

**TOPLANA A.D.
PRIJEDOR**

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2015**

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RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management is responsible for ensuring that financial statements of Toplana a.d. Prijedor (the "Company"), are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the state of affairs and results of the Company for the year ended on 31 December 2015.

After making enquiries, the Management has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Company. The Management must also ensure that the financial statements comply with the Accounting and Auditing Law of Republic of Srpska. The Management is also responsible for safeguarding the assets of the Company, and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management

Ljiljana Despotović, Director

Toplana a.d. Prijedor
Rudnička 66
79101 Prijedor

30 March 2016



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Independent Auditor's Report

To the Shareholders of Toplana a.d. Prijedor:

We have audited the accompanying financial statements of Toplana a.d. Prijedor (the "Company"), set out on pages 4 to 29, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's 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, the auditor considers internal control relevant to the Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As presented in financial statements below, during 2015 the Company has recorded impairment for trade receivables from previous years in the amount of BAM 1,646,940, additionally identified liabilities based on the Decision of the Indirect Taxation Authority in the amount of BAM 399,425 and other expenses from the previous period in the amount of BAM 9,858 in charge to the accumulated loss. The foregoing is not in accordance with the requirements of the International Accounting Standard 8: "Accounting Policies, Changes in Accounting Estimates and Errors", which requires that transactions and other effects are recognized in the period when they are incurred and that the Company shall correct material prior period errors retrospectively by restating the comparative amounts for the prior period presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. Accordingly, the net loss for the year ended 31 December 2014 is understated in the amount of BAM 2,056,223 and opening balances of the accumulated loss for 2015 is also understated in the same amount.

The Company did not make impairment for trade receivables in amount of BAM 502,015 (including interest receivables), that are older than one year. Collection of these receivables is doubtful, considering that payment deadlines have expired and that the Company does not possess any collateral. We draw attention that this is minimal amount, given that the Company has not presented us with the adequate receivables aging structure and we could not determine the accurate amount of outdate trade receivables as at 31 December 2015. In accordance with IAS 39 „Financial instruments: Recognition and Measurement“, the Company should make impairment for abovementioned amount. Had the Company complied with the requirements of this Standard, loss for the year ended 31 December 2015 would have increased for an amount of BAM 502,015.

These financial statements are prepared under the assumption that the Company will be able to service its matured liabilities and continue as going concern, as well as collects its receivables and pay its liabilities in its course of business. The Company continuously records loss from operating activities and liabilities towards state are being reprogrammed. At 31 December 2015 and 2014, the Company reported a loss that exceeded capital and short-term liabilities of the Company have significantly exceeded Company's current assets. Abovementioned situation reflects increase in liquidity risk and indicates significant uncertainty that could create doubt in the Company's ability to continue as going concern. In order to overcome these difficulties, the Company's Management initiated activities on improving of the business operations. Positive effects of these activities on Company's operations are expected within the forthcoming periods, and therefore the Management continues to adopt the going concern basis in preparing the financial statements.

If these measures taken by the Management fail, the ability of the Company to continue its operations in the foreseeable future will become uncertain. In that case, the annual financial statements should be prepared assuming discontinued operations, which will affect the valuation of assets, and classification of assets and liabilities in the amount that is not currently determinable.

Qualified Opinion

In our opinion, except for the effects described in the paragraph *Basis for Qualified Opinion*, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Company for the year ended 31 December 2014 were audited by another auditor who expressed a qualified opinion on those financial statements on 16 May 2015.

Baker Tilly Re Opinion d.o.o.



Nihad Fejzić, Director and Certified Auditor



Ezita Imamović, Certified Auditor

Sarajevo, 30 March 2016

TOPLANA A.D. PRIJEDOR
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 BAM	2014 BAM
Operating income			
Sales of products and services	5	4,824,120	4,836,823
Total operating income		4,824,120	4,836,823
Operating expenses			
Costs of material, fuel and energy	6	(3,896,249)	(4,656,002)
Staff costs and other personnel costs	7	(981,766)	(965,021)
Production services costs	8	(107,722)	(80,981)
Depreciation and amortization	9	(300,103)	(296,024)
Non-material costs	10	(294,878)	(108,126)
Total operating expenses		(5,580,718)	(6,106,154)
OPERATING LOSS		(756,598)	(1,269,331)
Finance income and expenses			
Financial income	11	711,374	653,481
Financial expenses	12	(669,370)	(675,773)
LOSS FROM OPERATING ACTIVITIES		(714,594)	(1,291,623)
Other income and expenses			
Other income	13	516,741	58,062
Other expenses	14	(1,284,705)	(789,642)
LOSS BEFORE TAXATION		(1,482,558)	(2,023,203)
Income tax	15	-	-
LOSS AFTER TAXATION		(1,482,558)	(2,023,203)

The accompanying notes form an integral part of these financial statements.

TOPLANA A.D. PRIJEDOR
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	31/12/2015 BAM	31/12/2014 BAM
Non-current assets			
Intangible assets	16	486,486	2,928
Property, plant and equipment	17	23,472,215	6,513,777
Total non-current assets:		23,958,701	6,516,705
Current assets			
Inventories	18	291,269	569,769
Trade receivables	19	2,519,701	4,255,334
Other receivables	20	2,342,474	147,288
Bonds investment at fair value	21	37,727	-
Cash and cash equivalents	22	724,287	39,237
Total current assets:		5,915,458	5,011,628
Loss exceeding capital		9,144,415	5,509,142
TOTAL ASSETS		39,018,574	17,037,473
Equity and reserves			
Share capital	23	2,040,000	2,040,000
Revaluation reserves		96,492	192,984
Retained earnings		(2,136,492)	(2,232,984)
Total equity and reserves:		-	-
Long-term liabilities			
Long-term provisions	24	26,149	29,688
Deferred income	25	1,026,029	74,233
Long-term borrowings and bonds	26	19,480,865	6,279,655
Total long-term liabilities:		20,533,043	6,383,576
Short-term liabilities			
Trade payables	27	10,459,390	5,355,128
Short-term borrowings	28	7,712,410	5,072,741
Other short-term liabilities	29	313,731	226,028
Total short-term liabilities:		18,485,531	10,653,897
TOTAL EQUITY AND LIABILITIES		39,018,574	17,037,473

The accompanying notes form an integral part of these financial statements.

Signed on behalf of the Company on 30 March 2016:

Ljiljana Despotović

Director

TOPLANA A.D. PRIJEDOR
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital BAM	Revaluation reserves BAM	Retained earnings BAM	Total BAM
Balance at 31 December 2013	2,040,000	289,476	(4,265,299)	(1,935,823)
Correction of errors from previous periods*	-	-	(1,453,624)	(1,453,624)
Balance at 31 December 2013 (restated)	2,040,000	289,476	(5,718,923)	(3,389,447)
Revaluation effects	-	(96,492)	-	(96,492)
Loss for the year	-	-	(2,023,203)	(2,023,203)
Balance at 31 December 2014	2,040,000	192,984	(7,742,126)	(5,509,142)
Correction of errors from previous periods **	-	-	(2,056,223)	(2,056,223)
Revaluation effects ***	-	(96,492)	-	(96,492)
Loss for the year	-	-	(1,482,558)	(1,482,558)
Balance at 31 December 2015	2,040,000	96,492	(11,280,907)	(9,144,415)

* On 1 January 2014 the Company has made correction to the previously presented statement of financial position at 31 December 2013, as well as the statement of changes in equity for the year 2013, based on the correction from previous year related to the inadequate recognition of trade receivables in the amount of BAM 1,134,700, default interest in the amount of BAM 189,818, correction of value added tax based on the record in the amount of BAM 128,313 and sick leave reimbursement in the amount of BAM 793, totalling amount of BAM 1,453,624.

** Correction of errors in net amount of BAM 2,056,223 relates to impairment for trade receivables from previous years in the amount of BAM 1,646,940, additionally identified liabilities based on the Decision of the Indirect Taxation Authority in the amount of BAM 399,425 and other expenses from the previous period in the amount of BAM 9,858 in charge to the accumulated loss.

*** During 2007, the Company made valuation of property and recorded effects of the assessment in charge to the accumulated depreciation and in favour to the revaluation reserves. As of 2013, the Company started with the decreasing in the reserves and increasing in accumulated depreciation.

The accompanying notes form an integral part of these financial statements.

TOPLANA A.D. PRIJEDOR
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	BAM	BAM
Operating activities		
Cash receipts from customers and received advances	5,423,184	5,417,789
Other cash receipts	2,617,857	418,857
Cash paid to trade payables and given advances	(3,853,814)	(2,696,853)
Cash paid to and on behalf of employees	(976,156)	(930,676)
Interest paid	(651,905)	(659,244)
Income tax paid	-	-
Other taxes paid	(4,026,126)	(305,559)
Net cash (used in)/from operating activities	(1,466,960)	1,244,314
Investing activities		
Purchases of non-current assets	(13,673,014)	(62,559)
Cash receipts from sale of non-material investments, non-current assets	-	11,490
Cash receipts from sale of shares and stakes	-	66
Net cash used in investing activities	(13,673,014)	(51,003)
Financing activities		
Borrowings inflows	15,825,026	(1,372,149)
Net cash from/(used in) financing activities	15,825,026	(1,372,149)
Net increase/(decrease) in cash and cash equivalents	685,052	(178,838)
Cash and cash equivalents at beginning of year	39,236	218,074
Cash and cash equivalents at end of year	724,288	39,236

The accompanying notes form an integral part of these financial statements.

TOPLANA A.D. PRIJEDOR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

1. GENERAL

“Toplana” a.d. Prijedor (“the Company”) has been operating under this name as of 14 March 2005. On 15 December 2011 harmonization of activities to the Law on Activities Classification and the Register of Business Entities by activities in the Republic of Srpska, transfer of founding capital in accordance to the Law on transfer of share capital title rights of the Republic of Srpska in companies that provide utility services to local government has been made.

Increase in share capital has been made with the Decision number 057-0-Reg-12-002256 as of 20 March 2013, so the share capital amounted to BAM 5,300,948.

On 4 November 2013 share capital owners assembly adopted Decision number 020-4476-7/13 on decrease in share capital to cover part of the accumulated losses reported on 31 December 2012 which amounted to BAM 9,631,946. Part of the accumulated losses in the amount of BAM 2,805,602 was covered in charge of the net profit for the year 2012. Part of the accumulated losses in the amount of BAM 1,027,539 was covered in charge of the reserves, while the remaining accumulated losses in the amount of BAM 5,260,948 was covered in charge of the Company’s share capital. Part of the accumulated losses in the amount of BAM 537,857 remains uncovered. All the above changes are registered in the third issue of shares by the Central Registry of Securities. After making chances, the Company’s share capital has been decrease to amount of BAM 40,000.

Also, on the same assembly meeting Decision number 020-4476-9/13 on fourth issue of shares to the qualified investor without publishing prospectus obligation was adopted. This Decision regulates the procedure to increase the Company’s share capital in the amount of BAM 2,000,000. Issued shares were purchased by the City of Prijedor and thereby made recapitalization, after which the value of the Company’s share capital amounts to BAM 2,040,000, and share capital ownership of the City of Prijedor is 99.68%.

As of 31 December 2015 the Company has 62 employees.

Company's Bodies

Supervisory Board

Brdar Slobodan	Chairman
Velibor Smiljanić	Member
Dragoslav Novaković	Member

Management

Ljiljana Despotović	Director
Zoran Knežević	Executive Director of the Technical department
Amira Grahovac	Executive Director of the Legal department
Vinka Pekija	Executive Director of the Financial department

Audit committee

Milanka Ivaniš	Chairman
Mirjana Dejanović	Member
Radmila Vukadinović	Member

Internal Audit

Milorad Nedimović	Director of the Internal audit department
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TOPLANA A.D. PRIJEDOR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and interpretations effective in current period

In the current year, the International Accounting Standards Board has published a larger number of amendments to IFRS that are in effect for accounting periods beginning on 1 January 2015 or later. The annual improvements include a large number of amendments to IFRS, which are shown as follows:

IFRS 2	Share-based Payment - Definition of „vesting condition“ (applicable from 1 July 2014)
IFRS 3	Business Combinations - Accounting for contingent consideration (applicable from 1 July 2014)
IFRS 3	Business Combinations - Scope exception for joint ventures (applicable from 1 July 2014)
IFRS 8	Operating Segments - Aggregation of segments, reconciliation of segment assets (applicable from 1 July 2014)
IFRS 13	Fair Value Measurement - Short-term receivables and payables (applicable from 1 July 2014)
IFRS 13	Fair Value Measurement - Scope of the portfolio exception (applicable from 1 July 2014)
IAS 16	Property, Plant and Equipment – Revaluation method - Proportionate restatement of accumulated depreciation (applicable from 1 July 2014)
IAS 19	Employee Benefits - Defined benefit plans: employee contributions (applicable from 1 July 2014)
IAS 24	Related Party Disclosures - Key management entities (applicable from 1 July 2014)
IAS 27	Separate Financial Statements (applicable from 1 January 2014)
IAS 38	Intangible Assets – Revaluation method - proportionate restatement of accumulated depreciation (applicable from 1 July 2014)
IAS 40	Investment Property - Interrelationship between IFRS 3 and IAS 40 (applicable from 1 July 2014)

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 9	Financial Instruments (finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition - applicable from 1 January 2018)
IFRS 14	Regulatory Deferral Accounts (applicable from 1 January 2016)
IFRS 15	Revenue from Contracts with Customers (applicable from 1 January 2017)
IFRS 11	Joint Arrangements (the accounting for acquisitions of an interest in a joint operation - applicable from 1 January 2016)
IAS 1	Presentation of Financial Statements (the disclosure initiative – applicable from 1 January 2016)
IAS 16	Property, Plant and Equipment (the clarification of acceptable methods of depreciation and amortisation – applicable from 1 January 2016)
IAS 16	Property, Plant and Equipment (bringing bearer plants into the scope of IAS 16 – applicable from 1 January 2016)
IAS 38	Intangible Assets (the clarification of acceptable methods of depreciation and amortisation – applicable from 1 January 2016)
IAS 41	Agriculture (bringing bearer plants into the scope of IAS 16 – applicable from 1 January 2016)
IAS 27	Separate Financial Statements (reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements - applicable from 1 January 2016)
IFRS 10	Consolidated Financial Statements (the sale or contribution of assets between an investor and its associate or joint venture - applicable from 1 January 2016)

TOPLANA A.D. PRIJEDOR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue not yet adopted (continued)

IFRS 10	Consolidated Financial Statements (the application of the consolidation exception - applicable from 1 January 2016)
IAS 28	Investments in Associates and Joint Ventures (the application of the consolidation exception - applicable from 1 January 2016)
IFRS 12	Disclosure of Interests in Other Entities (the application of the consolidation exception - applicable from 1 January 2016)
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (annual improvements: applicable from 1 January 2016)
IFRS 7	Financial Instruments: Disclosures (annual improvements: applicable from 1 January 2016)
IAS 19	Employee Benefits (annual improvements – applicable from 1 January 2016)
IAS 34	Interim Financial Reporting (annual improvements – applicable from 1 January 2016)

The Company will not adopt these standards, amendments and interpretations in advance, before the date they enter into force. The Management anticipates that the adoption of these standards and interpretations in future periods will not significantly affect the Company's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation and Presentation of the Financial Statements

The accompanied Financial Statements of the Company are presented in accordance with the International Accounting Standards (IAS), and International Financial Reporting Standards (IFRS), which were applicable as at 1 January 2009, and accounting regulations of the Republic of Srpska that are based on them. Namely, according to the Law on Accounting and Auditing of the Republic of Srpska ("Official Gazette of RS", number 36/09 and 52/11), all legal entities headquartered in the Republic of Srpska are obligated to full application of IAS and IFRS, as well as ISA, the Code of ethics for professional accountants, as well as the accompanying instructions, explanations and guidelines issued by the International Federation of Accountants (IFAC), to the financial statements for the period beginning on 1 January 2010 or later.

The Financial Statements of the Company are presented in format prescribed within Chart of accounts Book of regulations for companies, cooperative and other legal entities ("Official Gazette of Republic of Srpska", number 79/09), Book of regulations about content and form of financial statements templates for companies, cooperative and other legal entities ("Official Gazette of Republic of Srpska", number 84/09), and Book of regulations about contents and form of changes in equity templates ("Official Gazette of Republic of Srpska", number 84/09).

The balances in the accompanying financial statements have been stated in convertible marks (BAM). The convertible mark is the official reporting currency in the Republic of Srpska and Bosnia and Herzegovina, which is officially tied to Euro (EUR 1 = BAM 1.95583).

In the preparation of these financial statements, the Company has adhered to the accounting policies described in Note 3 to the financial statements and are based on accounting and tax legislation of the Republic of Srpska.

TOPLANA A.D. PRIJEDOR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Sales revenue

Income is measured at fair value of consideration received or receivable, net of rebates. Revenue arising from operating activities based on production and sale of heating energy and other services is recognized at invoiced value, net of discounts, refunds and value added tax.

Revenue arising on the sale of services rendered is also recognized at invoiced value, net of discounts, refunds and value added tax.

3.2 Borrowing costs

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 capitalization. All other borrowing costs are recognized in net profit or loss in the period in which they are incurred.

3.3 Foreign currencies

Transactions denominated in foreign currencies are translated into convertible marks at the official exchange rates in effect at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are translated into convertible marks by applying the official exchange rates prevailing at the date of statement of financial position. Foreign exchange gains or losses arising upon the translation of transactions, and assets and liabilities in foreign currencies are credited or charged to the statement of comprehensive income, as foreign exchange gains and losses.

3.4 Employee benefits

a) Taxes and Contributions Made to the Employee Social Security and Insurance Funds

In accordance with the local regulatory requirements and the adopted accounting policy, the Company is obligated to pay contributions to tax authorities and to various state social security funds that guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, in an amount computed by applying the specific, legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to the respective government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

b) Obligations for Employee Retirement Benefits

In accordance with the Labour Law and Collective Bargaining Agreement for municipal and service industry of the Republic of Srpska ("Official Gazette number 95/06), the Company is obligated to pay retirement benefits in an amount equalling three average monthly salaries earned by an employee and calculated in accordance with Collective Bargaining Agreement. IAS 19 "Employee Benefits" requires that the present value of accumulated employee entitlements to retirement benefits be calculated

c) Short-term paid absence

Accumulated paid leave can be transferred and used in next periods, unless in current period have not been used fully. Expected paid leave expenses are recognized in an amount that is equal to expected payments as result of unused accumulated rights on the day of financial position statement. In a case of non-accumulated paid leave, liability and cost are not recognized till the moment when absence is used.

TOPLANA A.D. PRIJEDOR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Taxation

Current income tax

Current income tax relates to the amount payable in accordance with the Income Tax Law ("Official Gazette of Republic of Srpska" number 91/06), in effect from January 1, 2007. Current income tax is payable at the statutory rate of 10% applied to the tax base reported in the annual corporate income tax return, being the amount of profit before taxation net of as reduced by any effects of income and expense adjustments allowed by the tax regulations of the Republic of Srpska.

The tax regulations in the Republic of Srpska do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry back period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for the duration of no longer than five ensuing years.

Deferred income taxes

Deferred income taxes are provided using the statement of financial position liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The currently-enacted tax rates or the substantively-enacted rates at the statement of financial position date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of income tax losses and credits are available for carry forward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carry forwards can be utilized.

The depreciation included in the calculation of taxable income may differ from the one used in determining the accounting profit. The temporary difference results in deferred tax liability if the capital cost allowance (depreciation calculated for tax purposes) is ahead of accounting depreciation, i.e., in deferred tax assets, in case the capital cost allowance is behind the depreciation calculated for accounting purposes. As for the treatment of depreciation, the Law on the Corporate Income Tax envisages such possibility, but it does not impose the obligation, so the Company used the depreciation calculated for accounting purposes, for tax purposes alike, and did not determine deferred taxes.

Indirect taxes and contributions

Indirect taxes and contributions represent the amounts paid under various republic and municipal laws in order to finance diverse municipal and republic requirements. These taxes and contributions are included under other operating expenses.

Pursuant to the Value Added Tax Law ("Official Gazette BiH" number 9/05,35/05 and 100/08), system for the payment of value added tax (VAT) was introduced on the territory of Bosnia and Herzegovina, commencing on January 1, 2006, by which previously-applied taxation system for payment of sales tax on products and services was changed.

3.6 Inventories

The value of stocks of materials, spare parts, tools and inventory is recorded at cost. Cost includes the invoiced value, transportation costs and all other expenses directly attributable to the acquisition of inventories. When the material is a product of own production and when it is used in the next production process phase, its value assessment is due to the production costs of such inventories, up to their net sale value. Built-in spare parts, whose useful life is longer than a year and their cost when the asset is purchased is higher than average gross salary per employee in Republic of Srpska according to the last published data issued by authorized statistic institution, are recognized as a tangible asset. Such spare parts, after installation, increase the carrying amount of the asset to which they are installed. Spare parts that do not meet the above requirements, are recorded as operating expenses. Tools and inventory, whose useful life is longer than a year and their cost when the asset is purchased is higher than average gross salary per employee in Republic of Srpska according to the last published data issued by authorized statistic institution, are recognized as tangible assets, are also recognized as a tangible asset. Tools and inventory, for which this rulebook does not prescribe depreciation rate, are presented as equipment in the special analytical account. If their cost is less than BAM 1,500 they are being written off at an annual rate of 100%.

TOPLANA A.D. PRIJEDOR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Property, plant and equipment

Property, plant and equipment, that meet requirements to be recognized as an asset, are initially recognized at cost. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Additional investments or improvements made to property and equipment, whose objective is to extend the useful life of assets, or to increase the capacity of equipment, also increase the carrying value of such assets. All other additional investments are recognized as costs in period when occurred.

Property, plant and equipment are those assets whose useful life is longer than a year and their cost when the asset is purchased is higher than average gross salary per employee in Republic of Srpska according to the last published data issued by authorized statistic institution.

Gains from the disposal of fixed assets are credited directly to other income, whereas any losses arising on the disposal of fixed assets are charged to other expenses.

The depreciation of property, plant and equipment and intangible assets (software) is calculated at rates obtained based on the estimated useful life of these assets, their cost and estimated value.

The estimated useful life of an assets belonging to certain groups of property, plant and equipment which serves as the basis for the calculation of depreciation were as follows:

	Estimated useful life	Depreciation rate
Buildings	10 to 50 years	2%-10%
Boilers and reloading equipment	28 years	3,57%
Heat flow equipment	9 years	11.11%
Other equipment	5 to 20 years	5%-20%

3.8 Intangible assets

Intangible asset is asset that can be identified as non-monetary and without physical substance. Investment is recognized as intangible asset when its useful life is longer than a year and their cost when the asset is purchased is higher than average gross salary per employee in Republic of Srpska according to the last published data issued by authorized statistic institution. If an asset does not meet such requirements, it is recognized in charge of expenses of the period in which it occurs. Intangible asset is initially recognized at cost. Subsequent measurement, after initial recognition of an intangible asset, is made according to the cost model as required in IAS 38 – Intangible assets, i.e. at cost net of value impairments based on accumulated amortization and impairment.

Amortization of intangible asset subject do amortization is carried out using the proportional method within 5 years, except for investments whose useful life is determined in the contract, in which case amortization is calculated due to the contract timeline. The amortization of an intangible asset starts from the next month when an intangible asset was put in use. Basis for amortization of an intangible asset is cost value. Subsequent expenditure, related to an intangible asset after its purchase or completion, increase its value if its useful life is longer than a year and their cost when the asset is purchased is higher than average gross salary per employee in Republic of Srpska according to the last published data issued by authorized statistic institution

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FOR THE YEAR ENDED 31 DECEMBER 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Intangible assets

Subsequent expenditure that does not meet previous requirements is recognized as costs in period when occurred. For subsequent expenditure that increase intangible asset value cost value is adjusted. Intangible assets presented in financial statements are amortised on a straight-line basis over their estimated useful lives, on the following basis:

	Estimated useful life	Amortization rate
Development investments	5 years	20%

3.9 Cash and cash equivalents

Cash and cash equivalents include demand deposits and fixed deposits with an original maturity of three months.

3.10 Impairment of fixed assets

At each statement of financial position date, the Company's management reviews the carrying amounts of the Company's fixed assets in order to determine the indications of impairment loss. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. In cases where it is impossible to assess the recoverable amount of an individual asset, the Company assess the recoverable value of the cash generating unit to the asset belongs.

The recoverable value of an asset is the higher of net selling price and value in use. The estimate of the value in use comprises the assessment of future cash inflows and outflows discounted to their present value by applying the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the estimated recoverable amount of assets (or cash generating unit) is below their carrying value, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period under operating expenses, except in case of land and buildings that are not used as investment property which is stated at revalued amount in which case impairment loss is presented as a loss on revaluation of assets.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the respective asset is carried at a revalued amount, in which instance, the reversal of the impairment loss is treated as a revaluation increase.

3.11 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

TOPLANA A.D. PRIJEDOR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Financial assets

All financial assets are derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. Fair value is determined in the manner described in Note 34.

Other receivables

Other receivables that have fixed or determinable payments that are not quoted in an active market are classified as receivables and are measured at amortised cost using the effective interest method, less any impairment.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.13 Financial liabilities

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
 - it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39: "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

TOPLANA A.D. PRIJEDOR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial liabilities (continued)

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 34.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Key sources of estimation uncertainty

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

Useful lives of tangible and intangible assets

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

5. SALES OF PRODUCTS AND SERVICES

	2015	2014
	BAM	BAM
Revenue from heating– individuals	3,199,190	3,289,182
Revenue from heating – legal entities	989,500	925,572
Revenue from heating – budget users	620,144	593,735
Revenue from services – individuals	10,330	8,687
Revenue from services – legal entities and budget users	4,956	12,292
Revenue from abroad services	-	7,355
Total:	4,824,120	4,836,823

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NOTES TO THE FINANCIAL STATEMENTS
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6. COSTS OF MATERIAL, FUEL AND ENERGY

	2015 BAM	2014 BAM
Oil fuel	3,202,667	4,362,910
Wood costs	356,256	-
Energy costs	216,937	190,562
Other material	94,798	85,915
Fuel	18,670	9,842
Small inventory write-off	6,921	6,773
Total:	3,896,249	4,656,002

7. STAFF COSTS AND OTHER PERSONNEL COSTS

	2015 BAM	2014 BAM
Gross salaries	752,820	737,761
Holiday allowance	124,046	121,061
Reimbursement to the Supervisory Board, Audit Committee and Internal Audit	41,791	41,791
Meal allowance	35,101	32,810
Transportation fees	23,956	24,555
Other employee expenses	3,099	5,911
Travel expenses	953	1,132
Total:	981,766	965,021

8. PRODUCTION SERVICES COSTS

	2015 BAM	2014 BAM
Maintenance	57,181	46,115
Postal services	22,215	22,559
Marketing and advertising	11,124	3,813
Temporary services	8,017	1,909
Other production services	9,185	6,585
Total:	107,722	80,981

9. DEPRECIATION AND AMORTIZATION

	2015 BAM	2014 BAM
Depreciation of tangible assets	298,115	293,261
Amortization of intangible assets	1,988	2,763
Total:	300,103	296,024

TOPLANA A.D. PRIJEDOR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

10. NON-MATERIAL COSTS

	2015 BAM	2014 BAM
Bank fees	145,454	3,494
Intellectual services	37,127	37,359
Contribution, taxes and fees	24,975	19,380
Insurance costs	22,430	21,905
Enforced collection costs	15,695	-
VAT costs upon control	14,529	-
Entertainment expenses	12,501	2,708
Other fees	10,107	8,490
Severance payments	7,476	6,661
Other non-material expenses	4,584	8,129
Total:	294,878	108,126

11. FINANCIAL INCOME

	2015 BAM	2014 BAM
Revenue from invoiced interest	709,692	637,648
Purchased bonds interest income	897	14,781
Deposits interest income	785	1,052
Total:	711,374	653,481

12. FINANCIAL EXPENSES

	2015 BAM	2014 BAM
Borrowings interest	548,026	659,244
Subsequently identified default interest	120,852	16,207
Securities interest expense	492	322
Total:	669,370	675,773

13. OTHER INCOME

	2015 BAM	2014 BAM
Income from reversal of long- term provisions (Note 25)	502,526	-
Heating connection fees	5,688	400
Collected fully write-off receivables	3,943	6,179
Income from payables write-off	2,000	7,140
Collected write-off receivables (Note 20)	-	9,377
Revenue from sales of material	-	9,820
Other operating income	2,584	25,146
Total:	516,741	58,062

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NOTES TO THE FINANCIAL STATEMENTS
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14. OTHER EXPENSES

	2015 BAM	2014 BAM
Impairment of trade receivables (Notes 19 and 20)	1,284,705	779,591
Losses upon disposal of fixed assets	-	9,300
Other expenses	-	751
Total:	1,284,705	789,642

15. INCOME TAX

Domestic income tax is calculated at 10% of the estimated assessable profit for the year. The charge for the year may be reconciled to the profit per the income statement as follows:

	2015 BAM	2014 BAM
Loss before tax	(1,482,558)	(2,023,203)
Tax effect of non - deductible expenses	115,272	30,521
Tax effect of non - deductible income	(785)	(10,355)
Total taxable profit	(1,368,071)	(2,003,037)
Income tax at the rate of 10%	-	-
Tax expense	-	-

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NOTES TO THE FINANCIAL STATEMENTS
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16. INTANGIBLE ASSETS

	Investment in development AM	Investment in progress BAM	Total BAM
<i>Cost</i>			
As at 1 January 2015	19,849	-	19,849
Additions	-	485,546	485,546
Disposals	-	-	
As at 31 December 2015	19,849	485,546	505,395
<i>Accumulated amortization</i>			
As at 1 January 2015	16,921	-	16,921
Amortization per year	1,988	-	1,988
As at 31 December 2015	18,909	-	18,909
<i>Net carrying amount</i>			
As at 31 December 2015	940	485,546	486,486
As at 31 December 2014	2,928	-	2,928

Value of investment in progress as at 31 December 2015 in the amount of 485,546 BAM refers to the right for use of land for a period of 100 years, which the Company has obtained from the City of Prijedor and on restructuring of land.

	Investment in development BAM	Investment in progress BAM	Total BAM
<i>Cost</i>			
As at 1 January 2014	19,849	-	19,849
Additions	-	-	
Transfer from/to	-	-	
As at 31 December 2014	19,849	-	19,849
<i>Accumulated amortization</i>			
As at 1 January 2014	14,158	-	14,158
Amortization per year	2,763	-	2,763
As at 31 December 2014	16,921	-	16,921
<i>Net carrying amount</i>			
As at 31 December 2014	2,928	-	2,928
As at 31 December 2013	5,691	-	5,691

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17. PROPERTY, PLANT AND EQUIPMENT

	Land BAM	Buildings BAM	Equipment BAM	Investment in progress BAM	Total BAM
<i>Cost</i>					
As at 1 January 2015	818,890	3,812,944	11,570,908	74,233	16,276,975
Additions	-	-	-	17,353,045	17,353,045
Transfer (from)/to	-	-	14,564	(14,564)	-
Disposals	-	-	(1,477)	-	(1,477)
As at 31 December 2015	818,890	3,812,944	11,583,995	17,412,714	33,628,543
<i>Accumulated depreciation</i>					
As at 1 January 2015	-	2,743,036	7,020,162	-	9,763,198
Depreciation	-	44,619	253,496	-	298,115
Revaluation reconciliation	-	96,492	-	-	96,492
Disposals	-	-	(1,477)	-	(1,477)
As at 31 December 2015	-	2,884,147	7,272,181	-	10,156,328
<i>Net carrying amount</i>					
As at 31 December 2015	818,890	928,797	4,311,814	17,412,714	23,472,215
As at 31 December 2014	818,890	1,069,908	4,550,746	74,233	6,513,777

Value of investment in progress as at 31 December 2015 in the amount of 17,412,714 BAM relates to the construction of the biomass heating plant which is financed by borrowing, approved by EBRD. From this amount, the amount of 8,6 million EUR is related to the supplier Maschinenfabrik GmbH Austria for performed works at the heating plant and equipment installation, while the rest of amount is related to the consulting services and other associated costs.

	Land BAM	Buildings BAM	Equipment BAM	Investment in progress BAM	Total BAM
<i>Cost</i>					
As at 1 January 2014	818,890	3,812,944	11,532,640	-	16,164,474
Additions	-	-	4,607	136,792	141,399
Transfer (from)/to	-	-	62,559	(62,559)	-
Disposals	-	-	(28,898)	-	(28,898)
As at 31 December 2014	818,890	3,812,944	11,570,908	74,233	16,276,975
<i>Accumulated depreciation</i>					
As at 1 January 2014	-	2,601,925	6,795,783	-	9,397,708
Depreciation	-	44,619	248,642	-	293,261
Revaluation reconciliation	-	96,492	-	-	96,492
Disposals	-	-	(24,263)	-	(24,263)
As at 31 December 2014	-	2,743,036	7,020,162	-	9,763,198
<i>Net carrying amount</i>					
As at 31 December 2014	818,890	1,069,908	4,550,746	74,233	6,513,777
As at 31 December 2013	818,890	1,211,019	4,736,857	-	6,766,766

The Company has pledged land and property net carrying value of 1,114,491 BAM as collateral for repayments related to the bonds liabilities, and for the settlement of obligations towards the state on the basis of liabilities reprogram.

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NOTES TO THE FINANCIAL STATEMENTS
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18. INVENTORIES

	31/12/2015	31/12/2014
	BAM	BAM
Oil fuel	120,213	467,572
Firewood	83,562	-
Maintenance material	74,228	90,947
Tools and small inventory, net	8,946	6,719
Other	4,320	4,531
Total:	291,269	569,769

19. TRADE RECEIVABLES

	31/12/2015	31/12/2014
	BAM	BAM
Trade receivables - individuals – services and interest	7,507,956	6,413,602
Trade receivables - legal entities – services and interest	1,751,078	1,736,396
Trade receivables - budget users– services and interest	207,800	157,469
Impairment for bad and doubtful trade receivables	(6,947,133)	(4,052,133)
Total:	2,519,701	4,255,334

Changes in impairment for trade receivables may be presented as follows:

	2015	2014
	BAM	BAM
Balance at beginning of the period	4,052,133	2,862,194
Correction of errors of previous periods at the expense of accumulated loss	1,628,197	425,348
Increase in impairment (Note 14)	1,282,404	764,591
Write-off	(15,601)	-
Balance at the end of the period	6,947,133	4,052,133

20. OTHER RECEIVABLES

	31/12/2015	31/12/2014
	BAM	BAM
VAT receivables	1,372,260	115,304
Receivables from Government of RS*	900,000	-
Heating connection fee receivables	49,490	50,525
Receivables for reimbursement of sick leave	32,812	24,489
Prepaid and accrued expenses	30,491	3,621
Advance receivables	1,490	-
Other receivables	99	424
Impairment for bad and doubtful other receivables	(44,168)	(47,075)
Total:	2,342,474	147,288

* Receivables from the Government of Republic of Srpska in the amount of BAM 900,000 relate to the project "Support to the implementation of the project of central heating on wood biomass in Prijedor." Project owner is the city of Prijedor. The funds are obtained from public investment program of RS for financing from the budget in 2015.

TOPLANA A.D. PRIJEDOR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

20. OTHER RECEIVABLES (CONTINUED)

Changes in impairment for other receivables may be presented as follows:

	2015 BAM	2014 BAM
Balance at beginning of the period	47,075	41,452
Increase in impairment (Note 14)	2,301	15,000
Collected written-off receivables (Note 13)	-	(9,377)
Write-off	(5,208)	-
Balance at the end of the period	44,168	47,075

21. BONDS INVESTMENTS AT FAIR VALUE

At 31 December 2015, the Company has stated bonds investments from the Ministry of Finance of Republic of Srpska in the amount of BAM 37,727. The Company uses this investment for settling the liabilities upon signed reprogram with the Tax Administration of Republic of Srpska (Note 26).

22. CASH AND CASH EQUIVALENTS

	31/12/2015 BAM	31/12/2014 BAM
Extracted funds for settlement of liabilities upon borrowings from EBRD	414,540	21,709
Cash at bank accounts	306,026	14,910
Cash in hand	3,701	2,594
Cash at bank accounts in foreign currency	20	24
Total:	724,287	39,237

23. SHARE CAPITAL

	31/12/2015 BAM	31/12/2014 BAM
2,040,000 ordinary shares with a nominal value of BAM 1	2,040,000	2,040,000
TOTAL	2,040,000	2,040,000

Share capital structure as at 31 December 2015 and 31 December 2014 may be presented as follows:

	% ownership	31/12/2015 BAM	% ownership	31/12/2014 BAM
The City of Prijedor	99.68	2,033,472	99.68	2,033,472
Other shareholders (less than 1% of ownership)	0.32	6,528	0.32	6,528
TOTAL	100.00	2,040,000	100.00	2,040,000

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24. LONG-TERM PROVISIONS

	31/12/2015 BAM	31/12/2014 BAM
Severance pays provision	22,135	25,476
Jubilee awards provision	4,014	4,212
Total:	26,149	29,688

When calculating the present value of the rights of employees to severance pays, the Company used the following assumptions: interest rate of 7.43%, earnings growth of 0.5%, years of service for retirement (insured person who has not reached the age of 65 years is entitled to old-age retirement upon reaching 60 years of age and 40 years of service; insured woman who has not reached the age of 65 years is entitled to old-age retirement upon reaching 58 years of age and 35 years of service), projected staff turnover on the basis of information on the movement of employees in the previous period of 1%, as well as other conditions required for entitlement to retirement and jubilee awards.

Movements in long-term provisions in 2015 and 2014 may be presented as follows:

	2015 BAM	2014 BAM
Balance at the beginning of the year	29,688	28,606
Provisions during the year on account of expenses	7,475	6,661
Reversal of provision for paid severance (Note 12)	(11,014)	(5,579)
Balance at end of year	26,149	29,688

25. DEFERRED INCOME

	31/12/2015 BAM	31/12/2014 BAM
SIDA Sweden	454,885	74,233
The Government of Republic of Srpska	397,474	-
The City of Prijedor	173,670	-
Total:	1,026,029	74,233

Grant funds by SIDA have been approved for financing consulting services for the project of construction of a biomass heating plant. Total funds approved amount to EUR 618,700.

Grant funds from the Government of Republic of Srpska are approved based on Government Decision No. 04/1-012-2-2356/15 from 22 October 2015 in total amount of BAM 900,000. Funds have been approved for support to project of central heating on wood biomass in Prijedor. On this basis, the Company was invoiced in the course of 2015 amount of BAM 502,526 (Note 13) relating to the purchase of firewood, transport and procurement of fuel oil. These raw materials are consumed and accordingly the Company recorded the appropriate amount of deferred income in favour of income.

Grant funds from the City of Prijedor relate to the assignment of the right of construction on the land owned by the city for the construction of a biomass heating plant free of charge for a period of 100 years.

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26. LONG-TERM BORROWINGS AND BONDS

	Interest rate %	Maturity	31/12/2015 BAM	31/12/2014 BAM
The European Bank for Reconstruction and Development (EBRD)	6mEuribor +margin	31/10/2029	13,670,047	-
Komercijalna banka a.d. Banja Luka	7.90	30/09/2017	1,977,835	3,509,882
Investiciono-razvojna banka Republike Srpske a.d. Banja Luka	6mEuribor +margin	1/2/2017	1,793,170	-
UniCredit Bank a.d. Banja Luka	6mEuribor +5.12	31/5/2017	1,439,339	-
Tax Administration, Ministry of Finance of RS	legislative	10/2/2022	580,560	564,707
<i>Subtotal borrowings</i>			<i>19,460,951</i>	<i>4,074,589</i>
Bonds			3,832,324	4,177,807
<i>Subtotal bonds</i>			<i>3,832,324</i>	<i>4,177,807</i>
Less: current portion (presented within short-term liabilities)			(3,812,410)	(1,972,741)
Total:			19,480,865	6,279,655
Long-term borrowings are repayable as follows:				
On demand or within one year			3,812,410	1,972,741
In the second year			2,371,212	1,522,305
From the third to fifth year inclusive			4,955,537	2,326,672
After five years			12,154,116	2,430,678

On 24 December 2014, the Company signed a loan agreement with the European Bank for Reconstruction and Development (EBRD) in the amount of EUR 7 million for the construction of a biomass heating plant that will improve energy efficiency and sustainability of the heating network in the City of Prijedor. The funds are granted with a grace period of 36 months, and repayment begins from 30 April 2018 and will be carried out in 24 equal semi-annual instalments. Also, the Agreement provides that the bank will seek to secure additional grant in the amount of EUR 2 million from the fund that the Bank keeps with organization SIDA. Pursuant to the Agreement, until 1 January 2016, the Company should have taken all necessary actions for the adoption of the program of improving financial and operational activities, and to work on the signing of the contract with the City of Prijedor for public services. Due to the aforementioned, a consulting company was hired and was financed from grant funds. In addition, until 31 December 2015, the Company is obliged to execute the write-off of trade receivables that are older than a year, and to take all actions that will expand the network of users to at least 350 thousand m².

On 6 September 2015, the Company signed an agreement on long-term loan for working capital with Komercijalna Banka a.d. Banja Luka in the amount of BAM 5 million.

On 2 July 2015, the Company has signed a loan-agreement with Investiciono-razvojna banka a.d. Banja Luka for legal entities determined by the Government of the Republic of Srpska in the amount of BAM 1,800,000. The funds were approved for the purchase of fixed assets with a grace period of 6 months, which is extended to additional 6 months by Annex.

On 22 May 2015, the company signed a loan agreement with UniCredit Bank a.d. Banja Luka in the amount of BAM 2 million for the settlement of trade payables. On this basis the city of Prijedor issued a guarantee in favour of the bank in the amount of BAM 2 million.

On 6 August 2007, the Company signed an Agreement no. 06/1.01/0105-413-111/07 with the Tax Administration, Ministry of Finance of RS, on how to settle matured tax liabilities in total amount of BAM 1,096,780, of which the principal debt is BAM 998,293, while the remaining amount relates to interest.

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27. TRADE PAYABLES

	31/12/2015	31/12/2014
	BAM	BAM
Trade payables – domestic	9,509,666	5,355,128
Trade payables – foreign	949,724	-
Total:	10,459,390	5,355,128

28. SHORT-TERM BORROWINGS

	31/12/2015	31/12/2014
	BAM	BAM
The city of Prijedor	3,900,000	3,100,000
Current portion of long-term borrowings (Note 26)	3,812,410	1,972,741
Total:	7,712,410	5,072,741

In 2015 and in previous periods loans were approved the Company from the budget of the City of Prijedor to finance working capital for periods up to 12 months. The last loan was granted on 13 January 2015 in the amount of BAM 1 million, of which the Company collected the amount of BAM 800,000. The extension of the period for settling these liabilities was not made up to the day of our audit.

29. OTHER SHORT-TERM LIABILITIES

	31/12/2015	31/12/2014
	BAM	BAM
Advances	68,904	40,674
Liabilities for accrued interest for EBRD	67,602	-
Prepaid income from invoices	59,625	60,846
Liabilities for net earnings	49,846	46,205
Taxes and contributions on salaries	35,783	59,887
Accrued expenses for the period	19,751	7,086
Liabilities for the Supervisory Board and Audit Board	7,200	5,400
Other	5,020	5,930
Total:	313,731	226,028

30. COMMITMENTS

As mentioned in Note 26, grant funds have been granted to the Company from SIDA to finance consulting services for the project of biomass heating plant construction. Total funds approved amounted to EUR 618,700. Until the day of 31 December 2015, consulting companies invoiced total amount of BAM 454,885. The remaining amount of BAM 755,187 will be invoiced in the future.

31. CONTINGENT LIABILITIES

According to Management, as at 31 December 2015 there were court proceedings initiated against the Company in amount of BAM 68,312. The Company did not make provision on this basis.

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32. POST BALANCE-SHEET DATE EVENTS

Up to date of our audit, according to Management, there were no transactions or events that would significantly affect financial statements of the Company as at 31 December 2015.

33. TRANSACTIONS WITH RELATED PARTIES

Payments to the Management members, members of Supervisory board and Audit board during the year were as follows:

	2015	2014
	BAM	BAM
Gross salaries for Management members	153,124	126,297
Supervisory board and Audit board fees, gross	35,821	35,821
Total:	188,945	162,118

34. FINANCIAL INSTRUMENTS

Capital risk management

The Company manages its capital to ensure that Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The general strategy of Company is directed towards increase in operating income, improvement of collection of receivables and rationalisation of costs. Capital structure of the Company consists of approved and received loans, cash and cash equivalents and total equity of Company.

Gearing (solvency) ratio

The Management reviews the capital structure on a monthly basis. As part of this review, the Management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year-end was as follows:

	31/12/2015	31/12/2014
	BAM	BAM
Debt (i)	27,193,275	11,352,396
Cash and cash equivalents	<u>(724,287)</u>	<u>(39,237)</u>
Net debt	26,468,988	11,313,159
Equity (ii)	-	-
Net debt to equity ratio	100.00	100.00

(i) Debt includes borrowings, as presented in Note 26 and 28.

(ii) Equity includes total equity of the Company.

Significant accounting policies

Details of significant accounting policies and adopted methods, as well as criteria for recognition, based on performed measures and based on which income and expenses were recognized, with respect to each category of assets, financial liabilities and equity instruments are presented in Note 3 of these financial statements.

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34. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments

	31/12/2015 BAM	31/12/2014 BAM
Financial assets		
Loans and receivables (including cash and cash equivalents)	4,181,715	4,294,571
Financial liabilities		
Amortized cost	37,797,064	16,766,215

Financial risk management objectives

The Company's management monitors and manages the financial risks relating to the operations of the Company through analysis of exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures are analysed by sensitivity analysis. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies, exclusively in EUR. In Management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk since in accordance with the Law on Central Bank of Bosnia and Herzegovina the Convertible Mark ("BAM") is officially tied to the Euro.

Interest rate risk management

The Company is exposed to interest rate risk as the Company borrows funds at floating interest rates. The Company's exposures to interest rates on financial assets and financial liabilities are detailed below.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease (0.5%) is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change on interest rates.

In case of increase/decrease in interest rates for 50 basis points (0.5%) and all other variables were held constant:

- profit for the year ended 31 December 2015 would decrease/increase for amount of BAM 84,513 based on interest rate risk exposure. This can be attributed to Company's exposure to interest rates on loans approved with variable interest rates.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

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34. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following table details the Company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

Maturity for non-derivative financial assets

	Weighted average effective interest rate	Less than 1 month BAM	1 to 6 months BAM	6 to 12 months BAM	1-5 years BAM	Over 5 years BAM	Total BAM
31 December 2015							
Non-interest bearing	-	3,746,514	435,201	-	-	-	4,181,715
TOTAL		3,746,514	435,201	-	-	-	4,181,715

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

Maturity for non-derivative financial liabilities

	Weighted average effective interest rate	Less than 1 month BAM	1 to 6 months BAM	6 to 12 months BAM	1-5 years BAM	Over 5 years BAM	Total BAM
31 December 2015							
Non-interest bearing	-	14,436,187	-	-	-	-	14,436,187
Variable interest rate instruments	1.82%	96,068	582,143	1,828,399	4,976,255	10,746,334	18,229,199
Fixed interest rate instruments	7.05%	253,195	789,928	947,914	3,638,925	2,129,383	7,759,345
TOTAL		14,785,450	1,372,071	2,776,313	8,615,180	12,875,717	40,424,731

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.