

**PUBLIC ENTERPRISE ELEKTROPRIVREDA SRBIJE  
BEOGRAD**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017  
AND INDEPENDENT AUDITOR'S REPORT**

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## ***Independent auditor's report***

**To the Management of Javno preduzeće Elektroprivreda Srbije, Beograd**

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Javno preduzeće Elektroprivreda Srbije, Beograd (the „Company“) and its subsidiaries (the „Group“), which comprise the consolidated balance sheet as of 31 December 2017 and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes equity and consolidated cash flow statement for the year then ended and notes, comprising 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 requirements of the Law on Accounting and accounting regulation effective in 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.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing and auditing regulations effective in the Republic of Serbia. These regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 the auditor's 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, the auditor considers 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.



## Report on the Consolidated Financial Statements (continued)

### *Basis for Qualified Opinion*

As at 31 December 2017, assets under construction in the amount of RSD 6,675,572 thousand related to projects which are in progress for more than 3 years and for which the Group did not assess the recoverability as required by IAS 36 - Impairment of assets. Out of total amount of RSD 6,675,572 thousand, the amount of RSD 5,716,434 thousand relates to assets under construction in the subsidiary Operator distributivnog sistema EPS distribucija d.o.o., Beograd while the remaining amount relates to projects in Javno preduzeće Elektroprivreda Srbije, Beograd. In the absence of information of the recoverable amount of these assets, we were unable to satisfy ourselves as to the carrying amount of those assets as at 31 December 2017. The audit report for 2016 consolidated financial statements was qualified with this respect.

As at 31 December 2017, the Group did not recognize a provision for decommissioning of landfills and dumps for ash and slag in the thermal power plants Kostolac, Kolubara, Morava, Nikola Tesla A and Nikola Tesla B, as required by IAS 37 – “Provisions, contingent liabilities and contingent assets”. In the absence of information to assess the amount of provision for decommissioning, we were unable to satisfy ourselves as to the value of provisions, related assets and expenses in the consolidated financial statements. The audit report for 2016 consolidated financial statements was qualified with this respect.

### *Qualified Opinion*

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on Accounting and accounting regulation effective in the Republic of Serbia.

Refer to the original signed  
Serbian version

Milivoje Nešović  
Licensed Auditor

Belgrade, 19 July 2018

Refer to the original signed  
Serbian version

PricewaterhouseCoopers d.o.o., Beograd

**To be filled in by the legal entity - entrepreneur**

Registration number	2	0	0	5	3	6	5	8	Activity code	3	5	1	4	TIN – Tax identification number	1	0	3	9	2	0	3	2	7
Company Public Enterprise Elektroprivreda Srbije Beograd																							
Head office Belgrade, Carice Milice 2																							

**CONSOLIDATED BALANCE SHEET**

**As at 31 December 2017**

- in thousands of Dinars -

Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2016	Opening balance as at 1 January 2016
1	2	3	4	5	6	7
	<b>ASSETS</b>					
00	<b>A UNPAID SUBSCRIBED CAPITAL</b>	0001		-	-	-
	<b>B FIXED ASSETS (0003 + 0010 + 0019 + 0024 + 0034)</b>	0002		<b>1,046,339,098</b>	<b>1,047,752,475</b>	<b>958,014,142</b>
01	I. INTANGIBLE ASSETS (0004 + 0005 + 0006 + 0007 + 0008 + 0009)	0003	23	<b>6,914,340</b>	<b>4,563,898</b>	<b>5,105,579</b>
010, p.o. 019	1. Investment in development	0004		-	-	-
011, 012, p.o. 019	2. Concessions, patents, licenses, similar rights, software and other rights	0005	23	1,329,719	1,339,871	1,020,160
013, p.o. 019	3. Goodwill	0006		-	-	-
014, p.o. 019	4. Other intangible assets	0007	23	118,945	28,592	36,859
015, p.o. 019	5. Intangible assets in development	0008	23	5,465,676	3,195,435	4,048,560
016, p.o. 019	6. Advance payments for acquisition of intangible assets	0009		-	-	-
02	II. PROPERTY, PLANT AND EQUIPMENT (0011 + 0012 + 0013 + 0014 + 0015 + 0016 + 0017 + 0018)	0010		<b>1,025,501,981</b>	<b>1,032,309,606</b>	<b>949,347,366</b>
020, 021, p.o. 029	1. Land	0011	23	59,051,477	58,653,163	39,415,804
022, p.o. 029	2. Buildings	0012	23	342,432,887	348,954,709	322,809,705
023, p.o. 029	3. Machinery and equipment	0013	23	513,817,849	522,236,828	495,582,893
024, p.o. 029	4. Investment property	0014	23	522,451	530,516	556,557
025, p.o. 029	5. Other property, plant and equipment	0015	23	143,535	277,811	161,812
026, p.o. 029	6. Property, plant and equipment under construction	0016	23	86,111,084	76,459,405	63,543,171
027, p.o. 029	7. Investment in PPE owned by third parties	0017		993	1,007	1,064
028, p.o. 029	8. Advance payments for property, plant and equipment	0018	23	23,421,705	25,196,167	27,276,360

Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2016	Opening balance as at 1 January 2016
1	2	3	4	5	6	7
03	III. BIOLOGICAL ASSETS (0020 + 0021 + 0022 + 0023)	0019	23	438,332	423,147	420,391
030, 031, p.o. 039	1. Forests and plantations	0020	23	438,332	423,147	420,391
032, p.o. 039	2. Livestock	0021		-	-	-
037, p.o. 039	3. Biological assets under construction	0022		-	-	-
038, p.o. 039	4. Advance payments for biological assets	0023		-	-	-
04, except 047	IV. LONG TERM FINANCIAL INVESTMENTS (0025 + 0026 + 0027 + 0028 + 0029 + 0030 + 0031 + 0032 + 0033)	0024	24	12,791,500	8,298,298	2,357,135
040, p.o. 049	1. Investments in subsidiaries	0025		-	-	-
041, p.o. 049	2. Investments in associates and joint ventures	0026	24	406,457	406,457	406,457
042, p.o. 049	3. Investments in other legal entities and other securities available for sale	0027	24	5,240,308	381,259	360,088
p.o. 043, p.o. 044, p.o. 049	4. Long-term loans to parent companies and to subsidiaries	0028		-	-	-
p.o. 043, p.o. 044, p.o. 049	5. Long-term loans to other associated companies	0029	24	972	3,037	4,923
p.o. 045, p.o. 049	6. Long-term loans to domestic entities	0030	24	195,388	609,638	948,462
p.o. 045, p.o. 049	7. Long-term loans to foreign entities	0031		-	-	-
046, p.o. 049	8. Securities held to maturity	0032		-	-	-
048, p.o. 049	9. Other long term investment	0033	24	6,948,375	6,897,907	637,205
05	V. LONG TERM RECEIVABLES (0035 + 0036 + 0037 + 0038 + 0039 + 0040 + 0041)	0034	25	692,945	2,157,526	783,671
050, p.o. 059	1. Long term receivables – parent companies and subsidiaries	0035		-	-	-
051, p.o. 059	2. Long term receivables – other associated entities	0036		-	-	-
052, p.o. 059	3. Long term trade receivables	0037		-	-	-
053, p.o. 059	4. Trade receivables for financial lease sales	0038		-	-	-
054, p.o. 059	5. Long term receivables for guarantees	0039		-	-	-
055, p.o. 059	6. Doubtful long term receivables	0040		-	-	-
056, p.o. 059	7. Other long term receivables	0041	25	692,945	2,157,526	783,671
288	<b>C. DEFERRED TAX ASSETS</b>	0042		-	-	-

Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2016	Opening balance as at 1 January 2016
1	2	3	4	5	6	7
	<b>D. CURRENT ASSETS (0044 + 0051 + 0059 + 0060 + 0061 + 0062 + 0068 + 0069 + 0070)</b>	0043		<b>133,016,526</b>	<b>143,176,356</b>	<b>127,497,360</b>
1	I. INVENTORIES (0045 + 0046 + 0047 + 0048 + 0049 + 0050)	0044	26	<b>33,754,647</b>	<b>29,716,762</b>	<b>29,799,281</b>
10	1. Material	0045	26	26,956,565	24,373,472	24,249,770
11	2. Work in progress	0046	26	344,555	331,898	328,108
12	3. Finished products	0047	26	2,313,178	2,017,388	2,034,598
13	4. Merchandise (goods, purchase for sale)	0048	26	2,017	881	942
14	5. Non-current assets held for trading	0049	26	1,825	1,825	1,825
15	6. Advance payments	0050	26	4,136,507	2,991,298	3,184,038
20	II. TRADE RECEIVABLES (0052 + 0053 + 0054 + 0055 + 0056 + 0057 + 0058)	0051	27	<b>43,148,444</b>	<b>46,337,601</b>	<b>40,662,805</b>
200, p.o. 209	1. Trade receivables - domestic parent companies and subsidiaries	0052		-	-	-
201, p.o. 209	2. Trade receivables - foreign parent companies and subsidiaries	0053		-	-	-
202, p.o. 209	3. Trade receivables - domestic other associated entities	0054		-	-	-
203, p.o. 209	4. Trade receivables - foreign other related parties	0055		-	-	-
204, p.o. 209	5. Trade receivables - domestic third party	0056	27	42,777,702	45,918,175	39,285,972
205, p.o. 209	6. Trade receivables - foreign third party	0057	27	241,384	125,519	1,271,439
206, p.o. 209	7. Other trade receivables	0058	27	129,358	293,907	105,394
21	III. RECEIVABLES FROM SPECIFIC BUSINESS OPERATIONS	0059	28	<b>2,826,832</b>	<b>2,086,827</b>	<b>389,750</b>
22	IV. OTHER RECEIVABLES	0060	29	<b>9,962,431</b>	<b>7,100,710</b>	<b>9,047,728</b>
236	V. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	0061		-	-	-
23 except 236 and 237	VI. SHORT-TERM FINANCIAL INVESTMENTS (0063 + 0064 + 0065 + 0066 + 0067)	0062	30	<b>1,893,483</b>	<b>1,286,297</b>	<b>1,120,801</b>
230, p.o. 239	1. Short-term loans and investments in parent companies and subsidiaries	0063		-	-	-
231, p.o. 239	2. Short-term loans and investments in other related parties	0064		-	-	-
232, p.o. 239	3. Short term loans - domestic	0065	30	1,728	192,512	206,377
233, p.o. 239	4. Short term loans - foreign	0066		-	-	-

Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2016	Opening balance as at 1 January 2016
1	2	3	4	5	6	7
234, 235, 238, p.o. 239	5. Other short term investments	0067	30	1,891,755	1,093,785	914,424
24	VII. CASH AND CASH EQUIVALENTS	0068	31	39,699,986	55,297,089	45,937,129
27	VIII. RECEIVABLES FOR VAT	0069		-	-	-
28 except 288	IX. PREPAYMENTS AND ACCRUED INCOME	0070	32	1,730,703	1,351,070	539,866
	<b>E. TOTAL ASSETS = OPERATING ASSETS (0001 + 0002 + 0042 + 0043)</b>	0071		<b>1,179,355,624</b>	<b>1,190,928,831</b>	<b>1,085,511,502</b>
88	<b>F. OFF BALANCE ASSETS</b>	0072	43	150,617,359	159,155,546	264,368,258
	<b>EQUITY AND LIABILITIES</b>					
	<b>A. EQUITY (0402 + 0411 - 0412 + 0413 + 0414 + 0415 - 0416 + 0417 + 0420 - 0421) ≥ 0 = (0071 - 0424 - 0441 - 0442)</b>	0401		<b>853,482,204</b>	<b>866,257,905</b>	<b>782,340,222</b>
30	I. BASIC CAPITAL (0403 + 0404 + 0405 + 0406 + 0407 + 0408 + 0409 + 0410)	0402	33	<b>360,141,927</b>	<b>360,141,927</b>	<b>360,141,927</b>
300	1. Share capital	0403		-	-	-
301	2. Stakes in limited liability companies	0404		-	-	-
302	3. Participating interests	0405		-	-	-
303	4. State owned capital	0406	33	359,939,739	359,939,739	359,939,739
304	5. Socially owned capital	0407		-	-	-
305	6. Stakes in co-operatives	0408		-	-	-
306	7. Share premiums	0409		-	-	-
309	8. Other capital	0410	33	202,188	202,188	202,188
31	II. UNPAID SUBSCRIBED CAPITAL	0411		-	-	-
047 and 237	III. OWN SHARES PURCHASED	0412		-	-	-
32	IV. RESERVES	0413	33	12,638	678	668
330	V. REVALUATION RESERVES FOR REVALUATION OF INTANGIBLES AND PPE	0414	33	611,138,493	613,462,182	536,547,679
33 except 330	VI. NON REALIZED PROFIT FROM SECURITIES (debit saldo of account group 33 except 330)	0415	33	-	-	-



Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2016	Opening balance as at 1 January 2016
1	2	3	4	5	6	7
33 except 330	VII. NON REALIZED LOSSES FROM SECURITIES (credit saldo of account group 33 except 330)	0416	33	307,246	460,605	451,497
34	VIII. RETAINED EARNINGS (0418+0419)	0417		6,387,625	-	-
340	1. Retained earnings from previous years	0418		-	-	-
341	2. Retained earnings from current year	0419	33	6,387,625	-	-
	IX. NON-CONTROLLING INTEREST	0420		-	-	-
35	X. ACCUMULATED LOSS (0422+0423)	0421	33	123,891,233	106,886,277	113,898,555
350	1. Previous year's losses	0422	33	123,891,233	106,886,277	113,898,555
351	2. Current year loss	0423		-	-	-
	<b>B. LONG - TERM PROVISIONS AND LIABILITIES (0425+0432)</b>	0424		<b>130,796,278</b>	<b>140,956,089</b>	<b>130,756,330</b>
40	I. LONG - TERM PROVISIONS (0426 + 0427 + 0428 + 0429 + 0430 + 0431)	0425	34	15,234,083	15,022,879	17,325,654
400	1. Provisions for costs incurred during the warranty period	0426		-	-	-
401	2. Provisions for the recovery of natural resources	0427	34	2,962,777	2,744,881	2,487,490
403	3. Provisions for restructuring costs	0428		-	-	-
404	4. Provisions for employees benefits	0429	34	8,196,141	8,128,105	10,203,975
405	5. Provisions for litigations	0430	34	4,015,140	4,037,686	4,478,672
402 and 409	6. Other long-term provisions	0431	34	60,025	112,207	155,517
41	II. LONG - TERM LIABILITIES (0433 + 0434 + 0435 + 0436 + 0437 + 0438 + 0439 + 0440)	0432	35	<b>115,562,195</b>	<b>125,933,210</b>	<b>113,430,676</b>
410	1. Liabilities that can be converted into capital	0433	35	80,543	80,543	80,543
411	2. Liabilities to parent companies and subsidiaries	0434		-	-	-
412	3. Liabilities to other associated companies	0435		-	-	-
413	4. Liabilities for long-term securities	0436		-	-	-
414	5. Long-term loans - domestic	0437	35	27,433,028	27,005,809	44,355,445
415	6. Long-term loans - foreign	0438	35	87,524,019	92,226,279	68,673,270

Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2016	Opening balance as at 1 January 2016
1	2	3	4	5	6	7
416	7. Liabilities for financial lease	0439	35	10	-	22,554
419	8. Other long-term liabilities	0440	35	524,595	6,620,579	298,864
498	<b>C. DEFERRED TAX LIABILITIES</b>	0441	22	95,825,375	98,580,263	87,365,045
42 to 49 (except 498)	<b>D. SHORT-TERM LIABILITIES (0443 + 0450 + 0451 + 0459 + 0460 + 0461 + 0462)</b>	0442		<b>99,251,767</b>	<b>85,134,574</b>	<b>85,049,905</b>
42	<b>I. SHORT-TERM FINANCIAL LIABILITIES (0444 + 0445 + 0446 + 0447 + 0448 + 0449)</b>	0443	36	<b>12,171,010</b>	<b>10,607,727</b>	<b>26,673,610</b>
420	1. Short-term loans from parent companies and subsidiaries	0444		-	-	-
421	2. Short-term loans from other associated companies	0445		-	-	-
422	3. Short- term loans - domestic	0446		-	-	-
423	4. Short-term loans - foreign	0447		-	-	-
427	5. Liabilities for fixed assets and assets of discounting operations held for sale	0448		-	-	-
424, 425, 426 and 429	6. Other short-term financial liabilities	0449	36	12,171,010	10,607,727	26,673,610
430	<b>II. RECEIVED ADVANCES PAYMENTS, DEPOSITS AND BAILS</b>	0450	37	4,982,077	4,628,636	3,428,017
43 except 430	<b>III. LIABILITIES FROM BUSINESS OPERATIONS (0452 + 0453 + 0454 + 0455 + 0456 + 0457 + 0458)</b>	0451	38	<b>21,972,841</b>	<b>21,030,434</b>	<b>17,238,564</b>
431	1. Trade payables - parent companies and subsidiaries - domestic	0452		-	-	-
432	2. Trade payables - parent companies and subsidiaries - foreign	0453		-	-	-
433	3. Trade payables - other associated companies - domestic	0454	38	48,418	-	-
434	4. Trade payables - other associated companies - foreign	0455		-	-	-
435	5. Trade payables - domestic	0456	38	16,233,007	15,385,350	11,714,540
436	6. Trade payables - foreign	0457	38	4,757,144	4,940,118	4,944,240
439	7. Other liabilities from business operations	0458	38	934,272	704,966	579,784
44, 45 and 46	<b>IV. OTHER SHORT-TERM LIABILITIES</b>	0459	39	23,834,196	8,077,997	6,088,268
47	<b>V. LIABILITIES FOR VALUE ADDED TAX</b>	0460	40	4,039,292	4,581,267	5,700,584
48	<b>VI. LIABILITIES FOR OTHER TAXES, CONTRIBUTIONS AND OTHER DUTIES</b>	0461	41	7,737,521	13,593,192	5,860,120
49 except 498	<b>VII. ACCRUALS AND DEFERRED INCOME</b>	0462	42	24,514,830	22,615,321	20,060,742

Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2016	Opening balance as at 1 January 2016
1	2	3	4	5	6	7
	<b>E. LOSS OVER CAPITAL</b> (0412+0416+0421-0420-0417-0415-0414-0413-0411-0402) ≥ 0 = (0441+0424+0442-0071) ≥ 0	0463		-	-	-
	<b>F. TOTAL EQUITY AND LIABILITIES</b> (0424+0442+0441+0401-0463) ≥ 0	0464		1,179,355,624	1,190,928,831	1,085,511,502
89	<b>G. OFF BALANCE LIABILITIES</b>	0465	43	150,617,359	159,155,546	264,368,258

In \_\_\_\_\_

Legal representative

Stamp

date \_\_\_\_\_ 20 \_\_\_\_\_

\_\_\_\_\_

Financial statements forms prescribed by the Rulebook on the Content and Form of Financial Statements Forms for Companies, Cooperatives and Entrepreneurs (Official Gazette of RS. no. 95/2014 and 144/2014).

**To be filled in by the legal entity - entrepreneur**

Registration number	2	0	0	5	3	6	5	8	Activity code	3	5	1	4	TIN – Tax identification number	1	0	3	9	2	0	3	2	7
Company Public Enterprise Elektroprivreda Srbije Beograd																							
Head office Belgrade, Carice Milice 2																							

**CONSOLIDATED INCOME STATEMENT**  
for the period from 1 January 2017 to 31 December 2017

- in thousands of Dinars -

Account group, account	ITEM	AOP	Note no.	Amount	
				Current year	Previous year
1	2	3	4	5	6
	<b>REVENUES FROM REGULAR OPERATIONS</b>				
60 to 65, except 62 and 63	<b>A. OPERATING REVENUES (1002+1009+1016+1017)</b>	1001		<b>223,477,570</b>	<b>226,167,924</b>
60	I. INCOME FROM THE SALE OF MERCHANDISE (1003+1004+1005+1006+1007+1008)	1002	5	<b>3,804,741</b>	<b>2,967,209</b>
600	1. Sales of merchandise to parent companies and subsidiaries - domestic market	1003		-	-
601	2. Sales of merchandise to parent companies and subsidiaries - foreign market	1004		-	-
602	3. Sales of merchandise to other associated companies - domestic	1005		-	-
603	4. Sales of merchandise to other associated companies - foreign	1006		-	-
604	5. Sales of merchandise to domestic customers	1007		-	-
605	6. Sales of merchandise to foreign customers	1008		3,804,741	2,967,209
61	II. INCOME FROM SALES OF PRODUCTS AND SERVICE RENDERED (1010+1011+1012+1013+1014+1015)	1009	5	<b>215,869,645</b>	<b>218,750,441</b>
610	1. Sales of merchandise to parent companies and subsidiaries - domestic market	1010		-	-
611	2. Sales of merchandise to parent companies and subsidiaries - foreign market	1011		-	-
612	3. Sales of finished goods and services rendered to other associated entities - domestic	1012	5	923,863	868,925
613	4. Sales of finished goods and services rendered to other associated entities - foreign	1013		-	-
614	5. Sales of merchandise to domestic customers	1014	5	214,387,934	217,104,739
615	6. Sales of merchandise to foreign customers	1015	5	557,848	776,777
64	III. INCOME FROM PREMIUMS, SUBVENTIONS, DONATIONS, ETC.	1016	7	2,189,667	2,168,525
65	IV. OTHER OPERATING INCOME	1017	8	1,613,517	2,281,749
	<b>COSTS FROM REGULAR OPERATIONS</b>				
50 to 55, 62 and 63	<b>B. OPERATING EXPENSES (1019-1020-1021+1022+1023+1024+1025+1026+1027+1028+1029) ≥ 0</b>	1018		<b>210,943,755</b>	<b>191,712,716</b>

Account group, account	ITEM	AOP	Note no.	Amount	
				Current year	Previous year
1	2	3	4	5	6
50	I. COST OF GOODS SOLD - COGS	1019		312,818	98,794
62	II. INCOME FROM THE OWN USE OF PRODUCTS, SERVICES AND MERCHANDISE	1020	6	4,977,421	5,022,914
630	III. INCREASE OF FINISHED GOODS, WORK IN PROGRESS AND SERVICES IN PROGRESS	1021		962,087	387,152
631	IV. DECREASE OF FINISHED GOODS, WORK IN PROGRESS AND SERVICES IN PROGRESS	1022		653,639	400,573
51 except 513	V. COST OF MATERIAL	1023	9	12,398,559	11,314,013
513	VI. COST OF FUEL AND ENERGY	1024	10	40,421,675	31,275,991
52	VII. COSTS OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	1025	11	67,414,438	64,134,943
53	VIII. COSTS OF PRODUCTION SERVICES	1026	12	21,189,767	20,776,515
540	IX. DEPRECIATION COSTS	1027	13	46,381,392	44,389,787
541 to 549	X. LONG-TERM PROVISIONS COSTS	1028	14	3,158,911	1,157,330
55	XI. NON-PRODUCTION COSTS	1029	15	24,952,064	23,574,836
	<b>C. OPERATING PROFIT (1001-1018) ≥ 0</b>	1030		<b>12,533,815</b>	<b>34,455,208</b>
	<b>D. OPERATING LOSS (1018-1001) ≥ 0</b>	1031		-	-
66	<b>E. FINANCIAL INCOME (1033+1038+1039)</b>	1032		<b>21,012,042</b>	<b>10,927,843</b>
66, except 662, 663 and 664	I. FINANCIAL INCOME INCURRED WITH ASSOCIATED COMPANIES AND OTHER FINANCIAL INCOME (1034+1035+1036+1037)	1033		<b>716,207</b>	<b>570,290</b>
660	1. Financial income incurred with parent companies and subsidiaries	1034		-	-
661	2. Financial income incurred with other associated companies	1035	16	650,646	561,135
665	3. Income from share in associated entities and joint ventures	1036		-	-
669	4. Other financial income	1037	16	65,561	9,155
662	II. INCOME FROM INTEREST (FROM THIRD PARTIES)	1038	16	9,381,909	8,295,492
663 and 664	III. FX GAINS AND INCOME FOR THE EFFECTS OF CURRENCY CLAUSE	1039	16	10,913,926	2,062,061
56	<b>F. FINANCIAL EXPENSES (1041+1046+1047)</b>	1040		<b>3,851,527</b>	<b>7,902,949</b>
56, except 562, 563 and 564	I. FINANCIAL EXPENSES INCURRED WITH ASSOCIATED COMPANIES AND OTHER FINANCIAL EXPENSES (1042+1043+1044+1045)	1041	17	<b>334,056</b>	<b>709,322</b>
560	1. Financial expenses incurred with parent companies and subsidiaries	1042		-	-
561	2. Financial expenses incurred with other associated companies	1043		-	-
565	3. Losses for share in loss of associated companies and joint ventures	1044		-	-

Account group, account	ITEM	АОП	Note no.	Amount	
				Current year	Previous year
1	2	3	4	5	6
566 and 569	4. Other financial expenses	1045	17	334,056	709,322
562	II. COSTS OF INTERESTS (TO THIRD PARTIES)	1046	17	1,460,177	2,220,609
563 and 564	III. FX LOSSES AND LOSSES FOR CURRENCY CLAUSE EFFECTS	1047	17	2,057,294	4,973,018
	<b>G. FINANCIAL PROFIT (1032-1040)</b>	1048		<b>17,160,515</b>	<b>3,024,894</b>
	<b>H. FINANCIAL LOSS (1040-1032)</b>	1049		-	-
683 and 685	<b>I. INCOME FROM OTHER ASSETS VALUATION ADJUSTMENTS VALUED AT FAIR VALUE</b>	1050	18	2,599,447	8,563,774
583 and 585	<b>J. EXPENSES FROM OTHER ASSETS VALUATION ADJUSTMENTS VALUED AT FAIR VALUE</b>	1051	19	17,167,041	15,649,018
67 and 68, except 683 and 685	<b>K. OTHER INCOME</b>	1052	20	1,815,970	23,927,139
57 and 58, except 583 and 585	<b>L. OTHER EXPENSES</b>	1053	21	8,749,425	41,836,372
	<b>M. PROFIT FROM OPERATIONS BEFORE TAXATION (1030-1031+1048-1049+1050-1051+1052-1053)</b>	1054	22	<b>8,193,281</b>	<b>12,485,625</b>
	<b>N. LOSS FROM OPERATIONS BEFORE TAXATION (1031-1030+1049-1048+1051-1050+1053-1052)</b>	1055		-	-
69 minus 59	<b>O. NET OPERATING PROFIT FROM DISCONTINUED OPERATIONS</b>	1056		-	468
59 minus 69	<b>P. NET OPERATING LOSS FROM DISCONTINUED OPERATIONS</b>	1057		-	-
	<b>Q. PROFIT BEFORE TAXATION (1054-1055+1056-1057)</b>	1058		<b>8,193,281</b>	<b>12,486,093</b>
	<b>R. LOSS BEFORE TAXATION (1055-1054+1057-1056)</b>	1059		-	-
	<b>S. CORPORATE INCOME TAX</b>				
721	I. TAX EXPENSES FOR THE PERIOD	1060	22	4,529,626	9,677,896
p.o. 722	II. DEFERRED TAX COSTS FOR THE PERIOD	1061		-	-
p.o. 722	III. DEFERRED TAX INCOME FOR THE PERIOD	1062	22	2,723,970	3,041,705
723	<b>T. EMPLOYER'S EARNINGS PAID OUT</b>	1063		-	-
	<b>U. NET PROFIT (1058-1059-1060-1061+1062-1063)</b>	1064		<b>6,387,625</b>	<b>5,849,902</b>
	<b>V. NET LOSS (1059-1058+1060+1061-1062+1063)</b>	1065		-	-
	I. NET PROFIT ATTRIBUTABLE TO MINORITY INVESTORS	1066		-	-
	II. NET PROFIT ATTRIBUTABLE TO MAJORITY INVESTORS	1067		<b>6,387,625</b>	<b>5,849,902</b>
	III. NET LOSS ATTRIBUTABLE TO MINORITY INVESTORS	1068		-	-
	IV. NET LOSS ATTRIBUTABLE TO MAJORITY INVESTORS	1069		-	-

Account group, account	ITEM	AOP	Note no.	Amount	
				Current year	Previous year
1	2	3	4	5	6
	V. EARNINGS PER SHARE				
	1. Basic earnings per share	1070		-	-
	2. Diluted earnings per share	1071		-	-

In \_\_\_\_\_

Legal representative

Date \_\_\_\_\_ 20\_\_\_\_\_

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Financial statements forms prescribed by the Rulebook on the Content and Form of Financial Statements Forms for Companies, Cooperatives and Entrepreneurs (Official Gazette of RS. no. 95/2014 and 144/2014).

**To be filled in by the legal entity - entrepreneur**

Registration number	2	0	0	5	3	6	5	8	Activity code	3	5	1	4	TIN – Tax identification number	1	0	3	9	2	0	3	2	7
Company Public Enterprise Elektroprivreda Srbije Beograd																							
Head office Belgrade, Carice Milice 2																							

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
for the period from 1 January 2017 to 31 December 2017

- in thousands of Dinars -

Account group, account	ITEM	AOP	Note no.	Amount	
				Current year	Previous year
1	2	3	4	5	6
	<b>A, NET RESULT FROM OPERATIONS</b>				
	I, NET PROFIT (AOP 1064)	2001		6,387,625	5,849,902
	II, NET LOSS (AOP 1065)	2002		-	-
	<b>B, OTHER COMPREHENSIVE PROFIT OR LOSS</b>				
	<b>a) Items that will not be reclassified subsequently to profit or loss</b>				
	1, Revaluation of intangibles and PPE				
330	a) increase in revaluation reserves	2003		16,416	91,158,100
	b) decrease in revaluation reserves	2004		-	-
	2, Actuarial gains (losses) on defined benefit plans				
331	a) gains	2005		-	-
	b) losses	2006		-	-
	3, Gains or losses on investments in equity instruments				
332	a) gains	2007		-	-
	b) losses	2008		-	-
	4, Share of other comprehensive income of associates				
333	a) gains	2009		-	-
	b) losses	2010		-	-
	<b>b) Items that may be reclassified subsequently to profit or loss</b>				
	1, Foreign currency translation differences for foreign Operations				
334	a) gains	2011		-	506
	b) losses	2012		3,397	-



Account group, Account	ITEM	AOP	Note no,	Amount	
				Current year	Previous year
1	2	3	4	5	6
	2, Gains and losses on hedge of investment in foreign operations				
335	a) gains	2013		-	-
	b) losses	2014		-	-
	3, Cash flow hedges				
336	a) gains	2015		-	-
	b) losses	2016		-	-
	4, Gains and losses on available for sale financial assets				
337	a) gains	2017		150,878	-
	b) losses	2018		-	9,614
	I, OTHER COMPREHENSIVE GROSS PROFIT (2003+2005+2007+2009+2011+2013+2015+2017) - (2004+2006+2008+2010+2012+2014+2016+2018) ≥ 0	2019		163,897	91,148,992
	II, OTHER COMPREHENSIVE GROSS LOSS (2004+2006+2008+2010+2012+2014+2016+2018) - (2003+2005+2007+2009+2011+2013+2015+2017) ≥ 0	2020		-	-
	III, TAXES ON OTHER COMPREHENSIVE PROFIT OR LOSS FOR THE PERIOD	2021	22	-	14,245,628
	IV, OTHER COMPREHENSIVE NET PROFIT (2019-2020-2021) ≥ 0	2022		163,897	76,903,364
	V, OTHER COMPREHENSIVE NET LOSS (2020-2019+2021) ≥ 0	2023		-	-
	<b>C, TOTAL COMPREHENSIVE NET RESULT FOR THE PERIOD</b>				
	I, TOTAL COMPREHENSIVE NET PROFIT (2001-2002+2022-2023) ≥ 0	2024		6,551,522	82,753,266
	II, TOTAL COMPREHENSIVE NET LOSS (2002-2001+2023-2022) ≥ 0	2025		-	-
	<b>D, TOTAL COMPREHENSIVE NET PROFIT OR LOSS (2027+2028) = AOP 2024 ≥ 0 or AOP 2025 &gt; 0</b>	2026		6,551,522	82,753,266
	1, Attributable to owners	2027		6,551,522	82,753,266
	2, Attributable to non-controlling interest	2028		-	-

In \_\_\_\_\_

Legal representative

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Date \_\_\_\_\_ 20 \_\_\_\_\_

**To be filled in by legal entity – entrepreneur**

Registration number	2	0	0	5	3	6	5	8	Activity code	3	5	1	4	TIN – Tax identification number	1	0	3	9	2	0	3
Company Public Enterprise Elektroprivreda Srbije Beograd																					
Head office Belgrade, Carice Milice 2																					

**CONSOLIDATED CASH FLOW STATEMENT**  
for the period from 01 January 2017 to 31 December 2017

- in thousands of Dinars -

Item	AOP	Amount	
		Current year	Previous year
1	2	3	4
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>	3001	219,501,740	238,196,029
I. Cash inflow from operating activities (1 to 3)			
1. Sales and advance payments received	3002	206,848,374	227,694,065
2. Received interests from operating activities	3003	9,193,810	7,988,771
3. Other inflows from operating activities	3004	3,459,556	2,513,193
II. Cash outflows from operating activities (1 to 5)	3005	189,708,763	180,366,421
1. Payments to suppliers and advance prepayments	3006	59,591,091	88,472,047
2. Wages, salaries and other personal costs	3007	66,238,597	61,105,527
3. Paid interests	3008	2,561,490	354,101
4. Corporate income tax	3009	16,359,709	1,366,551
5. Other payments to tax authorities	3010	44,957,876	29,068,195
III. Net cash inflow from operating activities (I-II)	3011	29,792,977	57,829,608
IV. Net cash outflow from operating activities (II-I)	3012	-	-
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>	3013	1,119,334	12,830,901
I. Cash inflow from investing activities (1 till 5)			
1. Sale of shares and stakes (net inflows)	3014	-	-
2. Sale of intangible assets, property, plant, equipment and biological assets	3015	287,394	10,944,316
3. Other financial investments (net inflows)	3016	-	782,830
4. Interests received from investing activities	3017	831,940	1,103,755
5. Dividends received	3018	-	-
II. Cash outflow from investing activities (1 till 3)	3019	45,023,247	56,679,635
1. Purchase of shares and stakes (net outflows)	3020	-	2,556
2. Purchase of intangible investments, property, plant, equipment and biological assets	3021	41,857,566	49,900,997
3. Other financial investments (net outflows)	3022	3,165,681	6,776,082
III. Net cash inflow from investing activities (I-II)	3023	-	-
IV. Net cash outflow from investing activities (II-I)	3024	43,903,913	43,848,734
<b>C. CASH INFLOW FROM FINANCING ACTIVITIES</b>	3025	2,452,461	70,585
I. Cash inflows from financing activities (1 till 5)			
1. Increase of basic capital	3026	40,063	-
2. Long-term loans (net inflows)	3027	2,412,398	-

ITEM	AOP	Amount	
		Current year	Previous year
1	2	3	4
3. Short-term loans (net inflows)	3028	-	-
4. Other long-term liabilities	3029	-	-
5. Other short-term liabilities	3030	-	70,585
<b>II. Cash outflows from financing activities (1 till 6)</b>	<b>3031</b>	<b>3,293,268</b>	<b>4,969,399</b>
1. Purchase of own shares and stakes	3032	-	-
2. Long-term loans (net outflows)	3033	-	3,503,629
3. Short-term loans (net outflows)	3034	176	-
4. Other liabilities (net outflows)	3035	270,196	68,001
5. Financial lease	3036	22,896	1,337,306
6. Paid dividends	3037	3,000,000	60,463
<b>III. Net cash inflows from financing activities (I-II)</b>	<b>3038</b>	<b>-</b>	<b>-</b>
<b>IV. Net cash outflows from financing activities (II-I)</b>	<b>3039</b>	<b>840,807</b>	<b>4,898,814</b>
<b>D. TOTAL CASH INFLOWS (3001 + 3013 + 3025)</b>	<b>3040</b>	<b>223,073,535</b>	<b>251,097,515</b>
<b>E. TOTAL CASH OUTFLOWS (3005 + 3019 + 3031)</b>	<b>3041</b>	<b>238,025,278</b>	<b>242,015,455</b>
<b>F. NET CASH INFLOWS (3040 - 3041)</b>	<b>3042</b>	<b>-</b>	<b>9,082,060</b>
<b>G. NET CASH OUTFLOWS (3041 - 3040)</b>	<b>3043</b>	<b>14,951,743</b>	<b>-</b>
<b>H. CASH AT THE BEGINNING OF THE CALCULATION PERIOD</b>	<b>3044</b>	<b>55,297,089</b>	<b>45,937,129</b>
<b>I. POSITIVE EXCHANGE RATE DIFFERENCES DUE TO CALCULATION OF CASH</b>	<b>3045</b>	<b>154,424</b>	<b>373,538</b>
<b>J. NEGATIVE EXCHANGE RATE DIFFERENCES DUE TO CALCULATION OF CASH</b>	<b>3046</b>	<b>799,784</b>	<b>95,638</b>
<b>K. CASH AT THE END OF REPORTING PERIOD (3042 - 3043 + 3044 + 3045 - 3046)</b>	<b>3047</b>	<b>39,699,986</b>	<b>55,297,089</b>

In \_\_\_\_\_

Legal representative

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Date \_\_\_\_\_ 20 \_\_\_\_\_

**To be filled in by legal entity – entrepreneur**

Registration number	2	0	0	5	3	6	5	8	Activity code	3	5	1	4	TIN – Tax identification number	1	0	3	9	2	0	3	2	7
Company Public Enterprise Elektroprivreda Srbije Beograd																							
Head office Belgrade, Carice Milice 2																							

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the period from 01 January 2017 to 31 December 2017

- In thousands of Dinars -

No.	Description	Components of Equity					
		AOP	30	AOP	31	AOP	32
			Core equity		Unpaid subscribed equity		Reserves
1	2		3		4		5
	<b>Balance as at 01.01. of the previous year</b>						
1.	a) debit balance account	4001	-	4019	-	4037	-
	b) credit balance account	4002	360,141,927	4020	-	4038	668
	<b>Correction of material errors and changes in accounting policies</b>						
2.	a) corrections on the debit side of the account	4003	-	4021	-	4039	-
	b) corrections to the credit side of the account	4004	-	4022	-	4040	-
	<b>Adjusted opening balance as at 01.01. of the previous year</b>						
3.	a) corrected debit balance account (1a + 2a - 2b) ≥ 0	4005		4023	-	4041	-
	b) corrected credit balance accounts (1b - 2a + 2b) ≥ 0	4006	360,141,927	4024	-	4042	668
	<b>Changes in the previous year _____</b>						
4.	a) turnover on the debit side of the account	4007	-	4025	-	4043	-
	b) turnover on the credit side of the account	4008	-	4026	-	4044	10
	<b>Balance at the end of the previous year 31.12 . _____</b>						
5.	a) debit account balance (3a + 4a - 4b) ≥ 0	4009	-	4027	-	4045	-
	b) credit balance accounts (3b - 4a + 4b) ≥ 0	4010	360,141,927	4028	-	4046	678
	<b>Correction of material errors and changes in accounting policies</b>						
6.	a) corrections on the debit side of the account	4011	-	4029	-	4047	-
	b) corrections to the credit side of the account	4012	-	4030	-	4048	-
	<b>Corrected opening balance of the current year 01.01. _____</b>						
7.	a) corrected debit balance accounts (5a + 6a - 6b) ≥ 0	4013	-	4031	-	4049	-
	b) corrected credit balance accounts (5b - 6a + 6b) ≥ 0	4014	360,141,927	4032	-	4050	678
	<b>Changes in the current year _____</b>						
8.	a) turnover on the debit side of the account	4015	-	4033	-	4051	-
	b) turnover on the credit side of the account	4016	-	4034	-	4052	11,960
	<b>Balance at end of the year 31.12 . _____</b>						
9.	a) debit balance account (7a + 8a - 8b) ≥ 0	4017	-	4035	-	4053	-
	b) credit balance accounts (7b - 8a + 8b) ≥ 0	4018	360,141,927	4036	-	4054	12,638

No.	DESCRIPTION	Components of Equity					
		AOP	35	АОП	047 и 237	АОП	34
			Accumulated Loss		Treasury shares		Retained Earnings
	2		6		7		8
1.	<b>Balance as at 01.01. of the previous year</b>						
	a) debit balance account	4055	113,898,555	4073	-	4091	-
	b) credit balance account	4056	-	4074	-	4092	-
2.	<b>Correction of material errors and changes in accounting policies</b>						
	a) corrections on the debit side of the account	4057	-	4075	-	4093	-
	b) corrections to the credit side of the account	4058	-	4076	-	4094	-
3.	<b>Adjusted opening balance as at 01.01. of the previous year</b>						
	a) corrected debit balance account (1a + 2a - 2b) ≥ 0	4059	113,898,555	4077	-	4095	-
	b) corrected credit balance accounts (1b - 2a + 2b) ≥ 0	4060	-	4078	-	4096	-
4.	<b>Changes in the previous year _____</b>						
	a) turnover on the debit side of the account	4061	-	4079	-	4097	5,849,902
	b) turnover on the credit side of the account	4062	7,012,278	4080	-	4098	5,849,902
5.	<b>Balance at the end of the previous year 31.12 . _____</b>						
	a) debit account balance (3a + 4a - 4b) ≥ 0	4063	106,886,277	4081	-	4099	-
	b) credit balance accounts (3b - 4a + 4b) ≥ 0	4064	-	4082	-	4100	-
6.	<b>Correction of material errors and changes in accounting policies</b>						
	a) corrections on the debit side of the account	4065	-	4083	-	4101	-
	b) corrections to the credit side of the account	4066	-	4084	-	4102	-
7.	<b>Corrected opening balance of the current year 01.01. _____</b>						
	a) corrected debit balance accounts (5a + 6a - 6b) ≥ 0	4067	106,886,277	4085	-	4103	-
	b) corrected credit balance accounts (5b - 6a + 6b) ≥ 0	4068	-	4086	-	4104	-
8.	<b>Changes in the current year _____</b>						
	a) turnover on the debit side of the account	4069	22,854,858	4087	-	4105	-
	b) turnover on the credit side of the account	4070	5,849,902	4088	-	4106	6,387,625
9.	<b>Balance at end of the year 31.12 . _____</b>						
	a) debit balance account (7a + 8a - 8b) ≥ 0	4071	123,891,233	4089	-	4107	-
	b) credit balance accounts (7b - 8a + 8b) ≥ 0	4072	-	4090	-	4108	6,387,625

No.	DESCRIPTION	Components of Other Comprehensive Income					
		AOP	330	AOP	331	AOP	332
			Revaluation Reserves		Actuarial gains or losses		Gains or losses on investment in equity instruments
1	2		9		10		11
	<b>Balance as at 01.01. of the previous year</b>						
1.	a) debit balance account	4109	-	4127	-	4145	-
	b) credit balance account	4110	536,547,679	4128	-	4146	-
	<b>Correction of material errors and changes in accounting policies</b>						
2.	a) corrections on the debit side of the account	4111	-	4129	-	4147	-
	b) corrections to the credit side of the account	4112	-	4130	-	4148	-
	<b>Adjusted opening balance as at 01.01. of the previous year</b>						
3.	a) corrected debit balance account (1a + 2a - 2b) ≥ 0	4113	-	4131	-	4149	-
	b) corrected credit balance accounts (1b - 2a + 2b) ≥ 0	4114	536,547,679	4132	-	4150	-
	<b>Changes in the previous year _____</b>						
4.	a) turnover on the debit side of the account	4115	17,654,094	4133	-	4151	-
	b) turnover on the credit side of the account	4116	94,568,597	4134	-	4152	-
	<b>Balance at the end of the previous year 31.12. _____</b>						
5.	a) debit account balance (3a + 4a - 4b) ≥ 0	4117	-	4135	-	4153	-
	b) credit balance accounts (3b - 4a + 4b) ≥ 0	4118	613,462,182	4136	-	4154	-
	<b>Correction of material errors and changes in accounting policies</b>						
6.	a) corrections on the debit side of the account	4119	-	4137	-	4155	-
	b) corrections to the credit side of the account	4120	-	4138	-	4156	-
	<b>Corrected opening balance of the current year 01.01. _____</b>						
7.	a) corrected debit balance accounts (5a + 6a - 6b) ≥ 0	4121	-	4139	-	4157	-
	b) corrected credit balance accounts (5b - 6a + 6b) ≥ 0	4122	613,462,182	4140	-	4158	-
	<b>Changes in the current year _____</b>						
8.	a) turnover on the debit side of the account	4123	2,340,105	4141	-	4159	-
	b) turnover on the credit side of the account	4124	16,416	4142	-	4160	-
	<b>Balance at end of the year 31.12. _____</b>						
9.	a) debit balance account (7a + 8a - 8b) ≥ 0	4125	-	4143	-	4161	-
	b) credit balance accounts (7b - 8a + 8b) ≥ 0	4126	611,138,493	4144	-	4162	-

No.	DESCRIPTION	Components of Other Comprehensive Income					
		AOP	333	AOP	334 и 335	AOP	336
			Gains or losses on share in OCI of associated entities		Gains or losses on foreign operations and translation of financial statements		Gains or losses on cash flow hedges
1	2		12		13		14
	<b>Balance as at 01.01. of the previous year</b>						
1.	a) debit balance account	4163	-	4181	-	4199	-
	b) credit balance account	4164	-	4182	-	4200	-
	<b>Correction of material errors and changes in accounting policies</b>						
2.	a) corrections on the debit side of the account	4165	-	4183	-	4201	-
	b) corrections to the credit side of the account	4166	-	4184	-	4202	-
	<b>Adjusted opening balance as at 01.01. of the previous year</b>						
3.	a) corrected debit balance account (1a + 2a - 2b) ≥ 0	4167	-	4185	-	4203	-
	b) corrected credit balance accounts (1b - 2a + 2b) ≥ 0	4168	-	4186	-	4204	-
	<b>Changes in the previous year _____</b>						
4.	a) turnover on the debit side of the account	4169	-	4187	-	4205	-
	b) turnover on the credit side of the account	4170	-	4188	-	4206	-
	<b>Balance at the end of the previous year 31.12. _____</b>						
5.	a) debit account balance (3a + 4a - 4b) ≥ 0	4171	-	4189	-	4207	-
	b) credit balance accounts (3b - 4a + 4b) ≥ 0	4172	-	4190	-	4208	-
	<b>Correction of material errors and changes in accounting policies</b>						
6.	a) corrections on the debit side of the account	4173	-	4191	-	4209	-
	b) corrections to the credit side of the account	4174	-	4192	-	4210	-
	<b>Corrected opening balance of the current year 01.01. _____</b>						
7.	a) corrected debit balance accounts (5a + 6a - 6b) ≥ 0	4175	-	4193	-	4211	-
	b) corrected credit balance accounts (5b - 6a + 6b) ≥ 0	4176	-	4194	-	4212	-
	<b>Changes in the current year _____</b>						
8.	a) turnover on the debit side of the account	4177	-	4195	-	4213	-
	b) turnover on the credit side of the account	4178	-	4196	-	4214	-
	<b>Balance at end of the year 31.12. _____</b>						
9.	a) debit balance account (7a + 8a - 8b) ≥ 0	4179	-	4197	-	4215	-
	b) credit balance accounts (7b - 8a + 8b) ≥ 0	4180	-	4198	-	4216	-

No.	DESCRIPTION	Components of Other Comprehensive Income		AOP	Total equity [Σ(row 16 col 3 to col 15)]≥0	AOP	Loss above the value of equity [Σ(row 1a col 3 to col 15) - Σ(row 16 col 3 to col 15)] ≥ 0
		AOP	337				
			Gains or losses on AFS securities				
1	2		15		16		17
1.	<b>Balance as at 01.01. of the previous year</b>						
	a) debit balance account	4217	451,497	4235	782,340,222	4244	-
	b) credit balance account	4218	-				
2.	<b>Correction of material errors and changes in accounting policies</b>						
	a) corrections on the debit side of the account	4219	-	4236	-	4245	-
	b) corrections to the credit side of the account	4220	-				
3.	<b>Adjusted opening balance as at 01.01. of the previous year</b>						
	a) corrected debit balance account (1a + 2a - 2b) ≥ 0	4221	451,497	4237	782,340,222	4246	-
	b) corrected credit balance accounts (1b - 2a + 2b) ≥ 0	4222	-				
4.	<b>Changes in the previous year _____</b>						
	a) turnover on the debit side of the account	4223	9,614	4238	83,917,683	4247	-
	b) turnover on the credit side of the account	4224	506				
5.	<b>Balance at the end of the previous year 31.12. _____</b>						
	a) debit account balance (3a + 4a - 4b) ≥ 0	4225	460,605	4239	866,257,905	4248	-
	b) credit balance accounts (3b - 4a + 4b) ≥ 0	4226	-				
6.	<b>Correction of material errors and changes in accounting policies</b>						
	a) corrections on the debit side of the account	4227	-	4240	-	4249	-
	b) corrections to the credit side of the account	4228	-				
7.	<b>Corrected opening balance of the current year 01.01. _____</b>						
	a) corrected debit balance accounts (5a + 6a - 6b) ≥ 0	4229	460,605	4241	866,257,905	4250	-
	b) corrected credit balance accounts (5b - 6a + 6b) ≥ 0	4230	-				
8.	<b>Changes in the current year _____</b>						
	a) turnover on the debit side of the account	4231	31,767	4242	-	4251	-
	b) turnover on the credit side of the account	4232	185,126				
9.	<b>Balance at end of the year 31.12. _____</b>						
	a) debit balance account (7a + 8a - 8b) ≥ 0	4233	307,246	4243	853,482,204	4252	-
	b) credit balance accounts (7b - 8a + 8b) ≥ 0	4234	-				

In \_\_\_\_\_

Legal representative

Stamp

Date \_\_\_\_\_ 20 \_\_\_\_\_



**Public Enterprise ELEKTROPRIVREDA SRBIJE,  
BEOGRAD**

**Consolidated Financial Statements  
31 December 2017**

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**CONSOLIDATED INCOME STATEMENT**  
For the period 1 January - 31 December 2017  
In RSD thousand

	<b>Note</b>	<b>For the Year Ended 31 December 2017</b>	<b>For the Year Ended 31 December 2016</b> <i>Restated</i>
<b>Income from sales of goods and services</b>			
Income from sales of goods and services to other related parties – on domestic market	5	923,863	868,925
Income from sales of goods and services – on domestic market	5	214,387,934	217,104,739
Income from sales of goods and services – on foreign market	5	4,362,589	3,743,986
		<u>219,674,386</u>	<u>221,717,650</u>
Income from premiums, subventions, grants and donations	7	2,189,667	2,168,525
Other operating income	8	1,613,517	2,281,749
<b>Income from operating activities</b>		<u>223,477,570</u>	<u>226,167,924</u>
<b>Expenses from operating activities</b>			
<b>Operating expenses</b>			
Cost of goods sold		(312,818)	(98,794)
Work performed by the entity and capitalised	6	4,977,421	5,022,914
Increase/(decrease) in inventories of unfinished goods and services		308,448	(13,421)
Cost of material	9	(12,398,559)	(11,314,013)
Cost of fuel and energy	10	(40,421,675)	(31,275,991)
Wages and salaries and other personal expenses	11	(67,414,438)	(64,134,943)
Cost of production services	12	(21,189,767)	(20,776,515)
Depreciation/Amortisation	13	(46,381,392)	(44,389,787)
Cost of long-term provisioning	14	(3,158,911)	(1,157,330)
Other operating expenses	15	(24,952,064)	(23,574,836)
		<u>(210,943,755)</u>	<u>(191,712,716)</u>
<b>Operating profit/ (loss)</b>		<u>12,533,815</u>	<u>34,455,208</u>
<b>Financial income</b>			
Financial income from other related parties	16	650,646	561,135
Other financial income	16	65,561	9,155
Interest income (third parties)	16	9,381,909	8,295,492
Foreign exchange gains and gains on currency clause effect (third parties)	16	10,913,926	2,062,061
		<u>21,012,042</u>	<u>10,927,843</u>
<b>Financial expenses</b>			
Other financial expenses	17	(334,056)	(709,322)
Interest expense (third parties)	17	(1,460,177)	(2,220,609)
Foreign exchange losses and loss on currency clause effect (third parties)	17	(2,057,294)	(4,973,018)
		<u>(3,851,527)</u>	<u>(7,902,949)</u>
<b>Gain/(loss) on financing activities</b>		<u>17,160,515</u>	<u>3,024,894</u>
Income from adjustments of other assets carried at fair value through profit and loss	18	2,599,447	8,563,774
Expenses from adjustments of other assets carried at fair value through profit and loss	19	(17,167,041)	(15,649,018)
Other income	20	1,815,970	23,927,139
Other expenses	21	(8,749,425)	(41,836,372)
		<u>(21,501,049)</u>	<u>(24,994,477)</u>
<b>Operating profit/(loss) before tax</b>		<u>8,193,281</u>	<u>12,485,625</u>

**CONSOLIDATED INCOME STATEMENT (continued)**  
**For the period 1 January - 31 December 2017**  
**In RSD thousand**

	<b>Note</b>	<b>For the Year Ended 31 December 2017</b>	<b>For the Year Ended 31 December 2016</b> <i>Restated</i>
<b>Profit/ (loss) before tax</b>		8,193,281	12,485,625
The net gain of the business that is being suspended, the effects of changes in the accounting policy and the correction of errors from previous periods		-	468
<b>Profit/ (loss) before tax</b>	22	8,193,281	12,486,093
<b>Income tax</b>			
Tax expense for the period	22	(4,529,626)	(9,677,896)
Deferred tax income /(expense) for the period	22	2,723,970	3,041,705
<b>Net profit/ (loss)</b>		6,387,625	5,849,902

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

On behalf of the JP EPS

Milorad Grčić  
Acting General Manager

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**  
For the period 1 January - 31 December 2017  
In RSD thousand

	Note	For the Year Ended 31 December 2017	For the Year Ended 31 December 2016 <i>Restated</i>
<b>Net operating income</b>			
Net profit		6,387,625	5,849,902
<b>Items that will not be reclassified to profit or loss</b>			
Increase in revaluation reserves	33	16,416	91,160,131
		<u>16,416</u>	<u>91,160,131</u>
<b>Items that will be reclassified to profit or loss</b>			
Gains/(losses) on translating the results in the consolidated financial statements of foreign operations	33	(3,397)	506
Gains/(losses) on available-for-sale securities	33	150,878	(9,614)
		<u>147,481</u>	<u>(9,108)</u>
Other Comprehensive gain, gross		<u>163,897</u>	<u>91,151,023</u>
Tax on other comprehensive gain or loss	22	-	(14,245,628)
Other Comprehensive gain, net		<u>163,897</u>	<u>76,905,395</u>
<b>Total comprehensive gain, net</b>		<u><u>6,551,522</u></u>	<u><u>82,755,297</u></u>

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

**PUBLIC ENTERPRISE, ELEKTROPRIVREDA SRBIJE,  
BELGRADE**

**CONSOLIDATED BALANCE SHEET**  
**As at 31 December 2017**  
**In RSD thousand**

	<b>Note</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Assets</b>			
<b>Non-current assets</b>			
<b>Intangible Assets</b>			
Concessions, patents, licences, trademarks, software and similar rights	23	1,329,719	1,339,871
Other intangibles	23	118,945	28,592
Intangible Assets under construction	23	<u>5,465,676</u>	<u>3,195,435</u>
		<u>6,914,340</u>	<u>4,563,898</u>
<b>Property, plant and equipment</b>			
Land	23	59,051,477	58,653,163
Buildings	23	342,432,887	348,954,709
Machinery and equipment	23	513,817,849	522,236,828
Investment property	23	522,451	530,516
Other Property, Plant and Equipment	23	143,535	277,811
Construction in progress (CIP)	23	86,111,084	76,459,405
Investments in third party property, plant and equipment		993	1,007
Prepayments for property, plant and equipment	23	<u>23,421,705</u>	<u>25,196,167</u>
		<u>1,025,501,981</u>	<u>1,032,309,606</u>
<b>Biological assets</b>			
Forest farming	23	<u>438,332</u>	<u>423,147</u>
<b>Long-term financial investments</b>			
Investments in associates and joint ventures	24	406,457	406,457
Investments in other legal entities and other available for sale securities	24	5,240,308	381,259
Long-term financial investments in other related parties	24	972	3,037
Long term investments – domestic	24	195,388	609,638
Other long-term financial investments	24	<u>6,948,375</u>	<u>6,897,907</u>
		<u>12,791,500</u>	<u>8,298,298</u>
<b>Long-term receivables</b>			
Other long term receivables	25	<u>692,945</u>	<u>2,157,526</u>
<b>Current assets</b>			
<b>Inventory</b>			
Material, spare parts, tools and inventory	26	26,956,565	24,373,472
Work in progress and ongoing services	26	344,555	331,898
Finished goods	26	2,313,178	2,017,388
Merchandise	26	2,017	881
Non-current assets held for sale	26	1,825	1,825
Prepaid inventory and services	26	<u>4,136,507</u>	<u>2,991,298</u>
		<u>33,754,647</u>	<u>29,716,762</u>
<b>Trade receivables</b>			
Trade receivables – domestic	27	42,777,702	45,918,175
Trade receivables – foreign	27	241,384	125,519
Other trade receivables	27	<u>129,358</u>	<u>293,907</u>
		<u>43,148,444</u>	<u>46,337,601</u>
<b>Receivables from specific operations</b>			
Other receivables	28	2,826,832	2,086,827
	29	9,962,431	7,100,710

(continued)

**PUBLIC ENTERPRISE, ELEKTROPRIVREDA SRBIJE,  
BELGRADE**

**CONSOLIDATED BALANCE SHEET (continued)**  
**As at 31 December 2017**  
**In RSD thousand**

	<b>Note</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Short-term financial investments</b>			
Short-term loans and borrowings - domestic	30	1,728	192,512
Other short term financial investments	30	1,891,755	1,093,785
		<u>1,893,483</u>	<u>1,286,297</u>
Cash and cash equivalents	31	39,699,986	55,297,089
Value added tax		-	-
Prepaid expenses and other accruals	32	1,730,703	1,351,070
		<u>1,179,355,624</u>	<u>1,190,928,831</u>
<b>Total assets</b>			
<b>Off-balance sheet assets</b>	43	150,617,359	159,155,546
<b>Liabilities</b>			
<b>Equity</b>			
Basic capital	33	360,141,927	360,141,927
Reserves	33	12,638	678
Revaluation reserves based on revaluation of intangible assets, property, plant and equipment	33	611,138,493	613,462,182
Unrealised gain/(loss) from securities and other comprehensive income items	33	(307,246)	(460,605)
Current year retained earnings	33	6,387,625	5,849,902
Prior years loss	33	(123,891,233)	(112,736,179)
		<u>853,482,204</u>	<u>866,257,905</u>
<b>Long-term provisions and liabilities</b>			
<b>Long-term provisions</b>			
Provision for environmental restoration	34	2,962,777	2,744,881
Provisions for employee benefits	34	8,196,141	8,128,105
Provisions for litigations	34	4,015,140	4,037,686
Other long term provisions	34	60,025	112,207
		<u>15,234,083</u>	<u>15,022,879</u>
<b>Long-term liabilities</b>			
Liabilities convertible to equity	35	80,543	80,543
Long term loans and borrowings - domestic	35	27,433,028	27,005,809
Long-term loans and borrowings - foreign	35	87,524,019	92,226,279
Finance lease liabilities	35	10	-
Other long-term liabilities	35	524,595	6,620,579
		<u>115,562,195</u>	<u>125,933,210</u>
<b>Deferred tax liabilities</b>	22	95,825,375	98,580,263
<b>Short-term liabilities</b>			
<b>Short-term financial liabilities</b>			
Other short term financial liabilities	36	12,171,010	10,607,727

(continued)

**CONSOLIDATED BALANCE SHEET (continued)**  
**As at 31 December 2017**  
**In RSD thousand**

	<u>Note</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
Customer prepayments, deposits and caution money	37	4,982,077	4,628,636
<b>Operating liabilities</b>			
Trade payables - domestic	38	16,233,007	15,385,350
Trade payables - foreign	38	4,757,144	4,940,118
Other operating liabilities	38	982,690	704,966
		<u>21,972,841</u>	<u>21,030,434</u>
Other current liabilities	39	23,834,196	8,077,997
Liabilities for VAT	40	4,039,292	4,581,267
Liabilities for other taxes, contributions and duties	41	7,737,521	13,593,192
Accrued expenses	42	24,514,830	22,615,321
		<u>60,125,839</u>	<u>48,867,777</u>
<b>Total liabilities</b>		<u>1,179,355,624</u>	<u>1,190,928,831</u>
<b>Off-balance sheet liabilities</b>	43	<u>150,617,359</u>	<u>159,155,546</u>

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



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
During the period from 1 January - 31 December 2017  
In RSD thousand

	Items of equity			Items of other comprehensive income			Total equity
	Basic capital	Loss	Retained earnings	Revaluation reserves	Reserves	Gains/(losses) on available-for-sale securities	
<b>Opening balance as at 1 January 2016</b>							
a) debit balance	-	122,157,853	-	-	-	451,497	122,609,350
b) credit balance	360,141,927	-	8,259,298	536,547,679	668	-	904,949,572
	<u>360,141,927</u>	<u>(122,157,853)</u>	<u>8,259,298</u>	<u>536,547,679</u>	<u>668</u>	<u>(451,497)</u>	<u>782,340,222</u>
<b>Movements in 2016</b>							
a) debit turnover	-	-	8,259,298	17,654,094	-	9,614	25,923,006
b) credit turnover	-	9,421,674	5,849,902	94,568,597	10	506	109,840,689
<b>Closing balance as at 31 December 2016</b>							
a) debit balance	-	112,736,179	-	-	-	460,605	113,196,784
b) credit balance	360,141,927	-	5,849,902	613,462,182	678	-	979,454,689
	<u>360,141,927</u>	<u>(112,736,179)</u>	<u>5,849,902</u>	<u>613,462,182</u>	<u>678</u>	<u>(460,605)</u>	<u>866,257,905</u>
<b>Opening balance as at 1 January 2017</b>							
a) debit balance	-	112,736,179	-	-	-	460,605	113,196,784
b) credit balance	360,141,927	-	5,849,902	613,462,182	678	-	979,454,689
	<u>360,141,927</u>	<u>(112,736,179)</u>	<u>5,849,902</u>	<u>613,462,182</u>	<u>678</u>	<u>(460,605)</u>	<u>866,257,905</u>
<b>Movements in 2017</b>							
a) debit turnover	-	18,193,342	5,849,902	2,340,105	-	31,767	26,415,116
b) credit turnover	-	7,038,288	6,387,625	16,416	11,960	185,126	13,639,415
<b>Closing balance as at 31 December 2017</b>							
a) debit balance	-	123,891,233	-	-	-	307,246	124,198,479
b) credit balance	360,141,927	-	6,387,625	611,138,493	12,638	-	977,680,683
	<u>360,141,927</u>	<u>(123,891,233)</u>	<u>6,387,625</u>	<u>611,138,493</u>	<u>12,638</u>	<u>(307,246)</u>	<u>853,482,204</u>

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

**CONSOLIDATED CASH FLOW STATEMENT**  
During the period from 1 January - 31 December 2017  
In RSD thousand

	<u>2017.</u>	<u>2016.</u>
<b>Cash flows from operating activities</b>		
<b>Cash inflows from operating activities</b>	<b>219,501,740</b>	<b>238,196,029</b>
Sales and advances received	206,848,374	227,694,065
Interests from operating activities	9,193,810	7,988,771
Other proceeds from operating activities	3,459,556	2,513,193
<b>Cash outflows from operating activities</b>	<b>189,708,763</b>	<b>180,366,421</b>
Payments and prepayments to suppliers	59,591,091	88,472,047
Salaries, fringe benefits and other personal expenses	66,238,597	61,105,527
Interests paid	2,561,490	354,101
Income tax	16,359,709	1,366,551
Charges for services that qualify as public revenues	44,957,876	29,068,195
<b>Cash inflows/(outflow) from operating activities, Net</b>	<b>29,792,977</b>	<b>57,829,608</b>
<b>Cash flows from investing activities</b>		
<b>Cash inflows from investing activities</b>	<b>1,119,334</b>	<b>12,830,901</b>
Sale of intangible assets, property, plant, equipment and biological assets	287,394	10,944,316
Other financial investments (net inflows)	-	782,830
Interests received from investing activities	831,940	1,103,755
<b>Cash outflows from investing activities</b>	<b>45,023,247</b>	<b>56,679,635</b>
Purchase of shares and stakes (outflows, net)	-	2,556
Purchase of intangible assets, property, plant, equipment and biological assets	41,857,566	49,900,997
Other financial outflows, Net	3,165,681	6,776,082
<b>Cash inflows/(outflows) from investing activities, Net</b>	<b>(43,903,913)</b>	<b>(43,848,734)</b>
<b>Cash flows from financing activities</b>		
<b>Cash inflows from financing activities</b>	<b>2,452,461</b>	<b>70,585</b>
Increase in share capital	40,063	-
Long-term borrowings (net proceeds)	2,412,398	-
Other short-term liabilities	-	70,585
<b>Cash outflows from financing activities</b>	<b>3,293,268</b>	<b>4,969,399</b>
Long-term loans (outflows)	-	3,503,629
Short-term loans (outflows)	176	-
Other liabilities	270,196	68,001
Finance lease	22,896	1,337,306
Dividends paid	3,000,000	60,463
<b>Inflows/(outflows) from financing activities, Net</b>	<b>(840,807)</b>	<b>(4,898,814)</b>
<b>Total cash inflow</b>	<b>223,073,535</b>	<b>251,097,515</b>
<b>Total cash outflow</b>	<b>238,025,278</b>	<b>242,015,455</b>
<b>Net cash inflow/(outflow)</b>	<b>(14,951,743)</b>	<b>9,082,060</b>
<b>Cash at the beginning of the accounting period</b>	<b>55,297,089</b>	<b>45,937,129</b>
<b>Foreign exchange gains on translation of cash</b>	<b>154,424</b>	<b>373,538</b>
<b>Foreign exchange losses on translation of cash</b>	<b>(799,784)</b>	<b>(95,638)</b>
<b>Cash at the end of the accounting period</b>	<b>39,699,986</b>	<b>55,297,089</b>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2017**

**1. GROUP ORGANISATION AND OPERATIONS**

The Government of the Republic of Serbia, at its session held on 27 January 2005 (RS Official Gazette, No. 12/2005), passed Decision 05 No.023-396/2005 1 to establish Public Enterprise Elektroprivreda Srbije to be involved in the production, distribution and trade of electricity (the Company). Based on the Decision on Harmonising the Operations of PE Elektroprivreda Srbije with the Law on Public Enterprises (Official Gazette of RS, number 105/16), the Serbian Government harmonized the Articles of Association of PE Enterprise Elektroprivreda Srbije with the Law on Public Enterprises (RS Official Gazette No 15/16).

The address of the Company's registered office is in Belgrade, at 2 Carice Milice Street. The Company's ID No. is: 20053658. The Company's tax identification number is 103920327. The Company began operations on 1 July 2015 based on Business Registers Agency Decision No. BD 80380/2005. On 11 May 2018, the Company registered its new address at 13 Balkanska Street, Belgrade.

Public Enterprise Elektroprivreda Srbije, Beograd (the Company), as controlling company (i.e. parent company) and its subsidiaries constitute EPS Group (together: the Group).

The Company operates under the name: Public Enterprise Elektroprivreda Srbije, Beograd. The Company's abbreviated name is JP EPS, Beograd.

The Group's principal activity of is energy supply - Code of Activity 3514. In addition to its principal activity, the Group is engaged in other operating activities such as electricity production, coal production, processing and transportation, steam and hot water production in combined processes, as well as in other activities.

Furthermore, on the Group level, the Group's principal activity includes electricity distribution and distribution system management. As of 1 July 2015, the distribution of electricity and the management of distribution systems have been performed by a Distribution System Operator, EPS Distribucija d.o.o., the Company's subsidiary.

The Decision on Harmonising the Operations of PE Elektroprivreda Srbije with the Law on Public Enterprises, specifies that the management of the Public Enterprise is organized on a bicameral basis.

The governing bodies of the Company are the Supervisory Board and the General Manager. Their competencies are prescribed by The Law on Public Enterprises, The Company's Articles of Association, and The Company's Statute.

Assets handled by the Group are public property other than: Land, over which ownership rights have been established in accordance with the 2010 Government Decision to Amend the Decision on establishing the Group („RS Official Gazette" No. 54/10), Buildings, and Construction Land on which the buildings have been constructed, other than facilities legally designated either as a property of general interest or property that, by virtue of their nature, is intended for the use of all, and has been legally defined as such. The ownership rights of the Republic of Serbia, the autonomous province and the local self-government units over public property, and some other property rights are governed by Law on Public Property (RS Official Gazette Nos. 72/11,...113/17).

As at 31 December 2017, the Group had 29.153 employees (31 December 2016: 29,779).

The consolidated financial statements of the Group are presented in RSD thousand. RSD is the official reporting currency in the Republic of Serbia.

**Organisational structure**

Following the status change of 1 July 2015 involving the merger of the company's subsidiaries engaged in the production of electricity and coal, the Company continued to operate under the same business name: Public Enterprise Elektroprivreda Srbije, Beograd. The Company's abbreviated name is: JP EPS, Beograd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

1. GROUP ORGANISATION AND OPERATIONS (continued)

Organisational structure (continued)

In 2016, two status changes were registered. Namely, one on 4 January 2016, and the other on 1 June 2016. The status change registered on 4 January 2016, which involved a spin-off of a segment of ODS „EPS Distribucija“ and merger with the Company, resulted in 6.585 employees of ODS „EPS Distribucija“, d.o.o terminating their employment agreements and finding new employment with the Company. The status change registered on 1 June 2016, which involved a merger between „EPS Snabdevanje“ and the Company, resulted in 86 employees of „EPS Snabdevanje“ terminating their employment agreements and finding new employment with the Company.

Following the status changes that took place on 1 July 2015 and 1 June 2016, two additional subsidiaries of the Company, in which the Company as sole founder has a 100% share, operate within the Group:

- EPS Distribucija“ d.o.o., a distribution system operator engaged in the distribution of electricity and management of distribution systems,. The company was registered with the Business Registers Agency based on Decision BD 57192/2015 dated 1 July 2015.
- „EPS Trgovanje“ d.o.o., engaged in the trade of electricity, headquartered in Ljubljana, the Republic of Slovenia, was established on 1 July 2014.

JP EPS is the founder of three public companies in Kosovo and Metohija, namely:

- Public company for the production of thermoelectric energy Kosovo, Obilić,
- Public company for the production, processing and transportation of coal Kosovo, Obilić, and
- Public company for Electricity distribution Elektrokosmet, Priština.

The Company has control over all of its subsidiaries, except over those in Kosovo and Metohija because Kosovo has been under the control of the International Community since June 1999, and the Company has lost its administrative and governing control over those companies.

In addition to the above, the Company has a significant share in the following companies:

- Company for combined production of thermoelectric and thermal energy “Energija Novi Sad“, a.d. Novi Sad (ENS), established together with the City of Novi Sad – a 50% stake in the company’s share capital.
- “Ibarske hidroelektrane“ d.o.o. Kraljevo, established together with SECI ENERGIA S.p.A., Italy, Bologna, 6 Via Degli Agresti – a 49% share in the capital amounting to EUR 2,450,000. The Company began operations in order to establish ten cascade type hydro power plants with a total capacity 103 MW, as a facility for the production and sale of electricity from renewable sources.
- “Moravske hidroelektrane“ d.o.o., Beograd established together with RWE Innogy GmbH, Germany (RWE AG) – a 49 % share in the capital amounting to EUR 1,960,000. The Company was established with a view to building hydro power plants on the river Morava, comprising no less than five hydro power plants with a total capacity of 150 MW.

On 14 December 2017, the Company acquired a 71,90% share in Kolubara - Građevinar d.o.o., Lazarevac, a company engaged in construction projects within the mining infrastructure and exploitation of non-metallic substances. The share was acquired through a conversion of the Company receivables into share capital in accordance with the RS Government Conclusion 05 No: 023-7443/2017 of 17 August 2017, which complied with a previously prepared Plan for the Reorganisation of Kolubara - Građevinar d.o.o., Lazarevac. By the date of these consolidated financial statements, an effective control process over Kolubara-Građevinar d.o.o., Lazarevac has not been implemented.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2017**

**2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**  
**ACCOUNTING PRINCIPLES**

**2.1. Basis of preparation and presentation of financial statements**

The Group's consolidated financial statements include its Consolidated balance sheet as of 31 December 2017, and the Consolidated income statement, Consolidated statement of other comprehensive income, Consolidated statement of changes in equity and Consolidated cash flow statement for year then ended, and a summary of the significant accounting policies and the notes to the consolidated financial statements.

The Group's consolidated financial statements for the period from 1 January to 31 December 2017 are presented in a form pursuant to the Law on Accounting (Official Gazette of the Republic of Serbia no. 62/2013) 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, no. 95/2014, 144/2014).

Recognition and estimate of the line items included in the consolidated 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. 401-00-896/2014-16 on 13 March 2014 (Official Gazette of the Republic of Serbia no.35/2014) officially issued in the Republic of Serbia, Rulebook on the Chart of Accounts and the Contents of Accounts in the Chart of Accounts (Official Gazette of RS number 95/2014), and other applicable Serbian regulation.

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

In the preparation of the accompanying consolidated financial statements, the Group adhered to the accounting policies described in Note 3. The Group's consolidated financial statements are stated in RSD thousand. The dinar is the official reporting currency in the Republic of Serbia.

**2.2. Standards and interpretations issued and effective in the past and current periods, which have not yet been officially translated**

At the date of these financial statements, the standards and their amendments presented in the text below were issued by the International Accounting Standards Board (IASB), and the interpretations presented below were issued by the International Financial Reporting Interpretations Committee, but have not been officially approved in the Republic of Serbian:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of interests in other entities" and IAS 27 "Separate Financial Statements" – Investment entities (effective for annual periods beginning on or after 1 January 2016);
- IAS-32 (Amended): "Financial Instruments: Presentation" - Offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014);
- IAS 36 (Amended) – "Impairment of assets"- Recoverable amount disclosures for non-financial assets (effective for annual periods beginning on or after 1 January 2014);
- IAS 39 (Amended) – "Financial instruments: Recognition and measurement" Novation of derivatives and continuation of hedge accounting (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for acquisitions of interests in joint operations (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16: "Property, Plant and Equipment", IAS 38: "Intangible Assets" and IFRIC 12: "Service Concession Arrangements" - amended by Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016);

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2017**

**2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**  
**ACCOUNTING PRINCIPLES (continued)**

**2.2. Standards and interpretations issued and effective in the past and current periods, which have not yet been officially translated (continued)**

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture – Industrial crop (effective for annual periods beginning on or after 1 January 2016);
- IAS 19 "Employee Benefits" (Amended): Defined Benefit Plans: Contribution for employees (effective for annual periods beginning on or after 1 July 2014);
- IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014);
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 "Presentation of Financial Statements" – Initiative for change of disclosures (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Application of equity methods in individual financial statements (effective for annual periods beginning on or after 1 January 2016);
- Annual improvements to IFRSs (IFRS 5, IFRS 7, IAS 19, IAS 34), arising as a result of the project Cycle of standard improvements for the period from 2012 to 2014, issued in December 2014 (effective for annual periods beginning on or after 1 January 2016);
- Annual improvements to IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38, IAS 24) resulting from Annual improvements for the period 2010 - 2012 issued in December 2013 (effective for annual periods beginning on or after 1 July 2014);
- Annual improvements for the period 2011 - 2013, resulting from Annual improvements to IFRS (IFRS 1, IFRS 3, IFRS 13, and IAS 40), issued in December 2013 (effective for annual periods beginning on or after 1 July 2014);
- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 "Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

**2.3. Standards and interpretations issued but not yet effective**

At the date of these financial statements, the standards below, their amendments and interpretations have been issued but are not yet effective:

- IFRS 9 "Financial instruments" – Revised and issued during 2014 as complete (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16 "Leases" – Issued during January 2016 (effective for annual periods beginning on or after 1 January 2019);

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2017**

**2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**  
**ACCOUNTING PRINCIPLES (continued)**

**2.3. Standards and interpretations issued but not yet effective (continued)**

- IFRIC 22 "Foreign currency transactions and advance consideration" – Issued in December 2016 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2 "Share-based payment" – Classification and measurement of share-based payment transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 10 "Consolidated financial statements" and IAS "Investments in Associates and Joint Ventures" – Sale or transfer of funds free of charge between the investor and its associate or joint venture (amendments made in September 2014, the application has been postponed indefinitely);
- IFRS 17 "Insurance Contracts" – Revised and issued during 2017 as complete (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRIC 23 "Uncertainty over Income Tax Treatments" (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40 "Investment Property – Transfers of Investment Property" (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018);
- "Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1" (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018);
- "Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 12" (issued in December 2016)

**2.4. Comparative figures**

As a comparative figures the Group presented restated consolidated income statement for the year ended 31 December 2016.

Certain comparative figures in the notes to the financial statements have been reclassified in the current year in order to comply with the current presentation.

Detailed explanations of correction of figures from the comparative period are given in note 4.

**2.5. Estimation method**

The preparation of financial statements in accordance with the applicable reporting framework requires management to use the best possible estimates and reasonable assumptions that have an impact on the presented values of assets and liabilities, as well as income and expenses during the reporting period. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances. Based on this information, an assumption is made about the value of assets and liabilities, which cannot be directly confirmed on the basis of other information. The real value of assets and liabilities may deviate from the value estimated in this way.

Estimates, as well as the assumptions on the basis of which estimates have been made, are subject to regular checking. Audited accounting estimates are presented for the period in which they are audited, in the event that the assessment affects only a given period, or for the period in which they are audited and for future periods, in the event that the audit affects current and future periods.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2017**

**2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**  
**ACCOUNTING PRINCIPLES (continued)**

**2.5. Estimation method (continued)**

Information on the areas where the degree of assessment is greatest and which may have the most significant effect on the amounts recognized in the Group's financial statements are given under the following notes:

- Note 3.14 – Useful life of intangible assets
- Note 3.12 – Useful life of property, plant and equipment
- Note 3.15 – Impairment of assets
- Note 3.17 – Impairment of financial assets
- Note 3.7 – Provisions
- Note 3.5 – Employee benefits

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements are prepared in accordance with the generally accepted accounting principles, under the historical convention, with subsequent valuation of all relevant events affecting assets and liabilities as at the date of these consolidated financial statements.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

**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 two subsidiaries and the Parent Company, comprising the Group, 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 31 December 2017 given that the Company's management does not have administrative and managing control over the operations of these entities. Financial statements of the entity "Kolubara - Građevinar" d.o.o., Lazarevac are not included in the consolidated financial statements. On 14 December 2017, the Company acquired 71.90% of ownership interest in "Kolubara - Građevinar" d.o.o., Lazarevac and up to the date of the accompanying consolidated financial statements preparation, the Company's management did not establish administrative and managing control over the operations of the mentioned entity.

**3.2. Income and expenses**

*Income from sales of goods and services*

Income and expenses are recognised on accrual basis, meaning that transactions and other events are recognised when incurred, regardless of when the money is actually received or paid.

Income from the sale of electricity is recognised when electricity is delivered

Income arising from the sale of goods is recognised when all the significant risks and rewards of ownership are transferred, which is as at the date when goods are delivered to the buyer.

Revenue is stated at fair value of the goods received or that will be received, net of rebates, excise and VAT.

Income from agreed services is recognised under the percentage of completion method.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2017**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.2. Income and expenses (continued)**

*Income from connections of new customers*

Income from connection of new customers to distribution network are recognized in the amount of money received from the customers, when incurred – when customer is connected to distribution network or when the customer is provided with the ongoing access to a supply of services.

Donations received from customers are initially recognized as deferred income in the amount of fair value of received funds.

Deferred income on the basis of received grants is recognized in favour of income in the income statement in proportion to the estimated useful lives of the related assets.

*Income from usage of finished goods and merchandises*

Income from usage of finished goods and merchandises includes usage of finished goods, merchandises and services for intangible assets, property plant and equipment, material and for internal transportation services.

Expenses are recognized in income statement on accrual basis and are determined for the period when occurred.

**3.3. Effects of Foreign Exchange Translation**

Monetary and non-monetary items of assets and liabilities denominated in foreign currencies are translated at the official exchange rates published by the central bank, at the date of each transaction. As at the date of these financial statements, monetary items were presented at the middle exchange rate of the central bank, while adjustments were recognized in the income statement

**3.4. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are measured at fair value and take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to the period in which they are incurred.

**3.5. Employee benefits**

Employee benefits, as well as all types of remuneration that the Group provides to employees pursuant to internal regulations and employment contract, 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.

The Group provides jubilee, retirement and other employee benefits in accordance with the Group's General Act, and the obligation to pay:

- retirement benefits to employees, amounting to three monthly salaries that would be earned in the month preceding the month in which retirement benefits are paid, or three average salaries paid by the company, or in the amount prescribed by the law (if more favourable for the employee), and
- jubilee awards for 10, 20, 30 and 40 years of service within the Group amounting to four average salaries in the previous three months preceding the month of payment, respectively.

The expected costs of the above benefits are accrued over the period of employment. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually using the projected unit credit method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.5. Employee benefits (continued)**

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and treasury bills that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

**3.6. Fair value**

In the Republic of Serbia there is not enough market experience, stability or liquidity in the purchase and sale of loans and other financial assets and liabilities. Official market information is not always available. Therefore, the fair values cannot be determined reliably where there is no active market, as required by IAS and IFRS.

In the opinion of the Group's Management, the amounts disclosed in the consolidated financial statements represent the most valid and useful reporting values, given the existing market conditions. Provision is made when management estimates that the carrying value of assets will not be recovered due to identified risks

**3.7. Provisions**

*Litigations*

Provisions for legal claims and other provisions are recognized when: a) the Group has a present legal or constructive obligation as a result of past events; b) it is probable that an outflow of resources will be required to settle the obligation, and; c) the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Management believes that there will not be any significant adjustments to current provisions for litigations.

*Environmental restoration and environmental protection*

The Management has established provisions for future costs of dismantling and removing the plant and restoring the site on which it is located, using the best estimate of the production asset's future cost and useful life. Additionally, the Group established a provision for contingent liabilities on account of toxic effects accumulation protection, as well as for other environmental related costs.

The Management has recognized provisions using the best estimate of cash outflow necessary to settle present obligation of future events at the balance sheet date. In accordance with applicable regulations, changes in provisions are subject to an amendments of regulations and their interpretation

**3.8. Donations**

Funds received as grant are initially recorded as deferred income within liabilities. Deferred income is released over the period when expenses linked to grant are recognised in the income statement.

Cash grants covering the Group's expenses incurred in one period are recognized as income upon their receipt.

**3.9. Taxes and contributions**

*Current income tax*

Current income tax is calculated and paid in accordance with the Law on Income Tax applicable in the Republic of Serbia. Current income tax is paid at the rate of 15% on the tax base defined in the Group's tax return. The tax base presented in the tax return comprises profit as presented in the Group's income statement and any adjustments as defined by Serbian tax regulations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.9. Taxes and contributions (continued)**

*Current income tax (continued)*

The right to reduce the profit tax on the basis of investments in property, plant and equipment was withdrawn as of 1 January 2014, with the exception that a taxpayer who by 31 December 2013 realized the right to a tax incentive under Article 48 of the Corporate Income Tax Law (RS Official Gazette Nos. 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 its 2013 tax balance and tax return, may carry forward the unused portion of the tax credit to a future tax period, but not to exceed the limit of 33% of the tax liability calculated for that tax period, up to 10 years.

Serbian tax regulations do not envisage the possibility of using the current period tax loss as basis for the recovery of taxes paid in prior periods. However, current period losses may be used to reduce the future tax base for up to five years, starting from 2010 or, alternatively, 10 years for losses incurred by 2010.

*Deferred income tax*

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

A deferred tax asset is recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

*Taxes and contributions not related to performance*

Taxes and contributions not related to performance comprise property tax and other taxes and contributions under national and municipal regulations.

**3.10. Property, plant and equipment**

Property, plant and equipment is initially measured at cost. Cost comprises: Invoice value less any rebates, import duties and other non-refundable taxes, as well as all other directly attributable costs of bringing to asset to working condition for their intended use.

Spare parts intended as replacements of a specific part of a limited number of recognized assets, and where costs of replacement of such part are significant compared to the carrying value of such asset, are recognized as separate items of equipment if they meet the definition of property, plant and equipment.

After initial recognition, property, plant and equipment used in energy related activities is stated at fair value established by applying the market approach for land, administrative and other buildings used in performing office jobs, hospitality and tourism related activities, or by applying the cost approach (present replacement cost) for other assets.

Vehicles, office equipment and equipment used in other premises, other equipment and tools and fixtures the useful life of which is longer than one 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 assets belong.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
31 December 2017

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.10. Property, plant and equipment (continued)**

Subsequent investments in the asset increase the asset's carrying value, where the investment is made: to upgrade the asset, to replace its part or service other than within the framework of regular maintenance, where it is probable that future economic benefits associated with such investment will flow into the company, and where the cost of the investment can be measured reliably.

Gains or losses on disposal of property, plant and equipment are determined as the difference between the expected net proceeds from sale and the carrying amount of an item adjusted for revaluation reserves, if they have been previously created for a particular asset, and are recognized in the income statement.

**3.11. Investment property**

Investment property is property (land or a building or part of a building or both) held by the Group to earn rentals or for capital appreciation or both.

Investment property is initially measured at cost, which comprises its purchase price and any directly attributable expenditures. The carrying value of current investment property includes all replacement costs, provided that it is probable that the entity will obtain future economic benefits from the asset and that the cost of an asset can be reliably measured.

Subsequent to initial recognition, investment property is measured at cost, less total amortisation and total impairment.

Investment property is amortised over its useful life on a straight-line-basis or on an annual quota share basis for every item within investment property.

**3.12. Depreciation**

Property, plant and equipment are amortised over their useful lives on a straight-line-basis or on an annual quota share basis over their estimated useful lives. Exceptionally, land inclusive of costs of dismantling, removal and renewal are depreciated using the functional method, in other words expenses are recognized when costs are based on expected use or performance (over the period in which benefits are acquired through such costs).

Depreciation rates for major classes of property, plant and equipment are as presented below:

	Rate (%)
Thermal power plants buildings	1.30% - 4.00%
Hydro power plants buildings	1.30% - 4.00%
Coal mine buildings	0.68% - 16.67%
Electricity distribution buildings	1.25% - 4.00%
Commercial buildings	1.18% - 1.43%
Other buildings including investment properties	1.30% - 2.50%
Thermal power plants equipment	4.00% - 20.00%
Hydro power plants equipment	4.00% - 20.00%
Coal mine equipment	1.63% - 13.57%
Equipment for electricity distribution	4.00% - 20.00%
Transportation vehicles	6.67% - 20.00%
Equipment for decoration and maintenance of office and other premises	10.00% - 20.00%
Other equipment not mentioned	12.50% - 20.00%

The depreciation period is reviewed at the end of each accounting period.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2017**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.13. Leases**

A lease is classified as finance lease where all the risks and rewards of ownership are transferred substantially to the Group. Any other lease is classified as operating lease.

**3.14. Intangible assets**

Intangible assets are initially measured 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 for major classes of intangible assets, unless otherwise indicated in the contract, are as summarized below:

	Years	rate %
R&D Investments	4	25%
Patents, licenses and similar rights	5	20%
Other intangible assets	5	20%

Useful life is reviewed at the end of each reporting period.

**3.15. Impairment of assets**

At each balance sheet date, the Group's management assesses whether there are any indications of impairment of its tangible and intangible assets, based on the review and consideration of internal and external sources of information.

If there is any indication of impairment, the recoverable amount of the asset is estimated. If the recoverable amount of an asset cannot be estimated, the recoverable amount of the cash generating unit is estimated.

**3.16. Inventory**

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 inventory acquisition, as decreased for trading discounts, rebates and similar items.

The net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost is computed using the weighted-average method. Tools and fixtures are fully written off when brought to 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 of the inventories value in use.

**3.17. Financial instruments**

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

Financial assets and liabilities not designated at fair value through profit and loss are initially recognised at fair value plus transaction costs, which are directly attributable to the acquisition or issue of a financial asset or financial liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Financial instruments (continued)

*Investments in related parties*

Investments in related parties are stated at cost.

Dividends from available for sale equity investments are recognized in profit or loss when the right to receive payment is established.

*Other long-term investments*

Investments in other legal entities and other long-term investments are initially measured at cost; Subsequently, they are measured at:

- Fair value, if they are held for trading or available for sale, and have a quoted market price in an active market;
- Cost, if they are held for trading or available for sale, and do not have a quoted market price in an active market;
- Amortised cost, if they have fixed maturities;
- Cost, if they do not have fixed maturities.

Any difference (increase or decrease) arising between the carrying value and the value of subsequent measurements is recognized as a separate item within equity – revaluation reserves, for instruments available for sale with quoted prices in an active market, except when there is an objective evidence of impairment, in which case any difference is recognised in the income statement. Any difference between the carrying value of other financial instruments and their subsequent measurements is recognised in profit or loss of the period in which it is incurred.

*Short-term investments and accounts receivable*

Short-term investments and accounts receivable comprise trade and other receivables, short-term investments in unconsolidated subsidiaries, short-term deposits held with banks and other short-term investments..

Receivables arising from the sale of electricity and other output are measured at the original invoice amount. The invoiced interest on goods and services is recognized within other receivables as income of the accounting periods to which it relates.

Other receivables and assets are measured at amortized cost.

Any difference between the carrying value and their subsequent measurements is recognised in profit or loss of the period in which it is incurred.

*Impairment of financial assets*

At each balance sheet date, the Group assesses whether there is an objective evidence of impairment by analysing the expected net cash flows in the following manner:

- Individually, for financial assets that are individually significant, or
- Collectively, for a group of similar financial assets that are not individually significant.

*Impairment of receivables*

Except for claims on the basis of turnover of electricity, receivables from households and legal entities for which the payment period has expired for at least 60 days, an allowance adjustment is made.

The impairment of receivables is not made for the customers which are at the same time owed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Financial instruments (continued)

*Impairment of receivables from the sales of electricity*

Collection of receivables for electricity is assessed based on the following categories:

- Commercial supply
- Reserve supply
- Guaranteed supply including subcategories:
  1. Receivables from third parties ("companies")
  2. Receivables from households ("individuals")

Receivables from all customers with balances above RSD 200 million are assessed individually

Collection of receivables is assessed based on turnover (electricity sales), except for the receivables / customers that are assessed individually. Assessment is done for each group and sub-group of customers by applying collection rate on the total amount of receivables (invoiced receivables) in the reporting period:

- Collection rate is calculated as a difference between number 1 and collection ratio. Collection ratio is calculated as ratio between unpaid receivables and total receivables for current and previous reporting period,
- the Group is assessing all events after balance sheet date up to 31 January of the year after the reporting year.

Receivables that are overdue for more than one year are impaired in the full amount.

Exceptionally, receivables from customers undergoing reconstruction, bankruptcy or liquidation, irrespective of their amount, may be assessed on an individual basis.

A direct write off of receivables is performed upon the conclusion of legal proceedings, or upon the decision adopted by competent authorities, in accordance with the Law and the Company's General Act.

Other receivables for interest, debt collection expenses and for other expenses that are related to the amount of main receivables are assessed as the main related receivable.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand and deposits with banks..

*Financial liabilities*

Financial liabilities comprise 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), short-term operating liabilities, 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, increased for interest capitalized and decreased for any write-off approved by the creditor. Liabilities based on interest on financial liabilities are recorded at the expense of financial expenses in the period in which they relate and are presented within other short-term liabilities and accruals.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2017**

**4. ADJUSTMENTS OF COMPARATIVE DATA OF CONSOLIDATED INCOME STATEMENT**

In 2017, the Group has performed reclassification of figures for 2016 in order to ensure comparative principle. The effects of reclassification performed on the Consolidated Income Statement for the year ended on 31 December 2016 are as follows:

	<b>For the Year ending 31 December 2016 before adjustments</b>	<b>Adjustments</b>	<b>In RSD thousand For the Year ending 31 December 2016 adjusted</b>
<b>OPERATING INCOME</b>			
Income from the sale of goods and services	221,717,650	-	221,717,650
Other operating income	4,450,274	-	4,450,274
	<u>226,167,924</u>	<u>-</u>	<u>226,167,924</u>
<b>OPERATING EXPENSES</b>			
Cost of goods sold	(98,794)	-	(98,794)
Work performed by the entity and capitalized	5,022,914	-	5,022,914
Decrease/(increase) in inventories of unfinished goods and services	(13,421)	-	(13,421)
Cost of material	(11,314,013)	-	(11,314,013)
Cost of fuel and energy	(31,275,991)	-	(31,275,991)
Wages and salaries and other personal expenses	(63,837,730)	(297,213)	(64,134,943)
Cost of production services	(20,776,515)	-	(20,776,515)
Amortisation/Depreciation	(44,389,787)	-	(44,389,787)
Cost of long-term provisioning	(1,157,330)	-	(1,157,330)
Other operating expenses	(23,871,265)	296,429	(23,574,836)
	<u>(191,711,932)</u>	<u>(784)</u>	<u>(191,712,716)</u>
<b>OPERATING PROFIT BEFORE TAX</b>	<u>34,455,992</u>	<u>(784)</u>	<u>34,455,208</u>
Financial income	10,927,843	-	10,927,843
Financial expenses	(7,902,949)	-	(7,902,949)
Income from adjustments of other assets carried at fair value through profit and loss	8,563,774	-	8,563,774
Expenses from adjustments of other assets carried at fair value through profit and loss	(15,649,018)	-	(15,649,018)
Other income	23,926,773	366	23,927,139
Other expenses	(41,836,790)	418	(41,836,372)
<b>PROFIT BEFORE TAX</b>	<u>12,485,625</u>	<u>-</u>	<u>12,485,625</u>
The net gain of the business that is being suspended, the effects of changes in the accounting policy and the correction of errors from previous periods	468	-	468
Tax expense for the period	(9,677,896)	-	(9,677,896)
Deferred tax income /(expense) for the period	3,041,705	-	3,041,705
<b>NET PROFIT</b>	<u>5,849,902</u>	<u>-</u>	<u>5,849,902</u>

Reclassification stated above are related to personal expenses and have no effect on the result for the previous reporting period.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

5. OPERATING INCOME

	In RSD thousand	
	2017	Year ended 31 December 2016
Income from sales of goods and services PE "Електрокосмет", Priština	<u>923,863</u>	<u>868,925</u>
Income from sales of goods and services to other legal entities – on domestic market:		
- Sale of electricity to households	91,596,072	89,646,133
- Sale of electricity to third parties	17,629,941	20,711,127
- Sale of electricity to licensed customers	1,668,078	7,381,992
- Sale of electricity to qualified customers	82,988,289	80,432,301
- Sale to PE Elektromreža Srbije	11,483,453	10,837,372
- Income from sales of coal	4,362,605	3,703,323
- Sale of technological steam and gas	83,450	72,091
- Sale of electricity on commodity exchange	623,067	1,158,132
- Sale of heat energy	1,646,850	1,103,354
- Income from accessing and using the distribution system	1,299,394	787,536
- Income from sales of services	552,629	813,040
- Income from sales of products	270,472	272,093
- Income from Public Media Service tax	183,634	186,245
	<u>214,387,934</u>	<u>217,104,739</u>
Income from sales of goods and services – on foreign market	<u>4,362,589</u>	<u>3,743,986</u>
	<u>219,674,386</u>	<u>221,717,650</u>

*Revenue from the sale of electricity to PE „Elektrokosmet“, Priština*

In line with the Conclusion of the Government of the Republic of Serbia No: 021-6624/2009-002 of 30 November 2009, the Group engaged resources to provide electricity to the northern part of Kosovo and Metohija, on the basis of which revenue of RSD 923,863 thousand was recognised in 2017 (2016 – RSD 868,925 thousand).

*Income from the sale of goods and services on domestic market*

Income from the sale of electricity in domestic market was recognised based on the sale of electricity to end customers, namely to:

- Households and small clients holding the right to a guaranteed supply, at regulated rates,
- Other end customers purchasing electricity for own use, at rates generated based on the price mechanism,
- Customers holding a license for trade in electricity, at rates generated based on the price mechanism.

The Energy Law (RS Official Gazette No 145/14) prescribes that households and small clients have the right to a guaranteed supply, as a public service. A household is an end customer who buys electricity for own household's consumption, exclusive of consumption for commercial or professional operations.

Small clients are end customers (legal entities and entrepreneurs) who have no more than 50 employees, whose total annual revenue amounts to EUR 10 million in RSD equivalent, whose facilities are connected to the electricity distribution system with voltage level lower than 1 kV, and whose electricity consumption in the previous calendar year did not exceed 30,000 kWh. Under the Energy Law, a guaranteed supply at regulated rates is regarded as a public service. Energy supply is regarded as a market activity based on which the Group generates income to customers, which is based on the concept of lowest costand principle to maximise income. All end customers have the right of free choice of electricity supplier.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

5. OPERATING INCOME (continued)

*Income from the sale of goods and services on domestic market (continued)*

By its Decision to assign an energy supplier to serve end customers with no right to a guaranteed supply, No: 312-11118 / 2016-1, dated 29 November 2016, the Serbian Government appointed the Group to be substitute suppliers over a two-year period, starting from the Decision's date, at a rate of 55,84 EUR / MWh, exclusive of excise and VAT. The substitute supply price is the price that comprises the price of active energy and of balancing amounts to EUR/MWh. The price is exclusive of distribution use-of-system charges (access to the network) and the charge for privileged power producers.

Sales includes income from delivering energy to customers receiving substitute supplies, amounting to RSD 1,837,595 thousand (2016 – RSD 1,082,957 thousand) where an end customer with no right to a guaranteed supply has failed to find a new energy provider following the termination of the supply contract with the previous provider, except where the contract has been terminated due to payment defaults made by the customer, or where the customer, which under the Energy Law falls within the category of customers exempt from energy supply suspension in the event of payment defaults, has failed to find a new supplier, subsequent to the termination of the supply contract with the previous energy provider.

Based on the Energy Law and the Rulebook on the Transmission System Operation, the Group entered into Agreements with Elektromreža Srbije, an entity responsible for transmission and the operation of the transmission system. These Agreements govern the manner of providing system services so as to enable the Transmission System Operator to: create conditions required for regular operation of the electricity supply system and mutual electricity deliveries; enable the supply of energy systems that are separated from other interconnections; and recover excessive power loss, i.e. loss of electricity that does not arise from power consumption i.e. the consumption of energy for heating elements in the transmission network due to active resistance present in such elements. Furthermore, for the purpose of balancing actions within the Serbian regulations or securing sufficient tertiary reserves, the Group agreed with PE EMS on the manner of mutual power deliveries in case of a major breakdown on a barter basis or commercial basis, depending on the terms agreed between PE EMS and operators of neighbouring transmission systems.

Income from the sale of coal for the year ended 31 December 2017 in the amount of RSD 4,362,605 thousand relate to the delivery of coal to third parties (Branch "RB Kolubara", Lazarevac in the amount of RSD 3,808,903 thousand and Branch "Termoelektrane i kopovi Kostolac" in the amount of RSD 553.702 thousand).

Furthermore, the Group is involved in trading electricity at the commodity exchange, which started operations on 17 February 2016 in Belgrade. In 2017, Income from trading electricity at the commodity exchange amounted to RSD 623,067 thousand (2016 – RSD 1,158,132 thousand)

Income from accessing and using the distribution system is measured at regulated rates. Regulated prices are determined based on the methodology adopted by the Energy Agency, which specifies:

1. The terms and conditions for and the manner of establishing the maximum revenue for energy companies;
2. The criteria and the rules for revenue allocation between customer categories and groups;
3. The calculation elements, and the method of calculating the electricity or natural gas received and the services rendered.

The cap on income is determined in a manner to secure coverage for reasonable operating costs, adequate return on capital employed, and return on investment during the performance of regulated energy activities. The methodology may be used to set up different tariffs, based on, inter alia, the volume of the energy collected and the terms and conditions for energy collection, the electrical power or capacity, the seasonal and daily delivery dynamics, the points of collection and the ways of measuring energy.

*Income from the sale of goods and services on foreign market*

Income from the sale of goods and services to legal entities on foreign market in 2017, disclosed in the amount of RSD 4,362,589 thousand, relate to income from the sale of electricity and income from services in the amount of RSD 4,205,851 thousand and RSD 156,738 thousand, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2017**

**5. OPERATING INCOME (continued)**

*Income from the sale of goods and services on foreign market (continued)*

Income from the sale of electricity relate to the sale of electricity to "Mješoviti holding Elektroprivreda Republike Srpske" amounting to RSD 399,537 thousand (2016 – RSD 311,961 thousand), to Elektroprivreda Crne Gore amounting to RSD 1,573 thousand (2016 – RSD 2,970 thousand), and to income from the sale of electricity on foreign market through a subsidiary „EPS Trgovanje" d.o.o. Ljubljana, the Republic of Slovenia, amounting to RSD 3,804,741 thousand (2016 - RSD 2,967,209 thousand).

Income from the sale of services abroad primarily relates to income from services such as installations, production of spare parts and other metal structures in Kolubara Metal branch "Rudarski basen Kolubara", Lazarevac.

**6. WORK PERFORMED BY THE ENTITY AND CAPITALISED**

	<b>In RSD thousand</b>	
	<b>2017</b>	<b>Year ended 31 December 2016</b>
Income from activation and consumption of goods for own use	151,465	109,842
Income from activation and consumption of products for own use	3,299,159	3,190,328
Income from activation of services for own use	1,526,797	1,722,744
	4,977,421	5,022,914

Income from work performed by the entity and capitalised is recognised based on the goods and services used for the purpose of plant and equipment revitalisation, and spare parts and material development.

**7. INCOME FROM PREMIUMS, SUBVENTIONS, GRANTS, DONATIONS AND OTHER OPERATING INCOME**

	<b>In RSD thousand</b>	
	<b>2017</b>	<b>Year ended 31 December 2016</b>
Income from premiums, subventions, grants and donations	904,857	1,194,923
Income from connections of new customers	1,284,810	973,602
	2,189,667	2,168,525

Income from donations, premiums subventions and grants include funds received for environmental protection in the amount of RSD 116,069 thousand and for open pit improvements in the amount of RSD 252,680 thousand.

Income from connecting new customers to the energy network is recognised based on:

- First time customers connection to the distribution system in the amount equivalent to charges to cover the cost of the system and the connection cost,
- Income from customers already connected to the distribution system and from an increasing the cost of power compared to the one previously contracted,
- Income from customers who have been allowed separation on a facility that has already been connected to the distribution system, as well as other similar income generated on such basis.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**8. OTHER OPERATING INCOME**

	<b>In RSD thousand</b>	
	<b>Year ended</b>	
	<b>31 December</b>	
	<b>2017</b>	<b>2016</b>
Income from compensations from insurance for damages	331,889	302,561
Income from rents	240,311	210,569
Other operating income	<u>1,041,317</u>	<u>1,768,619</u>
	<u><u>1,613,517</u></u>	<u><u>2,281,749</u></u>

Other operating income for 2017 in the amount of RSD 1,041,317 thousand (2016 – RSD 1,768,619 thousand) mostly includes: revenues from recharged costs to end customers for engaging private executors in the process of forced collection in the amount of RSD 305,189 thousand (2016 – RSD 50,750 thousand) and; income from sales of secondary raw materials, ashes and waste iron, resulting from the revitalization of the plant and equipment and technological process in the amount of RSD 405,462 thousand (2016 – RSD 811,607 thousand).

**9. COST OF MATERIAL**

	<b>In RSD thousand</b>	
	<b>Year ended</b>	
	<b>31 December</b>	
	<b>2017</b>	<b>2016</b>
Costs of basic materials	755,980	1,119,016
Cost of material for the maintenance and spare parts	9,709,719	8,236,645
Cost of small inventories and tyres	424,904	333,913
Materials for coal production	313,752	503,959
Cost of oil and lubricants	214,742	215,963
H&S equipment	285,890	267,664
Cost of office and other overheads material	477,266	429,125
Other	<u>216,306</u>	<u>207,728</u>
	<u><u>12,398,559</u></u>	<u><u>11,314,013</u></u>

**10. COST OF FUEL AND ENERGY**

	<b>In RSD thousand</b>	
	<b>Year ended</b>	
	<b>31 December</b>	
	<b>2017</b>	<b>2016</b>
Cost of electricity:		
- on domestic market	11,437,767	6,432,303
- on foreign market	280,435	513,451
Cost of transmission of electricity		
PE EMS, Beograd	21,073,686	18,113,896
Cost of other energy	66,445	81,529
Cost of coal purchased from third parties	1,218,251	1,223,088
Cost of oil and oil derivatives	3,780,371	3,419,069
Cost of gas used in production	<u>2,564,720</u>	<u>1,492,655</u>
	<u><u>40,421,675</u></u>	<u><u>31,275,991</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

10. COST OF FUEL AND ENERGY (continued)

For the purpose of securing conditions for regular and safe supply of energy to tariff customers in the Republic of Serbia, the Group purchased electricity from entities operating in Serbia, and recorded an expense in the amount of RSD 11,437,767 thousand (2016 – RSD 6,432,303 thousand), out of which the amount of RSD 5,902,180 thousand relate to the purchase of electricity from third parties with a licence for electricity trading; amount of RSD 5,017,628 thousand relate to the purchase of electricity from privileged power producers; and the remaining amount of RSD 517,959 thousand relates to purchase of power via the commodity exchange.

The purchase of electricity from non-residents in 2017 recognised in the amount of RSD 280,435 thousand (2016 – RSD 513,451 thousand) entirely relate to the purchase of electricity from the company Mješoviti holding Elektroprivreda Republike Srpske.

The Group concluded with PE Elektromreža Srbije, Beograd a contract on accessing and using the power transmission system by customers, as well as by power plants and pump-accumulating facilities. On such basis, the cost incurred in the reporting period, relate to the above mentioned transmission and purchase of energy, amounted to RSD 21,073,686 thousand (2016 – RSD 18,113,896 thousand). Prices for accessing the power transmission system are established by Elektromreža Srbije a.d., Beograd, the transmission system operator, with the consent of the Energy Agency of the Republic of Serbia.

The cost of oil derivatives amounting to RSD 3,780,371 thousand is predominantly related to oil used in the production and operation of propulsion engines and machinery, largely at production branches TENT, amounting to RSD 1,572,021 thousand; RB Kolubara, amounting to RSD 969.607 thousand; and TEKO Kostolac, amounting to RSD 572,787 thousand.

The cost of natural gas in 2017 amounting to RSD 2,564,720 thousand (2016 – RSD 1,492,655 thousand) relates to purchases made by branch TETO Panonske elektrane of RSD 2,502,748 (2016 – RSD 1,443,524 thousand). A branch of Power Plant Panonske Elektrane(TETO) is, in the event of certain weather conditions, obliged to deliver heating energy to Novi Sad. A cost increased in 2016 due to increase in the production of energy and heating in 2017. In 2017, the branch used over 77 million cubic meters of gas purchased from PE Srbijagas (2016 – 38 million cubic meters of gas).

The cost of coal purchased externally in 2017 amounting to RSD 1,218,251 thousand (2016 – RSD 1,223,088 thousand) relates to the coal used by a TENT branch in the production of energy, and purchased from PE PEU Resavica.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

11. WAGES AND SALARIES AND OTHER PERSONAL EXPENSES

	2017	In RSD thousand Year ended 31 December 2016
		<i>Restated</i>
Cost of gross salaries and salary compensation	43,197,533	43,851,542
Taxes and contributions on wages and salaries paid by employer	12,742,919	13,125,502
Cost of special service and temporary service agreements	1,330,388	1,319,349
Fees paid based on other agreements	13,227	9,574
Fees paid to Supervisory and Managing Board members and other managing bodies	7,152	8,559
Cost of transportation of employees	1,427,401	1,511,714
Cost of per diem allowances and compensation of expenses on business trips	167,078	180,139
Cost of scholarship and loans	342,203	330,614
Cost of providing assistance to employees	291,242	301,410
Other personal expenses	7,895,295	3,496,540
	<u>67,414,438</u>	<u>64,134,943</u>

Since the Parent Company is a Public Enterprise, pursuant to the request on maximum salaries in public sector, salaries are not allowed to be higher than amount calculated by multiplying the maximum coefficient determined by the law regulating the salaries of employees in public sector and base salary determined by the Budget Law for the current year. Maximum salary for 2017 and 2016 was 153,911.61 RSD.

The Law on Temporary Regulation of Bases for Calculation and Payment of Salaries and Wages and Other Permanent Earnings Among Beneficiaries of Public Funds (Official Gazette of RS number 116/14 - in application dated 28 October 2014) specifies a 10% decrease in the base for calculation and payment of salaries of beneficiaries of public funds, defined by law, other regulation or other general and individual act which is in force at the time of adoption of this law. The beneficiary of public funds is required to pay the difference between the total amount of salaries calculated using the base which is not decreased in accordance with this law, with calculated contributions charged to the employer and the total amount of salaries calculated using the decreased base according to this law, with included contributions which are charged to the employer.

Other personal expenses include an amount of RSD 3,519,783 thousand (2016 – RSD 3.054.680 thousand) which relate to stimulative redundancy payments for voluntary termination of employment (2017 – 1.428 employees; 2016 – 1.519 employees) for employees who accepted the consensual termination of employment in accordance with the adopted program of optimization of the number of employees in the EPS group adopted by the founders of the Company, while the remaining amount relate to obligations of the Group based on the Collective Agreement (labour disability prevention, cultural and sports activities of employees, expenses for providing assistance to employees for medical treatment, loan, etc.) which are, in accordance with tax regulations, treated as public revenue.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2017**

**12. COST OF PRODUCTION SERVICES**

	<b>2017</b>	<b>In RSD thousand Year ended 31 December 2016</b>
Production services	3,327,680	2,800,510
PTT services	1,332,570	1,328,527
Transportation services	129,777	165,268
Cost of maintenance services provided by third parties	10,239,171	11,487,552
Cost of information system maintenance	881,283	463,732
Rental cost	529,366	564,780
Advertising, fairs and marketing costs	89,004	92,363
Cost of research and development	141,442	138,538
Scientific research costs	246,211	458,148
Cost of services for various tests, analysis, preparing technical and project documentation, reports and projects	615,056	456,256
Work safety cost	107,883	100,903
Cost of production services and assistance	290,256	166,768
Labour costs for works on separator and crusher	34,260	10,695
Costs of meter reading services	1,264,076	797,838
Inspection, repair, calibration, inspection and replacement of the meters	105,204	282,335
Costs of transformation of electric energy services	26,273	62,680
Cost of services provided by student and youth organizations	783,101	433,879
Utility costs	596,299	555,738
Costs of other production services	336,813	301,803
Costs of flood damage repair services	-	13,409
Costs of environmental protection and site restoration from mining operation	114,042	94,793
	<b>21,189,767</b>	<b>20,776,515</b>

PTT services include cost of preparation and sending electricity bills to end customers in the amount of RSD 859,681 thousand (2016 – RSD 516,544 thousand).

Rental cost for the year 2017 includes the amount of RSD 380,765 thousand relating to cost of auxiliary mechanization engaged in creating the conditions for coal production in four open-pit mines of "RB Kolubara" branch.

Costs of other production services in the amount of RSD 336,813 thousand (2016: RSD 301,803 thousand) mostly relate to costs of project documentation, cost of connection and disconnection of meters, printing costs warnings and similar.

**13. DEPRECIATION/AMORTISATION EXPENSE**

	<b>2017</b>	<b>In RSD thousand Year ended 31 December 2016</b>
Depreciation/amortization expense:		
- Intangible assets (note 23)	509,346	410,394
- Property, plant and equipment (note 23)	45,872,046	43,979,393
	<b>46,381,392</b>	<b>44,389,787</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

14. COST OF LONG-TERM PROVISIONING

	In RSD thousand	
	Year ended	
	2017	31 December 2016
Environmental restoration	404,306	354,952
Retirement benefits and jubilee awards	1,780,594	151,316
Cost of other long-term provisioning:		
- Litigations	968,557	640,870
- Environmental protection	5,454	10,192
	<u>3,158,911</u>	<u>1,157,330</u>

Cost of long-term provisions for retirement benefits and jubilee awards refers to provisions upon termination of employment and jubilee awards which the Group is obliged to pay in accordance with labour Law and General Acts of the Group.

Cost of long-term provisions for retirement benefits and jubilee awards in the amount of RSD 1,780,594 thousand relate to provisions upon termination of employment which will be paid upon termination of employment and remuneration for employees that include fees based on jubilee awards in the amount of current obligation based on past events, and which arise from the provisions of the Labour Law and General Acts of each company. (note 3.8 and 34).

Cost of provisions for litigations in the amount of RSD 968,557 thousand (2016 – RSD 640,870 thousand) are recognized using the best estimate of cost necessary to settle present obligation for legal claims against the Group.

15. OTHER OPERATING EXPENSES

	In RSD thousand	
	Year ended	
	2017	31 December 2016
Water use charges	2,097,132	<i>restated</i> 2,242,438
Use of public interest resources fee	115,383	55,582
Environmental fee	6,905,350	5,899,387
Property Tax	1,223,123	1,084,722
Fee for use of riverbanks for business purposes	2,638	48,947
Other indirect taxes and contributions	3,812,323	2,801,479
Utilization of mineral resources	2,068,871	1,749,772
Entertainment expense	33,215	28,790
Cost of payment operations and banking services	321,455	349,583
Subscription cost	26,429	26,941
Legal and advocacy services	950,267	940,526
Other non-material services	1,181,620	1,545,145
Intellectual services	287,947	954,443
Other non-production services	1,676,949	1,590,372
Insurance costs	1,903,342	1,875,835
Student reimbursement cost	42,516	42,294
Health Service costs	233,582	168,866
VAT calculated on electricity losses	215,106	128,836
Membership fees	254,301	517,419
Costs of undertaken commitments	1,194	1,194
Costs of safeguarding property and archival materials	676	2,454
Security services, protection of buildings and work health and safety	<u>1,598,645</u>	<u>1,519,811</u>
	<u>24,952,064</u>	<u>23,574,836</u>



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**15. OTHER OPERATING EXPENSES (continued)**

Cost of water use charges, environmental fee expense and cost of utilization of mineral resources are recorded in accordance with the Law on Waters, Law on Environment Protection and Law on Mining and Geological Explorations.

**16. FINANCIAL INCOME**

	<b>In RSD thousand</b>	
	<b>2017</b>	<b>Year ended 31 December 2016</b>
Financial income arising from related parties	650,646	561,135
Other financial income	65,561	9,155
Interest income:		
- Trade receivables for electricity sold	6,998,230	7,035,575
- Short-term financial investments	1,083,162	1,052,249
- Public Media Service tax	163,735	64,239
- Other interest income	1,136,782	143,429
	<b>9,381,909</b>	<b>8,295,492</b>
Foreign exchange gains and gains on currency clause effect		
- Foreign exchange gains	10,791,360	1,954,577
- Gains on currency clause effects	122,566	107,484
	<b>10,913,926</b>	<b>2,062,061</b>
	<b>21,012,042</b>	<b>10,927,843</b>

Interest income is recognized in the amount of statutory default interest calculated on unpaid debt obligations of the debtor.

Interest income from short-term financial investments in the amount of RSD 1,083,162 relates to the interest earned by placement of free cash in the reporting period deposited with commercial banks in the country (2016 – RSD 1,052,249 thousand).

Other interest income in the amount of RSD 1,136,782 thousand mostly relates to interest calculated on unpaid obligations of "RB Kolubara" branch's customers for sold coal, electricity, heat energy, products and services. Also, the mentioned income includes interest calculated on Government Bonds of the Republic of Serbia in the amount of RSD 101,836 thousand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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17. FINANCIAL EXPENSES

	2017	In RSD thousand Year ended 31 December 2016
Other financial expenses	334,056	709,322
Interest expense		
- on liabilities toward PE EMS	10,144	13,646
- Paris and London clubs of creditors	535,429	613,807
- on renegotiated liability for loan from National Republic of China – Deposit Insurance Agency	33,947	40,203
- other interest expenses (on all other items)	640,247	1,486,035
- Interest expense related to late payment of public duties	240,410	66,918
	<u>1,460,177</u>	<u>2,220,609</u>
Foreign exchange losses and losses on currency clause effect:		
- Costs of effects of foreign currency clause	41,741	58,507
- Losses on currency clause effect	2,015,553	4,914,511
	<u>2,057,294</u>	<u>4,973,018</u>
	<u>3,851,527</u>	<u>7,902,949</u>

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

Other financial expenses in the amount of RSD 334,056 thousand (2016 – RSD 709,322 thousand) mostly in the amount of RSD 332,264 thousand, refer to Commitment fee and Management fee based on a loan arrangement with the foreign creditors.

Main reason for decrease of other financial expenses compared to previous year is Management fee in the amount of RSD 246,361 thousand, paid in 2016, which relate to new drawdown portion from financial agreement with EBRD.

18. INCOME FROM ADJUSTMENTS OF OTHER ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS

	2017	In RSD thousand Year ended 31 December 2016
Income from adjustment in value of long-term investments	2,592	2,176
Collection and reduction in allowances for impairment		
- advances given for fixed assets	-	2,797
- advances given for inventories	1,044	2,039
- accounts receivable	2,595,811	8,556,762
	<u>2,599,447</u>	<u>8,563,774</u>

Revenue from the adjustment of the value of trade receivables in the amount of RSD 2,595,811 thousand (2016 – RSD 8,556,762 thousand) mostly relate to collection of previously impaired receivables from sale of electricity, receivables from sale of coal and heat energy and receivables for services in the amount of RSD 2,135,326 thousand, RSD 100,128 thousand and RSD 110,733 thousand, respectively.

Revenue from the adjustment of the value of trade receivables in the amount of RSD 8,556,762 thousand for 2016 includes the termination of previously recognized impairment of receivables from the joint stock company "Railways of Serbia" ad, Belgrade, in the amount of RSD 5,113,301 thousand, pursuant to a contract on mutual regulation of claims and obligations concluded between the Government of the Republic of Serbia and the Group, in connection with the implementation of the agreement between the Government of the Republic of Serbia and the Government of the Russian Federation on the regulation of the obligations of the former USSR from goods trade with the former SFRY (Note 20 and 35). Namely, the Government of the Republic of Serbia has released a part of the entity's debt related to obligations arising from the revitalization of HPP "Djerdap 1", in the amount of RSD 5,113,301 thousand, provided the Group release the same amount of receivables from the Railways of Serbia, Belgrade, on the basis of which the previously recognized receivables provision.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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19. EXPENSES FROM ADJUSTMENTS OF OTHER ASSETS CARRIED AT FAIR VALUE THROUGH  
PROFIT AND LOSS

	2017	In RSD thousand Year ended 31 December 2016
Expenses from value adjustments of:		
- Investments in equity	11,679	-
- Advances given for inventories and services	44,743	1,508
- Trade receivables for electricity	15,641,510	14,255,487
- Other receivables	1,469,109	1,391,731
- Short-term financial assets	-	292
	<u>17,167,041</u>	<u>15,649,018</u>

Short-term receivables that are overdue for a longer period of time are impaired and expensed the amount of RSD 15,641,510 thousand (2016 – RSD 14,255,487 thousand), as disclosed in note 3.17.

20. OTHER INCOME

	2017	In RSD thousand Year ended 31 December 2016
		<i>Restated</i>
Gains on disposal of materials, investment in equity, intangible assets, properties and equipment	89,518	62,553
Income from reversal of provision for employee benefits (Note 34)	198,968	477,585
Income from collected written-off receivables and reversal of impairment of receivables and short-term financial placements	243,942	844,387
Incomes from the diminution of liabilities (Note 18)	12,738	5,332,345
Incomes from reversal of long-term provisions for the protection of the environment (Note 34)	40,554	41,236
Subsequently approved discounts	7,734	85,900
Income from reversal of long-term provisions of litigations (Note 34)	340,216	434,845
Incomes from the contracted risk protection	19,764	1,383
Incomes from the diminution of liabilities for the protection of the environment	354,827	218,207
Surpluses	118,866	170,869
Incomes from the value adjustment of assets:		
- Property, plant and equipment	72,507	16,141,329
- Other effects from the asset value adjustments	-	-
Other incomes	<u>316,336</u>	<u>116,500</u>
	<u>1,815,970</u>	<u>23,927,139</u>

The revenues from the decrease in liabilities for the environmental protection in the amount of RSD 354,827 thousand mostly relate to diminution of liability to Environmental Protection Fund of the Republic of Serbia for environmental fee, resulting from a difference between advance payments in 2016 and final calculation.

Incomes from the value adjustment of property, plant and equipment in the amount of RSD 16,141,329 thousand for 2016 relate to valuation effects of fair value assessment of property, plant and equipment, performed by independent appraiser as of 31 January 2016 (note 23).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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20. OTHER INCOME (continued)

The stated amount of revenues from the decrease in liabilities of RSD 5,151,723 thousand for 2016 mostly refers the realisation of the Conclusion of the Government of the Republic of Serbia 05 No. 312-11997 / 2016 from 15 December 2016. Accordint to the document, part of the debt in the amount of RSD 5,113,300 thousand is settled. It relates to Agreement between the Government of the Republic of Serbia and the Government of the Russian Federation on settling the obligations of the former USSR for calculations related to goods trading between the former USSR and the former SFRY, and on the basis of agreement on mutual settlement of liabilities and receivables arising from the agreement between the Government of the Republic of Serbia and the Government of the Russian Federation on regulating the obligations of the former USSR and the former SFRY dated 27 April 2007, No. 12.01.141486 / 7-17 from 16 May 2017.

21. OTHER EXPENSES

	2017	In RSD thousand Year ended 31 December 2016 <i>Restated</i>
Losses on disposal of materials, intangible assets, property, plant and equipment and investments	1,152,363	443,484
Losses on disposal of inventory	129,864	60,026
Impairment losses		
- property, plant and equipment	-	24,311,690
- construction in progress	-	2,647,659
- intangible assets	-	1,505,655
Impairment losses from inventory	798,233	948,738
Shortages	376,400	95,812
Losses on write off:		
- short-term receivables and rescheduled accounts receivable	42,477	5,316,997
- other assets	1,281	807
Expenses for contributions paid to employees from public enterprises from Kosovo and Metohija	5,337,095	5,319,407
Sponsorships and donations	149,201	170,634
Other expenses	762,511	1,015,463
	<u>8,749,425</u>	<u>41,836,372</u>

Expense in the amount of RSD 5,337,095 thousand (2016 – RSD 5,319,407 thousand) is recognized for salaries and salaries contribution for employees in public enterprises from Kosovo and Metohija.

Impairment losses in the amount RSD 28,465,004 thousand for 2016 relate to valuation effects of fair value assessment of property, plant an equipment, performed by independent appraiser as of 31 January 2016 (note 23)..

22. INCOME TAX EXPENSE

a) Current tax

	2017	In RSD thousand Year ended 31 December 2016
Tax expense for the period	4,529,626	9,677,896
Deferred tax income for the period	<u>(2,723,970)</u>	<u>(3,041,705)</u>
	<u>1,805,656</u>	<u>6,636,191</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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22. INCOME TAX EXPENSE (continued)

b) Harmonization of taxes and products of business results  
before taxation and prescribed tax rates

	2017	In RSD thousand 2016
Profit before tax	8,193,281	12,486,093
Tax on profit calculated at statutory tax rate - 15%	1,228,992	1,872,914
Tax effect on unrecognized expenses	1,975,993	6,355,696
Tax effect on expenses recognized on cash basis	(822,388)	-
Effect on capital gains	(50)	3,883
Tax effect on unrecognized revenues	(102,445)	(121,508)
Used tax credits	-	(727,826)
Effect of transfer prices	126,993	366,032
Effect of the estimate recorded in the income statement	-	(1,402,814)
Effects of different tax rate for non-residents	643	1,326
Tax effects of adjustments made in process of consolidation	(85,973)	-
Other	(516,109)	288,488
	1,805,656	6,636,191

c) Components of deferred tax liability

Deferred tax liabilities presented as at 31 December 2017 in the amount of RSD 95,825,375 thousand (2016 – RSD 98,580,263 thousand) relates to temporary differences between the carrying amount of property, plant and equipment and their tax base.

Movements on the deferred tax liabilities were as follows:

	2017	2016
Balance as at 1 January	98,580,263	87,365,045
Effects on income statement	(2,723,970)	(3,041,705)
Adjustments in respect to valuation of property, plant and equipment	-	14,245,628
Other	(30,918)	11,295
Balance as at 31 December	95,825,375	98,580,263

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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23. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets

	In RSD thousand
<b>Cost</b>	
<b>Cost amount at 1 January 2016</b>	7,414,710
Additions	1,456,105
Impairment of the intangible assets	(1,977,653)
Disposals	(5,359)
Other changes	3,971
<b>Closing cost amount as at 31 December 2016</b>	<u>6,891,774</u>
Additions	2,804,460
Transfers within other group of accounts	111,991
Disposals	(137,433)
Other changes	(2,820)
<b>Closing cost amount as at 31 December 2017</b>	<u>9,667,972</u>
<b>Accumulated amortisation</b>	
<b>Accumulated amortisation amount at 1 January 2016</b>	2,309,131
Amortisation charge (note 13)	410,394
Impairment of the intangible assets	(438,073)
Disposals	(4,075)
Other changes	50,499
<b>Accumulated amortisation amount at 31 December 2016</b>	<u>2,327,876</u>
Amortisation charge (note 13)	509,346
Disposals	(84,382)
Other changes	792
<b>Accumulated amortisation amount at 31 December 2017</b>	<u>2,753,632</u>
<b>Net book value</b>	
<b>Balance as at 31 December 2016</b>	<u>4,563,898</u>
<b>Balance as at 31 December 2017</b>	<u><u>6,914,340</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

23. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT (continued)

	In RSD thousands									
	Land	Buildings	Machinery and equipment	Investment property	Biological assets	Other property, plant and equipment	Construction in progress	Prepayments for PP&E	Investments in third party PP&E	Total
<b>Cost</b>										
<b>Balance at 31 December 2015</b>	51,621,766	573,541,246	1,228,522,700	778,619	420,391	343,492	64,011,222	27,726,436	1,396	1,946,967,268
Increase/additions	2,717,199	144,548	2,832,473	-	-	146,039	38,052,426	3,980,051	-	47,872,736
Transfer from other accounts within the group 02 or from other group accounts	22,941	20,455	217,682	-	3,283	2,891	(515,576)	-	-	(248,324)
Transfer from construction in progress (activation)	526,509	1,667,144	22,687,639	-	-	9,111	(24,890,403)	-	-	-
Investments conducted in own held (group account 62)	3,012	23,809	258,391	-	-	-	3,025,750	-	-	3,310,962
Transfer of funds with third parties (assignments without compensation)	-	23,242	895,139	-	-	-	-	-	-	918,381
Effects of the revaluation of the assets (revalorization)	19,063,203	91,063,394	158,443,053	-	-	96,279	(2,285,833)	-	-	266,380,096
Stockcount surpluses	-	107,511	42,695	-	9,808	-	-	-	-	160,014
Stockcount shortages	-	(82,190)	(436,843)	-	(10,335)	(251)	-	-	-	(529,619)
Sales	-	(5,328)	(196,191)	(18,721)	-	-	-	-	-	(220,240)
Disposals	(68,678)	(372,164)	(9,814,118)	-	-	(2,868)	(7,638)	-	-	(10,265,466)
Other	(24,381)	(49,385)	14,114	-	-	(83)	29,848	(5,647,806)	-	(5,677,693)
<b>Balance at 31 December 2016</b>	<u>73,861,571</u>	<u>666,082,282</u>	<u>1,403,466,734</u>	<u>759,898</u>	<u>423,147</u>	<u>594,610</u>	<u>77,419,796</u>	<u>26,058,681</u>	<u>1,396</u>	<u>2,248,668,115</u>
Increase/additions	3,928,267	164,450	4,567,505	-	9,822	268	32,947,244	5,885,753	-	47,503,309
Transfer from other accounts within the group 02 or from other group accounts	-	(810,290)	1,494,980	-	8,788	(218,403)	(472,530)	(2,545)	-	-
Transfer from construction in progress (activation)	41,929	3,519,250	21,667,110	-	-	8,380	(25,236,669)	-	-	-
Investments conducted in own held (group account 62)	-	7,399	627,660	-	-	-	2,412,152	-	-	3,047,211
Transfer of funds with third parties (assignments without compensation)	-	-	(470,349)	-	-	-	-	-	-	(470,349)
Stockcount surpluses	-	250	55,686	-	9,934	-	-	-	-	65,870
Stockcount shortages	-	-	(596,167)	-	(3,248)	-	-	-	-	(599,415)
Sales	-	(3,520)	(537,659)	-	-	-	-	-	-	(541,179)
Disposals	(25,656)	(2,866,109)	(3,074,627)	-	(10,111)	(129)	(1,087)	(2,040)	-	(5,979,759)
Other	(14,926)	44,680	280,990	-	-	-	169,477	(7,657,672)	-	(7,177,451)
<b>Balance at 31 December 2017</b>	<u>77,791,185</u>	<u>666,138,392</u>	<u>1,427,481,863</u>	<u>759,898</u>	<u>438,332</u>	<u>384,726</u>	<u>87,238,383</u>	<u>24,282,177</u>	<u>1,396</u>	<u>2,284,516,352</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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23. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT (continued)

	In RSD thousands									
	Land	Buildings	Machinery and equipment	Investment property	Biological assets	Other property, plant and equipment	Construction in progress	Prepayments for PP&E	Investments in third party PP&E	Total
<b>Depreciation</b>										
<b>Balance at 31 December 2015</b>	12,205,962	250,731,542	732,939,807	222,062	-	181,679	468,051	450,076	332	997,199,511
Depreciation charge (note 13)	2,991,851	7,743,095	33,155,773	8,568	-	-	80,049	-	57	43,979,393
Impairment of advances given	-	-	-	-	-	-	-	412,056	-	412,056
Transfers within the 02 group of accounts or from other group of accounts	-	400,011	(412,606)	-	-	14,841	-	-	-	2,246
Effects of the revaluation of the assets (revalorization)	107,027	58,501,575	123,930,620	-	-	(27,656)	361,827	-	-	182,873,393
Stockcount surplus	-	(5,562)	(7,553)	-	-	-	-	-	-	(13,115)
Stockcount shortage	-	(562)	(303,400)	-	-	-	-	-	-	(303,962)
Sales	-	(973)	(146,704)	(1,249)	-	-	-	-	-	(148,926)
Disposals	-	(207,833)	(8,004,854)	-	-	(2,868)	-	-	-	(8,215,555)
Other	(96,432)	(33,720)	78,823	1	-	150,803	50,464	382	-	150,321
<b>Balance at 31 December 2016</b>	<u>15,208,408</u>	<u>317,127,573</u>	<u>881,229,906</u>	<u>229,382</u>	<u>-</u>	<u>316,799</u>	<u>960,391</u>	<u>862,514</u>	<u>389</u>	<u>1,215,935,362</u>
<b>Depreciation</b>										
Balance at 31 December 2016	15,208,408	317,127,573	881,229,906	229,382	-	316,799	960,391	862,514	389	1,215,935,362
Depreciation charge (note 13)	3,387,309	7,867,547	34,606,919	8,200	-	2,057	-	-	14	45,872,046
Transfers within the 02 group of accounts or from other group of accounts	-	(478,993)	566,475	-	-	(87,482)	-	-	-	-
Stockcount surplus	-	-	115	-	-	-	-	-	-	115
Stockcount shortage	-	-	(205,444)	-	-	-	-	-	-	(205,444)
Sales	-	(1,210)	(270,219)	-	-	-	-	-	-	(271,429)
Disposals	-	(865,622)	(2,252,076)	-	-	(122)	(721)	(2,040)	-	(3,120,581)
Other	143,991	56,210	(11,662)	(135)	-	9,939	167,629	(2)	-	365,970
<b>Balance at 31 December 2017</b>	<u>18,739,708</u>	<u>323,705,505</u>	<u>913,664,014</u>	<u>237,447</u>	<u>-</u>	<u>241,191</u>	<u>1,127,299</u>	<u>860,472</u>	<u>403</u>	<u>1,258,576,039</u>
<b>Net book value</b>										
Balance at 31 December 2016	58,653,163	348,954,709	522,236,828	530,516	423,147	277,811	76,459,405	25,196,167	1,007	1,032,732,753
Balance at 31 December 2017	<u>59,051,477</u>	<u>342,432,887</u>	<u>513,817,849</u>	<u>522,451</u>	<u>438,332</u>	<u>143,535</u>	<u>86,111,084</u>	<u>23,421,705</u>	<u>993</u>	<u>1,025,940,313</u>



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**23. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT (continued)**

Advances given for property, plant and equipment, as at 31 December 2017 in the amount of RSD 23,421,705 thousand (2016 – RSD 25,196,167 thousand) mostly relate to the implementation of the second phase of the project "Kostolac B" implemented under an agreement concluded between the Enterprise and the China Machinery Engineering Corporation ("CMEC") on 20 November 2013. The project is financed from loan agreement concluded, on 17 December 2014, between the Government of the Republic of Serbia, as a borrower, and Chinese Export-Import Bank, as the lender (note 35). As at 31 December 2017, the total amount of advances given on this basis amounts to RSD 17,436,226 thousand (2016 – RSD 20,689,797 thousand).

Additionally, part of the advances given, in the amount of RSD 2,960,275 thousand, relates to construction of desulphurisation of the exhaust gases facility for the Power Plant Nikola Tesla A, under an agreement concluded between the Group and Mitsubishi Hitachi Power Systems Ltd. and „Jedinstvo“ a.d. Sevojno consortium on 8 September 2017.

During 2016, the Group engaged an independent appraiser for determining fair value of the assets, and testing for the impairment of the value of the assets as of January 31, 2016, and made a booking for the effects of revaluation of property, plant and equipment used to perform energy activities.

**24. LONG-TERM FINANCIAL INVESTMENTS**

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Investments in equity:		
- Investments in associates and joint ventures	406,457	406,457
- Investments in other legal entities	10,564,021	2,389,257
<i>Less: allowance for impairment of investments in other legal entities</i>	<u>(5,323,713)</u>	<u>(2,007,998)</u>
	<u>5,240,308</u>	<u>381,259</u>
 Long-term financial investments in other related parties:	 972	 3,037
 Long term loans given	 195,388	 819,804
<i>Less: current portion of long-term financial investments in other related parties:</i>	 -	 (210,166)
	<u>195,388</u>	<u>609,638</u>
 Other long-term financial investments	 7,077,433	 7,026,965
<i>Less: allowance for impairment</i>	 (129,058)	 (129,058)
	<u>6,948,375</u>	<u>6,897,907</u>
	<u>12,791,500</u>	<u>8,298,298</u>

*Share in capital of joined legal entities and joint ventures*

Share in capital of joined legal entities and joint ventures disclosed at 31 December 2017 and 31 December 2016 in the amount of RSD 406,457 thousand relate to investment in equity of the following entities:

	<b>% ownership</b>	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
„Ibarske hidroelektrane" d.o.o., Kraljevo	49%	379,630	379,630
„Moravske hidroelektrane" d.o.o., Beograd	49%	26,267	26,267
„Energija Novi Sad" a.d., Novi Sad	50%	560	560
		<u>406,457</u>	<u>406,457</u>

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24. LONG-TERM FINANCIAL INVESTMENTS (continued)

*Share in capital of joined legal entities and joint ventures (continued)*

Based on the closed international agreements, the Company 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.

The founders undertook the obligation to pay in additional equity contributions totalling 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 equity and if it proves insufficient, the funds will be used from the borrowing that is to be approved by the Company and 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 from a bank or another financial institution.

The objective of establishing this 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 3 December 2010.

In accordance with the Decision on additional capital dated 22 April 2014, the share capital has been increased in the amount of RSD 242,500 thousand, as follows:

- "SECI" Italy's share increased in the amount of RSD 123,675 thousand
- Company's share increased in the amount of RSD 118,825 thousand.

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 13 November 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 that gives it 49% equity share.

Once the arrangement was 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 2014 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 the amount 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 23 August 2011.

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 totalled RSD 560 thousand and was recognized as an equity investment into a newly-founded entity.

*Share in capital in other legal entities*

Share in capital in other legal entities as at 31 December 2017 in the amount of RSD 10,564,021 thousand (2016 – RSD 2,389,257 thousand) mostly relate to investment in Government Bonds of the Republic of Serbia in the amount of RSD 3,090,882 thousand.

The Group acquired 300,000 bonds with nominal value of RSD 10,000 per bond and maturity date at 12 January 2019. Interest rate on acquired bonds at balance sheet date was 3,50%. Fair value changes of these securities are recognized directly in equity as revaluation reserves, through the consolidated statement of changes in equity and in consolidated statement of other comprehensive income.

In addition, share in equity of other legal entities relates to the share in equity of legal entities "HIP Azotara" d.o.o., Pancevo and "HIP - Petrohemija" a.d. Pancevo in the amount of RSD 982,401 thousand and RSD 2,716,906 thousand, respectively, related to the conversion of the receivables for electricity into capital. For these two parties, the Group formed a value impairment in its entirety

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**24. LONG-TERM FINANCIAL INVESTMENTS (continued)**

*Share in capital of other legal entities (continued)*

On 14 December 2017, the Company acquired a 71,90% ownership interest in "Kolubara – Građevinar" d.o.o., Lazarevac, a company engaged in construction projects within the mining infrastructure and exploitation of non-metallic substances in the amount of RSD 1,756,993 thousand. The share was acquired through a conversion of the Company receivables as at 30 september 2016 into basic capital in accordance with the RS Government Conclusion 05 No: 023-7443/2017 of 17 August 2017, which complied with a previously prepared Plan for the Reorganisation of Kolubara - Građevinar d.o.o., Lazarevac.

In line with the Conclusion of the Government of the Republic of Serbia , the structure of "RB Kolubara" branch receivables converted into basic capital was as follows:

	<b>In RSD thousand</b>
Long-term financial investments	600,464
Long-term receivables	218,955
Advances given	189,078
Trade receivables	209,183
Other receivables	6,225
Short-term financial investments	533,088
	1,756,993

The change in ownership interest was registered with the Business Registers Agency on 14 December 2017. By the date of the accompanying consolidated financial statements, an effective control process over "Kolubara-Građevinar" d.o.o., Lazarevac has not been implemented.

*Other long-term financial investments*

Other long-term financial investments disclosed as of 31 December 2017 in the amount of RSD 6,948,375 thousand mostly relate to a guarantee deposit in the name of securing settlement of the obligation under the access service to the distribution system with the authorized bank in accordance with the signed agreement on access and use of the electricity distribution system. The guarantee deposit on this basis as at 31 December 2017 amounts to RSD 6,187,849 thousand. Those funds were deposited for period of 24 months with the annual interest rate of 3.9%

**25. LONG-TERM RECEIVABLES**

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Rescheduled trade receivables for electricity and services:		
- households	1,071,992	1,127,244
- legal entities	18,547,413	17,098,408
Loans to employees:		
- sold apartments	451,455	514,202
- housing loans	64,079	71,350
Receivables from the Privatization Agency of RS	57,489	62,347
Less: Allowance for impairment		
- rescheduled trade receivables for electricity and services from households	(1,071,992)	(1,127,244)
- rescheduled trade receivables for electricity and services from legal entities	(18,367,750)	(15,524,438)
- receivables from the Privatization Agency of RS	(57,489)	(62,347)
- sold apartments and housing loans	(2,252)	(1,996)
	692,945	2,157,526

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25. LONG-TERM RECEIVABLES (continued)

Rescheduled trade receivables for electricity relate to receivables from households and legal entities for which an agreement on rescheduled receivables was concluded in line with the decisions by the Supervisory Board (number 860/4-13 dated 22 February 2013, number 1151/3-30 dated 2 April 2013 and number 2233/9-13 dated 25 July 2013). Namely, according to the aforementioned decisions, electricity customers with overdue liabilities as at 31 May 2013, and qualified customers who lost the right to public supply of electricity as at 31 December 2012, are allowed to repay the total debt in 120 instalments depending on the amount of the receivable and conditional write-off depending on the number of rescheduled instalments (up to 40% if one-off settlement of outstanding debt is paid, with no decrease if payment is in 60-120 instalments). In addition, no interest is charged on the outstanding amount owed during the duration of agreement, and in the event of two consecutive unpaid instalments, in spite of notice sent, the agreement shall be considered terminated.

Loans to employees that relate to the sale of apartments in the amount of RSD 451,455 thousand as at 31 December 2017 (2016 – RSD 514,202 thousand) refer to the solidarity apartments purchased by the employees of the Group. The Group has sold the solidarity apartments to employees for a period of 40 years and repayment is done through monthly instalments that are adjusted with the corresponding indices of retail prices, up to a rate of growth of average earnings in the Republic of Serbia.

Loans to employees for housing loans at 31 December 2017 in the amount of RSD 64,079 thousand (2016 – RSD 71,350 thousand) relate to loans for the housing needs of employees which are approved for a period of 20 or 40 years. Repayment of housing loans is linked to the EUR exchange rate and they were approved without interest or at a fixed interest rate of 1% per annum.

26. INVENTORY

	In RSD thousand	
	31 December 2017	31 December 2016
Materials	14,515,299	13,635,583
<i>Less: Allowance for impairment</i>	<i>(2,806,746)</i>	<i>(2,210,419)</i>
	<u>11,708,553</u>	<u>11,425,164</u>
Spare parts	15,767,392	13,691,453
<i>Less: Allowance for impairment</i>	<i>(1,744,370)</i>	<i>(1,605,101)</i>
	<u>14,023,022</u>	<u>12,086,352</u>
Tools and inventory	1,311,694	948,699
<i>Less: Allowance for impairment</i>	<i>(86,704)</i>	<i>(86,743)</i>
	<u>1,224,990</u>	<u>861,956</u>
Total materials, spare parts, tools and inventory	<u>26,956,565</u>	<u>24,373,472</u>
Work in progress and ongoing services	344,555	331,898
Coal	2,313,178	2,017,388
Merchandise	2,017	881
	<u>2,659,750</u>	<u>2,350,167</u>
Fixed assets available for sale	1,825	1,825
Advances given for inventories and services	4,453,023	3,287,406
<i>Less: Allowance for impairment</i>	<i>(316,516)</i>	<i>(296,108)</i>
	<u>4,136,507</u>	<u>2,991,298</u>
	<u>33,754,647</u>	<u>29,716,762</u>

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**26. INVENTORY (continued)**

Advances given for inventories and services to third parties as at 31 December 2017 in the amount of RSD 4,453,023 thousand mostly relate to "TEKO Kostolac" branch in the amount of RSD 1,982,868 thousand. Namely, in 2017, the mentioned branch concluded two construction agreements. One for completion of VI BTO system and one for the construction of industrial railway from the railway station to thermal power plant "Kostolac B" which had the most significant effect on increase of advances compared to previous year.

**27. TRADE RECEIVABLES**

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Customers – other related parties (PE "Elektrokosmet")	10,108,022	8,533,875
<i>Less: allowance for impairment</i>	<u>(10,108,022)</u>	<u>(8,533,875)</u>
	-	-
Customers on domestic market:		
- sale of electricity – households	75,281,640	72,263,018
- sale of electricity – legal entities	50,736,863	55,667,093
- sale of electricity - companies in restructuring	11,543,090	10,539,803
- other – companies under restructuring and in bankruptcy	1,291,829	1,256,779
- sale of electricity – licenced customers	19,438	17,468
- sale of electricity – qualified customers	27,120,635	27,378,336
- PE "Elektromreža Srbije"	1,460,134	1,832,577
- sale of coal	2,676,084	2,447,284
- sale of heat and process steam	497,159	343,492
- sale of heat energy	776,113	642,704
- trade receivables for services	1,286,793	940,727
	<u>172,689,778</u>	<u>173,329,281</u>
<i>Less: allowances for impairment</i>		
- sale of electricity – households	(56,323,004)	(52,531,743)
- sale of electricity – legal entities	(44,876,258)	(48,343,439)
- sale of electricity - companies in restructuring	(11,543,090)	(10,539,803)
- other – companies under restructuring and in bankruptcy	(1,291,829)	(1,256,779)
- sale of electricity – licenced customers	(7,072)	(7,072)
- sale of electricity – qualified customers	(12,477,072)	(11,811,376)
- sale of coal	(2,258,531)	(1,926,822)
- sale of heat and process steam	(2,012)	(2,012)
- sale of heat energy	(564,902)	(439,610)
- trade receivables for services	(568,306)	(552,450)
	<u>(129,912,076)</u>	<u>(127,411,106)</u>
Customers on domestic market, net	<u>42,777,702</u>	<u>45,918,175</u>
Customers – foreign	4,978,282	5,559,364
<i>Less: allowances for impairment</i>	<u>(4,736,898)</u>	<u>(5,433,845)</u>
	241,384	125,519
Other trade receivables	568,958	842,412
<i>Less: Allowances for impairment</i>	<u>(439,600)</u>	<u>(548,505)</u>
	129,358	293,907
	<u>43,148,444</u>	<u>46,337,601</u>

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**27. TRADE RECEIVABLES (continued)**

In accordance with the Conclusion of the Government of the Republic of Serbia, number 021-6624 / 2009-002, adopted at the Government session on 30 November 2009, the Company uses its available production capacity in order to provide with electricity to the majority Serb area in the north of AP of Kosovo and Metohija.

On the above basis, the receivables from the delivered electricity to the Public Company "Elektrokosmet" Priština were recognized, in the amount of RSD 10,108,022 thousand (2016 – RSD 8,533,875 thousand). At the same time, the unpaid amount is recognized as an expense by indirect write-off.

Receivables from companies in restructuring include receivables from business entities that are bankrupt, and whose settlement of creditors, in many cases, is carried out according to the adopted reorganization plan in accordance with the Bankruptcy Law and the Law on Privatization.

**28. RECEIVABLES FROM SPECIFIC OPERATIONS**

	In RSD thousand	
	31 December 2017	31 December 2016
Other receivables from specific operations	366,698	358,629
Receivables for Public Media Service charge	2,497,220	1,754,937
<i>Less: Allowances for impairment</i>	<i>(37,086)</i>	<i>(26,739)</i>
	2,826,832	2,086,827

Receivables for Public Media Service charge as of 31 December 2017 in the amount of RSD 2,497,220 thousand (2016 – RSD 1,754,937 thousand) relate to receivables from end customers for the purpose of financing the public media service in accordance with the Law on the Temporary Regulation of the Method of Tax Collection for the Public Media Service.

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29. OTHER RECEIVABLES

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Receivables for interest:		
- PE "Elektrokosmet", Pristina	683	315
- for electricity – households	1,690,430	1,311,767
- for electricity – legal entities	3,984,320	4,637,188
- for electricity - companies in restructuring	2,864,063	2,864,063
- other legal entities (banks and sale of heat and process steam)	647,492	587,205
- for Public Service Media	170,071	52,475
Receivables from insurance companies	15,683	11,855
Receivables from billing	208,615	223,198
Receivables from employees	185,259	2,078,076
Receivables from customers financed from the budget and overpaid taxes and contributions	5,452,285	497,956
Other receivables	506,116	554,611
	<u>15,725,017</u>	<u>12,818,709</u>
<i>Less: allowance for impairment</i>		
- <i>Receivables from interest</i> for electricity – households	(374,498)	(399,874)
- <i>Receivables from interest</i> for electricity – legal entities	(1,759,437)	(1,749,113)
- <i>Receivables from interest</i> for electricity - companies in restructuring	(2,864,063)	(2,864,063)
- <i>Receivables from interest</i> for other receivables	(709,799)	(656,065)
Receivables from employees	(23,411)	(21,238)
Receivables for overpaid taxes and contributions	(31,378)	(27,646)
	<u>(5,762,586)</u>	<u>(5,717,999)</u>
	<u>9,962,431</u>	<u>7,100,710</u>

Receivables for overpaid taxes and contributions includes the amount of RSD 4,670,755 thousand relating to prepaid income tax as a difference between calculated tax for 2017 and advance payments made in accordance with tax regulations.

30. SHORT-TERM FINANCIAL INVESTMENTS

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Short-term loans and borrowings – domestic	1,728	192,512
Short-term rescheduled receivables for electricity	1,319,853	819,090
Current portion of long-term financial investments	1,044,693	1,055,551
Short-term deposits in domestic banks	1,212,429	12,682
Other short-term financial investments	33,864	48,929
<i>Less: allowance for impairment</i>	(1,719,084)	(842,467)
	<u>1,893,483</u>	<u>1,286,297</u>

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**30. SHORT-TERM FINANCIAL INVESTMENTS (continued)**

Short-term financial investments as at 31 December 2017 in the amount of RSD 1,212,429 thousand mostly relates short-term bank deposits in the amount of RSD 1,200,000 thousand, broke down to:

- Non-specific purpose deposit in domestic currency in the amount of RSD 1,000,000 thousand placed in OTP banka Srbija a.d., Novi Sad, for the period of 12 months with interest rate of 4.2% annually, and
- Non-specific purpose deposit in domestic currency in the amount of RSD 200,000 thousand placed in Direktna banka a.d., Kragujevac for the period of 6 months with interest rate of 3.7% annually.

**31. CASH AND CASH EQUIVALENTS**

	In RSD thousand	
	31 December 2017	31 December 2016
Current accounts:		
- in RSD	34,025,210	44,737,161
- in foreign currency	5,591,639	10,323,830
	39,616,849	55,060,991
Deposits for securing letters of credit		
- in foreign currency	-	149,304
	-	149,304
Cash desk:	46,213	36,305
Special purpose cash funds	18,999	33,612
Securities – cash equivalents	17,925	16,877
Cash funds with limited use	677,900	674,648
<i>Less: allowance for impairment</i>	(677,900)	(674,648)
	39,699,986	55,297,089

An impairment of the value of cash assets refers to cash assets deposited with banks that have been subject to bankruptcy proceedings. Most of these funds relate to assets deposited with bankrupt banks such as: Univerzal banka a.d., Beograd, Beobanka a.d., Beograd and Borska banka a.d., Bor.

**32. PREPAID EXPENSES AND OTHER ACCRUALS**

	In RSD thousand	
	31 December 2017	31 December 2016
Prepaid expenses	146,922	49,652
Deferred expenses	77,817	1,618
Other accruals	1,505,964	1,299,800
	1,730,703	1,351,070



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33. EQUITY

**Other capital**

Other capital stated in the Group's consolidated balance sheet as of 31 December 2017 in the amount of RSD 202,188 thousand (2016 – RSD 202,188 thousand) 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 1 January 2004.

**Profit distribution**

The Supervisory Board made decisions on the allocation of part of the profit according to the financial statements of the Public Enterprise Elektroprivreda Srbije (JP EPS) and its subsidiary „EPS Distribucija“ d.o.o., Belgrade as follows:

- for the year ending on 31 December 2016, in the amount of RSD 4,382,928 thousand (50% of profit) for JP EPS to the founder on behalf of the participation in profit, in accordance with the Law on the Budget of the Republic of Serbia,
- for the year ending on 31 December 2015, in the amount of RSD 7,694,733 thousand (70% of profit) for JP EPS and 4,006,865 thousand (70% profit) for EPS Distribution Ltd., to the founder on behalf of the participation in profit, in accordance with the Law on the Budget of the Republic of Serbia,
- for the year ending on 31 December 2014, in the amount of RSD 2,090,978 thousand (50% of profit) for EPS Distribucija Ltd, to the founder on behalf of the participation in profit, in accordance with the Law on the budget of the Republic of Serbia,
- the remaining amount of the result for the reporting years is retained as an undistributed profit.

As at 31 December 2017, part of the profit allocated to the founder on behalf of the participation in profit amount to RSD 18,175,504 thousand. In 2017, the Group has settled obligation towards the Founder, in the amount of RSD 3,000,000 thousand pursuant to the decision on the allocation of part of the profit (note 39).

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**33. EQUITY (continued)**

Changes in equity in 2017 and 2016 are disclosed below:

In RSD thousand

	Share capital	Legal reserves	Revaluation reserves	Unrealized gains/losses	Retained earnings/(accumulated loss)	Total
<b>Balance at 1 January 2016</b>	360,141,927	668	536,547,679	(451,497)	(113,898,555)	782,340,222
Net income	-	-	-	-	5,849,902	5,849,902
Effects of revaluation of fixed assets	-	-	94,568,599	-	-	94,568,599
Effects of deferred tax	-	-	(14,245,628)	-	-	(14,245,628)
Disposal of fixed assets	-	-	(3,402,823)	-	1,162,376	(2,240,447)
Deferred gains and losses on investments in debt and equity securities	-	-	-	(9,476)	-	(9,476)
Share based payments	-	-	-	(138)	-	(138)
Foreign currency translation	-	-	-	506	-	506
Other	-	10	(5,645)	-	-	(5,635)
<b>Balance at 31 December 2016</b>	<b>360,141,927</b>	<b>678</b>	<b>613,462,182</b>	<b>(460,605)</b>	<b>(106,886,277)</b>	<b>866,257,905</b>
Net income	-	-	-	-	6,387,625	6,387,625
Allocation of profit to the founder	-	-	-	-	(18,175,504)	(18,175,504)
Disposal of fixed assets	-	-	(2,340,105)	-	1,051,614	(1,288,491)
Effects of fair value change in financial instruments	-	-	-	150,878	-	150,878
Share based payments	-	-	-	5,878	(5,878)	-
Foreign currency translation	-	-	-	(3,397)	-	(3,397)
Other	-	11,960	16,416	-	124,812	153,188
<b>Balance at 31 December 2017</b>	<b>360,141,927</b>	<b>12,638</b>	<b>611,138,493</b>	<b>(307,246)</b>	<b>(117,503,608)</b>	<b>853,482,204</b>

**34. LONG-TERM PROVISIONS**

	31 December 2017	31 December 2016
Long-term provision for environmental restoration	2,962,777	2,744,881
Long-term provision for retirement benefits and jubilee rewards	8,196,141	8,128,105
Long-term provision for litigations	4,015,140	4,037,686
Long-term provision for protection of natural environment	60,001	112,092
Other long-term provisions	24	115
	<b>15,234,083</b>	<b>15,022,879</b>

Long-term provision for retirement benefits and jubilee rewards as at 31 December 2017 in the amount of RSD 8,196,141 thousand (2016 – RSD 8,128,105 thousand) relates to provisions upon termination of employment and to provisions for jubilee awards for the continuous service rendered by employees for the period of 10, 20, 30 and 40 years.

These provisions are recognized as present value of future payments using actuarial valuation method which comprises the following actuarial assumptions: discount rate of 5%, employee fluctuation rate of 1.5% and salary growth rate of 0%.

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**34. LONG-TERM PROVISIONS (continued)**

Long-term provision for retirement benefits and jubilee awards are recorded as disclosed in notes 3.5.

Long-term provision for environmental restoration in 2017 in the amount of RSD 2,962,777 thousand includes provision in the amount of RSD 2,766,796 thousand which relates to "Rudarski basen Kolubara" and provision in the amount of RSD 195,981 thousand, which relates to "Termoelektrane i kopovi Kostolac". These provisions were formed for the recultivation of the land or the bringing of the property in their original condition after the end of the exploitation.

Long-term provision for protection of natural environment disclosed at 31 December 2017 in the amount of RSD 60.001 thousand (2016 – RSD 112,092 thousand) entirely relate to provisions formed in "Drinsko-Limske hidroelektrane" branch.

Changes on the long-term provisions in 2017 and 2016 are disclosed in the table below:

	In RSD thousand					
	Provision for retirement benefits and jubilee awards	Provision for litigations	Provision for environmental restoration	Provision for protection of natural environment	Other provision	Total
<b>Balance at 1 January 2016</b>	8,117,382	4,467,811	2,487,490	154,919	598	15,228,200
Transfer related to status change	972,387	-	-	-	-	972,387
Provisions charged to current expenses (Note 14)	149,203	640,831	354,952	10,192	-	1,155,178
Used long-term provision	(659,792)	(636,111)	(97,561)	(11,783)	(483)	(1,405,730)
Reversal of provision (Note 20)	(477,585)	(434,845)	-	(41,236)	-	(953,666)
Other	26,510	-	-	-	-	26,510
<b>Balance at 31 December 2016</b>	<u>8,128,105</u>	<u>4,037,686</u>	<u>2,744,881</u>	<u>112,092</u>	<u>115</u>	<u>15,022,879</u>
Provisions charged to current expenses (Note 14)	1,780,595	968,557	404,306	5,454	-	3,158,912
Used long-term provision	(1,513,591)	(650,887)	(186,410)	(16,991)	(91)	(2,367,970)
Reversal of provision (Note 20)	(198,968)	(340,216)	-	(40,554)	-	(579,738)
<b>Balance at 31 December 2017</b>	<u>8,196,141</u>	<u>4,015,140</u>	<u>2,962,777</u>	<u>60,001</u>	<u>24</u>	<u>15,234,083</u>

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35. LONG-TERM LIABILITIES

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Liabilities convertible to equity	80,543	80,543
Long-term borrowings: domestic	30,111,357	30,996,343
<i>Less: Current portion of long-term borrowings: domestic</i>	<i>(2,678,329)</i>	<i>(3,990,534)</i>
	27,433,028	27,005,809
Long-term borrowings - foreign	96,831,717	98,666,967
<i>Less: Current portion of long-term borrowings: foreign</i>	<i>(9,307,698)</i>	<i>(6,440,688)</i>
	87,524,019	92,226,279
Financial leasing liabilities	10	-
Rescheduled public revenues liabilities:	39	40
<i>Less: Current portion</i>	<i>(39)</i>	<i>(40)</i>
	-	-
Other long-term liabilities		
- Rescheduled liabilities toward suppliers	162,863	230,530
- Other	429,433	6,480,704
<i>Less: Current portion of other long-term liabilities (Note 36)</i>	<i>(67,701)</i>	<i>(90,655)</i>
	524,595	6,620,579
	115,562,195	125,933,210

Long-term liabilities arising from domestic long-term borrowings, with maturity over 1 year, in amount of RSD 27,433,028 thousand comprise: loans granted by Paris club creditors in the amount of RSD 20,014,115 thousand; liabilities regarding other refinancing loans in the amount of RSD 7,416,073 thousand, and RSD 2,840 thousand regarding other liabilities.

Part of the borrowed funds from commercial banks, residents of the Republic of Serbia, in the total amount of RSD 24,392,749 thousand, is prematurely repaid from the EBRD loan in 2016.

Long-term liabilities arising from foreign long-term borrowings, with maturity over 1 year, in amount of RSD 87,524,019 thousand comprise: loans from international financial organisations in amount of RSD 50,656,109 thousand; loans granted by State Governments in amount of RSD 36,867,910 thousand.

**I Refinanced borrowings realised prior to 1990 from the funds of**

**1. Paris Club of Creditors**

The repayment of liabilities arising from the refinanced long-term borrowings from the Paris Club of Creditors realised through domestic banks was frozen upon the introduction of the United Nations' Sanctions in May 1992. The liabilities arising from the debt to the Paris Creditor Club members were recognized, in accordance with the Reconciled Minutes of the FRY 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 (FRY Official Gazette No. 36/2002), who are the Original Debtors or Guarantors toward the Paris Club and London Club Creditors and the balance reconciled with the National bank of Serbia, in the amount of 49% of the relevant principal, based on the concluded bilateral agreements. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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35. LONG-TERM LIABILITIES (continued)

*I Refinanced borrowings realised prior to 1990 from the funds of: (continued)*

**2. London Club of Creditors**

In 2005 The Company wrote off 62% of new principal of the debt to the London Club of Creditors on 30 September 2004 and reconciled the amount of new principal based on the communication and annuity plans provided by the National Bank of Serbia. During 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 1 May 2010 and 1 November 2024, respectively. The interest of 3.75% has been calculated to the newly determined principal as of 1 November 2005 until 1 November 2009, and as of 1 November 2009 until 1 November 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 17 December 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 instalments in the period from 15 June 2005 to 15 December 2031 and carries a variable interest rate. On 17 May 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 from the rescheduled loans from the aforementioned creditor.

*Borrowings realised in the period 1990 – 2001*

**II Borrowings from the People's Republic of China through domestic banks**

JP EPS recognized the liability arising from the borrowing facility used by JP EPS and PE 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 23 December 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 Government of the Republic of Serbia, in its capacity of a guarantor, assumed the debt towards EXIM Bank of China from the People's Republic of China on 20 February 2009, by signing 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 25 March 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 semi-annually on 21 January and 21 July

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 31 May 2005) on 28 June 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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35. LONG-TERM LIABILITIES (continued)

*Republic of Serbia – Ministry of Finance*

**III Liabilities and receivables based on Agreement between Republic of Serbia Government and Russian Federation Government**

Based on the Conclusion of the Government of the Republic of Serbia 05 No. 312-11997 / 2016 from 15 December 2016 part of the debt in the amount of RSD 5,113,300 thousand, was released, on the basis of the Agreement between the Government of the Republic of Serbia and the Government of the Russian Federation on settling the obligations of the former USSR for calculations related to goods trading between the former USSR and the former SFRY, and on the basis of agreement on mutual settlement of liabilities and receivables arising from the agreement between the Government of the Republic of Serbia and the Government of the Russian Federation on regulating the obligations of the former USSR and the former SFRY dated 27 April 2007, No. 12.01.141486 / 7-17 from 16 May 2017. Remaining part of the debt, in the amount of RSD 5,406,534 thousand, was reclassified into domestic long-term borrowings.

The company is obligated to repay the remaining part of debt in amount of USD 54,547,812.55 to Republic of Serbia in dinar payments, using own funds, according to Annuity plan contained in Appendix 1 of the Agreement. The debt must be settled within 10 years including 2 years grace period. Interest will be calculated during the grace period and payments will be made on maturity date of first installment, precisely on 30 March 2019. Principal is to be repaid in 16 equal semi-annual instalments and nominal annual interest rate represents a sum of 6M LIBOR for American dollar and fixed mark-up of 1%.

**IV Borrowings from foreign governments**

**1. Borrowings from the government of the Republic of Poland**

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

**2. Borrowing from the Japanese Government through Japanese International Cooperation Agency (JICA)**

The Government of Japan, is financing the project of flue gas desulphurization plant construction at "Nikola Tesla" Thermal Power Plant. Financing is done through the Japan International Cooperation Agency (JICA). The borrowing of JPY 28,252 billion was agree on 24 November 2011. Agreement is concluded for the period of 15 years and repayment period is 10 years following the five-year grace period. Utilization period of loan funds is 10 years after the Borrowing Agreement effectiveness, with possibility of extension. The interest rate is 0.6% annually, except for the borrowing portion used for payment of consultant services, where the interest is accrued at the rate of 0.01% annually. Maturity dates are 20 May and 20 November, whereby the repayment of the principal, according to the amortization plan in Appendix 3 and Annex 1 of the Loan Agreement, commences on 20 November, 2016 and completes on 20 November 2026. In November 2016 due principal I amounted to JPY 5,572,856 and principal II due amounted to JPY 50,340,000. From 20 May 2017 to 20 May 2022 due principal I and II will amount to JPY 5,562,000 and JPY 50,333,000 respectively. On 20 November 2022 due principal I and II will amount to JPY 3,014,253,144 and JPY 50,333,000 respectively. From May 2023 to the end of repayment period, 20 November 2026, due principal I and II will amount to JPY 3,014,249,000 and JPY 50,333,000 respectively.

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

In accordance with the Agreement on Economic and Technical Cooperation in Infrastructure, signed on 20 August 2009 by and between the Government of the Republic of Serbia and the People's Republic of China, following Agreements have been concluded:

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35. LONG-TERM LIABILITIES (continued)

*IV Borrowings from foreign governments (continued)*

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

- Borrowing Agreement for subsidized buyer for stage I of the Kostolac-B Power Plant Projects Package, concluded on 26 December 2011 between the Government of the Republic of Serbia, as the Borrower, and Chinese Export-Import Bank, as the Creditor, in accordance with the Contractual Agreement as of 8 December 2010 for implementation of stage I of the Kostolac-B Power Plant Projects Package.

The borrowing was agreed in the amount of USD 293 million, for a period of 180 months, including grace period of 60 months, after coming into effect of Borrowing Agreement for subsidized buyer. Usage period of borrowing funds is 60 months after coming into effect of Borrowing Agreement for subsidized buyer, with possibility of extending. The instalments mature for repayment semi-annually, on 21 January and 21 July each calendar year. The principal is repaid in 20 equal semi-annual instalments over 120 months following the grace period. The agreed interest rate equals 3% annually, with the one-off loan origination fee of 1% of the agreed loan amount and the cost of financing of 0.75% annually.

- Borrowing Agreement for subsidized buyer for stage II of the Kostolac-B Power Plant Projects Package, concluded on 17 December 2014 between the Government of the Republic of Serbia, as the Borrower, and Chinese Export-Import Bank, as the Creditor, in accordance with the Contractual Agreement as of 20 November 2013 for implementation of stage II of the Kostolac-B Power Plant Projects Package.

The borrowing was agreed in amount of USD 608.26 million, for a period of 240 months, including grace period of 84 months. Usage period of loan funds is 25 May 2022, with possibility of extending. The instalments mature for repayment semi-annually, on 21 January and 21 July each calendar year. Repayment of the principals starts 21 July 2022, in 26 equal semi-annual instalments, ending 21 January 2035. The agreed interest rate equals 2.5% annually, with the one-off loan origination fee of 0.25% of the agreed borrowing amount and commission for the unused part of borrowing of 0.25% annually.

*V Borrowings from International Financial Organizations*

1. *KfW*

With the German financial organization KfW financial agreements were executed in the period from 2001 through 2017 as follows:

- EUR 30 million was borrowed on 9 September 2005. The final date for the availability of funds borrowed was extended to 31 March 2014, up to when all funds have been used in full. Pursuant to the provisions contained in the Agreement, the principal repayment has commenced on 30 December 2010 in 20 equal instalments of EUR 1,500,000. The final maturity date is 30 June 2020. The borrowing was agreed interest-free. Guarantee costs, which are calculated on the unpaid portion of the principal, amount to 0.75% annually, while commission for unused funds of borrowing amount to 0.25% annually.
- EUR 36 million (with the additional amount of EUR 10 million not to be repaid) was borrowed on 2 January 2008. Deadline for usage of borrowing funds is extended until 30 June 2017. According to the Agreement, repayment of principal commences on 30 June 2013, to be completed on 30 December 2019. The interest rate is determined two days prior to usage of each individual tranche and is fixed at that level until KfW informs the Company on the consolidated interest rate for the entire borrowing which will be determined upon the execution of the last disbursement of the subject borrowing and will remain constant throughout the entire repayment period. Interest rate of each tranche is defined as the rate determined by KfW two days prior to date of repayment of appropriate portion of the borrowing based on effective financing costs of KfW on EURO capital market in moment of payment for maturities which, as close as possible, match maturities of borrowing portions on which payments should be made plus mark-up of 1.75% annually. Commission on unused portion of borrowing amounts to 0.25% annually. Management fee amounts to 1% of total borrowing amount, and is paid once out of Borrowers own funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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35. LONG-TERM LIABILITIES (continued)

V *Borrowings from International Financial Organizations (continued)*

1. *KfW (continued)*

- EUR 70 million was agreed on 29 October 2010. As the final deadline for the use of borrowed funds has been set 31 December 2015 with the option of deadline extension. This deadline has been extended to 31 December 2018. According to the provisions of the Borrowing Agreement, the principal repayment should have commenced on 30 December 2015 in 20 equal semi-annual instalments. According to Amendment I to the Borrowing Agreement loan principal repayment terms have been changed such that principal is to be repaid in 14 equal semi-annual instalments starting on 31 December 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 decreased 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 borrowing. Commission for unused portion of the borrowing amounts to 0.25% annually, with the Company being freed from this expense in 2014. Management fee amounts to 1% of total loan amount and is paid once out of Borrowers own funds.
- EUR 65 million (with additional EUR 9 million of non-repayable funds) was agreed on 12 October 2012. As the final date for utilization of borrowing funds was set 30 December 2015, which has been extended to 20 December 2017. According to the provisions of the Borrowing Agreement, the principal repayment commenced on 30 December 2015 in 19 equal semi-annual instalments, where in the event of extension of date for utilization of borrowing funds, repayment would commence 2 years later, on 30 December 2016, in 15 equal semi-annual instalments. 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 borrowing of EUR 40 million. After each payment, KfW consolidates these rates into a uniform rate for the total borrowing amount, which is fixed to the end of the repayment period. Management fee amounts to 1% of total loan amount and is paid once out of Borrowers own funds.
- EUR 45 million was agreed on 28 February 2017. As the final deadline for the use of borrowed funds is set 30 June 2022 with the option of deadline extension. According to the Borrowing Agreement loan principal repayment is to be repaid in 14 equal semi-annual instalments starting on 30 June 2022, ending to 30 December 2028. A Fixed interest rate has been agreed and amounts to 0.80% annually. Commission for unused portion of the borrowing amounts to 0.25% annually. Management fee amounts to 0.75% of total borrowing amount, and is paid once out of Borrowers own funds.
- — EUR 80 million (with additional EUR 1 million of non-repayable funds) was agreed on 29 November 2017. As the final deadline for the use of borrowed funds is set 30 December 2021 with the option of deadline extension. According to the Borrowing Agreement loan principal repayment is to be repaid in 23 equal semi-annual instalments starting on 30 December 2021, ending to 30 December 2032. A Fixed interest rate has been agreed and amounts to 0.85% annually. Commission for unused portion of the borrowing amounts to 0.25% annually. Management fee amounts to 0.75% of total borrowing amount, and is paid once out of Borrowers own funds.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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35. LONG-TERM LIABILITIES (continued)

*V Borrowings from International Financial Organizations (continued)*

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

Financial agreements were concluded with the European Bank for Reconstruction and Development (EBRD) in period from 2001 to 2017 for the following amounts:

- EUR 39,6 million, was agreed on 25 October 2001, and was fully used until 25 February 2011, with a portion of borrowing canceled, totalling EUR 1,179. The initially agreed borrowing of EUR 100 million was divided between the Company (EUR 39.6 million) and the Public Enterprise "Elektromreža Srbije" (EUR 60.4 million). The redistribution of rights and liabilities between The Company 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 27 May 2008 by closing the following: the Amended Borrowing Agreement between JP EPS and JP EMS Beograd and EBRD, the Amended Borrowing 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 borrowing amounting to EUR 60.4 million were transferred to the Public Enterprise "Elektromreža Srbije." The principal repayment commenced on 7 September 2005 and it has been completely repaid in 2016. The interest rate agreed is variable and corresponds the sum of EURIBOR and 1% annually mark-up.
- EUR 59,9 million, was agreed on 21 October 2003, and was fully used until 30 April 2010. EUR 60 million had been agreed, but a portion of borrowing of EUR 135,857.49 was cancelled. The repayment of the principal commenced from 7 March 2008 and will continue until 7 September 2018. The interest rate agreed is variable and consists of EURIBOR and 1% annually mark-up.
- EUR 40 million was agreed on 2 September 2010. On 22 December 2016 The Bank extended the ultimate date until which funds are available up to 2 September 2018. According to the provisions of the relevant Agreement, the principal repayment commenced on 2 September 2013 and is to be executed in 18 semi-annual instalments by 2 March 2022. The borrowing accrues variable interest rate, which consists of EURIBOR and mark-up of 1% annually, with the option to choose a fixed interest rate. Commission on unused portion of the loan amounts to 0.5% annually. Management fee amounts to 1% of total loan amount and is paid once out of borrowed funds.
- UR 80 million was agreed on 28 July 2011. The ultimate date until which funds are available is set at 28 January 2015, where the bank extended the drawdown period up to 31 January 2017. According to the provisions of the relevant Agreement, the principal repayment commences as of 31 January 2015 and is to be executed in 17 equal semi-annual instalments by 31 January 2023. The borrowing accrues variable interest rate, which consists of EURBOR and mark-up of 1% annully, with the option to choose a fixed interest rate. Commission on unused portion of borrowing amounts to 0.5% annually. Management fee amounts to 1% of total borrowing amount, and is paid once out of borrowed funds.
- EUR 45 million was agreed on 7 December 2011. The ultimate date until which funds are available is set on 7 December 2014, where the drawdown period has been extended to 31 December 2018. The amount of EUR 12.3 million has been cancelled. According to the provisions of the relevant Agreement, the principal repayment commenced on 30 April 2015 and is to be executed in 18 equal semi-annual instalments until 31 October 2023. The borrowing accrues variable interest rate, which consists of EURBOR and mark-up in amount of 1% annually, with the option to choose a fixed interest rate. Commission on unused portion of borrowing amounts to 0.5% annually. Management fee amounts to 1% of total borrowing amount, and is paid once out of borrowing funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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35. LONG-TERM LIABILITIES (continued)

V Borrowings from International Financial Organizations (continued)

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

- EUR 200 million was agreed on 30 October 2015, for a period of 15 years, including grace period of 18 months. The ultimate date for usage of borrowing funds is to be determined as a date upon expiry of one year from date of effectiveness of borrowing funds, with the option of extension. Defined date of effectiveness of borrowing funds is 29 September 2016. The procedure of providing conditions for achieving of effectiveness of the borrowing funds is in progress. According to the terms of the Agreement, repayment of the principal will commence on 15 June 2017, in 27 equal semi-annual instalments, until 15 June 2030. The borrowing accrues variable interest rate, which consists of EURIBOR and mark-up in amount of 1% annually, with the option to choose a fixed interest rate. Commission on unused portion of borrowing amounts to 0.5% annually. Management fee amounts to 1% of total borrowing amount, and is paid once out of borrowing funds. The Company used granted funds for early repayment of loans with following banks:

Abstract of Early repayment plan for loans granted by the banks (NBS average exchange rate as at 31.10.2016 has been used in The Plan)					
Bank	Contract number	Amount (EUR) (NBS average exchange rate as at 31.10.2016)	Funds	Early repayment	Cumulative amount (EUR)
Unicredit Bank a.d. Beograd	2392/106-14; 2806/42-13; 2-01-1-3251; 2-01-1-3252	44,828,439	EBRD loan No 47318	25.10.	44,828,439
Banka Poštanska štedionica a.d. Beograd	2392/110-14	4,833,333			49,661,773
Alpha Bank Srbija a.d. Beograd	2392/98-14	4,333,333		26.10.	53,995,106
Vojvođanska banka a.d. Novi Sad	2392/108-14	13,500,000			67,495,106
Erste Bank a.d. Novi Sad	2392/100-14	9,000,000			76,495,106
Societe Generale Banka Srbija a.d. Beograd	2392/97-14; 2392/102-14; 2392/95-14; 2392/93-14	17,500,000			93,995,106
ALPHA BANK LONDON	1714/2-15	50,000,000		27.10.	143,995,106
Banca Intesa a.d., Beograd	2392/116-14; 2806/35-13	15,275,067			159,270,173
OTP BANKA SRBIJA A.D., Novi Sad	2392/91-14	8,666,667			167,936,839
AIK Banka a.d. Niš	1734/22-12; 2392/114-14	12,854,970		28.10.	180,791,809
Komercijalna Banka a.d. Beograd - part I	2392/94-14; 2392/96-14; 2392/104-14	17,208,191		31.10.	<b>198,000,000</b>
Komercijalna Banka a.d. Beograd - part II	2392/104-14; 2806/47-13	460,963			Company's own funds

3. Borrowings from the European Investment Bank (EIB)

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

- Based on the borrowing 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 30 October 2003, a loan of EUR 22 million was extended to the Company. The borrowing was fully drawn in 10 tranches in the period until 31 December 2008. The borrowing is repaid in semi-annual instalments, partly maturing on 25 May and 25 November, and in part these instalments fall due on 9 June and 9 December in the period from 2010 through 2027. The first instalment is due on 25 November 2010 and the last instalment is due on 9 December 2027. The applicable interest rate is set for each tranche individually and is fixed until the end of repayment period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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35. LONG-TERM LIABILITIES (continued)

*V Borrowings from International Financial Organizations (continued)*

**3. Borrowings from the European Investment Bank (EIB) (continued)**

- Based on the Financial Agreement on financing the EPS Project – electricity meters, closed on 29 November 2010 between the Company and the European Investment Bank, the Company was approved a loan of EUR 40 million. The borrowing will be drawn in 10 tranches in the period ending 30 June 2015, with a commenced procedure to extend the borrowing usage deadline until 30 December 2018. The interest rate is defined as fixed or variable rate, 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 instalments or one-off. The date of maturity for the first instalment 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 three and no later than seven years from the tranche drawing date. The interest rate and terms of tranche repayment are determined for each tranche separately at the tranche disbursement date.

**4. Borrowings from the World Bank (WB)**

***International Development Association (IDA)***

Pursuant to the Agreement on a development borrowing (Serbia and Montenegro Component of the Program of Energy Community of South East Europe – Serbia Project - ECSEE) contracted on 8 September 2005 between the State Union of Serbia and Montenegro on one side and the International Development Association on the other, in the amount of SDR 13.9 million and a Borrowing Sub agreement signed between the Republic of Serbia and the State Union of Serbia and Montenegro and the Borrowing Sub agreement concluded between the Republic of Serbia and the Company, the Company can use the loan funds of SDR 12.24 million. Funds were drawn down up to 30 June 2012, with the exception that the amount of SDR 441,151.20 was cancelled. The borrowing is to be repaid in instalments maturing on 15 March and 15 September in the period from 2015 to 2025, free of interest. Service charge amounts to 0.75% annually, and is calculated on the unpaid portion of the principal. Fee for the commitment of funds on the principal amount of the principal amount which is not withdrawn amounts to no more than 0.5% annually.

***International Bank for Reconstruction and Development (IBRD)***

Based on Borrowing Agreement (Project of urgent recovery from floods) concluded on 9 October 2014, between the Republic of Serbia, as the Borrower, and the IBRD, as the Creditor, in amount of EUR 227.48 million, the Republic of Serbia has via Loan Subagreement, agreed on 19 February 2015, transferred to the Company rights to use a portion of the loan funds, in amount of EUR 157.11 million. Loan duration is 30 years, including grace period of 9 years. The borrowing is repaid in 42 sequential semi-annual instalments, on 1 May and 1 November, starting as of 1 November 2023 and 1 May 2044. Interest rate is the sum of 6M EURIBOR and variable mark-up which currently amounts to 0.8% annually. Commission for unused borrowing funds amounts to 0.25% annually, and is calculated on the amount of unused borrowing funds.

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35. LONG-TERM LIABILITIES (continued)

An overview of all borrowings as at 31 December 2017 is presented in the table below:

No.	BORROWING	Currency	ORIGINAL CURRENCY				Means of security	Equivalent value in thousands of RSD	
			Principal	Maturity date	Repayment schedule	Interest rate		31.12.2017.	01.01.2017.
	<b>TOTAL LONG-TERM BORROWINGS (A+B)</b>							<b>126,943,073</b>	<b>129,663,310</b>
<b>A</b>	<b>FOREIGN CURRENCY BORROWINGS (I+II+III+IV)</b>							<b>126,943,073</b>	<b>129,663,310</b>
	<i>Borrowings realised prior to 1990</i>								
<b>I</b>	<b>REFINANCED BORROWINGS REALIZED FROM THE FUNDS OF: (1+2+3+4+5+6)</b>							<b>30,108,689</b>	<b>29,660,121</b>
1	PARIS CLUB OF CREDITORS							21,955,688	25,999,267
1.1	AUSTRIA	EUR	2,410,863	30.09.2008.- 31.03.2024.	30.03. and 30.09.	Amarketrate/EUR+0, 6% pa,	Promissory notes	285,621	324,433
1.2	FRANCE	EUR	27,801,623	22.09.2008.- 22.03.2024.	22.03. and 22.09.	5,90% p.a.	Promissory notes	3,293,733	3,741,302
1.3	GERMANY	EUR	18,441,970	22.09.2008.- 22.03.2024.	22.03. and 22.09.	5,50% p.a.	Promissory notes	2,184,870	2,481,761
1.4	CANADA	EUR	40,365,851	22.09.2008.- 22.03.2024.	22.03. and 22.09.	EURIBOR/EUR +0,5% p.a.	Promissory notes	4,782,251	5,432,087
1.5	SWITZERLAND	CHF	55,806,280	22.09.2008.- 22.03.2024.	22.03. and 22.09.	6M LIBOR/ CHF+0,5% p.a.	Promissory notes	5,652,322	6,985,330
1.6	USA	USD	4,522,273	22.09.2008.- 22.03.2024.	22.03. and 22.09.	5,375% p.a.	Promissory notes	448,227	577,335
1.7	RUSSIA	USD	39,879,192	22.03.2006.- 22.03.2034.	22.03. and 22.09.	0,5517% p.a.	Promissory notes	3,952,646	4,768,389
1.8	JAPAN	JPY	1,542,552,706	22.09.2008.- 22.03.2024.	22.03. and 22.09.	2,8390% p.a.	Promissory notes	1,356,016	1,688,630
2	LONDON CLUB OF CREDITORS	USD	7,617,540	01.05.2010.- 01.11.2024.	01.05. and 01.11.	3,75% p.a.till 11/09 6,75% p.a. till 11/24	Promissory notes	755,016	1,019,752
3	IBRD	EUR	6,816,051	15.03.2005.- 15.12.2031.	15.03. and 15.09.15.06. and 15.12.	1/3-5,44 % и 2/3 EURIBOR p.a.	Promissory notes	807,516	866,275
4	EZ	EUR	426,596	17.10.2012.- 17.10.2016.	17.04.and 17.10.	6M EURIBOR p.a.		50,540	52,673
	<i>Borrowings realised in the period 1990 – 2001</i>							1,133,395	1,722,154
II	Chinese borrowing	USD	11,435,094	21.07.2010.- 21.01.2021.	21.01. and 21.07.	6M LIBOR+1,3% p.a.	Promissory notes	1,133,395	1,722,154
	<i>Republic of Serbia – Ministry of Finance</i>							5,406,534	-
III	Russian borrowing	USD	54,547,813	18.05.2017. 30.09.2026.	01.01. 30.03. and 30.09	6M LIBOR+1,3% p.a.	Promissory notes	5,406,534	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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35. LONG-TERM LIABILITIES (continued)

No.	BORROWING	Currency	ORIGINAL CURRENCY				Means of security	Equivalent value in thousands of RSD	
			Principal	Maturity date	Repayment schedule	Interest rate		31.12.2017.	01.01.2017.
<b>IV</b>	<b>LOANS GRANTED BY STATE GOVERNMENTS</b>							<b>39,810,941</b>	<b>40,216,253</b>
1	Polish borrowing	USD	11,128,406	2005.-2024.	15.06. and 15.12.	0.75% p.a.	Guarantee RS	1,102,998	1,698,274
2	Japanese – JICA	JPY	3,870,602,483	20.11.2016.-20.11.2026	20.05 and 20.11	0.6% p.a. 0.01% p.a.	Guarantee RS	3,402,542	522,254
3	Export-Import Bank of China	USD	253,984,354	21.07.2017-21.01.2027	21.01. and 21.07.	3% p.a.	Promissory notes	25,173,786	29,672,091
4	Export-Import Bank of China	USD	102,220,286	21.07.2022. 21.01.2035.	21.01. and 21.07.	2.5% p.a.	Promissory notes	10,131,615	8,323,634
<b>V</b>	<b>LOANS FROM INTERNATIONAL FINANCIAL ORGANIZATIONS</b>							<b>56,951,685</b>	<b>59,702,309</b>
1	KfW III (30 mil. EUR)	EUR	7,500,000	30.12.2010.-30.06.2020	30.06. and 30.12.	-	Guarantee RS	888,545	1,296,459
2	KfW IV (36 mil. EUR)	EUR	8,671,525	30.06.2013.-30.12.2019	30.06. and 30.12.	variable rate + mark-up of 1.75% p.a.	Guarantee RS	1,027,339	1,690,852
3	KfW V (70 mil. EUR)	EUR	33,001,317	31.12.2018.-30.06.2025	30.06. and 30.12.	variable rate + 0.5% p.a.	Guarantee RS	3,909,755	2,472,747
4	KfW VI (65 mil. EUR)	EUR	31,292,326	30.12.2017. 30.12.2024.	30.06. and 30.12.	variable rate + 0.4% p.a. for EUR 25 million and variable + 1.15% p.a. for EUR 40 million.	Guarantee RS	3,707,286	1,491,483
5	KfW VI (45 mil. EUR)	EUR	-	30.06.2022. 30.12.2028.	30.06. and 30.12.	0,80% p.a.		-	-
6	KfW VI (80 mil. EUR)	EUR	-	30.12.2021. 30.12.2032.	30.06. and 30.12.	0,85% p.a.		-	-
7	EBRD I (39,6 mil. EUR)	EUR	-	07.09.2005.-07.03.2016.	07.03. and 07.09	EURIBOR + 1% p.a.	Guarantee RS	-	-
8	EBRD II (60 mil. EUR)	EUR	6,061,900	07.03.2008.-07.09.2018.	07.03. and 07.09	6M EURIBOR + 1% p.a.	Guarantee RS	718,170	1,496,953
9	EBRD III (40 mil. EUR)	EUR	3,055,390	02.09.2013.-02.03.2022.	02.03. and 02.09	6M EURIBOR + 1% p.a.	Guarantee RS	361,980	461,091
10	EBRD IV(80 mil. EUR)	EUR	56,974,121	31.01.2015.-31.01.2023.	31.01. and 31.07	6M EURIBOR + 1% p.a.	Guarantee RS	6,749,878	8.002.568
11	EBRD V (45 mil. EUR)	EUR	4,633,609	30.04.2015.-31.10.2023.	30.04. and 31.10	6M EURIBOR + 1% p.a.	Guarantee RS	548,956	141.207
12	EBRD VI (200 mil. EUR)	EUR	185,185,185	15.06.2017.-15.06.2030.	15.06. and 15.12.	EURIBOR + 1% p.a.	Guarantee RS	21,939,389	24.694.460
13	EIB II (22 mil.EUR)	EUR	12,493,333	09.12.2010.-09.06.2027.	09.06. and 09.12; 25.05. and 25.11.	fixed for each tranche from 3.879% p.a. to 5.248% p.a.	Guarantee RS	1,480,119	1.723.673
14	Wb IDA (12,24 mil. SDR)	XDR	8,849,137	15.09.2015.-15.03.2025.	15.03. and 15.09	-	Guarantee RS	1,246,077	1.574.274
15	WB IBRD (157 mil.EUR)	EUR	121,329,133	01.11.2023. 01.05.2044.	01.05. and 01.11.	6M EURIBOR + variable mark-up which is currently 0.91%	Promissory notes	14,374,190	14.656.542
<b>VI</b>	<b>OTHER</b>							<b>71,758</b>	<b>84,628</b>
1	EMS a.d. - IBRD	EUR	22,503	15.03.2005.-15.12.2031.	15.03. and 15.09.15.06. and 15.12.	1/3-5,44i 2/3-euribor	Promissory notes	2,666	2.975
2	Tehnoexport	USD	697,086			-		69,092	81.653
	<b>CURRENT PORTION OF LONG TERM LOANS</b>							<b>11,986,027</b>	<b>10,431,222</b>
A	Foreign currency loans							11,986,027	10,431,222
B	Loans in RSD							-	-
	<b>TOTAL LONG TERM PORTION</b>							<b>114,957,047</b>	<b>119,232,089</b>
A	Foreign currency loans							114,957,047	119,232,089
B	Loans in RSD							-	-

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35. LONG-TERM LIABILITIES (continued)

*Analysis of approved loans withdrawals*

In order to finance the specific projects to increase production capacities in thermo and hydro power plants, in the period from 2003 to 2017 the Group 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:

Creditor	Currency	Contracted Amount	Draw Down
EBRD II	EUR	59,864,143	59,864,143
EBRD III	EUR	40,000,000	4,824,498
EBRD IV	EUR	78,527,683	78,527,683
EBRD V	EUR	32,700,000	5,298,452
EBRD VI	EUR	200,000,000	200,000,000
EIB II	EUR	22,000,000	22,000,000
EIB III	EUR	40,000,000	-
KfW III	EUR	30,000,000	30,000,000
KfW IV	EUR	36,000,000	34,385,815
KfW V	EUR	70,000,000	33,001,317
KfW VI	EUR	65,000,000	31,292,326
KfW VII	EUR	45,000,000	-
KfW VIII	EUR	80,000,000	-
IDA	SDR	11,798,849	11,798,849
JICA	JPY	28,252,000,000	4,038,305,339
EXIM Bank of China I	USD	293,000,000	266,650,088
EXIM Bank of China II	USD	608,260,000	102,220,286
Borrowing from the Republic of Poland	USD	49,996,617	49,996,617
WB IBRD	EUR	139,743,296	121,329,133

*Analysis of long term loans maturities*

	In RSD thousand		
	As at 31 December 2017	As at 1 January 2017	Index
From one to five years	51,328,965	46,058,158	111.44
Over five years	63,628,082	73,173,931	86.95
<b>Total</b>	<b>114,957,047</b>	<b>119,232,089</b>	<b>96.41</b>

*Analysis of borrowings per requested discharging currency as at 31 December 2017*

Currency	Amount in Currency	31 December 2017
EUR	503,020,941	59,594,648
USD	450,888,031	44,689,993
CHF	50,071,948	5,071,522
JPY	5,142,861,362	4,520,951
XDR	7,669,252	1,079,933
<b>Total</b>		<b>114,957,047</b>

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36. SHORT-TERM FINANCIAL LIABILITIES

	In RSD thousand	
	31 December 2017	31 December 2016
<i>Liabilities in foreign currency</i>		
Current portion of long-term loans – foreign (Note 35)	9,307,698	6,440,688
Current portion of long term-loans – domestic (Note 35)	2,678,329	3,990,534
Other short-term financial liabilities	3,016	3,016
	11,989,043	10,434,238
<i>Liabilities in RSD</i>		
Current portion of long-term liabilities	-	-
Current portion of rescheduled liabilities	39	40
Current portion of other long-term liabilities	67,701	90,655
Other short-term financial liabilities in RSD	114,227	82,794
	181,967	173,489
	12,171,010	10,607,727

Short-term liabilities arising from current portion of foreign long-term loans in amount of RSD 9,307,698 thousand comprise: loans from international financial organisations in amount of RSD 6,295,575 thousand; loans granted by State Governments in amount of RSD 2,943,034 thousand and RSD 69,089 thousand regarding other liabilities

Short-term liabilities arising from current portion of domestic long-term loans in foreign currency in amount of RSD 2,678,329 thousand comprise: loans granted by Paris club creditors in amount of RSD 1,941,573 thousand and liabilities regarding other refinancing loans in amount of RSD 736,756 thousand.

37. CUSTOMER PREPAYMENTS, DEPOSITS AND CAUTION MONEY

	In RSD thousand	
	31 December 2017	31 December 2016
Customer prepayments:		
- In RSD	3,041,503	2,846,414
- In foreign currency	1,115,547	1,327,703
Received deposits and down payments	176,680	286,249
Received prepayments from individuals in RSD	648,347	168,270
	4,982,077	4,628,636

Out of RSD 1,115,547 thousand relating to customer prepayments in foreign currency as of 31 December 2017 (2016 – RSD 1,327,703 thousand), the amount of RSD 1,115,219 thousand (2016 – RSD 1,317,972 thousand) relates to the advance received from China Machinery Engineering Corporation (CMEC) based on the First Phase of "Kostolac B" Power plant projects (rehabilitation of block B1 and B2, desulphurization of blocks B1 and B2 with supporting infrastructure consisting of railway construction and modernization of the river port and road).

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**38. OPERATING LIABILITIES**

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Trade payables:		
- Other related parties	14,102,374	13,318,947
- PE "Elektromreža Srbije"	2,130,633	2,066,403
	16,233,007	15,385,350
 Trade payables - foreign	 4,757,144	 4,940,118
 Other trade payables:		
- expropriation liabilities	123,985	79,485
- liabilities for compensation for damages from operations	9,365	11,105
- other	849,340	614,376
	982,690	704,966
	21,972,841	21,030,434

**39. OTHER CURRENT LIABILITIES**

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Liabilities for fees for Public Media Service	1,303,570	1,336,628
Liabilities for unpaid wages and salaries, net	1,487,668	1,359,232
Liabilities for taxes and contributions:		
- charged to employee	600,376	551,719
- charged to employer	453,361	393,707
Other liabilities for wages and salaries	41,048	31,481
Liabilities for interests and financing costs	372,046	280,610
Liabilities for dividends and profit share	15,195,440	19,819
Other liabilities towards employees	3,378,862	3,166,186
Liabilities towards members of Executive and Supervisory board	371	436
Liabilities towards individuals	108,325	62,521
Liabilities for matured loans from Ministry of Finance of the Republic of Serbia	397,223	397,223
Other liabilities	495,906	478,435
	23,834,196	8,077,997

Other liabilities towards employees as at 31 December 2017 in the amount of RSD 3,378,862 thousand relate to liabilities towards employees based on the voluntarily termination programme (note 3.5 and 11) in the amount of RSD 3,042,321 thousand, liabilities for retirement benefits and jubilee awards in the amount of RSD 293,576 thousand and other liabilities in the amount of RSD 42,965 thousand.

Liabilities for dividends and profit share relate to the declared allocation of part of the profit made by Supervisory Board (note 33).



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**40. LIABILITIES FOR VAT**

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Deferred VAT	2,092,793	2,355,709
Liabilities for calculated VAT	1,946,499	2,225,558
	4,039,292	4,581,267

Deferred VAT relate to Group liability for VAT owed that is postponed to next tax period. The mentioned liability was paid after balance sheet date.

**41. LIABILITIES FOR TAXES, CONTRIBUTIONS AND OTHER DUTIES**

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Liabilities for Income tax	-	7,158,819
Liabilities for taxes, customs and other duties charged to expenses	3,116,755	3,251,774
Water use charges (land)	676,658	543,688
Special charge for protection and improvement of environment	2,825,203	2,081,620
Other liabilities for taxes, customs and other duties charged to expenses	1,118,905	557,291
	7,737,521	13,593,192

Liabilities for taxes, customs and other duties charged to expenses as at 31 December 2017 in the amount of RSD 3,116,755 thousand, includes excise duty liabilities in the amount of RSD 3,020,926 thousand, which are paid after balance sheet date. Amendments to the Law on Excise Tax from 1 August 2015, introduced the obligation to calculate and pay excise tax on delivered and billed electricity intended for final consumption. Final consumption of electricity, in terms of this Act, is defined as delivered electricity to end customers in the Republic of Serbia, including the consumption of electricity by the supplier for its own purposes, calculated based on the reading of the consumption via the control devices on electricity delivery points, in accordance with the law. Only the supplier of electricity is obligated to pay the excise tax.

Other liabilities for taxes, customs and other duties include liabilities for taxes and contributions related to the voluntarily termination programme initiated by the management of the Group in order to optimize the number of employee on a Group level (note 3.5 and 11). These liabilities disclosed at 31 December 2017 in the amount of RSD 474,911 thousand have been settled in accordance with tax regulations.

Obligations for environmental protection fees are calculated on the basis of the Law on Environmental Protection (Note 15).

As at 31 December 2017, the Group has no liability for income tax (2016 – RSD 7,158,819 thousand) but receivable for prepaid income tax in the amount of RSD 4,670,755 thousand (note 29) based on a difference between calculated tax for 2017 and advance payments made in accordance with tax regulations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**42. ACCRUED EXPENSES**

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Received donations:		
- from the Government of RS and other state authority	1,644,968	2,245,630
- foreign	7,994,595	6,951,452
- domestic	13,147,289	11,293,793
	<u>22,786,852</u>	<u>20,490,875</u>
Other accruals	410,822	792,650
Accrued expenses	1,300,797	1,314,874
Deferred purchase costs	16,359	16,922
	<u>24,514,830</u>	<u>22,615,321</u>

The Group received funds for financial and technical support from agencies and similar authorities on an international level which were initially recognized as deferred revenue. All contracts and agreements are ratified by the National Assembly of the Republic of Serbia.

Accrued expenses disclosed at 31 December 2017 in the amount of RSD 1,300,797 thousand, mostly relate to accrued interest for loans received in the amount of RSD 730,988 thousand.

Changes in deferred revenue which pertain to received donations during 2017 and 2016 are the following:

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
<b>Opening balance</b>	<u>20,490,875</u>	<u>19,856,102</u>
Current year donations	3,554,511	2,218,104
Transfer to revenues	(1,557,499)	(1,089,920)
FX rate differences	(11,597)	1,763
Other	310,562	(495,174)
	<u>22,786,852</u>	<u>20,490,875</u>

**43. OFF BALANCE SHEET ASSETS AND LIABILITIES**

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Liabilities for issued guarantees and other types of collateral for liabilities of the Group	93,455,334	108,759,120
Material for processing	38,414	49,788
Receivables for received guarantees and other types of collateral for receivables	56,738,274	50,235,369
Written off equity investments	385,337	111,269
	<u>150,617,359</u>	<u>159,155,546</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**44. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Capital risk management**

Debt indicators of the Group for the year then ended are the following:

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Indebtedness a)	127,652,662	136,460,394
Cash and cash equivalents	39,699,986	55,297,089
Net indebtedness	<u>87,952,676</u>	<u>81,163,305</u>
Capital b)	<u>853,482,203</u>	<u>866,257,905</u>
Total debt to equity ratio	<u>0.10</u>	<u>0.09</u>

Indebtedness pertains to long term and short-term liabilities from borrowings and other long term and short term financial liabilities.

b) Capital includes share capital, revaluation reserves, unrealized gains and losses from securities for sale, retained earnings and accumulated loss.

**Significant accounting policies that pertain to financial instruments**

Details on significant accounting policies, as well as criteria and basis for recognition of revenue and expenses for all financial assets and liabilities are disclosed in note 3.

**Financial instruments categories**

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
<b>Financial assets</b>		
Equity investments	5,646,765	787,716
Long-term financial investments	7,144,735	7,510,582
Long-term receivables	692,945	2,157,526
Trade receivables	43,148,444	46,337,601
Short-term financial assets	1,893,483	1,286,297
Other receivables	7,206,507	6,660,389
Cash and cash equivalents	39,699,986	55,297,089
	<u>105,432,865</u>	<u>120,037,200</u>
<b>Financial liabilities</b>		
Long-term borrowings	114,957,047	119,232,088
Other long-term liabilities	524,605	6,620,579
Trade payables	21,972,841	21,030,434
Current portion of long-term borrowings	11,986,027	10,431,222
Short-term financial liabilities	184,983	176,505
Other liabilities	17,872,881	2,575,672
	<u>167,498,384</u>	<u>160,066,500</u>

Primary financial instruments of the Group are cash and cash equivalents, trade receivables, interest receivables and trade payables, whose primary purpose is financing current operations of the Group. In regular business conditions, the Group is exposed to risks stated below.

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**44. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

**Financial risk management**

Financial risks include market risk (foreign exchange risk and interest risk) and liquidity risk. Financial risks are reviewed on a timely basis and are primarily avoided by lowering the exposure of the Group to these risks. The Group does not use any financial instruments to avoid effects of financial risks on operations as such instruments are not widely used, nor are there organized markets for such instruments in the Republic of Serbia.

**Market risk**

In its regular business operations, the Group is exposed to financial risks from changes in exchange rates and changes in interest rates.

Exposure to market risk is reviewed with sensitivity analysis. There were no significant changes to Group's exposure to market risk, nor in the Group's approach to measure and manage aforementioned risk.

**Currency risk**

The Group is exposed to currency risk primarily through cash and cash equivalents and trade payables which are denominated in foreign currency. The Group does not use special financial instruments as a protection from risk, as such instruments are not common in the Republic of Serbia.

Stability of the Group's economic environment largely depends on government commerce measures, including establishing appropriate legal and regulatory framework.

Net book amount of Group's monetary assets and liabilities disclosed in foreign currency on reporting date were the following::

	<b>Assets</b>		<b>Liabilities</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
EUR	56,492,907	83,843,355	598,268,680	622,426,600
JPY	-	-	5,451,913,209	2,214,262,553
SEK	564	567	-	-
CHF	82,784	90,118	55,806,280	61,001,007
GBP	416	2,065	-	-
USD	20,307,939	70,862,685	498,360,887	494,960,177
XDR	-	-	8,849,137	10,051,169
DKK	-	53	-	-

The Group is sensitive to changes in foreign exchange rates of currencies Euro and American dollar. The table below represents details of sensitivity analysis of the Group to increase and decrease of 10% in exchange rates of Serbian dinar to foreign currencies. The sensitivity rate of 10% is used for internal review of currency risk and represents an estimate of the Management of reasonably expected changes in foreign exchange rates. Sensitivity analysis includes only unsettled receivables and liabilities disclosed in foreign currency and harmonizes their translation at period end for change of 10% in foreign exchange rates. Positive number in the table below suggest a decrease in current year profit, when the Serbian dinar depreciates compared to foreign currency. In case of appreciation of Serbian dinar of 10% compared to foreign currency, the effect on the current year profit would be opposite of the result stated above, in the previous case.

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44. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

	31 December 2017	In RSD thousand 31 December 2016
EUR	6,418,564	6,650,011
JPY	479,263	222,403
SEK	(1)	(1)
CHF	564,394	699,545
GBP	(6)	(30)
USD	4,738,246	4,967,679
XDR	138,906	157,775
Current year profit	<u>12,339,366</u>	<u>12,697,382</u>

Sensitivity of the Group to changes in foreign exchange increased in the current period, mostly due to effects of nominal increase of liabilities presented in Euro currency which mostly pertain to liabilities towards suppliers.

**Interest rate risk**

The Group is exposed to risk from changes in interest rates in assets and liabilities with variable interest rates. This risk depends on the financial market and the Group has no available instruments to lessen the effects of the risk.

Net book amount of financial assets at reporting date is grouped according to level of interest rate risk, and is presented in the following table:

	31 December 2017	In RSD thousand 31 December 2016
<b>Financial assets</b>		
<i>Interest-free</i>		
- Equity-investments	5,646,765	787,716
- Long-term financial assets	5,602,983	5,502,668
- Trade receivables	30,562,574	34,408,876
- Other receivables	676,335	-
- Cash and cash equivalents	192,835	287,127
	<u>42,681,492</u>	<u>40,986,387</u>
<i>Fixed interest-rate</i>		
- Long-term receivables	411,374	2,157,526
- Long-term financial investments	123,321	6,174
- Short-term financial investments	1,062,482	652,676
- Cash and cash equivalents	37,889,090	55,009,962
	<u>39,486,267</u>	<u>57,826,338</u>
<i>Variable interest-rate:</i>		
- Long-term financial investments	1,418,431	2,001,740
- Long-term receivables	281,571	-
- Trade receivables	12,585,870	11,928,725
- Short-term financial investments	831,001	633,621
- Other receivables	6,530,172	6,660,389
- Cash and cash equivalents	1,618,061	-
	<u>23,265,106</u>	<u>21,224,475</u>
	<u>105,432,865</u>	<u>120,037,200</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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44. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

*Interest rate risk (continued)*

Net book amount of financial liabilities at reporting date is grouped according to level of interest rate risk, and is presented in the following table:

	31 December 2017	In RSD thousand 31 December 2016
<b>Financial liabilities</b>		
<i>Interest-free</i>		
- Trade payables	21,972,841	21,030,434
- Other liabilities	17,576,167	2,278,958
	<u>39,549,008</u>	<u>23,309,392</u>
<i>Fixed interest rate</i>		
- Long-term borrowings	20,942,104	11,109,496
- Current portion of long-term borrowings	1,893,887	897,937
- Short-term financial liabilities	358	23,313
	<u>22,836,349</u>	<u>12,030,746</u>
<i>Variable interest rate</i>		
- Long-term borrowings	94,014,943	108,122,592
- Other long-term liabilities	524,605	6,620,578
- Other liabilities	296,714	296,714
- Current portion of long-term borrowings	10,092,140	9,533,285
- Short-term financial liabilities	184,625	153,192
	<u>105,113,027</u>	<u>124,726,361</u>
	<u>167,498,384</u>	<u>160,066,499</u>

Sensitivity analysis presented is established based on exposure to changes in interest rates for non-derivative instruments at the balance sheet date. For liabilities with variable interest rate, analysis has been compiled under the assumption that the remaining amount of assets and liabilities on the balance sheet date remained the same during the business year. Increase or decrease of 1% represents, according to the Management, is an estimation of a realistically plausible change in interest rates. If the interest rates are 1% higher/lower, with all other variables unchanged, the Group would have sustained operating loss/realized profit for the year then ended 31 December 2017 in amount of RSD 1,442,333 thousand (31 December 2016: RSD 1,388,420 thousand). This situation is attributed to Group's exposure to interest rate risk, which is based on variable interest rates that are calculated on short-term borrowings.

Exposure of the Group to changes in interest rates is increased in the current period primarily due to nominal increase of liabilities from short-term borrowings.

**Credit risk**

*Trade receivables management*

The Group is exposed to credit risk which represents risk that debtors will not be able to settle their debts to the Group completely and timely, which would in turn result in financial losses for the Group. Group's exposure to this risk is limited to the amount of trade receivables at balance sheet date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

44. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

*Trade receivables management (continued)*

Structure of trade receivables as at 31 December 2016 is presented in the following table:

	<b>Gross exposure</b>	<b>Provided amount</b>	<b>In RSD thousand Net exposure</b>
Not due trade receivables	25,284,212	(450,486)	24,833,726
Overdue, provided trade receivables	141,476,845	(141,476,845)	-
Overdue, not provided trade receivables	21,503,875	-	21,503,875
	<u>188,264,932</u>	<u>(141,927,331)</u>	<u>46,337,601</u>

Structure of trade receivables as at 31 December 2017 is presented in the following table:

	<b>Gross exposure</b>	<b>Provided amount</b>	<b>In RSD thousand Net exposure</b>
Not due trade receivables	23,598,990	(521,162)	23,077,828
Overdue, provided trade receivables	144,675,434	(144,675,434)	-
Overdue, not provided trade receivables	20,070,616	-	20,070,616
	<u>188,345,040</u>	<u>(145,196,596)</u>	<u>43,148,444</u>

*Not due trade receivables*

Not due trade receivables disclosed as at 31 December 2017 in amount of RSD 23,077,828 thousand (31 December 2016: RSD 24,833,726 thousand).

*Overdue, provided trade receivables*

In previous periods, the Group has provided for receivables impairment for overdue receivables in amount of RSD 144,675,434 thousand (2016 – RSD 141,476,845 thousand), for which the Group has determined that there was a change in creditworthiness of the customers and that receivables will not be collected in original amounts.

*Overdue, not provided trade receivables*

Ageing structure of overdue, not provided receivables is presented in the table below:

	<b>31 December 2017</b>	<b>In RSD thousand 31 December 2016</b>
Less than 30 days	5,083,563	5,446,584
31 - 60 days	9,571,181	10,254,667
Over 60 days	5,415,872	5,802,624
	<u>20,070,616</u>	<u>21,503,875</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

44. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

Trade receivables management (continued)

In RSD thousand

	Long-term investments	Lon-term receivables	Trade receivables	Receivables from specific operations	Other receivables	Short-term financial investments	Total
Balance at 1 January 2016	<b>2,349,128</b>	<b>4,313,291</b>	<b>139,554,415</b>	<b>26,739</b>	<b>13,921,413</b>	<b>1,667,936</b>	<b>161,832,922</b>
Allowances through Statement of profit and loss	1	(10,421)	15,473,647	-	168,852	15,430	15,647,509
Foreign exchange differences	-	-	119,838	-	6,937	-	126,775
Income regarding to adjustment of allowance balance	(3,334)	(129,063)	(7,147,834)	-	(678,576)	(645,434)	(8,604,241)
Collection of previously impaired receivables	-	(54,943)	(647,215)	-	-	(97,547)	(799,705)
Writte-off of receivables and investments	(1,219)	(133,730)	(137,183)	-	(304,342)	(3,130)	(579,604)
Transfers within receivables	-	12,730,841	(5,248,576)	-	(7,389,672)	(92,593)	-
Other	2,646	51	(39,761)	-	(6,613)	(2,194)	(45,871)
<b>Balance at 31 December 2016</b>	<b>2,347,222</b>	<b>16,716,026</b>	<b>141,927,331</b>	<b>26,739</b>	<b>5,717,999</b>	<b>842,468</b>	<b>167,577,785</b>
Allowances through Statement of profit and loss	424,961	3,571,333	11,666,043	1,248	445,178	969,765	17,078,528
Writte-off of receivables and investments	-	-	(1,431,759)	-	(8,159)	-	(1,439,918)
Income regarding to adjustment of allowance balance	(210,175)	(636,209)	(479,799)	-	(2,036)	(169,533)	(1,497,752)
Foreign exchange differences	-	-	(841,978)	-	(13,409)	-	(855,387)
Collection of previously impaired receivables	(9,297)	-	(880,218)	-	(746)	(451,740)	(1,342,001)
Transfers	2,915,369	(149,961)	(2,922,671)	9,099	(376,317)	524,481	-
Writte-off of receivables - „HIP-Petrohemija“ a.d., Pančevo	-	-	(1,826,722)	-	-	-	(1,826,722)
Other	(15,308)	(1,706)	(13,631)	-	76	3,644	(26,925)
<b>Balance at 31 December 2017</b>	<b>5,452,772</b>	<b>19,499,483</b>	<b>145,196,596</b>	<b>37,086</b>	<b>5,762,586</b>	<b>1,719,085</b>	<b>177,667,608</b>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

44. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued))

Credit risk (continued)

*Trade payables management*

Trade payables as at 31 December 2017 are disclosed in amount of RSD 21,972,841 thousand (2016 – RSD 21,030,434 thousand). Suppliers calculate penalty interest on overdue, unsettled liabilities, whereby the Group due trade payables, according to financial risks management policy, settles in agreed period.

Liquidity risk

Ultimate responsibility for liquidity risk management is on the Group's Management, which has established an appropriate managing system for utilization of short term, medium term and long term financing of the Group, as well as liquidity management. The Group manages liquidity risk maintaining appropriate monetary reserves continuously monitoring planned and actual cash flow, as well as maintaining appropriate ratio of maturity of financial assets and liabilities

*Liquidity risk and credit risk tables*

Presented in the following tables are details on remaining agreed maturities of Group's financial assets. Presented amounts are based on non-discounted cash flows which occurred from financial assets based on the earliest date on which the Group could collect funds.

*Financial assets maturity*

	In RSD thousand 31 December 2017					
	Less than one month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest-free	31,179,668	-	252,076	-	11,249,748	42,681,492
Fixed interest rate	37,735,375	1,216,197	123,321	-	411,374	39,486,267
Variable interest rate	20,893,370	32,666	815,792	19,636	1,503,642	23,265,106
	<u>89,808,413</u>	<u>1,248,863</u>	<u>1,191,189</u>	<u>19,636</u>	<u>13,164,764</u>	<u>105,432,865</u>

	In RSD thousand 31 December 2016					
	Less than one month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest-free	30,214,680	-	4,481,323	-	6,290,384	40,986,387
Fixed interest rate	52,730,989	639,994	85,785	6,174	4,363,396	57,826,338
Variable interest rate	19,461,241	228,244	922,314	612,675	-	21,224,474
	<u>102,406,910</u>	<u>868,238</u>	<u>5,489,422</u>	<u>618,849</u>	<u>10,653,780</u>	<u>120,037,200</u>

Presented in the following tables are details on remaining agreed maturities of Group's financial liabilities. Presented amounts are based on non-discounted cash flows that occurred from financial liabilities based on the earliest date on which the Group should settle liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

44. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk (continued)

*Liquidity risk and credit risk tables (continued)*

*Financial liabilities maturity*

	In RSD thousand					
	31 December 2017					
	Less than one month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest-free	20,449,973	5,896,023	13,203,012	-	-	39,549,008
Fixed interest rate	-	-	1,894,245	-	20,942,104	22,836,349
Variable interest rate	-	296,714	10,134,628	87,885,785	6,795,900	105,113,027
	<u>20,449,973</u>	<u>6,192,737</u>	<u>25,231,885</u>	<u>87,885,785</u>	<u>27,738,004</u>	<u>167,498,384</u>

	In RSD thousand					
	31 December 2016					
	Less than one month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest-free	8,561,949	13,285,601	1,461,843	-	-	23,309,393
Fixed interest rate	-	-	921,250	-	11,109,496	12,030,746
Variable interest rate	3,615,647	1,242,392	5,126,009	98,615,779	16,126,534	124,726,361
	<u>12,177,596</u>	<u>14,527,993</u>	<u>7,509,102</u>	<u>98,615,779</u>	<u>27,236,030</u>	<u>160,066,500</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
31 December 2017

**44. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

**Fair value of financial instruments**

Presented in the following table are present values of financial assets and financial liabilities and their fair value as at 31 December 2017 and 31 December 2016

	31 December 2017		In RSD thousand 31 December 2016	
	Net book value	Fair value	Net book value	Fair value
<b>Financial assets</b>				
Equity investments	5,646,765	5,646,765	787,716	787,716
Long-term financial assets	7,144,735	7,144,735	7,510,582	7,510,582
Long-term receivables	692,945	692,945	2,157,526	2,157,526
Trade receivables	43,148,444	43,148,444	46,337,601	46,337,601
Short-term financial assets	1,893,483	1,893,483	1,286,297	1,286,297
Other receivables	7,206,507	7,206,507	6,660,389	6,660,389
Cash and cash equivalents	39,699,986	39,699,986	55,297,089	55,297,089
	<u>105,432,865</u>	<u>105,432,865</u>	<u>120,037,200</u>	<u>120,037,200</u>
<b>Financial liabilities</b>				
Long-term borrowings	114,957,047	114,957,047	119,232,088	119,232,088
Other long-term liabilities	524,605	524,605	6,620,579	6,620,579
Trade payables	21,972,841	21,972,841	21,030,434	21,030,434
Current portion of long-term loans	11,986,027	11,986,027	10,431,222	10,431,222
Short-term financial liabilities	184,983	184,983	176,505	176,505
Other liabilities	17,872,881	17,872,881	2,575,672	2,575,672
	<u>167,498,384</u>	<u>167,498,384</u>	<u>160,066,500</u>	<u>160,066,500</u>

*Assumptions for estimation of fair value of financial instruments*

Given the fact that there is insufficient market experience, stability and liquidity in purchase and sales of financial assets and liabilities, as well as the fact that there are no available market information which could be used for purposes of disclosure of fair value of financial assets and liabilities, method of discounting cash flows was utilized. Utilizing this value method, interest rates of similar financial instruments are applied, with the objective to acquire a relevant estimate of market value of financial instruments at reporting date.

**45. CONTINGENCIES AND COMMITMENTS**

***Litigations***

As at 31 December 2017, total estimated value of litigations against the Group amounted to RSD 5,182,005 thousand (2016 – RSD 5,604,936 thousand). The final outcome of these litigations is uncertain. As disclosed in Note 34, as at 31 December 2017, the Group made provision for potential losses that may arise out of those litigations in the total amount of RSD 4,015,140 thousand (2016 – RSD 4,037,686 thousand), based on the management's assessment. As for the remaining amount of legal disputes that are being conducted against the Group and for which no provision for potential losses has been made, the Group's management considers that there is no risk of material losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
31 December 2017

45. CONTINGENCIES AND COMMITMENTS (continued)

*Commitments*

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

Supplier	Contractual amount	Realised as of 31.12.2017.	Branch
China national machinery & equipment import & export corporation (CMEC)	34,158,175	30,419,636	TE KO Kostolac
Voith Hydro GmbH & CoKG	7,481,475	4,013,934	Drinsko-Limske HE
China Machinery Engineering Corporation (CMEC)	70,927,052	5,147,446	TE KO Kostolac
ABB Automation GmbH	578,147	70,877	RB Kolubara
Joint Venture of Companies ATOS WORLDGRID SAS and SAGEMCOM ENERGY & TELECOM SAS	3,158,122	-	JP EPS
Konzorcijum Elnos BL Koessler GmbH & Co KG	930,177	17,896	JP EPS
FAM Magdeburger Forderanlagen und Baumaschinen GmbH	3,457,596	1,463,347	RB Kolubara
Joint Venture Energoprojekt Oprema ad and GP Planum ad	1,837,059	671,254	RB Kolubara
Konzorcijum Mitsubishi Hitachi Power Systems Ltd., Itochu Corporation, Mitsubishi Hitachi Power Systems Europe GmbH i Jedinstvo a.d. Sevojno	22,480,892	-	TE Nikola Tesla
	<u>145,008,695</u>	<u>41,804,390</u>	

As of 31 December 2017, the Group's commitments based on contracts for the purchase and reconstruction of property, plant and equipment in the estimated amount of RSD 11,477,099 thousand. The above mentioned amount refers to the contractual unrealized amount for purchases as of 31 December 2017, based on the contracts that have not yet been completed on that day.

46. TAX RISKS

The Serbian tax regulations are often subject to interpretations and various changes. Interpretations of tax regulations made by Tax Authorities regarding the Group's operations and transactions may differ from those made by Group management. The tax collection time-period is five years. This practically means that the Tax Authorities may assess unpaid liabilities within five years from the date such liabilities have been incurred.

47. EVENTS AFTER THE BALANCE SHEET DATE

*The Sustainable Development Strategy*

The Energy Law (RS Official Gazette No 145/14) prescribes that the Serbian energy policy objectives are, inter alia, to provide conditions that will improve energy efficiency while carrying out energy activities and reduce energy consumption; create economic and commercial conditions for a more efficient management of electro power systems, especially having in mind distributed power-generation systems, distributed power storage capacity improvements, implementation of an energy consumption management system, and the implementation of a "smart" network concept.

In order to successfully enter the world of global, regional, national and local competition, the Government of the Republic of Serbia has passed a National Strategy for Sustainable Development, a Third Energy Efficiency Action Plan for a time period up to 2018 („RS Official Gazette No 1/17), and the Energy Strategy of the Republic of Serbia for the period until 2025, with projections by 2030 („RS Official Gazette No. 101/15)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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47. EVENTS AFTER THE BALANCE SHEET DATE (continued)

*The Sustainable Development Strategy (continued)*

In view of the need to build new infrastructure systems and to revitalise and modernise the existing ones, and the fact that both energy production and energy consumption generate environmental pressure in the Republic of Serbia, significant investments are expected in the Energy Sector. At the same time, the aforementioned stands as the requirement for the National Energy Sector to integrate with both the Regional and the European energy markets.

Therefore, for Serbia to achieve a balanced economic and environmental development, sustainable management, preserved natural equilibrium, integrity, diversity and quality of natural values, prevention, control, reduction and recovery from any form of environmental pollution, the Serbian Electricity Sector is obliged to efficiently use relatively 'clean' energy available from different sources, rely as much as possible on renewable sources of energy and as little as possible on exhaustible resources, and to leave as few as possible negative effects on the environment, water, air and land.

*Amendments to the Collective Labour Agreement*

On 7 February 2018, the Government of Serbia and the Union of Workers PE Elektroprivreda Srbije concluded a Collective Agreement on Amendments to be made to PE Elektroprivreda Srbije special Collective Labour Agreement, which was applicable as of January 2015. Amendments to the Collective Labour Agreement introduced a new item, namely a jubilee award for 35 years of continued service with the Group in the amount of 3.5 employee salaries earned. Furthermore, the salary calculation method for jubilee award payment was amended. Namely, instead of the average of three employee salaries earned with the Group during the months preceding the month in which a jubilee award is paid, the average of 12 salaries earned with the Group has been introduced.

*Procedures before the Commission for Protection of Competition*

On 23 February 2018, the Administrative Court rendered a Judgement by which it has been annulled the Decision of the Commission for Protection of Competition (the „Commission“) to determine a breach of competition rules by „ODS EPS Distribucija“ d.o.o., Beograd through abuse of dominant position, which was issued in December 2016. Previously, as prescribed in the above Decision of the Commission, ODS EPS Distribucija d.o.o. acted on all findings and imposed measures within the prescribed deadlines to be met in 2017.

The Administrative Court proceeded with ODS EPS Distribucija d.o.o. appeal lodged in January 2017 and, based on the Administrative Court's Judgement, the case was returned to the Committee for re-determination, on the grounds of a violation of the rules of procedure. In its Judgement, the Administrative Court did not assess whether ODS EPS Distribucija d.o.o., Beograd performed an abuse of dominance however, the Administrative Court ordered the Commission to eliminate the deficiencies and based on factual findings to re-issue a Decision regarding this case.

48. FOREIGN EXCHANGE RATES

Foreign exchange rates determined in the interbank foreign exchange market, which have been used to translate FX items presented in the Consolidated Balance sheet into RSD, were as follows:

	<b>31 December 2017</b>	<b>In RSD 31 December 2016</b>
EUR	118.4727	123.4723
USD	99.1155	117.1353