Naftna industrija Srbije A.D.
Novi Sad

Consolidated Financial Statements and Independent Auditor's Report

31 December 2021

This version of the financial statements is a translation from the original, which is prepared in 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

Independent Auditor's Report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Naftna Industrija Srbije a.d. (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2021, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

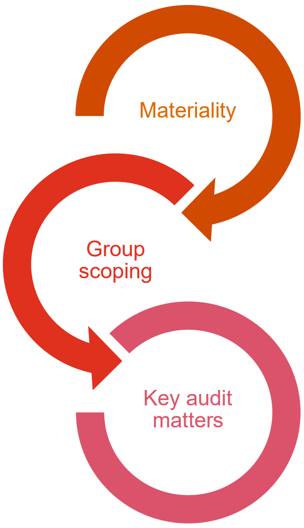
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



- Overall Group materiality: 924 million Serbian dinars (hereafter “RSD”), which represents 5% of the average result before tax for the past three years, being absolute values of profit before tax for the current year and year ended on 31 December 2019 and loss before tax for year ended on 31 December 2020.

- We conducted audit work at 5 reporting units in 4 countries.
- The Group engagement team audited the Serbian subsidiaries and performed specified procedures for the Bulgarian and Romanian subsidiaries with the involvement of PwC network firms in the respective countries. Based on the engagement team’s instructions, PwC network firm performed directed audit procedures over specific financial statement line items for subsidiary in Bosnia and Herzegovina.
- Our audit scope addressed 95% of the Group’s revenues and 98% of the Group’s absolute value of underlying result before tax.

- Estimation of decommissioning and environmental protection provision

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

Materiality

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

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

Overall Group materiality	RSD 924 million (2020: RSD 1,019 million)
How we determined it	5% of the average result before tax for the past three years, being absolute values of profit before tax for the current year and year ended on 31 December 2019 and loss before tax for year ended on 31 December 2020.
Rationale for the materiality benchmark applied	Consistent with the benchmark used in prior year, we determined that our materiality should be based on three-year average result before taxation. This benchmark is supported by the significant fluctuations in the financial result due to the change of crude oil prices. We have chosen 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

We agreed with the those charged with governance that we would report to them misstatements identified during our audit above RSD 46 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Estimation of decommissioning and environmental protection provisions	
Provisions associated with decommissioning, environmental protection and restoration are disclosed in Note 28 to the consolidated financial statements; a description of the accounting policy and key judgements and estimates is included in Note 2 and Note 3. The calculation of decommissioning and environmental protection provisions requires significant management judgement because of the inherent complexity in estimating future costs, discount rates and maturity of liabilities. The decommissioning of oil and gas infrastructure is an evolving activity and consequently there is limited historical precedent against which to benchmark estimates of future costs. These factors increase the complexity involved in determining accurate accounting provisions	We critically assessed management’s annual review of provisions recorded as at 31 December 2021. In particular, we focused on those assets where changes to the cost estimate directly impacted the consolidated statement of profit and loss and other comprehensive income rather than being recognised as an asset. Testing involved understanding of the legal or constructive obligations with respect to the environmental protection and decommissioning of each asset based on the estimated useful life of assets and relevant cost to complete restoration. Of particular note, we performed the following procedures: - Identified and tested the cost assumptions which have the most significant impact on provisions by reviewing the actual costs incurred during the year and comparing them to the prior years;

that are material to the Group's consolidated statement of financial position. Management reviews decommissioning and environmental protection provisions on an annual basis for upstream and refining assets. This review incorporates the effects of any changes in local regulations, management's expected approach to decommissioning, cost estimates, discount rates, maturity of liabilities and the effects of changes in exchange rates.	- Used valuation experts to evaluate reasonableness of the discount rate applied to the cost assumptions and compared it to the Serbian treasury notes for the similar periods; - Verified the mathematical accuracy of the underlying models; - Verified the completeness of data by cross referencing with other non-financial data and other work performed on property, plant & equipment; - Verified the change in oil well status compared to the prior year as the change in oil well status has a material impact on decommissioning provision calculation; - Tested the sensitivity analysis prepared by management for the change in key assumptions (discount rate and cost estimates). We tested mathematical accuracy of calculations and concluded that the results were not materially different and were within a tolerable range.

How we tailored our Group audit scope

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

In establishing the group scope of our audit work, we determined the nature and extent of work to be performed both at the reporting units and at the consolidated level. Where the work is performed by the local reporting unit auditors, we perform consolidated level oversight and review procedures to ensure sufficient evidence has been obtained to support our opinion on the consolidated financial statements taken as a whole. All reporting unit audit work was undertaken by us and PwC network firms.

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

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

Based on this process, we identified 5 reporting units in four countries that, in our view, required either full scope audit (Naftna Industrija Srbije a.d.) or directed audit procedures over specific financial statement line items. Together, these reporting units accounted for 95% of the Group's revenue and 98% of the Group's absolute value of underlying result before tax.

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

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

Other information

Management is responsible for the other information. The other information comprises the Annual report (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor’s responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

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

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o. Belgrade

Belgrade, Republic of Serbia

31 January 2022

NIS Group
Consolidated Statement of Financial Position
(All amounts are in 000 RSD, unless otherwise stated)

Assets	Note	31 December 2021	31 December 2020
Current assets			
Cash and cash equivalents	8	21,283,274	8,488,302
Short-term financial assets	9	28,275	266,224
Trade and other receivables	10	28,644,507	20,898,742
Inventories	11	36,951,122	27,748,226
Current income tax prepayments		-	1,012,225
Other current assets	12	8,276,720	6,117,761
Assets classified as held for sale		44,008	39,146
Total current assets		**95,227,906**	**64,570,626**
Non-current assets			
Property, plant and equipment	13	301,070,583	306,479,078
Right-of-use assets	14	2,583,964	2,660,794
Investment property	15	1,728,395	1,574,329
Goodwill and other intangible assets	16	4,821,785	4,485,734
Investments in associates and joint venture	17	1,582,900	1,747,430
Trade and other non-current receivables		2,824	78,459
Long-term financial assets	18	263,511	110,571
Deferred tax assets, net	19	2,343,219	2,313,438
Other non-current assets	20	1,371,243	1,209,728
Total non-current assets		**315,768,424**	**320,659,561**
Total assets		**410,996,330**	**385,230,187**
Liabilities and shareholder's equity			
Current liabilities			
Short-term debt and current portion of long-term debt	21	7,128,896	11,662,083
Current lease liabilities	26	640,656	610,725
Trade and other payables	22	28,887,841	23,501,690
Other current liabilities	23	8,665,153	9,887,618
Current income tax payable		4,209,379	-
Other taxes payable	24	11,477,877	10,110,787
Provisions for liabilities and charges	28	1,646,631	2,382,745
Total current liabilities		**62,656,433**	**58,155,648**
Non-current liabilities			
Long-term debt	25	70,535,652	71,269,506
Non-current lease liabilities	26	1,695,318	1,868,666
Other non-current financial liabilities	27	841,861	841,847
Provisions for liabilities and charges	28	12,430,855	10,332,213
Total non-current liabilities		**85,503,686**	**84,312,232**
Equity			
Share capital	29	81,530,200	81,530,200
Reserves		488,736	383,186
Retained earnings		180,797,597	160,829,243
Equity attributable to the Company's owners		**262,816,533**	**242,742,629**
Non-controlling interest		19,678	19,678
Total equity		**262,836,211**	**242,762,307**
Total liabilities and shareholder's equity		**410,996,330**	**385,230,187**

Kirill Tyurdenev
Chief Executive Officer

Anton Cherepanov
Chief Financial Officer

31 January 2022

The accompanying notes are an integral part of these Consolidated Financial Statements.

NIS Group
Consolidated Statement of Profit or Loss and Other Comprehensive Income
(All amounts are in 000 RSD, unless otherwise stated)

	Note	Year ended 31 December 2021	2020
Sales of petroleum products and oil and gas sales		277,501,506	171,017,473
Other revenues		17,660,850	12,805,482
Total revenue from sales	7	**295,162,356**	**183,822,955**
Purchases of oil, gas and petroleum products		(179,087,564)	(114,722,140)
Production and manufacturing expenses	30	(28,120,342)	(23,806,142)
Selling, general and administrative expenses	31	(25,014,246)	(23,156,450)
Transportation expenses		(1,351,740)	(1,115,383)
Depreciation, depletion and amortization	13,14,16	(24,958,601)	(22,805,904)
Taxes other than income tax	33	(6,627,421)	(5,393,502)
Exploration expenses	13	(948,281)	(136,812)
Total operating expenses		**(266,108,195)**	**(191,136,333)**
Other (expenses) income, net	34	(1,060,954)	269,003
Operating profit (loss)		**27,993,207**	**(7,044,375)**
Share of loss of associates and joint ventures		(164,530)	(103,671)
Net foreign exchange loss	35	(939,010)	(308,201)
Finance income	36	135,887	192,619
Finance expenses	37	(1,824,974)	(1,866,772)
Total other expense		**(2,792,627)**	**(2,086,025)**
Profit (Loss) before income tax		**25,200,580**	**(9,130,400)**
Current income tax expense	38	(4,273,671)	(51,298)
Deferred income tax income	38,19	30,124	1,615,695
Total income tax (expense) income		**(4,243,547)**	**1,564,397**
Profit (Loss) for the period		**20,957,033**	**(7,566,003)**
Other comprehensive income:			
Items that will not be reclassified to profit			
Remeasurements of post-employment benefit obligations	28	12,056	(52,595)
Gains (Loss) from investments in equity instruments		783	(294)
		12,839	**(52,889)**
Items that may be subsequently reclassified to profit			
Currency translation differences		105,223	111,866
		105,223	**111,866**
Other comprehensive income for the period		**118,062**	**58,977**
Total comprehensive income (loss) for the period		**21,075,095**	**(7,507,026)**
Profit / (loss) attributable to:			
- Shareholders of Naftna Industrija Srbije		20,957,033	(7,566,003)
- Non-controlling interest		-	-
Profit (loss) for the period		**20,957,033**	**(7,566,003)**
Total comprehensive income (loss) attributable to:			
- Shareholders of Naftna Industrija Srbije		21,075,095	(7,507,026)
- Non-controlling interest		-	-
Total comprehensive income (loss) for the period		**21,075,095**	**(7,507,026)**
Earnings (loss) per share attributable to NIS shareholders			
Basic earnings (loss) (RSD per share)		128.52	(46.40)
Weighted average number of ordinary shares in issue (millions)		163	163

The accompanying notes are an integral part of these Consolidated Financial Statements.

NIS Group
Consolidated Statement of Changes in Shareholders' Equity
(All amounts are in 000 RSD, unless otherwise stated)

	Note	Share capital	Reserves	Retained earnings/ (Accumulated deficit)	Total	Non-controlling interest	Total equity
		Equity attributable to the Company's owners					
Balance as at 1 January 2020		**81,530,200**	**271,614**	**173,153,889**	**254,955,703**	**(260,911)**	**254,694,792**
Loss for the year		-	-	(7,566,003)	(7,566,003)	-	(7,566,003)
Other comprehensive income (loss)							
Remeasurements of post-employment benefit obligations	28,19	-	-	(52,595)	(52,595)	-	(52,595)
Loss from investments in equity instruments		-	(294)	-	(294)	-	(294)
Currency translation differences		-	111,866	-	111,866	-	111,866
Total comprehensive (loss) income for the year		**-**	**111,572**	**(7,618,598)**	**(7,507,026)**	**-**	**(7,507,026)**
New investments in shares		-	-	(280,589)	(280,589)	280,589	-
Dividends to equity holders	29	-	-	(4,425,459)	(4,425,459)	-	(4,425,459)
Total transaction with owners, recorded in equity		**-**	**-**	**(4,706,048)**	**(4,706,048)**	280,589	(4,425,459)
Balance as at 31 December 2020		**81,530,200**	**383,186**	**160,829,243**	**242,742,629**	**19,678**	**242,762,307**

	Note	Share capital	Reserves	Retained earnings/ (Accumulated deficit)	Total	Non-controlling interest	Total equity
		Equity attributable to the Company's owners					
Balance as at 1 January 2021		**81,530,200**	**383,186**	**160,829,243**	**242,742,629**	**19,678**	**242,762,307**
Profit for the year		-	-	20,957,033	20,957,033	-	20,957,033
Other comprehensive income (loss)							
Remeasurements of post-employment benefit obligations	28,19	-	-	12,056	12,056	-	12,056
Gain from investments in equity instruments		-	783	-	783	-	783
Currency translation differences		-	105,223	-	105,223	-	105,223
Total comprehensive income for the year		**-**	**106,006**	**20,969,089**	**21,075,095**	**-**	**21,075,095**
Dividends to equity holders	29	-	-	(1,001,191)	(1,001,191)	-	(1,001,191)
Total transaction with owners, recorded in equity		**-**	**-**	**(1,001,191)**	**(1,001,191)**	**-**	**(1,001,191)**
Other		**-**	**(456)**	**456**	**-**	**-**	**-**
Balance as at 31 December 2021		**81,530,200**	**488,736**	**180,797,597**	**262,816,533**	**19,678**	**262,836,211**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NIS Group
Consolidated Statement of Cash Flows[1]
(All amounts are in 000 RSD, unless otherwise stated)

	Note	Year ended 31 December 2021	2020
Cash flows from operating activities			
Profit (loss) before income tax		**25,200,580**	**(9,130,400)**
Adjustments for:			
Share of loss of associates and joint ventures		164,530	103,671
Finance expenses	37	1,824,974	1,866,772
Finance income	36	(135,887)	(192,619)
Unrealised foreign exchange (gain) losses, net		(272,362)	68,033
Depreciation, depletion and amortization	13,14,16	24,958,601	22,805,904
Impairment of non-current assets		549,227	709,858
Impairment of exploration works		948,281	136,812
Adjustments for other provisions		831,613	(442,435)
Payables write off		(357,798)	(998,497)
Other non-cash items		(251,286)	195,639
Operating cash flow before changes in working capital		**53,460,473**	**15,122,738**
Changes in working capital:			
Trade and other receivables		(7,456,693)	5,614,214
Inventories		(9,189,279)	19,666,564
Other current assets		(2,002,393)	(810,180)
Trade payables and other current liabilities		6,393,695	(8,210,697)
Other taxes payable		2,588,166	1,215,483
Total effect on working capital changes		**(9,666,504)**	**17,475,384**
Income taxes paid		(280,738)	(1,346,537)
Interest paid		(1,423,152)	(1,672,794)
Interest received		85,381	124,900
		(1,618,509)	**(2,894,431)**
Net cash generated by operating activities		**42,175,460**	**29,703,691**
Cash flows from investing activities			
Net cash flow on acquisition of subsidiaries or other business		-	(41)
Capital expenditures[2]		(22,773,565)	(28,254,179)
Proceeds from sale of property, plant and equipment		410,959	518,404
Dividends received		43,889	4,274
Bank deposits repayment, net		76,231	1,661,911
Other outflow		(76,387)	(17,641)
Net cash used in investing activities		**(22,318,873)**	**(26,087,272)**
Cash flows from financing activities			
Proceeds from borrowings	21,25	17,229,700	17,682,783
Repayment of borrowings	21,25	(22,656,697)	(23,163,202)
Repayments of finance lease liabilities	26	(728,686)	(589,021)
Dividends paid to the Company's owners	29	(1,001,191)	(4,425,459)
Net cash used in financing activities		**(7,156,874)**	**(10,494,899)**
Net increase (decrease) in cash and cash equivalents		**12,699,713**	**(6,878,480)**
Effect of foreign exchange on cash and cash equivalents		95,259	70,972
Cash and cash equivalents as of the beginning of the year		**8,488,302**	**15,295,810**
Cash and cash equivalents as of the end of the year	8	**21,283,274**	**8,488,302**

The accompanying notes are an integral part of these Consolidated Financial Statements.

[1] Group policy is to present cash flows inclusive of related VAT.

[2] CF from investing activities includes VAT in the amount of 2,7 bln RSD (2020: 3 bln RSD)

1. GENERAL INFORMATION

1.1. Description of business

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

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

The Company was established in accordance with the Decision of Government of Republic of Serbia on 7 July 2005. On 2 February 2009 PJSC Gazprom Neft (“Gazprom Neft”) acquired a 51% of the share capital of Naftna Industrija Srbije which became a subsidiary of Gazprom Neft. In March 2011, under the Company’s Share Sale and Purchase Agreement, Gazprom Neft acquired an 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 2021 were prepared in accordance with International Financial Reporting Standards (IFRS) and are not the statutory accounts of Group. The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily Serbian). The accompanying Consolidated Financial Statements were primarily derived from the Group’s statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards (IFRS).

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 COVID-19) and, therefore, this principle should be applied in the preparation of these Consolidated Financial Statements.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The preparation of Consolidated Financial Statements in conformity with IFRS 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.

At the date of signing Consolidated Financial Statements, crude oil price increased since 31 December 2021 from 77.020 $/barrel to 92,860 $/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. Foreign currency translation

(a) *Functional and presentation currency*

Items included in the Consolidated Financial Statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Consolidated Financial Statements are presented in RSD, which is the Company’s functional and the Group’s presentation currency.

(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 the end of the period exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Profit or Loss.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and other monetary assets and liabilities are presented in the Consolidated Statement of Profit or Loss and Other Comprehensive Income within “Net foreign exchange gain/loss”.

(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.

2.5. 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 the 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 interest*

Ownership interest in the Group's subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Profit or Loss and Other Comprehensive Income. 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.

2.6. 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 values 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.

2.7. 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 profit or loss. Transaction costs, that the Group incurs in connection with a business combination are expensed as incur.

2.8. 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***

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 change. 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 or 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 or 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 and contract assets are presented in the consolidated statement of financial position 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 Statement of Profit or Loss and Other Comprehensive Income within Selling, general and administrative expenses.

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.

2.9. 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 tests of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as production and manufacturing expenses (note 30).

(All amounts are in 000 RSD, unless otherwise stated)

2.10. 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 16).

(b) *Licenses and rights*

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

(c) Software

These include primarily the costs of implementation the (SAP) computer software program. Acquired computer software licenses are capitalised 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 exceeding 8 years).

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 Profit or Loss during the financial period in which they are incurred.

Advances made on Property, plant and equipment and Construction in progress are accounted for within other non-current assets as a part of non-current non-financial accounts receivable.

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
Refining assets	
Buildings	10 - 50
Machinery and equipment	2 - 35
Marketing and distribution assets	
Buildings	10 - 50
Machinery and equipment	3 - 25
Other Assets	3 - 50

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 expenses, net' in the Consolidated Profit or Loss (note 34).

2.12. 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 oil and gas assets according to its nature. When development is completed, it is transferred to production assets. No depreciation and/or amortization are charged during development.

(c) *Oil and gas production assets*

Oil and gas production assets comprise exploration and evaluation tangible 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.

2.13. 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.

2.14. Investment property

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

Investment property principally comprises 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 Profit or Loss 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.

2.15. Share capital

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

2.16. 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 Group, by the weighted average number of ordinary shares issued during the period.

2.17. Provisions

Provisions for environmental restoration, asset retirement obligation and legal claims are recognised when: 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 financial expense and charged to Consolidated Profit or Loss.

2.18. Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the Consolidated Profit or Loss, 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.

2.19. 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.

(All amounts are in 000 RSD, unless otherwise stated)

(b) *Employee benefits provided by Collective Labour 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 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.

At the end of 2020 Group has made decision to introduce new three-year (2021-2023) incentive program for Group managers which will be settle based on the Key Performance Indicators (“KPI”) reached during the program (note 28).

2.20. 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.

2.21. 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.

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 value-added tax, excise duty, returns, rebates and discounts after eliminating sales within the Group.

(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 23.

(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. Transportation expenses

Transportation expenses recognised in Consolidated Profit or Loss represent expenses incurred to transport crude oil and oil products through the pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

2.24. Maintenance and Repair

Costs for maintenance and repair that do not represent significant improvements are expensed when incurred.

Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

Preparing these consolidated financial statements in accordance with IFRS requires 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 experiences and other factors 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 estimate is 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. Implications of COVID-19

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.

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. Cash flow projection 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 and 2021 additional optimization of the loan portfolio indicator was performed in terms of reducing the cost of financing. 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);
- During 2021, performance significantly improved thanks to the oil price increase and in addition management was performed 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 2021 would be to increase/decrease it by 2,372,833 RSD (2020: 2,157,536 RSD).

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 16).

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 4.70% (rather than 3.70%) per year, the past service liability (DBO) for the whole NIS Group would decreased by about 7.30% for retirement indemnity and 2.88% 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 8.69% for the retirement indemnity. If employee fluctuation rate increase by 1.0% higher than assumed on an annual basis, then the past service liability (DBO) would decrease by about 7.75% for the retirement indemnity and 3.26% for the jubilee benefit.

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 28) 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 4.49% (rather than 3.49%) per year, the present liability would have decreased by approx. 1,015,618 RSD (31 December 2020: 5.30% (rather than 4.30%) per year the present liability would have decreased by approx. 721,372 RSD).

3.7. Contingencies

Certain conditions may exist as of the reporting date 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 un asserted claims that may result in such proceedings, the Group, evaluates the perceived merits of any legal or tax proceedings or un asserted 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 39).

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 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 60.6 bln RSD (31 December 2020: 57.2 bln RSD).

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:

- 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);
- Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16 (issued in March 2021 and effective for annual periods on or after 1 April 2021).

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 2021);
- 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 1 January 2022);
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 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;
- 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);
- Disclosure of Accounting Policies – Amendments to IAS 1 (issued in February 2021 and effective for annual periods beginning on or after 1 January 2023);
- Definition of Accounting Estimates – Amendments to IAS 8 (issued in February 2021 and effective for annual periods beginning on or after 1 January 2023);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 (issued in May 2021 and effective for annual periods beginning on or after 1 January 2023).

6. FINANCIAL RISK MANAGEMENT

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 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.

(All amounts are in 000 RSD, unless otherwise stated)

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 are denominated are as follows:

As of 31 December 2021	**RSD**	**EUR**	**USD**	**Other**	**Total**
Financial assets					
Current					
Cash and cash equivalents	10,688,889	9,013,350	753,924	827,111	21,283,274
Short-term financial assets	28,275	-	-	-	28,275
Trade and other receivables	23,063,601	2,065,922	489,040	3,025,944	28,644,507
Non-current					
Trade and other receivables	-	2,824	-	-	2,824
Long-term financial assets	101,415	155,860	6,236	-	263,511
Other non-current assets	320,069	627,730	-	-	947,799
Financial liabilities					
Current					
Short-term debt	(114)	(7,025,224)	(47,226)	(56,332)	(7,128,896)
Current lease liabilities	(4,183)	(339,868)	-	(296,605)	(640,656)
Trade and other payables	(13,700,067)	(11,776,520)	(533,136)	(2,878,118)	(28,887,841)
Non-current					
Long-term debt	(5,338)	(70,346,978)	(83,512)	(99,824)	(70,535,652)
Non-current lease liabilities	(4,504)	(241,458)	-	(1,449,356)	(1,695,318)
Other non-current financial liabilities	-	(841,861)	-	-	(841,861)
Net exposure	**20,488,043**	**(78,706,223)**	**585,326**	**(927,180)**	**(58,560,034)**

As of 31 December 2020	**RSD**	**EUR**	**USD**	**Other**	**Total**
Financial assets					
Current					
Cash and cash equivalents	4,571,789	3,318,178	243,230	355,105	8,488,302
Short-term financial assets	104,506	161,718	-	-	266,224
Trade and other receivables	18,381,025	833,832	245,377	1,438,508	20,898,742
Non-current					
Trade and other receivables	-	78,459	-	-	78,459
Long-term financial assets	10,051	-	100,520	-	110,571
Other non-current assets	84,335	659,747	-	-	744,082
Financial liabilities					
Current					
Short-term debt	(132)	(11,572,582)	(38,717)	(50,652)	(11,662,083)
Current lease liabilities	(14,702)	(379,516)	-	(216,507)	(610,725)
Trade and other payables	(10,767,095)	(7,969,988)	(3,479,757)	(1,284,850)	(23,501,690)
Non-current					
Long-term debt	(210)	(70,988,894)	(120,107)	(160,295)	(71,269,506)
Non-current lease liabilities	(13,992)	(891,235)	-	(963,439)	(1,868,666)
Other non-current financial liabilities	-	(841,847)	-	-	(841,847)
Net exposure	**12,355,575**	**(87,592,128)**	**(3,049,454)**	**(882,130)**	**(79,168,137)**

(All amounts are in 000 RSD, unless otherwise stated)

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2021	**31 December 2020**
EUR	117.5821	117.5802
USD	103.9262	95.6637

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 instruments 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 2021, if the currency had strengthened / weaken by 1% against the EUR with all other variables held constant, pre-tax profit and equity for the year would have been 787,062 RSD (2020: 875,921 RSD) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings and account payables.

As at 31 December 2021, if the currency had strengthened / weaken by 2% against the USD with all other variables held constant, pre-tax profit and equity for the year would have been 11,707 RSD (2020: 60,989 RSD) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated borrowings and account payables.

Interest rate risk

Borrowings withdrawn at variable interest rates expose the Group to cash flow 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 2021 would have been 550,485 RSD (2020: 667,008 RSD) 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 scenarios for key performance factors 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.

(All amounts are in 000 RSD, unless otherwise stated)

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position is as follows:

	Year end 31 December	
	2021	**2020**
Trade and other receivables (Note 10)	28,644,507	20,898,742
Trade and other non-current receivables	2,824	78,459
Cash and cash equivalents (Note 8)	21,283,274	8,488,302
Other financial asset at amortised cost (Note 9 and 18)	199,886	281,479
Other current assets	1,064,995	769,218
Other non-current assets (Note 20)	947,799	744,082
Financial assets at FVTOCI (Note 18)	177,459	163,976
Total maximum exposure to credit risk	**52,320,744**	**31,424,258**

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 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 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 2021 and 1 January 2021 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 and other receivables is determined according to provision matrix presented in the table below.

(All amounts are in 000 RSD, unless otherwise stated)

At 31 December 2021 the provision matrix is based on the number of days that an asset is past due:

	Loss rate	Gross carrying amount	Lifetime ECL	Net carrying value
Trade and other receivables				
- current	0.03%	27,355,609	(7,660)	27,347,949
- less than 30 days overdue	0.15%	913,368	(1,343)	912,025
- 31 to 90 days overdue	0.91%	91,148	(825)	90,323
- 91 to 270 days overdue	1.29%	56,986	(736)	56,250
- over 271 days overdue	98.11%	8,476,726	(8,238,766)	237,960
Total trade and other receivables		**36,893,837**	**(8,249,330)**	**28,644,507**

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	Net carrying value
Trade and other receivables				
- current	0.03%	19,545,445	(5,094)	19,540,351
- less than 30 days overdue	0.17%	925,536	(1,588)	923,948
- 31 to 90 days overdue	0.88%	92,330	(817)	91,513
- 91 to 270 days overdue	3.69%	153,836	(5,669)	148,167
- over 271 days overdue	98.53%	9,139,719	(8,944,956)	194,763
Total trade and other receivables		**29,856,866**	**(8,958,124)**	**20,898,742**

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 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 and other receivables and other current assets are fully recoverable.

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

	Trade receivables	Other receivables	Total
As at 1 January 2020	**9,639,286**	**52,831**	**9,692,117**
Increase of provision during the year (note 31)	119,623	5,126	124,749
Release of provision (note 31)	(158,734)	(11,634)	(170,368)
Receivables written off during the year as uncollectible	(686,468)	(284)	(686,752)
Other	(1,622)	-	(1,622)
As at 31 December 2020	**8,912,085**	**46,039**	**8,958,124**
As at 1 January 2021	**8,912,085**	**46,039**	**8,958,124**
Increase of provision during the year (note 31)	49,326	582	49,908
Release of provision (note 31)	(333,334)	(5,485)	(338,819)
Receivables written off during the year as uncollectible	(377,516)	-	(377,516)
Other	(42,366)	(1)	(42,367)
As at 31 December 2021	**8,208,195**	**41,135**	**8,249,330**

(All amounts are in 000 RSD, unless otherwise stated)

Expenses that have been provided for or written off are included in selling, general and administrative expenses within the Consolidated Profit or Loss. 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 above. The other classes within trade and other receivables do not contain impaired assets.

As of 31 December 2021 and 2020, the ageing analysis of other current assets is as follows:

	31 December 2021			**31 December 2020**		
	Gross	**Impaired**	**Net**	**Gross**	**Impaired**	**Net**
Not past due	925,483	-	925,483	647,382	-	647,382
Past due:						
within 30 days	9,293	(5)	9,288	11,695	-	11,695
1 to 3 months	3,273	-	3,273	10,116	(8)	10,108
3 months to 1 year	23,653	(1,373)	22,280	19,711	(1,313)	18,398
over 1 year	7,455,721	(7,351,050)	104,671	7,499,945	(7,418,310)	81,635
Total	**8,417,423**	**(7,352,428)**	**1,064,995**	**8,188,849**	**(7,419,631)**	**769,218**

Net amount of other current assets shown in ageing analysis does not include non-financial assets like VAT, excise etc. in the amount of 7,211,725 RSD (2020: 5,348,543 RSD). Other current assets in net amount 1,064,995 RSD (2020: 769,218 RSD) mostly relates to receivables for other assets, receivables to employees and receivables from former Yugoslavian republics mostly impaired.

Movements on the Group's provision for impairment of other current assets are as follows:

	Advances paid	**Other current assets**	**Total**
As at 1 January 2020	**149,287**	**7,418,835**	**7,568,122**
Increase of provision during the year (note 31)	3,530	2,089	5,619
Release of provision (note 31)	(31)	(369)	(400)
Receivables written off during the year as uncollectible	(2,710)	(1,129)	(3,839)
Other	1	205	206
As at 31 December 2020	**150,077**	**7,419,631**	**7,569,708**
Increase of provision during the year (note 31)	-	2,997	2,997
Release of provision (note 31)	(350)	(417)	(767)
Receivables written off during the year as uncollectible	(2,156)	(69,361)	(71,517)
Other	(1)	(422)	(423)
As at 31 December 2021	**147,570**	**7,352,428**	**7,499,998**

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 2021				
Cash and cash equivalents	9,347,610	8,282,565	3,653,099	**21,283,274**
Deposits with original maturity more than 3 months less than 1 year	-	-	28,275	**28,275**
Deposits with original maturity more than 1 year	-	-	155,857	**155,857**
As at December 2020				
Cash and cash equivalents	2,362,115	4,247,736	1,878,451	**8,488,302**
Deposits with original maturity more than 3 months less than 1 year	-	-	266,224	**266,224**

(All amounts are in 000 RSD, unless otherwise stated)

The Group uses lifetime expected credit loss approach to measure expected credit losses for most of its financial assets.
As of 31 December 2021 and 2020 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 Group'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 2021	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1 - 5 years**	**Over 5 years**
Borrowings (note 21 and 25)	77,664,548	82,221,431	8,433,841	72,419,881	1,367,709
Lease liabilities (note 26)	2,335,974	3,170,094	676,548	1,476,746	1,016,800
Trade and other payables (note 22)	28,887,841	28,887,841	28,887,841	-	-
	108,888,363	**114,279,366**	**37,998,230**	**73,896,627**	**2,384,509**
As at 31 December 2020					
Borrowings (note 21 and 25)	82,931,589	86,868,680	12,985,764	61,703,878	12,179,038
Lease liabilities (note 26)	2,479,391	3,170,094	676,548	1,476,746	1,016,800
Trade and other payables (note 22)	23,501,690	23,501,690	23,501,690	-	-
	108,912,670	**113,540,464**	**37,164,002**	**63,180,624**	**13,195,838**

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 amortization, 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:

	Year ended 31 December	
	2021	**2020**
Long-term debt	70,535,652	71,269,506
Short-term debt and current portion of long-term debt	7,128,896	11,662,083
Less: cash and cash equivalents	(21,283,274)	(8,488,302)
Net debt	56,381,274	74,443,287
EBITDA	53,173,984	15,824,303
Net debt to EBITDA ratio at the end of the year	**1.06**	**4.70**

(All amounts are in 000 RSD, unless otherwise stated)

The Group has committed to maintain debt cover ratio of total indebtedness and EBITDA not exceeding 4.0 during the terms of long-term borrowings agreements with most of its commercial banks. Group is 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 2021 and 2020. 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 2021 are shown in the table below:

	Upstream	**Downstream**	**Eliminations**	**Total**
Segment revenue	45,522,440	293,781,629	(44,141,713)	295,162,356
Intersegment	43,608,846	532,867	(44,141,713)	-
External	1,913,594	293,248,762	-	295,162,356
Adjusted EBITDA (Segment results)	**30,422,381**	**22,751,603**	**-**	**53,173,984**
Depreciation, depletion and amortization	(13,263,998)	(11,694,603)	-	(24,958,601)
Impairment of non-financial assets	6,081	(555,308)	-	(549,227)
Share of loss of associates and joint ventures	-	(164,530)	-	(164,530)
Net foreign exchange loss	(223,363)	(715,647)	-	(939,010)
Finance expenses, net	(323,954)	(1,365,133)	-	(1,689,087)
Income tax	(144,696)	(4,098,851)	-	(4,243,547)
Segment profit	16,004,070	4,952,963	-	20,957,033

(All amounts are in 000 RSD, unless otherwise stated)

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	183,602,147	(30,071,039)	183,822,955
Intersegment	29,491,961	579,078	(30,071,039)	-
External	799,886	183,023,069	-	183,822,955
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 of non-financial assets	61,646	(771,504)	-	(709,858)
Share of loss of associates and joint ventures	-	(103,671)	-	(103,671)
Net foreign exchange loss	(203,471)	(104,730)	-	(308,201)
Finance expenses, net	(276,348)	(1,397,805)	-	(1,674,153)
Income tax	(193,607)	1,758,004	-	1,564,397
Segment (loss) profit	3,367,063	(10,933,066)	-	(7,566,003)

Adjusted EBITDA for the downstream segment includes Corporate centre EBITDA in the negative amount of RSD 6,925,941 thousand for the year ended 31 December 2021 (31 December 2020: negative EBITDA in the amount of RSD 6,150,081 thousand). Adjusted EBITDA for Downstream segment prior allocation of Corporate centre EBITDA is presented in the following table:

	Year ended 31 December	
	2021	**2020**
Adjusted EBITDA after allocation of Corporate centre	22,751,603	(330,347)
Corporate centre EBITDA	(6,925,941)	(6,150,081)
Adjusted EBITDA prior allocation of Corporate centre	**29,677,544**	**5,819,734**

Adjusted EBITDA for the year ended 31 December 2021 and 2020 is reconciled below:

	Year ended 31 December	
	2021	**2020**
Profit (loss) for the year	20,957,033	(7,566,003)
Income tax	4,243,547	(1,564,397)
Finance expenses	1,824,974	1,866,772
Finance income	(135,887)	(192,619)
Depreciation, depletion and amortization	24,958,601	22,805,904
Share of loss of associates and joint ventures	164,530	103,671
Net foreign exchange loss	939,010	308,201
Other expense (income), net	1,060,954	(269,003)
Other non-operating (income) expenses, net*	(838,778)	331,777
Adjusted EBITDA	**53,173,984**	**15,824,303**

*Other non-operating income, net mainly relate to provision for impairment of fixed assets, excess and deficiencies of assets revealed, fines, penalties and other.

(All amounts are in 000 RSD, unless otherwise stated)

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

	Year ended 31 December 2021		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	1,397,819	1,212,510	2,610,329
Sale of gas	273,246	-	273,246
Wholesale activities	273,246	-	273,246
Sale of petroleum products	202,705,120	71,912,811	274,617,931
Through a retail network	67,695,146	16,251,771	83,946,917
Wholesale activities	135,009,974	55,661,040	190,671,014
Sales of electricity	2,839,332	350,428	3,189,760
Lease revenue	302,641	18,570	321,211
Other sales	10,031,013	4,118,866	14,149,879
Total sales	**217,549,171**	**77,613,185**	**295,162,356**

	Year ended 31 December 2020		
	Domestic market	**Export and international sales**	**Total**
Sale of crude oil	-	445,567	445,567
Sale of gas	362,370	-	362,370
Wholesale activities	362,370	-	362,370
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	8,221,744	2,827,747	11,049,491
Total sales	**137,079,895**	**46,743,060**	**183,822,955**

Out of the amount of 190,671,014 RSD (2020: 110,198,444 RSD) revenue from sale of petroleum products (wholesale), the amount of 28,673,855 RSD (2020: 16,743,010 RSD) 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 Electric Power Industry of Serbia in the amount of 1,154,381 RSD (2020: Network for Trading in the amount 504,652 RSD).

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of 10,813,030 RSD (2020: 8,758,716 RSD).

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 217,549,171 RSD (2020: 137,079,895 RSD), and the total of revenue from external customer from other countries is 77,613,185 RSD (2020: 46,743,060 RSD).

(All amounts are in 000 RSD, unless otherwise stated)

The breakdown of the major component of the total revenue from export and international sales is disclosed below:

	Year ended 31 December 2021	2020
Sale of crude oil	1,212,510	445,567
Sale of petroleum products (retail and wholesale):		
Bulgaria	13,181,739	10,190,296
Bosnia and Herzegovina	24,814,896	13,463,146
Romania	16,857,738	10,903,430
Switzerland	1,880,060	453,057
Croatia	2,597,274	1,656,265
Northern Macedonia	502,952	790,710
Hungary	947,185	779,414
Great Britain	4,517,034	903,215
Germany	1,340,491	985,633
All other markets	5,273,442	3,040,028
	71,912,811	43,165,194
Sales of electricity	350,428	298,446
Lease revenue	18,570	6,106
Other sales	4,118,866	2,827,747
	77,613,185	**46,743,060**

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

Presentation of excise duties

The following table presents sales revenue earned and related calculated excise duties for 2021 and 2020:

	2021	2020
Sales revenue	446,943,846	316,026,606
Excise duties	(151,781,490)	(132,203,651)
Net sales revenue	**295,162,356**	**183,822,955**

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 2021	31 December 2020
Serbia	283,450,792	288,696,880
Romania	12,330,207	12,430,336
Bosnia and Herzegovina	8,342,150	7,649,494
Bulgaria	6,081,578	6,423,225
	310,204,727	**315,199,935**

(All amounts are in 000 RSD, unless otherwise stated)

8. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash in bank and in hand	13,473,782	5,576,619
Deposits with original maturity of less than three months	7,782,056	2,643,210
Cash held on escrow account	254	8,329
Cash equivalents	27,182	260,144
	21,283,274	**8,488,302**

9. SHORT-TERM FINANCIAL ASSETS

	31 December 2021	31 December 2020
Short-term loans	2,019	2,019
Deposits with original maturity more than 3 months less than 1 year	28,275	266,224
Less impairment loss provision	(2,019)	(2,019)
	28,275	**266,224**

As at 31 December 2021 deposits with original maturity more than 3 months less than 1 year amounting to 28,275 RSD (2020: 266,224 RSD) relates to bank deposits placements with interest rates 2.40% p.a. denominated in RSD (2020: from 0.50% to 2.80% p.a. denominated in RSD and EUR).

10. TRADE AND OTHER RECEIVABLES

	31 December 2021	31 December 2020
Trade receivables	36,800,958	29,709,881
Other receivables	92,879	91,781
Accrued assets	-	55,204
Less impairment provision for trade receivables	(8,208,195)	(8,912,085)
Less impairment provision for other receivables	(41,135)	(46,039)
	28,644,507	**20,898,742**

11. INVENTORIES

	31 December 2021	31 December 2020
Crude oil	18,745,046	14,118,415
Petroleum products	15,450,591	11,279,391
Materials and supplies	6,051,592	5,904,420
Other	1,323,159	1,203,773
Less impairment provision	(4,619,266)	(4,757,773)
	36,951,122	**27,748,226**

Movement on inventory provision is as follows:

	2021	2020
As at 1 January	**4,757,773**	**4,775,984**
Provision for inventory impairment (note 30)	4,403	56,758
Unused amounts reversed (note 30)	(100,596)	(43,546)
Other	(42,314)	(31,423)
As at 31 December	**4,619,266**	**4,757,773**

(All amounts are in 000 RSD, unless otherwise stated)

12. OTHER CURRENT ASSETS

	31 December 2021	31 December 2020
Advances paid	699,828	515,693
VAT receivables	375,725	117,430
Deferred VAT	3,611,624	2,111,479
Prepaid expenses	454,437	248,940
Prepaid custom duties	66,453	77,694
Prepaid excise	2,043,419	2,271,345
Other current assets	8,525,232	8,344,888
Less impairment provision	(7,499,998)	(7,569,708)
	8,276,720	**6,117,761**

Deferred VAT as at 31 December 2021 amounting to 3,611,624 RSD (31 December 2020: 2,111,479 RSD) represents VAT inputs claimed on invoices received and accounted for in the current period, while the inputs will be allowed in the following accounting period.

Prepaid excise as at 31 December 2021 amounting to 2,043,419 RSD (31 December 2020: 2,271,345 RSD) 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.

(All amounts are in 000 RSD, unless otherwise stated)

13. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Refining assets	Marketing and distribution assets	Other assets	Assets under construction	Total
As at 1 January 2020						
Cost	185,208,089	119,078,761	70,157,189	19,406,385	69,075,268	462,925,692
Depreciation and impairment	(58,573,177)	(51,705,166)	(34,354,810)	(10,321,625)	(2,036,347)	(156,991,125)
Net book value	**126,634,912**	**67,373,595**	**35,802,379**	**9,084,760**	**67,038,921**	**305,934,567**
Year ended 31 December 2020						
Additions	-	-	-	-	23,298,722	23,298,722
Changes in decommissioning obligations	345,084	-	-	-	-	345,084
Transfer from assets under construction	15,935,291	42,367,146	3,248,609	308,774	(61,859,820)	-
Impairment (note 34)	-	-	(48,802)	-	(655,835)	(704,637)
Depreciation	(12,044,001)	(6,337,139)	(2,481,263)	(708,234)	(4,719)	(21,575,356)
Transfer to intangible assets (note 16)	-	-	-	-	(85,019)	(85,019)
Transfer to non-current assets held for sale	(45,468)	-	(24,467)	(81,364)	-	(151,299)
Disposals and write-off	(51,330)	(13,040)	(124,297)	(11,321)	(177,284)	(377,272)
Other transfers	(62,966)	(290,295)	28,042	305,126	29,916	9,823
Translation differences	(26)	-	(50,519)	728	(165,718)	(215,535)
	130,711,496	**103,100,267**	**36,349,682**	**8,898,469**	**27,419,164**	**306,479,078**
As at 31 December 2020						
Cost	201,221,015	160,908,071	72,666,132	19,440,677	29,971,204	484,207,099
Depreciation and impairment	(70,509,519)	(57,807,804)	(36,316,450)	(10,542,208)	(2,552,040)	(177,728,021)
Net book value	**130,711,496**	**103,100,267**	**36,349,682**	**8,898,469**	**27,419,164**	**306,479,078**
As at 1 January 2021						
Cost	201,221,015	160,908,071	72,666,132	19,440,677	29,971,204	484,207,099
Depreciation and impairment	(70,509,519)	(57,807,804)	(36,316,450)	(10,542,208)	(2,552,040)	(177,728,021)
Net book value	**130,711,496**	**103,100,267**	**36,349,682**	**8,898,469**	**27,419,164**	**306,479,078**
Year ended 31 December 2021						
Additions	-	-	-	-	19,766,747	19,766,747
Changes in decommissioning obligations	1,540,421	-	-	-	-	1,540,421
Transfer from assets under construction	17,927,832	2,332,649	1,679,261	197,760	(22,137,502)	-
Impairment (note 34)	-	-	-	-	(744,279)	(744,279)
Depreciation	(12,822,628)	(7,888,892)	(2,351,444)	(660,672)	(4,695)	(23,728,331)
Transfer to intangible assets (note 16)	-	-	-	-	(90,328)	(90,328)
Transfer to non-current assets held for sale	-	-	-	(25,984)	-	(25,984)
Transfer to investment property (note 15)	-	-	-	(21,673)	(7,930)	(29,603)
Disposals and write-off	(66,297)	(20,051)	(365,310)	(190)	(955,566)	(1,407,414)
Transfer to right of use assets	-	-	(153,427)	-	-	(153,427)
Other transfers	(6,804)	495,279	(471,945)	(16,536)	(346,105)	(346,111)
Translation differences	(16,981)	-	(41,572)	1	(131,634)	(190,186)
	137,267,039	**98,019,252**	**34,645,245**	**8,371,175**	**22,767,872**	**301,070,583**
As at 31 December 2021						
Cost	220,374,273	164,080,833	72,292,457	19,219,674	25,794,251	501,761,488
Depreciation and impairment	(83,107,234)	(66,061,581)	(37,647,212)	(10,848,499)	(3,026,379)	(200,690,905)
Net book value	**137,267,039**	**98,019,252**	**34,645,245**	**8,371,175**	**22,767,872**	**301,070,583**

In 2021, The Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost amounting to 17,233 RSD (2020: capitalised borrowing costs in the amount of 120,146 RSD), note 37.

Of the total amount of activations in 2021 in the amount of 22,137,502 RSD, the most significant part refers to activation on oil&gas properties in the amount of 17,927,832 RSD. In 2020 the amount of 61,859,820 RSD, 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 38,844,486 RSD. 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 if the recoverable amount of property, plant and equipment is below its book value.

(All amounts are in 000 RSD, unless otherwise stated)

As at 31 December 2021, the Group assessed impairment indicators of cash generating units ("CGU") – refer to note 3.8 for details. In addition, Group has assessed and recognized impairment losses in amount 744,279 RSD (2020: 704,637 RSD) for the 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 impairment of the temporary suspended Base Oil Project in Refinery Novi Sad in amount of 731,532 RSD (2020: 683,196 RSD).

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.

Oil and gas production assets

Oil and gas production assets comprise aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves. The information regarding Group's O&G assets is presented below:

	Capitalised exploration and evaluation expenditure	Capitalised development expenditure	Total asset under construction	Production assets	Other business and corporate assets	Total
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	(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**
Year ended 31 December 2021						
Additions	2,361,992	11,777,979	14,139,971	-	-	14,139,971
Changes in decommissioning obligations	-	-	-	1,540,421	-	1,540,421
Transfer from asset under construction	(5,401,911)	(12,525,921)	(17,927,832)	17,927,832	-	-
Impairment	-	(5,823)	(5,823)	-	-	(5,823)
Other transfers	(408,417)	75,425	(332,992)	(6,804)	641	(339,155)
Depreciation and depletion	(4,695)	-	(4,695)	(12,822,628)	(2,931)	(12,830,254)
Unsuccessful exploration expenditures derecognised	(948,281)	-	(948,281)	-	-	(948,281)
Disposals and write-off	-	-	-	(66,297)	-	(66,297)
Translation differences	(135,512)	1	(135,511)	(16,981)	-	(152,492)
	16,912,391	**547,477**	**17,459,868**	**137,267,039**	**30,112**	**154,757,019**
As at 31 December 2021						
Cost	16,957,599	547,513	17,505,112	220,374,273	56,567	237,935,952
Depreciation and impairment	(45,208)	(36)	(45,244)	(83,107,234)	(26,455)	(83,178,933)
Net book amount	**16,912,391**	**547,477**	**17,459,868**	**137,267,039**	**30,112**	**154,757,019**

Unsuccessful exploration expenditures derecognised in the amount of 948,281 RSD mainly in the amount of 942,614 RSD relate to exploration assets located in Romania due to uncertain viability of commercial production (2020: amount of 136,812 RSD mainly relate to exploration assets located in Serbia).

(All amounts are in 000 RSD, unless otherwise stated)

Jimbolia exploration area in Romania (total value of exploration investment on 31 December 2021 is 1,803,130 RSD) is currently in the phase of Evaluation of research results and confirmation of these results by the National Agency for Mineral Resources is expected during the first half of 2022. When assessing the status of this investment as at 31 December 2021 impairment indicators were analysed by observing this area together with the Teremia North field as one operation area which is allowed in accordance with IFRS 6. The reason for combining these two fields in assessment is the fact that additional gas from Teremia North field is to be transferred to Jimbolia field and its monetization is planned starting from 2022. Based on the analysis performed as at 31 December 2021 the Group assessed that there were no indicators of impairment and is continuing to assess the possibility of commercial production on Jimbolia field. Once National Agency for Mineral Resources confirms results for Jimbolia field it will be in production phase and impairment indicators will be reassessed.

Total capital expenditures from the exploration for and evaluation of mineral resources in the amount of 13,210,261 RSD are recognized in investing cash flow (2020: amount of 15,972,160 RSD).

14. RIGHT-OF-USE ASSETS

	Land	Property	Plant and equipment	Vehicles	Total
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**
As at 1 January 2021	**143,732**	**1,299,970**	**338,324**	**878,768**	**2,660,794**
Additions	-	406,441	160,818	20,860	588,119
Depreciation	(9,600)	(293,292)	(145,158)	(260,525)	(708,575)
Transfers	(7,121)	160,548	923	(923)	153,427
Disposals	-	(1,443)	(5,209)	(4,645)	(11,297)
Effect of contract modifications and changes in estimates	-	(15,114)	(78,314)	(140)	(93,568)
Translation differences	(2,127)	(827)	(1,881)	(101)	(4,936)
As at 31 December 2021	**124,884**	**1,556,283**	**269,503**	**633,294**	**2,583,964**

15. INVESTMENT PROPERTY

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

Movements on the account were as follows:

	2021	2020
As at 1 January	**1,574,329**	**1,579,798**
Fair value gains (note 34)	149,346	-
Transfer from PPE (note 13)	29,603	-
Disposals	(24,883)	(5,469)
As at 31 December	**1,728,395**	**1,574,329**

As at 31 December 2021, investment properties amounting to 1,728,395 RSD (31 December 2020: 1,574,329 RSD) 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 2021 and 2020. The revaluation gain (loss) was debited to Other expenses, net (note 34).

(All amounts are in 000 RSD, unless otherwise stated)

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 2021 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	-	918,730	-
− Gas stations	-	-	809,664
Total	**-**	**918,730**	**809,664**

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**

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:

	2021	2020
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:

	2021	2020
Assets as at 1 January	**735,442**	**735,442**
Changes in fair value measurement:		
Gains recognised in profit or loss, fair value measurement	80,125	-
Other	(5,903)	-
Total increase (decrease) in fair value measurement, assets	74,222	-
Assets as at 31 December	**809,664**	**735,442**

(All amounts are in 000 RSD, unless otherwise stated)

16. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Licenses, other than related to O&G activity	Software	IA under development	Other IA	Total
As at 1 January 2020						
Cost	1,354,508	1,997,591	8,440,916	284,280	627,964	12,705,259
Amortization and impairment	-	(837,505)	(7,055,912)	(24,347)	(325,872)	(8,243,636)
Net book value	**1,354,508**	**1,160,086**	**1,385,004**	**259,933**	**302,092**	**4,461,623**
Year ended 31 December 2020						
Additions	-	-	-	674,067	-	674,067
Transfer from IA under development	-	163,725	498,081	(671,222)	9,416	-
Impairment	(26,506)	-	-	(58,941)	-	(85,447)
Amortization	-	(131,745)	(467,214)	-	(46,379)	(645,338)
Transfer from PPE (note 13)	-	-	-	85,019	-	85,019
Other transfers	-	-	781	-	530	1,311
Translation differences	(5,298)	(195)	-	-	(8)	(5,501)
	1,322,704	**1,191,871**	**1,416,652**	**288,856**	**265,651**	**4,485,734**
As at 31 December 2020						
Cost	1,322,704	2,160,797	8,938,285	372,144	629,875	13,423,805
Amortization and impairment	-	(968,926)	(7,521,633)	(83,288)	(364,224)	(8,938,071)
Net book value	**1,322,704**	**1,191,871**	**1,416,652**	**288,856**	**265,651**	**4,485,734**
As at 1 January 2021						
Cost	1,322,704	2,160,797	8,938,285	372,144	629,875	13,423,805
Amortization and impairment	-	(968,926)	(7,521,633)	(83,288)	(364,224)	(8,938,071)
Net book value	**1,322,704**	**1,191,871**	**1,416,652**	**288,856**	**265,651**	**4,485,734**
Year ended 31 December 2021						
Additions	-	-	-	798,414	-	798,414
Transfer from IA under development	-	489,230	295,269	(827,601)	43,102	-
Impairment	(25,243)	-	-	(1,008)	-	(26,251)
Amortization	-	(134,691)	(335,925)	-	(51,079)	(521,695)
Transfer from PPE (note 13)	-	-	-	90,328	-	90,328
Other transfers	-	(26)	(905)	750	(76)	(257)
Translation differences	(4,329)	(151)	-	(6)	(2)	(4,488)
	1,293,132	**1,546,233**	**1,375,091**	**349,733**	**257,596**	**4,821,785**
As at 31 December 2021						
Cost	1,293,132	2,648,612	9,134,329	433,021	672,980	14,182,074
Amortization and impairment	-	(1,102,379)	(7,759,238)	(83,288)	(415,384)	(9,360,289)
Net book value	**1,293,132**	**1,546,233**	**1,375,091**	**349,733**	**257,596**	**4,821,785**

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:

	2021	2020
Average gross margin	21.7%	23.3%
Growth rate	1%	1%
Discount rate		
- Romania market	7.60%	6.72%
- Bulgaria market	6.00%	5.84%
- Bosnia and Herzegovina market	9.40%	7.71%

(All amounts are in 000 RSD, unless otherwise stated)

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
2021					
Bosnia and Herzegovina	482,336	-	-	8	482,344
Romania	273,377	-	-	(4,347)	269,030
Bulgaria	566,991	-	(25,243)	10	541,758
	1,322,704	**-**	**(25,243)**	**(4,329)**	**1,293,132**
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**

Except recognised impairment loss in Bulgaria in the amount of 25,243 RSD (2020: 26,506 RSD), 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 11,5%.

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:

	2021		**2020**	
	Used assumption on average gross fuel margin	**Decrease in pp**	**Used assumption on average gross fuel margin**	**Decrease in pp**
Romania market	23.5%	0.83pp	24.3%	12.6pp
Bulgaria market	21.9%	3.1pp	25.0%	8.3pp
Bosnia and Herzegovina market	19.9%	0.84pp	20.7%	0.3pp

17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

The carrying values of the investments in associates and joint ventures as of 31 December, 2021 and 2020 are summarised below:

		Ownership percentage	31 December 2021	31 December 2020
NIS MET Energowind d.o.o. Belgrade	Joint venture	50%	888,445	915,921
Gazprom Energoholding Serbia	Joint venture	49%	694,455	831,509
HIP Petrohemija a.d. Pančevo	Associate	20.86%	11,572,197	11,572,197
Less Impairment provision			(11,572,197)	(11,572,197)
Total investments			**1,582,900**	**1,747,430**

(All amounts are in 000 RSD, unless otherwise stated)

The principal place of business of joint ventures disclosed above is 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. Request has been submitted for the extension of the status of privileged electricity producer for additional three years. On the date of the issuance of these Consolidated Financial Statements there has been no significant business activity. 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 Q1 2022. 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. Pančevo

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 20.86% of the voting power of the HIP Petrohemija. Also, NIS has representatives on the BoD and Supervisory boards. On 9 September 2021, the Ministry of Economy of the Republic of Serbia opened a public invitation for the privatization of the joint stock company HIP Petrohemija with a strategic partnership model by which the future partner would acquire a share of no more than 90% of the capital. NIS a.d. submitted an offer within the deadline. In December 2021, NIS and HIPP signed the Strategic Partnership Agreement. With this Agreement, NIS will increase the ownership share in HIP Petrohemija from the previous 20.86% to 90% of shares with the obligation of a monetary recapitalization in the amount of EUR 150 million and the construction of a polypropylene production plant with a capacity of at least 140,000 tonnes per year within six years. The transition period is ongoing until the closing of transaction when all preconditions are expected to be met. The deadline for closing the transaction is 1 July 2022. At the date of publication of these consolidated financial statements, the procedure is still ongoing.

The summarised financial information for the joint ventures and associate as of 31 December 2021 (unaudited) and 2020 and for the years ended 31 December 2021 (unaudited) and 2020 is presented in the table below:

	NIS MET Energowind	Gazprom Energoholding Serbia	HIP Petrohemija a.d. Pančevo
31 December 2021			
Current assets	106,485	1,620,559	21,602,657
Non-current assets	3,187,934	20,628,326	10,712,595
Current liabilities	1,102,285	447,260	3,168,077
Non-current liabilities	-	20,393,628	510,394
Revenue	5,368	88,012	45.571.220
Profit (Loss) for the year	(54,952)	(279,702)	5,588,017
31 December 2020			
Current assets	36,102	399,874	15,722,159
Non-current assets	3,162,171	16,016,723	11,005,097
Current liabilities	951,167	211,951	3,059,080
Non-current liabilities	-	14,563,190	619,412
Revenue	7,437	17,193	29,437,208
Profit (Loss) for the year	(60,575)	(149,762)	106,199

(All amounts are in 000 RSD, unless otherwise stated)

18. LONG-TERM FINANCIAL ASSETS

	31 December 2021	31 December 2020
Deposits with original maturity more than 1 year	155,857	-
Financial assets at FVTOCI	177,459	163,976
Other LT placements	30,554	30,407
Less provision of financial assets at FVTOCI	(85,559)	(68,660)
Less provision of other LT placements	(14,800)	(15,152)
	263,511	**110,571**

19. DEFERRED INCOME TAX

Recognised deferred tax assets and liabilities in the Consolidated Financial Statements are attributable to the following:

	Assets	Liabilities	Net
As at December 31, 2021			
Provisions	664,773	-	664,773
Property, plant and equipment	1,221,934	(234,374)	987,560
Impairment losses	694,650	-	694,650
Fair value gains	10,311	-	10,311
Revaluation reserve	-	(14,075)	(14,075)
	2,591,668	**(248,449)**	**2,343,219**
As at December 31, 2020			
Provisions	902,262	-	902,262
Property, plant and equipment	-	(278,719)	(278,719)
Impairment losses	1,205,119	-	1,205,119
Tax losses	488,483	-	488,483
Fair value gains	10,368	-	10,368
Revaluation reserve	-	(14,075)	(14,075)
	2,606,232	**(292,794)**	**2,313,438**

Movements in temporary differences during the period:

	As at December 31, 2020	Recognised in profit or loss	Recognised in other comprehensive income	Other	As at December 31, 2021
Provisions	902,262	(237,490)	-	1	664,773
Property, plant and equipment	(278,719)	1,266,566	-	(287)	987,560
Impairment losses	1,205,119	(510,469)	-	-	694,650
Tax losses	488,483	(488,483)	-	-	-
Fair value gains	10,368	-	(58)	1	10,311
Revaluation reserve	(14,075)	-	-	-	(14,075)
Total	**2,313,438**	**30,124**	**(58)**	**(285)**	**2,343,219**

(All amounts are in 000 RSD, unless otherwise stated)

	As at December 31, 2019	Recognised in profit or loss	Recognised in other comprehensive income	Other	As at December 31, 2020
Provisions	914,793	(12,578)	-	47	902,262
Property, plant and equipment	(2,071,692)	1,792,971	-	2	(278,719)
Impairment losses	1,858,300	(653,181)	-	-	1,205,119
Tax losses	-	488,483	-	-	488,483
Fair value gains	10,316	-	52	-	10,368
Revaluation reserve	(14,075)	-	-	-	(14,075)
Investment credit	47	-	-	(47)	-
Total	**697,689**	**1,615,695**	**52**	**2**	**2,313,438**

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.

20. OTHER NON-CURRENT ASSETS

	31 December 2021	31 December 2020
Advances paid for PPE	342,907	365,823
Prepaid expenses	107,278	126,564
Other assets	1,340,285	1,126,857
Less allowance of other assets	(392,486)	(382,775)
Less allowance for advances paid	(26,741)	(26,741)
	1,371,243	**1,209,728**

21. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	31 December 2021	31 December 2020
Interest payables	80,380	76,094
Current portion of long-term loans (note 25)	7,048,516	11,585,989
	7,128,896	**11,662,083**

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

	2021	2020
Short-term loans at 1 January	**-**	**-**
Proceeds	500,000	11,500,000
Repayment	(500,000)	(11,500,000)
Short-term loans at 31 December	**-**	**-**

(All amounts are in 000 RSD, unless otherwise stated)

22. TRADE AND OTHER PAYABLES

	31 December 2021	31 December 2020
Trade payables	25,023,780	19,497,552
Dividends payable	3,784,105	3,785,017
Other accounts payable	79,956	219,121
	28,887,841	**23,501,690**

As at 31 December 2021 trade payables amounting to 25,023,780 RSD (31 December 2020: 19,497,552 RSD) relates to payables Petraco Oil Company LLP, London in the amount of 9,855,088 RSD (31 December 2020: 2,641,621 RSD) for crude oil, Hipp Petrhohemija in the amount of 1,155,586 RSD (31 December 2020: 942,412 RSD) for operating expenses and Gazprom Marketing and Trading in the amount of 731,189 RSD (31 December 2020: 56,524 RSD) for electricity.

23. OTHER CURRENT LIABILITIES

	31 December 2021	31 December 2020
Contract liabilities arising from contracts with customers:		
- Advances received	3,148,195	4,164,685
- Customer loyalty	853,461	770,993
Payables to employees	4,629,156	4,933,413
Deferred income	2,465	-
Other current non-financial liabilities	31,876	18,527
	8,665,153	**9,887,618**

Revenue in the amount of 4,444,262 RSD was recognized in the current reporting period (31 December 2020: 2,192,358 RSD) related to the contract liabilities as at 1 January 2021, of which 3,909,614 RSD (31 December 2020: 1,764,943 RSD) related to advances and 534,648 RSD (31 December 2020: 427,415 RSD) to customer loyalty programme.

24. OTHER TAXES PAYABLE

	31 December 2021	31 December 2020
Mineral extraction tax	400,101	214,971
VAT	2,687,432	2,333,069
Excise tax	6,702,076	5,713,647
Contribution for State commodity reserves	302,940	266,499
Custom duties	92,672	63,541
Energy efficiency fee	34,585	30,687
Other taxes	1,258,071	1,488,373
	11,477,877	**10,110,787**

25. LONG-TERM DEBT

	31 December 2021	31 December 2020
Long-term loan - Gazprom Neft	8,203,418	13,672,117
Bank loans	69,276,624	69,109,887
Other long-term borrowings	104,126	73,491
Less Current portion (note 21)	(7,048,516)	(11,585,989)
	70,535,652	**71,269,506**

(All amounts are in 000 RSD, unless otherwise stated)

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

	2021	2020
As at 1 January	**82,782,004**	**89,044,212**
Proceeds	16,729,700	6,182,783
Repayment	(22,156,697)	(11,663,202)
Non-cash transactions	118,056	(747,500)
Foreign exchange difference (note 35)	6,979	(34,289)
As at 31 December	**77,480,042**	**82,782,004**

(a) *Long-term loan - Gazprom Neft*

As at 31 December 2021 long-term loan - Gazprom Neft amounting to 8,203,418 RSD (2020: 13,672,117 RSD), with current portion 5,468,935 RSD (2020: 5,468,847 RSD), 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 2021	31 December 2020
Domestic	47,362,765	51,785,438
Foreign	21,913,859	17,324,449
	69,276,624	69,109,887
Current portion of long-term loans	(1,579,581)	(6,117,142)
	67,697,043	**62,992,745**

The maturity of bank loans was as follows:

	31 December 2021	31 December 2020
Between 1 and 2 years	3,004,092	9,920,841
Between 2 and 5 years	63,430,071	41,197,751
Over 5 years	1,262,880	11,874,153
	67,697,043	**62,992,745**

The carrying amounts of bank loans are denominated in the following currencies:

	31 December 2021	31 December 2020
USD	130,480	157,858
EUR	68,989,968	68,740,978
RSD	210	373
JPY	155,966	210,678
	69,276,624	**69,109,887**

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 Gazprom Neft Group's ratio of Consolidated Indebtedness to Consolidated EBITDA (note 6). Management believes the Group is in compliance with these covenants as of 31 December 2021 and 31 December 2020 respectively.

(All amounts are in 000 RSD, unless otherwise stated)

26. LEASE LIABILITIES

	31 December 2021	31 December 2020
Non-current lease liabilities	1,695,318	1,868,666
Current lease liabilities	640,656	610,725
	2,335,974	**2,479,391**

Amounts recognized in profit or loss:

	2021	2020
Interest expense (included in finance cost) (note 37)	92,608	87,363
Expense relating to short-term leases	603,562	818,707
Expense relating to leases of low value assets that are not shown above as short-term leases	76,390	201,931
Expense relating to variable lease payments not included in lease liabilities	1,574,386	1,237,012

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

	2021	2020
As at 1 January	**2,479,391**	**1,703,441**
Repayment	(728,686)	(589,021)
Non-cash transactions	584,901	1,365,708
Foreign exchange difference (note 35)	368	(737)
As at 31 December	**2,335,974**	**2,479,391**

27. OTHER NON-CURRENT FINANCIAL LIABILITIES

Other non-current financial liabilities in the amount of 841,861 RSD (2020: 841,847 RSD) represents deferred consideration to PJSC Zarubeznjeft (further ZN) for O&G exploration project that is ongoing through subsidiary Jadran Naftagas. This obligation depends on occurrence 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 Assignment 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, in 2020 the Company acquired additional 34% of share in Jadran Naftagas for consideration of 41 RSD. These transactions of shares acquisition and transfer of liabilities should be consider together.

(All amounts are in 000 RSD, unless otherwise stated)

28. PROVISIONS FOR LIABILITIES AND CHARGES

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 2020	**10,671,715**	**509,129**	**512,903**	**808,349**	**508,931**	**13,011,027**
Charged to profit or loss (note 32, 34 and 37)	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 32, 34 and 37)	(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**
As at 1 January 2021	10,338,464	428,813	605,016	931,473	411,192	12,714,958
Charged to profit or loss (note 32, 34 and 37)	94,423	-	417,650	319,480	87,337	918,890
New obligation incurred and change in estimates	1,540,421	-	-	-	-	1,540,421
Release of provision (note 32, 34 and 37)	-	-	(1,459)	-	(4,551)	(6,010)
Actuarial gain charged to other comprehensive income	-	-	(12,056)	-	-	(12,056)
Settlement	(59,473)	(31,049)	(75,869)	(823,829)	(88,678)	(1,078,898)
Other	276	-	-	-	(95)	181
As at 31 December 2021	**11,914,111**	**397,764**	**933,282**	**427,124**	**405,205**	**14,077,486**

Analysis of total provisions:

	31 December 2021	31 December 2020
Non-current	12,430,855	10,332,213
Current	1,646,631	2,382,745
	14,077,486	**12,714,958**

(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. In 2020 the Group released provision in amount of 695,704 RSD for ARO decommissioning mostly due to extension of the period by which the wells are expected to be in operation (note 34).

(b) *Environmental protection*

The Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of 397,764 RSD (31 December 2020: 428,813 RSD) 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 2021 the management made an assessment of present value of liabilities related to new three-year employee incentives (2021-2023) in amount of 427,124 RSD (2020: 931,473 RSD).

(All amounts are in 000 RSD, unless otherwise stated)

(d) *Legal claims provisions*

As at 31 December 2021, 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 87,337 RSD (2020: 13,249 RSD) 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 2021.

(e) *Provision for employee benefits*

Employee benefits:

	31 December 2021	**31 December 2020**
Retirement allowances	557,326	253,488
Jubilee awards	375,956	351,528
	933,282	**605,016**

The principal actuarial assumptions used were as follows:

	31 December 2021	**31 December 2020**
Discount rate	3.7%	4.3%
Future salary increases	0%	0%
Future average years of service	17.86	14.4

	Retirement allowances	**Jubilee awards**	**Total**
Balances as at 1 January 2020	**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 profit or loss	59,163	60,039	119,202
Balances as at 31 December 2020	**253,488**	**351,528**	**605,016**
Benefits paid directly	(38,756)	(37,113)	(75,869)
Actuarial loss (gain) charged to other comprehensive income	(12,056)	-	(12,056)
Debited to profit or loss	354,650	61,541	416,191
Balances as at 31 December 2021	**557,326**	**375,956**	**933,282**

The amounts recognized in the Consolidated Profit or Loss are as follows:

	Year ended 31 December 2021	**2020**
Current service cost	59,719	83,783
Interest cost	35,856	22,964
Curtailment gain	22,060	47,774
Actuarial (gain) loss (jubilee awards)	35,226	(35,319)
Past service cost	263,330	-
	416,191	**119,202**

(All amounts are in 000 RSD, unless otherwise stated)

29. SHARE CAPITAL

Share capital represents share capital of the Company, which is listed on Belgrade Stock Exchange. Par value per share is 500 RSD. Share capital as of 31 December 2021 and 31 December 2020 comprise of 163,060,400 ordinary shares.

Dividend declared for the year ended 31 December 2020, amounted to 1,001,191 RSD or 6.14 RSD per share (31 December 2019: 4,425,459 RSD or 27.14 RSD per share) were approved on the General Assembly Meeting held on 29 June 2021 and paid on 31 August 2021.

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

	Year ended 31 December	
	2021	**2020**
Profit/(loss) attributable to the ordinary equity holder of the parent entity	20,957,033	(7,566,003)
Weighted average number of ordinary shares	163,060,400	163,060,400
Earnings (losses) per share (in RSD 000)	**0.129**	**(0.046)**

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.

30. PRODUCTION AND MANUFACTURING EXPENSES

	Year ended 31 December	
	2021	**2020**
Employee costs (note 32)	8,903,075	8,449,435
Materials and supplies (other than oil and gas)	2,027,396	1,646,688
Repair and maintenance services	3,225,961	3,157,669
Electricity for resale	2,452,902	817,929
Electricity and utilities	3,728,359	3,551,587
Safety and security expense	589,621	440,299
Insurance services	346,926	327,733
Transportation services for production	1,301,607	1,442,531
Inventory provision (release) (note 11)	(96,193)	13,212
Other	5,640,688	3,959,059
	28,120,342	**23,806,142**

31. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2021	**2020**
Employee costs (note 32)	16,380,545	14,762,037
Commission and agency fees	810,885	848,105
Legal, audit, and consulting services	884,031	824,357
Current repair cost	979,255	919,476
Costs on advertising and marketing	319,249	204,417
Rent expense	155,239	191,621
Business trips expense	128,733	102,139
Safety and security expense	676,971	571,895
Insurance expense	86,794	80,831
Transportation and storage	175,067	127,042
Release of provision for doubtful accounts (note 6)	(286,681)	(40,446)
Other	4,704,158	4,564,976
	25,014,246	**23,156,450**

(All amounts are in 000 RSD, unless otherwise stated)

32. EMPLOYEE COSTS

	Year ended 31 December 2021	2020
Wages and salaries	24,042,101	22,395,241
Employee benefits (note 28)	735,611	267,954
Other costs	505,908	548,277
Total employee costs (note 30 and 31)	**25,283,620**	**23,211,472**
Social security contributions (social taxes)	3,243,962	2,977,914
	28,527,582	**26,189,386**

In 2021, 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.

33. TAXES OTHER THAN INCOME TAX

	Year ended 31 December 2021	2020
Mineral extraction tax	1,332,811	894,335
Property tax	951,467	930,807
Social security contributions (social taxes)	3,243,962	2,977,914
Other	1,099,181	590,446
	6,627,421	**5,393,502**

34. OTHER EXPENSES, NET

	Year ended 31 December 2021	2020
Penalties	479,905	(30,204)
Provisions (legal, environmental, etc.) (note 28)	82,786	10,942
Impairment (reversal) of non-financial assets (note 13, 15 and 16)	549,227	709,858
Gain from write-off of accounts payable	(272,859)	(976,358)
ARO - Change in estimate (income) (note 28)	-	(695,704)
Charity and social payments	134,031	259,601
Other	87,864	452,862
	1,060,954	**(269,003)**

Gain from write-off of accounts payable in amount of 272,859 RSD (2020: 976,358 RSD) refers to the write-off of liabilities for which there is no legal basis for repayment.

35. NET FOREIGN EXCHANGE LOSS

	Year ended 31 December 2021	2020
Foreign exchange gain/(loss) on financing activities including:		
- foreign exchange gain (note 25 and 26)	1,018,945	1,712,894
- foreign exchange loss (note 25 and 26)	(1,026,292)	(1,677,868)
Net foreign exchange loss on operating activities	(931,663)	(343,227)
	(939,010)	**(308,201)**

(All amounts are in 000 RSD, unless otherwise stated)

36. FINANCE INCOME

	Year ended 31 December 2021	2020
Interest on bank deposits	82,979	125,343
Interest income on loans issued	9,019	9,329
Dividend income	43,889	4,274
Gains on restructuring of borrowings	-	53,673
	135,887	**192,619**

37. FINANCE EXPENSES

	Year ended 31 December 2021	2020
Interest expense	1,662,184	1,937,185
Loses on restructuring of borrowings	118,241	-
Decommissioning provision: unwinding of the present value discount	81,268	88,078
Provision of trade and other non-current receivables: discount	(19,486)	(38,345)
Less: amounts capitalised on qualifying assets (note 13)	(17,233)	(120,146)
	1,824,974	**1,866,772**

Interest expense includes expenses on lease liabilities in the amount of 92,608 RSD for the year ended 31 December 2021 (87,363 RSD for the year ended 31 December 2020 accordingly).

38. INCOME TAXES

The Group's applicable income tax rate for the companies located in the Republic of Serbia is 15% (2020: 15%). Components of income tax expense:

	Year ended 31 December 2021	2020
Current income tax expense	4,273,671	51,298
Deferred income tax		
Origination and reversal of temporary differences (note 19)	(30,124)	(1,615,695)
Total income tax expense	**4,243,547**	**(1,564,397)**

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 profits of the consolidated entities as follows:

	Year ended 31 December 2021	2020
Profit (loss) before income tax	**25,200,580**	**(9,130,400)**
Tax expense (income) at applicable domestic tax rate (15%)	3,780,087	(1,369,560)
Effect of unrecognized tax losses and tax rates in foreign jurisdictions	493,888	186,376
Tax effects of:		
- Revenues exempt from taxation	(14,730)	(328,081)
- Tax paid in Angola	84,312	(50,469)
- Other expenses not deductible	343,605	128,123
- Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net	(525,171)	(62,100)
- Other tax effects for reconciliation between accounting profit and tax expense	81,556	(68,686)
	4,243,547	**(1,564,397)**

The weighted average effective tax rate was 17% (2020: 0%).

39. CONTINGENCIES AND COMMITMENTS

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.

In March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Government of the Republic of Serbia implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. Some of the above measures were subsequently relaxed, however, as of 31 December 2021, the global infection levels remain high, vaccination rate is relatively low, and there is a risk that the Serbian authorities would impose additional restrictions in subsequent periods, including due to emerging new variants of the virus.

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 397,764 RSD (31 December 2020: 428,813 RSD) (note 28).

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 2021.

Capital commitments

As of 31 December 2021 the Group has entered into contracts to purchase property, plant and equipment for 383,637 RSD (31 December 2020: 1,531,697 RSD) and drilling and exploration works estimated to 101.44 USD million (31 December 2020: 57.89 USD million).

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

(All amounts are in 000 RSD, unless otherwise stated)

40. GROUP ENTITIES

The consolidated financial statements of below listed subsidiaries are consolidated as at 31 December 2021 and 31 December 2020:

Subsidiary	Country of incorporation	Nature of Business	Share % 31-Dec 2021	Share % 31-Dec 2020
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
NIS Petrol a.d., Belgrade	Serbia	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
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	100
Svetlost d.o.o, Bujanovac, - in bankruptcy Serbia	Serbia	Trade	51	51

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.

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

41. RELATED PARTY TRANSACTIONS

For the purpose of these Consolidated Financial Statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and operational decision as defined by IAS 24 Related Party disclosure.

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.

In the year ended 31 December 2021 and in the same period in 2020, 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.

(All amounts are in 000 RSD, unless otherwise stated)

As at 31 December 2021 and 31 December 2020 the outstanding balances with related parties were as follows:

	Parent company	Parent's subsidiaries and associates	Associates and joint venture
As at 31 December 2021			
Trade and other receivables	601	233,076	1,961,268
Investments in joint venture and associates	-	-	1,582,900
Other current assets	-	29,788	540,488
Right of use assets	-	414	-
Trade and other payables	(3,000)	(929,883)	(1,551,586)
Other current liabilities	-	(388)	(935)
Short-term debt and current portion of long-term debt	(5,468,948)	-	-
Current lease liabilities	-	(142)	-
Long-term debt	(2,734,468)	-	-
Non-current lease liabilities	-	(209)	-
	(8,205,815)	**(667,344)**	**2,532,135**
As at 31 December 2020			
Trade and other receivables	-	184,545	1,462,758
Investments in joint venture and associates	-	-	1,747,430
Other current assets	-	25,095	-
Right of use assets	-	125	-
Trade and other payables	(3,204,199)	(216,612)	(942,413)
Other current liabilities	-	(37)	(4,493)
Short-term debt and current portion of long-term debt	(5,468,847)	-	-
Current lease liabilities	-	(84)	-
Long-term debt	(8,203,270)	-	-
	(16,876,316)	**(6,968)**	**2,263,282**

For the year ended 31 December 2021 and 2020 the following transactions occurred with related parties:

	Parent	Parent's subsidiaries and associates	Associates and joint venture
Year ended 31 December 2021			
Petroleum products and oil and gas sales	-	1,237,512	28,683,061
Other revenues	2,056	342,886	85,746
Purchases of oil, gas and petroleum products	(22,565,852)	(1,016,670)	-
Production and manufacturing expenses	(512)	(1,180,879)	(228,020)
Selling, general and administrative expenses	(2,882)	(56,568)	(1,791)
Depreciation, depletion and amortization	-	(115)	-
Transportation expenses	-	-	(278)
Other income (expenses), net	-	-	(44)
Finance expense	(174,840)	(2)	-
	(22,742,030)	**(673,836)**	**28,538,674**
Year ended 31 December 2020			
Petroleum products and oil and gas sales	-	399,326	16,744,370
Other revenues	-	159,220	35,494
Purchases of oil, gas and petroleum products	(24,725,077)	(996,914)	-
Production and manufacturing expenses	-	(336,471)	(191,524)
Selling, general and administrative expenses	(3,118)	(9,458)	(2,331)
Depreciation, depletion and amortization	-	(188)	-
Other income (expenses), net	6,475	(260)	-
Finance expense	(295,405)	(1)	-
	(25,017,125)	**(784,746)**	**16,586,009**

(All amounts are in 000 RSD, unless otherwise stated)

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

	Associates and joint venture	Other
As at 31 December 2021		
Trade and other receivables (gross)		
• *HIP Petrohemija*	1,905,004	-
• *Srbijagas*	-	111,545
• *AIR Serbia*	-	287,512
Trade and other payables		
• *HIP Petrohemija*	(1,551,586)	-
• *Srbijagas*	-	(605,123)
Other current liabilities		
• *HIP Petrohemija*	(2,852)	-
	350,566	**(206,066)**
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**

(All amounts are in 000 RSD, unless otherwise stated)

	Associates and joint venture	Other
As at 31 December 2021		
Operating income		
• *HIP Petrohemija*	28,673,855	-
• *Srbijagas*	-	224,146
• *AIR Serbia*	-	3,232,714
Operating expenses		
• *HIP Petrohemija*	(230,133)	-
• *Srbijagas*	-	(205,962)
	28,443,722	**3,250,898**
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**

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 2021 and 2020 the Group recognized 1,033,696 RSD and 997,434 RSD, 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.

42. EVENTS AFTER THE REPORTING DATE

There are no material events after the reporting date.

Subsequent events occurring after 31 December 2021 were evaluated through 31 January 2022, the date these Consolidated Financial Statements were authorised for issue.

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