	-
− Gas stations	-	-	735,442
Total	**-**	**838,887**	**735,442**

Fair value measurements at 31 December 2019 using:

	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Recurring fair value measurements			
Land and buildings			
− Shops and other facilities for rents	-	844,356	-
− Gas stations	-	-	735,442
Total	**-**	**844,356**	**735,442**

Valuation techniques used to derive level 2 fair values

Level 2 fair values of shops, apartments and other properties for rent have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

Fair value measurements using significant unobservable inputs (Level 3)

Level 3 fair values of gas stations have been derived using value-in-use approach where fair value of gas station is determined as the present value of future net benefits which will belong to the Group based on long-term rental contracts. The most significant input into this valuation approach is rental price per gas station.

The key assumptions used for value-in-use calculations:

	2020	**2019**
Long term growth rate	0%	0%
Discount rate	12%	12%

Reconciliation of changes in fair value measurement, assets categorised within Level 3 of the fair value hierarchy:

	2020	**2019**
Assets as at 1 January	**735,442**	**743,682**
Changes in fair value measurement:		
Gains (loss) recognised in profit or loss, fair value measurement	-	(8,290)
Other	-	50
Total increase (decrease) in fair value measurement, assets		(8,240)
Assets as at 31 December	**735,442**	**735,442**

c) Oil and gas production assets

Oil and gas production assets comprise of aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves (note 2.10).

Oil and gas production assets are presented in consolidated balance sheet within property, plant and equipment and intangible assets, as presented below:

	31 December 2020			31 December 2019		
	Oil and gas assets	**Other assets**	**Total**	**Oil and gas assets**	**Other assets**	**Total**
Ingangible asset (note 8)						
Development investments	11,770,444	-	11,770,444	11,439,829	-	11,439,829
Concessions, licenses, software and other rights	54,115	1,986,765	2,040,880	65,922	1,923,009	1,988,931
Goodwill	-	1,322,704	1,322,704	-	1,354,508	1,354,508
Other intangible assets	-	888,189	888,189	-	924,956	924,956
Intangible assets under development	7,749,359	168,618	7,917,977	8,587,664	117,345	8,705,009
	19,573,918	**4,366,276**	**23,940,194**	**20,093,415**	**4,319,818**	**24,413,233**
Property, plant and equipment (note 9a)						
Land	601,976	16,414,303	17,016,279	597,192	16,453,029	17,050,221
Buildings	99,598,639	59,175,282	158,773,921	95,390,138	54,342,828	149,732,966
Machinery and equipment	19,533,841	77,935,677	97,469,518	19,993,400	45,773,935	65,767,335
Investment property	-	1,574,329	1,574,329	-	1,579,798	1,579,798
Other property, plant and equipment	-	94,203	94,203	-	89,817	89,817
Construction in progress	14,110,555	2,065,893	16,176,448	16,502,467	38,561,621	55,064,088
Investments in leased PP&E	-	155,043	155,043	-	152,325	152,325
Advances for PP&E	-	339,082	339,082	-	345,366	345,366
	133,845,011	**157,753,812**	**291,598,823**	**132,483,197**	**157,298,719**	**289,781,916**
Net book amount	**153,418,929**	**162,120,088**	**315,539,017**	**152,576,612**	**161,618,537**	**314,195,149**

As as 31 December 2020 the intangible assets under development with respect to the oil and gas assets in the amount of RSD 7,749,359 thousand include the amount of 2,666,712 thousand with respect to the project in Romania.

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total - asset under construction (exploration and development expenditure)	Production assets	Other business and corporate assets	Total
As at 1 January 2019						
Cost	22,258,139	1,399,503	23,657,642	166,462,451	32,008	190,152,101
Depreciation and impairment	(31,743)	(2,428)	(34,171)	(47,674,989)	(20,321)	(47,729,481)
Net book amount	**22,226,396**	**1,397,075**	**23,623,471**	**118,787,462**	**11,687**	**142,422,620**
Year ended 31 December 2019						
Additions	6,741,856	14,402,084	21,143,940	-	-	21,143,940
Changes in decommissioning obligations	-	-	-	777,397	-	777,397
Transfer from asset under construction	(6,163,618)	(12,287,002)	(18,450,620)	18,439,064	11,556	-
Impairment	-	(29)	(29)	(17,482)	(543)	(18,054)
Other transfers	126,491	216,036	342,527	(155,581)	1,619	188,565
Depreciation and depletion	(4,751)	-	(4,751)	(11,043,359)	-	(11,048,110)
Unsuccessful exploration expenditures derecognised (note 7)	(377,207)	-	(377,207)	-	-	(377,207)
Transfer to right-of-use assets	-	-	-	(54,331)	-	(54,331)
Disposals and write-off	(151,518)	(491)	(152,009)	(98,252)	(3,708)	(253,969)
Translation differences	(204,232)	(1)	(204,233)	(6)	-	(204,239)
	22,193,417	**3,727,672**	**25,921,089**	**126,634,912**	**20,611**	**152,576,612**
As at 31 December 2019						
Cost	22,229,550	3,727,699	25,957,249	185,208,089	40,956	211,206,294
Depreciation and impairment	(36,133)	(27)	(36,160)	(58,573,177)	(20,345)	(58,629,682)
Net book amount	**22,193,417**	**3,727,672**	**25,921,089**	**126,634,912**	**20,611**	**152,576,612**
As at 1 January 2020						
Cost	22,229,550	3,727,699	25,957,249	185,208,089	40,956	211,206,294
Depreciation and impairment	(36,133)	(27)	(36,160)	(58,573,177)	(20,345)	(58,629,682)
Net book amount	**22,193,417**	**3,727,672**	**25,921,089**	**126,634,912**	**20,611**	**152,576,612**
Year ended 31 December 2020						
Additions	2,252,926	10,407,399	12,660,325	-	-	12,660,325
Changes in decommissioning obligations	-	-	-	345,084	-	345,084
Transfer from asset under construction	(2,692,111)	(13,257,831)	(15,949,942)	15,935,291	14,651	-
Impairment	-	(713)	(713)	-	-	(713)
Other transfers	30,446	355,800	386,246	(108,434)	382	278,194
Depreciation and depletion	(4,719)	-	(4,719)	(12,044,001)	(3,175)	(12,051,895)
Unsuccessful exploration expenditures derecognised (note 7)	(136,812)	-	(136,812)	-	-	(136,812)
Disposals and write-off	(32,469)	(6,511)	(38,980)	(51,330)	-	(90,310)
Translation differences	(161,463)	-	(161,463)	(26)	(67)	(161,556)
	21,449,215	**1,225,816**	**22,675,031**	**130,711,496**	**32,402**	**153,418,929**
As at 31 December 2020						
Cost	21,489,893	1,226,125	22,716,018	201,221,015	55,925	223,992,958
Depreciation and impairment	(40,678)	(309)	(40,987)	(70,509,519)	(23,523)	(70,574,029)
Net book amount	**21,449,215**	**1,225,816**	**22,675,031**	**130,711,496**	**32,402**	**153,418,929**

Unsuccessful exploration expenditures derecognised in the amount of RSD 136,812 thousand mainly relate to exploration assets located in Serbia due to uncertain viability of commercial production (2019: amount of RSD 377,207 thousand mainly relate to exploration assets located in Serbia).

d) Right of use assets

	Land	Property	Plant and equipment	Vehicles	Total
As at 1 January 2019	**-**	**-**	**-**	**-**	**-**
Changes in opening balances	153,119	1,261,439	335,712	85,151	1,835,421
Additions	-	4,278	216,426	175,197	395,901
Depreciation	-	(238,406)	(81,205)	(27,360)	(346,971)
Transfers	-	-	(30,910)	30,910	-
Effect of contract modifications and changes in estimates	-	344	-	-	344
Translation differences	(4,443)	(4,456)	(1,528)	(469)	(10,896)
As at 31 December 2019	**148,676**	**1,023,199**	**438,495**	**263,429**	**1,873,799**
As at 1 January 2020	**148,676**	**1,023,199**	**438,495**	**263,429**	**1,873,799**
Additions	7,509	565,671	247,685	614,888	1,435,753
Depreciation	(9,722)	(242,249)	(121,726)	(211,513)	(585,210)
Transfers	-	-	(223,326)	223,326	-
Disposals	-	(41,300)	-	(12,289)	(53,589)
Effect of contract modifications and changes in estimates	-	(4,990)	-	1,082	(3,908)
Translation differences	(2,731)	(361)	(2,804)	(155)	(6,051)
As at 31 December 2020	**143,732**	**1,299,970**	**338,324**	**878,768**	**2,660,794**

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

The carrying values of the investments in associates and joint ventures as of 31 December, 2020 and 2019 are summarised below:

		Ownership percentage	31 December 2020	31 December 2019
NIS MET Energowind d.o.o. Belgrade	Joint venture	50%	915,921	946,208
Gazprom Energoholding Serbia d.o.o. Novi Sad	Joint venture	49%	831,509	904,893
HIP Petrohemija ad Pančevo	Associate	20.86%	11,572,197	11,572,197
Less Impairment provision			(11,572,197)	(11,572,197)
Total investments			**1,747,430**	**1,851,101**

The principal place of business of joint ventures disclosed above is the Republic of Serbia.

There are no contingent liabilities relating to the Group’s interest in the joint venture, and no contingent liabilities of the venture itself.

NIS MET Energowind d.o.o. Belgrade

In 2013 the Group acquired 50% of interest in a joint venture Energowind d.o.o. which was intended to be used as a vehicle for operation of future wind farm ‘’Plandiste’’ with total capacity of 102 MW. During March 2019, MET Renewables AG acquired from third parties 50% of share in the project and became a joint partner on the project that has been renamed to NIS MET Energowind d.o.o. Beograd. NIS MET Energowind d.o.o. is a private company and there is no available quoted market price.

Gazprom Energoholding Serbia d.o.o. Novi Sad

In 2015, the Group and Centrenergoholding OAO Russian Federation established the holding company Gazprom Energoholding Serbia LLC, through which they would jointly operate with the Thermal and Heating Power Plant Gazprom Energoholding Serbia "TE-TO" Pancevo with a projected capacity of 208 MW. In October 2017 the contract with Shanghai Electric Group Co., Ltd. was signed on a "turnkey" basis and the design phase started. The project is mostly financed from the loan from Gazprombank (140 mln EUR) with the loan tenor of 12 years and corporate loan from CEH in amount of 41 mln EUR. Handing over CHP TE-TO Pancevo is expected to be completed during 2021. Analysis of the influence of the coronavirus pandemic (COVID-19) to completion of the project is in progress. A significant extension is not expected.

HIP Petrohemija a.d. Pancevo

In accordance with the laws in force in the Republic of Serbia, at the beginning of October 2017 all the condition were met for the full implementation of the earlier prepared plan for restructuring of the company HIP Petrohemija a.d. Pancevo. In accordance with the adopted plan, the structure of the share capital of the company HIP Petrohemija has been changed, whereby NIS increased its equity interest. After conversion, NIS holds, directly more than 20,86% per cent of the voting power of the HIP Petrohemija. Also, NIS has representatives on the BoD and Supervisory boards.

The summarised financial information for the joint ventures as of 31 December 2020 and 2019 and for the years ended 31 December 2020 and 2019 is presented in the table below:

	NIS MET Energowind	Gazprom Energoholding Serbia
31 December 2020		
Current assets	36,102	399,874
Non-current assets	3,162,171	16,016,723
Current liabilities	951,167	211,951
Non-current liabilities	-	14,563,190
Revenue	7,437	17,193
Loss for the year	(60,575)	(149,762)
31 December 2019		
Current assets	132,063	698,256
Non-current assets	3,151,318	12,154,427
Current liabilities	975,707	71,219
Non-current liabilities	-	10,963,037
Revenue	661	44,430
Loss for the year	(114,565)	(146,948)

11. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31 December 2020	31 December 2019
Deposits with original maturity more than 1 year	-	158,079
Other long-term financial investments	8,621	9,176
LT loans given to employees	1,126,857	1,153,957
Less provision	(382,834)	(354,684)
	752,644	**966,528**

Loans to employees as at 31 December 2020 amounting to RSD 1,126,857 thousand (31 December 2019: RSD 1,153,957 thousand) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes, and are repaid through monthly instalments. These loans are impaired in amount of RSD 382,775 thousand.

12. DEFERRED TAX ASSETS AND LIABILITIES

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	31 December 2020	**31 December 2019**
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	488,483	2,466,610
- Deferred tax assets to be recovered within 12 months	2,117,749	316,846
	2,606,232	**2,783,456**
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	-	(2,085,767)
- Deferred tax liabilities to be recovered within 12 months	(292,794)	-
	(292,794)	**(2,085,767)**
Deferred tax assets (net)	**2,313,438**	**697,689**

The gross movement on the deferred income tax account is as follows:

	2020	**2019**
At 1 January	697,689	545,497
Charged to the income statement (note 37)	1,615,695	(1,432,194)
Charged to other comprehensive income	52	-
Charged directly to equity	-	1,584,230
Other	2	156
31 December	**2,313,438**	**697,689**

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

	Provisions	**Carrying value of PP&E vs Tax base**	**Revaluation reserve**	**Total**
Deferred tax liabilities				
As at 1 January 2019	**-**	**(2,399,954)**	**(14,075)**	**(2,414,029)**
Charged to the income statement (note 37)	-	328,107	-	328,107
Translation difference	-	155	-	155
As at 31 December 2019	**-**	**(2,071,692)**	**(14,075)**	**(2,085,767)**
Charged to the income statement (note 37)	-	1,792,971	-	1,792,971
Translation difference	-	2	-	2
As at 31 December 2020	**-**	**(278,719)**	**(14,075)**	**(292,794)**

	Provisions	**Impairment loss**	**Investment credit**	**Tax losses**	**Fair value gains**	**Total**
Deferred tax assets						
As at 1 January 2019	**921,429**	**930,986**	**1,096,509**	**-**	**10,602**	**2,959,526**
Charged to the income statement (note 37)	(6,636)	(657,203)	(1,096,462)	-	-	(1,760,301)
Charged directly to equity	-	1,584,230	-	-	-	1,584,230
Other	-	287	-	-	(286)	1
As at 31 December 2019	**914,793**	**1,858,300**	**47**	**-**	**10,316**	**2,783,456**
Charged to the income statement (note 37)	(12,578)	(653,181)	-	488,483	-	(177,276)
Charged to other comprehensive income	-	-	-	-	52	52
Other	47	**-**	(47)	**-**	-	**-**
As at 31 December 2020	**902,262**	**1,205,119**	**-**	**488,483**	**10,368**	**2,606,232**

The recognition of deferred tax assets was based on a five-year business plan of the Group and the actual results achieved to date which have given the management strong indications that the income tax credits carried forward will be utilised.

The Group recognize deferred tax assets in respect of unused tax loss carry forwards in the amount of RSD 488,483 thousand which are available for offsetting against future taxable profits of the companies in which the losses arose.

13. INVENTORY

	31 December 2020	31 December 2019
Materials, spare parts and tools	17,535,373	34,018,674
Work in progress	4,130,186	4,855,798
Finished goods	8,112,133	10,387,422
Goods for sale	2,728,305	2,994,024
Advances	515,693	582,559
Less: impairment of inventory	(4,757,772)	(4,775,984)
Less: impairment of advances	(150,077)	(149,287)
	28,113,841	**47,913,206**
Non-current assets held for sale	77,140	132,185
Less: impairment of assets held for sale	(37,994)	(43,769)
	39,146	**88,416**
	28,152,987	**48,001,622**

Movement on inventory provision is as follows:

	Impairment of inventories	Impairment of Advances	Impairment of Assets held for sale	Total
Balance as of 1 January 2019	**4,947,073**	**219,191**	**5,943**	**5,172,207**
Provision for inventories and advances (note 36)	8,579	561	-	9,140
Unused amounts reversed (note 35)	(128,739)	(50)	-	(128,789)
Writte off during the year	-	(70,415)	-	(70,415)
Other	(50,929)	-	37,826	(13,103)
Balance as of 31 December 2019	**4,775,984**	**149,287**	**43,769**	**4,969,040**
Provision for inventories and advances (note 36)	56,758	3,530	-	60,288
Unused amounts reversed (note 35)	(43,546)	(31)	-	(43,577)
Writte off during the year	-	(2,709)	-	(2,709)
Other	(31,424)	-	(5,775)	(37,199)
Balance as of 31 December 2020	**4,757,772**	**150,077**	**37,994**	**4,945,843**

14. TRADE RECEIVABLES

	31 December 2020	31 December 2019
Other related parties - domestic	1,525,369	1,184,469
Other related parties - foreign	121,631	100,451
Trade receivables domestic – third parties	23,714,786	29,128,401
Trade receivables foreign – third parties	500,432	1,040,406
	25,862,218	31,453,727
Less: Impairment	(5,246,538)	(5,880,868)
	20,615,680	**25,572,859**

15. OTHER RECEIVABLES

	31 December 2020	31 December 2019
Interest receivables	1,994,243	2,076,082
Receivables from employees	84,901	93,805
Income tax prepayment	1,053,837	672,332
Other receivables	8,049,777	7,577,205
Less: Impairment	(9,407,235)	(9,483,667)
	1,775,523	**935,757**

16. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2020	31 December 2019
Deposits with original maturity more than 3 months less than 1 year	266,224	1,766,564
Other short-term financial assets	76,845	76,909
	343,069	**1,843,473**

As at 31 December 2020 deposits with original maturity more than 3 months less than 1 year amounting to RSD 266,224 thousand (2019: RSD 1,766,564 thousand) relate to bank deposits with interest rates 0.50% to 2.80% p.a. (2019: from 0.02% monthly to 3.5% p.a.).

17. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash in bank and in hand	5,576,620	10,953,668
Deposits with original maturity of less than three months	2,643,210	4,063,656
Cash with restriction	8,328	13,978
Cash equivalents	260,144	264,508
	8,488,302	**15,295,810**

18. PREPAYMENTS AND ACCRUED INCOME

	31 December 2020	31 December 2019
Deferred input VAT	2,111,479	1,929,283
Prepaid expenses	204,044	251,119
Prepaid excise duty	2,258,271	1,767,622
Housing loans and other prepayments	454,374	499,727
	5,028,168	**4,447,751**

Deferred input VAT as at 31 December 2020 amounting to RSD 2,111,479 thousand (31 December 2019: RSD 1,929,283 thousand) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty as at 31 December 2020 amounting to RSD 2,258,271 thousand (31 December 2019: RSD 1,767,622 thousand) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

19. OFF-BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2020	31 December 2019
Issued warranties and bills of exchange	79,867,366	75,404,707
Received warranties and bills of exchange	16,426,088	17,074,113
Properties in ex-Republics of Yugoslavia	5,357,687	5,357,689
Receivables from companies from ex-Yugoslavia	5,873,647	6,441,861
Third party merchandise in NIS warehouses	9,402,918	9,851,859
Assets for oil fields liquidation in Angola	1,361,966	1,361,966
Mortgages and pladges received	1,880,676	1,398,289
Other off-balance sheet assets and liabilities	176,534	208,695
	120,346,882	**117,099,179**

20. EQUITY

	Equity attributable to owners of the Group									
	Share capital	Other capital	Reserves	Retained earnings (loss)	Translation reserves	Unrealised gains (losses) from securities	Actuarial gain (loss)	Total	Non-controlling interest	Total Equity
Balance as at 1 January 2019	**81,530,200**	**-**	**79,755**	**161,318,549**	**57,457**	**(60,082)**	**197,753**	**243,123,632**	**(247,828)**	**242,875,804**
Profit (loss) for the year	-	-	-	16,618,072	-	-	-	16,618,072	(21,670)	16,596,402
Gains from securities	-	-	-	-	-	7,267	-	7,267	-	7,267
Dividend distribution	-	-	-	(6,517,524)	-	-	-	(6,517,524)	-	(6,517,524)
Actuarial gain	-	-	-	-	-	-	(45,334)	(45,334)	-	(45,334)
Other	-	-	-	1,589,598	192,616	(5,368)	-	1,776,846	1,331	1,778,177
Balance as at 31 December 2019	**81,530,200**	**-**	**79,755**	**173,008,695**	**250,073**	**(58,183)**	**152,419**	**254,962,959**	**(268,167)**	**254,694,792**
Balance as at 1 January 2020	**81,530,200**	**-**	**79,755**	**173,008,695**	**250,073**	**(58,183)**	**152,419**	**254,962,959**	**(268,167)**	**254,694,792**
Profit (loss) for the year	-	-	-	(7,566,003)	-	-	-	(7,566,003)	-	(7,566,003)
Loss from securities	-	-	-	-	-	(294)	-	(294)	-	(294)
Dividend distribution	-	-	-	(4,425,459)	-	-	-	(4,425,459)	-	(4,425,459)
Actuarial gain	-	-	-	-	-	-	(52,595)	(52,595)	-	(52,595)
Other	-	-	-	(287,845)	111,866	-	-	(175,979)	287,845	111,866
Balance as at 31 December 2020	**81,530,200**	**-**	**79,755**	**160,729,388**	**361,939**	**(58,477)**	**99,824**	**242,742,629**	**19,678**	**242,762,307**

Non-controlling interest in the amount of RSD 19,678 thousand relates to following balance sheet lines: share capital in the amount of RSD 18,730 thousand, retained earning in the amount of RSD 3,328 thousand and translation reservas in the amount of RSD (2,380) thousand.

20.1. SHARE CAPITAL

Share capital represents share capital of the Company, which is listed on Belgrade Stock Exchange. Par value per share is RSD 500. Share capital as of 31 December 2020 and 31 December 2019 comprise of 163,060,400 of ordinary shares.

Dividend declared for the year ended 31 December 2019, amounted to RSD 4,425,459 thousand or 27.14 RSD per share (31 December 2018: RSD 6,517,524 thousand or 39.97 RSD per share) were approved on the General Assembly Meeting held on 30 June 2020 and paid on 27 November 2020.

Calculation of basic earnings per share is disclosed in the following table:

	Year ended 31 December 2020	2019
Profit/(loss) attributable to the ordinary equity holder of the parent entity	(7,566,003)	16,610,847
Weighted average number of ordinary shares	163,060,400	163,060,400
Earnings per share (in RSD 000)	**(0.046)**	**0.102**

The Group does not have any convertible instruments, options or warrants accordingly, diluted earnings per share is equal to the basic earnings per share as stated in the table above.

21. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

	Decommi-ssioning	Environmental protection	Employees benefits provision	Long-term incentive program	Legal claims provisions	Total
As at 1 January 2019	**10,041,518**	**657,686**	**431,765**	**494,022**	**526,809**	**12,151,800**
Charged to the income statement	147,500	197,704	95,872	314,327	44,868	800,271
New obligation incurred and change in estimates	777,397	-	-	-	-	777,397
Release of provision (note 35)	-	-	(1,107)	-	(1,539)	(2,646)
Actuarial loss charged to other comprehensive income	-	-	45,334	-	-	45,334
Settlement	(294,700)	(346,261)	(58,923)	-	(61,117)	(761,001)
Other	-	-	(38)	-	(90)	(128)
As at 31 December 2019	**10,671,715**	**509,129**	**512,903**	**808,349**	**508,931**	**13,011,027**
As at 1 January 2020	**10,671,715**	**509,129**	**512,903**	**808,349**	**508,931**	**13,011,027**
Charged to the income statement	88,078	-	119,210	131,486	13,249	352,023
New obligation incurred and change in estimates	345,084	-	-	-	-	345,084
Release of provision (note 35)	(695,704)	-	(8)	(8,362)	(2,306)	(706,380)
Actuarial loss charged to other comprehensive income	-	-	52,595	-	-	52,595
Settlement	(70,709)	(80,316)	(79,684)	-	(108,532)	(339,241)
Other	-	-	-	-	(150)	(150)
As at 31 December 2020	**10,338,464**	**428,813**	**605,016**	**931,473**	**411,192**	**12,714,958**

Analysis of total provisions:

	31 December 2020	31 December 2019
Non-current	10,332,213	11,419,129
Current	2,382,745	1,591,898
	12,714,958	**13,011,027**

(a) *Decommissioning*

The Group's Management estimates future cash outflows for restoration of natural resources (land) on oil and gas wells based on previous experience in similar projects. The Group released provision in amount of RSD 695,704 thousand for ARO decommissioning mostly due to extension of the period by which the wells are expected to be in operation (note 35).

(b) *Environmental protection*

The Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 428,813 thousand (31 December 2019: RSD 509,129 thousand) based on the management assessment of necessary costs for cleaning up sites and remediation of polluted facilities.

(c) *Long-term incentive program*

In 2011, the Group started setting-up a long-term incentive program for Group managers. Following the program's approval, cash incentives were paid out based on the Key Performance Indicators ("KPI") reached over the past three-year periods. As at 31 December 2020 the management made an assessment of present value of liabilities related to new three-year employee incentives (2018-2020) in amount of RSD 931,473 thousand (2019: RSD 808,349 thousand).

(d) *Legal claims provisions*

As at 31 December 2020, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Group charged provision for litigation amounting to RSD 13,249 thousand (2019: RSD 44,868 thousand) for proceedings which were assessed to have negative outcome. The Group estimated that the outcome of all legal proceedings would not lead to material losses exceeding the amount of provision as at 31 December 2020.

(e) *Provision for employee benefits*

Employee benefits:

	31 December 2020	**31 December 2019**
Retirement allowances	253,488	188,783
Jubilee awards	351,528	324,120
	605,016	**512,903**

The principal actuarial assumptions used were as follows:

	31 December 2020	**31 December 2019**
Discount rate	4.3%	4.4%
Future salary increases	0.07%	2.0%
Future average years of service	14.4	14.4

	Retirement allowances	Jubilee awards	Total
Balances as at 1 January 2019	**147,206**	**284,559**	**431,765**
Benefits paid directly	(21,534)	(37,389)	(58,923)
Actuarial loss charged to other comprehensive income	45,334	-	45,334
Debited to the income statement	17,815	76,950	94,765
Translation difference	(38)	-	(38)
Balances as at 31 December 2019	**188,783**	**324,120**	**512,903**
Benefits paid directly	(47,286)	(32,398)	(79,684)
Actuarial loss (gain) charged to other comprehensive income	52,828	(233)	52,595
Debited to the income statement	59,163	60,039	119,202
Balances as at 31 December 2020	**253,488**	**351,528**	**605,016**

The amounts recognized in the consolidated income statement are as follows:

	Year ended 31 December 2020	2019
Current service cost	83,783	29,955
Interest cost	22,964	23,728
Curtailment loss	47,774	729
Actuarial (gain)/loss (jubilee awards)	(35,319)	40,352
Amortisation of past service cost	-	1
	119,202	**94,765**

22. LONG-TERM LIABILITIES

	31 December 2020	31 December 2019
Long-term loan - Gazprom Neft	13,672,117	19,143,014
Bank loans	69,109,888	69,901,198
Lease liabilities	2,479,391	1,703,441
Other non-current financial liabilities	841,847	-
Other long-term borrowings	73,490	57,175
	86,176,733	90,804,828
Less Current portion (note 23)	(12,196,715)	(6,761,897)
	73,980,018	**84,042,931**

Movements on the Group's liabilities from finance activities are as follows:

	Long-term loans	Short-term loans	Finance lease	Total
As at 1 January 2019	**93,344,087**	**-**	**828,104**	**94,172,191**
Change in opening balance	-	-	790,946	790,946
Proceeds	15,060,454	-	-	15,060,454
Repayment	(18,760,583)	-	(367,140)	(19,127,723)
Non-cash transactions	(149,827)	-	447,079	297,252
Foreign exchange difference	(449,919)	-	4,452	(445,467)
As at 31 December 2019	**89,044,212**	**-**	**1,703,441**	**90,747,653**
As at 1 January 2020	**89,044,212**	**-**	**1,703,441**	**90,747,653**
Proceeds	6,182,783	11,500,000	-	17,682,783
Repayment	(11,663,202)	(11,500,000)	(589,021)	(23,752,223)
Non-cash transactions	(747,499)	**-**	1,365,708	618,209
Foreign exchange difference	(34,289)	**-**	(737)	(35,026)
As at 31 December 2020	**82,782,005**	**-**	**2,479,391**	**85,261,396**

a) Long-term loan – Gazprom Neft

As at 31 December 2020 long-term loan – Gazprom Neft amounting to RSD 13,672,117 thousand (2019: RSD 19,143,014 thousand), with current portion of RSD 5,468,847 thousand (2019: RSD 5,469,432 thousand), relate to loan from Gazprom Neft granted based on the Agreement for Sale and Purchase of shares signed on 24 December 2008. The stated liabilities shall be settled in quarterly instalments starting from December 2012 until 15 May 2023.

b) Bank loans

	31 December 2020	31 December 2019
Domestic	51,785,439	46,832,409
Foreign	17,324,449	23,068,789
	69,109,888	69,901,198
Current portion of long-term loans	(6,117,143)	(915,460)
	62,992,745	**68,985,738**

The maturity of non-current loans was as follows:

	31 December 2020	31 December 2019
Between 1 and 2 years	9,920,841	10,845,263
Between 2 and 5 years	41,197,751	54,813,261
Over 5 years	11,874,153	3,327,214
	62,992,745	**68,985,738**

The carrying amounts of the Group's bank and other long-term loans are denominated in the following currencies:

	31 December 2020	31 December 2019
USD	157,858	209,292
EUR	68,740,978	69,426,390
RSD	374	499
JPY	210,678	265,017
	69,109,888	**69,901,198**

The Group repays loans in accordance with agreed dynamics, i.e. determined annuity plans. The Group has floating interest rates with the creditors. Floating interest rates are connected with Euribor and Libor. Management expects that the Group will be able to fulfil its obligations within agreed timeframe.

The loan agreements contain financial covenants that require the Group's ratio (GPN Group) of consolidated indebtedness to consolidated EBITDA (note 6). The Group is in compliance with these covenants as of 31 December 2020 and 31 December 2019 respectively.

c) Lease liabilities

	31 December 2020	31 December 2019
Non-current portion of lease liabilities	1,868,666	1,326,436
Current portion of lease liabilities	610,725	377,005
	2,479,391	**1,703,441**

Amounts recognized in profit and loss:

	31 December 2020	31 December 2019
Interest expense (included in finance cost) (note 32)	87,363	71,930
Expense relating to short-term leases (note 30)	818,707	899,787
Expense relating to leases of low value assets that are not shown above as short-term leases (note 30)	201,931	92,722
Expense relating to variable lease payments not included in lease liabilities (note 30)	1,237,012	1,939,368

c) Other non-current financial liabilities

Other non-current financial liabilities in the amount of RSD 841,847 thousand in total represents deferred consideration to PJSC Zarubeznjeft (further ZN) for O&G exploration project that is ongoing through subsidiary Jadran Naftagas. This obiligation depends on occurance of uncertain future events that are beyond the control of both the issuer (ZN) and a holder of instrument (NIS). In accordance with Novation agreement and Assignement agreement concluded between ZN, NIS and Jadran Naftagas, all ZN rights and obligations are assigned to NIS for consideration equal to outstanding loan liabilities of Jadran Naftagas towards ZN and Naftegazinkor prior the novation. Consideration cannot exceed the amount of said liabilities.

In addition, Company acquired additional 34% of share in Jadran Naftagas for consideration of RSD 41 thousand. These transactions of shares acquisition and transfer of liabilities should be consider together.

23. SHORT-TERM FINANCE LIABILITIES

	31 December 2020	31 December 2019
Current portion of long-term loans (note 22)	11,585,990	6,384,892
Current portion of lease liabilities (note 22)	610,725	377,005
	12,196,715	**6,761,897**

24. TRADE PAYABLES

As at 31 December 2020 trade payables in a amount of RSD 19,278,679 thousand (31 December 2019: RSD 35,341,330 thousand) including payables to parents and subsidiaries-foreign amounting to RSD 3,204,199 thousand (31 December 2019: RSD 10,498,354 thousand) fully relate to payables to the supplier Gazprom Neft, St Petersburg, mostly based on purchase of crude oil and trade payables – foreign amounting to RSD 7,981,985 thousand (31 December 2019: RSD 13,786,047 thousand) mostly relate to payables for crude oil to suppliers IPLOM S.P.A. Italy RSD 2,869,608 thousand (31 December 2019 RSD 0) and Petraco Oil Company LLP, London in the amount of RSD 2,641,621 thousand (31 December 2019 RSD 0).

25. OTHER SHORT-TERM LIABILITIES

	31 December 2020	31 December 2019
Specific liabilities	183,324	199,734
Liabilities for unpaid wages and salaries, gross	1,710,219	1,310,849
Interest liabilities	215,504	742,362
Dividends payable	3,785,017	3,780,692
Other payables to employees	1,891,199	709,716
Decommissioning and site restoration costs	1,091,258	1,170,430
Environmental provision	114,210	128,099
Litigation and claims	177,396	234,965
Other current liabilities	83,300	98,207
	9,251,427	**8,375,054**

26. LIABILITIES FOR OTHER TAXES

	31 December 2020	31 December 2019
Excise tax	5,713,647	5,750,900
Contribution for buffer stocks	257,505	280,070
Energy efficiency fee	30,168	32,299
Income tax	41,612	70,083
Other taxes payables	846,526	1,451,113
	6,889,458	**7,584,465**

27. ACCRUED EXPENSES

Accrued expenses as at 31 December 2020 amounting to RSD 4,140,591 thousand (31 December 2019: RSD 3,632,864 thousand) mainly relate to accrued employee bonuses of RSD 2,473,886 thousand (31 December 2019: RSD 2,193,730 thousand) and contract liabilities arising from contracts with customers related to customer loyalty RSD 770,993 thousand (31 December 2019: RSD 722,239 thousand).

Revenue in the amount of RSD 2,192,358 thousand was recognized in the current reporting period (31 December 2019: RSD 1,636,651 thousand) related to the contract liabilities as at 1 January 2020, of which RSD 1,764,943 thousand (31 December 2019: RSD 1,275,099 thousand) related to advances and RSD 427,415 thousand (31 December 2019: RSD 361,552 thousand) to customer loyalty programme.

28. COST OF MATERIAL

	Year ended 31 December	
	2020	**2019**
Costs of raw materials	104,716,293	135,055,679
Overheads and other costs	237,684	470,181
Other	929,631	1,414,334
	105,883,608	**136,940,194**

29. COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES

	Year ended 31 December	
	2020	**2019**
Wages and salaries (gross)	22,761,842	17,898,688
Taxes and contributions on wages and salaries paid by employer	3,114,396	2,315,884
Cost of service agreement	113,035	198,446
Cost of other personal wages	14,372	45,780
Fees paid to board of directors and general assembly board	132,140	103,981
Termination costs	51,880	41,802
Other personal expenses	1,095,220	759,461
	27,282,885	**21,364,042**

In 2020, there was a change in the structure of employee costs and costs of service organizations due to new Agency employee low and company strategic decisions.

30. COST OF PRODUCTION SERVICES

	Year ended 31 December	
	2020	**2019**
Cost of production services	1,669,556	2,306,469
Transportation services	2,670,195	2,974,675
Maintenance	3,831,426	4,243,216
Rental costs (note 22)	2,257,650	2,931,877
Fairs	-	10,091
Advertising costs	573,153	984,933
Exploration expenses	218,524	436,944
Cost of other services	1,441,308	1,717,715
	12,661,812	**15,605,920**

31. NON-PRODUCTION EXPENSES

	Year ended 31 December	
	2020	**2019**
Costs of non-production services	3,504,149	9,340,298
Representation costs	47,206	147,947
Insurance premium	542,321	601,327
Bank charges	336,952	409,957
Cost of taxes	1,290,948	1,309,729
Mineral extraction tax	894,335	1,419,705
Other non-production expenses	1,597,842	1,974,142
	8,213,753	**15,203,105**

Costs of non-production services for the year ended 31 December 2020 amounting to RSD 3,504,149 thousand (2019: RSD 9,340,298 thousand) mainly relate to costs of service organizations of RSD 1,809,833 thousand (2019: RSD 6,965,810 thousand); consulting service costs of RSD 171,940 thousand (2019: RSD 331,896 thousand); security cost of RSD 558,546 thousand (2019: RSD 581,563 thousand) and project management costs of RSD 396,242 thousand (2019: RSD 500,370 thousand).

32. FINANCE INCOME

	Year ended 31 December	
	2020	**2019**
Finance income - related parties		
- foreign exchange differences	1,158,564	1,115,121
Interest income	219,254	366,034
Amortisation income – discount of receivables	38,345	-
Gains on restructuring of borrowings	53,673	149,827
Foreign exchange gains	1,300,804	920,509
Other finance income	4,416	11,638
	2,775,056	**2,563,129**

33. FINANCE EXPENSE

	Year ended 31 December	
	2020	**2019**
Finance expenses – related parties		
- foreign exchange differences	1,583,073	1,521,899
- other finance expense	295,406	393,887
Interest expenses	1,535,086	1,411,282
Decommissioning provision: unwinding of the present value discount	88,078	147,500
Provision of trade and other non-current receivables: discount	-	19,261
Foreign exchange losses	1,184,496	534,113
Share of loss of associates and joint ventures	103,671	129,287
Other finance expenses	27,135	21,309
	4,816,945	**4,178,538**

34. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 December	
	2020	**2019**
Reversal of impairment of LT financial investments	88,363	16,522
Income from valuation:		
- trade and specific receivables (note 6)	131,947	90,688
- short-term invesmtents	46	-
- other receivables (note 6)	38,791	14,002
	259,147	**121,212**

35. OTHER INCOME

	Year ended 31 December	
	2020	**2019**
Gains on disposal - PPE	51,765	39,217
Gains on disposal - materials	28,714	55,746
Surpluses from stock count	242,634	324,814
Payables written off	976,748	82,894
Release of long-term provisions (note 21)	706,380	2,646
Release of impairment:		
- PPE (note 9)	111,187	-
- Inventory (note 13)	43,546	128,739
- Other property	31	50
Penalty interest	96,137	73,871
Other income	39,381	557,933
	2,296,523	**1,265,910**

Payables written off in amount of RSD 976,748 thousand refers to the write-off of liabilities for which there is no legal basis for repayment.

36. OTHER EXPENSES

	Year ended 31 December	
	2020	2019
Loss on disposal - PPE	177,673	316,783
Loss on disposal - material	21,560	52,954
Shortages from stock count	419,137	660,074
Write-off receivables	23,331	7,460
Write-off inventories	51,932	62,523
Impairment:		
- Intangible assets (note 8)	85,447	180,004
- PPE (note 9)	704,637	252,102
- Inventory (note 13)	56,758	8,579
- Other property	3,530	561
- Investment property (note 9)	-	8,290
Other expenses	541,216	319,355
	2,085,221	**1,868,685**

37. INCOME TAXES

Components of income tax expense:

	Year ended 31 December	
	2020	2019
Income tax for the year	51,298	3,100,414
Deferred income tax for the period (note 12)		
Origination and reversal of temporary differences	(1,615,695)	1,432,194
	(1,564,397)	**4,532,608**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Group's profits as follows:

	Year ended 31 December	
	2020	2019
Profit (loss) before income tax	**(9,130,400)**	**21,129,010**
Tax expense (income) at applicable domestic tax rate (15%)	(1,369,560)	3,169,352
Effect of unrecognized tax losses and tax rates in foreign jurisdictions	186,376	159,079
Tax effects of:		
- Revenues exempt from taxation	(328,081)	(640)
- Expenses not deductible for tax purposes		
- Tax paid in Angola	(50,469)	74,711
- Other expenses not deductible	128,123	1,502,341
- Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	(62,100)	(59,798)
- Other tax effects for reconciliation between accounting profit and tax expense	(68,686)	(312,437)
	(1,564,397)	**4,532,608**
Effective income tax rate	0%	21.45%

38. COMMITMENTS AND CONTINGENT LIABILITIES

Economic environment in the Republic of Serbia

The Group operates primarily in the Republic of Serbia and is therefore exposed to risks related to the state of the economy and financial markets of the Republic of Serbia. Before the pandemic crisis, the country's credit rating was at BB+ level with stabile national currency rate. The development of the coronavirus pandemic (COVID-19) in 2020 and the measures taken in this regard to prevent the spread of coronavirus infection lead to negative economic consequences. The Government of the Republic of Serbia has prepared a set of measures to mitigate these negative impacts through delays in payment of tax liabilities, grants and credit arrangements. The situation in the financial markets is currently stable. This operating environment has a significant impact on the Group's operations and financial position.

The management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and the management's current expectations and estimates could differ from actual results.

Environmental protection

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Group's management recognised an environmental provision in the amount of RSD 428,813 thousand (31 December 2019: RSD 509,129 thousand).

The Group's Management believes that cash outflows related to provision will not be significantly higher than the ones already provided for. However, it is possible that these costs will increase significantly in the future, should the legislation become more restrictive.

Taxes

Tax laws are subject to different interpretations and frequent amendments. Tax authorities' interpretation of Tax laws may differ to those made by the Group's management. As result, some transactions may be disputed by tax authorities and the Group may have to pay additional taxes, penalties and interests. Tax liability due date is five years. Tax authorities have rights to determine unpaid liabilities within five years since the transaction date. Management has assessed that the Group has paid all tax liabilities as of 31 December 2020.

Capital commitments

As of 31 December 2020 the Group has entered into contracts to purchase property, plant and equipment for RSD 1,531,697 thousand (31 December 2019: RSD 2,809,071 thousand) and drilling and exploration works estimated to 57.89 USD million (31 December 2019: 56.89 USD million).

There were no other material commitments and contingent liabilities of the Group.

39. GROUP ENTITIES

The consolidated financial statements of below listed subsidiaries are consolidated as at 31 December 2020 and 31 December 2019:

Subsidiary	Country of incorporation	Nature of business	Share % 31-Dec 2020	Share % 31-Dec 2019
NIS Petrol d.o.o., Banja Luka	Bosnia and Herzegovina	Trade	100	100
NIS Petrol e.o.o.d., Sofija	Bulgaria	Trade	100	100
NIS Petrol SRL, Bucharest	Romania	Trade	100	100
NIS Oversiz, St Petersburg	Russia	Other	100	100
Naftagas-Naftni servisi d.o.o. Novi Sad	Serbia	O&G activity	100	100
NTC NIS-Naftagas d.o.o. Novi Sad	Serbia	O&G activity	100	100
Naftagas-Tehnicki servisi d.o.o. Zrenjanin	Serbia	O&G activity	100	100
Naftagas-Transport d.o.o. Novi Sad	Serbia	Transport	100	100
NIS Petrol a.d., Belgrade	Serbia	Other	100	100
G Petrol d.o.o. Sarajevo	Bosnia and Herzegovina	Trade	100	100
Jadran - Naftagas d.o.o. Banja Luka	Bosnia and Herzegovina	O&G activity	100	66
Svetlost, Bujanovac	Serbia	Trade	51	51
Pannon Naftagas Kft, Budapest	Hungary	O&G activity	-	100

During 2020 subsidiary Pannon Naftagas Kft, Budapest was liquidated. Also, in 2020 the Group acquired additional 34% of share in Jadran Naftagas.

The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

40. RELATED PARTIES TRANSACTIONS

The majority owner of the Group is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The second largest shareholder with 29.87% interest is Republic of Serbia, while remaining 13.98% of interest owned by various minority shareholders are traded on the Belgrade Stock Exchange and are owned by various shareholders. PJSC Gazprom, owns 95.7% of the shares in the Gazprom Neft. The Russian Federation is the ultimate controlling party.

During 2020 and 2019, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

As of 31 December 2020 and 31 December 2019 the outstanding balances with related parties other than state and state own companies were as follows:

	Associates and joint venture	Parent	Parent's subsidiaries and associates
As at 31 December 2020			
Right of use assets	-	-	125
Investments in associates and joint ventures	1,747,430	-	-
Trade receivables	1,462,469	-	184,531
Receivables from specific operations	286	-	13
Other receivables	4	-	-
Advances paid	-	-	25,095
Long-term liabilities	-	(8,203,270)	-
Short-term financial liabilities	-	(5,468,847)	(84)
Advances received	(4,493)	-	(37)
Trade payables	(942,412)	(3,204,199)	(216,611)
	2,263,284	**(16,876,316)**	**(6,968)**
As at 31 December 2019			
Investments in associates and joint ventures	1,851,101	-	-
Trade receivables	1,184,469	-	100,451
Receivables from specific operations	415,683	-	-
Advances paid	-	-	34,371
Long-term liabilities	-	(13,673,582)	(128)
Short-term financial liabilities	-	(5,469,432)	(159)
Advances received	(3,782)	-	(2)
Trade payables	(1,208,375)	(10,500,427)	(543,563)
	2,239,096	**(29,643,441)**	**(409,030)**

For the year ended 31 December 2020 and 2019 the following transaction occurred with related parties:

	Associates and Joint venture	Parent	Parent's subsidiaries and associates
Year ended 31 December 2020			
Sales revenue	16,772,500	-	557,309
Other operating income	7,364	-	1,237
Cost of goods sold	-	-	(255,403)
Cost of material	-	(24,674,912)	(996,914)
Cost of production services	(193,856)	-	(12,896)
Depreciation, depletion and amortisation expenses	-	-	(188)
Non-material expense	-	(3,118)	(78,316)
Finance income	-	-	56
Finance expense	-	(295,406)	-
Other income	-	6,475	-
Other expenses	-	(50,164)	(260)
	16,586,008	**(25,017,125)**	**(785,375)**
Year ended 31 December 2019			
Sales revenue	19,073,529	-	592,963
Other operating income	8,855	-	-
Cost of goods sold	-	-	(241,897)
Cost of material	-	(51,345,851)	(333,140)
Cost of production services	(198,691)	-	(1,708)
Non-material expense	-	(2,072)	(95,959)
Finance expense	-	(393,887)	(3)
Other income	-	40,230	-
Other expenses	-	(111,235)	(593)
	18,883,693	**(51,812,815)**	**(80,337)**

Main balances and transactions with state and state owned companies are shown below:

	Associates and joint venture	Other
As at 31 December 2020		
Trade and other receivables (gross)		
• *HIP Petrohemija*	1,461,095	-
• *Srbijagas*	-	256,036
• *AIR Serbia*	-	87,447
Trade and other payables		
• *HIP Petrohemija*	(942,412)	-
• *Srbijagas*	-	(302,531)
Other current liabilities		
• *HIP Petrohemija*	(3,532)	-
	515,151	**40,952**
As at 31 December 2019		
Trade and other receivables (gross)		
• *HIP Petrohemija*	1,183,648	-
• *Srbijagas*	-	418,784
• *AIR Serbia*	-	371,395
Trade and other payables		
• *HIP Petrohemija*	(1,208,375)	-
• *Srbijagas*	-	(361,934)
Other current liabilities		
• *HIP Petrohemija*	(3,064)	-
	(27,791)	**428,245**

	Associates and joint venture	Other
As at 31 December 2020		
Operating income		
• *HIP Petrohemija*	16,746,580	-
• *Srbijagas*	-	380,042
• *AIR Serbia*	-	1,685,134
Operating expenses		
• *HIP Petrohemija*	(193,856)	-
• *Srbijagas*	-	(782,731)
	16,552,724	**1,282,445**
As at 31 December 2019		
Operating income		
• *HIP Petrohemija*	19,070,224	-
• *Srbijagas*	-	1,419,220
• *AIR Serbia*	-	5,124,131
Operating expenses		
• *HIP Petrohemija*	(198,691)	-
• *Srbijagas*	-	(912,530)
	18,871,533	**5,630,821**

Transactions with state and state owned companies controlled entities mainly relates to sales of petroleum products based on the price lists in force and terms that would be available to third parties. Transaction with HIP Petrohemija are included in Associates and joint venture in related party transactions.

Transactions with Key Management Personnel

In the year ended 31 December 2020 and 2019 the Group recognized RSD 997,434 thousand and RSD 943,715 thousand; respectively, as compensation for key management personnel (Chief Executive Officer, members of the Board of Directors and Advisory Board and Corporate Secretary). Key management remuneration includes salaries, bonuses and other contributions.

41. RECONCILIATION OF RECEIVABLES AND PAYABLES

In accordance with The Accounting Law, the Group reconciled account receivables and payables with the customers and the suppliers before preparing financial statements. There are no material unconfirmed receivables or payables in the Group.

42. EVENTS AFTER THE REPORTING DATE

There are no material events after the reporting date.

Subsequent events occurring after 31 December 2020 were evaluated through 9 March 2021, the date these Consolidated Financial Statements were authorised for issue.

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