

Toplana a.d. Prijedor
Audit of Financial Statements at
31 December 2018

Content

	Page
Responsibility for the financial statements	1
Independent Auditor's Report	2
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Cash Flow Statement	8
Notes to the Financial Statements	9 - 31

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 2018.

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 Company

Zoran Knežević, acting Director

Toplana a.d. Prijedor
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3 April 2019

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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 2018, and the statement of comprehensive income, cash flow statement and statement of changes in equity 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 2018 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 186,837 (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. The Company should have made impairment for abovementioned amount. Had the Company complied with the requirements of International Financial Reporting Standards relating to impairment of receivables, loss for the year ended 31 December 2018 would have increased for an amount of BAM 186,837.

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 qualified opinion.

Significant uncertainty regarding going concern

We draw attention to Note 1.1 to the financial statements stating that the Company continues to adopt the principle of going concern when preparing the financial statements. The Company recognized the circumstances that cast doubt on the Company's ability to continue as going concern, but it is considered that the business in the foreseeable future is not compromised, since the Company's capability of business continuity depends exclusively on the financial support of city and state authorities.

The Company continuously records operating losses, and on 31 December 2018 and 2017, it reported a loss above the amount of capital in the amount of BAM 12,934,666 and BAM 12,604,207, while short-term liabilities of the Company significantly exceeded its short-term assets (BAM 3,998,893 of current assets comparing to BAM 12,600,203 of short-term receivables). This situation reflects the increased liquidity risk.

If the financial support of city and state authorities is lacking, the ability of the Company to continue to operate in the foreseeable future will become uncertain. In that case, the annual financial statements should be prepared

under the assumption of discontinued operations, which will affect the valuation of assets, and the classification of assets and liabilities in amounts that cannot currently be determined.

Emphasis of Matter

We draw attention to Note 17 to the financial statements in which is stated that property, plant and equipment of net book value in amount of BAM 14,991,635, which makes 68.77% of total property, plant and equipment, is pledged as an instrument for securing the repayment of funds based on bonds and for settlement of obligations towards the state based on reprogramming. Our opinion has not been modified regarding this matter.

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.

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 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 detect 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 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 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.

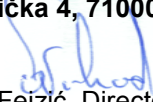
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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



Dražen Branković, Certified Auditor

Sarajevo, 3 April 2019

TOPLANA A.D. PRIJEDOR
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 BAM	2017 BAM
Operating income			
Sales	5	5,005,560	5,145,016
Total operating income		5,005,560	5,145,016
Operating expenses			
Costs of material, fuel and energy	6	(3,190,817)	(3,264,573)
Staff costs and other personnel costs	7	(1,185,451)	(1,114,581)
Production services costs	8	(122,253)	(115,390)
Depreciation and amortization	9	(895,388)	(1,157,882)
Non-material costs	10	(201,887)	(117,056)
Total operating expenses		(5,595,796)	(5,769,482)
OPERATING LOSS		(590,236)	(624,466)
Other income and expenses			
Other income	11	1,514,448	536,653
Other expenses	12	(1,136,738)	(1,565,826)
LOSS FROM OPERATING ACTIVITIES		(212,526)	(1,653,639)
Finance income and expenses			
Financial income	13	587,096	702,057
Financial expenses	14	(705,029)	(739,673)
LOSS BEFORE TAXATION		(330,459)	(1,691,255)
Income tax	15	-	-
LOSS AFTER TAXATION		(330,459)	(1,691,255)

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

TOPLANA A.D. PRIJEDOR
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	31/12/2018 BAM	31/12/2017 (restated) BAM	31/12/2017 BAM
Non-current assets				
Intangible assets	16	697,251	784,497	784,497
Property, plant and equipment	17	21,800,453	22,422,704	22,158,180
Total non-current assets:		22,497,704	23,207,201	22,942,677
Current assets				
Inventories	18	1,135,675	973,647	973,647
Trade receivables	19	2,002,235	2,285,091	2,285,091
Other receivables	20	277,808	128,142	128,142
Bonds investment at fair value	21	159,779	21,025	21,025
Cash and cash equivalents	22	423,396	195,085	195,085
Total current assets:		3,998,893	3,602,990	3,602,990
Loss exceeding capital		12,934,666	12,604,207	12,564,594
TOTAL ASSETS		39,431,263	39,414,398	39,110,261
Equity and reserves				
Share capital	23	2,040,000	2,040,000	2,040,000
Accumulated loss	-	(2,040,000)	(2,040,000)	(2,040,000)
Total equity and reserves:		-	-	-
Long-term liabilities				
Long-term provisions	24	26,106	26,351	26,351
Deferred income	25	4,925,473	5,138,558	5,138,558
Long-term borrowings and bonds	26	21,879,481	19,832,523	19,832,523
Total long-term liabilities:		26,831,060	24,997,432	24,997,432
Short-term liabilities				
Trade payables	27	689,827	1,107,812	1,107,812
Short-term borrowings	28	11,546,104	12,617,439	12,617,439
Other short-term liabilities	29	364,272	691,715	387,578
Total short-term liabilities:		12,600,203	14,416,966	14,112,829
TOTAL EQUITY AND LIABILITIES		39,431,263	39,414,398	39,110,261

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

Signed on behalf of the Company on 3 April 2019

Zoran Knežević
Acting Director

TOPLANA A.D. PRIJEDOR
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital BAM	Accumulated loss BAM	Total BAM
Balance at 31 December 2016	2,040,000	(12,913,339)	(10,873,339)
Loss for the year	-	(1,691,255)	(1,691,255)
Balance at 31 December 2017	2,040,000	(14,604,594)	(12,564,594)
Effects of changes in accounting policies*	-	264,524	264,524
Effects of correction of errors**	-	(304,137)	(304,137)
Balance at 31 December 2017 (restated)	2,040,000	(14,644,207)	(12,604,207)
Loss for the year	-	(330,459)	(330,459)
Balance at 31 December 2018	2,040,000	(14,974,666)	(12,934,666)

*In 2018, the Company changed its accounting policy regarding depreciation calculation (from linear to functional method) for one part of the equipment. The change in the depreciation calculation method applies only to the part of the equipment in which empirical measurements can be made of the total working time during the year. By setting the time-to-work ratio during one year with total projected time, based on the manufacturer's declaration, the depreciation rate is calculated for the current year. This method of calculating depreciation is applicable to new equipment for the production of heat energy.

** The Indirect Taxation Authority of BiH conducted control during 2018 and issued the Report of control No. 04/4-1/I-17-1-82-146-1/18 from 13 June 2018. The period under review was from 1 July 2016 to 31 March 2018. For the effects of additional tax liabilities and related penalty interests for periods until 31 December 2017 a correction of the initial balance as of 1 January 2018 was made.

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

TOPLANA A.D. PRIJEDOR
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	BAM	BAM
Operating activities		
Cash receipts from customers and received advances	6,431,950	5,981,540
Cash receipts from premiums, subventions, grants etc.	988,542	-
Other cash receipts	12,664	14,856
Cash paid to trade payables and given advances	(5,140,030)	(6,354,573)
Cash paid to and on behalf of employees	(1,138,418)	(1,066,729)
Interest paid	(674,918)	(730,996)
Outflows from other duties	(986,224)	(489,590)
Net cash used in operating activities	(506,434)	(2,645,492)
Investing activities		
Proceeds from other non-current financial investments	8,000,000	-
Purchases of non-current assets	(115,526)	(52,942)
Net cash from/(used in) investing activities	7,884,474	(52,942)
Financing activities		
Outflows/(inflows) from borrowings	(7,149,729)	2,871,830
Net cash (used in)/from in financing activities	(7,149,729)	2,871,830
Net increase in cash and cash equivalents	228,311	173,396
Cash and cash equivalents at beginning of year	195,085	21,689
Cash and cash equivalents at end of year	423,396	195,085

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

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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 decreased 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 2018, the Company has 62 employees (2017: 63 employees)

Company's Bodies

Supervisory Board

Velimir Smiljanić	Chairman
Dragoslav Novaković	Member
Miroslav Bijelić	Member

Management

Zoran Knežević	Acting Director
Amira Grahovac	Executive Director of the Legal department
Vinka Pekija	Executive Director of the Economic 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL (CONTINUED)

1.1 Going concern

The Company prepares its financial statements in accordance with the principle of going concern. This principle implies the assumption that the Company will operate in the foreseeable future. Regardless of the fact that the business in the foreseeable future (the next business year) is not threatened, we note that for the period ended 31 December 2018, the Company had total short-term assets in amount that is significantly less than short-term liabilities. The ability of the Company to operate in accordance with the going concern principle depends exclusively on the financial support of city and state authorities.

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 2018 or later. The annual improvements include a large number of amendments to IFRS, which are shown as follows:

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)
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 (clarification to IFRS 15, applicable from 1 January 2018)
IFRIC 22	Foreign currency transactions and advance consideration (applicable from 1 January 2018)

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 28	Investments in Associates and Joint Ventures (annual improvements, applicable from 1 January 2019)
IFRS 9	Financial Instruments (annual improvements, applicable from 1 January 2019)
IFRS 16	Leases (applicable from 1 January 2019)
IFRS 17	Insurance Contracts (applicable from 1 January 2021)
IFRIC 23	Uncertainty over Income Tax Treatments (applicable from 1 January 2019)

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.

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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) 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 Accounting Standards Board (IASB), 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.

3.2 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. Gains and losses arising from translation are reported in the statement of comprehensive income for the period in which they were incurred.

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Employee benefits

a) Taxes and Contributions Made to the Employee Social Security

In accordance with the local regulatory requirements and the adopted accounting policy, the Company is obligated to pay contributions 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.

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.

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Taxation (continued)

Taxes and contributions that do not depend on results

Taxes and contributions that do not depend on results represent payments according to the applicable republic and municipal regulations in order to finance various utility and republic needs. These taxes and contributions are included in 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 inventories of materials, spare parts, tools and inventories is recorded at cost. Purchase value includes value per supplier's invoice, transport and dependent costs. When the material is an effect of its own production and when it is further used in the next stage of the production process, its estimation is made in the amount of production costs of these stocks, and most of all up to the net sales value of these inventories. As a fixed asset, built-in spare parts are recognized, whose useful life is longer than one year and the individual purchase price at the time of procurement of funds is higher than the average gross salary per employee in the Republic of Srpska, according to the latest published data of the republic authority in charge of statistical affairs. Such spare parts, after installation, increase the carrying amount of the asset in which they are installed. Spare parts that do not meet the above conditions are stated as operating expenses. As a fixed asset, they are recognized and subject to the depreciation of the asset and small inventory, whose useful life is longer than one year, and the individual purchase price at the time of acquisition of funds is higher than the average gross salary per employee in the Republic of Srpska, according to the latest published data of the republic authority responsible for jobs statistics. The tools of the tool and the small inventory, which are not prescribed by the Rules of Depreciation, are recorded as equipment on a separate analytical account. If their individual purchase value is less than BAM 1,500 it is written off at an annual rate of 100%. Tools and inventories that do not meet these conditions are disclosed as working capital (inventories).

Material consumption is calculated using the weighted average method. Subsequent valuation of inventories is carried at cost or net sales value, if lower.

3.7 Property, plant and equipment

Under the property, plant and equipment are considered those assets whose expected useful life is longer than one year, and the individual purchase price at the time of procurement of funds is higher than the average gross salary per employee in the Republic of Srpska, according to the latest published data of the republic authority responsible for statistics.

The initial measurement of property, plant and equipment that meets the requirements for recognition of assets is carried at cost. Subsequent measurement after initial recognition of property, plant and equipment is carried out using the cost model of IAS 16 - Property, plant and equipment, or at cost less any allowance for accumulated depreciation and impairment, except for property subsequently valued at the revalued value.

Subsequent expenditure, which relates to property, plant or equipment after its acquisition or completion, increases the value of the asset if it meets the requirements to be recognized as a fixed asset, i.e. if the lifetime is longer than one year and if the value of the subsequent expenditure is higher than the average gross salary in the Republic of Srpska, according to the latest published data of the republic authority in charge of statistical affairs. All other subsequently incurred expenditures on property, plant and equipment are recognized as expenses in the period in which they were incurred. Also, if the subsequent expenditure is mainly due to work, consumables and small spare parts, this expense is recorded as a current maintenance cost. For the subsequent expense that increases the value of the property, plant and equipment, the purchase value of such property, plant and equipment is adjusted. If the lifetime of an embedded part, recognized as a subsequent expense, is different from the lifetime of the asset in which it is incorporated, then that portion is held as a separate asset and amortized over the useful life of the asset.

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Property, plant and equipment (continued)

The disposed part is disposed of at an estimated value, if it is not possible to determine it carrying amount.

Depreciation of property, plant and equipment is carried out using the proportional and functional method. Useful depreciation and amortization rates are reviewed every year. The basis for calculating the depreciation of property, plant and equipment is the purchase or revalued value.

The estimated useful lives of individual groups of property, plant and equipment, which served as the basis for calculating depreciation, are the following:

	Estimated useful life	Depreciation rate
Buildings	10 to 50 years	2%-10%
Old boilers	45 years	2.22%
Other equipment	6 to 28 years	3.6-16.6%

For the new electricity generation equipment, a functional depreciation calculation method is applied. By setting the ratio of working time over a year to the total estimated working time, based on the declaration of the equipment manufacturer, the depreciation rate for the current year is calculated.

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%

3.9 Cash and cash equivalents

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

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Impairment of asset value

On each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets in order to determine whether there are indications that there has been a loss due to the impairment of the said asset. If there are such indications, the recoverable amount of the asset is estimated in order to determine the eventual impairment loss. If it is not possible to estimate the recoverable amount of a particular asset, the Company assesses the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the net selling price or value in use, whichever is higher. For the purposes of estimating value in use, estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects the current market estimate of the time value of money and the risks specific to that asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, then the carrying amount of that asset (or cash-generating unit) is impaired up to a recoverable amount.

Impairment losses are recognized immediately as an expense, unless the asset is not a land or a building that is not used as an investment property that is stated at the revalued amount, in which case the impairment loss is recognized as a decrease in the value generated by the revaluation of the asset.

In case of a subsequent cancellation of the impairment loss, the carrying amount of the asset (cash-generating unit) is increased to the revised estimated recoverable amount of that asset, where the higher carrying amount does not exceed the carrying amount that would have been established that in previous years there were no recognized losses on that asset (cash-generating unit) due to impairment. The reversal of impairment losses is recognized immediately as income, unless the asset is stated at the estimated value, in which case the reversal of impairment loss is recognized as an increase due to revaluation.

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 Short-term receivables and loans

Short-term receivables include receivables from trade receivables - dependent and related legal entities and other customers in the country and abroad based on the sale of products, goods and services. Short-term placements include loans, securities and other short-term placements with a maturity date or sale up to one year from the balance sheet date. Short-term receivables from customers are measured by value from the original invoice. If the value in the invoice is denominated in a foreign currency, conversion into the reporting currency at the current exchange rate of the Central Bank of BH on the day of the transaction. Receivables denominated in foreign currencies at the balance sheet date are translated at the current exchange rate of the Central Bank of BH and exchange differences are recognized as income or expense of the period.

Indirect write-off, or a correction of the value of receivables from customers through the impairment account, is carried out in the case of receivables from customers where at least 60 days have passed since the deadline for their payment. The decision on indirect write-offs, i.e. the correction of the value of receivables from customers through the impairment account on the Commission's proposal for the list of receivables and short-term placements, is made by the Management Board of the Company.

Direct write-off of customer receivables at the expense of the expense of the period is done if the collectability is certain and documented - the Company did not manage to settle its payment by court and the claim was previously included in the Company's income. The decision on direct write-off of trade receivables on the proposal of the Commission for the list of claims and short-term placements is made by the Management Board of the Company. Short-term financial investments that are not held for trading are measured at fair value, without taking into account the intention of the Company to hold them until the maturity date.

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial liabilities

Financial liabilities include long-term liabilities, short-term financial liabilities, short-term operating liabilities and other short-term liabilities. In initial recognition, the Company measures a financial liability at its cost which represents the fair value of the consideration received for it. Transaction costs are included in the initial measurement of all financial liabilities.

After initial recognition, the Company measures all financial liabilities at amortized cost, other than the obligation held for trading and derivatives that are liabilities measured at fair value. Reduction of obligations under the law, outright settlement, or the like is done by direct write-off.

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.

The lifetime of tangible and intangible assets

The company reviews the estimated life of tangible and intangible assets at the end of each annual reporting period.

Impairment of receivables

The Company's Management recognizes the impairment loss for doubtful receivables on the basis of estimated losses that result from the debtor's inability to settle its obligations. In assessing the adequacy of the impairment for doubtful receivables, the Company's Management Board bases its assessment on the age structure of receivables and write-offs from previous periods.

5. SALES

	2018	2017
	BAM	BAM
Revenue from heating– individuals	2,997,674	3,021,539
Revenue from heating – legal entities	1,003,858	1,016,978
Revenue from heating – budget users	692,447	722,257
Revenue from electricity production	281,119	311,970
Revenue from services – legal entities and budget users	25,401	67,466
Revenue from services – individuals	5,061	4,806
Total:	5,005,560	5,145,016

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

6. COSTS OF MATERIAL, FUEL AND ENERGY

	2018 BAM	2017 BAM
Wood costs	2,381,976	2,321,193
Energy costs	310,000	319,195
Cost of other material	208,126	146,899
Fuel oil cost	177,094	393,411
Fuel cost	105,284	73,698
Small inventory write-off	8,337	10,177
Total:	3,190,817	3,264,573

7. STAFF COSTS AND OTHER PERSONNEL COSTS

	2018 BAM	2017 BAM
Gross salaries	935,051	867,253
Holiday allowance	135,907	128,358
Meal allowance	41,383	41,163
Reimbursement to the Supervisory Board, Audit Committee and Internal Audit	40,298	41,791
Transportation fees	26,117	27,163
Other employee expenses	5,724	7,549
Travel expenses	971	1,304
Total:	1,185,451	1,114,581

8. PRODUCTION SERVICES COSTS

	2018 BAM	2017 BAM
Maintenance	70,973	67,780
Telecommunication cost	29,349	21,128
Utilities	9,730	14,801
Other production services	8,108	6,924
Marketing and advertising	2,184	3,803
Temporary services	1,909	954
Total:	122,253	115,390

9. DEPRECIATION AND AMORTIZATION

	2018 BAM	2017 BAM
Depreciation of tangible assets	808,142	1,070,635
Amortization of intangible assets	87,246	87,247
Total:	895,388	1,157,882

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

10. NON-MATERIAL COSTS

	2018 BAM	2017 BAM
Intellectual services	52,197	34,480
Costs of other provisions	46,073	611
Banking services	42,204	33,913
Insurance costs	30,720	19,852
Memberships, contribution, taxes and fees	15,765	18,411
Severance payments (Note 24)	5,345	52
Entertainment expenses	2,524	1,182
Enforced collection costs	-	1,055
Other non-material expenses	7,059	7,500
Total:	201,887	117,056

11. OTHER INCOME

	2018 BAM	2017 BAM
Income from subsidies from the city of Prijedor *	970,940	-
Collected written-off receivables (Note 19 and 20)	304,789	291,587
Income from reversal of long-term provisions (Note 25)	230,687	230,706
Invoiced heating connection fees	7,094	11,467
Other operating income	938	2,893
Total:	1,514,448	536,653

* By Decision No. 02-40-56/18 of 18 January 2018, the Mayor of the City of Prijedor approved cash funds to the Company in the total amount of BAM 1,000,000 in the name of the subsidy for settlement of obligations under the EBRD loan.

12. OTHER EXPENSES

	2018 BAM	2017 BAM
Impairment of receivables (Notes 19 and 20)	1,133,468	1,564,253
Expenses from previous periods	3,270	445
Other expenses	-	1,128
Total:	1,136,738	1,565,826

13. FINANCIAL INCOME

	2018 BAM	2017 BAM
Revenue from invoiced interest	582,496	688,729
Revenues from the sale of bonds	4,600	13,328
Total:	587,096	702,057

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

14. FINANCIAL EXPENSES

	2018 BAM	2017 BAM
Interest on borrowings	596,451	575,428
Subsequently determined interest for late payment	105,294	163,613
Interest on the records of the Tax Administration	1,345	-
Interest on bonds	1,939	632
Total:	705,029	739,673

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:

	2018 BAM	2017 BAM
Loss before tax	(330,459)	(1,691,255)
Tax effect of non - deductible expenses	592,161	147,962
Tax effect of non - deductible income	(142,982)	(555,805)
Total taxable profit	118,720	(2,099,098)
Income tax at the rate of 10%	-	-
Tax expense	-	-

16. INTANGIBLE ASSETS

	Investment in development BAM	Right to build BAM	Total BAM
<i>Cost</i>			
As at 31 December 2017	455,999	485,546	941,545
Additions	-	-	-
As at 31 December 2018	455,999	485,546	941,545
<i>Accumulated amortization</i>			
As at 31 December 2017	139,568	17,480	157,048
Amortization for the year	78,507	8,739	87,246
As at 31 December 2018	218,075	26,219	244,294
<i>Net carrying amount</i>			
As at 31 December 2018	237,924	459,327	697,251
As at 31 December 2017	316,431	468,066	784,497

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

16. INTANGIBLE ASSETS (CONTINUED)

	Investment in development BAM	Right to build BAM	Total BAM
<i>Cost</i>			
As at 31 December 2016	455,999	485,546	941,545
Additions	-	-	-
As at 31 December 2017	455,999	485,546	941,545
<i>Accumulated amortization</i>			
As at 31 December 2016	61,061	8,740	69,801
Amortization for the year	78,507	8,740	87,247
As at 31 December 2017	139,568	17,480	157,048
<i>Net carrying amount</i>			
As at 31 December 2017	316,431	468,066	784,497
As at 31 December 2016	394,938	476,806	871,744

17. PROPERTY, PLANT AND EQUIPMENT

	Land BAM	Buildings BAM	Equipment BAM	Investment in progress BAM	Total BAM
<i>Cost</i>					
As at 31 December 2017	818,890	8,946,839	23,577,720	1,214,544	34,557,993
Additions	-	-	-	185,891	185,891
Transfer (from)/to	-	-	115,526	(115,526)	-
As at 31 December 2018	818,890	8,946,839	23,693,246	1,284,909	34,743,884
<i>Accumulated depreciation</i>					
As at 31 December 2017	-	3,247,356	9,152,457	-	12,399,813
Effects of changes in accounting policies *	-	(69,380)	(195,144)	-	(264,524)
As at 31 December 2017 (restated)	-	3,177,976	8,957,313	-	12,135,289
Depreciation	-	287,704	520,438	-	808,142
As at 31 December 2018	-	3,465,680	9,477,751	-	12,943,431
<i>Net carrying amount</i>					
As at 31 December 2018	818,890	5,481,159	14,215,495	1,284,909	21,800,453
As at 31 December 2017 (restated)	818,890	5,768,863	14,620,407	1,214,544	22,422,704
As at 31 December 2017	818,890	5,699,483	14,425,263	1,214,544	22,158,180

* In 2018, the company carried out a change in the accounting policy in the calculation of depreciation (from linear to functional method) for one part of the equipment. The change in the method of calculation of depreciation relates only to that part of the equipment in which the total working time of the employees can be empirically measured during the year. By putting in the ratio of working time over a year to the total estimated time work, based on the manufacturer's declaration, the depreciation rate for the current year is calculated. This method of calculating depreciation is applicable to new heat production equipment. If there was no change in the accounting policy, the amount of calculated depreciation would have been higher by BAM 265,524.

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land BAM	Buildings BAM	Equipment BAM	Investment in progress BAM	Total BAM
<i>Cost</i>					
As at 31 December 2016	818,890	8,946,839	23,524,779	705,517	33,996,025
Additions	-	-		561,968	561,968
Transfer (from)/to	-	-	52,941	(52,941)	-
As at 31 December 2017	818,890	8,946,839	23,577,720	1,214,544	34,557,993
<i>Accumulated depreciation</i>					
As at 31 December 2016	-	3,116,040	8,213,138	-	11,329,178
Depreciation	-	131,316	939,319	-	1,070,635
As at 31 December 2017	-	3,247,356	9,152,457	-	12,399,813
<i>Net carrying amount</i>					
As at 31 December 2017	818,890	5,699,483	14,425,263	1,214,544	22,158,180
As at 31 December 2016	818,890	5,830,799	15,311,641	705,517	22,666,847

The company pledged land and real estate net book value of BAM 988,261, and equipment with net book value of BAM 14,003,374 as an instrument for securing the repayment of funds based on bonds, and for settlement of obligations towards the state based on reprogramming.

18. INVENTORIES

	31/12/2018 BAM	31/12/2017 BAM
Firewood	724,116	360,430
Maintenance material	344,486	474,378
Fuel oil	45,361	119,368
Tools and small inventory, net	17,036	14,664
Other	4,676	4,807
Total:	1,135,675	973,647

19. TRADE RECEIVABLES

	31/12/2018 BAM	31/12/2017 BAM
Trade receivables - individuals – services and interest	9,760,285	9,259,938
Trade receivables - legal entities – services and interest	1,902,149	1,987,888
Trade receivables - budget users– services and interest	249,753	336,386
Impairment for bad and doubtful trade receivables	(9,909,952)	(9,299,121)
Total:	2,002,235	2,285,091

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

19. TRADE RECEIVABLES (CONTINUED)

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

	2018	2017
	BAM	BAM
Balance as at 1 January	9,299,121	8,206,605
Increase in impairment (Note 12)	1,132,883	1,564,253
Collected written-off receivables (Note 11)	(303,166)	(289,126)
Write-off	(218,886)	(182,611)
Balance as at 31 December	9,909,952	9,299,121

20. OTHER RECEIVABLES

	31/12/2018	31/12/2017
	BAM	BAM
Advance receivables	252,266	13,650
Heating connection fee receivables	49,468	54,229
Receivables for reimbursement of sick leave	8,867	37,354
Prepaid and accrued expenses	3,802	64,152
Other receivables	302	125
Impairment for bad and doubtful other receivables	(36,897)	(41,368)
Total:	277,808	128,142

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

	2018	2017
	BAM	BAM
Balance as at 1 January	41,368	43,829
Increase in impairment (Note 12)	585	-
Collected written-off receivables (Note 11)	(1,623)	(2,461)
Write-off	(3,433)	-
Balance as at 31 December	36,897	41,368

21. BONDS INVESTMENTS AT FAIR VALUE

As at 31 December 2018, the Company reported investments in 181,758 pieces of bonds from the Ministry of Finance of Republic of Srpska - war damage settlement in the amount of BAM 159,779 KM. The abovementioned investment is used by the Company for settlement of liabilities based on reprograms signed with the Tax Administration of the Republic of Slovenia (Note 26).

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

22. CASH AND CASH EQUIVALENTS

	31/12/2018	31/12/2017
	BAM	BAM
Cash at bank accounts	350,838	185,399
Extracted funds for settlement of liabilities upon borrowings from EBRD	69,127	5,691
Cash in hand	3,103	2,520
Cash at bank accounts in foreign currency	328	1,475
Total:	423,396	195,085

23. SHARE CAPITAL

	31/12/2018	31/12/2017
	BAM	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 2018 and 31 December 2017 may be presented as follows:

	% ownership	31/12/2018	% ownership	31/12/2017
		BAM		BAM
City of Prijedor	99.68	2.033.512	99.68	2,033,472
Other shareholders (less than 1% of ownership)	0.32	6.488	0.32	6,528
Total:	100.00	2.040.000	100.00	2,040,000

24. LONG-TERM PROVISIONS

	31/12/2018	31/12/2017
	BAM	BAM
Severance pays provision	21,321	21,365
Jubilee awards provision	4,785	4,986
Total:	26,106	26,351

When calculating the present value of accumulated rights of employees on severance payments, the Company used the following assumptions: the interest rate of 6.00%, the year of service for retirement (the insured who has not reached 65 years of age has the right to an old-age pension when he reaches 60 years of age and 40 years of retirement, the insured woman who has not reached 65 years of age has the right to an old-age pension when she attains 58 years of age and 35 years of service), the projected fluctuation of employees on the basis of data on the movement of employees in the previous period of 1%, as well as other conditions necessary for exercising the right to severance pay and jubilee award.

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

24. LONG-TERM PROVISIONS (CONTINUED)

Movements in long-term provisions in 2018 and 2017 may be presented as follows:

	2018 BAM	2017 BAM
Balance as at 1 January	26,351	28,491
Provisions during the year on account of expenses (Note 10)	5,345	52
Reversal of provision for paid severance	(5,590)	(2,192)
Balance as at 31 December	26,106	26,351

25. DEFERRED INCOME

	31/12/2018 BAM	31/12/2017 BAM
SIDA Sweden	4,381,411	4,585,756
The Government of Republic of Srpska	379,950	385,378
City of Prijedor	164,112	167,424
Total:	4,925,473	5,138,558

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 2,618,700.

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.

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 2018 and 2017 can be shown as follows:

	2018 BAM	2017 BAM
Balance as at 1 January	5,138,558	4,647,481
New donations	17,602	721,783
Income from reversal of long-term provisions (Note 11)	(230,687)	(230,706)
Balance as at 31 December	4,925,473	5,138,558

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

26. LONG-TERM BORROWINGS AND BONDS

	Interest rate %	Maturity	31/12/2018 BAM	31/12/2017 BAM
The European Bank for Reconstruction and Development (EBRD)	6mEuribor+ margin	31/10/2029	12,549,909	13,690,810
Tax Administration, Ministry of Finance of RS	legislative	10/2/2022	358,093	446,592
Nova banka a.d. Banja Luka	5.90	31/7/2024	-	3,844,554
Investiciono-razvojna banka Republike Srpske a.d. Banja Luka	6mEuribor+ margin	1/7/2020	-	1,561,110
<i>Subtotal borrowings</i>			<i>12,908,002</i>	<i>19,543,066</i>
Bonds	-	-	10,675,312	3,064,625
<i>Subtotal bonds</i>			<i>10,675,312</i>	<i>3,064,625</i>
Less: current portion presented within short-term liabilities (Note 28)			(1.703.833)	(2.775.168)
Total:			21,879,481	19,832,523
Long-term borrowings are repayable as follows:				
On demand or within one year			1,703,833	2,775,168
In the second year			1,741,037	2,780,532
From the third to fifth year inclusive			4,689,193	7,407,814
After five years			15,449,251	9,644,177

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.

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.

On 31 July 2017, the Company signed a loan agreement with Nova banka a.d. Banja Luka in the amount of BAM 4,000,000 for the financing of permanent working capital. The repayment period is 84 months and repayments are in equal monthly annuities. During 2018, early repayment of the above loan was made.

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. During 2018, early repayment of the above loan was made.

Based on the Decision of the Central Registry of Securities No. 01-26556/13 dated 27 December 2013, the Company made an entry of issued bonds purchased by IRB funds (Share Fund RS ad Banja Luka and Restitution Fund RS ad Banja Luka) in the amount of BAM 4,500,000. The balance of liabilities under the aforementioned bonds on 31 December 2018 amounts to BAM 2,675,312.

Based on the Decision of the Central Registry of Securities No. 03-580/18 dated 19 December 2018, the Company made an entry of issued bonds purchased by IBR funds (Development and Employment Fund of RS Banja Luka, RS Restitution Fund ad Banja Luka and Share Fund RS ad Banja Luka) in the amount of BAM 8,000,000, as well as the balance of liabilities as at 31 December 2018.

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

26.1. COMPLIANCE WITH THE REQUIREMENTS OF THE CONTRACT

The status of financial covenants in accordance with Section 4.03 of Loan Agreement is as follows:

- (1) The Borrower shall by 31 December 2015 write off all trade receivables from its customers older than one calendar year;

As noted in Note 19, the Company during the period written off a total of BAM 1,132,883 from trade receivables (principal debt and interest). Nevertheless, in the balance of total trade receivables, there were BAM 186,837 of trade receivables older than one year for which no impairment was recorded.

- (2) The Borrower shall by 31 December 2017 achieve, and at all times thereafter maintain, a Bill Collection Ratio of not less than 0.95:1;

	31 December 2018
<i>The aggregate amount of cash received by the borrower from its customers for services rendered during the 12 months preceding the date of calculation</i>	5,960,327
<i>The aggregate amount of invoices issued by the Borrower to its customers during such period</i>	5,932,645
Bill Collection Ratio	1.005

- (3) The Borrower shall by 31 December 2018 achieve, and at all times thereafter maintain, a Debt Service Coverage Ratio of not less than 1.2:1;

	31 December 2018
<i>Cash Available for Debt Service for the 12 months preceding the date of calculation</i>	15,713,471
<i>Sum of the principal repayments and interest payments on all Financial Debt due or accrued during such period</i>	8,430,516
Debt Service Coverage Ratio	1.864

- (4) The Borrower shall by 31 December 2018 pay all amounts then due to its creditors and suppliers in connection with the supply to the Borrower of heavy fuel oil;

The balance of the liability for the heavy fuel oil on 31 December 31 2018 was BAM 53,072. The specified liabilities were not paid on the mentioned date because they were not due. The liabilities were settled in full in February 2019.

- (5) The Borrower shall by 31 December 2020 achieve, and at all times thereafter maintain, a Staff Costs Ratio of not more than 0.2:1;

	31 December 2018
<i>The aggregate amount of the Borrower's Staff Costs during the 12 months preceding the date of calculation</i>	1,185,451
<i>The Borrower's Total Operating Costs during such period</i>	5,595,796
Staff Costs Ratio	0.212

27. TRADE PAYABLES

	31/12/2018 BAM	31/12/2017 BAM
Trade payables – domestic	689,827	1,107,812
Total:	689,827	1,107,812

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

28. SHORT-TERM BORROWINGS

	31/12/2018	31/12/2017
	BAM	BAM
The city of Prijedor	5,900,000	5,900,000
The Government of Republic of Srpska	3,942,271	3,942,271
Current portion of long-term borrowings (Note 26)	1,703,833	2,775,168
Total:	11,546,104	12,617,439

During 2017 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 10 January 2017 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.

On 21 June 2017, the Company signed the Agreement no. 010-1634/17 with the Government of Republika Srpska regarding the takeover of debt towards Rafinerija nafte Brod in the amount of BAM 1,826,339 and Optima Group d.o.o. Modriča in the amount of BAM 2,115,932.

29. OTHER SHORT-TERM LIABILITIES

	31/12/2018	31/12/2017	31/12/2017
	BAM	(restated)	BAM
		BAM	
Liabilities for accrued interest	115,606	109,869	109,869
Prepaid income from invoices	73,864	68,354	68,354
Advances	62,266	57,533	57,533
Liabilities for net earnings	60,428	55,296	55,296
Taxes and contributions on salaries	35,349	36,515	36,515
Liabilities for VAT	13,683	353,341	49,204
Liabilities for the Supervisory Board and Audit Board	2,100	4,200	4,200
Accrued expenses for the period	-	2,483	2,483
Other	976	4,124	4,124
Total:	364,272	691,715	387,578

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 2,618,700. Until the day of 31 December 2018, consulting companies invoiced total amount of EUR 2,561,767. The remaining amount of EUR 56,933 will be invoiced in the future.

31. CONTINGENT LIABILITIES

According to Management, as at 31 December 2018 there were court proceedings initiated against the Company in amount of BAM 83,113. 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 2018.

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

33. TRANSACTIONS WITH RELATED PARTIES

	31/12/2018	31/12/2017
	BAM	BAM
ASSETS		
Kozarski vjesnik – trade receivables	57,782	27,585
Dvorana Mladost – trade receivables	53,340	27,465
Grad Prijedor – trade receivables	16,730	15,799
Gradska Tržnica – trade receivables	13,824	9,657
Total:	141,676	80,506
LIABILITIES		
Grad Prijedor – short-term borrowings	5,900,000	5,900,000
Total:	5,900,000	5,900,000
	2018	2017
	BAM	BAM
REVENUE		
Grad Prijedor	134,252	160,275
Kozarski vjesnik	25,940	26,476
Dvorana Mladost	22,115	23,902
Gradska Tržnica	3,586	2,892
Total:	185,893	213,545

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

	2018	2017
	BAM	BAM
Gross salaries for Management members	122,765	122,926
Supervisory board and Audit board fees, gross	34,328	35,820
Total:	157,093	158,746

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.

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

34. FINANCIAL INSTRUMENTS (CONTINUED)

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

	31/12/2018 BAM	31/12/2017 BAM
Debt (i)	33,425,585	32,449,963
Cash and cash equivalents	(423,396)	(195,085)
Net debt	33,002,189	32,254,878
Equity (ii)	-	-
Net debt to equity ratio	100.00	100.00

(i) Debt includes borrowings, as presented in Notes 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.

Categories of financial instruments

	31/12/2018 BAM	31/12/2017 BAM
Financial assets		
Loans and receivables (including cash and cash equivalents)	2,447,371	2,530,516
Investments in bonds at fair value	159,779	21,025
	2,607,150	
Financial liabilities		
Amortized cost	34,343,554	33,816,982

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.

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

34. FINANCIAL INSTRUMENTS (CONTINUED)

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 2018 would decrease/increase for amount of BAM 62,750 (2017: BAM 76.260) 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.

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	<i>Less than 1 month BAM</i>	<i>1 to 6 months BAM</i>	<i>6 to 12 months BAM</i>	<i>1-5 years BAM</i>	<i>Over 5 years BAM</i>	<i>Total BAM</i>
31 December 2018							
Non-interest bearing	-	2,607,150	-	-	-	-	2,607,150
TOTAL		2,607,150	-	-	-	-	2,607,150
31 December 2017							
Non-interest bearing	-	2,551,541	-	-	-	-	2,551,541
TOTAL		2,551,541	-	-	-	-	2,551,541

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.

TOPLANA A.D. PRIJEDOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

34. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity for non-derivative financial liabilities

	Weighted average effective interest rate	<i>Less than 1 month BAM</i>	<i>1 to 6 months BAM</i>	<i>6 to 12 months BAM</i>	<i>1-5 years BAM</i>	<i>Over 5 years BAM</i>	Total BAM
31 December 2018							
Non-interest bearing	-	10,553,014	207,226	-	-	-	10,760,240
Variable interest rate instruments	1.00	-	633,549	631,679	4,945,552	7,071,082	13,281,862
Fixed interest rate instruments	5.08	183,454	434,238	521,085	4,275,313	10,043,840	15,457,930
TOTAL		10,736,468	1,275,013	1,152,764	9,220,865	17,114,922	39,500,032
31 December 2017							
Non-interest bearing	-	10,583,287	626,003	-	-	-	11,209,290
Variable interest rate instruments	1.45	54,066	909,613	961,903	6,019,067	8,290,039	16,234,688
Fixed interest rate instruments	6.22	202,102	575,451	690,541	5,686,145	1,733,596	8,887,835
TOTAL		10,839,455	2,111,067	1,652,444	11,705,212	10,023,635	36,331,813

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.