

**PUBLIC ENTERPRISE ELEKTROPRIVREDA SRBIJE
BEOGRAD**

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



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 2016 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 regulation effective in the Republic of Serbia. This Regulation require 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.

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This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.



Report on the Consolidated Financial Statements (continued)

Basis for Qualified Opinion

As at 31 December 2016, assets under construction in the amount of RSD 8,681,403 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 8,681,403 thousand, the amount of RSD 6,035,651 thousand relates to assets under construction in 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 for 2016. The audit report for 2015 financial statements was qualified with this respect.

As at 31 December 2016, the Group did not recognize a provision for decommissioning of landfills and dumps for ash and slag in 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 2015 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 2016, 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

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Serbian version

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 30 June 2017

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 2016

- in thousands of Dinars -

Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2015	Opening balance as at 1 January 2015
1	2	3	4	5	6	7
	ASSETS					
00	A UNPAID SUBSCRIBED CAPITAL	0001				
	B FIXED ASSETS (0003 + 0010 + 0019 + 0024 + 0034)	0002		1,047,752,475	958,014,142	943,393,848
01	I. INTANGIBLE ASSETS (0004 + 0005 + 0006 + 0007 + 0008 + 0009)	0003		4,563,898	5,105,579	4,222,887
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	1,339,871	1,020,160	989,597
013, p.o. 019	3. Goodwill	0006		-	-	-
014, p.o. 019	4. Other intangible assets	0007	23	28,592	36,859	34,525
015, p.o. 019	5. Intangible assets in development	0008	23	3,195,435	4,048,560	3,198,765
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		1,032,309,606	949,347,366	934,668,242
020, 021, p.o. 029	1. Land	0011	23	58,653,163	39,415,804	37,859,612
022, p.o. 029	2. Buildings	0012	23	348,954,709	322,809,705	327,854,618
023, p.o. 029	3. Plant and equipment	0013	23	522,236,828	495,582,893	491,294,381
024, p.o. 029	4. Investment property	0014	23	530,516	556,557	451,727
025, p.o. 029	5. Other property, plant and equipment	0015	23	277,811	161,812	165,910
026, p.o. 029	6. Property, plant and equipment under construction	0016	23	76,459,405	63,543,171	66,303,831
027, p.o. 029	7. Investment in PPE owned by third parties	0017	23	1,007	1,064	1,121
028, p.o. 029	8. Advance payments for property, plant and equipment	0018	23	25,196,167	27,276,360	10,737,042

Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2015	Opening balance as at 1 January 2015
1	2	3	4	5	6	7
03	III. BIOLOGICAL ASSETS (0020 + 0021 + 0022 + 0023)	0019		423,147	420,391	392,991
030, 031, p.o. 039	1. Forests and plantations	0020	23	423,147	420,391	392,991
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		8,298,298	2,357,135	3,325,683
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	381,259	360,088	1,072,093
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	3,037	4,923	4,461
p.o. 045, p.o. 049	6. Long-term loans to domestic entities	0030	24	609,638	948,462	963,550
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	6,897,907	637,205	879,122
05	V. LONG TERM RECEIVABLES (0035 + 0036 + 0037 + 0038 + 0039 + 0040 + 0041)	0034		2,157,526	783,671	784,045
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	2,157,526	783,671	784,045
288	C. DEFERRED TAX ASSETS	0042		-	-	-

Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2015	Opening balance as at 1 January 2015
1	2	3	4	5	6	7
	D. CURRENT ASSETS (0044 + 0051 + 0059 + 0060 + 0061 + 0062 + 0068 + 0069 + 0070)	0043		143,176,356	127,497,360	108,103,419
1	I. INVENTORIES (0045 + 0046 + 0047 + 0048 + 0049 + 0050)	0044		29,716,762	29,799,281	26,946,525
10	1. Material	0045	26	24,373,472	24,249,770	22,266,692
11	2. Work in progress	0046	26	331,898	328,108	252,449
12	3. Finished products	0047	26	2,017,388	2,034,598	1,090,999
13	4. Merchandise (goods, purchase for sale)	0048	26	881	942	1,453
14	5. Non-current assets held for trading	0049	26	1,825	1,825	-
15	6. Advance payments	0050	26	2,991,298	3,184,038	3,334,932
20	II. TRADE RECEIVABLES (0052 + 0053 + 0054 + 0055 + 0056 + 0057 + 0058)	0051		46,337,601	40,662,805	39,084,363
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	45,918,175	39,285,972	37,602,694
205, p.o. 209	6. Trade receivables - foreign third party	0057	27	125,519	1,271,439	1,360,751
206, p.o. 209	7. Other trade receivables	0058	27	293,907	105,394	120,918
21	III. RECEIVABLES FROM SPECIFIC BUSINESS OPERATIONS	0059	28	2,086,827	389,750	325,098
22	IV. OTHER RECEIVABLES	0060	29	7,100,710	9,047,728	6,485,895
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		1,286,297	1,120,801	1,637,121
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	192,512	206,377	256,938
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 2015	Opening balance as at 1 January 2015
1	2	3	4	5	6	7
234, 235, 238, p.o. 239	5. Other short term investments	0067	30	1,093,785	914,424	1,380,183
24	VII. CASH AND CASH EQUIVALENTS	0068	31	55,297,089	45,937,129	31,181,332
27	VIII. RECEIVABLES FOR VAT	0069		-	-	1,345,338
28 except 288	IX. PREPAYMENTS AND ACCRUED INCOME	0070	32	1,351,070	539,866	1,097,747
	E. TOTAL ASSETS = OPERATING ASSETS (0001 + 0002 + 0042 + 0043)	0071		1,190,928,831	1,085,511,502	1,051,497,267
88	F. OFF BALANCE ASSETS	0072	43	159,155,546	264,368,258	181,726,567
	EQUITY AND LIABILITIES					
	A. EQUITY (0402 + 0411 - 0412 + 0413 + 0414 + 0415 - 0416 + 0417 + 0420 - 0421) ≥ 0 = (0071 - 0424 - 0441 - 0442)	0401		866,257,905	782,340,222	781,643,353
30	I. BASIC CAPITAL (0403 + 0404 + 0405 + 0406 + 0407 + 0408 + 0409 + 0410)	0402		360,141,927	360,141,927	360,011,201
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	358,718,711
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	1,292,490
31	II. UNPAID SUBSCRIBED CAPITAL	0411		-	-	-
047 and 237	III. OWN SHARES PURCHASED	0412		-	-	-
32	IV. RESERVES	0413	33	678	668	-
330	V. REVALUATION RESERVES FOR REVALUATION OF INTANGIBLES AND PPE	0414	33	613,462,182	536,547,679	546,057,700
33 except 330	VI. NON REALIZED PROFIT FROM SECURITIES (debit saldo of account group 33 except 330)	0415		22,489	29,079	36,463

Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2015	Opening balance as at 1 January 2015
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	483,094	480,576	584,143
34	VIII. RETAINED EARNINGS (0418+0419)	0417		5,849,902	8,259,298	-
340	1. Retained earnings from previous years	0418		-	8,259,298	-
341	2. Retained earnings from current year	0419	33	5,849,902	-	-
	IX. NON-CONTROLLING INTEREST	0420		-	-	-
35	X. ACCUMULATED LOSS (0422+0423)	0421		112,736,179	122,157,853	123,877,868
350	1. Previous year's losses	0422	33	112,736,179	122,157,853	123,877,868
351	2. Current year loss	0423		-	-	-
	B. LONG - TERM PROVISIONS AND LIABILITIES (0425+0432)	0424		140,956,089	130,756,330	93,032,091
40	I. LONG - TERM PROVISIONS (0426 + 0427 + 0428 + 0429 + 0430 + 0431)	0425		15,022,879	17,325,654	15,124,923
400	1. Provisions for costs incurred during the warranty period	0426		-	-	-
401	2. Provisions for the recovery of natural resources	0427	34	2,744,881	2,487,490	2,002,121
403	3. Provisions for restructuring costs	0428		-	-	-
404	4. Provisions for employees benefits	0429	34	8,128,105	10,203,975	8,605,572
405	5. Provisions for litigations	0430	34	4,037,686	4,478,672	4,337,436
402 and 409	6. Other long-term provisions	0431	34	112,207	155,517	179,794
41	II. LONG - TERM LIABILITIES (0433 + 0434 + 0435 + 0436 + 0437 + 0438 + 0439 + 0440)	0432		125,933,210	113,430,676	77,907,168
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	27,005,809	44,355,445	47,079,464
415	6. Long-term loans - foreign	0438	35	92,226,279	68,673,270	30,297,476

Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2015	Opening balance as at 1 January 2015
1	2	3	4	5	6	7
416	7. Liabilities for financial lease	0439	35	-	22,554	82,901
419	8. Other long-term liabilities	0440	35	6,620,579	298,864	366,784
498	C. DEFERRED TAX LIABILITIES	0441	22	98,580,263	87,365,045	89,743,489
42 to 49 (except 498)	D. SHORT-TERM LIABILITIES (0443 + 0450 + 0451 + 0459 + 0460 + 0461 + 0462)	0442		85,134,574	85,049,905	87,078,334
42	I. SHORT-TERM FINANCIAL LIABILITIES (0444 + 0445 + 0446 + 0447 + 0448 + 0449)	0443		10,607,727	26,673,610	29,018,403
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	10,607,727	26,673,610	29,018,403
430	II. RECEIVED ADVANCES PAYMENTS, DEPOSITS AND BAILS	0450	37	4,628,636	3,428,017	3,038,822
43 except 430	III. LIABILITIES FROM BUSINESS OPERATIONS (0452 + 0453 + 0454 + 0455 + 0456 + 0457 + 0458)	0451		21,030,434	17,238,564	23,256,447
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		-	-	-
434	4. Trade payables - other associated companies - foreign	0455		-	-	-
435	5. Trade payables - domestic	0456	38	15,385,350	11,714,540	15,930,017
436	6. Trade payables - foreign	0457	38	4,940,118	4,944,240	6,928,911
439	7. Other liabilities from business operations	0458	38	704,966	579,784	397,519
44, 45 and 46	IV. OTHER SHORT-TERM LIABILITIES	0459	39	8,077,997	6,088,268	6,568,682
47	V. LIABILITIES FOR VALUE ADDED TAX	0460	40	4,581,267	5,700,584	1,264,825
48	VI. LIABILITIES FOR OTHER TAXES, CONTRIBUTIONS AND OTHER DUTIES	0461	41	13,593,192	5,860,120	3,372,981
49 except 498	VII. ACCRUALS AND DEFERRED INCOME	0462	42	22,615,321	20,060,742	20,558,174

Account group, account	ITEM	AOP	Note no.	Amount		
				Current year	Previous year	
					Closing balance as at 31 December 2015	Opening balance as at 1 January 2015
1	2	3	4	5	6	7
	E. LOSS OVER CAPITAL (0412+0416+0421-0420-0417-0415-0414-0413-0411-0402) ≥ 0 = (0441+0424+0442-0071) ≥ 0	0463		-	-	-
	F. TOTAL EQUITY AND LIABILITIES (0424+0442+0441+0401-0463) ≥ 0	0464		1,190,928,831	1,085,511,502	1,051,497,267
89	G. OFF BALANCE LIABILITIES	0465	43	159,155,546	264,368,258	181,726,567

In _____

Legal representative

Stamp

date _____ 20 _____

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 2016 to 31 December 2016

- in thousands of Dinars -

Account group, account	ITEM	AOP	Note no.	Amount	
				Current year	Previous year
1	2	3	4	5	6
	REVENUES FROM REGULAR OPERATIONS				
60 to 65, except 62 and 63	A. OPERATING REVENUES (1002+1009+1016+1017)	1001		226,167,924	226,207,088
60	I. INCOME FROM THE SALE OF MERCHANDISE (1003+1004+1005+1006+1007+1008)	1002		-	13
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		-	13
605	6. Sales of merchandise to foreign customers	1008		-	-
61	II. INCOME FROM SALES OF PRODUCTS AND SERVICE RENDERED (1010+1011+1012+1013+1014+1015)	1009		221,717,650	219,273,474
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	868,925	791,803
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	217,104,739	215,120,775
615	6. Sales of merchandise to foreign customers	1015	5	3,743,986	3,360,896
64	III. INCOME FROM PREMIUMS, SUBVENTIONS, DONATIONS, ETC.	1016	7	2,168,525	2,845,902
65	IV. OTHER OPERATING INCOME	1017	8	2,281,749	4,087,699
	COSTS FROM REGULAR OPERATIONS				
50 to 55, 62 and 63	B. OPERATING EXPENSES (1019-1020-1021+1022+1023+1024+1025+1026+1027+1028+1029) ≥ 0	1018		191,711,932	192,897,410

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		98,794	58,277
62	II. INCOME FROM THE OWN USE OF PRODUCTS, SERVICES AND MERCHANDISE	1020	6	5,022,914	5,366,956
630	III. INCREASE OF FINISHED GOODS, WORK IN PROGRESS AND SERVICES IN PROGRESS	1021		387,152	1,371,218
631	IV. DECREASE OF FINISHED GOODS, WORK IN PROGRESS AND SERVICES IN PROGRESS	1022		400,573	303,304
51 except 513	V. COST OF MATERIAL	1023	9	11,314,013	13,101,510
513	VI. COST OF FUEL AND ENERGY	1024	10	31,275,991	35,744,275
52	VII. COSTS OF SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	1025	11	63,837,730	60,469,515
53	VIII. COSTS OF PRODUCTION SERVICES	1026	12	20,776,515	21,191,479
540	IX. DEPRECIATION COSTS	1027	13	44,389,787	39,591,648
541 to 549	X. LONG-TERM PROVISIONS COSTS	1028	14	1,157,330	6,710,736
55	XI. NON-PRODUCTION COSTS	1029	15	23,871,265	22,464,840
	C. OPERATING PROFIT (1001-1018) ≥ 0	1030		34,455,992	33,309,678
	D. OPERATING LOSS (1018-1001) ≥ 0	1031		-	-
66	E. FINANCIAL INCOME (1033+1038+1039)	1032		10,927,843	14,901,309
66, except 662, 663 and 664	I. FINANCIAL INCOME INCURRED WITH ASSOCIATED COMPANIES AND OTHER FINANCIAL INCOME (1034+1035+1036+1037)	1033		570,290	946,991
660	1. Financial income incurred with parent companies and subsidiaries	1034		-	-
661	2. Financial income incurred with other associated companies	1035	16	561,135	533,217
665	3. Income from share in associated entities and joint ventures	1036	16	-	204
669	4. Other financial income	1037	16	9,155	413,570
662	II. INCOME FROM INTEREST (FROM THIRD PARTIES)	1038	16	8,295,492	11,069,553
663 and 664	III. FX GAINS AND INCOME FOR THE EFFECTS OF CURRENCY CLAUSE	1039	16	2,062,061	2,884,765
56	F. FINANCIAL EXPENSES (1041+1046+1047)	1040		7,902,949	12,034,766
56, except 562, 563 and 564	I. FINANCIAL EXPENSES INCURRED WITH ASSOCIATED COMPANIES AND OTHER FINANCIAL EXPENSES (1042+1043+1044+1045)	1041		709,322	489,647
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	709,322	489,647
562	II. COSTS OF INTERESTS (TO THIRD PARTIES)	1046	17	2,220,609	3,338,317
563 and 564	III. FX LOSSES AND LOSSES FOR CURRENCY CLAUSE EFFECTS	1047	17	4,973,018	8,206,802
	G. FINANCIAL PROFIT (1032-1040)	1048		3,024,894	2,866,543
	H. FINANCIAL LOSS (1040-1032)	1049		-	-
683 and 685	I. INCOME FROM OTHER ASSETS VALUATION ADJUSTMENTS VALUED AT FAIR VALUE	1050	18	8,563,774	1,567,812
583 and 585	J. EXPENSES FROM OTHER ASSETS VALUATION ADJUSTMENTS VALUED AT FAIR VALUE	1051	19	15,649,018	19,206,171
67 and 68, except 683 and 685	K. OTHER INCOME	1052	20	23,926,773	4,451,556
57 and 58, except 583 and 585	L. OTHER EXPENSES	1053	21	41,836,790	12,495,871
	M. PROFIT FROM OPERATIONS BEFORE TAXATION (1030-1031+1048-1049+1050-1051+1052-1053)	1054	22	12,485,625	10,493,547
	N. LOSS FROM OPERATIONS BEFORE TAXATION (1031-1030+1049-1048+1051-1050+1053-1052)	1055		-	-
69 minus 59	O. NET OPERATING PROFIT FROM DISCONTINUED OPERATIONS	1056		468	-
59 minus 69	P. NET OPERATING LOSS FROM DISCONTINUED OPERATIONS	1057		-	-
	Q. PROFIT BEFORE TAXATION (1054-1055+1056-1057)	1058		12,486,093	10,493,547
	R. LOSS BEFORE TAXATION (1055-1054+1057-1056)	1059		-	-
	S. CORPORATE INCOME TAX				
721	I. TAX EXPENSES FOR THE PERIOD	1060	22	9,677,896	4,537,645
p.o. 722	II. DEFERRED TAX COSTS FOR THE PERIOD	1061		-	-
p.o. 722	III. DEFERRED TAX INCOME FOR THE PERIOD	1062	22	3,041,705	2,303,396
723	T. EMPLOYER'S EARNINGS PAID OUT	1063		-	-
	U. NET PROFIT (1058-1059-1060-1061+1062-1063)	1064		5,849,902	8,259,298
	V. NET LOSS (1059-1058+1060+1061-1062+1063)	1065		-	-
	I. NET PROFIT ATTRIBUTABLE TO MINORITY INVESTORS	1066		-	-
	II. NET PROFIT ATTRIBUTABLE TO MAJORITY INVESTORS	1067		5,849,902	8,259,298
	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 2016 to 31 December 2016

- in thousands of Dinars -

Account group, account	ITEM	AOP	Note no.	Amount	
				Current year	Previous year
1	2	3	4	5	6
	A, NET RESULT FROM OPERATIONS				
	I, NET PROFIT (AOP 1064)	2001		5,849,902	8,259,298
	II, NET LOSS (AOP 1065)	2002		-	-
	B, OTHER COMPREHENSIVE PROFIT OR LOSS				
	a) Items that will not be reclassified subsequently to profit or loss				
	1, Revaluation of intangibles and PPE				
330	a) increase in revaluation reserves	2003	33	91,160,131	-
	b) decrease in revaluation reserves	2004	33	-	9,581,939
	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) Items that may be reclassified subsequently to profit or loss				
	1, Foreign currency translation differences for foreign Operations				
334	a) gains	2011	33	506	243
	b) losses	2012		-	-

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	33	-	95,940
	b) losses	2018	33	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		91,151,023	-
	II, OTHER COMPREHENSIVE GROSS LOSS (2004+2006+2008+2010+2012+2014+2016+2018) - (2003+2005+2007+2009+2011+2013+2015+2017) ≥ 0	2020		-	9,485,756
	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		76,905,395	-
	V, OTHER COMPREHENSIVE NET LOSS (2020-2019+2021) ≥ 0	2023		-	9,485,756
	C, TOTAL COMPREHENSIVE NET RESULT FOR THE PERIOD				
	I, TOTAL COMPREHENSIVE NET PROFIT (2001-2002+2022-2023) ≥ 0	2024		82,755,297	-
	II, TOTAL COMPREHENSIVE NET LOSS (2002-2001+2023-2022) ≥ 0	2025		-	1,226,458
	D, TOTAL COMPREHENSIVE NET PROFIT OR LOSS (2027+2028) = AOP 2024 ≥ 0 or AOP 2025 > 0	2026		82,755,297	1,226,458
	1, Attributable to owners	2027		82,755,297	1,226,458
	2, Attributable to non-controlling interest	2028		-	-

In _____

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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 2016 to 31 December 2016

- in thousands of Dinars -

Item	AOP	Amount	
		Current year	Previous year
1	2	3	4
A. CASH FLOW FROM OPERATING ACTIVITIES	3001	238,196,029	248,450,125
I. Cash inflow from operating activities (1 to 3)			
1. Sales and advance payments received	3002	227,694,065	242,603,638
2. Received interests from operating activities	3003	7,988,771	2,784,450
3. Other inflows from operating activities	3004	2,513,193	3,062,037
II. Cash outflows from operating activities (1 to 5)	3005	180,366,421	219,537,212
1. Payments to suppliers and advance prepayments	3006	88,472,047	112,399,780
2. Wages, salaries and other personal costs	3007	61,105,527	62,894,293
3. Paid interests	3008	354,101	5,391,002
4. Corporate income tax	3009	1,366,551	3,700,087
5. Other payments to tax authorities	3010	29,068,195	35,152,050
III. Net cash inflow from operating activities (I-II)	3011	57,829,608	28,912,913
IV. Net cash outflow from operating activities (II-I)	3012	-	-
B. CASH FLOW FROM INVESTING ACTIVITIES	3013	12,830,901	1,150,319
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	10,944,316	-
3. Other financial investments (net inflows)	3016	782,830	566,952
4. Interests received from investing activities	3017	1,103,755	583,367
5. Dividends received	3018	-	-
II. Cash outflow from investing activities (1 till 3)	3019	56,679,635	25,183,999
1. Purchase of shares and stakes (net outflows)	3020	2,556	-
2. Purchase of intangible investments, property, plant, equipment and biological assets	3021	49,900,997	25,183,999
3. Other financial investments (net outflows)	3022	6,776,082	-
III. Net cash inflow from investing activities (I-II)	3023	-	-
IV. Net cash outflow from investing activities (II-I)	3024	43,848,734	24,033,680
C. CASH INFLOW FROM FINANCING ACTIVITIES	3025	70,585	10,698,927
I. Cash inflows from financing activities (1 till 5)			
1. Increase of basic capital	3026	-	-

2. Long-term loans (net inflows)	3027	-	10,695,746
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	3,181
II. Cash outflows from financing activities (1 till 6)	3031	4,969,399	1,038,302
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	-	30,965
4. Other liabilities (net outflows)	3035	68,001	941,986
5. Financial lease	3036	1,337,306	-
6. Paid dividends	3037	60,463	65,351
III. Net cash inflows from financing activities (I-II)	3038	-	9,660,625
IV. Net cash outflows from financing activities (II-I)	3039	4,898,814	-
D. TOTAL CASH INFLOWS (3001 + 3013 + 3025)	3040	251,097,515	260,299,371
E. TOTAL CASH OUTFLOWS (3005 + 3019 + 3031)	3041	242,015,455	245,759,513
F. NET CASH INFLOWS (3040 - 3041)	3042	9,082,060	14,539,858
G. NET CASH OUTFLOWS (3041 - 3040)	3043	-	-
H. CASH AT THE BEGINNING OF THE CALCULATION PERIOD	3044	45,937,129	31,181,332
I. POSITIVE EXCHANGE RATE DIFFERENCES DUE TO CALCULATION OF CASH	3045	373,538	237,466
J. NEGATIVE EXCHANGE RATE DIFFERENCES DUE TO CALCULATION OF CASH	3046	95,638	21,527
K. CASH AT THE END OF REPORTING PERIOD (3042 - 3043 + 3044 + 3045 - 3046)	3047	55,297,089	45,937,129

In _____

Legal representative

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Date _____ 20 _____

Financial statements form 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 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 2016 to 31 December 2016

- 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
	Balance as at 01.01. of the previous year						
1.	a) debit balance account	4001	-	4019	-	4037	-
	b) credit balance account	4002	360,011,201	4020	-	4038	-
	Correction of material errors and changes in accounting policies						
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	-
	Adjusted opening balance as at 01.01. of the previous year						
3.	a) corrected debit balance account (1a + 2a - 2b) ≥ 0	4005		4023	-	4041	-
	b) corrected credit balance accounts (1b - 2a + 2b) ≥ 0	4006	360,011,201	4024	-	4042	-
	Changes in the previous year _____						
4.	a) turnover on the debit side of the account	4007	15	4025	-	4043	-
	b) turnover on the credit side of the account	4008	130,741	4026	-	4044	668
	Balance at the end of the previous year 31.12. _____						
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	668
	Correction of material errors and changes in accounting policies						
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	-
	Corrected opening balance of the current year 01.01. _____						
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	668
	Changes in the current year _____						
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	10
	Balance at end of the year 31.12. _____						
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	678

No.	DESCRIPTION	Components of Equity					
		AOP	35	АОП	047 и 237	АОП	34
			Accumulated loss		Treasury shares		Retained Earnings
	2		6		7		8
1.	Balance as at 01.01. of the previous year						
	a) debit balance account	4055	124,697,608	4073	-	4091	-
	b) credit balance account	4056	-	4074	-	4092	-
2.	Correction of material errors and changes in accounting policies						
	a) corrections on the debit side of the account	4057	-	4075	-	4093	-
	b) corrections to the credit side of the account	4058	819,740	4076	-	4094	-
3.	Adjusted opening balance as at 01.01. of the previous year						
	a) corrected debit balance account (1a + 2a - 2b) ≥ 0	4059	123,877,868	4077	-	4095	-
	b) corrected credit balance accounts (1b - 2a + 2b) ≥ 0	4060	-	4078	-	4096	-
4.	Changes in the previous year _____						
	a) turnover on the debit side of the account	4061	1,467,634	4079	-	4097	-
	b) turnover on the credit side of the account	4062	3,187,649	4080	-	4098	6,986,344
5.	Balance at the end of the previous year 31.12 . _____						
	a) debit account balance (3a + 4a - 4b) ≥ 0	4063	122,157,853	4081	-	4099	-
	b) credit balance accounts (3b - 4a + 4b) ≥ 0	4064	-	4082	-	4100	6,986,344
6.	Correction of material errors and changes in accounting policies						
	a) corrections on the debit side of the account	4065	-	4083	-	4101	-
	b) corrections to the credit side of the account	4066	-	4084	-	4102	1,272,954
7.	Corrected opening balance of the current year 01.01. _____						
	a) corrected debit balance accounts (5a + 6a - 6b) ≥ 0	4067	122,157,853	4085	-	4103	-
	b) corrected credit balance accounts (5b - 6a + 6b) ≥ 0	4068	-	4086	-	4104	8,259,298
8.	Changes in the current year _____						
	a) turnover on the debit side of the account	4069	-	4087	-	4105	8,259,298
	b) turnover on the credit side of the account	4070	9,421,674	4088	-	4106	5,849,902
9.	Balance at end of the year 31.12 . _____						
	a) debit balance account (7a + 8a - 8b) ≥ 0	4071	112,736,179	4089	-	4107	-
	b) credit balance accounts (7b - 8a + 8b) ≥ 0	4072	-	4090	-	4108	5,849,902

No.	DESCRIPTION	Components of Other Comprehensive Income					
		AOP	330	AOP	331	АОП	332
			Revaluation reserves		Actuarial gains or losses		Gains or losses on investment in equity instruments
1	2		9		10		11
	Balance as at 01.01. of the previous year						
1.	a) debit balance account	4109	-	4127	-	4145	-
	b) credit balance account	4110	547,186,288	4128	-	4146	-
	Correction of material errors and changes in accounting policies						
2.	a) corrections on the debit side of the account	4111	1,128,588	4129	-	4147	-
	b) corrections to the credit side of the account	4112	-	4130	-	4148	-
	Adjusted opening balance as at 01.01. of the previous year						
3.	a) corrected debit balance account (1a + 2a - 2b) ≥ 0	4113	-	4131	-	4149	-
	b) corrected credit balance accounts (1b - 2a + 2b) ≥ 0	4114	546,057,700	4132	-	4150	-
	Changes in the previous year _____						
4.	a) turnover on the debit side of the account	4115	9,510,021	4133	-	4151	-
	b) turnover on the credit side of the account	4116	-	4134	-	4152	-
	Balance at the end of the previous year 31.12. _____						
5.	a) debit account balance (3a + 4a - 4b) ≥ 0	4117	-	4135	-	4153	-
	b) credit balance accounts (3b - 4a + 4b) ≥ 0	4118	536,547,679	4136	-	4154	-
	Correction of material errors and changes in accounting policies						
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	-
	Corrected opening balance of the current year 01.01. _____						
7.	a) corrected debit balance accounts (5a + 6a - 6b) ≥ 0	4121	-	4139	-	4157	-
	b) corrected credit balance accounts (5b - 6a + 6b) ≥ 0	4122	536,547,679	4140	-	4158	-
	Changes in the current year _____						
8.	a) turnover on the debit side of the account	4123	17,654,094	4141	-	4159	-
	b) turnover on the credit side of the account	4124	94,568,597	4142	-	4160	-
	Balance at end of the year 31.12. _____						
9.	a) debit balance account (7a + 8a - 8b) ≥ 0	4125	-	4143	-	4161	-
	b) credit balance accounts (7b - 8a + 8b) ≥ 0	4126	613,462,182	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
	Balance as at 01.01. of the previous year						
1.	a) debit balance account	4163	-	4181	-	4199	-
	b) credit balance account	4164	-	4182	1,117	4200	-
	Correction of material errors and changes in accounting policies						
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	-
	Adjusted opening balance as at 01.01. of the previous year						
3.	a) corrected debit balance account (1a + 2a - 2b) ≥ 0	4167	-	4185	-	4203	-
	b) corrected credit balance accounts (1b - 2a + 2b) ≥ 0	4168	-	4186	1,117	4204	-
	Changes in the previous year _____						
4.	a) turnover on the debit side of the account	4169	-	4187	-	4205	-
	b) turnover on the credit side of the account	4170	-	4188	243	4206	-
	Balance at the end of the previous year 31.12. _____						
5.	a) debit account balance (3a + 4a - 4b) ≥ 0	4171	-	4189	-	4207	-
	b) credit balance accounts (3b - 4a + 4b) ≥ 0	4172	-	4190	1,360	4208	-
	Correction of material errors and changes in accounting policies						
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	-
	Corrected opening balance of the current year 01.01. _____						
7.	a) corrected debit balance accounts (5a + 6a - 6b) ≥ 0	4175	-	4193	-	4211	-
	b) corrected credit balance accounts (5b - 6a + 6b) ≥ 0	4176	-	4194	1,360	4212	-
	Changes in the current year _____						
8.	a) turnover on the debit side of the account	4177	-	4195	-	4213	-
	b) turnover on the credit side of the account	4178	-	4196	506	4214	-
	Balance at end of the year 31.12. _____						
9.	a) debit balance account (7a + 8a - 8b) ≥ 0	4179	-	4197	-	4215	-
	b) credit balance accounts (7b - 8a + 8b) ≥ 0	4180	-	4198	1,866	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.	Balance as at 01.01. of the previous year						
	a) debit balance account	4217	548,797	4235	781,952,201	4244	-
	b) credit balance account	4218	-				
2.	Correction of material errors and changes in accounting policies						
	a) corrections on the debit side of the account	4219	-	4236	-	4245	-
	b) corrections to the credit side of the account	4220	-				
3.	Adjusted opening balance as at 01.01. of the previous year						
	a) corrected debit balance account (1a + 2a - 2b) ≥ 0	4221	548,797	4237	781,643,353	4246	-
	b) corrected credit balance accounts (1b - 2a + 2b) ≥ 0	4222	-				
4.	Changes in the previous year _____						
	a) turnover on the debit side of the account	4223	63	4238	-	4247	-
	b) turnover on the credit side of the account	4224	96,003				
5.	Balance at the end of the previous year 31.12. _____						
	a) debit account balance (3a + 4a - 4b) ≥ 0	4225	452,857	4239	781,067,268	4248	-
	b) credit balance accounts (3b - 4a + 4b) ≥ 0	4226	-				
6.	Correction of material errors and changes in accounting policies						
	a) corrections on the debit side of the account	4227	-	4240	1,272,954	4249	-
	b) corrections to the credit side of the account	4228	-				
7.	Corrected opening balance of the current year 01.01. _____						
	a) corrected debit balance accounts (5a + 6a - 6b) ≥ 0	4229	452,857	4241	782,340,222	4250	-
	b) corrected credit balance accounts (5b - 6a + 6b) ≥ 0	4230	-				
8.	Changes in the current year _____						
	a) turnover on the debit side of the account	4231	9,614	4242	83,917,683	4251	-
	b) turnover on the credit side of the account	4232	-				
9.	Balance at end of the year 31.12. _____						
	a) debit balance account (7a + 8a - 8b) ≥ 0	4233	462,471	4243	866,257,905	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 2016**

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CONSOLIDATED INCOME STATEMENT
For the period 1 January - 31 December 2016
In RSD thousand

	Note	For the Year Ended 31 December 2016	For the Year Ended 31 December 2015 <i>Restated</i>
Income from sales of goods and services			
Income from sales of goods and services to other related parties – on domestic market	5	868,925	791,803
Income from sales of goods and services – on domestic market	5	217,104,739	215,120,775
Income from sales of goods and services – on foreign market	5	3,743,986	3,360,909
		<u>221,717,650</u>	<u>219,273,487</u>
Income from premiums, subventions, grants and donations	7	2,168,525	2,845,902
Other operating income	8	2,281,749	4,087,699
Income from operating activities		<u>226,167,924</u>	<u>226,207,088</u>
Expenses from operating activities			
Operating expenses			
Cost of goods sold		(98,794)	(58,277)
Work performed by the entity and capitalised (Decrease)/increase in inventories of unfinished goods and services	6	5,022,914	5,366,956
Cost of material	9	(11,314,013)	(13,101,510)
Cost of fuel and energy	10	(31,275,991)	(35,744,275)
Wages and salaries and other personal expenses	11	(63,837,730)	(60,469,515)
Cost of production services	12	(20,776,515)	(21,191,479)
Amortisation/Depreciation	13	(44,389,787)	(39,591,648)
Cost of long-term provisioning	14	(1,157,330)	(6,710,736)
Other operating expenses	15	(23,871,265)	(22,464,840)
		<u>(191,711,932)</u>	<u>(192,897,410)</u>
Operating profit/ (loss)		<u>34,455,992</u>	<u>33,309,678</u>
Financial income			
Financial income from other related parties	16	561,135	533,217
Other financial income	16	9,155	413,774
Interest income (third parties)	16	8,295,492	11,069,553
Foreign exchange gains and gains on currency clause effect	16	2,062,061	2,884,765
		<u>10,927,843</u>	<u>14,901,309</u>
Financial expenses			
Other financial expenses	17	(709,322)	(489,647)
Interest expense (third parties)	17	(2,220,609)	(3,338,317)
Foreign exchange losses and loss on currency clause effect	17	(4,973,018)	(8,206,802)
		<u>(7,902,949)</u>	<u>(12,034,766)</u>
Gain/(loss) on financing activities		<u>3,024,894</u>	<u>2,866,543</u>
Income from adjustments of other assets carried at fair value through profit and loss	18	8,563,774	1,567,812
Expenses from adjustments of other assets carried at fair value through profit and loss	19	(15,649,018)	(19,206,171)
Other income	20	23,926,773	4,451,556
Other expenses	21	(41,836,790)	(12,495,871)
		<u>(24,995,261)</u>	<u>(25,682,674)</u>
Operating profit/(loss) before tax		<u>12,485,625</u>	<u>10,493,547</u>

(continued)

CONSOLIDATED INCOME STATEMENT (continued)
For the period 1 January - 31 December 2016
In RSD thousand

	Note	For the Year Ended 31 December 2016	For the Year Ended 31 December 2015 <i>Restated</i>
Profit/ (loss) before tax		12,485,625	10,493,547
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	-
Profit/ (loss) before tax	22	12,486,093	10,493,547
Income tax			
Tax expense for the period	22	(9,677,896)	(4,537,645)
Deferred tax income /(expense) for the period	22	3,041,705	2,303,396
Net profit/ loss		5,849,902	8,259,298

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

On behalf of the Company

Milorad Grčić
Acting General Manager

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
For the period 1 January - 31 December 2016
In RSD thousand

	Note	For the Year Ended 31 December 2016	For the Year Ended 31 December 2015
			<i>Restated</i>
Net operating income			
Net profit / loss		5,849,902	8,259,298
Items that will not be reclassified to profit or loss			
Increase/(decrease) in revaluation reserves	33	91,160,131	(9,581,939)
Actuarial gains/(losses) arising from defined benefit plans		-	-
Gains/(losses) on equity investments		-	-
Gains/(losses) arising from a share in the associate's other comprehensive profit/(loss)		-	-
		<u>91,160,131</u>	<u>(9,581,939)</u>
Items that will be reclassified to profit or loss			
Gains/(losses) on translating the results in the consolidated financial statements of foreign operations	33	506	243
Gains/(losses) on a hedge of a net investment in a foreign operation		-	-
Gains/(losses) on qualifying cash flow hedges		-	-
Gains/(losses) on available-for-sale securities	33	(9,614)	95,940
		<u>(9,108)</u>	<u>96,183</u>
Other Comprehensive gain/(loss), gross		<u>91,151,023</u>	<u>(9,485,756)</u>
Tax on other comprehensive gain or loss	22	(14,245,628)	-
Other Comprehensive gain/(loss), net		<u>76,905,395</u>	<u>(9,485,756)</u>
Total comprehensive gain/ (loss), net		<u>82,755,297</u>	<u>(1,226,458)</u>

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

CONSOLIDATED BALANCE SHEET
As at 31 December 2016
In RSD thousand

	Note	31 December 2016	31 December 2015 <i>Restated</i>	1 January 2015 <i>Restated</i>
Assets				
Non-current assets				
Intangible Assets				
Concessions, patents, licences, trademarks, software and similar rights	23	1,339,871	1,020,160	989,597
Other intangibles	23	28,592	36,859	34,525
Intangible Assets under construction	23	3,195,435	4,048,560	3,198,765
		<u>4,563,898</u>	<u>5,105,579</u>	<u>4,222,887</u>
Property, plant and equipment				
Land	23	58,653,163	39,415,804	37,859,612
Buildings	23	348,954,709	322,809,705	327,854,618
Machinery and equipment	23	522,236,828	495,582,893	491,294,381
Investment property	23	530,516	556,557	451,727
Other Property, Plant and Equipment	23	277,811	161,812	165,910
Construction in progress (CIP)	23	76,459,405	63,543,171	66,303,831
Investments in third party property, plant and equipment	23	1,007	1,064	1,121
Prepayments for property, plant and equipment	23	25,196,167	27,276,360	10,737,042
		<u>1,032,309,606</u>	<u>949,347,366</u>	<u>934,668,242</u>
Biological assets				
Forest farming	23	423,147	420,391	392,991
Long-term financial investments				
Investments in associates and joint ventures	24	406,457	406,457	406,457
Investments in other legal entities and other available for sale securities	24	381,259	360,088	1,072,093
Long-term financial investments in other related parties	24	3,037	4,923	4,461
Long term investments – domestic	24	609,638	948,462	963,550
Other long-term financial investments	24	6,897,907	637,205	879,122
		<u>8,298,298</u>	<u>2,357,135</u>	<u>3,325,683</u>
Long-term receivables				
Other long term receivables	25	2,157,526	783,671	784,045
Current assets				
Inventory				
Material, spare parts, tools and inventory	26	24,373,472	24,249,770	22,266,692
Work in progress and ongoing services	26	331,898	328,108	252,449
Finished goods	26	2,017,388	2,034,598	1,090,999
Merchandise	26	881	942	1,453
Prepaid inventory and services	26	1,825	1,825	-
Material, spare parts, tools and inventory	26	2,991,298	3,184,038	3,334,932
		<u>29,716,762</u>	<u>29,799,281</u>	<u>26,946,525</u>
Trade receivables				
Trade receivables – domestic	27	45,918,175	39,285,972	37,602,694
Trade receivables – foreign	27	125,519	1,271,439	1,360,751
Other trade receivables	27	293,907	105,394	120,918
		<u>46,337,601</u>	<u>40,662,805</u>	<u>39,084,363</u>
Receivables from specific operations	28	2,086,827	389,750	325,098
Other receivables	29	7,100,710	9,047,728	6,485,895

(continued)

CONSOLIDATED BALANCE SHEET (continued)
As at 31 December 2016
In RSD thousand

	Note	31 December 2016	31 December 2015 <i>Restated</i>	1 January 2015 <i>Restated</i>
Short-term financial investments				
Short-term loans and borrowings - domestic	30	192,512	206,377	256,938
Other short term financial investments	30	1,093,785	914,424	1,380,183
		<u>1,286,297</u>	<u>1,120,801</u>	<u>1,637,121</u>
Cash and cash equivalents	31	55,297,089	45,937,129	31,181,332
Value added tax		-	-	1,345,338
Prepaid expenses and other accruals	32	1,351,070	539,866	1,097,747
		<u>56,648,168</u>	<u>46,476,114</u>	<u>33,624,417</u>
Total assets		<u>1,190,928,831</u>	<u>1,085,511,502</u>	<u>1,051,497,267</u>
Off-balance sheet assets	43	<u>159,155,546</u>	<u>264,368,258</u>	<u>181,726,567</u>
Liabilities				
Equity				
Basic capital	33	360,141,927	360,141,927	360,011,201
Other equity	33	678	668	-
Revaluation reserves based on revaluation of intangible assets, property, plant and equipment	33	613,462,182	536,547,679	546,057,700
Unrealised gain/(loss) from securities and other comprehensive income items	33	(460,605)	(451,497)	(547,680)
Current year retained earnings	33	5,849,902	8,259,298	
Prior years loss	33	(112,736,179)	(122,157,853)	(123,877,868)
		<u>866,257,905</u>	<u>782,340,222</u>	<u>781,643,353</u>
Long-term provisions and liabilities				
Long-term provisions				
Provision for environmental restoration	34	2,744,881	2,487,490	2,002,121
Provisions for employee benefits	34	8,128,105	10,203,975	8,605,572
Provisions for litigations	34	4,037,686	4,478,672	4,337,436
Other long term provisions	34	112,207	155,517	179,794
		<u>15,022,879</u>	<u>17,325,654</u>	<u>15,124,923</u>
Long-term liabilities				
Liabilities convertible to equity	35	80,543	80,543	80,543
Long term loans and borrowings - domestic	35	27,005,809	44,355,445	47,079,464
Long-term loans and borrowings - foreign	35	92,226,279	68,673,270	30,297,476
Finance lease liabilities	35	-	22,554	82,901
Other long-term liabilities	35	6,620,579	298,864	366,784
		<u>125,933,210</u>	<u>113,430,676</u>	<u>77,907,168</u>
Deferred tax liabilities	22	<u>98,580,263</u>	<u>87,365,045</u>	<u>89,743,489</u>
Short-term liabilities				
Short-term financial liabilities				
Other short term financial liabilities	36	<u>10,607,727</u>	<u>26,673,610</u>	<u>29,018,403</u>

(continued)

CONSOLIDATED BALANCE SHEET (continued)
As at 31 December 2016
In RSD thousand

	Note	31 December 2016	31 December 2015 <i>Restated</i>	1 January 2015 <i>Restated</i>
Customer prepayments, deposits and caution money	37	4,628,636	3,428,017	3,038,822
Operating liabilities				
Trade payables - domestic	38	15,385,350	11,714,540	15,930,017
Trade payables - foreign	38	4,940,118	4,944,240	6,928,911
Other operating liabilities	38	704,966	579,784	397,519
		<u>21,030,434</u>	<u>17,238,564</u>	<u>23,256,447</u>
Other current liabilities	39	8,077,997	6,088,268	6,568,682
Liabilities for VAT	40	4,581,267	5,700,584	1,264,825
Liabilities for other taxes, contributions and duties	41	13,593,192	5,860,120	3,372,981
Accrued expenses	42	22,615,321	20,060,742	20,558,174
		<u>48,867,777</u>	<u>37,709,714</u>	<u>31,764,662</u>
Total liabilities		<u>1,190,928,831</u>	<u>1,085,511,502</u>	<u>1,051,497,267</u>
Off-balance sheet liabilities	43	<u>159,155,546</u>	<u>264,368,258</u>	<u>181,726,567</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 2016
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	
Opening balance as at 1 January 2015							
a) debit balance	-	124,697,608	-	-	-	548,797	125,246,404
b) credit balance	360,011,201	-	-	547,186,288	-	1,117	907,198,606
	<u>360,011,201</u>	<u>(124,697,608)</u>	<u>-</u>	<u>547,186,288</u>	<u>-</u>	<u>(547,680)</u>	<u>781,952,201</u>
Restatement of opening balance							
a) debit balance	-	-	-	1,128,588	-	-	1,128,588
b) credit balance	-	819,740	-	-	-	-	819,740
Restated opening balance as at 1 January 2015	<u>360,011,201</u>	<u>(123,877,868)</u>	<u>-</u>	<u>546,057,700</u>	<u>-</u>	<u>(547,680)</u>	<u>781,643,353</u>
Movements in 2015							
a) debit turnover	15	1,467,634	-	9,510,021	-	63	10,977,734
b) credit turnover	130,741	3,187,649	8,259,298	-	668	96,246	11,674,602
Closing balance as at 31 December 2015							
a) debit balance	-	122,157,853	-	-	-	452,857	122,610,710
b) credit balance	360,141,927	-	8,259,298	536,547,679	668	1,360	904,950,932
	<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>
Restatement of opening balance							
a) debit balance	-	-	-	-	-	-	-
b) credit balance	-	-	-	-	-	-	-
Restated opening balance as at 1 January 2016	<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>
Movements in 2016							
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
Closing balance as at 31 December 2016							
a) debit balance	-	112,736,179	-	-	-	462,471	113,198,650
b) credit balance	360,141,927	-	5,849,902	613,462,182	678	1,866	979,456,555
	<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>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

CONSOLIDATED CASH FLOW STATEMENT
During the period from 1 January - 31 December 2016
In RSD thousand

	2016	2015
Cash flows from operating activities		
Cash inflows from operating activities	238,196,029	248,450,125
Sales and advances received	227,694,065	242,603,638
Interests from operating activities	7,988,771	2,784,450
Other proceeds from operating activities	2,513,193	3,062,037
Cash outflows from operating activities	180,366,421	219,537,212
Payments and prepayments to suppliers	88,472,047	112,399,780
Salaries, fringe benefits and other personal expenses	61,105,527	62,894,293
Interests paid	354,101	5,391,002
Income tax	1,366,551	3,700,087
Charges for services that qualify as public revenues	29,068,195	35,152,050
Cash inflows/(outflow) from operating activities, Net	57,829,608	28,912,913
Cash flows from investing activities		
Cash inflows from investing activities	12,830,901	1,150,319
Sale of intangible assets, property, plant, equipment and biological assets	10,944,316	-
Other financial investments (net inflows)	782,830	566,952
Interests received from investing activities	1,103,755	583,367
Cash outflows from investing activities	56,679,635	25,183,999
Purchase of shares and stakes (outflows, net)	2,556	-
Purchase of intangible assets, property, plant, equipment and biological assets	49,900,997	25,183,999
Other financial outflows, Net	6,776,082	-
Cash inflows/(outflows) from investing activities, Net	(43,848,734)	(24,033,680)
Cash flows from financing activities		
Cash inflows from financing activities	70,585	10,698,927
Long-term borrowings (net proceeds)	-	10,695,746
Other short-term liabilities	70,585	3,181
Cash outflows from financing activities	4,969,399	1,038,302
Long-term loans (outflows)	3,503,629	-
Short-term loans (outflows)	-	30,965
Other liabilities	68,001	941,986
Finance lease	1,337,306	-
Dividends paid	60,463	65,351
Inflows/(outflows) from financing activities, Net	(4,898,814)	9,660,625
Total cash inflow	251,097,515	260,299,371
Total cash outflow	242,015,455	245,759,513
Net cash inflow	9,082,060	14,539,858
Cash at the beginning of the accounting period	45,937,129	31,181,332
Foreign exchange gains on translation of cash	373,538	237,466
Foreign exchange losses on translation of cash	(95,638)	(21,527)
Cash at the end of the accounting period	55,297,089	45,937,129

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

1. FORMATION AND OPERATIONS

The Government of the Republic of Serbia at its session held on 27 January 2005 (RS Official Gazette, No. 12/2005) passed the Decision 05 No.023-396/2005-1 to establish Public Enterprise Elektroprivreda Srbije (hereinafter the Company or PE EPS), to be involved in the production, distribution and trade of electricity.

The Company, with its address at 2 Carice Milice st., Belgrade, started operating on 1 July 2005 based on Business Registers Agency Decision No. BD 80380/2005. The Company's ID No. is: 20053658. The Company's tax identification number is 103920327.

The Public Enterprise "Elektroprivreda Srbije", Belgrade (hereinafter „Company“, „Parent Company“ or „PE EPS“), together with its subsidiaries represent EPS Group (hereinafter „Group“).

The registered name of the Parent Company is: "Javno preduzeće Elektroprivreda Srbije," Beograd [Public Enterprise, Electric Power Industry of Serbia, Belgrade]. The abbreviated name of the Public Enterprise is "PE EPS, Beograd".

The principal activity of PE EPS, Parent Company, is electricity supply – code of activity 3514 – electricity trading. In addition to its principal activity, PE EPS is engaged in other activities of which the most important are: energy production; coal production, processing and transport; production of steam and hot water in combined processes and other activities. On the Group level principal activity includes distribution of electricity and management of distribution systems. As of 1 July 2015, electricity distribution and distribution system management is performed by "EPS Distribucija" d.o.o., Beograd, a distribution system operator, whereas by 30 June 2015, this activity was performed by five related entities established by the Parent Company.

The Decision on Harmonization Operations of the Public Enterprise for production, distribution and trade of electricity with the Law on Public Enterprises, specifies that 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, whose competencies are prescribed by the Law on Public Enterprises, the Company's Articles of Association and the Company's Statute.

The assets handled by the Company are state-owned, with the exception of non-current assets – land over which ownership rights have been established under the Decision to amend the Decision on the Establishment of PE EPS passed by the Government in 2010 (RS Official Gazette No. 54/10).

The Law on Public Property (RS Official Gazette No. 72/11) has created conditions for the Company and its subsidiaries to make use of their ownership rights, other than ownership rights over natural resources, goods of public interest and goods in general use, as prescribed by the Law. The Law prescribes the process of obtaining the Government act on the rights of ownership over specific property and subscribing such rights in public records on immovable property and the rights thereof.

As at 31 December 2016, the Group had 29.779 employees (31 December 2015: 31.784 employees).

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 of the Group

In 2015, within the EPS Group, comprising PE EPS, the Parent Company, and its subsidiaries, by 1 July 2015 total of 15 companies operated, namely: the Parent company, seven subsidiaries engaged in the production of electricity and the production of coal, five companies engaged in the distribution of electricity and management of distribution systems, one company engaged in the electricity supply to end customers and one company established in the Republic of Slovenia. After the status change took place on 1 July 2015 subsidiaries engaged in the production of electricity and the production of coal are merged to the Parent Company. The transferring companies in aforementioned merger are: „Hidroelektrane Đerdap“ d.o.o. Kladovo, „Drinsko – Limske hidroelektrane“ d.o.o. Bajina Bašta,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

1. FORMATION AND OPERATIONS (continued)

Organisational structure of the Group (continued)

„Termoelektrane Nikola Tesla“ d.o.o. Obrenovac, „Termoelektrane i kopovi Kostolac“ d.o.o. Kostolac, „Panonske termoelektrane – toplane“ d.o.o. Novi Sad, Company for the production, processing and transport of coal “Rudarski basen Kolubara” d.o.o. Lazarevac and Commercial company for renewable energy sources “EPS Obnovljivi izvori” d.o.o. Beograd. Additionally, after the aforementioned merger on 1 July 2015 four companies engaged in the distribution of electricity and management of distribution systems merged into „Elektrodistribucije – Beograd“ d.o.o., Beograd, after 1 July 2015 „EPS Distribucija“ d.o.o., Beograd : „Privredno društvo za distribuciju električne energije Elektrovojvodina“ d.o.o. Novi Sad, „Privredno društvo za distribuciju energije Elektrosrbija“ d.o.o., Kraljevo, „Privredno društvo za distribuciju električne energije Jugoistok“ d.o.o. Niš i „Privredno društvo za distribuciju električne energije Centar“ d.o.o., Kragujevac.

The status change of 1 June 2016 registered merger of the company for electricity supply to end customers “EPS Snabdevanje” d.o.o. Beograd to PE EPS – acquirer.

After the status changes took place on 1 July 2015 and 1 June 2016, and by the end of the reporting period, additional two companies operated within EPS Group in which PC EPS, as sole founder/owner, has a 100% share:

1. Operator distributivnog sistema “EPS Distribucija” d.o.o. Beograd (hereinafter ODS EPS Distribucija),
2. „EPS Trgovanje” d.o.o. headquartered in Ljubljana, in the Republic of Slovenia.

The activity of electricity distribution and distribution system management shall be performed by the subsidiary Distribution System Operator “EPS Distribucija”, d.o.o. from 1 July 2015. Belgrade. Electricity Trading Company “EPS Trading” d.o.o. was founded on 1 July 2014, the main activity of which is electricity trading in the European Union market. On April 3, 2015, the company started trading electricity without intermediaries on the Hungarian stock exchange HUPX.

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.

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

- Public Enterprise for the production of thermoelectric energy Thermal Power Plants “*Kosovo*”, *Obilić*
- Public Enterprise for the production, processing and transportation of coal, PK “*Kosovo*” *Obilić*
- Public Enterprise for electricity distribution “*Elektrokosmet*”, *Priština*.

The company has control over all of its subsidiaries, except the public enterprises from Kosovo (Public Enterprise for the production of thermoelectric energy Thermal Power Plants “*Kosovo*”, *Obilić* in restructuring, Public Enterprise for the production, processing and transportation of coal, PK “*Kosovo*” *Obilić* in restructuring and Public Enterprise for electricity distribution “*Elektrokosmet*”, *Priština*). Since 1999, Kosovo has been under control of international community, therefore PE EPS has lost administrative and governing control over abovementioned companies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

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 2016, 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 2016 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) except for recognition of losses on sale and disposal of property, plant and equipment. Namely, gains and losses arising on the disposal or sale of property, plant and equipment are determined as the difference between net income from the sale, if relevant, and the carrying amount of the asset item adjusted by revaluation reserves, if they had been previously formed, and are recognized in the income statement, in accordance with the Rulebook on the Chart of Accounts and the Contents of Accounts in the Chart of Accounts (Official Gazette of RS number 95/2014).

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);

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

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-38: "Intangible Assets" – amended by Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016);
- 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 for the period 2010 - 2012, resulting from Annual improvements to IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS16, IAS 24 and IAS 38) made with a view to eliminate mismatching and to provide clarifications (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) made with a view to eliminate mismatching and to provide clarifications (effective for annual periods beginning on or after 1 July 2014).

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);
- IFRIC 22 "Foreign currency transactions and advance consideration" – Issued in December 2016 (effective for annual periods beginning on or after 1 January 2018);

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

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

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

- 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);
- Amendments to IAS 7 "Statement of Cash Flow" – Initiative for change of disclosures (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 "Income taxes" – Recognition of deferred tax assets for unrealized losses (effective for annual periods beginning on or after 1 January 2017);

2.4. Comparative figures

As a comparative figures the Group presented restated consolidated income statement for the year ended 31 December 2015 and restated consolidated balance sheet as at 31 December 2015 and 01 January 2015.

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.

2.5. Correction of errors

Errors arising from mathematical errors, errors in the application of accounting policies, misinterpretation of facts or omissions are recognized by adjusting the opening balance of the net gain or loss.

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

2.6. 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.

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 Company's financial statements are given under the following notes:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

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

2.6. Estimation method (continued)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These 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 financial statements.

The principal accounting policies applied in the preparation of these 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 2016 given that the Parent Company's management does not have administrative and managing control over the operations of these entities.

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 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.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

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. These revenues are recorded in the income as premiums, subsidies, grants and donations (other revenues).

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)
- 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 2016

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.

Recognition of costs based on voluntary termination of employment is carried out against the expense of the income statement in the period when the employees applied for a call for voluntary departure and fulfilled the conditions accordingly, on the basis of which the amount of severance payable to employees who qualify for a voluntary departure program.

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; additionally, 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 Company's Management, the amounts disclosed in the financial statements represent the most valid and useful reporting values, given the existing market conditions. Provision is not made for identified hazards the carrying value of which will not be realised.

3.7. Provisions

Litigations

Provisions for legal claims and other provisions are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and 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 Company established a provision for contingent liabilities on account of toxic effects accumulation protection, as well as for other environmental related costs.

3.8. Donations

Funds received as grant money are initially recorded as deferred income within liabilities in the balance sheet over in the period when donation money is expensed the income statement.

Cash grants covering one accounting period intended to cover the Company's expenses incurred in that period, in other words intended or to increase the Company's income, are recognized as income upon their receipt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company's tax return. The tax base presented in the tax return comprises profit as presented in the Company's income statement and any adjustments as defined by Serbian tax regulations.

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.

Transferred pricing

Valuation of effects between related legal entities during the period is carried out at transfer prices determined by the Supervisory Board or the Executive Board of the parent company established:

- the cost plus method increased for the usual mark-up for guaranteed electricity supply or supply to consumers purchasing electricity on an open market (the so called "Commercial supply") as performed by the Company to Business entity "EPS Snabdevanje" d.o.o., for the period 01 January - 31 May 2016
- the comparable uncontrolled price method for own electricity supply so as to cover losses in the distribution system,
- regulated prices (approved by the Energy Agency of the Republic of Serbia) for accessing the electricity distribution system,
- regulated prices (specified by Decrees issued by the Government of the Republic of Serbia) for supplying electricity from renewable sources.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Fair value of property, plant and equipment used for electricity related activities is stated at a revalued cost estimated by an independent appraiser as of 31 January 2016. Previous valuation of property, plant and equipment was performed on 1 January 2011 and 2007.

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12. Depreciation charge

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.

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 Property, Plant and Equipment

At each balance sheet date, the Group's management assesses whether there are any indications of impairment of property, plant and equipment, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Investments in related parties

Investments in related parties are stated at fair value established by an independent appraiser at Parent Company formation on 1 July 2005. The related parties financial statements prepared as at 31 December 2004 were the basis for fair value measurement.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Short-term investments and accounts receivable (continued)

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.

Impairment of receivables from the sales of electricity

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

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

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

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

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.

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 passed 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Financial instruments (continued)

Short-term investments and accounts receivable (continued)

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 2016

4. OPENING BALANCE ADJUSTMENTS, ADJUSTMENTS OF COMPARATIVE DATA OF
CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET

a) Effects on the Consolidated Balance Sheet

In RSD thousand

	1 January 2016, before adjustments	1 January 2016, adjustments	1 January 2016, adjusted	1 January 2015, before adjustments	1 January 2015, adjusted
Assets					
Non-current assets					
Intangible assets	5,105,579	-	5,105,579	4,222,887	4,222,887
Property, plant and equipment	949,015,863	331,503	949,347,366	934,668,242	934,668,242
Biological assets	420,391	-	420,391	392,991	392,991
Long-term financial investments	2,357,135	-	2,357,135	3,325,683	3,325,683
Other long-term financial investments	783,671	-	783,671	784,045	784,045
	<u>957,682,639</u>	<u>331,503</u>	<u>958,014,142</u>	<u>943,393,848</u>	<u>943,393,848</u>
Current assets					
Inventory	29,797,561	1,720	29,799,281	26,946,525	26,946,525
Receivables	50,107,949	(7,666)	50,100,283	45,904,548	45,895,356
Short-term financial investments	1,120,801	-	1,120,801	1,637,121	1,637,121
Cash and cash equivalents	45,937,129	-	45,937,129	31,181,332	31,181,332
Prepaid expenses and other accruals	6,480,432	(5,940,566)	539,866	3,041,888	2,443,085
	<u>133,443,872</u>	<u>(5,946,512)</u>	<u>127,497,360</u>	<u>108,711,414</u>	<u>108,103,419</u>
Total assets	<u>1,091,126,511</u>	<u>(5,615,009)</u>	<u>1,085,511,502</u>	<u>1,052,105,262</u>	<u>1,051,497,267</u>
Liabilities					
Equity					
Basic capital	360,141,927	-	360,141,927	360,011,201	360,011,201
Reserves	668	-	668	-	-
Revaluation reserves	537,676,267	(1,128,588)	536,547,679	547,186,288	546,057,700
Unrealized gain / (loss) from securities	(451,497)	-	(451,497)	(547,680)	(547,680)
Retained earnings / (loss)	(115,991,249)	2,092,694	(113,898,555)	(124,697,607)	(123,877,868)
	<u>781,376,116</u>	<u>964,106</u>	<u>782,340,222</u>	<u>781,952,201</u>	<u>781,643,353</u>
Long-term provisions and liabilities					
Long-term provisions	17,727,615	-	17,727,615	15,124,923	15,124,923
Long-term loans and borrowings	113,028,715	-	113,028,715	77,907,168	77,907,168
	<u>130,756,330</u>	<u>-</u>	<u>130,756,330</u>	<u>93,032,091</u>	<u>93,032,091</u>
Long-term liabilities					
Deferred tax liabilities	87,348,065	16,980	87,365,045	89,743,489	89,743,489
Short-term liabilities					
Short-term financial liabilities	26,673,610	-	26,673,610	29,018,403	29,018,403
Customer prepayments	3,428,017	-	3,428,017	3,038,822	3,038,822
Operating liabilities	17,241,393	(2,828)	17,238,564	23,259,275	23,256,447
Other short-term liabilities	5,411,968	676,300	6,088,268	6,265,886	6,568,682
Liabilities for VAT, other taxes, contributions and duties and accrued expenses	38,891,012	(7,269,566)	31,621,446	25,795,094	25,195,980
	<u>91,646,000</u>	<u>(6,596,095)</u>	<u>85,049,905</u>	<u>87,377,480</u>	<u>87,078,334</u>
Total Liabilities	<u>1,091,126,511</u>	<u>(5,615,009)</u>	<u>1,085,511,502</u>	<u>1,052,105,261</u>	<u>1,051,497,267</u>

Corrections of value added tax and prepaid expenses in the amount of RSD 5,940,566 thousand as at 1 January 2016, as well as correction of liabilities on value added tax, other public revenues and accruals in the amount of RSD 7,269,566 thousand on the aforementioned day, mostly relates to the elimination of deferred receivables for value added tax and declared liabilities for value added tax in the amount of RSD 5,603,173 thousand, among the entities of EPS Group, and the remaining liability is paid after the balance sheet date. The mentioned correction of comparative data was accomplished with the aim of harmonizing the presentation of receivables and liabilities on the basis of value added tax with the presentation of them in the current reporting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

4. OPENING BALANCE ADJUSTMENTS, ADJUSTMENTS OF COMPARATIVE DATA OF
CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET (continued)

b) Effects on the accumulated loss

	In RSD thousand
Accumulated loss as at 31 December 2015, before adjustments	(115,991,249)
Effects of opening balance adjustments on 01 January 2016	
- Effects of error corrections related to 01 January 2015	819,740
- Effects of error corrections related to the previously presented net profit for 2015	1,272,954
Total misstatement adjustments 01 January 2016	2,092,694
Adjusted accumulated loss as at 31 December 2015	(113,898,555)

For the effects of the opening balance adjustments, as stated above, the Company has performed reconciliation of comparative figures. The amounts of the adjustments relating to the periods that precede the period presented as a comparative figure (2015) are presented as a correction of the opening balance on the accumulated loss at the beginning of the earliest period indicated, on January 1, 2015.

c) Effects on the Consolidated Income Statement for the year ended on 31 December 2015

	For the Year ending 31 December 2015 before adjustments	Adjustments	In RSD thousand For the Year ending 31 December 2015 adjusted
OPERATING INCOME			
Income from the sale of goods and services	219,273,487	-	219,273,487
Other operating income	5,790,498	1,143,103	6,933,601
	225,063,985	1,143,103	226,207,088
OPERATING EXPENSES			
Cost of goods sold	(58,277)	-	(58,277)
Work performed by the entity and capitalized	5,366,956	-	5,366,956
Decrease/(increase) in inventories of unfinished goods and services	1,067,914	-	1,067,914
Cost of material	(48,598,474)	(247,311)	(48,845,785)
Cost of fuel and energy	(60,469,515)	-	(60,469,515)
Wages and salaries and other personal expenses	(39,591,648)	-	(39,591,648)
Amortisation/Depreciation/Provisioning	(50,136,182)	(230,873)	(50,367,055)
	(192,419,226)	(478,184)	(192,897,410)
OPERATING GAIN/(LOSS)	32,644,759	664,919	33,309,678
Financial income	14,901,309	-	14,901,309
Financial expenses	(29,973,621)	300,496	(29,673,125)
Other income	4,451,556	-	4,451,556
Other expenses	(12,492,468)	(3,403)	(12,495,871)
	9,531,535	962,012	10,493,547
OPERATING PROFIT/(LOSS) BEFORE TAX	9,531,535	962,012	10,493,547
Tax expense for the period	(4,865,567)	327,922	(4,537,645)
Deferred tax income/(expense) for the period	2,320,376	(16,980)	2,303,396
	6,986,344	1,272,954	8,259,298
NET PROFIT/(LOSS)	6,986,344	1,272,954	8,259,298

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

4. **OPENING BALANCE ADJUSTMENTS, ADJUSTMENTS OF COMPARATIVE DATA OF CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET (continued)**

d) **Effects on the result for the period ending on December 31, 2015**

	In RSD thousand 2015
Accumulated gain as at 31 December 2015, before adjustments	6,986,344
Cancellation of financial expenses based on interest attributable to the cost of assets qualifying in accordance with IAS 23	672,474
Correction of income tax	327,922
Recognition of revenues, on a systematic basis, based on international government donations from previous years	249,285
Recognition of revenues on the basis of pre-charge of fees and other expenditures to customers who are forced to collect the receivables for the delivered electricity through public enforcement officers	893,818
Recognition of expenditures on fees and other expenditures to public executors (forced collection of electricity)	(632,408)
Reversal of operating expenses on the basis of consulting services attributable to the purchase value of property, plant and equipment in accordance with IAS 16	114,926
Recognition of financial expenses based on subsequently received interest calculation	(373,504)
Cancellation of property insurance expenses	39,298
Recognition of deferred tax expenses	(16,980)
Other adjustments	(1,877)
	1,272,954
Adjusted accumulated gain as at 31 December 2015	8,259,298

5. **OPERATING INCOME**

	In RSD thousand Year ended 31 December	
	2016	2015
Income from sales of goods and services PE "Електрокосмет", Priština	868,925	791,803
Income from sales of goods and services to other legal entities – on domestic market:		
- Sale of electricity to households	89,646,133	87,469,775
- Sale of electricity to third parties	20,711,127	28,651,157
- Sale of electricity to licensed customers	7,381,992	7,054,163
- Sale of electricity to qualified customers	80,432,301	73,653,568
- Sale to PE Elektromreža Srbije	10,837,372	12,903,718
- Income from sales of coal	3,703,323	3,112,224
- Sale of technological steam and gas	72,091	173,033
- Sale of electricity on stock exchange	1,158,132	-
- Sale of heat energy	1,103,354	823,213
- Income from sales of services	1,600,576	989,910
- Income from sales of products	272,093	290,014
- Income from Public Media Service tax	186,245	-
	217,104,739	215,120,775
Income from sales of goods and services – on foreign market	3,743,986	3,360,909
	221,717,650	219,273,487

Income from sales of goods and services – electricity is recognised based on realized turnover with the end customers, residents of the Republic of Serbia as it follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

5. OPERATING INCOME (continued)

- To households and small customers, who are entitled to guaranteed supply at regulated prices,
- To other end customers purchasing electricity for their own needs for freely formed prices,
- To customers who possess a license for trading electricity at freely formed prices.

Namely, the provisions of Article 88 of the Law on Energy regulate that the prices of electricity and services provided by energy entities form freely, except

- the prices for access to the electricity transmission system;
- prices for access to the electricity distribution system;
- the prices of ancillary services: primary regulation, voltage regulation, free-start and

island work,

and paragraph 3 of the same article that they can also be regulated:

- the price of electricity for guaranteed supply
- the cost of power reserve for systemic services of secondary and tertiary regulation.

The Energy Agency once a year analyses the need to regulate the prices referred to in Article 88, paragraph 3 of the Law, based on the achieved level of competitiveness on the domestic electricity market, the achieved degree of protection of energy-endangered customers, the development of a regional electricity market and assessment of available cross-border capacities and prepares and publishes A report on the need for further regulation of these prices.

Regulated prices referred to in Article 88, paragraph 2, item 1) to 9) and paragraph 3 of the Law shall be published in the "Official Gazette of the Republic of Serbia", and the other regulated prices shall be published on the website of the energy entity and the Agency.

Regulated prices are determined on the basis of the methodology adopted by the Energy Agency, which specifies:

1. conditions and manner of determining the maximum amount of revenues of energy entities;
2. criteria and rules for allocating revenues to categories and groups of customers;
3. the elements for calculation and the method of calculation of the electricity received, ie natural gas and services rendered.

The maximum amount of income is determined in such a way as to cover the eligible costs of the business, as well as the corresponding return on the engaged funds and investments in performing the regulated energy activity. The methodology can specify different tariffs, depending on the amount of received energy and conditions of receipt, power, or capacity, seasonal and daily delivery dynamics, reception locations and methods of measurement and other characteristics.

Revenue from sales also includes revenues from the delivery of electricity to customers in the reserve supply in the amount of RSD 2,143,047 thousand (2015: RSD 5,352,992 thousand), in the event that the end buyer of electricity who does not have the right to a guaranteed supply has not found a new supplier after the termination of the supply contract with the previous one, unless the termination of the contract is a consequence of the non-execution of the obligation to pay the buyer or that he did not find a new supplier after the termination of the supply contract with the previous one, and belongs to the category of customers who can not suspend the delivery of electricity in the event of non-performance of obligations, in accordance with this Law on Energy.

The Government decided on the determination of suppliers that will perform spare supply of electricity to end customers who do not have the right to guaranteed supply 05 number: 312-11118 / 2016-1 dated 29.11.2016. In the period of two years from the day the decision was made, the company has appointed the Company for a reserve supplier, at a price of 55,84 EUR / MWh, excluding excise and VAT. The reserve supply price represents a unique amount in EUR / MWh and includes the price of electricity and the cost of balancing the system, and does not include the costs of access to the system and compensation for the incentive of privileged electricity producers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

5. OPERATING INCOME (continued)

Based on the Energy Law and Rules on the Transmission System Operation, in its own name and for its own account, as well as for the account of its subsidiaries, the Company entered into the Agreements with the Public Enterprise "Elektromreža Srbije" (hereinafter: "PE EMS"), an entity involved in energy supply and responsible for electricity transmission. The forgoing Agreements delineate the manner of providing system services so as to enable PE EMS, as the operator of the transmission system, to create all conditions necessary for the regular operation of the energy supply system and mutual supplies intended to provide for the systems separate from the rest of the interconnection, and to recover excessive power losses, i.e. losses of electricity that are not caused by the consumption of power, i.e. energy for heating elements in the transmission network due to the active resistance present in these elements. In addition, for the purpose of balancing the regulation area of the Republic of Serbia or securing sufficient amount of tertiary reserve, the Company agreed with PE EMS on a manner of mutual power deliveries in case of a major breakdown on a barter or commercial basis depending on the terms agreed between PE EMS and operators of neighbouring transmission systems.

In addition, the Company trades electricity at the stock exchange, which started operations on 17 February 2016 in Belgrade. On this basis, in 2016, the income amounted to RSD 1,158,132 thousand.

According to the Conclusion of the Government of the Republic of Serbia No. 021-6624 / 2009-002 of 30 November 2009, the Group engaged its capacities to provide electricity for the northern part of Kosovo and Metohija on the basis of which revenues were recognized in the amount of RSD 868,925 thousand (in the previous reporting period RSD 791,803 thousand).

Income from the sale of products and services abroad in 2016 in the amount of RSD 3,743,986 thousand (2015: RSD 3,360,909 thousand) relate to the sale of electricity in the amount of RSD 314,931 thousand to "Mješoviti holding Elektroprivreda Republike Srpske" in the amount of RSD 311,961 thousand and to "Elektroprivreda Crne Gore" in the amount of RSD 2,970 thousand (2015: "Mješoviti holding Elektroprivreda Republike Srpske" in the amount of RSD 296,529 thousand and to "Elektroprivreda Crne Gore" in the amount of RSD 274,268 thousand), RSD 2,967,209 thousand (2015: RSD 1,958,833 thousand) related to the sale of electricity on the foreign market via subsidiary PE "EPS Trgovanje" Slovenia, and income from the sale of services in the amount of RSD 461,846 thousand (2015: RSD 831,279 thousand) related to assembly and manufacture of spare parts and other metal structures services in Kolubara Metal in branch "Rudarski basen Kolubara", Lazarevac.

6. WORK PERFORMED BY THE ENTITY AND CAPITALISED

	In RSD thousand	
	2016	Year ended 31 December 2015
Income from activation and consumption of goods for own use	109,842	119,414
Income from activation and consumption of products for own use	3,190,328	3,778,744
Income from activation of services for own use	1,722,744	1,468,798
	5,022,914	5,366,956

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

	In RSD thousand	
	2016	Year ended 31 December 2015
Income from premiums, subventions, grants and donations	1,194,923	1,352,707
Income from connections of new customers	973,602	1,493,195
	2,168,525	2,845,902

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

7. INCOME FROM PREMIUMS, SUBVENTIONS, GRANTS, DONATIONS AND OTHER OPERATING INCOME (continued)

Income from premiums, subventions, grants and donations include:

- RSD 442,051 thousand, recognized on the basis of the funds received from the European Union Solidarity Fund in the name of financing the repair of damages, or for the compensation of extraordinary expenses in the branch of RB Kolubara, which were created as a result of the floods from 2014;
- RSD 105,003 thousand, recognized as the basis for excise tax refund on oil derivatives in the production of TENT branch;
- RSD 110,500 thousand, recognized on the basis of the co-financing of the Ministry of Environmental Protection of Environmental Protection Projects (note 15) on the reconstruction of electro filters TENT A1, A4 and TEK A5 in accordance with the Law on Environmental Protection.

Income from the connection of new customers include income calculated based on the issuance of the approval for connecting customers who are connected to the distribution system for the first time, which calculates the costs of the system and the costs of connection, income from customers already connected to the distribution system and increasing their engagement power above the previously agreed, income from consumers who are granted a separation on an object already connected to the distribution system and other similar income on that basis.

8. OTHER OPERATING INCOME

	In RSD thousand	
	Year ended	
	31 December	
	2016	2015
Income from compensations for damages from insurance	302,561	798,938
Income from rents	210,569	201,539
Other operating income	1,768,619	3,087,222
	2,281,749	4,087,699

Other operating income for the year 2016 in the amount of RSD 1,768,619 thousand mostly relate to income from sales of secondary raw materials, ashes and waste iron, resulting from the revitalization of the plant and equipment and technological process.

9. COST OF MATERIAL

	In RSD thousand	
	Year ended	
	31 December	
	2016	2015
Costs of basic materials	1,119,016	1,624,213
Cost of material for the maintenance and spare parts	8,236,645	9,187,526
Cost of small inventories and tyres	333,913	465,543
Materials for coal production	503,959	612,573
Cost of oil and lubricants	215,963	249,807
HTZ equipment	267,664	313,911
Cost of office and other overheads material	429,125	471,476
Other	207,728	176,461
	11,314,013	13,101,510

Cost of material for the maintenance and spare parts for the year ended 31 December 2016 in the amount of RSD 8,236,645 thousand mostly relates to the costs of material and spare parts of maintenance of property, plant and equipment in the amount of RSD 7,561,808 thousand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

10. COST OF FUEL AND ENERGY

	In RSD thousand	
	Year ended	
	31 December	
	2016	2015
Cost of electricity:		
- on domestic market	6,432,303	5,992,628
- on foreign market	513,451	1,094,603
Cost of transmission of electricity		
PE EMS, Beograd	18,113,896	20,486,756
Cost of other energy	81,529	109,214
Cost of coal purchased from third parties	1,223,088	2,753,556
Cost of oil and oil derivatives	3,419,069	4,314,956
Cost of gas used in production	1,492,655	992,562
	<u>31,275,991</u>	<u>35,744,275</u>

For securing regular supply of tariff customers in the Republic of Serbia, the Group has purchased electricity in the amount of RSD 6,432,303 thousand (2015: RSD 5,992,628 thousand) from third parties, which have licence for trading with electricity.

The Group concluded contract with Public Enterprise "Elektromreža Srbije", Beograd for accessing and using system for transmission of electricity and for providing power for pump-accumulating plants. For the reporting period, costs incurred in relation with abovementioned transmission of electricity were in the amount of RSD 18,113,896 thousand (2015: RSD 20,486,756 thousand).

The decision on determining the prices for access to the electricity transmission system shall be made by the transmission system operator with the consent of the Energy Agency of the Republic of Serbia. In the observed period, the prices from the tariff for access to the electricity transmission system, which was approved by the Energy Agency of the Republic of Serbia on 8 February 2013, were in force (Decision on granting approval for the decision on the price for access to the electricity transmission system no. 106/2013-D-I / 2).

Electricity purchase from non-residents of the Republic of Serbia in 2016 recognized in the amount of RSD 513,451 thousand (2015: RSD 1,094,603 thousand) in most part (RSD 512,031 thousand) refers to the purchase of electricity from the company "Mješoviti holding Elektroprivreda Republike Srpske".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

11. WAGES AND SALARIES AND OTHER PERSONAL EXPENSES

	In RSD thousand	
	Year ended	
	31. December	
	2016	2015
Cost of gross salaries and salary compensation	43,851,542	43,683,727
Taxes and contributions on wages and salaries paid by employer	13,125,502	13,343,107
Cost of special service and temporary service agreements	1,319,349	945,186
Fees paid based on other agreements	9,574	17,202
Fees paid to Supervisory and Managing Board members and other managing bodies	8,559	12,450
Cost of transportation of employees	1,511,714	1,529,790
Cost of per diem allowances and compensation of expenses on business trips	180,139	208,524
Cost of scholarship and loans	330,614	317,831
Cost of providing assistance to employees	301,410	280,013
Other personal expenses	3,199,327	131,685
	<u>63,837,730</u>	<u>60,469,515</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 the period 1 January – 31 March 2014 net salary was RSD 170,162.10
- for the period 1 April – 31 October 2014 net salary was RSD 171,012.87
- for the period 1 November 2014 – 31 December 2016 net salary was RSD 153,911.61

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 mostly relate to stimulative redundancy payments for voluntary termination of employment for a total of 1,519 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

12. COST OF PRODUCTION SERVICES

	In RSD thousand	
	Year ended	
	31 December	
	2016	2015
Production services	2,800,510	2,190,002
PTT services	1,328,527	1,369,706
Transportation services	165,268	279,036
Cost of maintenance services provided by third parties	10,960,732	10,868,515
Cost of information system maintenance	463,732	625,281
Rental cost	564,780	576,068
Advertising, fairs and marketing costs	92,363	120,140
Cost of research and development	138,538	154,036
Scientific research costs	458,148	629,118
Cost of services for various tests, analysis, preparing technical and project documentation, reports and projects	456,256	532,789
Work safety cost	100,903	94,465
Cost of production services and assistance	166,768	294,226
Labour costs for works on separator and crusher	10,695	10,037
Costs of meter reading services	1,080,173	771,729
Inspection, repair, calibration, inspection and replacement of the meters	62,680	37,089
Costs of transformation of electric energy services	433,879	465,527
Cost of services provided by student and youth organizations	555,738	536,806
Utility costs	828,623	568,179
Costs of other production services	13,409	901,604
Costs of environmental protection and site restoration from mining operation	94,793	167,126
	20,776,515	21,191,479

Cost of maintenance services provided by third parties for the year ended 31 December 2016 in the amount of RSD 10,960,732 thousand (2015: RSD 10,868,515 thousand) includes cost of current and investment maintenance of property, plant and equipment.

Research costs in the amount of RSD 458,148 thousand (2015: RSD 629,118 thousand) relates to research cost in the production and other research studies, projects, analysis and technical documentation.

Costs of other production services in the amount of RSD 828,623 thousand (2015: RSD 568,179 thousand) mostly relate to costs of project documentation, cost of connection and disconnection of meters, printing costs warnings and similar.

13. DEPRECIATION/AMORTISATION EXPENSE

	In RSD thousand	
	Year ended	
	31 December	
	2016	2015
Depreciation/amortization expense:		
- Intangible assets (note 23)	410,394	347,732
- Property, plant and equipment (note 23)	43,979,393	39,243,916
	44,389,787	39,591,648

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

14. COST OF LONG-TERM PROVISIONING

	In RSD thousand	
	2016	Year ended 31 December 2015
Environmental restoration	354,952	548,432
Retirement benefits and jubilee awards	151,316	4,355,693
Cost of other long-term provisioning:		
- Litigations	640,870	1,792,528
- Environmental protection	10,192	14,083
	<u>1,157,330</u>	<u>6,710,736</u>

Cost of provision for fees and other benefits of employees refers 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. The reduction in the cost of provisioning for benefits and other employee benefits in 2016 compared to 2015 is the result of a change in the calculation parameters of the present value of future expected payments on this basis and a decrease in the total number of employees involved in the calculation.

15. OTHER OPERATING EXPENSES

	In RSD thousand	
	2016	Year ended 31 December 2015
Water use charges	2,242,438	1,980,819
Construction land usage fee	-	52,024
Use of public interest resources fee	55,582	63,289
Environmental fee	5,899,387	3,361,467
Property Tax	1,084,722	1,098,077
Fee for use of riverbanks for business purposes	48,947	20,642
Other indirect taxes and contributions	2,801,061	1,475,845
Utilization of mineral resources	1,749,772	1,956,684
Entertainment expense	28,790	72,180
Cost of payment operations and banking services	349,583	396,050
Subscription cost	26,941	53,254
Legal and advocacy services	940,526	1,384,070
Other non-material services	1,545,145	2,321,228
Intellectual services	954,443	1,421,432
Other non-production services	1,590,372	1,575,857
Insurance costs	1,875,835	2,498,454
Student reimbursement cost	42,294	72,935
Health Service costs	168,866	153,975
VAT calculated on electricity losses	128,836	183,659
Membership fees	814,266	833,748
Costs of undertaken commitments	1,194	1,249
Costs of safeguarding property and archival materials	2,454	28,338
Security services, protection of buildings and work health and safety	1,519,811	1,459,564
	<u>23,871,265</u>	<u>22,464,840</u>

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

- in the amount of 20% from the full amount of the compensation up to December 31, 2008;

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

These funds are allocated to users of funds for the purpose of financing the protection and improvement of the environment, in accordance with the law, the national environmental protection program and strategic documents, as well as the list of priority infrastructure projects in the field of environment.

Other operating expenses include the financial consequences that the Group suffered in connection with the application of the Law on Protection of Competition ("Official Gazette of the Republic of Serbia", No. 51/09 and 95/13) and the imposed measure of protection of competition by the Commission for Protection of Competition of the Republic of Serbia in the form of a fine of RSD 330,180 thousand. The obligation on the basis of the imposed measure is due for payment in 2017.

16. FINANCIAL INCOME

	In RSD thousand	
	Year ended 31 December	
	2016	2015
Financial income arising from related parties	561,135	533,217
Other financial income	9,155	413,774
Interest income:		
- Trade receivables for electricity sold	7,035,575	9,636,304
- Short-term financial investments	1,052,249	983,400
- Public Media Service tax	64,239	-
- Other interest income	143,429	449,849
	<u>8,295,492</u>	<u>11,069,553</u>
Foreign exchange gains and gains on currency clause effect		
- Foreign exchange gains	1,954,577	2,790,323
- Gains on currency clause effects	107,484	94,442
	<u>2,062,061</u>	<u>2,884,765</u>
	<u>10,927,843</u>	<u>14,901,309</u>

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 1,052,249 thousand relates to the interest earned by placement of free cash in the reporting period deposited with commercial banks in the country (2015: RSD 983,400 thousand).

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17. FINANCIAL EXPENSES

	In RSD thousand	
	Year ended 31 December	2015
	2016	2015
Other financial expenses	709,322	489,647
Interest expense		
- on liabilities toward PE EMS	13,646	52,383
- Paris and London clubs of creditors	613,807	791,257
- on renegotiated liability for loan from National Republic of China – Deposit Insurance Agency	40,203	36,883
- other interest expenses (on all other items)	1,486,035	2,365,051
- Interest expense related to late payment of public duties	66,918	92,743
	2,220,609	3,338,317
Foreign exchange losses and losses on currency clause effect:		
- Costs of effects of foreign currency clause	58,507	146,937
- Losses on currency clause effect	4,914,511	8,059,865
	4,973,018	8,206,802
	7,902,949	12,034,766

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

Other financial expenses in the amount of RSD 709,322 thousand (2015: RSD 489,647 thousand), mostly in the amount of RSD 347,181 thousand, refer to Commitment fee and Management fee based on a loan arrangement with the European Bank for Reconstruction and Development, and based on Financing the restructuring project of the EPS Group in accordance with the intention of approximating the terms and conditions of business to the requirements of the open market business of the European Union. In addition, the significant amount of RSD 224,091 thousand refers to the Commitment fee under the credit arrangement with Exim Bank, and in the name of financing the investment in block B3 in the branch of the "Termoelektrane i kopovi Kostolac". The remaining part relates to financial expenses arising from loan arrangements with EBRD, KFW and JICA.

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

	In RSD thousand	
	Year ended 31 December	2015
	2016	2015
Income from adjustment in value of long-term investments	2,176	477,273
Collection and reduction in allowances for impairment		
- advances given for fixed assets	2,797	60,794
- advances given for inventories	2,039	18,919
- accounts receivable	8,556,762	1,010,826
	8,563,774	1,567,812

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.

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19. EXPENSES FROM ADJUSTMENTS OF OTHER ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS

	In RSD thousand Year ended 31 December	
	2016	2015
Expenses from value adjustments of:		
- Rescheduled receivables for electricity	-	7,980
- Advances given for inventories and services	1,508	346,972
- Trade receivables for electricity	14,255,487	16,858,235
- Other receivables	1,391,731	1,960,716
- Short-term financial assets	292	32,268
	15,649,018	19,206,171

Short-term receivables that are overdue for a longer period of time are impaired and expensed the amount of RSD 14,255,487 thousand (2015: RSD 16,858,235 thousand) as disclosed in note 3.17.

20. OTHER INCOME

	In RSD thousand Year ended 31 December	
	2016	2015
Gains on disposal of materials, spare parts, intangible assets, properties and equipment	62,553	107,976
Income from reversal of provision for employee benefits (Note 34)	477,585	524,109
Income from collected written-off receivables and reversal of impairment of receivables and short-term financial placements	844,387	252,223
Incomes from the diminution of liabilities (Note 38)	5,332,345	215,304
Incomes from reversal of long-term provisions for the protection of the environment (Note 34)	41,236	23,075
Subsequently approved discounts	85,900	41,424
Income from reversal of long-term provisions of litigations (Note 34)	434,845	207,684
Incomes from the contracted risk protection	1,383	858
Incomes from the diminution of liabilities for the protection of the environment	218,207	920,758
Surpluses	170,869	777,064
Incomes from the value adjustment of assets:		
- Property, plant and equipment	15,897,455	-
- Other effects from the asset value adjustments	232,977	1,274,895
Other incomes	127,031	106,186
	23,926,773	4,451,556

The stated amount of revenues from the decrease in liabilities of RSD 5,332,345 thousand includes the amount of RSD 5,113,300 thousand which refers to the realisation of the Conclusion of the Government of the Republic of Serbia 05 No. 312-11997 / 2016 from 15 December 2016. Namely, this document released part of the debt in the amount of RSD 5,113,300 thousand, established 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 (Notes 36 and 37).

As stated in note 23, based on the estimated fair value of property, plant and equipment, revenues in the amount of RSD 15,897,455 thousand were recognized on the basis of the reversal of previously recognized impairment of property, plant and equipment.

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20. OTHER INCOME (continued)

Income from inventory value adjustments is for the year ended 31 December 2015 in the amount of RSD 1,274,895 thousand includes RSD 1,123,728 thousand and it is recognized in accordance with the reversal of impairment losses of inventory (materials and spare parts), based on the report of Expert Committee.

21. OTHER EXPENSES

	In RSD thousand	
	Year ended 31 December	
	2016	2015
Losses on disposal of materials, intangible assets and property, plant and equipment	443,484	3,508,019
Losses on disposal of inventory	60,026	288,352
Impairment losses		
- property, plant and equipment	24,311,690	-
- construction in progress	2,647,659	
- intangible assets	1,539,580	
- effects on asset value adjustments	-	6,646
Impairment losses from inventory	948,738	1,251,131
Shortages	95,812	443,748
Losses on write off:		
- short-term receivables and rescheduled accounts receivable	5,316,997	837,771
- other assets	807	9,732
Expenses for contributions paid to employees from public enterprises from Kosovo and Metohija	5,319,407	5,162,399
Sponsorships and donations	170,634	135,834
Other expenses	981,956	852,239
	41,836,790	12,495,871

Losses on write-off and disposal of material and property, plant and equipment for the year ended 31 December 2015 in the amount of RSD 3,508,019 thousand includes RSD 2,615,285 thousand which relate to expense recognized in accordance with the stock-count performed as at 31 December 2015 in branch "Kostolac". Also, expense for the overhaul of thermal power plants B1 and B2 in branch "Termoelektrane Kostolac" in the amount of RSD 2,608,948 thousand is included in the total amount. Including that overhauls of this volume have not been carried out during 2016, there was a significant decrease in these expenses compared to the previous year.

As disclosed in Note 23, for each item of property, plant and equipment the carrying amount of which exceeds the fair value/ the recoverable amount, impairment expenses has been recorded.

Expense in the amount of RSD 5,319,407 thousand (2015: RSD 5,162,399 thousand) is recognized for salaries and salaries contribution for employees in public enterprises from Kosovo and Metohija.

22. INCOME TAX EXPENSE

a) Current tax

	In RSD thousand	
	Year ended 31 December	
	2016	2015
Tax expense for the period	9,677,896	4,537,645
Deferred tax income /(expense) for the period	(3,041,705)	(2,303,396)
	6,636,191	2,234,249

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22. INCOME TAX EXPENSE (continued)

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

	In RSD thousand Year ended 31 December	
	2016	2015
Profit/(loss) before tax	12,486,093	9,531,535
Opening balance adjustments	-	962,012
Opening balance after adjustments	12,486,093	10,493,547
Tax on profit/(loss) calculated at statutory tax rate - 15%	1,872,914	1,574,032
Tax effect on unrecognized expenses	6,355,696	1,955,842
Effect on capital gains	3,883	14,029
Tax effect on unrecognized revenues	(121,508)	(147,428)
Used tax losses	-	(108,688)
Used tax credits	(727,826)	(881,197)
Effect of disposed fixed assets	-	(400,808)
Effect of transfer prices	366,032	607,587
Effect of the estimate recorded in the income statement	(1,402,814)	-
Other	289,814	(379,120)
	6,636,191	2,234,249
в) Components of deferred tax liability	2016	2015
Balance as at 1 January	87,365,045	89,743,489
Adjustments in respect of prior years asset valuation	-	-
	87,365,045	89,743,489
Effects on income statement	(3,041,705)	(2,303,396)
Effects on balance sheet	14,245,628	-
Other	11,295	(75,048)
	98,580,263	87,365,045

For the determination of taxable profit, expenses are recognized in the amounts determined by the profit and loss accounts, in accordance with the IAS or IFRS, as well as the regulations governing accounting, other than expenses for which a different method of determining is prescribed by the Profit Tax Law, as also the expenses on the basis of the impairment of assets, as indicated in note 21.

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23. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets	In RSD thousand
Cost	
Cost amount at 1 January 2015, after opening balance adjustments	6,221,900
Additions	<u>1,243,535</u>
Transfers from CiP	789
Donations	137,247
Disposals	(172,681)
Other changes	(16,080)
Closing cost amount as at 31 December 2015	<u>7,414,710</u>
Additions	1,456,105
Impairment of the intangible assets	(1,977,653)
Disposals	(5,359)
Other changes	3,971
Closing cost amount as at 31 December 2016	<u>6,891,774</u>
Accumulated amortisation	
Accumulated amortisation amount at 1 January 2015, after opening balance adjustments	1,999,013
Amortisation charge (note 13)	<u>347,732</u>
Transfers within the group of accounts 02 of from other group of accounts	1,437
Disposals	(160,158)
Other changes	121,107
Closing cost amount as at 31 December 2015	<u>2,309,131</u>
Amortisation charge (note 13)	410,394
Impairment of intangible assets in progress	(438,073)
Disposals	(4,075)
Other changes	50,499
Closing cost amount as at 31 December 2016	<u>2,327,876</u>
Net book value	
Balance as at 31 December 2015	5,105,579
Balance as at 31 December 2016	4,563,898

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31 December 2016

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 equipme nt	Constructi on in progress	Investme nts in third party PP&E	Prepaymen ts for PP&E	Total
Costs										
Balance at 1 January 2015, after opening balance adjustments	51,649,750	573,476,822	1,207,852,598	667,950	392,991	374,092	66,771,882	1,396	10,884,198	1,912,071,679
Increase/additions	2,546,219	277,280	4,383,985	865	1,865	96,136	35,208,136	-	22,681,719	65,196,205
Transfer from other accounts within the group 02 or from other group accounts	(358)	(356,019)	1,184,978	-	-	(95,477)	(823,395)	-	-	(90,271)
Transfer from construction in progress (activation)	340,030	2,676,352	36,532,301	110,012	-	2,772	(39,661,467)	-	-	-
Investments conducted in own held (group account 62)	12,425	66,428	237,515	-	9,949	29	2,867,341	-	41,934	3,235,621
Cost of transferred assets from third parties (donations)	2,083	42,740	757,024	-	-	-	1,226	-	-	803,073
Transfers from CiP from third parties (donations)	105,262	113,004	477,775	-	-	-	(696,041)	-	-	-
Stockcount surpluses	-	24,073	94,126	-	4,173	-	-	-	-	122,372
Stockcount shortages	(65,933)	(181,744)	(59,751)	-	(9,475)	-	-	-	-	(316,903)
Sales	(11,349)	(22,103)	(234,442)	(208)	-	-	-	-	(164)	(268,266)
Disposals	(19,740)	(2,227,534)	(22,469,327)	-	(3,342)	(3,541)	(17,769)	-	(455)	(24,741,708)
Transfer of funds with third parties (assignments without compensation)	-	(347,616)	(141,351)	-	-	-	-	-	-	(488,967)
Other	569,737	2,205	(113,629)	-	24,230	749	181,590	-	(5,880,797)	(5,215,915)
Balance at 31 December 2015	<u>55,128,126</u>	<u>573,543,888</u>	<u>1,228,501,802</u>	<u>778,619</u>	<u>420,391</u>	<u>374,760</u>	<u>63,831,503</u>	<u>1,396</u>	<u>27,726,435</u>	<u>1,950,306,920</u>

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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	Investments in third party PP&E	Prepayments for PP&E	Total
Costs										
Balance at 31 December 2015	55,128,126	573,543,888	1,228,501,802	778,619	420,391	374,760	63,831,503	1,396	27,726,435	1,950,306,920
Adjustments of opening balance	-	-	-	-	-	-	331,503	-	-	331,503
Balance at 31 December 2015, restated	55,128,126	573,543,888	1,228,501,802	778,619	420,391	374,760	64,163,006	1,396	27,726,435	1,950,638,423
Increase/additions	2,853,286	142,725	2,805,055	-	-	41	37,689,967	-	3,980,051	47,471,125
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
Donations	-	23,242	895,543	-	-	-	-	-	-	918,785
Effects of the revaluation of the assets (revalorization)	19,063,203	91,063,394	158,443,054	-	-	96,279	(2,285,832)	-	-	266,380,098
Transfer of funds with third parties (assignments without compensation)	-	-	(404)	-	-	-	-	-	-	(404)
Stockcount surpluses	-	107,511	42,694	-	9,808	-	-	-	-	160,013
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)	(52,080)	14,517	-	-	(83)	(121,934)	-	(5,647,806)	(5,831,767)
Balance at 31 December 2016	77,504,018	666,080,406	1,403,418,821	759,898	423,147	479,880	77,057,340	1,396	26,058,680	2,251,783,586

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

	in RSD thousands									
	Land	Building	Machinery and equipment	Investment property	Biological assets	Other property, plant and equipment	Construction in progress	Investments in third party PP&E	Prepayments for PP&E	Total
Depreciation										
Balance at 1 January 2015, after opening balance adjustments	13,790,138	245,622,205	716,558,217	216,223	-	208,182	468,051	275	147,156	977,010,447
Depreciation charge (note 13)	2,241,547	6,813,174	30,174,673	5,931	-	8,533	-	58	-	39,243,916
Transfer from other accounts within the group 02 or from other group accounts	-	(249,267)	247,830	-	-	-	-	-	-	(1,437)
Accumulated amortization (depreciation) contained in transferred funds from third parties (donations)	-	-	234,847	-	-	-	-	-	-	234,847
Stockcount shortages	-	(64,119)	(49,453)	-	-	-	-	-	-	(113,572)
Sales	-	(8,568)	(210,528)	(91)	-	-	-	-	-	(219,187)
Disposals	(79,448)	(1,138,353)	(14,261,403)	-	-	(2,884)	-	-	(619)	(15,482,707)
Accumulated amortization (depreciation) contained in transferred funds from third parties (assignments without compensation)	-	(222,720)	(77,271)	-	-	-	-	-	-	(299,991)
Other	(239,915)	(18,168)	301,997	(1)	-	(883)	151,784	(1)	303,538	498,351
Balance at 31 December 2015, restated	<u>15,712,322</u>	<u>250,734,183</u>	<u>732,918,909</u>	<u>222,062</u>	<u>-</u>	<u>212,948</u>	<u>619,835</u>	<u>332</u>	<u>450,075</u>	<u>1,000,870,666</u>

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

	in RSD thousands									
	Land	Building	Machinery and equipment	Investment property	Biological assets	Other property, plant and equipment	Construction in progress	Investments in third party PP&E	Prepayments for PP&E	Total
Depreciation										
Balance as at 31 December 2015, restated	15,712,322	250,734,183	732,918,909	222,062	-	212,948	619,835	332	450,075	1,000,870,666
Depreciation charge (note 13)	3,071,900	7,743,095	33,153,022	8,568	-	2,751	-	57	-	43,979,393
Transfers within the 02 group of accounts or from other group of accounts	-	109,672	(412,606)	-	-	14,841	-	-	-	(288,093)
Transfers from CiP (activations)	-	-	-	-	-	-	-	-	-	-
Investments conducted in own held (group account 62)	-	-	-	-	-	-	-	-	-	-
Donations	-	-	6,586	-	-	-	-	-	-	6,586
Effects of the revaluation of the assets (revalorization)	107,028	58,501,575	123,930,619	-	-	(27,656)	361,827	-	-	182,873,393
Assignments of assets without compensation	-	-	(404)	-	-	-	-	-	-	(404)
Stockcount surplus	-	(5,562)	(7,553)	-	-	-	-	-	-	(13,115)
Stockcount shortage	-	(562)	(303,400)	-	-	-	-	-	-	(303,962)
Sales	-	(973)	(146,704)	(1,248)	-	-	-	-	-	(148,925)
Disposals	-	(207,833)	(8,005,179)	-	-	(2,868)	-	-	-	(8,215,880)
Impairment of advances given	-	-	-	-	-	-	-	-	412,055	412,055
Other	(40,395)	252,102	48,703	-	-	2,053	(383,727)	-	383	(120,881)
Balance as at 31 December 2016	<u>18,850,855</u>	<u>317,125,697</u>	<u>881,181,993</u>	<u>229,382</u>	<u>-</u>	<u>202,069</u>	<u>597,935</u>	<u>389</u>	<u>862,513</u>	<u>1,219,050,833</u>
Net book amount										
31 December 2015	39,415,804	322,809,705	495,582,893	556,557	420,391	161,812	63,543,171	1,064	27,276,360	949,767,757
31 December 2016	58,653,163	348,954,709	522,236,828	530,516	423,147	277,811	76,459,405	1,007	25,196,167	1,032,732,753

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

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.

The following valuation method was applied:

- Market approach for land, real estate properties for administrative use and real estate properties used for tourism and hospitality management.
- Cost approach for other assets engaged in energy generation and distribution, in line with accounting policies.

For each individual asset that was the subject of the revaluation the following was determined: replacement cost new and fair value, the remaining useful life, the residual value (where applicable and where the material amounts were significant), the annual depreciation amount for revaluated assets for the period from the date of revaluation to the end of the business year.

The net increase in the value of property, plant and equipment and intangible assets based on subsequent valuation amounts to RSD 83,506,705 thousand (increase in cost for RSD 266,380,098 thousand and an increase in accumulated depreciation for RSD 182,873,393 thousand). The net increase is the result of an increase in revaluation reserves by RSD 94,568,599 thousand (note 33), an increase in income from the reversal of previously recognized impairment for RSD 15,897,455 thousand (note 20) and a decrease in expenditures based on the impairment of property, plant and equipment for RSD 24,311,690 thousand (Note 21), construction in progress for RSD 2,647,659 thousand (note 21).

Advances given for property, plant and equipment, as at 31 December 2016, in the amount of RSD 25,196,167 thousand (December 31, 2015: RSD 27,276,360 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 November 20, 2013. The project is financed on the basis of a loan agreement concluded on December 17, 2014 between the Government of the Republic of Serbia, as a borrower, and Chinese Export-Import Bank, as the lender (note 36). With a balance as at 31 December 2016, the total amount of advances given on this basis amounts to RSD 20,689,797 thousand (2015: RSD 26,325,236 thousand).

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24. LONG-TERM FINANCIAL INVESTMENTS

	31 December 2016	In RSD thousand 31 December 2015
Investments in equity:		
- Investments in associates and joint ventures	406,457	406,457
- Investments in other legal entities	2,389,257	2,369,992
<i>Less: allowance for impairment of investments in other legal entities</i>	<u>(2,007,998)</u>	<u>(2,009,904)</u>
	<u>381,259</u>	<u>360,088</u>
Long-term financial investments in other related parties:	3,037	4,923
Long term loans given	819,804	1,158,628
<i>Less: current portion of long-term financial investments in other related parties:</i>	<u>(210,166)</u>	<u>(210,166)</u>
	<u>609,638</u>	<u>948,462</u>
Other long-term financial investments	7,026,921	766,219
<i>Less: allowance for impairment</i>	<u>(129,014)</u>	<u>(129,014)</u>
	<u>6,897,907</u>	<u>637,205</u>
	<u>8,298,298</u>	<u>2,357,135</u>

Share in capital of joined legal entities and joint ventures

The amount of RSD 406,457 thousand at 31 December 2016 consists of share in „Ibarske hidroelektrane“ d.o.o. Kraljevo in the amount of RSD 379,630 thousand, „Moravske hidroelektrane“ d.o.o. Beograd in the amount of RSD 26,266 thousand and Energija Novi Sad a.d. in the amount of RSD 560 thousand (Note 1).

Based on the closed international treaties, 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,
- PE 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 core capital and if it proves insufficient, the funds will be used from the borrowing that is to be approved to the Company by "SECI". This does not apply to the construction of hydro power plants. 75% of investments into the hydro power plant construction will be funded from borrowings to be obtained by the Company from a bank or another financial institution.

The objective of establishing the company is the construction of hydro power plants on the Ibar river, which will comprise ten hydro power plants with a total power of around 102 MW. The business entity "Ibarske hidroelektrane" d.o.o. was registered in the register with the competent authority on 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

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24. LONG-TERM FINANCIAL INVESTMENTS (continued)

November 2009), PE 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,
- PE 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 PE EPS paid the RSD counter value of EUR 98,000. During the 2014 monetary capital was paid in as follows: PE 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 PE 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 of other legal entities

As part of the equity of other legal entities in the amount of RSD 2,389,257 thousand (December 31, 2015: RSD 2,369,992 thousand), the largest part relates to the share in the capital of legal entities "HIP Azotara" d.o.o., Pancevo (RSD 982,401 thousand) and "HIP - Petrohemija" a.d. Pancevo (RSD 711,614 thousand) related to the conversion of the receivables for electricity into capital. For these two parties, the Group formed a value impairment in its entirety.

Other long-term financial investments

Other long-term financial investments in the amount of RSD 6,897,907 thousand, at impairment for the value adjustment, as of 31 December 2016, mostly relate to a guarantee deposit in the name of securing settlement of the obligation under the access service to the distribution system which is the company, as a supplier of electricity, is obliged to deposit it 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 2016 amounts to RSD 6,253,489 thousand. Those funds were deposited for period of 24 months with the annual interest rate of 3.9%

25. LONG-TERM RECEIVABLES

	31 December 2016	In RSD thousand 31 December 2015
Rescheduled trade receivables for electricity and services:		
- households	1,127,244	1,961,951
- legal entities	17,098,408	2,421,404
Placements to employees:		
- sold apartments	514,202	517,833
- housing loans	71,350	74,807
Receivables from the Privatization Agency of RS	62,347	62,516
Allowance for impairment		
- rescheduled trade receivables for electricity and services from households	(1,127,244)	(1,961,900)
- rescheduled trade receivables for electricity and services from legal entities	(15,524,438)	(2,223,395)
- receivables from the Privatization Agency of RS	(62,347)	(62,516)
- sold apartments and housing loans	(1,996)	(7,029)
	<u>2,157,526</u>	<u>783,671</u>

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25. LONG-TERM RECEIVABLES (continued))

Rescheduled trade receivables for electricity relate to receivables from households and legal entities with which an agreement on rescheduled loans was concluded in line with the decisions by the Board of Directors (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 matured 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 pay in the total amount of 120 instalments depending on the amount of the loan 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.

Placements to employees that relate to the sale of apartments in the amount of RSD 514,202 thousand as at 31 December 2016 (2015: RSD 517,833 thousand) relate 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.

Placements to employees for housing loans at 31 December 2016 in the amount of RSD 71,350 thousand (2015: RSD 74,807 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 2016	31 December 2015
Materials	13,635,583	13,699,438
<i>Less: Allowance for impairment</i>	(2,210,419)	(1,726,319)
	11,425,164	11,973,119
Spare parts	13,691,453	12,768,296
<i>Less: Allowance for impairment</i>	(1,605,101)	(1,392,049)
	12,086,352	11,376,247
Tools and inventory	948,699	967,878
<i>Less: Allowance for impairment</i>	(86,743)	(67,474)
	861,956	900,404
Total materials, spare parts, tools and inventory	24,373,472	24,249,770
Work in progress and ongoing services	331,898	328,108
Coal	2,017,388	2,034,598
Merchandise	881	942
	2,350,167	2,363,648
Fixed assets available for sale	1,825	1,825
Advances given for inventories and services	3,287,406	3,353,839
<i>Less: Allowance for impairment</i>	(296,108)	(169,801)
	2,991,298	3,184,038
	29,716,762	29,799,281

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26. INVENTORY (continued)

For the amount of inventories with slow-down turnover and inventories that cannot be technically and technologically used, a value adjustment has been made. The amount of inventories of materials and spare parts is imposed by intensive capital works on existing plants and equipment, circumstances related to procurement at the order and the need to maintain the appropriate level of inventory for regular servicing and repair of possible hazard events.

Spare parts that can be allocated to accounts of other assets (inventories used as components for the construction of property, plant or equipment in their own direction) are recognized as an expense over the useful life of that asset

27. TRADE RECEIVABLES

	31 December 2016	In RSD thousand 31 December 2015
Customers – other related parties (PE "Elektrokosmet")	8,533,875	7,103,891
<i>Less: allowance for impairment</i>	<u>(8,533,875)</u>	<u>(7,103,891)</u>
	-	-
Customers on domestic market:		
- sale of electricity – households	72,263,018	67,586,644
- sale of electricity – legal entities	55,667,093	52,469,070
- sale of electricity - companies in restructuring	5,735,125	6,761,509
- other – companies under restructuring and in bankruptcy	6,061,457	3,874,714
- sale of electricity – licenced customers	17,468	9,774
- sale of electricity – qualified customers	27,378,336	28,732,829
- PE "Elektromreža Srbije"	1,832,577	2,438,973
- sale of coal	2,447,284	2,330,705
- sale of heat and process steam	343,492	475,387
- sale of heat energy	642,704	204,128
- trade receivables for services	940,727	862,509
	<u>173,329,281</u>	<u>165,746,242</u>
<i>Less: allowances for impairment</i>		
- sale of electricity – households	(52,531,743)	(51,350,626)
- sale of electricity – legal entities	(48,343,439)	(47,348,657)
- sale of electricity - companies in restructuring	(5,735,100)	(6,761,509)
- other – companies under restructuring and in bankruptcy	(6,061,457)	(3,874,714)
- sale of electricity – licenced customers	(7,072)	(7,072)
- sale of electricity – qualified customers	(11,811,376)	(14,225,336)
- sale of coal	(1,926,822)	(1,847,226)
- sale of heat and process steam	(2,012)	(106,934)
- sale of heat energy	(439,610)	(425,321)
- trade receivables for services	(552,475)	(512,875)
	<u>(127,411,106)</u>	<u>(126,460,270)</u>
Customers on domestic market, net	<u>45,918,175</u>	<u>39,285,972</u>
Customers – foreign	5,559,364	6,684,114
<i>Less: allowances for impairment</i>	<u>(5,433,845)</u>	<u>(5,412,675)</u>
	<u>125,519</u>	<u>1,271,439</u>
Other trade receivables	842,412	685,896
<i>Less: Allowances for impairment</i>	<u>(548,505)</u>	<u>(580,502)</u>
	<u>293,907</u>	<u>105,394</u>
	<u>46,337,601</u>	<u>40,662,805</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 8,533,875 thousand (2015: RSD 7,103,891 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 2016	31 December 2015
Other receivables from specific operations	358,629	416,489
Receivables from tax for Public Media Service	1,754,937	-
<i>Less: Allowances for impairment</i>	(26,739)	(26,739)
	2,086,827	389,750

The Law on the Temporary Regulation of the Method of Tax Collection for the Public Media Service Tax for the Public Media Service (hereinafter: the fee) stipulates the obligation of JP Elektroprivreda Srbije, Belgrade, as well as long economic entities that supply end customers with electricity, to make a payment consolidated and simultaneously with the payment of the delivered electricity for the purpose of financing the public media service in the period from 1 January 2016 to 31 December 2018. The tax is a mandatory element of the monthly invoiced electricity bill for all suppliers who perform the activity of supplying end customers with electricity in the territory of the Republic of Serbia, and the monthly invoiced amount of the fee is paid by the supplier to the RTS and RTV accounts opened with the commercial bank no later than 15th of the month for the previous month.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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29. OTHER RECEIVABLES

	31 December 2016	In RSD thousand 31 December 2015
Receivables for interest		
- PE "Elektrokosmet", Pristina	315	168
- for electricity – households	1,311,767	1,216,632
- for electricity – legal entities	4,637,188	6,166,223
- for electricity - companies in restructuring	2,864,063	9,316,550
- other legal entities (banks and sale of heat and process steam)	587,205	511,481
- for Public Service Media	52,475	-
Receivables from insurance companies	11,855	98,673
Receivables from billing	223,198	166,268
Receivables from employees	2,078,076	1,819,655
Receivables from customers financed from the budget and overpaid taxes and contributions	497,956	3,127,399
Other receivables	554,611	496,917
	<u>12,818,709</u>	<u>22,919,966</u>
<i>Less: allowance for impairment</i>		
- <i>Receivables from interest</i> for electricity - households	(399,874)	(613,982)
- <i>Receivables from interest</i> for electricity – legal entities	(1,749,113)	(3,235,414)
- <i>Receivables from interest</i> for electricity - companies in restructuring	(2,864,063)	(9,316,550)
- <i>Receivables from interest</i> for electricity - other legal entities	(656,065)	(653,466)
Receivables from employees	(21,238)	(24,097)
Receivables for overpaid taxes and contributions	(27,646)	(28,729)
	<u>(5,717,999)</u>	<u>(13,872,238)</u>
	<u>7,100,710</u>	<u>9,047,728</u>

Receivables from budget users also include receivables based on the delivered electricity for energy-endangered customers, under special conditions, in the amount of RSD 160,478 thousand (December 31, 2015: RSD 963,345 thousand), in accordance with Article 10 of the Law on Energy. Namely, the energy-endangered buyer has the right for delivery of certain amounts of electricity with the reduction of the monthly payment obligation and suspension of delivery under special conditions; funds for realization of these rights are provided in the budget of the Republic of Serbia. These receivables include the payment of income tax in the amount of RSD 2,015,328 thousands, as per the final calculation of the income tax for the reporting year 2015, which was used in the reporting period in accordance with the tax regulations.

30. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2016	In RSD thousand 31 December 2015
Short-term loans and borrowings – domestic	192,512	206,377
Short-term rescheduled receivables for electricity	819,090	1,707,308
Current portion of long-term financial investments	1,055,551	645,048
Short-term deposits in domestic banks	12,682	6,509
Other short-term financial investments	48,929	312,957
<i>Less: allowance for impairment</i>	(842,467)	(1,757,398)
	<u>1,286,297</u>	<u>1,120,801</u>

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31. CASH AND CASH EQUIVALENTS

	In RSD thousand	
	31 December 2016	31 December 2015
Current accounts:		
- in RSD	44,737,161	35,227,553
- in foreign currency	10,323,830	9,977,916
	55,060,991	45,205,469
Deposits for securing letters of credit		
- in RSD	-	114,800
- in foreign currency	149,304	521,315
	149,304	636,115
Cash desk:	36,305	22,165
Special purpose cash funds	33,612	61,934
Securities – cash equivalents	16,868	11,437
Cash funds with limited use	674,648	674,648
<i>Less: allowance for impairment</i>	(674,639)	(674,639)
	55,297,089	45,937,129

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.

32. PREPAID EXPENSES AND OTHER ACCRUALS

	In RSD thousand	
	31 December 2016	31 December 2015
Prepaid expenses	49,652	56,005
Deferred expenses	1,618	3,954
Other accruals	1,299,800	479,907
	1,351,070	539,866

33. CAPITAL

Based on the data from Business Registers Agency, the owner's interest in the Parent Company as at 31 December 2016 and 31 December 2015 is presented in the table below:

	31 December 2016		31 December 2015	
	In RSD thousand	% equity share	In RSD thousand	% equity share
Republic of Serbia (monetary capital)	4,209,755	100%	4,209,755	100%
Republic of Serbia (contribution in kind)	360,365,896	100%	360,365,896	100%

The Parent Company's capital is fully state-owned. It is comprised of initial contributions, increased for the accumulated revaluation reserves, using the retail price index as of December 31, 2000 and the transition to the new accounting regulations of the Republic of Serbia as of January 1, 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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33. CAPITAL (continued)

Other capital

Other capital stated in the Parent Company's consolidated balance sheet as of 31 December 2012 in the amount of 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 (PE EPS) and EPS Distribucija Ltd as follows:

- for the year ending on 31 December 2015, in the amount of RSD 7,694,733 thousand (70% of profit) for PE 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.

The payment of distributed profits in favour of the Budget of the Republic of Serbia is done after obtaining the approval of the Government of the Republic of Serbia on the decision on the distribution made according to the dynamics determined by the Ministry of Finance. The decision on the distribution of profit was made at the session of 13 February 2017 (note 48).

The Group has settled obligation towards the Founder, in the amount of RSD 1,336,894 thousand pursuant to the Decision No. 12.01.64508 / 19-15 from 5 November 2015 on distribution of profit for the business year 2014, during 2016.

Changes in capital and reserves as at 31 December 2016 is disclosed below:

	In RSD thousand					
	Share capital	Legal reserves	Revaluation reserves	Unrealized gains/losses	Retained earnings	Total
Balance at 1 January 2015	360,011,201	-	547,186,288	(547,680)	(124,697,608)	781,952,201
Opening balance adjustments	-	-	(1,128,588)	-	819,740	(308,848)
Balance at 1 January 2015, after adjustments	<u>360,011,201</u>	<u>-</u>	<u>546,057,700</u>	<u>(547,680)</u>	<u>(123,877,868)</u>	<u>781,643,353</u>
Effects of fair value change in financial instruments	-	-	-	96,003	-	96,003
Disposal of property, plant and equipment	-	-	(9,492,858)	-	3,186,294	(6,306,564)
Profit/loss for the year	-	-	-	-	6,986,344	6,986,344
Profit adjustments	-	-	-	-	1,272,954	1,272,954
Payments to government of Republic of Serbia	-	-	-	-	(1,336,894)	(1,336,894)
Other	130,726	668	(17,163)	180	(129,385)	(14,974)
Balance at 31 December 2015	<u>360,141,927</u>	<u>668</u>	<u>536,547,679</u>	<u>(451,497)</u>	<u>(113,898,555)</u>	<u>782,340,222</u>
Net income/loss	-	-	-	-	5,849,902	5,849,902
Effects of revaluation of fixed assets	-	-	94,568,599	-	-	94,568,597
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)	-	-	(5,633)
Balance at 31 December 2016	<u>360,141,927</u>	<u>678</u>	<u>613,462,182</u>	<u>(460,605)</u>	<u>(106,886,277)</u>	<u>866,257,905</u>

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34. LONG-TERM PROVISIONS

	31 December 2016	In RSD thousand 31 December 2015
Long-term provision for environmental restoration	2,744,881	2,487,490
Long-term provision for retirement benefits and jubilee rewards	8,128,105	10,203,975
Long-term provision for litigations	4,037,686	4,478,672
Long-term provision for protection of natural environment	112,092	154,919
Other long-term provisions	115	598
	15,022,879	17,325,654

Long-term provision for environmental restoration in 2016 in the amount of RSD 2,744,881 thousand includes provision in the amount of RSD 2,611,555 thousand which relates to "Rudarski basen Kolubara" and provision in the amount of RSD 133,326 thousand, which relates to "Termoelektrane i kopovi Kostolac". These provisions were formed for the recultivation of the land or the bringing of the real estate in their original condition after the end of the exploitation.

Long-term provision for retirement benefits and jubilee awards are recorded as disclosed in notes 3.5. and 14.

Changes on the long-term provisions in 2016 and 2015 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
Balance at 1 January 2015	8,582,706	4,337,436	2,002,121	178,627	1,167	15,102,057
Opening balance adjustments	22,866	-	-	-	-	22,866
Balance at 1 January 2015, restated	8,605,572	4,337,436	2,002,121	178,627	1,167	15,124,923
Provisions charged to current expenses (Note 14)	4,355,693	1,792,528	548,432	14,083	-	6,710,736
Used long-term provision	(2,233,181)	(1,443,608)	(63,063)	(14,118)	(569)	(3,755,137)
Reversal of provision (Note 20)	(524,109)	(207,684)	-	(23,075)	-	(754,868)
Balance at 31 December 2015	10,203,975	4,478,672	2,487,490	154,919	598	17,325,654
Provisions charged to current expenses (Note 14)	151,316	640,870	354,952	10,192	-	1,157,330
Used long-term provision	(1,749,601)	(647,011)	(97,561)	(11,783)	(483)	(2,506,439)
Reversal of provision (Note 20)	(477,585)	(434,845)	-	(41,236)	-	(953,666)
Balance at 31 December 2016	8,128,105	4,037,686	2,744,881	112,092	115	15,022,879

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35. LONG-TERM LIABILITIES

	31 December 2016	In RSD thousand 31 December 2015
Liabilities convertible to equity	80,543	80,543
Long-term borrowings: domestic	29,663,095	55,117,387
<i>Less: Current portion of long-term borrowings: domestic</i>	<u>(2,657,286)</u>	<u>(10,761,942)</u>
	<u>27,005,809</u>	<u>44,355,445</u>
Long-term borrowings - foreign	100,000,215	73,242,699
<i>Less: Current portion of long-term borrowings: foreign</i>	<u>(7,773,936)</u>	<u>(4,569,429)</u>
	<u>92,226,279</u>	<u>68,673,270</u>
Financial leasing liabilities	-	22,554
Rescheduled public revenues liabilities:	40	40
<i>Less: Current portion</i>	<u>(40)</u>	<u>(40)</u>
	-	-
Other long-term liabilities		
- Rescheduled liabilities toward suppliers	230,530	298,188
- Other	6,480,704	129,240
<i>Less: Current portion of other long-term liabilities (Note 36)</i>	<u>(90,655)</u>	<u>(128,564)</u>
	<u>6,620,579</u>	<u>298,864</u>
	<u>125,933,210</u>	<u>113,430,676</u>

Long-term liabilities arising from domestic long-term borrowings, with maturity over 1 year, in amount of RSD 27,005,809 thousand comprise: loans granted by Paris club creditors in amount of RSD 24,151,078 thousand; liabilities regarding other refinancing loans in amount of RSD 2,851,952 thousand and RSD 2,778 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.

Long-term liabilities arising from foreign long-term borrowings, with maturity over 1 year, in amount of RSD 92,226,279 thousand comprise: loans from international financial organisations in amount of RSD 54,000,658 thousand; loans granted by State Governments in amount of RSD 38,225,621 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

31 December 2016

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.

4. Borrowings from the People's Republic of China through domestic banks

PE EPS recognized the liability arising from the borrowing facility used by PE 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, PE 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.

II 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 %.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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35. LONG-TERM LIABILITIES (continued)

II Borrowings from foreign governments (continued)

2. 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:

- 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.

3. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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35. LONG-TERM LIABILITIES (continued)

III Borrowings from International Financial Organizations

1. KfW

With the German financial organization KfW financial agreements were executed in the period from 2001 through 2015 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.
- 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

35. LONG-TERM LIABILITIES (continued)

III Borrowings from International Financial Organisations (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 2015 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.
- EUR 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% 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 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.
- 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

35. LONG-TERM LIABILITIES (continued)

III Borrowings from International Financial Organisations (continued)

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

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			198,000,000	
Komercijalna Banka a.d. Beograd - part II	2392/104-14; 2806/47-13	460,963		Company's own funds	31.10.	460,963

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.
- 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

35. LONG-TERM LIABILITIES (continued)

III Borrowings from International Financial Organisations (continued)

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 this 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.

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

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% (Note 20 and 37).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

35. LONG-TERM LIABILITIES (continued)

An overview of all borrowings as at 31 December 2016 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		31.12.2016.	01.01.2016.
	TOTAL LONG-TERM BORROWINGS (A+B)							129,663,310	128,360,086
A	FOREIGN CURRENCY BORROWINGS (I+II+III+IV)							129,663,310	124,051,161
I	REFINANCED BORROWINGS REALIZED FROM THE FUNDS OF: (1+2+3+4)							29,660,121	30,868,191
1	PARIS CLUB OF CREDITORS							25,999,267	26,850,080
1.1	AUSTRIA	EUR	2,627,578	30.09.2008.- 31.03.2024.	30.03. and 30.09.	Amarketrate/EUR+0. 6	Promissory notes	324,433	342,568
1.2	FRANCE	EUR	30,300,740	22.09.2008.- 22.03.2024.	22.03. and 22.09.	5,90	Promissory notes	3,741,302	3,950,428
1.3	GERMANY	EUR	20,099,738	22.09.2008.- 22.03.2024.	22.03. and 22.09.	5,50	Promissory notes	2,481,761	2,620,483
1.4	CANADA	EUR	43,994,379	22.09.2008.- 22.03.2024.	22.03. and 22.09.	Euribor/EUR +0,5%	Promissory notes	5,432,087	5,735,723
1.5	SWITZERLAND	CHF	60,822,764	22.09.2008.- 22.03.2024.	22.03. and 22.09.	6m Libor/CHF+0,5%	Promissory notes	6,985,330	7,336,208
1.6	USA	USD	4,928,785	22.09.2008.- 22.03.2024.	22.03. and 22.09.	5,375	Promissory notes	577,335	587,748
1.7	RUSSIA	USD	40,708,386	22.03.2006.- 22.03.2034.	22.03. and 22.09.	0,5517	Promissory notes	4,768,389	4,611,749
1.8	JAPAN	JPY	1,681,214,375	22.09.2008.- 22.03.2024.	22.03. and 22.09.	2,8390	Promissory notes	1,688,630	1,665,173
2	LONDON CLUB OF CREDITORS	USD	8,705,760	01.05.2010.- 01.11.2024.	01.05. and 01.11.	3,75 до 11/09 6,75 до 11/24	Promissory notes	1,019,752	1,089,549
3	IBRD	EUR	7,015,947	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	866,275	877,635
4	EZ	EUR	426,596	17.10.2012.- 17.10.2016.	17.04. and 17.10.	6mEuribor		52,673	51,885
5	Chinese borrowing	USD	14,702,264	21.07.2010.- 21.01.2021.	21.01. and 21.07.	LIBOR6M+1,3	Promissory notes	1,722,154	1,999,042

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

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		31.12.2016.	01.01.2016.
II LOANS GRANTED BY STATE GOVERNMENTS							40,216,253	35,249,577	
1	Polish borrowing	USD	14,498,394	2005,-2024,	15,06, and 15,12,	0,75% p,a,	Guarantee RS	1,698,274	1,987,800
2	Japanese – JICA	JPY	519,960,452	20,11,2016,-20,11,2026	20,05 and 20,11	0,6% 0,01%	Guarantee RS	522,254	485,203
3	Export-Import Bank of China	USD	253,314,679	21,07,2017-21,01,2027	21,01, and 21,07,	3% p,a,	Promissory notes	29,672,091	24,871,376
4	Export-Import Bank of China	USD	71,060,000	21,07,2022, 21,01,2035,	21,01, and 21,07,	2,5% p,a,	Promissory notes	8,323,634	7,905,198
III LOANS FROM INTERNATIONAL FINANCIAL ORGANIZATIONS							59,702,309	31,834,266	
1	KfW III (30 mil. EUR)	EUR	10,500,000	30,12,2010,-30,06,2020	30,06, and 30,12,	-	Guarantee RS	1,296,459	1,641,952
2	KfW IV (36 mil. EUR)	EUR	13,694,182	30,06,2013,-30,12,2019	30,06, and 30,12,	variable rate + mark-up of 1.75% p.a.	Guarantee RS	1,690,852	2,092,159
3	KfW V (70 mil. EUR)	EUR	20,026,734	31,12,2018,-30,06,2025	30,06, and 30,12,	variable rate + 0.5% p.a.	Guarantee RS	2,472,747	836,770
4	KfW VI (65 mil. EUR)	EUR	12,079,498	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 мил.	Guarantee RS	1,491,483	546,429
5	EBRD I (39,6 mil. EUR)	EUR	-	07,09,2005,-07,03,2016,	07,03, and 07,09	EURIBOR + 1%p,a,	Guarantee RS	-	304,706
6	EBRD II (60 mil. EUR)	EUR	12,123,800	07,03,2008,-07,09,2018,	07,03, and 07,09	EURIBOR + 1%p,a,	Guarantee RS	1,496,953	2,211,856
7	EBRD III (40 mil. EUR)	EUR	3,734,366	02,09,2013,-02,03,2022,	02,03, and 02,09	EURIBOR + 1%p,a,	Guarantee RS	461,091	523,882
8	EBRD IV(80 mil. EUR)	EUR	64,812,657	31,01,2015,-31,01,2023,	31,01, and 31,07	EURIBOR + 1%p,a,	Guarantee RS	8,002,568	6,657,678
9	EBRD V (45 mil. EUR)	EUR	1,143,630	30,04,2015,-31,10,2023,	30,04, and 31,10	EURIBOR + 1%p,a,	Guarantee RS	141,207	50,478
10	EBRD VI (200 mil. EUR)	EUR	200,000,000	15,06,2017,-15,06,2030,	15,06, and 15,12,	EURIBOR + 1% p,a,	Guarantee RS	24,694,460	-
11	EIB II (22 mil.EUR)	EUR	13,960,000	09,12,2010,-09,06,2027,	09,06, and 09,12; 25,05, and 25,11,	fixed for each tranche of 3.879% p.a. to 5.248% p.a.	Guarantee RS	1,723,673	1,876,285
12	Wb IDA (12,24 mil. SDR)	XDR	10,029,021	15,09,2015,-15,03,2025,	15,03, and 15,09	0,0	Guarantee RS	1,574,274	1,729,351
13	WB IBRD (157 mil.EUR)	EUR	118,703,075	01,11,2023, 01,05,2044,	01,05, and 01,11,	6M EURIBOR + variable mark-up which is currently 0.91%	Promissory notes	14,656,542	13,362,720

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35. LONG-TERM LIABILITIES (continued)

No.	BORROWING	Валута	ORIGINAL CURRENCY				Means of security	Equivalent value in thousands of RSD	
			Principal	Maturity date	Repayment schedule	Interest rate		31.12.2016.	01.01.2016.
IV	OTHER							84,628	26,099,129
1	EMS а.д. - IBRD	EUR	24,092	15,03,2005,- 15,12,2031,	15,03, и 15,09,15,06, и 15,12,	1/3-5,44i 2/3-euribor	Promissory notes	2,975	3,123
2	Tehnoexport	USD	81,653			-		81,653	77,549
3	AIK Banka a.d.	USD	-	23,05,2014,- 23,04,2016,	Monthly	1M EURIBOR + 6,95%p,a,	Promissory notes	-	233,117
4	AIK Banka a.d.	EUR	-	30,11,2013,- 31,05,2017,	31,05, and 30,11,	6M US dolar Libor + 7,8%	Promissory notes	-	1,460,114
5	OTP Banka a.d.	EUR	-	22,07,2016, 22,12,2018,	Monthly	6M EURIBOR + 3,252% p,a,	Promissory notes	-	1,216,261
6	Societe General Bank a.d.	EUR	-	22,07,2016, 22,12,2018,	Monthly	6M EURIBOR + 3,75% p,a,	Promissory notes	-	608,131
7	Komercijalna banka a.d.	EUR	-	22,07,2016, 22,12,2018,	Monthly	6M EURIBOR + 3,89% p,a,	Promissory notes	-	608,131
8	Societe General Bank a.d.	EUR	-	22,07,2016, 22,12,2018,	Monthly	6M EURIBOR + 3,95% p,a,	Promissory notes	-	608,131
9	Komercijalna banka a.d.	EUR	-	22,07,2016, 22,12,2018,	Monthly	6M EURIBOR + 3,98% p,a,	Promissory notes	-	1,216,261
10	Societe General Bank a.d.	EUR	-	22,07,2016, 22,12,2018,	Monthly	6M EURIBOR + 4,15% p,a,	Promissory notes	-	608,131
11	Alpha Bank a.d.	EUR	-	22,07,2016, 22,12,2018,	Monthly	6M EURIBOR + 4,25% p,a,	Promissory notes	-	608,131
12	Erste Banka a.d.	EUR	-	29,07,2016, 29,12,2018,	Monthly	6M EURIBOR + 4,25% p,a,	Promissory notes	-	1,216,261
13	Societe General Bank a.d.	EUR	-	29,07,2016, 29,12,2018,	Monthly	6M EURIBOR + 4,25% p,a,	Promissory notes	-	608,131
14	Komercijalna banka a.d.	EUR	-	29,07,2016, 29,12,2018,	Monthly	6M EURIBOR + 4,29% p,a,	Promissory notes	-	608,131
15	UniCredit Bank	EUR	-	26,07,2016, 26,12,2018,	Monthly	6M EURIBOR + 4,49% p,a,	Promissory notes	-	5,473,175
16	Vojvođanska banka a.d.	EUR	-	15,08,2016, 15,01,2019,	Monthly	6M EURIBOR + 4,50% p,a,	Promissory notes	-	1,824,392
17	Поштанска Штедионица а.д.	EUR	-	27,09,2016, 27,02,2019,	Monthly	6M EURIBOR + 4,58% p,a,	Promissory notes	-	608,131
18	AIK Banka a.d.	EUR	-	20,10,2016, 20,03,2019,	Monthly	6M EURIBOR + 4,72% p,a,	Promissory notes	-	608,131
19	Banca Intesa a.d.	EUR	-	20,10,2016, 20,03,2019,	Monthly	6M EURIBOR + 4,94% p,a,	Promissory notes	-	1,824,392
20	Alpha Bank A.E. London	EUR	-	31,10,2016, 31,03,2019,	Monthly	6M EURIBOR + 4,08% p,a,	Promissory notes	-	6,081,305

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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		31.12.2016.	01.01.2016.
Б	КРЕДИТИ У ДИНАРИМА						-	4,308,926	
1	UniCredit Bank	RSD	-	24,08,2015, 14,11,2017,	Monthly	1M BELIBOR + 3,15%p.a.	-	445,707	
2	UniCredit Bank	RSD	-	21,09,2015, 14,11,2017,	Monthly	1M BELIBOR + 3,35%p.a.	-	445,788	
3	Komercijalna banka a.d.	RSD	-	01,05,2014 - 01,04,2016,	Monthly	1M BELIBOR + 4,0%p.a.	-	398,333	
4	AIK Banka a.d.	RSD	-	13,07,2014 - 13,06,2016,	Monthly	1M BELIBOR + 3,5%p.a.	-	750,000	
5	Komercijalna banka a.d.	RSD	-	01,05,2014 - 01,04,2016,	Monthly	1M BELIBOR + 3,75%p.a.	-	416,667	
6	Komercijalna banka a.d.	RSD	-	18,12,2014,- 18,11,2016,	Monthly	1M BELIBOR + 1,27%p.a.	-	229,167	
7	Banca Intesa a.d.	RSD	-	08,12,2014,- 08,11,2016,	Monthly	1M BELIBOR + 3,48% p.a.	-	1,050,347	
8	UniCredit Bank	RSD	-	18,12,2014,- 18,11,2016,	Monthly	1M BELIBOR + 1,238% p.a.	-	572,917	
	CURRENT PORTION OF LONG TERM LOANS						Promissory notes	10,431,222 15,331,371	
A	Foreign currency loans						Promissory notes	10,431,222 11,415,240	
B	Loans in RSD						Promissory notes	- 3,916,131	
	TOTAL LONG TERM PORTION							119,232,089 113,028,718	
A	Foreign currency loans							119,232,089 112,635,921	
B	Loans in RSD							- 392,797	

Analysis of approved loans withdrawals

In order to finance the specific projects to increase production capacities in thermoelectric and hydroelectric plants, in the period from 2001 to 2014 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:

<u>Creditor</u>	<u>Currency</u>	<u>Contracted Amount</u>	<u>Draw Down Amount</u>
EBRD I	EUR	39,598,821	39,598,821
EBRD II	EUR	59,864,143	59,864,143
EBRD III	EUR	40,000,000	4,824,498
EBRD IV	EUR	80,000,000	76,201,164
EBRD V	EUR	32,700,000	1,354,898
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	34,265,614
KfW V	EUR	70,000,000	20,026,734
KfW VI	EUR	65,000,000	12,079,498
IDA	SDR	11,798,849	11,798,849
JICA	JPY	28,252,000,000	575,873,308
EXIM Bank of China I	USD	293,000,000	253,314,679
EXIM Bank of China II	USD	608,260,000	71,060,000
Borrowing from the Republic of Poland	USD	49,996,617	49,996,617
WB IBRD	EUR	157,107,000	118,703,075

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35. LONG-TERM LIABILITIES (continued)

Analysis of long term loans maturities

	In RSD thousand		
	As at 31 December 2016	As at 1 January 2016	Index
From one to five years	46,058,158	53,579,727	86
Over five years	73,173,931	59,448,991	123
Total	119,232,089	113,028,718	105

Analysis of borrowings per requested discharging currency as at 31 December 2016

Currency	Amount in Currency	31 December 2016
EUR	520,166,309	64,226,131
USD	386,291,450	45,248,365
CHF	55,806,280	6,409,200
YPU	1,950,723,158	1,959,328
XDR	8,849,137	1,389,065
Total		119,232,089

36. SHORT-TERM FINANCIAL LIABILITIES

	In RSD thousand	
	31 December 2016	31 December 2015
<i>Liabilities in foreign currency</i>		
Current portion of long-term loans – foreign	7,773,936	4,569,429
Current portion of long term-loans – domestic	2,657,286	6,845,811
Other short-term financial liabilities	3,016	11,199,242
	<u>10,434,238</u>	<u>22,614,482</u>
<i>Liabilities in RSD</i>		
Current portion of long-term liabilities	-	3,916,131
Current portion of rescheduled liabilities	40	40
Current portion of other long-term liabilities	90,655	128,564
Other short-term financial liabilities in RSD	82,794	14,393
	<u>173,489</u>	<u>4,059,128</u>
	<u>10,607,727</u>	<u>26,673,610</u>

Short-term liabilities arising from current portion of foreign long-term loans in amount of RSD 7,773,936 thousand comprise: loans from international financial organisations in amount of RSD 5,701,650 thousand; loans granted by State Governments in amount of RSD 1,990,632 thousand and RSD 81,654 thousand regarding other liabilities.

Short-term liabilities arising from current portion of domestic long-term loans in foreign currency in amount of RSD 2,657,286 thousand comprise: loans granted by Paris club creditors in amount of RSD 1,848,189 thousand; liabilities regarding other refinancing loans in amount of RSD 808,901 thousand and RSD 195 thousand regarding other liabilities. Part of the current maturity of long-term loans in the country is settled as stated in Note 35.

In the previous reporting period, based on 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, and according to the accounts related to goods trading between the former USSR and the former SFRY, the liability for the supply of goods and services for revitalization of HPP "Đerdap1" is presented in the total amount of USD 100,511,390. Conclusion of the Government of the Republic of Serbia 05 No. 312-11997 / 2016 dated 15 December 2016, the Government of the RS recommended to the Public Company "Elektroprivreda Srbije" to release the debt on the basis of the delivered electricity and coal to the Railways of Serbia, as of 31 December 2015 in the total amount of RSD 5,113,300,906.38 (of which: principal is RSD 4,448,036.56, interest is RSD 665,246,084). With the same act, the Government of the Republic of

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36. SHORT-TERM FINANCIAL LIABILITIES (continued)

Serbia pledged that if the Public Enterprise "Elektroprivreda Srbije" releases the debt from item 1 of this conclusion and provides proof thereof in the form of decision and credit note, the Republic of Serbia - the Ministry of Finance will release part of the debt to the Public Company "Elektroprivreda Srbije" formed on the basis 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 for accounts relating to goods trading between the former USSR and the former SFRY dated 27 April 2007 in the total amount of RSD 5,113,300,906.38 (USD 45,963,577.45 at the middle exchange rate of the National Bank of Serbia on December 31, 2015).

Following the fulfilment of the above conditions, the Company made the release of liabilities in the amount of RSD 5,113,300 thousand in favor of revenues, and for the remaining amount of RSD 6,389,474 thousand, (USD 54,547,813) reclassified from short-term to long-term financial liabilities, based on Agreement on mutual regulation of obligations and claims under 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 according to the accounts related to goods traffic between the former USSR and the former SFRY, concluded with the Ministry of Finance after the reporting date.

37. ADVANCES RECEIVED

	In RSD thousand	
	31 December 2016	31 December 2015
Customer prepayments:		
- In RSD	2,846,414	1,890,166
- In foreign currency	1,327,703	1,297,554
Received deposits and down payments	286,249	98,308
Received prepayments from individuals in RSD	168,270	141,989
	4,628,636	3,428,017

Of the total amount declared for foreign currency advances, the amount of RSD 1,317,972 thousand as of December 31, 2016 (December 31, 2015: RSD 1,258,836 thousand) refers to the advance received from China Machinery Engineering Corporation (CMEC) based on the project "Kostolac B".

38. LIABILITIES FROM OPERATIONS

	In RSD thousand	
	31 December 2016	31 December 2015
Trade payables:		
- Other related parties	13,318,947	9,783,444
- PE "Elektromreža Srbije"	2,066,403	1,931,097
	15,385,350	11,714,540
Trade payables - foreign	4,940,118	4,944,240
Other trade payables:		
- expropriation liabilities	79,485	85,201
- liabilities for compensation for damages from operations	11,105	11,760
- other	614,376	482,823
	704,966	579,784
	21,030,434	17,238,564

The Law on the terms of settlement of monetary obligations in commercial transactions regulates the settlement of financial obligations in commercial transactions between the public sector and economic entities, between economic entities, or between public sector entities, in order to prevent the settlement of outstanding liabilities within the deadline. Part of these obligations will be settled from borrowed funds as indicated in Note 35.

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39. OTHER CURRENT LIABILITIES

	31 December 2016	In RSD thousand 31 December 2015
Liabilities for fees for Public Media Service	1,015,124	-
Liabilities for unpaid wages and salaries, net	1,359,232	1,453,466
Liabilities for taxes and contributions:		
- charged to employee	551,719	591,577
- charged to employer	393,707	588,666
Other liabilities for wages and salaries	31,481	29,112
Liabilities for interests and financing costs	280,610	426,274
Liabilities for dividends and profit share	19,819	1,336,894
Other liabilities towards employees	3,166,186	27,539
Liabilities towards members of Executive and Supervisory board	436	590
Liabilities towards individuals	62,521	48,510
Liabilities from specific operations	321,504	321,504
Liabilities for matured loans from Ministry of Finance of the Republic of Serbia	397,223	397,223
Other liabilities	478,435	866,913
	8,077,997	6,088,268

Liabilities towards employees include the amount of RSD 3,106,891 thousand related to the undertaken obligation of the Company to pay compensation to employees who have opted for a reciprocal termination of employment or retirement, which are settled after the balance sheet date.

As disclosed in Note 28, liabilities to the public media service are settled after the balance sheet date.

40. VAT LIABILITIES

	31 December 2016	In RSD thousand 31 December 2015
Deferred VAT	2,344,693	2,533,342
Liabilities for calculated VAT	2,236,574	3,167,242
	4,581,267	5,700,584

41. LIABILITIES FOR TAXES, CONTRIBUTIONS AND OTHER DUTIES

	31 December 2016	In RSD thousand 31 December 2015
Liabilities for Income tax	7,158,819	1,565,128
Liabilities for taxes, customs and other duties charged to expenses	3,251,774	2,662,417
Water use charges (land)	543,688	795,801
Special charge for protection and improvement of environment	2,081,620	768,451
Other liabilities for taxes, customs and other duties charged to expenses	557,291	68,323
	13,593,192	5,860,120

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31 December 2016

41. LIABILITIES FOR TAXES, CONTRIBUTIONS AND OTHER DUTIES (continued)

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.

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

42. ACCRUED EXPENSES

	31 December 2016	In RSD thousand 31 December 2015
Received donations:		
- from the Government of RS and other state authority	2,245,630	2,553,093
- foreign	6,951,452	6,585,335
- domestic	11,293,793	9,823,518
	20,490,875	18,961,946
Other accruals	792,650	405,530
Accrued expenses	1,314,874	680,701
Deferred purchase costs	16,922	12,565
	22,615,321	20,060,742

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.

Changes in deferred revenue which pertain to received donations during 2016 and 2015 are the following:

	31 December 2016	In RSD thousand 31 December 2015
Opening balance	19,856,102	20,182,711
Opening balance adjustments	-	(1,143,441)
Restated opening balance	19,856,102	19,039,270
Current year donations	2,218,104	1,311,187
Transfer to revenues	(1,089,920)	(1,141,884)
Direct write-offs	(2,895)	-
FX rate differences	1,763	-
Other	(492,279)	(246,627)
Closing balance	20,490,875	18,961,946

43. OFF BALANCE SHEET ASSETS AND LIABILITIES

	31 December 2016	In RSD thousand 31 December 2015
Liabilities for issued guarantees and other types of collateral for liabilities of the Group	108,759,120	176,429,877
Material for processing	49,788	145,566
Receivables for received guarantees and other types of collateral for receivables	50,235,369	87,589,073
Written off equity investments	111,269	203,742
	159,155,546	264,368,258

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:

	31 December 2016	In RSD thousand 31 December 2015
Indebtedness a)	136,460,394	140,023,743
Cash and cash equivalents	55,297,089	45,937,129
Net indebtedness	<u>81,163,305</u>	<u>94,086,614</u>
Capital b)	<u>866,257,905</u>	<u>782,340,222</u>
Total debt to equity ratio	<u>0.09</u>	<u>0.12</u>

a) 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

	31 December 2016	In RSD thousand 31 December 2015
Financial assets		
Equity investments	787,716	766,545
Long-term financial investments	7,510,582	1,590,590
Long-term receivables	2,157,526	783,671
Trade receivables	46,337,601	40,662,805
Short-term financial assets	1,286,297	1,120,801
Other receivables	9,187,537	4,290,385
Cash and cash equivalents	55,297,089	45,937,129
	<u>122,564,348</u>	<u>95,151,926</u>
Financial liabilities		
Long-term borrowings	119,232,088	113,028,715
Other long-term liabilities	6,620,579	321,418
Trade payables	21,030,434	15,200,838
Current portion of long-term borrowings	10,431,222	15,331,371
Short-term financial liabilities	176,505	11,342,239
Other liabilities	1,156,268	957,081
	<u>158,647,096</u>	<u>156,181,662</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:

	Assets		Liabilities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
EUR	83,214,616	136,278,390	604,706,941	587,057,479
JPY	-	112,530,351	2,214,262,553	2,341,330,406
SEK	567	564	-	-
CHF	90,118	89,723	60,914,167	65,317,242
GBP	2,065	2,886	-	-
USD	70,862,685	327,748,424	494,960,177	537,103,661
XDR	10,029,020	11,208,905	12,466,906	11,233,659
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 2016	In RSD thousand 31 December 2015
EUR	5,387,920	(54,826,503)
JPY	222,403	(2,059,411)
SEK	2	7
CHF	698,922	(7,339,596)
GBP	(30)	476
USD	(80,243)	(23,290,100)
XDR	(2,415,389)	(3,819)
DKK	53	-
	<u>3,813,638</u>	<u>(87,518,947)</u>

Current year profit

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 2016	In RSD thousand 31 December 2015
Financial assets		
<i>Interest-free</i>		
- Equity-investments	787,716	766,545
- Long-term financial assets	6,891,733	637,205
- Trade receivables	-	(696,244)
- Other receivables	2,682,828	(236,898)
- Cash and cash equivalents	288,609	724,671
	<u>10,650,886</u>	<u>1,195,279</u>
<i>Fixed interest-rate</i>		
- Long-term financial investments	2,157,526	3,452,032
- Short-term financial investments	837,885	1,713,817
- Long-term financial assets	6,174	-
- Cash and cash equivalents	55,008,480	45,212,458
	<u>58,010,065</u>	<u>50,378,307</u>
<i>Variable interest-rate</i>		
- Long-term financial investments	612,675	953,385
- Long-term receivables	-	(2,668,361)
- Trade receivables	46,337,601	41,359,049
- Short-term financial investments	448,412	(593,016)
- Other receivables	6,504,709	4,527,283
	<u>53,903,397</u>	<u>43,578,340</u>
	<u>122,564,348</u>	<u>95,151,926</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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 2016	In RSD thousand 31 December 2015
Financial liabilities		
<i>Interest-free</i>		
- Trade payables	13,791,760	8,239,810
- Other liabilities	859,554	303,180
- Short-term financial liabilities	-	620
	<u>14,651,314</u>	<u>8,543,610</u>
<i>Fixed interest rate</i>		
- Long-term borrowings	11,109,496	6,835,753
- Current portion of long-term borrowings	897,937	5,398,985
- Short-term financial liabilities	23,313	61,222
	<u>12,030,746</u>	<u>12,295,960</u>
<i>Variable interest rate</i>		
- Long-term borrowings	108,122,592	106,192,962
- Other long-term liabilities	6,620,579	321,418
- Trade payables	7,238,674	6,961,028
- Other liabilities	296,714	653,901
- Current portion of long-term borrowings	9,533,285	9,932,386
- Short-term financial liabilities	153,192	11,280,397
	<u>131,965,036</u>	<u>135,342,091</u>
	<u>158,647,096</u>	<u>156,181,662</u>

Sensitivity analysis presented in further text 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 2016 in amount of RSD 780,616 thousand (31 December 2015: RSD 917,546 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 enlarged 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 2016

44. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

Trade receivables management (continued)

Structure of trade receivables as at 31 December 2015 is presented in the following table:

	Gross exposure	Provided amount	In RSD thousand Net exposure
			<i>Restated</i>
Not due trade receivables	25,494,554	(989,394)	24,505,160
Overdue, provided trade receivables	138,567,944	(138,567,944)	-
Overdue, not provided trade receivables	16,157,645	-	16,157,645
	<u>180,220,143</u>	<u>(139,557,338)</u>	<u>40,662,805</u>

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

	Gross exposure	Provided amount	In RSD thousand Net exposure
Not due trade receivables	25,269,861	(450,486)	24,819,375
Overdue, provided trade receivables	141,491,196	(141,476,845)	14,351
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>

Not due trade receivables

Not due trade receivables disclosed as at 31 December 2016 in amount of RSD 24.819.375 thousand (31 December 2015: RSD 24.505.160 thousand).

Overdue, provided trade receivables

In previous periods, the Group has provided for receivables impairment for overdue receivables in amount of RSD 141,476,845 thousand (31 December 2015: RSD 118,499,374 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:

	31 December 2016	In RSD thousand 31 December 2015
Less than 30 days	5,446,584	4,092,470
31 - 60 days	10,254,667	7,705,182
Over 60 days	5,802,624	4,359,993
	<u>21,503,875</u>	<u>16,157,645</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

44. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

Trade receivables management (continued)

Trade payables management

Trade payables as at 31 December 2015 are disclosed in amount of RSD 21,030,434 thousand (31 December 2015: RSD 17,238,564 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 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	2,789,993	-	181,444	-	7,679,449	10,650,886
Fixed interest rate	55,008,480	837,885	-	6,174	2,157,526	58,010,065
Variable interest rate	47,584,134	228,244	5,478,344	612,675	-	53,903,397
	<u>105,382,607</u>	<u>1,066,129</u>	<u>5,659,788</u>	<u>618,849</u>	<u>9,836,975</u>	<u>122,564,348</u>

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31 December 2016

Financial assets maturity (continued)

	In RSD thousand					Total
	31 December 2015					
	Less than one month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Interest-free	6,288,690	5,398,529	4,213,308	73,142	1,345,896	17,319,565
Fixed interest rate	32,863,822	-	-	-	4,457,724	37,321,546
Variable interest rate	11,569,449	6,422,705	20,144,741	953,385	1,428,201	40,518,481
	<u>50,721,961</u>	<u>11,821,234</u>	<u>24,358,049</u>	<u>1,026,527</u>	<u>7,231,821</u>	<u>95,159,592</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.

Financial liabilities maturity

	In RSD thousand					Total
	31 December 2016					
	Less than one month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Interest-free	3,469,286	11,182,028	-	-	-	14,651,314
Fixed interest rate	-	-	921,250	-	11,109,496	12,030,746
Variable interest rate	6,292,940	1,242,448	9,686,477	98,616,637	16,126,534	131,965,036
	<u>9,762,226</u>	<u>12,424,476</u>	<u>10,607,727</u>	<u>98,616,637</u>	<u>27,236,030</u>	<u>158,647,096</u>

	In RSD thousand					Total
	31 December 2015					
	Less than one month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Interest-free	4,844,114	2,323,314	1,785,298	-	1,249,018	10,201,744
Fixed interest rate	296,049	42,096	1,489,155	17,245,336	35,359,574	54,432,210
Variable interest rate	16,699,426	6,593,098	11,880,288	39,255,827	16,745,565	91,174,204
	<u>21,839,589</u>	<u>8,958,508</u>	<u>15,154,741</u>	<u>56,501,163</u>	<u>53,354,157</u>	<u>155,808,158</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

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 2016 and 31 December 2015

	31 December 2016		In RSD thousand 31 December 2015	
	Net book value	Fair value	Net book value	Fair value
Financial assets				
Equity investments	787,716	787,716	766,545	766,545
Long-term financial assets	7,510,582	7,510,582	1,590,590	1,590,590
Long-term receivables	2,157,526	2,157,526	783,671	783,671
Trade receivables	46,337,601	46,337,601	40,671,997	40,671,997
Short-term financial assets	1,286,297	1,286,297	1,120,801	1,120,801
Other receivables	9,187,537	9,187,537	4,288,859	4,288,859
Cash and cash equivalents	55,297,089	55,297,089	45,937,129	45,937,129
	<u>122,564,348</u>	<u>122,564,348</u>	<u>95,159,592</u>	<u>95,159,592</u>
Financial liabilities				
Long-term borrowings	119,232,088	119,232,088	113,028,715	113,028,715
Other long-term liabilities	6,620,579	6,620,579	321,418	321,418
Trade payables	21,030,434	21,030,434	15,200,838	15,200,838
Current portion of long-term loans	10,431,222	10,431,222	15,331,371	15,331,371
Short-term financial liabilities	176,505	176,505	11,342,239	11,342,239
Other liabilities	1,156,268	1,156,268	583,577	583,577
	<u>158,647,096</u>	<u>158,647,096</u>	<u>155,808,158</u>	<u>155,808,158</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 2016, total estimated value of litigations against the Group amounted to RSD 5,604,936 thousand. The final outcome of these litigations is uncertain. As disclosed in Note 34, as at 31 December 2016, the Group formed a provision for potential losses that may arise out of those litigations in the total amount of 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 2016

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	Agreed amount	Realized until 31 December 2016	Beneficiary:
China national machinery & equipment import & export corporation (CMEC)	40,368,338	35,894,391	TE KO Kostolac
Voith Hydro GmbH & CoKG	7,797,196	2,291,120	Drinsko-Limske HE
China Machinery Engineering Corporation (CMEC)	83,822,021	477,156	TE KO Kostolac
ABB Automation GmbH	602,545	-	RB Kolubara
Joint Venture of Companies ATOS WORLDGRID SAS and SAGEMCOM ENERGY & TELECOM SAS	3,291,396	-	JP EPS
Sandvik Mining and Construction Materials Handling GmbH & Co KG	2,320,349	1,501,557	RB Kolubara
Konzorcijum Elnos BL Koessler GmbH & Co KG	969,431	17,896	PE EPS
FAM Magdeburger Forderanlagen und Baumaschinen GmbH	3,603,508	72,516	RB Kolubara
Joint Venture Energoprojekt Oprema ad and GP Planum ad	1,914,583	76,659	RB Kolubara
	<u>144,689,367</u>	<u>40,331,295</u>	

Also, as of December 31, 2016, the Group has commitments based on contracts on the purchase and reconstruction of property, plant and equipment in the estimated amount of RSD 4,614,695 thousand for the company EPS Distribucija d.o.o. The above mentioned amount refers to the contractual unrealized amount of purchases as of December 31, 2016, based on the contracts that have not yet been completed on that day.

46. TAX RISKS

Tax legislation of the Republic of Serbia is subject to varying interpretations. Interpretation of tax laws by the tax authorities could differ from the interpretation by the Management. Obsolescence period of tax liabilities is five years. Therefore, tax authorities have the rights to determine payment of unsettled liabilities in period of five years from when the liability occurred.

47. SUBSEQUENT EVENTS

Change of legal form in a.d.

At the 19th Extraordinary meeting on 27 April 2016, the Supervisory Board of the Group made a Decision proposing to the Government of the Republic of Serbia to adopt a decision on changing the legal form of the parent Group Company into a joint stock company in accordance with the Company Law and the Law on Registration Procedure in the Serbian Business Registers Agency.

The same decision determined the Proposal of the decision on changing the legal form of the Company into a joint stock company.

The aforementioned decision was submitted to the Government of the Republic of Serbia through the competent Ministry of Economy in order to implement the procedure for changing the legal form of the parent Group Company into a joint stock company.

47. SUBSEQUENT EVENTS (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

Loan Agreement - KfW

The Loan Agreement, which will finance the realization of the Project "Modernization of the System for Eradication of TE Nikola Tesla A", was signed on February 28, 2017 between the Company and the German development bank KfW. The contract was signed for the amount of 45 million euros

Unwithdrawn funds under an agreement with the EBRD

The unwithdrawn part of the funds under a loan agreement with the EBRD on indicative amounts up to EUR 80 million, which was signed on 28 July 2011, in the amount of EUR 1,472,317, was rejected on January 31, 2017, after the completion of the project that was financed with the funds from approved loans.

A decision on the distribution of profits

At an extraordinary meeting held on February 13, 2017, the Supervisory Board of the Group decided to allocate part of the profit according to the financial statements for 2015 and 2014 (Note 34). The total amount for distribution in favor of the budget of the Republic of Serbia is 13,792,576 thousand dinars.

The payment of distributed profits in favor of the Budget of the Republic of Serbia is done after obtaining the approval of the Government of the Republic of Serbia on the decision on the distribution, and is made according to the dynamics determined by the Ministry of Finance.

Purchase of bonds of the Republic of Serbia

In January 2017, the Group purchased bonds of the Republic of Serbia in the amount of RSD 3,000,000 thousands in the procedure of the state securities auction. 300,000 bonds of individual nominal value of 10,000 dinars were purchased. The maturity of the purchased bonds is January 2019, and the nominal yield is 3.5%.

48. EXCHANGE RATES

Middle exchange rates for foreign currency, as determined at the interbank foreign exchange market, are used in the translation of balance sheet components denominated in foreign currencies into Serbian dinar were as follows:

	31 December 2016	In RSD 31 December 2015
EUR	123.4723	121.6261
USD	117.1353	111.2468