

JP Elektroprivreda BiH d.d. - Sarajevo

**Unconsolidated annual
financial statements**

31 December 2009

This version of our 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 our report takes precedence over this translation.

Contents

Management Board's Report	1
Statement of Management Board's responsibilities	2
Independent Auditors' Report to the shareholders of JP Elektroprivreda BiH d.d. - Sarajevo	3
Unconsolidated statement of comprehensive income	5
Unconsolidated statement of financial position	6
Unconsolidated statement of changes in equity	7
Unconsolidated statement of cash flows	9
Notes (<i>forming part of the financial statements</i>)	10 - 48

Management Board's Report

The Management Board submits its report together with the audited unconsolidated financial statements for the year ended 31 December 2009.

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

Electricity related activities, which the Company performs are: production and distribution of electricity, electricity supply, trading, representation and mediation in the domestic electricity market, export and import of electricity, including electro power system control.

Results

The results of the Company are set out in the unconsolidated statement of comprehensive income on page 5 of the financial statements.

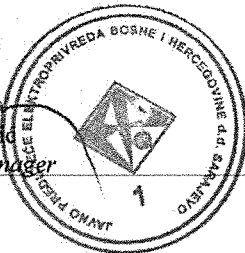
The members of the Supervisory Board during the year were as follows:

Edhem Bičakčić	President
Prof. dr. Adil Trgo	Member
Zehrudin Sikira	Member
Mr. Enes Čengić	Member
Dr. Elvir Čizmić	Member
Mr. Hilmo Šehović	Member
Željka Marković - Sekulić	Member, up to 12 May 2009
Miroslav Nikolić	Temporary member, from 12 May 2009 to 12 July 2009

The members of the Management Board during the year were as follows:

Amer Jerlagić	General Manager
Besim Halilović	Chief Executive for economic affairs
Nihad Kadić	Chief Executive for production
Enver Jamak	Chief executive for distribution
Emir Aganović	Chief Executive for supply and trade
Nedim Smajlagić	Chief Executive for legal, human resources and general affairs
Zijad Bajramović	Chief Executive for investments


Amer Jerlagić
General Manager



30 April 2010
Vilsonovo Setaliste
71000 Sarajevo
Bosnia and Herzegovina


Statement of Management Board's responsibilities

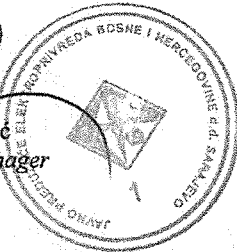
The Management Board is required to prepare unconsolidated financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible 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 financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The unconsolidated financial statements set out on pages 5 to 48 were authorised by the Management Board on 30 April 2010 for issue to the Supervisory Board and are signed below to signify this.

An.

Amer Jerlagić
General Manager





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

We have audited the accompanying unconsolidated financial statements of JP Elektroprivreda BiH d.d. - Sarajevo ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2009, and the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the unconsolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. The accompanying unconsolidated financial statements do not include a provision for dismantling thermal power plants. In accordance with International Financial Reporting Standard IAS 16, *Property, Plant and Equipment*, the estimated costs of dismantling and removing the asset and restoring the site should be capitalised as part of the cost of the asset and a provision should be recorded in the same amount. As of the date of this report management is unable to quantify the necessary provisions. Accordingly, we are unable to estimate the effect of this matter on the Company's financial statements. This was one of the matters which formed the basis for qualifying our opinion on last year's unconsolidated financial statements.
2. The Company was not able to prepare an ageing list of trade and other receivables. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the valuation of trade and other receivables by other procedures. Accordingly, we were not able to determine whether any adjustments might be necessary to the amounts shown in the financial statements for trade and other receivables, and retained earnings at the year end, or on the result for the year. This was one of the matters which formed the basis for qualifying our opinion on last year's unconsolidated financial statements.



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

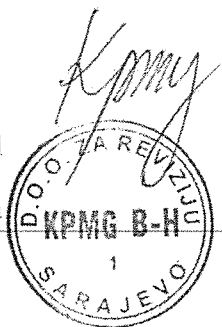
3. As explained in *Note 30* the Company is the defendant in a number of lawsuits. The Company has not recognised a provision of BAM 11,686 thousand, relating to court proceeding initiated by Tuzla Canton, based on the first instance verdict the plaintiff was successful in its claim, and the Company has lodged an appeal. We believe that the Company should recognise a provision for the year ended 31 December 2009 in the value of BAM 11,686 thousand and accordingly, expenses and liabilities for the year ended 31 December 2009 are understated and result for the period is overstated by BAM 11,686 thousand.
4. The Company has recognised connection fees of BAM 14,429 thousand as sales revenue in 2009 (2008: BAM 14,904 thousand). In accordance with International Financial Reporting Standard 18 *Revenues*, in our opinion, connection fees should be recognised as deferred income and released to revenues over the useful life of the corresponding assets. Owing to the nature of the Company's records we were not able to determine the effect on the Company's financial statements. This was one of the matters which formed the basis for qualifying our opinion on last year's unconsolidated financial statements.
5. The Company has not recognised unbilled and accrued income between BAM 4,000 thousand and BAM 5,000 thousand as at 31 December 2009. In accordance with IAS 18 *Revenue* all revenues of the Company, which are realised in the period, regardless of whether invoiced or not, should be recognized as revenue for that period, and consequently accrued income, revenues and result for the period are understated by between BAM 4,000 thousand and BAM 5,000 thousand.

Qualified Opinion

In our opinion, except for the effect, if any, of the matters referred to in paragraphs 1, 2, and except for the effect of the matters referred to in paragraphs 3, 4 and 5 above under *Basis for Qualified Opinion*, the unconsolidated statement of financial position gives a true and fair view of the unconsolidated financial position of the Company as at 31 December 2009 in accordance with International Financial Reporting Standards.

Because of the significance of the limitation in evidence available to us explained in paragraphs 1 to 5 above under *Basis for Qualified Opinion*, we do not express an opinion on the financial performance and cash flow statement for the year ended 31 December 2009.

KPMG B-H d.o.o.
Registered auditors
Fra Anđela Zvizdovića 1
71000 Sarajevo
Bosnia and Herzegovina



30 April 2010

Unconsolidated statement of comprehensive income
 For the year ended 31 December 2009

	Note	2009 BAM'000	Restated 2008 BAM'000
Revenue	3(),7	895,271	869,742
Other operating income	8	18,596	14,181
Total operating income		913,867	883,923
Work performed and capitalised	9	4,721	2,986
Raw materials and consumables		(406,323)	(387,035)
Personnel costs	9	(200,350)	(196,908)
Depreciation and amortization	10	(142,533)	(139,672)
Other operating expenses	11	(121,431)	(123,447)
Operating profit		47,951	39,847
Financial income	12	25,840	18,455
Financial expenses	12	(11,887)	(12,063)
Net financial income		13,953	6,392
Profit before taxation		61,904	46,239
Income tax expense	13	-	-
Profit for the period		61,904	46,239
Other comprehensive income			
Revaluation of property plant and equipment (net of taxes)		1,706	(59,021)
Total comprehensive income for the period		63,610	(12,782)

Unconsolidated statement of financial position
 As at 31 December 2009

	Note	31 December 2009 BAM'000	31 December 2008 BAM'000 Restated	1 January 2008 BAM'000 Restated
ASSETS				
Non-current assets				
Property, plant and equipment	14	2,627,394	2,599,663	2,660,622
Prepayments for property, plant and equipment		5,874	2,410	1,462
Intangible assets	15	1,943	761	2,413
Investment in associate	16	2,027	1,861	1,861
Investment in subsidiaries	17	87,810	5,533	5,533
Loans and other receivables	18	8,596	12,150	22,075
Total non-currents assets		2,733,644	2,622,378	2,693,966
Current assets				
Loans and other receivables	18	292,632	279,342	138,733
Trade and other receivables	19	120,572	127,722	113,270
Prepaid income tax		1,993	1,836	1,836
Inventories	20	115,577	95,209	84,332
Cash and cash equivalents	21	118,337	90,788	152,848
Total current assets		649,111	594,897	491,019
Total assets		3,382,755	3,217,275	3,184,985
EQUITY AND LIABILITIES				
Equity				
Share capital	22	2,155,160	3,035,436	3,035,436
Contributed but unregistered capital	17	81,804	-	-
Capital reserves		-	120	120
Statutory reserves		16,936	-	-
Revaluation reserves		515,821	531,188	618,667
Retained earnings/(accumulated losses)		175,734	(743,324)	(818,021)
Total capital and reserves		2,945,455	2,823,420	2,836,202
Liabilities				
Non-current liabilities				
Loans and borrowings	23 (a)	81,230	71,349	73,985
Deferred income	24	130,039	113,859	112,821
Deferred tax liability	25	57,315	59,021	-
Other liabilities	26	4,660	7,343	10,437
Provisions	27	35,163	31,510	41,845
Total non-current liabilities		308,407	283,082	239,088
Current liabilities				
Loans and borrowings	23(b)	12,900	10,058	10,837
Trade and other payables	28	100,824	82,404	81,880
Provisions	27	15,169	18,311	16,978
Total current liabilities		128,893	110,773	109,695
Total liabilities		437,300	393,855	348,783
Total equity and liabilities		3,382,755	3,217,275	3,184,985

The accounting policies and other notes on pages 10 to 48 form an integral part of these financial statements.

Unconsolidated statement of changes in equity
 For the year ended 31 December 2009

	Share capital BAM'000	Contributed but unregistered capital BAM'000	Capital reserve BAM'000	Statutory reserves BAM'000	Revaluation reserve BAM'000	Accumulated losses/retained earnings BAM'000	Total BAM'000
As at 1 January 2008 (as previously reported)	3,035,436	-	120	-	686,934	(861,379)	2,861,111
Change in accounting policy (Note 5)	-	-	-	-	(68,267)	68,267	-
Prior year adjustment (Note 5)	-	-	-	-	-	(24,909)	(24,909)
As at 1 January 2008 (restated)	3,035,436	-	120	-	618,667	(818,021)	2,836,202
Profit for the period	-	-	-	-	-	46,239	46,239
Other comprehensive income							
Deferred tax – revaluation property, plant and equipment (Note 5)	-	-	-	-	(61,866)	-	(61,866)
Transfer from deferred tax liability for income tax benefit (Note 25)	-	-	-	-	2,845	-	2,845
Total comprehensive income (restated)	-	-	-	-	(59,021)	46,239	(12,782)
Disposal of revalued assets	-	-	-	-	(1,007)	1,007	-
Change in accounting policy (Note 5)	-	-	-	-	(27,451)	27,451	-
As at 31 December 2008 (restated)	3,035,436	-	120	-	531,188	(743,324)	2,823,420

Unconsolidated statement of changes in equity (continued)
 For the year ended 31 December 2009

	Share capital BAM'000	Contributed but unregistered capital BAM'000	Capital reserve BAM'000	Statutory reserves BAM'000	Revaluation reserve BAM'000	Accumulated losses/retained earnings BAM'000	Total BAM'000
As at 1 January 2009 (restated)	3,035,436	-	120	-	531,188	(743,324)	2,823,420
Profit for the period	-	-	-	-	-	61,904	61,904
Other comprehensive income							
Transfer from deferred tax liability for income tax benefit	-	-	-	-	1,706	-	1,706
Total comprehensive income	-	-	-	-	1,706	61,904	63,610
Share issued for acquisition (Note 17)	-	81,804	-	-	-	-	81,804
Transfer from capital reserve	120	-	(120)	-	-	-	-
Decrease in share capital (Note 22)	(872,708)	-	-	-	-	872,708	-
Dividends paid	-	-	-	-	-	(23,369)	(23,369)
Disposal of revalued assets	-	-	-	-	(1,846)	1,836	(10)
Depreciation of revalued assets	-	-	-	-	(15,227)	15,227	-
Transfer to statutory reserves	(7,688)	-	-	16,936	-	(9,248)	-
As at 31 December 2009	2,155,160	81,804	-	16,936	515,821	175,734	2,945,455

Unconsolidated statement of cash flows
 For the year ended 31 December 2009

	Note	2009 BAM'000	2008 BAM'000
Cash flows from operating activities			
Net profit before tax		61,904	46,239
Adjustments for:			
Depreciation and amortisation		142,533	139,669
Interest and other financial income		(24,659)	(18,425)
Interest and other financial expenses		11,722	6,863
Write off of liabilities		1,978	2
Loss/gain on disposals of fixed assets		4,916	1,005
Gain on disposal of raw materials		(769)	(390)
Write off of inventories		1,318	473
Net bad debt expenses		3,139	1,927
Released deferred income		(7,017)	(6,968)
Share of profits from associate		(166)	-
		<hr/>	<hr/>
<i>Operating profit before working capital changes</i>		194,899	170,395
Decrease/(increase) in trade and other receivables		4,011	(16,379)
Increase in inventories		(20,917)	(10,960)
Increase in prepayments for fixed assets		(3,464)	(947)
Decrease in long term receivables		3,554	9,925
Increase in trade and other payables		16,402	522
Decrease in long term liabilities		(2,171)	(12,096)
Increase in deferred income		23,197	8,006
		<hr/>	<hr/>
<i>Cash from working capital changes</i>		20,612	(21,929)
Income tax paid		(157)	-
		<hr/>	<hr/>
<i>Net cash from operating activities</i>		215,354	148,466
		<hr/>	<hr/>
Investing activities			
Purchase of property, plant and equipment and intangible assets		(176,449)	(86,225)
Proceeds from the disposals of property, plant and equipment		76	8,161
Acquisition of subsidiaries	17	(473)	-
		<hr/>	<hr/>
<i>Net cash from investing activities</i>		(176,846)	(78,064)
		<hr/>	<hr/>
Financing activities			
Placement with banks		(13,250)	(140,609)
Repaid loans		12,723	(3,415)
Interest paid		(11,722)	(6,863)
Interest received		24,659	18,425
Dividends paid		(23,369)	-
		<hr/>	<hr/>
<i>Net cash from financing activities</i>		(10,959)	(132,462)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		27,549	(62,060)
Cash and cash equivalents at beginning of year		90,788	152,848
		<hr/>	<hr/>
Cash and cash equivalents at end of year	21	118,337	90,788
		<hr/> <hr/>	<hr/> <hr/>

The accounting policies and other notes on pages 10 to 48 form an integral part of these financial statements.

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 30 April 2010. In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. 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 2009 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 30 April 2010.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for taking into account increases in the market value of non-current assets.

(c) Functional and presentation currency

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

(d) Changes in accounting policies

(i) Determination and presentation of operating segments

As of 1 January 2009 the Company determines and presents operating segments based on the information that internally is provided to the CEO, who is the Company’s chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

2 Basis of preparation

(d) Changes in accounting policies (continued)

(i) Determination and presentation of operating segments (continued)

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(ii) Revaluation reserves

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes are stated in the balance sheet at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The revaluation reserves included in equity in respect of revalued items of property, plant and equipment may be transferred directly to retained earnings when the assets are derecognised. Up till 2009 the Company was transferring the whole of the surplus when the asset is retired or disposed of. However, some of the revaluation reserves may be transferred as the assets are used by the Company. The Company has started using this accounting policy in 2009 and has made changes retrospectively, *Note 5*. In this case, the amount of the reserve transferred is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation reserves to retained earnings are not made through income statement.

(iii) Presentation of financial statements

The Company applies revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(e) 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 34*.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

3 Significant accounting policies

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

The Company has assessed the potential impact of the new and revised standards in issue that will be effective from 1 January 2010 or later periods. The Company does not expect that the new and revised standards and interpretations will have a significant effect on the Company's result and financial position.

(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 trade and other receivables, cash and cash equivalents, other investments, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through income statement, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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.

Cash and cash equivalents comprise cash in hand and cash with banks.

Accounting for financial income and expense is discussed in *Note 3(n)*.

Other investments are classified as either held-for-trading or available-for-sale depending on the Company's intention at the time of purchase and are measured at subsequent reporting dates at fair value. Where securities are held for trading, gains and losses arising from changes in fair value are included in the income statement in the period they occur. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

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 in which the Company has the power, directly or indirectly, to exercise control over their operations. Control is achieved where a company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. Investments in subsidiaries are stated at cost.

(d) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Any revaluation increase arising on the revaluation of such land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Assets in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Revaluation reserves

The revaluation reserves included in equity in respect of revalued items of property, plant and equipment may be transferred directly to retained earnings when the assets are derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the revaluation reserves may be transferred as the assets are used by the Company. In such a case, the amount of the reserve transferred is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation reserves to retained earnings are not made through income statement.

(iii) 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 Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

3 Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iv) 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 the each reporting date.

(e) Intangible assets

(i) Research and development

Expenditure on research activities are undertaken with the prospect of gaining new scientific technical knowledge and understanding. Development activities involve a plan or design for the production of new or substantially improved products and processes. Costs of research and development are capitalised to the extent that they meet the criteria set out in International Accounting Standard 38 *Intangible Assets*.

(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	5 years
----------	---------

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

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

3 Significant accounting policies (continued)

(f) 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.

(g) Trade and other receivables

Trade and other receivables are initially recognised at their fair value and subsequently measured at amortised cost less impairment loss (refer to Note 3(h)).

(h) Impairment

The carrying amounts of the Company's assets other than inventories are reviewed at each reporting date to determine whether there is any indication for impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit on a pro rata basis.

(i) Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

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.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been indication that an impairment loss may have decreased and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

3 Significant accounting policies (continued)

(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) Loans and borrowings

(i) 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.

(ii) Non interest loans and borrowings

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

(k) Employee benefits

On behalf of its employees, the Company is paying pension and health insurance from salaries, which are calculated on the gross salary paid, as well as taxes, which are calculated on the net salary paid. The Company is paying the above contributions into the Federal Pension and Health Funds, as per the set legal rates during the course of the year on the gross salary paid. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the applicable legislation. These expenses are recorded in the income statement in the period in which the salary expense is incurred.

(i) 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 award payments range from one to three average salaries paid to the employee during the preceding month net per employee for tenure from 10 to 30 years.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

3 Significant accounting policies (continued)

(k) Employee benefits (continued)

(ii) Retirement benefits

According to the internal policy on employment, employees are entitled to retirement severance payments of 5 average monthly salaries of the employee in question, realized in last 5 months or 5 average salaries paid in the Federation BiH based on the latest published data by Federal Office of Statistics, depending on that which is more favourable to the employee.

The calculation is performed annually by a qualified actuary using the 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.

(iii) Bonuses

Liabilities for bonuses to employees are recognized on accrual basis based on the formal plan adopted by the Company, when it is probable that bonuses will be paid and when the amount of bonuses can be estimated reliably before the reporting date. Liabilities for bonuses are expected to be paid within twelve months from the reporting date and are recognized in the amount expected to be paid. Short term benefits are recognized at undiscounted basis and are recognized as expense when the receipt of service occurs.

(l) 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.

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.

(m) Deferred income

Donations 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.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

3 Significant accounting policies (continued)

(n) Financial income and expenses

Financial income and expenses comprise interest payable on borrowings, 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.

(o) Income tax expense

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 substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

(p) Discontinued operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

3 Significant accounting policies (continued)

(q) 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. Hence, geographical segment reporting is accordingly set out in *Note 6*.

(r) 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. The Company has no significant exposure to market risk.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been released and are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements:

- Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010)

The amendments to the Standard require that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets to recognise the goods or services received in its financial statements. Previously group cash-settled share-based payment transactions were not addressed directly in IFRS 2.

The Company has not yet completed its analysis of the impact of the amended Standard.

- Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009)

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

3 Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted (continued)

The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:

- All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
- Subsequent change in contingent consideration will be recognized in profit or loss.
- Transaction costs, other than share and debt issuance costs, will be expensed as incurred.
- The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

– IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2013, early adoption is permitted)

This Standard replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

A financial asset is measured at amortized cost if the following two conditions are met: the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Gains and losses on re measurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.

It is not expected that IFRS 9 will materially impact the Company's financial statements because it is expected that, due to the nature of the Company's operations and the types of financial assets it holds, the classification and measurement of the Company's financial assets will not change significantly under IFRS 9.

– Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011)

The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

3 Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted (continued)

The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

Revised IAS 24 is relevant to the Company's financial statements as the Company is a government-related entity and the revised definition of a related party is not expected to result in new relations requiring disclosure in the financial statements.

– Revised IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009)

In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.

The Company has not yet completed its analysis of the impact of the revised Standard.

– Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual period beginning on or after 1 February 2010)

The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendments to IAS 32 are not relevant to the Company's financial statements as the Company has not issued such instruments at any time in the past.

– Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for annual periods beginning on or after 1 July 2009)

The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances.

The amendments to IAS 39 are not relevant to the Company's financial statements as the Company does not apply hedge accounting.

– IFRS for *Small and Medium-sized Entities* (The IFRS for SMEs does not contain an effective date; instead, it will take effect from a date determined by the national regulator in each jurisdiction)

The IFRS for SMEs is intended to facilitate financial reporting by small and medium-sized entities (SMEs) that want to use international standards by providing an accounting standard suitable for them. It is a simplified and slimmed-down version of full IFRSs and is available for entities that do not have public accountability. It will be up to the national regulators and legislators to decide who is permitted or required to IFRS for SMEs in each jurisdiction.

IFRS for SMEs simplifies the recognition and measurement requirements compared to full IFRSs in some areas and excludes topics not considered relevant for SMEs and removes the more complex option in certain areas in which full IFRSs allow more than one accounting option.

An entity follows either the requirements of the IFRS for SMEs in full or else uses full IFRSs. The only exception is that an entity applying the IFRS for SMEs can choose for financial instruments to apply either the provisions of the IFRS for SMEs, or the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* and the disclosure requirements of the IFRS for SMEs. IFRS for SMEs is not relevant for the Company.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

3 Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted (continued)

- Amendment to IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual period beginning on or after 1 January 2011)

The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

The amendments to IFRIC 14 is not relevant to the Company's financial statements as the Company does not have any defined benefit plans with minimum funding requirements.

- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective prospectively for annual periods beginning on or after 15 July 2009)

The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be re measured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss.

As the Interpretation is applicable only from the date of application, it will have no impact on the financial statements for periods prior to the date of adoption of the Interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010)

The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41.

The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.

The Company did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Company's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine the effects of application in advance.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

4 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) *On call bank deposits*

The carrying value of on call bank deposits approximate their fair value due to their proximity in nature to cash.

(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.

(iii) *Property, plant and equipment*

An external independent valuer, having appropriate recognised professional qualifications undertook a valuation of the Company's property, plant and equipment as at 31 December 2004. The fair values are based on market values, being the estimated amount for which a property, plant and equipment could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Notes (continued)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2009

5 Adjustment of previous period errors

Balance sheet as at 31 December 2008

	As reported 31 December 2008 BAM '000	Adjustments BAM '000	Restated 31 December 2008 BAM '000	Restated 1 January 2009 BAM '000
ASSETS				
Non-current assets				
Property, plant and equipment	2,599,663	-	2,599,663	2,660,622
Prepayments for property plant and equipment	2,410	-	2,410	1,462
Intangible assets	761	-	761	2,413
Investment in associate	1,861	-	1,861	1,861
Investment in subsidiaries	5,533	-	5,533	5,533
Loans and other receivables	12,150	-	12,150	22,075
Total non-currents assets	2,622,378	-	2,622,378	2,693,966
Current assets				
Loans and other receivables	279,342	-	279,342	138,733
Trade and other receivables	121,121	6,601	127,722	113,270
Prepaid income tax	1,836	-	1,836	1,836
Inventories	95,209	-	95,209	84,332
Cash and cash equivalents	90,788	-	90,788	152,848
Total current assets	588,296	6,601	594,897	491,019
Total assets	3,210,674	6,601	3,217,275	3,184,985
EQUITY AND LIABILITIES				
Equity				
Share capital	3,035,436	-	3,035,436	3,035,436
Capital reserves	120	-	120	120
Revaluation reserves	685,927	(154,739)	531,188	618,667
Accumulated losses	(814,133)	70,809	(743,324)	(818,021)
Total capital and reserves	2,907,350	(83,930)	2,823,420	2,836,202
Liabilities				
Non-current liabilities				
Loans and borrowings	71,349	-	71,349	73,985
Deferred income	113,859	-	113,859	112,821
Deferred tax liability	-	59,021	59,021	-
Other liabilities	7,343	-	7,343	10,437
Provisions	-	31,510	31,510	41,845
Total non-current liabilities	192,551	90,531	283,082	239,088
Current liabilities				
Loans and borrowings	10,058	-	10,058	10,837
Trade and other payables	82,404	-	82,404	81,880
Provision	18,311	-	18,311	16,978
Total current liabilities	110,773	-	110,773	109,695
Total liabilities	303,324	90,531	393,855	348,783
Total equity and liabilities	3,210,674	6,601	3,217,275	3,184,985

Notes (continued)

5 Adjustment of previous period errors (continued)

Adjustments of the balance sheet and other comprehensive income items relates to the following prior period errors and change in accounting policies:

Adjustment to the balance sheet and other comprehensive income

- a) Adjustment of trade and other receivables of BAM 6,601 thousand relates to the correction of a provision for bad and doubtful debts incorrectly recorded in prior periods.
- b) The revaluation surplus included in equity in respect of items of property, plant and equipment was transferred directly to retained earnings when the asset was derecognised until 2009. In 2009 the Company changed its accounting policy and transfer revaluation surplus to retained earnings as the assets are used by the Company. The amount of the surplus transferred is the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the asset's original cost excluding already transferred amount for derecognised assets. The amount of revaluation surplus transferred retrospectively is BAM 95,718 thousand (BAM 68,267 thousand from 2005 to 2007 year, amount of BAM 27,451 for 2008). Due to introduction of new Income tax Law of FBiH in 2008 the Company was obliged to recognise a deferred tax liability on revaluation surplus of BAM 61,866 thousand.
- c) Adjustment to other liabilities of BAM 31,510 thousand relates to the recognition of liabilities for jubilee awards, retirement benefits to employees retrospectively. The measurement of this liability was reliably estimated using actuarial techniques.

Notes (continued)

6 Segment reporting

From 1 September 2008, the Company has established a Management board with six executive directors, of whom three are responsible for the following activities: production, distribution and supply and trade, and other three for the support activities: economic activities, legal and human resource affairs and capital investments.

For management purposes, the Company is organised into three segments. These segments are the basis on which the Company reports.

(i) Segment 1 – Production, which includes hydro power plants on the Neretva river (Jablanica, Grabovica and Salakovac) and coal power plants in Kakanj and Tuzla;

(ii) Segment 2 – Distribution and supply, which includes distribution units in Bihać, Mostar, Sarajevo, Tuzla and Zenica;

(iii) Segment 3 – Economic, legal affairs, human resources and development and investments.

Notes (continued)

6 Segment reporting (continued)

	Segment 1 Production		Segment 2 Distribution and supply		Segment 3 Other activities		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
in thousand BAM								
Sales	570,280	601,309	242,996	229,073	81,995	39,360	895,271	869,742
Cost of sales	566,375	565,753	242,281	215,215	43,548	55,037	852,204	836,005
Segment result	3,905	35,556	715	13,858	38,447	(15,677)	43,067	33,737
Other operating income	5,389	2,756	9,270	9,441	3,937	1,984	18,596	14,181
Other operating expenses	2,344	975	10,349	6,443	1,019	653	13,712	8,071
Result from operating activities	6,950	37,337	(364)	16,856	41,365	(14,346)	47,951	39,847
Financial income	2,752	1,667	2,425	2,370	20,663	14,418	25,840	18,455
Financial expenses	10,088	11,404	1,675	488	124	171	11,887	12,063
Financial result	(7,336)	(9,737)	750	1,882	20,539	14,247	13,953	6,392
Result before tax	(386)	27,600	386	18,738	61,904	(99)	61,904	46,239
Income tax	-	-	-	-	-	-	-	-
Profit for period	(386)	27,600	386	18,738	61,904	(99)	61,904	46,239

Notes (continued)

6 Segment reporting (continued)

in thousand BAM	Segment 1 Production		Segment 2 Distribution and supply		Segment 3 Other activities		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Fixed assets	1,791,116	1,831,843	800,790	736,388	43,305	34,603	2,635,211	2,602,834
Other non current assets	4,176	7,289	2,982	3,570	1,438	1,291	8,596	12,150
Investments	600	601	3,918	3,918	85,319	2,875	89,837	7,394
Total non current assets	1,795,892	1,839,733	807,690	743,876	130,062	38,769	2,733,644	2,622,378
Current assets	541,093	516,124	41,343	84,740	490,856	456,756	1,073,292	1,057,620
Less inter segment receivables	(467,551)	(452,017)	78,573	35,447	(35,243)	(46,153)	(474,221)	(462,723)
Total assets	73,542	64,107	119,916	120,187	455,613	410,603	649,071	594,897
Liabilities	1,869,434	1,903,840	927,606	864,063	585,675	449,372	3,382,715	3,217,275
Less inter segment liabilities	143,134	136,120	222,920	175,305	495,425	545,170	861,479	856,595
Total liabilities	(3,828)	(4,014)	(31,429)	(42,151)	(388,962)	(416,575)	(424,219)	(462,740)
Net assets per segment	139,306	132,106	191,491	133,154	106,463	128,595	437,260	393,855
	1,730,128	1,771,734	736,115	730,909	479,212	320,777	2,945,455	2,823,420

Notes (continued)

7 Sales revenue

	2009 BAM'000	2008 BAM'000
Sale of electric energy in domestic market	738,499	624,713
Sale of electric energy abroad	117,534	198,600
Sale of services and other revenue	39,238	46,429
	<u>895,271</u>	<u>869,742</u>

8 Other operating income

	2009 BAM'000	2008 BAM'000
Income from associate	166	-
Liabilities written off	1,978	2
Grant revenue	7,017	6,968
Surpluses of property, plant and equipment	375	448
Insurance claims	1,548	1,299
Penalties	1,133	685
Rental income	1,209	665
Gain on sale of raw materials	769	390
Release of provision for court cases	2,499	1,282
Other revenues	1,902	2,442
	<u>18,596</u>	<u>14,181</u>

9 Personnel costs

	2009 BAM'000	2008 BAM'000
Net wages, salaries and other staff costs	122,660	123,213
Compulsory social security contributions	69,592	68,715
Fees to employees and those charged with governance	2,909	4,980
Other employee costs	5,189	-
	<u>200,350</u>	<u>196,908</u>
Total personnel costs	200,350	196,908
Own work capitalised	(4,721)	(2,986)
	<u>195,629</u>	<u>193,922</u>
Personnel costs recognised in income statement	195,629	193,922

The number of employees in the Company at year end was 5,190 (2008: 5,016). Personnel costs include BAM 34,768 thousand (2008: BAM 35,161 thousand) of defined pension contributions paid into obligatory pension funds.

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

Notes (continued)

10 Depreciation and amortization

	2009 BAM'000	2008 BAM'000
Depreciation	141,627	137,830
Amortisation	906	1,842
	<hr/>	<hr/>
Total depreciation and amortisation	142,533	139,672
	<hr/> <hr/>	<hr/> <hr/>

11 Other operating expenses

	2009 BAM'000	2008 BAM'000
Loss on disposal of fixed assets	4,916	2,447
Write off of inventories	1,318	473
Loss from associate	29	19
Donations	2	-
Shortages of inventories	15	7
Penalties	439	414
Bad debt expenses	3,139	1,927
Transport services	45,545	57,313
Maintenance	18,365	13,906
Telecommunication costs	1,377	1,310
Services from third parties	1,780	1,509
Provisions for claims	2,583	3,753
Rent expense	305	197
Insurance	5,068	4,150
Bank charges	291	748
Travel costs	721	672
Advertising costs	910	1,048
Entertainment costs	462	444
External services	2,884	3,229
Memberships and other taxes	23,843	23,183
Other expenses	7,439	6,698
	<hr/>	<hr/>
	121,431	123,447
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

12 Net financial income

	2009 BAM'000	2008 BAM'000
Interest income	24,659	18,425
Foreign exchange gains	1,181	30
	<hr/>	<hr/>
Financial income	25,840	18,455
	<hr/>	<hr/>
Interest expenses	(11,722)	(6,863)
Foreign exchange losses	(165)	(5,200)
	<hr/>	<hr/>
Financial expenses	(11,887)	(12,063)
	<hr/>	<hr/>
Net financial income	13,953	6,392
	<hr/> <hr/>	<hr/> <hr/>

Interest expense includes BAM 1,890 thousand (2008: nil) relating to the unwinding of the discount on the present value of the jubilee awards and retirement benefits, BAM 7,899 thousand (2008: BAM 4,484 thousand) relating to adjustment of the provision to the present value of the future cash outflows at a discount rate of 7.62% as at 31 December 2009 for the construction licence (see Note 27 Provisions) and BAM 1,933 thousand (2008: BAM 2,379 thousand) relating to interest expense on loans taken by the Company.

13 Income tax expense

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

	2009 BAM'000	2008 BAM'000
Accounting profit before tax	61,904	46,239
	<hr/>	<hr/>
Profit tax at 10%	6,190	4,624
Taxable capital gains	8,887	1,236
Non-deductible expenses	1,131	271
Tax relief due to investment	(16,208)	(6,131)
	<hr/>	<hr/>
Income tax expense	-	-
	<hr/>	<hr/>
Income tax expense and effective tax rate for the year	-	-
	<hr/> <hr/>	<hr/> <hr/>

As of 1 January 2008, a new CPT Law has been implemented in the FBiH introducing a decreased CPT rate of 10%. The new CPT Law introduces a five year tax holiday for a taxpayer who in a period of five consecutive years makes an investment into production on the territory of the FBiH in the total amount of at least BAM 20 million, provided that no less than BAM 4 million is invested in the first year. Also, a taxpayer who in one tax period achieves over 30% of total sales through export is CPT exempt in that year.

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	Assets in course of construction BAM'000	Total BAM'000
Cost or valuation					
At 1 January 2008	76,338	2,821,282	1,561,568	146,528	4,605,716
Additions	-	-	-	86,212	86,212
Disposals and write offs	(70)	(16,592)	(38,562)	(5,598)	(60,822)
Transfers	7	37,287	118,614	(155,908)	-
At 31 December 2008	76,275	2,841,977	1,641,620	71,234	4,631,106
At 1 January 2009	76,275	2,841,977	1,641,620	71,234	4,631,106
Adjustments FERK guidance	-	(75,368)	75,368	-	-
At 1 January 2009 (restated)	76,275	2,766,609	1,716,988	71,234	4,631,106
Additions	-	-	-	174,350	174,350
Disposals and write offs	(167)	(54,848)	(167,769)	-	(222,784)
Transfers	117	15,691	102,801	(118,609)	-
At 31 December 2009	76,225	2,727,452	1,652,020	126,975	4,582,672
Accumulated depreciation and impairment losses					
At 1 January 2008	-	1,195,405	749,689	-	1,945,094
Charge for the year	-	62,488	75,339	-	137,827
Disposals and write offs	-	(15,113)	(36,365)	-	(51,478)
At 31 December 2008	-	1,242,780	788,663	-	2,031,443
At 1 January 2009	-	1,242,780	788,663	-	2,031,443
Adjustments FERK guidance	-	(22,920)	22,920	-	-
At 1 January 2009 (adjusted)	-	1,219,860	811,583	-	2,031,443
Charge for the year	-	6,674	134,953	-	141,627
Disposals and write offs	-	(52,175)	(165,617)	-	(217,792)
At 31 December 2009	-	1,174,359	780,919	-	1,955,278
Carrying amount					
At 1 January 2008	76,338	1,625,877	811,879	146,528	2,660,622
At 31 December 2008	76,275	1,599,197	852,957	71,234	2,599,663
At 1 January 2009 (restated)	76,275	1,546,749	905,405	71,234	2,599,663
At 31 December 2009	76,225	1,553,093	871,101	126,975	2,627,394

In 2004, the Company organised a new appraisal of the property, plant and equipment, which was performed by American Appraisal Hungary Co. Ltd. and Ernst & Young Advisory Ltd, who issued their report on 24 August 2005. The appraisal effective date was 31 December 2004. The fair values are based on market values, being the estimated amount for which a property, plant and equipment could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. No subsequent appraisal has been made.

Notes (continued)

14 Property, plant and equipment (continued)

In addition the Company has changed map of accounts for property, plant and equipment in line with guidance issued by FERK (Regulatory Commission for Electricity in Federation of Bosnia and Herzegovina). Therefore, adjustment of opening balances arose as a consequence of change in map of accounts.

15 Intangible assets

	Software BAM'000	Research and development costs BAM'000	Assets in course of construction BAM'000	Total BAM'000
Cost				
At 1 January 2008	5,239	-	-	5,239
Additions	-	-	190	190
Disposal and write off	-	-	-	-
Transfers	179	11	(190)	-
At 31 December 2008	5,418	11	-	5,429
Additions	-	-	2,099	2,099
Disposal and write off	-	(11)	-	(11)
Transfers	2,099	-	(2,099)	-
At 31 December 2009	7,517	-	-	7,517
Accumulated amortisation and impairment losses				
At 1 January 2008	2,826	-	-	2,826
Charge for the year	1,842	-	-	1,842
At 31 December 2008	4,668	-	-	4,668
Charge for the year	906	-	-	906
At 31 December 2009	5,574	-	-	5,574
Carrying amount				
At 1 January 2008	2,413	-	-	2,413
At 31 December 2008	750	11	-	761
At 1 January 2009	750	11	-	761
At 31 December 2009	1,943	-	-	1,943

Notes (continued)

16 Investment in associate

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

Associate	Reporting date	Business activity	Ownership	2009 BAM'000	2008 BAM'000
ETI d.o.o. Sarajevo	31 December 2009	Production of fuses	49%	2,027	1,861

17 Investment in subsidiaries

Subsidiary	Business activity	Ownership	2009 BAM'000	2008 BAM'000
Rudnik mrkog uglja Abid Lolić d.o.o.Travnik - Bila Rudnici Kreka d.o.o. Tuzla	Coal mine extraction	100%	762	-
RMU Kakanj d.o.o. Kakanj	Coal mine extraction	100%	37,145	-
RMU Zenica d.o.o. Zenica	Coal mine extraction	100%	19,720	-
JP Rudnik mrkog uglja Breza d.o.o. Breza	Coal mine extraction	100%	1,514	-
JP Rudnik uglja Gračanica d.o.o. Gornji Vakuf	Coal mine extraction	100%	12,490	-
Uskoplje	Coal mine extraction	100%	5,065	-
JP Rudnik mrkog uglja Đurdevik d.o.o.	Coal mine extraction	100%	5,108	-
Investment in coal mines			81,804	-
Eldis Tehnika d.o.o.	Production of electro equipment and communication	100%	1,429	1,229
Iskraemeco d.o.o.	Energy management and supplies	57.5%	3,286	3,013
Hotel Makarska	Hotel services	85.8%	1,291	1,291
Investment in other subsidiaries			6,006	5,533
Total investment in subsidiaries			87,810	5,533

The Government of the Federation of Bosnia and Herzegovina in the process of restructuring and reorganisation of the electricity sector, on behalf of the Federation of Bosnia and Herzegovina, made decision on 14 January 2009 (No. 12/09, Official Gazette of FBiH, No. 4 / 09), to transfer all of the shares of the Federation of Bosnia and Herzegovina in the coal mines to the Company.

On 24 July 2009, the Company has signed an agreement with the Government of the Federation of Bosnia and Herzegovina on transfer of shares in the coal mines from the Government of the Federation of Bosnia and Herzegovina to the Company.

Notes (continued)

17 Investment in subsidiaries (continued)

The Supervisory Board of the Company has, on 31 August 2009, appointed authorised personnel of the coal mines assemblies. The authorised personnel of the Company have, on 25 September 2009, adopted the new statutes of the coal mines, which reflect changes of ownership of coal mines and began the procedure for amending the management and supervisory boards of the coal mines.

On the 30 September 2009, the Company has received approval from the Competition Council of Bosnia and Herzegovina for the transfer of ownership of the coal mines from the Government of the Federation of Bosnia and Herzegovina to the Company. On this date the Company has taken control over the coal mines and this is the date when the legal ownership of the mines was transferred from the Government of the Federation of Bosnia and Herzegovina to the Company.

The Company has engaged external audit firm to perform valuation of shares of the Government FBiH in coal mines. The external audit firm, produced a report dated 16 October 2009, and based on this report the total value of the 100% capital of coal mines was BAM 81,804 thousand. For this amount the Company will issue shares to the Government of FBiH through which the Government of FBiH will increase its share in the Company, court registration is in the process.

In addition, on 16 November 2009 the Company has signed individual agreements on transfer of shares in the coal mines and marked the beginning of future operational activities.

18 Loans and other receivables

	2009 BAM'000	2008 BAM'000
Term deposits	288,485	272,839
Loans to employees	7,495	8,445
Loans to customers	1,418	5,367
Interest receivable	3,295	3,579
Other receivables	535	1,262
	<u>301,228</u>	<u>291,492</u>
Less: Impairment provision	-	-
	<u>301,228</u>	<u>291,492</u>
Current portion of loans and other receivables	292,632	279,342
Non-current portion of loans and other receivables	8,596	12,150
	<u>301,228</u>	<u>291,492</u>

Term deposits relate to short term placements with banks that bear interest between 5.81% and 7.16% per annum.

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.

Notes (continued)

19 Trade and other receivables

	2009 BAM'000	2008 BAM'000
Trade receivables – gross	148,928	145,772
Trade receivables – impairment	(41,789)	(38,553)
	<u>107,139</u>	<u>107,219</u>
Trade receivables – net	107,139	107,219
Receivables from employees	118	174
Prepayments to suppliers	6,945	1,966
Receivables from the State	349	232
Prepaid expenses	2,396	10,530
Other receivables	3,625	7,601
	<u>120,572</u>	<u>127,722</u>

20 Inventories

	2009 BAM'000	2008 BAM'000
Raw materials	102,192	83,990
Spare parts	13,378	11,198
Low valued inventory	-	12
Merchandise	7	9
	<u>115,577</u>	<u>95,209</u>

21 Cash and cash equivalents

	2009 BAM'000	2008 BAM'000
Cash with banks in BAM	36,648	10,794
Cash with banks in foreign currencies	81,505	79,880
Petty cash	184	114
	<u>118,337</u>	<u>90,788</u>

22 Share capital

	2009 BAM'000	2008 BAM'000
One issue at the beginning of the year	2,155,160	3,035,436

The authorised and issued share capital comprises 30,354,369 ordinary shares (2008: 30,354,369).
 The par value of each share is BAM 71 (2008: BAM 100).

Notes (continued)

22 Share capital (continued)

Assembly of the Company has made a decision on 12 May 2009 to reduce share capital by BAM 872,708 thousand to cover accumulated losses from 2007. The reduction of share capital has impacted on the reduction of the nominal value of shares from BAM 100 to BAM 71 per share. Registry of Securities of the Federation BiH has approved the reduction in share capital on 25 June 2009.

In addition, after the coverage of the accumulated losses due to the rounding of nominal value per share, part of the share capital of BAM 7,688 thousand was transferred to statutory reserves.

(i) Contributed but unregistered capital

As of 30 September 2009, Government of Federation of Bosnia and Herzegovina transferred a 100% stake in seven coal mines to the Company at a total value of BAM 81,804 thousand (see Note 17 Investment in subsidiaries). For this amount the Company issued shares to the Government of FBiH through which the Government of FBiH increased its share in the Company, court registration is in the process. Council of competition of FBiH has approved on 30 September 2009 transfer of 100% stake in seven coal mines from the Government of FBiH to the Company.

(i) Statutory reserves

During the year the Group transferred BAM 16,936 thousand to statutory reserves. The amount transferred consist of BAM 9,248 thousand transferred from retained earnings and BAM 7,688 thousand transferred from share capital, due to the rounding of nominal value per share.

(ii) Dividends

The General Assembly at a meeting held on 24 June 2009 approved dividends of BAM 23,369 thousand from the net profit from 2008 which represented BAM 0.76 per share.

23 Loans and borrowings

	2009 BAM '000	2008 BAM '000
(a) <i>Non-current loans and borrowings</i>		
Loans from banks	81,230	71,349
	<u>81,230</u>	<u>71,349</u>
(b) <i>Current loans and borrowings</i>		
Loans from banks	-	-
<i>Current portion of long term loans and borrowings</i>		
Loans from banks	12,900	10,058
	<u>12,900</u>	<u>10,058</u>
(c) <i>Total loans and borrowings</i>	<u>94,130</u>	<u>81,407</u>

Notes (continued)

23 Loans and borrowings (continued)

(e) Interest rates and terms of repayment for the Company at 31 December 2009 are as follows:

Loans and borrowings	Interest rate	Total 2009 BAM'000	1 year or less BAM'000	1-2 years BAM'000	3-5 years BAM'000	More than 5 years BAM'000
<i>Loans from banks</i>						
<i>Variable interest rate instruments</i>						
BAM 104,233,104	0.75% – LIBOR + 0.75%	56,866	7,241	6,936	12,748	29,941
BAM 49,599,087	EURIBOR + 1% - 6.48%	13,644	3,360	3,360	4,604	2,320
<i>Fixed interest rate instruments</i>						
BAM 9,411,908	3.702% - 5.55%	6,861	615	616	1,849	3,781
BAM 17,043,406	0.75%	15,598	523	523	1,569	12,983
<i>Other loans</i>						
BAM 18,064,619	0%	1,161	1,161	-	-	-
Total loans and borrowings		94,130	12,900	11,435	20,770	49,025

24 Deferred income

	2009 BAM'000	2008 BAM'000
Deferred income for granted assets	128,124	103,735
Deferred income for granted cash	215	1,255
Deferred income for granted inventories	1,700	8,869
	130,039	113,859

25 Deferred tax liability

Movement in temporary difference during the year is as follows:

In thousand BAM	Balance 1 January 2008 (restated)	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2008 (restated)	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2009
Property, plant and equipment	61,866	-	(2,845)	59,021	-	(1,706)	57,315

Notes (continued)

26 Other liabilities

	2009 BAM'000	2008 BAM'000
Accrued expenses	4,660	7,343
	<u>4,660</u>	<u>7,343</u>

27 Provisions

	Construction licenses BAM'000	Law suits BAM'000	Jubilee awards retirement benefits BAM'000	Total BAM'000
Balance at 1 January 2009	10,132	8,179	31,510	49,821
Provision made during the period	7,899	2,583	7,079	17,561
Provision released during the period	-	(2,498)	-	(2,498)
Provision used during the period	(9,752)	(1,374)	(3,426)	(14,552)
Balance at 31 December 2009	<u>8,279</u>	<u>6,890</u>	<u>35,163</u>	<u>50,332</u>
			2009 BAM'000	2008 BAM'000
Current portion of provisions			15,169	18,311
Non-current portion of provision			35,163	31,510
			<u>50,332</u>	<u>49,821</u>

Construction licenses

In December 2005 the Company signed contracts with three municipalities: Jablanica, Konjic and Prozor for issuance of construction, operational and other relevant licences for existing hydro power plants Jablanica. The contracted value of the permit was BAM 33,378 thousand and it was agreed that this amount will be paid over a period of five years. During 2008 the Company paid BAM 15,897 thousand and has recognised additionally financial expenses of BAM 4,484 thousand being the adjustment of provision to the present value of future cash outflows at a discount rate of 8% as at 31 December 2008. During 2009, the Company recognized additional financial expenses of BAM 7,899 thousand (see Note 12 Net finance income).

28 Trade and other payables

	2009 BAM'000	2008 BAM'000
Trade payables	81,530	67,061
Payables to employees	144	164
Contribution and taxes	3,391	2,409
Prepayment from suppliers	4,983	5,901
Other accruals	1,158	685
Other short term liabilities	5,175	3,743
VAT payable	4,443	2,441
	<u>100,824</u>	<u>82,404</u>

Notes (continued)

29 Financial risk management

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:

	<i>Note</i>	2009 BAM'000	2008 BAM'000
Loans and receivables	18,19	421,800	419,214
Cash and cash equivalents	21	118,337	90,788
		<u>540,137</u>	<u>510,002</u>

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

	2009 BAM'000	2008 BAM'000
Domestic	105,249	87,539
Foreign	1,890	19,680
	<u>107,139</u>	<u>107,219</u>

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

	2009 BAM'000	2008 BAM'000
Wholesale customers	89,992	89,519
Retail customers	17,147	17,700
	<u>107,139</u>	<u>107,219</u>

Notes (continued)

29 Financial risk management (continued)

Impairment losses

The Company has not able to provide ageing of trade receivables at the reporting date.

Liquidity risk

The following are the contractual maturities of financial liabilities:

31 December 2009	Carrying amount	Contractual Cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000
Non-derivative financial liabilities							
Trade and other payables	100,784	(100,784)	(100,784)	-	-	-	-
Interest bearing loans	94,130	(103,138)	(8,312)	(7,104)	(15,870)	(27,878)	(43,974)
	=====	=====	=====	=====	=====	=====	=====
31 December 2008	Carrying amount	Contractual Cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000
Non-derivative financial liabilities							
Trade and other payables	82,404	(82,404)	(82,404)	-	-	-	-
Interest bearing loans	81,407	(93,672)	(6,682)	(6,683)	(10,294)	(23,219)	(46,794)
	=====	=====	=====	=====	=====	=====	=====

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 Euro and USD. These exposures are not currently hedged.

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

In thousand BAM	2009					
	BAM	EUR	USD	XDR	YEN	CHF
Loans and other receivables	12,743	288,485	-	-	-	-
Trade receivables	105,249	1,890	-	-	-	-
Trade payables	(67,565)	(13,965)	-	-	-	-
Interest bearing loans and borrowings	-	(40,345)	(5,045)	(31,980)	(15,600)	(1,160)
	=====	=====	=====	=====	=====	=====
Gross balance sheet exposure	50,427	236,065	(5,045)	(31,980)	(15,600)	(1,160)
	=====	=====	=====	=====	=====	=====

Notes (continued)

29 Financial instruments (continued)

Currency risk (continued)

In thousand BAM	2008					
	BAM	EUR	USD	XDR	YEN	CHF
Loans and other receivables	211,600	79,892	-	-	-	-
Trade receivables	87,539	19,680	-	-	-	-
Trade payables	(57,967)	(9,094)	-	-	-	-
Interest bearing loans and borrowings	-	(23,496)	(6,979)	(33,139)	(16,639)	(1,154)
Gross balance sheet exposure	241,172	66,982	(6,979)	(33,139)	(16,639)	(1,154)

	Average rate		Reporting date spot rate	
	2009	2008	2009	2008
EUR	1.95583	1.95583	1.95583	1.95583
USD	1.40386	1.33175	1.36408	1.38731
XDR	2.16441	2.10837	2.12837	2.16461
YEN	0.01502	0.01299	0.01477	0.01535
CHF	1.29537	1.23690	1.31457	1.30711

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 1% strengthening of the USD would result in BAM 50 thousand increase in equity and profit as at 31 December 2009 (2008: BAM 70 thousand), and for the year then ended, while 1% weakening of the USD would have an equal but opposite effect on the above noted trade receivables, profit and equity, on the basis that all other variables, in particular interest rates, remain constant. It was not practicable to perform sensitivity analyses for other currencies.

Interest rate risk

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

	Carrying amount	
	2009 BAM'000	2008 BAM'000
Fixed rate instruments		
Financial assets	297,398	286,651
Financial liabilities	(23,620)	(25,403)
	273,778	261,248

Notes (continued)

29 Financial instruments (continued)

Interest rate risk (continued)

	Carrying amount	
	2009 BAM'000	2008 BAM'000
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(70,510)	(56,004)
	<u>(70,510)</u>	<u>(56,004)</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.

BAM'000	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2009				
Cash flow sensitivity analysis	(555)	469	(555)	469
	<u>(555)</u>	<u>469</u>	<u>(555)</u>	<u>469</u>
31 December 2008				
Cash flow sensitivity analysis	(638)	542	(638)	542
	<u>(638)</u>	<u>542</u>	<u>(638)</u>	<u>542</u>

Fair values

The fair value of financial assets and liabilities correspond to their carrying values.

30 Contingent liabilities

As of 31 December 2009, court proceedings were initiated against the Company in the total amount of BAM 46,899 thousand (2008: BAM 47,752 thousand). The Company created a provision for law suits of BAM 6,890 thousand (2008: BAM 8,179 thousand). From the total court proceedings of BAM 46,899 thousand, BAM 11,867 thousand relates to court proceeding initiated by coal mine "Kreka" d.o.o. – Tuzla, the Municipally court in Tuzla has rejected the claim because of the limitation /ageing of legal proceeding, also BAM 6,277 thousand relates to proceeding initiated by coal mine "Kreka" d.o.o. – Tuzla, which will be settled out of the court, as the coal mine has become subsidiary of the Company in 2009 and in addition the Company is planning to invest BAM 5,000 thousand in future years to close the coal mine "Bukinje", which was the subject of the claim. Further more, BAM 11,686 thousand relates to court proceeding initiated by Tuzla Canton, based on the first instance verdict the plaintiff was successful in its claim, and the Company has lodged an appeal, however no provision was raised. For the rest 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 the Management is of the opinion that they are without merit and therefore, no amounts have been recorded in the accompanying financial statements.

31 Environmental matters

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

Notes (continued)

31 Environmental matters (continued)

In the past years, the creation of a system of environmental management has been underway, 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.

32 Related party transactions

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

	<i>Sales</i>		<i>Purchases</i>	
	2009 BAM'000	2008 BAM'000	2009 BAM'000	2008 BAM'000
JKP Park	66	59	59	35
Željeznice BiH	488	559	-	-
KJKP Gras	3,013	3,216	5	9
BH Telecom	1,636	1,517	512	499
BH Pošta	479	478	45	38
KJKP Vodovod i kanalizacija	7,931	8,201	18	17
Centralna Banka BiH	147	144	12,621	15,344
JKP Toplane	2,184	2,301	-	-
Sarajevogas Sarajevo	78	87	-	-
Elektroprenos AD Banja Luka	27	23	51,465	62,756
Vanjsko trgovinska komora BiH	37	34	-	6
JKP Rad	370	333	6	8
RTV BiH	669	676	100	37
Energoinvest d.d Sarajevo	1,373	1,747	2,921	1,949
	<u>18,498</u>	<u>19,375</u>	<u>67,752</u>	<u>80,698</u>
	<i>Assets</i>		<i>Liabilities</i>	
	2009 BAM'000	2008 BAM'000	2009 BAM'000	2008 BAM'000
JKP Park	8	8	1	33
Željeznice BiH	112	154	-	-
KJKP Gras	428	938	-	-
BH Telecom	146	135	18	75
BH Pošta	47	44	5	4
KJKP Vodovod i kanalizacija	956	1,241	5	1
Centralna Banka BiH	14	14	-	15
JKP Toplane	343	359	-	-
Sarajevogas Sarajevo	10	11	-	-
Elektroprenos AD Banja Luka	4	3	-	9,254
Vanjsko trgovinska komora BiH	4	4	-	-
JKP Rad	50	36	1	1
RTV BiH	55	116	-	3
Energoinvest d.d Sarajevo	88	210	-	557
	<u>2,265</u>	<u>3,273</u>	<u>30</u>	<u>9,943</u>

Notes (continued)

32 Related party transactions (continued)

(b) Related parties – Coal mines

The Company and the domestic mine companies are related parties based on the majority state ownership structure. 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. Transactions with related parties are as follows:

Assets

	2009 BAM'000	2008 BAM'000
Kakanj	166	187
Zenica	224	224
Breza	179	171
Gracanica	48	47
Bila	37	32
Kreka	871	877
Banovici	564	565
Durdevik	253	187
	<u>2,342</u>	<u>2,290</u>

Liabilities

	2009 BAM'000	2008 BAM'000
Kreka	7,361	6,292
Banovici	7,807	9,564
Zenica	395	8
Kakanj	2,743	2,102
Durdevik	2,142	3,213
Gracanica	674	878
Bila	557	319
Breza	2,265	1,914
Stanari	931	1,623
Tusnica	84	104
	<u>24,959</u>	<u>26,017</u>

Notes (continued)

32 Related party transactions (continued)

(b) Related parties – Coal Mines (continued)

Sales revenue

	2009 BAM'000	2008 BAM'000
Kreka	9,261	8,709
Banovici	5,123	4,965
Zenica	2,295	2,232
Kakanj	1,781	1,830
Durdevik	2,181	1,991
Gracanica	459	415
Bila	360	335
Breza	1,736	1,634
	<u>23,196</u>	<u>22,111</u>

Purchases of coal

	2009 BAM'000	2008 BAM'000
Kreka	105,423	91,696
Banovici	64,029	71,072
Zenica	10,941	13,431
Kakanj	62,485	59,109
Durdevik	26,630	29,658
Gracanica	7,709	9,303
Bila	6,364	4,168
Breza	29,288	30,213
Stanari	10,040	5,967
Tusnica	1,610	1,565
	<u>324,519</u>	<u>316,182</u>

(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 party:

	2009 BAM'000	2008 BAM'000
Accounts receivables	1	1
Accounts payables	-	-
Sales revenue	10	11
Purchases	<u>361</u>	<u>307</u>

Notes (continued)

32 Related party transactions (continued)

(d) Related parties – management remunerations

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

	2009 BAM'000	2008 BAM'000
Management Board remuneration		
Net salaries	459	551
Contributions and taxes	274	383
	<u>733</u>	<u>934</u>
Supervisory Board remuneration		
Net fees	113	194
Contributions and taxes	20	51
	<u>133</u>	<u>245</u>
Total remuneration	<u><u>866</u></u>	<u><u>1,179</u></u>

33 Subsequent events

- The Assembly of the Company has made decision on 8 February 2010 of granting a loan to coal mine "Kakanj" for financing the purchase and installation of facilities for the purchase and installation of the facilities for the receipt, preparation and loading of coal into wagons at PK "Vrtlište" in accordance with the conditions set forth in this decision.

Requirements set out in this decision recommend an interest rate of 1.5% per annum, which commercial banks pay on foreign currency sight deposit to the Company, the amount of loan is EUR 4,793 thousand.

The loan period is 60 months and it will be implemented according to the prescribed dynamics, the transfer of the dedicated account, which will be opened by the coal mine "Kakanj".

- The realization of the donation program given by the Company from the profit made in 2008 in the amount of BAM 300 thousand.
- In order to ensure long-term electricity in the FBiH, the Government of the FBiH, at the meeting held on 15 February 2010, has adopted a decision through which determines the public interest for the construction of six power plants, sixteen hydroelectric power plants and six wind power plants.

Notes (continued)

34 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 receivables

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

Income tax

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

Provisions for contingencies

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

35 Ownership structure

The ownership structure of the Company is as follows:

	31 December 2009		31 December 2008	
	Number of shares	Ownership	Number of shares	Ownership
Federation of Bosnia and Herzegovina	27,318,932	90%	27,318,932	90%
Various shareholders	3,035,437	10%	3,035,437	10%
	<u>30,354,369</u>	<u>100%</u>	<u>30,354,369</u>	<u>100%</u>