



KPMG d.o.o. Beograd
Kraljice Natalije 11
11000 Belgrade
Serbia

Tel.: +381 (0)11 20 50 500
Fax: +381 (0)11 20 50 550
www.kpmg.com/rs

Independent Auditor's Report

TO THE OWNERS OF

TERNA ENERGY TRADING D.O.O., BEOGRAD

Opinion

We have audited the special purpose financial statements of Terna Energy Trading d.o.o., Beograd ("the Company"), which comprise the special purpose balance sheet as at 31 December 2019, and the special purpose statements of profit or loss, changes in equity and cash flow statement for the year then ended.

In our opinion the accompanying special purpose financial statements of the Company as at and for the year ended 31 December 2019 are prepared, in all material respects, in accordance with the group accounting policies of Terna Energy Trading Ltd.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Special Purpose Financial Statements* of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the special purpose 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.

Emphasis of Matter - Restriction on Distribution and Use

The special purpose financial statements are prepared for the purpose of providing information to Terna Energy Trading Ltd to enable it to prepare the consolidated financial statements of the Group. As a result, the special purpose financial statements may not be suitable for another purpose. Our report is intended solely for the Company and Terna Energy Trading Ltd and should not be used by or distributed to parties other than the Company or Terna Energy Trading Ltd. Our opinion is not modified in respect of this matter.

Other matter

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic, and the government of the Republic of Serbia (“the Government”) declared a state of emergency on 15 March 2020. Rapid development of COVID-19 (coronavirus) outbreak and resulting economic disruption may have an impact on the Company’s future operations. In consequence, the Company may be unable to continue realizing its assets and discharging its liabilities in the normal course of business. The accompanying special purpose financial statements do not contain disclosures with respect to this matter.

Responsibilities of Management and Those Charged with Governance for the Special Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these special purpose financial statements and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose 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.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Special Purpose Financial Statements

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

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

- Identify and assess the risks of material misstatement of the special purpose 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 auditors' report to the related disclosures in the special purpose 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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.

Belgrade, 8 April 2020



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STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 DECEMBER 2019



In thousands of RSD	2019	2018
Sales revenue	3,856,345	2,388,807
Cost of goods sold	(3,776,057)	(2,325,947)
Gross profit	80,288	62,860
Other operating income	-	-
Other materials	(302)	(376)
Salaries, salary compensation and other personnel expenses	(12,038)	(9,257)
Production services	(27,056)	(29,560)
Depreciation	(1,334)	-
Non-production costs	(4,955)	(2,599)
Operating expenses	(45,685)	(41,792)
Operating profit	34,603	21,068
Financial income	10,885	2,980
Financial expenses	(12,010)	(4,758)
Financial income and expenses (net amount)	(1,125)	(1,778)
Other income	35,386	35,623
Other expenses	(3,474)	(354)
Other profit	31,912	35,269
Profit before tax	65,390	54,559
Income tax	(10,323)	(8,237)
Net profit	55,067	46,322

BALANCE SHEET AS AT 31 DECEMBER 2019

In thousands of RSD	31 Dec 2019	31 Dec 2018
ASSETS		
Non-current assets		
Property plant and equipment	4,158	-
Loans, Advances and other L-T Assets	1,179	1,179
Total non-current assets	5,337	1,179
Current assets		
Advance payments	429	617
Trade receivables	440,361	596,490
Other receivables	-	8,249
Short-term financial investments	5,906	5,926
Cash and cash equivalents	71,275	58,749
Value added tax	600	2,087
Total current assets	518,571	672,118
TOTAL ASSETS	523,908	673,297
Off-balance sheet assets	-	-

BALANCE SHEET AS AT 31 DECEMBER 2019 (continued)

In thousands of RSD	31 Dec 2019	31 Dec 2018
EQUITY AND LIABILITEIS		
Equity		
Basic capital	300	300
Retained earnings	167,470	121,148
Profit	54,044	46,322
Total equity	222,814	167,770
Long-term provisions and liabilities		
Long-term liabilities	3,094	-
Total Long-term provisions and liabilities	3,094	-
Short-term liabilities		
Short-term financial liabilities	1,163	-
Operating liabilities	195,658	494,573
Other short-term liabilities	1,049	597
Liabilities for other taxes, contributions and other duties	1,605	8,223
Accruals	98,502	2,134
Total short-term liabilities	298,000	505,527
TOTAL EQUITY AND LIABILITIES	523,908	673,297
Off-balance sheet equity and liabilities	-	-



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TERNA ENERGY TRADING D.O.O.
 BEOGRAD, NOVIBEOGRAD
 Matični broj: 20641290
 Bal i/iz Arsenjeva Ceste, 70, Beograd, Srbija

Vladimir Marjanović
 Director

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

In thousands of RSD	2019	2018
Cash flow from operating activities		
Cash receipts from customers and received advances	1,989,396	1,806,675
Other receipts from operating activities	3,709	3,869
Payments to suppliers and advances paid	(1,960,477)	(1,777,379)
Gross salaries and other personnel expenses	(10,585)	(8,346)
Income tax	(8,714)	(13,215)
Payments for other public duties	-	(241)
Net cash generated from operating activities	13,329	11,363
Cash flow from investing activities		
Short term deposits (net receipts)	-	-
Net cash generated from/(used in) investing activities	-	-
Cash flow from financing activities		
Long-term and short-term loans and other liabilities (net payments)	-	-
Net cash generated from/(used in) financing activities	-	-
Net increase in cash and cash equivalents	13,329	11,363
Cash and cash equivalents at the beginning of period	58,749	47,736
FX gains on translation of cash and cash equivalents	648	213
FX losses on translation of cash and cash equivalents	(1,452)	(563)
Cash and cash equivalents at the end of period	71,275	58,749

STATEMENT ON CHANGES IN EQUITY FOR 2019

In thousand of RSD	Basic capital	Retained earnings	Total
Balance as at 31 December 2018	300	167,470	167,770
Profit for the year	-	55,067	55,067
Balance as at 31 December 2019	300	222,537	222,837