

# Annual Report 2019



# Foreword

Dear partners, dear friends,

First of all, let me emphasize that 2019 was a challenging and a very exciting year. In spite of a difficult market and regulatory environment, especially related to the current uncertainty of the envisaged transposition of the CACM Guidelines in non-EU (“WB6”) countries and promising, but blurred perspective of the planned market coupling projects with the neighboring EU day-ahead markets, we were fully able to deal with the corresponding challenges and to enhance our firm position in the SEE power exchange regional landscape, providing a relevant and reliable role model for all other neighboring non-EU countries.

In 2019, SEEPEX a.d. Beograd (“SEEPEX”) managed to achieve record trading volumes, as well as record-breaking financial performance. The trading volume in the day-ahead market segment in 2019 achieved 2.53 TWh, with the maximum monthly volume of 260.9 GWh recorded in November 2019 and maximum daily volume of 13.5 GWh recorded on March 11, 2019. It should be emphasized that these results and the corresponding financial sustainability are achieved in an isolated mode, i.e. by operating in the Serbian day-ahead market without market coupling in place, and without any regulatory supportive measures introduced, which is an unprecedented situation and a unique positive example in the SEE region. At the end of 2019, there were 19 registered and active members providing robust, resilient and fully deconcentrated day-ahead market. During 2019, some new services and R&D activities (through SEEPEX’s participation in the Europe-wide Horizon 2020 program) are



included in the SEEPEX business portfolio and, as a result of all these efforts, 2019 was also the best financial year in the Company’s 4-year history. Implementing the best European practice, both in the trading and the clearing & settlement business segment, SEEPEX continued to report record-breaking results for the fourth time in a row, asserting itself as the one of the most important players in the power spot playing field in the SEE region and a unique case of success among all neighboring WB6 countries.

These excellent results were achieved through close cooperation with our shareholders, EMS and EPEX SPOT, and other main strategic partners, European Commodity Clearing AG (ECC) and EEX AG. In 2019, after carefully listening and promptly responding to the market community needs, we extended the offer of block contracts in the short-term product segment and, in close cooperation with EEX AG, introduced financial derivative products (Serbian futures) as a first and unique financial product, not just in Serbia but also in the whole WB6 region.

In summary, we can state that in 2019 we have again come closer to our long-term goal of developing SEEPEX into a strong and liquid regional power spot commodity exchange. In 2020, our focus will again be on further growth



in core markets, increasing the trading volume and number of members, as well as on enlarging the geographic scope of our activities through strategic cooperation with neighboring CEE power exchanges, while concurrently accessing and improving new business fields – especially related to new products and the already launched financial derivatives. We will continue to carefully control our costs and investment levels, but at the same time invest in strong commercial opportunities for further growth. Also, having in mind the ongoing paradigm shift in the overall energy sector and the upcoming “Energy transition” aimed at decentralization, digitalization and decarbonization of the energy world, SEEPEX is fully ready to provide the society with a comprehensive know-how and additional innovative products needed to support this transition and increase the accompanying social welfare.

In addition, on behalf of the Management I would like to thank our committed employees for their support and tireless dedication, which enabled us to successfully conclude the 2019 business and financial year. I would also like to thank our members and strategic partners. Your trust and commitment motivate us to continue in the same spirit and to move forward together, looking even further beyond the horizon for new challenges and successes.

*“Energy will belong to everyone!”*

**Miloš Mladenović**  
*Managing Director*

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# Foundation and Activity



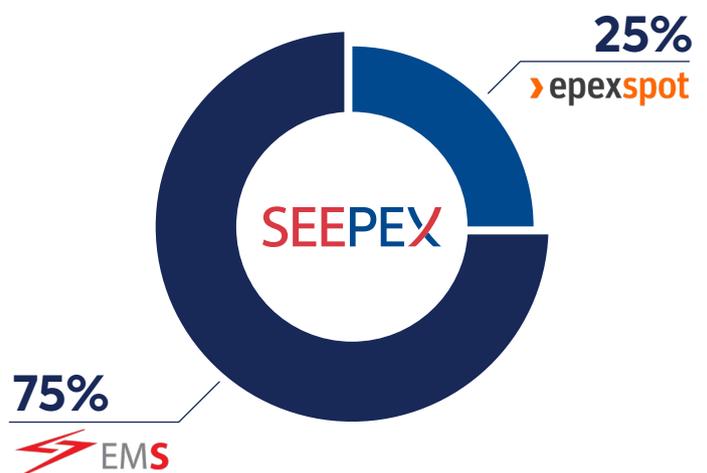
The Energy Law has defined the organized electricity market as an institutionally regulated relationship between the supply and the demand of participants on the electricity market, with predetermined standardized products and physical delivery, within the time frame “day ahead” and “intraday”, recognizing the management of the organized electricity market as one of its energy related activities.

Also, Article 179 of the Law prescribes the obligation of J.S.C. Elektromreža Srbije, as the operator of the transmission system, to establish an operator of the organized electricity market. The Government of the Republic of Serbia, at a session held on February 28, 2014, has adopted the Decision no. 3121864/2014, which officially accepts the Report on measures introduced in order to establish an organized electricity market in the Republic of Serbia, and recommends J.S.C. EMS to start the activities towards the establishment of the organized electricity market and the Market operator, with a 25% stake in the share capital of the newly established company owned by EPEX SPOT.

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, the Serbian Government has adopted 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 to 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 nonexistent in Serbia at a satisfactory level, the Energy Law defines the possibility of clearing and financial settlement in an organized 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 payments, collections and transfers on the basis of financial settlement between organized 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 dayahead 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 J.S.C. EMS owns 75% of shares, while EPEX SPOT owns 25%. After the completed membership process for the members’ participation on SEEPEX, the first transactions on SEEPEX started on February 17, 2016.



# Identity card of the Company



The company is registered in the Register of Companies at 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).

<b>Name of the joint stock company</b>	<b>SEEPEX akcionarsko društvo Beograd</b>
Translation of the name of a foreign language	SEEPEX societe anonyme Belgrade – French language
The predominant business activity of the Company	Trade of electricity
The duration	Unlimited
Legal form	Joint stock company, nonpublic joint stock company
For the commitments of legal transactions towards third parties	Shall be liable with all its assets
Identification no, Agency for Business Registers	21121070
Tax Identification Number	109064704
Established	14/07/2015
Company headquarters	Belgrade, 412 Vojvode Stepe
Telephone - Switchboard	+381 11 3972941
Basic capital of the Company	Consists of pecuniary contributions: Subscribed RSD 240,000,000 Paid RSD 240,000,000 (1 <sup>st</sup> Payment 12/07/2015 (RSD 60,000,000), 2 <sup>nd</sup> Payment 31/08/2016 (RSD 60,000,000), 3 <sup>rd</sup> Payment 01/09/2017 (RSD 60,000,000) 4 <sup>th</sup> Payment 24/09/2018 (RSD 60,000,000))
Number of shares	240,000
Shareholders	J.S.C. 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.

The company performs the activity of Organized market operation, which is an institutionally regulated relationship between the supply and demand of the participants on the organized electricity market, with predetermined 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 6656/20151 of June 18, 2015.

# Role in the Wholesale Electricity Market



The core business of SEEPEX consists of operating an organized electricity market (power exchange) for Serbia.

It provides a market place where exchange members send their orders to buy or sell electricity inside the Serbian delivery area. The role of SEEPEX consists of matching these orders in a transparent manner, according to the public SEEPEX Market rules. As a result of the order matching, SEEPEX produces trades which are legally binding agreements to purchase or sell a determined quantity of electricity for the cleared price. This price is never higher than the purchase price fixed by the buyer or lower than the sale price offered by the seller.

obligations of the buyer to pay for the electricity to the seller, and of the seller to deliver the electricity to the buyer. It nominates the exchange of energy to the Transmission System Operator (EMS) and calls for the money pertaining to the trade from the buyer and hands it over to the seller. This process guarantees:

- fair and orderly execution of the orders of the exchange members,
- secure delivery and payment of the trades,
- anonymous transactions.



The trades are transferred to the central counterparty, the European Commodity Clearing (ECC), which becomes the counterparty to the buyer and to the seller who do not know each other. ECC takes on the

As an important information about this process, SEEPEX publishes the prices resulting from the trades. Since the trades result from an open and transparent competition between the orders of the exchange members, they reflect the best information available at the time on the market conditions inside Serbia and SEE region. They are the most reliable prices available for short-term electricity. These prices represent the reference prices for the Serbian wholesale market.

# 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.

SEEPEX organization also has the following exchange bodies:

- the Organized Market Committee
- the Market Surveillance Office.

The Organized Market Committee and the market Surveillance Office are two independent bodies that have been put in place in order to ensure the best governance rules.

The Organized Market Committee is a body elected from the Exchange Members which decides on the Rules and on general decisions

related to the Exchange. The composition of the Organized Market Committee reflects the diversity of economic and corporate profiles among the different categories of Exchange Members: power trading companies, suppliers, transmission system operator, producers and commercial consumers.

The current members of the Organized Market Committee are:

- Mr. Ivan Kalafatić, EFT trading
- Mr. Srđan Resavac, GENI
- Mrs. Anita Stanković, INTERENERGO
- Mr. David Žarković, ELEKTROPRIVREDA SRBIJE
- Mr. Viktor Varga, MVM
- Mrs. Jadranka Janjanin, ELEKTROMREŽA SRBIJE.

The Market Surveillance Office monitors, as an independent body, the SEEPEX market and its Exchange Members on a daily basis. It continuously monitors the SEEPEX markets and checks that members comply with SEEPEX Market Rules. Market Surveillance acts as a central point of contact that cooperates with the national regulatory authority.

SEEPEX ORGANIZATIONAL STRUCTURE



# Trading Procedures



Trading in electricity on SEEPEX takes place across 24 individual hours, for all 365 days of the year.

Trading in electricity on SEEPEX takes place across 24 individual hours, for all 365 days of the year. Trading takes place on all days from Monday till Sunday. Exchange members submit their buy and sell orders using the ETS platform from 45 days before to 10:15 on day D1. Order book gate closure time is 10:15 and results are published on the SEEPEX website by 10:30. Trading information is immediately sent to ECC for clearing purposes. Before 14:00 (D1) ECC submits the schedules to EMS as a firmed schedule.

In the auction process, all bids and offers for a delivery of power at a specific hour of the following day are collected and a single price for every hour in the day is calculated. This price is the optimal price for power, taking into account the characteristics of all orders submitted to the exchange for that specific

hour. The auction is the momentum of the spot power market, concentrating liquidity of the market at a specific time of the day and determining reference prices for a particular period.

At the moment SEEPEX offers are linear and block products. Linear offer contains up to 256 price/quantity combinations for each individual hour of the next day, where prices must be between 0.0 €/MWh and 3000 €/MWh. The block offer that was introduced on SEEPEX on March 22, 2017 is a bid that connects more hours to the "all or nothing" principle, which means that the offer is accepted for all hours or is completely rejected. In the block it is possible to input different quantities of electricity for each hour of the block, with one price offered for the whole block.

SEEPEX CRUCIAL TRADING TIME POINTS



Price Thresholds for Second Auction\*:

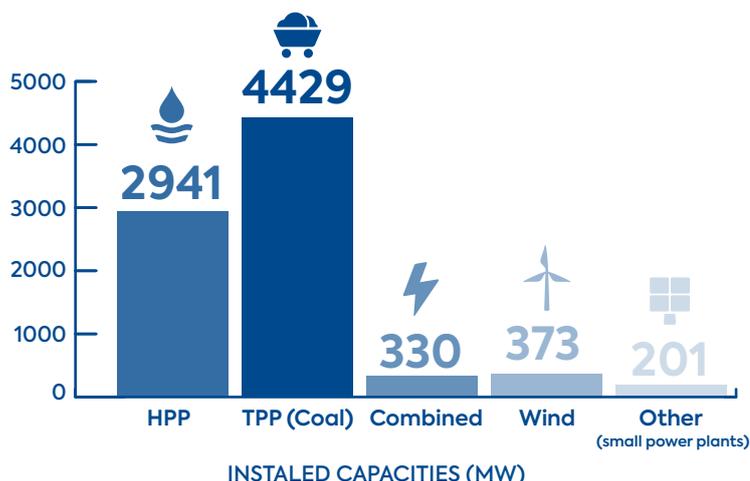
- Lower Threshold: 0.1 €/MWh
- Upper Threshold: 200 €/MWh

# Production and installed electricity capacity in Serbia



## Installed production capacity and production by type

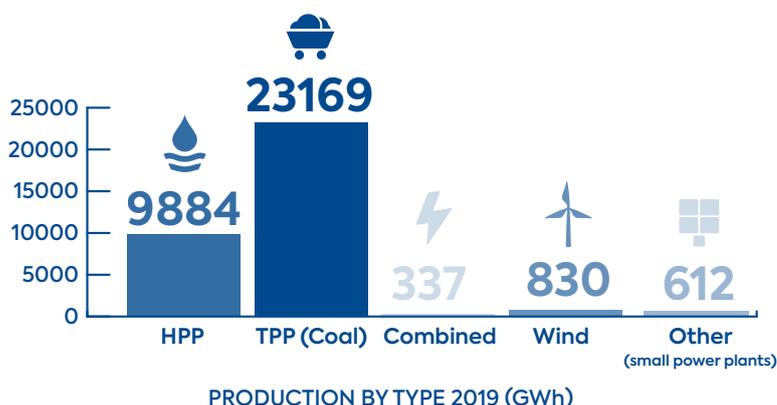
The total net installed production capacity of power plants in Serbia for 2019 is 8274 MW. The structure of the installed production capacities is shown in the table below. The share of thermal power plants (TPP) and combined power plants is 57.5%, hydro power plants (HPP) that are connected to the transmission system 35.6%, wind power plants 4.5% and 2.4% represent small power plants connected to the distribution system.



PRODUCTION TYPE	INSTALLED CAPACITIES (MW)
HPP	2941
TPP (Coal)	4429
Combined	330
Wind	373
Other (small power plants)	201
<b>TOTAL</b>	<b>8274</b>

source: AERS

In 2019, 34.832 TWh was produced, which is 0.3% less compared to 2018. Coal plants produced 0.9% more, while production in HPPs was 11.6% lower. The share of coal power plants production was 66.5%, hydro power plants 28.4%, combined 0.9%, wind 2.3% and small power plants 1.7%.



PRODUCTION TYPE	PRODUCTION BY TYPE (GWh)	
	2018	2019
HPP	11031	9884
TPP (Coal)	22954	23169
Combined	238	337
Wind	85	830
Other (small power plants)	642	612
<b>TOTAL</b>	<b>34950</b>	<b>34832</b>

source: AERS

# Membership



SEEPEx started its day-ahead market operation with 6 members on February 17 2016. A well-chosen and implemented business model and membership strategy have enabled SEEPEx to achieve continuous growth of new members. Increasing the number of members leads to higher liquidity, which again gives a good signal to new

companies to access SEEPEx. The following figures show the trend of increasing the number of participants.

At the end of 2019, 19 exchange members from 11 countries were active on SEEPEx. The composition of the members on the exchange is given in the following table and graph.

**2019**  
  
**19 Participants**

NUMBER OF EXCHANGE PARTICIPANTS AT THE END OF 2019

Neas Energy A/S  
 Danske Commodities A/S  
 Energi Danmark A/S

Statkraft Markets GmbH

Freepoint Commodities Europe LLP

Alpiq Energy SE

MVM Partner Energy Trading Ltd.

Energy Financing Team AG  
 AXPO Solutions AG

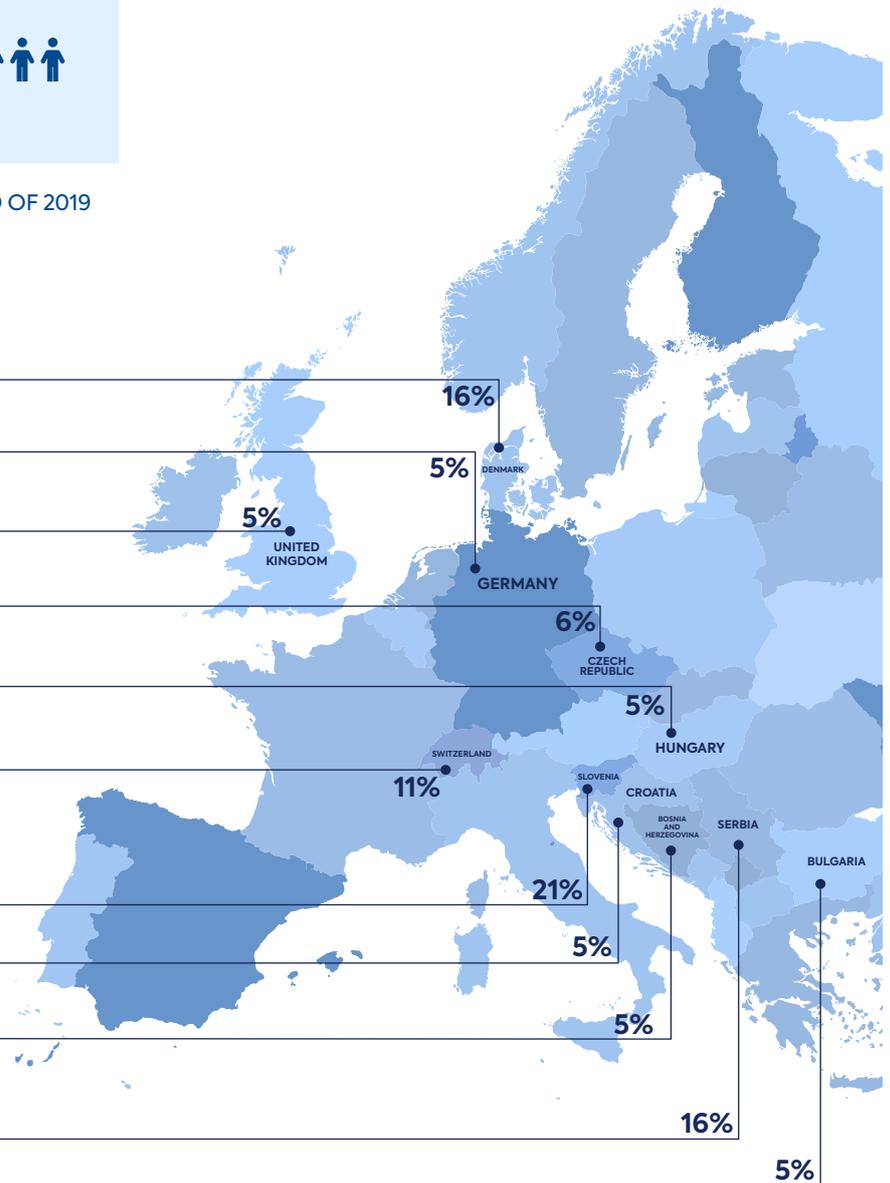
GEN-I  
 Interenergo d.o.o.  
 Holding Slovenske Elektrane d.o.o.  
 Petrol d.d. Ljubljana

HEP d.d.

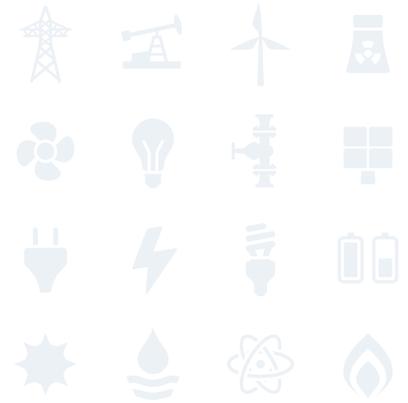
Elektroprivreda Republike Srpske

JP EPS Beograd  
 EMS a.d. Beograd  
 NIS a.d. Novi Sad

Energy Supply EOOD

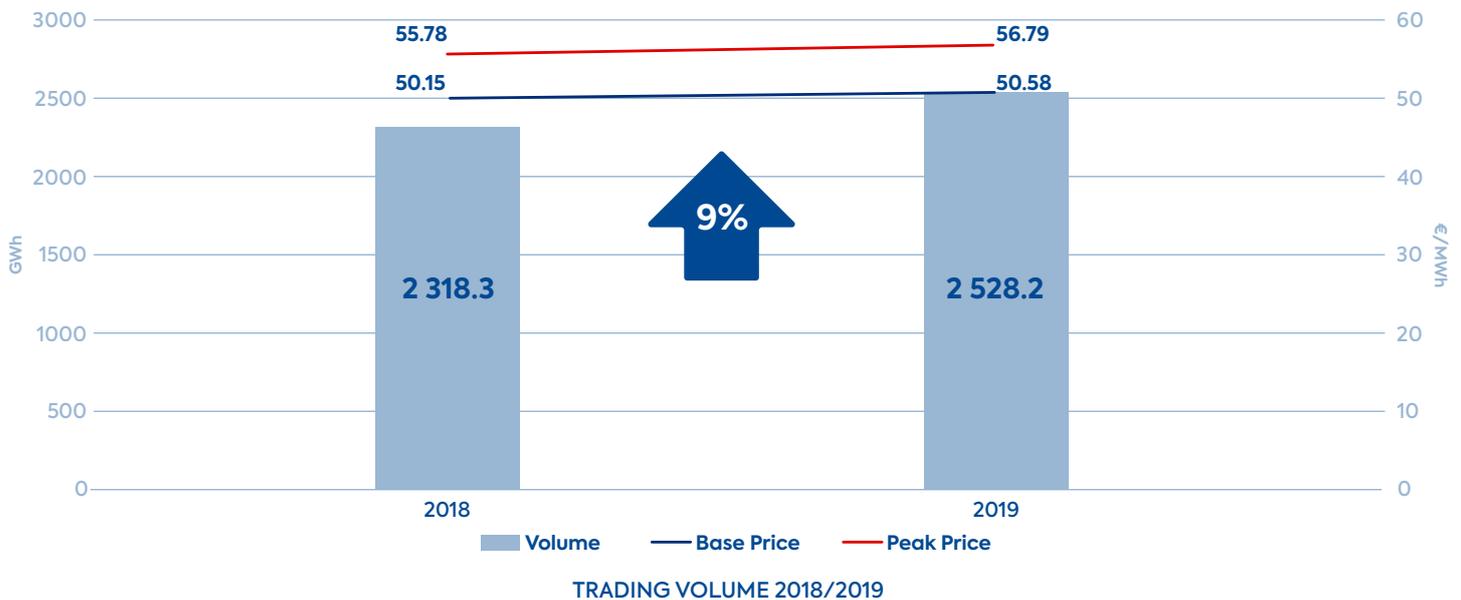


# Prices and volumes trend on the SEEPEX spot market



The volume of electricity traded on SEEPEX day-ahead market in 2019 was 2 528 201.3 MWh. In comparison to 2018, SEEPEX traded volume in

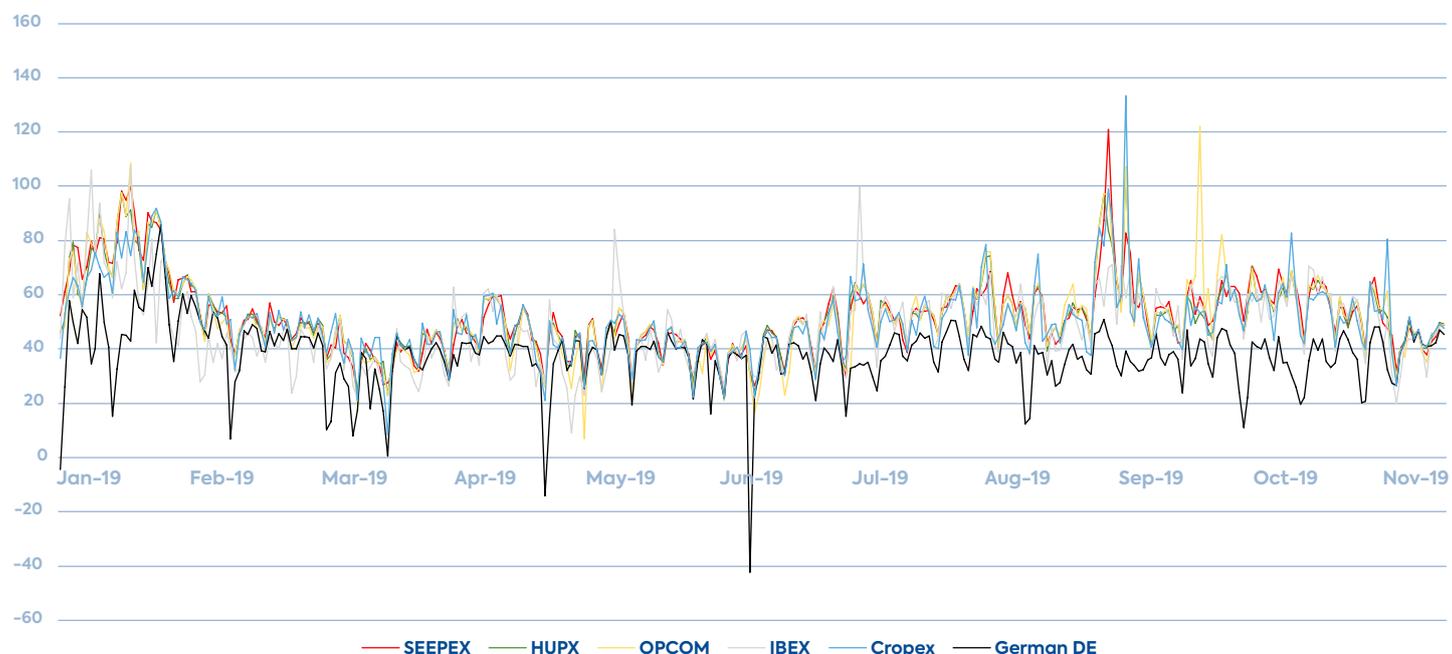
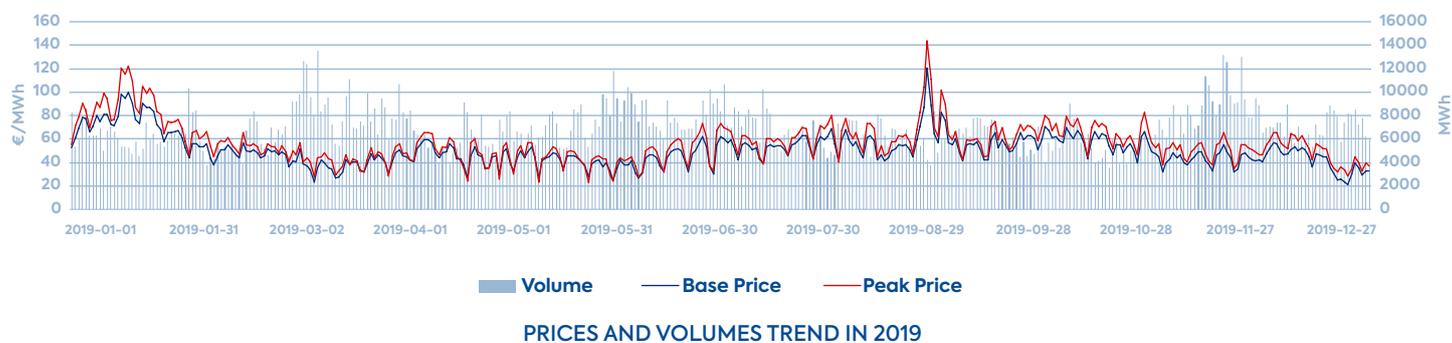
2019 increased by 9.05%. The average price was 50.58 €/MWh, which is 0.86% higher compared to 2018.



<b>2 528.2 GWh</b> Trading volume in 2019	<b>56.79 €/MWh</b> Average peak price in 2019
<b>50.58 €/MWh</b> Average base price in 2019	<b>260 895.1 MWh</b> Highest monthly volume in 2019

The largest monthly trade volume of 260 895.1 MWh was registered in November 2019, while the daily maximum was reached on March 11, 2019 with 13 483 MWh. The smallest volume of monthly trade, as the year before, was in February and amounted to 168 968 MWh,

which is 1.76 times more than in the previous year. The biggest hourly price was reached on August 29 at 9 pm and amounted to 153.5 €/MWh. In 2019, the average SEEPEX base price was 50.58 €/MWh, while the average SEEPEX peak price reached 56.79 €/MWh.



SEEPEX PRICES COMPARED TO NEIGHBORING EXCHANGES

source: SEEPEX, HUPX, OPCOM, IBX, CROPEX, EPEX Spot

The monthly volumes recorded in 2018 and 2019 are shown in the table. A significant increase in trade can be noted in the first quarter of 2019 compared to 2018.

		2018	2019	Change [%]
January	GWh	125.6	191.0	52.1
February	GWh	96.0	169.0	76.0
March	GWh	137.4	260.5	89.6
April	GWh	222.3	190.7	-14.2
May	GWh	187.4	216.6	15.5
June	GWh	229.9	245.4	6.8
July	GWh	242.6	224.4	-7.5
August	GWh	184.6	188.9	2.3
September	GWh	186.9	188.5	0.8
October	GWh	196.8	173.6	-11.8
November	GWh	248.9	260.9	4.8
December	GWh	260.0	218.7	-15.9

MONTHLY VOLUMES (GWh) 2018 AND 2019

# SEEPEX

## day-ahead key indicators

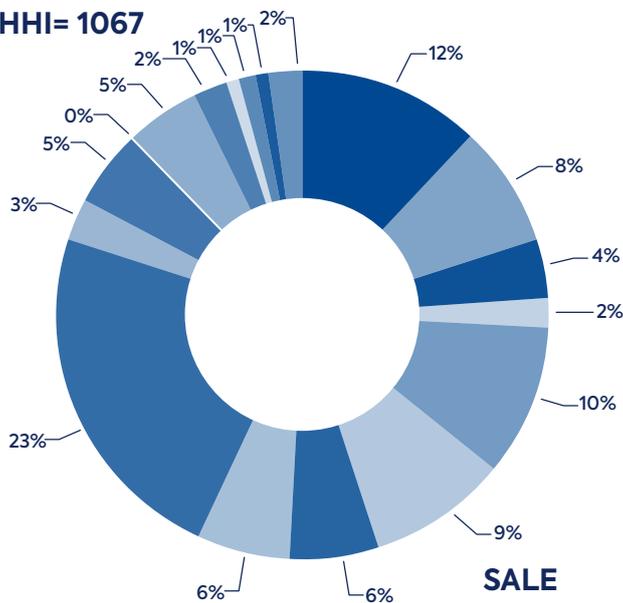


	2018	2019	Change [%]
Base price MAX (day) (€/MWh)	84.64	120.74	42.65
Base price MIN (day) (€/MWh)	8.07	21.01	160.35
Peake price MAX (day) (€/MWh)	100.6	143.5	42.64
Peake price MIN (day) (€/MWh)	5.64	22.72	302.84
Average Base price (day) (€/MWh)	50.15	50.58	0.86
Average peak price (day) (€/MWh)	55.78	56.79	1.81
Price MAX (hourly) (€/MWh)	126.98	153.49	20.88

	2018	2019	Change [%]
Price MIN (hourly) (€/MWh)	0	0.53	/
Base volume MAX (day) (€/MWh)	12 367.6	13483	9.02
Base volume MIN (day) (€/MWh)	920.3	3 518.8	282.35
Base volume (year) (GWh)	2 318.3	2 528.2	9.05
Average volume (MWh)	6 351.62	6 926.58	9.05
Volume MAX (hourly) (MWh)	846	772	-8.75
Volume MIN (hourly) (MWh)	1.3	41.9	/

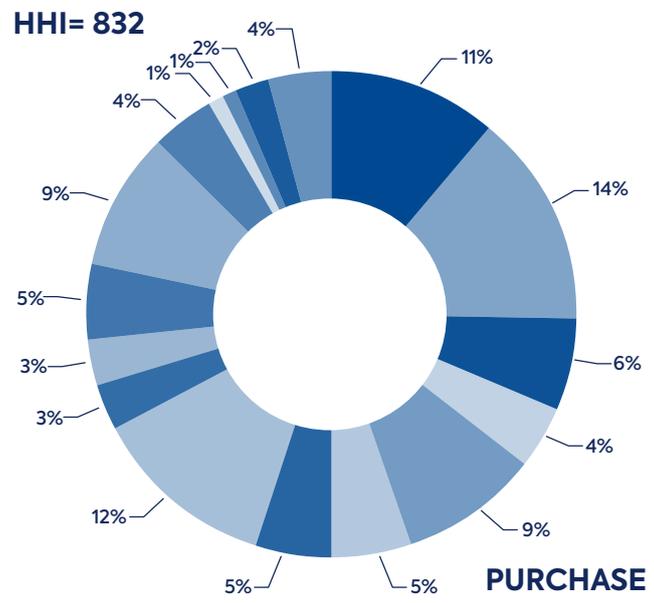
## Herfindahl-Hirschman Index (HHI)

HHI= 1067



**SALE**

HHI= 832



**PURCHASE**

PERCENTAGE OF TRADE BY PARTICIPANT

The Herfindahl-Hirschman Index (HHI) is a common measure of market concentration and is used to determine market competitiveness. The HHI is calculated by squaring the market

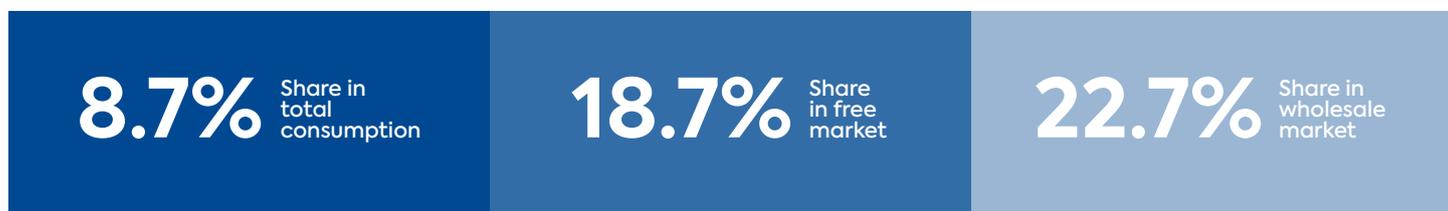
share of each company competing on the market and then summing the resulting numbers. A market with an HHI of less than 1,500 is considered to be a competitive marketplace.

# SEEPEX share in the Serbian market



The total amount of electricity that was traded on SEEPEX in 2019 was 2 528.2 GWh. The share of electricity traded on the organized market in relation to gross consumption in Serbia (33 807 GWh) was 8.7%, while 18.7% is the share of the exchange in

relation to the energy delivered to end customers that are supplied on the free market (retail market). The share of the power exchange on the entire wholesale market, which includes bilateral and organized market, was 22.7 %.



## Balancing energy price in comparison to spot price



BALANCING ENERGY PRICE IN COMPARISON TO SPOT PRICE

# Overview



The introduction of block products for trade on SEEPEX, was successfully made in March of 2017. Maximum block size was 10MWh and some of the standard block orders included - Baseload (01-24h), Peakload (09-20h), Off-Peak1 (01-08h), or custom blocks tailored by participants. This business decision, implemented according to members' needs, provided a sufficient liquidity increase, resulting in a total traded volume increase. In April 2018, the block bids size was increased from 10 MWh to 20 MWh, and at the end of 2019, the procedure of increasing the size of the block bids to 30 MWh was initiated by the Organized Market Committee. Realization is expected in the first half of 2020.

On June 3 2019, European Energy Exchange AG (EEX), the leading European energy market, in close cooperation with SEEPEX a.d. Belgrade, put futures of electricity with financial settlement for the Serbian market area at the disposal of market participants. EEX introduced basic weekly, monthly, quarterly and annual futures products for the Republic of Serbia market. The financial settlement is performed in relation to the day-ahead spot market price in Serbia, published by SEEPEX. On June 18 EEX registered the first trade in Serbian monthly financial products for July 2019, at the price of 51.45 €/MWh.

## Serbian power futures

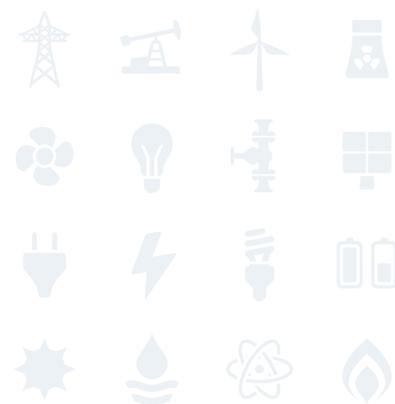
June 3<sup>rd</sup>, 2019

Products: baseload - week, month, quarter, year



The cooperation fostered the development of the Serbian electricity market, which has seen strong growth in 2017 and particularly 2018. All market participants will benefit from the standard product setup which enables them to use Serbian Power Futures as a tool to hedge against price risks on the local power spot market, benefitting from high-level standards both in terms of derivatives trading and

clearing services. This important development, in addition to great importance for the overall investment framework providing the Serbian economy with the long-term reference price, will also provide SEEPEX additional liquidity and some new potential members which can benefit from this long-term hedging tool, currently not present in the SEE region.



During 2019, SEEPEX took part in the Trinity project, in close cooperation with EPEXSPOT and other partners, i.e. members of the Trinity consortium. Trinity was a response to the call for proposals under the Horizon 2020 EU R&D program. The goal of the Trinity project was to develop solutions for increased regional cross-border cooperation in the transmission grid. Specifically, more cooperation between TSOs, energy producers and market participants, in particular at a regional level. The goal of the project is to harmonize cross-border services between EU and non-EU countries.

As one of the 19 companies in the consortium (that also includes NEMO's, TSO's, RSC's,

Research centers, RES and technology providers), SEEPEX took an active part in Trinity, by delivering some new market products that will help the integration of electricity markets in the SEE region. As an established power exchange, with lots of experience and good expertise in the field, SEEPEX, in cooperation with other partners in the consortium, will deliver tools that will try to enhance electricity trade in the SEE region - Intraday Market Coupling Module using Auction algorithm, Regional Capacity Reserve Market platform, Bilateral trading platform and Guarantees of Origin market tool. The demonstration of these tools is planned for 2022 and 2023. Trinity project will last for 4 years.

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Regarding regional development and plans for 2020, SEEPEX is committed to continue with the ongoing market coupling projects (coupling with the MRC/4MMC as a first priority, new trilateral market coupling initiative with Bulgaria and Croatia and AIMS coupling project within the WB6 initiative). The main obstacle in the implementation of these projects is the transposition of CACM GL into Serbian legislation. This issue is expected to be solved during 2020.

As it is well-known, one of the main benefits of the organized power market, in addition to the financial security and corresponding risk

mitigation, is fair and transparent price formation. From the very start of operation and sufficient liquidity obtained in the first few years, the SEEPEX day-ahead market price could be considered as a reference wholesale market price not only for the Serbian market area, but for the entire SEE region as well, providing also a good market place for additional arbitrage with the neighboring EU markets (having in mind different GCT).

# Independent auditors report





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## TRANSLATION

# Independent Auditor's Report

## To the Shareholders of Seepex A.D., Beograd

### Opinion

We have audited the accompanying financial statements of Seepex a.d., Beograd (the "Company"), which comprise:

— the balance sheet as at 31 December 2019;

and, for the period from 1 January to 31 December 2019:

- the income statement;
- the statement of other comprehensive income;
- the statement of changes in equity;
- the cash flow statement;

and

- notes, comprising a summary of significant accounting policies and other explanatory information

(the "financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, 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.

### Basis for Opinion

We conducted our audit in accordance with the Law on Auditing of the Republic of Serbia and applicable auditing standards in the Republic of Serbia. Our responsibilities under those regulations are further described in the Auditor's Responsibility for the audit of the financial statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional

Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibility of Management for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

### Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the

underlying transactions and events in a manner that achieves fair presentation.

We communicate with management 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.

Belgrade, 29 June 2020

**KPMG d.o.o. Beograd**

L.S.

*Signed on the Serbian original*

Vladimir Savković  
*Licensed Certified Auditor*

*This is a translation of the original Independent Auditor's Report issued in the Serbian language.  
All due care has been taken to produce a translation that is as faithful as possible to the original.  
However, if any questions arise related to interpretation of the information  
contained in the translation, the Serbian version of the document shall prevail.  
We assume no responsibility for the correctness of the translation of the Company's financial statements.*

Belgrade, 29 June 2020



**KPMG d.o.o. Beograd**

*Vladimir Savković*

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*Licensed Certified Auditor*

