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TRANSLATION

Independent Auditor's Report

TO THE OWNERS OF

PUBLIC ENTERPRISE ELECTRIC POWER INDUSTRY OF SERBIA, BELGRADE

We have audited the accompanying adjusted consolidated financial statements of the Public Enterprise Electric Power Industry of Serbia, Belgrade and its subsidiary companies (hereinafter: the Group) which comprise the consolidated balance sheet as at 31 December 2013, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Law on Accounting of the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We have conducted our audit in accordance with the Law on Auditing of the Republic of Serbia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

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

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

Basis for Qualified Opinion

As disclosed in Note 16 to the adjusted consolidated financial statements, property, plant and equipment as at 31 December 2013 amount to RSD 921,333,923 thousand, while intangible assets amount to RSD 3,211,415 thousand. These assets also include the following:

- Assets under construction in the amount of RSD 43,077,866 thousand that include projects whose realisation is interrupted for longer periods of time and in which no significant progress has been made in construction over a period of more than 4 years in the amount of RSD 8,278,372 thousand (31 December 2012: RSD 11,297,243 thousand for assets with interruption in construction longer than 2 years). In this respect the Group did not consider whether there is justification for writing down the carrying amounts of these assets under construction to their recoverable amounts, as required by IAS 36 *Impairment of Assets*. Based on available information, we were unable to quantify the effects of this departure from IAS 36 on the accompanying adjusted consolidated financial statements. This issue was also the subject of qualification in the auditor's opinion on the consolidated financial statements for 2012.
- Intangible assets under construction in the amount of RSD 1,753,849 thousand, land and buildings in the amount of RSD 4,459,659 thousand, that relate to the project of construction of the thermal power plants „Kolubara B“ and „Nikola Tesla B3“ (in the total amount of RSD 6,213,508 thousand). These assets are intended for joint construction of the said production capacities with a potential strategic partner in the form of a non-monetary stake in a future joint company (Note 39), which has still not been realized to date. In view of the aforementioned facts, and the existence of significant uncertainty in respect of future realization of construction plans, we believe that there is justification for impairment of these assets. Group management did not estimate the recoverable amounts of these assets as at 31 December 2013, and accordingly did not determine where there is a need for potential recognition of impairment as required by IAS 36 *Impairment of Assets*. We were not presented with appropriate evidence based on which we could determine the recoverable amounts of these assets, to be able to quantify on that basis the potential impairment effects thereof on the adjusted consolidated financial statements for 2013.

As disclosed in Note 20 to the adjusted consolidated financial statements, the Group's total inventories as at 31 December 2013 amount to RSD 22,845,411 thousand. The said inventories include inventories of materials in the amount of RSD 9,588,204 thousand and inventories of spare parts in the amount of RSD 10,959,429 thousand, after reduction for allowance for impairment in the amount of RSD 2,830,569 thousand. The Group did not carry out complete analysis of the said categories of inventories in order to be able to fully determine potential amounts of slow moving inventories and amounts with non-functional characteristics. Also, the Group carried out partial analysis and recognition of strategic spare parts that can only be used with a specific item of property, plant and equipment which are expected to be used for longer than one reporting period, and whose recognition and measurement is carried out in accordance with IAS 16 *Property, Plant and Equipment*. Spare parts that are classified as property, plant and equipment were not subsequently measured as required by IAS 16. Based on available information and presented documentation, we were unable to determine which additional inventories of spares parts should have been disclosed as property, plant and equipment, and for existing inventories that are classified as property, plant and equipment we were unable to

quantify the effects of departure from IAS 16 requirements on the accompanying consolidated income statement and net result for 2013. Besides this, we were unable to assure ourselves of the reported balance of the allowance for impairment of inventories as at 31 December 2013, nor were we able to determine the required amount of potential additional allowance for impairment on the said date. Both issues were the subject of qualification in the auditor's opinion for 2012.

During 2013 the Group rescheduled its accounts receivable for supplied electricity, whereby current receivables were rescheduled into long-term receivables with repayment in instalments for a maximum repayment period of up to ten years. The total amount of rescheduled receivables reported as part of long-term and short-term financial assets amounted to RSD 9,176,561 thousand, after reduction for allowance for impairment in the amount of RSD 8,093,008 thousand. The portion of rescheduled receivables in the amount of RSD 6,927,197 thousand, after reduction for allowance for impairment in the amount of RSD 1,492,879 thousand, was measured at their discounted present value, under the assumption that they will be collected in full as they fall due. In our opinion, in measuring this portion of rescheduled receivables the Group should have considered the expected rate of their collection. Based on available documentation, analysis of aging structure of financial assets, as well as analysis of collection after balance sheet date, we were unable to determine additional allowance for impairment which would be required in order for these financial assets to be reduced to their proper value.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the adjusted consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting of the Republic of Serbia.

Emphasis of Matter

Without further qualifying the issued opinion, we draw attention to the following:

As disclosed in Note 1 to the adjusted consolidated financial statements, the Group has significant equity investments (49%) in two business entities (Ibarske hidroelektrane d.o.o., Kraljevo and Moravske hidroelektrane d.o.o., Beograd) and joint control over the business entity Energija Novi Sad a.d., Novi Sad. The said business entities have not been consolidated and included in the accompanying adjusted consolidated financial statements, as is the case with three subsidiaries from the territory of Kosovo and Metohija, over which the Group has no control since 1999, since the time that Kosovo and Metohija are under the control of the international community (Note 3.1).

Other Matter

Audit of the consolidated financial statements of the Group for the year ended 31 December 2012 was carried out by another auditor who expressed a qualified opinion on those financial statements in his audit report issued on 21 June 2013, due to the impossibility of assuring himself of the recoverable amounts of fixed assets under construction, and due to the impossibility of assuring himself of the balance of allowance for impairment of inventories of materials and spare parts, as well as departures in the classification and measurement of strategic spares parts according to requirements of IAS 16.

Belgrade, 24 September 2014

KPMG d.o.o. Beograd

(L.S.)

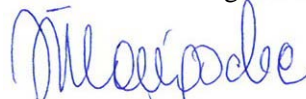
Ivana Manigodić
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Belgrade, 24 September 2014



KPMG d.o.o. Beograd



Ivana Manigodić
Certified Auditor

**ADJUSTED CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013
PUBLIC ENTERPRISE ELECTRIC POWER INDUSTRY OF SERBIA**

In thousands of Dinars

Acc.	Item	AOP	Note	Current year amount	Previous year amount
1	2	3	4	5	6
	A. REVENUES AND EXPENDITURES FROM CONTINUING OPERATIONS	201	5, 5.1, 6		
	I. OPERATING INCOME (202+203+204-205+206)			219,806,825	190,643,247
60, 61	1. Sales	202	5	210,173,697	178,791,721
62	2. Own products used	203	5.1	4,605,056	5,910,894
630	3. Increase in value of inventories	204		18,331	125,588
631	4. Decrease in value of inventories	205		936,187	491,185
64, 65	5. Other operating incomes	206	6	5,945,928	6,306,229
	II. OPERATING EXPENSES (208-212)	207		186,526,398	195,915,885
50	1. COGS	208		48,900	32,222
51	2. Material costs	209	7	47,970,449	51,911,582
52	3. Gross salaries and wages	210	8	53,870,992	52,946,743
54	4. Depreciation and provisions	211	9	42,557,298	48,895,245
53, 55	5. Other operating expenses	212	10	42,078,759	42,130,093
	III. OPERATING INCOME (201-207)	213		33,280,427	-
	IV. OPERATING LOSS (207-201)	214		-	5,272,638
66	V. FINANCIAL INCOME	215	11	16,663,818	13,633,993
56	VI. FINANCIAL EXPENSE	216	12	7,401,515	10,303,927
67, 68	VII. OTHER INCOME	217	13	7,851,601	13,335,739
57, 58	VIII. OTHER EXPENSE	218	14	28,080,950	55,807,355
	IX. EARNINGS FROM OPERATING ACTIVITIES BEFORE TAX (213-214+215-216+217-218)	219		22,313,381	-
	X. LOSS FROM OPERATING ACTIVITIES BEFORE TAX (214-213-215+216-217+218)	220		-	44,414,188
69 - 59	XI. NET INCOME FROM DISPOSAL OF DISCONTINUING OPERATIONS	221		-	-
59 - 69	XII. NET LOSS FROM DISPOSAL OF DISCONTINUING OPERATIONS	222		-	-
	B. PROFIT BEFORE TAX (219-220+221-222)	223		22,313,381	-
	V. LOSS BEFORE TAX (220-219+222-221)	224		-	44,414,188
	G. PROFIT TAX				
721	1. Income tax expense	225	15	4,702,983	667,790
722	2. Deferred tax expense	226		-	-
722	3. Deferred tax income	227	15	1,216,616	32,756,783
723	D. PERSONAL RECEIVING'S PAID TO EMPLOYER	228		-	-
	DJ. NET INCOME (223-224-225-226+227-228)	229		18,827,014	-
	E. NET LOSS (224-223+225+226-227+228)	230		-	12,325,195
	Ž. NET INCOME ASSIGNED TO MINORITY INTEREST	231		-	-
	Z. NET INCOME ASSIGNED TO SHAREHOLDERS	232		18,827,014	-
	I. EARNING PER SHARE				
	1. Basic earnings per share	233		-	-
	2. Diluted earnings per share	234		-	-

ADJUSTED CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013
PUBLIC ENTERPRISE ELECTRIC POWER INDUSTRY OF SERBIA

In thousands of Dinars

Acc.	Item	AOP	Note	Current year amount	Previous year amount
1	2	3	4	5	6
	ASSETS	001	16, 17, 18, 19	944,442,936	955,770,961
	A. FIXED ASSETS (002+003+004+005+009)				
00	I. SUBSCRIBED CAPITAL NOT PAID	002		-	-
012	II. GOODWILL	003		-	-
01 w/o 012	III. INTANGIBLE ASSETS	004	16	3,211,415	2,628,341
	IV. PROPERTY, PLANT, EQUIPMENT AND BIOLOGICAL ASSETS (006+007+008)	005	16, 17	933,364,323	950,469,208
020, 022, 023, 026, 027(part), 028(part), 029	1. Plant, Property and Equipment	006	16, 17	932,650,629	949,833,969
024, 027(part), 028(part)	2. Investment properties	007	16	409,256	374,790
021, 025, 027(part), 028(part)	3. Biological asset	008	16	304,438	260,449
	V. LONG-TERM FINANCIAL INVESTMENTS (010+011)	009	18, 19	7,867,198	2,673,412
030 to 032, 039(part)	1. Equity investments	010	18	1,239,099	1,243,912
033 to 038, 039(part) minus 037	2. Other non-current financial investments	011	19	6,628,099	1,429,500
	B. CURRENT ASSETS (013+014+015)	012	20, 21, 22, 23, 24, 25	151,335,334	118,929,668
10 to 13, 15	I. INVENTORIES	013	20, 21	25,831,885	26,858,930
14	II. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	014		-	-
	III. SHORT TERM RECEIVABLES, INVESTMENTS AND CASH (016+017+018+019+020)	015	22, 23, 24, 25	125,503,449	92,070,738
20, 21 and 22, except 223	1. Receivables	016	22	82,342,143	74,700,931
223	2. Receivable for overpaid income tax	017		-	726,343
23 minus 237	3. Short - term financial investments	018	23	6,835,844	1,899,191
24	4. Cash and cash equivalents	019	24	35,524,098	13,460,762
27 and 28 except 288	5. VAT and accruals	020	25	801,364	1,283,511
288	IV. DEFERRED TAX ASSETS	021		-	-
	V. OPERATING ASSETS (001+012+021)	022		1,095,778,270	1,074,700,629
29	G. LOSS OVER THE AMOUNT OF CAPITAL	023		-	-
	Dj. TOTAL ASSETS (022+023)	024		1,095,778,270	1,074,700,629
88	E. OFF BALANCE SHEET ASSETS	025	34	254,395,454	258,882,427

ADJUSTED CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013 (Continued)

In thousands of Dinars

Acc.	Item	AOP	Note	Current year amount	Previous year amount
1	2	3	4	5	6
	EQUITY AND LIABILITIES	101	26		
	A. EQUITY (102+103+104+105+106-107-108)			799,748,699	780,821,851
30	I. ISSUED AND OTHER CAPITAL	102		360,010,128	359,988,038
31	II. SUBSCRIBED CAPITAL NOT PAID	103		-	-
32	III. RESERVES	104		-	-
330 and 331	IV. REVALUATION RESERVES	105		553,061,114	556,848,676
332	V. UNREALISED GAINS ON SECURITIES	106		20,235	12,539
333	VI. UNREALISED LOSSES ON SECURITIES	107		730,355	686,477
34	VII. RETAINED EARNINGS	108		-	-
35	VIII. LOSS	109		112,612,423	135,340,925
037 and 237	IX. TREASURY SHARES	110		-	-
	B. LONG-TERM PROVISIONS AND LIABILITIES (112+113+116)	111	27, 28, 29	205,214,225	201,687,681
40	I. LONG TERM PROVISIONS	112	27	14,620,434	13,272,433
41	II. LONG-TERM LIABILITIES (114+115)	113	28, 29	68,480,151	62,131,899
414, 415	1. Long-term loans	114	28	66,101,130	58,143,363
41 w/o 414 and 415	2. Other long-term liabilities	115	29	2,379,021	3,988,536
	III. SHORT-TERM LIABILITIES (117+118+119+120+121+122)	116	30, 31, 32, 33	122,113,640	126,283,349
42, except 427	1. Short - term financial liabilities	117	30	25,155,056	33,092,959
427	2. Liabilities from assets and disposal groups available for sale	118		-	-
43 and 44	3. Liabilities from operations	119	31	59,354,778	63,036,062
45 and 46	4. Other short-term liabilities	120	32	4,914,600	4,034,628
47 and 48, except 481 and 49 except 498	5. VAT and other state liabilities and accruals	121	33	29,469,222	26,111,206
481	6. Income tax liabilities	122		3,219,984	8,494
498	IV. DEFERRED TAXES	123	15	90,815,346	92,191,097
	G. TOTAL LIABILITIES AND EQUITY (101+111+123)	124		1,095,778,270	1,074,700,629
89	D. OFF BALANCE SHEET LIABILITIES	125	34	254,395,454	258,882,427

**ADJUSTED CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013**

In thousands of Dinars

Item	AOP	Current year amount	Previous year amount
1	2	3	4
A. CASH FLOW FROM OPERATING ACTIVITIES			
I. Cash flow from operating activities (1 to 3)	301	242,987,847	258,952,888
1. Cash receipts from customers and received advances	302	231,463,560	245,767,960
2. Interest received from operating activities	303	8,893,424	7,958,995
3. Other receipts from regular operations	304	2,630,863	5,225,933
II. Cash outflows from operating activities (1 to 5)	305	199,688,779	237,749,056
1. Raw materials purchases and payments in advance	306	96,649,286	148,336,626
2. Gross salaries and wages	307	58,478,267	58,160,798
3. Interests paid	308	5,697,171	2,637,684
4. Income tax	309	1,158,125	4,330,999
5. Other taxes	310	37,705,930	24,282,949
III. Net cash generated from operating activities (I-II)	311	43,299,068	21,203,832
IV. Net cash outflow from operating activities (II-I)	312	-	-
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash flow from investing activities (1 to 5)	313	2,128,571	7,307,570
1. Sales of shares and stakes (net receipts)	314	-	-
2. Sales of intangible assets, property, plant, equipment and biological assets	315	964,912	7,289,790
3. Other financial investments (net receipts)	316	-	-
4. Interests received from investing activities	317	1,145,331	-
5. Dividends received	318	18,328	17,780
II. Cash outflows from investing activities (1 to 3)	319	18,426,167	29,945,192
1. Purchase of shares and stakes (net outflows)	320	75,034	54,298
2. Purchase of intangible assets, property, plant, equipment and biological assets	321	17,556,212	29,679,495
3. Other financial investments (net receipts)	322	794,921	211,399
III. Net cash generated from investing activities (I-II)	323	-	-
IV. Net cash outflow from investing activities (II-I)	324	16,297,596	22,637,622
V. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash flow from financing activities (1 to 3)	325	125,269	9,150,164
1. Increase in share capital	326	-	-
2. Long term and short term loans (net receipt)	327	-	9,135,164
3. Other long term and short term liabilities	328	125,269	15,000
II. Cash outflows from financing activities (1 to 4)	329	4,993,258	1,319
1. Purchase of own shares and stakes	330	-	-
2. Long term and short term loans and other liabilities (net outflow)	331	4,993,029	-
3. Finance leasing	332	229	1,319
4. Paid dividends	333	-	-
III. Net cash generated from financing activities (I-II)	334	-	9,148,845
IV. Net cash outflow from financing activities (II-I)	335	4,867,989	-
G. Total cash inflow (301+313+325)	336	245,241,687	275,410,622
D. Total cash outflow (305+319+329)	337	223,108,204	267,695,567
DJ. Net cash inflow (336-337)	338	22,133,483	7,715,055
E. Net cash outflow (337-336)	339	-	-
Z. Cash at the beginning of the period	340	13,460,762	5,922,037
Z. Positive effect of exchange rate changes	341	29,517	83,559
Z. Negative effect of exchange rate changes	342	99,664	259,889
J. Cash at the end of period (338+339+340+341-342)	343	35,524,098	13,460,762

**ADJUSTED CONSOLIDATED STATEMENT ON CHANGES IN EQUITY
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013**

In thousands of Dinars

Nr.	Item	AOP	Stake capital	AOP	Other capital	AOP	Subscribed unpaid capital	AOP	Share issue premium	AOP	Reserves	AOP	Revaluation reserves	AOP	Unrealised gains on securities	AOP	Unrealised losses on securities	AOP	Retained earnings	AOP	Loss up to the amount of capital	AOP	Treasury shares purchased	AOP	Total	AOP	Loss above equity	AOP	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
1	Balance as of 1.1. in previous year	401	358,717,940	414	1,264,579	427		440		453		466	781,703,171	479	21,952	492	663,833	505		518	126,473,841	531		544	1,014,569,968	557			
2	Correction of fundamental errors and cumulative effects of accounting change in previous year - increase	402		415		428		441		454		467		480		493		506		519	1,388,976	532		545		558			
3	Correction of fundamental errors and cumulative effects of accounting change in previous year - decrease	403		416		429		442		455		468	30,227	481		494		507		520		533		546	30,227	559			
4	Adjusted opening balance as of 1.1. in previous year (1+2-3)	404	358,717,940	417	1,264,579	430		443		456		469	781,672,944	482	21,952	495	663,833	508		521	127,862,818	534		547	1,013,150,765	560			
5	Totally increase in previous year	405		418	5,519	431		444		457		470		483		496	22,644	509		522	6,759,752	535		548		561			
6	Totally decrease in previous year	406		419		432		445		458		471	225,411,323	484	9,413	497		510		523		536		549	225,420,736	562			
7	Balance as of 31.12 in previous year (4+5-6)	407	358,717,940	420	1,270,098	433		446		459		472	556,261,621	485	12,539	498	686,477	511		524	134,622,569	537		550	780,953,152	563			
8	Correction of fundamental errors and cumulative effects of accounting change in current year - increase	408		421		434		447		460		473	587,055	486		499		512		525	718,356	538		551		564			
9	Correction of fundamental errors and cumulative effects of accounting change in current year - decrease	409		422		435		448		461		474		487		500		513		526		539		552		565			
10	Adjusted opening balance as of 1.1. in current year (7+8-9)	410	358,717,940	423	1,270,098	436		449		462		475	556,848,676	488	12,539	501	686,477	514		527	135,340,925	540		553	780,821,851	566			
11	Total increase in current year	411		424	22,090	437		450		463		476		489	7,696	502	43,878	515		528		541		554		567			
12	Total decrease in current year	412		425		438		451		464		477	3,787,562	490		503		516		529	22,728,502	542		555		568			
13	Balance as of 31.12. in current year (10+11+12)	413	358,717,940	426		439	1,292,188	452		465	553,061,114	478		491	20,235	504	730,355	517		530	112,612,423	543		556	799,748,699	569			

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

**Adjusted
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2013**

September 2014

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ADJUSTED CONSOLIDATED INCOME STATEMENT
For the period from January 1, to December 31, 2013
(In thousands of RSD)

		In thousands of RSD (Restated)	
	Note	For the year ended December 31, 2013	For the year ended December 31, 2012
OPERATING INCOME			
Sales	5	210,173,697	178,791,721
Own work capitalized	5.1	4,605,056	5,910,894
Increase in value of inventories		(917,856)	(365,597)
Other operating income	6	5,945,928	6,306,229
		<u>219,806,825</u>	<u>190,643,247</u>
OPERATING EXPENSES			
Cost of goods sold		(48,900)	(32,222)
Costs of materials	7	(47,970,449)	(51,911,582)
Gross salaries and wages	8	(53,870,992)	(52,946,743)
Depreciation and provisions	9	(42,557,298)	(48,895,245)
Other operating expenses	10	(42,078,759)	(42,130,093)
		<u>(186,526,398)</u>	<u>(195,915,885)</u>
OPERATING INCOME/LOSS		33,280,427	(5,272,638)
Finance income	11	16,663,818	13,633,993
Finance expenses	12	(7,401,515)	(10,303,927)
Other income	13	7,851,601	13,335,739
Other expenses	14	(28,080,950)	(55,807,355)
PROFIT/LOSS BEFORE TAX		22,313,381	(44,414,188)
Income tax	15	(3,486,367)	32,088,993
Deferred tax income/(expense) of the period	15	1,216,616	32,756,783
Income tax expense of the period		(4,702,983)	(667,790)
NET PROFIT/LOSS		<u>18,827,014</u>	<u>(12,325,195)</u>

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

Signed on behalf of Public Enterprise Electric Power Industry of Serbia, Belgrade, by::

Aleksandar Obradović,
Acting General Manager

Aleksandar Surla,
Department for Economic and Financial
Affairs Director

Dragan Jonkić,
Accounts Department Director

ADJUSTED CONSOLIDATED BALANCE SHEET
As at December 31, 2013
(In thousands of RSD)

	Note	In thousands of RSD (Restated)	
		December 31, 2013	December 31, 2012
ASSETS			
Non-current assets			
Intangible assets	16	3,211,415	2,628,341
Property, plant, equipment and biological assets	16	921,333,926	937,859,681
Investment properties	16	409,256	374,790
Advances for intangible assets, property, plant and equipment	17	11,621,141	12,234,737
Equity investments	18	1,239,099	1,243,912
Other non-current financial investments	19	6,628,099	1,429,500
		<u>944,442,936</u>	<u>955,770,961</u>
Current assets			
Inventories	20	22,845,411	23,067,627
Advances for Inventories	21	2,986,474	3,791,303
Receivables	22	82,342,143	74,700,931
Receivable for overpaid income tax		-	726,343
Short - term financial investments	23	6,835,844	1,899,191
Cash and cash equivalents	24	35,524,098	13,460,762
Value added tax, prepayments and deferred expenses	25	801,364	1,283,511
		<u>151,335,334</u>	<u>118,929,668</u>
Total assets		<u>1,095,778,270</u>	<u>1,074,700,629</u>
Off balance sheet assets	34	254,395,454	258,882,427
EQUITY AND LIABILITIES			
Equity			
State-owned capital	26	358,717,940	358,717,940
Other capital		1,292,188	1,270,098
Revaluation reserves		553,061,114	556,848,676
Unrealised gains on securities		20,235	12,539
Unrealised losses on securities		(730,355)	(686,477)
Accumulated losses		(112,612,423)	(135,340,925)
		<u>799,748,699</u>	<u>780,821,851</u>
Long term provisions	27	14,620,434	13,272,433
Long-term liabilities			
Long-term loans	28	66,101,130	58,143,363
Other long-term liabilities	29	2,379,021	3,988,536
		<u>68,480,151</u>	<u>62,131,899</u>
Short-term liabilities			
Short - term financial liabilities	30	25,155,056	33,092,959
Liabilities from operations	31	59,354,778	63,036,062
Other short-term liabilities	32	4,914,600	4,034,628
Value added tax, other duties payable and accruals	33	29,469,222	26,111,206
Income tax liabilities		3,219,984	8,494
		<u>122,113,640</u>	<u>126,283,349</u>
Deferred taxes	15	90,815,346	92,191,097
Total equity and liabilities		<u>1,095,778,270</u>	<u>1,074,700,629</u>
Off-balance sheet liabilities	34	254,395,454	258,882,427

The accompanying notes on the following pages
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ADJUSTED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period from January 1, to December 31, 2013
(In thousands of RSD)

	In thousands of RSD						
	State capital	Other capital	Revaluation reserves	Unrealized gains on securities	Unrealized losses on securities	Retained earnings / (accumulated losses)	Total
Opening balance of previous year	358,717,940	1,264,579	781,703,171	21,952	(663,833)	(126,480,941)	1,014,562,868
Adjustment (EQO)	-	-	(30,227)	-	-	(1,381,877)	(1,412,104)
Opening balance, restated	358,717,940	1,264,579	781,672,944	21,952	(663,833)	(127,862,818)	1,013,150,764
Effects of changes in fair value of financial instruments	-	-	-	(9,412)	(22,645)	-	(32,057)
Disposal of fixed assets	-	-	(5,469,515)	-	-	5,469,515	-
Other valuations	-	-	905,718	-	-	-	905,718
Deferred tax – Change in 10% to 15% rate	-	-	(42,823,075)	-	-	-	(42,823,075)
Effects of impairment of property, plant and equipment – IAS 36, on revaluation reserves	-	-	(178,024,451)	-	-	-	(178,024,451)
Effect of retained profits on coal reserves at the end of the previous year	-	-	-	-	-	108,852	108,852
Other	-	5,519	-	(1)	1	693	6,212
Closing balance, prior to adjustment	358,717,940	1,270,098	556,261,621	12,539	(686,477)	(134,622,569)	780,953,152
Profit (loss) of the current year, prior to adjustment (note 4)	-	-	-	-	-	(12,338,811)	(12,338,811)
Profit (loss) adjustments	-	-	-	-	-	13,616	13,616
Profit (loss) of the current year - restated (note 4)	-	-	-	-	-	(12,325,195)	(12,325,195)
Opening balance adjustment of retained earnings/accumulated loss at the end of the year preceding 2012	-	-	-	-	-	(731,972)	(731,972)
Total adjustments of ending balance of retained earnings/accumulated losses of the previous year	-	-	587,055	-	-	(718,356)	(131,301)
Balance as at December 31, 2012 - restated	358,717,940	1,270,098	556,848,676	12,539	(686,477)	(135,340,925)	780,821,851
Transfers	-	-	(1,389,795)	-	-	1,584,386	194,591
Effects of changes in fair value of financial instruments	-	-	1,761	7,696	(45,333)	-	(35,876)
Disposal of fixed assets	-	-	(2,367,831)	-	-	2,347,243	(20,588)
Other increases/(decreases) of revaluation reserves	-	-	(38,558)	-	984	695	(36,879)
Profit (loss) of the current year	-	-	-	-	-	18,827,014	18,827,014
Valuation of fixed assets and intangibles	-	22,042	-	-	-	-	22,042
Other valuations	-	-	6,862	-	-	-	6,862
Other	-	48	(1)	-	471	(30,836)	(30,318)
Balance as at December 31, 2013	358,717,940	1,292,188	553,061,114	20,235	(730,355)	(112,612,423)	799,748,699

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

ADJUSTED CONSOLIDATED CASH FLOW STATEMENT
For the period from January 1, to December 31, 2013
(In thousands of RSD)

	Current year amount	Previous year amount
A. CASH FLOW FROM OPERATING ACTIVITIES		
I. Cash flow from operating activities (1 to 3)	242,987,847	258,952,888
1. Cash receipts from customers and received advances	231,463,560	245,767,960
2. Interest received from operating activities	8,893,424	7,958,995
3. Other receipts from regular operations	2,630,863	5,225,933
II. Cash outflows from operating activities (1 to 5)	199,688,779	237,749,056
1. Payments to suppliers and advances given	96,649,286	148,336,626
2. Gross salaries and wages	58,478,267	58,160,798
3. Interests paid	5,697,171	2,637,684
4. Income tax	1,158,125	4,330,999
5. Other taxes	37,705,930	24,282,949
III. Net cash generated from operating activities (I-II)	43,299,068	21,203,832
B. CASH FLOWS FROM INVESTING ACTIVITIES		
I. Cash flow from investing activities (1 to 5)	2,128,571	7,307,570
1. Sales of intangible assets, property, plant, equipment and biological assets	964,912	7,289,790
2. Interests received from investing activities	1,145,331	-
3. Dividends received	18,328	17,780
II. Cash outflows from investing activities (1 to 3)	18,426,167	29,945,192
1. Purchase of shares and stakes (net outflows)	75,034	54,298
2. Purchase of intangible assets, property, plant, equipment and biological assets	17,556,212	29,679,495
3. Other financial investments (net receipts)	794,921	211,399
Net cash outflow from investing activities (II-I)	16,297,596	22,637,622
V. CASH FLOWS FROM FINANCING ACTIVITIES		
I. Cash flow from financing activities (1 to 2)	125,269	9,150,164
1. Long term and short term loans (net receipt)	-	9,135,164
2. Other long term and short term liabilities	125,269	15,000
II. Cash outflows from financing activities (1 to 4)	4,993,258	1,319
1. Long term and short term loans and other liabilities (net outflow)	4,993,029	-
2. Finance leasing	229	1,319
III. Net cash generated from financing activities (I-II)	-	9,148,845
IV. Net cash outflow from financing activities (II-I)	4,867,989	-
G. TOTAL CASH INFLOW	245,241,687	275,410,622
D. TOTAL CASH OUTFLOW	223,108,204	267,695,567
DJ. NET CASH INFLOW	22,133,483	7,715,055
Ž. CASH AT THE BEGINNING OF THE PERIOD	13,460,762	5,922,037
Z. POSITIVE EFFECT OF EXCHANGE RATE CHANGES	29,517	83,559
Z. NEGATIVE EFFECT OF EXCHANGE RATE CHANGES	99,664	259,889
J. CASH AT THE END OF PERIOD	35,524,098	13,460,762

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

1. ESTABLISHMENT, ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE

Pursuant to Article 171, Paragraph 1 of the Energy Law (Official Gazette of the Republic of Serbia, no. 84/04), as of January 27, 2005, the Government of the Republic of Serbia enacted the Decision number 05 023-396/2005-1 on the Foundation of a Public Enterprise involved in Generation, Transmission and Sales of Electricity – Public Enterprise Electric Power Industry of Serbia ("Elektroprivreda Srbije"). The Public Enterprise Electric Power Industry of Serbia commenced its operations as of July 1, 2005 assuming as of that date all assets, rights, liabilities and employees of the Public Enterprise, Electric Power Industry of Serbia with unlimited liability, save for the portion of assets and liabilities assumed by an entity established through a Decision of the Government of the Republic of Serbia involved in power transmission – Public Enterprise "Elektromreža Srbije".

Based on the Decision on Harmonization of Operations of the Public Enterprise Electric Power Industry of Serbia with the Law on Public Enterprises (Official Gazette of RS, number 50/13 – hereinafter: Decision on Harmonization), the Serbian Government harmonized the articles of association of the Public Enterprise Electric Power Industry of Serbia with the Law on Public Enterprises. Article 40 of the Decision specifies that the Statute, in accordance with the law and this decision, shall set out: the business name and headquarters of the Public Enterprise; the commercial activities of the Public Enterprise not specified in this decision; representation of the Public Enterprise; reserves; competences and method of operation of the Public Enterprise; appointment of representatives of employees in the Supervisory Board; general acts of the Public enterprise and competences for their adoption; method of preparation and monitoring of realization of plans for operations and development and annual business program; principles and method for ensuring harmonized realization and development of the activity of production of electricity and coal, distribution of electricity and management of the distribution system and electricity supply, principles of managing subsidiaries, appearance and content of the seal and stamp of the Public Enterprise and other issues of relevance for the operation and execution of the Public Enterprise. On 20 February 2014 the Serbian Government issued its consent on the Statute of the Public Enterprise Electric Power Industry of Serbia.

Registered Name

The registered name of the Parent Company is: "Javno preduzeće za proizvodnju, distribuciju i trgovinu električne energije Elektroprivreda Srbije," Beograd [Public Enterprise for Generation, Distribution and Trade of Electricity, Electric Power Industry of Serbia, Belgrade]. The abbreviated name of the Public Enterprise is "JP EPS, Beograd".

Registered Address

The Parent Company is domiciled in Belgrade at no. 2 Carice Milice Street.

Incorporation (Business Register)

Pursuant to a Decision of the Serbian Business Registers Agency, numbered BD 80380/2005, the Public Enterprise, Electric Power Industry of Serbia from Belgrade was incorporated and the conditions for the Company's operations were created as of July 1, 2005 in accordance with the Founding Decision.

The change of data pertinent to the business entity relative to the person authorized to represent the Company was performed pursuant to the Decision enacted by the Serbian Business Registers Agency number BD 119405/2012 dated September 10, 2012 and based on the Decision enacted by the Agency number 130545/2009 on July 31, 2009, an annotation was entered regarding the status change of demerger and acquisition performed according to the Board of Directors' Decision, whereof a portion of assets and corresponding liabilities of the subsidiary "Termoelektrane Nikola Tesla" (Thermal Power Plant "Nikola Tesla") was separated and assumed by the Parent.

Pursuant to Decisions of the Serbian Business Registers Agency, all Company's subsidiaries were incorporated as of January 1, 2006.

Principal Activity

The principal activity of the Parent Company – JP EPS is trade in electricity, as well as electricity generation; electricity distribution; distribution system management; coal production, processing and transport; production of steam and hot water in combined processes performed in subsidiaries established by JP EPS.

The Public Enterprise Electric Power Industry of Serbia and its subsidiaries hold licenses for performing energy-related activities. The license held by the parent company for performing energy-related activities for supplying tariff customers (no. 312-26/2006) expired in accordance with article 200 of the Energy Law, on the date of issue of the license for performing energy-related activities which was issued on July 1, 2013 to the subsidiary company JP EPS – Privrednom društvu za snabdevanje električnom energijom krajnjih kupaca "EPS Snabdevanje" d.o.o. Beograd.

Besides this, the Government of the Republic of Serbia specified JP EPS as the reserve supplier who shall temporarily, as of 1 February 2013, supply end customers for electricity who are not entitled to public supply according to article 145 of the Energy Law, until such time as a public tender is carried out for selecting the reserve supplier. The decision on specification of the reserve supplier was published in the Official Gazette of RS number 10/2013. In the period from January 1, 2014 to 31 December 2014, reserve supply shall be carried out by the entity "EPS Snabdevanje" d.o.o, Beograd, in accordance with the decision of the Government of the Republic of Serbia (Official Gazette of RS number 115/2013).

Ownership Structure

The assets handled by the Company and its subsidiaries, are state-owned, with the exception of non-current assets over which ownership rights have been established pursuant to the Decision to amend the Decision on the Establishment of JP EPS enacted by the owner and published in the Official Gazette of RS no. 54/10. The state capital is recognized in the amount of assets allocated to JP EPS, as adjusted for the amounts of realized net profit or loss (referred to as the concept of "the maintenance of capital").

The respective ownership rights of the Republic of Serbia, Autonomous Province and local community are governed by the Law on Public Ownership (Official Gazette of the Republic of Serbia, no.72/2011, 88/2013).

Governing bodies of the Public Enterprise during reporting period

Based on the Decision on Harmonization of Operations of the Public Enterprise Electric Power Industry of Serbia with the Law on Public Enterprises, management of the Public Enterprise is organized on a bicameral basis.

The managing bodies of the Public Enterprise are: the Supervisory Board, the Executive Board and the General Manager.

According to the transitional provisions of the Decision on Harmonization of Operations of the Public Enterprise Electric Power Industry of Serbia with the Law on Public Enterprises, the acting general manager of the Public Enterprise "Elektroprivreda Srbije", appointed by Government Decision number: 119-5734/2012 dated September 6, 2012 and number: 119-20161/2014 dated March 7, 2014, shall continue to carry out his duties with all the rights and obligations pertaining to the General Manager, in accordance with the Law and this decision, until such time as the General Manager is appointed based on a public invitation to apply for this position, according to the Law.

Also, the Board of Directors, appointed based on the Government Decision number 119-2693/2013 dated March 28, 2013 shall continue to perform the duties of the Supervisory Board, as set out in this Decision, until such time as the chairman and members of the Supervisory Board are appointed.

At the Parliamentary session held on December 11, 2013, the Government adopted Decision number: 119-10636/2013-1 on the appointment of the chairman and members of the Supervisory Board of the Public Enterprise Electric Power Industry of Serbia who are appointed in accordance with article 22 paragraph 1 of the Decision on Harmonization of Operations of the Public Enterprise Electric Power Industry of Serbia with the Law on Public Enterprises (Official Gazette of RS number 50/2013).

The Supervisory Board of the Public Enterprise Electric Power Industry of Serbia adopted the Statute of the Public Enterprise Electric Power Industry of Serbia which regulates issues of operation, management and organization of work of the Public Enterprise Electric Power Industry of Serbia that, according to the Law on Public Enterprises and Decision on Harmonization of Operations of the Public Enterprise Electric Power Industry of Serbia with the Law on Public Enterprises, shall be deemed to have been adopted when the Government grants its consent on the Statute in exercising its founder's rights over the Public Enterprise Electric Power Industry of Serbia. The Government granted its consent on the Statute on February 20, 2014, which after its publication went into effect on March 4, 2014.

The competences of the Supervisory Board are regulated by article 15 of the Law on Public Enterprises and article 24 of the Articles of Association, whereby it is charged with formulating the business strategy and objectives of the public enterprise and ensuring their realization; it monitors the work of directors; carries out internal supervision over the operations of the public enterprise; establishes, approves and monitors accounting, internal control, financial statements and risk management policy; is responsible for the financial statements of the public enterprise and for submitting them to the founder for approval; adopts the statute with the consent of the founder; makes decisions on distribution of profits and on covering losses, with the consent of the founder; grants approval to the general manager for undertaking actions or measures in accordance with the law, the statute and the decision of the founder; carries out other activities in accordance with the law, the statute and regulations that concern the legal position of legal entities.

According to article 23 of the Law on Public Enterprises and article 31 of the Articles of Association, the general manager represents and acts on behalf of JP EPS; organizes and manages work processes; manages the operations of the public enterprise; is accountable for the lawfulness of operation of the public enterprise; proposes the annual program of operation and undertakes measures for its implementation; proposes the financial statements; executes the decisions of the supervisory board; proposes executive directors; performs other jobs specified by law, the articles of association and statute of the public enterprise.

The Executive Board consists of 7 executive directors who are appointed by the Supervisory Board at the recommendation of the General Manager, with the General Manager of the Public Enterprise also being the chairman of the Executive Board. The Executive Board includes directors of: technical issues of electricity production and coal exploitation; issues of trade and supply of electricity; financial issues and risk management; legal issues and corporate affairs; technical issues of distribution of electricity and management of the distribution network; issues of strategy, planning of investments and development; issues of human resource management.

The competences of the Supervisory Board and issues that are considered at meetings of this managing body relate to the implementation of recommendations for drafting a business strategy and business objectives, planning documents, monitoring execution of and establishment of measures for implementing documents, determining transfer prices for calculating transactions involving production outputs between JP EPS and subsidiary companies, and between subsidiary companies themselves, establishing business policy and conditions for preparing the annual plan of the electrical energy portfolio, purchase and sale of electricity on the electricity market and methodology for forming electricity prices for sale on the market, preparation of business reports, adoption of procurement plans and public procurement plans, decisions on acquisition, disposal and encumbrance of real-estate property, pledging of property of JP EPS, issuing sureties and guarantees whose value is lower than the amount specified for approval by the Supervisory Board and deciding on indebtedness of amounts that are lower than the amount specified by the annual business program of the company for approval by the Supervisory Board, deciding on granting loans to subsidiary companies and other companies in which JP EPS is a member, and taking of loans from such entities, approval of representatives in managing bodies of entities and other legal entities, etc.

The Public Company also has an Audit Committee, including a special body with rights and obligations specified by the Law on Public Enterprises, Decision and Statute, which will be appointed.

Organizational Structure

According to the relevant Decision issued by the Government of the Republic of Serbia, the Company, in the capacity of a Parent Company, has assumed all founder's rights in its subsidiaries, and the organization of labor and business activities has been harmonized with the laws regulating the legal position of business entities. Namely, based on the Decision enacted by the Board of Directors, approved by the RS Government as in accordance with the Law on Public Enterprises and Performance of Activities of General Interest, public enterprises – subsidiaries, were reorganized and their legal form was changed or these have undergone merger and spin-off or merger and acquisition status changes, and these new entities assumed assets, liabilities and employees from January 1, 2006.

During 2012, the legal status of the subsidiaries was harmonized with the Company Law (Official Gazette of the Republic of Serbia, nos. 36/2011 and 99/2011) with regard to management and other issues relevant to their status. After balance sheet date the legal status of subsidiaries will be harmonized with the Decision on Harmonization of Operations of the Public Enterprise Electric Power Industry of Serbia with the Law on Public Enterprises, and with the Statute of the Public Enterprise Electric Power Industry of Serbia.

The parent company established the Business Entity for Renewable Energy Sources „EPS Obnovljivi izvori“, d.o.o., Beograd, and holds a 100% ownership interest in its equity in the amount of RSD 72,195 thousand, as entered in the register of the competent authority on April 2, 2012. The objective in establishing this Business Entity is the production of electrical energy using renewable sources.

During the reporting period, the Public Enterprise Electric Power Industry of Serbia, as the parent company, established the Business Entity "EPS Snabdevanje" d.o.o. Beograd, with the consent of the Founder, which will perform the activity of supplying electricity to end customers in the Republic of Serbia, including the activity of public supply as an activity of general interest. Thus conditions have been created for commencing the performance of this activity by a separate legal entity, and of separation of the activity of distribution of electricity and management of the distribution system, which activities are conducted by distribution business entities. The business entity "EPS Snabdevanje" d.o.o. Beograd, is registered with the Serbian Business Registers Agency based on decision BD 50126/2013 dated May 7, 2013, and started conducting its activities on July 1, 2013.

The Parent Company exercises control over all subsidiaries, save for those domiciled on the territory of the Autonomous Province of Kosovo and Metohija (the Public Enterprise for the production of thermal and electrical energy – Thermal Power Plant “Kosovo,” Public Enterprise for the production, processing and transport of coal – Open Pit Mines “Kosovo” and Public Enterprise involved in the distribution of electrical energy “Elektrokosmet”, Priština), for, ever since June 1999, Kosovo has been under the control of the International Community, which is why the Parent Company lost its administrative and management influence over the operations of these companies.

The Electric Power Industry of Serbia Group is vertically organized and it comprised the following entities in the reporting period:

No.	Name of Business Entity	TIN/RN
1	Public Enterprise Electric Power Industry of Serbia, (Parent Company) Belgrade, 2 Carice Milice Street	TIN: 103920327 Reg.no.: 20053658
2	Business Entity Hydro Power Plant Đerdap d.o.o., Kladovo 1 Kralja Petra Square	TIN: 100695213 Reg.no.: 7715226
3	Business Entity „Drinsko – Limske hidroelektrane“, d.o.o. Bajina Bašta, 1 Dušana Jerkovića Square	TIN: 104196916 Reg.no.: 20114207
4	Business Entity „Termoelektrane Nikola Tesla“, d.o.o. Obrenovac Obrenovac , 44 Bogoljuba Uroševića - Crnog Street	TIN: 101217456 Reg.no.: 7802161
5	Business Entity „Termoelektrane i kopovi Kostolac“, d.o.o. Kostolac Kostolac , 5-7 Nikole Tesle Street	TIN: 104199176 Reg.no.: 20114185
6	Business Entity „Panonske termoelektrane - toplane“, d.o.o. Novi Sad Novi Sad, 100 Bulevar oslobođenja	TIN: 100187552 Reg.no.: 8271259
7	Business Entity for Coal Production, Processing and Transportation – Mining Basin “Kolubara“, d.o.o. Lazarevac Lazarevac, 1 Svetog Save Street	TIN: 101138490 Reg.no.: 7788053
8	Business Entity for Distribution of Electricity „Elektrovojvodina“, d.o.o. Novi Sad Novi Sad, 100 Bulevar oslobođenja	TIN: 102040644 Reg.no.: 8038139
9	Business Entity for Distribution of Electricity „Elektrodistribucija – Beograd“, d.o.o. Beograd, 1 Masarikova Street	TIN: 100001378 Reg.no.: 7005466
10	Business Entity for Distribution of Electricity „Elektrosrbija“, d.o.o. Kraljevo, 5 Dimitrija Tucovića Street	TIN: 101957610 Reg.no.: 7152566
11	Business Entity for Distribution of Electricity „Jugoistok“, d.o.o. Niš Niš, 46a Bulevar dr Zorana Đinđića	TIN: 104196932 Reg.no.: 20114142
12	Business Entity for Distribution of Electricity „Centar“, d.o.o. Kragujevac , 7 Ulica slobode	TIN: 104196924 Reg.no.: 20114169
13	Business Entity for Supplying Electricity to End Customers „EPS snabdevanje“, d.o.o. Beograd, 2 Carice Milice Street	TIN: 108057105 Reg.no.: 20924195
14	Business Entity for Renewable Energy Sources „EPS Obnovljivi izvori“, d.o.o. Beograd, 2 Carice Milice Street	TIN: 107504635 Reg.no.: 20816244

In addition, based on its founding rights, JP EPS holds significant equity interests in the following business entities:

1. The entity for combined generation of thermal and heat energy "Energija Novi Sad" a.d. Novi Sad (ENS) was established jointly with the City of Novi Sad, each side participating 50% in share capital of this entity. On July 6, 2009, JP EPS and the City of Novi Sad closed an Agreement on the Establishment of the Entity for Thermal and Heat Energy "Energija Novi Sad" a.d. Novi Sad to which the Government of the Republic of Serbia issued its consent at the cession held on July 23, 2009, under Decision 05 number 023-4707/2009, as in accordance with the provision of Article 19 of the Law on Public Enterprises and Performance of Activities of General Interest. JP EPS and the City of Novi Sad shall, in addition to a cash contribution, in the stage of increase in capital, also make contributions in kind and equipment (existing capacities, land and infrastructure), while the strategic partner will invest capital and acquire a proportionate share in ownership over the newly-founded entity.
2. The entity "Ibarske hidroelektrane" d.o.o. Kraljevo, established jointly with SECI ENERGIA S.p.A., Republic of Italy, Bologna, Via Degli Agresti no. 6, with 49% equity share in this entity, worth EUR 2,450,000. The entity commenced its operations as of December 3, 2010 for the purpose of building ten cascade hydro-power plants with the total power of 103 MW, as well as plants for the generation and sale of electricity from renewable sources and within the Program for the implementation of Energy Development Strategy of the Republic of Serbia by 2015 (Official Gazette of RS no. 17/06, 73/07, 99/09 and 27/10).
3. The entity "Moravske hidroelektrane" d.o.o. Beograd, established jointly with RWE Innogy GmbH, Republic of Germany (RWE AG), with 49% equity share in this entity, worth EUR 1,960,000. The company "Moravske hidroelektrane" d.o.o. was duly registered with the competent Agency as of August 23, 2011. The company "Moravske hidroelektrane" was founded with the aim to enable construction of a hydroelectric power system at the Velika Morava River the company comprised of at least 5 hydroelectric power plants of the total power rating of 150 MW.

The founder's contributions in the legal entities that do not perform energy-related activities in the course of the years 2003, 2005 and 2007 were transferred to the Republic of Serbia, except for the founder's contribution in the Company for designing, production, mounting and maintenance of mining and energy equipment "Kolubara Metal" d.o.o., a spin-off of the subsidiary "RB Kolubara." During the reporting period, the business entity "Kolubara Metal" d.o.o. merged with the business entity RB "Kolubara" d.o.o., through transfer of all of its assets and liabilities, and was consequently extinguished. Deregistration of the company was carried out based on Decision BD 139067/2013 issued by the Serbian Business Registers Agency on December 31, 2013.

As of December 31, 2013, the Company had 31,569 employees (December 31, 2012: 31,887 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Consolidated Financial Statements

The Company's consolidated financial statements include its consolidated balance sheet as of December 31, 2013, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

2.2. Basis of Preparation and Presentation of Consolidated Financial Statements

The Company's consolidated financial statements for the year 2011 have been prepared pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46/2006 and 111/2009) and "Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" (Official Gazette of the Republic of Serbia, nos.114/2006, 5/2007, 119/2008 and 2/2010).

Recognition and estimate of the line items included in the financial statements have been performed in accordance with the provisions of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as determined in the Decision enacted by the Ministry of Finance no. 401-00-1380/2010-16 on October 5, 2010 (Official Gazette of the Republic of Serbia no. 77/10) except for the part of requirements of IAS 19 "Employee Benefits" pertaining to the employee share in profit recognition. After balance sheet date the translation

of the Conceptual Framework for Financial Reporting and of the core texts of International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) has been adopted based on Ministry of Finance decision number 401-00-896/2014-16, dated March 2014 (Official Gazette of RS number 35/14), effective as of January 1, 2014.

The consolidated financial statements were prepared at historical cost principle, unless otherwise stipulated in the accounting policies presented hereunder.

In addition, the accounting regulations of the Republic of Serbia depart from IFRS, in the following::

- Departures from IAS 12 "Income Taxes" and Interpretation SIC - 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets," whereby deferred tax liabilities or assets are recognized arising from revaluation of assets that are not depreciated in accordance with IAS 16 "Property, Plant and Equipment" but are measured based on the tax effects that would result from the recovery of the carrying amounts of such assets through sales, irrespective of the basis of the carrying value measurement thereof. Due to the inability to obtain clear interpretation of the regulations with regard to the cost of land and regulation of the disposal and ownership rights over land, as well as due to the specificity of the Company's activity, the aforesaid SIC 21 is deemed as impossible to implement in the current circumstances.
- The accounting regulations of the Republic of Serbia depart partially from IAS and IFRS in provisions of IAS 19 "Employee Benefits," given that, Pursuant to the opinion of the Republic of Serbia Ministry of Finance, employee share in profit is recorded as a decrease of retained earnings and not as charged to the current period results.

In the preparation of the accompanying consolidated financial statements, the Company adhered to the accounting policies described in Note3.

The Company's consolidated financial statements are stated in thousands of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia.

2.3. Standards and Interpretations in Issue but not yet Translated and Adopted

As of the consolidated financial statements issuance date, the following standards, amendments were issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee but were not officially adopted and translated in the Republic of Serbia:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);
- Amendments to IFRS 1 "First-Time Adoption of IFRS" – Additional Exemptions for First-Time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments to various standards and interpretations resulting from the Annual Quality Improvement Project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after January 1, 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);
- Amendments to IAS 38 "Intangible Assets" (revised in July 2009, effective for annual periods beginning on or after July 1, 2009);
- Amendments to IFRS 2 "Share-Based Payment": Amendments resulting from the Annual Quality Improvement Project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);

- Amendments IFRIC 9 "Reassessment of Embedded Derivatives" effective for annual periods beginning on or after July 1, 2009 and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives (effective for annual periods beginning on or after June 30, 2009);
- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on or after July 1, 2009);
- "Conceptual Framework for Financial Reporting 2010" being an amendments to "Framework for the Preparation and Presentation of Financial Statements" (effective for transfer of assets from customers received on or after September 2010);
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IAS 24 "Related Party Disclosures" – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for Rights Issues (effective for annual periods beginning on or after February 1, 2010);
- Amendments to various standards and interpretations "Improvements to IFRSs" resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);
- Amendments to IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". Advance payments of minimum funds required for financing (effective for annual periods beginning on or after January 1, 2011);
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IFRS 1 "First-Time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Government Loans at Below-Market Rates of Interest (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012).
- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Annual improvements for periods 2009 to 2011 issued in May 2012 relating to various improvement projects for IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) mostly for correcting inconsistencies and explanations of formulations (effective for annual periods beginning on or after January 1, 2013);
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after January 1, 2013);

2.4. Standards and Interpretations in Issue not yet in Effect

At the date of issuance of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 "Financial Instruments" and later amendments (effective date yet to be determined);
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Exemption from Consolidation of Subsidiaries under IFRS 10 'Consolidated Financial Statements' (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after July 1, 2014);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 36 – "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 39 "Financial Instruments" – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after January 1, 2014);
- Annual improvements for periods from 2010 to 2012 issued in December 2013 relating to various improvement projects for IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) mostly for correcting inconsistencies and explanations of formulations (effective for annual periods beginning on or after July 1, 2014);
- Annual improvements for periods from 2011 to 2013 issued in December 2013 are the result of the Project of Annual Quality Improvements of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) for correcting inconsistencies and explanations of formulations (effective for annual periods beginning on or after July 1, 2014);
- IFRIC 21 "Levies" (effective for annual periods beginning on or after January 1, 2014).

2.5. Comparative Data

As comparative information, the Company presented the restated consolidated income statement for the year ended December 31, 2012 and the restated consolidated balance sheet as of December 31, 2012.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Principles of Consolidation

The recognition of line items in the consolidated financial statements was performed in accordance with the generally accepted accounting principles at historical cost principle, with the subsequent estimation of all relevant events influencing the balance of assets and liabilities as of the consolidated financial statements' preparation date.

The consolidated financial statements represent the consolidation of the financial statements of 13 enterprises and the Parent Company, comprising the Group of the Electric Power Industry of Serbia (EPS), and are prepared on the full consolidation principle as the Parent Company is the sole owner of its subsidiaries.

The financial statements of three entities domiciled on the territory of the Autonomous Province of Kosovo and Metohija are not included in the consolidated financial statements as of December 31, 2012 given that the Company's management does not have administrative and managing control over the operations of these companies.

3.2. Revenues and Expenses

Revenues and expenses are recognized on an accrual basis (as per "matching principle"). This principle requires that all expenses incurred in the generation of revenue be recognized in the same accounting period in which the related revenues are recognized regardless of the period in which the payments are actually made (invoiced realization).

Revenues associated with the sale of electricity are recognized in the period in which electricity is delivered.

Income from the sale of goods is recognized when the risks and rewards associated with the rights of ownership are transferred to the customer.

Income is measured at the fair value of the consideration received or receivable, less any effective discounts and value added tax.

Contractual income and expenses are recognized according to the stage of completion method.

3.3. Effects of Foreign Exchange Translation

Monetary and non-monetary items denominated in foreign currencies are translated at the official exchange rates published by the National Bank of Serbia, at the date of each transaction. As of the consolidated financial statements' preparation date, monetary items were presented at the middle exchange rate of the National Bank of Serbia, while adjustments were recognized in the consolidated income statement.

3.4. Borrowing Costs

Cost of borrowings is recognized as an expense when it is incurred, regardless of the use of borrowed funds.

3.5. Employee Benefits

Employee benefits, as well as all types of remuneration that the Company provides to employees pursuant to the Collective Bargaining Agreement (CBA), are expensed in the period in which the employee worked and the respective liabilities are also recognized, upon the deduction of each amount that has already been paid, except as disclosed in Note 3.9.

3.6. Prior Period Error Correction

Material errors arise as a consequence of a variety of reasons, including the following: mathematical errors, or errors associated with the misapplication of accounting policies, the inappropriate interpretation of facts, or by oversights. Such errors are subsequently adjusted by the restatement of the opening balance of retained earnings or accumulated losses. Immaterial errors are recognized in the income statement as they are incurred.

3.7. Fair value

In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of financial assets or liabilities, for which published market information is neither readily, nor reliably available. Accordingly, fair value cannot readily be determined in the absence of an active market, as required under IAS and IFRS. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions. For the purposes of determining the fair value, future cash flows are discounted to the net present value, by applying a discount rate equal to the contractual interest rate, which equalizes the net present value and nominal value. An allowance for impairment is recognized in the amount of the estimated risk that the carrying value of the asset will not be realized.

3.8. Transfer Pricing Between Consolidated Entities

The transactions entered into between the enterprises consolidated within the EPS group were based on transfer prices set by the JP EPS' Board of Directors and the Supervisory Board as determined based on:

- the cost plus method increased for the usual markup for services of rental of electrical energy capacities intended for the production of electrical energy and coal for use by thermal power plants, electricity supply for trading as performed by JP EPS' electricity production companies, delivery of electricity for supplying the public as performed by JP EPS to the business entity "EPS Snabdevanje" d.o.o. and delivery of coal for production of electricity in thermal power plants,
- the comparable uncontrolled price method for electricity supply to business entities for the production of electricity and coal production as carried out by JP EPS and for electricity supply for the purpose of covering losses in the distribution system,
- regulated prices (approved by the Energy Agency of the Republic of Serbia) for services of accessing the electricity distribution system,
- regulated prices (specified by Decrees issued by the Government of the Republic of Serbia) for supplying electricity from renewable sources.

3.9. Provisions

Provisions for pending litigations are charged to expenses in accordance with the management's best estimates of the expenditures required to settle such obligations.

The calculation and presentation of long-term liabilities arising from retirement benefits and jubilee awards is performed using the method of present value of expected future payments based on the following:

- The Company's general enactments (the direct application of the Collective Bargaining Agreement) i.e. the commitment to pay retirement benefits in the amount of 3 salaries earned by the employee in the month preceding the month in which retirement benefit is paid or in the legally prescribed amounts (if such arrangement is more favorable for the employee), as well as the obligation to discharge jubilee awards for each 10, 20 and 30 years of continued service with the Company;
- Projected salary growth at the rate of 1.5%, a discount rate of 7.18%, the annual rate of employee turnover of 1.5% with the final limit to the employee turnover of 15%, taking into account the mortality risk based on the most recent data published by the Republic's Statistical Office.

3.10. Grants

The value of donated assets is initially recorded as deferred income from grants, as presented under liabilities in the balance sheet, being decreased as credited to the income statement in the period in which the costs related to the consumption of the donated assets are recognized.

Cash grants that cover one accounting period and are intended to cover the Company's expenses, or to increase its income, are recognized as income upon reception.

3.11. Taxes and Contributions

a) Current Income Taxes

Current income tax represents an amount that is computed and paid in accordance with the effective Republic of Serbia Corporate Income Tax Law. Current income tax is payable at the rate of 15% on the tax base reported in the annual corporate income tax return as reduced by any applicable tax credits (in the amount of 20% of capital expenditure, whereas it cannot exceed 33% of tax accrued in the year in which the capital expenditure has been undertaken). The taxable base stated in the income tax return includes the profit shown in the statutory statement income, as adjusted for differences that are specifically defined under statutory tax rules.

The right to a tax exemption based on investment in property, plant and equipment has been discontinued starting as of January 1, 2014, with the exception that a taxpayer who by December 31, 2013 realized the right to a tax incentive as per article 48 of the Corporate Income Tax Law (Official Gazette of RS no. 25/01, 80/02, 80/02 – other law, 43/03, 84/04, 18/10, 101/11, 119/12 and 47/13) and declared it in the tax balance and tax return for 2013, can carry forward the unused portion of the tax credit to a future tax period, but at most up to a limit of 33%, of the tax liability calculated for that tax period, and not for longer than 10 years.

The tax regulations effective in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for the duration of no longer than five ensuing years starting from 2010, i.e. ten years for losses incurred by 2010.

b) Deferred Income Taxes

Deferred tax liabilities are recognized in the amount of future income taxes payable based in the difference between the carrying value of property, plant and equipment and their cost recognized in the tax balance.

Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of income tax losses and credits are available for carryforward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carryforwards can be utilized.

v) Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes and various other taxes and contributions paid in accordance with regulatory requirements.

3.12. Property, Plant and Equipment

Property, plant and equipment are initially recognized at cost. The components of cost include: prices billed by suppliers net of discounts, import duties and other non-refundable taxes, as well as all other directly attributable costs of bringing assets to working condition for their intended use. Following the initial measuring, property, plant and equipment used for performing the Company's activity related to electricity are stated at revalued amount reflecting their fair value determined through depreciated replacement cost approach.

Fair value of property, plant and equipment used to perform the electricity related activities were stated at a revalued cost estimated by an independent appraiser as of January 1, 2011. Previous valuation of property, plant and equipment was performed as of January 1, 2007 and each difference between the fair value and the respective carrying amount was recognized as described in Note 16.

The Public Company "Kolubara Metal" appraised its property, plant and equipment as of January 1, 2009.

Vehicles, office equipment, as well as the equipment used in other premises, other equipment and tools and fixtures the useful life of which is longer than a year are stated at cost.

Self-constructed assets are stated at cost if it does not exceed their market value, and such assets are subsequently measured in accordance with the class to which these assets belong.

Costs of borrowing incurred in financing the acquisition of intangible assets, are not capitalized, but recognized within expenses of the respective period.

Subsequent expenditure such as modification or adaptation to assets is recognized as an increase in cost of the respective assets, when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Company. Gains or losses on disposal of property, plant and equipment are determined as a difference between the expected net proceeds from sale and the stated value of assets and are recognized as income or expenses in the income statement.

3.13. Depreciation

The depreciation of property, plant, equipment and investment property is computed on a straight-line basis for every individual item of such assets in order to fully write off the cost of the assets over their estimated useful lives unless otherwise stated. The estimated useful lives and depreciation rates in use for the major classes of property, plant and equipment are as summarized below:

	<u>Useful life</u>	<u>Rate</u>
Hydro power plants buildings	25 - 100	1% - 4%
Thermal power plants buildings	25 - 77	1.3% - 4%
Coal mine buildings	50 - 80	1.25% - 2%
Electricity distributions entities buildings	2 - 90	1.1% - 50%
Commercial buildings, except those used for administrative purposes and other buildings for accommodation and tourism activities and investment property	2 - 90	1.1% - 50%
Hydro power plant equipment	5 - 25	4% - 20%
Thermal plant equipment	5 - 25	4% - 20%
Coal mine equipment	8 - 25	4% - 12.33%
Equipment of electricity distribution entities	5 - 25	4% - 20%
Transportation vehicles, elsewhere not mentioned	8 - 15	6.6%-12.5%
Equipment for decoration and maintenance of office and other premises	1.3 - 50	2% - 75%
Other equipment, elsewhere not mentioned	5 - 8	12.5%-20%

The cost of land including the expenses of disassembly, removal and restoration is recognized as a separate asset, and it is depreciated over the period over which the Company derives benefits based on these expenses. The depreciation period and method are reviewed at the end of each reporting year.

3.14. Intangible Assets

Intangible assets are stated at cost. After initial recognition, intangible assets are stated at cost less accumulated amortization and any impairment losses.

The amortization of intangible assets is computed on a straight-line basis in order to fully write off the cost of the assets over their estimated useful lives. The estimated useful lives and amortization rates in use for the major classes of intangible assets are as summarized below:

	<u>Useful life</u>	<u>Rate</u>
Investments in development	4	25%
Patents, licenses and similar rights	5	20%
Other intangible assets	5	20%

The amortization period and method are reviewed at the end of each reporting year.

3.15. Impairment of Property, Plant and Equipment and Intangible Assets

At each balance sheet date, the Company's management assesses whether any indication exists that the value of property, plant and equipment has become impaired, based on the review and consideration of internal and external sources of information.

If there is any indication that such assets have become impaired, the recoverable amount of the asset is estimated. Based on management opinion, as at balance sheet date there was no information to indicate that the carrying amount of assets is higher than the recoverable amount. In the previous reporting period, if the recoverable amount of an asset cannot be estimated, the recoverable amount of the cash generating unit, of the public enterprise is estimated, as disclosed in Note 16.

3.16. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes purchase value, import duties and other non-refundable taxes, transport, handling and other expenses directly attributable to inventories acquisition, as decreased for trading discounts, rebates and similar items. The net realizable value is the price at which inventories may be realized throughout the normal course of business, after allowing for the costs of realization.

Cost is computed using the weighted-average method. Tools and fixtures are fully written off when issued into use.

Provisions charged to other expenses are made where appropriate and when the management estimates that the value of inventories needs to be adjusted to the net realizable value, i.e., based on the documented reduction in the value in use of inventories.

The cost of work-in-progress and finished goods inventories are stated at the lower of cost and net realizable value. Cost includes the expenses directly attributable to the production units and indirect (fixed and variable) costs incurred in converting materials in finished products.

3.17. Financial Instruments

Each contractual right resulting in financial assets, financial liabilities or equity instruments is recognized in the Company's balance sheet as a financial instrument of the settlement date.

Initially, financial assets and liabilities are recognized at cost which represents the fair value of the consideration provided (assets) or received (liabilities).

Equity Investments

These include equity investments in subsidiaries which do not perform energy-related activities, equity investments in associates and equity investments in other legal entities, which are stated at cost.

Other Long-Term Investments

Following the initial recognition, other long-term investments are stated at:

- fair values, if such assets are held for sale or are available for sale and their value is quoted on the active market;
- at cost, if such assets are held or available for sale, the value of which is not quoted in the active market;
- amortized costs, if such assets have fixed maturities, or
- cost, if such assets do not have fixed maturities.

The differences (increases or decreases) arising between the carrying amounts of assets, and subsequent measurements are recognized as a special item of capital – revaluation reserves, for instruments available for sale listed on the active market. The differences arising between the carrying amounts of assets and subsequent measurements of other financial instruments are recognized as a gain or loss in the income statement of the period.

Short-Term Receivables and Assets

Short-term receivables include all of the following: accounts receivable and other receivables, and short-term deposits with banks, as well as other short-term assets.

Accounts receivable associated with the sale of electricity and other products or services are stated at invoiced value. The invoiced interest related to the sale of products and services is recognized as other receivables and recorded as income of the period in which it is accrued.

Other receivables and assets are measured at amortized cost.

Each difference between the amount stated and subsequent measurement is recognized as gain or loss of the respective period.

Impairment of Financial Assets

At each balance sheet date, an evaluation of objective impairment evidence is performed by analyzing the expected cash inflows, in the following manner:

- individually for significant assets, or
- based on a portfolio of similar financial assets that are not individually identified as being impaired.

The assessment of the collectability of accounts receivable associated with the sale of electricity is based upon particular categories of debtors. For receivables from legal entities that are more than 60 days past due, an allowance for impairment is formed. Exceptionally, for these debtors, the collectability may be assessed individually. In its assessment of recoverability of accounts receivable, the Company considered all events up to January 31, 2011, unless otherwise stated. The Company does not record an allowance for receivables from legal entities that are concurrently its debtors and creditors.

Receivables that are subject of a pending litigation are fully provided for. The write-off of receivables is performed upon the conclusion of legal proceedings or in accordance with relevant management decision.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and balances on accounts held with commercial banks.

Financial Liabilities

Financial liabilities include long-term financial liabilities (long-term borrowings, long-term securities and other long-term liabilities), short-term financial liabilities (short-term borrowings and other short-term financial liabilities), accounts payable, liabilities from specific operations and other liabilities.

Financial liabilities are initially recognized at the value of the consideration received. Upon initial recognition, financial liabilities are measured at the initially-recognized amount, less repayments of principal, plus accrued interest and less any write-off approved by the creditor. Interest liabilities associated with financial liabilities are charged to profit or loss for the period, and are stated under other short-term liabilities and accruals.

4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND RESTATEMENT OF COMPARATIVE DATA IN THE INCOME STATEMENT FOR THE YEAR 2012

a) Effects of adjustments made to the balance sheet as of December 31, 2012

In thousands of RSD

	Amounts reported as at December 31, 2012	Reclassifica-tions and adjustments as at January 1, 2013	Restated January 1, 2013
ASSETS			
Non-current assets			
Intangible assets	2,628,341	-	2,628,341
Property, plant, equipment and biological assets	937,976,501	(116,820)	937,859,681
Investment property	374,790	-	374,790
Advances for intangible assets, property, plant and equipment	12,256,981	(22,244)	12,234,737
Equity investments	1,036,287	207,625	1,243,912
Other long-term investments	1,429,500	-	1,429,500
	<u>955,702,400</u>	<u>68,561</u>	<u>955,770,961</u>
Current assets			
Inventories	23,067,627	-	23,067,627
Advances paid for inventories	3,793,647	(2,344)	3,791,303
Accounts receivable	74,383,295	317,636	74,700,931
Value added tax and prepayments	726,343	-	726,343
Short-term financial assets	1,899,191	-	1,899,191
Cash and cash equivalents	13,460,762	-	13,460,762
Value added tax and accruals	1,190,287	93,224	1,283,511
	<u>118,521,152</u>	<u>408,516</u>	<u>118,929,668</u>
Total assets	<u>1,074,223,552</u>	<u>477,077</u>	<u>1,074,700,629</u>
Off-Balance Sheet Assets	258,937,204	(54,777)	258,882,427
EQUITY AND LIABILITIES			
Equity			
State-owned capital	358,717,940	-	358,717,940
Other capital	1,270,098	-	1,270,098
Revaluation reserves	556,261,621	587,055	556,848,676
Unrealized gains on securities	12,539	-	12,539
Unrealized losses on securities	(686,477)	-	(686,477)
Accumulated losses	(134,622,569)	(718,356)	(135,340,925)
	<u>780,953,152</u>	<u>(131,301)</u>	<u>780,821,851</u>
Long-term provisions	13,272,433	-	13,272,433
Long-term liabilities			
Long-term borrowings	58,143,363	-	58,143,363
Other long-term liabilities	3,988,536	-	3,988,536
	<u>62,131,899</u>	<u>-</u>	<u>62,131,899</u>
Current liabilities			
Short-term financial liabilities	33,092,959	-	33,092,959
Accounts payable	63,076,448	(40,386)	63,036,062
Other current liabilities	3,864,932	169,696	4,034,628
Value added tax and other duties payable and accruals	25,634,307	476,899	26,111,206
Income taxes payable	-	8,494	8,494
	<u>125,668,646</u>	<u>614,703</u>	<u>126,283,349</u>
Deferred tax liabilities	92,197,422	(6,325)	92,191,097
Total equity and liabilities	<u>1,074,223,552</u>	<u>477,077</u>	<u>1,074,700,629</u>
Off-Balance Sheet Equity and Liabilities	258,937,204	(54,777)	258,882,427

b) Effects of December 31, 2012 accumulated loss adjustments (In thousands of RSD)

Balance of accumulated loss as of December 31, 2012	<u>(134,622,569)</u>
Reversal of previously recognized period expenses and recognition of investments in other legal entities based on investments as per contract on joint investment in prior construction work on Hydro Power Plant "Komarnica", Montenegro, according to instruction of State Audit Institution	207,625
Increase in revaluation reserves	(597,523)
Decrease in deferred tax liabilities	57,931
Receivables for heating energy and engineering steam, based on final calculation of energy inputs	105,329
Recognition of allowance for impairment of receivables for supplied electricity, according to instruction of State Audit Institution	(112,397)
Recognition of income from recharged services of scientific research work and other consulting services by EPS business entities, with recognition of right to input VAT deduction, according to instruction of State Audit Institution	556,655
Receivables from Serbian Railways JSC for accrued interest on late payment for supplied electricity	98,846
Allowance for impairment of receivables from Serbian Railways JSC for accrued interest on late payment for supplied electricity	(98,846)
Recognition of expenses for recharged services of scientific research work and other consulting services by EPS business entities, according to instruction of State Audit Institution	(92,553)
Recognition of income tax liabilities based on adjustment in carried forward result	(8,494)
Recognition of liabilities for public duties, based on final calculation received during 2013	(104,279)
Recognition of deferred income from connection of new customers which is treated as income based on conditional donations, according to instruction of State Audit Institution	(328,245)
Reversal of donation and recognition of income related to consulting services KEMA-ICAS-SAP (previously recognized as period expense in accordance with IAS 38)	24,142
Recognition of accounts payable based on invoices received after balance sheet date	(84,637)
Subsequently established entitlement of employees to insured increased years of employment, working under difficult, dangerous conditions that are dangerous to health	(233,227)
Decrease in property, plant, equipment and investments under construction, based on regular physical count of property	(125,795)
Decrease in investments under construction charged to expenses, according to recommendation of State Audit Institution	(88,615)
Recognition of investments under construction, according to recommendation of State Audit Institution	74,463
Other	31,264
	<u>(718,356)</u>
Balance of accumulated net result/(loss) as of December 31, 2012, restated	<u><u>(135,340,925)</u></u>

c) Effects of adjustments to the income statement for the year ended December 31, 2012

	In thousands of RSD		
	For the year ended December 31, 2012 – prior to Adjustments/ Reclassifications	Adjustments/ Reclassifications	For the year ended December 31, 2012 – following Adjustments/ Reclassifications
OPERATING INCOME			
Sales revenue	178,224,127	567,594	178,791,721
Own work capitalized	5,910,894	-	5,910,894
Increase in the value of inventories	(365,597)	-	(365,597)
Other operating income	6,636,398	(330,169)	6,306,229
	<u>190,405,822</u>	<u>237,425</u>	<u>190,643,247</u>
OPERATING EXPENSES	-	-	-
Cost of goods sold	(32,222)	-	(32,222)
Cost of materials	(51,911,582)	-	(51,911,582)
Gross salaries and wages	(53,018,346)	71,603	(52,946,743)
Depreciation and provisions	(48,895,245)	-	(48,895,245)
Other operating expenses	(42,016,703)	(113,390)	(42,130,093)
	<u>(195,874,098)</u>	<u>(41,787)</u>	<u>(195,915,885)</u>
OPERATING LOSS	(5,468,276)	195,638	(5,272,638)
Financial income	13,534,264	99,729	13,633,993
Financial expense	(10,214,894)	(89,033)	(10,303,927)
Other income	13,335,739	-	13,335,739
Other expense	(55,571,525)	(235,830)	(55,807,355)
LOSS BEFORE TAX	(44,384,692)	(29,496)	(44,414,188)
Income tax	32,045,881	43,112	32,088,993
Deferred tax income/(expense) of the period	32,705,177	51,606	32,756,783
Income tax expense of the period	(659,296)	(8,494)	(667,790)
NET LOSS	<u>(12,338,811)</u>	<u>13,616</u>	<u>(12,325,195)</u>

d) **Effects of adjustments to the earliest prior comparative period presented in the income statement for the year 2012 (In thousands of RSD)**

Balance of accumulated loss as of December 31, 2012	<u>(12,338,811)</u>
Recognition of income from recharged services of scientific research work and other consulting services by EPS business entities, with recognition of right to input VAT deduction, according to instruction of State Audit Institution	470,446
Receivables for heating energy and engineering steam, based on final calculation of energy inputs	105,329
Subsequently recognized customer discount for timely payment of liabilities for invoices related to supplied electricity	(8,181)
Reversal of previously recognized deferred income from connection of new customers which is treated as income based on conditional donations, according to instruction of State Audit Institution	(330,169)
Recognition of income from receivables from Serbian Railways JSC for accrued interest on late payment for supplied electricity	98,846
Recognition of expenses for recharged services of scientific research work and other consulting services by EPS business entities, according to instruction of State Audit Institution	(92,547)
Recognition of accounts payable based on invoices received after balance sheet date	(56,058)
Reversal of previously recognized expenses from recharged services of scientific research work, after recognition of right to input VAT deduction	86,210
Reversal of recognized expense and recognition of equity investment in Hydroelectric Power Plant "Komarnica", according to instruction of State Audit Institution	5,810
Recognition of liabilities for public duties, based on final calculation received during 2013	(16,928)
Recognition of accrued interest on late payment of public duties	(89,033)
Recognition of allowance for impairment of receivables for supplied electricity, according to instruction of State Audit Institution	(99,789)
Recognition of impairment of receivables from Serbian Railways JSC for accrued interest on late payment for supplied electricity	(98,846)
Decrease in investments under construction charged to expenses, according to recommendation of State Audit Institution	(2,340)
Decrease in deferred tax liabilities	51,606
Recognition of income tax liabilities based on adjustment in carried forward result	(8,494)
Other	(2,246)
Total adjustments	<u>13,616</u>
Operating result/(net loss) for the period ended December 31, 2012, restated	<u><u>(12,325,195)</u></u>

5. SALES REVENUES

	In thousands of RSD (Restated)	
	For the year ended December 31, 2013	For the year ended December 31, 2012
Income from sale of electricity	184,676,063	159,417,641
Sale of coal	5,025,555	4,858,621
Sale of engineering steam and gas	1,740,908	1,973,036
Sale to legal entities domiciled abroad	5,616,841	5,099,353
Sale of products and services	2,027,868	2,157,602
Income from radio and television subscriptions	15,912	40,032
Income from Public Enterprise "Elektromreža Srbije"	11,070,550	5,245,436
	<u>210,173,697</u>	<u>178,791,721</u>

Besides supplying end customers, a portion of income from sale of electricity in the total amount of RSD 15,963,143 is also recognized for deliveries of electricity to legal entities – residents of the Republic of Serbia, who hold a license for trading in electrical energy.

During the reporting period, according to article 206 of the Energy Law, a portion of the customers for electricity lost their right to public supply. Namely, the right to public supply is held/will be held:

- 1) from January 1, 2013 by end customers for electricity,
- 2) from January 1, 2014 only by households and small customers for electricity.

According to the said provisions, end customers for electricity, who until the going into effect of this law did not select their supplier, shall continue to be supplied by the energy company which until that time supplied tariff customers at regulated prices, until such time as they select their supplier, and at the latest by December 31, 2012. In the reporting period the portion of customers who are entitled to freely choose a supplier have concluded binding contracts with the parent company, with related income reported in the amount of RSD 9,660,056 thousand.

In accordance with the Energy Law the Government of the Republic of Serbia adopted the Decree on Incentive Measures for Protected Electricity Producers, the Decree on Methods of Calculation and Allocation for Collected Funds for Compensation for Protected Electricity Producers and the Decree on Amount of Special Incentive Compensation for 2013 (Official Gazette of RS number 8/2013). The difference between total incentive price at which a protected producer is entitled to sell to a public supplier the total amount of produced electricity during the incentive period and regulated price of the public supplier is financed from the incentive compensation. The incentive compensation in 2013 amounted to RSD 0.044 /kWh, and in 2014 RSD 0.081 /kWh (Decree on Amount of Special Incentive Compensation for 2014 published in the Official Gazette of RS number 3/2014).

Pursuant to the Conclusion of the Republic of Serbia Government numbered 021-6624/2009-002 as of November 30, 2009, the Company engaged its capacities to secure electricity for the north part of the Autonomous Province of Kosovo and Metohija. Subsequent assessment of the inflow of benefits for the reporting year amounted to RSD 802,107 thousand.

Based on the Energy Law and Rules on the Transmission System Operation, in its own name and for its own account, as well as for the account of its subsidiaries, the Company entered into the Agreements with the Public Enterprise "Elektromreža Srbije" (hereinafter: "JP EMS"), an entity involved in energy supply and responsible for electricity transmission. The forgoing Agreements delineate the manner of providing system services so as to enable JP EMS, as the operator of the transmission system, to create all conditions necessary for the regular operation of the energy supply system and mutual supplies intended to provide for the systems separate from the rest of the interconnection, and to recover excessive power losses, i.e. losses of electricity that are not caused by the consumption of power, i.e. energy for heating elements in the transmission network due to the active resistance present in these elements.

In addition, for the purpose of balancing the regulation area of the Republic of Serbia or securing sufficient amount of tertiary reserve, the Company agreed with JP EMS on a manner of mutual power deliveries in case of a major breakdown on a barter or commercial basis depending on the terms agreed between JP EMS and operators of neighboring transmission systems.

Starting as of April 1, 2013, the government of the Republic of Serbia enacted the Decree on the Protected Energy Customer (Official Gazette of RS, no. 27/13), and the Decree on the Protected Energy Customer and Protected Heating Energy Customer (Official Gazette of RS, no. 90/14), whereby the protected energy customer becomes entitled to the reduction of the monthly liability for a certain quantity of electricity delivered as follows:

1. For one-member household and income of up to RSD 12,900.00 or RSD 13,222.00 of 120 kWh;
2. For two-member and three-member households and income of up to RSD 18,786.00 or RSD 19,251.00 of 160 kWh;
3. For four-member and five-member households and income of up to RSD 24,672.00 or RSD 25,276.00 of 200 kWh; and
4. For households with six and more members and income of up to RSD 30,558.00 or RSD 31,786.00 of 250 kWh.

under condition that the protected customer has monthly electricity consumption below the respective double aforesaid quantity; if the monthly consumption exceeds the aforesaid respective quantities 2 to 2.5 times, the protected customer is entitled to half of the aforesaid reduction. Pursuant to Article 12 of the Decree (Official Gazette of RS, no. 90/14), the funds for support of the protected customers are to be provided by the Public Enterprise Electric Power Utility of Serbia until December 31, 2013, and starting as of January 1, 2014 the funds will be provided from the state budget of the Republic of Serbia.

Previously approved discounts in the amount of 35% for tariff customers with a status of socially needy and subsidized customers have been discontinued by the Board of Directors.

5.1. Income from Own Work Capitalized

A portion of income from own work capitalized of RSD 3,554,368 thousand (Entity "Elektrosrbija" – RSD 1,512,781 thousand, Entity "Elektrovojvodina" – RSD 1,215,186 thousand, Entity "ED Beograd" – RSD 416,040 thousand, Entity "Jugoistok" – RSD 240,610 thousand, Entity "Centar" – RSD 169,751 thousand) relates to the recognized self-constructed non-current assets, as disclosed in Note 3.12. The amount of RSD 800,865 thousand was recognized based on the transfer of products from the Entity "Kolubara Metal" to the non-current/current assets of other Group members.

5. OTHER OPERATING INCOME

	In thousands of RSD (Restated)	
	For the year ended December 31, 2013	For the year ended December 31, 2012
Grants	1,468,893	2,322,672
New customer connection fees	1,316,242	1,990,968
Insurance claims collected	330,247	741,731
Rental income	180,404	120,131
Other operating income	2,650,142	1,130,727
	5,945,928	6,306,229

Income from new customer connection fees comprise inflows of benefits for the establishment of new connections as calculated by applying the price list that is in accordance with the methodology approved by the Energy Agency.

Other operating income in the amount of RSD 1,084,227 thousand relates to positive effects of surpluses from the Hydro Power Plant "Piva" based on a binding contract with the parent company.

6. COST OF MATERIALS

	In thousands of RSD (Restated)	
	For the year ended December 31, 2013	For the year ended December 31, 2012
Cost of electricity purchased:		
- in domestic market	1,153,180	10,594,563
- in foreign markets	11,296,172	3,884,551
Transfer of electricity by the Public Enterprise "Elektromreža Srbije", Belgrade	16,852,928	11,483,452
Materials for maintenance and spare parts	6,912,326	8,002,141
Oil derivatives	3,862,464	6,656,713
Natural gas and other energy resources	2,970,076	5,390,565
External purchases of coal	1,145,266	1,289,332
Production materials	2,381,903	2,955,892
Office supplies and general overhead materials	491,768	500,684
Other	904,366	1,153,689
	47,970,449	51,911,582

The acquisition of electricity used for the Company's own activities in the amount of RSD 12,449,352 thousand is related to the acquisition of electricity from legal entities outside the EPS system (imported and acquired from legal entities located on the territory of the Republic of Serbia holding a license to trade in electricity). A portion of expenses for the electricity purchased abroad is recognized based on the binding contract on business and technical cooperation with Electric Power Industry of Montenegro (RSD 7,282,277 thousand) and commercial contracts with the Electrical Power Industry of the Republic of Srpska (RSD 3,989,321 thousand). After balance sheet date the contract on business and technical cooperation with Electric Power Industry of Montenegro was not extended.

In the previous reporting period, purchase of electrical energy from external business entities in the amount of RSD 10,594,563 thousand was carried out under conditions of extremely low temperatures, in accordance with the conclusions and recommendations of the Republic of RS about the rationalization of spending of electricity and energy inputs, and prevention of measures of limiting electricity supplies and supplies of energy inputs.

The Company concluded numerous contracts for the purchase of electricity with electricity producers who attained the status of protected producers at purchase prices specified in the Decree on Conditions and Procedure for Attaining the Status of Protected Electricity Producers (Official Gazette of RS number 08/13) for the appropriate renewable energy source. Namely, incentive measures for the use of renewable energy sources for the production of electricity, in the sense of the Energy Law, include the obligation to purchase electricity from a protected producer, prices at which such electricity is purchased and effective period of the obligation to purchase electricity and to assume responsibility for the electricity balance. Also, it is specified that incentive funds are secured from end customers through payment of special incentive compensation which is paid with the invoice for accessing the transmission and distributions system, and is presented as a separate item. The special incentive compensation in 2013 amounted to RSD 0.044 /kWh, and in 2014, RSD 0.081 /kWh.

The Company concluded an agreement with the Public Enterprise "Elektromreža Srbije" for access and use of the system for transmission of electricity for customers and energy companies that produce electricity, as well as for power supplies of pump-accumulation facilities, which are founded by JP EPS. The fee for accessing the system for electricity transmission, with the approval of the Energy Agency of the Republic of Serbia, is specified by the Decision on Determining the Price for Accessing the System of Electricity Transmission (Official Gazette of RS no. 16/13) in accordance with the Decision on Establishing the Methodology for Determining the Price for Accessing the System of Electricity Transmission (Official Gazette of RS, number 93/2012) and is as follows:

	Tariff element	Tariff	Unit of measurement	Dinars per unit of measurement
1.	Active power	approved power	kW	37.5638
		surplus power	kW	150.2554
2.	Active energy	higher daily tariff	kWh	0.3303
		lower daily tariff	kWh	0.1651
3.	Reactive energy	reactive energy	kVArh	0.1399
		surplus reactive energy	kVArh	0.2798

8. STAFF COSTS

	In thousands of RSD (Restated)	
	For the year ended December 31, 2013	For the year ended December 31, 2012
Gross salaries	42,401,229	41,061,763
Payroll contributions charged to employer	8,616,639	8,762,148
Employee transportation	1,490,056	1,408,565
Other staff costs	1,363,068	1,714,267
	<u>53,870,992</u>	<u>52,946,743</u>

Staff costs comprise salaries, benefits, contributions and other considerations paid to employees as in accordance with the general enactments of EPS determining the labor-based rights.

The Law on the Public Sector Maximum Salary (Official Gazette of RS, no. 93/2012, effective as of September 29, 2012 and applicable to the calculation and payment of salaries for October 2012) defines the cap amount of public sector salary and its elements. The Law stipulates the calculation of the cap amount salary by multiplying the highest coefficient determined by the Law on Civil Servant Salaries (Official Gazette of RS, nos. 62/2006 and 99/2010) by the base determined by the current year Budget Act. The highest coefficient equals 9.00 and the base for calculation and payment of salaries for December 2013 amounted to RSD 18,806.90 net, with the related taxes and contributions. Accordingly, the cap amount salary net for December 2013 amounted to RSD 170,162.10 with the related taxes and contributions.

The Law on Reduction in Net Salaries of Public Sector Employees (Official Gazette of RS no. 108/13), related to all payments to be made after January 1, 2014 specifies a reduction in net salary and net amount of other employee benefits, including employees engaged by the public sector in the Republic of Serbia. Reduction in net salary of an employee in the public sector represents net salary multiplied by the coefficient for reduction, as follows:

- 1) net monthly salary which is not above RSD 60,000 is multiplied by a coefficient of 1;
- 2) net monthly salary above RSD 60,000 but below RSD 100,000 is multiplied by a coefficient of 1 which is applied to the amount up to RSD 60,000, and by a coefficient of 0.8 for the amount above RSD 60,000 and up to the monthly salary amount not above RSD 100,000;
- 3) net monthly salary which is above RSD 100,000 is multiplied by a coefficient of 1 applied to the amount up to RSD 60,000, and by a coefficient of 0.8 for the amount above RSD 60,000 and up to the monthly salary amount not above RSD 100,000, and with a coefficient of 0.75 for the monthly salary amount above RSD 100,000.

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	In thousands of RSD (Restated)	
	For the year ended December 31, 2013	For the year ended December 31, 2012
Depreciation/Amortization charge		
- property, plant, equipment	37,052,283	44,209,033
- intangible assets	217,348	188,748
Provision expense:		
- for employment benefits	1,389,168	952,153
- for litigations	3,183,454	3,084,451
- for renewal of natural resources	297,835	382,286
- other provision expenses	417,210	78,574
	<u>42,557,298</u>	<u>48,895,245</u>

The useful life of property, plant, equipment and intangible assets as of January 1, 2011 was determined by an independent appraiser, for all Business Entities operating within EPS and JP EPS (previous appraisal was performed as of January 1, 2007) except for the Business Entity "Kolubara Metal" which had its property, plant and equipment appraised as of January 1, 2009.

Provisions for employee retirement benefits, litigations and provisions for natural resource restoration are recognized as delineated in Notes 3.9 and 27.

10. OTHER OPERATING EXPENSES

	In thousands of RSD (Restated))	
	For the year ended December 31, 2013	For the year ended December 31, 2012
Insurance premiums	2,376,977	2,275,874
Water usage charge	2,058,053	1,906,351
Water course charge	14,310	277,299
Charge for forest protection and use	188	98,023
Charge for municipal construction land usage	3,475,788	2,982,309
Charge for use of general interest resources	40,734	37,425
Environmental pollution charge	4,306,808	3,807,796
Property tax	1,053,424	1,316,043
Charge for use of mineral resources	1,684,086	1,525,219
Other indirect taxes and charges	764,479	1,391,941
Maintenance services	9,508,719	10,348,412
Postal, telegraph and telephone services	1,324,360	1,218,030
Transportation services	235,980	387,232
Rental costs	507,738	442,672
Research	79,033	155,523
Public utility services	500,335	411,911
Services of student and youth employment organizations	722,519	669,450
Entertainment expense	210,866	278,834
Banking charges	615,172	853,510
Other production services	5,049,335	4,674,637
Other services	2,851,537	2,303,759
Costs of production of outputs	1,888,235	1,771,625
Scientific research work	507,171	498,149
Court expenses	662,088	820,866
Other non-operating expenses	1,640,824	1,677,203
	<u>42,078,759</u>	<u>42,130,093</u>

In accordance with the Law on Environment Protection (Official Gazette of RS, no. 135/04) and Decree on pollution types, criteria for computing the environment pollution fees, as well as the amount and manner of fee accrual and payment (Official Gazette of RS, no. 113/05), the Company recorded the compensations for SO₂ and NO₂ emission and release of powdery materials and hazardous waste materials commencing from January 1, 2006, as follows:

- in the amount of 20% from the full amount of the compensation up to December 31, 2008;
- in the amount of 40% from the full amount of the compensation from January 1, 2009 through December 31, 2011;
- in the amount of 70% from the full amount of the compensation from January 1, 2012 through December 31, 2015;
- in full amount from January 1, 2016.

Commencing from November 15, 2010, the Company was obligated to pay fees for protection and betterment of the general interest functions of forests, computed by applying the rate of 0.025% to the base comprising the total annual income realized in the previous year. This levy was abrogated as of October 6, 2012, under the amendments and supplements to the Law on Forests (Official Gazette of RS, no. 93/12).

Also, the charge for municipal construction land usage in the reporting period and in prior periods was paid in accordance with the Law on Planning and Construction (Official Gazette of RS no. 47/03 and 34/06). Starting as of January 1, 2014 this charge is integrated into property tax. Also, the water course charge for maintaining water courses and protection against the harmful effects of water and maintenance of the water regiment of soil in river valleys where no water protection systems have been built has been discontinued by the Law on Amendments to the Law on Waters (Official Gazette of RS 93/12 dated October 6, 2012).

Other non-material expenses, apart from protection at work fees, professional services (RSD 965,766 thousand), membership fees, sponsorships and the like, include an amount of RSD 75,108 thousand relating to the assumed liabilities for taxes and contributions on salaries of the employees of JP "PEU Resavica" (the entity that operated within EPS until 2003) for 2000 and 2001 including penalties accrued until December 31, 2002, which have been rescheduled into 120 installments, as well as the amount of RSD 386,518 thousand in 2012, which relates to the negative effects of default on binding contract by Hydro Power Plant "Piva".

Rentals recognized in the amount of RSD 507,738 thousand for the year ended December 31, 2013 (2012: RSD 442,672 thousand) include an amount of RSD 414,382 thousand incurred based on the lease of machinery for the purpose of addressing adverse effects of coal exploitation and bringing the existing locations into use.

11. FINANCE INCOME

	In thousands of RSD (Restated)	
	For the year ended December 31, 2013	For the year ended December 31, 2012
Interest income	14,343,322	12,270,306
Foreign exchange gains	2,144,977	1,272,919
Other finance income	175,519	90,768
	<u>16,663,818</u>	<u>13,633,993</u>

Interest income was recognized in the amount of statutory penalty interest charged to consumers defaulting on their liabilities for electricity and other goods and services consumed.

12. FINANCE EXPENSES

	In thousands of RSD (Restated)	
	For the year ended December 31, 2013	For the year ended December 31, 2012
Interest expenses	5,881,673	3,967,761
Foreign exchange losses	991,200	5,509,028
Other finance expenses	528,642	827,138
	7,401,515	10,303,927

Finance expenses are recognized in the amount of interest agreed with creditors – financial institutions.

For all monetary items to be settled in foreign currencies, the effects of fluctuations in exchange rates at maturity dates, i.e. as of the balance sheet date, are recognized within income and expenses. This also applies to the monetary items of receivables/payables hedged by a contractually agreed currency clause, i.e. which are collected/settled in RSD equivalents of amounts stipulated in foreign currencies.

13. OTHER INCOME

	In thousands of RSD (Restated)	
	For the year ended December 31, 2013	For the year ended December 31, 2012
Gains on the sale of material, equity investments, intangible assets, property, plant and equipment	101,449	78,855
Collected receivables previously written off and reversal of allowance for impairment of receivables and short-term financial assets	6,256,355	3,121,182
Value adjustments of property, plant and equipment	263	510
Value adjustments of other assets	127,062	168,438
Write-off of environment protection charges	494,038	1,133,725
Write-off of liabilities	53,936	1,776,120
Surpluses	102,827	654,050
Reversal of long-term provisions for employee benefits	11,077	1,663
Reversal of long-term provisions for litigations	307,367	74,619
Other income	397,227	6,326,577
	7,851,601	13,335,739

Income from write-off of liabilities for environment protection, stated as totaling RSD 494,038 thousand (in 2012 in the amount of RSD 1,133,725 thousand), was recognized based on the liability determined for environment protection charge determined for 2013 (and for 2012) as per subsequently adopted internal administrative acts of the line ministry (Public Company TE "Nikola Tesla", in the current reporting period in the amount of RSD 155,186 thousand, and in the previous reporting period RSD 1,132,504 thousand and Public Company TE KO "Kostolac" d.o.o. in the current reporting period in the amount of RSD 338,852 thousand).

Income from write-off of liabilities of RSD 1,776,120 thousand, in the year of 2012, mostly, in the amount of RSD 1,443,456 thousand, was recognized pursuant to decisions of the competent authorities on the cancellation of liabilities with expired general obsolescence terms.

Other income earned in 2012 in the amount of RSD 6,326,577 thousand, for the most part of RSD, 6,028,068 thousand, relates to the works and services provided to the foreign customer CMEC, China, pursuant to the relevant agreement, as disclose din Note 28.

14. OTHER EXPENSES

	In thousands of RSD	
	For the year ended December 31, 2013	(Restated) For the year ended December 31, 2012
Losses on disposal, write-off and sale of fixed assets, intangible assets, equity investments and materials	1,866,867	5,562,712
Shortages	85,196	36,228
Write-off of receivables	760,904	1,789,615
Impairment of assets:		
- short-term receivables and rescheduled accounts receivable	17,860,827	16,961,718
- property, plant and equipment	230,650	18,326,474
- inventories	639,696	1,100,765
- other assets	779,485	90,531
Staff costs of the employees in the public enterprises situated in the Autonomous Province of Kosovo and Metohija	4,612,336	4,919,005
Sponsorship and donation expenses	349,550	296,608
Other expenses	895,439	6,723,699
	28,080,950	55,807,355

Losses on disposal of plant and equipment were recognized in the amount of RSD 1,866,867 thousand, and RSD 5,542,690 in the previous reporting period (Entity "Đerdap" d.o.o.-2013: RSD 271,870 thousand and 2012: RSD 434,083 thousand; Entity TE "Nikola Tesla" d.o.o.- 2013: RSD 443,287 thousand and 2012: RSD 3,241,548 thousand) based on activities undertaken towards the revitalization of plant and equipment.

Accounts receivable considerably past-due were recognized as an impairment loss in the amount of RSD 17,860,827 thousand.

As disclosed in Note 16, decrease in the carrying amounts of property, plant and equipment up to the recoverable amount as of December 31, 2012, was recognized as an impairment loss of RSD 18,323,099 thousand.

Expenses amounting to RSD 4,612,336 thousand are recognized based on the benefits accrued and paid to employees in the public companies on the territory of the Autonomous Province of Kosovo and Metohija, as well as in connection with the investments intended to provide for an uninterrupted energy supply to private individuals on the territory of the North part of Autonomous Province of Kosovo and Metohija.

A portion of other expenses of RSD 5,968,828 thousand refers to the expenditures incurred in respect to the works performed and services rendered to the foreign customer CMEC, China, in the previous reporting period.

Recognized losses from equity investments in the amount of RSD 9,308 thousand relate to the equity investment in Privredna bnaka a.d. whose banking license has been revoked during the reporting period.

After balance sheet date the banking license of Univerzal banka AD has been revoked, and on that basis losses have been recognized from equity investments in the amount of RSD 8,802 thousand, including losses in the amount of RSD 600,437 thousand related to an allowance for funds with limitation on use or reduction in value, and which pertain to the balance on accounts in Univerzal banka AD.

15. INCOME TAXES

a) Components of Income Taxes

	January - December 2013	January - December 2012
Current income tax expense	4,702,983	667,790
Deferred income tax benefits	(1,216,616)	(32,756,783)
	<u>3,486,367</u>	<u>(32,088,993)</u>

b) Numerical Reconciliation of the Tax Expense and the Product of Accounting Results before Taxes as Multiplied by the Statutory Income Tax Rate

	January - December 2013	January - December 2012
(Loss)/ Profit before taxation	22,313,381	(44,414,188)
Reconciliation of expenses not recognized in the tax balance sheet (permanent differences)	22,800,394	29,339,325
Reconciliation of depreciation charges calculated for accounting and tax purposes (temporary differences)	8,651,436	16,967,648
Taxable profit	53,819,319	1,921,122
Amount of prior year loss and capital loss brought forward up to the amount of taxable profit	14,724,628	630,415
Amount of non-deductible taxable income	39,098,046	1,331,016
Tax loss for the year	(3,354)	(40,309)
Capital gains/(losses)	(3,354)	(40,309)
Tax base (6+8)	39,094,691	1,290,707
Current tax expense 15% (10% in 2012)	5,864,204	129,071
Decrease in calculated tax based on capital expenditures	1,634,890	-538,719
Current income tax expense	4,702,983	667,790
Deferred taxes – deferred tax benefits	(1,216,616)	(32,756,783)
Total tax income/expenses	<u>3,486,367</u>	<u>(32,088,993)</u>

c) Deferred Tax Assets and Liabilities

	December 31, 2013	December 31, 2012
c1) Present value of property, plant and equipment, whose value is systematically written-off based on useful lives stated in the financial statements	857,102,782	856,390,779
c2) Present value of property, plant and equipment recognized in accordance with the tax regulations	251,667,142	241,783,466
Taxable temporary differences (c1- c2)	<u>605,435,640</u>	<u>614,607,313</u>
Deferred tax liabilities	<u>90,815,346</u>	<u>92,191,097</u>

Just as disclosed in note 3.11, amendments to the Corporate Income Tax Law (Official Gazette of RS number 47/13) specify the obligation of legal entities for filing a tax return within 180 days of the date when the tax liability has been calculated. It is possible that information presented in this note could be subject to change, after the tax balances of each Group member are prepared.

In accordance with the tax regulations, losses based on impairment of property, plant and equipment in the amount disclosed in Note 16, were not recognized as expenses within the tax balance.

As of December 31, 2013, the Company did not recognize deferred tax assets with respect to tax loss and tax credit carryforwards due to the uncertainty whether sufficient taxable profit will be available in the future against which the unused tax losses and tax credits may be utilized by the Company.

Deferred Tax Assets

Deferred tax assets upon tax losses were as follows: :

- For the year 2008	-	112,289
- For the year 2009	-	173,673
- For the year 2010	43,021	212,654
- For the year 2011	44,335	347,671
- For the year 2012	144,353	249,452
- For the year 2013	2,003	-
- Total	<u>233,713</u>	<u>1,095,739</u>
Deferred tax assets based on capital losses	5,599	5,096
Deferred tax assets based on tax credits for capital expenditures	<u>13,832,578</u>	<u>13,404,036</u>
- Total	<u><u>14,071,890</u></u>	<u><u>14,504,871</u></u>

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

16. PROPERTY, INVESTMENT PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

In thousands of RSD

Cost	Land, Forests and Perennial Plants	Buildings	Plant, Equipment and Other Assets	Construction in Progress	Total	Intangible Assets	Investment Property
Balance at January 1, 2012, prior to adjustments	42,640,901	569,108,345	1,154,542,442	47,182,778	1,813,474,466	3,922,963	558,732
Adjustments	6,111	235,921	6,605	(310,172)	(61,535)	-	-
Balance at January 1, 2012 following adjustments	42,647,012	569,344,266	1,154,549,047	46,872,606	1,813,412,931	3,922,963	558,732
Additions	3,728,555	771,741	3,325,886	34,511,845	42,338,027	257,044	3,186
Activation of construction in progress	297,344	973,688	18,807,508	(21,733,470)	(1,654,930)	9,514	-
Transfers	-	(3,607,848)	3,588,803	619,497	600,452	(6,977)	-
Self-constructed assets	26,801	343,719	1,099,459	1,252,386	2,722,365	7,722	-
Grants	-	37,040	413,487	-	450,527	237	-
Revaluation (effects of subsequent appraisals)	(370,816)	-	-	-	(370,816)	-	-
Appraisal effects of land and construction in progress	(2,226,105)	-	-	-	(2,226,105)	-	-
Sales	-	(99,247)	(28,797)	-	(128,044)	-	(11,393)
Write-off (disposals)	(14,523)	(611,947)	(12,610,576)	(5,166)	(13,242,212)	(11,457)	-
Transfer to third parties	-	(522,196)	(459,024)	-	(981,220)	-	-
Surpluses	482,764	19,092	105,260	-	607,116	-	-
Shortages	(653)	-	(41,619)	-	(42,272)	-	-
Other changes	(1,103,777)	599,723	(5,252)	(566,840)	(1,076,146)	-	-
Balance, December 31, 2012, following adjustments	43,466,602	567,248,031	1,168,744,182	60,950,858	1,840,409,673	4,179,046	550,525
Balance at January 1, 2013, prior to adjustments	43,466,602	567,248,031	1,168,744,183	60,950,858	1,840,409,674	4,179,046	550,525
Adjustments	-	(12,094)	(33,106)	(74,654)	(119,854)	-	-
Balance at January 1, 2013 following adjustments	43,466,602	567,235,937	1,168,711,077	60,876,204	1,840,289,820	4,179,046	550,525
Additions	2,150,423	233,303	2,602,696	16,639,677	21,626,099	765,289	-
Activation of construction in progress	730,510	4,440,180	28,274,035	(33,527,035)	(82,310)	2,450	39,429
Transfers	24,296	12,639	699,694	(1,154,434)	(417,805)	(29)	-
Self-constructed assets	10,482	61,487	343,075	1,381,208	1,796,252	-	-
Grants	23,428	39,922	455,481	-	518,831	-	-
Sales	-	(6,955)	(231,882)	-	(238,837)	(2,016)	(3,514)
Write-off (disposals)	(2,208)	(785,389)	(3,481,844)	(580)	(4,270,021)	(34,173)	(260)
Transfer to third parties	-	-	(21,959)	-	(21,959)	-	-
Surpluses	-	11,432	28,138	-	39,570	-	4,366
Shortages	(1,656)	(132,295)	(57,336)	-	(191,287)	-	(1,600)
Cost of transferred assets to related parties	-	(867,228)	(117)	-	(867,345)	-	-
Other changes	(63,952)	8,240	256,392	(818,973)	(618,293)	33,176	-
Balance, December 31, 2013 following adjustments	46,337,925	570,251,273	1,197,577,450	43,396,067	1,857,562,715	4,943,743	588,946

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013

16. PROPERTY, INVESTMENT PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (Continued)

In thousands of RSD

	Land, Forests and Perennial Plants	Buildings	Plant, Equipment and Other Assets	Construction in Progress	Total	Intangible Assets	Investment Property
Accumulated Depreciation and Amortization							
Balance at January 1, 2012, prior to adjustments	8,264,138	150,720,413	514,697,103	318,201	673,999,855	1,364,831	179,662
Adjustments	5,581	85,937	2,800	-	94,318	(3,318)	-
Balance at January 1, 2012 following adjustments	8,269,719	150,806,350	514,699,903	318,201	674,094,173	1,361,513	179,662
Charge for the year	1,266,852	8,094,645	34,843,617	-	44,205,114	188,748	3,919
Transfers	-	(2,025,652)	1,782,981	-	(242,671)	(890)	-
Grants	-	9,360	26,042	-	35,402	1,429	-
Revaluation (effects of subsequent appraisals)	(370,816)	-	-	-	(370,816)	-	-
Decrease in value due to appraisal effects	1,420,105	76,309,379	115,746,791	-	193,476,275	-	-
Sales	-	(15,556)	(27,119)	-	(42,675)	-	(7,845)
Retirement and disposal	-	(424,539)	(7,648,760)	-	(8,073,299)	(78)	-
Shortages	(463)	-	(22,172)	-	(22,635)	-	-
Transfer to third parties	-	(229,441)	(230,952)	-	(460,393)	-	-
Other changes	(229,557)	16,118	48,137	-	(165,302)	(12)	-
Balance, December 31, 2012, following adjustments	10,355,840	232,540,664	659,218,468	318,201	902,433,173	1,550,710	175,736
Balance at January 1, 2013, prior to adjustments	10,355,842	232,540,663	659,218,467	318,201	902,433,173	1,550,705	175,735
Adjustments	-	(5,100)	2,062	-	(3,038)	-	-
Balance at January 1, 2013, following adjustments	10,355,842	232,535,563	659,220,529	318,201	902,430,135	1,550,705	175,735
Charge for the year	1,617,719	6,590,026	28,840,373	-	37,048,118	217,348	4,165
Transfers	-	(318,675)	(118)	-	(318,793)	-	-
Grants	-	-	(11,987)	-	(11,987)	-	-
Impairment effect	-	(5,179)	(2,074)	-	(7,253)	-	-
Sales	-	(4,283)	(153,983)	-	(158,266)	-	(274)
Retirement and disposal	-	(408,945)	(2,527,871)	-	(2,936,816)	(35,642)	(188)
Shortages	(95)	(86,405)	(40,333)	-	(126,833)	-	(384)
Other changes	(1)	35,010	275,478	-	310,487	(83)	636
Balance, December 31, 2013, following adjustments	11,973,465	238,337,112	685,600,014	318,201	936,228,792	1,732,328	179,690
Net Book Value							
Balance, December 31, 2012	33,110,762	334,707,367	509,525,714	60,632,657	937,976,500	2,628,336	374,789
Balance at January 1, 2012, prior to adjustments	34,376,763	418,387,932	639,845,339	46,864,577	1,139,474,611	2,558,132	379,070
Balance at January 1, 2012 following adjustments	34,377,293	418,537,916	639,849,144	46,554,405	1,139,318,758	2,561,450	379,070
Net Book Value							
Balance, December 31, 2013	34,364,460	331,914,161	511,977,436	43,077,866	921,333,923	3,211,415	409,256
Balance at January 1, 2013, prior to adjustments	33,110,760	334,707,368	509,525,716	60,632,657	937,976,501	2,628,341	374,790
Balance at January 1, 2013 following adjustments	33,110,760	334,700,374	509,490,548	60,558,003	937,859,685	2,628,341	374,790

In the previous reporting period, as at December 31, 2012, the Company recognized impairment losses for all items of property, plant and equipment used in execution of the power generation and distribution activity with the following effects:

	In thousands RSD			
	Land, Forests and Perennial Plants (Accounts 020, 021)	Buildings (Account 022)	Plant and Equipment (Account 023)	Total Property, Plant and Equipment
Fair value adjustment effects on the accumulated depreciation	4,797,408	76,389,650	115,752,009	196,939,067
Fair value adjustment effects on the net book value	(4,797,408)	(76,389,650)	(115,752,009)	(196,939,067)
- whereof credited to revaluation reserves	3,999,190	73,215,385	101,401,393	178,615,968
- whereof charged to expenses as impairment loss	798,218	3,174,265	14,350,616	18,323,099

In assessing the recoverable amount, determined as the amount recoverable through continuous usage of each respective asset and disposal thereof, the Company considered the following:

- The EPS Group generates cash flows from external legal entities within its member entities involved in electricity distribution in the market the conditions of which as well as the Group's output are regulated by the competent regulatory authority. The value of the products of other Group members is affected by internal transfer prices and cash flows from the assets of such Group members are largely dependent on the cash flows of other Group members; hence the value in use and therefore the recoverable amounts can only be determined for the cash generating unit, or in this particular case, the EPS Group.
- Recession tendencies in the Serbian economy have to a great extent resulted from the deceleration of the economic and international trade activities, which significantly affected liquidity of business entities, unemployment increase, foreign exchange rate fluctuations, etc.
- Unfavorable hydro-meteorological situation led to above-balance procurement of electricity during the reporting period.
- Financial risk management is limited due to the regulatory restrictions (regulated output prices) and the EPS Group's exposure to price, foreign currency, interest rate and market risks, as well as liquidity and solvency risks.
- Cash flow projections over the estimated useful life of non-current assets (28 years) are based on the approved and adopted business programs, particularly in respect of the electricity price rise.
- Reasonable and documented assumptions included in the Fiscal Strategy 2013 with projections for the years 2014 and 2015 (Official Gazette of RS, no. 116/12), inflation rate measured by the consumer price index, foreign exchange rate projections and the like were also taken into account.
- The discount rate is based, as far as possible, on the market borrowing interest rate, country risk and credit, foreign currency and price risks taken into account.

17. ADVANCES PAID FOR PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Advances paid for property, plant, equipment and intangible assets	11,768,297	12,384,501
Less: Allowance for impairment of advances paid	(147,156)	(149,764)
Total	11,621,141	12,234,737

Advances of RSD 1,324,377 thousand (2012: RSD 1,441,743 thousand) were paid to the owners of property registered in the Cadastral Municipality of Vreoci as in accordance with the Program Bases adopted under the Decision of the Board of Directors of JP EPS approved by the RS Government in its Decision 05 no. 310-5277/2007-3 as of November 22, 2007. The RS Government delivered for realization purposes the Conclusion number 465-8001/2009-3 as of December 17, 2009 allowing that the Public Company RB Kolubara, in its capacity of expropriation beneficiary, submit with the body concerned, proposals for the expropriation of buildings registered on the orthoimage as of January 15, 2007.

18. EQUITY INVESTMENTS

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Equity investments in other related parties	287,632	212,598
Equity investments in domestic banks and other legal entities	1,969,227	2,105,487
Total equity investments	2,256,859	2,318,085
Less: Allowance for impairment	(1,017,760)	(1,074,173)
	<u>1,239,099</u>	<u>1,243,912</u>

	As at December 31, 2013	As at January 1, 2013
Equity investments in other related parties		
- Energija Novi Sad a.d.	560	560
- Ibarske hidroelektrane d.o.o	260,805	202,034
- Moravske hidroelektrane d.o.o	26,266	10,004
	<u>287,632</u>	<u>212,598</u>

Based on the closed international treaties, the entity Public Enterprise Electric Power Industry of Serbia and "SECI" from Italy entered into contractual arrangements on the establishment of the entity "Ibarske hidroelektrane" d.o.o., Kraljevo with the following equity interests:

- "SECI", Italy invested EUR 2,550,000.00 which gives it 51% equity share,
- JP EPS invested EUR 2,450,000.00 which gives it 49% equity share.

Once the arrangement had been signed, the founders paid in their contributions as follows: "SECI" paid the RSD counter value of EUR 102,000.00 and JP EPS paid the RSD counter value of EUR 98,000.00, whereby as at balance sheet date of the previous reporting period payment of subscribed capital was effected in the dinar counter value of EUR 3,227,432 ("SECI" paid in EUR 1,646,119.83 and JP EPS paid in EUR 1,581,312.17). During the reporting period, both sides made payment of the remaining amount of monetary capital in the equivalent dinar amount.

The founders undertook the obligation to pay in additional equity contributions totaling 25% of the investment value, in accordance with the investment and technical documentation for the construction of hydro power plants within the deadline set in the Company's management decisions. The work of the entity from the commencement of its registered activity will be financed from the core capital and if it proves insufficient, the funds will be used from the borrowing that is to be approved to the Company by "SECI". This does not apply to the construction of hydro power plants. 75% of investments into the hydro power plant construction will be funded from borrowings to be obtained by the Company from a bank or another financial institution. The objective of establishing the company is the construction of hydro power plants on the Ibar river, which will comprise ten hydro power plants with a total power of around 102 MW. The business entity "Ibarske hidroelektrane" d.o.o. was registered in the register with the competent authority on December 3, 2010.

In addition, according to the Memorandum of Understanding concluded with RWE Innogy GmbH, Germany, (RWE AG), upon the RS Government approval (Conclusion 05 no. 018-7493/2009 dated November 13, 2009), JP EPS and RWE AG entered into an agreement on establishment of the company "Moravske hidroelektrane" d.o.o. with the following equity interests:

- RWE AG, Germany invested EUR 2,040,000 which gives it 51% equity share,
- JP EPS invested EUR 1,960,000 which gives it 49% equity share.

Once the arrangement had been signed, the founders paid in their contributions as follows: RWE AG paid a RSD counter value of EUR 102,000 and JP EPS paid the RSD counter value of EUR 98,000. During the reporting period monetary capital was paid in as follows: JP EPS paid the RSD counter value of EUR 142,100, and RWE AG paid a RSD counter value of EUR 147,900. The balance of subscribed capital not paid in of EUR 3, 510,000 will be paid in the respective amounts determined by the Board of Directors' Decision thereon and within terms set in accordance with the prevailing legislation.

The goal of company establishment is the construction of the hydro power plant system on the Velika Morava River comprised of at least five hydro power plants with the total power of about 150 MW. The Public Company "Moravske hidroelektrane" d.o.o. was entered into the registry maintained by the competent body as August 23, 2011.

As disclosed in Note 1, pursuant to Article 15 of the Agreement on Company Establishment of the Entity for Combined Thermal and Heat Energy "Energija Novi Sad" a.d. Novi Sad closed between JP EPS and the City of Novi Sad, in 2009 the Company paid in EUR 6,000 which at the payment date totaled RSD 560 thousand and was recognized as an equity investment into a newly-founded entity.

Equity investments in domestic banks, insurance companies and other legal entities are classified as available for sale and for the portion thereof, for which there is a quoted value on an active market, with their fair value recognized as at December 31, 2013. The difference between fair value recognized as at December 31, 2012 and fair value recognized as at December 31, 2013 is recognized as a separate equity item through recognition within revaluation reserves, based on unrealized gains in the amount of RSD 9,457 thousand and unrealized losses in the amount of RSD 43,878 thousand, as well as through conversion of receivables into equity investments in the amount of RSD 1,733 thousand. Permanent impairment of equity investments was also carried out in the amount of RSD 51,460 thousand.

Based on investments as per contract on joint investment in prior construction work on Hydro Power Plant "Komarnica", Montenegro, the Public Enterprise Electric Power Industry of Serbia recognized an equity investment in other legal entities in the amount of RSD 207,624 thousand through result carried forward, at the recommendation of the State Audit Agency. On the same basis, additional investments in the amount of RSD 4,301 thousand were carried out during the reporting period.

Namely, according to management, the amount of accumulated losses was not derecognized from equity given that, from the aspect of the acquisition and recognition date, as well as the scope of trading in equity instruments, there have been no significantly different data which would indicate that: the issuers are experiencing considerable financial difficulties (the number of days of non-liquidity is determined based on the NBS records of defaulting liabilities of debtors, subject to forced collection), defaulting against the contractually-agreed liabilities, experiencing significant and determinable decline in cash flows (by examining the independent auditors' reports, positive results achieved in the prior reporting period and the like), or that significant changes, with adverse effects, have occurred in the technological, market, economic or legal environment in which the issuers are operating.

Equity investments in other legal entities represent equity investments in certain domestic legal entities available for sale that are not listed in a capital market and are presented at cost.

19. LONG-TERM INVESTMENTS

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Rescheduled accounts receivable for electricity sold to private individuals	4,120,559	7,654
Rescheduled accounts receivable for electricity sold to legal entities	8,351,436	51,293
Investments based on apartments sold, housing loans and long-term lease of apartments	472,538	502,737
Receivables from the Privatization Agency of RS	89,020	92,181
Other long-term investments	2,025,465	1,145,215
	<u>15,059,018</u>	<u>1,799,080</u>
<i>Less: Allowance for impairment</i>		
- Rescheduled accounts receivable for electricity	(8,093,008)	(28,279)
- Receivables from the Privatization Agency of RS	(89,020)	(92,181)
- Other long-term investments	(248,891)	(249,120)
	<u>(8,430,919)</u>	<u>(369,580)</u>
	<u>6,628,099</u>	<u>1,429,500</u>

Rescheduled accounts receivables arising on electricity supply are due from households and legal entities whose accounts receivable were rescheduled based on decisions of the Board of Directors (number 860/4-13 dated February 22, 2013 number 1151/3-30 dated April 2, 2013 and number 2233/9-13 dated July 25, 2013). Namely, the said decisions allow customers for electricity to pay their matured accounts payable as of May 31, 2013, and qualified customers who lost their right to public supply as of December 31, 2012 through at most 120 installments, depending on the amount of outstanding debt and conditional write-off, depending on the number of installments (from 40% in the event of single discharge of debt to no approval of discount in the event of approval of 60-120 installments). Also, it is planned that during the effectiveness of the agreement no interest will be accrued on the unsettled debt, and in the event on failure to pay two consecutive installments of the reprogrammed debt, in spite of a warning, it shall be deemed that the agreement is terminated. Based on assessment of the probability of inflow of economic benefits the said account receivables have been provided for.

Other long-term investments include investments in the "Rovni" Water Accumulation and the loan approved by the entity RB Kolubara d.o.o. to the entity Kolubara Građevinar in the amount of RSD 866,084 thousand. Namely, long-term joint investments of RSD 637,205 thousand as of December 31, 2013, relate to the joint investment in the Public Company Kolubara, Valjevo, based on the construction of "Rovni" Water Accumulation Basin and Dam, intended for water supply, flood prevention in the surrounding municipalities as well as for the needs of the Public Enterprise Electric Power Industry of Serbia. Based on the Government's Decree on determining the program of construction, reconstruction and maintenance of water supply structures in 2010 (Official Gazette of RS, no. 8/2010), further plans of construction work on the dam and accumulation were made with the 100% of the RS Government interest. The subject investment was made with the intention to provide the conditions necessary for the operation of TE Kolubara B Project.

Also, other long-term investments include an amount of RSD 105,014 thousand associated with investments in the construction of network for heat distribution in the village of Drmno and reconstruction of the existing network for heat distribution in the town of Kostolac. Due to substantial uncertainty over the continuation of investment, an impairment loss was recognized within expenses.

20. INVENTORIES

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Materials	11,234,276	10,991,493
Spare parts	12,143,926	11,460,518
Tools and fixtures	3,257,229	3,108,018
Work in progress and finished products	1,165,358	2,083,201
Coal	514,974	237,637
Goods	1,191	816
Less: Allowance for impairment	(5,471,543)	(4,814,056)
	<u>22,845,411</u>	<u>23,067,627</u>

For the amount of slow moving inventories which cannot be technically or technologically used, an allowance for impairment was formed. The volume of materials and spare part inventories was dictated by intensive capital works on the existing plants and equipment, circumstances related to procurement at request procedures and the need to maintain the optimum volume of inventories for the purpose of regular servicing and addressing potential breakdowns.

21. ADVANCES PAID FOR INVENTORIES

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Advances paid for inventories	3,263,393	3,972,928
Less: Allowance for impairment of advances paid	(276,919)	(181,625)
Total	<u>2,986,474</u>	<u>3,791,303</u>

22. ACCOUNTS RECEIVABLE

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Accounts receivable:		
- other related parties	4,620,853	3,408,790
- domestic customers	125,231,190	137,418,025
- foreign customers	5,438,958	6,224,665
	135,291,001	147,051,480
Receivables for radio and television subscription fees	42,037,967	33,702,161
Interest receivables		
- for delivered electricity - households	1,263,606	-
- for delivered electricity - industry	10,944,904	98,846
- other legal entities (banks and interest for delivered heating energy and engineering steam)	2,136,312	2,071,378
Receivables from employees	895,895	1,032,621
Receivables from budget beneficiaries and overpaid taxes and contributions	150,981	632,933
Receivables from specific operations	320,414	281,518
Other receivables	509,922	714,304
Total receivables	193,551,002	185,585,241
Less: Allowance for impairment of receivables		
- other related parties	(4,617,859)	(3,405,797)
- domestic customers	(90,242,088)	(102,685,126)
- foreign customers	(3,852,608)	(4,291,216)
- for delivered electricity - households	(1,209,871)	-
- for delivered electricity - industry	(10,836,330)	(98,846)
- receivables from employees	(7,517)	(4,633)
- receivables from specific operations	(24,175)	-
- receivables for overpaid taxes and contributions	(28,779)	(96)
- other receivables	(389,632)	(398,596)
Total allowance for impairment of receivables	(111,208,859)	(110,884,310)
	82,342,143	74,700,931

The Energy Law (Official Gazette of RS number 57/2011) specifies that electricity prices and services provided by electricity companies are either regulated or free, with the exception that regulated prices are determined based on methodology that is adopted by the Energy Agency of the Republic of Serbia. The act on regulated prices is adopted by the energy company, with the approval of the Energy Agency of the Republic of Serbia. Regulated prices are:

- electricity prices for public supply;
- prices for accessing the system for electricity transmission;
- prices for accessing the system for electricity distribution;
- electricity prices for use in balancing the system which are calculated using the method established by market rules;
- prices of system services from article 69 of the Energy Law as established by the Agency;
- charges for participating in the organized electricity market, in accordance with the rules of operation of the organized electricity market.

During the reporting period the parent company concluded numerous binding agreements on supply of electricity with qualified customers that lost their right to public supply at prices that are freely formed, starting as of January 1, 2013.

Starting as of July 1, 2013 the sale of electricity to customers who are entitled to public supply at regulated prices is performed by a newly created subsidiary company "EPS Snabdevanje" d.o.o. Part of the receivables which comprise the assets of distribution companies and that performed the activity of retail electricity sales up to July 1, 2013, as indicated in Note 19, have been reprogrammed.

In accordance with the Conclusion issued by the Republic of Serbia Government number 021-6624/2009-002 at the Government session held as of November 30, 2009, the Public Enterprise Electric Power Industry of Serbia is to supply electricity to the majority Serb area in the north of the Autonomous Province of Kosovo and Metohija. Accordingly, income from electricity delivered to the Public Enterprise "Elektrokosmet", Priština was recognized in the amount of RSD 4,617,489 thousand. At the same time, the outstanding amount is recognized as an expense fully provided for.

A portion of foreign accounts receivable of RSD 1,575,857 thousand is stated based on the trade in electricity with the Electric Power Industry of Montenegro, as well as with the Mixed Holding Power Utility of the Republic of Srpska with which the Company executed long-term agreements on business and technical cooperation. The long-term agreement on business and technical cooperation with the Electric Power Industry of Montenegro was not continued after balance sheet date. The inflow of cash arising therefrom is anticipated subsequent to the balance sheet date. The remaining balance of foreign accounts receivable of RSD 3,863,101 thousand mostly relates to the amounts due from power utilities of former Yugoslav Republics dating from prior years (RSD 3,598,774 thousand), which are fully provided for.

The Act on Changes and Amendments to the Broadcast Act, prescribes that, starting from September 2005, radio and television subscription be collected from end-users through JP EPS for the account of Broadcasting Corporation Radio and Television of Serbia ("RTS") under the same terms as JP EPS collects the electricity bills. At each month end, based on the bills delivered to electricity consumers for the TV subscription, the distribution companies and RTS settle the accounts, whereas the monetary transfer to the RTS account is performed daily. For the aforescribed consignment, the distribution companies were entitled to 6.3% of TV subscription collected until September 2010 and to 3% thereon. A portion of matured receivables based on RTS subscription accrued in the period ended August 2010 in the total of RSD 413,950 thousand was rescheduled over a 24-month period starting from September 2010 with the interest accrued at the rate of 6% annually. Starting from February 2012, the agreed consignment fee was set to 0.5% of TV subscription collected within a respective month, whereas the receivables matured and uncollected in the period between the previous Agreement and February 2012 were rescheduled over a 24-month period. During the reporting period loan repayment has been rescheduled, whereby RTS undertook to repay the outstanding part of the loan, with accrued interest as at August 31, 2013, in 24 equal monthly installments, starting as of January 2014 and ending with December 2015.

23. SHORT-TERM FINANCIAL ASSETS

	As at December 31, 2013	In thousands of RSD (Restated) As at January 1, 2013
Short-term deposits with domestic banks	273,138	217,156
Rescheduled short-term receivables for electricity	4,797,574	-
Short-term domestic loans	176,307	267,200
Short-term foreign loans	31,082	31,082
Other	1,557,743	1,383,753
	<u>6,835,844</u>	<u>1,899,191</u>

Short-term financial assets related to short-term deposits placed with domestic banks for a period from one month to one year and to current portions of rescheduled short-term receivables from customers.

24. CASH AND CASH EQUIVALENTS

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Current accounts:		
- in dinars	29,934,444	9,438,743
- in foreign currencies	438,900	684,552
Deposits covering letters of credit	69,125	257,120
Cash on hand and other cash	73,691	64,958
Other cash	5,009,217	3,015,389
Cash funds restricted or impaired	619,902	24,345
Total cash and cash equivalents	36,145,279	13,485,107
Impairment of restricted or impaired cash funds	(621,181)	(24,345)
	<u>35,524,098</u>	<u>13,460,762</u>

A portion of other cash in the amount of RSD 1,380,440 thousand (2012: RSD 2,370,802 thousand) refers to foreign currency funds received in advance for the purpose of fulfillment of obligations toward foreign partner "CMEC", China, which have been placed as a short-term deposit and which can be promptly converted into cash amounts without significant risk of change in value.

As disclosed in Note 14, the banking license of Univerzal banka a.d. was revoked after balance sheet date. All Group companies reported their receivables with the bankruptcy court, and due to the uncertainty inherent in proceedings of cash conversion and divvying up of the bankruptcy estate, settlement and conclusion of the bankruptcy proceedings, an impairment loss has been recognized.

25. VALUE ADDED TAX, PREPAYMENTS AND DEFERRED EXPENSES

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Recoverable input value added tax	408,316	742,442
Other prepayments and deferred expenses	393,048	541,069
	<u>801,364</u>	<u>1,283,511</u>

Value added tax is associated with input value added tax which the Company utilized subsequent to the preparation of the balance sheet to decrease its liabilities based on output value added tax.

26. CAPITAL

State-Owned Capital

The Company's capital is state-owned. It is comprised of initial contributions, as adjusted by the revaluation using the retail price index as of December 31, 2000 and by the IFRS transition adjustments as of January 1, 2004, as well as due to the foundation of a public enterprise for the production, transmission, distribution and sale of electricity, the "Electric Power Industry of Serbia", in accordance with the Order of the Government of the Republic of Serbia effective as of July 1, 2005. In accordance with the aforesaid Order, the Public Enterprise, Elektroistok was separated from the JP EPS and as of July 1, 2005, Public Enterprise Elektroistok has operated as an independent entity, under the name of the Public Enterprise "Elektromreža Srbije" and a new Public Enterprise Electric Power Industry of Serbia was established. As a result of the above mentioned status change in 2005, the net state-owned capital increased for the effects of separation of assets and liabilities between the Company and Public Enterprise "Elektromreža Srbije" in the net amount of RSD 1,847,718 thousand.

Pursuant to the Decision of the Government of the Republic of Serbia on the Establishment of the Public Enterprise engaged in generation, production and distribution of electricity Public Enterprise "Electric Power Industry of Serbia", the Company assumed all the assets of the earlier Public Enterprise including the investments in the subsidiaries founded with the Company's assets in the prior period except in the Public Company for Power Transmission "Elektroistok" from Belgrade and in the entity "Elektroenergetski koordinacioni centar" d.o.o., Beograd. The JP EPS group is comprised of 13 related parties entirely owned by the Company. The Company engaged an independent appraiser in 2005 for the purpose of appraising non-monetary investment in the newly-established Public Company, where the independent valuer also estimated the aforesaid value of equity interest in related parties.

The estimated value of equity interests in the related parties was the carrying value of capital as of December 31, 2004. The amount of state-owned balance recognized in the accompanying consolidated financial statements as of December 31, 2013 amounted to RSD 358,717,940 thousand and exceeded the amount recognized by the Parent Company (RSD 322,906,234 thousand) by RSD 35,811,706 thousand due to a difference between estimated value of equity investments in the related parties and the respective capital of the related parties.

Other Capital

Other capital stated in the Company's balance sheet as of December 31, 2013 relates to the consolidated public enterprises' sources of non-operating assets that were transferred upon the transition to the new accounting regulations applicable in the Republic of Serbia as of January 1, 2004.

Profit Distribution

The Supervisory Board of the parent company adopted the decision after balance sheet date on distribution of 50% of undistributed profit from 2011 of the business entity "Drinsko Limske hidroelektrane" d.o.o, business entity Rudarski basen "Kolubara" d.o.o. and business entity "Elektrosrbija" d.o.o. to the parent company in accordance with the law and articles of association.

According to article 15 of the Budget Law of the Republic of Serbia for 2014, public enterprises whose founder is the Republic of Serbia are required at the latest by November 30 of the current budget year to pay in at least 50% of their profits, based on the financial statements for 2013, into the budget of the Republic of Serbia, according to the scheduled specified by the ministry in charge of financial affairs.

27. LONG-TERM PROVISIONS

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Provisions for retirement benefits and jubilee awards	8,739,827	8,543,422
Provisions for litigations	3,827,108	3,276,831
Provisions for the costs of natural resource restoration	1,623,469	1,370,016
Other long-term provisions	430,030	82,164
	<u>14,620,434</u>	<u>13,272,433</u>

The movements on long-term provisions during 2012 and 2013 are presented in the following table:

	Restoration of Natural Resources	Employee Benefits (Retirement Benefits, Jubilee Awards and Other)	Litigations	Other Long- Term Provisions	Total
Balance, January 1, 2012	1,038,743	8,578,250	2,719,470	4,133	12,340,596
New provisions	382,286	952,153	3,084,451	78,574	4,497,464
Release of provisions	(51,013)	(985,318)	(2,452,471)	(543)	(3,489,345)
Reversal	-	(1,663)	(74,619)	-	(76,282)
Balance, December 31, 2012	1,370,016	8,543,422	3,276,831	82,164	13,272,433
New provisions for 2013	297,835	1,389,168	3,183,454	417,210	5,287,667
Release of provisions in 2013	(44,382)	(1,181,686)	(2,325,810)	(69,344)	(3,621,222)
Reversals in 2013	-	(11,077)	(307,367)	-	(318,444)
Balance, December 31, 2013	1,623,469	8,739,827	3,827,108	430,030	14,620,434

Provisions for retirement benefits and jubilee awards of RSD 8,739,827 thousand were formed as disclosed in Note 3.9.

28. LONG-TERM LOANS

No.	LOAN	Currency	ORIGINAL CURRENCY				Equivalent value in thousands of RSD	
			Principal	Maturity date	Repayment schedule	Interest rate	December 31, 2013	January 1, 2013
TOTAL LONG TERM LOANS (A+B)						82,348,141	66,505,863	
A	FOREIGN CURRENCY LOANS (I+II+III+IV)					62,326,000	63,500,139	
I	REFINANCED LOANS REALIZED FROM THE FUNDS OF: (1+2+3+4)					30,177,121	30,908,728	
1	PARIS CLUB OF CREDITORS					28,260,064	28,846,101	
1.1	AUSTRIA	EUR	3,536,140.64	30/09/2008-31/03/2024	30/03 and 30/09	Amarketrate/EUR p.a.	405,391	402,124
1.2	FRANCE	EUR	41,371,695.46	22/09/2008-22/03/2024	22/03 and 22/09	5.9 p.a.	4,742,938	4,704,720
1.3	GERMANY	EUR	26,330,731.11	22/09/2008-22/03/2024	22/03 and 22/09	5.5 p.a.	3,018,610	3,027,668
1.4	CANADA	EUR	58,338,079.04	22/09/2008-22/03/2024	22/03 and 22/09	Euribor/EUR +0.5% p.a.	6,688,000	6,634,107
1.5	SWITZERLAND	CHF	79,040,604.60	22/09/2008-22/03/2024	22/03 and 22/09	Libor/CHF +0.5% p.a.	7,394,027	7,445,008
1.6	USA	USD	6,691,355.49	22/09/2008-22/03/2024	22/03 and 22/09	5.375 p.a.	556,240	576,636
1.7	RUSSIA	USD	44,444,729.54	22/09/2005-22/03/2034	22/03 and 22/09	0.5517 p.a.	3,694,610	3,830,082
1.8	JAPAN	JPY	2,224,222,690.05	22/09/2008-22/03/2024	22/03 and 22/09	2.839 p.a.	1,760,248	2,225,756
2	LONDON CLUB OF CREDITORS	USD	11,970,419.26	01/05/2010-01/11/2024	01/05 and 01/11	3.75 p.a. up to 11/09, 6.75 p.a. from 11/09	995,079	1,125,345
3	IBRD	EUR	7,615,633.34	15/03/2005-15/12/2031	15/03 and 15/09 15/06 and 15/12	1/3-5.44 and 2/3-Euribor p.a.	873,072	888,770
4	EC	EUR	426,596.43	17/10/2012-17/10/2016	17/04 and 17/10	6M Euribor p.a.	48,906	48,512
II	LOANS GRANTED BY STATE GOVERNMENTS					12,517,437	12,790,063	
1	Chinese loan	USD	24,503,774.00	21/07/2010-21/01/2021	21/01 and 21/07	6M LIBOR +1.3 p.a.	2,036,955	2,393,197
2	Russian loan	USD	0.00	15/01/2004-15/07/2013	15/01 and 15/07	LIBOR+1.25 p.a.	0	101,457

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PUBLIC ENTERPRISE ELECTRIC POWER INDUSTRY OF SERBIA
December 31, 2013

No.	LOAN	Currency	ORIGINAL CURRENCY				Equivalent value in thousands of RSD	
			Principal	Maturity date	Repayment schedule	Interest rate	December 31, 2013	January 1, 2013
3	Polish loan	USD	24,608,358.79	2005-2024	15/06 and 15/12	0.75 p.a.	2,045,649	2,411,070
4	Export-Import Bank of China	USD	98,536,962.34	21/07/2017-21/01/2027	21/01 and 21/07	3% p.a.	8,191,200	7,813,648
5	Japanese - JICA	JPY	307,850,664.00	20/11/2016-20/11/2026	20/05 and 20/11	0.6% p.a. for Principal I and 0.01% p.a. for Principal II	243,633	70,691
III	LOANS FROM INTERNATIONAL FINANCIAL ORGANIZATIONS						15,706,000	16,721,643
1	KfW I (51.1 mil. EUR)	EUR	0,00	30/12/2004-30/06/2013/	30/06 and 31/12	4,32%p.a,	0	323,018
2	KfW II (16 mil. EUR)	EUR	3,692,307.69	30/06/2009-30/06/2015	30/06 and 30/12	Fixed at 4.5247% p.a. 4.8598% p.a. and 5.2778% p.a.	423,294	699,805
3	KfW III (30 mil. EUR)	EUR	19,457,704.49	30/12/2010-30/06/2020	30/06 and 30/12	-	2,230,672	2,118,114
4	KfW IV (36 mil. EUR)	EUR	25,626,851.66	30/06/2013-30/12/2019	30/06 and 30/12	variable interest +1.75% p.a.	2,937,916	3,350,446
5	KfW V (70 mil. EUR)	EUR	284,960.19	31/12/2015-30/06/2025	30/06 and 30/12	variable interest + 0.5% p.a.	32,668	22,740
6	EBRD I (39.6 mil. EUR)	EUR	12,526,348.81	07/09/2005-07/03/2016/	07/03 and 07/09	6M EURIBOR +1% p.a.	1,436,047	1,994,265
7	EBRD II (60 mil. EUR)	EUR	30,309,499.21	07/03/2008-07/09/2018	07/03 and 07/09	6M EURIBOR +1% p.a.	3,474,745	4,136,094
8	EBRD III (40 mil. EUR)	EUR	977,062.25	02/09/2013-02/03/2022	02/03 and 02/09	6M EURIBOR +1% p.a.	112,012	117,646
9	EBRD IV (80 mil. EUR)	EUR	12,140,128.55	31/01/2015-31/01/2023	31/01 and 31/07	6M EURIBOR +1% p.a.	1,391,770	90,975
10	EBRD V (45 mil. EUR)	EUR	450,000.00	30/04/2015-31/10/2023	30/04 and 31/10	6M EURIBOR +1% p.a.	51,589	51,173
11	EIB II (22 mil. EUR)	EUR	18,359,999.86	09/12/2010-09/06/2027	09/06 and 09/12; 25/05 and 25/11	fixed for each tranche at 3.879% p.a. to 5.248% p.a.	2,104,829	2,254,655
12	Wb IDA (12x24 mil. SDR)	XDR	11,798,848.80	15/09/2015-15/03/2025	15/03 and 15/09	-	1,510,458	1,562,712
IV	OTHERS						3,925,442	3,079,706
1	JP EMS - IBRD	EUR	28,860.39	15/03/2005-15/12/2031	15/03 and 15/09 15/06 and 15/12	1/3-5.44 and 2/3-euribor p.a.	3,309	3,463
2	AIK Banka	USD	30,625,000.00	30/11/2013-31/05/2017	31/05 and 30/11	6M US dollar Libor +7.8% p.a.	2,545,801	3,016,171
3	AIK Banka	EUR	11,500,000.00	23/05/2014-23/04/2016	monthly	1M EURIBOR +6.95% p.a.	1,318,384	0
4	Tehnexport	USD	697,086.00				57,948	60,072
V	LOANS IN RSD						20,022,141	3,005,724
1	CREDI+KOM+S OSIETE	RSD	223,333,333.36	14/01/2013-14/01/214	monthly	6M BELIBOR +3.95 % p.a.	223,333	670,000

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No.	LOAN	Currency	ORIGINAL CURRENCY				Equivalent value in thousands of RSD	
			Principal	Maturity date	Repayment schedule	Interest rate	December 31, 2013	January 1, 2013
2	UNICREDIT BANK	RSD	33,807,771.33	12/12/2012-12/12/2014	monthly	12.82 p.a.	33,808	335,724
3	UNICREDIT BANK	RSD	291,666,666.62	27/03/2013-27/02/2015	monthly	1M BELIBOR +3.75% p.a.	291,667	500,000
4	UNICREDIT BANK	RSD	291,666,666.62	27/03/2013-27/02/2015	monthly	1M BELIBOR +3.75% p.a.	291,667	500,000
5	UNICREDIT BANK	RSD	333,333,333.28	18/05/2013-18/04/2015	monthly	1M BELIBOR +3.55% p.a.	333,333	500,000
6	SBERBANKA	RSD	333,333,333.28	26/05/2013-26/04/2015	monthly	1M BELIBOR +3% p.a.	333,333	500,000
7	Komercijalna banka	RSD	3,390,000,000.00	01/05/2014 - 01/04/2016	monthly	1M BELIBOR +4.0 % p.a.	3,390,000	0
8	Komercijalna banka	RSD	2,000,000,000.00	01/05/2014 - 01/04/2016/	monthly	1M BELIBOR +4.0 % p.a.	2,000,000	0
9	Komercijalna banka	RSD	2,500,000,000.00	01/05/2014 - 01/04/2016/	monthly	1M BELIBOR +3.75 % p.a.	2,500,000	0
10	AIK Banka	RSD	3,000,000,000.00	13/07/2014 - 13/06/2016	monthly	1M BELIBOR +3.5% p.a.	3,000,000	0
11	Banca Intesa	RSD	2,291,666,666.67	08/12/2014-08/11/2016	monthly	1M BELIBOR +3.48% p.a.	2,291,667	0
12	UNICREDIT BANK	RSD	1,250,000,000.00	18/12/2014-18/11/2016/	monthly	1M BELIBOR +1.238% p.a.	1,250,000	0
13	Komercijalna banka	RSD	500,000,000.00	18/12/2014-18/11/2016/	monthly	1M BELIBOR +1.27%p.a.	500,000	0
14	Hypo Alpe - Adria-bank	RSD	583,333,333.35	10/08/2013-10/07/2014	monthly	1M BELIBOR +3.95% p.a.	583,333	0
15	Hypo Alpe - Adria-bank	RSD	500,000,000.00	21/03/2014 - 21/02/2015	monthly	1M BELIBOR +3.59% p.a.	500,000	0
16	Hypo Alpe - Adria-bank	RSD	500,000,000.00	21/03/2014 - 21/02/2015	monthly	1M BELIBOR +3.59% p.a.	500,000	0
17	Vojvodanska banka	RSD	500,000,000.00	04/04/2014 - 04/03/2015	monthly	1M BELIBOR +3.40% p.a.	500,000	0
18	Vojvodanska banka	RSD	500,000,000.00	04/04/2014 - 04/03/2015	monthly	1M BELIBOR +3.40% p.a.	500,000	0
19	Eurobank a.d. Beograd	RSD	500,000,000.00	27/03/2014 - 27/02/2015	monthly	1M BELIBOR +3.80% p.a.	500,000	0
20	Eurobank a.d. Beograd	RSD	500,000,000.00	27/03/2014 - 27/02/2015	monthly	1M BELIBOR +3.80% p.a.	500,000	0

	CURRENT PORTION OF LONG-TERM LOANS	16,247,011	8,362,500
A	Foreign currency loans	8,441,467	6,863,917
B	Loans in RSD	7,805,544	1,498,583
	TOTAL LONG-TERM PORTION	66,101,130	58,143,362
A	Foreign currency loans	53,884,533	56,636,222
B	Loans in RSD	12,216,597	1,507,141

A. Foreign Currency Loans

I. Refinanced Loans Realized Prior to 1990 from the Funds of:

1. Paris Club of Creditors

The repayment of liabilities arising on the refinanced long-term loans from the Paris Club of Creditors realized through domestic banks was frozen upon the introduction of the United Nations' Sanctions in May 1992. The liabilities arising on the debt to the Paris Creditor Club members were recognized in accordance with the Reconciled Minutes of the SRY Debt Consolidation and the Law Governing the Relations between the Federal Republic of Yugoslavia and Legal Entities and Banks within the Territory of the Federal Republic of Yugoslavia Being the Original Debtors or Guarantors toward the Paris Club and London Club Creditors (FRY Official Gazette No. 36/2002) which are creditors or guarantors to the Paris Club of Creditors and the balance reconciled with the National bank of Serbia, in the amount of 49% of the relevant principal, based on the bilateral agreements entered into, the Law provided for the possibility of the additional write-off of liabilities in three years to the maximum amount of 66.67%.

In the course of 2006, with the Deposit Insurance Agency acting on behalf and for the account of the Republic of Serbia, and with Panonska banka a.d., Novi Sad, whose legal successor is Banca Intesa a.d. Beograd, the Company closed annexes to the original contracts approving an additional discount in the amount of 15% of the relevant principal.

There is an intention by management and consent of the Founder of the parent company for all matured liabilities, which as of December 31, 2013 amount to RSD 2,306,691 thousand, to be settled by ceding receivables from business entities with majority state owned/socially owned. The realization of this arrangement is expected after balance sheet date.

2. London Club of Creditors

In 2005, the Company wrote off 62% of new principal of the debt to the London Club of Creditors as of September 30, 2004 and reconciled the amount of new principal based on the communication from and annuity plans provided by the National Bank of Serbia. In 2006, an agreement regulating the liabilities to the Republic of Serbia was signed with the Deposit Insurance Agency. The newly determined principal is to be repaid in semi-annual annuities where the first and the last one are due on May 1, 2010 and November 1, 2024, respectively. The interest of 3.75% has been changed to the newly determined principal as of November 1, 2005 which will continue until November 1, 2009, and as of November 1, 2009 until November 1, 2024 the interest charged to this principal will total 6.75% annually, and will be settled in semi-annual annuities.

3. International Banks for Reconstruction and Development

In accordance with the Agreement entered into between the Government of the Federal Republic of Yugoslavia and the IBRD dated December 17, 2001, the total amount of liabilities for principal, interest and other expenses accrued up to the end of 2001, represents the principal of a new loan which is to be repaid to the Government of the Republic of Serbia in semi-annual installments in the period from June 15, 2005 to December 15, 2031 and carries a variable interest rate. On May 17, 2006, the Company entered into an agreement on rescheduled liabilities with the Deposit Insurance Agency governing the Company's liabilities to the Republic of Serbia arising on the rescheduled loans from the aforementioned creditor.

II Loans from Foreign Governments

1. Loan from the Government of the Republic of Poland

The loan from the Government of the Republic of Poland was approved in 2003 in the amount of USD 49,996,616.78 and was used in full by December 31, 2005. The agent is Vojvođanska banka a.d. Novi Sad. The loan is repaid in semi-annual installments starting from 2005 and is to be completed in 2024. Interest is accrued semiannually by applying the annual rate of 0.75 %.

2. Loans from the People's Republic of China through Domestic Banks

JP EPS recognized the liability arising from the loan facility used by JP EPS and JP EMS pursuant to the sub agreements no. 99012D, 99012E, 99012F and 99012G, as enacted with Beogradska banka a.d. Beograd and in accordance with the General Agreement dated December 23, 1999 signed between the borrower – Beogradska banka a.d., Beograd, and the lender, EXIM Bank of China, and endorsed by the state guarantee issued by SRY.

The RS Government, in its capacity of a guarantor, assumed the debt towards EXIM Bank of China from the People's Republic of China and on February 20, 2009, it signed a Debt Restructuring Agreement. It has been agreed therein that 40% of debt be written off, so the new debt shall be determined as 60% of the total value of the sum of unpaid principal, accrued but unpaid interest and accrued penalty interest aggregated in the period ended March 25, 2009. Interest rate is contractually agreed as a six-month LIBOR further increased by 1.3%, shall be accrued as an actual number of days/360, and it shall be discharged semiannually on January 21 and July 21. The principal shall be repaid in 22 semi-annual installments on January 21 and July 21, with a grace period of one year starting from the effectiveness date determined. In case of delay in settling liabilities matured, a penalty interest rate of 1% above the regular interest has been agreed.

Pursuant to Article 6 of the Law Governing Relations between the Republic of Serbia and Banks in Bankruptcy Regarding Foreign Loans and Borrowings (Official Gazette of RS number 45 as of May 31, 2005) on June 28, 2010, JP EPS closed with the Deposit Insurance Agency an Agreement regulating the liabilities thereof towards the Republic of Serbia under same terms as those applied to the agreement signed between the Republic of Serbia and Chinese party relevant to the portion used by the Company and its subsidiaries.

3. Loans from the People's Republic of China through Export-Import Bank (EXIM Bank of China)

As of December 26, 2011, an agreement on the loan approved to subsidized buyer for stage 1 of the Kostolac-B Power Plant Projects was entered by and between the RS Government, as the Borrower and Chinese Export-Import Bank, as the Lender, in accordance with:

- The Agreement on Economic and Technical Cooperation in Infrastructure, concluded by and between the RS Government and the PR of China Government as of August 20, 2009, and
- Contractual agreement entered into as of December 8, 2010 for implementation of stage 1 of the Kostolac-B Power Plant Projects.

The loan was agreed in the amount of up to USD 293 million for a usage period of 60 months subsequent to the loan agreement coming into effect with the option of renewal. The loan repayment is due within 180 months with a grace period of up to 60 months subsequent to the loan agreement coming into effect. The installments mature for repayment semi-annually, on January 21 and July 21 each year. The principal is repaid in 20 equal semi-annual installments over 120 months following the grace period. The interest rate agreed equals 3% annually, the one-off loan origination fee amounts to 1% of the loan amount agreed and the cost of financing total 0.75% annually.

4. Loan of the Japanese Government through Japan International Cooperation Agency (JICA)

- Through the Japan International Cooperation Agency (JICA), the Government of Japan is financing the project of flue gas desulphurization plant construction at "Nikola Tesla" Thermal Power Plant. The loan of up to JPY 28,252 million was agreed upon as of November 24, 2011 for a utilization period of 15 years and repayment period of 10 years following the five-year grace period. The interest rate agreed upon equals 0.6% annually, except for the loan portion used for payment of consultant services, where the interest is accrued at the rate of 0.01% annually. Semi-annual installments mature for payment on May 20 and November 20, whereby the repayment of the principal commences as of November 20, 2016 and completes as of November 20, 2026. The loan principal repayment, as well as interest repayment and payment of other loan-related costs is guaranteed by the RS Government.

III *Loans from International Financial Organizations*

1. *KfW*

With the German financial organization KfW financial agreements were executed in the period from 2001 through 2013 as follows:

- For the amount of EUR 51,129,188 an agreement was executed on October 26, 2001. The loan was fully drawn in the period until June 30, 2004. The principal repayment commenced from December 30, 2004 and will last until June 30, 2013. Following the withdrawal date, the applicable interest rate was fixed at 4.32% annually. The loan was repaid in full on June 30, 2013.
- EUR 16 million (out of which EUR 9 million is not to be repaid) was obtained on December 24, 2003. Borrowed funds have been used in full. At June 30, 2009, the loan principal repayment commenced. The final maturity date was June 30, 2015. The applicable annual interest rate was fixed after the withdrawal period for Project A at 4.52470%, for Project B at 4.85980%, and for Project C at the level of 5.27780%.
- On September 9, 2005, EUR 30 million was borrowed. The final date for the availability of funds borrowed was set at March 31, 2014. Pursuant to the provisions contained in the Agreement, the loan principal repayment has commenced on December 30, 2010 in 20 equal installments of about EUR 1,500,000. The final maturity date was set at June 30, 2020. The loan was agreed interest-free.
- EUR 36 million (with the additional amount EUR 10 million not to be repaid) was obtained on January 2, 2008. April 30, 2014 is set as the final date for funds availability leaving the option to extend this deadline. By the date of issue of this report procedure was initiated for extending the final date to April 30, 2015. According to the Agreement, repayment of the principal commences on June 30, 2013, to be completed by December 30, 2019. The interest rate is determined two days before each tranche has been drawn and used and is fixed until KfW informs JP EPS on the consolidated interest rate for the entire loan which will be determined upon the execution of the last disbursement of the subject loan and will remain constant throughout the entire repayment period.
- EUR 70 million was agreed on October 29, 2010. December 30, 2015 has been set as the final deadline for the use of borrowed funds with the option of deadline extension. This deadline has been extended to December 31, 2018. According to the provisions of the Loan Agreement, the principal repayment commences as of December 30, 2015 in 20 equal semi-annual installments. According to Amendment I to the Loan Agreement loan principal repayment terms have been changed such that principal is to be repaid in 14 equal semiannual installments starting as of December 31, 2018. A fixed interest rate has been agreed and is to be determined by KfW annually two days before the disbursement for each portion of the borrowing received based on the expenses incurred by KfW on the EUR capital market under terms that best correspond to the fixed interest rate period increased by 0.5% mark-up annually, given that the rate calculated in this manner cannot be below 1% annually. After each payment, KfW consolidates these rates into a uniform rate for the total loan.
- EUR 65 million (with additional EUR 9 million of non-repaybel funds) was agreed on October 12, 2012. December 30, 2015 was set as the final date for utilization of loan funds, with the option of deadline extension. According to the provisions of the Loan Agreement, the principal repayment commences as of December 30, 2015 in 19 equal semi-annual installments. A fixed interest rate has been agreed and is to be determined by KfW annually two days before the disbursement for each portion of the borrowing received based on the expenses incurred by KfW on the EUR capital market under terms that best correspond to the fixed interest rate period increased by 0.4% for the portion of the loan of EUR 25 million, and by 1.15% for the portion of the loan of EUR 40 million. After each payment, KfW consolidates these rates into a uniform rate for the total loan amount, which is fixed to the end of the repayment period.

2. Loans from the European Bank for Reconstruction and Development (EBRD)

Financial agreements were concluded with the European Bank for Reconstruction and Development (EBRD) for the following amounts:

- EUR 39.6 million was fully used until February 25, 2011, with a portion of loan totaling EUR 1,179 cancelled. The initially agreed borrowing of EUR 100 million was divided between JP EPS (EUR 39.6 million) and the Public Enterprise "Elektromreža Srbije" (EUR 60.4 million). The redistribution of rights and liabilities between JP EPS and the Public Enterprise "Elektromreža Srbije" with the consent of the EBRD, as the concerned creditor, and the Republic of Serbia, as the guarantor, was executed on May 27, 2008 by closing the following: the Amended Loan Agreement between JP EPS and JP EMS Beograd and EBRD, the Amended Loan Agreement between the Public Enterprise "Elektromreža Srbije" and the EBRD and the Agreement on the Recognition, Consent and Reaffirmation signed between the Republic of Serbia, JP EPS, the Public Enterprise "Elektromreža Srbije" and the EBRD. The rights and liabilities for the portion of this loan amounting to EUR 60.4 million were transferred to the Public Enterprise "Elektromreža Srbije." The principal repayment commenced as of September 7, 2005 and shall continue up to until March 7, 2016. The interest rate agreed is variable.
- EUR 60 million was used by April 30, 2010 but a portion of borrowing of EUR 135,857.49 was cancelled. The repayment of the principal commenced from March 7, 2008 and will continue until September 7, 2018. The interest is compounded at a variable rate.
- EUR 40 million was agreed on September 2, 2010. The date until which funds are available is set at September 2, 2016 with the option of deadline extension. According to the provisions of the relevant Agreement, the principal repayment commenced on September 2, 2013 and is to be executed in 18 semi-annual installments by March 2, 2022. The loan accrues variable interest rate with the option to choose a fixed interest rate.
- EUR 80 million was agreed as of July 28, 2011. The ultimate date until which funds are available is set at January 28, 2015 with the option of deadline extension. According to the provisions of the relevant Agreement, the principal repayment commences as of January 31, 2015 and is to be executed in 17 equal semi-annual installments by January 31, 2023. The loan accrues variable interest rate with the option to choose a fixed interest rate.
- EUR 45 million was agreed as of December 7, 2011. The ultimate date until which funds are available is set at December 7, 2014 with the option of deadline extension. According to the provisions of the relevant Agreement, the principal repayment commences as of April 30, 2015 and is to be executed in 18 equal semi-annual installments by October 31, 2023. The loan accrues variable interest rate with the option to choose a fixed interest rate.

3. Loan from the European Investment Bank

Financial agreements concluded with the European Investment Bank (EIB) are as follows:

- Based on the loan on financing the project of managing the electric power system of Serbia and Montenegro entered by and between Serbia and Montenegro on one side and European Investment Bank on October 30, 2003, a loan of EUR 22 million was extended to the Company. The loan was fully drawn in 10 tranches in the period until December 31, 2008. The loan is repaid in semi-annual installments, partly maturing on May 25 and November 25, and in part these installments fall due on June 9 and December 9 in the period from 2010 through 2027. The first installment is due on November 25, 2010 and the last installment is due on December 9, 2027. The applicable interest rate is set for each tranche individually and is fixed until the end of repayment period.

Based on the Financial Agreement on financing the EPS Project – electricity meters, closed on November 29, 2010 between this Company and the European Investment Bank, the Company was approved a loan of EUR 40 million. The loan will be drawn in 10 tranches in the period ending June 30, 2015 with a fixed and variable interest, of which the EIB will inform the Company within 10 days after the commencement of any referent period for variable interest rate. There is a possibility to convert variable into fixed interest rate. The tranches will be repaid in equal annual, semi-annual and quarterly installments or one-off. The date of maturity for the first installment will be set at the date which immediately follows the expiry of three years from drawing the first tranche and the last date of tranche repayment will be set at the date that falls no earlier than four years and no later than twelve years from the tranche drawing date. If the tranche is repaid one-off and in full, the maturity date will be the date falling no earlier than four three and no later than seven years from the tranche drawing date. The interest rate and terms of tranche repayment is determined for each tranche separately at the tranche disbursement date.

4. Loan from the World Bank – International Development Association (IDA)

- Pursuant to the Agreement on a development loan (Serbia and Montenegro Component of the Program of Energy Community of South East Europe – Serbia Project - ECSEE) executed on September 8, 2005 between the State Union of Serbia and Montenegro on one side and the International Development Association on the other, for the amount of SDR 13,9 million and a Loan Sub agreement signed between the Republic of Serbia and the Sate Union of Serbia and Montenegro and the Loan Sub agreement executed between the Republic of Serbia and this Company, the Company can use the loan funds of SDR 12,24 million. Funds were drawn down up to June 30, 2012, with the exception that the amount of SDR 441,151.20 was cancelled. The loan is to be repaid in installments maturing on March 15 and September 15 in the period from 2015 to 2025, free of interest.

IV Loans from commercial banks

1. AIK BANKA a.d. Niš

- The Company obtained a long-term loan from AIK BANKA a.d., Niš of USD 35 million, to settle the liabilities of a protion of advance payment of USD 344.63 million assumed under the Contractual Agreement on the Stage 1 Realization of the Kostolac-B Power Plant Projects, entered into by and between JP EPS from Belgrade and Thermal Power Plants and Open Mine Pits Kostolac on one side and Consortium comprised of China Machinery Engineering Corporation (CMEC) and Thermal Power Plants and Open Mine Pits Kostolac on the other. The repayment period is five years, with a one year grace period, to be repaid in 8 (eight) equal six-month installments, where the first installment for principal repayment was due on November 30, 2013, while the last installment is due on May 31, 2017, with variable annual interest rate determined as the sum of 6-month USD LIBOR plus 7.8% mark-up.
- The company reprogrammed liabilities in the amount of EUR 11.5 million for a period of three years, with a one year grace period, and principal repayment over two years through 24 equal monthly installments starting as of May 23, 2014 and ending with April 23, 2016, where interest is paid monthly at a rate of one month EURIBOR plus 6.95% p.a. This liability was undertaken in 2012 for the purpose of overcoming liquidity problems by concluding a Loan Agreement on January 12, 2012, with Annex 1 dated October 24, 2012, for the amount of EUR 23.0 million with AIK banka a.d. Niš.

V RSD loans

1. Loans from commercial banks

Borrowed funds were taken from domestic commercial banks in the country for the purpose of settling commitments, as follows:

1. Banca Intesa a.d. Beograd

- The Company refinanced liabilities in the amount of RSD 2.291.666.666 with a loan for a three year period and a one year grace period, and principal repayment over two years in 24 equal monthly installments starting as of December 8, 2014 and ending with November 8, 2016, where interest is paid monthly at a rate of one month BELIBOR plus 3.48% p.a. This liability was undertaken in 2013 for the purpose of overcoming liquidity problems by concluding four loan agreements on January 10, 2013 for a total amount of RSD 2.5 billion, with Banca Intesa a.d. Beograd.

2. Unicredit Bank a.d. Beograd

- The Company refinanced the amount of RSD 1.25 billion with a loan for a three year period and a one year grace period, and principal repayment over two years in 24 equal monthly installments starting as of December 18, 2014 and ending with November 18, 2016, where interest is paid monthly at a rate of one month BELIBOR plus 1.238% p.a. This liability was undertaken in 2012 for the purpose of overcoming liquidity problems by concluding a loan agreement on November 23, 2012 for a total amount of RSD 2.5 billion, with the consortium of Unicredit Bank a.d. Beograd and Sberbank Srbija a.d. Beograd.
- The business entity „RB Kolubara“ d.o.o. agreed a loan in the amount of RSD 500 million with a principal repayment period of 12 equal monthly installments after a one year grace period, with monthly interest payments at a fixed interest rate of 12.80% p.a. Loan terms are fixed and will not be changed until the end of the repayment period. Loan funds were used in the amount of RSD 346,373 thousand. The remaining funds will not be used.
- The business entity „RB Kolubara“ d.o.o. agreed a loan in the amount of RSD 1 billion with a principal repayment period of 24 equal monthly installments after a 6 month grace period (from March 27, 2013 to February 27, 2015), with monthly interest payments at a rate of BELIBOR+3.75% p.a. The loan funds were drawn down in full in a single tranche.
- The business entity „RB Kolubara“ d.o.o. agreed a loan in the amount of RSD 500 million with a principal repayment period of 24 equal monthly installments after a 6 month grace period (from May 18, 2013 to April 8, 2015), with monthly interest payments at a rate of BELIBOR+3.55% p.a. The loan funds were drawn down in full in a single tranche.

3. Komercijalna banka a.d. Beograd

- The Company reprogrammed the amount of RSD 2.5 billion with a loan for a three year period and a one year grace period, and principal repayment over two years in 24 equal monthly installments starting as of May 1, 2014 and ending with April 1, 2016, where interest is paid monthly at a rate of one month BELIBOR plus 3.75% p.a. This liability was undertaken in 2012 for the purpose of overcoming liquidity problems by concluding a loan agreement on December 12, 2012 for a total amount of RSD 2.5 billion, with Komercijalna banka a.d. Beograd.
- The Company refinanced the amount of RSD 500 million with a loan for a three year period and a one year grace period, and principal repayment over two years in 24 equal monthly installments starting as of December 18, 2014 and ending with November 18, 2016, where interest is paid monthly at a rate of one month BELIBOR plus 1.27% p.a. This liability was undertaken in 2012 for the purpose of overcoming liquidity problems by concluding a loan agreement on February 12, 2013 for a total amount of RSD 500 million, with Unicredit Bank a.d. Beograd.

- The business entity TENT reprogrammed the amount of RSD 2 billion with a loan for a three year period and a one year grace period, and principal repayment over two years in 24 equal monthly installments starting as of May 1, 2014 and ending with April 1, 2016, where interest is paid monthly at a rate of one month BELIBOR plus 4% p.a. This liability was undertaken in 2012 for the purpose of realizing investment work on blocks A5 and B1 and other investment activities, by concluding a loan agreement on September 10, 2012 for a total amount of RSD 2 billion, with Komercijalna banka a.d. Beograd. Up to the date of issue of this report these loan liabilities were repaid in full.
 - The business entity TENT reprogrammed the amount of RSD 3.39 billion with a loan for a three year period and a one year grace period, and principal repayment over two years in 24 equal monthly installments starting as of May 1, 2014 and ending with April 1, 2016, where interest is paid monthly at a rate of one month BELIBOR plus 4% p.a. This liability was undertaken in 2012 for the purpose of realizing investment work on blocks A5 and B1 and other investment activities, by concluding a loan agreement on February 22, 2012 for a total amount of RSD 4 billion, with Komercijalna banka a.d. Beograd. Up to the date of issue of this report the business entity TENT carried out early repayment of RSD 1 billion.
4. AIK Banka a.d. Niš
- The Company refinanced the amount of RSD 3.0 billion with a loan for a three year period and a one year grace period, and principal repayment over two years in 24 equal monthly installments starting as of July 13, 2014 and ending with June 13, 2016, where interest is paid monthly at a rate of one month BELIBOR plus 3.5% p.a. This liability was undertaken in 2013 for the purpose of overcoming liquidity problems by concluding a loan agreement on February 13, 2013 for a total amount of RSD 1.5 billion, with AIK Bank a.d. Niš.
5. Hypo Alpe -Adria-bank a.d. Beograd
- The Company acquired RSD 1.0 billion for a one and a half year period, with a six month grace period, and principal repayment in 12 equal monthly installments starting as of August 10, 2013 and ending on July 10, 2014, where interest is paid monthly and one month BELIBOR plus 3.95% p.a.
 - The Company acquired RSD 500 million for a two year period, with a one year grace period, and principal repayment in 12 equal monthly installments starting as of March 21, 2014 and ending on February 21, 2015, where interest is paid monthly at a rate of one month BELIBOR plus 3.59% p.a.
 - The Company acquired RSD 500 million for a two year period, with a one year grace period, and principal repayment in 12 equal monthly installments starting as of March 21, 2014 and ending on February 21, 2015, where interest is paid monthly at a rate of one month BELIBOR plus 3.59% p.a.
6. Vojvođanska banka a.d. Novi Sad
- The Company acquired RSD 500 million for a two year period, with a one year grace period, and principal repayment in 12 equal monthly installments starting as of April 4, 2014 and ending on March 4, 2015, where interest is paid monthly at a rate of one month BELIBOR plus 3.40% p.a.
 - The Company acquired RSD 500 million for a two year period, with a one year grace period, and principal repayment in 12 equal monthly installments starting as of April 4, 2014 and ending on March 4, 2015, where interest is paid monthly at a rate of one month BELIBOR plus 3.40% p.a.
7. Eurobank a.d. Beograd
- The Company acquired RSD 500 million for a two year period, with a one year grace period, and principal repayment in 12 equal monthly installments starting as of March 27, 2014 and ending on February 27, 2015, where interest is paid monthly at a rate of one month BELIBOR plus 3.80% p.a.
 - The Company acquired RSD 500 million for a two year period, with a one year grace period, and principal repayment in 12 equal monthly installments starting as of March 27, 2014 and ending on February 27, 2015, where interest is paid monthly at a rate of one month BELIBOR plus 3.80% p.a.

8. SBERBANKA Srbija a.d., Beograd

- The business entity „RB Kolubara“ d.o.o. acquired RSD 500 million with a repayment period in 24 equal monthly installments and a 6 month grace period (starting as of May 26, 2013 and ending on April 26, 2015) where interest is paid monthly at a rate of one month BELIBOR+3,0% p.a. The loan funds were drawn down in a single tranche.

9. Consortium of banks (Komercijalna banka a.d., Beograd Societe Generale banka a.d., Beograd, Credy banka a.d., Kragujevac)

- PD „Centar“ d.o.o. Kragujevac obtained RSD 670 million, where the principal is to be repaid in 24 equal monthly installments after a 6-month grace period (from January 4, 2013 to June 14, 2014). Interest is also repaid monthly at the rate of 6-month BELIBOR+3.950% p.a. By the date of issue of this report liabilities related to this loan have been discharged in full.

Analysis of Approved Loan Withdrawals

In order to finance the specific projects to increase production capacities in thermoelectric and hydroelectric plants, in the period from 2001 to 2013 the Company executed various loan agreements with international financial institutions, to which the Federal Republic of Yugoslavia and the State Union of Serbia and Montenegro or Republic of Serbia served as guarantors:

<u>Creditor</u>	<u>Currency</u>	<u>Contracted Amount</u>	<u>Draw Down Amount</u>
European Bank for Reconstruction and Development I	EUR	39,598,821	39,598,821
European Bank for Reconstruction and Development II	EUR	59,864,142	59,864,143
European Bank for Reconstruction and Development III	EUR	40,000,000	1,034,537
European Bank for Reconstruction and Development IV	EUR	80,000,000	12,140,128
European Bank for Reconstruction and Development V	EUR	45,000,000	450,000
European Investment Bank I	EUR	22,000,000	22,000,000
European Investment Bank II	EUR	40,000,000	0
KfW I	EUR	51,129,188	51,129,188
KfW II	EUR	16,000,000	16,000,000
KfW III	EUR	30,000,000	29,957,704
KfW IV	EUR	36,000,000	30,769,709
KfW V	EUR	70,000,000	284,960
KfW VI	EUR	65,000,000	0
IDA	SDR	12,240,000	11,798,849
JICA	JPY	28,252,000,000	307,850,664
EXIM Bank of China	USD	293,000,000	98,536,962

Analysis of Long-Term Loan Maturities

	In thousands of RSD		
	<u>As at December 31, 2013</u>	<u>As at January 1, 2013</u>	<u>Index</u>
From one to five years	34,447,449	22,445,847	153.5
Over five years	31,653,681	35,697,515	88.7
Total	<u>66,101,130</u>	<u>58,143,362</u>	<u>113.7</u>

Analysis of Loans per Requested Discharging Currency

Currency	In thousands of RSD	
	Amount in Currency	December 31, 2013
EUR	224,628,306	25,751,861
USD	221,486,409	18,411,767
CHF	69,023,112	6,456,919
YPU	2,215,732,515	1,753,528
XDR	11,798,849	1,510,458
Other		
TOTAL		53,884,533

29. OTHER LONG-TERM LIABILITIES

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Rescheduled public duties payable	1,327,762	2,025,773
Rescheduled accounts payable	2,112,120	2,985,805
Other long-term liabilities	530,939	755,380
Current portion of:		
- Rescheduled public duties payable	(494,040)	(680,671)
- Rescheduled accounts payable	(873,568)	(873,568)
- Other long-term liabilities	(224,192)	(224,183)
	2,379,021	3,988,536

Taxes and contributions on salaries and sales taxes payable which were outstanding as of December 31, 2002 have been rescheduled into 120 monthly installments at an interest rate equaling the discount rate prescribed by the National Bank of Serbia. Upon repayment of the final installment, the Company will be entitled to write-off of 30% of the total interest accrued until September 30, 2003.

Rescheduled accounts payable pertain to the liabilities toward JP EMS arising from the electricity transmission services.

30. SHORT-TERM FINANCIAL LIABILITIES

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
<i>In foreign currencies</i>		
Short-term borrowings, domestic and foreign	-	3,297,831
Current portion of long-term foreign borrowings	3,004,487	3,413,336
Current portion of long-term borrowings obtained from:		
- other banks	5,436,980	3,450,581
Other short-term foreign currency financial liabilities	7,312,569	6,830,398
<i>Liabilities in RSD</i>		
Short-term domestic borrowings	-	12,822,029
Current portion of long-term borrowings	7,805,544	1,498,583
Current portion of other long-term liabilities	1,591,800	1,778,422
Other	3,676	1,779
	25,155,056	33,092,959

The Governments of the Russian Federation and the Republic of Serbia concluded on April 27, 2007 the International Bilateral Treaty governing the liabilities of the Former Soviet Union upon the calculation associated with the commodity trade between the Former Soviet Union and the Former SFRY and a Protocol was signed between the Ministry of Finances and the Ministry of Mining and Energy of the Republic of Serbia and the respective ministries of the Russian Federation defining the manner of discharging debts, with recognition of liability for payment in the amount of RSD 7,308,932 thousand, related to delivery of goods and services, in respect of Supplement number 9 to the Contract number 05030856/030135 – 0275 dated March 29, 2003, between JP EPS, PD "Đerdap" and OAO "Silovije Mašini" for the rehabilitation of the Hydro Power Plant Đerdap I. After balance sheet date it is expected that the question of terms, maturity and repayment method of used funds will be regulated based on the clearing debt.

During the reporting year 2012, for the purpose of overcoming liquidity issues, the Company obtained borrowed funds that were repaid during 2013 to the creditor, as disclosed in Note 28.

31. ACCOUNTS PAYABLE

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Advances received	3,895,505	3,994,658
Accounts payable:		
- domestic	7,584,864	17,752,899
- foreign	3,076,443	5,006,114
- Public Enterprise "Elektromreža Srbije"	2,128,262	1,728,891
Liabilities for radio-television subscriptions	42,036,363	33,707,126
Other accounts payable	633,341	846,374
	<u>59,354,778</u>	<u>63,036,062</u>

The liability towards the Public Enterprise "Elektromreža Srbije" was recognized based on the fee for the access and the use of electricity transmission system, as disclosed in Note 7.

For the purpose of acquiring equipment, spare parts, production material and services necessary to achieve conditions for technical and technological unity of the energy supply system in the Republic, harmonized development of electricity related activities, rational and effective exploitation of natural resources and continued supply of customers with electricity, the Company recognized the liabilities towards creditors in the country and abroad. A portion of domestic and foreign commitments will be settled from the borrowed funds as stated in Notes 28 and 30.

Liabilities for radio and television subscription mature as disclosed in Note 22.

32. OTHER SHORT-TERM LIABILITIES

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Matured repayment of borrowings from the Ministry of Finance of the Republic of Serbia	397,223	398,164
Interest payable and costs of financing	1,915,102	1,007,077
Net salaries and benefits	1,430,453	1,380,568
Taxes and contributions on salaries and benefits	999,380	1,060,360
Other liabilities	172,442	188,459
	<u>4,914,600</u>	<u>4,034,628</u>

Interest payable and costs of financing stated as of December 31, 2013 as totaling RSD 1,915,102 thousand mostly, in the amount of RSD 1,788,272 thousand, include interest accrued as follows:

- Interest on restructured liabilities to the Paris club of Creditors in the amount of RSD 1,309,163 thousand;
- Interest on refinanced loans from the International Bank for Reconstruction and Development and European Investment Bank of RSD 224,619 thousand;
- Interest on dinar loans from domestic banks in the amount of RSD 82,352 thousand;
- Interest on the penalties for late payment of liabilities for public duties in the amount of RSD 162,561 thousand; and
- Other liabilities of RSD 9,577 thousand.

33. VALUE ADDED TAX, OTHER DUTIES PAYABLE AND ACCRUALS

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Deferred value added tax	2,659,263	2,864,499
Accrued liabilities for VAT payable upon tax return	1,885,525	354,099
Water charges and fees for the use of construction land and other public property	4,558,964	3,111,322
Other public duties payable	2,659,272	2,090,416
Accrued expenses	473,753	490,627
Deferred income from grants received	16,839,037	16,803,534
Other accruals	393,408	396,709
	<u>29,469,222</u>	<u>26,111,206</u>

Deferred liabilities arising from VAT presented relate to future period taxes paid upon deducting input VAT subsequent to the balance sheet date.

Over prior year, the Company received funds on the basis of financial and technical assistance from international donors in the European Union, Switzerland, and Japan and from international organizations, which were initially recognized as deferred income. The recognition of income is performed on a systematic basis over the useful economic life of a respective asset, in the period in which the corresponding expenses associated with the use of such assets are recorded.

34. OFF-BALANCE SHEET ITEMS

	In thousands of RSD (Restated)	
	As at December 31, 2013	As at January 1, 2013
Estimated war damages	6,431,202	6,627,539
Payables upon credit commitments – undrawn portion	76,268,480	77,810,741
Liabilities for guarantees issued and other forms of security instruments against JP EPS liabilities	57,030,110	61,246,291
Ceded social housing buildings	91,913	91,913
Blank solo bills of exchange issued	84,816,775	84,485,329
Written-off equity investments	278,943	260,934
Deferred tax assets	14,954,660	15,198,163
Other off-balance sheet items	14,523,371	13,161,517
	<u>254,395,454</u>	<u>258,882,427</u>

35 INCOME STATEMENT PER ACTIVITY FOR THE PERIOD JANUARY-DECEMBER 2013

	Total	Electricity	Combined Electricity and Heat Production	Coal	Heat Energy and Technical Steam	Power Distribution and Management	Electricity Retail	Electricity Production, Small Plants	Electricity Free Market Trade	Metal Industry
OPERATING INCOME										
Sales revenues	552,193,995	126,236,988	1,741,946	61,029,536	56,416,262	153,023,652	7,373	150,819,413	2,825,356	93,469
Own-work capitalized	3,804,191	166,388	-	-	3,554,368	-	-	3,775	-	79,660
Increase in the value of inventories	(65,417)	(77,282)	-	-	-	-	-	-	11,865	-
Other operating income	17,936,525	1,500,516	4,508	329,593	11,594,929	183,143	-	1,560,057	74,227	2,689,552
	573,869,294	127,826,610	1,746,454	61,359,129	71,565,559	153,206,795	7,373	152,383,245	2,911,448	2,862,681
OPERATING EXPENSES										
Cost of goods sold	(48,899)	(44,680)	(444)	-	-	-	-	(3,775)	-	-
Cost of materials	(350,671,976)	(70,863,614)	(1,449,157)	(8,996,402)	(29,793,130)	(94,693,191)	(3,401)	(142,245,842)	(1,178,437)	(1,448,802)
Staff costs	(53,870,993)	(10,417,084)	(551,830)	(20,465,851)	(13,620,856)	(1,382,958)	-	(1,038,294)	(3,879,827)	(2,514,293)
Depreciation, amortization and provisions	(42,557,297)	(17,600,610)	(492,693)	(12,242,463)	(11,455,697)	(126,225)	-	(136,765)	(255,604)	(247,240)
Other operating expenses	(93,399,761)	(16,873,631)	(235,104)	(11,654,693)	(9,201,308)	(51,188,405)	-	(2,300,991)	(381,658)	(1,563,971)
	(540,548,926)	(115,799,619)	(2,729,228)	(53,359,409)	(64,070,991)	(147,390,779)	(3,401)	(145,725,667)	(5,695,526)	(5,774,306)
PROFIT/(LOSS) FROM OPERATIONS	33,320,368	12,026,991	(982,774)	7,999,720	7,494,568	5,816,016	3,972	6,657,578	(2,784,078)	(2,911,625)
Finance income	23,042,151	1,873,111	62,773	477,599	3,767,244	6,169,479	-	8,491,452	9,549	2,190,945
Finance expenses	(13,779,850)	(2,270,521)	(13,430)	(2,221,512)	(539,403)	(2,507,258)	-	(5,707,561)	(199,295)	(320,870)
Other income	7,851,986	1,292,820	260,483	131,719	1,607,208	1,253,914	-	386,593	126,047	2,793,202
Other expenses	(28,081,785)	(1,836,407)	(173,480)	(1,989,040)	(4,537,215)	(10,353,786)	-	(7,942,778)	(108,033)	(1,141,046)
PROFIT/(LOSS) BEFORE TAXATION	22,352,870	11,085,994	(846,429)	4,398,486	7,792,402	378,365	3,972	1,885,284	(2,955,810)	610,606
Income taxes	(3,025,060)	(1,073,061)	(57,443)	(231,493)	(1,312,567)	(138,627)	-	(4,499)	(4,186)	(203,184)
Deferred tax benefits/(expenses) of the period	1,443,472	270,376	15,397	581,518	544,752	24,871	-	(4,499)	(4,186)	15,243
Current income tax expense	(4,468,532)	(1,343,437)	(72,840)	(813,011)	(1,857,319)	(163,498)	-	-	-	(218,427)
NET PROFIT/(LOSS)	19,327,810	10,012,933	(903,872)	4,166,993	6,479,835	239,738	3,972	1,880,785	(2,959,996)	407,422

36. CONTINGENT LIABILITIES AND COMMITMENTS

Litigation

As of December 31, 2013, the Company recognized provisions against potential losses arising from litigations in the amount of RSD 3,827,108 thousand (December 31, 2012 RSD: 3,276,831 thousand).

In the assessment of the Company's management, no additional materially significant losses are anticipated upon resolution of the remaining legal suits filed against the Company for which no provisions were formed.

Commitments

For the purpose of acquiring property, plant and equipment for its own needs and for the account of its subsidiaries, the Company has commitments towards the following suppliers:

Supplier	Contractually Agreed Value (RSD)	Realized until December 31, 2013	Advances Paid	Beneficiary
Clyde Bergemann DRYCON GmbH	1,340,202,688.88	975,000,204.58	60,311,309.19	TE KO Kostolac
Goša montaža ad	792,198,832.86	409,603,719.67	64,847,968.71	TE KO Kostolac
Hitachi Power Europe GmbH	3,009,355,125.00	2,708,419,612.50	60,187,102.50	TENT
Minel kotlogradnja ad	1,156,475,112.17	1,075,522,220.85	14,099,731.63	TENT
China national machinery & equipment import & export corporation (CMEC)	28,648,471,566.00	5,594,037,728.65	6,916,330,152.28	TE KO Kostolac
Sandvik Mining and Construction Materials Handling GmbH	1,648,611,406.90	60,751,416.77	158,785,999.01	RB Kolubara
KOPEX S.A.	3,243,107,042.28	20,758,474.33	322,234,856.79	RB Kolubara
ThyssenKrupp Resource Technologies	3,543,470,834.63	109,816,584.73	686,730,849.98	RB Kolubara
Montprojekt doo Beograd	209,084,949.83	-	20,849,294.24	RB Kolubara
Consortium Mibrag Consulting International and RWE Power International RE GmbH	285,417,557.84	15,073,033.25	27,034,452.91	RB Kolubara
Total	43,876,395,116.39	10,968,982,995.33	8,331,411,717.24	

Environmental Protection

The Company's Business Plan specifies the amount of EPS' investment in environmental protection activities (e.g., installation of desulphurization equipment, disposal of ash and coal mining scrap, stabilization of the terrain surrounding dams, protection of ground waters, waste-water treatment and the like). No related provision has been formed in the Company's books of account, since EPS' management holds that all future expenses will be directly attributable to assets purchased for the purposes of environmental protection.

37. OPERATING RISKS

For the purpose of reviewing the financial position, effectiveness and changes in the financial position of the Company, additional information is provided with respect to financial instruments so as to assess their significance on the Company's financial position and performance.

As disclosed in Notes to the consolidated financial statements, the Company does not have financial instruments classified as instruments at fair value through profit and loss. Financial assets and liabilities are recognized at amortized value using the effective interest method.

According to the data made available by the NBS, the reference interest rate as of the balance sheet date equaled 9.5%.

However, the Company is exposed to market risk (currency and interest rate risks), liquidity risk and credit risk, as described below.

Currency Risk

The Company is exposed to currency risk as it enters into foreign currency transactions in connection with the purchase of equipment and the settlement and reconciliation of sales revenue and expenses. In the absence of an active market, the Company does not make use of financial hedging instruments in an effort to decrease its foreign exchange exposure. According to the macroeconomic projections of the RS competent bodies, the dinar is expected to depreciate by 10% against the EUR currency. In addition, the most significant portion of the Company's liabilities based on borrowings is denominated in foreign currencies. The value of monetary items the payment or collection of which is executed in other than functional currency was as follows:

	Assets		Liabilities	
	December 31, 2013	As at January 1, 2013 (adjusted)	December 31, 2013	As at January 1, 2013 (adjusted)
			In foreign currency	
EUR	68,918,119	27,003,010	315,495,918	356,932,391
DKK	4,250	2,500	-	-
JPY	-	-	2,697,112,770	2,375,472,953
SEK	765	1,408	-	-
CHF	86,067	84,742	81,882,086	79,620,879
GBP	3,275	3,275	-	-
USD	18,548,252	37,080,562	334,057,726	343,936,352
XDR	-	-	11,798,849	11,798,849
			In thousands of RSD	
EUR	7,900,918	3,070,736	36,169,115	40,589,745
DKK	65	38	-	-
JPY	-	-	2,134,492	2,377,110
SEK	10	19	-	-
CHF	8,051	7,982	7,659,840	7,499,666
GBP	449	456	-	-
USD	1,541,883	3,195,466	27,769,617	29,639,162
XDR	-	-	1,510,458	1,562,712
	9,451,376	6,274,697	75,243,522	81,668,394

Interest Rate Risk

The exposure to interest rate risk relates to the possibility that the value of the Company's debts will fluctuate due to the changes in market interest rates. In the absence of an active market, the Company does not make use of financial hedging instruments in an effort to decrease its interest rate risk exposure. What follows is the review of risk exposure arising, inter alia, from borrowings at the effective interest rate, as disclosed in Note 28.

	December 31, 2013	In thousands of RSD As at January 1, 2013 (Restated)
Financial assets		
<i>Non-interest bearing</i>		
Equity investments	1,239,099	1,243,912
Long-term investments	637,205	637,205
Accounts receivable	112,012	146,208
Other receivables	671,717	931,610
Cash and cash equivalents	217,449	346,113
	<u>2,877,482</u>	<u>3,305,048</u>
<i>Fixed interest rate</i>		
Long-term investments	4,530,102	192,970
Short-term loans and other short-term financial assets	5,070,712	217,156
Cash and cash equivalents	31,643,693	10,502,845
	<u>41,244,507</u>	<u>10,912,971</u>
<i>Variable interest rate</i>		
Long-term investments	1,460,792	599,325
Accounts receivable	38,241,211	38,361,635
Short-term loans and other short-term financial assets	1,765,132	1,682,035
Other receivables	42,468,418	33,815,593
Cash and cash equivalents	3,662,956	2,611,804
	<u>87,598,509</u>	<u>77,070,392</u>
	<u>131,720,498</u>	<u>91,288,411</u>
Financial liabilities		
<i>Non-interest bearing</i>		
Accounts payable	7,148,450	17,060,060
Other liabilities	960,013	1,045,279
Short-term financial liabilities	620	620
	<u>8,109,083</u>	<u>18,105,959</u>
<i>Fixed interest rate</i>		
Long-term borrowings	28,472,427	29,624,091
Other long-term liabilities	833,722	1,345,102
Current portion of long-term borrowings	2,713,495	2,815,820
Short-term financial liabilities	718,232	680,772
	<u>32,737,876</u>	<u>34,465,785</u>
<i>Variable interest rate</i>		
Long-term borrowings	37,628,703	28,519,272
Other long-term liabilities	1,464,756	2,562,891
Accounts payable	5,609,715	7,240,981
Other liabilities	44,497,612	35,380,511
Short-term borrowings	-	16,119,860
Current portion of long-term borrowings	13,533,516	5,546,680
Short-term financial liabilities	8,189,193	7,929,207
	<u>110,923,495</u>	<u>103,299,402</u>
	<u>151,770,454</u>	<u>155,871,145</u>
Net interest rate risk exposure	<u>(23,324,986)</u>	<u>(26,229,010)</u>

Credit Risk

The Company is exposed to credit risk in the instances in which its customers default on their obligations. The Company's exposure to credit risk is limited to the carrying value of accounts receivable and other receivables. Accounts receivable correspond to a significant number of customers (3.3 million) and have normal credit terms, and thus, the individual concentrations of credit risk are not considered significant. Accounts and other receivables are presented in the accompanying consolidated financial statements net of allowances for bad and doubtful receivables, as estimated by the Company' management based on historical experience and present economic condition in the environment in which the Company operates. The average days' sales outstanding in 2013 (determined based on the net value of receivables) counted 64 days (2012: 71 days).

As of the consolidated balance sheet date, the financial assets – accounts receivable that were/were not past due and are impaired/unimpaired were as follows:

	In thousands of RSD		
	Gross Exposure	Allowance for Impairment	Net Exposure
December 31, 2013			
Accounts receivable, not matured	26,302,118	479,094	25,823,024
Accounts receivable, matured and provided for	98,238,585	98,238,585	-
Accounts receivable, matured but not provided for	12,530,199	-	12,530,199
	137,070,902	98,717,679	38,353,223
As at January 1, 2013 (Restated)			
Accounts receivable, not matured	21,975,374	321,678	21,653,696
Accounts receivable, matured and provided for	110,065,719	110,065,719	-
Accounts receivable, matured but not provided for	16,854,147	-	16,854,147
	148,895,240	110,387,397	38,507,843

Liquidity Risk

The Company uses no financial instruments in order to decrease liquidity risks. The balances of contractually agreed financial assets mature for collection as presented in the following summary:

2013	In thousands of RSD					
	Within a Month	From 1 to 3 Months	From 3 Months to a Year	From 1 to 5 Years	Over 5 Years	Total
Equity investments	-	-	-	-	1,239,099	1,239,099
Long-term investments	-	-	-	-	637,205	637,205
Accounts receivable	112,012	-	-	-	-	112,012
Short-term loans and other short-term financial assets	-	-	-	-	-	-
Other receivables	67,927	-	603,790	-	-	671,717
Cash and cash equivalents	217,449	-	-	-	-	217,449
Non-interest bearing	397,388	-	603,790	-	1,876,304	2,877,482
Equity investments	-	-	-	-	-	-
Long-term investments	-	-	-	-	4,530,102	4,530,102
Accounts receivable	-	-	-	-	-	-
Short-term loans and other short-term financial assets	-	5,070,712	-	-	-	5,070,712
Other receivables	-	-	-	-	-	-
Cash and cash equivalents	31,643,693	-	-	-	-	31,643,693
Fixed interest rate	31,643,693	5,070,712	-	-	4,530,102	41,244,507
Equity investments	-	-	-	-	-	-
Long-term investments	-	-	-	1,140,729	320,063	1,460,792
Accounts receivable	38,238,217	-	2,994	-	-	38,241,211
Short-term loans and other short-term financial assets	1,171,039	122,740	471,353	-	-	1,765,132
Other receivables	42,300,684	-	167,734	-	-	42,468,418
Cash and cash equivalents	3,662,956	-	-	-	-	3,662,956
Variable interest rate	85,372,896	122,740	642,081	1,140,729	320,063	87,598,509
	117,413,977	5,193,452	1,245,871	1,140,729	6,726,469	131,720,498
			From 3 Months to a Year	From 1 to 5 Years	Over 5 Years	Total
2012	Within a Month	From 1 to 3 Months	From 3 Months to a Year	From 1 to 5 Years	Over 5 Years	Total
Equity investments	-	-	-	-	1,243,912	1,243,912
Long-term investments	-	-	-	-	637,205	637,205
Accounts receivable	146,208	-	-	-	-	146,208
Short-term loans and other short-term financial assets	-	-	-	-	-	-
Other receivables	114,949	-	816,661	-	-	931,610
Cash and cash equivalents	346,113	-	-	-	-	346,113
Non-interest bearing	607,270	-	816,661	-	1,881,117	3,305,048
Equity investments	-	-	-	-	-	-
Long-term investments	-	-	-	-	192,970	192,970
Accounts receivable	-	-	-	-	-	-
Short-term loans and other short-term financial assets	-	217,156	-	-	-	217,156
Other receivables	-	-	-	-	-	-
Cash and cash equivalents	10,502,845	-	-	-	-	10,502,845
Fixed interest rate	10,502,845	217,156	-	-	192,970	10,912,971
Equity investments	-	-	-	-	-	-
Long-term investments	-	-	-	260,479	338,846	599,325
Accounts receivable	38,358,642	-	2,993	-	-	38,361,635
Short-term loans and other short-term financial assets	-	977,996	704,039	-	-	1,682,035
Other receivables	33,590,341	-	225,252	-	-	33,815,593
Cash and cash equivalents	2,611,804	-	-	-	-	2,611,804
Variable interest rate	74,560,787	977,996	932,284	260,479	338,846	77,070,392
	85,670,902	1,195,152	1,748,945	260,479	2,412,933	91,288,411

Liquidity Risk (Continued)

The balances of contractually agreed financial liabilities mature for payment as presented in the following summary:

	In thousands of RSD					
	Within a Month	From 1 to 3 Months	From 3 Months to a Year	From 1 to 5 Years	Over 5 Years	Total
2013						
Accounts payable	-	6,750,704	397,746	-	-	7,148,450
Other payables	527,297	432,716	-	-	-	960,013
Short-term financial liabilities	-	-	620	-	-	620
Non-interest bearing	527,297	7,183,420	398,366	-	-	8,109,083
Long-term loans	-	-	-	7,952,099	20,520,328	28,472,427
Other long-term liabilities	-	-	-	833,722	-	833,722
Current maturities of long-term loans	1,232,880	399,885	1,080,730	-	-	2,713,495
Short-term financial liabilities	-	-	718,232	-	-	718,232
Fixed interest rate	1,232,880	399,885	1,798,962	8,785,821	20,520,328	32,737,876
Long-term loans	-	-	-	26,495,348	11,133,355	37,628,703
Other long-term liabilities	-	-	-	226,204	1,238,552	1,464,756
Accounts payable	4,859,637	750,078	-	-	-	5,609,715
Other liabilities	44,497,612	-	-	-	-	44,497,612
Current maturities of long-term loans	1,778,913	1,591,871	10,162,732	-	-	13,533,516
Short-term financial liabilities	-	-	8,189,193	-	-	8,189,193
Variable interest rate	51,136,162	2,341,949	18,351,925	26,721,552	12,371,907	110,923,495
	52,896,339	9,925,254	20,549,253	35,507,373	32,892,235	151,770,454
2012						
Accounts payable	-	15,744,164	1,315,896	-	-	17,060,060
Other payables	614,003	431,276	-	-	-	1,045,279
Short-term financial liabilities	-	-	620	-	-	620
Non-interest bearing	614,003	16,175,440	1,316,516	-	-	18,105,959
Long-term loans	-	-	-	6,891,269	22,732,822	29,624,091
Other long-term liabilities	-	-	-	1,345,102	-	1,345,102
Current maturities of long-term loans	683,078	409,166	1,723,576	-	-	2,815,820
Short-term financial liabilities	-	-	680,772	-	-	680,772
Fixed interest rate	683,078	409,166	2,404,348	8,236,371	22,732,822	34,465,785
Long-term loans	-	-	-	15,554,577	12,964,3695	28,519,272
Other long-term liabilities	-	-	-	2,562,891	-	2,562,891
Accounts payable	5,491,629	1,749,351	-	-	-	7,240,980
Other liabilities	35,380,511	-	-	-	-	35,380,511
Short-term loans	-	-	16,119,860	-	-	16,119,860
Current maturities of long-term loans	915,555	1,009,492	3,621,633	-	-	5,546,680
Short-term financial liabilities	-	-	7,929,207	-	-	7,929,207
Variable interest rate	41,787,695	2,758,843	27,670,700	18,117,468	12,964,695	103,299,401
	43,084,776	19,343,449	31,391,564	26,353,839	35,697,517	155,871,145

Taxation Risks

The Republic of Serbia tax legislation is subject to varying interpretations. The fiscal periods remain open to review by the tax and customs' authorities with respect to tax liabilities for a period of ten years.

38. LOSSES OF ELECTRICAL POWER

Throughout the normal course of business, the Company incurs substantial technical and non-technical losses of electrical power. Technical losses arise upon the transmission of electricity to the end-users. Non-technical losses represent the electricity consumed by users which the Company is unable to identify and invoice. In 2013, the Company incurred total distribution losses of 14.83% or 4,487 GWh (2011: 14.14% or 4,586 GWh), which represents the total difference between purchased and sold electricity and includes technical and non-technical losses.

39. SUBSEQUENT EVENTS

a) *Change of Legal Form*

Subsequent to the balance sheet date, the owner intends to change the legal form of the public company. Namely, the Law on the Right to Free of Charge Shares and Money Consideration Exercised by Citizens within the Process of Privatization (Official Gazette of RS number 123/07) governs the exercise of citizens' rights to money consideration on the account of the sale of shares or stakes (hereinafter: money consideration) recorded in the Privatization Register kept in accordance with the Law on Privatization ("Official Gazette of the Republic of Serbia," nos. 38/01, 18/03 and 45/05) and to the transfer without consideration of shares in enterprises and business companies specified by this Law (hereinafter: transfer of shares).

Holders of rights realize their entitlement to share distribution free of charge (hereinafter: free of charge shares) in the Public Enterprise "Electric Power Industry of Serbia" from Belgrade, i.e. in business entities with majority state-owned capital and business entities performing activities of general interest, where the capital distributed as shares free of charge equals 15% of the core capital of any business entity.

Also, employees and ex-employees in a company that has undergone privatization are entitled to the transfer of shares of such company free of charge in the amount of EUR 200 per full year of employment in such company, reported at the estimated market value of such company's total capital before undergoing privatization, calculated in dinar equivalent using medium exchange rate of the National Bank of Serbia prevailing on the day of making assessment, up to a maximum of 35 years of employment. Employees and ex-employees within the meaning of the Law are considered to be employees and ex-employees of the Public Enterprise "Electric Power Industry of Serbia" from Belgrade and employees and ex-employees of the Public Enterprise "Elektromreža Srbije" from Belgrade, Public Enterprise for Underground Coal Exploitation "Resavica," Public Enterprise "Kopovi Kosova," Public Enterprise "Termoelektrane Kosovo" and Public Enterprise "Elektrokosmet," as well as their legal predecessors. The capital stated in shares transferred free of charge to employees and ex-employees is not held to be a portion of capital transferred free of charge to citizens.

The deadline for transferring shares to employees and ex-employees of a business entity is set 6 months following the Privatization of the business entity based on an official Government's enactment. Within the deadline set for submitting applications, July 30, 2008, the citizens entitled to a cash consideration and transfer of shares free of charge were determined, as were the employees and ex-employees of JP EPS.

In addition, legal status of each of the subsidiaries has been harmonized with the Company Law with regard to management and other issues relevant to their status.

Under the Memorandum on the Budget and Fiscal Policy, for the past few years the Republic of Serbia has focused on the corporatization of public enterprises, including JP EPS, in accordance with commitments assumed under the Agreement on Stabilization and Association entered into by and between the European Union and the Republic of Serbia. Given the aforesaid and taking into consideration the changes in the legislation, particularly in respect of conditions and manner of performing energy-related activities, public enterprises and business companies, at its session held on November 16, 2012, the Government of the Republic of Serbia enacted Conclusion 05 no. 023-784/202 whereby it adopted the Preliminary Basis for Reorganization in JP EPS. The aforesaid document delineates the basic concept and directions of reorganization of JP EPS and its subsidiaries. Pursuant to the RS Government's Conclusion, the highest priority activity is the change of legal form of JP EPS into a shareholding company, with the enactment of the necessary decisions that fall under the Government's remit in exercising the founder's rights.

As disclosed in Note 1, the founder shall harmonize the Parent Company's Article of Incorporation with the Law on Public Enterprises (Official Gazette of the Republic of Serbia, no. 119/2012), where on February 20, 2014 the Government of the Republic of Serbia gave its approval on the Statute of the Public Enterprise Electric Power Industry of Serbia. After balance sheet date the Company will harmonize the articles of association of its subsidiary companies.

b) Investments in equity instruments

1. The Company, as the sole founder and owner of 100% of equity of the Business Entity for Renewable Energy Sources „EPS Obnovljivi izvori“, d.o.o., beside the registered stake at the time of establishment of the Business Entity, also registered the non-monetary stake in the Legal Entity which comprises the buildings and equipment of MHE „Prvonek“ with capacity of 872 kW, in Vranjska Banja in the amount of RSD 193,252 thousand, in accordance with the Decision on Investment of Non-monetary Stakes in the Business Entity for Renewable Energy Sources „EPS Obnovljivi izvori“, d.o.o. (JP EPS number 2891/11-13, as of October 31, 2013) as adopted by the Board of Directors of the Public Enterprise Electric Power Industry of Serbia acting in the capacity of the Supervisory Board, at the 7th session as of October 31, 2013 and which the Government approved with its Decision number: 023-841/2014, dated 29 January 2014.

The total amount of the investment of JP EPS in the basic capital of the Business Entity, after the increase in the investment of JP EPS based on this decision, amounts to RSD 265,447,682.00, which is registered with the Serbian Business Registers Agency, as follows:

- subscribed paid in monetary stake upon establishment of the Business Entity amounts to RSD72,195,305.00,
- new non-monetary stake – buildings and equipment of MHE „Prvonek“ in Vranjska Banja, according to Specification, in the total amount of RSD 193,252 thousand on the date of adoption of decision.

2. In the previous reporting period, the Company invited potential strategic partners to submit their letters of interest and supply evidence that they comply with the necessary criteria set for entities interested in the joint investment in:

- the project of the Thermal Power Plant Nikola Tesla B3, associated with the construction and management of a new power plant located at the Thermal Power Plant Nikola Tesla B, with above-critical parameters of steam and power of about 700 MW,
- the project of the Thermal Power Plant Kolubara B (an organizational section of the subsidiary PD TENT d.o.o.), pertaining to the completion of construction and running the Thermal Power Plant on brown coal with the power of 2 x 350 MW.

In fact, based on the agreement achieved with the owner, the Board of Directors enacted the Decision on the Procedure for the selection of strategic partners for the joint construction of the aforementioned production capacities.

With regard thereto, upon the RS Government approval, JP EPS and EDISON S.p.A, Italy concluded a preliminary agreement in the tender procedure for the TE Kolubara B Project, stipulating the principles and rules to be applied and actions to be undertaken in order execute the feasibility stage, determine the deadlines for undertaking those and costs to prepare the feasibility study.

In addition to the aforesaid, as of October 20, 2011, the Cooperation Protocol was signed (came into effect as of the Government's approval date, November 10, 2011) by and between JP EPS and a Chinese Consortium comprised of the companies Shenzhen Energy Group Co. Ltd. and China Environmental Energy Holdings Co. Ltd. in order to realize Project TENT B3.

The subject of the Protocol is arrangement of the mutual relations with regard to the determining the basic directions of cooperation in energy sector project realization, particularly a more detailed regulation of relations in the preparation of the justifiability study and the detailed design for the realization of the TENT B3 project, involving financing, design, construction, placement into operation, management and maintenance of a thermal power plant or the power of 744 MW, and the related coal production project in order to provide fuel for the plant.

Recognizable assets assumed will be subject to a non-cash contribution into the jointly controlled entity intended to be established with a chosen qualifying company. Accordingly, the reporting entity will select the relevant accounting policy for the first time.

During the previous reporting period, on September 12, 2012, and upon the prior consent of the Government granted on September 8, 2012, the Memorandum of Understanding has been closed with RWE Group (comprised in terms of this Memorandum of RWE AG, RWEI, RWE Innogy Serbia – subsidiary of RWEI for realization of renewable technologies in Serbia, RWE Technology – responsible for technical services to RWE AG), on the strategic partnership in order to achieve joint objectives of establishing and developing strategic cooperation between the parties within the energy sector of Serbia and the South-East European region.

c) Sustainable Development Strategy

For the purpose of successful competition era of economic relations on the global, regional, national, as well as the local level, the RS Government passed the National Sustainable Development Strategy and an Action Plan for the Implementation of the National Sustainable Development Strategy for the period 2009-2017 (Official Gazette of RS, nos. 57/08 and 22/09).

With regards to the needs for the construction of a new, and revitalization and upgrading of the existing infrastructure, as well as the fact that the production and consumption of energy puts greatest pressure on the environment in the Republic of Serbia, most significant investment are anticipated in the energy sector. This is at the same time the condition for the integration of domestic energy sector in the regional and European energy market.

According to the aforementioned, and based on international protocols in effect, the Memorandum of Understanding was signed with RWE AG, Germany whereby the cooperation is to be realized in the following projects: Đerdap III and six power plants on the Great Morava River.

d) Natural Disasters

Under extreme weather conditions during May 2014 property, plant and equipment of members of the EPS Group suffered considerable damage which is estimated at RSD 15.9 billion. The greatest damage from the catastrophic floods was suffered by the property, plant and equipment of Group members – Public Entity Rudarski basen Kolubara d.o.o., with the flooding of surface waters on the open pit mines of Tamnava Zapadno polje and Veliki Crljani. In the period following these events, some of the consequences of floods were repaired.

In the period immediately preceding the approval of these consolidated financial statements, Eastern Serbia was struck by extreme weather which led to floods and damage of property, plant and equipment of members of the EPS Group on this territory. On the date of adoption of this report appraisal of incurred damage and repairing thereof is ongoing.

It is certain that the events which occurred will affect the operations of the EPS Group, particularly in respect of increased investments in property, plant and equipment for making them operations, purchase of electricity and energy inputs from third parties, and amounts of sold outputs of Group members, and consequently on expenses, revenues and cash flows.

40. EXCHANGE RATES

The official exchange rates for major currencies as determined at the interbank foreign exchange market and used in the translation of balance sheet components denominated in foreign currencies into dinars were as follows:

	December 31, 2013	December 31, 2012
EUR	114.64210	113.71830
DKK	15.36020	15.23760
JPY	0.79140	1.00070
SEK	12.94030	13.22030
CHF	93.54720	94.19220
GBP	136.96790	139.19010
USD	83.12820	86.17630
XDR	128.01740	132.44610

Signed on behalf of Public Enterprise Electric Power Industry of Serbia, Belgrade, by:

Aleksandar Obradović,
Acting General Manager

Aleksandar Surla,
Department for Economic and Financial
Affairs Director

Dragan Jonkić,
Accounts Department Director