



**SEEPEx**

*Annual Report 2016*

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## 1. Foundation and activity

The Energy Law has defined the organized market of electricity as an institutionally regulated relationship between the supply and demand of participants on the market of electricity, with pre-determined standardized products and physical delivery, within the time frame of one day before and within the day, recognizing the management of the organized market of electricity as one of its energy-related activities. Also, Article 179 of the Law prescribes the obligation of PE Elektromreža Srbije, as the operator of the transmission system, to establish an operator of the organized market of electricity.

The Government of the Republic of Serbia, on a session held on February 28, 2014, has adopted the Decision no. 312-1864/2014, which officially accepts the Report on measures introduced in order to establish an organized market of electricity in the Republic of Serbia, and recommends PE EMS to start the activities towards the establishment of the organized electricity market and the Market operator, with 25% share of EPEX SPOT in the share capital of the newly-established company.

The implementation of this business model in Serbia required, among other things, harmonization of other primary and secondary legislation in the field of energy and financial legislation. In that context, Serbian Government has passed the Law on amendments and supplements to the Law on VAT ('Official Gazette of RS', no. 83/2015), which has brought substantial innovations regarding VAT-related obligations in Serbia that directly affect the determination of tax debtor, registering a foreign entity for VAT, VAT exemption for import, etc. Also, the Ministry of Mining and Energy adopted a

Regulation on the license for performing energy activities and certification ('Official Gazette of RS', no. 87/2015), which regulates the conditions of issuing and revoking licenses, enabling foreign entities to be registered and obtain a license for conducting energy activity of wholesale of electricity in the Republic of Serbia. Since the function of clearing and the so-called "central contracting party" is practically non-existent in Serbia at the satisfactory level, the Energy Law defines the possibility of clearing and financial settlement in the organised market being performed abroad, i.e. in a European country. As an important segment of the entire concept, the Energy Law (Article 181, Par. 3), defines that in such a case 'all the payments, collections and transfers on the basis of financial settlement between organised power market participants will be carried out in EUR'. This enabled the implementation of the defined market model and participation of foreign companies on the power market in the Republic of Serbia, which was one of the preconditions for SEEPEX to start operating, i.e. for the start of functioning of the day-ahead market.

Pursuant to the above, after months of preparatory activities and obtaining the required approval of all relevant state authorities, SEEPEX was finally registered on July 14, 2015 as a joint stock company where PE EMS owns 75% of shares, while EPEX SPOT owns 25%.

After the completed membership process for the member's participation on SEEPEX, the first transactions on SEEPEX started on February 17, 2016, which will provide the income for further functioning of the company.

## 2. General part

### 2.1. Identity card of the company

The company is registered in the Register of Companies in the Business Registers Agency of the Republic of Serbia as **SEEPEX Akcionarsko društvo Beograd**. Its registration number in the single taxpayers register is BD 61538/2015 of July 14, 2015 and BD 72365/2016 of September 12 (The second portion of payment).

Name of the joint stock company	SEEPEX akcionarsko društvo Beograd
Short name	SEEPEX a.d. Beograd
Translation of the name of a foreign language	SEEPEX societe anonyme Belgrade – French language SEEPEX joint stock company Belgrade – English language
Translation abbreviated business names in a foreign language	SEEPEX S.A. Belgrade – French language SEEPEX JSC Belgrade – English language
The predominant business activity of the Company	35.14 Trade of electricity
The duration	Unlimited
Legal form	Joint stock company, non-public joint stock company
For the commitments of legal transactions towards third parties	Shall be liable with all its assets
Identification number Agency for Business Registers	21121070
Tax Identification Number	109064704
Established	14.07.2015 year
Company headquarters	Beograd, Vojvode Stepe 412
Telephone-Switchboard	+381 11 3972-941
Basic capital of the Company	Consists of pecuniary contributions: Subscribed 240.000.000 RSD Paid 120.000.000 RSD (I Payment 12.07.2015 (60.000.000 RSD), II Payment 31.08.2016 (60.000.000 RSD))
Number of shares	240.000
Shareholders	JP Elektromreža Srbije Beograd 75% EPEX SPOT SE Paris 25%
The legal (statutory representatives)	Individual: Managing Director Miloš Mladenović, MSc Supervisory board: President and two members
Register founding agreements	Foundation Agreement of the company on July 8, 2015. year Statute on July 8, 2015. year

Table 1 – Identity card of the company

## 2.2. Business activity

The company performs the **activity of the Organized market operation**, which is an institutionally regulated relationship between the supply and demand of the participants on the organized electricity market, with pre-determined standardized products of electricity and delivery within the time frame “day ahead” and “intraday” (“Market”).

The company can perform all business activities for which the conditions laid down by the Law and other regulations were met, pursuant to the Decision of the Government of Serbia 05 no. 023-6656/2015-1 of June 18, 2015.

For the purpose of carrying on business, the Company can establish branches or representative offices, establish other companies or have a share in their ownership, both in Serbia and abroad.

The company can perform activities related to foreign trade or which are related to providing services in foreign trade, provided that the legal regulations for these activities are met.

February 17<sup>th</sup>, 2016 marked the start of operational work of SEEPEX, when the first transactions were made. Transactions will provide the income for further functioning of the company.

## 2.3. Management of the Company and Organizational Structure

Management of the Company is organized on the principle of two-tier management.

The relevant bodies of the company are:

- The General Assembly – in charge of making decision in accordance with the Law on Companies,
- Managing Director – the legal representative of the company, Miloš Mladenović, MSc Electrical Engineering
- Supervisory board – in charge of making the key business decisions related to activities of the company.



Picture 1-SEEPEX Organizational Structure

### 3. Production, consumption and installed capacity of electricity in Serbia

#### 3.1. Installed production capacity and production by type

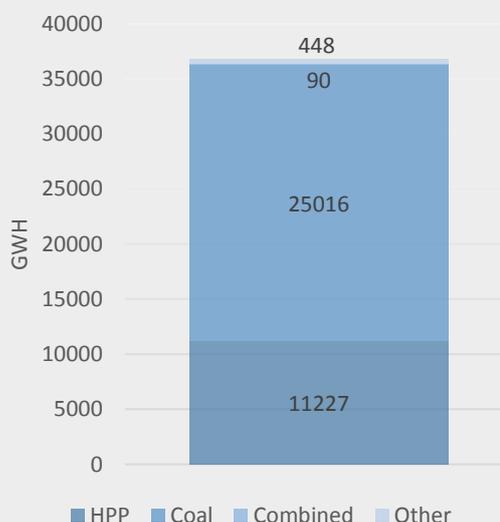
Recorded gross consumption in Serbia in 2016. was 36.7 TWh, from which 28.8 TWh goes to consumption of end customers (the rest includes power losses, own consumption of power plants and export). That is 1% increase compared to year 2015.

As in year 2015., coal and hydro power plants were the main sources of power production in Serbia. Coal plants was on the same production level as in 2015. while hydro had an increase of 0.7 TWh. Combined thermal power plants have produced according to the needs of consumption during winter months and doubled their electricity production compared to 2015.

Installed capacity of small hydro power plants is relatively small, so it doesn't have much influence on overall production.

Production type	2015	2016
HPP	10529	11227
Coal	25017	25016
Combined	45	90
Other	321	448

Table 2 - Production by type in 2016 [GWh]



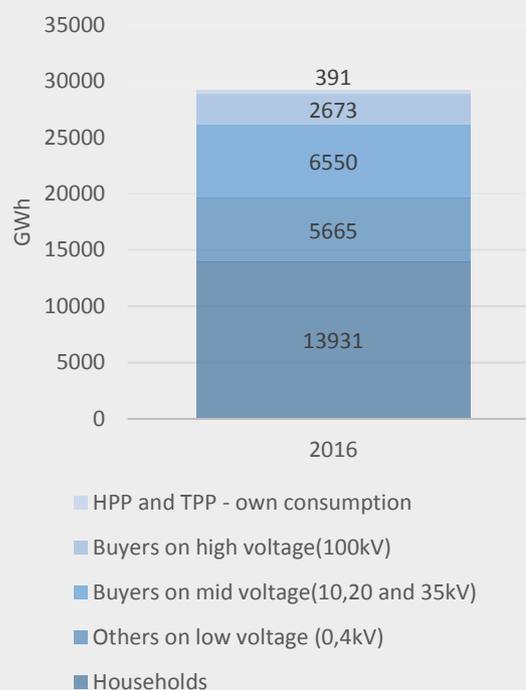
Source: AERS

### 3.2. Consumption by type

Consumption of end customers in 2016 increased by 1% compared to 2015. However, consumption of households decreased by 0.9%, which was due to lower consumption during first nine months of 2016.

Category	2016
Households	13931
Others on low voltage (0,4kV)	5665
Buyers on mid voltage(10,20 and 35kV)	6550
Buyers on high voltage(100kV)	2673
Delivered to HPP and TPP for own consumption	391
<b>Total</b>	<b>29210</b>

Table 3 – Consumption by type in 2016 [GWh]



Source: AERS

### 3.3. Share of SEEPEX trading on wholesale market

Wholesale market in 2016. was based mainly on trade between suppliers, having in mind that independent producers in Serbia don't exist. Supplier activity mostly includes cross border trades (transit through Serbia). During 2016. export on wholesale market for the needs of end customers in Serbia was bigger than the import, due to good hydrology and thermal power plant production. Percentage of wholesale trading on SEEPEX can be seen in the following table.

	Total consumption in Serbia [GWh]	Trade on SEEPEX [MWh]	SEEPEX share in total consumption [%]
February	1197,6	17738,8	1,48
March	3072,3	39772,5	1,29
April	2506,5	34035,5	1,36
May	2479,4	52259,3	2,11
June	2360,7	31161,1	1,32
July	2462,7	31736,1	1,29
August	2388,4	82002,1	3,43
September	2364,3	93625,4	3,96
October	2902,3	42107,4	1,45
November	3083,9	53540,1	1,74
December	3628,0	55291,8	1,52

Table 4 -SEEPEX share on wholesale market

## 4. Membership

As of the end of December 2016, SEEPEX has 12 participants.

- 3 producers – electricity suppliers from Serbia, Croatia and Hungary
- 1 electricity transmission operator from Serbia
- 8 electricity wholesalers from Slovenia (3), Switzerland, Czech Republic, Romania (2) and Germany.

Month	Feb	March	May	Aug	Sept	Dec	Total 2016
<b>Number of participants</b>	6	7	9	10	11	12	12

Table 5 - Membership in figures

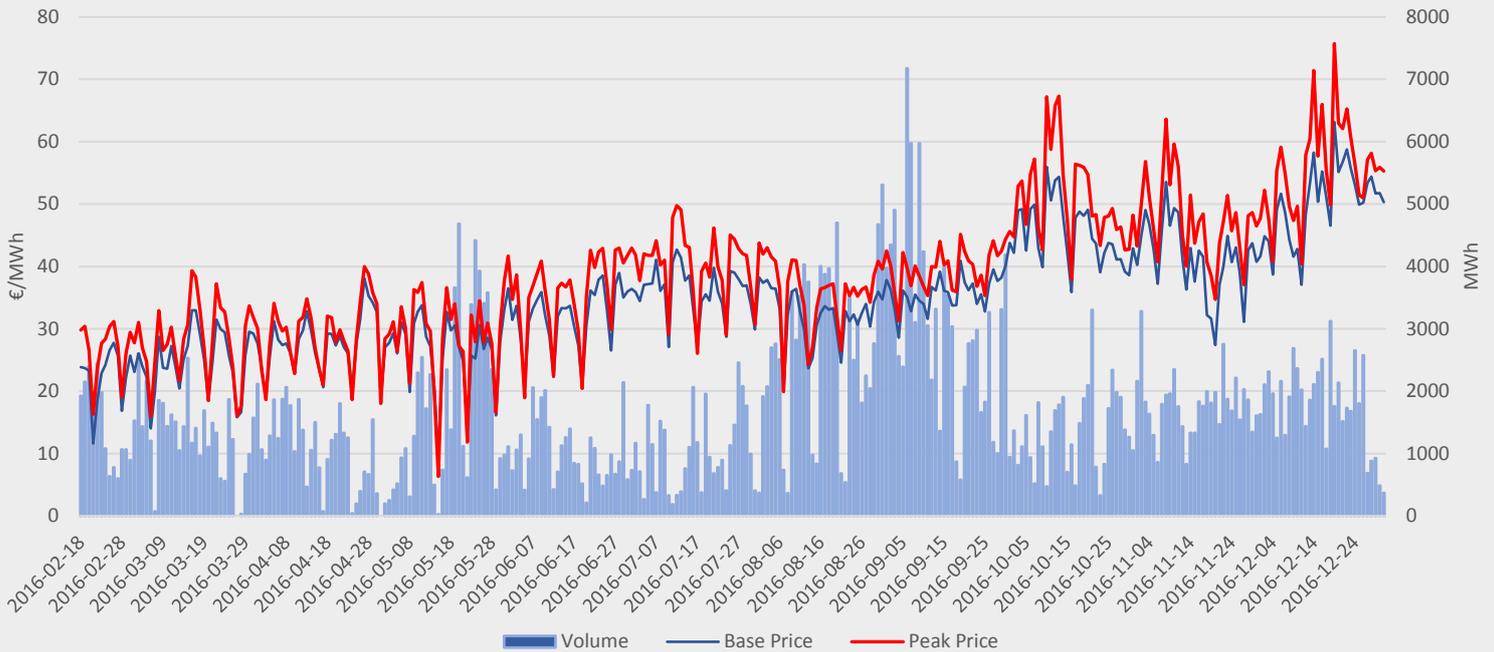
## 5. Price and volume trends on SEEPEX market

Average base price was 34.75 €/MWh and average volume was 1676.95 MWh during 2016. Maximum base price was 63.14 €/MWh, while maximum peak price reached 75,72 €/MWh. Total traded volume from start of operation until the end of year was 533.270,1 MWh. Some key figures can be seen in the following table:

<b>Base price MAX (day)</b>	63,14 €/MWh
<b>Peak price MAX (day)</b>	75,72 €/MWh
<b>Average price (month)</b>	34,75 €/MWh
<b>Price MAX (hourly)</b>	93,63 €/MWh
<b>Base volume MAX (day)</b>	7177,0 MWh
<b>Base volume SUM (year)</b>	533270,1 MWh
<b>Average monthly volume (year)</b>	1676,95 MWh
<b>Volume MAX (hourly)</b>	441,7 MWh

Table 6 - SEEPEX key figures in 2016

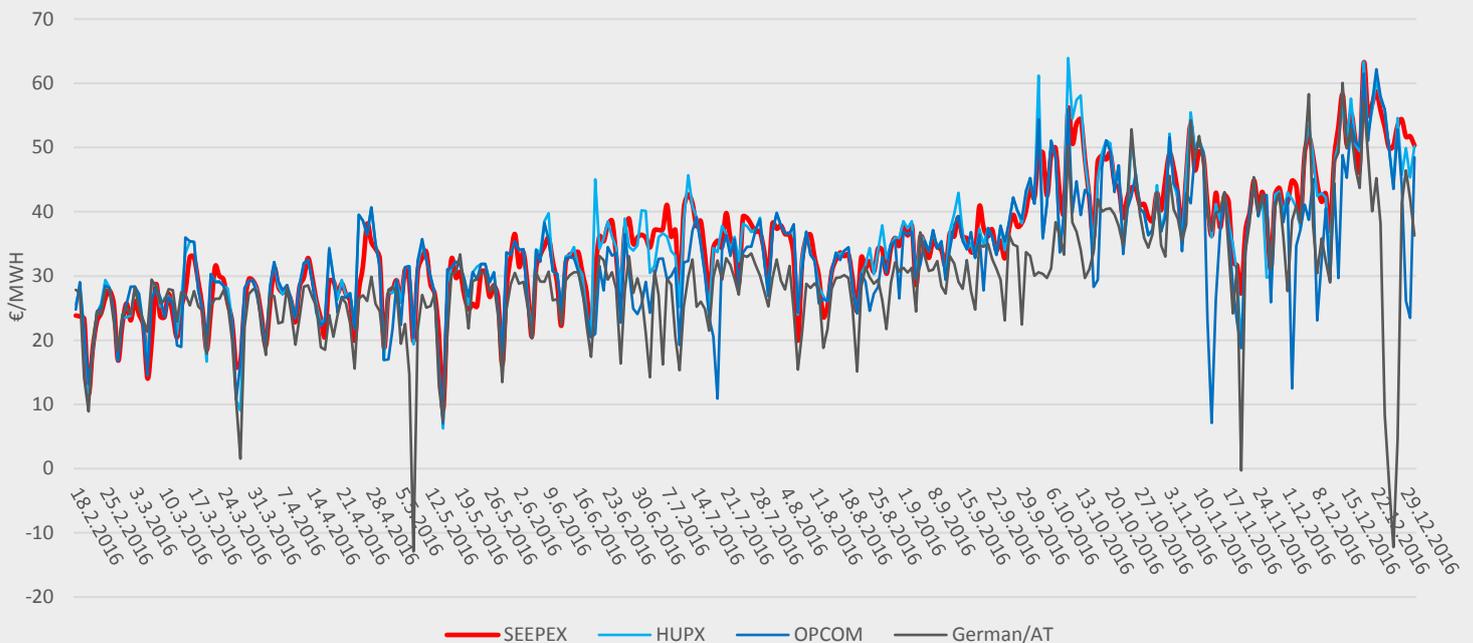
Base and peak price showed steady increase during winter months.



Picture 2 - SEEPEX prices and volumes

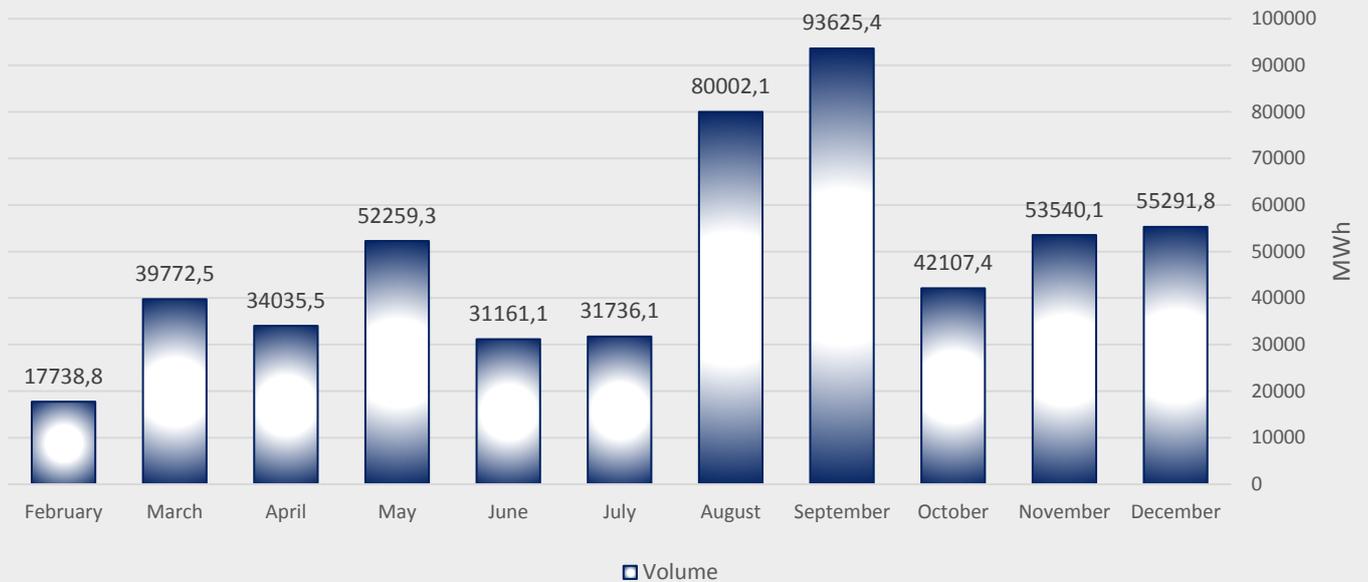
Comparison of SEEPEX with relevant power exchanges (HUPX, OPCOM, German/Austrian PX) showed that the price on SEEPEX closely followed the price on these exchanges (the only major differences are with German/Austrian PX which in comparison to others usually have slightly lower prices).

Source: SEEPEX, EPEXSPOT, HUPX, OPCOM



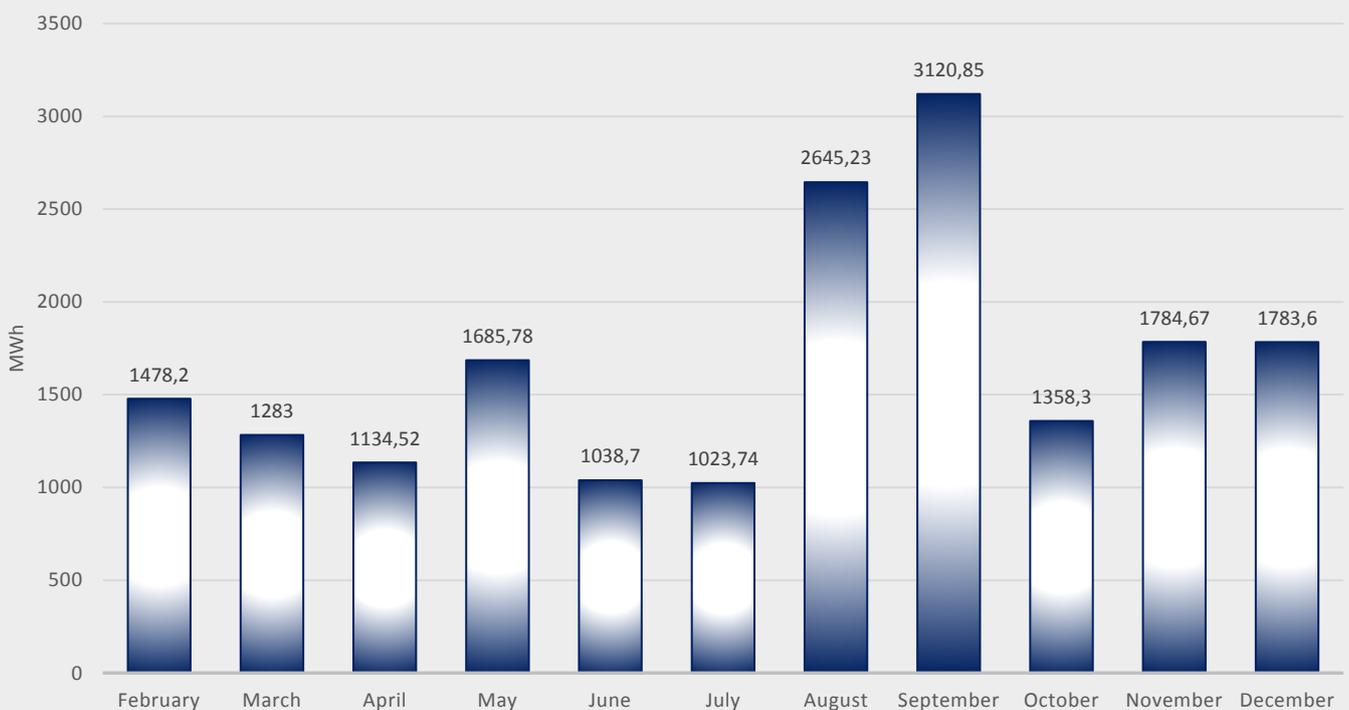
Picture 3 - SEEPEX price comparison with neighboring power exchanges

Monthly volumes increased slowly, heavily impacted by number of market participants as well as period of the year. Significant increase in traded volumes was recorded at the end of summer (August, September), which then dropped by the end of year.



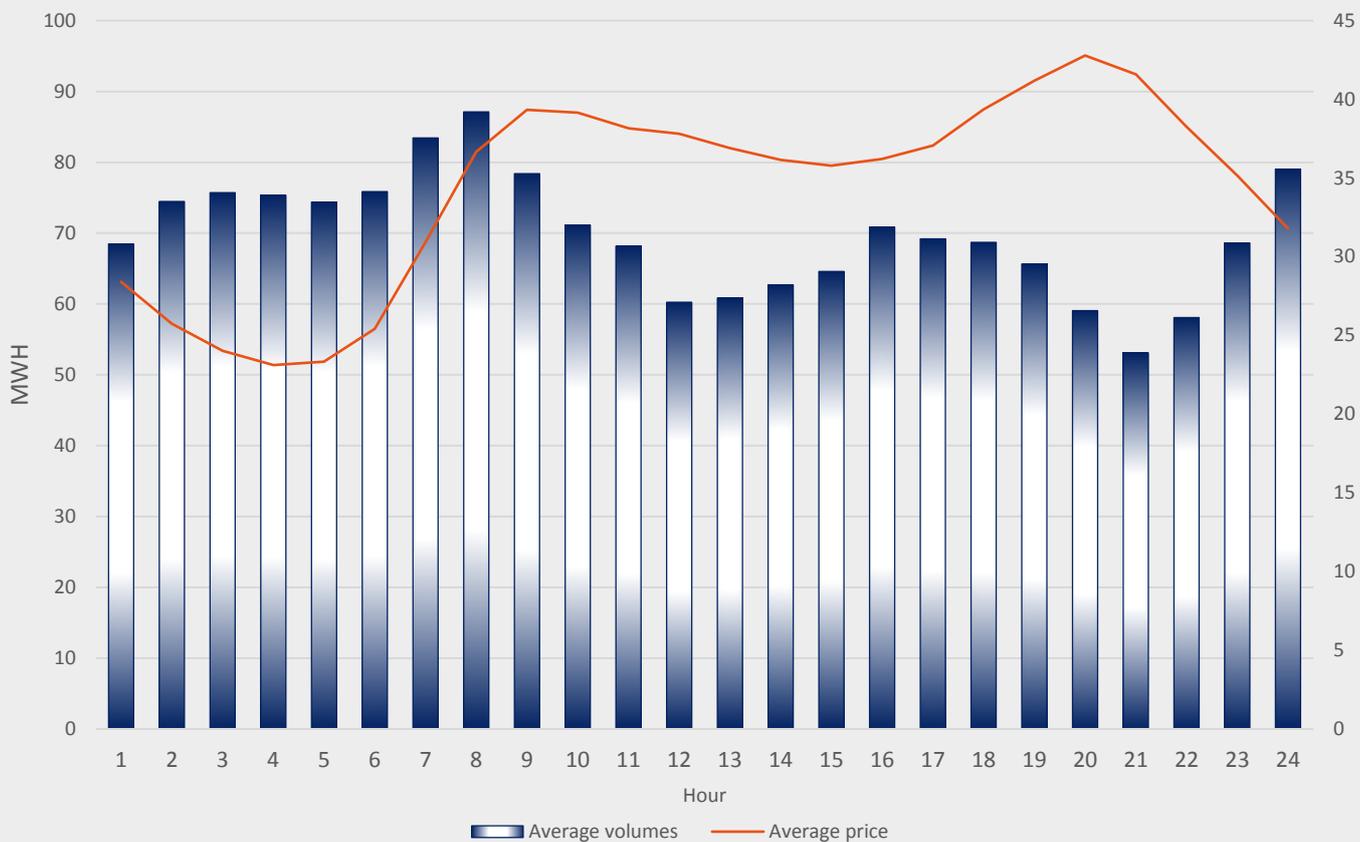
Picture 4- Volume trend on SEEPEx in 2016

Looked through the average daily volumes by month, this graph can be shown below:



Picture 5 - Average daily volumes by month in 2016

Also interesting is average volume and price, by hour:



Picture 6 - Average volume and price by hour in 2016

## 6. Independent auditors report



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### TRANSLATION

#### **Independent Auditors' Report**

TO THE SHAREHOLDERS

SEEPEX A.D. BEOGRAD

We have audited the accompanying financial statements of Seepex a.d., Beograd ("the Company"), which comprise the balance sheet as at 31 December 2016, the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and true and fair view of these financial statements in accordance with accounting regulations effective in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing and applicable audit standards in the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and true and fair view of financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## TRANSLATION

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the accounting regulations effective in the Republic of Serbia.

### *Other Matter*

We draw attention to the fact that we have not audited the accompanying balance sheet of the Company as at 31 December 2015, the income statement, statement of other comprehensive income, statements of changes in equity and cash flows for the year then ended, or any of the related notes and accordingly, we do not express an opinion on them.

Belgrade, 7 April 2017

KPMG d.o.o. Beograd

(L.S.)

Goran Skrobonja  
Certified Auditor

*This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.*

Belgrade, 7 April 2017



KPMG d.o.o. Beograd

Goran Skrobonja  
Certified Auditor

## 7. Conclusion

Year 2016. has been a successful year for SEEPEX. After the launch of day ahead market in February it continued to widen its' presence on the wholesale market. New members continued to join, and a steady increase in volumes followed. "A breath of fresh air" as some would say, it brought new options for trading in this part of Balkans, according to some of the finest EU practice in electricity trade. And what is most important, it plans to continue developing in order to fulfil the needs of the market and its participants.