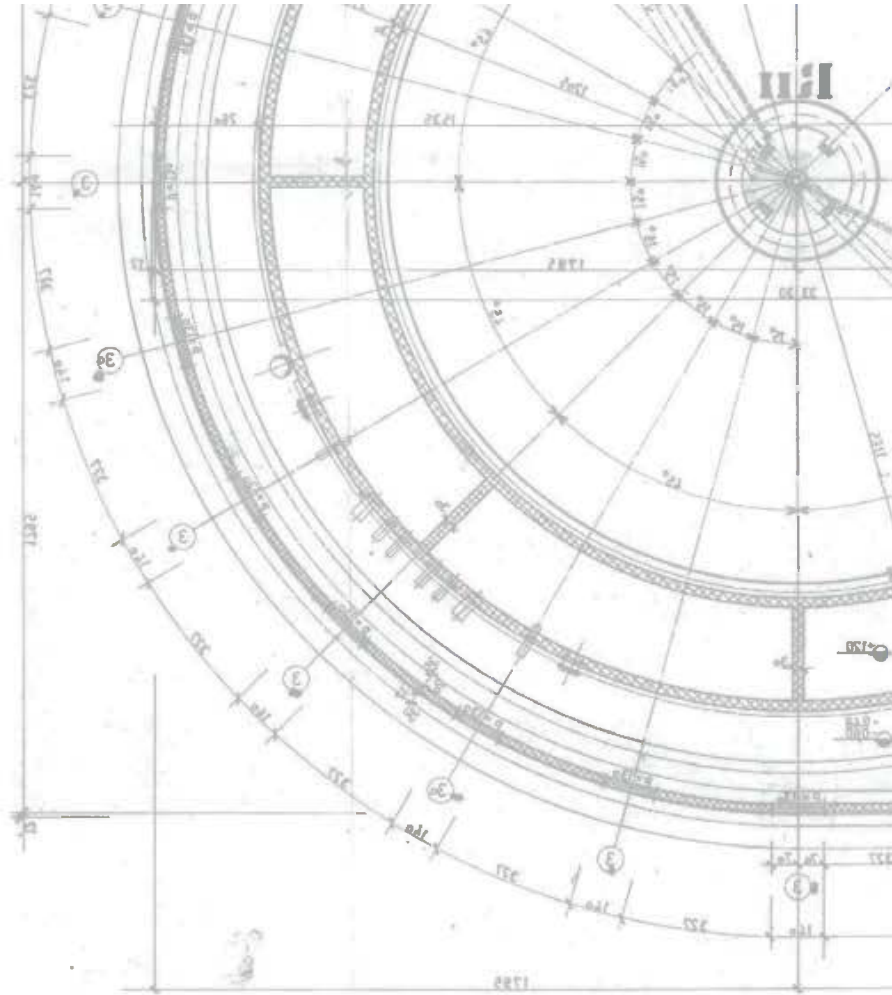




ANNUAL REPORT/2012.

Public Enterprise Elektroprivreda of Bosnia and Herzegovina d.d. - Sarajevo





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PUBLIC ENTERPRISE ELEKTROPRIVREDA OF BOSNIA AND HERZEGOVINA D.D. - SARAJEVO



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INTRODUCTION



General Manager
dr. Elvedin Grabovica

REGULAR SUPPLY, PROFIT DEVELOPMENT

Accomplished income amounting to 926.3 million KM, profit amounting to 7.1 million KM, regular supply of customers, the successful reconstruction of units in thermal power plants “Kakanj” and “Tuzla”, intensive preparations for the start of construction of new generating capacities, investments in mines within the Concern EPBIH, regular payment of obligations towards the state and contractual obligations in times of recession, stagnation of economic activity, unfavorable hydrological conditions, emergency conditions caused by bad weather, reduced demand and consumption of electricity in BiH and the whole region, which were the characteristics of the business in 2012, are all confirmation of the commitment, perseverance and responsibility of the Company Management to meet clear objectives and strategies of JP Elektroprivreda BiH.

Realized profit in amount of 7.1 million KM separates JP Elektroprivreda BiH as the only company in the power sector in BiH and its neighborhood with a positive financial results in 2012.

In the past year Elektroprivreda BiH stands out as the only company in BiH and the region that managed to overcome the consequences of poor hydrological situation and the extremely unfavorable weather conditions caused by snowfall in the early part of the past year without *having to activate measures to reduce the supply of electricity to its customers, or having to meet*



INTRODUCTION

domestic energy needs using foreign capacities (resources), which other domestic and regional power companies were forced to do. The continued monitoring and analysis of weather conditions and adequate planning helped to avoid significant disruption in generation and distribution of electricity to consumers.

Policy of long-term, sustainable development, responsible investment, competitiveness, economic growth and austerity measures aimed at rationalizing operating costs in 2012 helped us to keep the position of the leader in the generation of electricity in the country and the region.

In order to ensure long-term stability in the supply of our customer and, realization of strategic objectives and strengthening of competitiveness in the open market in 2012 we continued to work in two directions:

- Maintaining operational readiness of existing capacities and
- Preparation for the construction of new generation facilities.

Upon completion of the reconstruction and commissioning of Unit 6 in Thermal Power Plant “Kakanj” within the deadline in 2012, we successfully implemented another task - the reconstruction of Unit 6 in Thermal Power Plant “Tuzla”. Implementation of revitalization projects financed with our own funds in amount of about 220 million ensured, among other things, reliable operation of Units for the next 15 years and we achieved significant environmental effects and confirmed our ability to cope with the challenge of demanding projects and to finish such projects successfully.

Along with the reconstruction of the units, we had intensive preparations for the start of construction of capital facilities - Unit 7 in TPP “Tuzla”, worth 1.6 billion KM and Unit 8 in TPP “Kakanj”, construction of which requires 1.2 billion KM. Public invitation for pre-qualification for the project partnership in the construction of Unit 7 resulted in the selection of 11 qualified companies from around the world and thus we completed the first phases for selection of the project partners. Project partnership model that we selected in the case of the construction of Unit 7-450 MW in TPP “Tuzla” is the principle of sharing of benefits and risks in the construction and operation of the facility, defined by the FBiH Government decision. Partnership between Elektroprivreda BiH and the selected partner will be limited to a specified time and it will be based solely on the binding principles defined by the Government of FBiH, which, among other things, imply that JP EPBiH *cannot have a minority share in the ownership structure during the entire duration of such partnership.* In 2012, we prepared the pre-qualification document for the selection of project partners for joint venture for Unit 8 in TPP “Kakanj”

Activities related to the preparation of construction of HPP “Vranduk” and WF “Podveležje” resulted in acquiring of urban planning approvals. Appraisal mission of the KfW bank was performed for HPP “Janjići” and the preparation of applications for approval of bank loan for the project is in



INTRODUCTION

process. We continued activities to obtain necessary permits and approvals for small hydropower plants on Neretvica, hydropower plants “Una Kostela - Aneks”, “Kovanići”, “Čaplje”, “Kruševo” and others.

Fulfilling the obligations of JP Elektroprivreda BiH, implied through the status of the Governing Company in the Concern EPBiH, we launched new investment decisions intensifying investments in mines within the Concern. Our goal is to modernize the mines, humanize work, provide conditions for increased productivity, improve performance, reduce losses and improve the living standards of miners.

In addition to maintaining existing facilities and the creation of the necessary conditions for the start of construction of new, investments in mining led to successful completion of the project of connecting of the whole Company into a unified information system (FMIS) and continued fulfillment of the obligations arising from the Energy Community of Southeast Europe.

Our work and our achieved results in 2012 are an indication of the readiness, strength and responsibility of the management and of employees in the performance of tasks with goal of maintaining stability in generation and distribution, ensuring higher level of security of supply, long-term sustainability of the power sector and its development, positioning in the regional market and an active and effective participation of the company in launching of economic activities in the country.

Building the Future - Elektroprivreda BiH!

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MISSION-VISION-OBJECTIVES

MISSION

Our mission is to generate and supply electricity, thermal energy and coal according to the defined standards of quality, and to provide services that will fully meet the customer requirements.

Our intention is to restructure the company according to European regulations and the application of best corporate practices, continuous professional development of employees through the development of skills of teamwork and process optimization.

Our objectives are an efficient response to customer requirements and transparency in business, as well as education of customers about efficient use of energy and the development of image that will strengthen our market position and customer confidence.



MISSION-VISION-OBJECTIVES

VISION

JP Elektroprivreda BiH EPBiH will be a company that is constantly developing new methods to improve business performance in order to attain a leading position in the electricity market in the region and to meet the current and future demand of electricity and thermal energy of customers through defined quality standards.

JP Elektroprivreda BiH will invest in the modernization and development and make capital investments, paying special attention to investments in the production of electricity from renewable energy sources, increasing the flexibility of the energy portfolio and energy efficiency.

In performing its activities Elektroprivreda BiH will operate in accordance with the EU standards for environmental protection and develop high awareness of environmental protection.

OBJECTIVES

The strategic objectives of JP Elektroprivreda BiH are:

- Construction of new substitute thermal facilities and new generating facilities from renewable energy sources, and distribution facilities,
- Restructuring of the company,
- Restructuring and modernization of the mines.

In terms of investments in the production segment, the company's objectives are long-term increase in the production and sale of electricity in the market of Bosnia and Herzegovina and in the regional market. This objective will be achieved by increasing the production facilities, modernization of the existing facilities and intensive construction of new production facilities.

The construction of new production facilities will enable an increase in sales and marketing of electricity in the domestic and regional markets, but also the closure of old and inefficient units in thermal power plants.



STATUTORY ELEMENTS OF THE COMPANY

The Public Company Elektroprivreda BiH d.d. Sarajevo (JP EPBiH) is an electric power company that performs the following activities: generation of electricity; distribution of electricity; supply and trading of electricity, as well as other activities determined by the Articles of Association.

The Company has been organized on a functional, procedural-operating and territorial principle, and has eight subsidiaries:

- Hydroelectric Power Plants on Neretva, Jablanica
- Thermal power plant „Kakanj“, Kakanj
- Thermal power plant „Tuzla“, Tuzla
- Subsidiary „Elektrodistribucija“ Bihać
- Subsidiary „Elektrodistribucija“ Mostar
- Subsidiary „Elektrodistribucija“ Sarajevo
- Subsidiary „Elektrodistribucija“ Tuzla
- Subsidiary „Elektrodistribucija“ Zenica

The Company is represented by the General Director, Executive Directors and Directors of Subsidiaries, in accordance with the Articles of Association and a separate act of the Company's Management Board.

The Bodies of the Company

- General Assembly
- Supervisory Board
- Management Board
- Audit Committee

Skupština General Assembly

Responsibilities of the General Assembly, which consists of shareholders, have been prescribed by law and the Articles of Association. The General Assembly is convened when it is determined by law, other regulations and the Articles of Association, and when it is deemed in the best interest of the Company and its shareholders, and at least once a year.

Supervisory Board

The Supervisory Board of the Company consists of seven (7) members, who are appointed and dismissed by the Company's General Assembly in accordance with the Company Law of the FBiH and the Articles of Association. The Supervisory Board elects one of its members the president.



STATUTORY ELEMENTS OF THE COMPANY

The Supervisory Board supervises the operations of the Company, oversees the work of the Management Board and has other competencies as prescribed by law and the Articles of Association. The Supervisory Board meetings are generally held once a month.

Members of the Supervisory Board

- mr.sci. Enver Agić, President
- mr.sci. Jakub Dinarević, member
- dr.sci. Bahrudin Šarić, member
- mr.sci. Sanel Buljubašić, member
- Selvedin Subašić, member
- Davorin Korać, member
- Fejsal Hrustanović, member

Management Board of the Company

In accordance with the Company Law, the Law on Public Enterprises and the Articles of Association, the Company is managed by the Management Board of the Company consisting of:

- General Director,
- Executive Director for Production,
- Executive Director for Distribution,
- Executive Director for Procurement and Sales,
- Executive Director for Economic Affairs,
- Executive Director of Legal Affairs and Human Resources,
- Executive Director for Capital Investments.

The Management Board of the Company organizes work and manages the operations, represents the Company and is responsible for the legality of the business. The work of the Management Board is headed by the General Director.

Members of the Management Board

- dr. Elvedin Grabovica, General Director
- Senad Sarajlić, Executive Director for Production
- Admir Andelija, Executive Director for Distribution
- mr.sci. Mirsad Šabanović, Executive Director for Procurement and Sales
- Edin Mujagić, Executive Director for Economic Affairs
- Mensura Zuka, Executive Director of Legal Affairs and Human Resources
- mr.sci. Amil Kamenica, Executive Director for Capital Investments



STATUTORY ELEMENTS OF THE COMPANY

Audit Committee

The Audit Committee consists of three members elected by the General Assembly of the Company in accordance with the law and the Articles of Association.

The Audit Committee elects one of its members the President of the Audit Committee. Duties and responsibilities of the Audit Committee are prescribed by law and the Articles of Association.

Members of the Audit Committee

- Sadija Sinanović, President
- dr. Mirsad Kikanović, member
- Suljo Kasapović, member

Company Secretary

- Goran Milošević

The Company secretary is appointed and dismissed by the Supervisory Board on the proposal of the General Director. Powers and responsibilities of the Company Secretary are prescribed by law and the Articles of Association.



KEY PERFORMANCE INDICATORS

In 2012, JP Elektroprivreda BiH produced 6,509 GWh of electricity. Electricity sales and other activities generated total revenue of 926.3 million KM and profit of 7.1 million KM.

JP Elektroprivreda BiH is the largest electric power company in Bosnia and Herzegovina by the value of capital, installed capacities, total production and sale of electricity, and the number of customers.

According to the ownership structure, it is a joint stock company in which 90 per cent of the capital is owned by the Federation of BiH (FBiH), and 10 per cent are privately owned.

It has installed generating capacities of 1,682 MW, and supplies more than 715,000 customers in seven cantons in the Federation of BiH. It manages the distribution network of voltage 35 kV, 10/20 kV and 0.4 kV, with a total length of 33,638 km, with 7,400 transformer units of voltage levels 35/x kV and 10 (20)/0.4, with total installed capacity of 2,790 MVA.

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KEY PERFORMANCE INDICATORS

| Key Indicators of the Company | | | | |
|---|-----------------|--------------|--------------|----------------|
| | | 2012 | 2011 | 2012/2011 |
| Funds | bill. KM | 3,417 | 3,387 | 0.9% |
| Total equity | bill. KM | 2,898 | 2,889 | 0.3% |
| Share capital | bill. KM | 2,237 | 2,237 | - |
| Liabilities | bill. KM | 0,519 | 0,498 | 4.2% |
| Total revenues | mill. KM | 926.3 | 958.5 | - 3.4% |
| Revenues from the sale of electricity | mill. KM | 850.1 | 876.7 | - 3% |
| Other revenues | mill. KM | 76.2 | 81.8 | - 6.8% |
| Total expenses and costs | mill. KM | 919.2 | 957.0 | - 3.9% |
| Profit | mill. KM | 7.1 | 1.5 | 373% |
| Operating revenues | mill. KM | 888.0 | 913.5 | - 2.8% |
| Operating expenses | mill. KM | 739.8 | 776.7 | - 4.8% |
| EBITDA | mill. KM | 148.3 | 136.8 | + 8.3% |
| Production | GWh | 6,509 | 7,295 | - 10.8% |
| Net distribution | GWh | 3,934 | 3,878 | 1.4% |
| Direct customers | GWh | 446 | 417 | 7.0% |
| Non-tariff sales | GWh | 1,951 | 2,749 | - 29.0% |
| Total sales | GWh | 6,331 | 7,044 | - 10.1% |
| Number of customers | | 715,411 | 707,301 | 1.1% |
| Number of employees (in all categories) | | 4,943 | 4,940 | - |
| Number of employees (without replacement and trainees) | | 4,881 | 4,879 | - |



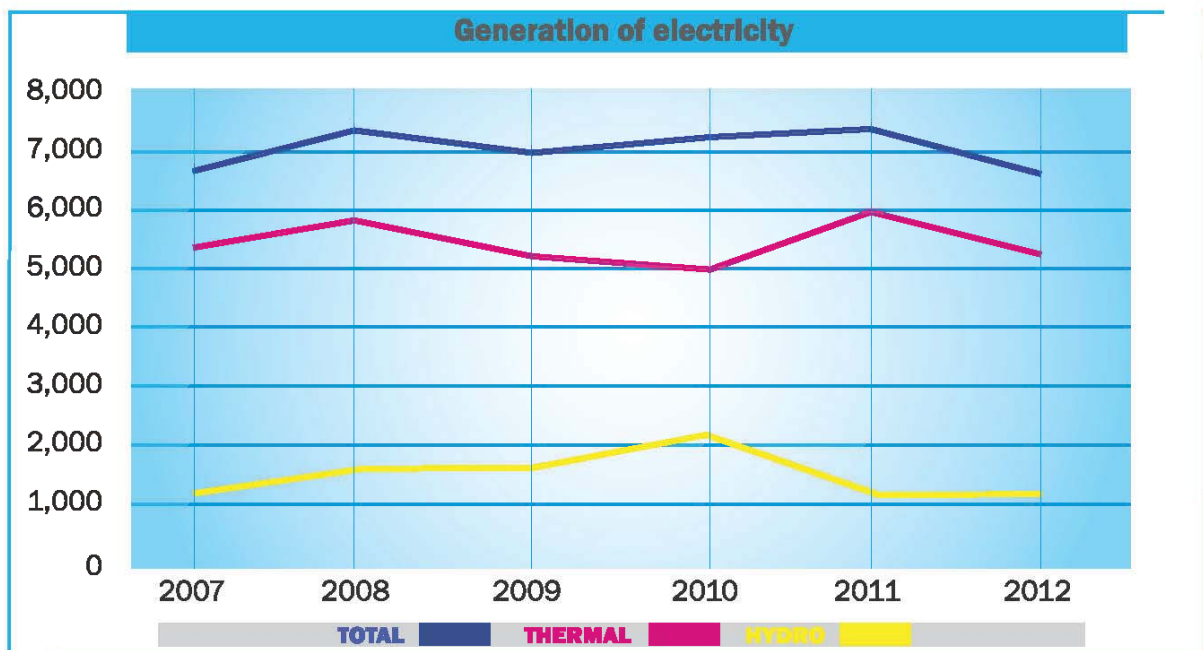
REALISATION OF POWER BALANCE

Although the year of 2012 was characterized by unfavourable hydrological conditions and the presence of extreme snowfall during February, which significantly hampered the operation of the entire power system of BiH and the region, in 2012 the electricity demand of tariff consumers supplied by JP Elektroprivreda BiH were fully met and all annual contracts for electricity sales were realized.

In 2012, the overall electricity production reached the amount of 6,509.0 GWh.

The operation of power system of JP Elektroprivreda BiH during 2012 was characterized by:

- extremely bad hydrological conditions, considering that the actual inflows were 19.2% lower than the plan;
- total purchase of coal higher than the balance-planned amounts by 10.9%, and higher by 0.7% than the procurement in 2011;
- total electricity production lower by 2.6% than planned;
- total electricity consumption less than the planned by 2.9%, but 1.7% higher than actual consumption in 2011;
- non-tariff electricity sales lower by 3.5% than the planned by balance.



REALISATION OF POWER BALANCE

| Generation (GWh) | | | | | | |
|------------------|-------|-------|-------|-------|-------|-------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| TOTAL | 6,544 | 7,295 | 6,927 | 7,181 | 7,295 | 6,509 |
| THERMA | 5,365 | 5,750 | 5,234 | 5,013 | 6,138 | 5,368 |
| HYDRO | 1,179 | 1,545 | 1,693 | 2,168 | 1,157 | 1,141 |

The hydro power plants (Jablanica, Grabovica, Salakovac and distribution hydro power plants) produced 1,141.1 GWh, which is 20.4% less than the plan which implies the probability of inflow of 70%, and 3.8% less compared to the plan that would fit dry hydrological conditions, i.e. the probability of inflow of 90%.

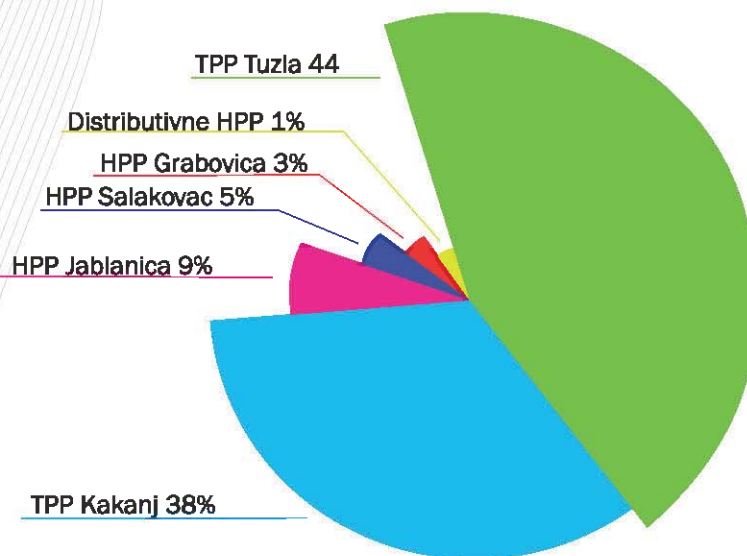
At the same time the thermal power plants Tuzla and Kakanj achieved production of 5,367.8 GWh, which is 2.3% more than planned, and 12.5% less compared to the year of 2011. Due to the extremely unfavourable hydrological conditions during most of the year, the production of hydro power plants was lower than the planned by 292.2 GWh, while, as a result of such circumstances, the production of thermal power plants increased by 118.8 GWh. This resulted in less favourable share of hydro power plants in total production (18%), compared to the planned share (21%).

| GENERATION (%) | 2012 | Plan 2012 | 2011 | 2010 |
|------------------|------|-----------|------|------|
| hydropower | 18 | 21 | 16 | 30 |
| thermal power | 82 | 79 | 84 | 70 |



REALISATION OF POWER BALANCE

Share of plants in total production in 2012



In the period January - December 2012, the overall electricity consumption reached the quantity of 4,900.4 GWh, which is 147.8 GWh or 2.9% less than planned, but 80.4 GWh or 1.7% more compared to the year of 2011.

Total consumption consists of gross distributive consumption of 4340.3 GWh (net distributive consumption 3933.9 GWh and distributive losses 406.4 GWh), the consumption of direct customers of 446.2 GWh and losses on the transmission network in the amount of 113.9 GWh.

Total needs consist of total consumption (4,900.4 GWh), non-tariff sales (1,951.2 GWh), the delivery of electricity in the distribution network with ERS based on the ownership share over the DHPP Bogatići (4.2 GWh) and delivery corrections (8.1 GWh).



REALISATION OF THE FINANCIAL PLAN



REALISATION OF THE FINANCIAL PLAN

BUSINESS RESULT OF JP ELEKTROPRIVREDA BIH IN THE PERIOD I-XII 2012

| INCOME STATEMENT | | 2012 | plan 2012 | 2011 | 2012/pl | 2012/ 2011 |
|------------------|---|----------------|----------------|----------------|------------|---------------|
| thousands KM | | 1 | 2 | 3 | 1/2 | 1/3 |
| 1 | Revenues from sales of electricity and services | 850,100 | 859,289 | 876,731 | 99 | 97 |
| | -revenues from sales to tariff customers of EPBiH | 641,606 | 655,675 | 596,834 | 98 | 108 |
| | -revenues from sales to others in BiH | 180,387 | 163,760 | 201,115 | 110 | 90 |
| | -revenues from electricity export | 22,772 | 35,081 | 73,740 | 65 | 31 |
| | -revenues from sales of reserve power and services | 5,335 | 4,773 | 5,042 | 112 | 106 |
| 2 | Revenues from sales of prod.tech.steam and thermal power | 14,326 | 13,990 | 15,064 | 102 | 95 |
| | -revenues from technological steam | 3,460 | 3,163 | 3,528 | 109 | 98 |
| | -revenues from thermal power | 9,306 | 8,868 | 9,560 | 105 | 97 |
| | -revenues from sales of other co- and by-products | 1,560 | 1,959 | 1,976 | 80 | 79 |
| 3 | Revenues from sales of materials and services | 23,608 | 20,905 | 21,728 | 113 | 109 |
| 4 | Revenues from financing | 18,217 | 11,121 | 19,036 | 164 | 96 |
| 5 | Other revenues | 20,030 | 13,898 | 25,903 | 144 | 77 |
| | TOTAL REVENUES (1 to 5) | 926,281 | 919,203 | 958,462 | 101 | 97 |
| 6 | Material for electricity generation | 354,397 | 332,944 | 394,318 | 106 | 90 |
| 7 | Material for maintenance | 17,125 | 18,393 | 17,717 | 93 | 97 |
| 8 | Other costs of materials | 6,315 | 6,112 | 6,021 | 103 | 105 |
| 9 | Costs of coal transportation | 25,128 | 21,427 | 24,856 | 117 | 101 |
| 10 | Maintenance services | 15,308 | 17,967 | 16,190 | 85 | 95 |
| 11 | System studies | 215 | 500 | 315 | 43 | 68 |
| 12 | Insurance premiums | 4,780 | 4,892 | 4,792 | 98 | 100 |
| 13 | Other costs of services | 4,708 | 5,703 | 4,812 | 83 | 98 |
| 14 | Costs of depreciation | 153,079 | 153,356 | 150,414 | 100 | 102 |
| 15 | Costs of electricity transmission | 46,686 | 48,732 | 50,106 | 96 | 93 |
| 16 | Salaries and benefits | 158,114 | 156,997 | 158,269 | 101 | 100 |
| 17 | Other operating costs | 25,203 | 27,172 | 27,606 | 93 | 91 |
| 18 | Water management fees | 14,702 | 17,056 | 14,552 | 86 | 101 |
| 19 | Fees for land and other | 16,950 | 17,148 | 13,383 | 99 | 127 |
| 20 | Other operating expenses | 6,960 | 8,846 | 7,670 | 79 | 91 |
| 21 | Other expenses | 63,190 | 67,896 | 60,634 | 93 | 104 |
| 22 | Provision costs | 6,334 | 3,331 | 5,323 | 190 | 119 |
| | TOTAL COSTS AND EXPENSES (6 to 22) | 919,194 | 908,472 | 956,978 | 101 | 96 |
| | PROFIT / LOSS | 7,087 | 10,731 | 1,484 | 66 | 478 |



REALISATION OF THE FINANCIAL PLAN

Revenues

Total revenues of JP Elektroprivreda BiH for the year of 2012 amount to 926.3 million KM, which is higher than the planned by 7.1 million KM or 0.8%. Compared to 2011, revenues are lower by 32.2 million KM or 3.4%, as expected, due to lower actual production having in view the lack of production in Unit 6 in TPP „Tuzla“, due to the reconstruction carried out from 1 May 2012, as well as of Unit 6 in TPP „Kakanj“, which for a significant time period after reconstruction was in the phase of trial work (breaking-in).

Costs and expenses

Total incurred costs and expenses for the year of 2012 amount to 919.2 million KM and they are higher than the planned by 10.7 million KM or 1.2% due to increased costs of materials for the production of electricity (coal and coal transportation). It is important to note that in March 2012 the Management Board adopted a set of austerity measures, so that all other costs, excluding the cost of provisions, are significantly lower than the planned. Austerity measures generated the savings of approx. 14 million KM in relation to the plan, which mitigates the negative effect of increasing the costs of production and thus enabled positive business results.

Revenue collection

Rate of collection for electricity supplied on the basis of power supply for tariff customers (determined by the accounting method - current year with balance of receivables from previous years and receivables in dispute), was achieved in the percentage of 95.0% and it is in line with the percentage achieved in 2011. Collection rate by distribution subsidiaries is different and ranges from 77.0% in the Subsidiary „Elektrodistribucija“ Mostar, up to 98.5% in the Subsidiary „Elektrodistribucija“ Bihać, as can be seen from the review that follows:

| Subsidiary | 31/12/2011 | 31/12/2012 |
|--------------|-------------|-------------|
| | % | % |
| ED Sarajevo | 97.8 | 96.4 |
| ED Tuzla | 99.2 | 98.3 |
| ED Zenica | 91.5 | 92.3 |
| ED Bihać | 98.9 | 98.5 |
| ED Mostar | 75.5 | 77.0 |
| TOTAL | 95.2 | 94.8 |
| Direct | 97.7 | 97.4 |
| TOTAL | 95.4 | 95.0 |



REALISATION OF THE FINANCIAL PLAN

Collected funds on the basis of the second order supply (non-tariff customers in BiH) and electricity trade (exports) were achieved in the amount of 100%.

| year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------------|------|------|------|------|------|------|
| collection % | 95.1 | 95.3 | 95.7 | 95.7 | 95.4 | 95.0 |

Collection rate expressed as a ratio of collected revenues and invoiced amount in the current year, the percentage of collection is even better: it amounts to 99.2% and is equal to the percentage achieved in 2011. This collection rate is influenced by a part of the revenues collected on the basis of receivables from previous years.



FINANCIAL PERFORMANCE INDICATORS

INDICATORS OF INCOME STATEMENT

| | Realisation 2012 | Plan 2012 | Realisation 2011 |
|---|---------------------|----------------|---------------------|
| Electricity production (GWh) | 6,509 | 6,682 | 7,295 |
| Operating income (thousands KM) | 888,034 | 894,184 | 913,523 |
| Revenues from sales of electricity and aux. services | 850,100 | 859,289 | 876,731 |
| Revenues from ancillary activities, materials and services | 37,934 | 34,895 | 36,792 |
| Cash operating costs (thousands KM) | 739,771 | 735,195 | 776,738 |
| • Costs of mat. for production of electricity and coal transport | 379,525 | 354,371 | 419,175 |
| • Material and maintenance services | 32,433 | 36,359 | 33,907 |
| • Salaries and benefits | 183,317 | 184,170 | 185,875 |
| • Other operating costs | 144,496 | 160,295 | 137,781 |
| EBITDA | 148,263 | 158,988 | 136,785 |
| Depreciation (thousands KM) | 153,079 | 153,356 | 150,413 |
| EBITDA | -4,816 | 5,632 | -13,628 |
| Operating coefficient (op. costs. + deprec./op. income) | 1,01 | 0,99 | 1,01 |
| Cost-effectiveness ratio (total revenues /total costs and expenses) | 1,01 | 1,01 | 1,00 |
| Productivity (revenue per employee) | 186,34 | 184,91 | 189,68 |
| Operating coefficient (operating costs /operating income) | 0,83 | 0,82 | 0,85 |
| Staff costs per employee | 36,88 | 37,05 | 36,79 |
| Production per employee | 1,309 | 1,344 | 1,444 |
| Share of costs and expenses in total revenues | 0,99 | 0,99 | 1,00 |
| Average number of employees (as at the end of month / 12) | 4,971 | 4,971 | 5,053 |
| Cost of production/operating income | 42,74% | 39,63% | 45,89% |
| Cost of mat. and maintenance services/operating income | 3,65% | 4,07% | 3,71% |
| Operating cost /operating income | 20,64% | 20,60% | 20,35% |
| Other expenses /operating income | 16,27% | 17,93% | 15,08% |



REALIZATION OF INVESTMENT PLAN

In 2012, JP Elektroprivreda BiH made investments amounting to 202.7 million KM. Investments were made in the projects of reconstruction and modernization of the existing power plants, facilities and networks, preparations for the construction of new generating facilities, IT and telecommunication infrastructure, remote control system and in joint projects.

| REALIZATION OF INVESTMENT PLAN | | | | | |
|---|--------------------------|------------------|---------------------|---|--|
| mill. KM | Realisa- tion 2012 | Plan for 2012 | Realisation 2011 | 2012 Structure within activities | 2012 compared to total investment |
| Investment level | | | | | |
| PRODUCTION ACTIVITY | | | | | |
| TPP «Tuzla» | 94 | 88 | 23 | 81.2% | 46.3% |
| TPP «Kakanj» | 13 | 37 | 88 | 10.8% | 6.2% |
| HPP na Neretvi | 9 | 13 | 11 | 8.0% | 4.6% |
| mHPP | 0 | 0 | - | 0.0% | 0.0% |
| Total production activity | 116 | 140* | 122 | 100.0% | 57.1% |
| DISTRIBUTION ACTIVITY | | | | | |
| ED Bihać | 12 | 13 | 12 | 17.1% | 5.7% |
| ED Mostar | 8 | 7 | 8 | 12.3% | 4.1% |
| ED Sarajevo | 18 | 23 | 20 | 26.7% | 8.9% |
| ED Tuzla | 14 | 18 | 25 | 21.2% | 7.1% |
| ED Zenica | 15 | 22 | 22 | 22.7% | 7.5% |
| Total distribution activity | 67 | 91* | 87 | 100.0% | 33.3% |
| INVESTMENTS FROM THE COMPANY LEVEL | | | | | |
| Investments in capital projects | 10 | 78 | | 51.5% | 5.0% |
| Joint projects | 1 | 7 | | 6.1% | 0.6% |
| ICT | 4 | 7 | | 17.3% | 1.7% |
| FMIS | 5 | 7 | | 25.0% | 2.4% |
| Total from the Company level | 20 | 99 | 9 | 100.0% | 9.7% |
| Total investment of JP EPBiH | 203 | 330 | 218 | - | 100.0% |

*The total amount also includes ICT projects, as follows: -for production activity 2 million KM - for distribution activity 8 million KM

The main reasons that prevented the realization of the Investment Plan are:

- strict application of the Public Procurement Law, so that some tender procedures were repeated due to insufficient number of registered bidders,
- long-term process of providing the necessary permits and approvals for implementation of projects.



REALIZATION OF INVESTMENT PLAN

The realization of the plan to invest in Production Activity

In 2012, the Production Activity, through the realization of investment projects in the production subsidiaries TPP „Tuzla“, TPP „Kakanj“, HPP on Neretva and mHPP, generated 115.7 million KM.

The most important projects implemented:

- revitalization of Unit 6 in TPP „Tuzla“;
- modernization of the coal disposal system - Power IV in TPP „Tuzla“;
- construction of slag and ash landfill Jezero II in TPP „Tuzla“;
- implemented project of revitalization of Unit 6-110 MW in TPP „Kakanj“; Unit was put into trial run;
- reconstruction and modernization of cooling water pumps of Unit 5 and Unit 6 in TPP „Kakanj“;
- reclamation of slag and ash landfill where disposal was permanently completed, rehabilitation of landslides on the slag and ash landfill (an extension of the eastern part of the landfill) and the completed procurement of equipment for the phase of extension of the conveyor for disposal of slag and ash on the landfill Turbići;
- rehabilitation of the facility TUZ in TPP „Kakanj“;
- removal of damage to the Unit no. 2 HPP „Grabovica“ (defects inspection of dismantled equipment, manufacture and replacement of parts, installation of the unit);
- rehabilitation and modernization of the monitoring system of dams HEJ, HEG and HES; installation of the monitoring system and rehabilitation of the landslide Kukovi; removal of leakage through the body of the dams HEG and HES;
- procurement of block transformers 36 MVA, 110/6.3 kV for the Unit No. 4 HPP „Jablanica“;
- rehabilitation of the pre-turbine shutter No. 1 HPP „Jablanica“.

Objective reasons that affected the implementation of the Investment Plan:

- delays in making business plans for subsidiaries for the year of 2012, and in relation to this, a delay in making certain Decisions on investments;
- shift of the planned capital overhaul of Unit 5 – 110 MW TPP „Kakanj“ to the year of 2013 due to unfavourable hydrological conditions and meeting the demand for electricity;
- Start of SAP implementation in the contracting processes and contract implementation, starting from July 2012.

The realization of the plan to invest in Distribution Activity

Planned investments in the Distribution Activity for the year of 2012 amount to 91.1 million KM, which includes funds intended for ICT projects, which are implemented and monitored by the



REALIZATION OF INVESTMENT PLAN

Department of Information and Communication Technologies.

The implementation of the program of rehabilitation and reconstruction/construction of power facilities was continued in order to expand the network capacity, enlarge its reliability and availability, meet the obligations relating to the quality of electricity supplied and facilitate the return of displaced persons.

There are active programs of the reconstruction of metering points and replacement of electricity meters the lifetime of which expires and the program of line disconnectors installation.

The monitoring and control system in medium-voltage distribution networks has been improved.

Activities on the realization of the concept of introducing a system of remote meter reading and control of electricity meters are on-going.

The program of reconstruction of the power grid of EPBiH which is funded from an EIB loan reached the realization of approximately 42.3 million, which is 77% of the total program. Completion of works is scheduled for the year of 2013.

A part of the investments of the distribution activity, as in previous years, also included the investments in the common needs of subsidiaries (purchase of computers and other office equipment, vehicles, tools, decoration and furnishing office spaces).

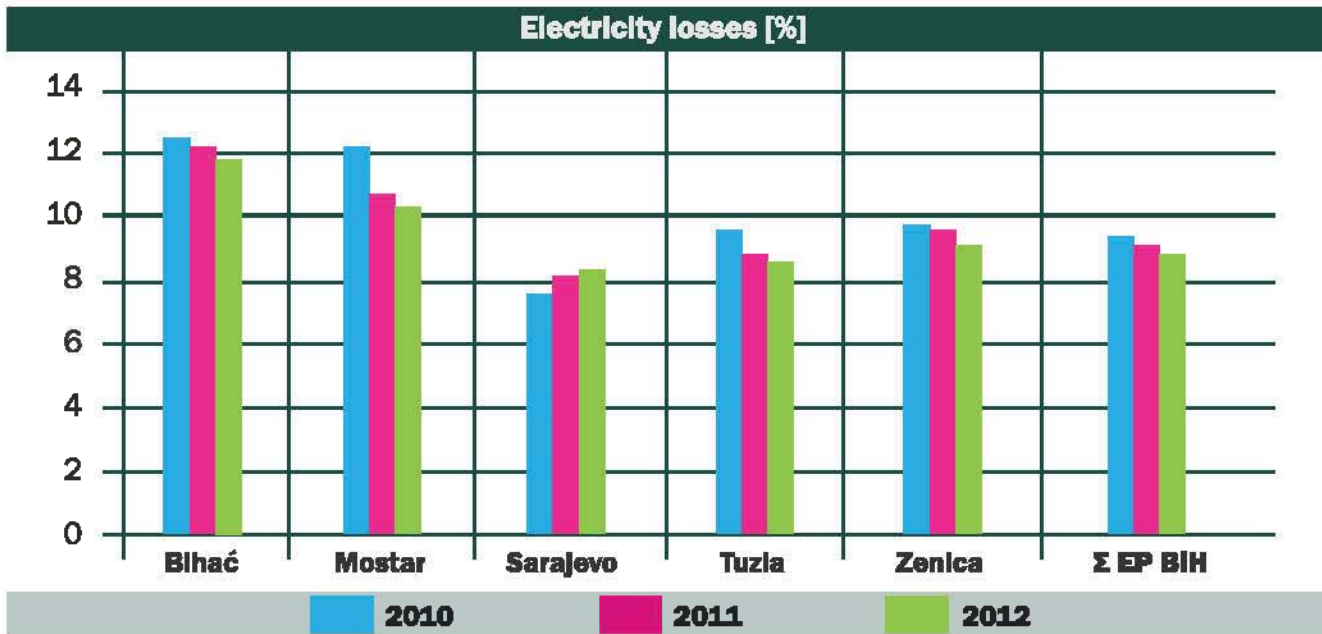
The effects of investment activities in 2012, among other things, are further decrease in technical losses in the distribution network and improvement of the quality and reliability of electricity supply.

Electricity losses in the distribution network

| | | Bihać | Mostar | Sarajevo | Tuzla | Zenica | Σ EPBiH |
|------|-------|--------------|---------------|-----------------|--------------|---------------|----------------|
| 2010 | [GWh] | 62.80 | 26.60 | 107.00 | 113.00 | 101.00 | 410.40 |
| | [%] | 12.79 | 12.37 | 7.89 | 9.81 | 9.92 | 9.69 |
| 2011 | [GWh] | 60.10 | 26.60 | 119.30 | 115.40 | 106.90 | 428.30 |
| | [%] | 12.38 | 10.99 | 8.34 | 9.05 | 9.85 | 9.49 |
| 2012 | [GWh] | 58.11 | 23.51 | 118.39 | 107.23 | 99.14 | 406.38 |
| | [%] | 12.09 | 10.56 | 8.45 | 8.98 | 9.51 | 9.36 |



REALIZATION OF INVESTMENT PLAN



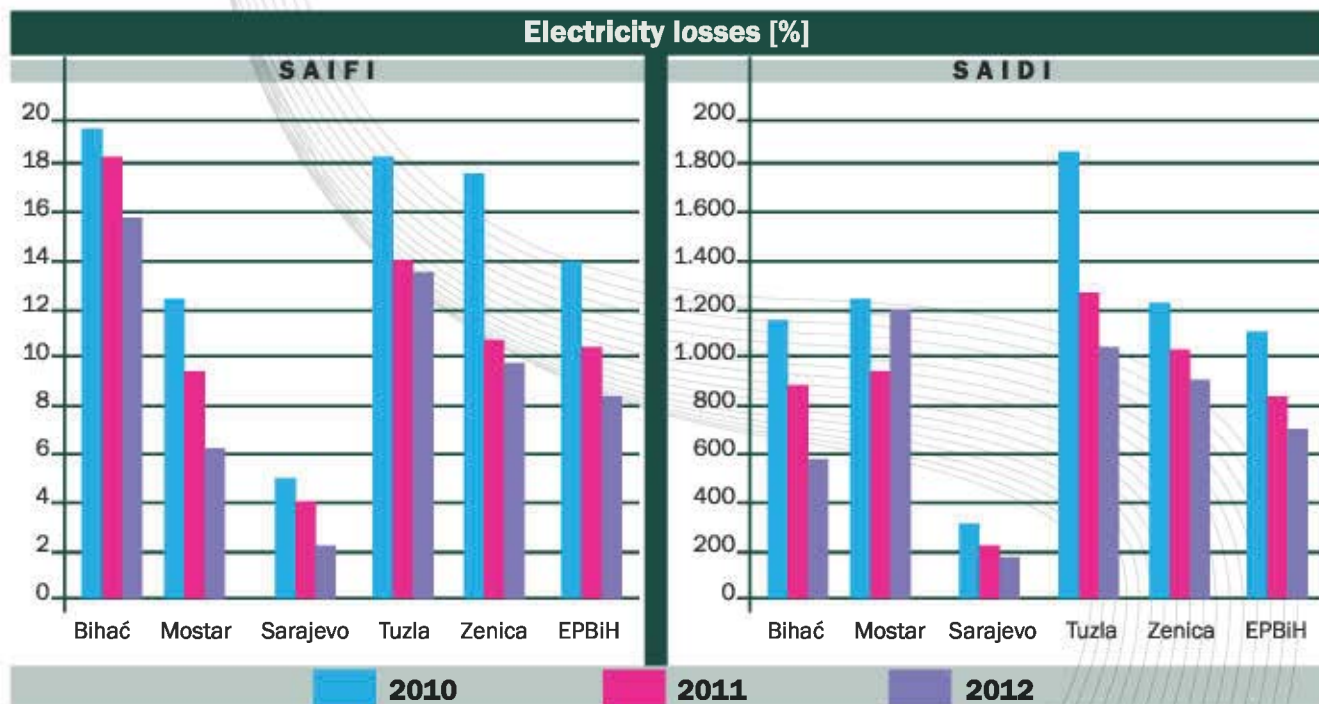
REALIZATION OF INVESTMENT PLAN

Reliability of electricity supply by the distribution network

Increasing the reliability of electricity supply to its customers continued in 2012, and the adequate trend of decreasing the value of corresponding indicators of reliability has continued (SAIFI: number of supply interruptions per customer and SAIDI: duration of supply interruptions in minutes per customer), both for the interruptions caused by the planned outages and those caused by unplanned outages.

| | | Bihać | Mostar | Sarajevo | Tuzla | Zenica | Σ EPBIH | |
|----------------------|------|---------------------|-----------------|-----------------|---------------|-----------------|-----------------|-----------------|
| SAIFI for MV network | 2010 | planned outages | 5.80 | 2.44 | 1.89 | 7.10 | 7.14 | 5.13 |
| | | unplanned outages | 13.96 | 10.21 | 3.39 | 11.45 | 10.56 | 9.09 |
| | | summary | 19.76 | 12.65 | 5.29 | 18.55 | 17.70 | 14.22 |
| | 2011 | planned outages | 5.99 | 2.31 | 1.56 | 4.84 | 4.88 | 3.89 |
| | | unplanned outages | 12.53 | 7.22 | 2.80 | 9.35 | 6.28 | 6.91 |
| | | summary | 18.52 | 9.52 | 4.36 | 14.19 | 11.16 | 10.80 |
| | 2012 | planned outages | 4.48 | 1.32 | 1.04 | 3.44 | 3.84 | 2.86 |
| | | neplanirani zastoji | 11.41 | 4.83 | 1.47 | 8.24 | 6.07 | 5.90 |
| | | summary | 15.89 | 6.15 | 2.50 | 11.67 | 9.90 | 8.75 |
| SAIDI for MV network | 2010 | planned outages | 608.90 | 251.27 | 190.05 | 1,245.13 | 785.36 | 673.00 |
| | | unplanned outages | 565.31 | 1,027.93 | 146.01 | 637.26 | 469.94 | 452.24 |
| | | summary | 1,174.21 | 1,279.20 | 336.06 | 1,882.38 | 1,255.30 | 1,125.25 |
| | 2011 | planned outages | 477.10 | 271.13 | 155.20 | 784.13 | 690.79 | 502.26 |
| | | unplanned outages | 418.08 | 684.14 | 107.15 | 513.84 | 385.98 | 354.19 |
| | | summary | 895.18 | 955.26 | 262.34 | 1,297.97 | 1,076.77 | 856.45 |
| | 2012 | planned outages | 281.30 | 309.34 | 92.08 | 565.41 | 525.79 | 361.16 |
| | | unplanned outages | 306.33 | 909.56 | 107.11 | 509.66 | 395.92 | 352.08 |
| | | summary | 587.63 | 1,218.90 | 199.18 | 1,075.07 | 921.71 | 713.24 |

REALIZATION OF INVESTMENT PLAN



Objective reasons that affected the implementation of the Investment Plan:

- Heavy snow and low temperatures in February caused the complete cessation of all investment activities in the construction and reconstruction of medium- and low voltage networks, substations and metering points. All available human and material resources during February and March were directed towards eliminating the consequences of failures and ensuring electricity supply for customers;
- Delay in ratification of the loan of the German Development Bank (KfW; loan funds amounting to 9,251,000 KM and 5,066,000 KM grant funds) has caused its failure.

Realization of investment plan from the level of the Company

The total planned investments from the level of the Company amount to 98.5 million KM. Investments relate to the preparation of construction of thermal power plants in Tuzla and Kakanj, RITE Bugojno, hydro power plants and power plants with renewable energy sources.

REALIZATION OF INVESTMENT PLAN

1. Preparing the construction of thermal power plants

Unit 7 – 450 MW in TPP “Tuzla”

- Prepared investment-technical documentation and obtained permits and approvals for the application for preliminary approval for construction
- Released International tender for pre-qualification for the selection of project partner for a joint venture in Project of Unit 7-450 MW in TPP “Tuzla” and brought Decision on appointing the qualified candidates - applicants for the selection of project partner for a joint venture in Project of the construction of Unit 7 – 450MW in TPP “Tuzla”; 11 qualified candidates appointed
- Supervisory Board of EPBIH adopted the Decision on the basic principles, criteria and methodology of selection of project partner for joint venture
- On the basis of the signed Agreement on realization of the Program of a friendly environment with the Municipality of Tuzla, all planned projects contracted; the majority implemented

Unit 8 – 300 MW in TPP “Kakanj”

- Prepared investment-technical documentation and obtained permits and approvals for the application for preliminary approval for construction
- Prepared Pre-qualification document for selection of the strategic partner for the joint venture
- Completed bilateral negotiations with several possible project partners who have expressed interest to participate in the financing of Unit 8 and suggested possible models of cooperation
- On the basis of the signed Agreement on realization of the Program of a friendly environment with the Municipality of Kakanj; the majority of envisaged projects contracted

Unit 1 – 300 MW of the power complex RiTE “Bugojno”

- Feasibility study of construction of RiTE «Bugojno» prepared for the purposes of submitting a bid for the concession
- Project of research works prepared
- Tender for conducting detailed geological exploration of coal at coal deposit „Kotezi“ innovated and revised

Conducted negotiations with the EIB and the EBRD in order to provide funds to close the financial construction for the construction of Unit 7 in TPP “Tuzla” and Unit 8 in TPP “Kakanj”; the substrate for funding through IPA funds and WBIF submitted as well.

2. Preparing the construction of Hydro Power Plants

HPP „Vranduk“, 19.63 MW on the River Bosna, Municipality Zenica, the project for which the Government of the Federation of BiH adopted the Decision on the public interest



REALIZATION OF INVESTMENT PLAN

- Preliminary Design and Environmental Impact Assessment completed and revised
- Environmental permit for construction obtained
- Certificate for connection obtained
- Contract and program for a friendly environment signed
- Feasibility study for the expropriation completed and revised
- Concession Agreement signed
- Town-planning approval for the construction obtained

HPP „Ustikolina“, 60,48 MW on the River Drina in the municipalities Foča-Ustikolina and Goražde, the project for which the Government of the Federation of BiH adopted the Decision on the public interest

- Preliminary design completed and revised
- Certificate for connection to the power system (EES) obtained from the ISO (NOS)
- Approvals and preliminary water-management approval obtained from the competent authorities
- Activities undertaken for the listing of HPP „Ustikolina“ in Spatial-planning documents

HPP „Una Kostela“, 9.4 MW and Anex 6.1 MW at river Una, Municipality Bihać, project of reconstruction and expansion of the existing object

- Prepared Terms of reference and tender documentation for Conceptual Design with researches for reconstruction and expansion.
- Started activities for obtaining Urban permit
- Procured Decision on provisional water approval for reconstruction and expansion of HPP „Una- Kostela“

HPP „Janjići“, 13.2 MW on the River Bosna, Municipality Zenica

- Feasibility study with exploration activities completed
- Appraising mission completed by KfW Bank; the preparation of an application for approval of the bank's lending for the project and other activities to supplement the catalogue of projects of the Government of FBiH "Priorities for the construction of power plants (EEO) in the Federation" are underway

HPP „Čapljje“, 11,626 MW on the River Sana, Municipality Sanski Most, the project for which the Government of the Federation of BiH adopted the Decision on the public interest

- Feasibility study for the construction of HPP „Vrpolje“ with HPP „Čapljje“ developed and revised
- Terms of reference for the preparation of the Feasibility study, which represents the Preliminary design, completed

REALIZATION OF INVESTMENT PLAN

HPP "Kruševo" with HPP "Zeleni vir", 10.05 + 0.646 MW with HPP "Zeleni Vir" 2.362 MW, on the River Bioštica, Municipality Olovo, the project for which the Government of the Federation of BiH adopted the Decision on the public interest

- Feasibility study on the exploitation of hydropower of the river Bioštica and the Study on the economic and financial analysis for HPP "Kruševo" with HPP "Zeleni vir" completed

HPP "Kovanići", 13.5 MW on the river Bosna

- Draft Terms of Reference prepared for the preparation of Feasibility study with research works and the environmental impact assessment

4. Preparing the construction of small power plants with renewable energy sources

Preparation and construction of small hydro power plants on the basin of Neretvica, Municipality Konjic, installed capacity of approximately 22.0 MW, potential annual production of approx. 100 GWh, the estimation of investing: 97.0 million KM

- New concept of the implementation of the project of construction of small hydro power plants from the first phase defined to optimize the system
- Contract for finishing the Preliminary designs and drafting of Main and Construction designs for the first phase of construction of small hydropower plants
- Repeated tender finishing Preliminary designs and development of Main designs for the second phase of the Project (6 small hydro power plants)
- Agreement signed with the municipality of Konjic on resolving of property issues
- First part of the activities with the local community under the Contract and Program of friendly environment with the Municipality of Konjic agreed and implemented
- Study on Expropriation for Phase I of the Project prepared (3 small hydro power plants)
- Request for the issuance of zoning approvals submitted to the relevant Federal Ministry (obtained all necessary approvals from the relevant institutions) for three small hydropower plants from Phase I of the Project

Construction of the wind power plant with 16 wind turbines on the site Podveležje-Mostar, the total maximum installed capacity is 48.0 MW, the estimated potential annual production is about 120 GWh, the estimation of investing: 125 million KM

- Zoning approval obtained
- Annex 1 signed with the Ministry of Economy of HNK, innovated schedule of the project implementation
- Geological and geotechnical research works completed
- Preliminary energy approval for Phase I of the construction of the wind power plant obtained



REALIZATION OF INVESTMENT PLAN

- Elektroprijenos BiH issued the Preliminary approval to connect the wind power plant with 16 wind turbines to the transmission network
- Tender for the manufacture, delivery, installation and commissioning of two wind turbines prepared
- Mission of KfW completed and the concept of the financial framework for the implementation of this Project adopted

5. Information and communication technologies – ICT

In 2012, 3.4 million KM was invested in the implementation of projects in the field of ICT.

The most important activities in the ICT sector were conducted in the following areas:

- Construction of optical cable network of EPBiH
- Construction of transmission and access TC network of EPBiH
- Radio system facilities (containers and antenna poles)
- Construction of the uninterruptible power supply system for ICT equipment
- Construction and development of a voice radio link system
- Construction and development of a remote monitoring and control system
- Support to the implementation of AMR / AMM system
- Integration of BTP / GIS
- Purchase of IT equipment
- Improving the security of IT systems
- IT support and development in the field of accounting and billing of electricity
- Implementation and development of business applications and software solutions
- ICT projects in the mines

Joint projects were implemented from the level of the Company; equipment was procured for the Directorate of the Company; investment decisions for non-electric power subsidiaries; continued reconstruction and rehabilitation of PTZ EPBiH.

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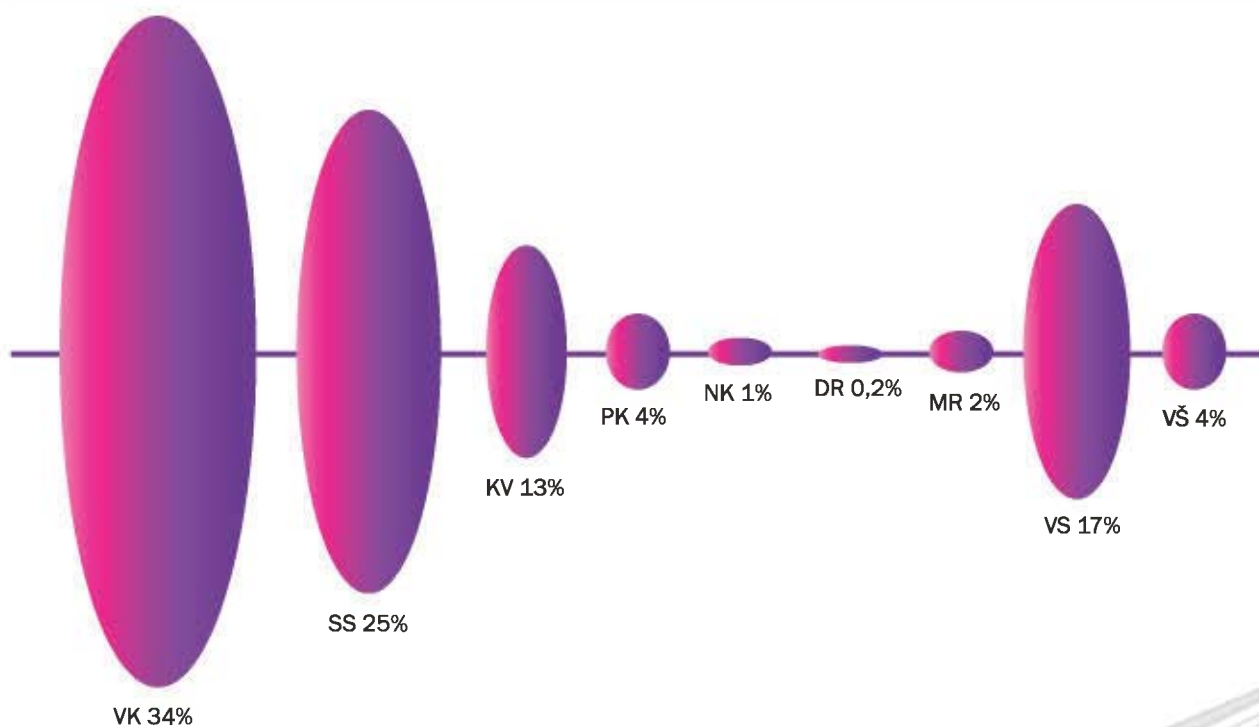
REALISATION OF HUMAN RESOURCES PLAN



The Company's business plan for 2012 defines that the number of employees at the end of 2012 cannot be more than 4909 employees, with the proviso that this number does not include employees who are employed on fixed-term as replacement and trainees.

On 31/12/2012, the Company had 4881 employees, 23 temporary employees as replacement and 39 trainees, which is in total 4943 employees.

Qualification structure of permanent employees



| Unqualified (NK) | Half-qualified (PK) | Qualified (KV) | Secondary school (SS) | Highly-qualified (VK) | Higher school (VŠ) | University (VS) | Master (MR) | Doctor (DR) |
|------------------|---------------------|----------------|-----------------------|-----------------------|--------------------|-----------------|-------------|-------------|
| 60 | 199 | 622 | 1,217 | 1,663 | 175 | 845 | 78 | 14 |

A significant number of internal and external trainings, workshops, presentations, and specialized seminars, professional and consultative workshops were conducted in various areas of interest to the Company. Various aspects of the training involved approximately 1,000 employees.



REALISATION OF HUMAN RESOURCES PLAN

| NUMBER OF EMPLOYEES by activities 31/12/2012 | | | | | | | | | |
|--|----------------|----------------|----------------|----------|--------------|------------------|-----------|--------------|--------------|
| | | Perma- nent | Tempo- rary | Other | TOTAL | Replace- ment | Trainees | Overa ll | share |
| Management and support functions | | 304 | 4 | 1 | 309 | 1 | 6 | 316 | 6.4% |
| PRODUCTION | Total | 1,770 | 0 | 3 | 1,773 | 2 | 17 | 1,792 | 36.3% |
| | Direkcija | 20 | 0 | 0 | 20 | 0 | 0 | 20 | 0.4% |
| | HPP na Neretvi | 385 | 0 | 0 | 385 | 0 | 3 | 388 | 7.8% |
| | TPP «Kakanj» | 619 | 0 | 2 | 621 | 2 | 5 | 628 | 12.7% |
| | TPP «Tuzla» | 713 | 0 | 1 | 714 | 0 | 9 | 723 | 14.6% |
| | Distribution | 33 | 0 | 0 | 33 | 0 | 0 | 33 | 0.7% |
| DISTRIBUTION | Total | 2,395 | 0 | 0 | 2,395 | 16 | 14 | 2,425 | 49.1% |
| | Direkcija | 11 | 0 | 0 | 11 | 0 | 0 | 11 | 0.2% |
| | ED Bihać | 350 | 0 | 0 | 350 | 2 | 0 | 352 | 7.1% |
| | ED Mostar | 202 | 0 | 0 | 202 | 1 | 2 | 205 | 4.1% |
| | ED Sarajevo | 562 | 0 | 0 | 562 | 6 | 0 | 568 | 11.5% |
| | ED Tuzla | 589 | 0 | 0 | 589 | 3 | 6 | 598 | 12.1% |
| | ED Zenica | 681 | 0 | 0 | 681 | 4 | 6 | 691 | 14.0% |
| SUPPLY | Total | 381 | 0 | 0 | 381 | 4 | 2 | 387 | 7.8% |
| | Direkcija | 12 | 0 | 0 | 12 | 0 | 0 | 12 | 0.2% |
| | ED Bihać | 54 | 0 | 0 | 54 | 0 | 0 | 54 | 1.1% |
| | ED Mostar | 25 | 0 | 0 | 25 | 0 | 0 | 25 | 0.5% |
| | ED Sarajevo | 86 | 0 | 0 | 86 | 0 | 0 | 86 | 1.7% |
| | ED Tuzla | 92 | 0 | 0 | 92 | 2 | 1 | 95 | 1.9% |
| | ED Zenica | 112 | 0 | 0 | 112 | 2 | 1 | 115 | 2.3% |
| SALES | | 23 | 0 | 0 | 23 | 0 | 0 | 23 | 0.5% |
| TOTAL EPBIH | | 4,873 | 4 | 4 | 4,881 | 23 | 39 | 4,943 | |





ENVIRONMENTAL PROTECTION

The principle of sustainable development, the implementation of Environmental Policy, set framework and operational objectives in the context of environmental and natural resources protection were crucial for business planning and realisation of numerous activities of JP Elektroprivreda BiH in 2012. Legislation and standards in the domain of environmental protection were the basis on which the projects for modernization and rehabilitation of existing power plants and facilities, as well as development projects were based. According to the fact that Bosnia and Herzegovina has the natural potentials for electricity generation, which is the paradigm and the chance of overall civilization prosperity, planning the construction of new production and distribution facilities has been conceived in this context. Indicators of study analyses confirm that the running capital investments of JP Elektroprivreda BiH are in function of overall socio-economic development, and in the dimensions of protection and improvement of the environmental quality and living conditions of the population.

Special attention was paid to the arrangement of combustion product landfills in power plants, which in the Environmental Policy is designated as a continuous, permanent job, as well as is the proper management of harmful, hazardous waste materials, their reuse, recycling and final disposal in an environmentally sound manner. Planned waste management, and its guidance for reuse, in addition to the positive environmental effects, also generated revenues of 2,826.680 KM.

Work is continuing to evaluate the risks and the possible adverse and incidental effects of the activities on the environment. A significant dimension of care to mitigate negative impacts on the environment is manifest in the efforts to increase energy efficiency and reduce energy losses in

ENVIRONMENTAL PROTECTION

the production and distribution network. Activities on environmental protection and development, in addition to numerous regulations in Bosnia and Herzegovina, are also harmonised with the regulations and standards of the European Union.

Transparent activities, communication and understanding with government structures at all levels, the media and the general public are our characteristic in 2012 as well. In order to timely transpose the obligations, we followed international agreements, programs and legislation in the domain of sustainable development and environmental protection. By the end of 2012 Supervisory Board updated, and on 31 January 2013 released 3rd issue of the Environmental Policy of JP Elektroprivreda BiH.

ENVIRONMENTAL PROTECTION IN THE FRAMEWORK OF THE ELECTRIC POWER FACILITIES DEVELOPMENT

With the aim of contributing to sustainable development of the energy sector, especially the electric power sector and the implementation of the commitments under the Energy Community Treaty relating to transposition and compliance with the acquis of the European Union in the domain of environmental protection, as well as documents that are the obligations of Bosnia and Herzegovina under other international agreements, the representatives and the formed expert teams of JP Elektroprivreda BiH were very engaged in 2012. They participated actively and fairly protected the interests of JP Elektroprivreda BiH in the context of international meetings on the issue of sustainable development of the energy sector, and the creation and public hearings in the procedure:

- transposition of EU environmental legislation into the domicile legislation - IPPC Project for BiH,
- development of the Spatial Plan of the Federation of BiH, Cantons and the Spatial plan of areas with special properties of interest for the Federation BiH „Basin of the river Una“,
- making Strategy of low-carbon development and adaptation to climate change in Bosnia and Herzegovina,
- preparation of the Report on the state of the environment in Bosnia and Herzegovina, II National Report on Climate Change, etc.

Within the framework of reconstruction and modernization of existing power plants, environmental protection measures were a binding component. Therefore the effects are evident in this context:

Project of Revitalization of Unit 6 – 215 MW in the Thermal Power Plant „Tuzla“ achieved the following:

- increased energy efficiency of the Unit by 4.5%,



ENVIRONMENTAL PROTECTION

- reduced dust emissions $< 50\text{mg}/\text{m}^3\text{n}$,
- reduced NOx emissions $< 450\text{ mg}/\text{m}^3\text{n}$,
- replacement of asbestos-cement fill by plastic fill and installation of the drop eliminator at RT 5,
- installation of pneumatic transport of fly ash in the ash silo.

Effects of Project of Revitalization of the Unit 6 - 110 MW in Thermal Power Plant „Kakanj“ are:

- increased boiler efficiency level at $\geq 89\%$,
- installed modern burners with low Nox emission, so that NOx emissions were reduced to a maximum of $950\text{ mg}/\text{m}^3\text{n}$,
- result of fabric filters built into the housing of the existing electrostatic precipitators is to reduce emissions of particles from this block from former cca $300\text{ mg}/\text{m}^3\text{n}$ to less than $10\text{ mg}/\text{m}^3\text{n}$,
- achieved dusting of smoke combustion products also during the of liquid fuel combustion phase, which has not been the case before,
- reduced consumption of fuel oil (Unit 6 has a more stable operation, and a smaller number of start-ups)
- increased energy efficiency of the turbine and turbine plant in relation to its original designed condition, in the condensation mode, and
- reduced own energy consumption.

In addition to this mitigation of the impact of reconstruction of both Units on the environment, it is especially important to note that the reduction in specific consumption of coal proportionately reduced specific emissions of all pollutants.

In 2012, the re-certification audits were conducted of the Environmental Management System in TPP „Tuzla“ and TPP „Kakanj“. It was estimated that the environmental management systems comply with the requirements of BAS EN ISO 14001:2006, and the companies issued new certificates. In HPP on Neretva, the authorized certification body „TUV NORD“ from Croatia carried out a surveillance audit ISU EN ISO 9001:2008 and 14001:2006.

All new electro distribution facilities or substations, built in 2012, were designed with hermetically sealed oil transformers, and under each transformer in cable substations, the foundations were designed so that they facilitate the collection of the entire amount of oil in the power transformer, so that the technical design meets the standards in terms of environmental protection. Care was taken so that the mounted transformer substations are not located in water protection zone. In 2012, a significant number of new substations, distribution lines and low-voltage connections to metering points has been built and put into operation according to power approvals.

Also, the reconstruction of power plants and the expansion of the distribution network were carried out, within which the protection of the environment, population and material goods were taken into

ENVIRONMENTAL PROTECTION

account. Especially the attention was given to waste management, and cleaning and bringing into an acceptable condition of temporarily devastated land and location upon completion of works. In all distribution subsidiaries during the demolition, removal and rehabilitation of existing facilities, in accordance with the Regulations of JP Elektroprivreda BiH on environmental protection and subsidiary waste management plans, construction waste, worn out and dismantled power equipment and other waste was properly collected and temporarily deposited. From the locations where the waste was emerging during construction and reconstruction procedures, mixed waste was removed, and temporary selective disposal of recyclables and waste was performed in a designated area. Waste oil and greasy substances were collected and properly packaged, and labelled as hazardous waste. Complete waste, according to the Contract, was delivered to the licensed operator for final disposal.

Capital investments

JP EPBIH is committed to the construction of new modern power facilities which will meet the standards of integrated environmental and population health protection, and the orientation towards the use of available renewable energy sources. In 2012, numerous activities continued on the preparation of project documentation, and on the receipt of approvals and permits for the construction of new generating facilities, which includes: Unit 7 in TPP „Tuzla“, Unit 8 in TPP „Kakanj“, HPP „Vranduk“, HPP „Ustikolina“, HPP „Una Kostela“, HPP „Janjići“, HPP „Čaplje“, HPP „Kruševo“, HPP „Kovanići“, mHPP on the basin of the river Neretvica and WPP „Podveležje“.

Energy efficiency

In an effort to improve the organizational structure of the energy efficiency management, and to institutionalize the issue of energy efficiency and energy savings in all aspects of company operations, the structure of energy efficiency management was extended to all activities by the Decision on the defining of the structure and the functioning of the energy efficiency management system. Redefined Energy Efficiency Policy of the company established a structure with clear responsibilities and authorities in the energy efficiency management with four levels of authority.

The introduction of the energy efficiency management structure established solid foundations for the establishment of the Energy Management System and further enhancement of energy efficiency and energy savings in the future. Activities are aligned with the current EU strategies; EU 2020, EU Roadmap 2050 and the EU Power perspectives 2030, where energy efficiency takes the central location and is the first priority of the measures to improve the situation in the energy sector in Europe.



ENVIRONMENTAL PROTECTION

Financial aspects

Environmental Protection and fees for the use of natural resources from the financial aspect represent a significant segment of the overall business of JP Elektroprivreda BiH. The funds are planned and realised in the framework of investments and regular maintenance of plants and facilities. The implementation of these activities is an indicator of responsible attitude of the EPBiH towards the strategy and policy of environment and natural resources protection, which is best demonstrated by the Award of the Economic Press „EMERIK Top 100 in the economy for the first place in investing in environmental protection and energy efficiency in 2011 in the category of large companies“.

25TH SELECTION OF TOP 100 COMPANIES IN BOSNIA AND HERZEGOVINA

EMERIK

ECONOMY TOP 100

JP ELEKTROPRIVREDA BIH

DD SARAJEVO

1ST PLACE

in investing in environmental protection and energy efficiency
in 2011 in the category of large companies

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Economy Press





ENVIRONMENTAL POLICY

JP Elektroprivreda BiH d.d. - Sarajevo shall base its development plans and activities on the principles of sustainable development and harmonize them with provisions of strategies, regulations and standards of environmental protection. Framework aim is to become a Company that is environmentally friendly and competitive within the European milieu.

Organizational and technical measures for systematic management and improvement of environmental aspects shall be responsibly and continuously implemented. In accordance with technological and economic capabilities, preventive and corrective measures shall be carried out in order to reduce negative impacts, and to monitor their effects on the environmental quality and population.

With the aim of achieving positive business and environmental results, priorities are focusing on:

- selection of best available techniques (BAT) and technologies and environmentally acceptable materials,
- cogeneration, co-combustion and optimization of generation of electric and thermal energy,
- use of renewable energy sources and more efficient use of fossil fuels,
- increase in energy efficiency in generation, distribution and supply,
- implementation of environmental requirements within research, design and engineering framework,
- quality control of coal and other production resources, monitoring and reduction of pollutant emissions and harmful substances in the environment,
- assessment of risks and possible incidental influences on the environment, planning of preventive and intervention measures,
- adequate management of harmful, dangerous and waste materials.

Development plans and projects shall be harmonized with norms of environmental and natural resources protection, and requirements for preservation and advancement of living conditions and social aspects.

With the aim of implementation of the environmental policy and programs for environment protection, education and professional training of employees shall be conducted. A modern communication system shall be established with executive authorities, international organizations, citizen associations and all interested social subjects.

Individual and functional responsibility for continuous carrying out of environmental policy, as well as compliance by business partners, shall be ensured through business discipline and supervision.

Subsidiaries and dependent companies shall establish own environmental policies, compatible with environmental policy of the Company.

Chairman of the Supervisory Board

Enver Agić
Mr. Sci. Enver Agić, dipl. ing. el.

SUMMARY

SUMMARY



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SUMMARY

Business operations of JP Elektroprivreda BiH took place in conditions of unfavourable hydrological situation (dry period) and market recession that caused the reduction in consumption and demand for electricity in BiH and in the region.

The most important characteristics of the operations of EPBiH in 2012:

- Completed capital reconstruction of Unit 6 in TPP „Kakanj“ and started reconstruction of Unit 6 in TPP „Tuzla“;
- Intensified activities to prepare the construction of new production facilities;
- Successfully conducted pre-qualification call for project of the construction of Unit 7 in TPP „Tuzla“;
- Successful completion of the project of connecting the whole Company into a single information system (FMIS);
- Increased volume of investments in mines;
- Positive business result of 7.1 million KM;
- Extremely unfavourable hydrological conditions;
- Natural disaster caused by heavy snowfall;
- Total electricity production lower by 2.6% than planned;
- Electricity consumption lower than planned (2.9%) as a result of economic conditions, recession and reduced demand for electricity in BiH and in the region;
- Implemented program of austerity measures on all the other expenses, which mitigated the negative effect of the increase in production costs.

The main risks and uncertainties which the Company may face in the following period:

- High debt and low labour productivity in the mines of the EPBiH Concern;
- Problems in collection because of the reduced purchasing power of the population and insolvency of business entities;
- Changes in prices of other energy sources (oil and natural gas);
- Extension of deadlines for the construction of facilities (long-term provision of necessary permits and approvals for the implementation of projects, resolving property issues, procurement procedures, etc.);
- Provision of funding sources for future capital investments;
- Changes to legislation; and
- Market liberalization and increasing competition.



INDEPENDENT AUDITOR'S REPORT

PKF Re Opinion d.o.o.

PKF

Accountants &
business advisers

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 (hereinafter „ the Company”) set out on pages 4 to 37, which comprise of the unconsolidated statement of financial position as at 31 December 2012, and the unconsolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the unconsolidated 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 unconsolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair



INDEPENDENT AUDITOR'S REPORT

presentation of the unconsolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the unconsolidated financial statements.

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

Basis for qualified opinion

Company has not made an assessment of net realizable value of obsolete inventory at 31 December 2012, which represents a departure from the requirements of the International Accounting Standard 2 "Inventories". Given that most of the organizational units of the Company implemented a new information system on 1 July 2012, the Company was unable to generate an obsolete inventories report at 31 December 2012. (2011: BAM 37,133 thousand). Accordingly, we believe that the net realizable value of obsolete inventories may significantly differ from their carrying values as at 31 December 2012. We were not able to quantify the effects of the aforementioned departure that would have an impact on the stock, accumulated earnings and financial results for the year then ended.

As presented in Note 15 to the Unconsolidated Financial Statements, the most recent estimate of the fair value of property, plant and equipment was carried at 31 December 2004. From the date of the most recent assessment by the date of this report, there have been significant changes in the values of the real estate as a result of the global economic crisis. According to the requirements of the International Accounting Standard 16 "Property, Plant and Equipment" the frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Therefore, the Company was required to comply with the requirements IAS 16 and carry out a new fair value assessment. Effects of changes in fair value should be charged in favour of /or against the revaluation surplus, or expenses of the period when the effects of the impairment loss exceed the amount previously recognized as revaluation surplus. In light of this, the Company engaged a Consortium in December 2012 to assess the fair value of long-term assets as of 1 January 2013. The deadline for rendering of these services is 31 May 2013. Given that at 31 December 2012 the value of property, plant and equipment is stated in accordance with estimates carried in the previous period, we believe that their fair value at 31 December 2012 may significantly differ from the carrying value. Since the activities of the Consortium in estimating the fair value of property, plant and equipment were not completed by the date of this report, and



INDEPENDENT AUDITOR'S REPORT

we were unable to quantify the effects of departure from the requirements of the International Accounting Standard 16 "Property, plant and equipment".

The Company has not carried out an estimate of recoverable amount of its investments in subsidiaries and associates, although there was objective evidence that these financial instruments may be impaired. Value of these investments at 31 December 2012 has been stated in the amount of BAM 144,042 thousand. This represents a departure from requirements of the International Accounting Standard 36 „Impairment of Assets“ which define that an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. Having considered the aforementioned, we believe that the recoverable amount of investments in subsidiaries and associates may differ from their carrying amount at 31 December 2012.

Qualified opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



PKF RE OPINION d.o.o.

Nihad Fejzić, Director and Authorised Auditor

Sarajevo, 22 March 2013


Berna Šljokić, Authorised Auditor

