

JP Elektroprivreda BiH d.d. - Sarajevo

**Separate annual financial
statements**

31 December 2017

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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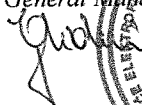
Statement of the Management board's responsibilities

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 separate financial statements set out on pages 7 to 44 were authorised by the Management board on 29 May 2018 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

Qualified Opinion

We have audited the separate financial statements of JP Elektroprivreda BiH d.d. – Sarajevo ("the Company"), which comprise the separate statement of financial position as at 31 December 2017, the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2017, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

- 1 The Company has investments in subsidiaries stated at BAM 366,893 thousand (31 December 2016: BAM 293,737 thousand), which are accounted for at cost. However, there are indications that the carrying amount of the investments may be impaired at the above dates. International Accounting Standard IAS 36 *Impairment of Assets* requires that, when there are such indications, management makes an estimate of the asset's recoverable amounts and recognizes an impairment loss, if any. No such estimate was performed by the Company, and it was impracticable for us to quantify the extent to which the separate financial statements are misstated as a result of this departure from the requirements of IAS 36, including the adjustments required to the stated amounts of investments in subsidiaries, deferred tax assets and retained earnings as at 31 December 2017 and 31 December 2016, and to the net result for the years then ended. Our audit opinion on the separate financial statements for the year ended 31 December 2016 was also modified accordingly.
- 2 In the separate financial statements, the Company recognized prepayments to subsidiaries, stated at BAM 69,836 thousand (31 December 2016: BAM 65,548 thousand). Based on the evidence obtained in the course of our audit, in our view, the above amounts should be considered to be interest-free financing provided to the subsidiaries. In addition, there are indications that the carrying amounts of the above assets, as well as those of loan receivables to subsidiaries, stated at BAM 18,201 thousand (31 December 2016: BAM 24,594 thousand), may be impaired. International Accounting Standard IAS 39 *Financial Instruments: Recognition and Measurement* requires that, where such indications exist, management makes an estimate of the assets' recoverable amounts, and recognizes an impairment loss, where appropriate. We requested management to quantify the adjustments required to account for the prepayments to subsidiaries as interest-free financing and to write down the prepayments to their respective recoverable amounts. No such quantification was provided to us, and it was impracticable for us to quantify the extent to which the separate financial statements are misstated as a result of this departure from the requirements of IAS 39, including the adjustments required to the stated amounts of prepayments, loans to subsidiaries, deferred tax assets and retained earnings as at 31 December 2017 and 31 December 2016, and to the net result for the years then ended. Our audit opinion on the separate financial statements for the year ended 31 December 2016 was also modified accordingly.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in the Federation of Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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Independent Auditors' Report To the Shareholders of JP Elektroprivreda BiH d.d. - Sarajevo (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our audit report.

Impairment of property, plant and equipment

Refer to Notes 14 and 32 for financial disclosures and to the accounting policies on pages 15 and 16.

Key audit matter	How our audit addressed the matter
<p><i>As at 31 December 2017, the carrying amount of property, plant and equipment was BAM 2,444,402 thousand, which represents 72.5% of total assets in the separate statement of financial position.</i></p> <p>The Management Board's process of identifying impairment indicators and, where applicable, estimating the recoverable amounts of items of property, plant and equipment or related cash-generating units (CGUs), is complex and requires significant judgement. In 2017, the Company identified presence of impairment triggers, including marginal profitability (or loss making without taking into account other income), and therefore decided to perform an impairment assessment.</p> <p>The Company estimated the recoverable amounts of its property, plant and equipment by reference to the higher of the value in use (VIU) or fair value less costs of disposal. The most significant management judgements and estimates included:</p> <ul style="list-style-type: none"> • judgements in respect of appropriateness of grouping assets into CGUs; • assumptions in respect of cash flows, discount rates and terminal values used in the value in use calculations; • selection of comparable assets and transactions, and any adjustments to related transaction prices to reflect the specific attributes of the Company's assets. 	<p>Our audit procedures in the area included, among other things:</p> <ul style="list-style-type: none"> • Testing the design and implementation of internal controls relating to the impairment testing process, such as those over the identification of impairment triggers as well as the accuracy of the Management Board's forecasting and budgeting; • Evaluating the Management Board's assessment of impairment indicators for property, plant and equipment and the appropriateness of grouping assets into CGUs; • Assisted, where applicable, by our own valuation specialists: <ul style="list-style-type: none"> - evaluating the appropriateness and consistency of the testing and valuation methodologies applied in the determination of recoverable amounts; - assessing the Management Board's VIU calculations by comparing the assumptions used with our understanding of the Company's business and its industry, in particular for the assumptions relating to future sales volumes, electricity tariffs, capital expenditure and operating costs; - challenging the appropriateness of the discount rates applied by assessing the Company's cost of capital and comparable organizations in the industry. • Assessing the historical accuracy of the Management Board's estimates, by comparing the prior years' forecasts to the actual outcomes in 2017;

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Independent Auditors' Report To the Shareholders of JP Elektroprivreda BiH d.d. - Sarajevo (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the matter
<p>The above complexities are exacerbated by the existence of significance uncertainty associated with regulatory matters, such as selling prices for households and qualified buyers, and also in relation to estimating future sales volumes of gigawatt hours, increase in number of consumers, future electricity tariffs, future capital expenditure, future operating costs as well as in the estimation of the discount rates applied.</p> <p>In light of the above circumstances, we considered impairment of property plant and equipment to be our key audit matter.</p>	<ul style="list-style-type: none"> Evaluating the Company's analysis of the sensitivity of the impairment tests results to reasonably possible changes in key assumptions, including those relating to discount rates and operating earnings, and assessing whether there were any indicators of management bias in the determination of those key assumptions; Assessing the accuracy and completeness of the impairment-related disclosures, such as those in respect of the CGUs, the key assumptions used and sensitivity of the outcome of the impairment assessment to changes in key assumptions.

Litigation and claims

Refer to Notes 29 and 32 for financial disclosures and to page 16 for the accounting policies

Key audit matter	How our audit addressed the matter
<p>As at 31 December 2017, the Company recognized provisions in the amount of BAM 7,932 thousand relating to litigation proceedings.</p> <p>In the normal course of the Company's business, potential exposures arise from administrative and court proceedings, primarily in respect of cases brought against the Company by the city of Mostar and Gradenje Cazin (as discussed in Note 29) for compensation of damages and other reasons.</p> <p>Whether a liability or contingent liability is recognized or disclosed in the separate financial statements is inherently uncertain and is dependent on a number of significant assumptions and judgements. The amounts involved are potentially significant and determining the amount, if any, to be recognized or disclosed in the separate financial statements, is inherently subjective.</p> <p>For the above reasons, we considered this area to be our key audit matter.</p>	<p>Our procedures in the area included, among other things:</p> <ul style="list-style-type: none"> Assessing design and implementation of key controls over the identification, evaluation and measurement of potential obligations arising from claims and legal proceedings; Reading and analyzing minutes of the meetings of the supervisory board and shareholders, inspecting correspondence with the tax authorities and regulators, and monitoring external information sources to identify claims and litigations; Inspecting detail of legal expenses incurred during the audited year and requesting letters of legal response from the internal attorneys of the Company, inquiring about litigations and actual or potential claims and disputes; Assessing responses received to the above legal inquiries and discussing selected matters with the Company's attorneys, including the disputes with City of Mostar and Gradenje Cazin; Evaluating historical accuracy of the Company's judgments and estimates in respect of claims and legal proceedings by comparing prior year's expectations to the actual outcomes; Based on the above procedures, developing an independent assessment of probability of an unfavorable outcome in respect of litigations and claims, and, where applicable, of the amount to provided or contingent liabilities to be disclosed in the separate financial statements;

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Independent Auditors' Report To the Shareholders of JP Elektroprivreda BiH d.d. - Sarajevo (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the matter
	<ul style="list-style-type: none"> Evaluating the adequacy and completeness of the disclosures in the separate financial statements relating to significant proceedings, including those in respect of the provisions recognized and contingent liabilities disclosed.

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

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

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate 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.

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Independent Auditors' Report To the Shareholders of JP Elektroprivreda BiH d.d. - Sarajevo (continued)

Auditors' Responsibilities for the Audit of the Separate Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

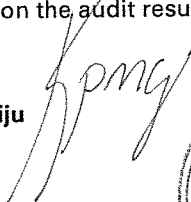
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or 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.

The engagement partner on the audit resulting in this independent auditors' report is Vedran Vukotić.

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

Zmajica od Bosne 7-7a
71000 Sarajevo

Bosnia and Herzegovina



29 May 2018

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Separate statement of comprehensive income
For the year ended 31 December

	<i>Note</i>	2017 BAM'000	2016 BAM'000
Revenue	6	1,105,572	987,918
Other operating income	7	37,475	39,134
Total operating income		1,143,047	1,027,052
Work performed and capitalised	9	2,964	3,826
Raw materials, consumables and cost of goods sold	8	(684,826)	(501,934)
Personnel costs	9	(177,357)	(179,950)
Depreciation and amortization	10	(150,917)	(172,020)
Other operating expenses	11	(136,987)	(164,542)
Operating income		(4,076)	12,432
Finance income	12	9,222	7,185
Finance costs	12	(4,526)	(6,759)
Net finance income/(costs)		4,696	426
Profit before tax		620	12,858
Income tax expense	13	-	-
Profit for the year		620	12,858
Other comprehensive loss			
Actuarial losses	26	(208)	(3,361)
Total comprehensive income for the period		412	9,497

Separate statement of financial position

As at

	Note	31 December 2017 BAM'000	31 December 2016 BAM'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	2,444,402	2,529,210
Intangible assets	15	18,584	20,775
Prepayments for property, plant and equipment		193	15,916
Investments in associates	16	1,950	1,950
Investments in subsidiaries	17	366,893	293,737
Loans and receivables	18	144,526	102,304
Total non-currents assets		2,976,548	2,963,892
Current assets			
Loans and receivables	18	80,141	58,600
Trade and other receivables	19	121,919	139,252
Income tax prepayment	7	9,758	9,758
Prepayments	20	72,975	67,497
Inventories	21	51,429	61,371
Cash and cash equivalents	22	57,673	100,442
Total current assets		393,895	436,920
Total assets		3,370,443	3,400,812
EQUITY AND LIABILITIES			
Equity			
Share capital	23	2,236,964	2,236,964
Statutory reserves		41,659	39,087
Other reserves		508,664	508,664
Retained earnings		202,205	209,569
Total capital and reserves		2,989,492	2,994,284
Liabilities			
Non-current liabilities			
Loans and borrowings	24(a)	121,320	140,392
Deferred income	25	80,126	84,964
Employee benefits	26 (a)	28,154	
Provisions	26 (b)	15,888	44,551
Other non-current liabilities		70	-
Total non-current liabilities		245,558	269,907
Current liabilities			
Deferred income	25	8,056	9,072
Loans and borrowings	24(b)	17,193	14,403
Trade and other payables	27	102,212	101,296
Provisions	26 (b)	7,932	11,850
Total current liabilities		135,393	136,621
Total liabilities		380,951	406,528
Total equity and liabilities		3,370,443	3,400,812

Separate statement of changes in equity

For the year ended 31 December 2017

	Share capital BAM'000	Statutory reserves BAM'000	Other reserves BAM'000	Retained earnings BAM'000	Total BAM'000
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
As at 1 January 2017	2,236,964	39,087	508,664	200,072	2,984,787
Profit for the year	-	-	-	620	620
Other comprehensive loss (Note 26)	-	-	-	(208)	(208)
Total comprehensive income	-	-	-	412	412
Transactions with owners of the Company					
Capital contributions and distributions to the owners					
Transfers	-	2,572	-	(2,572)	-
Dividends (Note 23)	-	-	-	(5,204)	(5,204)
As at 31 December 2017	2,236,964	41,659	508,664	202,205	2,989,492

Separate statement of cash flows
For the year ended 31 December

	Note	2017 BAM'000	2016 BAM'000
Cash flows from operating activities			
Profit for the year		620	12,858
Adjustments for:			
Depreciation and amortisation	10	150,917	172,020
Interest and other financial income	12	(9,222)	(7,185)
Interest and other financial expenses		4,526	6,759
Write-off of liabilities	7	(5,133)	(9,758)
Net loss on disposals of property, plant and equipment	11	1,765	4,317
Changes in provision, net	26	(3,363)	(1,166)
Promjene u primanjima zaposlenih, neto		(1,064)	(7,350)
Impairment of inventories	11	865	8,004
Net allowance for trade receivables		(2,486)	3,709
		<hr/>	<hr/>
		137,217	182,208
Change in:			
- trade receivables		20,948	(12,934)
- inventories		9,077	12,753
- prepayments		10,245	(30,175)
- other receivables		(1,129)	1,008
- other non-current liabilities		70	-
- trade payables		11,624	(2,146)
- other liabilities		(5,656)	6,703
- deferred income		(5,854)	(5,465)
		<hr/>	<hr/>
Net cash from operating activities		176,542	151,952
		<hr/>	<hr/>
Investing activities			
Purchase of property, plant and equipment	14	(64,167)	(89,174)
Purchase of intangible assets	15	(1,516)	(5,731)
Increase in investment in subsidiaries	17	(73,156)	(51,586)
Increase of deposits and loans		(123,233)	(111,482)
Repayment of deposits and loans	18	59,470	68,450
Interests received		9,222	7,185
		<hr/>	<hr/>
Net cash used in investing activities		(193,380)	(96,274)
		<hr/>	<hr/>
Financing activities			
Decrease in borrowings	24	(16,626)	(10,638)
Borrowings withdrawn		344	23,726
Interest paid		(4,526)	(6,759)
Dividends paid	23	(5,123)	-
		<hr/>	<hr/>
Net cash from financing activities		(25,931)	6,329
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		(42,769)	62,007
Cash and cash equivalents at the beginning of year		100,442	38,435
		<hr/>	<hr/>
Cash and cash equivalents at the end of year	22	57,673	100,442
		<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 29 May 2018. 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 2017 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 29 May 2018.

(b) Basis of measurement

The financial statements have been prepared on the historical cost or deemed cost basis.

(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
Separate annual financial statements
31 December 2017

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.

- *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
Separate annual financial statements
31 December 2017

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	10 to 80 years
Plant and equipment	5 to 40 years
Other	3 to 5 years

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

Notes (continued)

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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)

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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)

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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 pays retirement benefits when retiring in the amount of five average salaries of the employee paid in the previous three months prior to retirement or six average net salaries earned in the Federation of B&H if this is more favourable to the employee. The Company has no other plans regarding payments to its employees or management after the date of retirement in Bosnia and Herzegovina.

The retirement benefit is determined by the method of the projected credit unit, where actuarial estimates are performed at each reporting period. Gains and losses arising from actuarial valuation are recognized in other comprehensive income in the full amount in the period in which they were incurred. Retirement benefits recognized in the balance sheet represent the present value of the obligation for the defined benefit, adjusted for cost of unrecognized years of service.

(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. 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)

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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

The delivery of electricity is read at the monthly level. At the end of the year, electricity delivered to customers, but not yet invoiced, is recognized within revenue in an estimated amount from the date of the last reading to the end of the year. 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.

Therefore, the Company considers that the transactions were agreed with the aim of balancing the amount between electricity supply and the obligation to deliver electricity as a part of regular business as an integrated company and therefore not within the scope of IAS 39.

(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.

The amount of deferred tax is based on the expected realization or settlement of the carrying amount of assets and liabilities, using tax rates that are applicable at the reporting date.

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.

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 2017 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* contains a new approach to the classification and measurement of financial assets that reflects a business model that manages assets and their cash flow characteristics. The Company has not identified the impact of this standard on cash and cash equivalents, nor on the classification and measurement of customer receivables. However, this is a conclusion based on the preliminary analysis of the Company, which will be completed in the second half of 2018.
- *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. The Company does not expect the application of IFRS 15 to have a significant difference in the recognition of revenue from services rendered, except in the section related to the revenue from the connection, where the Company considers interpretations about recognizing revenue from the connections at the time of connection or over time. In the event that the Company chooses the method of recognizing income from connections over time, the Company considers that the estimated effect would result in a decrease in net assets of up to BAM 19 million.
- *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 does not expect significant impact of the application of this standard on its financial statements.

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

- *Annual Improvements to IFRSs 2014-2016 Cycle - Amendments to IFRS 1 and IAS 28*
- *Classification and measurement of share-based payment transactions (Amendments to IFRS 2)*
- *Transfers of investment property (Amendments to IAS 40)*
- *Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*
- *IFRIC 23 Uncertainty over Income Tax Treatments*

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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.

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6 Revenue

	2017 BAM'000	2016 BAM'000
Sale of electric energy in domestic market	1,020,017	920,712
Sale of electric energy abroad	11,918	11,425
Income from connection fees	19,434	19,795
Income from technological steam and heat energy	13,375	12,852
Sale of services and other revenue	40,828	23,134
	<u>1,105,572</u>	<u>987,918</u>

7 Other operating income

	2017 BAM'000	2016 BAM'000
Income from write-off of liabilities towards the State	-	9,758
Collection of bad debts	5,748	3,069
Grant revenue	8,056	9,072
Insurance claims	168	760
Penalty income	1,026	516
Rental income	2,288	880
Gain on sale of raw materials	422	777
Write-off of liabilities	5,133	-
Income from reversal of accruals	2,787	-
Release of provision for court cases	1,481	1,598
Dividend income	-	1,100
Surpluses and other adjustments	3,307	-
Gains from the change in employee plan (Note 26)	-	8,148
Actuarial gains	1,638	-
Other revenues	5,421	3,456
	<u>37,475</u>	<u>39,134</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.

In January 2018, the Agreement between the Federal Ministry of Finance and the Company was signed, which stipulates the way in which funds are returned. The agreement stipulates that the repayment of overpaid revenues will be made over the next five years (2018-2022), in five equal installments of BAM 1,951,563.03, increased for accrued interest of 4.7% per annum, in accordance with Repayment Plan, which is an integral part of this Agreement.

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

Notes (continued)

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8 Raw materials and consumables

	2017 BAM'000	2016 BAM'000
Coal consumed	360,012	340,181
Cost of electricity sold	250,449	87,214
Cost of delivery and analysis of coal	30,157	28,925
Materials used for maintenance	7,557	8,744
Cost of fuel	6,293	6,262
Other raw materials and consumables	30,358	30,608
	<u>684,826</u>	<u>501,934</u>

9 Personnel costs

	2017 BAM'000	2016 BAM'000
Net wages, salaries and other personnel costs	118,186	122,277
Compulsory social security contributions	56,779	56,229
Current service costs	1,664	1,473
Other staff costs	728	1,444
	<u>177,357</u>	<u>181,423</u>
Own work capitalised	<u>(2,964)</u>	<u>(3,826)</u>
Personnel costs recognised in the statement of comprehensive income	<u>174,393</u>	<u>177,597</u>

The number of employees in the Company at year end was 4,454 (2016: 4,584). Personnel costs include BAM 33.814 thousand (2016: BAM 33,336 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

	2017 BAM'000	2016 BAM'000
Depreciation	146,897	167,665
Amortisation	4,020	4,355
	<u>150,917</u>	<u>172,020</u>

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11 Other operating expenses	2017 BAM'000	2016 BAM'000
Transport services and cost of electricity transfer	48,968	42,970
Memberships and other taxes	20,085	19,440
Maintenance	16,108	18,605
Water contributions and contributions for hydro accumulation	16,764	26,328
Wastage of materials	1,707	2,138
Provisions for court cases	2,626	5,257
Air pollution fees	6,065	5,362
Loss on disposal of fixed assets	1,765	4,317
Bad debt expenses	3,262	4,069
Write-off of other receivables	-	2,709
Insurance costs	1,199	1,362
External services	3,193	2,828
Telecommunication costs	6,213	5,035
Impairment of inventories	865	8,004
Services from third parties	1,999	1,885
Inventory deficits	9	42
Dismantling provision	1,107	1,136
Rent expense	390	458
Entertainment costs	170	184
Bank charges	152	169
Other expenses	4,340	10,771
	<u>136,987</u>	<u>163,069</u>
	<u><u>136,987</u></u>	<u><u>163,069</u></u>
12 Net finance income/(costs)		
	2017 BAM'000	2016 BAM'000
Interest income	3,091	3,649
Foreign exchange gains	3,413	434
Income from penalty interest	2,459	2,832
Other finance income	259	270
	<u>9,222</u>	<u>7,185</u>
Finance income	9,222	7,185
Interest expenses	(3,333)	(3,399)
Unwinding of discount on retirement benefits	(1,023)	(1,955)
Penalty interest	(127)	(66)
Foreign exchange losses	(43)	(1,339)
	<u>(4,526)</u>	<u>(6,759)</u>
Finance costs	(4,526)	(6,759)
Net finance income	<u><u>4,696</u></u>	<u><u>426</u></u>

The Company recognizes income from penalty interest when they occur in the case of households and legal entities, and upon payment from large customers and foreign buyers.

Notes (continued)

13 Income tax expense

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

	2017 BAM'000	2016 BAM'000
Profit before tax	620	12,858
Profit tax at 10%	62	1,286
Non-deductible expenses	1.182	3,325
Non-taxable income	(556)	(110)
Adjustment of taxable income	434	450
Tax relief due to investment	(1.122)	(4,951)
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 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
At 1 January 2017	87,388	4,185,559	3,335,134	104,484	7,712,565
Additions	-	-	-	64,167	64,167
Disposals and write offs	(188)	(6,521)	(12,010)	-	(18,719)
Transfer to intangible assets	-	-	-	(319)	(319)
Transfers	382	37,664	35,095	(73,141)	-
At 31 December 2016	87,582	4,216,702	3,358,219	95,191	7,757,694
Accumulated depreciation and impairment losses					
At 1 January 2015	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
At 1 January 2017	1	2,663,462	2,519,892	-	5,183,355
Charge for the year	-	72,540	74,357	-	146,897
Disposals and write offs	-	(6,000)	(10,960)	-	(16,960)
At 31 December 2017	1	2,730,002	2,583,289	-	5,313,292
Carrying amount					
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
At 1 January 2017	87,387	1,522,097	815,242	104,484	2,529,210
At 31 December 2017	87,581	1,486,700	774,930	95,191	2,444,402

As at 31 December 2017, assets under construction relate to buildings (BAM 29,060 thousand), equipment (BAM 21,729 thousand), land (BAM 8,231 thousand) and other assets under construction (BAM 36,171 thousand).

During 2017, the Company impaired assets in the amount of BAM 1,765 thousand (2016: BAM 4,317 thousand).

During 2017, the Company capitalized loan interest on loans and borrowings in the amount of BAM 696 thousand (2016: BAM 1,247 thousand).

Notes (continued)

14 Property, plant and equipment (continued)

During 2017, the Company carried out a review of the operational efficiency of particular assets, which resulted in changes in the expected use of production plant. The company has extended the useful life of these plants for 7 years on average. The effect of this change on depreciation in 2017 was between BAM 20 million and BAM 21 million.

The Company's Management made an analysis of the economic situation and impairment indicators (eg marginal profitability) of property, plant and equipment as at 31 December 2017 and according to IAS 36 *Impairment of Assets* performed impairment test. In order to determine the recoverable amount of property, plant and equipment during 2017, the calculation was based on the future cash flows. The following assumptions were used during testing of discounted cash flows for the year ended 31 December 2017:

- No significant price change is planned in the explicit and terminal period due to the expectation that there will be no change in relevant tariffs;
- It is planned to increase the number of tariff subscribers by 1% per year;
- The unchanged ratio of sales mix of tariff and non-tariff customers to the level of realization in 2017 and earlier years;
- Production mix in the ratio of 20% hydro and 80% thermo;
- Capital outflows in modernization and reconstruction prepared by the Company and approved by the relevant corporate governance bodies;
- Discount rate of 5.1%.

The recoverable amount calculation is sensitive to the level of discount rates, growth rates and expected capital investments. A high level of sensitivity is present in relation to the discount rate parameter. For example, assuming a 5% operating income growth and a 2% discount rate increase would not result in a decrease in value.

Notes (continued)

15 Intangible assets

	Software BAM'000	Development costs BAM'000	Under construction BAM'000	Total BAM'000
Cost				
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
At 1 January 2017				
At 1 January 2017	9,018	26,779	3,616	39,413
Additions	-	-	1,516	1,516
Disposal and write off	(156)	-	-	(156)
Transfer from property, plant and equipment	319	-	-	319
Transfers	2,783	99	(2,882)	-
At 31 December 2017	11,964	26,878	2,250	41,092
Accumulated amortisation and impairment losses				
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
At 1 January 2017				
At 1 January 2017	3,711	14,927	-	18,638
Charge for the year	1,126	2,894	-	4,020
Disposal and write off	(150)	-	-	(150)
At 31 December 2017	4,687	17,821	-	22,508
Carrying amount				
At 1 January 2016	3,687	11,947	3,765	19,399
At 31 December 2016	5,307	11,852	3,616	20,775
At 1 January 2017	5,307	11,852	3,616	20,775
At 31 December 2017	7,277	9,057	2,250	18,584

As at 31 December 2017, assets under construction relate to preparatory activities for hydro power plants.

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 2017 BAM'000	31 December 2016 BAM'000
ETI d.o.o. Sarajevo	31 December 2017	Production of fuses	49%	1,950	1,950

17 Investments in subsidiaries

Subsidiary	Business activity	Ownership	31 December 2017 BAM'000	31 December 2016 BAM'000
Rudnici Kreka d.o.o.	Coal mine extraction	100%	94,803	86,736
RMU Kakanj d.o.o.	Coal mine extraction	100%	104,630	79,007
RMU Zenica d.o.o.	Coal mine extraction	100%	65,887	36,233
RMU Breza d.o.o.	Coal mine extraction	100%	46,516	41,152
RMU Đurdevik d.o.o.	Coal mine extraction	100%	19,916	19,584
RU Gračanica d.o.o.	Coal mine extraction	100%	11,301	10,593
RMU Abid Lolić d.o.o.	Coal mine extraction	100%	10,627	7,219
Investment in coal mines			353,680	280,524
	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	6,648
Investment in other subsidiaries			13,213	13,213
Total investment in subsidiaries			366,893	293,737

During 2017, the Company made additional investments in the coal mines in the total amount of BAM 73,156 thousand (2016: 44,937 thousand).

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

Notes (continued)

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18 Loans and receivables

	31 December 2017 BAM'000	31 December 2016 BAM'000
Long term		
Term deposits	123,233	80,190
Loans to employees	1,624	2,371
Loans to subsidiaries	10,744	18,201
Other receivables	8,925	1,542
	<hr/>	<hr/>
	144,526	102,304
	<hr/>	<hr/>
Short term		
Term deposits	70,410	51,072
Current portion of long-term loans to employees	728	863
Current portion of long-term loans to subsidiaries	7,457	6,393
Other receivables	1,546	272
	<hr/>	<hr/>
	80,141	58,600
	<hr/> <hr/>	<hr/> <hr/>

Term deposits relate to short and long term placements with banks that bear interest between 0.85% and 2.50% per annum. The deposits' maturity dates are between June 2018 and July 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 18,201 thousand (2016: 24,594 thousand) consist of loans to RMU Kakanj in the amount of BAM 1,237 thousand (2016: BAM 1,707 thousand), RMU Zenica in the amount of BAM 611 thousand (2016: BAM 659 thousand), Rudnici Kreka in the amount of BAM 10,787 thousand (2016: BAM 15,197 thousand), RMU Breza in the amount of BAM 2,695 thousand (2016: BAM 2,996 thousand) and RMU Đurđevik in the amount of BAM 2,321 thousand (2016: BAM 3,485 thousand), and RMU Abid Lolić in the amount of BAM 550 thousand (2016: BAM 550 thousand), all with an interest rate of 1.5% p.a.

19 Trade and other receivables

	31 December 2017 BAM'000	31 December 2016 BAM'000
Trade receivables – related parties	4,663	2,928
Trade receivables – third parties	144,534	167,530
Receivables on the basis of subsidies	2,317	2,225
Trade receivables – impairment	(43,533)	(46,332)
	<hr/>	<hr/>
Trade receivables – net	107,981	126,351
VAT receivable	5,411	3,036
Accrued revenue	6,564	6,359
Other receivables	1,963	3,506
	<hr/>	<hr/>
	121,919	139,252
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

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20 Prepayments

	31 December 2017 BAM'000	31 December 2016 BAM'000
Prepayments made to subsidiaries	69,836	65,548
Prepayments to third parties	3,139	1,949
	<u>72,975</u>	<u>67,497</u>

Prepayments made to subsidiaries relate to prepaid coal.

21 Inventories

	31 December 2017 BAM'000	31 December 2016 BAM'000
Raw materials	38,770	48,707
Spare parts	12,658	12,659
Merchandise	1	5
	<u>51,429</u>	<u>61,371</u>

In 2017, the impairment of inventories amounted to BAM 865 thousand (2016: BAM 8,004 thousand).

22 Cash and cash equivalents

	31 December 2017 BAM'000	31 December 2016 BAM'000
Bank balances in BAM	30,328	55,512
Bank balances in foreign currencies	26,783	44,405
Petty cash	562	525
	<u>57,673</u>	<u>100,442</u>

23 Share capital

	31 December 2017 BAM'000	31 December 2016 BAM'000
Share capital	2,236,964	2,236,964

The authorised and issued share capital comprises 31,506,541 ordinary shares (2016: 31,506,541). The par value of each share is BAM 71 (2016: BAM 71). During the year 2017, dividends amounting to BAM 5,204 thousand (2016: 0) were announced.

Notes (continued)

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24 Loans and borrowings

	31 December 2017 BAM '000	31 December 2016 BAM '000
(a) <i>Non-current loans and borrowings</i>		
Loans	121,320	140,392
(b) <i>Current loans and borrowings</i>		
Loans	17,193	14,403
(c) <i>Total loans and borrowings</i>	138,513	154,795

(d) *Interest rates and terms of repayment for the Company at 31 December 2017 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>						
Loans in XDR	1.2%	15,419	1,752	1,752	5,288	6,627
Loans in EUR	3.3%	96,508	13,715	15,235	18,898	48,660
<i>Fixed interest rate instruments</i>						
Loans in XDR	0.75%	14,461	964	964	2,892	9,641
Loans in YEN	0.75%	11,073	527	527	1,582	8,437
Other loans		1,052	235	235	581	-
Total loans and borrowings		138,513	17,193	18,713	29,242	73,365

25 Deferred income

	31 December 2017 BAM'000	31 December 2016 BAM'000
Long term		
Deferred income for granted assets	79,786	84,198
Deferred income for granted inventories	182	608
Deferred income for granted cash	158	158
	80,126	84,964
Short term		
Deferred income for granted assets	8,056	9,072
	8,056	9,072
Total deferred income	88,182	94,036

Notes (continued)

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26 (a) Employee benefits

	Retirement benefits and jubilee awards BAM '000
As at 1 January 2017	29,218
Provisions made during the year	1,664
Unwinding of discount	-
Provisions reversed during the year	(407)
Provisions used during the year	(2,321)
	<hr/>
Stanje na 31. decembra 2017.	28,154
	<hr/> <hr/>

Liabilities for employee benefits are calculated as follows:

	31 December 2017 BAM '000	31 December 2016 BAM '000
Opening balance of liability	29,218	35,539
Interest cost	1,023	1,955
Current service costs	1,664	1,473
Change in plans	-	(8,148)
Actuarial gains recognised through profit or loss	(1,638)	-
Actuarial losses recognised through other comprehensive loss	208	3,361
Paid benefits	(2,321)	(4,962)
	<hr/>	<hr/>
	28,154	29,218
	<hr/> <hr/>	<hr/> <hr/>

The basic assumptions used for the purpose of actuarial valuations were as follows:

	31 December 2017	31 December 2016
Discount factor	3.5%	3.5%
Expected salary growth in the Company	2%	2%

The employees are entitled to a retirement at age of 65 or after 40 years of service. The actuarial appraisal for the year 2017 used assumptions regarding the worker fluctuations of 0.9%.

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

Change of parameters	Increase/(decrease) of liability as at 31 December 2017 in BAM '000
Decrease of discount rate by 0.5%	893
Increase of discount rate by 0.5%	(832)
Decrease of the salary growth rate of the Company by 0.5%	(974)
Increase of the salary growth rate of the Company by 0.5%	978

Notes (continued)

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26 (b) Provisions (continued)

	Law suits BAM'000	Dismantling provision BAM'000	Total BAM'000
Balance at 1 January 2017	11,850	15,333	27,183
Provision made during the year	2,626	-	2,626
Unwinding of discount	-	1,107	1,107
Provision reversed during the year	(1,481)	(552)	(2,033)
Provision used during the year	(5,063)	-	(5,063)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2017	7,932	15,888	23,820
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
		31 december 2017 BAM'000	31 december 2016 BAM'000
Current portion of provisions		7,932	11,850
Non-current portion of provision		15,888	15,333
		<hr/>	<hr/>
		23,820	27,183
		<hr/> <hr/>	<hr/> <hr/>

Law suits

The Company recorded a provision for court cases in the amount of BAM 7,932 thousand. See *Note 29* for further details.

Dismantling provision

During 2017, unwinding of discount of BAM 1,107 thousand was made in relation to the obligation for dismantling and removing the items of thermo plants in Kakanj and Tuzla (2016: BAM 1,136 thousand). The Company assumes that the construction site will be restored and the items will be dismantled and removed using the currently available technology and materials. The expected completion of a significant part of the dismantling should be done by 2042, while the remainder of the dismantling will be completed by 2058. The assumed dismantling costs are revised at each reporting date. When calculating the provision, a discount rate of 8% was used.

Notes (continued)

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26 Trade and other payables

	31 December 2017 BAM'000	31 December 2016 BAM'000
Trade payables – related parties	19,398	12,615
Trade payables – third parties	26,420	26,712
Accrued expenses	24,945	24,659
Liabilities for dividends	456	375
Prepayment from suppliers	13,600	14,501
Liabilities for air pollution fees	6,065	5,362
Liabilities for renewable energy fees	1,082	1,146
Liabilities for hydro-accumulation	1,637	1,369
Other short term liabilities	8,609	14,557
	<u>102,212</u>	<u>101,296</u>

As at 31 December 2017, accrued expenses include liabilities towards subsidiaries in the amount of Bam 835 thousand (31 December 2016: BAM 558 thousand).

27 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 2017 BAM'000	31 December 2016 BAM'000
Loans, deposits and receivables	18, 19	346,586	300,156
Cash and cash equivalents	22	57,673	100,442
		<u>404,259</u>	<u>400,598</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 2017 BAM'000	31 December 2016 BAM'000
Domestic	107,964	125,177
Foreign	17	1,174
	<u>107,981</u>	<u>126,351</u>

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

	31 December 2017 BAM'000	31 December 2016 BAM'000
Wholesale customers	86,694	105,153
Retail customers	21,287	21,198
	<u>107,981</u>	<u>126,351</u>

The ageing of trade receivables at the reporting date was:

	2017 BAM'000	2016 BAM'000
Not due and past due to 90 days	105,664	121,271
Past due 91 – 180 days	2,317	4,230
Past due 181 – 365 days	-	850
Past due over 365 days	-	-
	<u>107,981</u>	<u>126,351</u>

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

BAM'000

At 1 January 2017	46,332
Impairment loss recognised (Note 11)	3,262
Reversal of impairment (Note 7)	(5,748)
Derecognition of previously impaired trade receivables	(313)
At 31 December 2017	<u>43,533</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 2017	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	102,212	(102,212)	(102,212)	-	-	-	-
Interest bearing loans	138,513	(167,013)	(9,617)	(11,066)	(21,977)	(37,387)	(86,966)
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)

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 XDR, YEN and CHF. These exposures are not currently hedged. The convertible mark has been fixed to EUR since its introduction as a currency in 2002 and the Management believes that the Company is not exposed to a risk of EUR exchange rate fluctuations.

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

In thousand BAM	31 December 2017	
	XDR	YEN
Loans and other receivables	-	-
Trade payables and interest bearing loans and borrowings	(29,881)	(11,073)
Gross balance sheet exposure	(29,881)	(11,073)

Notes (continued)

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28 Financial risk management (continued)

Currency risk (continued)

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

	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
EUR	1.95583	1.95583	1.95583	1.95583
XDR	2.39590	2.45749	2.32830	2.62098
YEN	0.01547	0.01626	0.01463	0.01585
CHF	1.76160	1.79453	1.67433	1.82124
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 XDR, YEN or CHF by 1% would result in an increase / (decrease) in equity and profit or loss as at 31 December 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 2017		
XDR	(299)	299
YEN	(111)	111
<i>In thousand BAM</i>	Strengthening	Weakening
31 December 2016		
USD	(345)	345
XDR	(127)	127
YEN	(16)	16
CHF	(345)	345

Interest rate risk

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

	Carrying amount	
	2017	2016
	BAM'000	BAM'000
Fixed rate instruments		
Financial assets	224,667	160,904
Financial liabilities	(26,586)	(43,547)
	<u>198,081</u>	<u>117,357</u>
	<u><u>198,081</u></u>	<u><u>117,357</u></u>
	Carrying amount	
	2017	2016
	BAM'000	BAM'000
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(111,927)	(111,248)
	<u>(111,927)</u>	<u>(111,248)</u>
	<u><u>(111,927)</u></u>	<u><u>(111,248)</u></u>

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.

Notes (continued)

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28 Financial risk management (continued)

Interest rate risk (continued)

BAM'000	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2017				
Cash flow sensitivity analysis	(1,175)	795	(1,175)	795
31 December 2016				
Cash flow sensitivity analysis	(1,150)	467	(1,150)	467

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 2017 BAM'000	31 December 2016 BAM'000
Total liabilities	380,951	406,528
Less: cash and cash equivalents	(57,673)	(100,442)
Net debt	323,278	306,086
Equity	2,989,492	2,994,284
Total	0.11	0.10

29 Contingent liabilities

Court cases

As of 31 December 2017, court proceedings were initiated against the Company in the total amount of BAM 48,093 thousand (2016: BAM 53,276 thousand). As of 31 December 2017, the Company has created a provision for law suits of BAM 2,626 thousand (2016: BAM 5,257 thousand), so that the total provisions as at 31 December 2017 amounted to BAM 7,932 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. The court proceedings of the Company concern, among others, to proceedings against the Company initiated by the city of Mostar with a total value of BAM 9,970 thousand, in which the Company received a first instance verdict of two current cases. Similarly, in the case against the Company initiated by "Građenje Cazin" in the amount of BAM 5,645 thousand, the court rendered a judgment in favor of the Company and is subject to a final audit at the relevant court.

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30 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.

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.

Notes (continued)

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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 2017 BAM 000	31 December 2016 BAM 000
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	576	567
Elektroprenos BiH a.d. Banja Luka	11	15
	<u>587</u>	<u>582</u>
	<u><u>587</u></u>	<u><u>582</u></u>
Liabilities	31 December 2017 BAM 000	31 December 2016 BAM 000
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	2,052	1,919
Elektroprenos BiH a.d. Banja Luka	6,895	5,212
	<u>8,947</u>	<u>7,131</u>
	<u><u>8,947</u></u>	<u><u>7,131</u></u>
Revenues	2017 BAM 000	2016 BAM 000
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	6,167	5,974
Elektroprenos BiH a.d. Banja Luka	489	168
	<u>6,656</u>	<u>6,142</u>
	<u><u>6,656</u></u>	<u><u>6,142</u></u>
Expenses	2017 BAM 000	2016 BAM 000
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	29,755	29,155
Elektroprenos BiH a.d. Banja Luka	57,228	57,574
	<u>86,983</u>	<u>86,729</u>
	<u><u>86,983</u></u>	<u><u>86,729</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 2017 BAM'000	31 December 2016 BAM'000
RMU Kakanj d.o.o.	177	2,820
RMU Zenica d.o.o.	22,416	19,764
RMU Breza d.o.o. Breza	4,798	6,131
RU Gračanica d.o.o. Gornji Vakuf	47	47
RMU Abid Lolić d.o.o.	5,298	5,670
Rudnici Kreka d.o.o.	37,380	32,858
RMU Đurđevik d.o.o.	4,268	496
Iskraemeco d.o.o.	10	12
Eldis Tehnika d.o.o.	105	978
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	74,499	68,776
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Loan receivables

RMU Kakanj d.o.o.	1,237	1,707
RMU Zenica d.o.o.	611	659
RMU Kreka d.o.o.	10,787	15,197
RMU Đurđevik d.o.o.	2,321	3,485
RMU Breza	2,695	2,996
RMU Abid Lolić	550	550
	<hr/>	<hr/>
	18,201	24,594
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Liabilities

Trade payables and other liabilities

	31 December 2017 BAM'000	31 December 2016 BAM'000
Rudnici Kreka d.o.o.	633	2,491
RMU Zenica d.o.o.	3,241	383
RMU Kakanj d.o.o.	7,377	163
RMU Đurđevik d.o.o.	2,353	1,371
RU Gračanica d.o.o. Gornji Vakuf	567	1,133
RMU Abid Lolić d.o.o.	1,013	1,401
RMU Breza d.o.o. Breza	1,277	1,623
Iskraemeco d.o.o.	2,584	4,404
Eldis Tehnika d.o.o.	1,188	204
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	20,233	13,173
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Notes (continued)

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31 Related party transactions (continued)

(b) Related parties (continued)

Sales revenue

	2017 BAM'000	2016 BAM'000
Rudnici Kreka d.o.o.	6,775	6,889
RMU Zenica d.o.o.	1,921	1,782
RMU Đurđevik d.o.o.	1,849	1,921
RMU Kakanj d.o.o.	1,677	1,488
RMU Breza d.o.o. Breza	1,514	1,519
RMU Abid Lolić d.o.o.	508	456
RU Gračanica d.o.o. Gornji Vakuf	417	426
Iskraemeco d.o.o.	63	76
Eldis Tehnika d.o.o.	6	6
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	14,730	14,563
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Expenses

	2017 BAM'000	2016 BAM'000
Rudnici Kreka d.o.o.	82,043	81,388
RMU Kakanj d.o.o.	79,056	58,453
RMU Breza d.o.o. Breza	42,955	33,424
RMU Đurđevik d.o.o.	30,826	35,605
RMU Zenica d.o.o.	16,679	11,793
RU Gračanica d.o.o. Gornji Vakuf	8,337	10,770
RMU Abid Lolić d.o.o.	11,183	9,288
Iskraemeco d.o.o.	12,067	17,397
Eldis Tehnika d.o.o.	7,652	9,219
TTU Energetik d.o.o.	259	-
	<hr/>	<hr/>
	291,057	267,337
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(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:

	2017 BAM'000	2016 BAM'000
Accounts receivables	2	-
Accounts payables	-	-
Sales revenue	22	26
Purchases	274	179

(d) Related parties – management remunerations

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

	2017 BAM'000	2016 BAM'000
Management Board remuneration	646	692
Supervisory Board remuneration	164	159
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	810	851
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Notes (continued)

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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. At the reporting date, the Management Board considers that there is no impairment of the value of investments in subsidiaries and associates.

Impairment of property, plant and equipment

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.

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. The Company did not recognize deferred tax assets on the basis of investment tax incentives, using the analogous interpretations and interpretations of IAS 12 Income Taxes.

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 2017		31 December 2016	
	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%
	<hr/>	<hr/>	<hr/>	<hr/>
	31,506,541	100%	31,506,541	100%
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>