

JP Elektroprivreda BiH d.d. - Sarajevo

**Unconsolidated annual
financial statements**

31 December 2011

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Management Board's Report

The Management Board submits its report together with the audited unconsolidated financial statements for the year ended 31 December 2011.

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

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

Results

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

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

Enver Agić	President from 9 March 2011
Selvedin Subašić	Member from 26 August 2011
Jakub Dinarević	Member from 16 May 2011
Sanel Buljubašić	Member from 16 May 2011
Bahrudin Šarić	Member from 16 May 2011
Davorin Korać	Member from 26 August 2011
Fejsal Hrustanović	Member from 26 August 2011
Fikreta Bešović	Member from 9 March 2011 up to 16 May 2011
Adil Trgo	President up to 9 March 2011 and member up to 16 May 2011
Zehrudin Sikira	Member up to 16 May 2011
Elvir Čizmić	Member up to 16 May 2011
Zoran Mandlbaum	Member up to 16 May 2011
Enes Čengić	Member up to 26 August 2011
Kemal Sikirić	Member from 16 May 2011 up to 26 August 2011

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

Elvedin Grabovica	General Manager from 24 May 2011
Amer Jerlagić	General Manager up to 23 May 2011
Edin Mujagić	Chief Executive for economic affairs from 13 June 2011
Muhamed Ražanica	Chief Executive for economic affairs up to 12 June 2011
Senad Sarajlić	Chief Executive for production from 13 June 2011
Nihad Kadić	Chief Executive for production up to 12 June 2011
Admir Andelija	Chief Executive for distribution from 13 June 2011
Mustafa Beća	Chief Executive for distribution up to 12 June 2011
Mirsad Šabanović	Chief Executive for supply and trade from 15 June 2011
Emir Aganović	Chief Executive for supply and trade up to 14 June 2011
Mensura Zuka	Chief Executive for legal, human resources and general affairs from 20 June 2011
Nedim Smailagić	Chief Executive for legal, human resources and general affairs up to 19 June 2011
Amil Kamenica	Chief Executive for capital investments from 13 June 2011
Almedin Skopljak	Chief Executive for capital investments up to 12 June 2011

Elvedin Grabovica
General Manager



30 April 2012
Vilsonovo Setaliste
71000 Sarajevo
Bosnia and Herzegovina

Statement of Management Board's responsibilities

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

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

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

The unconsolidated financial statements set out on pages 5 to 44 were authorised by the Management Board on 30 April 2012 for issue to the Supervisory Board and are signed below to signify this.

Elvedin Grabovica
General Manager



30 April 2012

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 2011, 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 financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Owing to the nature of the Company's records the Company was not able to prepare an ageing analysis of trade receivables, and as a result, we were unable to satisfy ourselves as to the valuation of trade and other receivables by other procedures. Accordingly, we were not able to determine whether any adjustments might be necessary to the amounts shown in the financial statements for trade and other receivables, and retained earnings at the year end, or on the result for the year. This was one of the matters which formed the basis for qualifying our opinion on last year's separate financial statements.
2. Inventories includes slow moving inventories older than one year of BAM 37,133 thousand (2010: BAM 45,079 thousand). The Company has not assessed the net realisable value of inventories as required under International Financial Reporting Standard IAS 2: *Inventories*. Accordingly, we were not able to determine whether any adjustments might be necessary to the amounts shown in the financial statements for inventories and retained earnings at the year end, or on the result for the year. This was one of the matters which formed the basis for qualifying our opinion on last year's separate financial statements.

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

Independent Auditors' Report (*continued*)

to the shareholders of JP Elektroprivreda BiH d.d. – Sarajevo

3. As disclosed in Note 18 - *Investments in subsidiaries* to the financial statements, the Company has investments with a carrying value of BAM 115,443 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 Assets* 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 2011, and of its unconsolidated financial performance and its unconsolidated cash flow for the year then ended in accordance with International Financial Reporting Standards.

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

Registered auditors

Zmaja od Bosne 7-7A/III

71000 Sarajevo

Bosnia and Herzegovina

30 April 2012



Unconsolidated statement of comprehensive income

For the year ended 31 December

		2011	Restated*
	<i>Note</i>	BAM'000	2010 BAM'000
Revenue	3(1),8	912,194	842,353
Other operating income	9	24,124	15,496
		<hr/>	<hr/>
Total operating income		936,318	857,849
Work performed and capitalised	10	5,700	3,606
Raw materials and consumables		(468,969)	(408,070)
Personnel costs	10	(195,069)	(197,266)
Depreciation and amortization	11	(150,414)	(147,324)
Other operating expenses	12	(133,595)	(143,376)
		<hr/>	<hr/>
Operating loss		(6,029)	(34,581)
Finance income	13	19,036	24,241
Finance costs	13	(11,523)	(12,026)
		<hr/>	<hr/>
Net finance income		7,513	12,215
		<hr/>	<hr/>
Profit/(Loss) before taxation		1,484	(22,366)
Income tax expense	14	-	-
		<hr/>	<hr/>
Profit /(Loss) for the period		1,484	(22,366)
		<hr/> <hr/>	<hr/> <hr/>
Other comprehensive income			
Release of deferred tax liability	26	1,971	2,244
		<hr/>	<hr/>
Total comprehensive income for the period		3,455	(20,122)
		<hr/> <hr/>	<hr/> <hr/>

*Refer to Note 6

Unconsolidated statement of financial position

As at

	<i>Note</i>	31 December 2011 BAM'000	Restated* 31 December 2010 BAM'000	Restated* 1 January 2010 BAM'000
ASSETS				
Non-current assets				
Property, plant and equipment	15	2,718,010	2,652,219	2,638,271
Prepayments for property, plant and equipment		4,416	7,353	5,874
Intangible assets	16	3,892	2,366	1,943
Investment in associate	17	2,027	2,027	2,027
Investment in subsidiaries	18	115,443	92,875	87,810
Loans and receivables	19	19,374	29,208	8,596
Total non-currents assets		2,863,162	2,786,048	2,744,521
Current assets				
Loans and receivables	19	240,666	234,810	292,632
Trade and other receivables	20	139,884	166,858	125,700
Income tax receivable		-	1,843	1,993
Inventories	21	91,343	108,873	115,577
Cash and cash equivalents	22	51,848	57,344	118,337
Total current assets		523,741	569,728	654,239
Total assets		3,386,903	3,355,776	3,398,760
EQUITY AND LIABILITIES				
Equity				
Share capital	23	2,155,160	2,155,160	2,155,160
Contributed but unregistered capital	23	81,804	81,804	81,804
Statutory reserves		29,317	29,317	16,936
Revaluation reserves		478,265	496,010	516,210
Retained earnings		144,443	123,243	160,133
Total capital and reserves		2,888,989	2,885,534	2,930,243
Liabilities				
Non-current liabilities				
Loans and borrowings	24 (a)	125,890	108,712	81,230
Deferred income	25	125,154	129,814	130,039
Deferred tax liability	26	53,098	55,071	57,315
Other liabilities	27	6,127	2,453	4,660
Provisions	28	45,522	44,110	44,116
Total non-current liabilities		355,791	340,160	317,360
Current liabilities				
Loans and borrowings	24 (b)	14,060	13,760	12,900
Trade and other payables	29	109,994	95,940	110,581
Provisions	28	18,069	20,382	27,676
Total current liabilities		142,123	130,082	151,157
Total liabilities		497,914	470,242	468,517
Total equity and liabilities		3,386,903	3,355,776	3,398,760

*Refer to Note 6

Unconsolidated statement of changes in equity

For the year ended 31 December 2010

	Share capital BAM'000	Contributed but unregistered capital BAM'000	Statutory reserves BAM'000	Revaluation reserve BAM'000	Retained earnings BAM'000	Total BAM'000
As at 1 January 2010 (as previously reported)	2,155,160	81,804	16,936	516,210	180,008	2,950,118
Prior year adjustment (Note 6)	-	-	-	-	(19,875)	(19,875)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 1 January 2010 (restated)	2,155,160	81,804	16,936	516,210	160,133	2,930,243
Loss for the period (restated) (Note 6)	-	-	-	-	(22,366)	(22,366)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Other comprehensive income						
Depreciation of revalued assets	-	-	-	(22,444)	22,444	-
Transfer to statutory reserves	-	-	12,381	-	(12,381)	-
Release of deferred tax liability	-	-	-	2,244	-	2,244
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total other comprehensive income	-	-	12,381	(20,200)	10,063	2,244
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income	-	-	12,381	(20,200)	(12,303)	(20,122)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Dividends paid	-	-	-	-	(24,587)	(24,587)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2010 (restated)	2,155,160	81,804	29,317	496,010	123,243	2,885,534
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Unconsolidated statement of changes in equity (*continued*)

For the year ended 31 December 2011

	Share capital BAM'000	Contributed but unregistered capital BAM'000	Statutory reserves BAM'000	Revaluation reserve BAM'000	Retained earnings BAM'000	Total BAM'000
As at 1 January 2011	2,155,160	81,804	29,317	496,010	123,243	2,885,534
Profit for the period					1,484	1,484
Other comprehensive income						
Depreciation of revalued assets	-	-	-	(19,716)	19,716	-
Release of deferred tax liability	-	-	-	1,971	-	1,971
Total other comprehensive income	-	-	-	(17,745)	19,716	1,971
Total comprehensive income	-	-	-	(17,745)	21,200	3,455
As at 31 December 2011	2,155,160	81,804	29,317	478,265	144,443	2,888,989

Unconsolidated statement of cash flows

For the year ended 31 December

	<i>Note</i>	2011 BAM'000	Restated 2010 BAM'000
Cash flows from operating activities			
Net (loss)/profit after tax		1,484	(22,366)
Adjustments for			
Depreciation and amortisation		150,414	147,324
Interest and other financial income		(19,036)	(24,241)
Interest and other financial expenses		11,523	12,026
Write off of liabilities		(965)	498
Loss on disposals of fixed assets		522	10,963
Gain on disposal of raw materials		(907)	(1,041)
Write off of inventories		2,413	(58)
Net bad debt expenses		1,953	2,034
Released deferred income		(7,515)	(7,467)
		<hr/>	<hr/>
		139,886	117,672
Change in:			
- trade and other receivables		25,021	(43,042)
- inventories		16,024	7,745
- prepayments for fixed assets		2,937	(1,479)
- income tax receivable		1,843	-
- long term receivables		-	(20,612)
- trade and other payables		37,959	(15,139)
- long term liabilities		(20,169)	(9,449)
- deferred income		2,855	7,242
		<hr/>	<hr/>
Income tax paid		-	-
		<hr/>	<hr/>
Net cash from operating activities		206,356	42,938
		<hr/>	<hr/>
Investing activities			
Purchase of property, plant and equipment and intangible assets		(266,855)	(177,759)
Proceeds from the disposal of property, plant and equipment		48,602	5,101
Investment in subsidiaries	18	(22,568)	(5,065)
		<hr/>	<hr/>
Net cash from investing activities		(240,821)	(177,723)
		<hr/>	<hr/>
Financing activities			
Placement with banks		3,978	57,822
Repaid loans		17,478	28,342
Interest paid		(11,523)	(12,026)
Interest received		19,036	24,241
Dividends paid		-	(24,587)
		<hr/>	<hr/>
Net cash from financing activities		28,969	73,792
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		(5,496)	(60,993)
Cash and cash equivalents at beginning of year		57,344	118,337
		<hr/>	<hr/>
Cash and cash equivalents at end of year	22	51,848	57,344
		<hr/> <hr/>	<hr/> <hr/>

Notes (forming part of the financial statements)

1 Reporting entity

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

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

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

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 30 April 2012. 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 2011 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 2012.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Investment in associate

Associates are those entities in which the Company has significant influence, but not control. Significant influence is presumed to exist when the Company has influence over the financial and operating policies of the associate, but does not have control or joint control on chosen policies. 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.

Notes (*continued*)

JP Elektroprivreda BiH d.d. - Sarajevo
Unconsolidated annual financial statements
31 December 2011

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	5 years
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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.

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.

Notes (*continued*)

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3 Significant accounting policies (*continued*)

(i) Provisions

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

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

(j) Loans and borrowings

(i) Interest bearing loans and borrowings

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

(ii) Non interest loans and borrowings

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

(k) Employee benefits

(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.

(iii) Bonuses

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

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

(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.

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

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these financial statements. None of these is expected to have significant effect on the financial statements of the Company, except for IFRS 9 Financial Instruments, which becomes mandatory for the Company's 2013 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

4 Determination of fair values

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

(i) On call bank deposits

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

(ii) Trade and other receivables/payables

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

(iii) Property, plant and equipment

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

5 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.

5 Financial risk management (*continued*)**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% (2010: 1.5%). Loans to employees bear interest at a fixed rate ranging from 4.25% to 5.75% per annum (2010: 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, XDR and YEN.

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)

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6 Adjustment of previous period errors

Balance sheet as at 31 December 2010

	As reported 31 December 2010 BAM '000	Adjustments BAM '000	Restated 31 December 2010 BAM '000	As reported 1 January 2010 BAM '000	Adjustments BAM '000	Restated 1 January 2010 BAM '000
ASSETS						
Non-current assets						
Property, plant and equipment <i>a</i>	2,654,763	(2,544)	2,652,219	2,632,891	5,380	2,638,271
Prepayments for property plant and equipment	7,353	-	7,353	5,874	-	5,874
Intangible assets	2,366	-	2,366	1,943	-	1,943
Investment in associate	2,027	-	2,027	2,027	-	2,027
Investment in subsidiaries	92,875	-	92,875	87,810	-	87,810
Loans and receivables	29,208	-	29,208	8,596	-	8,596
Total non-currents assets	2,788,592	(2,544)	2,786,048	2,739,141	5,380	2,744,521
Current assets						
Loans and receivables	234,810	-	234,810	292,632	-	292,632
Trade and other receivables	166,858	-	166,858	125,700	-	125,700
Prepaid income tax	1,843	-	1,843	1,993	-	1,993
Inventories	108,873	-	108,873	115,577	-	115,577
Cash and cash equivalents	57,344	-	57,344	118,337	-	118,337
Total current assets	569,728	-	569,728	654,239	-	654,239
Total assets	3,358,320	(2,544)	3,355,776	3,393,380	5,380	3,398,760
EQUITY AND LIABILITIES						
Equity						
Share capital	2,155,160	-	2,155,160	2,155,160	-	2,155,160
Capital reserves	81,804	-	81,804	81,804	-	81,804
Statutory reserves	29,317	-	29,317	16,936	-	16,936
Revaluation reserves	496,010	-	496,010	516,210	-	516,210
Retained earnings <i>a</i>	151,042	(27,799)	123,243	180,008	(19,875)	160,133
Total capital and reserves	2,913,333	(27,799)	2,885,534	2,950,118	(19,875)	2,930,243
Liabilities						
Non-current liabilities						
Loans and borrowings	108,712	-	108,712	81,230	-	81,230
Deferred income	129,814	-	129,814	130,039	-	130,039
Deferred tax liability	55,071	-	55,071	57,315	-	57,315
Other liabilities <i>c</i>	2,453	-	2,453	4,660	-	4,660
Provisions <i>b</i>	44,110	-	44,110	44,116	-	44,116
Total non-current liabilities	340,160	-	340,160	317,360	-	317,360
Current liabilities						
Loans and borrowings	13,760	-	13,760	12,900	-	12,900
Trade and other payables	83,192	12,748	95,940	97,833	12,748	110,581
Provision	7,875	12,507	20,382	15,169	12,507	27,676
Total current liabilities	104,827	25,255	130,082	125,902	25,255	151,157
Total liabilities	444,987	25,255	470,242	443,262	25,255	468,517
Total equity and liabilities	3,358,320	(2,544)	3,355,776	3,393,380	5,380	3,398,760

Notes (*continued*)

6 Adjustment of previous period errors (*continued*)

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

Adjustment to the balance sheet and statement of comprehensive income:

- a) The adjustment of property, plant and equipment relates to land in the amount of BAM 5,380 thousand which was not previously recognised but is the property of the Company since 2006 according to the land register. In addition, the Company did not recognise a write off of certain plant and equipment at the thermal power plant in TE Kakanj of BAM 7,924 thousand in 2010. This amount has been recognised as income in retained earnings at 1 January 2010.
- b) In the prior year financial statements the Company did not recognise a provision relating to a court proceeding initiated by Tuzla Canton, who in the first instance were successful in their claim, but which the Company lodged an appeal that they subsequently lost. The adjustment of BAM 12,507 relates to recognition of provision for legal proceeding initiated by Tuzla Canton. This provision has been recognised as at 1 January 2010.
- c) The Company was subject to a tax inspection by the Tax Authorities in February 2010. The result of this inspection was that the Company was liable to pay additional taxes of BAM 12,748 thousand to the tax authorities. The additional taxes were not recognised in the prior year financial statements. This provision has been recognised as at 1 January 2010.

Restatement of statement of comprehensive income for the year ended 31 December 2010 is as follows:

	BAM '000
Loss reported before the restatements for 2010	(14,442)
Write-off of plant and equipment	(7,924)
	<hr/>
Loss for the period (restated)	(22,366)
	<hr/> <hr/>

Restatement of comparative retained earnings items for the year ended 31 December 2010 is as follows:

	BAM '000
Retained earnings as at 1 January 2010 (as previously reported)	180,008
Adjustment in property, plant and equipment	5,380
Recognition of provision for lawsuits	(12,507)
Income tax expense	(12,748)
	<hr/>
Retained earnings as at 1 January 2010 (restated)	160,133
	<hr/> <hr/>

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	Restated
	2011	2010	2011	2010	2011	2010	2011	2010
Sales	638,535	557,708	228,793	230,195	44,866	54,450	912,194	842,353
Cost of sales	(527,089)	(489,306)	(186,642)	(194,381)	(51,634)	(58,970)	(765,365)	(742,657)
	—	—	—	—	—	—	—	—
Segment result	111,446	68,402	42,151	35,814	(6,768)	(4,520)	146,829	99,696
	—	—	—	—	—	—	—	—
Other operating income	7,766	4,991	11,971	8,619	4,387	1,886	24,124	15,496
Other operating expenses	(10,842)	(1,722)	(14,441)	(4,971)	(1,285)	(8,504)	(26,568)	(2,449)
Depreciation and amortization	(102,012)	(99,915)	(42,375)	(41,501)	(6,027)	(5,908)	(150,414)	(147,324)
	—	—	—	—	—	—	—	—
Result from operating activities	6,358	(28,244)	(2,694)	(2,039)	(9,693)	(17,046)	(6,029)	(34,581)
Finance income	6,353	4,005	2,316	2,809	10,367	17,427	19,036	24,241
Finance costs	(9,718)	(9,903)	(400)	(1,742)	(1,405)	(381)	(11,523)	(12,026)
Net finance result	(3,365)	(5,898)	1,916	1,067	8,962	17,046	7,513	12,215
	—	—	—	—	—	—	—	—
Result before tax	2,993	(34,142)	(778)	(972)	(731)	-	1,484	(22,366)
Income tax	-	-	-	-	-	-	-	-
Profit/(loss) for period	2,993	(34,142)	(778)	(972)	(731)	-	1,484	(22,366)
	=====	=====	=====	=====	=====	=====	=====	=====

Notes (*continued*)

7 Segment reporting (*continued*)

in thousand BAM	Segment 1 Production		Segment 2 Distribution and supply		Segment 3 Other activities		Total	Restated
	2011	2010	2011	2010	2011	2010	2011	2010
Fixed assets	1,876,452	1,771,139	761,293	845,601	88,573	45,198	2,726,318	2,661,938
Other non current assets	1,630	2,461	70	2,534	17,638	23,279	19,374	29,208
Investments	20,203	600	7	3,931	97,296	90,371	117,470	94,902
	—	—	—	—	—	—	—	—
Total non current assets	1,898,285	1,774,200	761,370	852,066	203,507	159,782	2,863,162	2,786,048
	—	—	—	—	—	—	—	—
Current assets	467,039	460,406	212,978	(35,788)	(156,276)	146,044	523,741	569,728
Less inter segment receivables	-	-	-	-	-	-	-	-
	—	—	—	—	—	—	—	—
	467,039	460,406	212,978	(35,788)	(156,276)	146,044	523,741	569,728
	—	—	—	—	—	—	—	—
Total assets	2,365,324	2,234,606	974,348	816,278	47,231	304,892	3,386,903	3,355,776
	—	—	—	—	—	—	—	—
Liabilities	190,675	153,008	152,803	237,256	154,436	79,978	497,914	470,242
Less inter segment liabilities	-	(67,534)	-	(46,111)	-	113,645	-	-
	—	—	—	—	—	—	—	—
Total liabilities	190,675	85,474	152,803	191,145	154,436	193,623	497,914	470,242
	—	—	—	—	—	—	—	—
Net assets per segment	2,174,649	2,149,132	821,545	625,133	(107,205)	111,269	2,888,989	2,885,534
	—	—	—	—	—	—	—	—

Notes (continued)

8 Revenue

	2011 BAM'000	Restated 2010 BAM'000
Sale of electric energy in domestic market	807,771	702,875
Sale of electric energy abroad	76,848	116,930
Sale of services and other revenue	27,575	22,548
	<u>912,194</u>	<u>842,353</u>

9 Other operating income

	2011 BAM'000	2010 BAM'000
Write off of liabilities	965	498
Grant revenue	7,515	7,467
Surpluses of property, plant and equipment	1,909	134
Insurance claims	3,818	1,417
Penalty income	1,445	826
Rental income	1,329	1,156
Gain on sale of raw materials	907	1,591
Release of provision for court cases	1,251	569
Actuarial gains	-	1,340
Other revenues	4,985	498
	<u>24,124</u>	<u>15,496</u>

10 Personnel costs

	2011 BAM'000	2010 BAM'000
Wages and salaries	126,882	124,786
Compulsory social security contributions	62,639	66,856
Current service cost	1,548	1,694
Other staff costs	4,000	3,930
	<u>195,069</u>	<u>197,266</u>
Total personnel costs	195,069	197,266
Own work capitalised	(5,700)	(3,606)
	<u>189,369</u>	<u>193,660</u>
Personnel costs recognised in income statement	189,369	193,660

The number of employees in the Company at year end was 5,147 (2010: 5,126). Personnel costs include BAM 32,915 thousand (2010: BAM 37,056 thousand) of defined pension contributions paid into obligatory pension funds.

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

Notes (*continued*)

11 Depreciation and amortisation

	2011 BAM'000	Restated 2010 BAM'000
Depreciation	148,829	146,221
Amortisation	1,585	1,103
	<hr/>	<hr/>
Total depreciation and amortisation	150,414	147,324
	<hr/>	<hr/>

12 Other operating expenses

	2011 BAM'000	Restated 2010 BAM'000
Loss on disposal of fixed assets	2,431	10,963
Write off of inventories	2,413	432
Inventory losses	80	118
Penalties	181	291
Bad debt expenses	1,953	2,034
Transport services	45,281	48,928
Maintenance	18,486	19,132
Telecommunication costs	1,386	1,562
Services from third parties	1,097	1,514
Provisions for claims	1,821	-
Rent expense	559	438
Insurance	4,792	5,339
Bank charges	220	270
Advertising costs	81	387
Entertainment costs	469	491
External services	3,975	4,603
Memberships and other taxes	27,935	35,734
Dismantling provision	766	716
Actuarial losses	533	-
Other expenses	19,136	10,424
	<hr/>	<hr/>
	133,595	143,376
	<hr/>	<hr/>

Notes (continued)

13 Net finance income

	2011 BAM'000	2010 BAM'000
Interest income	13,267	22,296
Foreign exchange gains	5,769	1,945
	<hr/>	<hr/>
Finance income	19,036	24,241
	<hr/>	<hr/>
Interest expenses	(1,795)	(1,568)
Unwind of discount on retirement benefits	(1,538)	(2,110)
Foreign exchange losses	(8,190)	(8,348)
	<hr/>	<hr/>
Finance costs	(11,523)	(12,026)
	<hr/>	<hr/>
Net finance income	7,513	12,215
	<hr/>	<hr/>

14 Income tax expense

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

	2011 BAM'000	2010 BAM'000 Restated
Profit/(loss) before tax	1,484	(22,366)
	<hr/>	<hr/>
Profit tax at 10%	148	(2,236)
Taxable capital gains/(losses)	(808)	2,672
Non-deductible expenses	1,146	926
Tax relief due to investment	(486)	(1,362)
	<hr/>	<hr/>
Income tax expense	-	-
	<hr/>	<hr/>
Income tax expense and effective tax rate for the year	-	-
	<hr/>	<hr/>

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

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

Notes (continued)

15 Property, plant and equipment

	Land BAM'000	Buildings BAM'000	Plant and equipment BAM'000	Assets in course of construction BAM'000	Total BAM'000
Cost or valuation					
At 1 January 2010 (as previously reported)	76,225	2,729,412	1,657,162	126,975	4,589,774
Restatement (refer to note 6)	5,380	-	-	-	5,380
At 1 January 2010 (restated)	81,605	2,729,412	1,657,162	126,975	4,595,154
Additions	-	-	-	176,231	176,231
Write offs (restated refer to Note 6)	-	-	(18,534)	-	(18,534)
Disposals and write offs	(20)	(14,880)	(21,631)	-	(36,531)
Transfers	763	65,192	82,972	(148,927)	-
At 31 December 2010 (restated)	82,348	2,779,724	1,699,969	154,279	4,716,320
At 1 January 2011	82,348	2,779,724	1,699,969	154,279	4,716,320
Additions	-	-	-	263,744	263,744
Disposals and write offs	(85)	(22,384)	(35,739)	(21,167)	(79,375)
Transfers	1,782	76,096	74,026	(151,905)	-
At 31 December 2011	84,045	2,833,436	1,738,256	244,951	4,900,689
Accumulated depreciation and impairment losses					
At 1 January 2010	-	1,174,529	782,354	-	1,956,883
Charge for the year	-	64,839	81,382	-	146,221
Write off (restated refer to note 6)	-	-	(10,610)	-	(10,610)
Disposals and write offs	-	(12,244)	(16,149)	-	(28,393)
At 31 December 2010 (restated)	-	1,227,124	836,977	-	2,064,101
At 1 January 2011	-	1,227,124	836,977	-	2,064,101
Charge for the year	-	65,289	83,540	-	148,829
Disposals and write offs	-	(9,426)	(20,826)	-	(30,252)
At 31 December 2011	-	1,282,987	899,692	-	2,182,679
Carrying amount					
At 1 January 2010 (restated)	81,605	1,554,883	874,808	126,975	2,638,271
At 31 December 2010 (restated)	82,348	1,552,600	862,992	154,279	2,652,219
At 1 January 2011 (restated)	82,348	1,552,600	862,992	154,279	2,652,219
At 31 December 2011	84,045	1,550,449	838,564	244,951	2,718,010

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 fixed asset fully depreciated.

Notes (continued)

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16 Intangible assets

	Software BAM'000	Development costs BAM'000	Assets in course of construction BAM'000	Total BAM'000
Cost				
At 1 January 2010	7,517	-	-	7,517
Additions	-	-	1,528	1,528
Disposal and write off	(3,183)	-	-	(3,183)
Transfers	1,505	23	(1,528)	-
At 31 December 2010	5,839	23	-	5,862
At 1 January 2011	5,839	23	-	5,862
Additions	-	-	3,111	3,111
Disposal and write off	(489)	-	-	(489)
Transfers	3,104	-	(3,104)	-
At 31 December 2011	8,454	23	7	8,484
Accumulated amortisation and impairment losses				
At 1 January 2010	5,574	-	-	5,574
Charge for the year	1,103	-	-	1,103
Disposal and write off	(3,181)	-	-	(3,181)
At 31 December 2010	3,496	-	-	3,496
At 1 January 2011	3,496	-	-	3,496
Charge for the year	1,583	2	-	1,585
Disposal and write off	(489)	-	-	(489)
At 31 December 2011	4,590	2	-	4,592
Carrying amount				
At 1 January 2010	1,943	-	-	1,943
At 31 December 2010	2,343	23	-	2,366
At 1 January 2011	2,343	23	-	2,366
At 31 December 2011	3,864	21	7	3,892

Notes (continued)

17 Investment in associate

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

Associate	Reporting date	Business activity	Ownership	2011 BAM'000	2010 BAM'000
ETI d.o.o. Sarajevo	31 December 2011	Production of fuses	49%	2,027	2,027

18 Investment in subsidiaries

Subsidiary	Business activity	Ownership	2011 BAM'000	2010 BAM'000
Rudnik mrkog uglja Abid Lolić d.o.o.Travnik – Bila Rudnici Kreka d.o.o. Tuzla	Coal mine extraction	100%	1,086	762
RMU Kakanj d.o.o. Kakanj	Coal mine extraction	100%	54,732	40,831
RMU Zenica d.o.o. Zenica	Coal mine extraction	100%	20,135	19,720
JP Rudnik mrkog uglja Breza d.o.o. Breza	Coal mine extraction	100%	8,296	2,893
JP Rudnik uglja Gračanica d.o.o. Gornji Vakuf Uskoplje	Coal mine extraction	100%	12,894	12,490
JP Rudnik mrkog uglja Đurđevik d.o.o.	Coal mine extraction	100%	5,065	5,065
			6,627	5,108
Investment in coal mines			108,835	86,869
Eldis Tehnika d.o.o.	Production of electro equipment and communication	100%	1,429	1,429
Iskraemeco d.o.o.	Energy management and supplies	57.5%	3,286	3,286
Hotel Makarska	Hotel services	96.2%	1,893	1,291
Investment in other subsidiaries			6,608	6,006
Total investment in subsidiaries			115,443	92,875

In 2010 the Company made investments in two coal mines, RMU Zenica d.o.o. and Rudnici Kreka d.o.o., in the amount of BAM 1,379 thousand and BAM 3,686 thousand respectively.

In 2011 the Company made investments in seven coal mines in the amount of BAM 21,966 thousand and an investment in Hotel Makarska in the amount of BAM 602 thousand.

Notes (*continued*)

19 Loans and receivables

	2011 BAM'000	2010 BAM'000
Term deposits	233,380	235,877
Loans to employees	6,281	10,438
Loans to subsidiaries	16,961	12,641
Loans to customers	-	1,462
Interest receivable	3,418	2,666
Other receivables	-	934
	<hr/>	<hr/>
	260,040	264,018
	<hr/>	<hr/>
Current portion of loans and other receivables	240,666	234,810
Non-current portion of loans and other receivables	19,374	29,208
	<hr/>	<hr/>
	260,040	264,018
	<hr/>	<hr/>

Term deposits relate to short term placements with banks that bear interest between 1% and 5.95% 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 12,367 thousand (2010: BAM 10,074 thousand), RMU Zenica in the amount of BAM 2,917 thousand (2010: BAM 1,604 thousand), RMU Breza in the amount of BAM 963 thousand (2010: BAM 963 thousand), RMU Kreka in the amount of BAM 490 thousand (2010: -), and RMU Đurdevik in the amount of BAM 224 thousand (2010: -) all with an interest rate of 1.5% p.a.

Notes (*continued*)

20 Trade and other receivables

	2011 BAM'000	Restated 2010 BAM'000
Trade receivables – related parties	7,959	6,180
Trade receivables – third parties	136,365	153,791
Trade receivables – impairment	(44,824)	(44,194)
	<hr/>	<hr/>
Trade receivables – net	99,500	115,777
Receivables from employees	167	182
Prepayments to suppliers	16,426	40,389
Receivables from the State	385	357
Prepaid expenses	486	749
VAT receivable	2,356	1,928
Accrued revenue	6,241	5,274
Other receivables	14,323	2,202
	<hr/>	<hr/>
	139,884	166,858
	<hr/>	<hr/>

21 Inventories

	2011 BAM'000	2010 BAM'000
Raw materials	79,342	94,288
Spare parts	11,007	14,333
Prepayments for inventory	986	247
Merchandise	8	5
	<hr/>	<hr/>
	91,343	108,873
	<hr/>	<hr/>

The inventories include slow moving inventories older than one year of BAM 37,133 thousand (2010: BAM 45,079 thousand).

22 Cash and cash equivalents

	2011 BAM'000	2010 BAM'000
Cash at banks in BAM	19,766	8,525
Cash at banks in foreign currencies	31,676	48,548
Petty cash	406	271
	<hr/>	<hr/>
	51,848	57,344
	<hr/>	<hr/>

Notes (*continued*)

23 Share capital

	2011 BAM'000	2010 BAM'000
On issue at the beginning of the year	2,155,160	2,155,160

The authorised and issued share capital comprises 30,354,369 ordinary shares (2010: 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 (see *Note 18 Investment in subsidiaries*). 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. 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.

24 Loans and borrowings

	2011 BAM '000	2010 BAM '000
<i>(a) Non-current loans and borrowings</i>		
Loans from banks	125,890	108,712
	125,890	108,712
<i>(b) Current loans and borrowings</i>		
Loans from banks	14,060	13,760
	14,060	13,760
<i>(c) Total loans and borrowings</i>	139,950	122,472

Notes (continued)

24 Loans and borrowings (continued)

(d) Interest rates and terms of repayment for the Company at 31 December 2011 are as follows:

Loans and borrowings	Interest rate	Total 2011 BAM'000	1 year or less BAM'000	1-2 years BAM'000	3-5 years BAM'000	More than 5 years BAM'000
<i>Loans from banks</i>						
<i>Variable interest rate instruments</i>						
BAM 71,654,971	4% -(EURIBOR+1%)	45,279	5,947	5,947	15,813	17,572
BAM 25,945,102	EURIBOR+0.75%	17,325	1,195	1,195	3,584	11,351
BAM 78,967,468	0.75% - LIBOR + 0.75%	48,493	3,606	3,606	9,700	31,581
<i>Fixed interest rate instruments</i>						
BAM 11,063,428	6.48%	553	553	-	-	-
<i>Other loans</i>						
BAM 64,345,807		26,879	2,049	1,344	2,048	21,438
BAM 22,236,003		1,421	710	711	-	-
Total loans and borrowings						
		139,950	14,060	12,803	31,145	81,942

25 Deferred income

	2011 BAM'000	2010 BAM'000
Deferred income for granted assets	123,996	128,368
Deferred income for granted cash	250	375
Deferred income for granted inventories	908	1,071
	125,154	129,814

26 Deferred tax liability

Movement in temporary difference during the year is as follows:

	Balance 1 January 2010	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2010	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2011
In thousand BAM							
Property, plant and equipment	57,315	-	(2,244)	55,071	-	(1,973)	53,098

Notes (continued)

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27 Other liabilities

	2011 BAM'000	Restated 2010 BAM'000
Accrued expenses	6,127	2,453

28 Provisions

	Construction licenses BAM'000	Law suits BAM'000	Dismantling provision BAM'000	Retirement benefits BAM'000	Total BAM'000
Balance at 1 January 2011 (restated)	2,185	18,197	9,669	34,441	64,492
Provision made during the period	-	1,821	766	3,619	6,206
Provision released during the period	-	(1,251)	-	-	(1,251)
Provision paid during the period	(2,185)	(698)	-	(2,973)	(5,856)
Balance at 31 December 2011	-	18,069	10,435	35,087	63,591

	2011 BAM'000	Restated 2010 BAM'000
Current portion of provisions	18,069	20,382
Non-current portion of provision	45,522	44,110
	63,591	64,492

Construction licenses

In December 2005 the Company signed contracts with three municipalities: Jablanica, Konjic and Prozor for issuance of construction, operational and other relevant licences for existing hydro power plants Jablanica. The contracted value of the permit was BAM 33,378 thousand and it was agreed that this amount will be paid over a period of five years. During 2010 the Company paid BAM 6,094 thousand. The remaining liability of BAM 2,185 thousand was paid in 2011.

Law suits

The Company assumed a provision for court cases of BAM 18,068 thousand, determined on provisional basis. See *note 31* for further details.

Dismantling provision

A provision of BAM 766 thousand was made during 2011 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%.

Notes (*continued*)

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28 Provisions (*continued*)

Retirement benefits

A provision for retirement benefit of BAM 35,087 thousand is calculated as follows:

	2011. BAM'000	2010. BAM'000
Balance at 1 January 2011	34,441	35,163
Interest expenses	1,538	2,110
Current service costs	1,548	1,694
Actuarial losses/(gains)	533	(1,340)
Retirements paid	(2,973)	(3,186)
	<u>35,087</u>	<u>34,441</u>

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

	31 December 2011	31 December 2010
Discount rate	5%	6%

The employees are entitled to a retirement at the age of 65 or after 40 years of service.

29 Trade and other payables

	2011 BAM'000	Restated 2010 BAM'000
Trade payables – related parties	17,275	21,190
Trade payables – third parties	53,249	24,116
Payables to employees	213	250
Contribution and taxes	4,348	4,001
Prepayment from suppliers	11,019	9,413
Other accruals	23,784	23,133
Other short term liabilities	106	13,837
	<u>109,994</u>	<u>95,940</u>

Notes (*continued*)

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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:

	<i>Note</i>	2011 BAM'000	2010 BAM'000
Loans and receivables	19,20	399,924	430,876
Cash and cash equivalents	22	51,848	57,344
		451,772	488,220

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

	2011 BAM'000	2010 BAM'000
Domestic	94,664	100,564
Foreign	4,836	15,213
	99,500	115,777

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

	2011 BAM'000	2010 BAM'000
Wholesale customers	81,325	98,304
Retail customers	18,175	17,473
	99,500	115,777

Notes (*continued*)

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30 Financial risk management (*continued*)

Impairment losses

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

Liquidity risk

The following are the contractual maturities of financial liabilities:

31 December 2011	Carrying amount	Contractual Cash flows	6 months or less	6-12 months	1-2 years	2-5 Years	More than 5 years
	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000
Non-derivative financial liabilities							
Trade and other payables	109,994	(109,994)	(109,994)	-	-	-	-
Interest bearing loans	139,950	(142,643)	(7,115)	(7,097)	(13,072)	(31,953)	(83,406)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
31 December 2010	Carrying amount	Contractual Cash flows	6 months or less	6-12 months	1-2 years	2-5 Years	More than 5 years
	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000	BAM'000
Non-derivative financial liabilities							
Trade and other payables	83,192	(83,192)	(83,192)	-	-	-	-
Interest bearing loans	122,472	(126,174)	(7,650)	(6,613)	(13,257)	(25,619)	(73,035)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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, XDR and YEN. These exposures are not currently hedged.

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

	2011				
<i>In thousand BAM</i>	EUR	USD	XDR	YEN	CHF
Loans and other receivables	213,185	-	-	-	-
Trade receivables	4,837	-	-	-	-
Trade payables	(21,463)	-	-	-	-
Interest bearing loans and borrowings	(73,080)	(1,220)	(45,037)	(19,183)	(1,430)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross balance sheet exposure	123,479	(1,220)	(45,037)	(19,183)	(1,430)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes (*continued*)

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30 Financial instruments (*continued*)

Currency risk (continued)

<i>In thousand BAM</i>	2010				
	EUR	USD	XDR	YEN	CHF
Loans and other receivables	235,887	-	-	-	-
Trade receivables	7,596	68	-	-	-
Trade payables	(1,879)	(172)	-	-	(17)
Interest bearing loans and borrowings	(59,794)	(3,324)	(40,291)	(17,677)	(1,386)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross balance sheet exposure	181,810	(3,428)	(40,291)	(17,677)	(1,403)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
EUR	1.95583	1.95583	1.95583	1.95583
USD	1.411006	1.483397	1.511577	1.472764
XDR	2.227635	2.260045	2.322294	2.282767
YEN	0.017712	0.017028	0.019519	0.018069
CHF	1.586953	1.428151	1.608942	1.567800
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Sensitivity analysis

Since there were no fluctuations in the EUR vs. BAM foreign exchange rate since the introduction of the BAM, sensitivity analysis is not necessary for amounts denominated in EUR.

A 1% strengthening of the USD would result in BAM 12 thousand increase in equity and profit as at 31 December 2011 (2010: BAM 24 thousand), and for the year then ended, while 1% weakening of the USD would have an equal but opposite effect on the above noted trade receivables, profit and equity, on the basis that all other variables, in particular interest rates, remain constant. It was not practicable to perform sensitivity analyses for other currencies.

Interest rate risk

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

	Carrying amount	
	2011 BAM'000	2010 BAM'000
Fixed rate instruments		
Financial assets	256,622	258,956
Financial liabilities	(28,853)	(41,982)
	<u> </u>	<u> </u>
	227,769	216,974
	<u> </u>	<u> </u>

Notes (*continued*)

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30 Financial instruments (*continued*)

Interest rate risk (continued)

	Carrying amount	
	2011	2010
	BAM'000	BAM'000
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(111,097)	(80,490)
	<u>(111,097)</u>	<u>(80,490)</u>
	<u><u>(111,097)</u></u>	<u><u>(80,490)</u></u>

Sensitivity analysis for variable rate instruments

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

BAM'000	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2011				
Cash flow sensitivity analysis	(1,380)	1,258	(1,380)	1,258
	<u>(1,380)</u>	<u>1,258</u>	<u>(1,380)</u>	<u>1,258</u>
31 December 2010				
Cash flow sensitivity analysis	(805)	621	(805)	621
	<u>(805)</u>	<u>621</u>	<u>(805)</u>	<u>621</u>

Fair values

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

31 Contingent liabilities

Court cases

As of 31 December 2011, court proceedings were initiated against the Company in the total amount of BAM 27,926 thousand (2010: BAM 32,523 thousand). As disclosed in Note 6, the Company has created a provision for law suits of BAM 12,507 as at 1 January 2010. In 2011, the Company created a provision for law suits of BAM 1,821 thousand (2010: BAM 5,869 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.

Notes (*continued*)

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33 Related party transactions

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

	<i>Sales</i>		<i>Purchases</i>	
	2011 BAM'000	2010 BAM'000	2011 BAM'000	2010 BAM'000
JKP Park	68	58	38	1
Željeznice BiH	595	465	16,737	1
KJKP Gras	3,164	3,125	16	12
BH Telecom	2,207	1,910	460	141
BH Pošta	567	474	151	49
KJKP Vodovod i kanalizacija	9,140	7,937	67	44
Centralna Banka BiH	173	141	-	-
JKP Toplane	2,123	2,146	6	5
Sarajevogas Sarajevo	98	100	3	3
Elektroprenos AD Banja Luka	123	116	45,046	-
Vanjsko trgovinska komora BiH	45	38	-	-
JKP Rad	365	364	18	17
RTV BiH	738	653	45	-
Energoinvest d.d Sarajevo	533	518	2,170	-
	<u>19,939</u>	<u>18,045</u>	<u>64,757</u>	<u>273</u>

	<i>Assets</i>		<i>Liabilities</i>	
	2011 BAM'000	2010 BAM'000	2011 BAM'000	2010 BAM'000
JKP Park	8	7	-	-
Željeznice BiH	74	158	-	-
KJKP Gras	1,131	658	1	-
BH Telecom	160	148	2	3
BH Pošta	52	50	-	-
KJKP Vodovod i kanalizacija	2,681	1,103	-	4
Centralna Banka BiH	16	12	-	-
JKP Toplane	312	341	-	-
Sarajevogas Sarajevo	10	10	-	-
Elektroprenos AD Banja Luka	6	8	-	-
Vanjsko trgovinska komora BiH	5	4	-	-
JKP Rad	43	47	-	-
RTV BiH	66	59	-	-
Energoinvest d.d Sarajevo	63	56	-	-
	<u>4.627</u>	<u>2,661</u>	<u>3</u>	<u>7</u>

Notes (*continued*)

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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 17 *Investment in subsidiaries*, therefore transactions from the sale of electricity power, coal purchases and advances provided are disclosed as related party transactions. Sales and purchases are made at fair exchange amount, being the amount agreed between the related parties. Balances with related parties are as follows:

Assets

	2011 BAM'000	2010 BAM'000
Receivables		
Kakanj	167	170
Zenica	1,000	1,359
Breza	132	185
Gracanica	47	49
Bila	28	36
Kreka	1,740	945
Banovici	-	559
Durdevik	218	216
	<hr/>	<hr/>
	3,332	3,519
	<hr/>	<hr/>

Loan receivables

Kakanj	12,367	10,074
Zenica	2,917	1,604
Breza	963	963
Kreka	490	-
Durdevik	224	-
	<hr/>	<hr/>
	16,961	12,641
	<hr/>	<hr/>

Liabilities

	2011 BAM'000	2010 BAM'000
Trade payables		
Kreka	5,144	5,720
Banovici	-	6,118
Zenica	139	-
Kakanj	4,722	3,655
Durdevik	1,497	551
Gracanica	1,275	794
Bila	618	520
Breza	3,877	2,788
Stanari	-	966
Tusnica	-	71
	<hr/>	<hr/>
	17,272	21,183
	<hr/>	<hr/>

Notes (*continued*)

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33 Related party transactions (*continued*)

(b) *Related parties – Coal Mines (continued)*

Sales revenue

	2011 BAM'000	2010 BAM'000
Kreka	9,491	8,639
Banovici	-	5,694
Zenica	2,376	2,104
Kakanj	1,688	1,702
Durdevik	2,300	2,323
Gracanica	466	478
Bila	352	392
Breza	1,704	1,794
	<hr/>	<hr/>
	18,377	23,126
	<hr/>	<hr/>

Purchases of coal

	2011 BAM'000	2010 BAM'000
Kreka	111,865	96,813
Banovici	-	63,870
Zenica	16,089	3,804
Kakanj	64,053	59,485
Durdevik	33,812	30,087
Gracanica	9,545	8,325
Bila	7,295	6,568
Breza	41,925	29,351
Stanari	-	6,625
Tusnica	-	1,371
	<hr/>	<hr/>
	284,584	306,299
	<hr/>	<hr/>

(c) *Related parties – associates*

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

	2011 BAM'000	2010 BAM'000
Accounts receivables	1	1
Accounts payables	54	-
Sales revenue	15	11
Purchases	453	269
	<hr/>	<hr/>

Notes (*continued*)

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33 Related party transactions (*continued*)

(d) *Related parties – management remunerations*

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

	2011 BAM'000	2010 BAM'000
Management Board remuneration		
Net salaries	363	333
Contributions and taxes	219	197
	<hr/>	<hr/>
	582	530
	<hr/>	<hr/>
Supervisory Board remuneration		
Net fees	111	116
Contributions and taxes	25	18
	<hr/>	<hr/>
	136	134
	<hr/>	<hr/>
Total remuneration	<hr/> 718 <hr/>	<hr/> 664 <hr/>

Notes (*continued*)

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34 Critical accounting estimates and judgements

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

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

Impairment of receivables

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

Income tax

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

Provisions for contingencies

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

35 Ownership structure

The ownership structure of the Company is as follows:

	31 December 2011		31 December 2010	
	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%
	<hr/>	<hr/>	<hr/>	<hr/>
	30,354,369	100%	30,354,369	100%
	<hr/>	<hr/>	<hr/>	<hr/>

36 Capital commitments

Capital commitments for purchasing of property, plant and equipment for 2012 are BAM 51,829 thousand (EUR 26,500 thousand).