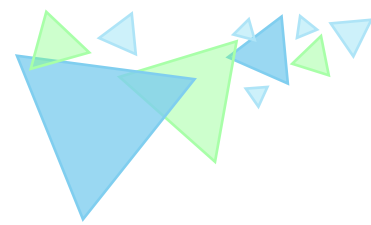




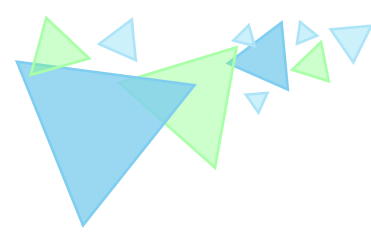
**SEEPEX Annual Report**  
2017



# Table of Contents

Foundation and activity		3
General part - Identity card of the company		4
Bussines activity		5
Role in the Wholesale Market for Electricity		5
Management of the Company and Organizational Structure		6
Trading procedures		7
Production, consumption and installed capacity of electricity in Serbia		8
Installed production capacity and production by type		8
Membership		9
Price and volume trends on the SEEPEX spot market		10
SEEPEX share in total consumption in Serbia		12
Total trade on SEEPEX (HHI index)		12
Balancing energy price in comparison to spot price		13
SEEPEX day-ahead key indicators		13
Independent auditors report		14

# 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 J.S.C. 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 J.S.C. 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 J.S.C. 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.



Shareholder structure in SEEPEX

# General part - Identity 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).

<b>Name of the joint stock company</b>	SEEPEX akcionarsko društvo Beograd
<b>Short name</b>	Name of the joint stock company
<b>Translation of the name of a foreign language</b>	SEEPEX societe anonyme Belgrade – French language SEEPEX JSC Belgrade – English language
<b>The predominant business activity of the Company</b>	Trade of electricity
<b>The duration</b>	Unlimited
<b>Legal form</b>	Joint stock company, non-public joint stock company
<b>For the commitments of legal transactions towards third parties</b>	Shall be liable with all its assets
<b>Identification number Agency for Business Registers</b>	21121070
<b>Tax Identification Number</b>	109064704
<b>Established</b>	14.07.2015
<b>Company headquarters</b>	Beograd, Vojvode Stepe 412
<b>Telephone-Switchboard</b>	+381 11 3972-941
<b>Basic capital of the Company</b>	Consists of pecuniary contributions: Subscribed 240.000.000 RSD Paid 180.000.000 RSD (I Payment 12.07.2015 (60.000.000 RSD), II Payment 31.08.2016 (60.000.000 RSD) III Payment 01.09.2017 (60.000.000 RSD))
<b>Number of shares</b>	240.000
<b>Shareholders</b>	J.S.C. Elektromreža Srbije Beograd 75% EPEX SPOT SE Paris 25%
<b>The legal (statutory representatives)</b>	Individual: Managing Director Miloš Mladenović, MSc Supervisory board: President and two members Supervisory board: President and two members
<b>Register founding agreements</b>	Foundation Agreement of the company on July 8, 2015.

# Bussines 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.



## Role in the Wholesale Market for Electricity

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

It provides a market place where exchange members send their orders to buy or sell electricity inside Serbian delivery area. The role of SEEPEX consists in 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. 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 the 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.

As an important information of this process, SEEPEX publish 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 the short-term electricity. These prices represent the reference prices for the Serbian wholesale market.

# Management of the Company and Organizational Structure

**M**anagement 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 state of the art governance rules.

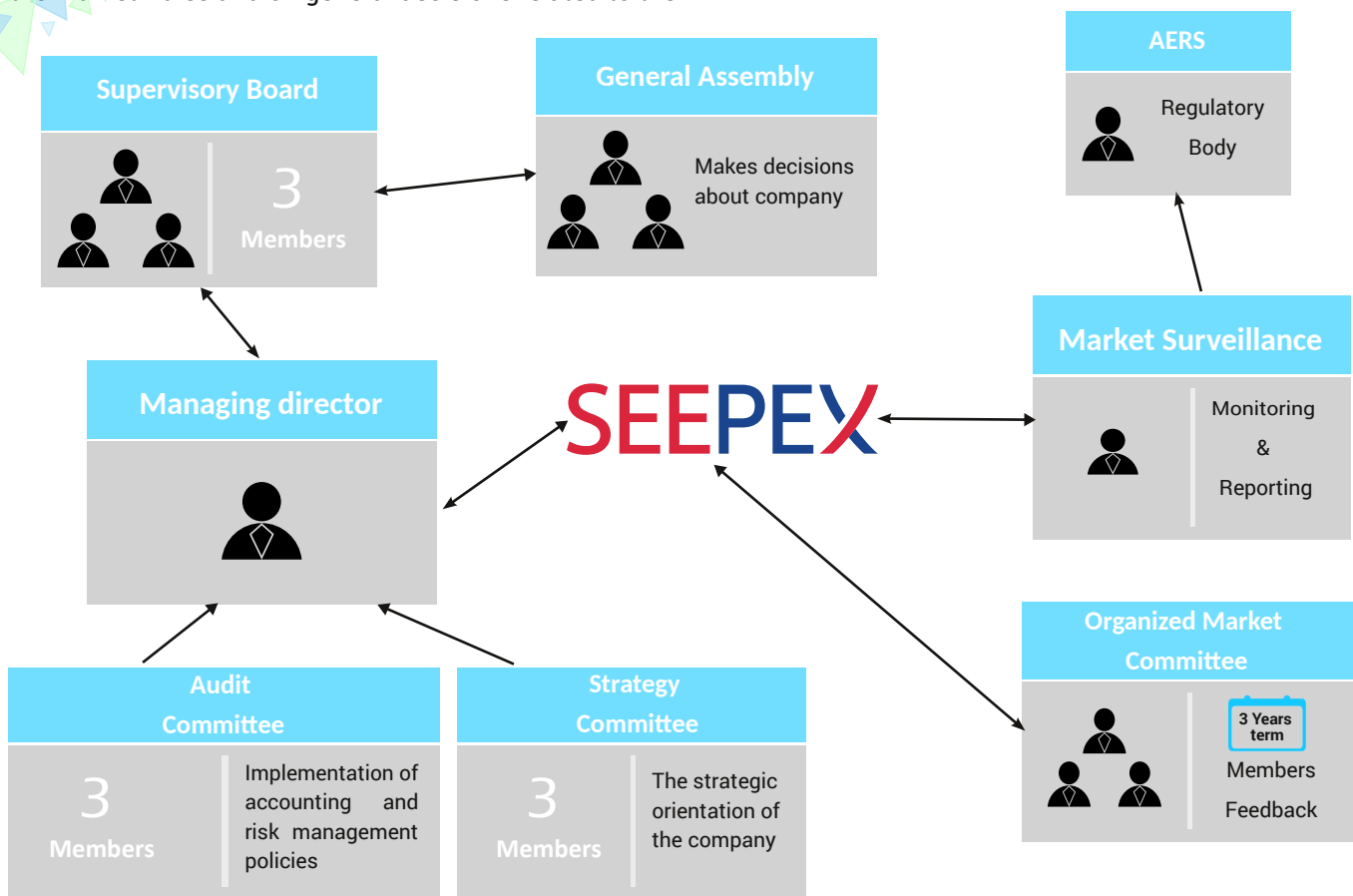
The Organized Market Committee is a body elected from the Exchange Members which decides on the Market Rules and on general decisions related to the

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.

Current members of Organized Market Committee are:

- Mr. Ivan Kalafatic, EFT trading
- Mr. Srdjan Resavac, GEN-I
- Mr. Tarik Khalil, INTERENERGO
- Mr. David Zarkovic, ELEKTROPRIVREDA SRBIJE
- Mr. Viktor Varga, MVM
- Mrs. Jadranka Janjanin, ELEKTROMREZA SRBIJE

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



SEEPEX Organizational Structure



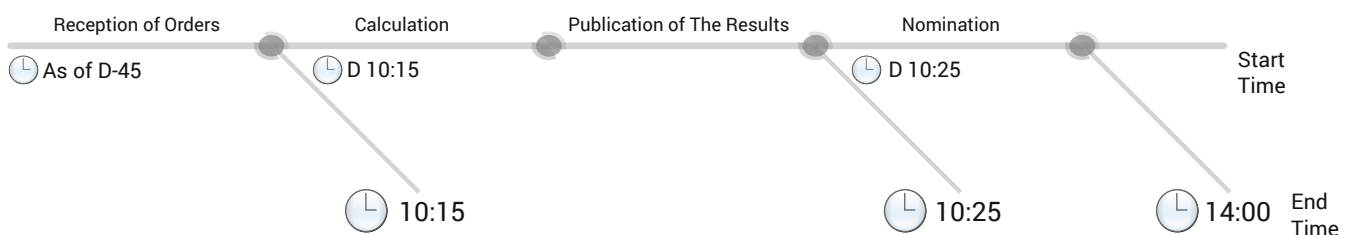
# Trading Procedures

**T**rading in electricity on SEEPEX is on the basis of the 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 ETS platform from 45 days before to 10:15 in day D-1. Order book gate closure time is 10:15 and results are published on SEEPEX website by 10:30. Trading information is immediately sent to ECC for clearing purposes. Before 14:00 (D-1) 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 one 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 area.

At the moment SEEPEX offers 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.



#### Price Thresholds for Second Auction\*:

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



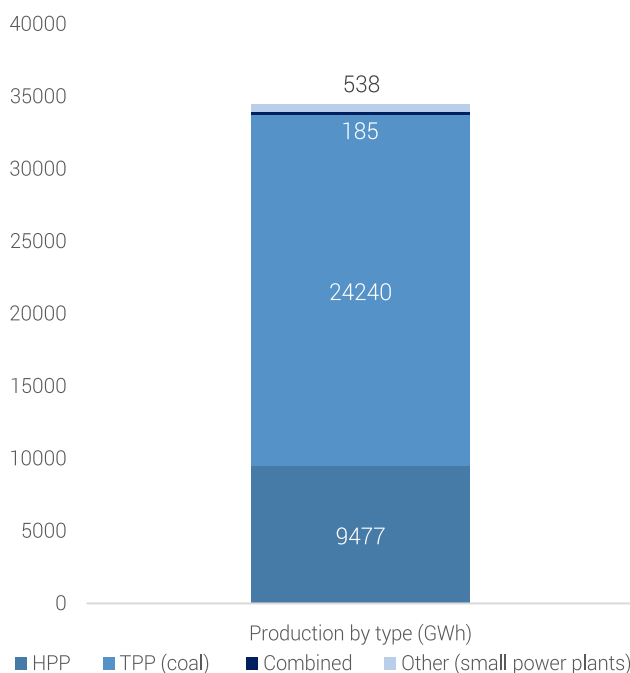
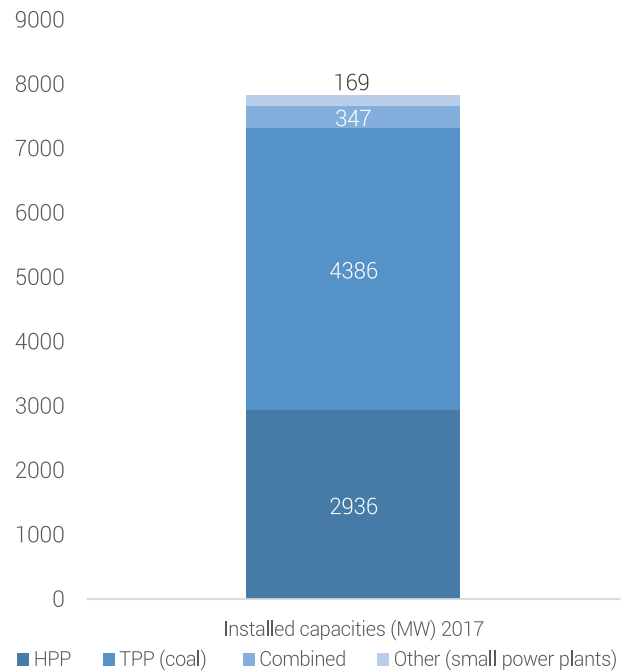


# Production, consumption and installed capacity of electricity in Serbia

## Installed production capacity and production by type

The total net installed production capacity of power plants in Serbia for 2017 is 7838 MW. The structure of the installed production capacities is shown in the table below. The share of thermal power plants (TE) and combined power plants is 60.4%, hydro power plants (HP) that are connected to the transmission system 37.5% and 2.1% represent small power plants connected to the distribution system.

Production Type	Installed capacities(MW)
HPP	2936
TPP(Coal)	4386
Combined	347
Other (small power plants)	169
<b>Total</b>	<b>7838</b>



In 2017, 34.4 TWh was produced, which is 6.4% less compared to the 2016. Coal plants produced 3.1% less, while production in HPP was 15.6% lower. The share of coal power plants production was 70.6%, hydro power plants 27.5%, combined 0.52% and small power plants 1.6%. Smaller production is caused by bad hydrology in the region during 2017.

Production Type	2016	2017
HPP	11227	9477
TPP(Coal)	25016	24240
Combined	90	185
Other (small power plants)	448	538
<b>Total</b>	<b>36781</b>	<b>34441</b>

source: AERS



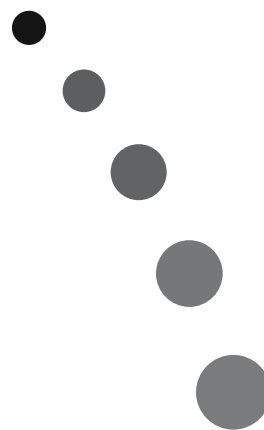
# Membership

**S**EEPEX started its day-ahead market operation with 6 members on 17th of February 2016. A well-chosen and implemented business model and membership strategy have enabled SEEPEX to achieve the 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 2017, 14 exchange members from 9 countries were active on SEEPEX: 3 Serbian, 4 Slovenian, as well as one company from Germany, Switzerland, Czech Republic, Denmark, Croatia, Bosnia and Herzegovina and Romania. The composition of the members on the exchange is given in the following table:

# 12

was the number of participants in January 2017



# 14

was the number of participants in December 2017

## Exchange Members

1	GEN-I	SI
2	Energy Financing Team AG	CH
3	Interenergo d.o.o	SI
4	JP EPS Beograd	RS
5	Alpiq Energy SE	CZ
6	HEP d.d	HR
7	MVM Partner Serbia d.o.o Beograd	RS
8	Statkraft Markets GmbH	DE
9	EMS A.D. Beograd	RS
10	Tinmar	RO
11	Holding Slovenske Elektrane d.o.o.	SI
12	ERS	BA
13	Petrol d.d. Ljubljana	SI
14	Neas Energy A/S	DK

# Price and volume trends on the SEEPEX spot market

The volume of electricity traded on SEEPEX's day-ahead market in 2017 was 847.556,7 MWh. In comparison to the 2016 SEEPEX traded volume in 2017 increased for 58,94 %. The average price for year of 2017 was 51,05 €/MWh, which is 46,91% higher price compared to 2016.

The largest monthly trade volume of 144.189,9 MWh was realized in December, and the daily maximum was realized on May 6, 2017 with 8,270.6 MWh. The smallest volume of monthly trade was in February and amounted to only 26.478,4MWh. The highest hourly rate was reached on 11.01.2017. in 09-th hour and amounted to 205,68 €/MWh. The average annual price was 51,05 €/MWh and average peak price was 59,19 €/MWh.

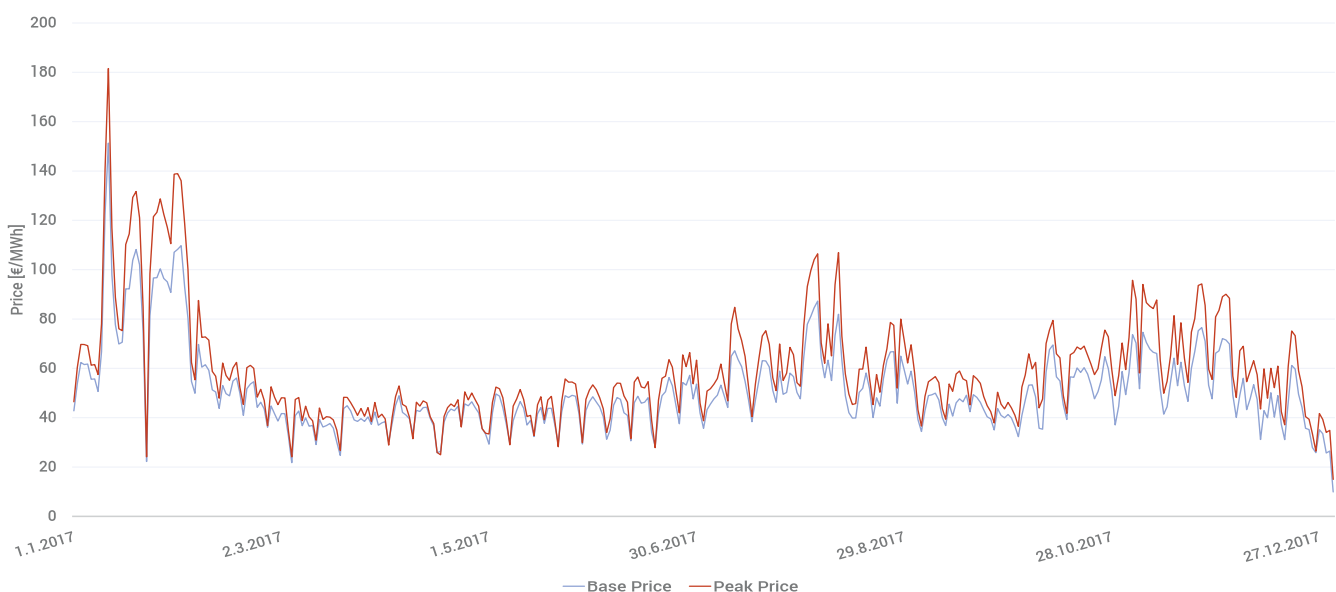
In the year 2017, the average SEEPEX base price was 51.05 €/MWh, while the average SEEPEX peak price has reached value of 59,19 €/MWh. The beginning of the year (January-February) marked a period with extremely high prices with average base price around 69,89 €/MWh. In some hours peak prices reached values of over 200 €/MWh. Individually the maximum price from 205,68 €/MWh was recorded on 11.01.2017. in 09-th hour. By the end of the year the prices were stabilized in range from 9.89€/MWh to 69.87 €/MWh. There were also two expected slight price increases in the period July-August and October-November. Unusually for this region, there was a price decrease in the December to 41,73 €/MWh.

**531.3** GWh  
was volume traded in 2016

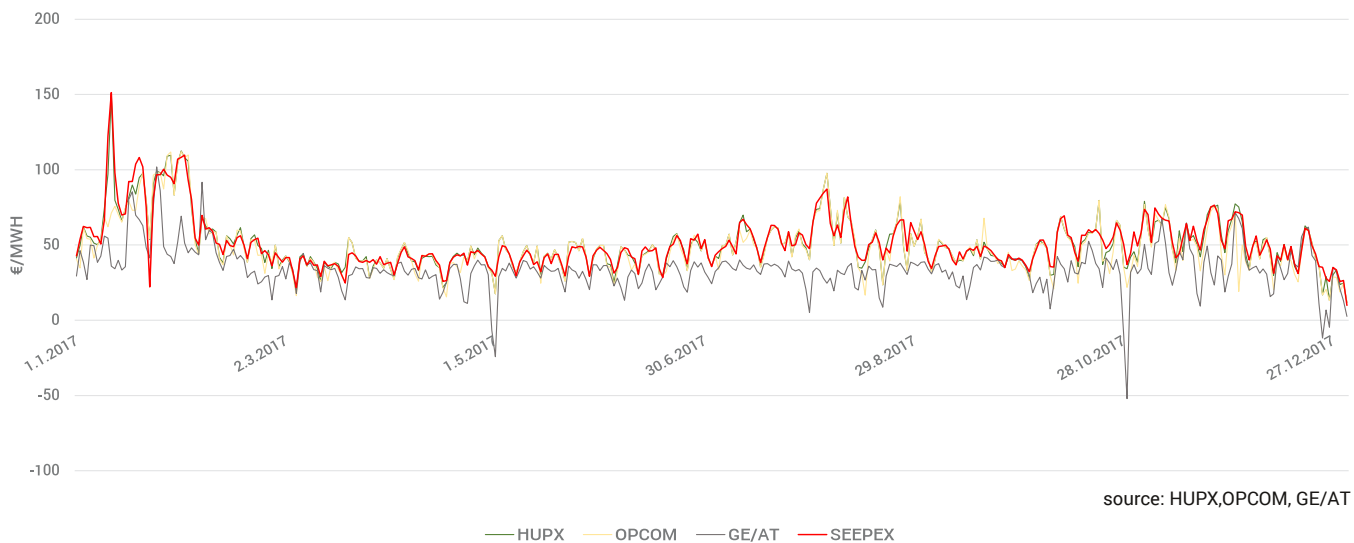
**847.6** GWh  
was volume traded in 2017

**34.82** €/MWh  
was average base price in 2016

**51.05** €/MWh  
was average base price in 2017



Base and peak price in 2017



source: HUPX,OPCOM, GE/AT

### SEEPEX prices compared to neighboring exchanges

When the base prices on SEEPEX are compared to relevant neighboring exchanges (HUPX, OPCOM, GE/AT), the trend shows that they pretty much follow each other. Prices on SEEPEX, HUPX and OPCOM are closely following one another, while German/Austrian price is somewhat smaller in comparison.

Monthly volumes are shown in table 1. There can clearly be seen the trend of volume increase in 2017, when compared to 2016. Having in mind that 2017 was the year with really bad hydrological situation in the region which resulted in significant increase of wholesale electricity price, it can be said that monthly volumes had a solid increase of 45.7% on the average, when compared to 2016.

Monthly Volumes[GWh]	2016	2017	Change[%]
January	/	50.3	/
February	17.7	26.4	49.3
March	39.7	69.8	75.4
April	34.0	61.0	79.4
May	52.3	107.2	105.2
June	31.2	78.6	152.3
July	31.2	44.0	38.8
August	82.0	57.8	-29.4
September	93.6	58.3	-37.7
October	42.1	74.0	75.9
November	53.5	75.7	41.4
December	55.3	144.2	160.8
Average	48.5	70.6	45.7

Table 1 - Comparison of monthly volumes in 2016 and 2017

**144.189,9** MWh  
was highest monthly volume in 2017

Interesting is also the fact, that the overall hydrological situation started improving in December, which resulted with the highest monthly volume on SEEPEX in 2017.

# SEEPEX share in total consumption in Serbia

The total amount of electricity that was traded on SEEPEX in 2017 was 847.556,7 MWh. The share of electricity traded on the organized market in relation to the electricity delivered to all end customers of electricity is 2.89%, while 6.27% is the share of the stock in relation to the energy delivered to end customers that are supplied in the free market (freely retail market). In the wholesale market, the share of the market is 17%, where the wholesale market implies a bilateral market (purchase and sale of electricity between the electricity supplier) and the purchase or sale of electricity on the organized market.

## Total trade on SEEPEX (HHI index)

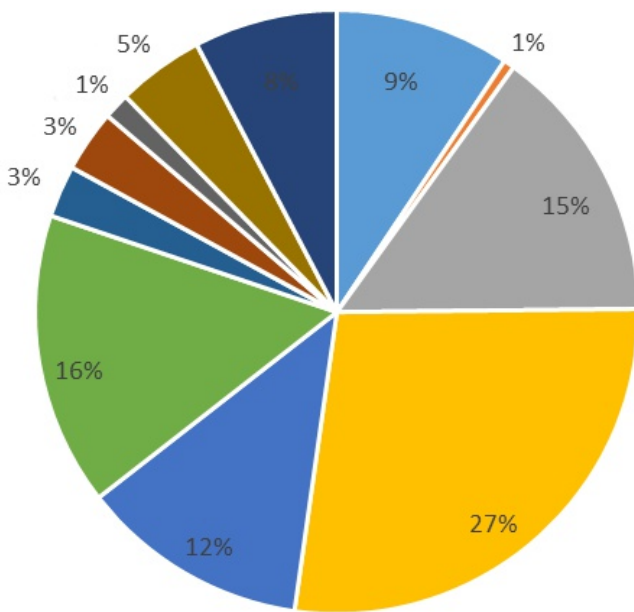


Chart - Percentage of trade by participant  
HHI = 1544

**34,5** TWh

was gross consumption in Serbia in 2017

**847,56** GWh

was trade on SEEPEX in 2017

**2.46**%

was SEEPEX share in total consumption in 2017

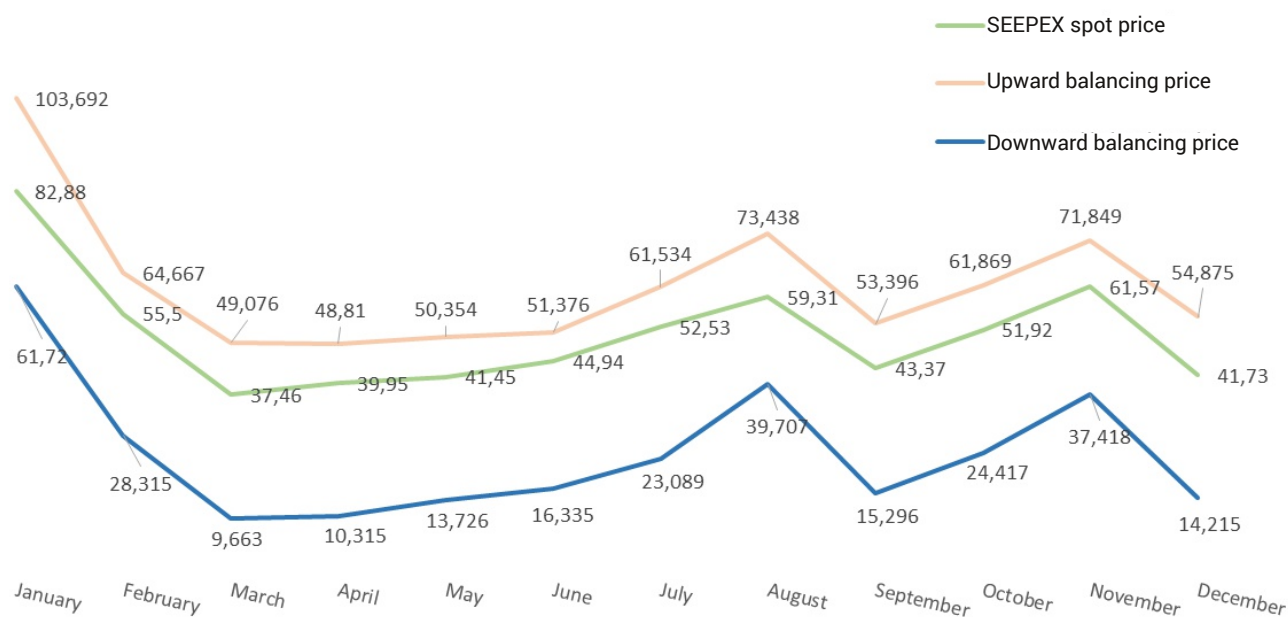
**6.72**%

was SEEPEX share in free market in 2017

**10.68**%

was SEEPEX share in internal bilateral market in 2017

## Balancing energy price in comparison to spot price



## SEEPEX day-ahead key indicators

	2016	2017	Change[%]
Base price MAX(day) €/MWh	63.14	151.31	139.64
Base price MIN(day) €/MWh	9.14	9.89	8.2
Peak price MAX(day) €/MWh	75.72	181.55	139.76
Peak price MIN(day) €/MWh	6.32	14.99	137.18
Price MAX(hourly) €/MWh	93.63	205.68	119.67
Base volume MAX(day) MWh	7 177.0	8 270.6	15.24
Base volume MIN(day) MWh	0	260.2	/
Base volume SUM(year) MWh	533 270.1	847 556.7	58.94
Daily average volume(year) MWh	1 676.95	2 319.92	38.34
Daily average base price(year) €/MWh	34.75	51.05	46.91
Daily average peak price(year) €/MWh	38.81	59.19	52.51
Volume MAX (hourly) MWh	441.7	551.6	24.88

# Independent auditors report



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11000 Belgrade  
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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 2017, 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 auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation 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.

KPMG d.o.o. Beograd, a Serbian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Matice broj: 17148666  
PIB: 100058593  
Racun: 265-1100310000190-61





## TRANSLATION

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

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, 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.

Belgrade, 30 March 2018

KPMG d.o.o. Beograd

(L.S.)

Vladimir Savković  
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, 30 March 2018

KPMG d.o.o. Beograd



*Vladimir Savković*

Vladimir Savković  
Certified Auditor