TOPLANA A.D.
PRIJEDOR

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016

Content

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 2016.

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

Zoran Knežević, acting Director

Toplana a.d. Prijedor
Rudnička 66
79101 Prijedor

20 April 2017

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To the Shareholders of Toplana a.d. Prijedor:

Independent auditor's report

Qualified Opinion

We have audited the accompanying financial statements of Toplana a.d. Prijedor (the "Company"), set out on pages 5 to 31, which comprise the statement of financial position as at 31 December 2016, 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.

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 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Qualified Opinion

The Company did not make impairment for trade receivables in amount of BAM 405,099 (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. In accordance with IAS 39 „Financial instruments: Recognition and Measurement", the Company should make impairment for minimum abovementioned amount. Had the Company complied with the requirements of this Standard, loss for the year ended 31 December 2016 would have increased for an amount of BAM 405,099.

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 2016 and 2015, the Company reported a loss that exceeded capital in the amount of BAM 10,873,339 and BAM 9,144,415, 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.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to ethical responsibilities for the audit of financial statements and we have met our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* section of our report, we have determined the matters described below to be the key audit matters that we should communicate in our report.

Valuation of property, plant and equipment

The Company has at 31 December 2016, as presented in Note 17, reported property, plant and equipment in the amount of BAM 22,666,847. Adopted accounting policies for inventories define that they are stated at cost less accumulated depreciation and any recognized impairment losses. Depreciation is calculated so that the purchase value or estimated fair value, other than land and property as well as plant and equipment under construction, is written off over their estimated useful lives using the straight-line method at depreciation rates adopted by the Company's management, based on the estimated useful life of the asset.

Our audit procedures are related to identification of existence of the assets, conciliation of general ledger with registry and inventory count, testing the adequacy of the initial recognition of assets, as well as additions and disposals during the year, completeness and accuracy of calculating the annual depreciation. Also, we conducted testing of procedures of internal control and tests to establish the ownership of the property, which is recorded in the books of the Company.

According to the implemented procedures, we believe that the estimates of management, which are the basis for the valuation of property, plant and equipment are acceptable.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

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

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

Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Baker Tilly Re Opinion d.o.o.
Grbavička 4, 71000 Sarajevo

Nihad Fejzić, Director and Certified Auditor

DRUŠTVO ZA REVIZIJU BAKER TILLY RE OPINION d.o.o. SARAJEVO

Ezita Imamović, Certified Auditor

Sarajevo, 20 April 2017

TOPLANA A.D. PRIJEDOR
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 BAM	2015 BAM
Operating income			
Sales	5	4,965,160	4,824,120
Total operating income		**4,965,160**	**4,824,120**
Operating expenses			
Costs of material, fuel and energy	6	(2,651,760)	(3,896,249)
Staff costs and other personnel costs	7	(1,043,561)	(981,766)
Production services costs	8	(175,708)	(107,722)
Depreciation and amortization	9	(1,223,742)	(300,103)
Non-material costs	10	(259,702)	(294,878)
Total operating expenses		**(5,354,473)**	**(5,580,718)**
OPERATING LOSS		**(389,313)**	**(756,598)**
Other income and expenses			
Other income	11	392,366	516,741
Other expenses	12	(1,581,870)	(1,284,705)
LOSS FROM OPERATING ACTIVITIES		**(1,578,817)**	**(1,524,562)**
Finance income and expenses			
Financial income	13	721,032	711,374
Financial expenses	14	(871,139)	(669,370)
LOSS BEFORE TAXATION		**(1,728,924)**	**(1,482,558)**
Income tax	15	-	-
LOSS AFTER TAXATION		**(1,728,924)**	**(1,482,558)**

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 2016

	Note	31/12/2016 BAM	31/12/2015 BAM
Non-current assets			
Intangible assets	16	871,744	486,486
Property, plant and equipment	17	22,666,847	23,472,215
Total non-current assets:		***23,538,591***	***23,958,701***
Current assets			
Inventories	18	570,711	291,269
Trade receivables	19	2,462,522	2,519,701
Other receivables	20	41,345	2,342,474
Bonds investment at fair value	21	-	37,727
Cash and cash equivalents	22	21,689	724,287
Total current assets:		***3,096,267***	***5,915,458***
Loss exceeding capital		***10,873,339***	***9,144,415***
TOTAL ASSETS		**37,508,197**	**39,018,574**
Equity and reserves			
Share capital	23	2,040,000	2,040,000
Revaluation reserves		-	96,492
Accumulated loss		(2,040,000)	(2,136,492)
Total equity and reserves:		***-***	***-***
Long-term liabilities			
Long-term provisions	24	28,491	26,149
Deferred income	25	4,647,481	1,026,029
Long-term borrowings and bonds	26	18,704,489	19,480,865
Total long-term liabilities:		***23,380,461***	***20,533,043***
Short-term liabilities			
Trade payables	27	6,641,691	10,459,390
Short-term borrowings	28	6,975,918	7,712,410
Other short-term liabilities	29	510,127	313,731
Total short-term liabilities:		***14,127,736***	***18,485,531***
TOTAL EQUITY AND LIABILITIES		**37,508,197**	**39,018,574**

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

Signed on behalf of the Company on 20 April 2017

Zoran Knežević

Acting Director

TOPLANA A.D. PRIJEDOR
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital BAM	Revaluation reserves BAM	Accumulated loss BAM	Total BAM
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)**
Transfer to accumulated loss **	-	(96,492)	96,492	-
Loss for the year	-	-	(1,728,924)	(1,728,924)
Balance at 31 December 2016	**2,040,000**	**-**	**(12,913,339)**	**(10,873,339)**

* 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. In 2016, the outstanding amount related to this the Company has transferred to the accumulated loss.

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

TOPLANA A.D. PRIJEDOR
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 BAM	2015 BAM
Operating activities		
Cash receipts from customers and received advances	5,337,092	5,423,184
Other cash receipts	1,369,443	2,617,857
Cash paid to trade payables and given advances	(3,798,895)	(3,853,814)
Cash paid to and on behalf of employees	(978,605)	(976,156)
Interest paid	(770,559)	(651,905)
Outflows from other duties	(343,678)	(4,026,126)
Net cash from/(used in) operating activities	**814,798**	**(1,466,960)**
Investing activities		
Purchases of non-current assets	(115,850)	(13,673,014)
Net cash used in investing activities	**(115,850)**	**(13,673,014)**
Financing activities		
(Outflows)/inflows from borrowings	(1,401,547)	15,825,026
Net cash (used in)/from financing activities	**(1,401,547)**	**15,825,026**
Net (decrease)/increase in cash and cash equivalents	**(702,599)**	**685,052**
Cash and cash equivalents at beginning of year	**724,288**	**39,236**
Cash and cash equivalents at end of year	**21,689**	**724,288**

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

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 at District commercial court in Banja Luka as of 20 March 2013, so the share capital amounted to BAM 5,300,948.

On 4 November 2013 share capital owner’s 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 2016, the Company has 63 employees (2015: 62 employees)

Company's Bodies

Supervisory Board

Velimir Smiljanić	Chairman
Dragoslav Novaković	Member
Miroslav Bijelić	Member

Management

Zoran Knežević	Acting Director
Ljiljana Despotović	Director up to 31 March 2017
Zoran Knežević	Executive Director of the Technical department up to 31 March 2017
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

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 2016 or later. The annual improvements include a large number of amendments to IFRS, which are shown as follows:

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 19	Employee Benefits (annual improvements – applicable from 1 January 2016)
IAS 27	Separate Financial Statements (reinstating the equity method as an accounting option for investments in in subsidiaries, joint ventures and associates in an entity's separate financial statements - applicable from 1 January 2016)
IAS 28	Investments in Associates and Joint Ventures (the application of the consolidation exception - applicable from 1 January 2016)
IAS 34	Interim Financial Reporting (annual improvements – 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)
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)
IFRS 10	Consolidated Financial Statements (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 11	Joint Arrangements (the accounting for acquisitions of an interest in a joint operation - applicable from 1 January 2016)
IFRS 14	Regulatory Deferral Accounts (applicable from 1 January 2016)

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:

IAS 7	Statement of cash flows (disclosure initiative – applicable from 1 January 2017)
IAS 12	Income taxes (recognition of deferred tax assets for unrealised losses – applicable from 1 January 2017)
IFRS 12	Disclosure of interests in other entities (annual improvements - applicable from 1 January 2017)
IAS 28	Investments in Associates and Joint Ventures (annual improvements – applicable from 1 January 2018)
IAS 40	Investment property (transfers of investment property – applicable from 1 January 2018)
IFRS 1	First time adoption of International Financial Reporting Standards (annual improvements – applicable from 1 January 2018)
IFRS 2	Share-based Payment (classification and measurement of share-based payment transactions – applicable from 1 January 2018)
IFRS 4	Insurance contracts (applying IFRS 9 “Financial instruments” with IFRS 4 – applicable from 1 January 2018)

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

IFRS 9	Financial Instruments (finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition - applicable from 1 January 2018)
IFRS 15	Revenue from Contracts with Customers (applicable from 1 January 2018)
IFRS 15	Revenue from contracts with customers (clarification to IFRS 15 – applicable from 1 January 2018)
IFRS 16	Leases (applicable from 1 January 2019)
IFRIC 22	Foreign currency transactions and advance consideration (applicable from 1 January 2018)

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.

3.1 Revenue recognition

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Taxation (continued)

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%.

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 50 years	2%-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. 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**
Investments in development	5 years	20%
The building right	50 years	2%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

<u>Other receivables</u>
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.

<u>Derecognition of financial assets</u>
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 maintains to control of financial assets, the Company continued to recognize the financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Financial assets (continued)

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
n 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.

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.

<u>Useful lives of tangible and intangible assets</u>
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

	2016 BAM	2015 BAM
Revenue from heating– individuals	3,116,670	3,199,190
Revenue from heating – legal entities	1,036,840	989,500
Revenue from heating – budget users	706,705	620,144
Revenue from electricity production	55,678	-
Revenue from services – legal entities and budget users	43,641	4,956
Revenue from services – individuals	5,626	10,330
Total:	**4,965,160**	**4,824,120**

6. COSTS OF MATERIAL, FUEL AND ENERGY

	2016 BAM	2015 BAM
Wood costs	2,123,818	356,256
Energy costs	305,661	216,937
Cost of other material	140,059	94,798
Fuel	72,132	18,670
Small inventory write-off	10,090	6,921
Oil fuel	-	3,202,667
Total:	**2,651,760**	**3,896,249**

7. STAFF COSTS AND OTHER PERSONNEL COSTS

	2016 BAM	2015 BAM
Gross salaries	800,736	752,820
Holiday allowance	126,368	124,046
Reimbursement to the Supervisory Board, Audit Committee and Internal Audit	41,791	41,791
Meal allowance	37,975	35,101
Transportation fees	27,572	23,956
Other employee expenses	5,548	3,099
Travel expenses	3,571	953
Total:	**1,043,561**	**981,766**

8. PRODUCTION SERVICES COSTS

	2016 BAM	2015 BAM
Maintenance	130,975	57,181
Postal services	21,238	22,215
Utilities	9,804	2,625
Other production services	8,030	6,560
Marketing and advertising	4,707	11,124
Temporary services	954	8,017
Total:	**175,708**	**107,722**

9. DEPRECIATION AND AMORTIZATION

	2016 BAM	2015 BAM
Depreciation of tangible assets	1,172,850	298,115
Amortization of intangible assets	50,892	1,988
Total:	**1,223,742**	**300,103**

10. NON-MATERIAL COSTS

	2016 BAM	2015 BAM
VAT costs upon control	145,292	14,529
Intellectual services	34,049	37,127
Memberships, contribution, taxes and fees	25,558	24,975
Insurance costs	21,848	22,430
Enforced collection costs	10,084	15,695
Severance payments (Note 24)	6,697	7,475
Banking services	4,972	145,454
Entertainment expenses	3,066	12,501
Costs of other provisions	188	10,107
Other non-material expenses	7,948	4,585
Total:	**259,702**	**294,878**

11. OTHER INCOME

	2016 BAM	2015 BAM
Income from reversal of long-term provisions (Note 25)	193,417	502,526
Collected fully write-off receivables (Note 19 and 20)	192,727	-
Income from payables write-off	2,146	2,000
Invoiced heating connection fees	1,824	5,688
Other operating income	2,252	6,527
Total:	**392,366**	**516,741**

12. OTHER EXPENSES

	2016 BAM	2015 BAM
Impairment of receivables (Note 19 and 20)	1,573,558	1,284,705
Expenses from previous periods	8,222	-
Other expenses	90	-
Total:	**1,581,870**	**1,284,705**

13. FINANCIAL INCOME

	2016 BAM	2015 BAM
Revenue from invoiced interest	690,167	709,692
Revenues from the sale of bonds	30,863	-
Interest income on deposits	2	785
Purchased bonds interest income	-	897
Total:	**721,032**	**711,374**

14. FINANCIAL EXPENSES

	2016 BAM	2015 BAM
Interest on borrowings	658,330	548,026
Subsequently determined interest for late payment	212,750	120,852
Interest on bonds	59	492
Total:	**871,139**	**669,370**

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:

	2016 BAM	2015 BAM
Loss before tax	**(1,728,924)**	**(1,482,558)**
Tax effect of non - deductible expenses	212,268	115,272
Tax effect of non - deductible income	-	(785)
Total taxable profit	**(1,516,656)**	**(1,368,071)**
Income tax at the rate of 10%	-	-
Tax expense	**-**	**-**

16. INTANGIBLE ASSETS

	Investment in development BAM	Right to build BAM	Total BAM
Cost			
As at 31 December 2015	**19,849**	**485,546**	**505,395**
Additions	-	-	-
Transfer from property, plant and equipment (Note 17)	436,150	-	436,150
As at 31 December 2016	**455,999**	**485,546**	**941,545**
Accumulated amortization			
As at 31 December 2015	**18,909**	**-**	**18,909**
Amortization for the year	42,152	8,740	50,892
As at 31 December 2016	**61,061**	**8,740**	**69,801**
Net carrying amount			
As at 31 December 2016	**394,938**	**476,806**	**871,744**
As at 31 December 2015	**940**	**485,546**	**486,486**

16. INTANGIBLE ASSETS (CONTINUED)

	Investment in development BAM	Investment in progress BAM	Total BAM
Cost			
As at 31 December 2014	**19,849**	**-**	**19,849**
Additions	-	485,546	485,546
As at 31 December 2015	**19,849**	**485,546**	**505,395**
Accumulated amortization			
As at 31 December 2014	**16,921**	**-**	**16,921**
Amortization for the year	1,988	-	1,988
As at 31 December 2015	**18,909**	**-**	**18,909**
Net carrying amount			
As at 31 December 2015	**940**	**485,546**	**486,486**
As at 31 December 2014	**2,928**	**-**	**2,928**

17. PROPERTY, PLANT AND EQUIPMENT

	Land BAM	Buildings BAM	Equipment BAM	Investment in progress BAM	Total BAM
Cost					
As at 31 December 2015	**818,890**	**3,812,944**	**11,583,995**	**17,412,714**	**33,628,543**
Additions	-	-	-	803,632	803,632
Transfer (from)/to	-	5,133,895	11,940,784	(17,074,679)	-
Transfer to intangible assets (Note 16)	-	-	-	(436,150)	(436,150)
As at 31 December 2016	**818,890**	**8,946,839**	**23,524,779**	**705,517**	**33,996,025**
Accumulated depreciation					
As at 31 December 2015	**-**	**2,884,147**	**7,272,181**	**-**	**10,156,328**
Depreciation	-	231,893	940,957	-	1,172,850
As at 31 December 2016	**-**	**3,116,040**	**8,213,138**	**-**	**11,329,178**
Net carrying amount					
As at 31 December 2016	**818,890**	**5,830,799**	**15,311,641**	**705,517**	**22,666,847**
As at 31 December 2015	**818,890**	**928,797**	**4,311,814**	**17,412,714**	**23,472,215**

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land BAM	Buildings BAM	Equipment BAM	Investment in progress BAM	Total BAM
Cost					
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**
Accumulated depreciation					
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**
Net carrying amount					
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**

The Company has pledged land and property net carrying value of BAM 1,003,116, and equipment net carrying value of BAM 3,957,980 as collateral for repayments related to the bonds liabilities, and for the settlement of obligations towards the state on the basis of liabilities reprogram.

18. INVENTORIES

	31/12/2016 BAM	31/12/2015 BAM
Maintenance material	229,158	74,228
Firewood	205,351	83,562
Oil fuel	120,213	120,213
Tools and small inventory, net	11,233	8,946
Other	4,756	4,320
Total:	**570,711**	**291,269**

19. TRADE RECEIVABLES

	31/12/2016 BAM	31/12/2015 BAM
Trade receivables - individuals – services and interest	8,524,791	7,507,956
Trade receivables - legal entities – services and interest	1,821,361	1,751,078
Trade receivables - budget users– services and interest	322,975	207,800
Impairment for bad and doubtful trade receivables	(8,206,605)	(6,947,133)
Total:	**2,462,522**	**2,519,701**

19. TRADE RECEIVABLES (CONTINUED)

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

	2016 BAM	2015 BAM
Balance at beginning of the period	**6,947,133**	**4,052,133**
Increase in impairment (Note 14)	1,573,558	1,282,404
Collected written-off receivables (Note 13)	(192,388)	-
Write-off	(121,698)	(15,601)
Correction of errors of previous periods at the expense of accumulated loss	-	1,628,197
Balance at the end of the period	**8,206,605**	**6,947,133**

20. OTHER RECEIVABLES

	31/12/2016 BAM	31/12/2015 BAM
Heating connection fee receivables	43,829	49,490
Receivables for reimbursement of sick leave	29,858	32,812
Prepaid and accrued expenses	8,069	30,491
Advance receivables	2,149	1,490
VAT receivables	1,219	1,372,260
Receivables from Government of RS*	-	900,000
Other receivables	50	99
Impairment for bad and doubtful other receivables	(43,829)	(44,168)
Total:	**41,345**	**2,342,474**

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. During 2016, these receivables were closed because payments to suppliers were made by the RS Government.

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

	2016 BAM	2015 BAM
Balance at beginning of the period	**44,168**	**47,075**
Increase in impairment (Note 14)	-	2,301
Collected written-off receivables (Note 13)	(339)	-
Write-off	-	(5,208)
Balance at the end of the period	**43,829**	**44,168**

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). During 2016, the bonds are fully utilized to settle liabilities.

22. CASH AND CASH EQUIVALENTS

	31/12/2016 BAM	31/12/2015 BAM
Cash at bank accounts	11,667	306,026
Extracted funds for settlement of liabilities upon borrowings from EBRD	7,367	414,540
Cash in hand	2,546	3,701
Cash at bank accounts in foreign currency	109	20
Total:	**21,689**	**724,287**

23. SHARE CAPITAL

	31/12/2016 BAM	31/12/2015 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 2016 and 31 December 2015 may be presented as follows:

	% ownership	31/12/2016 BAM	% ownership	31/12/2015 BAM
Grad 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**

24. LONG-TERM PROVISIONS

	31/12/2016 BAM	31/12/2015 BAM
Severance pays provision	24,487	22,135
Jubilee awards provision	4,004	4,014
Total:	**28,491**	**26,149**

When calculating the present value of the rights of employees to severance pays, the Company used the following assumptions: interest rate of 6.00%, 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 3%, as well as other conditions required for entitlement to retirement and jubilee awards. Movements in long-term provisions in 2016 and 2015 may be presented as follows:

	2016 BAM	2015 BAM
Balance at the beginning of the year	**26,149**	**29,688**
Provisions during the year on account of expenses (Note 10)	6,697	7,475
Reversal of provision for paid severance	(4,355)	(11,014)
Balance at end of year	**28,491**	**26,149**

25. DEFERRED INCOME

	31/12/2016 BAM	31/12/2015 BAM
SIDA Sweden	4,086,132	454,885
The Government of Republic of Srpska	390,805	397,474
The City of Prijedor	170,544	173,670
Total:	**4,647,481**	**1,026,029**

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 2,218,700.

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.

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.

Movements in deferred income during the year can be shown as follows:

	2016 BAM	2015 BAM
Balance at beginning of the period	**1,026,029**	**74,233**
New donations	3,816,111	1,454,322
Income from reversal of long-term provisions (Note 13)	(193,417)	(502,526)
Write off of unused donations	(1,242)	-
Balance at the end of the period	**4,647,481**	**1,026,029**

26. LONG-TERM BORROWINGS AND BONDS

	Interest rate %	Maturity	31/12/2016 BAM	31/12/2015 BAM
The European Bank for Reconstruction and Development (EBRD)	6mEuribor+ margin	31/10/2029	13,690,810	13,670,047
Komercijalna banka a.d. Banja Luka	7.90	30/09/2017	881,176	1,977,835
Investiciono-razvojna banka Republike Srpske a.d. Banja Luka	6mEuribor+ margin	1/07/2020	1,793,170	1,793,170
UniCredit Bank a.d. Banja Luka	6mEuribor+ 5.12	31/5/2017	434,209	1,439,339
Tax Administration, Ministry of Finance of RS	legislative	10/2/2022	491,138	580,560
Subtotal borrowings			*17,290,503*	*19,460,951*
Bonds	-	-	3,489,904	3,832,324
Subtotal bonds			*3,489,904*	*3,832,324*
Less: current portion (presented within short-term liabilities Note 28)			(2,075,918)	(3,812,410)
Total:			**18,704,489**	**19,480,865**
Long-term borrowings are repayable as follows:				
On demand or within one year			2,075,918	3,812,410
In the second year			2,200,711	2,371,212
From the third to fifth year inclusive			6,042,384	4,955,537
After five years			10,461,394	12,154,116

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 m^2. As at 31 December 2016, the Company did not write off the trade receivables older than one year in the amount of BAM 405,099.

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 1.739.170. The funds were approved for the purchase of fixed assets with a grace period of 12 months. Repayment of the loan starts on 1 August 2017 in 36 equal instalments.

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.

26. LONG-TERM BORROWINGS AND BONDS (CONTINUED)

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.

27. TRADE PAYABLES

	31/12/2016 BAM	31/12/2015 BAM
Trade payables – domestic	6,635,753	9,509,666
Trade payables – foreign	5,938	949,724
Total:	**6,641,691**	**10,459,390**

28. SHORT-TERM BORROWINGS

	31/12/2016 BAM	31/12/2015 BAM
Grad Prijedor	4,900,000	3,900,000
Current portion of long-term borrowings (Note 26)	2,075,918	3,812,410
Total:	**6,975,918**	**7,712,410**

During 2016 and previous periods, loans were approved from the budget of the City of Prijedor towards the Company for financing working capital for periods up to 12 months. The last loan was granted on 25 January 2016 in the amount of BAM 1 million. The extension of the period for settling these liabilities was not performed to the day of our audit.

29. OTHER SHORT-TERM LIABILITIES

	31/12/2016 BAM	31/12/2015 BAM
Liabilities for VAT - subsidies	134,451	-
Liabilities for accrued interest	130,184	67,602
Advances	72,422	68,904
Prepaid income from invoices	66,870	59,625
Liabilities for net earnings	49,181	49,846
Taxes and contributions on salaries	38,227	35,783
Liabilities for the Supervisory Board and Audit Board	10,370	7,200
Accrued expenses for the period	2,233	19,751
Other	6,189	5,020
Total:	**510,127**	**313,731**

30. COMMITMENTS

As mentioned in Note 25, 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 2,218,700. Until the day of 31 December 2016, consulting companies invoiced total amount of BAM 1,141,668. The remaining amount of BAM 68,404 will be invoiced in the future.

31. CONTINGENT LIABILITIES

According to Management, as at 31 December 2016 there were court proceedings initiated against the Company in amount of BAM 78,098. The Company did not make provision on this basis, because according to the responsible person, lawsuits are generally related to the determination of true state of consumer debt towards Toplana a.d. Prijedor.

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 2016.

33. TRANSACTIONS WITH RELATED PARTIES

	2016 BAM	2015 BAM
LIABILITIES		
Grad Prijedor – short-term borrowings	4,900,000	3,900,000
Total:	**4,900,000**	**3,900,000**

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

	2016 BAM	2015 BAM
Gross salaries for Management members	153,785	153,124
Supervisory board and Audit board fees, gross	35,820	35,821
Total:	**189,605**	**188,945**

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:

	31/12/2016 BAM	31/12/2015 BAM
Debt (i)	25,680,407	27,193,275
Cash and cash equivalents	(21,689)	(724,287)
Net debt	**25,658,718**	**26,468,988**
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.

34. FINANCIAL INSTRUMENTS (CONTINUED)

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.

Categories of financial instruments

	31/12/2016 BAM	31/12/2015 BAM
Financial assets		
Loans and receivables (including cash and cash equivalents)	2,485,430	4,181,715
Financial liabilities		
Amortized cost	32,684,511	37,797,064

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 financial 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:

- loss for the year ended 31 December 2016 would decrease/increase for amount of BAM 79,591 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.

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 2016							
Non-interest bearing	-	2,485,430	-	-	-	-	2,485,430
TOTAL		**2,485,430**	**-**	**-**	**-**	**-**	**2,485,430**
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 2016							
Non-interest bearing	-	11,199,161	704,943	-	-	-	11,904,104
Variable interest rate instruments	1.61%	96,068	461,317	348,372	6,714,124	9,520,564	17,140,445
Fixed interest rate instruments	6.82%	234,035	789,928	644,499	2,728,682	1,460,176	5,857,320
TOTAL		**11,529,264**	**1,956,188**	**992,871**	**9,442,806**	**10,980,740**	**34,901,869**
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**

34. FINANCIAL INSTRUMENTS (CONTINUED)

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.