JP Elektroprivreda BiH d.d. - Sarajevo

Separate annual financial statements

31 December 2013

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

Contents

Statement of the Management board's responsibilities

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

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

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

The separate financial statements set out on pages 4 to 40 were authorised by the Management board on 30 April 2014 for issue to the Supervisory board and are signed below to signify this.

Elvedin Grabovica
General Manager

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

We have audited the accompanying separate financial statements of JP Elektroprivreda BiH d.d. - Sarajevo ("the Company"), which comprise the separate statement of financial position as at 31 December 2013, and the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

1. As disclosed in *Note 16 – Property, plant and equipment*, the fair value of property, plant and equipment was last appraised on 31 December 2004. According to International Financial Reporting Standard IAS 16, ''Property, plant and equipment'', when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. The Company is in the process of preparation of the appraisal of property, plant and equipment, however the appraisal was not completed as at the reporting date. There are indications that the carrying amount of property, plant and equipment might differ from that which would be determined using fair value at the end of the reporting period. The effects of this departure from International Financial Reporting Standards, if any, on the separate financial statements for the year ended 31 December 2013 have not been determined.

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KPMG

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

2. As disclosed in *Note 19 - Investments in subsidiaries*, the Company has investments with a carrying value of BAM 170,287 thousand. The investment in subsidiaries has been accounted for at cost. There are indications that the recoverable amount of investments in subsidiaries may be lower than its cost. International Financial Reporting Standard IAS 36 ''Impairment of Asset'' requires that, where such indications exist, management makes a formal estimate of the recoverable amounts. No such estimate has been made. The effects of this departure from International Financial Reporting Standards on the separate financial statements have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* paragraphs, the separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2013, and of its unconsolidated financial performance and its unconsolidated cash flow for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The financial statements of the Company as at and for the year ended 31 December 2012 were audited by another auditor whose report dated 22 March 2013 expressed a qualified opinion on those financial statements.

KPMG B-H d.o.o. za reviziju
Registered auditors
Zmaja od Bosne 7-7A/III
71000 Sarajevo
Bosnia and Herzegovina

30 April 2014

D.O.O. ZA REVIZIJU KPMG B-H 1 SARAJEVO

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Separate statement of comprehensive income
For the year ended 31 December

	Note	31 December 2013 BAM'000	31 December 2012 BAM'000
Revenue	*8*	**971,649**	886,627
Other operating income	*9*	**20,327**	21,048
Total operating income		**991,976**	907,675
Work performed and capitalised	*11*	**3,878**	4,390
Raw materials, consumables and cost of goods sold	*10*	**(449,745)**	(435,912)
Personnel costs	*11*	**(193,430)**	(190,320)
Depreciation and amortization	*12*	**(159,843)**	(153,079)
Other operating expenses	*13*	**(165,155)**	(138,619)
Operating income/(loss)		**27,681**	(5,865)
Finance income	*14*	**16,247**	17,860
Finance costs	*14*	**(6,884)**	(4,908)
Net finance income		**9,363**	12,952
Profit before tax		**37,044**	7,087
Income tax expense	*15*	**-**	-
Profit		**37,044**	7,087
Other comprehensive income			
Release of deferred tax liabilities	*27*	**2,503**	2,270
Total comprehensive income for the period		**39,547**	9.357

Separate statement of financial position
As at 31 December 2013

	Note	31 December 2013 BAM'000	31 December 2012 BAM'000
ASSETS			
Non–current assets			
Property, plant and equipment	*16*	**2,728,880**	2,763,021
Intangible assets	*17*	**8,578**	6,650
Prepayments for property, plant and equipment		**13**	5,866
Investment in associates	*18*	**1,950**	2,027
Investment in subsidiaries	*19*	**170,287**	142,015
Loans and receivables	*20*	**61,469**	11,558
Total non-currents assets		**2,971,177**	2,931,137
Current assets			
Loans and receivables	*20*	**118,807**	200,378
Trade and other receivables	*21*	**145,369**	146,592
Inventories	*22*	**101,453**	119,867
Cash and cash equivalents	*23*	**61,778**	13,526
Total current assets		**427,407**	480,363
Total assets		**3,398,584**	3,411,500
EQUITY AND LIABILITIES			
Equity			
Share capital	*24*	**2,155,160**	2,155,160
Contributed but unregistered capital	*24*	**81,804**	81,804
Statutory reserves		**31,032**	29,614
Revaluation reserves		**431,917**	457,836
Retained earnings		**234,814**	173,264
Total capital and reserves		**2,934,727**	2,897,678
Liabilities			
Non-current liabilities			
Loans and borrowings	*25(a)*	**139,884**	141,434
Deferred income	*26*	**102,967**	120,824
Deferred tax liabilities	*27*	**48,325**	50,828
Provisions	*28*	**47,985**	46,411
Total non-current liabilities		**339,161**	359,497
Current liabilities			
Deferred income	*26*	**8,337**	80
Loans and borrowings	*25(b)*	**13,100**	12,547
Trade and other payables	*29*	**88,845**	135,088
Provisions	*28*	**14,414**	6,610
Total current liabilities		**124,696**	154,325
Total liabilities		**463,857**	513,822
Total equity and liabilities		**3,398,584**	3,411,500

The accounting policies and other notes on pages 8 to 40 form an integral part of these financial statements.

Separate statement of changes in equity
For the year ended 31 December

	Share capital BAM'000	Contributed but unregistered capital BAM'000	Statutory reserves BAM'000	Revaluation reserves BAM'000	Retained earnings BAM'000	Total BAM'000
As at 1 January 2012	**2,155,160**	**81,804**	**29,317**	**478,265**	**144,443**	**2,888,989**
Profit for the year	-	-	-	-	7,087	7,087
Other comprehensive income						
Depreciation of revalued assets	-	-	-	(22,699)	22,699	-
Release of deferred tax liabilities	-	-	-	2,270	-	2,270
Transfers	-	-	297	-	(297)	-
Total other comprehensive income	-	-	**297**	**(20,429)**	**22,402**	**2,270**
Total comprehensive income	-	-	**297**	**(20,429)**	**29,489**	**9,357**
Transactions with owners of the Company						
Contributions and distributions						
Dividends paid	-	-	-	-	(668)	(668)
As at 31 December 2012	**2,155,160**	**81,804**	**29,614**	**457,836**	**173,264**	**2,897,678**
As at 1 January 2013	**2,155,160**	**81,804**	**29,614**	**457,836**	**173,264**	**2,897,678**
Profit for the year	-	-	-	-	37,044	37,044
Other comprehensive income						
Depreciation of revalued assets	-	-	-	(28,422)	28,422	-
Release of deferred tax liabilities	-	-	-	2,503	-	2,503
Transfers	-	-	1,418	-	(1,418)	-
Total other comprehensive income	-	-	**1,418**	**(25,919)**	**27,004**	**2,503**
Total comprehensive income	-	-	**1,418**	**(25,919)**	**27,004**	**2,503**
Transactions with owners of the Company						
Contributions and distributions						
Dividends paid	-	-	-	-	(2,498)	(2,498)
As at 31 December 2013	**2,155,160**	**81,804**	**31,032**	**431,917**	**234,814**	**2,934,727**

The accounting policies and other notes on pages 8 to 40 form an integral part of these financial statements.

Separate statement of cash flows
For the year ended 31 December

	Note	2013 BAM'000	2012 BAM'000
Cash flows from operating activities			
Net profit after tax		37,044	7,087
Adjustments for:			
Depreciation and amortisation	*12*	159,843	153,260
Interest and other financial income		(16,247)	(13,685)
Interest and other financial expenses		3,992	3,732
Write off of liabilities		(35)	-
Adjustments for surpluses and deficits in long-term assets		-	(217)
Loss on disposals of property, plant and equipment	*13*	9,082	2,818
Impairment losses of investments in subsidiaries	*13, 19*	215	-
Impairment losses of investments in associates	*13, 18*	77	-
Changes in provision, net		9,378	16,933
Impairment of inventories	*13*	13,265	569
Allowance for trade receivables		1,904	8,077
		218,518	178,574
Change in:			
- trade receivables		(224)	(11,972)
- inventories		5,149	(31,078)
- prepayments		5,853	-
- long-term liabilities		-	(1,440)
- other receivables		(457)	(5,513)
- trade payables		(37,886)	9,507
- other liabilities		(8,322)	(9,463)
- deferred income		(9,600)	(6,693)
Taxes paid		-	-
Net cash from operating activities		173,031	121,922
Investing activities			
Purchase of property, plant and equipment and intangible assets		(136,712)	(202,598)
Proceeds from the disposal of property, plant and equipment		-	16
Increase in investment in subsidiaries	*19*	(28,487)	(26,572)
Repayment of deposits and loans		31,660	44,902
Interests received		16,247	13,674
Net cash from investing activities		(117,292)	(170,578)
Financing activities			
(Decrease) / increase in borrowings		(997)	14,689
Interest paid		(3,992)	(3,687)
Dividends paid		(2,498)	(668)
Net cash from financing activities		(7,487)	10,334
Net increase/(decrease) in cash and cash equivalents		48,252	(38,322)
Cash and cash equivalents at the beginning of year		13,526	51,848
Cash and cash equivalents at the end of year	*23*	61,778	13,526

The accounting policies and other notes on pages 8 to 40 form an integral part of these financial statements.

Notes (*forming part of the financial statements*)

1 Reporting entity

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

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

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

2 Basis of preparation

(a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 30 April 2014. In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2013 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

The financial statements were approved by the Management Board on 30 April 2014.

(b) *Basis of measurement*

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss which are measured at fair value and the revaluation of land and buildings and investment property.

(c) *Functional and presentation currency*

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

(d) *Use of estimates and judgements*

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

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

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the *Note 34*.

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

3 Significant accounting policies

(a) Foreign currencies

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

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

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

(b) Financial instruments

(i) Non-derivative financial instruments

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

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

- *Loans and receivables*

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

- *Cash and cash equivalents*

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

- *Trade payables*

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

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

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

(ii) Issued capital

Repurchase of issued capital

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

2 Significant accounting policies (*continued*)

(c) *Investment in subsidiaries*

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

(d) *Investment in associate*

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

(e) *Property, plant and equipment*

(i) Recognition and measurement

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

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

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

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

(ii) Revaluation reserves

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

(iii) Subsequent expenditure

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

3 Significant accounting policies *(continued)*

(e) Property, plant and equipment (continued)

(iv) Depreciation

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

The estimated useful lives are as follows:

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

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

(f) Intangible assets

(i) Development

Development activities involve a plan or design for the production of new or substantially improved products and processes. Costs of research and development are capitalised to the extent that they meet the criteria set out in International Accounting Standard 38 *Intangible Assets*.

(ii) Software

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

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

Software and development costs	5 years

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

(g) Inventories

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

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

3 Significant accounting policies *(continued)*

(h) Impairment

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

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

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

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

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

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

(i) Calculation of recoverable amount

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

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

(ii) Reversal of impairment

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

3 Significant accounting policies (*continued*)

(h) Impairment (continued)

(ii) Reversal of impairment (continued)

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

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

(i) Provisions

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

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

(j) Loans and borrowings

(i) Interest bearing loans and borrowings

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

(ii) Non interest loans and borrowings

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

(k) Employee benefits

(i) Defined contributions pension fund

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

(ii) Retirement benefits

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

3 Significant accounting policies *(continued)*

(k) Employee benefits (continued)

(iii) Jubilee awards

The Company provides employees with jubilee awards. The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation. Jubilee award payments range from one to three average salaries paid to the employee during the preceding month net per employee for tenure from 10 to 30 years.

(iv) Bonuses

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

(l) Revenue

Goods sold and services rendered

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

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

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

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

(m) Grant income

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

3 **Significant accounting policies *(continued)***

(n) ***Finance income and costs***

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

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

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

(o) ***Income tax expense***

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

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

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

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

(p) ***Segment reporting***

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company's current operation is in the segment of electricity production and distribution (business segment) and its operations, total assets and the majority of its customers are located in Bosnia and Herzegovina. Hence, geographical segment reporting is accordingly set out in *Note 7*.

3 **Significant accounting policies (*continued*)**

(q) ***New standards and interpretations not yet adopted***

A number of new standards, amendments to standards and interpretations are effective annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. Those that might be relevant to the Company are listed below. The Company does not plan to adopt this standard early.

IFRS 9 Financial Instruments (2010), IFRS Financial Instruments (2009)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets. IFRS 9 (2010) and IFRS 9 (2009) are effective for annual periods beginning on or after 1 January 2015, with early adoption permitted. The adoption of these standards is expected to have an impact on the Company's financial assets, but no impact on the Company's financial liabilities.

4 **Changes in accounting policy**

The Company has consistently applied the accounting policies disclosed in Note 3 during all periods presented in these financial statements. The Company has adopted the following new standards and amendments to standards, including significant changes in other standards. The date of the initial application is 1 January 2013.

a. IFRS 11 *Joint Arrangements*

b. IFRS 13 *Fair Value Measurement*

c. *Presentation of items of other comprehensive income (Amendments to IAS 1)*

d. *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) (2013)*

The changes in accounting policies had no effect on the measurement of the Company's assets and liabilities.

5 **Determination of fair values**

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

(i) On call bank deposits

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

(ii) Trade and other receivables/payables

The current value of trade and other receivables/payables is estimated to be a reasonable estimation of their fair value.

(iii) Property, plant and equipment

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

6 Financial risk management

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

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Management has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company does not have a written risk management programme (the Company did not use any derivative financial instruments to actively hedge against financial risks) but management monitors operational risks, by introducing levels of authorisation and responsibility.

Credit risk

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

Trade and other receivables

The reporting entity's exposure to credit risk is influenced mainly by the individual characteristics of each customer and the industry in which customers operate. The reporting entity has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The reporting entity establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Receivables for loans given

At reporting date the reporting entity had loans receivable from subsidiaries and employees. Loans to subsidiaries bear interest at a fixed rate of 1.5% (2012: 1.5%). Loans to employees bear interest at a fixed rate ranging from 4.25% to 5.75% per annum *(2012: 4.25% to 5.75%).*

The reporting entity is exposed to loans and interest rate risks as part of its ordinary activities. The reporting entity has not used derivative instruments in order to protect itself from these risks.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet their financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company ensure that they have sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Company. The currencies in which these transactions primarily are denominated are EUR, USD, XDR, CHF and YEN. The Company does not use instruments in order to protect itself from the exposure to currency risk.

Interest rate risk

The Company are exposed to interest rate risk as certain loans are agreed at floating rates. The Company does not hedge this exposure to interest rate risk.

Notes (*continued*)

7 Segment reporting

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

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

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

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

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

Notes (*continued*)

7 Segment reporting (*continued*)

in thousand BAM	Segment 1 Production		Segment 2 Distribution and supply		Segment 3 Other activities		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Revenue	**639,957**	601,266	**229,802**	230,762	**101,890**	54,599	**971,649**	886,627
Raw materials, consumables and cost of goods sold	**(473,794)**	(452,067)	**(125,135)**	(129,316)	**(40,368)**	(38,871)	**(639,297)**	(620,254)
Segment result	**166,163**	149,199	**104,667**	101,446	**61,522**	15,728	**332,352**	266,373
Other operating income	**4,757**	4,793	**13,879**	12,389	**1,691**	3,866	**20,327**	21,048
Other operating expenses	**(68,304)**	(53,671)	**(73,461)**	(70,684)	**(23,390)**	(15,852)	**(165,155)**	(140,207)
Depreciation and amortization	**(105,672)**	(101,288)	**(47,922)**	(45,987)	**(6,249)**	(5,804)	**(159,843)**	(153,079)
Operating income/(loss)	**(3,056)**	(967)	**(2,837)**	(2,836)	**33,574**	(2,062)	**27,681**	(5,865)
Finance income	**4,605**	3,945	**3,331**	3,275	**8,311**	10,640	**16,247**	17,860
Finance costs	**(1,549)**	(2,978)	**(494)**	(439)	**(4,841)**	(1,491)	**(6,884)**	(4,908)
Net finance income	**3,056**	967	**2,837**	2,836	**3,470**	9,149	**9,363**	12,952
Profit before taxation	**-**	-	**-**	-	**37,044**	7,087	**37,044**	7,087
Income tax	**-**	-	**-**	-	**-**	-	**-**	-
Profit for period	**-**	-	**-**	-	**37,044**	7,087	**37,044**	7,087

Notes (*continued*)

7 Segment reporting (*continued*)

in thousand BAM	Segment 1 Production		Segment 2 Distribution and supply		Segment 3 Other activities		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Property, plant and equipment and intangible assets	**1,827,125**	1,890,438	**789,469**	777,956	**120,864**	101,277	**2,737,458**	2,769,671
Prepayments for property, plant and equipment, loans and other receivables	**2,209**	1,367	**69**	(29)	**59,204**	16,086	**61,482**	17,424
Investments in associate and subsidiaries	**72,125**	43,833	**-**	8	**100,112**	100,201	**172,237**	144,042
Total non current assets	**1,901,459**	1,935,638	**789,538**	777,935	**280,180**	217,564	**2,971,177**	2,931,137
Current assets	**422,622**	436,429	**300,937**	228,459	**(296,152)**	(184,525)	**427,407**	480,363
Total current assets	**422,622**	436,429	**300,937**	228,459	**(296,152)**	(184,525)	**427,407**	480,363
Total assets	**2,324,081**	2,372,067	**1,090,475**	1,006,394	**(15,972)**	33,039	**3,398,584**	3,411,500
Liabilities	**148,458**	197,410	**270,304**	186,140	**45,100**	130,272	**463,857**	513,822
Total liabilities	**148,458**	197,410	**270,304**	186,140	**45,100**	130,272	**463,857**	513,822
Net assets per segment	**2,175,623**	2,174,657	**820,171**	820,254	**(61,072)**	(97,233)	**2,934,727**	2,897,678

Notes (*continued*)

8 Revenue

	2013 BAM'000	2012 BAM'000
Sale of electric energy in domestic market	**862,196**	829,883
Sale of electric energy abroad	**82,306**	22,772
Sale of services and other revenue	**27,147**	33,972
	971,649	886,627

9 Other operating income

	2013 BAM'000	2012 BAM'000
Write off of liabilities	**35**	338
Collection of bad debts	**3,593**	2,142
Grant revenue	**8,337**	8,696
Insurance claims	**1,319**	438
Penalty income	**419**	1,037
Rental income	**1,040**	1,407
Gain on sale of raw materials	**1,720**	1,282
Release of provision for court cases	**1,313**	1,901
Actuarial gains	**-**	266
Other revenues	**2,551**	3,541
	20,327	21,048

10 Raw materials and consumables

	2013 BAM'000	2012 BAM'000
Coal consumed	**346,161**	325,426
Cost of delivery and analysis of coal	**35,020**	34,524
Cost of electricity sold	**30,723**	36,405
Materials used for maintenance	**10,201**	12,798
Cost of fuel	**8,160**	8,950
Other raw materials and consumables	**19,480**	17,809
	449,745	435,912

Notes (*continued*)

11 Personnel costs

	2013 BAM'000	2012 BAM'000
Wages and salaries	129,282	126,105
Compulsory social security contributions	60,056	59,899
Other staff costs	4,092	4,316
Total personnel costs	193,430	190,320
Own work capitalised	(3,878)	(4,390)
Personnel costs recognised in income statement	189,552	185,930

The number of employees in the Company at year end was 4,848 (2012: 4,939). Personnel costs include BAM 31,530 thousand (2012: BAM 31,447 thousand) of defined pension contributions paid into obligatory pension funds.

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

12 Depreciation and amortisation

	2013 BAM'000	2012 BAM'000
Depreciation	157,711	151,485
Amortisation	2,132	1,594
Total depreciation and amortisation	159,843	153,079

13 Other operating expenses

	2013 BAM'000	2012 BAM'000
Transport services	40,077	41,363
Maintenance	19,071	17,578
Water contributions and contributions for hydro accumulation	18,707	14,702
Memberships and other taxes	15,033	10,035
Impairment of inventories	13,265	569
Wastage of materials	10,331	9,215
Provisions for claims	9,959	3,398
Loss on disposal of fixed assets	9,082	3,290
Air pollution fees	6,577	6,915
Bad debt expenses	5,497	8,077
Insurance	4,651	4,780
External services	3,072	3,181
Telecommunication costs	2,222	1,240
Services from third parties	1,310	1,182
Dismantling provision	901	835
Rent expense	612	568
Entertainment costs	356	366
Actuarial losses	318	-
Inventory losses	302	482
Bank charges	259	253
Impairment losses of investments in subsidiaries	215	-
Impairment losses of investments in associates	77	-
Other expenses	3,261	10,590
	165,155	138,619

Notes (*continued*)

14 Net finance income

	2013 **BAM'000**	2012 BAM'000
Interest income	**7,168**	10,412
Foreign exchange gains	**5,472**	3,869
Income from penalty interest	**3,405**	3,273
Other finance income	**202**	306
Finance income	**16,247**	17,860
Interest expenses	**(3,992)**	(1,761)
Unwind of discount on retirement benefits	**(1,601)**	(1,598)
Penalty interest	**(463)**	(1,549)
Foreign exchange losses	**(828)**	-
Finance costs	**(6,884)**	(4,908)
Net finance income	**9,363**	12,952

15 Income tax expense

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

	2013 **BAM'000**	2012 BAM'000
Profit before tax	**37,044**	7,087
Profit tax at 10%	**3,704**	709
Taxable capital gains	**2,842**	2,240
Non-deductible expenses	**983**	892
Tax relief due to investment	**(7,529)**	(3,841)
Income tax expense	**-**	-
Income tax expense and effective tax rate for the year	**-**	-

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

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

Notes (*continued*)

16 Property, plant and equipment

Cost or valuation	Land BAM'000	Buildings BAM'000	Plant and equipment BAM'000	Assets in course of construction BAM'000	Total BAM'000
At 1 January 2012	**84,096**	**3,924,196**	**3,109,578**	**244,951**	**7,362,821**
Additions	-	-	-	198,747	198,747
Transfers	322	69,269	133,237	(202,828)	-
Disposals and write offs	(125)	(12,310)	(142,076)	(152)	(154,663)
Reclassification to intangible assets	-	-	(186)	-	(186)
Transfer from inventories	-	-	69	930	999
At 31 December 2012	**84,293**	**3,981,155**	**3,100,622**	**241,648**	**7,407,718**
At 1 January 2013	**84,293**	**3,981,155**	**3,100,622**	**241,648**	**7,407,718**
Additions	-	-	-	132,652	132,652
Disposals and write offs	-	(18,313)	(20,208)	(110)	(38,631)
Transfers	1,525	60,057	165,223	(226,805)	-
At 31 December 2013	**85,818**	**4,022,899**	**3,245,637**	**147,385**	**7,501,739**
Accumulated depreciation and impairment losses					
At 1 January 2012	1	**2,372,506**	**2,272,255**	-	**4,644,762**
Charge for the year	-	67,666	83,819	-	151,485
Disposals and write offs	-	(11,071)	(140,479)	-	(151,550)
At 31 December 2012	1	**2,429,101**	**2,215,595**	-	**4,644,697**
At 1 January 2013	1	**2,429,101**	**2,215,595**	-	**4,644,697**
Charge for the year	-	63,818	94,393	-	157,711
Disposals and write offs	-	(13,780)	(15,769)	-	(29,549)
At 31 December 2013	1	**2,478,639**	**2,294,219**	-	**4,772,859**
Carrying amount					
At 1 January 2012	84,095	1,551,690	837,323	244,951	2,718,059
At 31 December 2012	84,292	1,552,054	885,027	241,648	2,763,021
At 1 January 2013	**84,292**	**1,552,054**	**885,027**	**241,648**	**2,763,021**
At 31 December 2013	**85,817**	**1,544,260**	**951,418**	**147,385**	**2,728,880**

In 2004, the Company organised a new appraisal of the property, plant and equipment, which was performed by American Appraisal Hungary Co. Ltd. and Ernst & Young Advisory Ltd, who issued their report on 24 August 2005. The appraisal effective date was 31 December 2004. The fair values are based on market values, being the estimated amount for which a property, plant and equipment could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. No subsequent appraisal has been made. The Company has BAM 2,462,083 thousand of property, plant and equipment fully depreciated.

As at 31 December 2013, the assets in course of construction relate to buildings (BAM 65,278 thousand), equipment (BAM 49,107 thousand), land (BAM 4,107 thousand) and other assets in course of construction (BAM 28,893 thousand).

During 2013, the Company impaired assets in the amount of BAM 9,082 thousand (2012: BAM 3,290 thousand).

During 2013, the Company capitalized interest on borrowings in the amount of BAM 1,233 thousand (2012: BAM 2,016 thousand).

17 Intangible assets

	Software BAM'000	Development costs BAM'000	Assets in course of construction BAM'000	Total BAM'000
Cost				
At 1 January 2012	**2,425**	**6,106**	**10**	**8,541**
Additions	-	-	4,196	4,196
Reclassification within intangible assets	(434)	434	-	-
Reclassification from property, plant and equipment	-	186	-	186
Transfers	252	3,947	(4,199)	-
At 31 December 2012	**2,243**	**10,673**	**7**	**12,923**
At 1 January 2013	**2,243**	**10,673**	**7**	**12,923**
Additions	-	-	4,060	4,060
Disposal and write off	-	(813)	-	(813)
Transfers	1,173	2,874	(4,047)	-
At 31 December 2013	**3,416**	**12,734**	**20**	**16,170**
Accumulated amortisation and impairment losses				
At 1 January 2012	**1,427**	**3,222**	-	**4,649**
Charge for the year	212	1,382	-	1,594
Reclassification	(217)	247	-	30
At 31 December 2012	**1,422**	**4,851**	-	**6,273**
At 1 January 2013	**1,422**	**4,851**	-	**6,273**
Charge for the year	267	1,865	-	2,132
Disposal and write off	-	(813)	-	(813)
At 31 December 2013	**1,689**	**5,903**	-	**7,592**
Carrying amount				
At 1 January 2012	998	2,884	10	3,892
At 31 December 2012	821	5,822	7	6,650
At 1 January 2013	**821**	**5,822**	**7**	**6,650**
At 31 December 2013	**1,727**	**6,831**	**20**	**8,578**

18 Investment in associate

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

Associate	Reporting date	Business activity	Ownership	31 December 2013 BAM'000	31 December 2012 BAM'000
ETI d.o.o. Sarajevo	31 December 2013	Production of fuses	49%	**1,950**	2,027

During 2013, the Company recognised an impairment of the investment in the associate in the amount of BAM 77 thousand.

19 Investment in subsidiaries

Subsidiary	Business activity	Ownership	31 December 2013 BAM'000	31 December 2012 BAM'000
Rudnici Kreka d.o.o.	Coal mine extraction	100%	**67,658**	62.553
RMU Kakanj d.o.o.	Coal mine extraction	100%	**41,337**	30.038
RMU Zenica d.o.o.	Coal mine extraction	100%	**19,186**	14.369
RMU Breza d.o.o. Breza	Coal mine extraction	100%	**17,334**	13.149
RMU Đurđevik d.o.o.	Coal mine extraction	100%	**9,285**	7.797
RU Gračanica d.o.o. Gornji Vakuf	Coal mine extraction	100%	**5,137**	5.085
RMU Abid Lolić d.o.o.	Coal mine extraction	100%	**3,785**	2.261
Investment in coal mines			**163,722**	135,252
Iskraemeco d.o.o.	Production of electro equipment and communication	57.5%	**3,193**	3.286
Hotel Makarska	Hotel services	100%	**2,048**	2.048
Eldis Tehnika d.o.o.	Energy management and supplies	100%	**1,324**	1.429
Investment in other subsidiaries			**6,565**	6,763
Total investment in subsidiaries			**170,287**	142,015

During 2013, the Company made additional investments in the coal mines in the total amount of BAM 28,487 thousand.

During 2013, the Company recognized an impairment of investments in RMU Breza d.o.o. Breza in the amount of BAM 17 thousand, Eldis Tehnika d.o.o. in the amount of BAM 105 thousand and Iskraemeco d.o.o in the amount of 93 thousand.

Notes (*continued*)

20 Loans and receivables

	31 December 2013 BAM'000	31 December 2012 BAM'000
Long term		
Term deposits	46,811	194
Loans to subsidiaries and employees	14,658	11,364
	61,469	11,558
Short term		
Term deposits	114,438	195,709
Non-current portion of loans subsidiaries and employees	4,369	4,669
	118,807	200,378

Term deposits relate to short term placements with banks that bear interest between 2.50% and 5.10% per annum.

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

Loans to subsidiaries include loans to RMU Kakanj in the amount of BAM 3,906 thousand (2012: BAM 8,705 thousand), RMU Zenica in the amount of BAM 144 thousand (2012: BAM 807 thousand), RMU Kreka in the amount of BAM 2.008 thousand (2012: BAM 955 thousand), and RMU Đurđevik in the amount of BAM 904 thousand (2012: BAM 616 thousand) all with an interest rate of 1.5% p.a.

21 Trade and other receivables

	31 December 2013 BAM'000	31 December 2012 BAM'000
Trade receivables – related parties	8,243	3,195
Trade receivables – third parties	143,291	148,115
Trade receivables – impairment	(47,761)	(45,857)
Trade receivables – net	103,773	105,453
Prepaid expenses	20,623	17,120
VAT receivable	8,274	9,408
Accrued revenue	5,897	6,254
Claims for subsidies	4,569	2,856
Other receivables	2,233	2,411
Claims for renewable energy	-	3,090
	145,369	146,592

22 Inventories

	31 December 2013 BAM'000	31 December 2012 BAM'000
Raw materials	**84,903**	104,676
Spare parts	**16,501**	15,174
Merchandise	**49**	17
	101,453	119,867

In 2013, the impairment of inventories to their net realizable value was BAM 13,265 thousand (2012: BAM 569 thousand).

23 Cash and cash equivalents

	31 December 2013 BAM'000	31 December 2012 BAM'000
Bank balances in BAM	**39,046**	10,195
Bank balances in foreign currencies	**22,396**	2,924
Petty cash	**336**	407
	61,778	13,526

24 Share capital

	31 December 2013 BAM'000	31 December 2012 BAM'000
Share capital	**2,155,160**	2,155,160

The authorised and issued share capital comprises 30,354,369 ordinary shares (2012: 30,354,369). The par value of each share is BAM 71 (2010: BAM 71).

(i) Contributed but unregistered capital

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

25 Loans and borrowings

		31 December 2013 BAM '000	31 December 2012 BAM '000
(a)	***Non-current loans and borrowings***		
	Loans from banks	**139,884**	141,434
(b)	***Current loans and borrowings***		
	Loans from banks	**13,100**	12,547
(c)	***Total loans and borrowings***	**152,984**	153,981

(d) ***Interest rates and terms of repayment for the Company at 31 December 2013 are as follows:***

Loans and borrowings	Interest rate	Total BAM'000	1 year or less BAM'000	1-2 years BAM'000	3-5 years BAM'000	More than 5 years BAM'000
Loans from banks						
Variable interest rate instruments						
BAM 71,654,971	6m EURIBOR+1%	**33,158**	7,592	7,592	16,688	1,286
BAM 25,945,102	6m EURIBOR+0.75%	**20,436**	1,635	1,635	4,904	12,262
BAM 78,967,468	0.75%	**35,044**	3,873	3,796	5,536	21,839
Other loans						
BAM 64,345,807	cca 4%	**64,346**	-	-	3,166	61,180
Total loans and borrowings		**152,984**	13,100	13,023	30,294	96,567

26 Deferred income

	31 December 2013 BAM'000	31 December 2012 BAM'000
Long term		
Deferred income for granted assets	**102,008**	119,826
Deferred income for granted inventories	**709**	748
Deferred income for granted cash	**250**	250
	102,967	120,824
Short term		
Other deferred income	**8,337**	80
	-	80
Total deferred income	**111,304**	120,904

27 Deferred tax liabilities

Movement in temporary difference during the year is as follows:

In thousand BAM	Balance 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2012	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2013
Property, plant and equipment	**53,098**	-	(2,270)	**50,828**	-	(2,503)	**48,325**

28 Provisions

	Law suits BAM'000	Dismantling provision BAM'000	Retirement benefits and jubilee awards BAM'000	Total BAM'000
Balance at 1 January 2013	**6,610**	**11,270**	**35.141**	**53.021**
Provision made during the year	9,959	901	3.611	14.471
Provision reversed during the year	(1,313)	-	-	(1.313)
Provision used during the period	(842)	-	(2.938)	(3.780)
Balance at 31 December 2013	**14,414**	**12,171**	**35.814**	**62.399**

	2013 BAM'000	2012 BAM'000
Current portion of provisions	**14,414**	6,610
Non-current portion of provision	**47,985**	46,411
	62,399	53,021

Law suits

The Company recorded a provision for court cases in the amount of BAM 14,414 thousand. See *note 31* for further details.

Dismantling provision

A provision of BAM 901 thousand was made during 2013 in respect of the Company obligation for dismantling and removing the items of thermo plants in Kakanj and Tuzla. The Company has assumed that the site will be restored and the items will be removed and dismantled using technology and materials that are available currently. The estimated dismantling costs are revised at each reporting date. The provision has been calculated using a discount rate of 8%.

28 Provisions *(continued)*

Retirement benefits

A provision for retirement benefit of BAM 35,814 thousand is calculated as follows:

	2013. **BAM'000**	2012. BAM'000
Balance at 1 January 2012	**35,141**	35,087
Interest expenses	**1,601**	1,598
Current service costs	**1,692**	1,587
Actuarial losses/(gains)	**318**	(266)
Retirement benefits paid	**(2,938)**	(2,865)
	35,814	35,141

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

	31 December 2013	31 December 2012
Discount rate	**5%**	5%
Expected salary increase	**2%**	2%

The employees are entitled to a retirement at the age of 65 or after 40 years of service. The actuarial appraisal for the year 2013 used the following assumptions regarding the worker fluctuations:

Up to 30 years	**31-40 years**	**41-50 years**	**51-60 years**	**61 years and more**
0.04%	0.05%	0.05%	0.14%	0.06%

29 Trade and other payables

	31 December 2013 BAM'000	31 December 2012 BAM'000
Trade payables – related parties	**15,508**	27,207
Trade payables – third parties	**23,343**	49,565
Accrued expenses	**17,672**	30,982
Liabilities for dividends	**2,610**	915
Prepayment from suppliers	**12,250**	9,778
Liabilities for air pollution fees	**10,211**	6,915
Liabilities for renewable energy fees	**276**	6,273
Liabilities for hydro-accumulation	**990**	1,064
Other short term liabilities	**5,985**	2,389
	88,845	135,088

30 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

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

Credit risk

Exposure to credit risk

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

	Note	**31 December 2013 BAM'000**	31 December 2012 BAM'000
Loans and receivables	*20,21*	**325,645**	358,528
Cash and cash equivalents	*23*	**61,778**	13,526
		387,423	372,054

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

	2013 BAM'000	31 December 2012 BAM'000
Domestic	**94,900**	104,843
Foreign	**8,873**	700
	103,773	105,543

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

	2013 BAM'000	31 December 2012 BAM'000
Wholesale customers	**84,143**	85,546
Retail customers	**19,630**	19,997
	103,773	105,543

30 Financial risk management *(continued)*

Impairment losses

The ageing of trade receivables at the reporting date was:

	2013 BAM'000	2012 BAM'000
Past due to 90 days	96,258	98,696
Past due 91 – 180 days	2,940	3,165
Past due 181 – 365 days	3,890	3,202
Past due over 365 days	685	390
	103,773	105,453

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

BAM'000	
At 1 January 2013	**45,857**
Impairment loss recognised *(Note 13)*	5,497
Reversal of impairment *(Note 9)*	(3,593)
At 31 December 2013	**47,761**

Impairment losses

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

Liquidity risk

The following are the contractual maturities of financial liabilities:

31 December 2013	Carrying amount BAM'000	Contractual Cash flows BAM'000	6 months or less BAM'000	6-12 months BAM'000	1-2 years BAM'000	2-5 Years BAM'000	More than 5 years BAM'000
Non-derivative financial liabilities							
Trade and other payables	88,845	(88,845)	(88,845)	-	-	-	-
Interest bearing loans	152,984	(169,999)	(8,320)	(8,242)	(16,174)	(38,201)	(99,062)

31 December 2012	Carrying amount BAM'000	Contractual Cash flows BAM'000	6 months or less BAM'000	6-12 months BAM'000	1-2 years BAM'000	2-5 Years BAM'000	More than 5 years BAM'000
Non-derivative financial liabilities							
Trade and other payables	135,088	(135,088)	(135,088)	-	-	-	-
Interest bearing loans	153,981	(174,530)	(7,642)	(7,613)	(15,255)	(36,258)	(107,762)

30 Financial risk management *(continued)*

Currency risk

Exposure to currency risk

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

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

In thousand BAM			**2013**		
	EUR	**USD**	**XDR**	**YEN**	**CHF**
Loans and other receivables	**161,428**	-	-	-	-
Trade payables and interest bearing loans and borrowings	**(99,103)**	**(638)**	**(41,669)**	**(13,173)**	-
Gross balance sheet exposure	**62,325**	**(638)**	**(41,669)**	**(13,173)**	-

In thousand BAM			2012		
	EUR	USD	XDR	YEN	CHF
Loans and other receivables	198,318	-	-	-	-
Trade payables and interest bearing loans and borrowings	(109,435)	(914)	(46,779)	(16,292)	(1,430)
Gross balance sheet exposure	181,810	(3,428)	(40,291)	(17,677)	(1,403)

	Average rate		**Reporting date spot rate**	
	2013	2012	**2013**	2012
EUR	**1.95583**	1.95583	**1.95583**	1.95583
USD	**1.46694**	1.51568	**1.41902**	1.48360
XDR	**2.23446**	2.32619	**2.18775**	2.27264
YEN	**0.01496**	0.01896	**0.01349**	0.01723
CHF	**1.58881**	1.62397	**1.59542**	1.61907

30 Financial instruments *(continued)*

Sensitivity analysis

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

In thousand BAM	**Strengthening**	**Weakening**
31 December 2013		
USD	**(6)**	**6**
XDR	**(417)**	**417**
YEN	**(132)**	**132**
CHF	**-**	**-**

In thousand BAM	**Strengthening**	**Weakening**
31 December 2012		
USD	(9)	9
XDR	(468)	468
YEN	(163)	163
CHF	(14)	14

Interest rate risk

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

	Carrying amount	
	2013	2012
	BAM'000	BAM'000
Fixed rate instruments		
Financial assets	**180,276**	211,936
Financial liabilities	**(34,299)**	(70,809)
	145,977	141,127

30 Financial instruments *(continued)*

Interest rate risk (continued)

	Carrying amount 2013 BAM'000	2012 BAM'000
Variable rate instruments		
Financial assets	-	-
Financial liabilities	**(118,685)**	(83,172)
	(118,685)	(83,172)

Sensitivity analysis for variable rate instruments

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

BAM'000	Profit or loss		Equity	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
31 December 2013				
Cash flow sensitivity analysis	**(391)**	**391**	**(391)**	**391**
31 December 2012				
Cash flow sensitivity analysis	(574)	574	(574)	574

Fair values

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

31 Contingent liabilities

Court cases

As of 31 December 2013, court proceedings were initiated against the Company in the total amount of BAM 26,177 thousand (2012: BAM 32,484 thousand). As of 31 December 2013, the Company has created a provision for law suits of BAM 9,959 (2012: BAM 3,398 thousand). For the remainder of the court proceedings, which are not provided for, either, based on the first instance verdict, are settled in the favour of the Company or the Management is of the opinion that they are without merit and therefore management believes that current provision for law suits is sufficient.

32 Environmental matters

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

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

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

33 Related party transactions

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

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

Receivables	**31 December 2013 BAM 000**	31 December 2012 BAM 000
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	**591**	522
Elektroprenos BiH a.d. Banja Luka	**10**	11
	601	533

Liabilities	**31 December 2013 BAM 000**	31 December 2012 BAM 000
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	**265**	112

Revenue	**2013 BAM 000**	2012 BAM 000
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	**6,293**	6,115
Elektroprenos BiH a.d. Banja Luka	**158**	184
	6,451	6,299

Expenses	**2013 BAM 000**	2012 BAM 000
Željeznice Federacije Bosne i Hercegovine d.o.o. Sarajevo	**18,954**	23,493
Elektroprenos BiH a.d. Banja Luka	**46,697**	51,852
	65,651	75,345

33 Related party transactions *(continued)*

(b) Related parties – Coal mines

The Company and the domestic mine companies are related parties based on the majority state ownership structure. The Company has acquired a 100% stake in coal mines as disclosed in Note 18 *Investment in subsidiaries*, therefore transactions from the sale of electricity power, coal purchases and advances provided are disclosed as related party transactions. Sales and purchases are made at fair exchange amount, being the amount agreed between the related parties. Balances with related parties are as follows:

Assets

Trade receivables and advances given

	31 December 2013 BAM'000	31 December 2012 BAM'000
RMU Kakanj d.o.o.	162	160
RMU Zenica d.o.o.	5,270	2,835
RMU Breza d.o.o. Breza	131	138
RU Gračanica d.o.o. Gornji Vakuf	85	42
RMU Abid Lolić d.o.o.	1,670	543
Rudnici Kreka d.o.o.	14,117	9,667
RMU Đurđevik d.o.o.	3,481	2,178
Iskraemeco d.o.o.	3	713
Eldis Tehnika d.o.o.	470	-
Hotel Makarska	-	9
	25,389	16,285

Loan receivables

RMU Kakanj d.o.o.	5,780	8,705
RMU Zenica d.o.o.	142	807
RMU Đurđevik d.o.o.	1,073	616
RMU Kakanj d.o.o.	5,780	8,705
	9,253	11,083

Liabilities

Trade payables and other liabilities

	31 December 2013 BAM'000	31 December 2012 BAM'000
Rudnici Kreka d.o.o.	6,136	13,129
RMU Zenica d.o.o.	301	1,752
RMU Kakanj d.o.o.	1,242	4,792
RMU Đurđevik d.o.o.	2,450	1,524
RU Gračanica d.o.o. Gornji Vakuf	2,380	1,033
RMU Abid Lolić d.o.o.	157	719
RMU Breza d.o.o. Breza	179	4,452
Iskraemeco d.o.o.	2,464	1,279
Eldis Tehnika d.o.o.	199	1,207
	15,508	29,887

33 Related party transactions *(continued)*

(b) Related parties – Coal Mines (continued)

Sales revenue

	2013 BAM'000	2012 BAM'000
Rudnici Kreka d.o.o.	**8,975**	8,650
RMU Zenica d.o.o.	**2,564**	2,213
RMU Đurđevik d.o.o.	**2,380**	2,088
RMU Kakanj d.o.o.	**1,621**	1,702
RMU Breza d.o.o. Breza	**1,514**	1,463
RMU Abid Lolić d.o.o.	**591**	332
RU Gračanica d.o.o. Gornji Vakuf	**457**	414
	18,102	16,862

Expenses

	2013 BAM'000	2012 BAM'000
Rudnici Kreka d.o.o	**92,173**	108,535
RMU Kakanj d.o.o.	**66,711**	69,397
RMU Breza d.o.o. Breza	**37,116**	38,051
RMU Đurđevik d.o.o.	**31,505**	33,306
RMU Zenica d.o.o.	**12,233**	12,323
RU Gračanica d.o.o. Gornji Vakuf	**11,735**	11,362
RMU Abid Lolić d.o.o.	**11,578**	8,731
	263,051	281,705

(c) Related parties – associates

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

	2013 BAM'000	2012 BAM'000
Accounts receivables	**1**	1
Accounts payables	**182**	20
Sales revenue	**15**	16
Purchases	**238**	686

(d) Related parties – management remunerations

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

	2013 BAM'000	2012 BAM'000
Management Board remuneration	**642**	623
Supervisory Board remuneration	**118**	135
	760	758

34 Critical accounting estimates and judgements

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

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

Impairment of investment in subsidiaries and associates

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

Impairment of property, plant and equipment

In 2013 the Company recognised an impairment loss of BAM 9,082 thousand as management believed there were indications of asset impairment on the basis that value in use was lower than carrying value.

Impairment of receivables

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

Income tax

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

Provisions for contingencies

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

35 Ownership structure

The ownership structure of the Company is as follows:

	31 December 2013		31 December 2012	
	Number of shares	**Ownership**	Number of shares	Ownership
Federation of Bosnia and Herzegovina	**27,318,932**	**90%**	27,318,932	90%
Various shareholders	**3,035,437**	**10%**	3,035,437	10%
	30,354,369	**100%**	30,354,369	100%