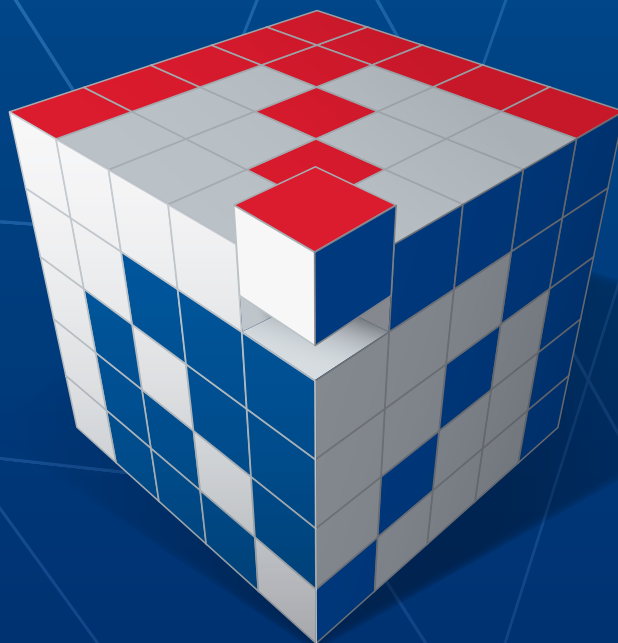


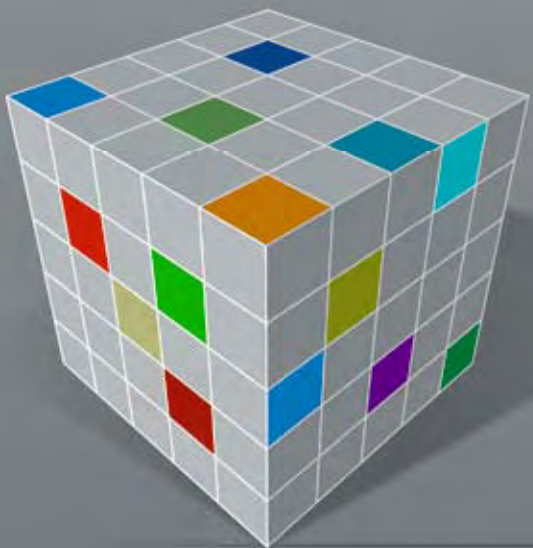


ELECTRIC POWER INDUSTRY OF SERBIA
ANNUAL REPORT 2009




















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THE MISSION

of the Electric Power Industry of Serbia is secure electricity supply to all customers, under the most favourable market conditions, with continuous upgrading of the services, improvement of environmental protection and welfare of the community.



THE VISION

of the Electric Power Industry of Serbia is to be a socially accountable, market-oriented and profitable company, competitive on the European market with a major impact in the region, recognized as a reliable partner among the local and international companies.





Dragomir Marković, General Manager

The beginning of 2009 was marked by the January natural gas supply crisis, which led to an exceptionally high increase in electricity consumption. Owing to outstanding performance of generation capacities, Electric Power Industry of Serbia managed to provide stable and uninterrupted supply of electricity to all customers, not only during the „gas crisis“, when not a kilowatt-hour was imported, but also throughout the winter. Many records were broken in both consumption and generation. The reduction in electricity imports and considerable increase in the sale of surplus in the open market continued throughout the year. Good planning of generation capacities' operation and the sale of surplus through transparent procedures, as well as results achieved in electricity trading in the past two years, provided the basis for further development of the electricity trading function.

Thanks to winter records, among other things, Electric Power Industry of Serbia realised the highest-ever annual electricity output. These results were made possible by the rehabilitation and modernisation of EPS generation and production capacities, which had been going on for the past six years. Major projects started in thermal power plants and continued in coal mines, whereas the reconstruction of the largest hydro power plants – Bajina Bašta and Djerdap 1 – started in 2009. The increase in thermal power plants' output was facilitated also by the excellent results achieved in Kolubara and Kostolac coal mines, where several major investments aimed at increasing coal output were realised.

EPS distributions, which build the company's image in direct contact with customers, are committed to constant improvement of customer relations and upgrading internal efficiency, primarily as regards loss reduction and modernisation of metering equipment.

The project of building a modern EPS telecommunication system for the transmission of technical and business data is entering its final stage. All the designed networks at the main level were completed by the end of 2009. All major electric power facilities in the country were connected by about 4,500 km of fiber-optic cables. The next step will be links at regional and local levels, to be followed by commercial operation of these capacities.

Environmental protection is an integral part of all EPS facilities' modernisation projects. Electric Power Industry of Serbia presented its Green Book, outlining all the problems in this field, to specialists and the general public, both in the country and internationally. We committed to making sure EPS would not be a stumbling block to Serbia's European integrations.

We are faced with a range of issues which hinder the achievement of better business results, and therefore also company development. Low electricity prices, considerably below market level, operational losses and lack of funds for land expropriation required to open new coal mines hamper development plans considerably. In the forthcoming period, EPS expects the state to take decisions which will provide prerequisites for the realisation of major investment projects.

In 2010, internal control and audit will become an important business function. So far, it has established its role as an essential company management „service“ through realisation of the General Manager's orders to control the operations of certain corporate enterprises.

Launching the tenders to establish strategic partnerships for building new generation capacities (TPP Nikola Tesla B3 and TPP Kolubara B) and modernisation or building of a new facility in CHP Novi Sad were among the key developments of 2009. The realisation of an intergovernmental memorandum on the utilisation of renewable energy sources started with the Italian company SECI Energia S.p.A. According to the plan, the joint venture of EPS and the Italian partner should build 10 hydro power plants on the river Ibar, whose clean electricity should be marketed at subsidised prices set by the Italian government.

We wish to retain the domestic market in the competitive struggle, as well as to become an important competitor to electric power industries and traders in the regional market. Therefore, EPS must adapt its organisation and generation structure to the European Union requirements and market standards.

In June, assisted by an international consultant, we embarked on the first stage of the project „EPS Restructuring and Performance Improvement“. The realisation of all the projects also requires development of the company's staff potentials. A prerequisite for this is improvement of the human resources function, which is expected to give a direct contribution to the achievement of the company's set goals in the near future. Results achieved by EPS in generation and production are the work of not only machines and plants, but also of immense professional knowledge and experience; we therefore have every reason to say that EPS specialist staff are its greatest asset. Next year, Electric Power Industry of Serbia will recruit several hundred young professionals who will be the pillar of the company's further development in the years to come.

Capitalizing on several years of investments into generation capacities and on the rehabilitated electric power facilities, EPS power plants (Kosovo and Metohija not included) generated 2.9% more electricity compared to the previous year.

What makes this performance even more impressive is the fact that EPS achieved the record-breaking electricity generation in 2008, as well. The decreased consumption and the significant generation growth allowed EPS to deliver approximately 1.2 TWh of energy in the free market in 2009.

During 2009, the Management Board made in a timely manner all the decisions aimed at the implementation of critical investments and development projects of EPS.

In 2008, Management Board of Electric Power Industry of Serbia also adopted decisions on the launching of the tender for the selection of the strategic partner for the TPP Kolubara B construction completion, construction of the third unit at TPP Nikola Tesla B and the modernisation/construction of CHP Novi Sad.

The rehabilitation of the major hydro power plants commenced with unit 6 of HPP Djerdap 1 and unit 1 of HPP Bajina Bašta. These projects marked the continuation of EPS generation capacities rehabilitation process, which started six years ago in the thermal power plants. Today, some of the units in EPS thermal power plants give results and performance matching those of similar electric power units operating in the most developed countries.

In cooperation with the Government of Serbia and the Ministry of Mining and Energy, an initiative was launched for the implementation of significant investment projects in TPPs-OCMs Kostolac. Being involved in the strategic decision-making in that respect, the Management Board provided concrete decisions in a regular and timely manner, in support of the possibilities for implementation of all projects, targeting not only the enhancement of the Serbia's electric power sector, but also the economy.

The necessary preparation for adoption of the pricelists for access to and use of the distribution network, as approved by the Energy Agency of the Republic of Serbia, was made in all five power distribution enterprises, thereby fulfilling all the conditions for the Management Board to send the pricelists to the Government of Serbia for endorsement. The adoption of these new pricelists, which stipulate the conditions for distribution network access, allowed for the liberalisation of 46% of the electricity market in Serbia.

A series of projects were implemented last year in the field of environmental protection. The state of affairs in this field and the further course of action aimed at promoting the protection of the environment was illustrated by EPS in the Green Book, which includes a list of projects worth EUR 1.2 billion. This noteworthy document, unique in the Southeast Europe, was presented in the European Union and at field-specific conventions in many countries.

In pursuit of the EPS policy of a socially responsible company, last year the Management Board granted financial support, in line with its possibilities, to the national sports associations and the notable individuals who represented Serbia in different events around the world, to religious



Aca Marković D.Sc., Chairman of the Management Board

communities, health, cultural and research institutions and projects.

In 2009, the EPS Management Board continued emphasizing the necessity of gradually adjusting the price of energy towards the realistic market value of the kilowatt-hour, with a view to enabling EPS to finance the implementation of significant development projects with as high a degree of independence as possible.

The EPS Management Board acknowledged the credit for the production results not only to the employees of EPS and other corporate enterprises, but also to the business partners who performed the outsourced works to high quality standards.

The Management Board expects that the results of EPS in the years to come will continue justifying its reputation of being the most important Serbian company.

Aca Marković

About EPS

Title

Public Enterprise “Electric Power Industry of Serbia” (PE EPS)

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E-mail eps@eps.rs

Website www.eps.rs

Registration Decision BD 80380/2005
Serbian Business Registers Agency

Registration number 20053658

PIN 103920327

Foundation The Public Enterprise Electric Power Industry of Serbia was founded by Decision of the Government of the Republic of Serbia which was put into force on 1 July 2005.

Organizational Structure Vertically organized enterprise consisting of 11 corporate enterprises.

Ownership Structure 100% property of the Republic of Serbia.

Company Management Management Board, Supervisory Board, General Manager – all appointed by the Government of the Republic of Serbia. Managers of head departments and sectors within the EPS Headquarters, as well as Managers of corporate enterprises, form the Management of the Electric Power Industry of Serbia.

Business assets 520,860,997,000 RSD

Activities Electricity generation; electricity distribution; distribution system control; electricity trade; coal production, processing and transport; steam and hot water generation in combined processes; water utilization and use; wholesale trade of solid, liquid and gaseous fuels and similar products, metals and metal ores and other trade; services in river and lake traffic; exploration and development; designing, construction and maintenance of energy, mining and other facilities; designing, construction, maintenance and operation of telecommunication facilities and devices; engineering.

Organizational Structure

MANAGEMENT BOARD

GENERAL MANAGER

HEAD DEPARTMENTS

Energy generation

Electricity trade

Electricity distribution

Strategy and investments

Economic and financial affairs

Legal affairs and human resources

Electricity generation, transmission and distribution and coal production on the territory of Kosovo and Metohija

SECTORS

Internal Control and Audit

Public Relations

COAL AND POWER GENERATION CORPORATE ENTERPRISES

HPPs Djerdap Ltd. Kladovo

HPPs Drinsko Limske Ltd. Bajina Bašta

TPPs Nikola Tesla Ltd. Obrenovac

MB Kolubara Ltd. Lazarevac

TPPs and OCMs Kostolac Ltd. Kostolac

Panonske CHPs Ltd. Novi Sad

PE OCMs Kosovo, Obilić*

PE TPPs Kosovo, Obilić*

ELECTRICITY DISTRIBUTION CORPORATE ENTERPRISES

Elektrovojvodina Ltd. Novi Sad

Elektrodistribucija Beograd Ltd. Beograd

Elektrosrbija Ltd. Kraljevo

Jugoistok Ltd. Niš

Centar Ltd. Kragujevac

PE Elektrokosmet, Priština*

*As of June 1999, EPS does not operate its facilities on the territory of Kosovo and Metohija.

EPS in Figures

INSTALLED CAPACITIES

net output capacity

Kosovo and Metohija not included 7,124 MW

Kosovo and Metohija included 8,359 MW*

COAL PRODUCTION

Kosovo and Metohija not included 37,778,600 t

OVERBURDEN REMOVAL

Kosovo and Metohija not included 98,260,761 bcm

ELECTRICITY GENERATION

Kosovo and Metohija not included 36,112 GWh

Kosovo and Metohija included 41,122 GWh

EPS GROSS CONSUMPTION

Kosovo and Metohija not included 33,292 GWh

Kosovo and Metohija included 38,920 GWh

FINAL ELECTRICITY CONSUMPTION

Kosovo and Metohija not included 27,321 GWh

NUMBER OF CUSTOMERS

Kosovo and Metohija not included

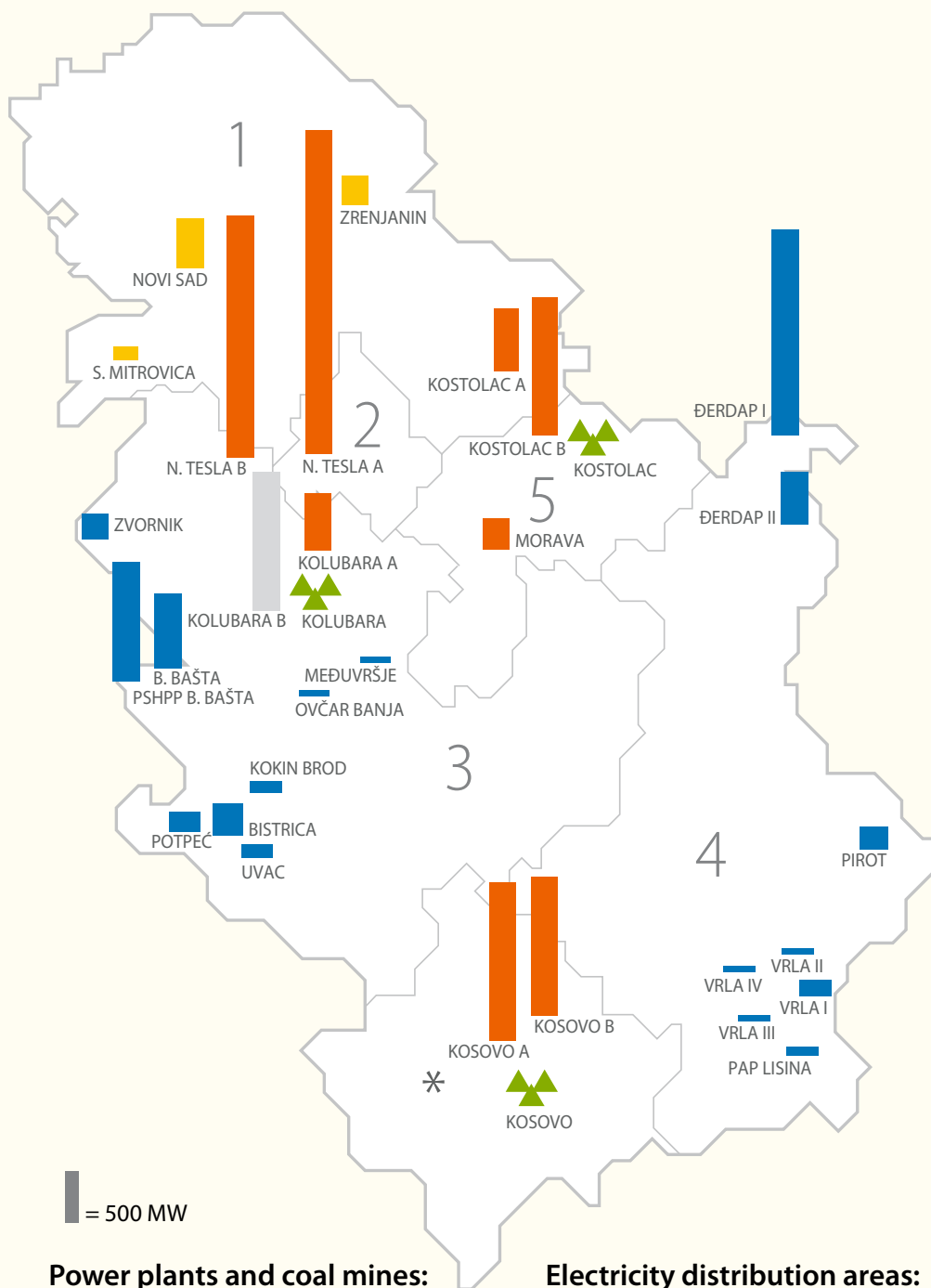
total 3,468,393

at high and middle voltage 4,136

at low voltage 3,464,257

*As of June 1999, EPS does not operate its facilities on the territory of Kosovo and Metohija.

EPS Installed Capacities



* As of June 1999, EPS does not operate its facilities on the territory of Kosovo and Metohija



MAJOR EVENTS IN 2009

JANUARY

- Due to Ukraine's debt for gas transit, Russia terminated gas supply and some two dozen European countries, including Serbia, were left without gas in the middle of a harsh winter. Serbia was kept warm by Electric Power Industry of Serbia: previous records in both generation and consumption of electricity were broken;
- PE EPS announced a tender for the selection of strategic partners for the construction of two thermal power plants: Kolubara B, with two 350 MW units and the 700 MW B3 unit of TPP Nikola Tesla;
- In view of the global economic crisis, the Management Board of PE EPS adopted the Programme of Savings Measures in PE EPS and Corporate Enterprises in 2009.

FEBRUARY

- The EPS Trade Union adopted the decision on universal strike, demanding pay rise, stricter adherence to the General Collective Agreement and measures towards the relocation of Vreoci;
- The Government of the Republic of Serbia adopted the Decision Ascertaining a Matter of General Interest, whereby it ascertained the need for relocation of the community of Vreoci with a view to expanding the open-cast mine Field D in MB Kolubara.

MARCH

- The Government of the Republic of Serbia appointed Dragomir Marković the new General Manager of PE EPS;
- The adjusted version of the Methodology for the Criteria and Manner of Setting Costs of Connection to the Electric Power Transmission and Distribution Systems entered into force;
- For more than a month, villages inhabited mostly by Serbian population in Kosovo and Metohija were deprived of electricity;
- Representatives of PE EPS participated in the Regional Energy Forum in Sarajevo.

APRIL

- With a view to mitigating the effects of the economic crisis, the Government of the Republic of Serbia introduced a freeze on staff salaries in public enterprises until the end of 2009 and imposed a cap on management salaries;
- Secretary General of the Energy Charter André Mernier met EPS management and assessed the implementation of the Energy Charter Treaty policy in Serbia as positive.

MAY

- At the Drmno mine in Kostolac, the fifth ECS system was commissioned with a view to increasing the annual coal output from 6.5 to 9 million tonnes;
- The tenth anniversary of the NATO bombing, during which the Serbian electric power system suffered massive destruction;
- A survey of electricity customers' satisfaction was conducted: two thirds of respondents (66%) stated they were satisfied with the services provided by EPS.

JUNE

- The Agreement on the Development of Analyses and Pre-feasibility Study for the construction of hydro power plants on the Ibar river was signed with the Italian company SECI Energia S.p.A.;
- The Green Book of Electric Power Industry of Serbia, a unique document on the activities and plans of PE EPS in the field of environmental protection, was promoted;
- A designated organisational unit for human resources management was established in PE EPS;
- The rehabilitation of HPP Bajina Bašta was started; its useful life will be extended by 30 to 40 years;
- The closure of Ćirikovac open-cast mine was commenced.

JULY

- The new chairman and members of the Management Board of PE EPS were appointed, as well as new directors of 11 corporate enterprises and the director of the public enterprise for electric power distribution Elektrokosmet, based in Priština;
- TPPs-OCMs Kostolac and Mihailo Pupin Institute signed an agreement on the adaptation of the measurement, regulation and control system of the B2 unit of TPP Kostolac;
- EDB gave an extraordinary contribution to the successful organisation of the 25th Universiade, held in Belgrade;
- A new joint venture – Energija Novi Sad (ENS) – was formed by the City of Novi Sad and PE EPS with a view to building a new combined gas and steam unit in CHP Novi Sad with a strategic partner.

AUGUST

- The Action Plan for Loss Reduction in the Power Distribution System was adopted;
- The rehabilitation of HPP Ovčar Banja was completed.

SEPTEMBER

- The rehabilitation of HPP Djerdap 1 was started after the agreement was signed between PE EPS, the corporate enterprise Djerdap and the Russian company Silovye Machiny. The value of works is 168 million dollars;
- The Corporate Team for EPS Restructuring was established;
- EPS, the City of Užice, the Municipality of Čajetina and the Mokra Gora Nature Park signed memoranda on cooperation and building renewable energy facilities,
- The 45th anniversary of the work of Serbian Power Distributions' Technical Council was marked.

OCTOBER

- The Day of Electric Power Industry of Serbia, October 6th, was marked; individuals and institutions received the Djordje Stanojević Prize;
- The new ash and slag collection, transportation and disposal system in TPP Nikola Tesla B started operation;
- The rehabilitation of HPP Medjuvršje was started;
- The Fifth International Energy Fair was held; EPS signed an agreement on cooperation with the Spanish solar panel manufacturer WATTPIC;
- ENS released a public invitation to submit letters of interest for investment in the modernisation and extension of CHP Novi Sad;
- As part of the Russian President Dmitry Medvedev's visit to Serbia, EPS representatives met the delegation of the Russian energy equipment manufacturer Tehnopromexport;
- The excavator „Surface Miner 3“ on the Kolubara mine Field D completed its fortieth year of operation;

- In MB Kolubara, coal mining was started in the new mine Veliki Crljeni, with coal reserves of about 31 million tonnes.

NOVEMBER

- Coal mining was started in the new mine Field E in the Kolubara basin;
- PE EPS and the German company RWE signed the Memorandum on the Construction of Hydro Power Plants in Serbia and the Republic of Srpska;
- TPPs-OCMs Kostolac and the China National Electronics Import and Export Corporation signed the Protocol on the Project of TPP Kostolac B;
- PE EPS took part in the organisation of the SEE Countries' Ministerial Conference „Climate Change and Energy“, held in Belgrade;
- HPP Gamzigrad, operating within the corporate enterprise Jugoistok, marked its one-hundredth anniversary of operation.

DECEMBER

- According to research conducted by the agency TNS Medium Gallup, Electric Power Industry of Serbia was the company most attractive for employment, according to the citizens' opinion;
- A delegation of PE EPS participated in the Climate Change Conference in Copenhagen, while it presented the Green Book of Electric Power Industry of Serbia in Brussels;
- The highest ever electricity consumption of 156,186,000 kWh was recorded in Serbia.



RESTRUCTURING AND STREAMLINING

The long-term goal of restructuring Electric Power Industry of Serbia is to create a successful company which will be able to retain the Serbian market in competition with other companies and expand its activity in the region. This is an ongoing process whereby the organisational and generation structures of EPS and its corporate enterprises will become aligned with the requirements and standards of the European Union and market-based operation. Through the restructuring process, Electric Power Industry of Serbia should transform into a company that works in the general interest, constantly improves its competitive position in the electric power market of South-Eastern Europe, raises its operational and financial efficiency, upgrades its business capacities and the efficiency of utilisation of the existing capacities and ensures sustainable functioning and development.

The 2009 Annual Operational Programme of PE EPS foresees certain activities related to company restructuring and streamlining, as well as its work and operation. Among these activities is the establishment of an expert team to develop a proposal for improving business organisation and raising business efficiency of Electric Power Industry of Serbia (The Corporate Restructuring Team). The team is composed of members of PE EPS top management.

The terms of reference for the project „EPS Restructuring and Performance Improvement“ were prepared, outlining the scope and manner of provision of consultant services and the monitoring of pace and quality of the selected consultant’s work. The EPS General Manager also established expert working groups which, together with the team and the consultant, laid the foundations for the organisational structure of Electric Power Industry of Serbia and the manner of regulating mutual relations of organisational units, outlining the types of tasks to be carried out within organisational units and the basic management principles. The boundaries of powers and responsibilities were defined in principle, i.e. the scope of work of the highest-level organisational units in EPS, the manner of management and coordination in conducting affairs requiring the involvement of several organisational units in EPS. The sequence of activities and pace of implementation of specific measures towards improving organisational structure and management in EPS were determined.

In 2009, the consultant, in cooperation with the team and expert working groups and in conformity with the defined foundations and terms of reference, realised part of the project „EPS Restructuring and Performance Improvement“. On the basis of analysis of the existing documentation for EPS reorganisation, a report was drafted, summarising the main findings and „key similarities“ from all studies on reorganisation conducted so far. An analysis of the existing management systems in EPS was conducted and a report was drafted outlining the findings on current status. The initial version of the document „The Strategy of Electric Power Industry of Serbia“, with potential scenarios, high-priority measures, financial and operational goals, was developed. A new organisational structure was proposed for the level of PE EPS, with a job description for the General Manager and his direct subordinates, measures and goals for the General Manager and directors of business units for generation, distribution and trade. The design of the performance management system at the level of PE EPS was completed. The design and job description development were completed for the human resources function at the level of PE EPS and links to business units and corporate enterprises were proposed. In addition, the design and job description development were completed for the environmental protection unit at the level of PE EPS. The current status assessment, design and implementation of a modern financial processes management system were completed at the level of PE EPS and business units. Foundations were provided for the completion of the report on staffing needs in the PE EPS and corporate enterprises. An analysis and design of the internal audit and control function and its role in EPS were performed and staffing needs in the organisational unit for internal audit and control were identified.

The first stage of realisation of the project „EPS Restructuring and Performance Improvement“, pertaining to the level of PE EPS, was commenced in June 2009 and will continue until the end of March 2010.



ECONOMIC AND FINANCIAL OPERATIONS



■ The macroeconomic developments in 2009 were marked by the global economic crisis, the deepest since the 1930's. The decline of domestic and global demand, slowdown of credit activities and foreign direct investments had an impact on the decline of industrial output, exports, imports, employment and retail turnover. The Government of the Republic of Serbia adopted a package of measures aimed at mitigating the negative impact of the crisis, whereby it succeeded in preventing deeper distortion of the financial and real sectors. Macroeconomic stability was maintained, and tendency towards recession was mitigated.



It is estimated that in 2009 gross domestic product declined by three percent, owing to the decline in foreign and domestic demand, primarily investment demand.

The physical volume of industrial output in Serbia in 2009 was 12.1% lower in comparison with the preceding year. The sharp drop of industrial activity in the first six months of 2009 was primarily a result of falling demand, both domestic and foreign. Industrial output recorded better results in the second half of the year as a result of the measures taken by the Government and moderate recovery of the global economy. Industrial work productivity declined by 2.2%.

Total inflation, measured by the retail price index, was 10.4% in December 2009 against December 2008, and its average annual growth was 10.1%.

During 2009, the National Bank of Serbia lowered the key policy rate – early in the year, it was 17.75%, and towards the end of December – 9.95%. Bank lending activities in late December 2009 recorded a 16.1% growth against the end of December 2008. Lending to businesses recorded a higher growth (19.8%) than lending to individuals (9.5%).

As regards the labour market, employment was reduced. Total employment in 2009 was 1,889,085, or 5.5% lower in comparison with 2008.

Average net wage 2009 amounted to 31,758 dinars and was 8.8% higher than in 2008 in nominal terms, or 0.2% in real terms.

ACHIEVED ELECTRICITY PRICES

In 2009, the average electricity selling price for external delivery in the EPS consumption area was 4.632 RSD/kWh. The realised level of average annual electricity price for external deliveries in 2009 amounts to 4.575 RSD/kWh.

AVERAGE ELECTRICITY PRICES IN THE EPS CONSUMPTION AREA (EXTERNAL DELIVERIES)

Category of consumption	Actual 2009	Plan 2009	Actual 2008	Indices	
				2/3	2/4
RSD/kWh					
1	2	3	4	5	6
High voltage (110 kV)	3.209	3.223	3.080	100	104
Medium voltage – total	4.281	4.183	3.984	102	107
Total high and medium voltage	4.009	3.909	3.726	103	108
Low voltage (0.4 kV level I)	6.286	6.119	5.800	103	108
General consumption – total	4.581	4.580	4.323	100	106
– 0.4 kV level II	5.990	6.060	5.641	99	106
– households	4.391	4.382	4.145	100	106
Public lighting	4.448	4.446	4.176	100	107
Total low voltage	4.846	4.821	4.558	101	106
TOTAL	4.632	4.575	4.332	101	107

In 2009, record high electricity generation was realised – 36,112 GWh, or one billion kWh more than in the preceding year. This is the highest output realised since 1990.

The realised level of losses per kWh transmitted on the distribution network in 2009 was 15.19%.

The company's financial position as regards liquidity and profitability is still unfavourable in view of the high borrowing level dating from previous years. The balance of liabilities (not including the radio and television subscription charge) as on 12/31/2009 was 109 billion dinars, and receivables – 100 billion dinars.

In the situation of three percent increase in electricity generation, operating expenditure was eight percent, i.e. 13 billion dinars, lower in relation to the preceding year. Taking inflation into account, operating expenditure was lower than in the preceding year by 19%, i.e. 33 billion dinars, in real terms.

The realised collection rate on account of electricity supplied to distribution consumers in 2009 was 93.9%, and the collection rate on account of supplied electricity invoiced by PE EPS to the eligible customer PE Serbian Railways was 27.63%.

Realised export in 2009 compared to the previous year is higher for 1,269 GWh, consequently, an income of RSD 44.7 million was achieved.

Realised import in 2009 compared to the previous year is lower for 494 GWh, subsequently, costs are lower for EUR 35.5 million.

In a situation of record high electricity generation and considerable reductions of operating costs, PE EPS posted a nine billion dinar loss in 2009 as a result of uncollected debt for electricity supplied. As regards current operations (operating profit/loss), the company realised a 10.8 billion dinar profit.

These operating results were realised in the circumstances that electricity price had not been changed since August 2008, although it is between 1.5 and three times lower than in other transition countries, and two to four times lower than in developed countries.

The existing electricity price, with further measures towards streamlining operations, enables the coverage of current operating costs and funding only part of the essential investments required to maintain the attained output, but does not provide for investments needed to meet the growing demand for electricity in the forthcoming period.



CONSOLIDATED BALANCE SHEET OF PE EPS AND CORPORATE ENTERPRISES

RSD 000

	Item	EDP	Balance as of 12/31/2009	Balance as of 1/1/2009
	Assets			
A.	Fixed assets (002+003+004+009)	001	520,860,997	532,241,677
I.	Unpaid registered capital	002	0	0
II.	Goodwill	003	0	0
III.	Intangible investments	004	2,425,996	2,427,728
IV.	Property, plant, equipment and biological assets (006+007+008)	005	515,659,973	527,236,452
1.	Property, plant and equipment	006	515,622,017	527,192,044
2.	Investment properties	007	37,956	44,408
3.	Biological assets	008	0	0
V.	Long-term financial investments (008++009)	009	2,775,028	2,577,497
1.	Investments in capital of other entities	010	1,261,287	1,098,230
2.	Other long-term financial investments	011	1,513,741	1,479,267
B.	Current assets (013+014+015+021)	012	87,104,907	76,759,000
I.	Inventories	013	24,491,269	25,138,622
II.	Fixed assets available for sale and assets of discontinuing operations	014	0	0
III.	Short-term receivables, investments and cash (013+014+015+016)	015	62,613,638	51,620,378
1.	Receivables	016	49,537,595	41,506,201
2.	Receivables on account of prepaid income tax	017	268,887	460,944
3.	Short-term financial investments	018	2,925,000	2,073,120
4.	Cash equivalents and cash	019	8,661,721	6,217,344
5.	Value-added tax, accruals and prepaid expenses	020	1,220,435	1,362,769
IV.	Deferred tax assets	021	0	0
C.	Operating assets (001+012)	022	607,965,904	609,000,677
D.	Loss exceeding the value of equity	023	0	0
E.	Total assets (022+023)	024	607,965,904	609,000,677
F.	Off-balance sheet assets	025	82,184,970	77,974,332
	Equity and liabilities			
A.	Equity (102+103+104+105+106-107+108-109+110)	101	457,576,791	463,716,706
I.	Fixed and other capital	102	359,949,724	359,949,263
II.	Unpaid registered capital	103	0	0
III.	Reserves	104	0	0
IV.	Revaluation reserves	105	246,014,438	248,089,259
V.	Unrealised gains on securities	106	196,884	111,229
VI.	VI. Unrealised losses on securities	107	476,523	363,967
VII.	Undistributed profit	108	0	0
VIII.	Loss	109	148,107,732	144,069,078
IX.	Treasury shares	110	0	0
B.	Long-term provisions and liabilities (112+113+116)	111	126,784,865	120,173,590
I.	Long-term provisions	112	9,126,952	7,515,251
II.	Long-term liabilities (114+115)	113	46,037,343	45,551,998
1.	Long-term loans	114	42,560,685	41,550,014
2.	Other long-term liabilities	115	3,476,658	4,001,984
III.	Short-term liabilities (117+118+119+120+121+122)	116	71,620,570	67,106,341
1.	Short-term financial liabilities	117	13,624,782	9,582,349
2.	Liabilities on account of assets available for sale and assets of discontinuing operations	118	0	0
3.	Operating liabilities	119	32,725,736	33,964,620
4.	Other short-term liabilities	120	3,438,511	3,243,178
5.	Liabilities on account of vat and other public revenues, accruals and deferred income	121	21,769,380	20,144,385
6.	Liabilities on account of income tax	122	62,161	171,809
C.	Deferred tax liabilities	123	23,604,248	25,110,381
D.	Total equity and liabilities (101+109+123)	124	607,965,904	609,000,677
E.	Off-balance sheet liabilities	125	82,184,970	77,974,332

CONSOLIDATED INCOME STATEMENT OF PE EPS AND CORPORATE ENTERPRISES

RSD 000

1	Elements	Actual 2009	Plan 2009	Actual 2008	Index	
					(4/5)	(4/6)
1	2	4	5	6	7	8
I	Operating revenue	154,206,555	156,918,100	146,577,869	98	105
II	Operating expenditure	143,360,548	147,671,269	155,827,508	97	92
II.1.	Electricity procurement	13,822,670	15,141,753	15,318,678	91	90
II.2.	Material and fuel costs	9,068,974	15,641,276	12,402,265	58	73
II.3.	Maintenance	17,349,981	15,250,559	17,979,289	114	96
II.4.	Depreciation	37,586,807	38,272,540	46,458,563	98	81
II.5.	Employee costs	39,147,874	39,705,461	36,401,796	99	108
II.6.	Insurance	2,005,477	2,185,719	2,204,629	92	91
II.7.	Liabilities towards the state	9,217,103	8,724,938	6,457,513	106	143
II.9.	Other operating expenditure	15,161,662	12,749,023	18,604,775	119	81
I-II	Operating profit/loss	10,846,007	9,246,831	-9,249,639	117	0
III	Financial revenue	9,253,242	10,485,230	8,350,115	88	111
IV	Financial expenditure	6,523,325	16,111,395	10,829,561	40	60
III-IV	Financial profit/loss	2,729,917	-5,626,164	-2,479,446	0	0
V	Other revenue	2,391,183	2,239,541	2,735,546	107	87
VI	Other expenditure	25,025,181	17,949,896	17,711,519	139	141
V-VI	Other profit/loss	-22,633,998	-15,710,355	-14,975,973	0	0
VII	Profit from discontinued operations	0	0	0	0	0
VIII	Loss from discontinued operations	0	0	0	0	0
VII-VIII	Net profit/loss from discontinued operations	0	0	0	0	0
A	Total revenue (i+iii+v+vii)	165,850,980	169,642,872	157,663,530	98	105
B	Total expenditures (ii+iv+vi+viii)	174,909,054	181,732,561	184,368,588	96	95
A-B	Total profit/loss	-9,058,074	-12,089,689	-26,705,058	0	0
	Income tax	1,001,328	0	2,554,062	0	39
	Net total profit/loss	-8,056,746	-12,089,689	-24,150,996	0	0



POWER PLANTS AND REHABILITATION OF HPPs

■ EPS power plants in the territory of Serbia generated 41,122 GWh of electric energy in 2009. The realisation of the Electric Energy Balance was 101% – the plan was exceeded by 389 GWh. EPS power plants (with Kosovo and Metohija) generated more electricity than they had delivered in 2008 – for 1,360 GWh or 3.4% more.

Generation capacities operated by EPS generated 36,112 GWh of electricity, or 1.2% more than foreseen by the balance and 2.9% more than the consumption realised in 2008. In terms of energy, this is 1,073 GWh more than in the previous year.



Since 2005, for five consecutive years, generation capacities have realised high output well above standard. In 2009, power plants in the corporate enterprises TPPs Nikola Tesla and TPPs-OCMs Kostolac achieved maximum output. With the output of hydro power plants, which was about 1,000 GWh above the average, the surplus exceeded 2,000 GWh and was the highest since 1995.

Although generation rose considerably and the consumption in Serbia, in the territory supplied by EPS, decreased significantly, the company did not post a profit. The good generation mix, which reduced generation costs, did not help. EPS has a good ratio of generation in hydro and thermal power plants, the combined power and heating plants were operated to a lower extent, overhauls were shorter and maintenance costs lower. The electricity price for tariff customers in Serbia and the regional market price, which was lower than expected but higher than the price of kilowatt-hour in Serbia (declining demand in the region led to falling prices), did not make it possible for the company to operate profitably in spite of the record-high surplus.

In January, the coldest winter month, both hydro and thermal power units were in full operational readiness. In the territory of Serbia, the realised monthly output was 4,191 GWh. It was higher only in December 2007 – 4,204 GWh.

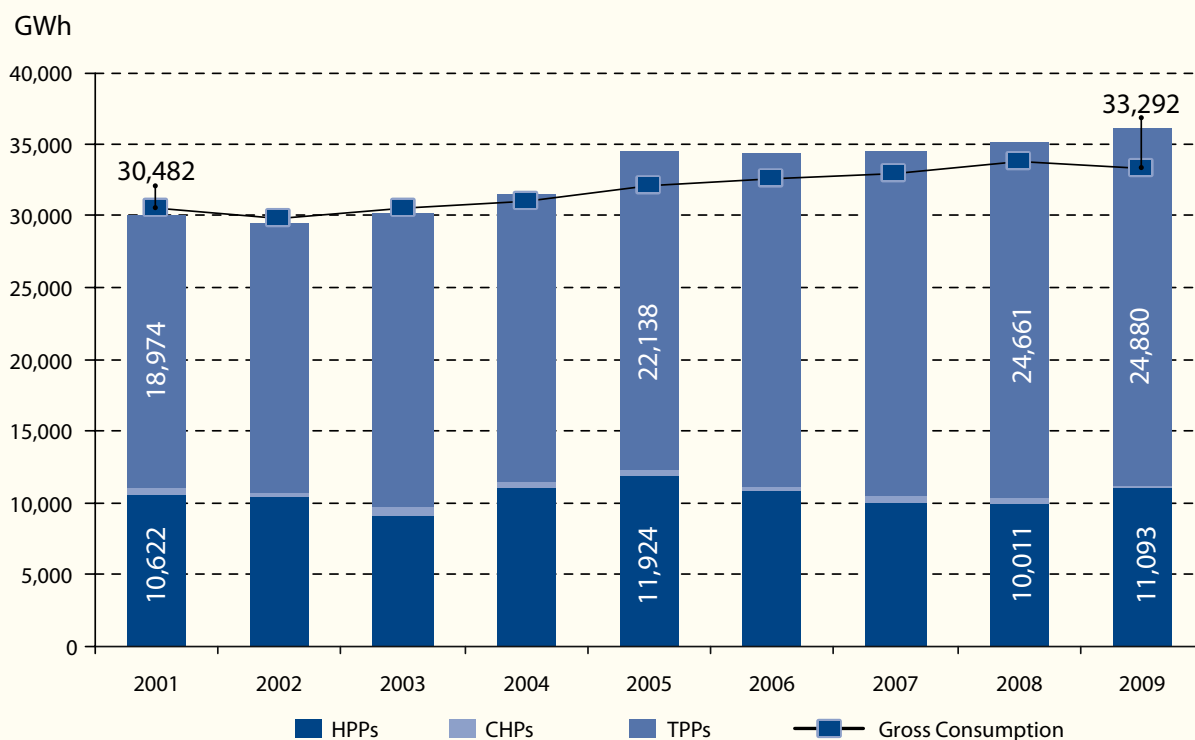
EPS power plants, not including the capacities in Kosovo and Metohija, whose operation has not been under EPS

control since 1999, also achieved the second highest monthly output amounting to 3,690 GWh (in December 2007, it was 3,704 GWh). January was also the month of the highest demand, increased due to the ten-day interruption of gas supply from Russia. During this period, electricity and fuel oil substituted this energy source. The record-high monthly consumption of 4,265 GWh was realised.

On January 13th, generation exceeded 156 GWh, which is the daily generation maximum. The highest consumption, amounting to 156.2 GWh, was recorded on December 21st. In the territory of Serbia, without the territory under UNMIK administration, the highest generation was 130.49 GWh, and the highest consumption – 134.7 GWh, on January 13th. In this year, the highest mean hourly gross consumption was recorded in the eighteenth hour of December 21st, when 7,448 MWh were consumed in those 60 minutes.

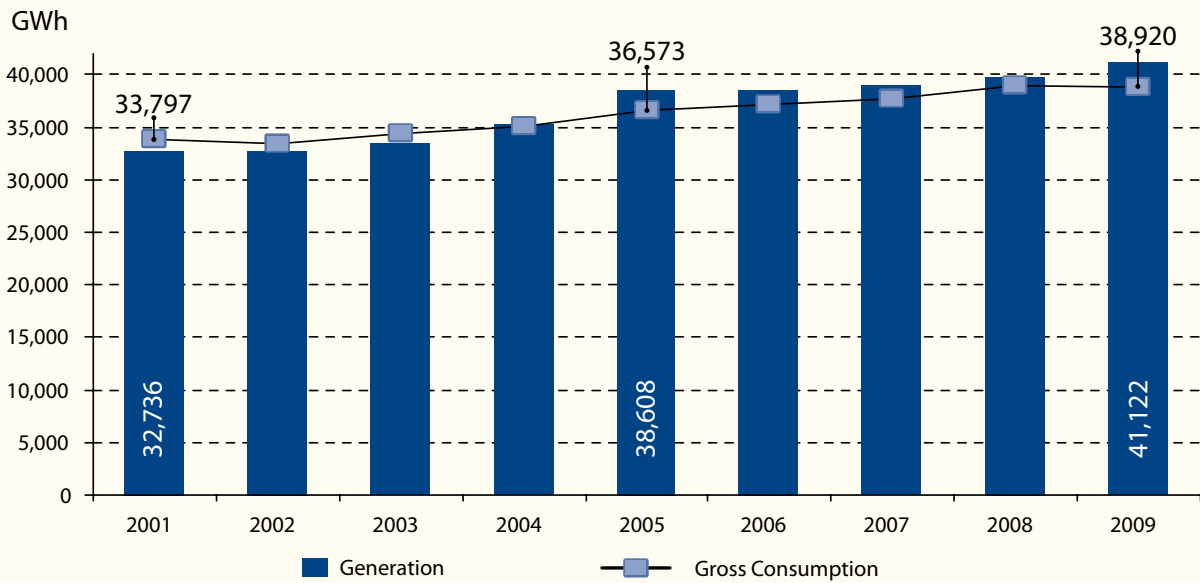
Units in TPPs Nikola Tesla and Kostolac generated 24,880 GWh in 2009, exceeding the plan by 1.3%. This is the highest output realised since 1990. The output of the preceding year was exceeded by 219 GWh. Had it not been for the high system restrictions, the difference would have been greater. The difference between the respective outputs of 2009 and 2001 is 5,907 GWh, which corresponds to the annual output (without a single outage) of a 670 MW unit. TPPs Nikola Tesla A, Kostolac A and Kostolac B accounted for the highest proportion of the generation increase in comparison with 2001.

GENERATION STRUCTURE AND GROSS CONSUMPTION (KOSOVO AND METOHIJA NOT INCLUDED)*



*As of June 1999, EPS does not operate its facilities on the territory of Kosovo and Metohija

GENERATION AND GROSS CONSUMPTION (KOSOVO AND METOHIJA INCLUDED)

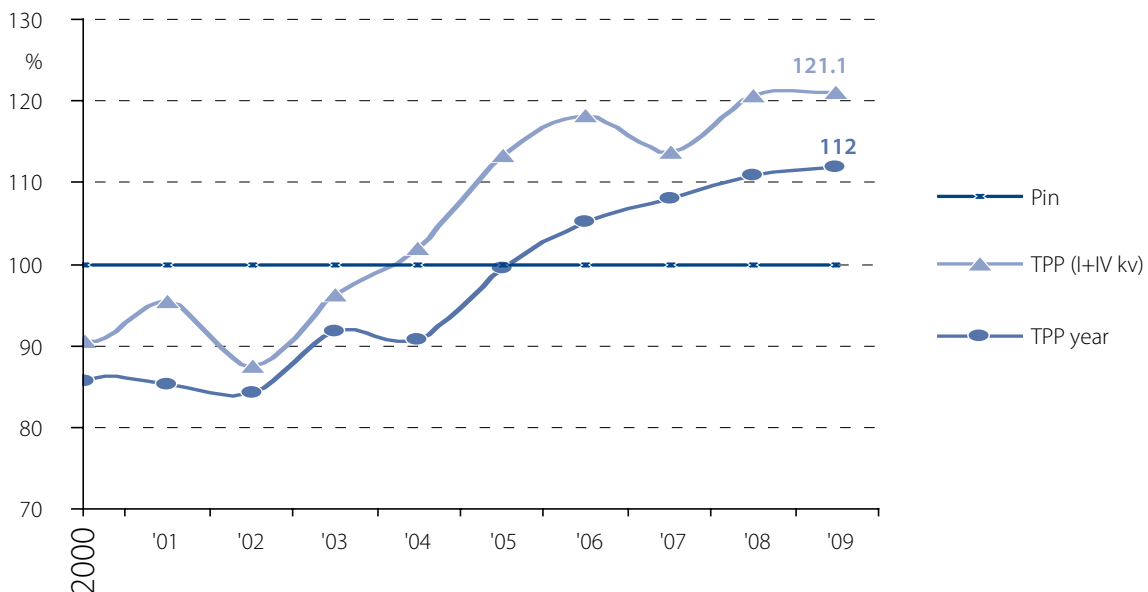


Maximum annual output in the past 19 years was realised by the units of TPP Nikola Tesla A (it exceeded 10,000 GWh for the first time), TPP Kostolac A (it almost reached 2,000 GWh for the first time) and TPP Kostolac B (it almost reached 4,000 GWh for the first time).

The outstanding operation of units in the corporate enterprises TPPs Nikola Tesla and TPPs-OCMs Kostolac is best illustrated by the realised maximums at the annual, quarterly, monthly and daily levels, which give 49 maximums realised by enterprises, power plants and units in different time intervals, of

which only one does not compare with the results of 1997. Figure 1 shows the index of changes in the generation realised by units in those corporate enterprises in comparison with results of 1990, at the annual level and aggregate for the first and fourth quarters (highest annual operation levels of thermal power plants). This index shows continuous improvements in thermal power units' operation, fulfillment of expectations that the performance should be higher during high-demand season, that "old" units could exceed the performance of 19 years ago and that no considerable increases in output should be expected the forthcoming years.

Fig. 1. INDEX OF TPPs OUTPUT IN COMPARISON WITH 2000



EPS thermal power plants, whose average age is 187,000 hours of operation, after nine years of indispensable and comprehensive rehabilitation interventions, were brought to a safe condition, with available equipment and reliable facilities enabling excellent, outstanding generation results. Since 2000, this was the first year in which all 18 units were available and there were no planned outages in November and December.

The result of rehabilitation interventions performed on thermal power plants, compared to achievements of 2001, may be quantified through the changes of increments of electricity generation output from thermal power units shown in Figure 1, which amount to over 26,500 GWh in total, or an additional 1.3 billion euros, not including the effects of reduced generation costs: the specific coal consumption per generated GWh decreased by 4.3% and specific fuel oil consumption decreased almost three times. The interpretation of these results testifies to what is already well known in EPS: the required works must be performed in a quality manner, within the planned framework, with the set funds and in

a timely manner, in line with manufacturers' instructions and good operational practice compliant with technical standards.

The six parameters for the assessment of efficiency of thermal power plants' operation (not including those in Kosovo and Metohija) which were better than in the comparative period and the best since 1990 are the following coefficients: rate of operation, equivalent operating hours, reliability, operational readiness, capacity efficiency and partial outages.

Hydro power plants, whose average age is 35 years, had a higher rate of operation and spent more time in planned and unplanned outages in relation to the comparative period, which was reflected in the reduction of operational readiness. Energy efficiency parameters were improved: efficiency ratio and average power.

Longer planned outages on hydro power plants were recorded on unit 7 of HPP Djerdap 2 and on HPPs Vlasinske.



REHABILITATION OF HYDRO POWER PLANTS

HPP DJERDAP 1

In conformity with the 2007 intergovernmental agreement between Serbia and the Russian Federation, Electric Power Industry of Serbia, the corporate enterprise HPP Djerdap and the Russian company OAO Silovye Mashiny signed an addendum to the principal agreement and commenced the rehabilitation of the hydro power plant Djerdap 1.

Unit six was the first machine included in the rehabilitation programme, which involved the increase of its power from 176.3 MW to 205 MW. The unit was taken out of service on 8/24/2009, and its rehabilitation started on 9/1/2009. The following works were agreed: inspection of mechanical equipment without breaking, processing of assemblies in Russian factories following repair and assessment of condition, installation of a new turbine runner, manufacture of automatic control, protection and monitoring system, corrosion protection of unit equipment, assembly of main and ancillary generator stators and replacement of generator rotor poles using the technology of the company Elektrosila.

In November, the entire unit, turbine, generator and ancillary equipment were dismantled for the first time since the unit was commissioned, and part of the equipment was transported to Russia for repair.

The new generator stator packet was assembled. In the turbine discharge race, injection works in the spiral case were completed, as well as repair of cracks in the draft tube concrete and injection works below the turbine runner cladding.

Certain damage was found by examination of the turbine equipment. The most severe damage was identified on the upper ring of the flow direction control device and turbine cover; under the contract, the scope of its rehabilitation was minimum. Following all inspections and analyses, Silovye Mashiny prohibited the existing ring from being used. Considering that it was necessary to procure the upper ring of the flow direction control device, the rehabilitation of generator six will be extended until the end of 2010.

HPP BAJINA BAŠTA

Power plant rehabilitation started on 6/1/2009 with works on unit one, of 91 MW. After rehabilitation, its power will be upgraded to 104 MW.

The following works are planned: replacement of the turbine runner, replacement of the turbine regulator, installation of a new generator stator and cooler, rotor overhaul with replacement of pole windings and replacement of the unit generator transformer due to increase in the unit power. Replacement of the 220 kV switching substation equipment for auxiliary consumption was agreed, as well as introduction of a new control and management system. The turbine and generator were completely dismantled.

During inspection of equipment, cracks were found on turbine blades, which required repair in a factory. Welded joints on turbine equipment were also inspected and corrosion protection of the unit spiral case was provided. Works on the shaft, blades of the flow direction control device and turbine runner were performed in Ravensburg, where acceptance testing was conducted. Part of the draft tube was reconstructed for reasons of dimensions of the new turbine runner.

On the generator facility, the stator core was packed, stator winding was assembled and a new unit generator transformer

was installed. Two control stations were delivered for the unit and plant control system and for the auxiliary consumption facility.

Unforeseen works required on the generator rotor included a new structure for rotor ribs and a new lower spider, and were covered by a contract addendum on rotor rehabilitation. The new planned deadline for the completion of unit rehabilitation is 6/1/2010.

The rehabilitation of all four units is being performed by the Austrian company Andritz Hydro.

HPP OVČAR BANJA

The rehabilitation of the first 2.5 MW unit started back in 2008, when HPP Ovčar Banja was completely out of service because of separation of joint facilities.

As part of the rehabilitation project, a new turbine and generator were installed, so that the installed power of the unit is now 3.5 MW, which will be verified by warranty tests. A new control and monitoring system was installed and the 35 kV switching substation was reconstructed.

The unit test run started on 8/31/2009; an increase in the temperature of the combined bearing was detected and the operation was stopped towards the end of the year. The contractor rectified the deficiencies and the unit has been available since 1/15/2010.

The rehabilitation of unit two, of 3.5 MW, was also started in 2008 and included the replacement of the complete turbine and turbine equipment (excluding the spiral case), as well as the partial replacement of generator equipment (new magnetic circuit and stator windings, new rotor poles) and cooling system. This enabled the designed unit power of 4.5 MW.

The auxiliary consumption substation was completely replaced, as well as the control and protection system, emergency supply and unit generator transformer and HV cables from the power plant to the transmission line towers.

Following testing, the generator was in test run from 3/16/2009, and the warranty period started on 6/16/2009.

The contractor for the rehabilitation of both units was the French company Andino, with local suppliers of ancillary equipment and works subcontractors.

HPP MEDJUVRŠJE

The rehabilitation of the power plant electric and mechanical equipment started on 10/12/2009 with works on unit two, of 4.5 MW. The unit was dismantled in full and the spiral case was treated. The turbine runner and new turbine cover were assembled. A new tin packet was stacked and stator windings were assembled in the generator stator casing. The existing rotor pole wheel was prepared and new poles were installed.

The unit control and protection system was replaced, and the unit generator transformer and transmission line protection equipment were replaced on the 35 kV switching substation.

After completion of the rehabilitation, the designed unit power will be 5 MW, and the power plant will be in test run from March 2010.

The contractor for the rehabilitation of unit two is the French company Andino, which will also perform the rehabilitation of unit one during 2010.



OPEN-CAST MINES

■ In 2009, a total of 37.8 million tons of coal were produced at open-cast coal mines in Serbia operated by EPS (Kolubara and Kostolac basins). This coal was used to generate 69% of all electricity generated by EPS. This, combined with the generation from thermal power plants in Kosovo and Metohija, accounts for 73% of total electricity generation in the territory of the Republic of Serbia.

Coal produced in the corporate enterprise Mining Basin Kolubara enabled generation of 46.2% of the total electricity generated in EPS thermal power plants, while the coal from TPPs-OCMs Kostolac provided for 14.4% of this generation (for the past ten years – since 1999, Electric Power Industry of Serbia has not operated its facilities in Kosovo and Metohija and detailed data on the operation of Kosovo and Metohija coal mines are not available).



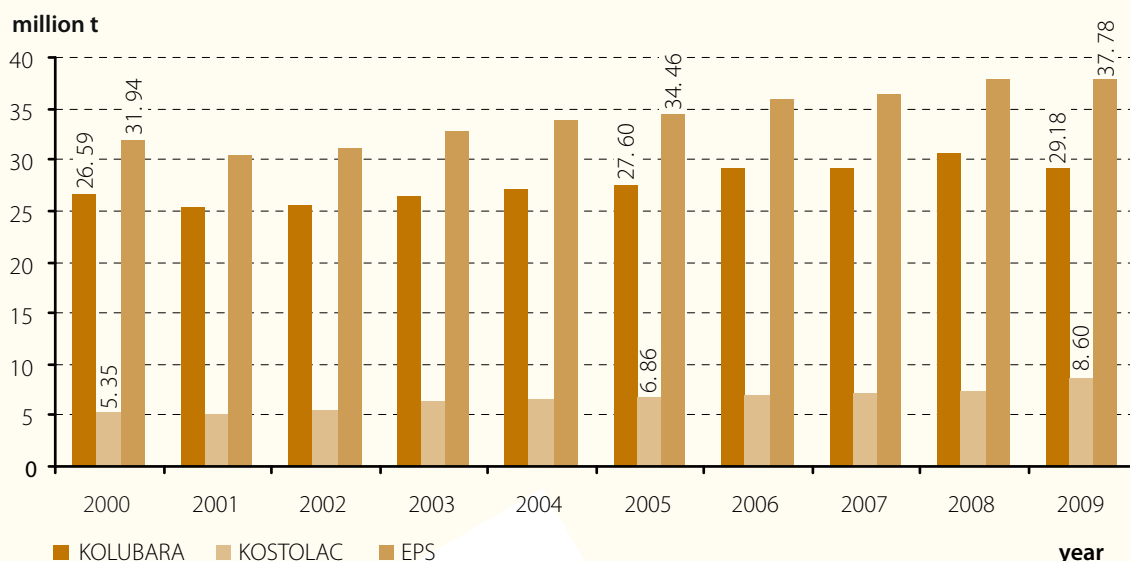
Of the total lignite output in mines operated by EPS, Kolubara basin accounted for 77.2%, and Kostolac basin for 22.8% in 2009.

Coal mining in Mining Basin Kolubara took place at four open-cast mines: Field B, Field D, Veliki Crljeni and Tamnava – West Field. They supplied TPP Kolubara, TPPs Nikola Tesla A and B and TPP Morava with coal. In TPPs-OCMs Kostolac, the mines Ćirikovac and Drmno were in operation and supplied TPPs Kostolac A and B with coal.

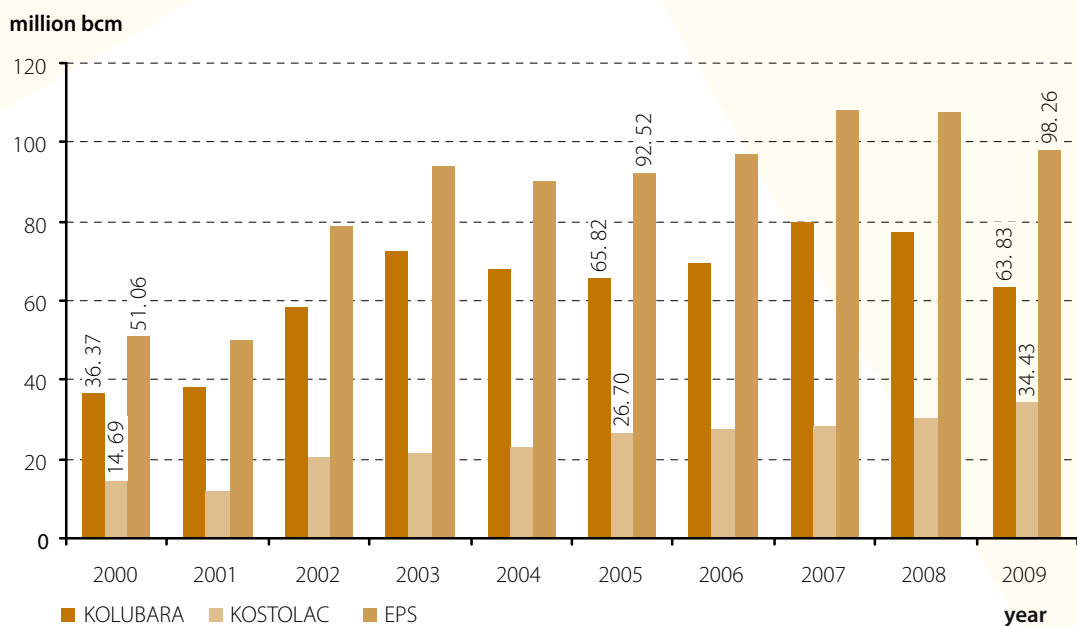
Balance coal reserves in these two basins ensure secure production to meet the needs of thermal power plants for over fifty years into the future. The present installed capacities are sufficient for smooth operation of thermal power plants within balance limits.

Coal production was preceded by appertaining overburden removal. In 2009, the ratio of excavated overburden and coal was 2.19 m³/t in Mining Basin Kolubara and 4.00 m³/t in TPPs-OCMs Kostolac.

COAL PRODUCTION



OVERBURDEN PRODUCTION

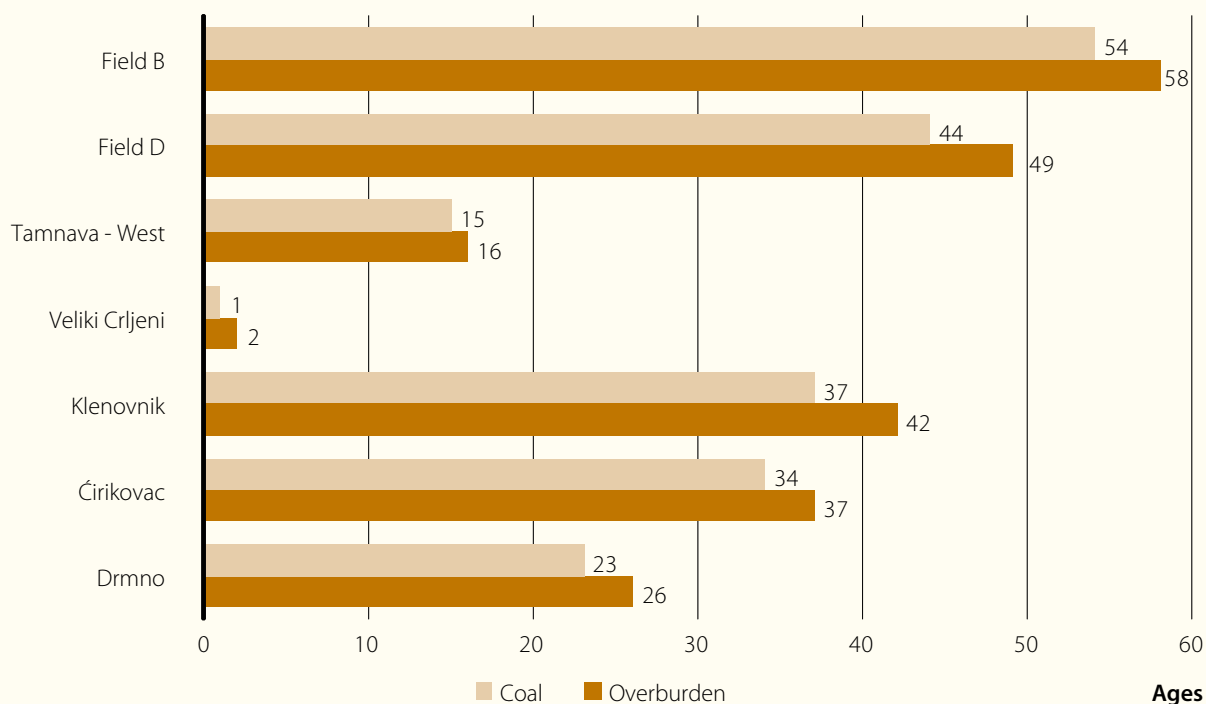




Coal mining in Kolubara basin takes place in relatively densely populated zones with arable land, road links and bodies of water. All this affects the pace and cost of land expropriation process. In Kostolac basin, there is agricultural land and the renowned archaeological site Viminacium.

The average calorific value of coal supplied for the operation of thermal power plants in 2009 was 7,851 KJ/kg in Mining Basin Kolubara, and 8,227 KJ/kg in TPPs-OCMs Kostolac. Coal quality management process with a view to ensuring uniform quality of the coal for thermal power plant operation is among the crucial projects in EPS.

OPEN-CAST MINES AGE



Increasing coal output is planned in Kolubara and Kostolac basins. Investments into these coal basins will provide replacement capacities for coal deposits becoming mined-out, as well as increased coal output in the forthcoming years.

The new open-cast coal mine in Mining Basin Kolubara – Veliki Crljeni – started operation in the last quarter of 2009 (10/27/2009). High-quality coal at this open-cast mine should ensure the quality required for the operation of thermal power plants, as well as the mining of lower-quality parts of the coal deposit, which could not be utilised without blending coal.

Owing to years-long problems with the relocation of the community of Vreoci and inability to mine-out the coal resources, overburden removal and mining of the coal seam top at Field E, adjacent to Field D, was started. Coal mining started towards the end of 2009 (11/13/2009). The output from this field should overcome the problems arising as a result of delays in the relocation of Vreoci. As regards the land expropriation process, there were problems in all EPS open-cast mines, which resulted in underperformance in overburden removal in comparison with the realistic possibilities. With the assistance of competent public authorities, EPS is seeking a solution which will enable smooth operation and development of open-cast coal mining in the forthcoming years.

During last year, several other investment projects in Mining Basin Kolubara were in the final stages and their completion is expected in early 2010.

Overburden removal in Mining Basin Kolubara in 2009 was marked by land expropriation problems, low bearing capacity of the soil and difficulties in the operation of the eastern dump site of Field D. In this zone, excavation is conducted with four of the six available excavator-conveyor-stacker (ECS) systems, in order to provide prerequisites for the opening of the future open-cast mine Field E, which will be the largest and deepest open-cast mine in Electric Power Industry of Serbia.

The coal output balance in this corporate enterprise was not achieved (98%). The main reason for this lies

BUILT CAPACITIES OF OPEN-CAST MINES

	million	
	t	m ³
Kolubara	31.0	65.0
Field B	2.0	4.0
Field D	12.0	33.0
Tamnava – West Field	12.0	22.0
Veliki Crljeni	5.0	6.0

	million	
	t	m ³
Kostolac	8.5	37.0
Drmno	8.5	37.0

in unfavourable weather conditions in the winter period, requiring long defrosting periods for trains, which had a direct impact on output reduction.

A significant investment in TPPs-OCMs Kostolac in 2009 was the commissioning of the fifth ECS system at the Drmno open-cast mine. This will enable secure coal supply of Kostolac thermal power plants in the forthcoming period.

In the first half of 2009, the operation of the Ćirikovac open-cast mine was stopped. According to the plan, an ash disposal site will be established at the closed open-cast mine, i.e. in its inside dump. The ash is produced by the operation of Kostolac thermal power plants. Most of the equipment from this mine was transported to the Drmno mine and placed in service following rehabilitation. The remaining equipment will also be rehabilitated and put to use in the production process at this open-cast mine.

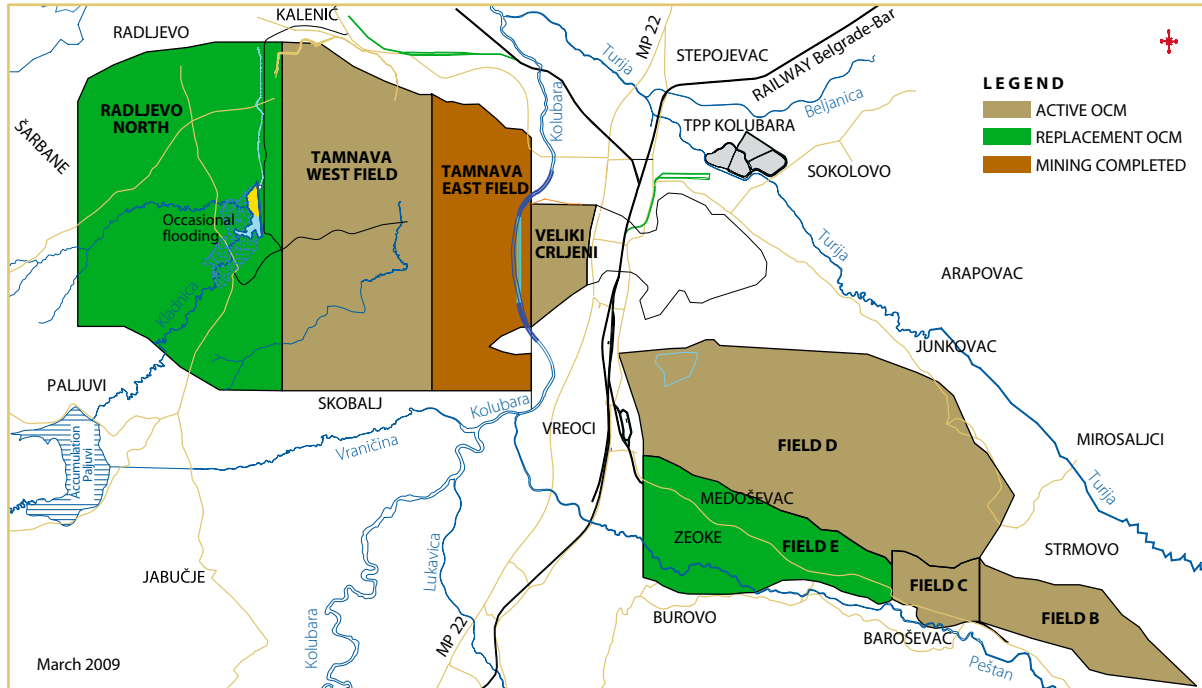
In spite of all the problems faced by the staff, TPPs-OCMs Kostolac achieved record annual overburden and coal output in 2009.

STRUCTURE OF SUPPLY OF THE PRODUCED COAL

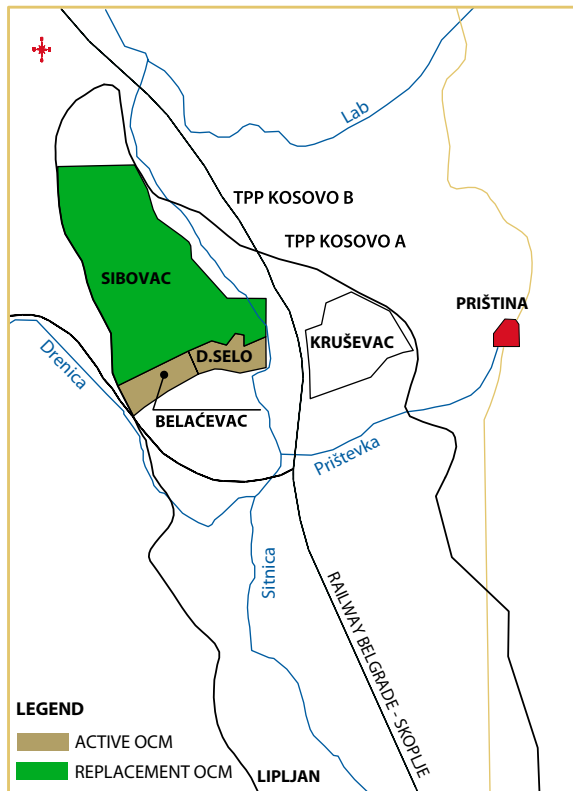
	for TPPs (t)	For drying (t)	For industry (t)	For heating plants (t)	Total (t)
MB Kolubara	27,401,352	897,493	690,350	189,621	29,178,816
TPPs-OCMs Kostolac	8,290,521	–	309,263	–	8,599,784
EPS	35,691,873	897,493	999,613	189,621	37,778,600

DIAGRAM OF EPS OPEN CAST MINES

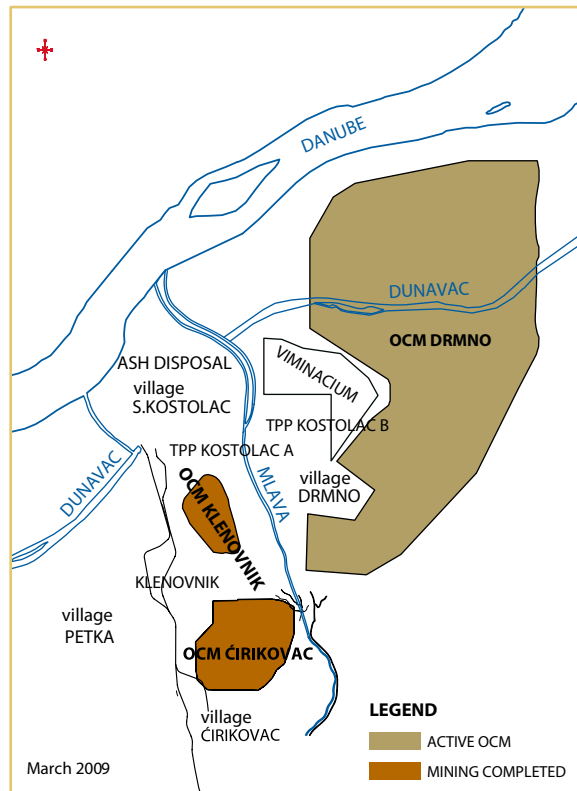
KOLUBARA BASIN



KOSOVO BASIN



KOSTOLAC BASIN





DISTRIBUTION
COMPANIES

COOPERATION WITH THE ENERGY AGENCY

Cooperation of the PE EPS on the one hand and the Energy Agency of the Republic of Serbia on the other continues to be very intensive, owing to the nature of the work in question. In 2009, the Distribution Code was finalised and approved for application by the Agency. The document facilitates openness and non-discriminatory access to the distribution system for all interested parties.

The cooperation with the Energy Agency also takes place in the supervision of the application of previously adopted documents, such as:

- the electric power tariff system for tariff customers,
- the tariff system for electric power transmission system access and use,
- the tariff system for electric power distribution system access and use,
- the methodology for customer connection to the electric power transmission and distribution systems,
- the Distribution Code.

In addition, the cooperation is manifested in joint data gathering and analysis for the purpose of quality assessment of electricity supplied. The Action Plan for Addressing the Issue of Existing Household Connections and Metering-Switching Cabinets is developed jointly with the Ministry of Mining and Energy. The cooperation is realised through activities of joint working groups or thematic meetings.



INVESTMENT ACTIVITIES

During 2009, the power distribution enterprises within the Public Enterprise Electric Power Industry of Serbia completed the construction and commissioning of the following electric power facilities:

- 110 kV voltage level: substations: Čelarevo, Rimski šančevi, Mačvanska Mitrovica, Arilje, Niš-8 – the first stage and Sloga Vladičin Han; Aleksandrovac and Kruševac-2 substations were reconstructed.
- 35 kV voltage level: the Beršiči–Brezak transmission line and the Zlatibor–Ribnica cable line were built. The Jajinci and Krnjača substations were extended, and the following substations were reconstructed: Kruševac-3, Sušica and Smederevska Palanka, as well as the Kragujevac-2 – Kragujevac-3 cable line.
- 20 (10) kV voltage level: 493 substations were built and commissioned, and 212 were reconstructed. At this voltage level, 301.7 km of power lines were built and commissioned, and 76.1 km were reconstructed.
- 0.4 kV voltage level: 1,227.9 km of power lines were built or thoroughly reconstructed and commissioned.

With a view to modernising the company's power distribution system, the implementation of SMART GRIDS activities was commenced. In that regard, a network and material development concept entitled Functional Requirements and Technical Specifications of the AMI/MDM System was prepared; it concerns remote consumption monitoring and management. Activities concerning the development of the information system, remote control of power facilities and automation with relay protection replacement were continued.

To realise the 2009 investment plan, power distribution enterprises invested a total of 7.5 billion dinars. With the 3.6 billion dinars spent on maintenance, PE EPS and its power distribution enterprises earmarked a total of 11.1 billion dinars for raising the level of the distribution system operational readiness.

LENGTH OF DISTRIBUTION POWER LINES

Voltage Level	Type of line	Length (km)
110 kV	Overhead	464.90
	Ground	31.00
	Total	495.90
35 kV	Overhead	5,901.05
	Ground	953.61
	Total	6,854.66
20 kV	Overhead	6,029.49
	Ground	2,205.62
	Total	8,235.11
10 kV	Overhead	24,085.72
	Ground	6,480.14
	Total	30,565.86
0.4 kV	Overhead	85,512.38
	Ground	10,531.20
	Total	96,043.58
TOTAL	Overhead	121,993.54
	Ground	20,201.57
	Total	142,195.11

NUMBER AND INSTALLED CAPACITY OF DISTRIBUTION TRANSFORMER SUBSTATIONS

Voltage Level	Number/Installed Capacity	
110/10 kV	pieces	27
	MVA	1,546.00
110/20 kV	pieces	45
	MVA	2,431.00
110/35 kV	pieces	29
	MVA	1,374.00
110/X/Y kV	pieces	23
	MVA	1,196.50
35/10 kV	pieces	586
	MVA	6,160.26
10/0,4 kV	pieces	24,273
	MVA	8,984.87
20/0,4 kV	pieces	7,309
	MVA	2,794.10
TOTAL	pieces	32,292
	MVA	24,486.73

ELECTRICITY SALE STRUCTURE

Voltage Level/ Category of Consumption	Electricity Supplied		Number of Customers/ Measuring Points
	GWh	%	
High Voltage - 110 kV	2,052	7.56	32
Medium Voltage - 35 kV	729	2.69	158
Medium Voltage - 10(20) kV	4,397	16.19	3,946
Low Voltage (0.4 kV I level)	3,144	11.58	45,956
Consumer Spending (0.4 kV II level)	1,944	7.16	302,095
Consumer Spending – Households	14,412	53.07	3,092,470
Public Lighting	479	1.76	23,736
TOTAL	27,158	100	3,468,393

ELECTRICITY SUPPLIED TO DISTRIBUTION COMPANIES

Distribution companies	Taken over from transmission	
	GWh	%
Elektrovojvodina	8,799	27.48
Elektrodistribucija Beograd	7,963	24.87
Elektrosrbija	7,387	23.07
Jugoistok	4,889	15.26
Centar	2,985	9.32
TOTAL	32,023	100

ELECTRICITY SALE STRUCTURE

MWh

Distribution company	High and medium voltage				Low voltage, consumer spending and public lighting					Grand total
	HV 110 kV	MV		TOTAL	Low voltage (0.4 kV I level)	Consumer spending		Public lighting	TOTAL	
		35 kV	10(20) kV			(0.4 kV II level)	Households			
Elektrovojvodina	311,208	81,077	1,778,012	2,170,297	709,086	554,676	4,016,326	132,782	5,412,870	7,583,167
Elektrodistribucija Beograd	73,536	139,593	1,100,835	1,313,964	1,106,063	512,090	3,711,296	103,800	5,433,249	6,747,213
Elektrosrbija	635,379	149,980	851,397	1,636,756	752,393	448,967	3,298,031	119,815	4,619,206	6,255,962
Jugoistok	171,149	356,332	517,827	1,045,308	371,200	278,996	2,219,952	74,043	2,944,191	3,989,499
Centar	861,046	2,416	149,040	1,012,502	205,608	149,118	1,166,769	48,650	1,570,145	2,582,647
TOTAL	2,052,318	729,398	4,397,111	7,178,827	3,144,350	1,943,847	14,412,374	479,090	19,979,661	27,158,488

Share of households: 53.07%



MINI HYDRO POWER PLANTS

EPS owns 17 mini hydro power plants with the total installed power of 20.4 MW; 13 of these are currently in operation. The first one was commissioned in 1900, five were built after the Second World War and the newest mini hydro power plant was commissioned in 1989.

In 2009, mini hydro power plants owned by EPS

generated 44.6 GWh; Raška and Sokolovica plants stand out with generation output of 17.2 GWh and 13 GWh, respectively. The plan for renewal and modernisation of these mini hydro power plants was developed, taking into consideration the fact that almost all represent monuments of the technical history of Serbia.

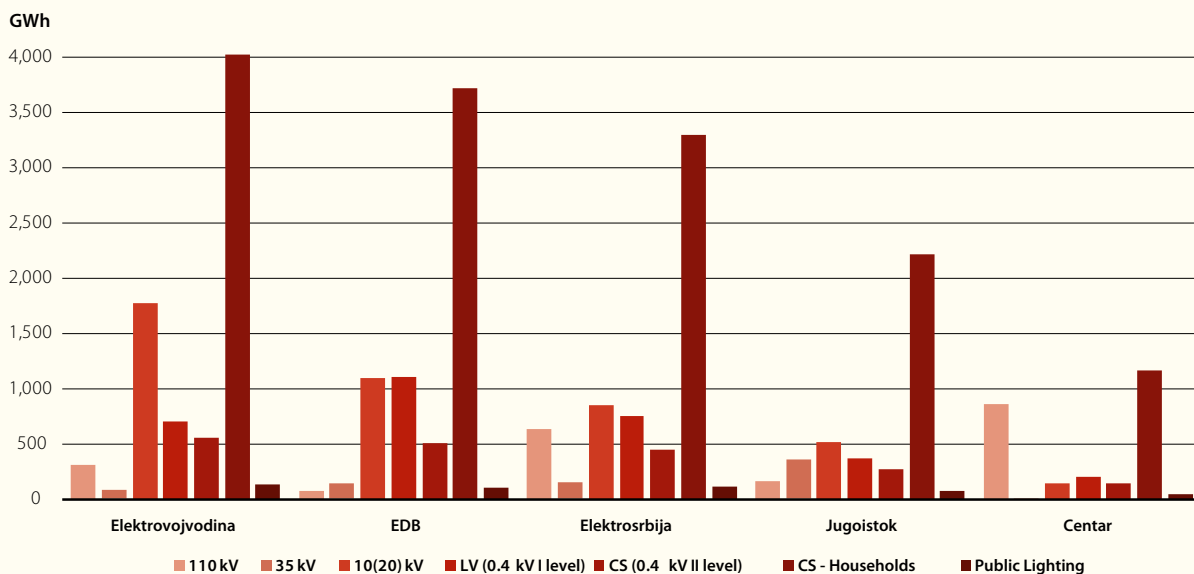


LOSS REDUCTION ACTION PLAN

In view of the loss growth trend in the past years, the Action Plan for the Implementation of the Programme of Loss Reduction Measures was adopted in mid-2009. It comprises a range of activities aimed at reducing non-technical losses to a level that would enable keeping total losses at the level foreseen by the annual business programme. Strengthened customer control activities are foreseen in order to detect irregularities in power consumption metering and registration and various forms of misuse, as well as

replacement of meters for the purpose of conducting the calibration cycle, activities on building remote metering and improving meter reading performance with a view to reducing the number of customers whose meters are not read. Distribution losses in 2009 were 15.19 % and the upward trend was interrupted. Considerable improvements and reduction of overall losses to 13.90 % are expected in 2010.

STRUCTURE OF ELECTRICITY SALES BY DISTRIBUTION ENTERPRISES



CUSTOMER RELATIONS

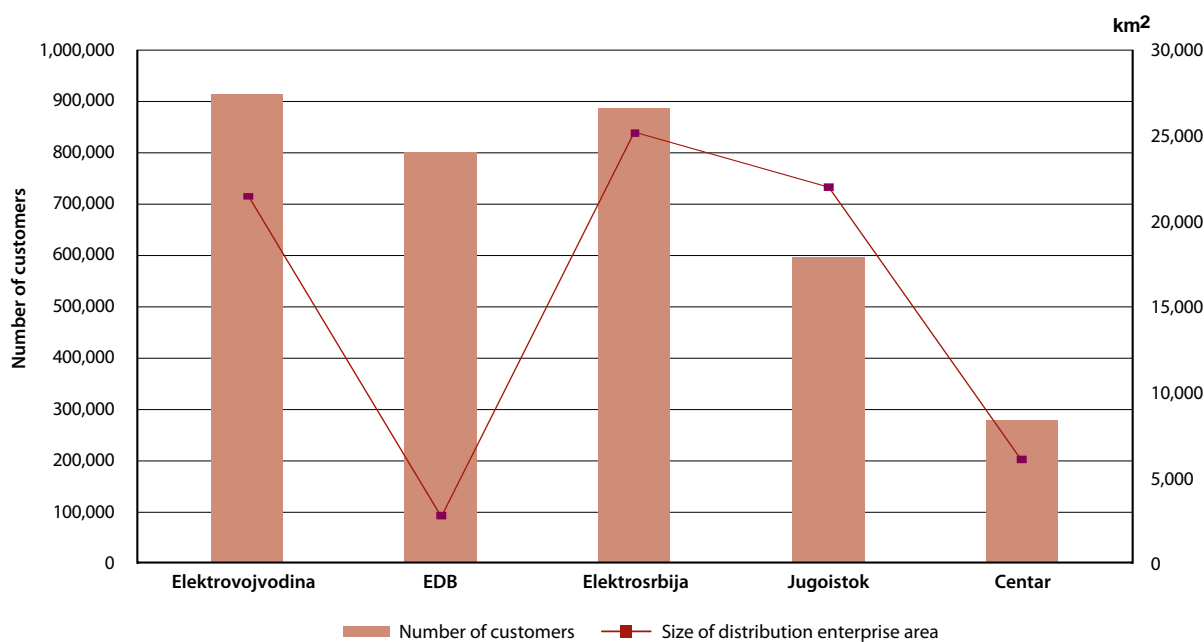
During 2009, all necessary preparations for the introduction of standardised, uniform electricity bills were completed. The bill is designed so as to facilitate the presentation of costs to be declared in conformity with the tariff system for the computation of costs of distribution system use, which entered into force in the meantime. Initially, these costs will be shown

separately on bills to all customers except households.

Uniform bills will enable customers to pay their electricity bills anywhere in Serbia.

The existing services provided through call centres were also upgraded.

NUMBER OF CUSTOMERS AND SIZE OF DISTRIBUTION ENTERPRISE AREA





ELECTRICITY TRADE



THE ELECTRIC ENERGY BALANCE AND THE OPERATION OF EPS GENERATION CAPACITIES

In the realisation of the Electric Energy Balance (EEB) in 2009, there were deviations from balance assumptions. They were partial or major, depending on the time of year and the aspects of balance elements. However, overall deviations were positive for the annual operation of EPS.

As regards the temperatures occurring in Belgrade, the year 2009 was 1.8°C warmer in comparison with the 120 years' average. All months except January were warmer. Electricity consumption (not including Kosovo and Metohija) was about 1,350 GWh or four percent lower than foreseen in the balance. Beside warmer weather, this deviation in consumption was also affected by the economic crisis.

The main deviation in consumption occurred in the second and fourth quarters; in the second quarter alone, electricity consumption was lower by about 650 GWh or 9%. The highest monthly deviation of temperature and thus also the highest deviation in energy consumption was recorded in April. April was 3.7°C warmer than average, for which reason consumption was about 300 GWh or 11% lower than foreseen in the balance.



As regards the realised water inflow in hydro power plants, 2009 was characterised by good hydrology. Generation in hydro power plants (including HPP Piva) at the annual level was about 700 GWh or 6% higher than foreseen in the balance. Run-of-river hydro power plants exceeded the generation foreseen in the balance by about 260 GWh or 3%. It is especially important that in the first quarter, when consumption was the highest, the generation realised by run-of-river hydro power plants exceeded that foreseen in the balance by about 350 GWh or 14%, which, combined with good performance of coal-fired thermal power plants, enabled the realisation of the EEB without the procurement (imports) of electricity. In the second quarter, which was characterised by drought, run-of-river HPPs generated about 380 GWh less than foreseen in the balance, but this was practically offset by lower consumption.

Coal-fired thermal power plants (not including Kosovo and Metohija) operated exceptionally well, so that, even with downtime, their generation exceeded the balance by about 330 GWh or 1.3%. The highest generation in excess of the balance was about 400 GWh and was realised in the third quarter.

Combined power and heating plants were in operation only when there was need for heat supply. They generated about 430 GWh less than foreseen in the balance, which reduced generation costs considerably.

The purchase (import) of electricity totalled only 121 GWh, or 450 GWh less than foreseen in the balance. This also considerably reduced the EPS operating costs.

Higher generation from hydro and thermal capacities, combined with lower consumption, enabled lower level of operation of CHPs Panonske (where generation costs per kilowatt-hour are high), lower imports, as well as the sale of 1,442 GWh in the open market. This increased the company's revenue considerably.

Planning the operation of EPS generation capacities during 2009 was successful, in spite of considerable temperature and hydrology deviations. There were difficulties in periods of warmer weather (lower consumption) and good hydrology, when generation in coal-fired thermal power plants had to be reduced. The most difficult situation occurred in April, when over 500 GWh of generation in coal-fired thermal power plants

was shut off. This was necessary owing to considerably lower consumption, good hydrological situation in run-of-river HPPs, high degree of utilisation of reservoir HPPs (avoiding overflow) and falling demand for electricity in the regional market.

REGULATED MARKET

The supply of tariff customers in the Republic of Serbia was realised on the basis of annual agreements between PE Electric Power Industry of Serbia and the corporate enterprises for electricity generation and corporate enterprises for electricity distribution within EPS.

Likewise, on the basis of annual agreements, the sale of electric energy and power to Public Enterprise Electric Power Network of Serbia was realised with a view to secure and stable operation of the national electric power system. This enabled the supply of tariff customers, as well as trade in electricity in the region of South East Europe, where the electric power system of Serbia is the key system.

FREE MARKET

In 2009, the Head Department for Electricity Trade sold electricity in the internal and regional markets. Trading was realised with seventeen companies and the sales totalled 1,442 GWh of electricity.

Fourteen companies participated in tenders for the procurement of missing quantities of electricity for the supply of tariff customers in 2009 (under the Public Procurement Law, 30 companies' qualifications were recognised by EPS).

The procurement of missing quantities of electricity took place in conformity with the Public Procurement Law. PE EPS purchased a total of 121 GWh of required electricity from two companies licensed for trading in electricity in the Republic of Serbia.

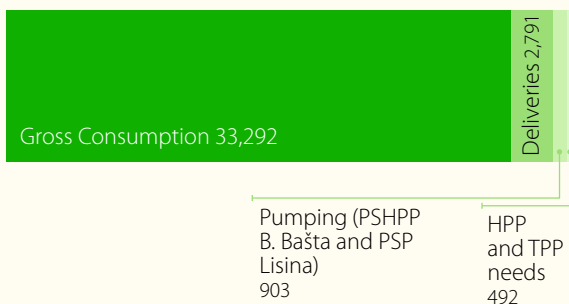
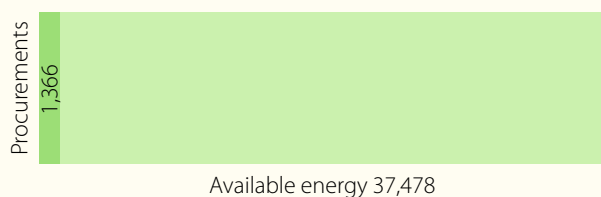
The cooperation with the Electric Power Industries of the Republic of Srpska and of Montenegro in the area of electricity purchase and sale, under annual agreements, was realised in partnership and in line with the agreed commitments.



ACHIEVED ELECTRIC POWER BALANCE

Kosovo and Metohija not included		GWh
HPP generation at the outlet	TPP generation at the outlet	
11,093	25,019	

Total EPS generation at the outlet 36,112



Kosovo and Metohija included		GWh
HPP generation at the outlet	TPP generation at the outlet	
11,093	30,029	

Total EPS generation at the outlet 41,122





INVESTMENTS

Continuing the projects started in previous periods, in particular activities concerning the publication of tendering documentation and commencement of the construction of new generation capacities in strategic partnerships with foreign companies were the main features of investment activities of Electric Power Industry of Serbia during 2009.

Last year, EPS invested 22.9 billion dinars in those projects. The structure of invested funds was as follows: own funds – 16.6 billion dinars; loans – 3.5 billion dinars; consumer funds, loans from the Government of the Republic of Serbia and environmental taxes – 2.1 billion dinars and grants – 665 million dinars.



THERMAL POWER PLANTS

The most important investments in the thermal power sector were aimed at preparing for the continuation of the second part of the rehabilitation of Unit 6 in TPP Nikola Tesla A, on the turbogenerator part of the facility, and continued activities on further upgrading of environmental protection through reconstruction and modernisation of the electrostatic precipitators. The contract for the reconstruction of mills in TPP Nikola Tesla A, in units 3, 4 and 5, worth about 36 million euros, was signed.

In TPP Nikola Tesla B, the procurement of equipment with a long delivery period was contracted for the capital overhaul of Unit 2 (steam pipelines, boiler heating surfaces, etc.). In 2009, the first stage of the

project for a new ash and slag transportation and disposal system was realised in TPP Nikola Tesla B (EAR/EU Delegation grant amounting to 28.5 million euros). The second stage will be completed in 2010.

A new ash and slag transportation and disposal system is also being implemented in TPP Kostolac B with an EBRD loan amounting to 23.8 million euros. A 17.8 million euro contract was signed for the reconstruction of the ash removal system of TPP Kostolac A, funded by a KfW loan. In 2009, preparatory activities were conducted and equipment was procured for the forthcoming rehabilitation and modernisation of Unit 2 in TPP Kostolac B.

HYDRO POWER PLANTS

The most significant investment in the hydro power sector was in the rehabilitation of HPP Bajina Bašta. In addition, funding possibilities for the rehabilitation of HPP Zvornik were considered on the basis of the conducted investment appraisal study and the conceptual design for the rehabilitation and modernisation of this facility.

The generator rehabilitation in HPP Djerdap 1 was started and will continue in 2010. This is the rehabilitation of the first of the six generators on the Serbian side. HPP Ovčar Banja was also rehabilitated and commissioned. One of the generators of HPP Medjuvršje was rehabilitated, and the rehabilitation of another one continues in 2010. These investments were fully realised from Electric Power Industry of Serbia's own funds.



Activities concerning the updating of existing and preparation of new investment and technical documentation for new hydro power plants were launched. This primarily concerns the preparation of investment and technical documentation for hydro power plants on the upper and middle course of the Drina. These are joint projects with the Electric Power Industry of the Republic of Srpska.

MINES

A new ECS system was installed in TPPs-OCMs Kostolac. This investment activity, commenced back in 2007, was completed in mid-2009. The value of the system is about 62 million euros.

In MB Kolubara, activities were continued at the open-cast mine Tamnava – West Field, for which the procurement of a new ECS system was contracted; it is funded by a KfW and EBRD loan amounting to about 80 million euros and includes the rehabilitation of the SchRs 1760 excavator and the construction of two mobile conveyors. After conducted performance tests, the ECS system was commissioned. The activities towards the relocation of the village of Vreoci were continued (building an urban settlement, relocating the cemetery, etc.).

DEVELOPMENT AND STRATEGIC PLANNING

The most important realised projects, studies and activities pertaining to science and research work and development of investment and technical documentation in the Electric Power Industry of Serbia are:

- Pre-feasibility study with the general design for reconstruction of existing or construction of a new combined gas and steam facility in CHP Novi Sad;
- Feasibility study with the conceptual design for works on units 1 and 2 of TPP Kostolac B with a view to increasing availability, power and energy efficiency and meeting environmental protection requirements;

- Preliminary works for the construction of a new thermal power facility using the coal from the Drmno open-cast mine;
- Feasibility study with the conceptual design for measures to upgrade the power of Unit B2 of TPP Nikola Tesla, of 618.4 MW;
- Conceptual design for the rehabilitation and modernisation of HPP Zvornik;
- Development of investment-technical and spatial planning documents for coal production capacity increase at Field C, Radljevo and Drmno,
- Introducing the operational management and coal quality control system at Tamnava open-cast mines;
- Geological research in the western part of the Kostolac basin and in Field Zvizdar in the Kolubara basin;
- Closure of Ćirikovac and Klenovnik open-cast mines.

JOINT VENTURES WITH FOREIGN PARTNERS

The principal business policy orientation of PE EPS in 2009 was stimulating foreign investments towards the implementation of capital projects, including foreign direct investments into company establishment. In that regard, activities aimed at establishing various forms of business cooperation with foreign partners were undertaken, in particular:

- Selecting and attracting strategic partners for building thermal capacities to be supplied with coal from Kolubara mines (TPP Kolubara B – 2x350 MW and TPP Nikola Tesla B3 – 700 MW);
- Selecting and attracting a strategic partner for the reconstruction of CHP Novi Sad;
- Building HPP Gornja Drina with partners from the Republic of Srpska;
- Implementation of investment projects in cooperation with the company SECI Energia S.p.A., Republic of Italy;
- Implementation of investment projects with RWE AG, Federal Republic of Germany.

In January 2009, the PE EPS Management Board adopted the Notice on the Implementation of Investment Projects and gave consent to the qualification documentation for the selection of strategic partners for building TPP Kolubara B and a new unit in TPP Nikola Tesla B3. On the basis of examination of qualification documentation with a view to verifying the fulfillment of requirements, in May the decision was taken on the qualification of companies for participa-

tion in the PE EPS tender for the joint venture to realise these projects. At the end of the second quarter of 2009, the tendering procedure was commenced. Potential strategic partners showed interest in building TPP Kolubara B and TPP Nikola Tesla B3, visited the sites and obtained the investment and technical documentation.

With a view to realising the project of reconstructing the existing and/or building a new facility on the site of CHP Novi Sad, PE EPS and the city of Novi Sad established a joint venture – The Enterprise for Combined Heat and Power Generation «Energija Novi Sad» plc., Novi Sad. In October 2009, the PE EPS Management Board published the public invitation to interested partners to submit letters of interest and evidence of fulfillment of qualification requirements for investment into the project of modernisation and extension of CHP Novi Sad, as well as a list of qualified bidder selection criteria in the international public tender for the selection of a strategic partner.

With the aim of promoting cooperation, representatives of the PE EPS management and the Mixed Holding «Electric Power Industry of the Republic of Srpska» chose to build HPP Gornja Drina jointly. In 2009, activities on the development of investment and technical documentation were continued.

Intergovernmental agreements between the governments of Serbia and Italy foresee joint realisation of hydro power projects of Electric Power Industry of Serbia and the Italian company SECI Energia S.p.A., namely hydro power plants on the Ibar river, HPP Kupinovo on the Sava river and hydro power plants on the middle course of the Drina river, between HPP Bajina Bašta and HPP Zvornik (these are collaborations with the Republic of Srpska). With respect to the utilisation of hydro-power potentials of the Ibar river, activities concerning development of pre-feasibility study with the general design were conducted in 2009.

The Memorandum on Cooperation between EPS and RWE, signed on November 16, 2009, foresees cooperation in the development of the projects for building a pumped-storage HPP Djerdap 3, an HPP on the West Morava river and an HPP on the upper course of the Drina river (in cooperation with the Republic of Srpska). In 2009, initial activities towards the realisation of objectives defined by the Memorandum were commenced.



ИНФОРМАЦИОНАЛЬНЫЕ
ТЕХНОЛОГИИ

■ As part of developing the existing information system, the platform for migrating the existing software to Oracle 10g version was configured and the backup system was upgraded. Translation and testing of migrated software modules are in progress.

As regards development of the application for the maintenance of the human resource information system for all EPS corporate enterprises, an in-house solution for generating dynamic reports in MS Excel was implemented. These reports, required for daily and periodic analyses, contain many attributes and are directly retrieved from the human resource management application by setting the parameters. Further, record keeping and making printouts of employment contracts and reports on length of service, pension insurance periods and staff turnover were enabled.

The implementation project of Windows SharePoint Server for electronic office and archival operations reached its final stage. The implementation of the first stage – the electronic filing office – is planned for early 2010.

The pilot project for the implementation of integrated computerised accounting system, through which the SAP application solution will be implemented in EPS, is being redefined and aligned with PE EPS restructuring process.

Activities towards the realisation of advanced IT services in the in-house computer network were also continued. Server consolidation through the use of virtualisation technologies (Microsoft Hyper-V, System Center Virtual Machine Manager) was started. In the work station and server management segment, the System Center Configuration Manager package was selected for centralised OS deployment and software package distribution, and System Center Configuration Manager for centralised monitoring of service functionality.

The ECDL computer literacy programme for PE EPS staff was continued in 2009, with varied levels of involvement of individual enterprises.

Building the EPS telecommunication network control centre maximised the practical value of the links between EPS enterprises and the Head Office through fibre-optic infrastructure (SDH – Synchronous Digital Hierarchy). It is now possible to monitor and control the existing lines and capacities in operation in real time.

The single IP telephone network project was implemented. The project is based on the use of telecommunication infrastructure and represents the first successful attempt at introducing advanced IT services using ICT.

The implementation of state-of-the art Microsoft technologies and services was continued in all enterprises. The implementation of AD infrastructure, installation of the Exchange Server for e-mail use and management and installation of Internet Security Acceleration Server software firewall represent the solutions chosen for future EPS WANs.

As part of the Serbian e-government project, PE EPS has already built the public encryption key infrastructure, which is a prerequisite for successful implementation of various methods of e-business security. This has provided the basis for practical implementation of qualified electronic certificates.

The preparation of project documentation and tendering documentation for the commencement of construction activities for the joint business and energy complex of PE EPS and the corporate enterprise Elektrodistribucija Beograd is in its final stage.

Conceptual designs for the complex have been finalised and approved by the joint expert panel of EPS and Elektrodistribucija Beograd, and the Republic Review Committee issued a positive opinion, on the basis of which the building permit was issued by the Ministry of Environmental Protection and Spatial Planning.

The project of building the Technical Management System (TMS) of EPS power generation facilities was continued in close cooperation with PE Electric Power Network of Serbia. Works on TPP Kostolac A are in progress and are coordinated with the pace of reconstruction of the plant's switchyard.

The extension of the planning and reporting functions of the dispatch control system (SCADA/AGC) has been continued, as well as the preparation of the Head Department for Electricity Trade for active access to and participation in the electricity market.



TELECOMMUNICATIONS

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■ The efficient functioning of the Serbian power system, comprising Public Enterprise Electric Power Industry of Serbia and Public Enterprise Electric Power Network of Serbia, requires a modern telecommunication system for the transmission of technical and business data. The construction of a new telecommunication system to meet the needs of these power companies, commenced several years ago, is being finalised. All the designed networks at the main level have been completed.



FIBRE-OPTIC CABLE NETWORK

All major electric power facilities in the country are connected by fibre-optic cables. The previously built network of 3,700 km of lines exceeded 4,000 km at the end of 2009.

According to its appearance, the fibre-optic cable network is increasingly like a high-voltage transmission network. In 400 kV and 220 kV transmission lines, almost all old earth wires were replaced with new, modern ones, containing fibre-optic cables. This was also done in many 110 kV transmission lines and some 35 kV lines.

With further development of the fibre-optic network towards regional and lower levels, when all important electric power points in Serbia are covered from the energy and telecommunication aspects, this network will become the most widespread optical transmission medium with multiple applications.

The new fibre-optic network was built using mainly 48-fiber OPGW cables, i.e. 24 G.652 fibres and 24 G.655 fibres. It was only on the Belgrade – Bajina Bašta route that the cable with 24 G.652 fibres was used.

TERMINAL EQUIPMENT

Adequate terminal equipment was installed in the most important national power system facilities, in all hydro and thermal power plants, major substations and points of interconnection between the Serbian power system and those of neighbouring countries (about 60 points). The entire system is linked with two control centres – main and stand-by (Disaster Recovery Centre). The main telecommunication control centre is located at the National Dispatch Centre of the Electric Power Network of Serbia, in Belgrade.

For the purposes of transmitting business, technical and voice data, the preferred solution was SDH technology, which is the global leader in these applications. Capacities on major routes are at the level of STM-16, on less crucial routes – STM-4, and

on some peripheral and antenna routes – STM-1. The adequate flexible multiplexers for the acceptance of various user interfaces using 64 kbit/s channel were installed in all sites. All foreseen devices were installed, tested and commissioned.

Since the SDH network has mesh topology, point-to-point SNCP (Sub Network Connection Protection) are used as protection mechanisms. For the purposes of business traffic, LCAS (Link Capacity Adjustment Scheme) and routing through different paths are used.

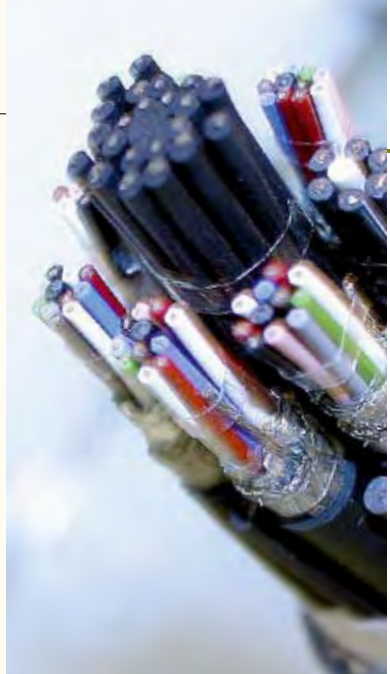
A centralised monitoring and control system was implemented; This system is redundant and with high availability, enabling remote monitoring of all network elements, SDH and FMU devices and synchronisation devices.

TELEPHONE NETWORK

Introduction of IP technology enables better telephone traffic between the companies EPS and EMS (Electric Power Network of Serbia), and Electric Power Industry of Serbia will be among the first power companies using this technology.

New voice routers were installed at nineteen sites: on six sites, IP-TDM telephone exchanges, and on 13 sites – packet exchanges. The core elements of the packet network are the five MPLS core routers, installed in five sites and connected in a full mesh structure through STM-4 interfaces of SDH devices. Management of the telephone network traffic is centralised, with two softswitches in two locations coupled to core routers in those facilities. The new telephone network will include all the existing newer exchanges, with adequate network interfaces for connection to the package network, as well as older exchanges through E-1 Qsig interface or four-wire transmitters with E&M signalling.







ENVIRONMENTAL PROTECTION

■ The operation of PE Elektroprivreda Srbije's facilities should be brought in line with the provisions of the Law on Environmental Protection by 2015. Activities towards the fulfillment of this task were therefore continued in 2009.

The planned funds for the realisation of projects in this field totalled 9.88 billion dinars. Of this sum, 60% were grants and loans to fund the replacement of the ash transportation and disposal technology in TPP Nikola Tesla B, TPP Kostolac A and TPP Kostolac B, as well as the reconstruction of the electrostatic precipitators in TPP Nikola Tesla A6, TPP Nikola Tesla B2 and TPP Kostolac B.

Among the planned works in PE EPS, continuing modernisation of the existing environmental protection measures in thermal power facilities and activities concerning the introduction of new protective measures in all facilities are the greatest in scope.

With a view to providing funding from the IPA, Electric Power Industry of Serbia in collaboration with the Ministry of Mining and Energy and the Ministry of Finance prepared project proposals for modernisation and introduction of new environmental protection measures.

Cooperation with the relevant ministries and institutions was continued, as well as with the representatives of EBRD and KfW, which provided loans for the realisation of protection measures. Green Book, a unique document on EPS activities in the field of environmental protection, was also presented.



AIR PROTECTION

HARMONISING THE OPERATION OF ELECTROSTATIC PRECIPITATORS WITH THE REQUIREMENTS OF EU LEGISLATION

In 2009, electrostatic precipitators of seven thermal power units of 1,140 MW total capacity, combusting Kolubara and Kostolac lignite, operated in conformity with the emission limit value (ELV) requirements of the national and EU legislation. Between 2004 and 2007, reconstruction or replacement of the existing electrostatic precipitators was performed on these units.

In comparison with the 2003 levels, total particle emissions from TPPs Nikola Tesla A and B were reduced by about 80%, and from TPPs Kostolac A and B – by about 54%, after the operation of the said electrostatic precipitators was brought in line with emission limit values.

BRINGING SULFUR OXIDE EMISSIONS IN LINE WITH THE REQUIREMENTS OF THE NATIONAL AND EU LEGISLATION

In line with the results of conducted studies, TPP Kostolac B was designated as the first facility whose SO₂ emissions would be aligned with the requirements of domestic and EU legislation. Installing flue gas desulfurisation facilities in TPP Kostolac B units is expected to give the greatest effects in terms of reducing the emissions of these oxides, since these units account for the highest proportion of total SO₂ emissions from Electric Power Industry of Serbia thermal power plants (they account for about 38.8% of total SO₂ emissions and for about 16% of total installed capacity).

In order to identify a technologically reliable solution for flue gas desulfurisation in TPP Kostolac B, investment and technical documentation was prepared first, under a contract concluded between PE EPS and a consortium comprising the Faculty of Mechanical Engineering, Faculty of Mining and Geology of Belgrade and the American company Worley Parsons. The technological and technical solution for flue gas desulfurisation is based on state-of-the-art wet FGD systems involving the use of limestone as sorbent and production of gypsum as a by-product.

In line with the provisions of EU Directive 2001/80 EC, the FGD facility was designed to meet the requirements concerning the sulfur-dioxide emission limit value of 400 mg/m³, which requires 94% process efficiency.



INTRODUCTION OF THE INTEGRATED SYSTEM FOR CONTINUOUS MONITORING OF TPP NIKOLA TESLA'S IMPACT ON AIR QUALITY IN OBRENOVAC AND NEIGHBOURING COMMUNITIES

In 2009, failures occurred in some parts of the Integrated System equipment and its final acceptance was therefore not completed.

The Integrated System will enable systematic monitoring of the impact of TPP Nikola Tesla on air quality (particle pollution) and providing objective and timely information to the public on air quality in Obrenovac and neighbouring communities, which is a prerequisite for taking appropriate protection measures.

CONTINUOUS MEASUREMENT OF HARMFUL SUBSTANCE EMISSIONS

In line with the Rules on Emission Limit Values, Method and Time Limits for Measurement and Data Recording, measuring equipment was installed:

- at gas flues of TPP Nikola Tesla A1 and A2 units (equipment for SO₂, NO_x (NO₂), CO, O₂, temperature and pressure);
- at gas flues of TPP Kolubara A5 (dust, temperature and pressure equipment);
- at the stack of TPP Morava (equipment for dust, SO₂, NO_x (NO₂), CO, CO₂, HCl, HF, O₂, temperature, pressure and flow rate); while at the gas flue, before and after the left-hand side electrostatic precipitator, equipment for dust, temperature, pressure and flow rate was installed.

GRANTS FROM THE IPA FUND

In 2009, funding amounting to 17 million euros was approved for:

- reconstruction of the electrostatic precipitator of TPP Nikola Tesla B1;
- procurement and installation of the equipment for continuous measurement of hazardous and harmful substances emissions into the air from the corporate enterprise TPPs Nikola Tesla (provision of the missing equipment);
- elimination of PCBs from PE EPS.

An application for funding amounting to 12.5 million euros was filed for the reconstruction of the electrostatic precipitators of TPP Nikola Tesla A3 and TPP Morava.

WATER PROTECTION

REPLACEMENT OF THE EXISTING AND IMPLEMENTATION OF NEW ASH TRANSPORTATION AND DISPOSAL TECHNOLOGY

During 2009, the following works were performed:

- in line with the prepared investment and technical documentation for project implementation on TPP Nikola Tesla B, dry ash storage silos were built and a thick slurry transportation system for ash and slag transportation to the existing disposal site was installed. In October 2009, one unit was connected to the new system, and new technology should be implemented in both units by the end of 2010;
- silos were built and ash and slag transportation and disposal system of TPP Kolubara A was reconstructed;
- in line with the prepared investment and technical documentation for project implementation on TPP Kostolac B, silos were built and other building and mechanical works were performed on the thermal power plant site and facilities, as well as earthworks on OCM Čirikovac – the future TPP Kostolac B ash and slag disposal site. The project is being implemented under the contract concluded between EPS and the German consortium DOBERŠEK-MÖLLER and funded from an EBRD loan;
- reconstruction of the ash and slag collection and transportation system of TPP Kostolac A, to be funded from a KfW loan, was agreed;



- the feasibility study with the conceptual design was prepared for the reconstruction of the ash and slag collection, treatment, transportation and disposal system of TPP Nikola Tesla A, and the environmental impact assessment study is in the final stage;
- for the new TPP Kolubara B facility, development of the feasibility study with the conceptual design for the construction of ash and slag collection, transportation and disposal system was started;
- for the new TPP Kolubara B facility, development of the feasibility study with the conceptual design for the obtaining, transportation and disposal of gypsum suspension from the flue gas desulfurisation facility was started.



STUDIES AND PROJECTS TOWARDS WATER PROTECTION IN CATCHMENT AREAS AND GROUNDWATERS IN THE RIVER BANK AREAS OF HYDRO POWER PLANTS AND WATER PROTECTION IN THERMAL POWER PLANTS

- The study „Research into Water Quality Processes and Changes in the Zavoj Reservoir with a View to Managing Water Quality in Hydro-power Reservoirs – Stage Three“ was completed. In addition to energy purposes, the aims of the study include the use of water from the Zavoj reservoir for multiple purposes, as well as development of a mathematical model for monitoring and forecasting water quality and sediment in the reservoir, i.e. developing a pilot model for other reservoirs.
- Activities on the preparation and development of terms of reference were completed, followed by the development of investment and technical documentation for „Utilisation of the Hydro-power Potential of the Upper Drina and the Sutjeska in the Territory of the Republic of Srpska – Conceptual Solution and Pre-feasibility Study“, „Feasibility Study with Conceptual Design for Building HPP Sutjeska“, „Feasibility Study with Conceptual Design for Building HPP Buk Bijela and HPP Foča“ and „Investment and Technical Documentation for Building Hydro-power Facilities on the Middle Course of the Drina – Conceptual Solution with Pre-feasibility Study“.
- Terms of reference were prepared for developing studies „Degradation Processes in Djerdap 1 and Djerdap 2 Reservoirs and Pollution Balance“ – stage two and „Research into Water Quality Processes and Changes in the Zavoj Reservoir with a View to Managing Water Quality in Hydro-power Reservoirs“ – stage four.

- The development of the study „Waste Water Balance in TPPs and CHPs of EPS – TPPs Nikola Tesla A and B“ is in the final stage. The second part of the study for TPP Nikola Tesla A should be completed by the end of June 2010. The study in question should provide the basis for the development of investment and technical documentation for the identification of technical solution of waste water treatment facility.
- The development of „Pre-feasibility Study with the General Design for Waste Water Treatment in TPPs Kostolac A and B“ was completed. The study determined the cause of waste water, locations of its occurrence, quantities and quality, as well as a technical and technological solution for the treatment of waste water containing oil based on the technical and economic analysis of considered options for technical waste water treatment solutions. The selected solution will satisfy the legal requirements concerning the protection of waters against pollution.
- Terms of reference were approved for the development of „Feasibility Study with Conceptual Design of a Waste Water Purification and Treatment Facility in TPP Kostolac B“.

The process of harmonising domestic with EU regulations was intensified in Serbia. One of the segments of this process pertains to measures of water protection by reducing the discharge of harmful substances into water, in line with the Law on Integrated Environmental Pollution Prevention and Control.

Requirements for obtaining an integrated licence for further operation of thermal-power facilities and for conducting business activities after 2015, under the Law on Integrated Environmental Pollution Prevention and Control, include alignment of emissions with requirements and introducing BAT (best available techniques) for reducing discharge into waters.



SOIL PROTECTION

- Development of the first stage of the study „Multidisciplinary Analysis of Impacts of Existing Ash Disposal Sites on Soil by Depth and Width, with a Proposal of Remedial Measures“. The study was the first to consider the overall issues of ash and slag disposal sites using multiple criteria and propose remedial measures which will be verified through adequate monitoring on the approved pilot-site.
- Public procurement notice for the development of the first stage of the study „Integrated Overview of Solutions Implemented So Far with a Proposal of Modern Solutions for the Recultivation of Mines in Kolubara and Kostolac Basins“ was released. The study in question aims to consider the optimum interaction between coal mining and recultivation, i.e. to provide conditions for smooth progress of overburden removal and coal mining in the project period and rational, technically advanced and cost-effective application of recultivation practices. In addition, an action plan for fulfilling legal requirements concerning the interaction of designed, i.e. operational development plans for coal mines and recultivation projects should be developed. The ultimate aim is to determine the elements of a sustainable recultivation concept in the current transition conditions.

WASTE MANAGEMENT

- Realisation of the study „Waste Management“ – stage two: Waste Registry and stage three: Information System;
- Realisation of the study „Environmental Impact of Electric and Magnetic Fields (Industrial Frequency) of PE EPS Facilities“;
- Preparation and adoption of terms of reference for the development of the study „Waste Management“; Stage IIa Waste Registry – Thermal Power Plants (addition); Stage IIb Waste Registry – Open-cast Coal Mines; Stage IIc Waste Registry – Hydro Power Plants; Stage IId Waste Registry – Distribution Companies;
- Activities concerning continued fulfilment of obligations under the contract for the third year of realisation of the study „Development of new Types of Hydraulic Binding Agents Based on Electrostatic Precipitator Ash from Thermal Power Plants“;
- Activities on the development of the study „Waste Management in PE EPS“ – stage two, „Waste Registry in PE EPS“ – stage IIa, Waste Registry – Thermal Power Facilities.

MANAGING GREENHOUSE GAS EMISSIONS

- The feasibility study with the conceptual design for the project „Rehabilitation of HPP Zvornik“ was completed. The tender for selecting an expert consultant to develop a project for the rehabilitation of HPP Zvornik and register it as a CDM project is about to be launched.
- The environmental protection sector contributed to raising awareness and building capacities at the national levels concerning the issue of greenhouse gas emissions. Among other things, this includes the calculation of the network emission factor required by the Serbian DNA for the purpose of implementing CDM projects in Serbia, as well as assistance in the development of national strategies by using CDM in the fields of agriculture, waste management and forestry under the leadership of the Ministry of Environmental Protection and Spatial Planning adopted by the Government of the Republic of Serbia in 2009.
- „Analysis of the Application of Kyoto Protocol Clean Development Mechanisms on Projects to be Implemented in Cooperation with a Strategic Partner“ was completed. The decision on the commencement of implementation of three EPS strategic projects in 2009 (Kolubara B, TPP Nikola Tesla B3 and CHP Novi Sad) imposed the need to hire an expert consultant to consider the possibilities for valuation of CO₂ emission reductions realised as a result of these projects. Potential project partners are aware of the results of the analysis and activities are foreseen for 2010 towards development of the CDM project fiche for the abovementioned projects.





HUMAN RESOURCES

„There is only one thing worse than training people and losing them, and that is not training them and keeping them!“

Zig Ziglar

■ Being better than others in the conditions of developed market relations is the aim of all successful companies. With a view to raising its business efficiency as soon as possible, in 2009 EPS identified and defined human resources management as a function which would directly contribute to the achievement of the company's set goals and the conduct of core business activities in immediate future. Through strategic choices concerning the optimum staff number, composition and development and through further promotion of the modern management concept, in future the human resources function will address in particular individual career development, staff motivation, defining a fair system of measuring everybody's individual and collective contribution. At the same time, it will equally focus on defining policy, procedures and processes of importance for a consistent approach to staff health and safety, as well as all the services that a modern employer should provide to staff in order that they be better and more successful than competitors' staff.



People, their knowledge, skills and creative abilities, specific relations, climate and culture are unique to each company and cannot be copied. Being aware of this, through the management of our staff as one of our crucial resources, we remain committed to constantly seeking and finding our own solutions, and improve all the segments which make us a recognisable company of indisputably high renown in the region, in a planned and organised manner. As a result of this approach, in 2009, among all renowned Serbian companies, we were declared the company that takes the best care of its employees and also the most attractive employer.

Although the organisational units tasked with planning and organising staff training and development have been established relatively recently, their results are increasingly visible. Training in order to upgrade the existing skills and acquire new ones with the aim of improving performance at work, continuing education, taking professional exams and obtaining professional licences, participation in specialist meetings in the country and abroad, study tours in order to become acquainted with state-of-the-art technologies – all these are undertaken with the aim of maximising the performance in both present and future tasks.

In 2009, various forms of professional development in EPS covered 16,640 employees and nearly 62,000,000.00

of the planned 110,510,000.00 dinars were spent. Broken down by corporate enterprises, the situation was as follows:

Although the legally required trainings in fire protection and health protection at work accounted for most of the training delivered, numerous trainings in the operation and optimum utilisation of machines and facilities, IT trainings and trainings for the introduction of integrated quality management system were also organised, as well as the – always relevant – foreign language courses. Our experts attended and actively participated in numerous specialist meetings in the fields of mining, geology, mechanical engineering, environmental protection, telecommunications, human resources management, law, economics, etc.

The experiences gained so far are the best indicator of the direction and manner in which people should be developed in future. We aim to provide the knowledge and experience of top trainers to our staff, while at the same time developing the practice of staff with well-established careers and great experience acting as trainers and mentors who develop younger workers directly in their workplace. A very important task for the improvement of work organisation and processes and further development of business efficiency and modern market operation is the development of top management, followed by the development of middle management.

Enterprise	Number of staff included in some form of professional development	Total staff as of 12/31/2009	Percentage share 2/3
1	2	3	4
HPPs Djerdap	1,333	1,052	126.71
HPPs Drinsko-Limske	96	530	18.11
TPPs Nikola Tesla	4,713	2,582	182.53
TPPs-OCMs Kostolac	77	3,414	2.25
CHPs Panonske	2,010	606	331.68
MB Kolubara	4,091	10,198	40.11
Elektrovojvodina	555	2,555	21.72
EDB	593	1,755	33.78
Elektrosrbija	2,623	3,449	76.05
Jugoistok	75	2,224	3.37
Centar	273	1,056	25.85
PE EPS head departments and sectors	201	454	44.27



HEALTH AND SAFETY AT WORK

Implementation and improvement of staff health and safety at work aims to prevent workplace injuries, occupational and work-related diseases.

Preventive measures are implemented by the application of modern technical, ergonomic, health, educational, social, organisational and other measures and means with a view to removing or minimising risks of injury and health impairment. Corporate enterprises have adopted risk assessment instruments for all jobs and laid down risk removal method and measures.

For the purposes of protecting staff in the workplace and the environment in which work processes take place, preventive and periodic inspections and tests of work equipment are conducted in all corporate enterprises within the legally set time limits. Preventive and periodic tests of working environment are also conducted as regards the presence and absence of chemical, biological and physical factors, microclimate and lighting.

Data on the reduction of the number of workplace injuries show that employers are continuously improving the attention to workplace conditions and employee health. In 2009, the number of injuries was about 6% lower than in 2008. Among the priority tasks is reducing the number of injuries from 896 in 2009 to zero in 2010, if possible.

That considerably more attention is paid to occupational health in all corporate enterprises than it had been the case previously is witnessed by the data on regular preventive comprehensive health checks, rehabilitation and prevention of occupational disability, as well as recreation in holiday resorts and sports and recreational centres. In 2009, nearly 20,000 general preventive comprehensive health checks of all staff were organised and realised, as well as specialist checks and regular gynaecology and oncology checks. On average, about 80% of staff respond to the invitation to these checks, which is an encouraging sign for future activities.

In line with the obligation stipulated in the risk assessment instrument, in addition to these optional comprehensive health checks, corporate enterprises also organise mandatory health checks for employees in high-risk

jobs. About 116,000,000.00 dinars were spent on these comprehensive health checks in 2009, i.e. about 8% more than in 2008. In 2009, 4155 employees, or about 14% more than in 2008, were referred to rehabilitation and occupational disability prevention. About 107,000,000.00 dinars were spent for these purposes in 2009. In addition to the abovementioned health protection activities, considerable attention was paid to the organisation and realisation of staff recreation at holiday resorts and sports and recreational centres. As a rule, recreation is organised by the corporate enterprise's trade union organisation, with the employer's assistance.

In all corporate enterprises, the planning, provision and use of personal protective equipment and accessories for staff in the workplace are approached with utmost responsibility. All who are entitled to it pursuant to the risk assessment instrument or employer's decision are provided with appropriate personal protective equipment.

IN THE SPIRIT OF GOOD PARTNER RELATIONS

Continuing the relations with trade unions in the spirit of partnership, mutual understanding and cooperation, towards the end of 2009 negotiations on the conclusion of new collective agreements were conducted. The negotiations were completed successfully. New collective agreements, which will remain in force for the next three years, provide a good basis both for the security of employee rights and for the EPS restructuring process and changes that will take place in the process. They will be an adequate normative basis for the introduction and development of efficient performance management models, higher stimulation for work and professional development, as well as fairness and solidarity in addressing the issues of redundancies when they arise in the process of organisational changes and improvements. Needless to say, they also provide the basis for improving the care for employees.



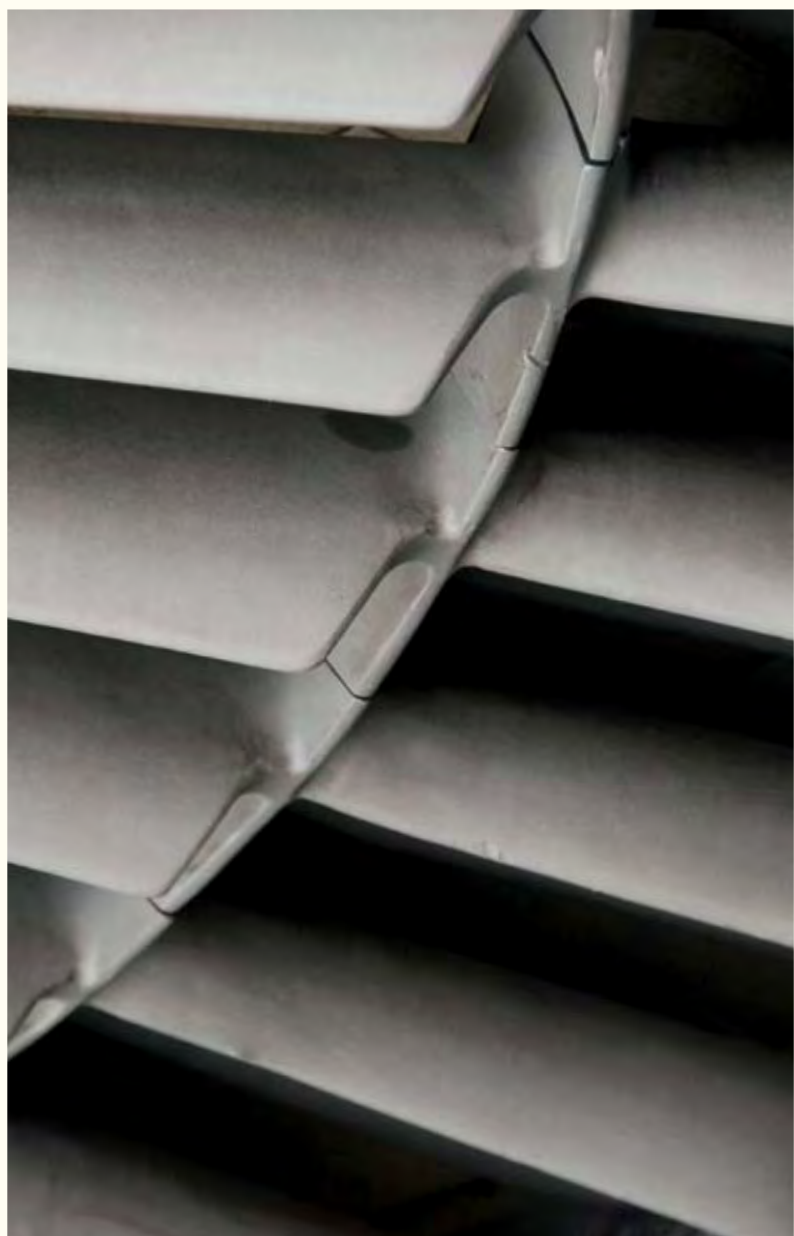
QUALITY SYSTEM



■ Upgrading overall operation and improving service quality of Public Enterprise Electric Power Industry of Serbia and its corporate enterprises is the principal aim of implementation of the Integrated Management System (IMS). By integrating the Quality Management System (QMS), Environmental Management System (EMS) and Occupational Health and Safety Assessment Series (OHSAS), PE EPS promotes and implements progressive management concepts pertaining to upgrading all business processes, aimed at realising strategies and objectives set by the company.

Regulation and formalisation of processes provides the basis for harmonisation of all IMSs in the EPS system, i.e. in PE EPS and its corporate enterprises, and also for application of best practice, unification and standardisation of processes, documentation and communication in all activities of the company. The end result of the introduction and application of the Integrated Management System is effective and efficient operation of the company.

As part of ongoing activities on the maintenance and upgrading of the QMS introduced in PE EPS, certified under the standard ISO 9001:2000, the certification body TÜV SUD Sava conducted an annual supervisory audit. Representatives of the certification body expressed their satisfaction with the attained level of QMS implementation, in particular its upgrading in the first year of its functioning, aimed at successful operation of the company.



Remedial and preventive action was taken as a result of audits; following this, the system was aligned with the new revision of the standard ISO 9001:2008, the full documentation was updated and the system was reviewed. The work on IMS introduction project in connection with the EMS and OHSAS is about to be completed.

As part of its overall activities aimed at quality improvement, the company monitors and coordinates the

efforts towards the introduction and implementation of management systems in corporate enterprises. The table shows the status of projects at the end of 2009. In all corporate enterprises, IMS introduction projects have been completed or are in their final stages. In addition, activities towards vertical integration of the management systems of PE Electric Power Industry of Serbia and corporate enterprises have been commenced by harmonising IMS documentation.

REPORT ON IMS INTRODUCTION AT PE EPS AND CORPORATE ENTERPRISES

PE EPS	Introduced System* (Date/Cert.Body)	Ongoing Project*	Project Phase**	Consultant
Head Departments and Sectors	QMS (01.08.2008/TÜV SÜD)	IMS	SD	-

CORPORATE ENTERPRISES FOR COAL AND POWER GENERATION

CE	CE Department	Introduced System* (Date/Cert.Body)	Ongoing Project*	Project Phase**	Consultant
HPP Djerdap		QMS (12.2009/SGS)			Q-Expert International
		EMS (03.2008/SGS)			
			OHSAS	SD	
Drinsko-Limske HPPs		QMS (30.12.2009/SGS) EMS (30.12.2009/SGS) OHSAS (30.12.2009/SGS)			CIM College
TPPs Nikola Tesla		QMS (07.2008/SGS) EMS (07.2008/SGS)	OHSAS	SC	Q-Expert International
MB Kolubara	Accredited laboratory for coal and waste water research ATC 06.2008.	QMS 09.2009/ BV EMS 09.2009/ BV	OHSAS	SD	TEKON-Tehnokonsalting
			ISO/IEC 17025	SC	
TPPs-OCMs Kostolac	TPPs CE	QMS (11.2006/SGS)			Q-Expert International
	Entire CE	QMS (11.2007/SGS)	EMS	SD	
			OHSAS	CS	/
Panonske CHPs		QMS (12.11.2008/TÜV SÜD) EMS (integr.) (12.11.2008 /TÜV SÜD)	OHSAS	SD	CIM College

CORPORATE ENTERPRISES FOR ELECTRICITY DISTRIBUTION

CE	CE Department	Introduced System* (Date/Cert.Body)	Ongoing Project*	Project Phase**	Consultant
Elektrovojvodina		QMS (06.07.2007./ Institute for standards from Serbia)	IMS	SC	TEKON Tehnokonsalting
Elektrodistribucija Beograd			QMS	SD	TEKON Tehnokonsalting
			EMS	SD	
			OHSAS	SD	
Elektrosrbija	Elektrosrbija	QMS (18.02.2009/ TÜV SÜD)			TEKON Tehnokonsalting
		EMS (13.12.2007/ TÜV SÜD)			
		OHSAS (04.04.2009/ TÜV SÜD)			
Jugoistok	Niš		IMS	SD	FON Beograd
	Zaječar	QMS (24.04- 26.04.2007/TÜV)	IMS	SD	
	Leskovac	QMS (27.04- 30.04.2007/TÜV)	IMS	SD	
	Prokuplje		IMS	SD	
	Pirot		IMS	SD	
	Vranje	QMS (26.06.2007/ TÜV)	IMS	SD	
Centar	Elektrošumadija Kragujevac	IMS (06.2008/TÜV)			CIM College
	Elektromorava Požarevac	IMS (11.2005/SGS)			
	Elektromorava Smederevo	IMS (11.2005/SGS)			

Legend:

* Established system/ongoing project:

IMS – Integrated Management System (QMS+EMS+OHSAS)

QMS – Quality Management System (JUS ISO 9001:2001)

EMS – Environment Management System (ISO 14001:2004)

OHSAS – Occupational Health and Safe Employees Operation Management System (OHSAS 18001:1999)

ISO/IEC 17025 – General requirements for the research and certificated laboratories

**Project phases for the management system establishing:

CC – Climate creation

OU – Organisational unit Establishment

CS – Consultant selection

SD – System documenting

SC – System certification

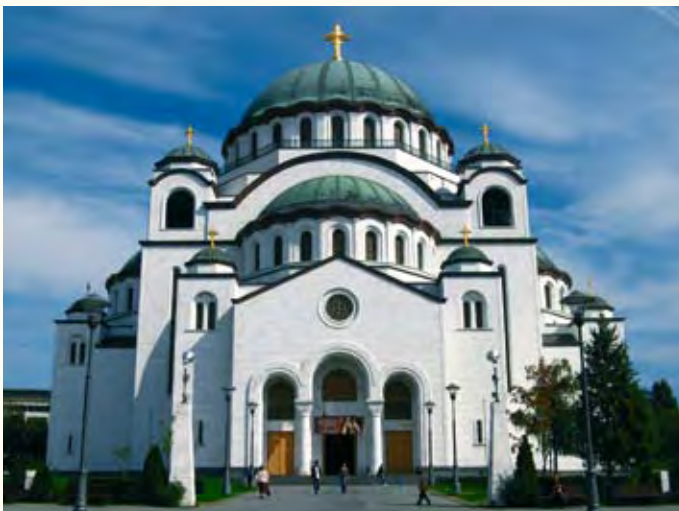


 PUBLIC RELATIONS



Electric Power Industry of Serbia is the state's largest and most significant public company. As a result, it has constantly been the focus of attention of almost all aspects of public life, including the media and the general public, the political, professional and economic communities. In the past, only the domestic public was considered, whereas nowadays EPS has stepped up its communication to cover different elements of public life abroad, ranging from the media to the large companies in the electric power industry.

During the natural gas crisis in January 2009, when no natural gas was being delivered from Russia due to the dispute with Ukraine over gas transit debts, the public eye was fixed upon EPS. The entire energy system relied solely on electricity and fuel oil. Households shifted from natural gas to electricity, while fuel oil was used in heating plants. The communication with the media was maintained around the clock. EPS kept Serbia warm and broke several records with regard to consumption and generation. The entire communication was coordinated by the EPS Independent Sector for Public Relations.





The most frequently discussed topics by EPS in the media included the activities related to the initiated construction of new generation capacities, rehabilitation of the largest hydro power plants in Serbia, environmental protection activities, company restructuring, clients' growing debts for the consumed electricity, low electricity price, unauthorised use of electricity, etc.

The result of the communication with the media was the publication of almost 8,600 articles in the press, as well as more than 2,000 television reports, totalling approximately 80 hours of coverage. In comparison to 2008, this was twice the number of hours of TV coverage. Negative articles/TV reports were again extremely rare in 2009 – barely around three percent.

The company's magazine "kWh", with the monthly circulation of 10,000 copies, according to the general perception, became even better and grew more popular, its function being to inform the employees about the developments around EPS. The most significant issues, published in the magazine in agreement with the company's top management, were instantly forwarded to the external media. Renowned economists, professors

and analysts of the Serbian economy were interviewed and gave their opinions as to the operation and the future of Serbia's most prominent company. One of the company's priorities was the promotion of internal information flow in the process of company restructuring and preparation for the ownership transformation.

"E-info", the internal e-newsletter, celebrated its 1000th issue. It was distributed on a daily basis to more than 700 addresses both within and beyond EPS.

The EPS website, which is updated daily, has served as a reliable means of communication between EPS and the general public.

The participation of the company in the field-specific domestic and international fairs, conferences and conventions always had proper media coverage.

As a socially responsible company, Electric Power Industry of Serbia continued its support of education, science, culture, religious organisations, health and sports by means of donations and sponsorships throughout 2009. The general public was also kept informed of this donor role of EPS.





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