# NIS A.D. – Naftna industrija Srbije
# Novi Sad

## Consolidated Financial Statements and Independent Auditor's Report

31 December 2019

Novi Sad, 26 February 2020

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

## Contents

# Independent auditor's report

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

## Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Naftna Industrija Srbije a.d., Novi Sad (the "Company") and its subsidiaries (together "the Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Law on Accounting in the Republic of Serbia.

### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

## Basis for opinion

We conducted our audit in accordance with the Law on Auditing in the Republic of Serbia. Our responsibilities under this regulation 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Law on Auditing 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.

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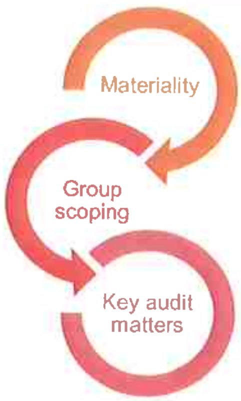
## Our audit approach

**Overview**




- Overall Group materiality: 1,437 million Serbian dinars (hereafter "RSD"), which represents 5% of an average profit before tax for the past three years.

- We conducted audit work at 9 reporting units in 4 countries.
- The group engagement team audited Serbian subsidiaries, while Bulgarian and Romanian subsidiaries were audited with the involvement of PwC network firms in the respective countries. PwC network firm in Bosnia and Herzegovina audited Naftna Industrija Srbije a.d. Bosnian foreign subsidiaries. Our audit scope addressed 99% of the Group's revenues and 98% of the Group's absolute value of underlying profit 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 1,437 million |
| **How we determined it** | 5% of three-year average profit before taxation |
| **Rationale for the materiality benchmark applied** | Given that current year profit before taxation has been materially impacted by the investment cycle in refinery, we determined that our materiality should be based on three-year average profit before taxation, which is more representative of sustained business performance compared to consolidated profit before taxation that was used as a benchmark in prior year. We have chosen 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RSD 57 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### 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 local reporting unit audits are 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 profit 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 9 reporting units in four countries that, in our view, required either full scope audit (Naftna Industrija Srbije a.d.) or directed audit procedures over specific financial statement line items. Together, these reporting units accounted for 99% of the Group's revenue and 98% of the Group's absolute value of underlying profit 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 profit 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 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.

### 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<br><br>Provisions associated with decommissioning, environmental protection and restoration are disclosed in Note 21 to the consolidated financial statements; a description of the accounting policy and key judgements and estimates is included in Note 2 and Note 3.<br><br>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.<br><br>The decommissioning of oil and gas infrastructure is an evolving activity and consequently there is limited historical precedent against which to benchmark estimates of future costs. These factors increase the complexity involved in determining accurate accounting provisions that are material to the Group's consolidated balance sheet.<br><br>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. | We critically assessed management's annual review of provisions recorded as at 31 December 2019. In particular, we focused on those assets where changes to the cost estimate directly impacted the consolidated income statement and consolidated statement of other comprehensive income rather than being recognised as an asset.<br><br>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.<br><br>Of particular note, we performed the following procedures:<br><br>- 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;<br><br>- Considered the competence and objectivity of the experts who produced the cost estimates by using 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;<br><br>- Verified the mathematical accuracy of the underlying models;<br><br>- Verified the completeness of data by cross referencing with other non-financial data and other work performed on property, plant & equipment;<br><br>- Verified the change in oil well status compared to the prior year through physical examination as the change in oil well status has a material impact on decommissioning provision calculation;<br><br>- 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. |

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

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

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

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

## 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 the Law on Auditing in the Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law on Auditing in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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, related safeguards.

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

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

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

Ralenac Sonja
Sonja Ralenac
Licensed certified Auditor

Belgrade, 26 February 2020

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

## CONSOLIDATED BALANCE SHEET

| | AOP | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|---|
| **A. SUBSCRIBED CAPITAL UNPAID** | **0001** | | **-** | **-** |
| **B. NON-CURRENT ASSETS (0003 + 0010 + 0019+ 0024 + 0034)** | **0002** | | **317,342,624** | **296,537,210** |
| **I. INTANGIBLE ASSETS (0004+0005+0006+0007+0008+0009)** | **0003** | **8** | **24,413,233** | **23,371,384** |
| 1. Development investments | 0004 | | 11,439,829 | 9,306,365 |
| 2 Concessions, licenses, software and other rights | 0005 | | 1,988,931 | 1,729,128 |
| 3. Goodwill | 0006 | | 1,354,508 | 1,549,378 |
| 4. Other intangible assets | 0007 | | 924,956 | 1,126,420 |
| 5. Intangible assets under development | 0008 | | 8,705,009 | 9,660,093 |
| 6. Advances for intangible assets | 0009 | | - | - |
| **II. PROPERTY, PLANT AND EQUIPMENT (0011+0012+0013+0014+0015+0016+0017+0018)** | **0010** | **9** | **289,781,916** | **270,113,614** |
| 1. Land | 0011 | | 17,050,221 | 16,981,657 |
| 2. Buildings | 0012 | | 149,732,966 | 142,827,273 |
| 3. Machinery and equipment | 0013 | | 65,767,335 | 67,730,378 |
| 4. Investment property | 0014 | | 1,579,798 | 1,615,391 |
| 5. Other property, plant and equipment | 0015 | | 89,817 | 88,732 |
| 6. Construction in progress | 0016 | | 55,064,088 | 39,896,274 |
| 7. Investments in leased PP&E | 0017 | | 152,325 | 212,398 |
| 8. Advances for PP&E | 0018 | | 345,366 | 761,511 |
| **III. BIOLOGICAL ASSETS (0020+0021+0022+0023)** | **0019** | | **-** | **-** |
| 1. Forest farming | 0020 | | - | - |
| 2. Livestock | 0021 | | - | - |
| 3. Biological assets in production | 0022 | | - | - |
| 4. Advances for biological assets | 0023 | | - | - |
| **IV. LONG-TERM FINANCIAL INVESTMENTS (0025+0026+0027+0028+0029+0030+0031+0032+0033)** | **0024** | | **2,913,291** | **3,043,233** |
| 1. Investments in subsidiary | 0025 | | - | - |
| 2. Investments in associates and joint ventures | 0026 | 10 | 1,851,101 | 1,980,388 |
| 3. Investments in other legal entities and other available for sales financial assets | 0027 | | 95,662 | 114,162 |
| 4. Long term investments in parent and subsidiaries | 0028 | | - | - |
| 5. Long-term investments in other related parties | 0029 | | - | - |
| 6. Long-term investments - domestic | 0030 | | - | - |
| 7. Long-term investments - foreign | 0031 | | - | - |
| 8. Securities held to maturity | 0032 | | - | - |
| 9. Other long-term financial investments | 0033 | 11 | 966,528 | 948,683 |
| **V. LONG-TERM RECEIVABLES (0035+0036+0037+0038+0039+0040+0041)** | **0034** | | **234,184** | **8,979** |
| 1. Receivables from parent company and subsidiaries | 0035 | | - | - |
| 2. Receivables from other related parties | 0036 | | - | - |
| 3. Receivables from sale of goods on credit | 0037 | | - | - |
| 4. Receivables arising out of finance lease contracts | 0038 | | 9,515 | 8,979 |
| 5. Claims arising from guarantees | 0039 | | - | - |
| 6. Bad and doubtful receivables | 0040 | | - | - |
| 7. Other long-term receivables | 0041 | | 224,669 | - |
| **C. DEFFERED TAX ASSETS** | **0042** | **12** | **697,689** | **545,497** |

*(continued)*

## CONSOLIDATED BALANCE SHEET (continued)

| | AOP | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|---|
| **D. CURRENT ASSETS (0044+0051+0059+0060+0061+0062+0068+0069+0070)** | **0043** | | **97,223,713** | **98,902,636** |
| **I. INVENTORY (0045+0046+0047+0048+0049+0050)** | **0044** | **13** | **48,001,622** | **48,472,071** |
| 1. Materials, spare parts and tools | 0045 | | 29,878,660 | 24,951,994 |
| 2. Work in progress | 0046 | | 4,855,798 | 4,923,492 |
| 3. Finished goods | 0047 | | 9,758,823 | 13,828,273 |
| 4. Merchandise | 0048 | | 2,986,653 | 4,152,553 |
| 5. Assets held for sale | 0049 | | 88,416 | - |
| 6. Advances for inventory and services | 0050 | | 433,272 | 615,759 |
| **II. TRADE RECEIVABLES (0052+0053+0054+0055+0056+0057+0058)** | **0051** | **14** | **25,572,859** | **26,007,811** |
| 1. Domestic trade receivables - parents and subsidiaries | 0052 | | - | - |
| 2. Foreign trade receivables - parents and subsidiaries | 0053 | | - | 99 |
| 3. Domestic trade receivables - other related parties | 0054 | | 1,184,469 | 1,227,518 |
| 4. Foreign trade receivables - other related parties | 0055 | | 100,451 | 645,804 |
| 5. Trade receivables - domestic | 0056 | | 23,265,532 | 23,348,658 |
| 6. Trade receivables - foreign | 0057 | | 1,022,407 | 785,732 |
| 7. Other trade receivables | 0058 | | - | - |
| **III. RECEIVABLES FROM SPECIFIC OPERATIONS** | **0059** | | **673,870** | **542,613** |
| **IV. OTHER RECEIVABLES** | **0060** | **15** | **935,757** | **223,571** |
| **V. FINANCIAL ASSETS AT FAIR VALUE THROUGHT PROFIT OR LOSS** | **0061** | | **-** | **-** |
| **VI. SHORT TERM FINANCIAL INVESTMENTS (0063+0064+0065+0066+0067)** | **0062** | **16** | **1,843,473** | **2,263,431** |
| 1. Short-term loans and investments - parent companies and subsidiaries | 0063 | | - | - |
| 2. Short-term loans and investments - other related parties | 0064 | | - | - |
| 3. Short-term loans and investments - domestic | 0065 | | - | 23,593 |
| 4. Short-term loans and investments - foreign | 0066 | | - | - |
| 5. Other short-term loans and investments | 0067 | | 1,843,473 | 2,239,838 |
| **VII. CASH AND CASH EQUIVALENTS** | **0068** | **17** | **15,295,810** | **15,480,830** |
| **VIII. VALUE ADDED TAX** | **0069** | | **452,571** | **295,900** |
| **IX. PREPAYMENTS AND ACCRUED INCOME** | **0070** | **18** | **4,447,751** | **5,616,409** |
| **E. TOTAL ASSETS (0001+0002+0042+0043)** | **0071** | | **415,264,026** | **395,985,343** |
| **F. OFF-BALANCE SHEET ASSETS** | **0072** | **19** | **117,099,179** | **113,781,102** |
| **A. EQUITY (0402+0411-0412+0413+0414+0415-0416+0417+0420-0421)** | **0401** | | **254,694,792** | **242,875,804** |
| **I. EQUITY (0403+0404+0405+0406+0407+0408+0409+0410)** | **0402** | **20** | **81,548,930** | **81,548,930** |
| 1. Share capital | 0403 | 20.1 | 81,548,930 | 81,548,930 |
| 2. Stakes of limited liability companies | 0404 | | - | - |
| 3. Stakes | 0405 | | - | - |
| 4. State owned capital | 0406 | | - | - |
| 5. Socially owned capital | 0407 | | - | - |
| 6. Stakes in cooperatives | 0408 | | - | - |
| 7. Share premium | 0409 | | - | - |
| 8. Other capital | 0410 | | - | - |
| **II. SUBSCRIBED CAPITAL UNPAID** | **0411** | | **-** | **-** |
| **III. OWN SHARES** | **0412** | | **-** | **-** |
| **IV. RESERVES** | **0413** | | **-** | **-** |
| **V. REVALUATION RESERVES FROM VALUATION OF INTANGIBLES, PROPERTIES, PLANT AND EQUIPMENT** | **0414** | | **79,755** | **79,755** |
| **VI. UNREALISED GAINS FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME** | **0415** | | **400,112** | **251,499** |
| **VII. UNREALIZED LOSSES FROM SECURITIES AND OTHER COMPONENTS OF OTHER COMPREHENSIVE INCOME** | **0416** | | **58,183** | **60,082** |
| **VIII. RETAINED EARNINGS (0418+0419)** | **0417** | | **172,724,178** | **161,055,702** |
| 1. Retained earnings from previous years | 0418 | | 156,127,776 | 135,921,400 |
| 2. Retained earnings from current year | 0419 | | 16,596,402 | 25,134,302 |
| **IX. NON-CONTROLLING INTEREST** | **0420** | | **-** | **-** |
| **X. LOSS (0422+0423)** | **0421** | | **-** | **-** |
| 1. Loss from previous years | 0422 | | - | - |
| 2. Loss from current year | 0423 | | - | - |

*(continued)*

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

## CONSOLIDATED BALANCE SHEET (continued)

| | AOP | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|---|
| **B. LONG-TERM PROVISIONS AND LIABILITIES (0425+0432)** | **0424** | | **95,462,060** | **98,029,207** |
| **I. LONG-TERM PROVISIONS (0426+0427+0428+0429+0430+4031)** | **0425** | **21** | **11,419,129** | **10,210,005** |
| 1. Provisions for warranty claims | 0426 | | - | - |
| 2. Provision for environmental rehabilitation | 0427 | | 9,882,315 | 9,169,159 |
| 3. Provisions for restructuring costs | 0428 | | - | - |
| 4. Provisions for employee benefits | 0429 | | 1,262,848 | 791,889 |
| 5. Provisions for litigations | 0430 | | 273,966 | 248,957 |
| 6. Other long term provisions | 0431 | | - | - |
| **II. LONG-TERM LIABILITIES (0433+0434+0435+0436+0437+0438+0439+0440)** | **0432** | **22** | **84,042,931** | **87,819,202** |
| 1. Liabilities convertible to equity | 0433 | | - | - |
| 2. Liabilities to parent and subsidiaries | 0434 | | 13,673,582 | 19,240,982 |
| 3. Liabilities to other related parties | 0435 | | - | - |
| 4. Liabilities for issued long-term securities | 0436 | | - | - |
| 5. Long term borrowings - domestic | 0437 | | 46,581,096 | 50,326,307 |
| 6. Long-term borrowings - foreign | 0438 | | 22,404,642 | 17,454,236 |
| 7. Finance lease liabilities | 0439 | | 1,326,436 | 755,575 |
| 8. Other long-term liabilities | 0440 | | 57,175 | 42,102 |
| **C. DEFFERED TAX LIABILITIES** | **0441** | **12** | **-** | **-** |
| **D. SHORT-TERM LIABILITIES (0443+0450+0451+0459+0460+0461+0462)** | **0442** | | **65,107,174** | **55,080,332** |
| **I. SHORT-TERM FINANCIAL LIABILITIES (0444+0445+0446+0447+0448+0449)** | **0443** | **23** | **6,761,897** | **6,395,091** |
| 1. Short term borrowings from parent and subsidiaries | 0444 | | - | - |
| 2. Short term borrowings from other related parties | 0445 | | - | - |
| 3. Short-term loans and borrowings - domestic | 0446 | | - | - |
| 4. Short-term loans and borrowings - foreign | 0447 | | - | - |
| 5. Liabilities relating to current assets and held-for-sale assets attributable to discounted operations | 0448 | | - | - |
| 6. Other short term liabilities | 0449 | | 6,761,897 | 6,395,091 |
| **II. ADVANCES RECEIVED** | **0450** | | **2,323,105** | **1,456,981** |
| **III. TRADE PAYABLES (0452+0453+0454+0455+0456+0458)** | **0451** | **24** | **35,341,330** | **25,834,088** |
| 1. Trade payables - parent and subsidiaries - domestic | 0452 | | - | - |
| 2. Trade payables - parent and subsidiaries - foreign | 0453 | | 10,500,427 | 10,243,742 |
| 3. Trade payables - other related parties - domestic | 0454 | | 1,208,375 | 1,251,648 |
| 4. Trade payables - other related parties - foreign | 0455 | | 543,563 | 684,857 |
| 5. Trade payables - domestic | 0456 | | 9,170,737 | 8,481,121 |
| 6. Trade payables - foreign | 0457 | | 13,786,047 | 5,168,398 |
| 7. Other operating liabilities | 0458 | | 132,181 | 4,322 |
| **IV. OTHER SHORT-TERM LIABILITIES** | **0459** | **25** | **8,375,054** | **8,687,986** |
| **V. LIABILITIES FOR VAT** | **0460** | | **1,088,459** | **1,383,089** |
| **VI. LIABILITIES FOR OTHER TAXES** | **0461** | **26** | **7,584,465** | **7,687,953** |
| **VII. ACCRUED EXPENSES** | **0462** | **27** | **3,632,864** | **3,635,144** |
| **E. LOSS EXCEEDING EQUITY (0412+0416+0421-0420-0417-0415-0414-0413-0411-0402)>=0=(0441+0424+0442-0071)>=0** | **0463** | | **-** | **-** |
| **F. TOTAL EQUITY AND LIABILITIES (0424+0442+0441+0401-0463)>=0** | **0464** | | **415,264,026** | **395,985,343** |
| **G. OFF-BALANCE SHEET LIABILITIES** | **0465** | **19** | **117,099,179** | **113,781,102** |

**Novi Sad, 26 February 2020**

**The person responsible for the preparation of consolidated financial statements**

**M.P.**

**Legal representative**

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

## CONSOLIDATED INCOME STATEMENT

| | AOP | Note | Year ended 31 December 2019 | 2018 |
|---|---|---|---|---|
| **INCOME FROM REGULAR OPERATING ACTIVITIES** | | | | |
| **A. OPERATING INCOME (1002+1009+1016+1017)** | **1001** | **7** | **272,096,500** | **280,983,749** |
| **I. INCOME FROM THE SALE OF GOODS (1003+1004+1005+1006+1007+1008)** | **1002** | | **65,592,808** | **38,545,631** |
| 1. Income from sales of goods to parent and subsidiaries on domestic market | 1003 | | - | - |
| 2. Income from sales of goods to parent and subsidiaries on foreign market | 1004 | | - | - |
| 3. Income from the sale of goods to other related parties on domestic market | 1005 | | 1,312 | 102 |
| 4. Income from the sale of goods to other related parties on foreign market | 1006 | | 187,210 | 135,052 |
| 5. Income from sale of goods on domestic market | 1007 | | 27,314,259 | 8,428,537 |
| 6. Income from sale of goods on foreign market | 1008 | | 38,090,027 | 29,981,940 |
| **II. INCOME FROM SALES OF PRODUCTS AND SERVICES (1010+1011+1012+1013+1014+1015)** | **1009** | | **206,093,358** | **241,912,753** |
| 1. Income from sales of products and services to parent and subsidiaries on domestic market | 1010 | | - | - |
| 2. Income from sales of products and services to parent and subsidiaries on foreign market | 1011 | | - | 961 |
| 3. Income from sales of products and services to other related parties on domestic market | 1012 | | 19,072,216 | 26,700,155 |
| 4. Income from sales of products and services to other related parties on foreign market | 1013 | | 405,754 | 555,164 |
| 5. Income from sales of products and services – domestic | 1014 | | 150,765,338 | 171,203,221 |
| 6. Income from sales of products and services – foreign | 1015 | | 35,850,050 | 43,453,252 |
| **III. INCOME FROM PREMIUMS, SUBVENTIONS AND DONATIONS** | **1016** | | **-** | **3,340** |
| **IV. OTHER OPERATING INCOME** | **1017** | | **410,334** | **522,025** |
| **B. OPERATING EXPENSES (1019-1020-1021+1022+1023+1024+1025+1026+1027+1028+1029)>=0** | **1018** | | **248,735,954** | **248,318,196** |
| I. COST OF GOODS SOLD | 1019 | | 44,635,555 | 23,441,660 |
| II. WORK PERFORMED BY THE ENTITY AND CAPITALIZED | 1020 | | 14,451,129 | 13,188,633 |
| III. INCREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES | 1021 | | - | 6,011,313 |
| IV. DECREASE IN INVENTORIES OF UNFINISHED AND FINISHED GOODS AND ONGOING SERVICES | 1022 | | 3,437,901 | - |
| V. COST OF MATERIAL | 1023 | | 136,940,194 | 168,678,465 |
| VI. COST OF FUEL AND ENERGY | 1024 | | 4,371,248 | 4,552,772 |
| VII. COST OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES | 1025 | | 21,364,042 | 20,101,583 |
| VIII. COST OF PRODUCTION SERVICES | 1026 | 28 | 15,605,920 | 14,926,665 |
| IX. DEPRECIATION, DEPLETION AND AMORTIZATION | 1027 | 8,9 | 20,976,349 | 20,340,977 |
| X. COST OF LONG-TERM PROVISIONING | 1028 | | 652,769 | 667,650 |
| XI. NON-PRODUCTION COSTS | 1029 | 29 | 15,203,105 | 14,808,370 |
| **C. OPERATING GAIN (1001-1018)>=0** | **1030** | | **23,360,546** | **32,665,553** |
| **D. OPERATING LOSS (1018-1001)>=0** | **1031** | | **-** | **-** |

*(continued)*

## CONSOLIDATED INCOME STATEMENT (continued)

| | AOP | Note | Year ended 31 December 2019 | 2018 |
|---|---|---|---|---|
| **E. FINANCE INCOME (1033+1038+1039)** | **1032** | 30 | **2,563,129** | **3,826,427** |
| I. FINANCIAL INCOME FROM RELATED PARTIES AND OTHER FINANCIAL INCOME (1034+1035+1036+1037) | 1033 | | 1,126,759 | 1,254,731 |
| 1. Finance income - parent company and subsidiaries | 1034 | | 1,103,117 | 1,189,687 |
| 2. Finance income - other related parties | 1035 | | 12,004 | 36,108 |
| 3. Share of profit of associates and joint ventures | 1036 | | - | - |
| 4. Other financial income | 1037 | | 11,638 | 28,936 |
| II. INTEREST INCOME (from third parties) | 1038 | | 515,861 | 766,588 |
| III. FOREIGN EXCHANGE GAINS (third parties) | 1039 | | 920,509 | 1,805,108 |
| **F. FINANCE EXPENSES (1041+1046+1047)** | **1040** | 31 | **4,178,538** | **5,748,045** |
| I. FINANCIAL EXPENSES FROM RELATED PARTIES AND OTHER FINANCIAL EXPENSES (1042+1043+1044+1045) | 1041 | | 2,066,382 | 1,811,230 |
| 1. Finance expense - parent company and subsidiaries | 1042 | | 1,901,458 | 1,713,344 |
| 2. Finance expense - other related parties | 1043 | | 14,330 | 23,682 |
| 3. Share of loss of associates and joint ventures | 1044 | | 129,287 | 66,634 |
| 4. Other financial expense | 1045 | | 21,307 | 7,570 |
| II. INTEREST EXPENSE (from third parties) | 1046 | | 1,578,043 | 2,069,547 |
| III. FOREIGN EXCHANGE LOSSES (third parties) | 1047 | | 534,113 | 1,867,268 |
| **G. PROFIT FROM FINANCING OPERATIONS (1032-1040)** | **1048** | | - | - |
| **H. LOSS FROM FINANCING OPERATIONS (1040-1032)** | **1049** | | **1,615,409** | **1,921,618** |
| **I. INCOME FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS** | **1050** | 32 | **121,212** | **868,513** |
| **J. LOSS FROM VALUATION OF ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS** | **1051** | | **134,564** | **170,170** |
| **K. OTHER INCOME** | **1052** | 33 | **1,265,910** | **1,215,316** |
| **L. OTHER EXPENSES** | **1053** | 34 | **1,868,685** | **1,804,368** |
| **M. OPERATING PROFIT BEFORE TAX (1030-1031+1048-1049+1050-1051+1052-1053)** | **1054** | | **21,129,010** | **30,853,226** |
| **N. OPERATING LOSS BEFORE TAX (1031-1030+1049-1048+1051-1050+1053-1052)** | **1055** | | - | - |
| **O. NET INCOME ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS** | **1056** | | - | - |
| **P. NET LOSS ATTRIBUTABLE TO DISCONTINUED OPERATIONS, EXPENSES ARISING FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF PRIOR PERIOD ERRORS** | **1057** | | - | - |
| **Q. PROFIT BEFORE TAX (1054-1055+1056-1057)** | **1058** | | **21,129,010** | **30,853,226** |
| **R. LOSS BEFORE TAX (1055-1054+1057-1056)** | **1059** | | - | - |
| II. INCOME TAX | | | | |
| I. CURRENT INCOME TAX | 1060 | 35 | 3,100,414 | 4,066,760 |
| II. DEFERRED TAX EXPENSE FOR THE PERIOD | 1061 | 35 | 1,443,301 | 1,674,486 |
| III. DEFERRED TAX INCOME FOR THE PERIOD | 1062 | 35 | 11,107 | 22,322 |
| **S. PERSONAL INCOME PAID TO EMPLOYER** | **1063** | | - | - |
| **T. NET PROFIT (1058-1059-1060-1061+1062)** | **1064** | | **16,596,402** | **25,134,302** |
| **V. NET LOSS (1059-1058+1060+1061-1062)** | **1065** | | - | - |
| I. NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS | 1066 | | - | - |
| II. NET INCOME ATTRIBUTABLE TO THE OWNER | 1067 | | 16,610,847 | 25,150,220 |
| III. NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS | 1068 | | 14,445 | 15,918 |
| IV. NET LOSS ATTRIBUTABLE TO THE OWNER | 1069 | | - | - |
| V. EARNINGS PER SHARE | | | | |
| 1. Basic earnings per share | 1070 | | 0.102 | 0.154 |
| 2. Diluted earnings per share | 1071 | | - | - |

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

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| | AOP | Note | Year ended 31 December 2019 | 2018 |
|---|---|---|---|---|
| **A. NET PROFIT/(LOSS)** | | | | |
| **I. PROFIT, NET (AOP 1064)** | **2001** | | **16,596,402** | **25,134,302** |
| **II. LOSS, NET (AOP 1065)** | **2002** | | **-** | **-** |
| **B. OTHER COMPREHENSIVE PROFIT OR LOSS** | | | | |
| *a) Items that will not be reclassified to profit or loss* | | | | |
| **1. Changes in the revaluation of intangible assets, property, plant and equipment** | | | | |
| a) increase in revaluation reserves | 2003 | | - | 360 |
| b) decrease in revaluation reserves | 2004 | | - | - |
| **2. Actuarial gains (losses) of post employment benefit obligations** | | | | |
| a) gains | 2005 | | - | 3,316 |
| b) losses | 2006 | | 45,334 | - |
| **3. Gains and losses arising from equity investments** | | | | |
| a) gains | 2007 | | - | - |
| b) losses | 2008 | | - | - |
| **4. Gains or losses arising from a share in the associate's other comprehensive profit or loss** | | | | |
| a) gains | 2009 | | - | - |
| b) losses | 2010 | | - | - |
| *b) Items that may be subsequently reclassified to profit or loss* | | | | |
| **1. Gains (losses) from currency translation differences** | | | | |
| a) gains | 2011 | | 193,947 | 35,372 |
| b) losses | 2012 | | - | - |
| **2. Gains (losses) on investment hedging instruments in foreign business** | | | | |
| a) gains | 2013 | | - | - |
| b) losses | 2014 | | - | - |
| **3. Gains and losses on cash flow hedges** | | | | |
| a) gains | 2015 | | - | - |
| b) losses | 2016 | | - | - |
| **4. Gains (losses) from change in value of available-for-sale financial assets** | | | | |
| a) gains | 2017 | | 7,267 | 477 |
| b) losses | 2018 | | - | - |
| I. OTHER COMPREHENSIVE PROFIT BEFORE TAX (2003+2005+2007+2009+2011+2013+2015+2017)-(2004+2006+2008+2010+2012+2014+2016+2018)>=0 | 2019 | | 155,880 | 39,525 |
| II. OTHER COMPREHENSIVE LOSS BEFORE TAX (2004+2006+2008+2010+2012+2014+2016+2018)-(2003+2005+2007+2009+2009+2011+2013+2015+2017)>=0 | 2020 | | - | - |
| III. TAX ON OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD | 2021 | | - | - |
| **IV. TOTAL NET COMPREHENSIVE PROFIT (2019-2020-2021)>=0** | **2022** | | **155,880** | **39,525** |
| **V. TOTAL NET COMPREHENSIVE LOSS (2020-2019+2021)>=0** | **2023** | | **-** | **-** |
| **C. TOTAL NET COMPREHENSIVE PROFIT** | | | | |
| I. TOTAL COMPREHENSIVE PROFIT, NET (2001-2002+2022-2023)>=0 | 2024 | | 16,752,282 | 25,173,827 |
| II. TOTAL COMPREHENSIVE LOSS, NET (2002-2001+2023-2022)>=0 | 2025 | | | - |
| **D. TOTAL NET COMPREHENSIVE PROFIT / (LOSS) (2027+2028)=AOP 2024>=0 или AOP 2025>0** | **2026** | | **16,752,282** | **25,173,827** |
| 1. Attributable to shareholders | 2027 | | 16,752,282 | 25,173,827 |
| 2. Attributable to non-controling interest | 2028 | | - | - |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | AOP | Note | Year ended 31 December 2019 | 2018 |
|---|---|---|---|---|
| **A. CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| **I. Cash inflow from operating activities (1 to 3)** | **3001** | | **508,836,518** | **517,301,936** |
| 1. Sales and advances received | 3002 | | 508,048,842 | 516,240,758 |
| 2. Interest from operating activities | 3003 | | 377,342 | 539,153 |
| 3. Other inflow from operating activities | 3004 | | 410,334 | 522,025 |
| **II. Cash outflow from operating activities (1 to 5)** | **3005** | | **451,903,613** | **479,924,756** |
| 1. Payments and prepayments to suppliers | 3006 | | 210,583,641 | 235,577,593 |
| 2. Salaries, benefits and other personal expenses | 3007 | | 19,854,905 | 20,125,461 |
| 3. Interest paid | 3008 | | 1,705,155 | 2,071,683 |
| 4. Income tax paid | 3009 | | 4,329,868 | 5,470,912 |
| 5. Payments for other public revenues | 3010 | | 215,430,044 | 216,679,107 |
| **III. Net cash inflow from operating activities (I - II)** | **3011** | | **56,932,905** | **37,377,180** |
| **IV. Net cash outflow from operating activities (II - I)** | **3012** | | - | - |
| **B. CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| **I. Cash flows from investing activities (1 to 5)** | **3013** | | **2,551,510** | **8,012,829** |
| 1. Sale of shares (net inflow) | 3014 | | 26,968 | - |
| 2. Proceeds from sale of property, plant and equipment | 3015 | | 282,172 | 368,037 |
| 3. Other financial investments (net inflow) | 3016 | | 2,233,913 | 7,619,661 |
| 4. Interest from investing activities | 3017 | | - | - |
| 5. Dividend received | 3018 | | 8,457 | 25,131 |
| **II. Cash outflow from investing activities (1 to 3)** | **3019** | | **49,112,305** | **47,225,072** |
| 1. Acquisition of subsidiaries or other business (net outflow) | 3020 | | - | - |
| 2. Purchase of intangible assets, property, plant and equipment | 3021 | | 46,846,795 | 47,089,576 |
| 3. Other financial investments (net outflow) | 3022 | | 2,265,510 | 135,496 |
| **III. Net cash inflow from investing activities (I - II)** | **3023** | | - | - |
| **IV. Net cash outflow from investing activities (II - I)** | **3024** | | **46,560,795** | **39,212,243** |
| **C. CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| **I. Cash inflow from financing activities (1 to 5)** | **3025** | | **15,060,454** | **37,213,097** |
| 1. Increase in share capital | 3026 | | - | - |
| 2. Proceeds from long-term borrowings (net inflow) | 3027 | 22 | 15,060,454 | 37,213,097 |
| 3. Proceeds from short-term borrowings (net inflow) | 3028 | | - | - |
| 4. Other long-term liabilities | 3029 | | - | - |
| 5. Other short-term liabilities | 3030 | | - | - |
| **II. Cash outflow from financing activities (1 to 6)** | **3031** | | **25,645,247** | **47,031,592** |
| 1. Purchase of own shares | 3032 | | - | - |
| 2. Repayment of long-term borrowings (net outflow) | 3033 | 22 | 18,760,583 | 39,952,347 |
| 3. Repayment of short-term borrowings (net outflow) | 3034 | | - | - |
| 4. Repayment of other liabilities (net outflow) | 3035 | | - | - |
| 5. Financial lease | 3036 | 22 | 367,140 | 131,241 |
| 6. Dividend distribution | 3037 | 20.1 | 6,517,524 | 6,948,004 |
| **III. Net cash inflow from financing activities (I - II)** | **3038** | | - | - |
| **IV Net cash outflow from financing activities (II - I)** | **3039** | | **10,584,793** | **9,818,495** |
| **D. TOTAL CASH INFLOW (3001+3013+3025 )** | **3040** | | **526,448,482** | **562,527,862** |
| **E. TOTAL CASH OUTFLOW (3005+3019+3031)** | **3041** | | **526,661,165** | **574,181,420** |
| **F. NET CASH INFLOW (340-341)** | **3042** | | - | - |
| **G. NET CASH OUTFLOW (341-340)** | **3043** | | **212,683** | **11,653,558** |
| **H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | **3044** | | **15,480,830** | **27,075,370** |
| **I. CURRENCY TRANSLATION GAINS ON CASH AND CASH EQUIVALENTS** | **3045** | | **268,965** | **385,469** |
| **J. CURRENCY TRANSLATION LOSSES ON CASH AND CASH EQUIVALENTS** | **3046** | | **241,302** | **326,451** |
| **K. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (3042-3043+3044+3045-3046)** | **3047** | | **15,295,810** | **15,480,830** |

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

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Equity components | | | | | | Other comprehensive income components | |
|---|---|---|---|---|---|---|---|---|
| | AOP | Share capital | AOP | Loss | AOP | Retained earnings | AOP | Revaluation reserves |
| **Balance as at 1 January 2018** | | | | | | | | |
| a) debit | 4001 | - | 4055 | - | 4091 | - | 4109 | - |
| b) credit | 4002 | **81,548,930** | 4056 | - | 4092 | **143,271,986** | 4110 | **81,796** |
| **Adjustments of material errors and changes in accounting policies** | | | | | | | | |
| a) debit | 4003 | - | 4057 | - | 4093 | 401,527 | 4111 | - |
| b) credit | 4004 | - | 4058 | - | 4094 | - | 4112 | - |
| **Restated opening balance as at 1 January 2018** | | | | | | | | |
| a) debit (1a+2a-2б)>=0 | 4005 | - | 4059 | - | 4095 | - | 4113 | - |
| б) credit (1б-2a+2б)>=0 | 4006 | **81,548,930** | 4060 | - | 4096 | **142,870,459** | 4114 | **81,796** |
| **Changes in period** | | | | | | | | |
| a) debit | 4007 | - | 4061 | - | 4097 | 6,949,059 | 4115 | 2,401 |
| b) credit | 4008 | - | 4062 | - | 4098 | 25,134,302 | 4116 | 360 |
| **Balance as at 31 December 2018** | | | | | | | | |
| a) debit (3a+4a-4б)>=0 | 4009 | - | 4063 | - | 4099 | - | 4117 | - |
| б) credit (3б-4a+4б)>=0 | 4010 | **81,548,930** | 4064 | - | 4100 | **161,055,702** | 4118 | **79,755** |
| **Adjustments of material errors and changes in accounting policies** | | | | | | | | |
| a) debit | 4011 | - | 4065 | - | 4101 | - | 4119 | - |
| b) credit | 4012 | - | 4066 | - | 4102 | - | 4120 | - |
| **Restated opening balance as at 1 January 2019** | | | | | | | | |
| a) debit (5a+6a-6б)>=0 | 4013 | - | 4067 | - | 4103 | - | 4121 | - |
| б) credit (5б-6a+6б)>=0 | 4014 | **81,548,930** | 4068 | - | 4104 | **161,055,702** | 4122 | **79,755** |
| **Changes in period** | | | | | | | | |
| a) debit | 4015 | - | 4069 | - | 4105 | 6,517,524 | 4123 | - |
| b) credit | 4016 | - | 4070 | - | 4106 | 18,186,000 | 4124 | - |
| **Balance as at 31 December 2019** | | | | | | | | |
| a) debit (7a+8a-8б)>=0 | 4017 | - | 4071 | - | 4107 | - | 4125 | - |
| б) credit (7б-8a+8б)>=0 | 4018 | **81,548,930** | 4072 | - | 4108 | **172,724,178** | 4126 | **79,755** |

(continued)

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

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

| | AOP | Acturial gain/(loss) | AOP | Gains (losses) from currency translation differences | AOP | Gains (losses) from change in value of available-for-sale financial assets | AOP | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | | Other comprehensive income components | | | | | | |
| **Balance as at 1 January 2018** | | | | | | | | |
| a) debit | 4127 | - | 4181 | - | 4217 | 64,013 | | |
| b) credit | 4128 | 195,215 | 4182 | 17,596 | 4218 | - | 4235 | 225,051,510 |
| **Adjustments of material errors and changes in accounting policies** | | | | | | | | |
| a) debit | 4129 | - | 4183 | - | 4219 | - | | |
| b) credit | 4130 | - | 4184 | - | 4220 | - | 4236 | 401,527 |
| **Restated opening balance as at 1 January 2018** | | | | | | | | |
| a) debit (1a+2a-2б)>=0 | 4131 | - | 4185 | - | 4221 | 64,013 | | |
| b) credit (1б-2a+2б)>=0 | 4132 | 195,215 | 4186 | 17,596 | 4222 | - | 4237 | 224,649,983 |
| **Changes in period** | | | | | | | | |
| a) debit | 4133 | - | 4187 | - | 4223 | - | | |
| b) credit | 4134 | 3,316 | 4188 | 35,372 | 4224 | 3,931 | 4238 | 18,225,821 |
| **Balance as at 31 December 2018** | | | | | | | | |
| a) debit (3a+4a-4б)>=0 | 4135 | - | 4189 | - | 4225 | 60,082 | | |
| b) credit (3б-4a+4б)>=0 | 4136 | 198,531 | 4190 | 52,968 | 4226 | - | 4239 | 242,875,804 |
| **Adjustments of material errors and changes in accounting policies** | | | | | | | | |
| a) debit | 4137 | - | 4191 | - | 4227 | - | | |
| b) credit | 4138 | - | 4192 | - | 4228 | - | 4249 | - |
| **Restated opening balance as at 1 January 2019** | | | | | | | | |
| a) debit (5a+6a-6б)>=0 | 4139 | - | 4193 | - | 4229 | 60,082 | | |
| b) credit (5б-6a+6б)>=0 | 4140 | 198,531 | 4194 | 52,968 | 4230 | - | 4241 | 242,875,804 |
| **Changes in period** | | | | | | | | |
| a) debit | 4141 | 45,334 | 4195 | - | 4231 | - | | |
| b) credit | 4142 | - | 4196 | 193,947 | 4232 | 1,899 | 4242 | 11,818,988 |
| **Balance as at 31 December 2019** | | | | | | | | |
| a) debit (7a+8a-8б)>=0 | 4143 | - | 4197 | - | 4233 | 58,183 | | |
| б) credit (7б-8a+8б)>=0 | 4144 | 153,197 | 4198 | 246,915 | 4234 | - | 4243 | 254,694,792 |

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

## 1. GENERAL INFORMATION

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

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

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

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

The Company is an open 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 2019 were prepared in accordance with the Law on Accounting of the Republic of which requires full scope of International Financial Reporting Standards (IFRS) to be applied as translated into Serbian and the other regulations issued by the Ministry of Finance of the Republic of Serbia. In addition the Law requires certain presentations and treatments of accounts and balances which results in the following additional departures from IFRS:

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

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

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

At the date of signing consolidated financial statements, crude oil price declined since 31 December 2019 from 66.765 $/barrel to 56.170 $/barrel. Management is monitoring situation on the market and in parallel preparing different scenarios to respond to any major fluctuation of crude oil prices.

Subsequent events occurring after 31 December 2019 were evaluated through 26 February 2020, the date these consolidated financial statements were authorised for issue.

### 2.2. Basis of measurement

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

## 2.3. Segment reporting

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

## 2.4. Seasonality of Operations

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

## 2.5. Foreign currency translation

(a) *Functional and presentation currency*

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Serbian dinars ("RSD"), which is the Group's functional and 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

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

(c) *Group's Companies*

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

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

## 2.6. Principles of consolidation

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

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

(a) *Joint Operations and Joint Ventures*

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

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

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

(b) *Transactions Eliminated on Consolidation*

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

(c) *Non-controlling interests*

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

(d) *Investments in associates*

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

## 2.7. Business combinations

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

## 2.8. Goodwill

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

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

## 2.9. Intangible assets

(a) *Goodwill*

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

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

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

(b) *Licenses and rights*

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

(c) *Software*

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

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

## 2.10. Oil and Gas properties

(a) *Exploration and evaluation expenditure*

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

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

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

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery. If a discovery is not made, the expenditure is charged as an expense. Exploratory drilling

costs and dry and bottom hole contributions are temporarily capitalised under the successful effort method and treated as Oil and gas assets within Property, plant and equipment.
Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are temporarily considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable.

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

Other exploration costs are charged to expense when incurred.

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

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

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

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

(c) *Oil and gas production assets*

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

(d) *Depreciation/amortization*

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

(e) *Impairment – exploration and evaluation assets*

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

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

Proven oil and gas properties and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.
An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

## 2.11. Property, plant and equipment

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other income/expenses" in the consolidated income statement (notes 33 and 34).

## 2.12. Impairment of non-financial assets

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

### 2.13. Investment property

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

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

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

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

### 2.14. Financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

*Debt instruments*

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

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

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

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

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

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

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

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

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

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

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

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

*Equity instruments*

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

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

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

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

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

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

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

(e) ***Modification***

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

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

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

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

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

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

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

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

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

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

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

- Simplified approach for impairment of receivables and lease receivables

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

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

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

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

### 2.15. Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The impairment test of inventories i.e. spare parts due to damage or obsolescence is performed quarterly. Impairment losses are recognized as "Other expense" (note 34).

### 2.16. Off-balance sheet assets and liabilities

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

### 2.17. Share capital

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

### 2.18. Earnings per share

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

### 2.19. Provisions

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

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

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

### 2.20. Current and deferred income tax

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

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

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

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

## 2.21. Employee benefits

(a) *Pension obligations*

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

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

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

(c) *Bonus plans*

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

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

## 2.22. Revenue recognition from contracts with customers

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

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

Revenue is shown net of 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 at the point of time of delivery in consolidated financial statements. All performance obligations are satisfied at point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation.

(d) *Customer loyalty program*

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

(e) *Interest income*

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

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

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

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

### 2.23. Leases

*Accounting policies applied in 2019, from the date of initial application of IFRS 16 "Leases"*

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

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

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

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

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

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

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

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

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

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

*Accounting policies applied until 31 December 2018*

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's consolidated balance sheet. The total lease payments are charged to consolidated income statement on a straight-line basis over the lease term.

(a) Right of use of land

Right of use of land acquired as a part of either acquisition or a separate transaction through payment to a third party or Local Authority is treated as an intangible asset. This acquired intangible assets has an indefinite useful life and is subject to annual impairment testing.

### 2.24. Dividend distribution

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

### 2.25. Capitalisation of borrowing costs

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

## 3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

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

Judgments and estimates that have the most significant effect on the amounts reported in these consolidated financial statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

### 3.1. 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.

### 3.2. 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 2019 would be to increase/decrease it by RSD 1,900,267 (2018: RSD 1,849,565).

### 3.3. Impairment of goodwill

Goodwill is tested for impairment annually.

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

### 3.4. Employee benefits

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

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

If the discount rate used to calculate the present value of employee benefit obligations had been 5.40% (rather than 4.40%) per year, the past service liability (DBO) for the whole NIS Group would decrease by about 9.4% for retirement indemnity and 7.2% 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 10.7% for the retirement indemnity and 7.7% for the jubilee benefit.

### 3.5. Decommissioning and environmental protection provision

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision (note 21) is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

If the discount rate used to calculate the present value of decommissioning obligations had been 5.40% (rather than 4.40%) per year, the present liability would have decreased by approx. RSD 419,182.

### 3.6. Contingencies

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

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others (note 36).

### 3.7. 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 46.5 bln RSD.

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

**Accounting policies applied from 1 January 2019**

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

**Adjustments recognised on adoption of IFRS 16**

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

| | |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 1,548,081 |
| (Less): short-term leases recognised on a straight-line basis as expense | (54,306) |
| (Less): contracts with commencement date after 1.1.2019 | (385,001) |
| (Less): low-value leases recognised on a straight-line basis as expense | (206,937) |
| Add/(less): adjustments relating to changes in the index or rate affecting variable payments | 2,954 |
| (Less): advances paid as of date of initial application of IFRS 16 | (71,944) |
| Other | (11,255) |
| **Undiscounted leases recognized under IFRS 16** | **821,592** |
| **Discounted using the lessee's incremental borrowing rate at the date of initial application** | **790,946** |
| Add: finance lease liabilities recognised as at 31 December 2018 | 828,104 |
| **Lease liability recognised as at 1 January 2019** | **1,619,050** |
| Of which are: | |
| Current lease liabilities | 298,269 |
| Non-current lease liabilities | 1,320,781 |
| | **1,619,050** |

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required some adjustments to the right-of-use assets at the date of initial application.

The recognized right-of-use assets relates to the following types of assets:

| | 31 December 2019 | 1 January 2019 |
|---|---|---|
| Property (land and buildings) | 1,171,875 | 1,414,558 |
| Plant and equipment | 438,495 | 335,712 |
| Motor vehicles | 263,429 | 85,151 |
| **Total right-of-use assets** | **1,873,799** | **1,835,421** |

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

| | |
|---|---|
| Property, plant and equipment and intangible assets – decrease (notes 8 and 9) | (972,531) |
| Right-of-use assets – increase (note 9) | 1,835,421 |
| Prepayments – decrease | (71,944) |
| Lease liabilities – increase | (790,946) |

In applying IFRS 16 for the first time, the group has used the following practical expedients and exemptions permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the accounting for operating leases for which the underlying asset is of low value
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a lease.

## 5. NEW ACCOUNTING STANDARDS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on 1 January 2020 or later, and that the Group has not early adopted.

***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).*** These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

***Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).*** The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

***Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).***

The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Group will apply them and assess their impact from 1 January 2020.

***Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).*** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its financial statements.

The following other new standards and pronouncements are not expected to have any material impact on the Group when adopted:

- *IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).*

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

## 6. FINANCIAL RISK MANAGEMENT

### 6.1. Financial risk factors

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

Risk management is carried out by the finance and finance control department within the Company's Function for Economics, Finance 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 foreign exchange risk and interest rate 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, 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.

<u>Currency risk</u>

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

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

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

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

| As of 31 December 2019 | RSD | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| ***Financial assets*** | | | | | |
| ***Non-current*** | | | | | |
| Financial instrument at FVTOCI | 95,662 | - | - | - | 95,662 |
| Other long-term financial investments | 231,671 | 729,893 | 4,964 | - | 966,528 |
| Long term receivables | 9,515 | 224,669 | - | - | 234,184 |
| ***Current assets*** | | | | | |
| Trade receivables | 22,758,194 | 1,107,544 | 128,120 | 1,579,001 | 25,572,859 |
| Receivables from specific operations | 497,459 | 2,822 | 164,460 | 9,129 | 673,870 |
| Other receivables | 877,230 | 19,232 | 3,567 | 35,728 | 935,757 |
| Short term financial investments | 1,114,559 | 75,810 | - | 653,104 | 1,843,473 |
| Cash and cash equivalents | 6,206,398 | 5,408,179 | 2,148,914 | 1,532,319 | 15,295,810 |
| ***Financial liabilities*** | | | | | |
| ***Non-current*** | | | | | |
| Long-term liabilities | (12,489) | (82,942,688) | (173,130) | (914,624) | (84,042,931) |
| ***Current liabilies*** | | | | | |
| Short-term financial liabilities | (15,559) | (6,462,042) | (36,162) | (248,134) | (6,761,897) |
| Trade payables | (9,280,442) | (8,013,428) | (16,284,376) | (1,763,084) | (35,341,330) |
| Other short-term liabilities | (7,860,308) | (227,495) | (168,997) | (118,254) | (8,375,054) |
| **Net exposure** | **14,621,890** | **(90,077,504)** | **(14,212,640)** | **765,185** | **(88,903,069)** |

**As of 31 December 2018**

| | RSD | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| ***Financial assets*** | | | | | |
| ***Non-current*** | | | | | |
| Financial instrument at FVTOCI | 111,475 | - | - | 2,687 | 114,162 |
| Other long-term financial investments | 104,100 | 767,463 | 6,203 | 70,917 | 948,683 |
| Long term receivables | 8,979 | - | - | - | 8,979 |
| ***Current assets*** | | | | | |
| Trade receivables | 23,128,244 | 885,305 | 536,185 | 1,458,077 | 26,007,811 |
| Receivables from specific operations | 366,173 | 3,523 | 162,063 | 10,854 | 542,613 |
| Other receivables | 143,567 | 44,057 | 1,243 | 34,704 | 223,571 |
| Short term financial investments | 2,124,148 | 139,237 | - | 46 | 2,263,431 |
| Cash and cash equivalents | 5,187,670 | 4,717,880 | 4,074,271 | 1,501,009 | 15,480,830 |
| ***Financial liabilities*** | | | | | |
| ***Non-current*** | | | | | |
| Long-term liabilities | (649) | (87,070,328) | (309,067) | (439,158) | (87,819,202) |
| ***Current liabilies*** | | | | | |
| Short-term financial liabilities | - | (6,302,164) | (52,628) | (40,299) | (6,395,091) |
| Trade payables | (8,522,174) | (14,823,629) | (897,986) | (1,590,299) | (25,834,088) |
| Other short-term liabilities | (8,219,003) | (219,021) | (166,430) | (83,532) | (8,687,986) |
| **Net exposure** | **14,432,530** | **(101,857,677)** | **3,353,854** | **925,006** | **(83,146,287)** |

The following exchange rates applied during the period:

| | Reporting date spot rate | |
|---|---|---|
| | **31 December 2019** | **31 December 2018** |
| EUR | 117.5928 | 118.1946 |
| USD | 104.9186 | 103.3893 |

*Sensitivity analysis*

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

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

As at 31 December 2019, if the currency had strengthened/weaken by 5% against the EUR with all other variables held constant, pre-tax profit and equity for the year would have been RSD 4,503,875 (2018: RSD 5,092,884) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR – denominated borrowings.

As at 31 December 2019, if the currency had strengthened/weaken by 10% against the USD with all other variables held constant, pre-tax profit and equity for the year would have been RSD 1,421,264 (2018: RSD 335,385) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD – denominated accounting payables.

*Interest rate risk*

Borrowings withdrawn at variable interest rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Depending on the levels of net debt at any given period of time, any change in the base interest rates (Euribor or Libor) has a proportionate impact on the Group's results. If interest rates on foreign currency denominated borrowings, with floating interest rate, had been 1% higher/lower with all other variables held constant, pre-tax profit and equity for 2019 would have been RSD 718,111 (2018: RSD 862,976) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

***Credit risk***

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

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

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

| | Year end 31 December | |
|---|---|---|
| | **2019** | **2018** |
| Financial instrument at FVTOCI | 95,662 | 114,162 |
| Other long-term investments (note 11) | 966,528 | 948,683 |
| Long term receivables | 234,184 | 8,979 |
| Trade receivables (note 14) | 25,572,859 | 26,007,811 |
| Receivables from specific operations | 673,870 | 542,613 |
| Other receivables (note 15) | 935,757 | 223,571 |
| Short term financial investments (note 16) | 1,843,473 | 2,263,431 |
| Cash and cash equivalents (note 17) | 15,295,810 | 15,480,830 |
| **Total maximum exposure to credit risk** | **45,618,143** | **45,590,080** |

*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.* The 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.

*Trade, Specific and Other receivables*

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

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

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

The expected loss rates are based on the payment profiles of sales over a period of 48 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates were not adjusted with forward-looking information on macroeconomic factors as no correlation were identified that significantly affect ability of the customers to settle the receivables.

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

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

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

At 31 December 2018 the provision matrix is based on the number of days that an asset is past due:

| | Loss rate | Gross carrying amount | Lifetime ECL | Total trade, specific and other receivables |
|---|---|---|---|---|
| Trade, specific and other receivables | | | | |
| - current | 0.09% | 24,436,650 | (21,506) | 24,415,144 |
| - less than 30 days overdue | 0.32% | 1,350,903 | (4,355) | 1,346,548 |
| - 31 to 90 days overdue | 1.13% | 354,744 | (4,007) | 350,737 |
| - 91 to 270 days overdue | 4.22% | 202,389 | (8,542) | 193,847 |
| - over 270 days overdue | 97.41% | 17,877,762 | (17,410,043) | 467,719 |
| **Total trade, specific and other receivables** | | **44,222,448** | **(17,448,453)** | **26,773,995** |

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

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

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

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

| | Trade receivables | | | |
|---|---|---|---|---|
| | Individually impaired | Collectively impaired | Lease receivables | Total |
| **As at 1 January 2018** | **2,405,561** | **5,537,017** | **-** | **7,942,578** |
| Remeasurement of expected credit losses | 29,710 | - | - | 29,710 |
| **Restated balance at 1 January 2018** | **2,435,271** | **5,537,017** | **-** | **7,972,288** |
| Reclassification other receivables for lease as of 1 January 2018 | - | (72,630) | 72,630 | - |
| Provision for receivables impairment | 3,648 | 67,590 | 3,239 | 74,477 |
| Unused amounts reversed (note 32) | (98,877) | (592,748) | (15,724) | (707,349) |
| Receivables written off during the year as uncollectible | - | (1,150,269) | (533) | (1,150,802) |
| Unwinding of discount (note 30) | - | (44,661) | - | (44,661) |
| Other | 186 | 970 | - | 1,156 |
| **As at 31 December 2018** | **2,340,228** | **3,745,269** | **59,612** | **6,145,109** |
| | | | | |
| **As at 1 January 2019** | | | | |
| Provision for receivables impairment | 7,261 | 75,724 | 2,321 | 85,306 |
| Unused amounts reversed (note 32) | (6,218) | (73,532) | (7,870) | (87,620) |
| Receivables written off during the year as uncollectible | - | (263,040) | (1,232) | (264,272) |
| Other | (953) | 3,298 | - | 2,345 |
| **As at 31 December 2019** | **2,340,318** | **3,487,719** | **52,831** | **5,880,868** |

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

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

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

| | Receivables from specific operations |
|---|---|
| **As at 1 January 2018** | **3,394,091** |
| Provision for receivables impairment | 3,879 |
| Unused amounts reversed (note 32) | (142,362) |
| Receivables written off during the year as uncollectible | (1,500,778) |
| Other | (116) |
| **As at 31 December 2018** | **1,754,714** |
| Provision for receivables impairment | 2,185 |
| Unused amounts reversed (note 32) | (3,068) |
| Receivables written off during the year as uncollectible | (12,958) |
| Other | (480) |
| **As at 31 December 2019** | **1,740,393** |

Movements on the provision for other receivables:

| | Interest receivables | Other receivables | Total |
|---|---|---|---|
| **As at 1 January 2018** | **4,191,764** | **7,495,688** | **11,687,452** |
| Provision for other receivables impairment | 5,856 | 13,682 | 19,538 |
| Unused amounts reversed (note 32) | (12,919) | (3,577) | (16,496) |
| Receivables written off during the year as uncollectible | (2,048,409) | (92,703) | (2,141,112) |
| Other | (5,427) | 4,675 | (752) |
| **As at 31 December 2018** | **2,130,865** | **7,417,765** | **9,548,630** |
| Provision for other receivables impairment | 4,813 | 9,415 | 14,228 |
| Unused amounts reversed (note 32) | (12,914) | (1,088) | (14,002) |
| Receivables written off during the year as uncollectible | (55,294) | (7,177) | (62,471) |
| Other | (2,629) | (89) | (2,718) |
| **As at 31 December 2019** | **2,064,841** | **7,418,826** | **9,483,667** |

*Liquidity risk*

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

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

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

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

| **As at 31 December 2019** | Carrying amount | Contractual cash flows | Less than 1 year | 1 - 5 years | Over 5 years |
|---|---|---|---|---|---|
| Financial liabilities (debt+lease) | 90,804,828 | 96,685,828 | 8,528,198 | 83,672,824 | 4,484,806 |
| Trade payables and dividends | 39,122,022 | 39,122,022 | 39,122,022 | - | - |
| | **129,926,850** | **135,807,850** | **47,650,220** | **83,672,824** | **4,484,806** |
| | | | | | |
| **As at 31 December 2018** | | | | | |
| Financial liabilities (debt+lease) | 94,214,293 | 100,623,609 | 8,147,806 | 86,866,787 | 5,609,016 |
| Trade payables and dividends | 29,606,396 | 29,606,396 | 29,606,396 | - | - |
| | **123,820,689** | **130,230,005** | **37,754,202** | **86,866,787** | **5,609,016** |

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

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

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

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Total borrowings (notes 22 and 23) | 90,804,828 | 94,214,293 |
| Less: cash and cash equivalents (note 17) | (15,295,810) | (15,480,830) |
| **Net debt** | **75,509,018** | **78,733,463** |
| EBITDA | 44,479,734 | 53,708,499 |
| **Net debt to EBITDA** | **1.70** | **1.47** |

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

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

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

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

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

## 7. SEGMENT INFORMATION

Presented below is information about the Group's operating segments for the years ended 31 December 2019 and 2018. 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 2019 are shown in the table below:

| | Upstream | Downstream | Eliminations | Total |
|---|---|---|---|---|
| Segment revenue | 48,317,499 | 272,263,504 | (48,484,503) | 272,096,500 |
| Intersegment | 47,501,435 | 983,068 | (48,484,503) | - |
| External | 816,064 | 271,280,436 | - | 272,096,500 |
| **EBITDA (Segment results)** | **34,188,266** | **10,291,468** | **-** | **44,479,734** |
| Depreciation, depletion and amortization | (11,402,076) | (9,574,273) | - | (20,976,349) |
| Impairment losses/Revaluation surpluses (note 33 and 34) | (18,054) | 32,032 | - | 13,978 |
| Writte off exploration works (note 9) | (377,207) | - | - | (377,207) |
| Share of loss of associates and joint ventures | - | (129,287) | - | (129,287) |
| Finance expenses, net | (365,574) | (1,120,548) | - | (1,486,122) |
| Income tax | (212,842) | (4,319,766) | - | (4,532,608) |
| Segment profit (loss) | 21,632,035 | (5,035,633) | - | 16,596,402 |

Reportable segment results for the year ended 31 December 2018 are shown in the table below:

| | Upstream | Downstream | Eliminations | Total |
|---|---|---|---|---|
| Segment revenue | 52,134,006 | 281,446,809 | (52,597,066) | 280,983,749 |
| Intersegment | 50,567,429 | 2,029,637 | (52,597,066) | - |
| External | 1,566,577 | 279,417,172 | - | 280,983,749 |
| **EBITDA (Segment results)** | **38,791,347** | **14,917,152** | **-** | **53,708,499** |
| Depreciation, depletion and amortization | (10,805,415) | (9,535,562) | - | (20,340,977) |
| Impairment losses/Revaluation surpluses (note 33 and 34) | (3,756) | (266,918) | - | (270,674) |
| Writte off exploration works (note 9) | (57,075) | - | - | (57,075) |
| Share of loss of associates and joint ventures | - | (66,634) | - | (66,634) |
| Finance expenses, net | (203,244) | (1,651,740) | - | (1,854,984) |
| Income tax | (323,003) | (5,395,921) | - | (5,718,924) |
| Segment profit (loss) | 27,015,242 | (1,880,940) | - | 25,134,302 |

EBITDA for the year ended 31 December 2019 and 2018 is reconciled below:

| | Year ended 31 December 2019 | 2018 |
|---|---|---|
| Profit for the year | 16,596,402 | 25,134,302 |
| Income tax expenses | 4,532,608 | 5,718,924 |
| Other expenses | 1,868,685 | 1,804,368 |
| Other income | (1,265,910) | (1,215,316) |
| Loss from valuation of assets at fair value through profit and loss | 134,564 | 170,170 |
| Income from valuation of assets at fair value through profit and loss | (121,212) | (868,513) |
| Finance expense | 4,178,538 | 5,748,045 |
| Finance income | (2,563,129) | (3,826,427) |
| Depreciation, depletion and amortization | 20,976,349 | 20,340,977 |
| Other non operating expenses, net* | 142,839 | 701,969 |
| **EBITDA** | **44,479,734** | **53,708,499** |

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

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

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

| | Year ended 31 December 2018 | | |
|---|---|---|---|
| | **Domestic market** | **Export and international sales** | **Total** |
| Sale of crude oil | - | 1,528,011 | 1,528,011 |
| Sale of gas | 1,610,675 | - | 1,610,675 |
| *Through a retail network* | - | - | - |
| *Wholesale activities* | 1,610,675 | - | 1,610,675 |
| Sale of petroleum products | 196,980,360 | 68,224,641 | 265,205,001 |
| *Through a retail network* | 63,956,088 | 17,446,040 | 81,402,128 |
| *Wholesale activities* | 133,024,272 | 50,778,601 | 183,802,873 |
| Sales of electricity | 746,559 | 842,728 | 1,589,287 |
| Lease revenue | 474,818 | - | 474,818 |
| Other sales | 7,044,968 | 3,530,989 | 10,575,957 |
| **Total sales** | **206,857,380** | **74,126,369** | **280,983,749** |

Out of the amount of RSD 172,958,291 (2018: RSD 183,802,873) revenue from sale of petroleum products (wholesale), the amount of RSD 19,070,224 (2018: RSD 26,679,415) are derived from a single domestic customer, HIP Petrohemija. These revenues are attributable to wholesale activities within Downstream segment.

Sales of electricity mainly relates to trading with Network for trading d.o.o. Belgrade in the amount of RSD 309,224 (2018: Energy Financing Team in the amount of RSD 518,173).

Other sales mainly relate to sales of non-fuel products at petrol stations in the amount of RSD 8,828,683 (2018: RSD 8,269,395).

The Group is domiciled in the Republic of Serbia. The result of its revenue from external customers in the Republic of Serbia is RSD 197,563,459 (2018: RSD 206,857,380), and the total of revenue from external customer from other countries is RSD 74,533,041 (2018: RSD 74,126,369).

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

| | Year ended 31 December 2019 | 2018 |
|---|---|---|
| Sale of crude oil | 665,186 | 1,528,011 |
| Sale of petroleum products (retail and wholesale) | | |
| Bulgaria | 14,559,719 | 18,130,815 |
| Bosnia and Herzegovina | 27,417,504 | 18,704,608 |
| Romania | 13,415,451 | 14,877,723 |
| Croatia | 2,431,173 | 2,997,771 |
| Switzerland | 1,888,635 | 2,777,082 |
| Great Britain | 1,063,213 | 1,839,930 |
| Nothern Macedonia | 1,343,723 | 1,726,618 |
| Hungary | 1,610,845 | 1,810,152 |
| All other markets | 6,437,022 | 5,359,942 |
| | 70,167,285 | 68,224,641 |
| Sales of electricity | 233,715 | 842,728 |
| Lease revenue | 6,439 | - |
| Other sales | 3,460,416 | 3,530,989 |
| | **74,533,041** | **74,126,369** |

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

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 2019 | 31 December 2018 |
|---|---|---|
| Serbia | 287,838,624 | 269,381,825 |
| Romania | 11,853,104 | 9,103,409 |
| Bosnia and Herzegovina | 7,276,613 | 7,304,192 |
| Bulgaria | 6,881,442 | 6,934,061 |
| | **313,849,783** | **292,723,487** |

## 8. INTANGIBLE ASSETS

| | Development investments | Concessions, patents, licenses, software and other rights | Goodwill | Other intangibles | Intangible assets under development | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2018** | | | | | | |
| Cost | 9,330,701 | 9,133,906 | 2,256,798 | 1,436,956 | 9,089,090 | 31,247,451 |
| Accumulated amortization and impairment | (1,565,494) | (6,584,823) | (513,308) | (266,031) | (56,647) | (8,986,303) |
| **Net book amount** | **7,765,207** | **2,549,083** | **1,743,490** | **1,170,925** | **9,032,443** | **22,261,148** |
| **Year ended 31 December 2018** | | | | | | |
| Additions | - | - | - | 37 | 3,170,422 | 3,170,459 |
| Acquisitions through business combinations | - | - | 11,986 | - | - | 11,986 |
| Transfer from assets under development | 2,299,438 | 211,033 | - | 7,584 | (2,518,055) | - |
| Amortization | (758,280) | (1,027,607) | - | (54,642) | (4,802) | (1,845,331) |
| Impairment (note 34) | - | - | (201,854) | - | - | (201,854) |
| Transfer to PP&E (note 9) | - | - | - | - | (5,622) | (5,622) |
| Other transfers | - | (3,356) | - | 3,356 | - | - |
| Translation differences | - | (25) | (4,244) | (840) | (14,293) | (19,402) |
| **Closing net book amount** | **9,306,365** | **1,729,128** | **1,549,378** | **1,126,420** | **9,660,093** | **23,371,384** |
| **As at 31 December 2018** | | | | | | |
| Cost | 11,630,138 | 9,287,315 | 2,262,796 | 1,443,305 | 9,721,470 | 34,345,024 |
| Accumulated amortization and impairment | (2,323,773) | (7,558,187) | (713,418) | (316,885) | (61,377) | (10,973,640) |
| **Net book amount** | **9,306,365** | **1,729,128** | **1,549,378** | **1,126,420** | **9,660,093** | **23,371,384** |
| **At 1 January 2019** | | | | | | |
| Cost | 11,630,138 | 9,287,315 | 2,262,796 | 1,443,305 | 9,721,470 | 34,345,024 |
| Accumulated amortization and impairment | (2,323,773) | (7,558,187) | (713,418) | (316,885) | (61,377) | (10,973,640) |
| **Net book amount** | **9,306,365** | **1,729,128** | **1,549,378** | **1,126,420** | **9,660,093** | **23,371,384** |
| **Year ended 31 December 2019** | | | | | | |
| Additions | - | - | - | 704 | 3,283,123 | 3,283,827 |
| Transfer from assets under development | 3,139,293 | 829,622 | - | - | (3,968,915) | - |
| Amortization | (1,005,829) | (574,386) | - | (46,496) | - | (1,626,711) |
| Impairment (note 34) | - | - | (180,004) | - | - | (180,004) |
| Transfer to PP&E (note 9) | - | - | - | - | (42,660) | (42,660) |
| Other transfers | - | 4,697 | - | (1,457) | (108,081) | (104,841) |
| Transfer to right of use assets | - | - | - | (153,119) | - | (153,119) |
| Translation differences | - | (130) | (14,866) | (1,096) | (118,551) | (134,643) |
| **Closing net book amount** | **11,439,829** | **1,988,931** | **1,354,508** | **924,956** | **8,705,009** | **24,413,233** |
| **As at 31 December 2019** | | | | | | |
| Cost | 14,769,430 | 10,033,485 | 2,233,762 | 1,252,029 | 8,760,424 | 37,049,130 |
| Accumulated amortization and impairment | (3,329,601) | (8,044,554) | (879,254) | (327,073) | (55,415) | (12,635,897) |
| **Net book amount** | **11,439,829** | **1,988,931** | **1,354,508** | **924,956** | **8,705,009** | **24,413,233** |

Intangible assets under development as at 31 December 2019 amounting to RSD 8,705,009 (31 December 2018: RSD 9,660,093) mostly relate to investments in explorations (unproved reserves) in the amount of RSD 8,538,201 (31 December 2018: RSD 9,398,379).

*Impairment test for goodwill*

Goodwill is monitored by the management on an individual CGU basis and geographical location. 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:

| | **2019** | **2018** |
|---|---|---|
| Average gross margin | 21.0% | 22.0% |
| Growth rate | 1% | 1% |
| Discount rate | | |
| - Romania market | 6.99% | 6.78% |
| - Bulgaria market | 6.30% | 6.67% |
| - Bosnia and Herzegovina market | 8.73% | 11.13% |

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** |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Bosnia and Herzegovina | 484,855 | - | - | (2,468) | 482,387 |
| Romania | 286,915 | - | - | (8,355) | 278,560 |
| Bulgaria | 777,608 | - | (180,004) | (4,043) | 593,561 |
| | **1,549,378** | **-** | **(180,004)** | **(14,866)** | **1,354,508** |
| **2018** | | | | | |
| Bosnia and Herzegovina | 474,012 | 11,986 | - | (1,143) | 484,855 |
| Romania | 287,848 | - | - | (933) | 286,915 |
| Bulgaria | 981,629 | - | (201,854) | (2,167) | 777,608 |
| | **1,743,489** | **11,986** | **(201,854)** | **(4,243)** | **1,549,378** |

Except recognised impairment loss in Bulgaria in the amount of RSD 180,004 (2018: RSD 201,854), impairment test in Romania and Bosnia and Herzegovina 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 1% higher than management's estimates, the recoverable amount of the each CGU in total still exceeds its carrying amount.

## 9. PROPERTY, PLANT AND EQUIPMENT

*a) Property, plant and equipment carried at cost*

| | Land | Buildings | Machinery and equipment | Construction in Progress | Other PP&E | Investments in leased PP&E | Advances to suppliers | Total |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2018** | | | | | | | | |
| Cost | 17,153,246 | 191,485,363 | 128,531,892 | 27,681,410 | 88,653 | 528,159 | 2,105,408 | 367,574,131 |
| Accumulated depreciation and impairment | (303,930) | (56,544,897) | (58,979,979) | (2,032,142) | (2,030) | (256,255) | (36,946) | (118,156,179) |
| **Net book amount** | **16,849,316** | **134,940,466** | **69,551,913** | **25,649,268** | **86,623** | **271,904** | **2,068,462** | **249,417,952** |
| **Year ended 31 December 2018** | | | | | | | | |
| Additions | - | 115,585 | 1,393 | 39,971,334 | - | - | 4,875,356 | 44,963,668 |
| Acquisitions through business combinations | - | - | - | 439,465 | - | - | - | 439,465 |
| Transfer from assets under development | 256,860 | 17,950,496 | 7,066,224 | (25,288,834) | 3,580 | 11,674 | - | - |
| Impairment charge (note 34) | - | (67,304) | (634) | (13,418) | - | - | (5,413) | (86,769) |
| Depreciation | - | (9,955,870) | (8,468,614) | - | (27) | (71,135) | - | (18,495,646) |
| Transfer from intangible assets (note 8) | - | - | - | 5,622 | - | - | - | 5,622 |
| Transfer to investment property | (38,530) | (42,798) | - | - | - | - | - | (81,328) |
| Transfer to non-current assets held for sale | (15,765) | (26,992) | (21,995) | (9,108) | - | - | - | (73,860) |
| Disposals and write-off | (39,435) | (111,433) | (93,564) | (861,988) | (157) | (22) | (6,176,881) | (7,283,480) |
| Other transfers | (14,903) | 39,209 | (301,370) | - | (1,321) | - | - | (278,385) |
| Translation differences | (15,886) | (14,086) | (2,975) | 3,933 | 34 | (23) | (13) | (29,016) |
| **Closing net book amount** | **16,981,657** | **142,827,273** | **67,730,378** | **39,896,274** | **88,732** | **212,398** | **761,511** | **268,498,223** |
| **At 31 December 2018** | | | | | | | | |
| Cost | 17,282,588 | 209,356,843 | 134,383,253 | 41,899,970 | 90,751 | 539,696 | 799,493 | 404,352,594 |
| Accumulated depreciation and impairment | (300,931) | (66,529,570) | (66,652,875) | (2,003,696) | (2,019) | (327,298) | (37,982) | (135,854,371) |
| **Net book amount** | **16,981,657** | **142,827,273** | **67,730,378** | **39,896,274** | **88,732** | **212,398** | **761,511** | **268,498,223** |
| **Year ended 31 December 2019** | | | | | | | | |
| Additions | - | 777,397 | 1,676 | 38,786,941 | - | - | 2,226,024 | 41,792,038 |
| Transfer from assets under development | 36,531 | 16,021,521 | 6,770,855 | (22,841,975) | 1,634 | 11,434 | - | - |
| Impairment charge (note 34) | - | (98,929) | - | (152,630) | (543) | - | - | (252,102) |
| Depreciation | - | (10,156,657) | (8,778,245) | - | - | (67,765) | - | (19,002,667) |
| Transfer from intangible assets (note 8) | - | - | - | 42,660 | - | - | - | 42,660 |
| Transfer to investment property | - | - | - | (10,016) | - | - | - | (10,016) |
| Transfer to non-current assets held for sale | (56,573) | (18,619) | (30,607) | - | - | - | - | (105,799) |
| Disposals and write-off | (2,836) | (117,232) | (147,252) | (611,682) | (22) | (3,686) | (2,642,072) | (3,524,782) |
| Transfer to right of use assets | - | (456,413) | (362,999) | - | - | - | - | (819,412) |
| Other transfers | - | 967 | (108,025) | 49,464 | (13) | - | - | (57,607) |
| Translation differences | (57,234) | (69,541) | (10,370) | (94,948) | 29 | (56) | (97) | (232,217) |
| **Closing net book amount** | **16,901,545** | **148,709,767** | **65,065,411** | **55,064,088** | **89,817** | **152,325** | **345,366** | **286,328,319** |
| **At 31 December 2019** | | | | | | | | |
| Cost | 17,202,401 | 224,462,317 | 139,661,505 | 57,064,616 | 91,807 | 547,316 | 372,108 | 439,402,070 |
| Accumulated depreciation and impairment | (300,856) | (75,752,550) | (74,596,094) | (2,000,528) | (1,990) | (394,991) | (26,742) | (153,073,751) |
| **Net book amount** | **16,901,545** | **148,709,767** | **65,065,411** | **55,064,088** | **89,817** | **152,325** | **345,366** | **286,328,319** |

In 2019, the Group capitalised borrowing costs directly attributable to the acquisition, construction and production of qualifying asset, as part of its cost, amounting to RSD 168,790 (2018: RSD 130,169).

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

As at 31 December 2019, the Group assessed impairment indicators of cash generating units ("CGU") – refer to Note 3.7 for details. In addition Group has assessed and recognized impairment losses for the asset which has disposed due to obsolescence or physical demolition in amount of RSD 252,102 (2018: RSD 81,356).

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.

*b) Investment property – carried at fair value*

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

Movements on the account were as follows:

| | 2019 | 2018 |
|---|---|---|
| **As at 1 January** | 1,615,391 | 1,530,356 |
| Fair value gains (loss) (note 33 and 34) | (8,290) | 6,534 |
| Transfer from PP&E carried at cost | 10,016 | 81,328 |
| Disposals | (37,319) | (1,405) |
| Other | - | (1,422) |
| **As at 31 December** | **1,579,798** | **1,615,391** |

As at 31 December 2019, investment properties amounting to RSD 1,579,798 (31 December 2018: RSD 1,615,391) 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 2019 and 2018. The revaluation gain was credited to other income (note 33).

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 2019 using:

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

Fair value measurements at 31 December 2018 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 | - | 871,709 | - |
| – Gas stations | - | - | 743,682 |
| Total | - | **871,709** | **743,682** |

***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:

| | 2019 | 2018 |
|---|---|---|
| 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:

| | 2019 | 2018 |
|---|---|---|
| **Assets as at 1 January** | **743,682** | **658,184** |
| Changes in fair value measurement: | | |
| Gains (loss) recognised in profit or loss, fair value measurement | (8,290) | 6,534 |
| Transfer from PPE | - | 81,407 |
| Other | 50 | (2,443) |
| Total increase (decrease) in fair value measurement, assets | (8,240) | 85,498 |
| **Assets as at 31 December** | **735,442** | **743,682** |

*c) Oil and gas production assets*

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

| | Capitalised exploration and evaluation expenditure | Capitalised development expenditure | Total - asset under construction (exploration and development expenditure) | Production assets | Other business and corporate assets | Total |
|---|---|---|---|---|---|---|
| **As at 1 January 2018** | | | | | | |
| Cost | 19,004,026 | 2,929,684 | 21,933,710 | 147,452,224 | 32,323 | 169,418,257 |
| Depreciation and impairment | (58,882) | (2,087) | (60,969) | (37,114,232) | (21,223) | (37,196,424) |
| **Net book amount** | **18,945,144** | **2,927,597** | **21,872,741** | **110,337,992** | **11,100** | **132,221,833** |
| **Year ended 31 December 2018** | | | | | | |
| Additions | 5,620,537 | 14,018,122 | 19,638,659 | - | - | 19,638,659 |
| Changes in decommissioning obligations | - | - | - | 117,748 | - | 117,748 |
| Transfer from asset under construction | (1,944,034) | (15,365,263) | (17,309,297) | 17,309,282 | 15 | - |
| Impairment | - | (3,477) | (3,477) | (279) | - | (3,756) |
| Other transfers | (297,175) | (142,966) | (440,141) | 1,520,485 | 624 | 1,080,968 |
| Depreciation and depletion | (4,802) | - | (4,802) | (10,347,667) | - | (10,352,469) |
| Unsuccessful exploration expenditures derecognised (note 7) | (57,075) | - | (57,075) | - | - | (57,075) |
| Transfer to non-current assets held for sale | - | - | - | (21,522) | - | (21,522) |
| Disposals and write-off | (17,101) | (36,938) | (54,039) | (128,578) | (52) | (182,669) |
| Translation differences | (19,098) | - | (19,098) | 1 | - | (19,097) |
| | **22,226,396** | **1,397,075** | **23,623,471** | **118,787,462** | **11,687** | **142,422,620** |
| **As at 31 December 2018** | | | | | | |
| Cost | 22,258,139 | 1,399,503 | 23,657,642 | 166,462,451 | 32,008 | 190,152,101 |
| Depreciation and impairment | (31,743) | (2,428) | (34,171) | (47,674,989) | (20,321) | (47,729,481) |
| **Net book amount** | **22,226,396** | **1,397,075** | **23,623,471** | **118,787,462** | **11,687** | **142,422,620** |
| **As at 1 January 2019** | | | | | | |
| Cost | 22,258,139 | 1,399,503 | 23,657,642 | 166,462,451 | 32,008 | 190,152,101 |
| Depreciation and impairment | (31,743) | (2,428) | (34,171) | (47,674,989) | (20,321) | (47,729,481) |
| **Net book amount** | **22,226,396** | **1,397,075** | **23,623,471** | **118,787,462** | **11,687** | **142,422,620** |
| **Year ended 31 December 2019** | | | | | | |
| Additions | 6,741,856 | 14,402,084 | 21,143,940 | - | - | 21,143,940 |
| Changes in decommissioning obligations | - | - | - | 777,397 | - | 777,397 |
| Transfer from asset under construction | (6,163,618) | (12,287,002) | (18,450,620) | 18,439,064 | 11,556 | - |
| Impairment | - | (29) | (29) | (17,482) | (543) | (18,054) |
| Other transfers | 126,491 | 216,036 | 342,527 | (155,581) | 1,619 | 188,565 |
| Depreciation and depletion | (4,751) | - | (4,751) | (11,043,359) | - | (11,048,110) |
| Unsuccessful exploration expenditures derecognised (note 7) | (377,207) | - | (377,207) | - | - | (377,207) |
| Transfer to right-of-use assets | - | - | - | (54,331) | - | (54,331) |
| Disposals and write-off | (151,518) | (491) | (152,009) | (98,252) | (3,708) | (253,969) |
| Translation differences | (204,232) | (1) | (204,233) | (6) | - | (204,239) |
| | **22,193,417** | **3,727,672** | **25,921,089** | **126,634,912** | **20,611** | **152,576,612** |
| **As at 31 December 2019** | | | | | | |
| Cost | 22,229,550 | 3,727,699 | 25,957,249 | 185,208,089 | 40,956 | 211,206,294 |
| Depreciation and impairment | (36,133) | (27) | (36,160) | (58,573,177) | (20,345) | (58,629,682) |
| **Net book amount** | **22,193,417** | **3,727,672** | **25,921,089** | **126,634,912** | **20,611** | **152,576,612** |

Unsuccessful exploration expenditures derecognised in the amount of 377,207 RSD mainly relate to exploration assets located in Serbia due to uncertain viability of commercial production (2018: amount of 57,075 RSD mainly relate to exploration assets located in Serbia).

*d) Right of use assets*

| | Land | Property | Plant and equipment | Vehicles | Total |
|---|---|---|---|---|---|
| **As at 1 January 2019** | - | - | - | - | - |
| Changes in opening balances | 153,119 | 1,261,439 | 335,712 | 85,151 | 1,835,421 |
| Additions | - | 4,278 | 216,426 | 175,197 | 395,901 |
| Depreciation | - | (238,406) | (81,205) | (27,360) | (346,971) |
| Transfers | - | - | (30,910) | 30,910 | - |
| Effect of contract modifications and changes in estimates | - | 344 | - | - | 344 |
| Translation differences | (4,443) | (4,456) | (1,528) | (469) | (10,896) |
| **As at 31 December 2019** | **148,676** | **1,023,199** | **438,495** | **263,429** | **1,873,799** |

## 10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

The carrying values of the investments in associates and joint ventures as of 31 December, 2019 and 2018 are summarised below:

| | | Ownership percentage | 31 December 2019 | 31 December 2018 |
|---|---|---|---|---|
| NIS MET Energowind d.o.o. Belgrade | Joint venture | 50% | 946,208 | 1,003,491 |
| Gazprom Energoholding Serbia d.o.o. Novi Sad | Joint venture | 49% | 904,893 | 976,897 |
| HIP Petrohemija ad Pančevo | Associate | 20,86% | 11,572,197 | 11,572,197 |
| *Less Impairment provision* | | | (11,572,197) | (11,572,197) |
| **Total investments** | | | **1,851,101** | **1,980,388** |

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

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

**NIS MET Energowind d.o.o. Belgrade**

In 2013 the Group acquired 50% of interest in a joint venture Energowind d.o.o. which was intended to be used as a vehicle for operation of future wind farm "Plandiste" with total capacity of 102 MW. During March 2019, MET Renewables AG acquired from third parties 50% of share in the project and became a joint partner on the project that has been renamed to NIS MET Energowind d.o.o. Beograd. On the date of the issuance of these consolidated financial statements there has been no significant business activity. Request has been submitted for the extension of the status of privileged electricity producer, which expires in May 2020. 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 Serbskaya Generaciya, 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. Handing over THP TE-TO Pancevo is expected to be completed by the 30th August 2020. During the March 2019, Serbskaya Generaciya changed company name to Gazprom Energoholding Serbia.

**HIP Petrohemija**

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

The summarised financial information for the joint ventures as of 31 December 2019 and 2018 and for the years ended 31 December 2019 and 2018 is presented in the table below:

| | NIS MET Energowind | Gazprom Energoholding Serbia |
|---|---|---|
| **31 December 2019** | | |
| Current assets | 132,063 | 698,256 |
| Non-current assets | 3,151,318 | 12,154,427 |
| Current liabilities | 975,707 | 71,219 |
| Non-current liabilities | - | 10,963,037 |
| Revenue | 661 | 44,430 |
| Loss for the year | (114,565) | (146,948) |
| **31 December 2018** | | |
| Current assets | 12,764 | 878,074 |
| Non-current assets | 574,973 | 7,318,155 |
| Current liabilities | 640,447 | 33,102 |
| Non-current liabilities | - | 1,957,752 |
| Revenue | 1 | 21,205 |
| Loss for the year | (9,426) | (126,332) |

## 11. OTHER LONG-TERM FINANCIAL INVESTMENTS

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Deposits with original maturity more than 1 year | 158,079 | - |
| Other long-term financial investments | 9,176 | 80,121 |
| LT loans given to employees | 1,153,957 | 1,240,438 |
| Less provision | (354,684) | (371,876) |
| | **966,528** | **948,683** |

Loans to employees as at 31 December 2019 amounting to RSD 1,153,957 (31 December 2018: RSD 1,240,438) represent interest-free loans or loans at the interest rate of 0.5% and 1.5% given to employees for housing purposes, and are repaid through monthly instalments. These loans are impaired in amount of RSD 354,625.

## 12. DEFERRED TAX ASSETS AND LIABILITIES

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Deferred tax assets: | | |
| - Deferred tax assets to be recovered after more than 12 months | 2,466,610 | 1,943,094 |
| - Deferred tax assets to be recovered within 12 months | 316,846 | 1,016,432 |
| | **2,783,456** | **2,959,526** |
| Deferred tax liabilities: | | |
| - Deferred tax liabilities to be recovered after more than 12 months | (2,085,767) | (2,414,029) |
| | **(2,085,767)** | **(2,414,029)** |
| **Deferred tax assets (net)** | **697,689** | **545,497** |

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

| | 2019 | 2018 |
|---|---|---|
| **At 1 January** | 545,497 | 2,197,910 |
| Charged to the income statement (note 35) | (1,432,194) | (1,652,164) |
| Charged to other comprehensive income | - | (335) |
| Charged directly to equity | 1,584,230 | - |
| Other | 156 | 86 |
| **31 December** | **697,689** | **545,497** |

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

| | Provisions | Carrying value of PP&E vs Tax base | Revaluation reserve | Total |
|---|---|---|---|---|
| *Deferred tax liabilities* | | | | |
| **As at 1 January 2018** | - | **(2,753,626)** | **(14,435)** | **(2,768,061)** |
| Charged to the income statement (note 35) | - | 353,586 | - | 353,586 |
| Charged to other comprehensive income | - | - | 360 | 360 |
| Translation difference | - | 86 | - | 86 |
| **As at 31 December 2018** | - | **(2,399,954)** | **(14,075)** | **(2,414,029)** |
| Charged to the income statement (note 35) | - | 328,107 | - | 328,107 |
| Translation difference | - | 155 | - | 155 |
| **As at 31 December 2019** | - | **(2,071,692)** | **(14,075)** | **(2,085,767)** |

| | Provisions | Impairment loss | Investment credit | Fair value gains | Total |
|---|---|---|---|---|---|
| *Deferred tax assets* | | | | | |
| **As at 1 January 2018** | **1,019,647** | **949,128** | **2,985,899** | **11,297** | **4,965,971** |
| Charged to the income statement (note 35) | (98,218) | (18,142) | (1,889,390) | - | (2,005,750) |
| Charged to other comprehensive income | - | - | - | (62) | (62) |
| Other | - | - | - | (633) | (633) |
| **As at 31 December 2018** | **921,429** | **930,986** | **1,096,509** | **10,602** | **2,959,526** |
| Charged to the income statement (note 35) | (6,636) | (657,203) | (1,096,462) | - | (1,760,301) |
| Charged directly to equity | - | 1,584,230 | - | - | 1,584,230 |
| Other | - | 287 | - | (286) | 1 |
| **As at 31 December 2019** | **914,793** | **1,858,300** | **47** | **10,316** | **2,783,456** |

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.

Investment credits represent 20% qualifying of capital investments made up to 31 December 2013 in accordance with tax legislation of the Republic of Serbia, which can be utilized in 10 years period.

The Group did not recognize deferred tax assets in respect of unused tax loss carry forwards in the amount of 1,010 million RSD (2018: 795 million RSD) that arose mostly in Bosnia, Romania, Bulgaria and Hungary and are available for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group. They have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future.

## 13. INVENTORY

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Materials, spare parts and tools | 34,018,674 | 29,197,127 |
| Work in progress | 4,855,798 | 4,923,492 |
| Finished goods | 10,387,422 | 14,523,129 |
| Goods for sale | 2,994,024 | 4,159,637 |
| Advances | 582,559 | 834,950 |
| *Less: impairment of inventory* | (4,775,984) | (4,947,073) |
| *Less: impairment of advances* | (149,287) | (219,191) |
| | **47,913,206** | **48,472,071** |
| Non-current assets held for sale | 132,185 | 5,943 |
| *Less: impairment of assets held for sale* | (43,769) | (5,943) |
| | **88,416** | **-** |
| | **48,001,622** | **48,472,071** |

Movement on inventory provision is as follows:

| | Impairment of inventories | Impairment of Advances | Impairment of Assets held for sale | Total |
|---|---|---|---|---|
| **Balance as of 1 January 2018** | **5,108,493** | **261,100** | **5,823** | **5,375,416** |
| Provision for inventories and advances (note 34) | 10,274 | 1,962 | - | 12,236 |
| Unused amounts reversed (note 33) | (31,976) | (1,687) | - | (33,663) |
| Receivables written off during the year as uncollectible | - | (42,184) | - | (42,184) |
| Other | (139,718) | - | 120 | (139,598) |
| **Balance as of 31 December 2018** | **4,947,073** | **219,191** | **5,943** | **5,172,207** |
| Provision for inventories and advances (note 34) | 8,579 | 561 | - | 9,140 |
| Unused amounts reversed (note 33) | (128,739) | (50) | - | (128,789) |
| Receivables written off during the year as uncollectible | - | (70,415) | - | (70,415) |
| Other | (50,929) | - | 37,826 | (13,103) |
| **Balance as of 31 December 2019** | **4,775,984** | **149,287** | **43,769** | **4,969,040** |

## 14. TRADE RECEIVABLES

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Parents and subsidiaries - foreign | - | 99 |
| Other related parties - domestic | 1,184,469 | 1,227,518 |
| Other related parties - foreign | 100,451 | 645,804 |
| Trade receivables domestic – third parties | 29,128,401 | 29,454,268 |
| Trade receivables foreign – third parties | 1,040,406 | 825,231 |
| | 31,453,727 | 32,152,920 |
| Less: Impairment | (5,880,868) | (6,145,109) |
| | **25,572,859** | **26,007,811** |

## 15. OTHER RECEIVABLES

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Interest receivables | 2,076,082 | 2,144,788 |
| Receivables from employees | 93,805 | 93,524 |
| Income tax prepayment | 672,332 | 9,134 |
| Other receivables | 7,577,205 | 7,524,755 |
| Less: Impairment | (9,483,667) | (9,548,630) |
| | **935,757** | **223,571** |

## 16. SHORT-TERM FINANCIAL INVESTMENTS

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Deposits with original maturity more than 3 months less than 1 year | 1,766,564 | 2,123,007 |
| Other short-term financial assets | 76,909 | 140,424 |
| | **1,843,473** | **2,263,431** |

As at 31 December 2019 deposits with original maturity more than 3 months less than 1 year amounting to RSD 1,766,564 (2018: RSD 2,123,007) relate to bank deposits with interest rates from 0.02% monthly to 3.5% p.a. (2018: from 4.65% p.a.).

## 17. CASH AND CASH EQUIVALENTS

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Cash in bank and in hand | 10,953,668 | 6,928,798 |
| Deposits with original maturity of less than three months | 4,063,656 | 6,927,790 |
| Cash with restriction | 13,978 | 1,407,735 |
| Cash equivalents | 264,508 | 216,507 |
| | **15,295,810** | **15,480,830** |

## 18. PREPAYMENTS AND ACCRUED INCOME

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Deferred input VAT | 1,929,283 | 1,774,863 |
| Prepaid expenses | 251,119 | 235,378 |
| Prepaid excise duty | 1,767,622 | 2,817,887 |
| Housing loans and other prepayments | 499,727 | 788,281 |
| | **4,447,751** | **5,616,409** |

Deferred input VAT as at 31 December 2019 amounting to RSD 1,929,283 (31 December 2018: RSD 1,774,863) represents VAT claimed on invoices received and accounted for in the current period, whilst inputs will be allowed in the following accounting period.

Prepaid excise duty as at 31 December 2019 amounting to RSD 1,767,622 (31 December 2018: RSD 2,817,887) relates to the excise paid for finished products stored in non-excise warehouse and excise paid for imported products used in further production process which will be refunded in the near future.

## 19. OFF-BALANCE SHEET ASSETS AND LIABILITIES

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Issued warranties and bills of exchange | 75,404,707 | 73,171,617 |
| Received warranties and bills of exchange | 17,074,113 | 16,042,879 |
| Properties in ex-Republics of Yugoslavia | 5,357,689 | 5,357,688 |
| Receivables from companies from ex-Yugoslavia | 6,441,861 | 6,347,969 |
| Third party merchandise in NIS warehouses | 9,851,859 | 9,560,071 |
| Assets for oil fields liquidation in Angola | 1,361,966 | 1,361,966 |
| Mortgages and pladges received | 1,398,289 | 1,745,073 |
| Other off-balance sheet assets and liabilities | 208,695 | 193,839 |
| | **117,099,179** | **113,781,102** |

## 20. EQUITY

| | Equity attributable to owners of the Group | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Other capital | Reserves | Retained earnings (loss) | Translation reserves | Unrealised gains (losses) from securities | Actuarial gain (loss) | Total | Non-controlling interest | Total Equity |
| **Balance as at 1 January 2018** | **81,530,200** | - | **81,796** | **143,518,915** | **22,671** | **(64,013)** | **194,437** | **225,284,006** | **(232,496)** | **225,051,510** |
| Adoption of IFRS 9: -remeasurement of expected credit losses, net of tax | - | - | - | (401,527) | - | - | - | (401,527) | - | (401,527) |
| Restated total equity at 1 January 20182019 | **81,530,200** | - | **81,796** | **143,117,388** | **22,671** | **(64,013)** | **194,437** | **224,882,479** | **(232,496)** | **224,649,983** |
| Profit (loss) for the year | - | - | - | 25,150,220 | - | - | - | 25,150,220 | (15,918) | 25,134,302 |
| Gains from securities | - | - | - | - | - | 477 | - | 477 | - | 477 |
| Dividend distribution | - | - | - | (6,948,004) | - | - | - | (6,948,004) | - | (6,948,004) |
| Actuarial gain | - | - | - | - | - | - | 3,316 | 3,316 | - | 3,316 |
| Revaluation reserves | - | - | 360 | - | - | - | - | 360 | - | 360 |
| Other | - | - | (2,401) | (1,055) | 34,786 | 3,454 | - | 34,784 | 586 | 35,370 |
| **Balance as at 31 December 2018** | **81,530,200** | - | **79,755** | **161,318,549** | **57,457** | **(60,082)** | **197,753** | **243,123,632** | **(247,828)** | **242,875,804** |
| **Balance as at 1 January 2019** | **81,530,200** | - | **79,755** | **161,318,549** | **57,457** | **(60,082)** | **197,753** | **243,123,632** | **(247,828)** | **242,875,804** |
| Profit (loss) for the year | - | - | - | 16,618,072 | - | - | - | 16,618,072 | (21,670) | 16,596,402 |
| Gains from securities | - | - | - | - | - | 7,267 | - | 7,267 | - | 7,267 |
| Dividend distribution | - | - | - | (6,517,524) | - | - | - | (6,517,524) | - | (6,517,524) |
| Actuarial loss | - | - | - | - | - | - | (45,334) | (45,334) | - | (45,334) |
| Other | - | - | - | 1,589,598 | 192,616 | (5,368) | - | 1,776,846 | 1,331 | 1,778,177 |
| **Balance as at 31 December 2019** | **81,530,200** | - | **79,755** | **173,008,695** | **250,073** | **(58,183)** | **152,419** | **254,962,959** | **(268,167)** | **254,694,792** |

## 20.1. SHARE CAPITAL

Share capital represents share capital of the Company, which is listed on Belgrade Stock Exchange. Par value per share is RSD 500. Share capital as of 31 December 2019 and 31 December 2018 comprise of 163,060,400 of ordinary shares.

Dividend declared for the year ended 31 December 2018, amounted to RSD 6,517,524 or RSD 39,97 per share (31 December 2017: 6,948,004 or RSD 42.61 per share) were approved on the General Assembly Meeting held on 27 June 2019 and paid on 17 September 2019.

## 21. LONG – TERM PROVISIONS

Movements on the long-term provisions were as follow:

| | Decommi-ssioning | Environmental protection | Employees benefits provision | Long-term incentive program | Legal claims provisions | Total |
|---|---|---|---|---|---|---|
| **As at 1 January 2018** | **9,844,878** | **681,162** | **457,058** | **1,026,864** | **603,488** | **12,613,450** |
| Charged to the income statement | 213,094 | 124,000 | 40,613 | 331,179 | 47,958 | 756,844 |
| New obligation incurred and change in estimates | 117,748 | - | - | - | - | 117,748 |
| Release of provision | - | (24,529) | (4,475) | - | - | (29,004) |
| Actuarial gain charged to other comprehensive income | - | - | (3,316) | - | - | (3,316) |
| Settlement | (133,445) | (123,706) | (58,278) | (864,021) | (124,610) | (1,304,060) |
| Other | (757) | 759 | 163 | - | (27) | 138 |
| **As at 31 December 2018** | **10,041,518** | **657,686** | **431,765** | **494,022** | **526,809** | **12,151,800** |
| **As at 1 January 2019** | **10,041,518** | **657,686** | **431,765** | **494,022** | **526,809** | **12,151,800** |
| Charged to the income statement | 147,500 | 197,704 | 95,872 | 314,327 | 44,868 | 800,271 |
| New obligation incurred and change in estimates | 777,397 | - | - | - | - | 777,397 |
| Release of provision | - | - | (1,107) | - | (1,539) | (2,646) |
| Actuarial loss charged to other comprehensive income | - | - | 45,334 | - | - | 45,334 |
| Settlement | (294,700) | (346,261) | (58,923) | - | (61,117) | (761,001) |
| Other | - | - | (38) | - | (90) | (128) |
| **As at 31 December 2019** | **10,671,715** | **509,129** | **512,903** | **808,349** | **508,931** | **13,011,027** |

Analysis of total provisions:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Non-current | 11,419,129 | 10,210,005 |
| Current | 1,591,898 | 1,941,795 |
| | **13,011,027** | **12,151,800** |

(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.

(b) *Environmental protection*

The Group has to comply with environmental protection regulations. At the reporting date Group recorded provision for environmental protection of RSD 509,129 (31 December 2018: RSD 657,686) 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 2019 the management made an assessment of present value of liabilities related to new three-year employee incentives (2018-2020) in amount of RSD 808,349 (2018: RSD 494,022).

(d) *Legal claims provisions*

As at 31 December 2019, the Group assessed the probability of negative outcomes of legal procedures, as well as the amounts of probable losses. The Group charged provision for litigation amounting to RSD 44,868 (2018: RSD 47,958) 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 2019.

(e) *Provision for employee benefits*

Employee benefits:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Retirement allowances | 188,783 | 147,206 |
| Jubilee awards | 324,120 | 284,559 |
| | **512,903** | **431,765** |

The principal actuarial assumptions used were as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Discount rate | 4.4% | 5.7% |
| Future salary increases | 2.0% | 2.0% |
| Future average years of service | 14.4 | 14.6 |

| | Retirement allowances | Jubilee awards | Total |
|---|---|---|---|
| **Balances as at 1 January 2018** | **143,027** | **314,031** | **457,058** |
| Benefits paid directly | (14,483) | (43,795) | (58,278) |
| Actuarial gain charged to other comprehensive income | (3,316) | - | (3,316) |
| Credited to the income statement | 21,815 | 14,323 | 36,138 |
| Translation difference | 163 | - | 163 |
| **Balances as at 31 December 2018** | **147,206** | **284,559** | **431,765** |
| Benefits paid directly | (21,534) | (37,389) | (58,923) |
| Actuarial loss charged to other comprehensive income | 45,334 | - | 45,334 |
| Credited to the income statement | 17,815 | 76,950 | 94,765 |
| Translation difference | (38) | - | (38) |
| **Balances as at 31 December 2019** | **188,783** | **324,120** | **512,903** |

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

| | Year ended 31 December 2019 | 2018 |
|---|---|---|
| Current service cost | 29,955 | 31,518 |
| Interest cost | 23,728 | 20,330 |
| Curtailment loss | 729 | 5,482 |
| Actuarial (gain)/loss (jubilee awards) | 40,352 | (21,189) |
| Amortisation of past service cost | 1 | (3) |
| | **94,765** | **36,138** |

## 22. LONG-TERM LIABILITIES

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Long-term loan - Gazprom Neft | 19,143,014 | 24,738,405 |
| Bank and other long-term loans | 69,901,198 | 68,605,682 |
| Lease liabilities | 1,703,441 | 828,104 |
| Other long-term borrowings | 57,175 | 42,102 |
| *Less* Current portion (note 23) | (6,761,897) | (6,395,091) |
| | **84,042,931** | **87,819,202** |

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

| | Long-term loans | Short-term loans | Finance lease | Total |
|---|---|---|---|---|
| **As at 1 January 2018** | **96,103,445** | **-** | **432,562** | **96,536,007** |
| Proceeds | 37,213,097 | - | - | 37,213,097 |
| Repayment | (39,952,347) | - | (131,241) | (40,083,588) |
| Non-cash transactions | - | - | 529,262 | 529,262 |
| Foreign exchange difference | (20,108) | - | (2,479) | (22,587) |
| **As at 31 December 2018** | **93,344,087** | **-** | **828,104** | **94,172,191** |
| **As at 1 January 2019** | **93,344,087** | **-** | **828,104** | **94,172,191** |
| Change in opening balance | - | - | 790,946 | 790,946 |
| Proceeds | 15,060,454 | - | - | 15,060,454 |
| Repayment | (18,760,583) | - | (367,140) | (19,127,723) |
| Non-cash transactions | (149,827) | - | 447,079 | 297,252 |
| Foreign exchange difference | (449,919) | - | 4,452 | (445,467) |
| **As at 31 December 2019** | **89,044,212** | **-** | **1,703,441** | **90,747,653** |

*a) Long-term loan – Gazprom Neft*

As at 31 December 2019 long-term loan – Gazprom Neft amounting to RSD 19,143,014 (2018: RSD 24,738,405), with current portion of RSD 5,469,432 (2018: RSD 5,497,423), 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 and other long-term loans*

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Domestic | 46,832,409 | 50,621,092 |
| Foreign | 23,068,789 | 17,984,590 |
| | 69,901,198 | 68,605,682 |
| Current portion of long-term loans | (915,460) | (825,139) |
| | **68,985,738** | **67,780,543** |

The maturity of non-current loans was as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Between 1 and 2 years | 10,845,263 | 1,479,321 |
| Between 2 and 5 years | 54,813,261 | 61,371,002 |
| Over 5 years | 3,327,214 | 4,930,220 |
| | **68,985,738** | **67,780,543** |

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| USD | 209,292 | 361,695 |
| EUR | 69,426,390 | 67,947,394 |
| RSD | 499 | 628 |
| JPY | 265,017 | 295,965 |
| | **69,901,198** | **68,605,682** |

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

The loan agreements contain financial covenants that require the Group's ratio of consolidated indebtedness to consolidated EBITDA. Management believes the Group is in compliance with these covenants as of 31 December 2019 and 31 December 2018 respectively.

*c) Lease liabilities*

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Non-current portion of lease liabilities | 1,326,436 | 755,575 |
| Current portion of lease liabilities | 377,005 | 72,529 |
| | **1,703,441** | **828,104** |

Amounts recognized in profit and loss:

| | 2019 |
|---|---|
| Interest expense (included in finance cost) (note 31) | 71,930 |
| Expense relating to short-term leases (note 28) | 899,787 |
| Expense relating to leases of low value assets that are not shown above as short-term leases (note 28) | 92,722 |
| Expense relating to variable lease payments not included in lease liabilities (note 28) | 1,939,368 |

## 23. SHORT-TERM FINANCE LIABILITIES

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Current portion of long-term loans (note 22) | 6,384,892 | 6,322,562 |
| Current portion of lease liabilities (note 22) | 377,005 | 72,529 |
| | **6,761,897** | **6,395,091** |

## 24. TRADE PAYABLES

As at 31 December 2019 trade payables in a amount of RSD 35,341,330 (31 December 2018: RSD 25,834,088) including payables to parents and subsidiaries-foreign amounting to RSD 10,498,354 (31 December 2018: RSD 10,243,742) fully relate to payables to the supplier Gazprom Neft, St Petersburg, mostly based on purchase of crude oil and trade payables – foreign amounting to RSD 13,786,047 (31 December 2018: RSD 5,168,398) mostly relate to payables for crude oil Trafigura PTE LTD in the amount of RSD 5,067,445 (31 December 2018: RSD 0) and Glencore Energy in the amount of RSD 4,280,335 (31 December 2018: RSD 0).

## 25. OTHER SHORT-TERM LIABILITIES

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Specific liabilities | 199,734 | 206,959 |
| Liabilities for unpaid wages and salaries, gross | 1,310,849 | 1,240,193 |
| Interest liabilities | 742,362 | 745,320 |
| Dividends payable | 3,780,692 | 3,772,308 |
| Other payables to employees | 709,716 | 778,190 |
| Decommissioning and site restoration costs | 1,170,430 | 1,369,683 |
| Environmental provision | 128,099 | 160,362 |
| Litigation and claims | 234,965 | 277,852 |
| Other current liabilities | 98,207 | 137,119 |
| | **8,375,054** | **8,687,986** |

## 26. LIABILITIES FOR OTHER TAXES

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Excise tax | 5,750,900 | 5,173,979 |
| Contribution for buffer stocks | 280,070 | 260,905 |
| Energy efficiency fee | 32,299 | - |
| Income tax | 70,083 | 635,119 |
| Other taxes payables | 1,451,113 | 1,617,950 |
| | **7,584,465** | **7,687,953** |

## 27. ACCRUED EXPENSES

Accrued expenses as at 31 December 2019 amounting to RSD 3,632,864 (31 December 2018: RSD 3,635,144) mainly relate to accrued employee bonuses of RSD 2,193,730 (31 December 2018: RSD 1,865,668) and contract liabilities arising from contracts with customers related to customer loyalty RSD 722,239 (31 December 2018: RSD 545,949).

Revenue in the amount of RSD 1,636,651 (31 December 2018: RSD 1,630,764) was recognized in the current reporting period related to the contract liabilities as at 1 January 2019, of which RSD 1,275,099 (31 December 2018: RSD 1,247,855) related to advances and RSD 361,552 (31 December 2018: RSD 382,909) to customer loyalty programme.

## 28. COST OF PRODUCTION SERVICES

| | Year ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Cost of production services | 2,306,469 | 2,284,196 |
| Transportation services | 2,974,675 | 3,313,801 |
| Maintenance | 4,243,216 | 4,021,266 |
| Rental costs (note 22) | 2,931,877 | 2,653,780 |
| Fairs | 10,091 | 7,410 |
| Advertising costs | 984,933 | 867,648 |
| Exploration expenses | 436,944 | 241,154 |
| Cost of other services | 1,717,715 | 1,537,410 |
| | **15,605,920** | **14,926,665** |

## 29. NON-PRODUCTION EXPENSES

| | Year ended 31 December 2019 | 2018 |
|---|---|---|
| Costs of non-production services | 9,340,298 | 8,881,322 |
| Representation costs | 147,947 | 123,767 |
| Insurance premium | 601,327 | 593,118 |
| Bank charges | 409,957 | 426,898 |
| Cost of taxes | 1,309,729 | 1,357,393 |
| Mineral extraction tax | 1,419,705 | 1,460,595 |
| Other non-production expenses | 1,974,142 | 1,965,277 |
| | **15,203,105** | **14,808,370** |

Costs of non-production services for the year ended 31 December 2019 amounting to RSD 9,340,298 (2018: RSD 8,881,322) mainly relate to costs of service organizations of RSD 6,965,810; consulting service costs of RSD 331,896; security cost of RSD 581,563 and project management costs of RSD 500,370.

## 30. FINANCE INCOME

| | Year ended 31 December 2019 | 2018 |
|---|---|---|
| Finance income - related parties | | |
| - foreign exchange differences | 1,115,120 | 1,225,794 |
| Interest income | 366,034 | 721,927 |
| Amortisation income – discount of receivables | - | 44,661 |
| Gains on restructuring of borrowings | 149,827 | - |
| Foreign exchange gains | 920,509 | 1,805,108 |
| Other finance income | 11,639 | 28,937 |
| | **2,563,129** | **3,826,427** |

## 31. FINANCE EXPENSE

| | Year ended 31 December 2019 | 2018 |
|---|---|---|
| Finance expenses – related parties | | |
| - foreign exchange differences | 1,521,899 | 1,240,252 |
| - other finance expense | 393,887 | 496,774 |
| Interest expenses | 1,411,282 | 1,718,621 |
| Decommissioning provision: unwinding of the present value discount | 147,500 | 89,194 |
| Provision of trade and other non-current receivables: discount | 19,261 | 261,732 |
| Foreign exchange losses | 534,113 | 1,867,268 |
| Share of loss of associates and joint ventures | 129,287 | 66,634 |
| Other finance expenses | 21,309 | 7,570 |
| | **4,178,538** | **5,748,045** |

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

| | Year ended 31 December 2019 | 2018 |
|---|---|---|
| Reversal of impairment of LT financial investments | 16,522 | 2,306 |
| Income from valuation: | | |
| - trade and specific receivables (note 6) | 90,688 | 849,711 |
| - other receivables (note 6) | 14,002 | 16,496 |
| | **121,212** | **868,513** |

## 33. OTHER INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2019** | **2018** |
| Gains on disposal - PPE | 39,217 | 198,319 |
| Gains on disposal - materials | 55,746 | 76,539 |
| Surpluses from stock count | 324,814 | 381,539 |
| Payables written off | 82,894 | 188,454 |
| Release of long-term provisions (note 21) | 2,646 | 29,004 |
| *Gain on bargain purchase* | - | 67,793 |
| *Release of impairment:* | | |
| - Investment property (note 9) | 454,374 | 20,677 |
| - Inventory (note 13) | 128,739 | 31,976 |
| - PPE & Other property | 50 | 12,448 |
| Penalty interest | 73,871 | 117,763 |
| Other income | 103,559 | 90,804 |
| | **1,265,910** | **1,215,316** |

## 34. OTHER EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2019** | **2018** |
| Loss on disposal - PPE | 316,783 | 256,342 |
| Loss on disposal - material | 52,954 | 2,703 |
| Shortages from stock count | 660,074 | 801,958 |
| Write-off receivables | 7,460 | 16,603 |
| Write-off inventories | 62,523 | 126,628 |
| *Impairment:* | | |
| - Intangible assets (note 8) | 180,004 | 201,854 |
| - PPE (note 9) | 252,102 | 86,769 |
| - Inventory (note 13) | 8,579 | 10,274 |
| - Other property | 561 | 9,003 |
| - Investment property (note 9) | 8,290 | 2,728 |
| Other expenses | 319,355 | 289,506 |
| | **1,868,685** | **1,804,368** |

## 35. INCOME TAXES

Components of income tax expense:

| | Year ended 31 December | |
|---|---|---|
| | **2019** | **2018** |
| Income tax for the year | 3,100,414 | 4,066,760 |
| Deferred income tax for the period (note 12) | | |
| Origination and reversal of temporary differences | 1,432,194 | 1,652,164 |
| | **4,532,608** | **5,718,924** |

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

| | Year ended 31 December | |
|---|---|---|
| | **2019** | **2018** |
| **Profit before tax** | **21,129,010** | **30,853,226** |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 3,433,314 | 4,929,684 |
| *Tax effect on:* | | |
| Revenues exempt from taxation | (640) | (59,111) |
| Expenses not deductible for tax purposes | | |
| - Tax paid in Angola | 74,711 | 171,416 |
| - Other expenses not deductable | 1,416,851 | 768,193 |
| Tax losses for which no deferred income tax asset was recognised (utilized recognised tax credit), net | (79,191) | (37,320) |
| Other tax effects for reconciliation between accounting profit and tax expense | (312,437) | (53,938) |
| | **4,532,608** | **5,718,924** |
| Effective income tax rate | 21.45% | 18.54% |

## 36. COMMITMENTS AND CONTINGENT LIABILITIES

*Environmental protection*

Based on an internal assessment of compliance with the Republic of Serbia environmental legislation as at the reporting date, the Group's management recognised an environmental provision in the amount of RSD 509,129 (31 December 2018: RSD 657,686).

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 2019.

*Capital commitments*

As of 31 December 2019 the Group has entered into contracts to purchase property, plant and equipment for RSD 2,809,071 (31 December 2018: RSD 15,944,407) and drilling and exploration works estimated to 56.89 USD million (31 December 2018: 69.01 USD million).

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

## 37. GROUP ENTITIES

The consolidated financial statements of below listed subsidiaries are consolidated as at 31 December 2019 and 31 December 2018:

| Subsidiary | Country of incorporation | Nature of business | Share % 31-Dec 2019 | Share % 31-Dec 2018 |
|---|---|---|---|---|
| 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 |
| Pannon Naftagas Kft, Budapest | Hungary | O&G activity | 100 | 100 |
| NIS Oversiz, St Petersburg | Russia | Other | 100 | 100 |
| Naftagas-Naftni servisi d.o.o. Novi Sad | Serbia | O&G activity | 100 | 100 |
| NTC NIS-Naftagas d.o.o. Novi Sad | Serbia | O&G activity | 100 | 100 |
| Naftagas-Tehnicki servisi d.o.o. Zrenjanin | Serbia | O&G activity | 100 | 100 |
| Naftagas-Transport d.o.o. Novi Sad | Serbia | Transport | 100 | 100 |
| NIS Petrol a.d., Belgrade | Serbia | Other | 100 | 100 |
| G Petrol d.o.o. Sarajevo | Bosnia and Herzegovina | Trade | 100 | 100 |
| Jadran - Naftagas d.o.o. Banja Luka | Bosnia and Herzegovina | O&G activity | 66 | 66 |
| Svetlost, Bujanovac | 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 February 2020 company Ozone a.d. change name to NIS Petrol a.d. Belgrade.

## 38. RELATED PARTIES TRANSACTIONS

The majority owner of the Company is Gazprom Neft, St Petersburg, Russian Federation, with 56.15% shares of the Company. The total of 29.87% shares of the Company are owned by the Republic of Serbia, while 13.98% are owned by non-controlling shareholders and are quoted on the Belgrade Stock Exchange. Gazprom, Russian Federation is the ultimate owner of the Group.

During 2019 and 2018, the Group entered into business transactions with its related parties. The most significant transactions with related parties in the mentioned periods related to supply/delivery of crude oil, petroleum products and energy.

As of 31 December 2019 and 31 December 2018 the outstanding balances with related parties other than state and state own companies were as follows:

| | Associates and joint venture | Parent | Parent's subsidiaries and associates |
|---|---|---|---|
| **As at 31 December 2019** | | | |
| Investments in associates and joint ventures | 1,851,101 | - | - |
| Trade receivables | 1,184,469 | - | 100,451 |
| Receivables from specific operations | 415,683 | - | - |
| Adances paid | - | - | 34,371 |
| Long-term liabilities | - | (13,673,582) | (128) |
| Short-term financial liabilities | - | (5,469,432) | (159) |
| Advances received | (3,782) | - | (2) |
| Trade payables | (1,208,375) | (10,500,427) | (543,563) |
| | **2,239,096** | **(29,643,441)** | **(409,030)** |
| **As at 31 December 2018** | | | |
| Investments in associates and joint ventures | 1,980,388 | - | - |
| Trade receivables | 1,227,518 | 99 | 645,804 |
| Receivables from specific operations | 328,358 | - | - |
| Other receivables | 400 | - | - |
| Adances paid | - | - | 337,220 |
| Long-term liabilities | - | (19,240,982) | - |
| Short-term financial liabilities | - | (5,497,423) | - |
| Advances received | (2,051) | - | (90) |
| Trade payables | (1,251,648) | (10,243,742) | (684,857) |
| | **2,282,965** | **(34,982,048)** | **289,077** |

For the year ended 31 December 2019 and 2018 the following transaction occurred with related parties:

| | Associates and Joint venture | Parent | Parent's subsidiaries and associates |
|---|---|---|---|
| **Year ended 31 December 2019** | | | |
| Sales revenue | 19,073,529 | - | 592,963 |
| Other operating income | 8,855 | - | - |
| Cost of goods sold | - | - | (241,897) |
| Cost of material | - | (51,345,851) | (333,140) |
| Cost of production services | (198,691) | - | (1,708) |
| Non-material expense | - | (2,072) | (95,959) |
| Finance expense | - | (393,887) | (3) |
| Other income | - | 40,230 | - |
| Other expenses | - | (111,235) | (593) |
| | **18,883,693** | **(51,812,815)** | **(80,337)** |
| **Year ended 31 December 2018** | | | |
| Sales revenue | 26,699,964 | 961 | 690,509 |
| Other operating income | 6,565 | - | - |
| Cost of goods sold | - | - | (333,240) |
| Cost of material | - | (68,928,066) | - |
| Cost of production services | (213,106) | - | - |
| Non-material expense | - | (3,000) | (78,590) |
| Finance expense | - | (496,774) | - |
| Other income | - | 59,847 | - |
| Other expenses | - | (198,412) | (1,291) |
| | **26,493,423** | **(69,565,444)** | **277,388** |

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

| | Associates and joint venture | Other |
|---|---|---|
| **As at 31 December 2019** | | |
| Trade and other receivables (gross) | | |
| • *HIP Petrohemija* | 1,183,648 | - |
| • *Srbijagas* | - | 418,784 |
| • *AIR Serbia* | - | 371,395 |
| Trade and other payables | | |
| • *HIP Petrohemija* | (1,208,375) | - |
| • *Srbijagas* | - | (361,934) |
| Other current liabilities | | |
| • *HIP Petrohemija* | (3,064) | - |
| | **(27,791)** | **428,245** |
| **As at 31 December 2018** | | |
| Trade and other receivables (gross) | | |
| • *HIP Petrohemija* | 1,222,764 | - |
| • *Srbijagas* | - | 17,547 |
| Trade and other payables | | |
| • *HIP Petrohemija* | (1,250,402) | - |
| • *Srbijagas* | - | (126,092) |
| Other current liabilities | | |
| • *HIP Petrohemija* | (1,852) | - |
| | **(29,490)** | **(108,545)** |

| | Associates and joint venture | Other |
|---|---|---|
| **As at 31 December 2019** | | |
| *Operating income* | | |
| • *HIP Petrohemija* | 19,070,224 | - |
| • *Srbijagas* | - | 1,419,220 |
| • *AIR Serbia* | - | 5,124,131 |
| *Operating expenses* | | |
| • *HIP Petrohemija* | (198,691) | - |
| • *Srbijagas* | - | (912,530) |
| | **18,871,533** | **5,630,821** |
| **As at 31 December 2018** | | |
| *Operating income* | | |
| • *HIP Petrohemija* | 26,679,415 | - |
| • *Srbijagas* | - | 755,157 |
| *Operating expenses* | | |
| • *HIP Petrohemija* | (213,106) | - |
| • *Srbijagas* | - | (963,917) |
| | **26,466,309** | **(208,760)** |

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 2019 and 2018 the Group recognized RSD 943,715 and RSD 1,018,152; 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.

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