

Baker Tilly Re Opinion d.o.o.
Grbavička 4
71000 Sarajevo
Bosna i Hercegovina

T: +387 (0) 33 552 150
F: +387 (0) 33 552 152

info@bakertilly.ba
www.bakertilly.ba

To the Owners and Management of JP Komunalac d.d. Gradačac

Auditor's Report on Financial Statements

Qualified Opinion

We have audited the financial statements of JP Komunalac d.d. Gradačac (the „Company“) set on pages 5 to 29, which comprise of the statement of financial position as at 31 December 2019, statement of comprehensive income, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effects of matters described in *Basis for Qualified Opinion* paragraph, the accompanying financial statements present fairly, in all material respects the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Qualified Opinion

At 31 December 2019 and 31 December 2018, the Company reported share capital in amount of BAM 1,372,587, consisting of 44,277 shares with a nominal value of BAM 31. In accordance with the data from the latest available Decision of the Municipal Court in Tuzla and List of securities owners of the Registry of Securities of the FBiH, the Company's share capital amounts to BAM 3,630,714 and consists of 44,277 shares with a nominal value of BAM 82. The difference in the value of the share capital in the amount of BAM 2,258,127 is a result of recording of decrease in share capital during the year of 2017, and based on the Decision on reduction of share capital number 01-22-2/18 which was adopted by the Company's Assembly at its meeting held on 20 February 2018, upon the proposal of the Supervisory Board. Recording of the said Decision resulted in the decrease in share capital in amount of BAM 2,258,127, increase in statutory reserves in amount of BAM 24,684 and recognition of capital gains which resulted in increase in accumulated profit in amount of BAM 754,088 and decrease in previous year's losses in the amount of BAM 201,963, with simultaneous disposal of tangible assets with net book value of BAM 1,277,392. The aforementioned Decision was made in order to enforce a final court decision by which Decision of the Cantonal Privatization Agency was partially annulled in part which regulates assets in general use that were entered into Company's initial balance. In court ruling of Cantonal Court in Tuzla, which was confirmed by court ruling of the Supreme Court of the FBiH, it is stated that the value of Company's share capital amounts to BAM 1,397,243. The aforementioned Decision states that share capital as per initial balance decreases from amount of BAM 4,427,672 for value of assets in general use that were entered into initial share capital in amount of BAM 3,030,429. All of these resulted in the discrepancy in the value of share capital presented in financial statements and the Court's Decision, as well as data in the Registry of Securities. Up to date of our audit, decrease in share capital was not registered in the Court, nor with the Securities Commission, although the Assembly of the Company ordered the Management to act in accordance with legal provisions in order to register the decrease in the share capital. We could not be convinced of the correctness of the declared value of capital, as well as the value of its individual components, value of tangible assets, as well as the completeness of disposal of assets in general use.

As at 31 December 2019 the Company stated property, plant and equipment with net book value of BAM 890,847. Within this amount are consisted assets that were defined as assets in general use as per contract on public water services and are integral part of network, and which were not included in the aforementioned court ruling, nor with previous decisions of Gradačac Municipality on the proclamation of assets in general use. Net book value of these assets is BAM 424,540 at 31 December 2019.

The Inventory Commission proposed disposal of these assets and transfer into ownership of City of Gradačac, in order to comply with provisions of the Contract on public water services. In accordance with Contract on public water services signed at 30 March 2018 with Gradačac Municipality, the Company was obliged to make decisions on disposal of all assets in general use and derecognize them from its financial statements at the latest by the end of 2018. Up to date of our audit report, activities proposed by Inventory Commission were not undertaken.

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

Emphasis of Matter

We draw attention to Note 21 to the financial statements, which sets out a significant balance of trade receivables from the buyer City of Gradačac (formerly Gradačac Municipality). Namely, the total receivables from the buyer City of Gradačac as of 31 December 2019 amount to BAM 658,435 (59.56% of the total trade receivables), of which the total receivables from earlier periods not collected until 31 December 2019 amount to BAM 340,229. The said claims arose from 1 July 2016 and no protocols on the terms and manner of settlement of financial liabilities were signed for the same. We draw attention to these significant balances given the specific nature of the relationship with the Municipality of Gradačac as majority owner, and the impact that these claims have on the Company's liquidity. Our opinion has not been modified on the subject.

We draw attention to Note 30 to the financial statements, which states that a court proceeding in the total amount of BAM 1,967,800 is being filed against the Company, as well as against the Privatization Agency of Tuzla Canton and Gradačac Municipality. The said dispute was initiated by a group of individuals for damages. The said dispute is currently pending on the FBiH Supreme Court, and after the first instance verdicts of the Tuzla Municipal Court and the Tuzla Cantonal Court, the plaintiff's claim was rejected in its entirety. The Management Board of the Company believes that the said dispute will not be closed to the detriment of the Company, and therefore no provisions for litigation have been formed. Our opinion has not been modified on the subject.

Key Audit Matters

Key audit matters are those issues that, according to our professional judgment, are of the most importance for our audit of the financial statements of the current period. We have dealt with these issues in the context of our audit financial statements as a whole and in forming our opinion on them, we do not give a separate opinion on these issues. Except for issues described in paragraphs *Basis for Qualified Opinion* and *Emphasis of Matter*, we have concluded that there are no other questions to be specifically reported in this report.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

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

Auditor's 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 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 based on these financial statements.

As part of an audit in accordance with ISAs, 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 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 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.

Baker Tilly Re Opinion d.o.o.
Grbavička 4, 71000 Sarajevo

Nihad Fejzić, Director and Certified Auditor

Sarajevo, 28 April 2020




Ema Sinanović, Certified Auditor