

**Separate financial
statements for the period
ended 31 December 2018
and independent auditor's
report**

JP Elektroprivreda BiH d.d. Sarajevo

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Independent auditor's report

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Public company Elektroprivreda BiH d.d. - Sarajevo

Qualified opinion

We have audited the separate financial statements of the public company „JP Elektroprivreda BiH“ d.d. Sarajevo (hereinafter: „the Company“), which comprise the separate statement of financial position as at 31 December 2018, and the separate statement of of profit and loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for effects to the matters (1-3) disclosed in the chapter Basis for qualified opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, as well as its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards

Basis for qualified opinion

1. As disclosed in note 15 to the separate financial statements, the Company disclosed investments in subsidiaries as at 31 December 2018 in the amount of 380,452 thousands of BAM. These investments are recognized at cost of their acquisition. As at 31 December 2018, the Company did not perform an impairment test in accordance with IAS 36 – Impairment of assets, despite the existence of objective indications of impairment of these investments. Due to the complexity of these matters, we were not able to make our own estimates and with reasonable certainty determine the amount of necessary corrections of the stated balance of these investments as at 31 December 2018, which could have a significant effect on the Company's business and financial performance and balance as at and for the year ended 31 December 2018. The opinion of the previous auditor on the Company's separate financial statements for the year ended 31 December 2017 has also been modified in this regard.
2. As disclosed in note 19 to the separate financial statements, given advances to subsidiaries are stated in the amount of 87,655 thousands of BAM. As further disclosed in note 10 to the Company's separate financial statements, the Company made allowances for receivables based on given advances in the amount of 6,672 thousands of BAM. These stated advances refer to prepaid coal to related legal entities. Based on the conducted audit procedures and records that are available to the Company, it has been determined that a significant part of these advances in the amount of 66,875 thousands of BAM is older than one or even more years, therefore there is a materially significant risk of their irrevocability. The available data and information were not sufficient for us to make our own estimates and with reasonable certainty determine the amount of additional provisions based on allowances for given advances, which could have a significant effect on the Company's business and financial performance and balance as at and for the year ended 31 December 2018. The opinion of the previous auditor on the Company's separate

financial statements for the year ended 31 December 2017 has also been modified in this regard.

3. International Financial Reporting Standards IFRS 9 . Financial instruments and IFRS 15 – Revenue from contracts with customers are required to be applied in the Federation of Bosnia and Herzegovina when preparing financial statements for periods beginning from 01 January 2018. As disclosed in note 2 to the separate financial statements, the Company did not apply the above mentioned standards during the preparation of the separate financial statements as at and for the year ended 31 December 2018., which is not in accordance with the above mentioned regulatory requirements and IFRS. Therefore, the accompanying separate financial statements cannot be considered as statements that have been fully prepared in accordance with International Financial Reporting Standards. Based on the available documentation, we were not able to determine the effects of corrections and reclassifications on the Company’s operating result for the year ended 31 December 2018, as well as the Company’s financial position as at 1. January 2018 and 31 December 2018.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The Company’s separate financial statements for the year ended 31 December 2017 were audited by another auditor, who expressed a qualified opinion in his report dated 29 May 2018 in respect of the recorded balance of investments in subsidiaries and of advances given to subsidiaries as at 31. December 2018.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the unconsolidated financial statements for the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Key audit matter	Applied audit procedures
<p><i>Revenue recognition of sales of electricity (see note 5)</i></p> <p>Revenues from the sale of electricity in the amount of 959,991 thousand of BAM entirely refer to revenues from the sale of electricity on the domestic and foreign markets. The Company recognizes the revenues on a monthly basis after the delivery of electricity. The electricity price is defined in decisions and contracts.</p> <p>Revenues from the sale of electricity have been selected as a key matter since there is a</p>	<p><i>Our procedures included the following processes</i></p> <p>As part of our audit procedures, we tested the internal controls established by the Management. Based on samples, we tested the calculation of delivered electricity in accordance with the prices defined by decisions and contracts;</p> <p>Based on samples, we tested revenue recognition in the period in it they actually occurred.</p> <p>Based on conducted audit procedures, we did not identify significant findings compared to the</p>

<p>significant risk of revenue recognition of sales of electricity by the Company, as well as a risk of presenting revenues in the period in which they occurred.</p>	<p>accuracy of recording revenue in accordance with contracts and decisions, as well as recording revenue in the period in which it actually occurred.</p>
<p><i>Risk of circumventing controls by Management</i></p> <p>In accordance with IAS and our audit methodology, circumvention of controls by Management is considered a significant risk within each audit engagement. The Management may directly or indirectly manipulate accounting records and prepare false financial statements by circumventing otherwise effective controls.</p>	<p>We tested the appropriateness of the records entered in the general ledger by interviewing the persons involved in the financial reporting process for inappropriate and unusual activities and then tested the records. We assessed whether there was evidence of bias by the Management in significant accounting estimates and opinions relevant to the financial statements. In addition, we assessed the general environment of the Company in terms of controls and discussed it with the senior management.</p>

Responsibilities of the Management and those charged with governance for the separate financial statements

The Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of separate financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from a fraud is higher, than for one resulting from

error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management;
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

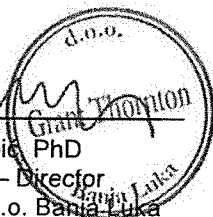
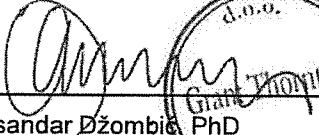
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.


From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Aleksandar Džombić.

Banja Luka, 11 October 2019



Aleksandar Džombić, PhD
Managing Partner – Director
Grant Thornton d.o.o. Banja Luka



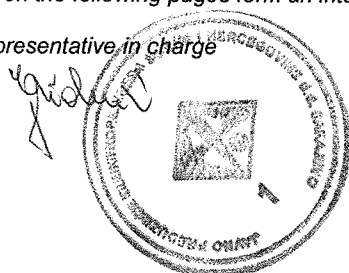
Nevena Milinković
Certified Auditor
Grant Thornton d.o.o. Banja Luka

Separate statement of profit and loss and other comprehensive income for the period 01.01.2018 - 31.12.2018

Position	Note	2018 in thousands of BAM	2017 in thousands of BAM
Sales revenues	5	1,035,711	1,105,572
Other operating income	6	18,467	40,283
Total operating income		1,054,178	1,145,855
Own capitalized work		2,878	2,964
Costs for raw materials, materials and cost of goods sold	7	(502,290)	(684,826)
Employee benefits	8	(180,156)	(177,357)
Depreciation and amortization	9	(150,258)	(150,917)
Other operating expenses	10	(163,783)	(139,795)
Total operating expenses		(993,609)	(1,149,931)
Operating profit/(loss)		60,569	(4,076)
Financial income		6,498	9,222
Financial expenses		(5,644)	(4,526)
Net financial profit		61,423	620
Profit before tax		61,423	620
Income tax	11	(9,040)	-
Profit for the year		52,383	620
Other comprehensive loss			
Actuarial losses		(3,190)	(208)
Total comprehensive income for the year		49,193	412

The notes on the following pages form an integral part of these separate financial statements.

Representative in charge



Licensed person

CERTIFICIRANI RAČUNOVOĐA
Mensuda Vuk
Broj: CR-4676/5

Separate statement of financial position as at 31 December 2018

Position	Note	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Non-current assets			
Property, plant and equipment	12	2,356,958	2,444,402
Intangible assets	13	15,767	18,584
Advanced		172	193
Investments in related legal entities	14	1,950	1,950
Investments in subsidiaries	15	380,452	366,893
Borrowings and deposits	16	48,347	205,361
Other long-term receivables	17	11,903	9,575
		2,815,549	3,046,958
Current assets			
Borrowings and deposits	16	149,783	9,731
Trade and other receivables	18	140,935	118,839
Receivables for prepaid income tax		2,980	9,758
Advances	19	89,890	72,975
Inventories	20	63,054	51,429
Cash and cash equivalents	21	102,850	57,673
Accruals		6,990	6,581
		556,482	326,986
TOTAL ASSETS		3,372,031	3,373,944
Equity and reserves			
Equity	22		
Share capital		2,236,964	2,236,964
Legal reserves		41,783	41,659
Other reserves		508,664	508,664
Retained earnings		181,559	202,205
		2,968,970	2,989,492
Liabilities			
Non-current liabilities			
Loans and borrowings	23	115,678	121,320
Deferred income	24	81,833	88,182
Employee obligations	25	32,547	28,154
Provisions	26	17,159	15,888
Other long-term liabilities		53	70
		247,270	253,614
Current liabilities			
Loans and borrowings	23	13,628	17,193
Trade and other payables	27	73,145	66,593
Provisions	26	12,186	7,932
Deferrals	28	56,832	39,120
		155,791	130,838
TOTAL EQUITY AND LIABILITIES		3,372,031	3,373,944

The notes on the following pages form an integral part of these separate financial statements.

Separate statement of cash flows for the period 01.01.2018 - 31.12.2018

Position	2018. in BAM 000	2017. in BAM 000
Cash flow from operating activities		
Net profit for the year	52,383	620
Adjustment for:		
Amortization	150,258	150,917
Tax income and other financial income	(6,498)	(9,222)
Tax expenses and other financial expenses	5,644	4,526
Income from write-offs of liabilities	(3,947)	(5,133)
Net loss from disposal of fixed assets	2,232	1,765
Changes in provisions, net	(5,525)	(3,363)
Changes in employee remuneration, net	4,393	(1,064)
Inventory write-off	1,873	865
Net loss/profit from write-offs of bad debts	6,026	(2,694)
	206,839	137,217
Changes in:		
- trade receivables	26,797	20,948
- inventories	(9,752)	9,077
- advances	16,915	10,245
- other receivables	(3,899)	(1,129)
- other long-term liabilities	7,686	70
- trade payables	(10,357)	11,624
- other liabilities	5,825	(5,656)
- deferred income	(6,349)	(5,854)
Net cash flow from operating activities	233,705	176,542
Investing activities		
Purchase of property, plant and equipment	(67,300)	(64,167)
Purchase of intangible assets	(1,366)	(1,516)
Increase in share in subsidiaries	(13,559)	(73,156)
Increase in deposits and given loans	(80,397)	(123,233)
Proceeds from refund of deposits and given loans	52,807	59,470
Interest paid	6,498	9,222
Net cash flow from investing activities	(103,317)	(193,380)
Financing activities		
Repayment of loans	(12,781)	(16,626)
Proceeds from loans	2,537	344
Interest paid	(5,644)	(4,526)
Dividends paid	(69,323)	(5,123)
Net cash flow from financing activities	(85,211)	(25,931)
Net change in cash and cash equivalents	45,177	(42,769)
Cash and cash equivalents, beginning of the year	57,673	100,442
Cash and cash equivalents, end of the year	102,850	57,673

The notes on the following pages form an integral part of these separate financial statements.

Separate statements of changes in equity for the period 01.01.2018 - 31.12.2018

(in BAM 000)

	Share capital	Legal reserves	Other reserves	Retained earnings	Total
Balance at 01.01.2017	2,236,964	39,087	508,664	209,569	2,994,284
Profit for the year	-	-	-	620	620
Other comprehensive loss	-	-	-	(208)	(208)
Total comprehensive income	-	-	-	412	412
Transactions with owners recorded directly to equity Contributions and distribution to owners					
Transfers	-	2,572	-	(2,572)	-
Dividends	-	-	-	(5,204)	(5,204)
Balance at 31.12.2017/ 01.01.2018	2,236,964	41,659	508,664	202,205	2,989,492
Profit for the year	-	-	-	52,383	52,383
Other comprehensive loss	-	-	-	(3,190)	(3,190)
Total comprehensive income	-	-	-	49,193	49,193
Transactions with owners recorded directly to equity Contributions and distribution to owners					
Transfers	-	124	-	(124)	-
Dividends (note 22)	-	-	-	(69,714)	(69,714)
Balance at 31.12.2018	2,236,964	41,783	508,664	181,559	2,968,970

The notes on the following pages form an integral part of these separate financial statements.

1. General information

JP Elektroprivreda BiH d.d. – Sarajevo (hereinafter „the Company“) is a public company registered in accordance with the Law on public companies, and is organized as a joint stock company in accordance with the provisions of the Law on business companies, in which 90.37% of the capital is owned by the Federation of Bosnia and Herzegovina, while 9.63% is owned by small shareholders. The Company’s bodies are the following: the Assembly, the Supervisory Board, the Management Board and the Audit Committee.

The organizational units of the Company are the Directorate and the following 8 branches:

- Hidroelektrane na Neretvi, Jablanica,
- Termoelektrana “Kakanj”, Kakanj,
- Termoelektrana “Tuzla”, Tuzla,
- “Elektrodistribucija”, Bihać,
- “Elektrodistribucija”, Mostar,
- “Elektrodistribucija”, Sarajevo,
- “Elektrodistribucija”, Tuzla,
- “Elektrodistribucija”, Zenica.

From 2009, the Company has the status of a governing company in the EPBiH Group. By the Decision published in the “Official Gazette FBiH”, no. 4 from 26 January 2009, the Federation of Bosnia and Herzegovina transferred its shares in coal mines of the Federation of Bosnia and Herzegovina to the public company JP Elektroprivreda BiH d.d. – Sarajevo, more precisely:

- Brown coal mine “Abid Lolić” d.o.o. Travnik – Bila,
- Brown coal mine “Breza” d.o.o. Breza,
- Brown coal mine “Đurđevik” d.o.o. Đurđevik,
- Coal mine “Gračanica” d.o.o. Gornji Vakuf – Uskoplje,
- Brown coal mine “Kakanj” d.o.o. Kakanj,
- Mines “Kreka” d.o.o. Tuzla i
- Brown coal mine “Zenica” d.o.o. Zenica.

The Company holds majority interests in the following legal entities:

- “Iskraemeco” d.o.o. Sarajevo – a company for production and maintenance of measuring devices, 57.51 % ownership;
- “Eldis Tehnika” d.o.o. Sarajevo – a company for the production of equipment for energy distribution, marketing of products and services, 100 % ownership;
- “Hotel Makarska” d.o.o. Makarska, Republic Croatia – a company for hospitality and tourism, 100% ownership;
- “TTU energetic” d.o.o., a company for production of transport devices, 80% ownership.

The main activities performed by the Company is the production of electricity, distribution of electricity, supply of electricity, trading of electricity, as well as representation and mediation in the domestic electricity market.

The Company’s shares are listed on the Sarajevo stock exchange.

As at 31 December 2018, the Company employed 4,441 employees (as at 31 December 2017: 4,529).

2. Basis for preparation and presentation of financial statements

Statement of compliance

The financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS"). The Company also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group). In the consolidated financial statements, subsidiaries are fully consolidated. Subsidiaries are Companies that are controlled by the Group. Control exists, if the Group is exposed to or has the right to variable returns from its interests with the subsidiary and is able to influence these returns through the control of the subsidiary. The users of these separate financial statements should read them in conjunction with the Group's consolidated financial statements as at 31 December 2018 and for the year then ended for the purpose of obtaining comprehensive information on the financial position of the Group, its results of operations and changes in the financial position of the Group as a whole. .

The financial statements have been approved by the Management on 11 October 2019.

Basis for valuation

The financial statements are presented in accordance with the historical cost or surrogate cost convention.

Functional and presentation currency

The financial statements are stated in thousands of Convertible Marks (BAM), BAM being the functional currency. The financial information presented in Convertible Marks are rounded to the nearest thousand.

Use of estimates and judgements

The preparation of financial statements requires the Management to make judgements, estimates and assumptions which have an impact on the implementation of policies and disclosed amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and related assumptions are reviewed regularly. Changes in accounting estimates are recognized in the period in which the change of the estimate occurred and in future periods to which they relate.

In particular, information on significant estimates of uncertainty and critical judgements about the application of accounting policies that have a material impact on the amounts recognized in the financial statements are described in Note 33.

3. Significant accounting policies

Accounting policies stated below are applied constantly and consistently in all periods which are presented in these separate financial statements.

Foreign currencies

Transactions in foreign currencies are denominated in the functional currency of the Company using the foreign exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated using the exchange rates prevailing at that date. Foreign exchange gains or losses arising on the settlement of these transactions, and gains or losses arising on the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Non-monetary assets and items measured at historical cost of a foreign currency are not translated at new rates.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency using the exchange rates at the dates when the amounts were determined.

Financial instruments

Non-derivate financial instruments

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

Non-derivative financial instruments are initially measured at their fair value plus transaction costs, except in the case of financial instruments that are not measured at fair value through the income statement. Non-derivative financial instruments are subsequently measured in the manner described below.

- **Borrowings and receivables**

Borrowings and receivables are stated at amortized cost using the effective interest rate method.

- **Cash and cash equivalents**

Cash and cash equivalents for the purpose of the statements of cash flows include cash on hand, bank accounts, as well as bank deposits with a maturity of up to three months.

- **Interest-bearing loans and borrowings**

Interest-bearing loans and borrowings are initially recognized at fair value of the received cash less the related transaction costs. In future periods, interest bearing loans and borrowings are carried at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the value at maturity is recognized in the income statement over the life of the borrowing using the effective interest rate.

- **Trade payables**

Trade payables are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

A financial instrument is recognized if the Company becomes one of the parties to which the contractual terms of the instrument are to be applied. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire, and if the Company transfers the financial assets without retaining control or transfers all the risks and rewards of those assets. Regular acquisition and sale of financial assets is recognized on the trade date or the date when the Company commits to purchase or sell the asset. Financial liabilities are derecognised if the contractual obligation is settled, adjusted or expired.

Issued capital

Purchase of issued capital

When issued capital is purchased, the amount of compensation together with the directly attributed costs is recognized as an impairment of capital. Purchased shares are presented as own shares and are presented as a deduction from the total share capital.

Investments in subsidiaries

Subsidiaries are companies controlled by the Group. Control exists, if the Group is exposed to or has the right to variable returns from its interests with the subsidiary and is able to influence these returns through the control of the subsidiary. Investments in subsidiaries are recorded at cost less impairment loss.

Shares in associated companies

Associated legal entities are those legal entities in which the Company has significant influence, but no control over the financial and operational policies. Investments in subsidiaries are recorded at cost less impairment loss.

Property, plant and equipment

Recognition and measurement

Property, plant and equipment are stated at cost, that is surrogate cost, less accumulated depreciation and impairment of assets.

If significant items of property, plant and equipment have different useful lives, they are recognized as separate items (significant components) of property, plant and equipment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Additionally, costs include, when the Company is required to remove an asset or rebuild a location, the cost estimation for dismantling and removing items as well as rebuilding the location.

Gains and losses arising from an item of property, plant and equipment (determined as the difference between the net disposal proceeds and the carrying amount of the asset) are recognized in the income statement.

Subsequent expenses

The replacement cost of an item of property, plant and equipment is recognized as an asset if it is certain that the Company will have future economic benefits from the asset and that the cost of the asset can be measured reliably. The cost of daily maintenance of property, plant and equipment is recognized in the income statement when it occurs.

Depreciation

Depreciation is recognized in the income statement using the straight-line method over the estimated useful lives of the assets. Land and assets in preparation are not depreciated.

The estimated useful lives of assets are stated in the following table:

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

At the reporting date the validity of the depreciation method, the useful lives and the remaining value of the asset are reassessed.

Intangible assets

Development

An intangible asset arising from development (or at the stage of development of an internal project) is recognized as an asset if, and only if, the subject can demonstrate all of the following:

- technical feasibility of completing the intangible asset so that it is available for use or sale;
- intention to complete the intangible asset and its use or sale;
- possibility of using or selling the intangible asset;
- the way the intangible asset will bring probable future economic benefits;
- availability of adequate technical, financial and other resources to complete the development and use or sale of the intangible asset;
- ability to reliably measure the expenses which are attributable to the intangible asset during its development.

Software

Software is initially recognized at cost. After initial recognition, software is recognized at costs less accumulated amortization and accumulated impairment loss.

Subsequent expenses

Subsequent expenses related to intangible assets are capitalized only when they increase the future economic benefits of the related assets. All other expenses, including expenses for internally developed goodwill and brand, are stated in the income statement as an expense in the period when occurred.

Amortization

Amortization is recognized in the income statement using the straight-line method over the estimated useful lives of the intangible assets.

The estimated useful lives for the current comparative period are stated in the following table:

Software and development costs	2- 10 years
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At the reporting date the validity of the amortization method and the useful lives are reassessed.

Inventories

Inventories are measured at the lower of cost or net sales value. Inventories are measured at cost, including all costs that are required to bring inventories to a ready-to-use condition, using the weighted average cost method.

In the case of finished goods and work-in-progress, cost includes the appropriate part of the overhead production costs based on the normal operating capacity. Net sales value is the estimated selling price in the ordinary course of business, less the estimated cost of completing and selling inventories.

Impairment of assets

The carrying amount of the Company's assets, other than inventories and deferred tax assets, is reviewed at each reporting date in order to determine whether there is any indication of impairment. If indications exist, the asset's recoverable amount is estimated.

The recoverable amount of intangible assets with indefinite useful lives and intangible assets not yet in use is estimated at each reporting date.

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

Impairment loss is recognized when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest group of assets that generates cash inflows that are independent of cash inflows from other assets or groups of assets. Impairment loss is recognized in the income statement.

Impairment losses on financial assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of the estimated future cash flows of the asset at the original effective interest rate. Losses are recognized in the income statement, on the account for impairment of borrowings and receivables or held-to-maturity investment securities. Interest on impaired assets is still recognized. When events occur that cause a decrease of impairment after the impairment is recognized, impairment losses are reversed through the income statement.

In assessing collective impairment, the Company uses historical probability trends in terms of non-payments, repayment time and the occurred amount of loss, which are adjusted for judgements by the management as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than those forecast by historical trends.

Calculation of the recoverable amount

The recoverable amount of financial assets carried at amortized cost is determined as the present value of estimated future cash flows, discounted at the original effective interest rate (that is, the effective interest rate calculated at initial measurement of that financial asset). Current receivables are not discounted.

The recoverable amount of other assets is their net realizable value or value in use, whichever is

greater. In assessing the value in use, the present value of estimated future cash flows is calculated using a pre-tax discount rate that reflects an estimate of the time value of money in the market and the risks which are typical for those assets. For assets that do not generate independent cash flows, the recoverable amount is determined by the cash-generating unit to which the asset belongs.

Reversal of impairment loss

Impairment losses related to receivables carried at amortized cost are reversed if a subsequent increase in the recoverable amount can be objectively related to an event occurring after the impairment loss is recognized.

If the amount of impairment loss for receivables in the next period decreases due to an event occurring after the write-off, the then previously recognized impairment loss is reversed through the income statement with a corresponding increase of the carrying amount and assets. The reversal is limited to an amount that would not exceed the amortized cost if no impairment had been occurred.

Impairment losses on other assets and non-financial assets are reversed if there are indications that the impairment no longer exists and if there is a change in estimates used in order to determine the recoverable amount.

Provisions

Provisions are recognized if the Company currently has a legal or derivative liability as a result of past events and if it is probable that an outflow of resources will be required to settle the liability and if the amount of the liability can be estimated reliably.

Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects the current market estimate of the time value of money and, where applicable, the risk specific to the liability.

Employee benefits

Mandatory contributions to the pension fund

Contributions to the mandatory pension fund are included as an expense in the income statement the period in which they occurred, that is in the period in which services were provided by employees.

Retirement benefits

The Company pays retirement benefits in the amount of five average net salaries paid to the employee in the previous three months before the retirement or six average net salaries realized in the Federation of Bosnia and Herzegovina, whatever is more favourable to the employee. The company has no other plans related to payments to their employees or Management after the date of retirement in Bosnia and Herzegovina.

Retirement expenses are determined by the projected unit credit method, while actuarial estimates are made at each reporting period date. Gains and losses occurred by the actuarial valuation are recognized in statement of other comprehensive income in the full amount in the period in which they occurred. Retirement benefits recognized in the balance sheet represent the present value of a defined benefit obligation, adjusted for the unrecognized past work cost.

Jubilee awards

The Company pays jubilee awards to its employees. The liability and cost of these benefits are estimated using the projected unit credit method. The projected monetary unit method considers each employment year by the employee in the Company, which, in the sum of all separate units, constitutes the final obligation, which is measured individually by each unit. The liability is measured at the present value of estimated future cash flows discounted by the effective interest rate that approximates that of government debt securities where the currency and terms of government debt securities are approximate to the currency and estimated terms of the employee benefit obligation. Jubilee awards range from an average of one to two average net salaries paid in the Federation of Bosnia and Herzegovina, depending on the employment period of 10 to 30 years.

Revenues

Sold products and services

Revenues from sale of products are measured at fair value of the received compensation or receivable. Revenues from sale of a product are recognized when significant risks and ownership rights are transferred to the buyer, when it is probable that the transaction will be accompanied by an inflow of economic benefits, when costs and possible returns of goods can be measured reliably and when the Company does not retain the right to manage and control the sold goods.

Revenues from services are recognized in the period in which the services are provided in accordance with the stage of completion at the reporting date.

Revenues from connections are recognized in the period when the buyer pays the connection fee and when the installation is completed.

Revenues, expenses and assets are recognized net of value added tax (VAT), unless the VAT amount can be refunded from the State. In these circumstances, VAT is recognized as part of the cost of the asset acquired or as part of the expense incurred.

Receivables and liabilities are recorded at the amount including VAT. The pre-tax amount, that is VAT receivables, is included in current receivables. The VAT amount to be paid is included in current liabilities.

Revenues from sale of goods and services are recognized on the day the goods and services are delivered and represent the net invoiced value excluding value added tax.

Accrued electricity revenue

Electricity delivery is maintained on a monthly basis. At the end of the year, electricity supplied to customers, which has not yet been invoiced, is recognized within revenue in the estimated amount from the date of the last reading until the end of the year. The estimate of the monthly change in accrued electricity refers to the measured delivery of electricity after the reduction of invoiced consumption and estimated transmission losses.

Donations

Donations in cash and equipment used for investments in the course of asset reconstruction and other activities are presented in a separate statement of financial position as deferred income, which is recorded in the income statement using the straight-line method in future periods in order donations to be used in investments or in day-to-day operations during the estimated economic life of the donated asset.

Financial income and expenses

Financial income and expense include loan interest that are calculated using the effective interest rate method, default interest, interest receivable on invested assets, income from dividends, positive and negative exchange rate differences.

Interest income is recognized when it is calculated taking into account the effective return on assets. Income from dividends is recognized in the income statement on the date on which the Company's obtained the right to receive dividends.

Borrowing expenses that are directly attributable to the acquisition, construction or production of qualifying assets, assets that take a significant period of time to be put into a condition for intended use or sale, are included in the expenses of those assets until the funds are materially ready for their intended use or sale. Investment income earned by temporary investing in specific borrowings and which expenses are transferred to a qualifying asset, is deducted from the expenses of the loan, which is recognized as capitalization. All other borrowing expenses are recognized in the net profit or loss for the period in which they are occurred.

Electricity supply contracts

In accordance with IAS 39, certain electricity supply contracts are treated as financial instruments and fall within the scope of that standard. Most electricity supply contracts concluded by the Company specify the physical supply of electricity within the ordinary business of the Company and as such are excluded from the scope of IAS 39. In particular, forward contracts for electricity supply are not included in the scope of IAS 39 when the contract is considered to be concluded within the regular business activities of the Company. This is proved if the following conditions are met:

- physical delivery of electricity is realized in accordance with this contract;
- the sold quantities as defined in the contract correspond to the operational plans of the Company;
- the contract may not belong within the definition of an option of IAS 39. In the specific case of these contracts, the contract can essentially be considered a capacity sale or equal to a forward contract.

Therefore, the Company considers that transactions are agreed in order to balance amount between purchase and obligatory delivery of electricity as part of the ordinary business as an integrated entity and therefore are not within the scope of IAS.

Income tax

Income tax is calculated based on the reported income in accordance with the laws and regulations of the Federation of Bosnia and Herzegovina for the Parent Company.

Income tax includes current tax and deferred tax. Income tax is recognized in the income statement, except for taxes relating to items within the principal, when the income tax expense is recognized within the principal. Current tax represents the expected tax liability calculated on the taxable income for the year, using the tax rate enacted at the reporting date and any adjustment to the tax liabilities in prior periods.

The amount of deferred tax is based on the expected realization or settlement of the carrying amount of assets and liabilities, using tax rates that are applied or generally applied at the reporting date. Deferred tax is measured at tax rates that are expected to be applied to temporary differences when they are changed, based on laws that were enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized to the amount that it is probable that future taxable profits will be sufficient for the usage of assets. Deferred tax assets are reviewed at each reporting date and reduced by the amount that is no longer probable of being used as a tax deduction.

Segment reporting

A segment is a part of the Company that may be singled out, either as a part engaged in the production of products or in providing services (business segment) or as a part engaged in the production of products or in providing services within a particular economic environment (geographical segment), which is subject to risks and benefits that are different from the other segment. Currently, the Company's operations are set in the area of electricity generation and distribution (business segment), and operations, total assets and most of the clients are located in Bosnia and Herzegovina.

Standards effective for annual periods beginning after 1 January 2018 but not applied by the Company in preparing the financial statements for the year ended 31 December 2018

IFRS 9 - Financial Instruments contains a new approach for classification and measurement of financial assets that reflects the business model used to manage the assets and their characteristics in cash flows. The Company has not identified the impact of this standard on cash and cash equivalents, nor on the classification and measurement of trade receivables.

IFRS 15 - Revenue from contracts with customers establishes a comprehensive framework for determining whether, how much and when revenues are recognized. It replaces the existing revenue recognition guidance, including IAS 18 - Revenue, IAS 11 - Construction contracts and IFRIC 13 - Customer loyalty programmes. The Company does not expect that IFRS 15 will result in a significant difference in recognition of revenue from services provided, except possibly in the part relating to income from connections, where the Company considers interpretations about recognition of income from connections at the time the connection occurs or over time.

Standards, interpretations and amendments that are not yet effective

At the date of approval of these separate financial statements, the IASB (International Accounting Standards Board) issued several new standards, amendments to existing standards and interpretations that are not yet effective. The Company has not adopted any of these standards, amendments or interpretations.

The Management expects all relevant statements to be adopted for the first period beginning on or after the effective date. The new standards, amendments and interpretations that were neither adopted nor set out below have not been disclosed, as they are not expected to have a material impact on the Company's separate financial statements.

IFRS 16 *Leases* - IFRS 16 introduces a single, balance sheet accounting model for lease users. The lessee acknowledges the right to use the asset and the lease obligation it represents the obligation to pay the lease. There are possible exceptions to short-term and low-value leases. Accounting treatment for the lessor remains similar to the current standard – that is, the lessors continue to classify leases as financial or operating leases. IFRS 16 replaces the existing guidance on leases, including IAS 17 *Leases*, IFRIC 4 *Determining whether an agreement contains a lease*, SIC-15 *Operating leases - Incentives* and SIC-27 *Evaluating the substance of transactions in the legal form of a lease*. The standard is applied for annual reporting periods on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from contracts with customers* on or before the first application of IFRS 16. The Company does not expect a significant impact from the application of this standard.

It is not expected that there will be a significant impact on the Company's financial statements for the following new or amended standards:

- Annual improvements 2014 - 2016 cycle – Amendments of IFRS 1 and IAS 28
- Classification and measurement of payment transactions related to shares (Amendments of IFRS 2)
- Investment property transfers (Amendments of MRS 40)
- Sales or contributions of assets between an investor and its associate/joint venture (Amendments of MSFI 10 and MRS 28)
- IFRIC 22 Foreign currency transactions and advance
- IFRIC 23 Uncertainty over income tax treatments

Determination of fair value

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

The Company has an established control system within the fair value measurement, which implies the overall responsibility of the Management and the functions of finance related to the supervision of all significant fair value measurements, consulting with external experts and, in the context of the above, reporting to the same corporate governance bodies.

Fair values are measured in relation to information obtained from third parties in which case the Management and function of finance evaluate if the evidence obtained from third parties ensures that the fair value estimates meet IFRS requirements, including the level in the fair value hierarchy into which the estimates should be classified.

Fair values are categorized in different levels in the fair value hierarchy based on the input variables that are used for the estimation techniques as follows:

- level 1- listed prices (uncorrected) generated on active markets for identical or comparable assets or liabilities.
- level 2 – input variables that do not represent listed prices included in level 1, but input variables for assets or liabilities that are observable either directly (e.g. as prices) or indirectly (e.g. derived from prices).
- level 3 – input variables for assets and liabilities that are not based on observable market information (input variables that are not observable).

The fair value of financial instruments traded in active markets is based on listed market prices at the reporting date. A market is considered active if listed prices are known based on the stock market, broker activities, industry groups or regulatory agencies, and these prices represent the actual and regular market transactions under normal trading conditions.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques require the maximum use of observable market data where possible and rely as little as possible on entity-specific estimates. If all significant input variables required for fair value are observable, the fair value estimate is categorized as level 2.

If a single or more significant input variables are not based on observable market data, the fair value estimation is categorized as level 3.

The Company made the following significant fair value estimations within the preparation of the financial statements:

- Demand deposits

The carrying amount of demand deposits is approximately equal to their fair values, mainly because these deposits are most similar to cash and mature within one year.

- Trade receivables and other receivables and trade payables

The current value of trade receivables and other receivables and trade payables is approximately equal to their fair value due to the short-term nature of these instruments.

- Short-term given loans

The carrying amount of short-term given loans is approximately equal to their fair value due their maturity of up to one year.

- Long-term loan liabilities

The fair value of long-term loan liabilities is based on the market price for the same or similar loans, or on current interest rates with the same maturity. The carrying amount of long-term loan liabilities with variable interest rates is approximately equal to their fair value.

4. Key accounting estimates and assumptions

When applying the accounting policies described in Note 3, the Company's Management makes decisions as well as estimates and assumptions that affect the amounts of assets and liabilities that cannot be derived from other sources. Estimates and assumptions are based on previous and other relevant factors. Actual amounts may differ from estimated amounts.

Estimates and assumptions are constantly reviewed. Changes in accounting estimates are recognized in the period of the change if they relate only to that period, or in the period of the change and future periods if the change affects the current and future periods.

Key sources of uncertainty estimates

The following are key assumptions relating to the future and other key sources of uncertainty estimates at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year.

Estimates are used, but not limited to, for the following purposes: depreciation periods and the present value of property, plant and equipment and intangible assets, provisions for impairment of inventories and bad debt, accrued interconnection income and expenses, and provisions for long-term and short-term employee benefits. Future events and their effects cannot be estimated with certainty.

Therefore, accounting estimates require the professional judgement involved in preparing the financial statements that will change when new events occur, when new experience is gained, when new information is obtained, and when the Company's business environment changes. Actual results may differ from those estimated.

Useful lives of property, plant and equipment

As described in Note 3, the Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

Fair value of financials instruments

The Management uses estimates in order to select the appropriate measurement technique for non-listed financial instruments. Valuation techniques commonly used in the market are applied. Financial instruments are valued by analysing discounted cash flows based on assumptions supported by market prices or rates, if possible.

5. Sales revenue

Sales revenue	2018. in BAM 000	2017. in BAM 000
Revenue from sales of electricity on the domestic market	932,560	1,020,017
Revenue from sales of electricity on the foreign market	27,431	11,919
Revenue from connection fees	17,033	19,434
Revenue from process steam and heat energy	13,085	13,374
Services and other revenue	45,602	40,828
Total sales revenue:	1,035,711	1,105,572

6. Other operating income

Other operating income	2018. in BAM 000	2017. in BAM 000
Rental income	3,228	2,288
Donation income	7,108	8,056
Sales of tangible assets	24	550
Sales of materials	643	422
Surpluses	652	74
Collected written-off receivables	1,716	5,748
Insurance collection	140	168
Penalty income	129	1,026
Actuarial gains	1,162	2,896
Income from write-offs of liabilities	-	1,595
Income from reversal of long-term provisions	1,664	4,267
Other operating income	2,001	13,193
Total other operating income:	18,467	40,283

7. Costs for raw materials, materials and cost of goods sold

Costs for raw materials, materials and cost of goods sold	2018. in BAM 000	2017. in BAM 000
Cost of goods sold	96,862	250,449
Consumed coal	336,984	360,012
Costs for delivery and analysis of coal	28,717	30,157
Consumed maintenance materials	7,541	7,557
Consumed fuel	6,408	6,293
Other costs for raw materials and materials	25,778	30,358
Total costs for raw materials, materials and cost of goods sold:	502,290	684,826

8. Employee benefits

Employee benefits	2018. in BAM 000	2017. in BAM 000
Net salaries and other employee benefits	119,455	118,913
Obligatory social contributions	56,937	56,780
Costs of the current ongoing work	3,764	1,664
Total employee benefits	180,156	177,357
Capitalized own work	(2,878)	(2,964)
Employee benefits recognized in the statement of comprehensive income	177,278	174,393
Total employee benefits:	177,278	174,393

9. Depreciation and amortization

Depreciation and amortization	2018. in BAM 000	2017. in BAM 000
Depreciation of property, plant and equipment	147,195	146,897
Amortization of intangible assets	3,063	4,020
Total depreciation and amortization:	150,258	150,917

10. Other operating expenses

Other operating expenses	2018. in BAM 000	2017. in BAM 000
Expenses for service products	1,820	1,999
Transportation services	42,648	48,968
Payment operations	203	152
Maintenance	18,403	16,108
Rent	326	390
Non-productive services	2,500	3,193
Representation	182	170
Expenses/losses from impairment of assets	4,106	2,636
Membership contributions	4,819	5,479
Taxes, fees and charges	48,238	38,985
Postal and telecommunication services	6,410	6,213
Expenses and losses on inventories of materials and goods and other expenses	2,059	2,022
Expenses and value adjustments and write-offs of receivables	1,070	3,262
Allowances for given advances	6,672	-
Insurance premiums	2,171	1,199
Fairs, advertising, sponsorship and research	393	251
Other costs of production services	431	632
Provisions	15,386	3,733
Actuarial losses	-	1,259
Other expenses and losses	114	88
Other intangible expenses	308	313
Expenses based on correction of errors from previous years	5,524	2,743
Total other operating expenses:	163,783	139,795

11. Income tax

Income tax	2018. in BAM 000	2017. in BAM 000
Accounting profit before tax	61,423	620
Income tax at the rate of 10%	6,142	62
Tax deductible expenses	2,649	1,182
Non-taxable income	(177)	(556)
Adjustment of taxable income	426	434
Tax discount based in investments	-	(1,122)
Income tax	9,040	-
Effective income tax rate	14.72%	-

12. Property, plant and equipment

in BAM 000	Land	Buildings	Plant and equipment	Assets in preparation	Total
COST					
Balance at 01.01.2017	87,387	4,185,559	3,335,134	103,843	7,711,923
Acquisitions (additions)	-	-	-	65,203	65,203
Disposals and write-offs	(238)	(6,521)	(11,938)	-	(18,697)
Transfers (activation into use)	365	37,616	35,018	(75,526)	(2,527)
Other	66	49	5	1,671	1,791
Balance at 31.12.2017	87,580	4,216,703	3,358,219	95,191	7,757,693
Transfer to other parts	-	(98)	-	-	(98)
Return from other parts	-	98	-	-	98
Balance at 31.12.2017/01.01.2018	87,580	4,216,703	3,358,219	95,191	7,757,693
Acquisitions (additions)	-	-	-	61,308	61,308
Disposals and write-offs	(19)	(51,625)	(12,341)	-	(63,985)
Transfers (activation into use)	190	29,277	20,718	(50,144)	41
Other	619	198	(118)	(650)	49
Balance at 31.12.2018	88,370	4,194,553	3,366,478	105,705	7,755,106
Transfer to other parts	-	(5)	(33)	-	(38)
Return from other parts	-	5	33	-	38
Balance at 31.12.2018	88,370	4,194,553	3,366,478	105,705	7,755,106
DEPRECIATION					
Balance at 01.01.2017	-	2,663,462	2,519,892	-	5,183,354
Depreciation	-	72,521	76,928	-	149,449
Disposals, write-offs and other	-	(5,980)	(13,532)	-	(19,512)
Balance at 31.12.2017	-	2,730,003	2,583,288	-	5,313,291
Transfer to other parts	-	(73)	-	-	(73)
Return from other parts	-	73	-	-	73
Balance at 31.12.2017/01.01.2018	-	2,730,003	2,583,288	-	5,313,291
Depreciation	-	72,984	74,211	-	147,195
Disposals, write-offs and other	-	(50,980)	(11,358)	-	(62,338)
Balance at 31.12.2018	-	2,752,007	2,646,141	-	5,398,148
Transfer to other parts	-	(1)	(13)	-	(14)
Return from other parts	-	1	13	-	14
Balance at 31.12.2018	-	2,752,007	2,646,141	-	5,398,148
Present value at 31.12.2017	87,580	1,486,700	774,931	95,191	2,444,402
Present value at 31.12.2018	88,370	1,442,546	720,337	105,705	2,356,958

13. Intangible assets

in BAM 000	Patents, licences and concessions	Investments in progress	Software and other intangible assets	Total
COST				
Balance at 01.01.2017	26,779	1,605	9,018	37,402
Disposals and write-offs	-	-	(156)	(156)
Transfers	99	645	3,101	3,845
Balance at 31.12.2017	26,878	2,250	11,963	41,091
Transfers	-	56	189	245
Balance at 31.12.2018	26,878	2,306	12,152	41,336
AMORTIZATION				
Balance at 01.01.2017	14,927	-	3,711	18,638
Amortization	2,894	-	1,125	4,019
Disposals	-	-	(150)	(150)
Balance at 31.12.2017	17,821	-	4,686	22,507
Amortization	1,821	-	1,241	3,062
Disposals	-	-	-	-
Balance at 31.12.2018	19,642	-	5,927	25,569
Present value at 31.12.2017	9,057	2,250	7,277	18,584
Present value at 31.12.2018	7,236	2,306	6,225	15,767

14. Investments in related legal entities

The share of the Company in associated related legal entities is as follows:

Related legal entity	Reporting date	Business activity	Ownership	31.12.2018 in BAM 000	31.12.2017 in BAM 000
ETI d.o.o. Sarajevo	31. December 2018	Production of fuses	49%	1,950	1,950

15. Investments in subsidiaries

Subsidiary	Business activity	Ownership	31.12.2018 in BAM 000	31.12.2017 in BAM 000
RMU Breza d.o.o.	Coal exploitation	100%	48,209	46,516
RMU Kakanj d.o.o.	Coal exploitation	100%	104,799	104,630
RMU Zenica d.o.o.	Coal exploitation	100%	68,060	65,887
RMU Đurđevik d.o.o.	Coal exploitation	100%	24,993	19,916
RMU Kreka d.o.o.	Coal exploitation	100%	98,415	94,803
RMU Abid Lolić d.o.o.	Coal exploitation	100%	11,462	10,627
RMU Gračanica d.o.o.	Coal exploitation	100%	11,301	11,301
Total investments in mines:			367,239	353,680

In 2018, the Company recapitalized mines in the amount of 13,559 thousands of BAM. Below is an overview of the recapitalization:

Subsidiary	Business activity	Recapitalization 2018 in BAM 000
RMU Breza d.o.o.	Coal exploitation	1,693
RMU Kakanj d.o.o.	Coal exploitation	169
RMU Zenica d.o.o.	Coal exploitation	2,173
RMU Đurđevik d.o.o.	Coal exploitation	5,077
RMU Kreka d.o.o.	Coal exploitation	3,612
RMU Abid Lolić d.o.o.	Coal exploitation	835
RMU Gračanica d.o.o.	Coal exploitation	-
Total recapitalization		13,559

Other subsidiaries of the Company are the following:

Subsidiary	Business activity	Ownership	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Iskraemeco d.o.o.	Energy management and services	58%	3,193	3,193
Hotel ELBiH Makarska d.d.	Hotel industry	100%	2,048	2,048
Eldis Tehnika d.o.o.	Production of electrical equipment and communication	100%	1,324	1,324
TTU Energetik d.o.o.	Production of transport equipment	80%	6,648	6,648
Total investments in other subsidiaries:			13,213	13,213

Total investments in subsidiaries as at 31 December 2018 amounts to 380,452 thousands of BAM.

16. Borrowings and deposits

Borrowings and deposits	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Long-term part		
Long-term term deposits	43,029	193,644
Borrowings to subsidiaries	4,727	10,744
Long-term loans to employees	578	960
Other receivables	13	13
Total long-term part	48,347	205,361
Short-term part		
Short-term investments	1,332	1,332
Short-term term deposits	141,814	-
Short-term part of long-term borrowings to subsidiaries	6,017	7,457
Short-term part of long-term loans to employees	561	728
Other receivables	1,391	1,546
<i>Allowance of other receivables</i>	<i>(1,332)</i>	<i>(1,332)</i>
Total short-term part	149,783	9,731
Total borrowings and deposits:	198,130	215,092

17. Other long-term receivables

Other long-term receivables	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Other long-term receivables-reprogrammes	11,028	8,844
<i>Allowance of long-term receivables</i>	<i>(153)</i>	<i>(254)</i>
Prepaid expenses	974	915
Other long-term accruals	54	70
Total other long-term receivables:	11,903	9,575

18. Trade and other receivables

Trade and other receivables	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Customers – related legal entities	2,927	4,663
Domestic customers	164,046	144,517
Foreign customers	1,612	17
<i>Allowance of trade receivables</i>	<i>(42,150)</i>	<i>(43,533)</i>
Interest receivables from other entities	3,287	3,354
Receivables from employees	91	88
Receivables from state bodies and institutions	435	579
Other short-term receivables	4,907	3,588
<i>Allowance of other short-term receivables</i>	<i>(3,192)</i>	<i>(3,328)</i>
VAT receivables	8,972	8,894
Total trade and other receivables:	140,935	118,839

19. Advances

Advances	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Advances given to subsidiaries	87,655	70,318
Advances given to third parties	2,235	2,657
Total advances:	89,890	72,975

Advances given to subsidiaries as at 31 December 2018 in the amount of 87,655 thousands of BAM are stated excluding VAT.

20. Inventories

Inventories	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Inventories of raw materials and materials	68,626	56,149
Inventories of spare parts	17,474	17,626
Inventories of tires and packaging	584	610
Tools and small inventory	9,416	9,533
<i>Allowance of raw materials and materials</i>	<i>(33,052)</i>	<i>(32,490)</i>
Goods in the social standard	6	1
Total inventories:	63,054	51,429

21. Cash and cash equivalents

Cash and cash equivalents	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Transaction accounts – local currency	53,593	30,328
Transaction accounts – foreign currency	48,882	26,783
Cash on hand	375	562
Total cash and cash equivalents:	102,850	57,673

22. Equity

Equity	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Share capital	2,236,964	2,236,964
Total equity:	2,236,964	2,236,964

The authorized and issued share capital consists of 31,506,541 shares (as at 31 December 2017: the same number of shares). The nominal share value is BAM 71 per share (as at 31 December 2017; the same value per share). During 2018, dividends in the amount of BAM 69,714 were distributed (as at 31 December 2017 in the amount of BAM 5,204).

23. Loans and borrowings

Loans and borrowings	31.12.2018 in BAM 000	31.12.2017 in BAM 000
<i>Non-current loans and borrowings</i>		
Long-term loans abroad	115,259	120,626
Other long-term liabilities	419	694
<i>Total non-current loans and borrowings</i>	115,678	121,320
<i>Current loans and borrowings</i>		
Short-term part of long-term loans abroad	13,360	16,836
Short-term part of other long-term liabilities	268	357
<i>Total current loans and borrowings</i>	13,628	17,193
Total loans and borrowings:	129,306	138,513

<i>Loans and borrowings</i>	<i>Maturity up to 1 year '000 BAM</i>	<i>Maturity over 1 year '000 BAM</i>
Loans in XDR	2,809	24,968
Loans in EUR	9,992	79,586
Loans in YEN	559	10,705
Other loans	268	419
Total loans and borrowings:	13,628	115,678

24. Deferred income

Deferred income	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Deferred income for donated assets	81,419	87,841
Deferred income for donated inventories	130	182
Deferred income for donated money	284	159
Total deferred income	81,833	88,182

25. Employee obligations

	Severance pay and jubilee awards in '000 BAM
Balance at 01 January 2018	28,154
Provisions during the year	3,764
Provisions changes during year	2,972
Provisions used during the year	(2,343)
Balance at 31 December 2018	32,547

Liabilities for employee benefits are calculated as follows:

	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Initial balance of liabilities	28,154	29,218
Interest expenses	944	1,023
Costs of current ongoing work	1,598	1,664
Past work expenses	2,167	-
Premiums paid	(2,344)	(2,321)
Actuarial gains recognized through the income statement	(1,162)	(1,638)
Actuarial losses recognized through other comprehensive income	3,190	208
Total:	32,547	28,154

26. Provisions

	Litigation '000 BAM	Provisions for dismantling costs '000 BAM	Total '000 BAM
<i>Balance at 01 January 2018</i>	<i>7,932</i>	<i>15,888</i>	<i>23,820</i>
Provisions during the year	6,583	1,271	7,854
Provisions released during the year	(1,664)	-	(1,664)
Provisions used during the year	(665)	-	(665)
Balance at 31 December 2018	12,186	17,159	29,345

Provisions	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Current provisions	12,186	7,932
Non-current provisions	17,159	15,888
Total provisions:	29,345	23,820

27. Trade and other payables

Trade and other payables	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Received advances, deposits and securities	18,191	13,600
Suppliers – related legal entities	7,288	19,398
Domestic suppliers	26,670	24,991
Foreign suppliers	1,407	1,332
Other operating liabilities	72	96
Liabilities for salaries, remunerations and other employee benefits	-	5

Trade and other payables	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Interest liabilities and financing expenses	2,369	1,082
Dividend liabilities	847	456
Liabilities for fees to members of boards, committees and tax and contribution liabilities for fees	16	21
Liabilities to natural persons for contractual fees and tax and contribution liabilities for fees	13	10
VAT liabilities	5,440	3,501
Income tax liabilities	9,040	-
Liabilities for other contribution and fees	507	465
Liabilities for hydroaccumulation	1,285	1,636
Total trade and other payables:	73,145	66,593

28. Deferrals

Deferrals	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Precalculated expenses of the period	26,943	14,147
Deferred income for received donations	-	28
Other deferrals	29,889	24,945
Total deferrals:	56,832	39,120

29. Financial risk management

When using financial instruments, the Company is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk

Credit risk

Credit risk is the risk of the Company's financial loss if the customer or other contractual party of the financial instrument does not fulfil its contractual right. Credit risk is caused exclusively by trade receivables based on given borrowings and advances.

Liquidity risk

Liquidity risk is the inability of the Company to maintain sufficient cash for settling current liabilities. The Company is not significantly exposed to liquidity risk.

Market risk

Market risk is the risk of changes in market prices such as exchange rates, interest rates and capital that affects the Company's revenue and value if financial instruments. The Company is not significantly exposed to market risk.

The Company is exposed to credit risk, interest risk and risk of exchange rate risks through the normal course of business.

Credit risk

Credit risk exposure

The carrying amount of financial assets represents the maximum exposure to credit risk, which at the reporting date was as follows:

	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Borrowings, deposits and receivables	350,968	343,506
Cash and cash equivalents	102,850	57,673
	453,818	401,179

At the reporting date, the maximum exposure to credit risk for trade receivables per regions is as follows:

	31.12.2018 in BM 000	31.12.2017 in BAM 000
Domestic customers	127,072	107,964
Foreign customers	1,612	17
	128,684	107,981

At the reporting date, the maximum exposure to credit risk for trade receivables per type of customer is as follows:

	31.12.2018 in BM 000	31.12.2017 in BAM 000
Legal entities customers	107,666	86,694
Households	21,018	21,287
	128,684	107,981

The ageing structure of receivables which are not decreased at the reporting date is as follows:

	31.12.2018 in BM 000	31.12.2017 in BAM 000
Not matured and matured up to 90 days	126,862	105,664
Matured 91- 180 days	429	2,317
Matured 91- 180 days	1,393	-
Older than 365 days	-	-
	128,684	107,981

Movements in allowance of receivables is as follows:

	31.12.2018 in BAM 000
As at 01 January 2018	43,533
Impairment of receivables during the year	966
Collected, previously written-off receivables during the year	(1,604)
De-record of previously written-off receivables	(745)
As at 31 December 2018	42,150

As at 31 December 2018, interest receivables were impaired by the amount of 103,184 BAM.

Liquidity risk

Contractual maturities of financial liabilities:

31.12.2018	Carrying amount in BAM 000	Maturity up to 1 year in BAM 000	Maturity over 1 year in BAM 000
Trade payables and other payables	124,537	124,537	-
Interest bearing loans and borrowings	129,306	13,628	115,678
TOTAL	253,843	138,165	115,678

31.12.2017	Carrying amount in BAM 000	1-12 months in BAM 000	1 – 5 years in BAM 000
Trade payables and other payables	102,212	102,212	-
Interest bearing loans and borrowings	138,513	17,193	121,320
TOTAL	240,725	119,405	121,320

Currency risk

Currency risk exposure

The Company is exposed to currency risk in terms of selling, purchasing, interest bearing loans and borrowings and receivables for given loans and other receivables which are denominated in a foreign currency. Currencies which mostly exposure the Company to this risk, are XDR and YEN. The Company is not economically secured against this risk. The Convertible Mark has a fixed exchange rate with EUR since its introduction as a currency in 2002. The Management considers that the Company is not exposed to the risk of changes in EUR.

The Company's currency risk exposure as at 31 December 2018, stated in the functional currency, is as follows:

<i>In thousands of BAM</i>	XDR	YEN
Loans and deposits		
Trade payables, loans and borrowings	(27,777)	(11,264)
Total balance exposure	(27,777)	(11,264)

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The Company's currency risk exposure as at 31 December 2017, stated in the functional currency, is as follows:

<i>In thousands of BAM</i>	XDR	YEN
Loans and deposits		
Trade payables, loans and borrowings	(29,881)	(11,073)
Total balance exposure	(29,881)	(11,073)

	Average exchange rate		Exchange rate at the reporting date	
	2018.	2017.	2018.	2017.
EUR	1.95583	1.95583	1.95583	1.95583
XDR	2.34941	2.39590	2.38381	2.32830
YEN	0.01501	0.01547	0.01547	0.01463
CHF	1.69376	1.76161	1.74208	1.67433

Sensitivity analysis

Since there was no fluctuation of the foreign currency EUR in relation to BAM since the introduction of BAM, a sensitivity analysis is not obligatory for amounts denominated in EUR. A possible increase or decrease of XDR or YEN for 1% would result in an increase (decrease) in the equity and profit as at 31. December for the amounts as stated below. The analysis assumes that all other variables, firstly interest amounts, are unchanged.

<i>In thousands of BAM</i>	Increase	Decrease
31 December 2018		
XDR	(277)	277
YEN	(113)	(113)
31 December 2017		
XDR	(299)	299
YEN	(111)	111

Interest risk

At the balance date, the profile of interest rates on the Company's financial instruments on which interests are calculated, was as follows:

Instruments with a fixed interest rate	2018 in BAM 000	2017 in BAM 000
Financial assets	210,033	224,667
Financial liabilities	(26,992)	(26,586)
	183,041	198,081
Instruments with variable interest rate		
Financial assets	-	-
Financial liabilities	(102,313)	(111,927)
	(102,313)	(111,927)

The sensitivity analysis for financial liabilities with a variable interest rate

The change in the interest rate for 100 basic points at the reporting date would increase/(decrease) the equity and profit or loss for values as stated below. The calculation was made under the assumption that all other variables, especially exchange rates, stay the same.

Interest risk In BAM 000	Profit or loss		Equity	
	100 bp increase	10 bp decrease	100 bp increase	10 bp decrease
31 December 2018				
Sensitivity analysis of cash flows	(863)	1,243	(863)	1,243
31 December 2017				
Sensitivity analysis of cash flows	(1,175)	795	(1,175)	795

Capital management

The Company analyses the capital through the debt ratio which is calculated as the ratio of net debt and total equity. Net debt is calculated by decreasing the total financial liabilities, short-term and long-term, with cash and cash equivalents. Total equity represents the sum of all equity as stated in the statement of financial position and net debt.

The ratio of net debt to the Company's equity at the end of the reporting period is stated in the table as follows:

	2018 in BAM 000	2017 in BAM 000
Total liabilities	129,308	138,253
Decreased by cash and cash equivalents	(102,850)	(57,673)
Net debt	26,458	80,580
Equity	2,968,970	2,989,492
Total	0,0089	0,0269

30. Contingent liabilities

As at 31 December 2018, the total estimated value of litigations against the Company amount to approximately 40,485 thousands of BAM.

The Company's Management regularly analyses and estimates the risk of potential losses due to litigations and considers that the provisions as at 31 December 2018 represent the best estimate. Accordingly, as at 31 December 2018, the Company has recognized additional provisions for litigations in the amount of 6,583 thousands of BAM, and total provisions for litigations as at 31 December 2018 amount to 12,186 thousands of BAM.

31. Environment protection

The Company's main activity is the production and distribution of electricity and control of the electricity production system. The mentioned activities can affect the environment in terms of emission in soil,

water and air. The impact of the Company's activity on the environment is supervised by the Management and bodies which are in charge for environment protection.

In the last years, in Bosnia and Herzegovina a system for environment management is established based on the principles which are applied in the EU. Until now, the jurisdiction in this area in Bosnia and Herzegovina covers air, water and waste, while noise, chemicals and ionizing radiation are not covered. In terms of horizontal legislative, a manual drafting is in progress, which regulates the process of issuing environment licenses.

Within the integrity strategy framework in the EU it is possible to introduce environment regulations which are applied in the countries of the EU. The application of such regulations could affect future liabilities of the Company related to the issuing of means for environment protection which the Company was not able to assess.

32. Transactions with related legal parties

Related legal parties under joint control – Companies controlled by the Government

The Company is mostly owned by the Government of the Federation of Bosnia and Herzegovina. Significant transactions with companies controlled by the Government of the Federation of Bosnia and Herzegovina are presented below, that is "Željeznice Federacije Bosne i Hercegovine d.o.o.", Sarajevo and "Elektroprenos BiH a.d." Banja Luka. Other transactions with government-controlled companies are not individually significant, they occur in the ordinary course of business and relate to overhead and utility services.

	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Receivables		
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	680	576
Elektroprenos BiH a.d. Banja Luka	12	11
	692	587
Liabilities		
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	1,659	2,052
Elektroprenos BiH a.d. Banja Luka	9,204	6,895
	10,863	8,947
Revenues		
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	5,601	6,167
Elektroprenos BiH a.d. Banja Luka	68	489
	5,669	6,656
Expenses		
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	24,170	29,755
Elektroprenos BiH a.d. Banja Luka	42,627	57,228
	66,797	86,983

Related parties

The Company acquired 100% interest in the mines as disclosed in Note 14 - Investments in subsidiaries, so that transactions in electricity sales, coal purchases and advances are disclosed as related party transactions. Sales and purchases are carried at fair value, which represents the value that the related parties are willing to pay to each other. Related party transactions are as follows:

	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Assets		
Trade receivables and receivables for given advances		
RMU Kakanj d.o.o.	1,875	177
RMU Zenica d.o.o.	20,961	22,416
RMU Breza d.o.o. Breza	3,574	4,798
RU Gračanica d.o.o. Gornji Vakuf	41	47
RMU Abid Lolić d.o.o.	6,737	5,298
Rudnik Kreka d.o.o.	52,887	37,380
RMU Đurđevik d.o.o.	4,643	4,268
Iskraemeco d.o.o.	21	10
Eldis Tehnika d.o.o.	1	105
Hotel Makarska Hrvatska	8	-
TTU	47	-
Total receivables	90,795	74,499
Given borrowings		
RMU Kakanj d.o.o.	886	1,237
RMU Zenica d.o.o.	496	611
Rudnik Kreka d.o.o.	5,779	10,787
RMU Đurđevik d.o.o.	1,158	2,321
RMU Breza	1,954	2,695
RMU Abid Lolić d.o.o.	471	550
Total borrowings	10,744	18,201
Liabilities		
Trade payables and other liabilities		
Rudnik Kreka d.o.o.	83	633
RMU Zenica d.o.o.	474	3,241
RMU Kakanj d.o.o.	1,619	7,377
RMU Đurđevik d.o.o.	273	2,353
RU Gračanica d.o.o. Gornji Vakuf	638	567

	31.12.2018 in BAM 000	31.12.2017 in BAM 000
RMU Abid Lolić d.o.o.	898	1,013
RMU Breza d.o.o. Breza	2,860	1,277
Iskraemeco d.o.o.	493	2,584
Eldis Tehnika d.o.o.	415	1,188
Hotel Makarska Hrvatska	10	-
TTU	8	-
Total liabilities	7,771	20,233

	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Revenues		
Rudnik Kreka d.o.o.	6,765	6,775
RMU Zenica d.o.o.	2,018	1,921
RMU Đurđevik d.o.o.	1,722	1,849
RMU Kakanj d.o.o.	1,695	1,677
RMU Breza d.o.o. Breza	1,561	1,514
RMU Abid Lolić d.o.o.	482	508
RU Gračanica d.o.o. Gornji Vakuf	362	417
Iskraemeco d.o.o.	70	63
Eldis Tehnika d.o.o.	6	6
TTU	107	-
Total revenues	14,788	14,730
Acquisition of inventories and equipment		
Rudnik Kreka d.o.o.	79,339	82,043
RMU Kakanj d.o.o.	66,075	79,056
RMU Breza d.o.o. Breza	39,885	42,955
RMU Đurđevik d.o.o.	27,100	30,826
RMU Zenica d.o.o.	26,092	16,679
RU Gračanica d.o.o. Gornji Vakuf	6,911	8,337
RMU Abid Lolić d.o.o.	10,899	11,183
Iskraemeco d.o.o.	6,683	12,067
Eldis Tehnika d.o.o.	7,506	7,652
TTU Energetik d.o.o.	1,105	259

	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Hotel Makarska Hrvatska	25	-
	271,620	291,057

Related parties – associated legal entities

Related parties in terms of significant impact is ETI d.o.o. Sarajevo (Note 14). The Company had the following transactions with related parties within the ordinary course of its business:

	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Receivables	2	2
Liabilities	1	-
Revenues	22	22
Expenses	216	274

Related parties – fees for members of the Management and Supervisory Board

Fees paid to members of the Management and Supervisory Board during year were as follows:

	31.12.2018 in BAM 000	31.12.2017 in BAM 000
Payments to members of the Management	736	646
Payments to members of the Supervisory Board	167	164
Total payments	903	810

33. Significant accounting estimates and judgements

Estimates and judgments are continually evaluated and based on expected future events that are considered reasonable under the given circumstances.

The accounting estimates that the Company applies in accordance with its accounting policies are set out as follows:

Impairment of investments in subsidiaries and associated legal parties

Impairment of investments in subsidiaries and associated legal parties is based on the Management's best estimate and the recoverable amount of subsidiaries and associated legal parties. The recoverable amount represents the higher amount of the fair net selling value and value in use. At the reporting date, the Management considers that there is no impairment of investments in subsidiaries and associated legal parties.

Impairment of property, plant and equipment

At each reporting date, the Company assess whether there are internal or external indications of impairment of property, plant and equipment. If such indications exist, the Management tests the impairment for the cash-generating unit to which the indications relate. The Management reviews all production subsidiaries as one unit that generates cash inflows, since thermal power plants are the basic (and major) production, while hydro power plants cover the variable part of the electricity demand diagram. Therefore, electricity production is reviewed by the Management on a portfolio basis. Also, the Management does not review distribution as a separate unit, since the Company's activity is regulated by legislation at the level of Bosnia and Herzegovina.

Income tax

The income tax is calculated based on interpretations of applicable tax legal provisions by the Company. The income tax calculation stated in the Income tax form and the Tax balance sheet might be subject to control and approval by local tax authorities. The Company did not recognize deferred tax assets based on tax discounts for investments, using the analogous interpretations and of IAS – Income taxes.

Provisions for contingent liabilities

The Company recognizes provisions as a result of litigations against the Company that are likely to result in an outflow of funds in order to settle the Company's liabilities and if the amounts can be measured reliably. In assessing the provision, the Company considers professional legal advice and management considerations.

34. Ownership structure

The Company's ownership structure is as follows:

	31 December 2018		31 December 2017	
	Number of shares	Ownership	Number of shares	Ownership
Government of the Federation of Bosnia and Herzegovina	28,472,181	90.4 %	28,472,181	90.4 %
Various investors	3,034,360	9.6 %	3,034,360	9.6 %
	31,506,541	100 %	31,506,541	100 %

35. Tax regulations

The Federation of Bosnia and Herzegovina currently has several laws regulating various taxes imposed by the competent authorities. Taxes payable include value added tax, income tax and payroll taxes (social taxes), along with other taxes. In addition, the laws regulating these taxes have not been applied for a long time, unlike in more developed market economies, while the regulations regulating the implementation of these laws are often unclear or non-existent. Accordingly, in terms of tax law issues, the number of cases that can be used as an example is limited.

There are often differences in opinions between ministries and organizations regarding the legal interpretation of legal provisions, which can lead to uncertainty and conflict of interest. Tax returns, along with other areas of legal regulation (for example: customs and foreign exchange controls) are subject to review and control by various competent authorities which are allowed by law to impose very severe penalties and default interest.

The tax authorities' interpretation of tax laws in relation to the Company's transactions and activities may differ from the Management's interpretations. Accordingly, transactions may be denied by the tax authorities and the Company may be subject to an additional amount of taxes, penalties and interest. These facts make the tax risk in the Federation of Bosnia and Herzegovina more significant than in countries with more developed tax systems.

Additionally, the Company has significant transactions with related legal entities. Although the Company's management considers that the Company has sufficient and adequate supporting documentation regarding transfer pricing, there is still uncertainty that the requirements and interpretations of tax and other authorities may differ from those of the Management. The Company's Management considers that eventual different interpretations will have no material impact on the Company's financial statements.

36. Post-reporting date events

After 31 December 2018 – the reporting date, until the day of approval of these financial statements, there were no events which may cause corrections of these financial statements, nor events which are materially significant for disclosure in these financial statements.

37. Reconciliation of receivables and liabilities

The Company reconciled its receivables and liabilities as of 31 December 2018 and 2017. In the process of reconciliation with its business partners, there were no materially unreconciled balances of receivables and liabilities.