

JP Elektroprivreda BiH d.d. - Sarajevo

**Separate annual financial
statements**

31 December 2016

This version of the report is a translation from the original, which was prepared in the Bosnian language. In all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

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Statement of the Management board's responsibilities

The Management board is required to prepare separate financial statements for each financial year which give a true and fair view of the financial position of JP Elektroprivreda BiH d.d. - Sarajevo ("the Company") and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

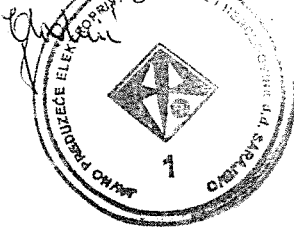
The Management board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the separate financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management board is responsible for the submission to the Supervisory board of its annual report on the Company together with the annual financial statements, following which the Supervisory board is required to approve the annual financial statements for submission to the General assembly for adoption.

The separate financial statements set out on pages 4 to 39 were authorised by the Management board on 19 May 2017 for issue to the Supervisory board and are signed below to signify this.

Bajazit Jašarević

General Manager





Independent Auditors' Report to the shareholders of JP Elektroprivreda BiH d.d. - Sarajevo

We have audited the accompanying separate financial statements of JP Elektroprivreda BiH d.d. - Sarajevo ("the Company"), which comprise the separate statement of financial position as at 31 December 2016, and the separate statements of comprehensive income, changes in equity and 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 fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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 Standards on Auditing applicable in the Federation of Bosnia and Herzegovina as at 31 December 2016. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the separate financial statements are free of 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 entity's preparation and fair presentation of the 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 principles 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 qualified opinion.

Basis for Qualified Opinion

The Company has investments in subsidiaries with a carrying value of BAM 293,737 thousand (2015: BAM 242,151 thousand), accounted for at cost. There are indications that the recoverable amount of investments in subsidiaries may be lower than its cost. International Accounting Standard IAS 36 "Impairment of Assets" requires that, where such indications exist, management makes a formal estimate of the recoverable amounts. No such estimate has been made. The effects of this departure on the separate financial statements have not been determined. This was one of the matters which formed the basis for qualified opinion on the prior year's separate financial statements.

There are indications that the recoverable amount of current receivables relating to prepayments to subsidiaries may be lower than its cost of BAM 67,497 thousand (2015: BAM 53,238 thousand). Management has not made a formal estimate of the recoverable amount of the prepayments nor has it recognized an impairment loss. The effects of this departure on the separate financial statements have not been determined. This was one of the matters which formed the basis for qualified opinion on the prior year's separate financial statements.

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Independent Auditors' Report to the shareholders of JP Elektroprivreda BiH d.d. – Sarajevo *(continued)*

Basis for Qualified Opinion (continued)

There are indications that the recoverable amount of loan receivables to subsidiaries is lower than its cost of BAM 24,594 thousand (2015: BAM 24,081 thousand). Management has not made a formal estimate of the recoverable amount of the loan receivables to subsidiaries nor has it recognized an impairment loss. The effects of this departure on the separate financial statements have not been determined. This was one of the matters which formed the basis for qualified opinion on the prior year's separate financial statements.

Qualified Opinion

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* paragraphs, the separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2016, and of its unconsolidated financial performance and its unconsolidated cash flow for the year then ended in accordance with International Financial Reporting Standards.

KPMG B-H d.o.o. za reviziju

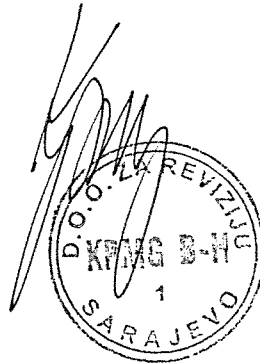
Registered auditors

Zmaja od Bosne 7-7a

71000 Sarajevo

Bosnia and Herzegovina

19 May 2017



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Separate statement of comprehensive income

For the year ended 31 December

	Note	2016 BAM'000	2015 BAM'000
Revenue	6	987,918	945,141
Other operating income	7	39,134	27,409
Total operating income		1,027,052	972,550
Work performed and capitalised	9	3,826	3,148
Raw materials, consumables and cost of goods sold	8	(501,934)	(444,556)
Personnel costs	9	(179,950)	(188,367)
Depreciation and amortization	10	(172,020)	(170,940)
Other operating expenses	11	(164,542)	(166,324)
Operating income		12,432	5,511
Finance income	12	7,185	8,207
Finance costs	12	(6,759)	(10,082)
Net finance income/(costs)		426	(1,875)
Profit before tax		12,858	3,636
Income tax expense	13	-	-
Profit for the year		12,858	3,636
Other comprehensive loss	26	(3,361)	-
Total comprehensive income for the period		9,497	3,636

Separate statement of financial position

As at

	Note	31 December 2016 BAM'000	31 December 2015 BAM'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	2,529,210	2,612,018
Intangible assets	15	20,775	19,399
Prepayments for property, plant and equipment		15,916	-
Investments in associates	16	1,950	1,950
Investments in subsidiaries	17	293,737	242,151
Loans and receivables	18	102,304	35,312
Total non-currents assets		2,963,892	2,910,830
Current assets			
Loans and receivables	18	58,600	168,624
Trade and other receivables	19	149,010	131,035
Prepayments	20	67,497	53,238
Inventories	21	61,371	82,128
Cash and cash equivalents	22	100,442	38,435
Total current assets		436,920	473,460
Total assets		3,400,812	3,384,290
EQUITY AND LIABILITIES			
Equity			
Share capital	23	2,236,964	2,236,964
Statutory reserves		39,087	39,087
Other reserves		508,664	508,664
Retained earnings		209,569	200,072
Total capital and reserves		2,994,284	2,984,787
Liabilities			
Non-current liabilities			
Loans and borrowings	24(a)	140,392	129,065
Deferred income	25	84,964	91,085
Other liabilities		-	205
Provisions	26	44,551	49,736
Total non-current liabilities		269,907	270,091
Current liabilities			
Deferred income	25	9,072	8,416
Loans and borrowings	24(b)	14,403	12,642
Trade and other payables	27	101,296	96,534
Provisions	26	11,850	11,820
Total current liabilities		136,621	129,412
Total liabilities		406,528	399,503
Total equity and liabilities		3,400,812	3,384,290

Separate statement of changes in equity

For the year ended 31 December 2016

	Share capital BAM'000	Statutory reserves BAM'000	Other reserves BAM'000	Retained earnings BAM'000	Total BAM'000
As at 1 January 2015	2,236,964	38,440	508,664	199,640	2,983,708
Profit for the year	-	-	-	3,636	3,636
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	3,636	3,636
Transactions with owners of the Company					
Contributions and distributions					
Transfers	-	647	-	(647)	-
Dividends	-	-	-	(2,557)	(2,557)
As at 31 December 2015	2,236,964	39,087	508,664	200,072	2,984,787
As at 1 January 2016	2,236,964	39,087	508,664	200,072	2,984,787
Profit for the year	-	-	-	12,858	12,858
Other comprehensive loss (Note 26)	-	-	-	(3,361)	(3,361)
Total comprehensive income	-	-	-	9,497	9,497
As at 31 December 2016	2,236,964	39,087	508,664	209,569	2,994,284

Separate statement of cash flows

For the year ended 31 December

	Note	2016 BAM'000	2015 BAM'000
Cash flows from operating activities			
Profit for the year		12,858	3,636
Adjustments for:			
Depreciation and amortisation	10	172,020	170,940
Interest and other financial income	12	(7,185)	(8,207)
Interest and other financial expenses		6,759	3,533
Write-off of liabilities	7	(9,758)	-
Net loss on disposals of property, plant and equipment	11	4,317	7,357
Changes in provision, net	26	(8,516)	(2,666)
Impairment of inventories	11	8,004	5,265
Net allowance for trade receivables		3,709	2,235
		<hr/>	<hr/>
		182,208	182,093
Change in:			
- trade receivables		(12,934)	(18,419)
- inventories		12,753	(4,971)
- prepayments		(30,175)	(23,113)
- other receivables		1,008	2,757
- trade payables		(2,146)	4,600
- other liabilities		6,703	5,488
- deferred income		(5,465)	(5,388)
		<hr/>	<hr/>
Net cash from operating activities		151,952	143,047
		<hr/>	<hr/>
Investing activities			
Purchase of property, plant and equipment	14	(89,174)	(112,033)
Purchase of intangible assets	15	(5,731)	(5,917)
Increase in investment in subsidiaries	17	(51,586)	(25,091)
(Increase)/repayment of deposits and loans	18	43,032	(27,442)
Interests received		7,185	8,207
		<hr/>	<hr/>
Net cash used in investing activities		(96,274)	(162,276)
		<hr/>	<hr/>
Financing activities			
Decrease in borrowings	24	(10,638)	(8,052)
Borrowings withdrawn		23,726	-
Interest paid		(6,759)	(3,533)
Dividends paid	23	-	(2,580)
		<hr/>	<hr/>
Net cash from financing activities		6,329	(14,165)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		62,007	(33,394)
Cash and cash equivalents at the beginning of year		38,435	71,829
		<hr/>	<hr/>
Cash and cash equivalents at the end of year	22	100,442	38,435
		<hr/> <hr/>	<hr/> <hr/>

Notes (forming part of the financial statements)

1 Reporting entity

JP Elektroprivreda Bosne i Hercegovine d.d – Sarajevo (“the Company”) is a joint stock company domiciled in Sarajevo in Bosnia and Herzegovina.

The Company principal activities are the production, distribution of electric energy, the supply of electric energy, the trade, representation and intermediation on the domestic market of electrical energy, the export and import of electric energy, including governance of electric power system.

The Company’s shares are listed on the Sarajevo Stock Exchange.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 19 May 2017. In the consolidated financial statements, subsidiaries have been fully consolidated. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity in which the Company has the power, directly or indirectly, to exercise control over their operations. Users of these non-consolidated financial statements should read them together with the Group’s consolidated financial statements as at and for the year ended 31 December 2016 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

The financial statements were approved by the Management Board on 19 May 2017.

(b) Basis of measurement

The financial statements have been prepared on the historical cost or deemed cost basis except for financial instruments at fair value through profit or loss which are measured at fair value and loans and receivables and loans and borrowings which are measured at amortised cost.

(c) Functional and presentation currency

These financial statements are prepared in the currency of Bosnia and Herzegovina, the convertible mark (BAM), which is the Company’s functional currency. All financial information presented in Convertible marks has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the *Note 32*.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
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3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these unconsolidated financial statements.

(a) Foreign currencies

Transactions in foreign currency are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not retranslated.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into functional currency at foreign exchange rates ruling at the dates at which the values were determined.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise loans, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value including, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

- *Loans and receivables*

Loans and receivables are carried at amortised cost using the effective interest method, using the effective interest method.

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits, petty cash, cash at bank and deposits at bank with a maturity of up to three months.

- *Interest bearing loans and borrowings*

Interest bearing loans and borrowings are recognised initially at fair value of the proceeds received, less attributable transaction costs. In subsequent periods, interest bearing loans and borrowings are stated at amortised cost using the effective interest method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings on an effective interest basis.

- *Non interest loans and borrowings*

Non interest loans and borrowings which are due in less than a year are not discounted to market related rate at the reporting date.

- *Trade payables*

Trade payables are realized initially at fair value and subsequently at amortised cost, using the effective interest method.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, that is, the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Accounting for finance income and finance cost is discussed in Note 3(m).

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
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3 Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Issued capital

Repurchase of issued capital

When issued capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased stakes are classified as a treasury stake and are presented as a deduction from total equity.

(c) Investment in subsidiaries

Subsidiaries are entities which are controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity in which the Company has the power, directly or indirectly, to exercise control over their operations. Investments in subsidiaries are stated at cost, less any impairment losses.

(d) Investment in associates

Associates are those entities in which the Company has significant influence, but does not have control over the financial and operating policies of the associate. Associates are initially recognised at cost, with subsequent measurement at cost less impairment losses.

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (refer to Note 3(h)).

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. In addition, costs include, when the Company has the obligation to move the asset or restore the site, an estimate of the cost of dismantling the items and restoring the site on which they are located.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and assets under construction are not depreciated.

The estimated useful lives are as follows:

Buildings	16 to 80 years
Plant and equipment	3 to 17 years
Other	3 to 5 years

Depreciation method and useful lives are reassessed at each reporting date.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
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3 Significant accounting policies (continued)

(f) Intangible assets

(i) Development

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

(ii) Software

Software is measured initial at cost. After initially recognition, software is carried at its costs less any accumulated amortisation and any accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement when incurred.

(iv) Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful life for the current and comparative periods as follows:

Software and development costs 2 to 10 years

Amortisation method and useful lives are reassessed at each reporting date.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories are valued based on purchase price and include the costs of bringing the inventories to a condition ready for use, using the weighted average cost principle.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
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3 Significant accounting policies (continued)

(h) Impairment

The carrying amounts of the Company's assets, other than inventories (refer to Note 3 (g)) and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised whenever the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognised in profit or loss.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

(i) Calculation of recoverable amount

The recoverable amount of the financial assets carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (that is, the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
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3 Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Reversal of impairment (continued)

If in a subsequent period the amount of any impairment loss of a receivable decreases due to an event occurring subsequent to the write-down, then the previously recognised impairment loss is reversed through profit or loss with a corresponding increase in the carrying amount of the underlying asset. The reversal is limited to an amount that does not state the asset at more than what its amortised cost would have been in the absence of impairment.

In respect of other assets, non-financial assets an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(i) Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(j) Employee benefits

(i) Defined contributions for pension fund

Obligations for contributions to defined contribution pension funds are recognised as an expense in the income statement when they are due, which is the period during which services are rendered by employees.

(ii) Retirement benefits

The Company's net obligation in respect of retirement benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the average interest rate on loans of commercial banks, whose maturity dates are approximately the same in terms and conditions of the liabilities of the Company.

(iii) Jubilee awards

The Company provides employees with jubilee awards. The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation. During 2015, jubilee awards were between one and three average salaries paid to the employee depending on length of employment from 10 to 30 years. During 2016, changes were made in the Labor by-law, so that jubilee awards vary on average from one to two average net salaries paid in the Federation of Bosnia and Herzegovina, depending on length of employment from 10 to 30 years.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
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3 Significant accounting policies (continued)

(k) Revenue

Goods sold and services rendered

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Revenue from services is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date.

Revenue from connection fees is recognized in the period when installation takes place.

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT), except where the amount of VAT incurred is not recoverable from the State. In these circumstances the VAT is recognised as part of the cost of acquisition of the asset or part of an item of the expense.

Receivables and payables are stated with the amount of VAT included. The amount of VAT recoverable from the State is included in current receivables. The amount of VAT payable to the State is included in current payables. Revenue from the sale of goods is recognised at the date the goods are delivered and represents the net invoiced value of goods and excludes value added taxes.

Accrued income from electricity

Electricity delivered to customers, but not yet invoiced, is recognized within revenue in an estimated amount. The estimate of monthly changes in not yet invoiced electricity derives from measured supply of electricity less invoiced consumption and estimated transmission losses.

(l) Grant income

Grants in cash and equipment used as investment in progress, for assets reconstruction and for other operations, are presented in the statement of financial position as deferred income, which is recognised in the income statement on a straight-line basis in future periods, so that it can be used in investments or regular operations during the estimated economic life of the donated asset.

(m) Finance income and costs

Finance income and finance costs comprise interest payable on borrowings calculated using the effective interest rate method, penalty interest, interest receivable on funds invested, dividend income, foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset. Dividend income is recognised in the income statement on the date that the Company's right to receive payments is established.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in net profit or loss in the period in which they are incurred.

Notes (continued)

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3 Significant accounting policies (continued)

(n) Commodity contracts

According to IAS 39, certain commodity contracts are treated as financial instruments and fall into the scope of the standard. Most commodity purchase and sales contracts entered into by the Company provide for physical delivery of quantities intended to be consumed or sold as part of its ordinary business; such contracts are thus excluded from the scope of IAS 39. In particular, forward purchases and sales for physical delivery of energy are considered to fall outside the scope of application of IAS 39, when the contract concerned is considered to have been entered into as part of the Company's normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

- A physical delivery takes place under such contracts;
- The volumes purchased or sold under the contracts correspond to the Group's operating requirements;
- The contract cannot be considered as a written option as defined by the standard IAS 39. In the specific case of electricity sales contracts, the contract is substantially equivalent to a firm forward sale or can be considered as a capacity sale.

(o) Income tax expense

Corporate income taxes are computed on the basis of reported income under the laws and regulations of Federation of Bosnia and Herzegovina for the parent Company and its subsidiaries.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse using tax rates enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company's current operation is in the segment of electricity production and distribution (business segment) and its operations, total assets and the majority of its customers are located in Bosnia and Herzegovina.

Notes (continued)

4 New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 with the possibility of earlier implementation; however the Company has not applied the following new or amended standards in preparing these financial statements.

- *IFRS 9 Financial instruments* is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to adopt IFRS 9 initially on 1 January 2018. The actual impact of adopting IFRS 9 on the Company's financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standards will require the Company to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

Based on its preliminary assessment, the Company does not believe that the new classification requirements, if applied at 31 December 2016, would have had a material impact on its accounting for trade receivables and loans. The Company's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the financial liabilities were applied at 31 December 2016.

- *IFRS 15 Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

The Company plans to adopt IFRS 15 in its financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Company will apply all of the requirements of IFRS 15 to each comparative period presented and adjust its financial statements. The Company is currently performing a detailed assessment of the impact resulting from the application of IFRS 15 and expects to disclose additional quantitative information before adopting IFRS 15.

- *IFRS 16 Leases* – IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases – Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from contracts with customers at or before the date of initial application of IFRS 16. The Company has not started an initial assessment of the potential impact on its financial statements.

The following new or amended standards are not expected to have a significant impact of the Company's financial statements.

- *Classification and measurement of share-based payment transactions (Amendments to IFRS 2)*
- *Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)*

Notes (continued)

5 Fair value measurement

The Company included additional disclosures regarding fair value measurement as explained below.

The Company has an established control framework with respect to the measurement of fair values. This framework comprises overall responsibility of management and the finance department for overseeing all significant fair value measurements, consultations with external experts and, in the same context, reporting to bodies in charge of corporate governance.

Fair value is measured in relation to information collected from third parties in which case Management and finance department assess whether information collected from third parties is sufficient for fair value estimates to fulfill IFRS requirements, including the level within fair value hierarchy in which those estimates should be classified.

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement:

- *level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *level 2*: inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *level 3*: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Fair value of financial instruments trading on active markets is based on quoted market prices on the reporting date. A market is considered to be active if quoted prices are known through stock exchange, broker quotes, industrial group or regulatory agency and those prices represent actual and regular market transactions under common trading conditions.

Fair value of financial instruments trading on active markets is determined through different valuation techniques. Those valuation techniques require use of market observable data as far as possible, with minimum use of estimates specific for each subject. If all significant inputs required for fair valuation are observable, fair value measurement is categorized as level 2.

If one or more of significant inputs is not based on observable market inputs, fair value estimate is categorised as level 3.

The Company established following fair value estimates in process of preparation of financial statements:

(i) *On call bank deposits*

The carrying value of on call bank deposits approximates their fair value due to their proximity in nature to cash and their short-term nature.

(ii) *Trade and other receivables / payables*

The current value of trade and other receivables/payables is estimated to be a reasonable estimation of their fair value due to short-term nature of those instruments.

(iii) *Short-term loans receivables*

The carrying value of loans receivables approximates their fair value due to their short-term nature.

(iv) *Long-term loan liabilities*

The fair value of long-term loan liabilities is based on the market value for identical or similar loans or on current interest rates on loans with the same maturity date. The carrying value of long-term loan liabilities with variable interest rates approximates their fair value.

Notes (continued)

6 Revenue

	2016 BAM'000	2015 BAM'000
Sale of electric energy in domestic market	920,712	894,767
Sale of electric energy abroad	11,425	18,337
Sale of services and other revenue	55,781	32,037
	<u>987,918</u>	<u>945,141</u>

7 Other operating income

	2016 BAM'000	2015 BAM'000
Write off of liabilities towards the State (Note 19)	9,758	-
Collection of bad debts	3,069	2,058
Grant revenue	9,072	8,416
Insurance claims	760	835
Penalty income	516	731
Rental income	880	983
Gain on sale of raw materials	777	-
Release of provision for court cases	1,598	1,103
Dividend income	1,100	-
Surpluses and other adjustments	-	5,025
Actuarial gains	8,148	2,124
Other revenues	3,456	6,134
	<u>39,134</u>	<u>27,409</u>

In 2010, the Company was inspected by tax authorities. Additional direct tax liabilities of BAM 14,929 thousand were identified, which the Company settled in 2011. In 2011, The Company filed an administrative dispute on this issue, based on which the Cantonal court declared a verdict by which the procedure is returned to the Tax administration of FBiH for a new procedure. In 2014, the Tax administration of FBiH conducted a new inspection and established a new total of additional liabilities of BAM 5,171 thousand. In 2014, the Company filed an administrative dispute against this decision also; up to the reporting date, there have been no new events regarding this dispute.

The Tax administration of FBiH issued a notice to the Company in December 2016, in which it confirmed the prepayment amount of BAM 9,758 thousand. Based on this notice, the Company recognized income from write-off of liabilities towards the State of BAM 9,758 thousand at the reporting date. In February 2017, the Tax administration of FBiH issued a decision on the establishment of prepaid public contributions in the amount of BAM 9,758 thousand. According to this document, the decision on the return of funds will be made by the Federal Ministry of Finance, based on which the funds will be paid into the account of the Company.

During 2016, the Company received dividends from subsidiary Eldis Tehnika d.o.o. in the amount of BAM 1,100 thousand.

Notes (continued)

8 Raw materials and consumables

	2016 BAM'000	2015 BAM'000
Coal consumed	340,181	312,575
Cost of electricity sold	87,214	61,680
Cost of delivery and analysis of coal	28,925	24,229
Materials used for maintenance	8,744	10,610
Cost of fuel	6,262	6,612
Other raw materials and consumables	30,608	28,850
	<u>501,934</u>	<u>444,556</u>

9 Personnel costs

	2016 BAM'000	2015 BAM'000
Wages and salaries	122,277	126,065
Compulsory social security contributions	56,229	58,229
Other staff costs	1,444	4,073
	<u>179,950</u>	<u>188,367</u>
Own work capitalised	(3,826)	(3,148)
	<u>176,124</u>	<u>185,219</u>

The number of employees in the Company at year end was 4,584 (2015: 4,650). Personnel costs include BAM 33,336 thousand (2015: BAM 33,060 thousand) of defined pension contributions paid into obligatory pension funds.

Other employee costs include entitlements for retirement benefits and jubilee awards.

10 Depreciation and amortisation

	2016 BAM'000	2015 BAM'000
Depreciation	167,665	166,888
Amortisation	4,355	4,052
	<u>172,020</u>	<u>170,940</u>

Notes (continued)

11 Other operating expenses

	2016 BAM'000	2015 BAM'000
Transport services and cost of electricity transfer	42,970	41,814
Memberships and other taxes	19,440	18,727
Maintenance	18,605	18,676
Water contributions and contributions for hydro accumulation	26,328	21,533
Wastage of materials	2,138	2,924
Provisions for court cases	5,257	2,493
Air pollution fees	5,362	5,567
Loss on disposal of fixed assets	4,317	7,357
Bad debt expenses	4,069	4,293
Write-off of other receivables	2,709	-
Insurance costs	1,362	4,480
External services	2,828	3,613
Telecommunication costs	5,035	4,539
Impairment of inventories	8,004	5,265
Services from third parties	1,885	1,857
Provision for retirement benefits and jubilee awards	-	3,637
Current service cost	1,473	3,788
Inventory deficits	42	99
Dismantling provision	1,136	1,052
Rent expense	458	480
Entertainment costs	184	230
Bank charges	169	187
Other expenses	10,771	13,713
	<u>164,542</u>	<u>166,324</u>

12 Net finance income/(costs)

	2016 BAM'000	2015 BAM'000
Interest income	3,649	4,385
Foreign exchange gains	434	241
Income from penalty interest	2,832	3,115
Other finance income	270	466
Finance income	<u>7,185</u>	<u>8,207</u>
Interest expenses	(3,399)	(3,533)
Unwinding of discount on retirement benefits	(1,955)	(1,983)
Penalty interest	(66)	(238)
Foreign exchange losses	(1,339)	(4,328)
Finance costs	<u>(6,759)</u>	<u>(10,082)</u>
Net finance income/(costs)	<u>426</u>	<u>(1,875)</u>

Notes (continued)

13 Income tax expense

The following is a reconciliation of income taxes calculated at the applicable tax rate with profit tax expense:

	2016 BAM'000	2015 BAM'000
Profit before tax	12,858	3,636
Profit tax at 10%	1,286	364
Non-deductible expenses	3,325	1,544
Non-taxable income	(110)	-
Adjustment of taxable income	450	-
Tax relief due to investment	(4,951)	(1,908)
Income tax expense	-	-
Effective tax rate for the year	0%	0%

According to the Law on income tax of the Federation of Bosnia and Herzegovina (FBiH), which was in effect until 1 January 2016, a tax payer who, in a period of five consecutive years invests in production in the amount of at least BAM 20 million on the territory of FBiH, is exempted from income tax for a period of five years, beginning with the first year of investment in which at least BAM 4 million must be invested. The Company started using this benefit in 2013.

Below are tax incentives in accordance with the Law on Income tax of the Federation of Bosnia and Herzegovina (FBiH) which is in effect from 1 January 2016.

Taxable profit is the accounting profit adjusted for non-deductible and non-taxable items in accordance with the provisions of the Law on corporate income tax of FBiH. Currently, the mentioned law provides the following tax incentives:

- A 30% corporate income tax holiday if a taxpayer invests more than 50% of the profit of the current tax period in production equipment;
- A 50% corporate income tax holiday for a five-year period if the taxpayer invests BAM 20 million in production facilities on the territory of the FBiH, provided that no less than BAM 4 million is invested in the first year;
- Reduction of the corporate income tax base in the amount of the double gross salary paid to newly hired employees provided the following conditions are met:
 - a) the employment contract has to be a full time labor agreement concluded for a period of at least 12 months, and
 - b) the newly hired employee hasn't been employed by the taxpayer or related party in the past five years.

Tax calculations are performed based on the Company's interpretation of current tax laws and regulations. These calculations which support the tax return may be subject to review and approval by the local tax authority.

Notes (continued)

14 Property, plant and equipment

	Land BAM'000	Buildings BAM'000	Plant and equipment BAM'000	Under construction BAM'000	Total BAM'000
Cost or deemed cost					
At 1 January 2015	87,293	4,057,038	3,267,779	175,632	7,587,742
Additions	-	-	-	112,033	112,033
Disposals and write offs	(2,198)	(9,125)	(26,898)	-	(38,221)
Transfer to intangible assets	-	(6)	(100)	-	(106)
Transfers	1,944	94,569	71,470	(167,983)	-
At 31 December 2015	87,039	4,142,476	3,312,251	119,682	7,661,448
At 1 January 2016	87,039	4,142,476	3,312,251	119,682	7,661,448
Additions	-	-	-	89,174	89,174
Disposals and write offs	(18)	(14,290)	(23,749)	-	(38,057)
Transfers	367	57,373	46,632	(104,372)	-
At 31 December 2016	87,388	4,185,559	3,335,134	104,484	7,712,565
Accumulated depreciation and impairment losses					
At 1 January 2015	1	2,538,424	2,374,981	-	4,913,406
Charge for the year	-	71,728	95,160	-	166,888
Disposals and write offs	-	(7,710)	(23,154)	-	(30,864)
At 31 December 2015	1	2,602,442	2,446,987	-	5,049,430
At 1 January 2016	1	2,602,442	2,446,987	-	5,049,430
Charge for the year	-	73,313	94,352	-	167,665
Disposals and write offs	-	(12,293)	(21,447)	-	(33,740)
At 31 December 2016	1	2,663,462	2,519,892	-	5,183,355
Carrying amount					
At 1 January 2015	87,292	1,518,614	892,798	175,632	2,674,336
At 31 December 2015	87,038	1,540,034	865,264	119,682	2,612,018
At 1 January 2016	87,038	1,540,034	865,264	119,682	2,612,018
At 31 December 2016	87,387	1,522,097	815,242	104,484	2,529,210

As at 31 December 2016, assets under construction relate to buildings (BAM 30,100 thousand), equipment (BAM 31,693 thousand), land (BAM 7,502 thousand) and other assets under construction (BAM 35,189 thousand).

During 2016, the Company impaired assets in the amount of BAM 4,317 thousand (2015: BAM 7,357 thousand).

During 2016, the Company capitalized loan interest on loans and borrowings in the amount of BAM 1,247 thousand (2015: no loan interest capitalized).

Notes (continued)

15 Intangible assets

	Software BAM'000	Development costs BAM'000	Under construction BAM'000	Total BAM'000
Cost				
At 1 January 2015	5,106	21,069	1,782	27,957
Additions	-	-	5,917	5,917
Disposal and write off	-	(27)	-	(27)
Transfer from property, plant and equipment	106	-	-	106
Transfers	1,170	2,764	(3,934)	-
At 31 December 2015	6,382	23,806	3,765	33,953
At 1 January 2016	6,382	23,806	3,765	33,953
Additions	-	-	5,731	5,731
Disposal and write off	-	(271)	-	(271)
Transfers	2,636	3,244	(5,880)	-
At 31 December 2016	9,018	26,779	3,616	39,413
Accumulated amortisation and impairment losses				
At 1 January 2015	2,033	8,496	-	10,529
Charge for the year	662	3,390	-	4,052
Disposal and write off	-	(27)	-	(27)
At 31 December 2015	2,695	11,859	-	14,554
At 1 January 2016	2,695	11,859	-	14,554
Charge for the year	1,016	3,339	-	4,355
Disposal and write off	-	(271)	-	(271)
At 31 December 2016	3,711	14,927	-	18,638
Carrying amount				
At 1 January 2015	3,073	12,573	1,782	17,428
At 31 December 2015	3,687	11,947	3,765	19,399
At 1 January 2016	3,687	11,947	3,765	19,399
At 31 December 2016	5,307	11,852	3,616	20,775

As at 31 December 2016, assets under construction include software (BAM 2,008 thousand).

Notes (continued)

16 Investments in associate

The Company's share of net assets of its associate is as follows:

Associate	Reporting date	Business activity	Ownership	31 December 2016 BAM'000	31 December 2015 BAM'000
ETI d.o.o. Sarajevo	31 December 2016	Production of fuses	49%	1,950	1,950

17 Investments in subsidiaries

Subsidiary	Business activity	Ownership	31 December 2016 BAM'000	31 December 2015 BAM'000
Rudnici Kreka d.o.o.	Coal mine extraction	100%	86,736	80,555
RMU Kakanj d.o.o.	Coal mine extraction	100%	79,007	57,629
RMU Zenica d.o.o.	Coal mine extraction	100%	36,233	27,314
RMU Breza d.o.o.	Coal mine extraction	100%	41,152	39,453
RMU Đurđevik d.o.o.	Coal mine extraction	100%	19,584	19,109
RU Gračanica d.o.o.	Coal mine extraction	100%	10,593	7,742
RMU Abid Lolić d.o.o.	Coal mine extraction	100%	7,219	3,784
Investment in coal mines			280,524	235,586
	Production of electro equipment and services			
Iskraemeco d.o.o.		57.5%	3,193	3,193
Hotel ELBiH Makarska d.d.	Hotel services	100%	2,048	2,048
Eldis Tehnika d.o.o.	Energy management and supplies	100%	1,324	1,324
TTU Energetik d.o.o.	Production of transport devices	80%	6,648	-
Investment in other subsidiaries			13,213	6,565
Total investment in subsidiaries			293,737	242,151

During 2016, the Company made additional investments in the coal mines in the total amount of BAM 44,937 thousand (2015: 25,091 thousand).

During 2016, the Company acquired an 80% stake in the newly established company TTU Energetik d.o.o.

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18 Loans and receivables

	31 December 2016 BAM'000	31 December 2015 BAM'000
Long term		
Term deposits	80,190	12,974
Loans to employees	2,371	4,477
Loans to subsidiaries	18,201	17,861
Other receivables	1,542	-
	<hr/>	<hr/>
	102,304	35,312
	<hr/>	<hr/>
Short term		
Term deposits	51,072	154,533
Current portion of long-term loans to employees	863	7,871
Current portion of long-term loans to subsidiaries	6,393	6,220
Other receivables	272	-
	<hr/>	<hr/>
	58,600	168,624
	<hr/> <hr/>	<hr/> <hr/>

Term deposits relate to short and long term placements with banks that bear interest between 0.8% and 2.55% per annum. The deposits' maturity dates are between January 2017 and January 2019.

Loans to employees comprise housing loans to employees, bearing interest between 4.25% to 5.75% p.a., repayable over 15 to 20 years, secured by bills of exchange and mortgages.

Loans to subsidiaries in the total amount of BAM 24,594 thousand (2015: 24,081 thousand) consist of loans to RMU Kakanj in the amount of BAM 1,707 thousand (2015: BAM 2,688 thousand), RMU Zenica in the amount of BAM 659 thousand (2015: BAM 202 thousand), Rudnici Kreka in the amount of BAM 15,197 thousand (2015: BAM 15,715 thousand), RMU Breza in the amount of BAM 2,996 thousand (2015: BAM 1,221 thousand) and RMU Đurđevik in the amount of BAM 3,485 thousand (2015: BAM 4,255 thousand), and RMU Abid Lolić in the amount of BAM 550 thousand (2015: 0), all with an interest rate of 1.5% p.a.

19 Trade and other receivables

	31 December 2016 BAM'000	31 December 2015 BAM'000
Trade receivables – related parties	2,928	2,947
Trade receivables – third parties	167,530	156,541
Trade receivables – impairment	(46,332)	(47,296)
	<hr/>	<hr/>
Trade receivables – net	124,126	112,192
VAT receivable	3,036	5,619
Income tax prepayments (Note 7)	9,758	-
Accrued revenue	6,359	6,144
Claims for subsidies	2,225	2,991
Other receivables	3,506	4,089
	<hr/>	<hr/>
	149,010	131,035
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

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20 Prepayments

	31 December 2016 BAM'000	31 December 2015 BAM'000
Prepayments made to subsidiaries	65,548	52,141
Prepayments to third parties	1,949	1,097
	<u>67,497</u>	<u>53,238</u>

Prepayments made to subsidiaries relate to prepaid coal.

21 Inventories

	31 December 2016 BAM'000	31 December 2015 BAM'000
Raw materials	48,707	62,642
Spare parts	12,659	19,373
Merchandise	5	113
	<u>61,371</u>	<u>82,128</u>

In 2016, the impairment of inventories amounted to BAM 8,004 thousand (2015: BAM 5,265 thousand).

22 Cash and cash equivalents

	31 December 2016 BAM'000	31 December 2015 BAM'000
Bank balances in BAM	55,512	17,141
Bank balances in foreign currencies	44,405	20,969
Petty cash	525	325
	<u>100,442</u>	<u>38,435</u>

23 Share capital

	31 December 2016 BAM'000	31 December 2015 BAM'000
Share capital	2,236,964	2,155,160

The authorised and issued share capital comprises 31,506,541 ordinary shares (2015: 31,506,541). The par value of each share is BAM 71 (2015: BAM 71). During 2016, no dividends were paid (2015: BAM 2,557 thousand).

(i) Contributed but unregistered capital

As of 30 September 2009, the Government of the Federation of Bosnia and Herzegovina ('FBiH') transferred a 100% stake in seven coal mines to the Company at a total value of BAM 81,804 thousand. For this amount the Company issued shares to the Federation of BiH in 2014 through which the Government of FBiH increased its share in the Company; the increase in the Company's share capital was also registered in court in 2014. The Council of competition of FBiH has approved on 30 September 2009 transfer of 100% stake in seven coal mines from the Government of FBiH to the Company.

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24 Loans and borrowings

	31 December 2016 BAM '000	31 December 2015 BAM '000
(a) <i>Non-current loans and borrowings</i>		
Loans	140,392	129,065
(b) <i>Current loans and borrowings</i>		
Loans	14,403	12,642
(c) <i>Total loans and borrowings</i>	154,795	141,707

(d) *Interest rates and terms of repayment for the Company at 31 December 2016 are as follows:*

Loans and borrowings	Interest rate	Total BAM'000	1 year or less BAM'000	1-2 years BAM'000	3-5 years BAM'000	More than 5 years BAM'000
<i>Loans from banks</i>						
<i>Variable interest rate instruments</i>						
BAM 140,109,021	2.5%	40,761	5,332	8,538	26,891	-
BAM 21,866,179	1.2%	17,663	1,859	1,859	5,578	8,367
BAM 72,794,641	0.75%	29,688	1,283	1,634	4,912	21,859
<i>Other loans</i>						
BAM 213,947,507	3.7%	66,683	5,929	2,368	7,705	50,681
Total loans and borrowings		154,795	14,403	14,399	45,086	80,907

25 Deferred income

	31 December 2016 BAM'000	31 December 2015 BAM'000
Long term		
Deferred income for granted assets	84,198	90,367
Deferred income for granted inventories	608	643
Deferred income for granted cash	158	75
	84,964	91,085
Short term		
Other deferred income	9,072	8,416
	9,072	8,416
Total deferred income	94,036	99,501

Notes (continued)

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26 Provisions

	Law suits BAM'000	Dismantling provision BAM'000	Retirement benefits and jubilee awards BAM'000	Total BAM'000
Balance at 1 January 2016	11,820	14,197	35,539	61,556
Provision made during the year	5,257	1,136	1,473	7,866
Provision reversed during the year	(1,598)	-	(2,832)	(4,430)
Provision used during the year	(3,629)	-	(4,962)	(8,591)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	11,850	15,333	29,218	56,401
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
			31 December 2016 BAM'000	31 December 2015 BAM'000
Current portion of provisions			11,850	11,820
Non-current portion of provision			44,551	49,736
			<hr/>	<hr/>
			56,401	61,556
			<hr/> <hr/>	<hr/> <hr/>

Law suits

The Company recorded a provision for court cases in the amount of BAM 11,850 thousand. See *Note 29* for further details.

Dismantling provision

A provision of BAM 1,136 thousand was made during 2016 in respect of the Company obligation for dismantling and removing the items of thermo plants in Kakanj and Tuzla (2015: BAM 1,052 thousand). The Company assumes that the site will be restored and the items will be removed and dismantled using technology and materials that are available currently. The estimated dismantling costs are revised at each reporting date. The provision has been calculated using a discount rate of 8%.

Notes (continued)

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26 Provisions (continued)

Retirement benefits

The provision for retirement benefits is calculated as follows:

	31 December 2016 BAM'000	31 December 2015 BAM'000
Opening balance	35,539	36,053
Interest expenses	1,955	1,983
Current service costs	1,473	3,778
Actuarial gains recognized in income statement	(8,148)	(2,124)
Actuarial losses recognized through other comprehensive income	3,361	-
Retirement benefits paid	(4,962)	(4,151)
	<u>29,218</u>	<u>35,539</u>

The following is the principal actuarial assumptions at the reporting date.

	31 December 2016	31 December 2015
Discount rate	3.5%	5.5%
Expected salary increase in the Company	2%	2.5%

The employees are entitled to a retirement at the age of 65 or after 40 years of service. The actuarial appraisal for 2016 used the assumptions regarding the worker fluctuations of 0.58%.

The Company prepared a sensitivity analysis for changes in relevant actuarial assumptions as follows:

Change in parameters	Increase/(decrease) of liability as at 31 December 2016 in BAM '000
Decrease of discount rate by 0.5%	1,380
Increase of discount rate by 0.5%	(1,262)
Decrease in the salary increase in FBiH by 0.5%	(195)
Increase in the salary increase in FBiH by 0.5%	208
Decrease in the salary increase in the Company by 0.5%	(676)
Increase in the salary increase in the Company by 0.5%	722
Decrease in the mortality coefficient by 10%	(67)
Increase in the mortality coefficient by 10%	8

Notes (continued)

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27 Trade and other payables

	31 December 2016 BAM'000	31 December 2015 BAM'000
Trade payables – related parties	12,615	14,857
Trade payables – third parties	26,712	26,616
Accrued expenses	24,659	25,904
Liabilities for dividends	375	375
Prepayment from suppliers	14,501	13,741
Liabilities for air pollution fees	5,362	5,567
Liabilities for renewable energy fees	1,146	736
Liabilities for hydro-accumulation	1,369	811
Other short term liabilities	14,557	7,927
	<u>101,296</u>	<u>96,534</u>

As at 31 December 2016, accrued expenses include liabilities towards subsidiaries in the amount of Bam 558 thousand (31 December 2015: BAM 2,068 thousand).

28 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has no significant exposure to liquidity risk.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rate, interest rates and equity prices will affect the Company's income or value of its holdings of financial instruments.

Exposure to credit, interest and currency risk arises in the normal course of the Company's business.

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	31 December 2016 BAM'000	31 December 2015 BAM'000
Loans and receivables	18, 19	309,914	334,971
Prepayments	20	67,497	53,238
Cash and cash equivalents	22	100,442	38,435
		<u>477,853</u>	<u>426,644</u>

Notes (continued)

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28 Financial risk management (continued)

Credit risk (continued)

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	31 December 2016 BAM'000	31 December 2015 BAM'000
Domestic	122,952	110,670
Foreign	1,174	1,522
	<u>124,126</u>	<u>112,192</u>

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	31 December 2016 BAM'000	31 December 2015 BAM'000
Wholesale customers	102,928	91,864
Retail customers	21,198	20,328
	<u>124,126</u>	<u>112,192</u>

The ageing of trade receivables at the reporting date was:

	2016 BAM'000	2015 BAM'000
Not due and past due to 90 days	121,271	106,875
Past due 91 – 180 days	2,005	2,472
Past due 181 – 365 days	850	2,721
Past due over 365 days	-	124
	<u>124,126</u>	<u>112,192</u>

The movement in the impairment of trade receivables is as follows:

BAM'000

At 1 January 2016	47,296
Impairment loss recognised (Note 11)	4,069
Reversal of impairment (Note 7)	(3,069)
Derecognition of previously impaired trade receivables	(1,964)
At 31 December 2016	<u>46,332</u>

Notes (continued)

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28 Financial risk management (continued)

Liquidity risk

The following are the contractual maturities of financial liabilities:

31 December 2016	Carrying amount BAM'000	Contractual Cash flows BAM'000	6 months or less BAM'000	6-12 months BAM'000	1-2 years BAM'000	2-5 Years BAM'000	More than 5 years BAM'000
Trade and other payables	101,296	(101,296)	(101,296)	-	-	-	-
Interest bearing loans	154,795	(165,594)	(7,197)	(7,317)	(15,075)	(47,502)	(88,503)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
31 December 2015	Carrying amount BAM'000	Contractual Cash flows BAM'000	6 months or less BAM'000	6-12 months BAM'000	1-2 years BAM'000	2-5 Years BAM'000	More than 5 years BAM'000
Trade and other payables	96,534	(96,534)	(96,534)	-	-	-	-
Interest bearing loans	141,707	(155,145)	(9,042)	(4,521)	(10,054)	(31,434)	(100,094)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Currency risk

Exposure to currency risk

The Company incurs foreign currency risk on sales, purchases, interest bearing loans and borrowings and loans and other receivables that are denominated in a currency other than convertible mark. The currencies giving rise to this risk are primarily EUR, USD, XDR, YEN and CHF. These exposures are not currently hedged.

The Company's exposure to foreign currency risk was as follows based in functional currency:

In thousand BAM	31 December 2016			
	EUR	XDR	YEN	CHF
Loans and other receivables	122,435	-	-	-
Trade payables and interest bearing loans and borrowings	(109,152)	(34,491)	(12,692)	(1,609)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross balance sheet exposure	13,283	(34,491)	(12,692)	(1,609)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes (continued)

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28 Financial risk management (continued)

Currency risk (continued)

<i>In thousand BAM</i>	31 December 2015				
	EUR	USD	XDR	YEN	CHF
Loans and other receivables	163,312	-	-	-	-
Trade payables and interest bearing loans and borrowings	(89,563)	(161)	(37,956)	(12,437)	(1,597)
Gross balance sheet exposure	73,749	(161)	(37,956)	(12,437)	(1,597)

	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
EUR	1.95583	1.95583	1.95583	1.95583
USD	1.76749	1.76247	1.85545	1.79007
XDR	2.45749	2.47136	2.62098	2.48944
YEN	0.01626	0.01616	0.01585	0.01486
CHF	1.79453	1.83136	1.82124	1.80861

Notes (continued)

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28 Financial risk management (continued)

Currency risk (continued)

Sensitivity analysis

Since there were no fluctuations in the EUR vs. BAM foreign exchange rate since the introduction of the BAM, sensitivity analysis is not necessary for amounts denominated in EUR. A reasonably possible strengthening (weakening) of the USD, XDR, YEN or CHF would have affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

<i>In thousand BAM</i>	Strengthening	Weakening
31 December 2016		
XDR	(345)	345
YEN	(127)	127
CHF	(16)	16
 <i>In thousand BAM</i>		
31 December 2015		
USD	(2)	2
XDR	(380)	380
YEN	(124)	124
CHF	(16)	16

Interest rate risk

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Carrying amount	
	2016	2015
	BAM'000	BAM'000
Fixed rate instruments		
Financial assets	160,904	203,936
Financial liabilities	(43,547)	(30,269)
	<hr/>	<hr/>
	117,357	173,667
	<hr/> <hr/>	<hr/> <hr/>

	Carrying amount	
	2016	2015
	BAM'000	BAM'000
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(111,248)	(111,438)
	<hr/>	<hr/>
	(111,248)	(111,438)
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

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28 Financial risk management (continued)

Interest rate risk (continued)

Sensitivity analysis for variable rate instruments

A change of 100 basis points in the interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

BAM'000	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2016				
Cash flow sensitivity analysis	(829)	1,374	(829)	1,374
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
31 December 2015				
Cash flow sensitivity analysis	(383)	1,677	(383)	1,677
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Capital management

The Company monitors capital using net debt to equity ratio. For this purpose, net debt is defined as total liabilities (which include interest bearing loans and borrowings) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted equity comprises all components of equity other than amounts recognised in equity relating to merger reserves, less unaccrued proposed dividends.

The Company's adjusted net debt to equity ratio at the end of the reporting period was as follows:

	31 December 2016 BAM'000	31 December 2015 BAM'000
Total liabilities	406,528	399,503
Less: cash and cash equivalents	(100,442)	(38,435)
Net debt	<u>306,086</u>	<u>361,068</u>
Equity	2,994,284	2,984,787
Total	<u>0.10</u>	<u>0.12</u>

28 Contingent liabilities

Court cases

As of 31 December 2016, court proceedings were initiated against the Company in the total amount of BAM 53,276 thousand (2015: BAM 47,177 thousand). As of 31 December 2016, the Company has created a provision for law suits of BAM 5,257 thousand (2015: BAM 2,493 thousand), so that the total provisions as at 31 December 2016 amounted to BAM 11,850 thousand. For the remainder of the court proceedings, which are not provided for, either, based on the first instance verdict, are settled in the favour of the Company or Management is of the opinion that they are without merit and therefore management believes that current provision for law suits is sufficient.

29 Environmental matters

The principal activities of the Company are the generation and distribution of electricity, and the control of the electric power systems. These principal business activities can have inherent effects on the environment in terms of emissions into land, water and air. The environmental effects of the Company's activities are monitored by local management and environmental authorities.

Notes (continued)

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30 Environmental matters (continued)

In the past years, the creation of a system of environmental management has been underway in Bosnia and Herzegovina, based on the principles applied in the European Union. Up to now the sector legislation in Bosnia and Herzegovina covered air, water and waste, while noise, chemicals and ionising radiation were not covered. As far as horizontal legislation is concerned, the development of bylaws regulating environmental licenses is underway.

As part of the European Union integration strategy, environmental regulations similar to those at other European Union countries may be introduced in Bosnia and Herzegovina. Such environmental regulations may have an impact on environmental liabilities for the Company which management has not been able to estimate.

31 Related party transactions

(a) Related parties under common ownership – Enterprises controlled by the Government

The company is under the majority ownership by the Government of the Federation of Bosnia and Herzegovina. The following are the major transactions with the companies controlled by the Government of the Federation of Bosnia and Herzegovina, Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo and Elektroprenos BiH a.d. Banja Luka. Other transactions with companies controlled by the government are not individually significant; they occur during the normal course of business and relate to utilities.

Receivables	31 December 2016 BAM 000	31 December 2015 BAM 000
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	567	578
Elektroprenos BiH a.d. Banja Luka	15	10
	<u>582</u>	<u>588</u>
	<u><u>582</u></u>	<u><u>588</u></u>
Liabilities	31 December 2016 BAM 000	31 December 2015 BAM 000
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	1,919	1,785
Elektroprenos BiH a.d. Banja Luka	5,212	-
	<u>7,131</u>	<u>1,785</u>
	<u><u>7,131</u></u>	<u><u>1,785</u></u>
Revenues	2016 BAM 000	2015 BAM 000
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	5,974	6,462
Elektroprenos BiH a.d. Banja Luka	168	74
	<u>6,142</u>	<u>6,536</u>
	<u><u>6,142</u></u>	<u><u>6,536</u></u>
Expenses	2016 BAM 000	2015 BAM 000
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	29,155	21,751
Elektroprenos BiH a.d. Banja Luka	57,574	48,617
	<u>86,729</u>	<u>70,368</u>
	<u><u>86,729</u></u>	<u><u>70,368</u></u>

Notes (continued)

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31 Related party transactions (continued)

(b) Related parties

The Company has acquired a 100% stake in coal mines as disclosed in Note 17 *Investment in subsidiaries*, therefore transactions from the sale of electricity power, coal purchases and advances provided are disclosed as related party transactions. Sales and purchases are made at fair exchange amount, being the amount agreed between the related parties. Balances with related parties are as follows:

Assets

Trade receivables and advances given

	31 December 2016 BAM'000	31 December 2015 BAM'000
RMU Kakanj d.o.o.	2,820	1,879
RMU Zenica d.o.o.	19,764	15,784
RMU Breza d.o.o. Breza	6,131	5,360
RU Gračanica d.o.o. Gornji Vakuf	47	49
RMU Abid Lolić d.o.o.	5,670	4,125
Rudnici Kreka d.o.o.	32,858	23,826
RMU Đurđevik d.o.o.	496	3,330
Iskraemeco d.o.o.	12	12
Eldis Tehnika d.o.o.	978	743
	<hr/>	<hr/>
	68,776	55,108
	<hr/> <hr/>	<hr/> <hr/>

Loan receivables

RMU Kakanj d.o.o.	1,707	2,688
RMU Zenica d.o.o.	659	202
RMU Kreka d.o.o.	15,197	15,715
RMU Đurđevik d.o.o.	3,485	4,255
RMU Breza	2,996	1,221
RMU Abid Lolić	550	-
	<hr/>	<hr/>
	24,594	24,081
	<hr/> <hr/>	<hr/> <hr/>

Liabilities

Trade payables and other liabilities

	31 December 2016 BAM'000	31 December 2015 BAM'000
Rudnici Kreka d.o.o.	2,491	4,043
RMU Zenica d.o.o.	383	261
RMU Kakanj d.o.o.	163	398
RMU Đurđevik d.o.o.	1,371	2,593
RU Gračanica d.o.o. Gornji Vakuf	1,133	2,713
RMU Abid Lolić d.o.o.	1,401	170
RMU Breza d.o.o. Breza	1,623	587
Iskraemeco d.o.o.	4,404	5,750
Eldis Tehnika d.o.o.	204	410
	<hr/>	<hr/>
	13,173	16,925
	<hr/> <hr/>	<hr/> <hr/>

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32 Related party transactions (continued)

(b) Related parties (continued)

Sales revenue

	2016 BAM'000	2015 BAM'000
Rudnici Kreka d.o.o.	6,889	6,844
RMU Zenica d.o.o.	1,782	1,744
RMU Đurđevik d.o.o.	1,921	2,660
RMU Kakanj d.o.o.	1,488	1,485
RMU Breza d.o.o. Breza	1,519	1,471
RMU Abid Lolić d.o.o.	456	485
RU Gračanica d.o.o. Gornji Vakuf	426	385
Iskraemeco d.o.o.	76	-
Eldis Tehnika d.o.o.	6	-
	<hr/>	<hr/>
	14,563	15,074
	<hr/> <hr/>	<hr/> <hr/>

Expenses

	2016 BAM'000	2015 BAM'000
Rudnici Kreka d.o.o.	81,388	70,281
RMU Kakanj d.o.o.	58,453	60,273
RMU Breza d.o.o. Breza	33,424	27,003
RMU Đurđevik d.o.o.	35,605	30,935
RMU Zenica d.o.o.	11,793	6,182
RU Gračanica d.o.o. Gornji Vakuf	10,770	12,349
RMU Abid Lolić d.o.o.	9,288	10,547
	<hr/>	<hr/>
	240,721	217,570
	<hr/> <hr/>	<hr/> <hr/>

(c) Related parties – associates

The Company is related to ETI d.o.o. Sarajevo due to its ability to exercise significant influence, The Company, in the normal course of business and at fair exchange amount, being the amount the Company and the related party has agreed on, had the following transactions with related parties:

	2016 BAM'000	2015 BAM'000
Accounts receivables	-	2
Accounts payables	-	96
Sales revenue	26	14
Purchases	179	237

(d) Related parties – management remunerations

The remuneration of Management and Supervisory board members during the year was as follows:

	2016 BAM'000	2015 BAM'000
Management Board remuneration	692	656
Supervisory Board remuneration	159	133
	<hr/>	<hr/>
	851	789
	<hr/> <hr/>	<hr/> <hr/>

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32 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances,

Certain accounting estimates in applying Company's accounting policies are described below:

Impairment of investment in subsidiaries and associates

Impairment of investment into subsidiaries and associates is based on management's best estimate of the recoverable amount of subsidiaries and associates. Recoverable amount is the higher of fair value less cost to sell and value in use.

Impairment of property, plant and equipment

In 2016 the Company recognised an impairment loss of BAM 4,317 thousand based on internal estimates. At each balance sheet date, the Company assesses whether there are internal and external indications of impairment of property, plant and equipment. If such indications exist, Management performs impairment testing for the cash generating unit to which the impairment relates. Management considers all production branches as one cash generating unit, because the thermal power plants make the base (and majority) production, while the hydropower plants cover the variable part of the requisite for electricity. This means that Management views the production of electricity on a portfolio basis. Also, Management does not consider distribution to be a separate unit, because the Company's activity is regulated by legislation on a national level.

Impairment of receivables

Trade receivables from sale of energy are estimated on each reporting date and are impaired according to the number of outstanding days (365 days) for the payment. Receivables which are three months overdue are considered bad debts. Due receivables more than one year old, for retail and corporate customers, are fully provided for.

Income tax

Tax calculations are performed based on the Company's interpretation of current tax laws and regulations. These calculations which support the tax return may be subjected to review and approval by the local tax authority.

Provisions for contingencies

The Company recognises provisions as a result of court cases initiated against them for which is likely that there will be an outflow of resources to settle the claims and the amounts can be reliably estimated. In estimating provisions, the Company takes into account professional legal advice and management considerations.

33 Ownership structure

The ownership structure of the Company is as follows:

	31 December 2016		31 December 2015	
	Number of shares	Ownership	Number of shares	Ownership
The Government of the Federation of Bosnia and Herzegovina	28,472,181	90.4%	28,472,181	90.4%
Various shareholders	3,034,360	9.6%	3,034,360	9.6%
	<u>31,506,541</u>	<u>100%</u>	<u>31,506,541</u>	<u>100%</u>