
**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

**Consolidated Financial Statements
Year Ended December 31, 2011
and Independent Auditors' Report**

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Public Enterprise Electric Power Industry of Serbia, Belgrade

We have audited the accompanying consolidated financial statements (pages 4 to 64) of the Public Enterprise Electric Power Industry of Serbia and its subsidiaries (hereinafter: the "Company" or "JP EPS"), which comprise the consolidated balance sheet as at December 31, 2011, and the related consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

(Continued)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Public Enterprise Electric Power Industry of Serbia, Belgrade
(Continued)

Basis for Qualified Opinion

As disclosed in Notes 3.12 and 16 to the consolidated financial statements, property, plant and equipment as of December 31, 2011 totaled RSD 1,139,474,611 thousand (December 31, 2010: RSD 516,817,054 thousand). The Company's management engaged an independent appraiser to assess the value of property, plant and equipment as of January 1, 2011. The independent appraiser applied the depreciated replacement cost approach and market valuation method in determining the revaluation amounts and the appraisal effects were recorded in the Company's accompanying consolidated financial statements as the net income from valuation effects of RSD 34,140,397 thousand (income from the value adjustment of property, plant and equipment in the amount of RSD 49,430,610 thousand (Note 13), i.e. expenses based on the impairment of assets in the amount of RSD 15,290,213 thousand (Note 14)), increase in the value of property, plant and equipment of RSD 632,886,693 thousand and increase in revaluation reserves of RSD 598,746,296 thousand. Based on the records made available to us and the review of the valuation methodology applied, we were unable to fully satisfy ourselves as to the adequacy and completeness of the valuation methods applied, i.e. we could not determine the potential effects of the additional impairment of assets on the accompanying consolidated financial statements for the year 2011, which ought to have been performed in accordance with the International Accounting Standard (IAS) 36 "Impairment of Assets."

As disclosed in Note 16 to the consolidated financial statements, construction in progress of RSD 46,864,579 thousand as of December 31, 2011 include the amount of RSD 9,211,640 thousand which relates to a number of facilities the construction of which has been at a standstill for two or more years. The Company failed to determine whether there were grounds for reducing the carrying value of the aforesaid construction in progress to its net realizable value as required by IAS 36 "Impairment of Assets." There has been no available information based on which the effects of the departure from IAS 36 on the accompanying consolidated financial statements could be quantified.

As disclosed in Note 20 to the consolidated financial statements, inventories were stated as of December 31, 2011 in the amount of RSD 25,163,939 thousand and comprised inventories of materials of RSD 10,911,679 thousand and inventories of spare parts of RSD 12,213,994 thousand. Based on the aging analysis performed, an amount of RSD 1,653,329 thousand relates to slow-moving inventories of materials, while an amount of RSD 6,910,498 thousand relates to the slow-moving inventories of spare parts. The Company did not perform more detailed analyses that would confirm the qualitative characteristics of inventories of materials for the purpose of determining those that are obsolete. Also, the Company did not perform the analysis or recognition of strategic spare parts that are usable only in connection with a certain item of property, plant or equipment and is expected to be used longer than one accounting period. These spare parts are considered as property, plant and equipment, pursuant to International Accounting Standard (IAS) 16 "Property, Plant and Equipment." Given the nature of records made of inventories of materials and spare parts, we were unable to determine which inventories may be classified as spare parts of materials and spare parts, we were unable to determine which inventories may be classified as spare parts of strategic importance, i.e. which spare parts shall be used for more than one accounting period, and accordingly, we could not determine the amount of additional allowance for impairment for obsolete and slow-moving inventories or to quantify potential effects thereof on the Company's consolidated financial statements as of and for the year ended December 31, 2011.

Qualified Opinion

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* paragraphs, the consolidated financial statements of the Public Enterprise Electric Power Industry of Serbia and its subsidiaries for the year ended December 31, 2011 have been prepared, in all material respects, in accordance with the accounting regulations of the Republic of Serbia.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Public Enterprise Electric Power Industry of Serbia, Belgrade
(Continued)

Emphasis of Matter

We draw attention to the following matters:

- (a) There are substantial uncertainties that affect the Company's reporting, financial position and operations. These uncertainties include, inter alia, the future course of events and final resolution of issues associated with: the unconsolidated subsidiaries situated in the Autonomous Province of Kosovo and Metohija (Note 1 to the consolidated financial statements), completion of construction and investment projects (Note 16 to the consolidated financial statements), significant liabilities associated with borrowings from foreign creditors and domestic banks in bankruptcy (Notes 28 and 30 to the consolidated financial statements), compliance with covenants defined in loan agreements (Note 28 to the consolidated financial statements), significant potential losses on litigations (Note 36 to the consolidated financial statements) and significant distribution losses of 14.31% or 4,748 GWh (Note 38 to the consolidated financial statements). The ultimate resolution of such uncertainties may lead to materially significant adjustments in the Company's consolidated financial statements.
- (b) The amount of state-owned capital as presented in the consolidated financial statements is not reconciled with the capital of the parent company as inscribed in the Serbian Business Registers Agency (Note 26 to the consolidated financial statements). Also, in the consolidation process, equity investments in subsidiaries were unreconciled with the amount of corresponding capital in subsidiaries by RSD 35,811,706 thousand.
- (c) In 2011 the Company distributed a portion of the prior year profit in the amount of RSD 3,636,551 thousand, whereof RSD 1,995,718 thousand was paid to the owner and RSD 1,640,833 thousand to employees, whereby the Company fails to absorb prior year accumulated losses in the net amount of RSD 126,480,955 thousand as stated as of December 31, 2011. The aforementioned profit distribution was performed pursuant to the Decision of the Company's director enacted based on the Board of Directors' Decision thereof dated December 7, 2011 and the Opinion of the Supervisory Board of the Public Enterprise Electric Power Industry of Serbia (as the founder).
- (d) The Company does not possess adequate ownership titles for all materially significant properties presented in the Company's books of account as of December 31, 2011.

Our opinion is not modified in respect to these matters.

Other Matter

As of April 30, 2012, the Company submitted the consolidated financial statements for the year 2011 approved by the management to the Serbian Business Registers Agency. Based on the findings and adjustments suggested by the auditor in accordance with the effective regulations, the accompanying notes to the consolidated financial statements were adjusted for the effects identified during audit. The adjusted notes to the consolidated financial statements were subsequently adopted by the management and will be submitted to the Serbian Business Registers Agency.

Belgrade, July 28, 2012



**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

**CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2011
(Thousands of RSD)**

	<u>Note</u>	<u>2011</u>	<u>2010</u> <i>Restated</i>
OPERATING INCOME			
Sales revenue	5	178,273,523	158,625,327
Own-work capitalized	5	7,516,240	6,465,881
Increase in the value of inventories		(1,236,156)	(849,699)
Other operating income	6	5,771,791	6,491,336
		<u>190,325,398</u>	<u>172,432,243</u>
OPERATING EXPENSES			
Cost of commercial goods sold		(2,184)	(4,415)
Cost of materials	7	(46,837,573)	(40,922,987)
Staff costs	8	(46,982,402)	(41,514,010)
Depreciation, amortization and provisions	9	(46,652,156)	(39,168,784)
Other operating expenses	10	(38,623,791)	(36,190,014)
		<u>(179,098,106)</u>	<u>(157,800,210)</u>
PROFIT FROM OPERATIONS		<u>11,227,292</u>	<u>14,632,033</u>
Finance income	11	9,892,874	12,304,259
Finance expenses	12	(4,020,216)	(12,609,646)
Other income	13	53,941,242	6,227,362
Other expenses	14	(41,436,633)	(23,604,826)
PROFIT/(LOSS) BEFORE TAXATION		<u>29,604,559</u>	<u>(3,050,818)</u>
Income taxes	15	(2,784,722)	172,376
Deferred income tax benefits	15	571,156	992,637
Current income tax expense	15	(3,355,878)	(820,261)
NET PROFIT/(LOSS) FOR THE YEAR		<u>26,819,837</u>	<u>(2,878,442)</u>

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

These consolidated financial statements were adopted by the Assembly of the Public Enterprise Electric Power Industry of Serbia and submitted to the Serbian Business Registers Agency as of April 30, 2012.

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

CONSOLIDATED BALANCE SHEET
As of December 31, 2011
(Thousands of RSD)

	<u>Note</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u> <i>Restated</i>
ASSETS			
Non-current assets			
Intangible assets	16	2,558,133	2,481,616
Property, plant, equipment and biological assets	16	1,139,474,611	516,817,054
Investment property		379,069	52,225
Advances for intangible assets, property, plant and equipment	17	5,847,418	5,851,021
Equity investments	18	981,401	1,481,113
Other long-term investments	19	1,383,003	1,679,075
		<u>1,150,623,635</u>	<u>528,362,104</u>
Current assets			
Inventories	20	25,163,939	25,455,596
Advances for inventories	21	2,133,667	2,402,703
Accounts receivable	22	66,533,152	60,744,310
Short-term financial assets	23	2,872,660	1,898,285
Cash and cash equivalents	24	5,472,037	6,053,650
Value added tax and prepayments	25	774,412	2,001,183
		<u>102,949,867</u>	<u>98,555,727</u>
Total assets		<u>1,253,573,502</u>	<u>626,917,831</u>
Off-balance sheet assets			
	34	186,822,501	140,500,302
EQUITY AND LIABILITIES			
Equity			
State-owned capital	26	358,717,940	358,717,940
Other capital		1,264,579	1,265,707
Revaluation reserves		781,742,820	245,680,511
Unrealized gains on securities		21,952	399,870
Unrealized losses on securities		(663,833)	(475,535)
Accumulated losses		<u>(126,480,955)</u>	<u>(152,567,389)</u>
		<u>1,014,602,503</u>	<u>453,021,104</u>
Long-term provisions			
	27	12,340,596	10,848,301
Long-term liabilities			
Long-term borrowings	28	45,541,497	49,869,952
Other long-term liabilities	29	2,672,622	3,466,787
		<u>48,214,119</u>	<u>53,336,739</u>
Current liabilities			
Short-term financial liabilities	30	17,682,434	16,224,457
Accounts payable	31	52,089,907	42,047,843
Other current liabilities	32	2,978,904	6,160,938
Value added tax and other duties payable and accruals	33	20,835,728	22,350,989
Income taxes payable	15	2,531,858	79,460
		<u>96,118,831</u>	<u>86,863,687</u>
Deferred tax liabilities			
	15	82,297,453	22,848,000
Total equity and liabilities		<u>1,253,573,502</u>	<u>626,917,831</u>
Off-balance sheet liabilities	34	186,822,501	140,500,302

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

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2011
(Thousands of RSD)**

	State- Owned Capital	Total State- Owned Capital	Other Capital	Revaluation Reserves	Unrealized Gains on Securities	Unrealized Losses on Securities	Retained Earnings/ Losses on (Accumulated Losses)	Total
Balance as of January 1, 2010	358,717,722	358,717,722	1,232,002	246,014,486	196,884	(476,523)	(148,077,087)	457,607,484
Opening balance adjustment (EQ0)	-	-	-	524,691	-	-	(2,090,499)	(1,565,808)
Opening balance, restated	358,717,722	358,717,722	1,232,002	246,539,177	196,884	(476,523)	(150,167,586)	456,041,676
Transfers	-	-	32,411	(9,336)	-	-	-	23,073
Effects of the fair value adjustment of the financial instruments	-	-	-	-	202,986	988	-	203,974
Transfer from revaluation reserves to retained earnings upon asset derecognition	-	-	-	(725,426)	-	-	725,426	-
Other increases/(decreases) in revaluation reserves	-	-	-	(164,836)	-	-	164,836	-
Prior year profit distribution	-	-	-	-	-	-	(1,260,493)	(1,260,493)
Effects of the netted earnings in inventories of coal at the beginning of the current year	-	-	-	-	-	-	75,666	75,666
Profit/(Loss) for the year	-	-	-	-	-	-	(3,202,125)	(3,202,125)
Other	218	218	1,294	(117)	-	-	2	1,397
Balance as of December 31, 2010, prior to adjustment	358,717,940	358,717,940	1,265,707	245,639,460	399,870	(475,535)	(153,664,274)	451,883,168
Adjustment of the current year profit/(loss) (Note 4a)	-	-	-	41,051	-	-	323,683	364,734
Opening balance adjustment of the retained earnings/(accumulated losses) for the year 2009	-	-	-	-	399,870	-	773,202	773,202
Balance as of December 31, 2010, restated	358,717,940	358,717,940	1,265,707	245,680,511	399,870	(475,535)	(152,567,389)	453,021,104
Effects of the fair value adjustment of the financial instruments	-	-	-	-	(378,807)	(187,791)	-	(566,598)
Transfer from revaluation reserves to retained earnings upon asset derecognition	-	-	-	(2,760,924)	-	-	2,761,016	92
Profit/(Loss) for the year	-	-	-	-	-	-	26,819,837	26,819,837
Valuation of property, plant, equipment and intangible assets	-	-	-	598,746,296	-	-	-	598,746,296
Deferred taxes	-	-	-	(59,208,037)	-	-	-	(59,208,037)
Prior year profit distribution:	-	-	-	-	-	-	-	-
- Republic of Serbia budget	-	-	-	-	-	-	(1,995,718)	(1,995,718)
- employee profit sharing	-	-	-	-	-	-	(1,640,833)	(1,640,833)
Effects of the netted earnings in inventories of coal at the beginning of the current year	-	-	-	-	-	-	137,066	137,066
Other	-	-	(1,128)	(715,026)	889	(507)	5,066	(710,706)
Balance, end of year	358,717,940	358,717,940	1,264,579	781,742,820	21,952	(663,833)	(126,480,955)	1,014,602,503

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

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

CONSOLIDATED CASH FLOW STATEMENT
Year Ended December 31, 2011
(Thousands of RSD)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Cash receipts from customers	243,962,515	212,132,335
Interest received	6,257,727	4,703,263
Other cash received from operations	3,634,027	2,034,858
Payments to suppliers	(138,304,829)	(122,636,979)
Payments to and on behalf of employees	(53,519,142)	(42,785,501)
Interest paid	(2,863,509)	(2,957,844)
Income taxes paid	(967,716)	(684,032)
Other taxes and duties paid	(26,811,252)	(25,237,635)
<i>Net cash provided by operating activities</i>	<u>31,387,821</u>	<u>24,568,465</u>
Cash flows from investing activities		
Sales of property, plant, equipment, intangible assets and biological assets	9,502	27,625
Interest received	-	183,516
Dividends collected	36,483	28,700
Purchase of shares and equity investments (net outflows)	(147,277)	(10,464)
Purchase of property, plant, equipment, intangible assets and biological assets	(24,881,386)	(27,219,123)
Other investments (net outflows)	(280,968)	(917,625)
<i>Net cash used in investing activities</i>	<u>(25,263,646)</u>	<u>(27,907,371)</u>
Cash flows from financing activities		
Long-term and short-term loans (net inflows)	-	416,730
Other short-term and long-term liabilities	6,334	159,917
Short-term and long-term borrowings and other liabilities (net outflows)	(6,741,720)	-
Finance lease	(1,330)	(2,763)
<i>Net cash provided by/(used in) financing activities</i>	<u>(6,736,716)</u>	<u>573,884</u>
Net decrease in cash and cash equivalents	(612,541)	(2,765,022)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,053,650	8,661,722
Foreign exchange gains on translation of cash	80,019	197,303
Foreign exchange losses on translation of cash	(49,091)	(40,353)
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>5,472,037</u></u>	<u><u>6,053,650</u></u>

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011

All amounts expressed in thousands of RSD, unless otherwise stated

1. ESTABLISHMENT, ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE

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

Registered Name

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

Registered Address

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

Incorporation (Business Register)

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

The change of data pertinent to the business entity relative to the person authorized to represent the Company was performed pursuant to the Decision enacted by the Serbian Business Registers Agency number BD 12148/2009 dated March 9, 2009 and based on the Decision enacted by the Agency number 130545/2009 on July 31, 2009, an annotation was entered regarding the status change of demerger and acquisition performed according to the Board of Directors' Decision, whereof a portion of assets and corresponding liabilities of the subsidiary "Termoelektrane Nikola Tesla" (Thermal Power Plant "Nikola Tesla") was separated and assumed by the Parent.

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

Principal Activity

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

The Public Enterprise Electric Power Industry of Serbia and its subsidiaries hold licenses for performing energy-related activities.

Ownership Structure

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

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011

All amounts expressed in thousands of RSD, unless otherwise stated

1. **ESTABLISHMENT, ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE (Continued)**

Governing Bodies

The governing bodies consist of the Board of Directors of JP EPS counting 11 members, four of which are the Company's employees appointed in the manner defined in the Statute; the Supervisory Board counting 5 members, two of which are the Company's employees appointed in the manner defined in the Statute; and the General Manager.

Board of Directors

The Board of Directors enacts decisions of greatest importance relating to the status of the Company and its subsidiaries, handling disposal and use of assets, planning of work and development, managing the business policies. The scope of responsibilities vested in the Board of Directors is determined according to the nature and significance of decisions. So decisions relating primarily to the protection of general interest in performing the activity and the protection of founder's rights and state ownership in accordance with the law, are enacted in agreement with the Government of the Republic of Serbia as prescribed by the Founding Decision and Statute, whereas all other decisions pertaining to the realization of the business policy enactment of general acts, appointment of bodies in subsidiaries, are issued independently. In addition, the Board of Directors decides the issues associated with managing the subsidiaries which is the activity falling in the scope of activities performed by the Assembly of subsidiaries, which are not entrusted by the founding acts to the authorized persons performing the activities from the activity scope legally defined as belonging to the Assembly.

Supervisory Board

The Supervisory Board exercises supervision over the performance and business operation of JP EPS, reviewing their stand-alone and consolidated financial statements, issues opinion to the Board of Directors prior to the adoption of such documents and provides opinion on the proposal for the profit distribution and loss absorption. The Supervisory Board informs the Government of the Republic of Serbia at least once annually of the supervision results.

General Manager

The General Manager legally represents and acts in the name of JP EPS, organizes and manages the working process and governs the Company's business operations, enacts decisions and takes care of the lawfulness of the Company's actions, makes suggestions with reference to basic business policies, business and development plans and executes the Board of Director's Decisions.

Organization Structure

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

In addition, subsequent to the balance sheet date, the legal status of the subsidiaries was harmonized with the Company Law (Official Gazette of the Republic of Serbia, nos. 36/2011 and 99/2011) with regard to the management and other issues relevant to their status.

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011

All amounts expressed in thousands of RSD, unless otherwise stated

1. ESTABLISHMENT, ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE (Continued)

Organization Structure (Continued)

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

Company	Address	TIN/RN
Public Enterprise Electric Power Industry of Serbia, Belgrade (Parent Company)	Carice Milice 2, Beograd	TIN: 103920327 Reg.no.: 20053658
Business Entity Hydro Power Plant Đerdap d.o.o., Kladovo	Kralja Petra 1 Square Kladovo	TIN: 100695213 Reg.no.: 7715226
Business Entity "Drinsko-Limske hidroelektrane" d.o.o., Bajina Bašta	Dušana Jerkovića Square 1, Bajina Bašta	TIN: 104196916 Reg.no.: 20114207
Business Entity Thermal Power Plant Nikola Tesla d.o.o., Obrenovac	Bogoljuba Uroševića – Crnog 44, Obrenovac	TIN: 101217456 Reg.no.: 7802161
Business Entity Thermal Power Plant and Open Pit Mines "Kostolac" d.o.o., Kostolac	Nikole Tesle Street no. 5- 7, Kostolac	TIN: 104199176 Reg.no.: 20114185
Business Entity "Panonske termoelektrane-toplane" d.o.o., Novi Sad	Bulevar oslobođenja no. 100, Novi Sad	TIN: 100187552 Reg.no.: 8271259
Business Entity for coal production, processing and Transport – Mine Basin "Kolubara" d.o.o., Lazarevac	Svetog Save Street no. 1, Lazarevac	TIN: 101138490 Reg.no.: 7788053
Business Entity for the Distribution of Electricity, "Elektrovovodina" d.o.o., Novi Sad	Bulevar oslobođenja no. 100, Novi Sad	TIN: 102040644 Reg.no.: 8038139
Business Entity for the Distribution of Electricity, "Elektro distribucija-Beograd" d.o.o., Beograd	Masarikova Street no. 1 – 3, Beograd	TIN: 100001378 Reg.no.: 7005466
Business Entity for the Distribution of Electricity, "Elektrosrbija" d.o.o., Kraljevo	Dimitrija Tucovića Street 5, Kraljevo	TIN: 101957610 Reg.no.: 7152566
Business Entity for the Distribution of Electricity, "Jugoistok" d.o.o., Niš	Bulevar Zorana Đinđića 46a., Niš	TIN: 104196932 Reg.no.: 20114142
Business Entity for the Distribution of Electricity, Centar d.o.o., Kragujevac	Slobode Street no. 7, Kragujevac	TIN: 104196924 Reg.no.: 20114169

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

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011

All amounts expressed in thousands of RSD, unless otherwise stated

1. ESTABLISHMENT, ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE (Continued)

Organization Structure (Continued)

The founder's contributions in the legal entities that do not perform energy-related activities in the course of the years 2003, 2005 and 2007 were transferred to the Republic of Serbia, except for the founder's contribution in the Company for designing, production, mounting and maintenance of mining and energy equipment "Kolubara Metal" d.o.o., a spin-off of the subsidiary "RB Kolubara."

As of December 31, 2011, the company had 32,178 employees (December 31, 2010: 32,708 employees).

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

2.1. Consolidated Financial Statements

The Company's consolidated financial statements include its consolidated balance sheet as of December 31, 2011, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

2.2. Basis of Preparation and Presentation of Consolidated Financial Statements

The Company's consolidated financial statements for the year 2011 have been prepared pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46/2006 and 111/2009) and "Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" (Official Gazette of the Republic of Serbia, nos.114/2006 to 3/2011).

Recognition and estimate of the line items included in the financial statements have been performed in accordance with the provisions International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as determined in the Decision enacted by the Ministry of Finance no. 401-00-1380/2010-16 on October 5, 2010 (Official Gazette of the Republic of Serbia no. 77/10).

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

In the preparation of the accompanying consolidated financial statements, the Company adhered to the accounting policies described in Note 3.

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

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

As of the consolidated financial statements issuance date, the following standards, amendments were issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee but were not officially adopted and translated in the Republic of Serbia for the annual accounting periods commencing on or after January 1, 2010:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Additional Exemptions for First-time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after January 1, 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011**

All amounts expressed in thousands of RSD, unless otherwise stated

**2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

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

- Amendments to IFRS 2 "Share-based Payment": Amendments resulting from the Annual quality improvement project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments IFRIC 9 "Reassessment of Embedded Derivatives" effective for annual periods beginning on or after July 1, 2009 and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives (effective for annual periods beginning on or after June 30, 2009);
- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on or after July 1, 2009);
- "Conceptual Framework for Financial Reporting 2010" being an amendments to "Framework for the Preparation and Presentation of Financial Statements" (effective for transfer of assets from customers received on or after September 2010);
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IAS 24 "Related Party Disclosures" – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues (effective for annual periods beginning on or after February 1, 2010);
- Amendments to various standards and interpretations "Improvements to IFRSs" resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording. (most amendments are to be applied for annual periods beginning on or after January 1, 2011);
- Amendments to IFRIC 14 "IAS 19 – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after July 1, 2010).

2.4. Standards and Interpretations in Issue not yet in Effect

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2015);
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after January 1, 2013);

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011**

All amounts expressed in thousands of RSD, unless otherwise stated

**2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

2.4. Standards and Interpretations in Issue not yet in Effect (Continued)

- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures;
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);
- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after January 1, 2013).

2.5. Comparative Data

As comparative information, the Company presented the restated consolidated income statement for the year ended December 31, 2010 and the restated consolidated balance sheet as of December 31, 2010.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Principles of Consolidation

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

The consolidated financial statements represent the consolidation of the financial statements of eleven enterprises and the parent company, comprising the Group of the Electric Power Industry of Serbia (EPS), and are prepared on the full consolidation principle as the parent company is the sole owner of its subsidiaries. Also, the financial statements of the subsidiary in which JP EPS holds majority interest (Public Company "Kolubara Metal," a subsidiary of Public Company "RB Kolubara" d.o.o.), whose activity does not involve generation, transfer and distribution of electricity are included in these consolidated financial statements.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Principles of Consolidation (Continued)

The financial statements of three entities domiciled on the territory of the Autonomous Province of Kosovo and Metohija are not included in the consolidated financial statements as of December 31, 2011 given that the Company's management does not have administrative and managing control over the operations of these companies.

3.2. Revenues and Expenses

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

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

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

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

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

3.3. Effects of Foreign Currency Translation

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

3.4. Borrowing Costs

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

3.5. Employee Benefits

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

3.6. Prior Period Error Correction

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

3.7. Fair Value

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

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011**

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Transfer Pricing Between Consolidated Entities

The transactions entered into between the enterprises consolidated within the EPS group were based on transfer prices set by the JP EPS' Board of Directors as determined on a "cost plus" basis.

3.9. Provisions

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

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

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

3.10. Donations

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

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

3.11. Taxes and Contributions

a) Current Income Taxes

Current income tax represents an amount that is computed and paid in accordance with the effective Republic of Serbia Income Tax Law.

In the Republic of Serbia, income tax is payable at the rate of 10% on the tax base reported in the annual corporate income tax return as reduced by any applicable tax credits (in the amount of 20% of capital expenditure, whereas it cannot exceed 50% of tax accrued in the year in which the capital expenditure has been undertaken). The taxable base stated in the income tax return includes the profit shown in the statutory statement income, as adjusted for the differences that are specifically defined under statutory tax rules.

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Taxes and Contributions (Continued)

b) Deferred Income Taxes

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

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

c) Indirect Taxes and Contributions

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

3.12. Property, Plant and Equipment

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

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

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

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

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

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

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Depreciation

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

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

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

3.14. Intangible Assets

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

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

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

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

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

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

If there is any indication that such assets have become impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset cannot be estimated, the recoverable amount of the cash generating unit, of the public enterprise is estimated.

As of December 31, 2011, in accordance with management's estimate, there were no indications showing that the value of fixed assets had been impaired, unless otherwise is disclosed in the Notes to the consolidated financial statements which follow.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Inventories

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

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

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

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

3.17. Financial Instruments

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

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

Equity Investments

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

Other Long-Term Investments

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

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

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

Short-Term Receivables and Assets

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

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

Other receivables and assets are measured at amortized cost.

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Financial Instruments (Continued)

Impairment of Financial Assets

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

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

The assessment of the collectability of accounts receivable associated with the sale of electricity is based upon particular categories of debtors. For receivables from legal entities that are more than 60 days past due, an allowance for impairment is formed. Exceptionally, for these debtors, the collectability may be assessed individually. In its assessment of recoverability of accounts receivable, the Company considered all events up to January 31, 2012, unless otherwise stated. The Company does not record an allowance for receivables from legal entities that are concurrently its debtors and creditors.

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

Cash and Cash Equivalents

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

Financial Liabilities

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

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

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011**

All amounts expressed in thousands of RSD, unless otherwise stated

**4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND RESTATEMENT OF
COMPARATIVE DATA IN THE INCOME STATEMENT FOR THE YEAR 2010**

a) Effects of adjustments made to the balance sheet as of December 31, 2010

	Amounts reported as at December 31, 2010	Reconciliation of data reported with data from books of account as at December 31, 2010	From books of account of the period as at December 31, 2010	Reclassifications and adjustments as at January 1, 2011	Restated January 1, 2011
ASSETS					
Non-current assets					
Intangible assets	2,480,700	261	2,480,961	655	2,481,616
Property, plant, equipment and biological assets	515,469,533	(262)	515,469,271	1,347,783	516,817,054
Investment property	52,225	-	52,225	-	52,225
Advances for intangible assets, property, plant and equipment	6,198,152	-	6,198,152	(347,131)	5,851,021
Equity investments	1,481,113	-	1,481,113	-	1,481,113
Other long-term investments	1,704,569	(2)	1,704,567	(25,492)	1,679,075
	<u>527,386,292</u>	<u>(3)</u>	<u>527,386,289</u>	<u>975,815</u>	<u>528,362,104</u>
Current assets					
Inventories	25,131,907	(4)	25,131,903	323,693	25,455,596
Advances for inventories	2,447,588	-	2,447,588	(44,885)	2,402,703
Accounts receivable	60,497,409	436	60,497,845	246,465	60,744,310
Short-term financial assets	1,898,285	-	1,898,285	-	1,898,285
Cash and cash equivalents	6,053,650	-	6,053,650	-	6,053,650
Value added tax and prepayments	2,004,258	-	2,004,258	(3,075)	2,001,183
	<u>98,033,097</u>	<u>432</u>	<u>98,033,529</u>	<u>522,198</u>	<u>98,555,727</u>
Total assets	<u>625,419,389</u>	<u>429</u>	<u>625,419,818</u>	<u>1,498,013</u>	<u>626,917,831</u>
EQUITY AND LIABILITIES					
Equity					
State-owned capital	358,717,940	-	358,717,940	-	358,717,940
Other capital	1,265,707	-	1,265,707	-	1,265,707
Revaluation reserves	245,639,460	-	245,639,460	41,051	245,680,511
Unrealized gains on securities	399,870	-	399,870	-	399,870
Unrealized losses on securities	(475,535)	-	(475,535)	-	(475,535)
Accumulated losses	(153,664,261)	(13)	(153,664,274)	1,096,885	(152,567,389)
	<u>451,883,181</u>	<u>(13)</u>	<u>451,883,168</u>	<u>1,137,936</u>	<u>453,021,104</u>
Long-term provisions	10,848,301	-	10,848,301	-	10,848,301
Long-term liabilities					
Long-term borrowings	49,869,951	1	49,869,952	-	49,869,952
Other long-term liabilities	3,466,787	-	3,466,787	-	3,466,787
	<u>53,336,738</u>	<u>1</u>	<u>53,336,739</u>	<u>-</u>	<u>53,336,739</u>
Current liabilities					
Short-term financial liabilities	16,225,608	-	16,225,608	(1,151)	16,224,457
Accounts payable	42,031,180	413	42,031,593	16,250	42,047,843
Other current liabilities	5,945,007	22	5,945,029	215,909	6,160,938
Value added tax and other duties payable and accruals	22,348,222	1	22,348,223	2,766	22,350,989
Income taxes payable	69,619	1	69,620	9,840	79,460
	<u>86,619,636</u>	<u>437</u>	<u>86,620,073</u>	<u>243,614</u>	<u>86,863,687</u>
Deferred tax liabilities	22,731,533	-	22,731,533	116,467	22,848,000
Total equity and liabilities	<u>625,419,389</u>	<u>425</u>	<u>625,419,814</u>	<u>1,498,017</u>	<u>626,917,831</u>
Off-balance sheet items	140,004,924	267,697	140,272,621	227,681	140,500,302

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4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND RESTATEMENT OF
COMPARATIVE DATA IN THE INCOME STATEMENT FOR THE YEAR 2010 (Continued)

b) Effects of December 31, 2010 accumulated loss adjustments

Balance of accumulated loss as of December 31, 2010	<u>(153,664,274)</u>
Corrections of mathematical errors made upon recording appraisal effects of property, plant, equipment and intangible assets as of January 1, 2007, which affected the following:	
1. - decrease in the carrying amounts of property, plant and equipment	(160,276)
- decrease in revaluation reserves	228,013
- reversal of deferred tax liabilities	15,737
Reversal of 10% of deferred tax liabilities charged to revaluation reserves	
2. based on the previous fair value assessment of land	(269,064)
Subsequently recognized non-current assets based on expenditure incurred and initially recognized as expense	1,322,041
3. Recognized deferred tax liabilities based on expenses not recognized in the non-current asset tax balance	(132,204)
4. Reversal of previously recognized impairment of inventories as per previous estimate of the net realizable value	323,319
5. Public duties payable as subsequently determined by the competent authority for prior reporting years and subsequently calculated interest assigned on public duties payable	(27,072)
6. Subsequently recognized non-current assets (forest and perennial plants)	196,791
7. Subsequently determined employee entitlement to social security insurance contributions based on the extended years of service as per court decision	(317,457)
8. Decrease in the value of construction in progress based on the reversal of revaluation effects according to the effective generally accepted accounting principles as of the date prior to the application of IAS/IFRS	(28,853)
9. Increase in the value of construction in progress expensed, which were erroneously recorded within expenses in prior years	22,985
10. Impairment of receivables based on the subsequently obtained information	(48,253)
11. Other	<u>(28,822)</u>
Total adjustments	<u>1,096,885</u>
Restated balance of accumulated loss as at December 31, 2010	<u><u>(152,567,389)</u></u>

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4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND RESTATEMENT OF
COMPARATIVE DATA IN THE INCOME STATEMENT FOR THE YEAR 2010 (Continued)

c) Effects of adjustments to the income statement for the year ended December 31, 2010

	Year Ended December 31, 2010 – prior to Adjustments/ Reclassifications	Adjustments/ Reclassifications	Year Ended December 31, 2010 – following Adjustments/ Reclassifications
OPERATING INCOME			
Sales revenues	158,625,531	(204)	158,625,327
Own-work capitalized	6,465,881	-	6,465,881
Increase in the value of inventories	849,699	-	849,699
Other operating income	5,166,047	1,325,289	6,491,336
	<u>171,107,158</u>	<u>1,325,085</u>	<u>172,432,243</u>
OPERATING EXPENSES			
Cost of commercial goods sold	(4,415)	-	(4,415)
Cost of materials	(40,905,396)	(17,591)	(40,922,987)
Staff costs	(41,323,530)	(190,480)	(41,514,010)
Depreciation, amortization and provisions	(39,097,164)	(71,620)	(39,168,784)
Other operating expenses	(36,596,916)	406,902	(36,190,014)
	<u>(157,927,421)</u>	<u>127,211</u>	<u>(157,800,210)</u>
PROFIT FROM OPERATIONS	13,179,737	1,452,296	14,632,033
Finance income	13,650,375	(1,346,116)	12,304,259
Finance expenses	(12,590,194)	(19,452)	(12,609,646)
Other income	5,980,567	246,795	6,227,362
Other expenses	(23,604,826)	-	(23,604,826)
LOSS BEFORE TAXATION	<u>(3,384,341)</u>	<u>333,523</u>	<u>(3,050,818)</u>
Income taxes	182,216	(9,840)	172,376
Deferred tax benefits/(expenses)	992,637	-	992,637
Current income tax expense	(810,421)	(9,840)	(820,261)
NET LOSS	<u>(3,202,125)</u>	<u>323,683</u>	<u>(2,878,442)</u>

d) Effects of adjustments to the earliest prior comparative period presented in the income statement for the year 2010

Operating profit (net loss) for the period ended December 31, 2010 prior to adjustments	<u>(3,202,125)</u>
1. Subsequently recognized non-current assets based on expenditure incurred and initially recognized as expense	344,433
2. Reversal of previously recognized impairment of inventories as per previous estimate of the net realizable value	50,004
3. Public duties payable as subsequently determined by the competent authority for prior reporting years and subsequently calculated interest assigned on public duties payable	(27,072)
4. Subsequently recognized non-current assets (forest ad perennial plants)	196,791
5. Subsequently determined employee entitlement to social security insurance contributions based on the extended years of service as per court decision	(207,699)
6. Increase in the value of construction in progress expensed, which were erroneously recorded within expenses in prior years	19,570
7. Decrease in the value of construction in progress based on the reversal of revaluation effects according to the effective generally accepted accounting principles as of the date prior to the application of IAS/IFRS	(21,031)
8. Other	(31,313)
Total adjustments	<u>323,683</u>
Restated operating profit (net loss) for the period ended December 31, 2010 following adjustments	<u>(2,878,442)</u>

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5. SALES REVENUES

	Year Ended December 31,	
	2011	2010 <i>Restated</i>
Income from the sale of electricity	159,461,221	141,389,987
Sale of coal	4,839,080	4,182,019
Sale of engineering steam and gas	1,929,844	1,639,935
Sale to legal entities domiciled abroad	5,008,574	4,449,128
Sale of products and services (Public Company "Kolubara Metal")	1,469,068	1,723,016
Income from radio and television subscriptions	182,143	315,651
Income from the Public Enterprise "Elektromreža Srbije"	5,383,593	4,925,591
	<u>178,273,523</u>	<u>158,625,327</u>

In addition to the delivery to tariff customers, a portion of revenues from the sale of electricity totaling RSD 4,283,420 thousand was also recognized based on deliveries to legal entities – residents of the Republic of Serbia holding electricity trading license.

Pursuant to the Conclusion of the Republic of Serbia Government numbered 021-6624/2009-002 as of November 30, 2009, the Company engaged its capacities to secure electricity for the north part of the Autonomous Province of Kosovo and Metohija. Subsequent assessment of the inflow of benefits for the reporting year of RSD 784,712 thousand is disclosed in Note 22.

A portion of sales performed in foreign markets amounting to RSD 4,832,374 thousand was recognized for electricity delivered based on long-term agreements closed with the Power Industry of Montenegro and the Power Utility of the Republic of Srpska and the remaining amounts relate to the delivery of products of the Public Company "RB Kolubara" and the Business Entity "Kolubara Metal" and to the Business Entity "RB Kolubara" to non-residents.

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

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

Pursuant to decisions made by the Board of Directors in the reporting period, a discount of 35% is approved to the following users:

- Tariff customer – beneficiary of the social welfare assistance, by decreasing the price of corresponding tariff rate for the tariff element "active energy" for the monthly consumption of electricity not exceeding 450 kWh and
- Tariff customer in the need of social welfare assistance, by decreasing the price of the tariff rate for the rational consumption ("green zone") for the tariff element of "active energy" for the monthly electricity consumption below 350 kWh.

Also, to the group of consumers – households, settling their electricity bills in accordance with the relevant Decision of the Board of Directors, a discount of 5% was granted.

In addition, in the current reporting period starting from April 1, 2011, tariff customers from the category of consumer spending - the group of households, with the monthly electricity consumption ranging between 1 and 350 kWh for the accounting period of 30 days, were approved a discount of 11.89% by the Board of Directors of the Company based on the RS Government Conclusion dated February 25, 2011. At the same date, the RS Government agreed that the price of electricity be raised.

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**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011**

All amounts expressed in thousands of RSD, unless otherwise stated

5. SALES REVENUES (Continued)

A portion of income from own work capitalized of RSD 4,780,325 thousand (Public Company "Elektrosrbija" of RSD 2,453,738 thousand, Public Company "Elektrovojvodina" of RSD 1,317,409 thousand, Public Company "Centar" 393,348 thousand, Public Company "Jugoistok" of RSD 273,480 thousand) relates to the recognized non-current assets which are self-constructed as disclosed in Note 3.12. The remaining balance of RSD 2,598,579 thousand was recognized based on own work transferred from the Public Company "Kolubara Metal" into non-current/current assets of other Group members.

6. OTHER OPERATING INCOME

	Year Ended December 31,	
	2011	2010
		<i>Restated</i>
Donations	1,938,492	1,831,788
New customer connection fees	2,283,513	1,904,428
Insurance claims collected	397,526	231,000
Rental income	113,475	75,225
Other operating income	<u>1,038,785</u>	<u>2,448,895</u>
	<u>5,771,791</u>	<u>6,491,336</u>

Income from new customer connection fees comprise inflows of benefits for the establishment of new connections as calculated by applying the price list that is in accordance with the methodology approved by the Energy Agency, as fee and commission income from accessing the system at the price list approved by the Energy Agency.

7. COST OF MATERIALS

	Year Ended December 31,	
	2011	2010
		<i>Restated</i>
Cost of electricity purchased:		
- in domestic market	8,049,013	3,834,475
- in foreign market	3,000,138	6,462,954
Transfer of electricity by the Public Enterprise "Elektromreža Srbije", Belgrade	11,201,457	9,582,607
Materials for maintenance and spare parts	9,687,555	8,007,811
Oil derivatives	3,963,251	4,285,448
Natural gas and other energy	6,179,460	3,856,858
External purchases of coal	611,353	707,086
Production material	2,411,678	2,813,996
Office supplies and general overhead materials	604,059	479,518
Other	<u>1,129,609</u>	<u>892,234</u>
	<u>46,837,573</u>	<u>40,922,987</u>

The acquisition of electricity used for the Company's own activities in the value of RSD 11,049,151 thousand is related to the acquisition of electricity from legal entities outside the EPS system (imported and acquired from legal entities located in the territory of the Republic of Serbia holding license to trade in electricity). A portion of costs acquired in the foreign market includes an amount of RSD2,829,898 thousand that pertains to the electricity purchased from the Electric Power Industry of Montenegro.

The company entered into several agreements on the purchase of electricity with entities involved in electricity generation, which have obtained the status of privileged power producers at the purchase price prescribed by the Decree on the incentives to power generation through usage of renewable energy sources and through combined power and heat production (Official Gazette of RS no. 99/09) for the respective renewable energy sources.

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7. COST OF MATERIALS (Continued)

The Company concluded an Agreement with the Public Enterprise "Elektromreža Srbije" which allows access to and use of the power supply system to tariff users and entities involved in power generation and distribution established by JP EPS. The subject fees payable by entities involved in power distribution, pursuant to the enactments of the Energy Agency, starting from January 1, 2008, are considered to be justified operating costs incurred in energy supply – distribution of electricity. The price to access and use the transmission system in the ensuing reporting period, once approved by the RS Government, was published in the Official Gazette of RS no. 21/2011.

8. STAFF COSTS

	Year Ended December 31,	
	2011	2010
		<i>Restated</i>
Gross salaries	36,182,965	32,295,695
Contributions to salaries payable by the employer	7,973,079	6,802,467
Employee transport	1,266,678	1,229,526
Other staff costs	1,559,680	1,186,322
	46,982,402	41,514,010

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

Based on the Decision of the Board of Directors made upon the Conclusion of the RS Government dated January 28, 2010, the cap amount of net remunerations paid to Directors and employees in the reporting, as well as the ensuing period, was set in the amount that does not exceed six times the average salary per employee net of taxes and contributions paid in the Republic of Serbia for December 2009 which amounts to RSD 220,734 thousand.

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	Year Ended December 31,	
	2011	2010
		<i>Restated</i>
Depreciation and amortization:		
- property, plant and equipment	42,786,729	35,875,346
- intangible assets	178,813	179,982
Provisions:		
- for employee benefits	1,866,740	1,688,438
- for litigations	1,341,939	1,181,546
- for natural resource restoration	337,255	243,472
- other provisions	140,680	-
	46,652,156	39,168,784

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

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

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10. OTHER OPERATING EXPENSES

	Year Ended December 31,	
	2011	2010 <i>Restated</i>
Insurance premiums	1,918,524	1,861,928
Public water charges	1,923,597	2,119,558
Costs of river bank usage for business purposes	335,467	276,745
Forest protection and usage charges	105,442	1,187
Development land usage fees	2,745,291	2,531,329
General interest property usage fees	34,889	20,544
Environment pollution charges	3,188,676	4,548,125
Property taxes	596,131	603,971
Mineral resource exploitation fees	536,835	479,532
Other indirect taxes, contributions and fees	862,538	807,001
Maintenance	10,336,841	10,052,892
Telecommunications	1,219,465	1,332,353
Transportation services	343,212	354,738
Rentals	927,669	1,023,216
Research	55,194	94,857
Public utility fees	375,242	368,865
Services provided by student and youth organizations	599,910	444,311
Entertainment	301,577	280,373
Bank charges	779,509	680,084
Other production services	4,114,044	3,182,789
Other services	1,931,644	1,623,608
Production costs	1,994,237	1,621,644
Scientific research	754,805	291,295
Court fees	951,804	529,475
Other non-material expenses	1,691,248	1,059,594
	<u>38,623,791</u>	<u>36,190,014</u>

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

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

Commencing from November 15, 2010, the Company was obligated to pay fees for protection and betterment of the general interest functions of forests, computed by applying the rate of 0.025% to the base comprising the total annual income realized in the previous year.

Other non-material expenses, apart from protection at work fees, professional services, membership fees, sponsorships and the like, include an amount of RSD 75,654 thousand relating to the assumed liabilities for taxes and contributions on salaries of the employees of JP "PEU Resavica" (the entity that operated within EPS until 2003) for 2000 and 2001 including penalties accrued until December 31, 2002, which have been rescheduled into 120 installments.

Rentals recognized in the amount of RSD 927,669 thousand for the year ended December 31, 2011 (2010: RSD 953,046 thousand) include an amount of RSD 843,981 thousand incurred based on the lease of machinery for the purpose of addressing consequences of coal exploitation and brining the existing locations into use.

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11. FINANCE INCOME

	Year Ended December 31,	
	2011	2010 <i>Restated</i>
Interest income	8,755,098	11,061,632
Foreign exchange gains	1,020,765	1,151,485
Other finance income	117,011	91,142
	<u>9,892,874</u>	<u>12,304,259</u>

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

12. FINANCE EXPENSES

	Year Ended December 31,	
	2011	2010 <i>Restated</i>
Interest expense	2,508,527	3,423,632
Foreign exchange losses	1,244,682	8,793,860
Other finance expenses	267,007	392,154
	<u>4,020,216</u>	<u>12,609,646</u>

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

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

13. OTHER INCOME

	Year Ended December 31,	
	2011	2010 <i>Restated</i>
Gains on the sale of material, equity investments, intangible assets, property, plant and equipment	65,284	67,802
Collected receivables previously written off and reversal of allowance for impairment of receivables and short-term financial assets	2,349,108	3,159,079
Value adjustments of property, plant and equipment	49,430,610	-
Value adjustments of other assets	78,551	260,463
Write-off of environment protection charges	1,341,314	-
Write-off of liabilities	70,162	2,066,188
Surpluses	207,025	435,753
Reversal of long-term provisions for employee benefits	6,180	17,889
Reversal of long-term provisions for litigations	94,642	23,471
Other income	298,366	196,717
	<u>53,941,242</u>	<u>6,227,362</u>

As disclosed in Note 16, the increase in the carrying amounts of property, plant and equipment of RSD 49,430,610 thousand is recognized as income in the income statement to the amount in which the decrease of such assets is reversed, after it was previously recognized as expense in the income statement for the reporting year 2007.

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13. OTHER INCOME (Continued)

Income from write-off of liabilities was recognized based on the determined liability for environment protection charge for the year 2010 as per subsequently adopted internal administrative acts of the Environment Protection Fund (Public Company TE "Nikola Tesla" – RSD 466,443 thousand, Public Company "TE-KO Kostolac" – RSD 865,973 thousand).

As disclosed in Note 28, the Government of the Republic of Serbia, as a guarantor assumed the debt towards EXIM Bank of China of the National Bank of China and signed on February 20, 2009 the Debt Rescheduling Agreement. Pursuant to Article 6 of the Law on Governing the Relations between the Republic of Serbia and the Bankrupt Banks on the Basis of Assumed Foreign Credits and/or Loans (Official Gazette of RS no. 45 as of May 31, 2005), as of June 28, 2010, JP EPS closed with the Deposit Insurance Agency an Agreement on the Discharge of Debts towards the Republic of Serbia under same terms as those negotiated with the Chinese side. Based on the above, the expense was recognized based on penalty interest of RSD 1,220,528 thousand (Note 12), as well as income of RSD 1,969,671 thousand from the write-off of 40% liability arising from reconciled principal (sum of principal outstanding, accrued interest outstanding and penalty interest accrued in the period ended March 25, 2009).

In the Republic of Serbia Government Conclusions 05 no. 401-52/2011 as of January 13, 2011 and 05 no. 401/866/2011 as of February 17, 2011, the Program was adopted on the allocation and use of subsidies for the Public Company Serbian Railways in 2011, under which funds necessary to regulate the liabilities of the Public Company Serbian Railways towards the Public Enterprise Electric Power Industry of Serbia and its subsidiaries were allocated. The Program envisages that the Public Company Electric Power Industry of Serbia and its subsidiaries use the funds collected from the Serbian Railways of RSD 2,488,189 thousand, to discharge their liabilities arising from the borrowing from the Republic of Serbia (Contract no. 13467/01 as of November 26, 2001) as disclosed in Note 32 and from the balance of funds, it should discharge its liabilities towards the Deposit Insurance Agency based on the debt towards the creditors of the Paris Club of Creditors and Chinese creditors. After the balance sheet date, on February 21, 2011, the Public Company of Serbian Railways transferred its assets of RSD 2,332,030 thousand onto the special account of the Public Enterprise Electric Power Industry of Serbia and its subsidiaries. At the same time, 50% accrued interest payable to Serbian Railways was written off in the amount of RSD 338,578 thousand.

14. OTHER EXPENSES

	Year Ended December 31,	
	2011	2010
		<i>Restated</i>
Losses on disposal, write-off and sale of fixed assets, intangible assets, equity investments and materials	2,917,120	955,942
Shortages	100,975	68,588
Write-off of receivables	137,114	214,785
Impairment of assets:		
- short-term receivables and rescheduled accounts receivable	16,425,379	17,055,599
- property, plant and equipment	15,290,213	2,253
- inventories	391,447	212,079
- other assets	315,407	65,153
Staff costs of the employees in the public enterprises situated in the Autonomous Province of Kosovo and Metohija	4,663,927	4,156,738
Sponsorship and donation expenses	439,071	195,179
Other expenses	755,980	678,510
	<u>41,436,633</u>	<u>23,604,826</u>

Losses on disposal of plant and equipment were recognized in the amount of RSD 1,291,730 thousand (2010: RSD 191,547 thousand) based on the activities undertaken towards the revitalization of hydro-aggregate with the increase of installed power of the hydro-power and navigation system "Đerdap 1."

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14. OTHER EXPENSES (Continued)

Accounts receivable considerably past due are recognized as an impairment loss in the amount of RSD 16,425,379 thousand.

As disclosed in Note 16, decrease in the carrying amounts of property, plant and equipment recognized as expense resulted from the fair value assessment of such assets performed as of January 1, 2011 and subsequent measurement of the recoverable amounts of the construction in progress.

Expenses amounting to RSD 4,663,927 thousand are recognized based on the benefits accrued and paid to employees in the public companies on the territory of the Autonomous Province of Kosovo and Metohija, as well as in connection with the investments intended to provide for an uninterrupted energy supply to private individuals on the territory of the North part of Autonomous Province of Kosovo and Metohija.

15. INCOME TAXES

a) Components of Income Taxes

	Year Ended December 31, 2011	2010 <i>Restated</i>
Current income tax expense	(3,355,878)	(820,261)
Deferred income tax benefits	571,156	992,637
	(2,784,722)	172,376

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

	Year Ended December 31, 2011	2010 <i>Restated</i>
Profit/(Loss) before taxation	29,604,559	(3,050,818)
Reconciliation of expenses not recognized in the tax balance sheet (permanent differences)	24,629,052	9,023,506
Reconciliation of depreciation charges calculated for accounting and tax purposes (temporary differences)	15,962,704	10,116,631
Taxable profit	70,196,315	16,089,318
Amount of prior year loss and capital loss brought forward up to the amount of taxable profit	11,079,267	776,898
Amount of taxable profit for which there were no deductible tax loss carryforwards	63,448,257	18,565,892
Tax loss for the year	(4,331,209)	(3,253,472)
Capital gains	257	8,496
Tax base	63,448,514	18,574,387
Tax at the statutory 10% rate	6,344,851	1,857,439
Decrease in calculated tax based on capital expenditures	(2,988,973)	(1,037,178)
Tax calculated upon deduction	3,355,878	820,261

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15. INCOME TAXES (Continued)

c) Deferred Tax Assets and Liabilities

	Year Ended December 31,	
	2011	2010
	<i>Restated</i>	
c1) Present value of property, plant and equipment, whose value is systematically written-off based on useful lives stated in the financial statements	1,068,669,120	457,500,110
c2) Present value of property, plant and equipment recognized in accordance with the tax regulations	245,694,576	234,296,044
c3) Deductible temporary difference which is not used as the basis of deferred tax asset recognition	14	(5,275,934)
Taxable temporary differences (c1-c2-c3)	822,974,530	228,480,000
Deferred income tax	82,297,453	22,848,000
Deferred tax liabilities	82,297,453	22,848,000

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

As of December 31, 2011, the Company did not recognize deferred tax assets with respect to tax loss and tax credit carryforwards due to the uncertainty whether sufficient taxable profit will be available in the future against which the unused tax losses and tax credits may be utilized by the Company.

Deferred tax assets upon tax losses were as follows:

	December 31,	December 31,
	2011	2010
	<i>Restated</i>	
- for the year 2003	52,876	103,417
- for the year 2004	120,597	280,361
- for the year 2006	837	94,416
- for the year 2007	212,368	734,847
- for the year 2008	325,426	520,066
- for the year 2009	358,177	305,136
- for the year 2010	290,241	306,789
- for the year 2011	431,536	-
- Total	1,791,858	2,345,032
Deferred tax assets based on capital losses	1,134	1,159
Deferred tax assets based on tax credits for capital expenditures	10,427,326	10,129,303
	12,220,318	12,475,494

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

	Land, Forests and Perennial Plants	Buildings	Equipment and Other Assets	Plant Construction in Progress	Total	Intangible Assets	Investment Property
Cost							
Balance at January 1, 2010, prior to adjustments	21,284,710	463,474,794	835,094,350	50,107,040	1,369,960,894	3,462,710	115,527
Adjustments	4,610	25,508	(33,198)	(36,472)	(39,552)	-	18,749
Balance at January 1, 2010 following adjustments	21,289,320	463,500,302	835,061,152	50,070,568	1,369,921,342	3,462,710	134,276
Additions	2,676,603	356,412	3,367,634	30,933,549	37,334,198	226,195	-
Activation of construction in progress	1,054,434	3,254,249	30,723,638	(35,049,013)	(16,692)	16,622	-
Transfers	79,869	(1,192,282)	1,194,187	(306,241)	(224,467)	270	-
Self-constructed assets	-	50,535	48,089	3,060,231	3,158,855	-	-
Donations	-	23,533	382,064	-	405,597	-	-
Sales	-	(5,776)	(101,388)	-	(107,166)	-	-
Write-off (disposals)	-	(274,575)	(8,942,788)	(4,973)	(9,222,336)	(15,078)	-
Transfer to third parties	(773)	(11,547)	(15,483)	(476,209)	(504,012)	-	(2,671)
Surpluses	-	138,455	159,857	-	298,312	-	-
Shortages	-	(1,377)	(33,180)	-	(34,557)	-	-
Transfers to subsidiaries	25,161	-	4,074	(167,618)	(138,383)	(789)	-
Other changes	-	(2,645)	(1,017,197)	(4,186)	(1,024,028)	-	-
Balance, December 31, 2010, following adjustments	25,124,614	465,835,282	860,830,659	48,056,108	1,399,846,663	3,689,930	131,605
Balance at January 1, 2011, prior to adjustments	25,124,614	465,835,282	860,830,659	48,056,108	1,399,846,663	3,689,930	131,605
Adjustments	1,767,131	5,632	(465,343)	(14,188)	1,293,432	916	-
Balance at January 1, 2011 following adjustments	26,891,745	465,841,114	860,365,316	48,041,920	1,401,140,095	3,690,846	131,605
Additions	3,989,086	429,704	4,669,551	23,145,231	32,233,572	255,929	-
Activation of construction in progress	40,809	5,301,583	21,257,327	(28,813,167)	(2,213,448)	(21,269)	-
Transfers	30,404	(28,932,328)	28,837,464	1,287,507	1,223,047	-	427,127
Self-constructed assets	-	620,164	1,691,322	4,077,092	6,388,578	16,407	-
Donations	-	49,958	617,637	-	667,595	63	-
Revaluation (effects of subsequent appraisals)	4,756,542	124,334,789	245,391,489	-	374,482,820	(14,777)	-
Appraisal effects of land and construction in progress	6,935,175	2,322,272	5,770,527	-	15,027,974	-	-
Sales	(218)	(10,115)	(40,558)	-	(50,891)	-	-
Write-off (disposals)	-	(455,504)	(12,855,602)	(2,563)	(13,313,669)	(2,585)	-
Transfer to third parties	-	(447,858)	(105,435)	-	(553,293)	(36)	-
Surpluses	-	62,166	26,150	-	88,316	-	-
Shortages	-	-	(16,423)	-	(16,423)	-	-
Other changes	(2,642)	(7,601)	(1,068,327)	(553,240)	(1,632,810)	(2,411)	-
Balance, December 31, 2011, following adjustments	42,640,901	569,108,344	1,154,540,438	47,182,780	1,813,472,463	3,922,165	568,732

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

	Land, Forests and Perennial Plants	Buildings	Equipment and Other Assets	Construction in Progress	Total	Intangible Assets	Investment Property
Accumulated Depreciation and Amortization							
Balance at January 1, 2010, prior to adjustments	7,187,539	265,992,811	584,500,657	-	857,681,007	1,036,713	77,571
Adjustments	(298)	11,077	(25,771)	-	(14,992)	-	-
Balance at January 1, 2010 following adjustments	7,187,241	266,003,888	584,474,886	-	857,666,015	1,036,713	77,571
Charge for the year	921,049	6,745,610	28,134,575	-	35,801,234	179,982	2,492
Transfers	-	(288,626)	283,680	-	(4,946)	-	-
Transfers to subsidiaries	-	-	1,813	-	1,813	(461)	-
Donations	-	111	82,639	-	82,750	-	-
Sales	-	(2,018)	(78,001)	-	(80,019)	-	-
Retirement and disposal	-	(178,003)	(8,161,721)	-	(8,339,724)	(7,255)	-
Shortages	-	(708)	(25,895)	-	(26,603)	-	-
Transfer to third parties	-	(10,928)	(10,383)	-	(21,311)	-	(683)
Other changes	(1)	65,426	(767,503)	-	(702,078)	251	-
Balance, December 31, 2010, following adjustments	8,108,289	272,334,752	603,934,090	-	884,377,131	1,209,230	79,380
Accumulated Depreciation and Amortization							
Balance at January 1, 2011, prior to adjustments	8,108,289	272,334,752	603,934,090	-	884,377,131	1,209,230	79,380
Adjustments	248,289	7,451	(309,839)	-	(54,099)	-	-
Balance at January 1, 2011 following adjustments	8,356,578	272,342,203	603,624,251	-	884,323,042	1,209,230	79,380
Charge for the year	441,010	8,383,237	33,862,201	-	42,686,448	178,813	100,281
Transfers	-	(15,936,564)	15,938,934	-	2,370	-	-
Donations	-	10,211	263,419	-	273,630	-	-
Revaluation (effects of subsequent appraisals)	(351,486)	(106,108,299)	(118,405,107)	-	(224,864,892)	(20,293)	-
Decrease in value due to appraisal effects	(304,063)	(7,256,556)	(10,970,803)	318,201	(18,213,221)	(1,046)	-
Sales	-	(6,960)	(37,208)	-	(44,168)	-	-
Retirement and disposal	-	(320,280)	(8,559,368)	-	(8,879,648)	(2,066)	-
Shortages	-	(394,879)	(12,437)	-	(407,316)	-	-
Transfer to third parties	-	8,300	(85,499)	-	(77,199)	-	-
Other changes	122,091	-	(923,286)	-	(792,895)	(606)	2
Balance, December 31, 2011, following adjustments	8,284,140	150,720,414	514,695,097	318,201	673,997,852	1,364,032	179,663
Net Book Value							
Balance, December 31, 2010	17,016,325	193,500,530	256,896,569	48,056,108	515,469,532	2,480,700	52,225
Balance at January 1, 2010, prior to adjustments	14,097,171	197,481,983	250,593,693	50,107,040	512,279,887	2,425,997	37,956
Balance at January 1, 2010 following adjustments	14,102,079	197,496,414	250,586,266	50,070,568	512,255,327	2,425,997	56,705
Net Book Value							
Balance, December 31, 2011	34,376,761	418,387,930	639,845,341	46,864,579	1,139,474,611	2,558,133	379,069
Balance at January 1, 2011, prior to adjustments	17,016,325	193,500,530	256,896,569	48,056,108	515,469,532	2,480,700	52,225
Balance at January 1, 2011 following adjustments	18,535,157	193,498,911	256,741,065	48,041,920	516,817,054	2,481,616	52,225

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

Property, plant and equipment, as disclosed in Note 3.12, are stated at a revalued amount as at January 1, 2011. (The previous appraisal was performed as of January 1, 2007, except for the Public Company "Kolubara Metal," which had its property, plant and equipment appraised as of January, 2009.) The independent appraiser "Energoprojekt-Entel" a.d. and its sub-contractor "Economics Institute" were engaged to perform the appraisal. Fair value measurement was provided by applying the depreciated replacement cost method, market value method.

	Land, Forests and Perennial Plants (Accounts 020, 021)	Buildings (Account 022)	Plant and Equipment (Account 023)	Total Property, Plant and Equipment
Fair value adjustment effects on the gross value	11,682,527	126,657,061	251,106,313	389,445,901
Fair value adjustment effects on the accumulated depreciation	(655,549)	(113,364,855)	(129,420,386)	(243,440,790)
Fair value adjustment effects on the net book value	12,338,076	240,021,917	380,526,700	632,886,693
- whereof credited to revaluation reserves	11,727,790	192,104,860	335,705,609	539,538,259
- whereof credited to deferred tax liabilities	76,827	39,825,757	19,305,453	59,208,037
- whereof charged to expenses as impairment loss	1,368,926	3,263,220	10,658,074	15,290,213
- whereof credited to income based on the reversal of impairment	<u>1,902,385</u>	<u>11,354,519</u>	<u>36,173,706</u>	<u>49,430,610</u>

Revaluation fair value measurement encompassed all items of property, plant and equipment used in execution of the power generation and distribution activity, whereby:

- a positive revaluation effect was recognized as an equity item (revaluation reserves totaling RSD 598,746,296 thousand, whereof a portion of RSD 59,208,037 thousand was credited to deferred tax liabilities), i.e. the balance of revaluation reserves as of the reporting date amounted to RSD 539,538,259 thousand;
- a positive revaluation effect was recognized as other income in the amount of RSD 49,430,610 thousand based on the reversal of previously recognized impairment of property, plant and equipment as of January 1, 2007 (Note 13),
- a negative revaluation effect was recognized as expense, as disclosed in Note 14.

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

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Advances paid for property, plant, equipment and intangible assets	5,986,738	5,989,282
Less: Allowance for impairment of advances paid	<u>(139,320)</u>	<u>(138,261)</u>
	<u>5,847,418</u>	<u>5,851,021</u>

Advances of RSD 1,566,806 thousand (2010: RSD 1,590,891 thousand) were paid to the owners of property registered in the Cadastral Municipality of Vreoci as in accordance with the Program Bases adopted under the Decision of the Board of Directors of JP EPS approved by the RS Government in its Decision 05 no. 310-5277/2007-3 as of November 22, 2007. The RS Government delivered for realization purposes the Conclusion number 465-8001/2009-3 as of December 17, 2009 allowing that the Public Company RB Kolubara, in its capacity of expropriation beneficiary, submit with the body concerned, proposals for the expropriation of buildings registered on the orthoimage as of January 15, 2007.

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18. EQUITY INVESTMENTS

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Equity investments in jointly controlled legal entities:		
- Energija Novi Sad a.d.	560	560
- Ibarske hidroelektrane d.o.o.	147,737	10,464
- Moravske hidroelektrane d.o.o.	10,004	-
Equity investments in domestic banks:		
- AIK banka a.d., Niš	608,766	1,096,596
- Čačanska banka a.d., Čačak	26,167	10,304
- Komercijalna banka a.d., Beograd	15,419	-
- Razvojna Banka Vojvodine Novi Sad	10,429	11,005
- Other	21,559	129,382
Equity investments in other legal entities:		
- HIP Petrohemija Pančevo	711,614	711,614
- Politika a.d., Beograd	126,894	175,635
- RMK Trepča	27,010	27,010
- Minel holding	9,716	9,716
- Panonka Sombor	33,417	33,417
- Ipok d.o.o. Zrenjanin	90,249	87,288
- Industrija mesa BEK d.o.o. Zrenjanin	6,276	6,276
- Other	204,974	205,293
Equity investments in insurance companies	4,409	4,409
Total equity investments	<u>2,055,200</u>	<u>2,518,969</u>
Allowance for impairment of:		
- equity investments in domestic banks	(19,331)	(18,798)
- equity investments in other legal entities	(1,050,548)	(963,690)
- equity investments in insurance companies	(3,920)	(3,456)
Total allowance for impairment	<u>(1,073,799)</u>	<u>(985,944)</u>
	<u>981,401</u>	<u>1,481,113</u>

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

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

Once the arrangement had been signed, the founders paid in their contributions as follows: SECI paid the dinar counter value of EUR 102,000.00 and JP EPS paid the dinar counter value of EUR 98,000.00. During the reporting period, the founders paid in the subscribed capital in the dinar counter value of EUR 2,727,507 (SECI paid in EUR 1,391,194.83 and JP EPS paid in EUR 1,336,312.17), and subsequent to the balance sheet date, the founders paid in the dinar counter value of EUR 499,925, i.e. the respective amounts of EUR 254,925 (SECI) and EUR 245,000 (JP EPS). The balance of subscribed capital not paid in will be paid by the founders within two years from the registration of the company establishment with the founder's obligation to pay in additional equity contributions totaling 25% of the investment value, as 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 that is not enough, 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 goal of company establishment is the construction of the hydro power plant system on the Ibar River comprised of ten hydro power plants with the total power of about 102 MW. The Public Company "Ibarske hidroelektrane" d.o.o. was entered into the registry maintained by the competent body as of December 3, 2010.

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18. EQUITY INVESTMENTS (Continued)

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

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

Once the arrangement had been signed, the founders paid in their contributions as follows: RWE AG paid a dinar counter value of EUR 102,000 and JP EPS paid the dinar counter value of EUR 98,000. The balance of subscribed capital not paid in of EUR 3,800,000 will be paid in the respective amounts determined by the Board of Directors' Decision thereon and within terms set in accordance with the prevailing legislation.

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

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

Equity investments in domestic banks, Politika AD and insurance companies are classified as available for sale and a part of these investments whose values are listed on the active market are recognized at fair value as of December 31, 2011. The difference between the fair value as of December 31, 2010 and December 31, 2011 was recognized as a special line item of equity, by reversal of revaluation reserves based on unrealized gains amounting to RSD 378,807 thousand and by recognition of revaluation reserves based on unrealized losses of RSD 187,791 thousand. Namely, according to the business management, the amount of accumulated losses was not derecognized from equity given that, from the aspect of the acquisition and recognition date, as well as the scope of trading in equity instruments, there have been no significantly different data which would indicate that: the issuers are experiencing considerable financial difficulties (the number of days of illiquidity is determined based on the NBS records of defaulting liabilities of debtors, subject to forced collection), defaulting against the contractually-agreed liabilities, experiencing significant and determinable decline in cash flows (by examining the independent auditors' reports, positive results achieved in the prior reporting period and the like), or that significant changes, with adverse effects, have occurred in the technological, market, economic or legal environment in which the issuers are operating.

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

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19. LONG-TERM INVESTMENTS

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Long-term receivables from the PE Elektromreža Srbije	252,444	267,934
Rescheduled accounts receivable for electricity sold to private individuals	7,654	14,222
Rescheduled accounts receivable for electricity sold to legal entities	79,460	242,547
Joint investment in the Rovni Water Accumulation	637,205	637,205
Investments based on apartments sold, housing loans and long-term lease of apartments	422,068	439,493
Receivables from the Privatization Agency of RS	97,073	126,852
Long-term deposits with domestic banks	-	15,765
Other long-term financial placements	248,608	248,715
	1,744,512	1,992,733
<i>Less: Allowance for impairment</i>		
- Rescheduled accounts receivable for electricity	(15,828)	(43,742)
- Receivables from the Privatization Agency of RS	(97,073)	(126,871)
- Other long-term investments	(248,608)	(143,045)
	(361,509)	(313,658)
	1,383,003	1,679,075

Rescheduled accounts receivables arising on electricity supply are due from households and legal entities whose accounts receivable were rescheduled as of December 31, 2002, and are repaid in equal minimum monthly installments of RSD 300 within the period of ten years with a monthly interest rate of 1% (adjusted in case the retail price index exceeds 12.68% annually). Given that the likelihood of economic benefits is not certain, according to the management's estimates the rescheduled receivables have mostly been provided for in the amount of the rescheduled principal.

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

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

20. INVENTORIES

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Materials	10,911,679	10,954,131
Spare parts	12,213,994	11,518,787
Tools and fixtures	2,863,138	2,369,329
Work in progress and finished products	2,339,945	3,439,036
Coal	420,206	154,051
Goods	656	429
	28,749,618	28,435,763
<i>Less: Allowance for impairment</i>		
	(3,585,679)	(2,980,167)
	25,163,939	25,455,596

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20. INVENTORIES (Continued)

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

21. ADVANCES PAID FOR INVENTORIES

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Advances paid	2,333,456	2,532,021
Less: Allowance for impairment of advances paid	(199,789)	(129,318)
	2,133,667	2,402,703

22. ACCOUNTS RECEIVABLE

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Accounts receivable:		
- unconsolidated subsidiaries situated in Kosovo and Metohija	2,313,769	1,493,937
- other related parties	3,363	4,509
- domestic customers	124,280,374	110,087,122
- foreign customers	4,833,158	5,550,424
- Resavica Coal Mine	1,166,907	1,166,907
	132,597,571	118,302,899
Receivables for radio and television subscription fees	28,254,164	22,611,171
Interest receivable	2,278,986	2,225,824
Receivables from employees	399,517	1,148,580
Accounts receivable from budget beneficiaries and prepaid taxes and contributions	586,801	156,825
Receivables from specific operations	211,804	133,321
Other receivables	604,264	926,533
	164,933,107	145,505,153
Less: Allowance for impairment of receivables from:		
- non-consolidated subsidiaries situated in Kosovo and Metohija	(2,309,737)	(1,485,049)
- other related parties	(370)	(370)
- domestic customers	(90,670,775)	(77,926,501)
- foreign customers	(3,858,613)	(3,790,047)
- Resavica Coal Mine	(1,166,907)	(1,166,907)
- employees	(3,525)	(4,968)
- receivables for prepaid taxes and contributions	(217)	(215)
- other receivables	(389,811)	(386,786)
	(98,399,955)	(84,760,843)
	66,533,152	60,744,310

The terms and tariffs associated with the supply of electricity to customers are regulated under the Decree on the general terms of delivery of electricity whereas the price of these goods is determined in the Decision enacted by the JP EPS' Board of Directors and approved by the Government of the Republic of Serbia under the Decision on the tariffs of electricity sold, passed by the Energy Agency of the Republic of Serbia.

Domestic accounts receivable as of December 31, 2011 include the receivables from domestic companies in restructuring, amounting to RSD 13,983,078 thousand (December 31, 2010: RSD: 13,409,774 thousand).

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22. ACCOUNTS RECEIVABLE (Continued)

In accordance with the Conclusion issued by the Republic of Serbia Government number 021-6624/2009-002 at the Government session held as of November 30, 2009, the Public Enterprise Electric Power Industry of Serbia is to supply electricity to the majority Serb area in the north of the Autonomous Province of Kosovo and Metohija. Accordingly, income from electricity delivered to the Public Enterprise "Elektrokosmet", Priština was recognized in the amount of RSD 2,313,769 thousand. At the same time, the outstanding amount is recognized as an expense fully provided for.

A portion of foreign accounts receivable of RSD 855,743 thousand is stated based on the trade in electricity with the Electric Power Industry of Montenegro, as well as with the Mixed Holding Power Utility of the Republic of Srpska with which the Company executed long-term agreements on business and technical cooperation. The inflow of cash arising therefrom is anticipated subsequent to the balance sheet date. The remaining balance of foreign accounts receivable of RSD 3,977,415 thousand mostly relates to the amounts due from power utilities of former Yugoslav Republics dating from prior years (RSD 3,497,355 thousand), which are fully provided for.

The Act on Changes and Amendments to the Broadcast Act, prescribes that, starting from September 2005, radio and television subscription be collected from end-users through JP EPS for the account of Broadcasting Corporation Radio and Television of Serbia ("RTS") under the same terms as JP EPS collects the electricity bills. At each month end, based on the bills delivered to electricity consumers for the TV subscription, the distribution companies and RTS settle the accounts, whereas the monetary transfer to the RTS account is performed daily. For the aforementioned consignment, the distribution companies were entitled to 6.3% of TV subscription collected until September 2010 and to 3% thereon. A portion of matured receivables based on RTS subscription accrued in the period ended August 2010 in the total of RSD 413,950 thousand was rescheduled over a 24-month period starting from September 2010 with the interest accrued at the rate of 6% annually. Subsequent to the balance sheet date, starting from February 2012, the agreed consignment fee was set to 0.5% of TV subscription collected within a respective month, whereas the receivables matured and uncollected in the period between the previous Agreement and February 2012 were rescheduled over a 24-month period.

23. SHORT-TERM FINANCIAL ASSETS

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Current portion of long-term receivables from the Public Enterprise Elektromreža Srbije	85,410	72,689
Short-term deposits with domestic banks	2,373,572	1,035,975
Short-term domestic loans	2,584	126,192
Short-term foreign loans	31,082	31,082
Other	380,012	632,347
	2,872,660	1,898,285

Short-term deposits relate to short-term deposits placed with domestic banks for a period from one month to one year.

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24. CASH AND CASH EQUIVALENTS

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Current accounts:		
- in dinars	4,211,155	4,563,341
- in foreign currencies	603,713	477,838
Deposits covering letters of credit	98,141	539,114
Cash on hand and other cash	97,106	92,227
Other cash	461,922	381,130
Cash funds restricted or impaired	25,048	24,706
	<u>5,497,085</u>	<u>6,078,356</u>
Impairment of restricted or impaired cash funds	<u>(25,048)</u>	<u>(24,706)</u>
	<u>5,472,037</u>	<u>6,053,650</u>

25. VALUE ADDED TAX AND PREPAYMENTS

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Deferred value added tax	162,065	1,364,586
Other prepayments	612,347	636,597
	<u>774,412</u>	<u>2,001,183</u>

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

26. CAPITAL

State-Owned Capital

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

Pursuant to the Decision of the Government of the Republic of Serbia on the Establishment of the Public Enterprise engaged in generation, production and distribution of electricity Public Enterprise "Electric Power Industry of Serbia", the Company assumed all the assets of the earlier Public Enterprise including the investments in the subsidiaries founded with the Company's assets in the prior period except in the Public Company for Power Transmission "Elektroistok" from Belgrade and in the entity "Elektroenergetski koordinacioni centar" d.o.o., Beograd. The JP EPS group is comprised of 12 related parties entirely owned by the Company. The Company engaged an independent appraiser in 2005 for the purpose of appraising non-monetary investment in the newly-established Public Company, where the independent valuer also estimated the aforesaid value of equity interest in related parties.

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26. CAPITAL (Continued)

State-Owned Capital (Continued)

The estimated value of equity interests in the related parties was the carrying value of capital as of December 31, 2004. The amount of state-owned balance recognized in the accompanying consolidated financial statements as of December 31, 2011 amounts to RSD 358,717,940 thousand and exceeds the amount recognized by the parent company (RSD 322,906,234 thousand) by RSD 35,811,706 thousand due to a difference between estimated value of equity investments in the related parties and the respective capital of the related parties.

Other Capital

Other capital stated in the Company's balance sheet as of December 31, 2011 relates to the consolidated public enterprises' sources of non-operating assets that were transferred upon the transition to the new accounting regulations applicable in the Republic of Serbia as of January 1, 2004.

Profit Distribution

With the Founder's consent (Decision 05 no. 41-9383/2011 as of December 8, 2011, issued in the Official Gazette of RS no. 96/2011), and based on the Decision of the Board of Directors, portions of retained earnings from the years 2005, 2006 and 2010 to the owner and employees, in the total amount of RSD 1,995,718 thousand and RSD 1,640,833 thousand, respectively.

27. LONG-TERM PROVISIONS

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Provisions for retirement benefits and jubilee awards	8,578,250	7,648,348
Provisions for litigations	2,719,470	2,427,632
Provisions for the costs of natural resource restoration	1,038,743	768,979
Other long-term provisions	4,133	3,342
	12,340,596	10,848,301

The movements on long-term provisions during 2011 and 2010 are presented in the following table:

	Restoration of Natural Resources	Employee Benefits (Retirement Benefits, Jubilee Awards and Other)	Litigations	Other Long- Term Provisions	Total
Balance, January 1, 2010	561,612	6,759,121	1,746,369	20,850	9,087,952
Charge for the year	243,472	1,688,438	1,181,546	-	3,113,456
Release of provisions	(36,105)	(781,322)	(476,812)	(17,508)	(1,311,747)
Reversal	-	(17,889)	(23,471)	-	(41,360)
Balance, December 31, 2010	768,979	7,648,348	2,427,632	3,342	10,848,301
Charge for the year 2011	337,255	1,866,740	1,341,939	140,680	3,686,614
Release of provisions	(67,491)	(930,658)	(955,459)	(139,889)	(2,093,497)
Reversal	-	(6,180)	(94,642)	-	(100,822)
Balance, December 31, 2011	1,038,743	8,578,250	2,719,470	4,133	12,340,596

Provisions for retirement benefits and jubilee awards of RSD 8,578,250 thousand were formed as disclosed in Note 3.9.

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28. LONG-TERM BORROWINGS

		ORIGINAL CURRENCY				Thousands of RSD		
No.	FOREIGN BORROWINGS	Currency	Principal	Maturity Date	Repayment Schedule	Interest Rate	December 31, 2011	December 31, 2010
A FOREIGN CURRENCY BORROWINGS								
REFINANCED LOANS REALIZED FROM THE FUNDS OF:								
1	PARIS CLUB OF CREDITORS						28,887,147	30,236,790
1.1	AUSTRIA	EUR	3,536,140.63	30/09/2008-31/03/2024	30/03 and 30/09	AMARKETRATE/EUR	26,859,764	28,117,243
1.2	FRANCE	EUR	41,371,695.48	22/09/2008-22/03/2024	22/03 and 22/09	5.9%	370,025	398,782
1.3	GERMANY	EUR	26,882,831.17	22/09/2008-22/03/2024	22/03 and 22/09	5.9%	4,329,171	4,698,880
1.4	CANADA	EUR	56,336,079.03	22/09/2008-22/03/2024	22/03 and 22/09	EURIBOR/EUR +0.5%	2,813,044	3,017,423
1.5	SWITZERLAND	CHF	79,040,644.59	22/09/2008-22/03/2024	22/03 and 22/09	LIBOR/CHF+0.5%	6,104,549	6,530,316
1.6	USA	USD	6,691,355.50	22/09/2008-22/03/2024	22/03 and 22/09	5.375%	6,790,544	7,008,766
1.7	RUSSIAN FEDERATION	USD	44,444,729.52	22/09/2005-22/03/2034	22/03 and 22/09	0.5517%	541,104	569,529
1.8	JAPAN	JPY	2,224,222,690.05	22/09/2008-22/03/2024	22/03 and 22/09	2.8390%	3,594,076	3,606,451
2	LONDON CLUB OF CREDITORS	USD	14,146,859.10	01/05/2010-01/11/2024	01/05 and 01/11	3.75% to 11/09; 6.75% to 11/24	1,144,003	1,207,840
3	IBRD	EUR	8,015,424.40	15/03/2005-15/12/2031	15/03 and 15/09	1/3-5.44%, 1/3-5.81% and 1/3-EURIBOR	838,741	866,702
4	EIB	EUR	426,566.43	17/10/2012-17/10/2016	15/06 and 15/12 17/04 and 17/10	6-month EURIBOR	44,639	45,005
II LOANS FROM THE GOVERNMENTS								
1	PR China	USD	31,038,113.76	21/07/2010-21/01/2021	21/01 and 21/07	6-month LIBOR+1.3%	2,509,935	2,849,240
2	Russian Federation	USD	2,354,643.20	15/01/2004-15/07/2013	15/01 and 15/07	LIBOR+1.25%	190,411	280,015
3	Republic of Poland	USD	31,348,335.13	2005-2024	15/06 and 15/12	0.75%	2,535,021	2,752,476
III LOANS FROM INTERNATIONAL FINANCIAL ORGANIZATIONS								
1	KfW I (EUR 51.1 million)	EUR	8,521,531.18	30/12/2004-30/06/2013	30/06 and 31/12	4.32% variable (4.5247%, 4.8598% and 5.2778%)	891,701	1,496,344
2	KfW II (EUR 16 million)	EUR	8,615,384.62	30/06/2009-30/06/2015	30/06 and 30/12	0%	901,522	1,168,595
3	KfW III (EUR 30 million)	EUR	21,289,482.26	30/12/2010-30/06/2020	30/06 and 30/12	variable (4.56%)	2,227,751	2,013,802
4	KfW IV (EUR 36 million)	EUR	15,188,450.30	30/06/2013-30/12/2019	30/06 and 30/12	variable semi-annually (3.1%-5.793%)	1,589,333	1,062,895
5	EBRD I (EUR 39.6 million)	EUR	22,547,427.85	07/09/2005-07/03/2016	07/03 and 07/09	variable semi-annually (3.1%-5.793%)	2,359,383	2,625,311
6	EBRD II (EUR 60 million)	EUR	42,433,298.89	07/03/2008-07/09/2018	07/03 and 07/09	variable semi-annually (3.1%-5.793%)	4,440,259	5,116,156
7	EBRD III (EUR 40 million)	EUR	827,605.10	02/09/2013-02/03/2022	02/03 and 02/09	variable EURIBOR +1%	86,601	-
8	EIB II (EUR 22 million)	EUR	21,013,333.29	09/12/2010-09/06/2027	09/06 and 09/12	3.879% - 5.248%	2,196,854	2,292,828
9	Wb IDA (SDR 12.24 million)	XDR	8,311,749.31	15/09/2015-15/03/2025	15/03 and 15/09	0%	1,028,642	658,395

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28. LONG-TERM BORROWINGS (Continued)

No.	ORIGINAL CURRENCY	Currency	Principal	Maturity Date	Repayment Schedule	Interest Rate	Thousands of RSD	
							December 31, 2011	December 31, 2010
A FOREIGN CURRENCY BORROWINGS								
IV Banks in bankruptcy								
1	Beogradska banka	USD	0,00	31/03/2009-31/12/2011	monthly	LIBOR+3%; domestic for USD and 0.5% monthly	88,726	1,298,592
2	Beogradska banka	EUR	0,00	31/03/2009-31/12/2011	monthly	5.5%	-	207,276
4	Beobanka	EUR	254,222,42	31/03/2009-29/02/2012	monthly	8%	26,602	477,213
5	Beobanka	USD	788,227,73	31/03/2009-29/02/2012	monthly	6%	62,124	187,741
V	OTHER						3,353	426,362
1	JP EMS - IBRD	EUR	32,039,31	15/03/2005-15/12/2031	15/03 and 15/09	1/3-5.44% 1/3 -5.81% and	3,353	3,548
2	Erste Bank a.d. Novi Sad	EUR	0,00	29/10/2009-29/09/2011	monthly	1/3-EURIBOR	-	87,919
TOTAL (I+II+III+IV+V)							49,938,639	53,944,706
B RSD BORROWINGS								
2 Banks in bankruptcy								
	Beogradska banka	RSD	0,00	31/03/2009-31/12/2011	monthly	NBS discount rate	35,156	98,234
	Investbanka	RSD	33,637,922,39	15/06/2008-15/12/2012	15/06 and 15/12 and monthly	1%	-	28,918
	Beobanka	RSD	1,520,000,00	15/06/2008-15/12/2012	15/06 and 15/12 and monthly	1%	33,638	67,276
3	UNICREDIT BANK	RSD	2,000,000,00	27/01/2012-27/12/2012	monthly	14.2%	1,520	3,040
4	UNICREDIT BANK	RSD	127,788,057	12/01/2013-12/12/2013	monthly	12.82%	2,000,000	2,000,000
TOTAL							2,162,946	2,099,234
TOTAL LONG-TERM BORROWINGS							52,101,585	56,043,940
CURRENT PORTION OF LONG-TERM BORROWINGS								
A	- in foreign currencies						4,524,930	6,109,912
B	- in dinars						2,035,158	64,076
TOTAL							6,560,088	6,173,988
LONG-TERM PORTION								
A	- in foreign currencies						45,413,709	47,834,794
B	- in dinars						127,788	2,035,158
TOTAL LONG-TERM PORTION							45,541,497	49,869,952

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28. LONG-TERM BORROWINGS (Continued)

A. Foreign Currency Borrowings

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

1. Paris Club of Creditors

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

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

As disclosed in Note 13, a portion of liabilities towards creditors of the Paris Club of Creditors matured up to December 31, 2011 (principal of RSD 455,082 thousand and interest of RSD 336,198 thousand were settled as of February 21, 2011).

2. London Club of Creditors

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

3. International Banks for Reconstruction and Development

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

II Loans from Foreign Governments

1. Loan from the Government of the Republic of Poland

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

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28. LONG-TERM BORROWINGS (Continued)

A. Foreign Currency Borrowings (Continued)

II Loans from Foreign Governments

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

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

The RS Government, in its capacity of a guarantor, assumed the debt towards EXIM Bank of China from the People's Republic of China and on February 20, 2009, it signed a Debt Restructuring Agreement. It has been agreed therein that 40% of debt be written off, so the new debt shall be determined as 60% of the total value of the sum of unpaid principal, accrued but unpaid interest and accrued penalty interest aggregated in the period ended March 25, 2009. Interest rate is contractually agreed as a six-month LIBOR further increased by 1.25%, shall be accrued as an actual number of days/360, and it shall be discharged semiannually on January 21 and July 21. The principal shall be repaid in 22 semi-annual installments on January 21 and July 21, with a grace period of one year starting from the effectiveness date determined. In case of delay in settling liabilities matured, a penalty interest rate of 1% above the regular interest has been agreed.

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

As disclosed in Note 13, a portion of liabilities from the Chinese loan matured up to December 31, 2011 (principal of RSD 123,636 thousand and interest of RSD 23,120 thousand) was settled as of February 21, 2011.

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

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

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

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

Subsequent to the balance-sheet date, the loaned funds will become effective upon conclusion of the Agreement on loan transfer between the RS Government as the Borrower and JP EPS as the Commissioner, in accordance with the Law on Ratification of the Agreement on the Loan Approved to Subsidized Buyer for Stage 1 of the Kostolac-B Power Plant Projects between the RS Government as the Borrower and Chinese Export-Import Bank, as the Lender.

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28. LONG-TERM BORROWINGS (Continued)

A. Foreign Currency Borrowings (Continued)

II Loans from Foreign Governments (Continued)

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

Through the Japan International Cooperation Agency (JICA), the Government of Japan is financing the project of flue gas desulphurization plant construction at "Nikola Tesla" Thermal Power Plant. The loan of up to JPY 28,252,000,000 was agreed upon as of November 24, 2011 for a utilization period of 15 years and repayment period of 10 years following the five-year grace period. The interest rate agreed upon equals 0.6% annually, except for the loan portion used for payment of consultant services, where the interest is accrued at the rate of 0.01% annually. Semi-annual installments mature for payment on May 20 and November 20, whereby the repayment of the principal commences as of November 20, 2016 and completes as of November 20, 2026. The loan principal repayment, as well as interest repayment and payment of other loan-related costs is guaranteed by the RS Government by enactment of the Law on Guarantee Issue in Favor of the Japan International Cooperation Agency per Debt of the Public Enterprise Electric Power Industry of Serbia, Belgrade.

III Loans from International Financial Organizations

1. *KfW*

With the German financial organization KfW financial agreements were executed in the period from 2001 through 2010 as follows:

- For the amount of EUR 51,129,188 an agreement was executed on October 26, 2001. The loan was fully drawn in the period until June 30, 2004. The principal repayment commenced from December 30, 2004 and will last until June 30, 2013. Following the withdrawal date, the applicable interest rate was fixed at 4.32% annually.
- EUR 16 million (out of which EUR 9 million is not to be repaid) was obtained on December 24, 2003. Borrowed funds have been used in full. At June 30, 2009, the loan principal repayment commenced. The final maturity date was June 30, 2015. The applicable annual interest rate was fixed after the withdrawal period for Project A at 4.52470%, for Project B at 4.85980%, and for Project C at the level of 5.27780%.
- On September 9, 2005, EUR 30 million was borrowed. December 31, 2011 was set as the final date for the availability of funds borrowed with the option of deadline extension. Pursuant to the provisions contained in the Agreement, the loan principal has been repaid from December 30, 2010 in 20 equal installments of about EUR 1,500,000. The final maturity date was set at June 30, 2020. The loan was agreed interest-free.
- EUR 36 million (with the additional amount EUR 10 million not to be repaid) was obtained on January 2, 2008. The Company started using borrowed funds. November 30, 2012 is set as the final date for funds availability leaving the option to extend this deadline. According to the Agreement, The repayment of the principal commences on June 30, 2013, to be completed by December 30, 2019. The interest rate is determined two days before the each tranche has been drawn and used and is fixed until KfW informs JP EPS on the consolidated interest rate for the entire loan which will be determined upon the execution of the last disbursement of the subject borrowing and will remain constant throughout the entire repayment period.
- EUR 70 million was agreed on October 29, 2010. December 30, 2015 has been set as the final deadline for the use of borrowed funds with the option of deadline extension. According to the provisions of the Loan Agreement, the principal repayment commences as of December 30, 2015 in 20 equal semi-annual installments. A fixed interest rate has been agreed and is to be determined by KfW annually two days before the disbursement for each portion of the borrowing received based on the expenses incurred by KfW on the EUR capital market under terms that best correspond to the fixed interest rate period 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 unique rate for the total borrowing. At the date of issuing this report, the Bill on the Republic of Serbia guarantee issuance was adopted.

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28. LONG-TERM BORROWINGS (Continued)

A. Foreign Currency Borrowings (Continued)

III Loans from International Financial Organizations (Continued)

2. Loans from the European Bank for Reconstruction and Development

The loans obtained from the European Bank for Reconstruction and Development (EBRD) in the amounts of:

- EUR 39.6 million is currently being used. The initially agreed borrowing of EUR 100 million was divided between JP EPS (EUR 39.6 million) and the Public Enterprise "Elektromreža Srbije" (EUR 60,400,000). The redistribution of rights and liabilities between JP EPS and the Public Enterprise "Elektromreža Srbije" with the consent of the EBRD, as the concerned creditor, and the Republic of Serbia, as the guarantor, was executed on May 27, 2008 by closing the following: the Amended Loan Agreement between the Company and the EBRD, the Amended Loan Agreement between the Public Enterprise "Elektromreža Srbije" and the EBRD and the Agreement on the Recognition, Consent and Reaffirmation signed between the Republic of Serbia, the Company, the Public Enterprise "Elektromreža Srbije" and the EBRD. The rights and liabilities for the portion of this loan amounting to EUR 60.4 million were transferred to the Public Enterprise "Elektromreža Srbije". The funds of the amount borrowed that are used by this entity have again become effective as of July 29, 2008 and were used before the date of issuing this Report, where the portion of loan of EUR 1,179.00 was cancelled. The principal repayment commenced on September 7, 2005 and will last until March 7, 2016. The interest rate agreed is variable.
- EUR 60 million was used by April 30, 2010 but a portion of borrowing of EUR 135,857.49 was cancelled. The repayment of the principal commenced from March 7, 2008 and will last until September 7, 2018. The interest is compounded at a variable rate.
- EUR 40 million was agreed on September 2, 2010. The date until which funds are available is set at September 2, 2013 with the option of deadline extension. According to the provisions of the relevant Agreement, the principal repayment commences on September 2, 2013 and is to be executed in 18 equal semi-annual installments by March 2, 2022. The loan accrues variable interest rate with the option to choose a fixed interest rate.
- EUR 80 million was agreed as of July 28, 2011. The ultimate date until which funds are available is set at January 28, 2015 with the option of deadline extension. According to the provisions of the relevant Agreement, the principal repayment commences as of January 31, 2015 and is to be executed in 17 equal semi-annual installments by January 31, 2023. The loan accrues variable interest rate with the option to choose a fixed interest rate. The loan funds will become effective following the conclusion of the loan and financing agreement with KfW, whose funds will be used in co-financing the Kolubara Projects.
- EUR 45 million was agreed as of December 7, 2011. The ultimate date until which funds are available is set at December 7, 2014 with the option of deadline extension. According to the provisions of the relevant Agreement, the principal repayment commences as of April 30, 2015 and is to be executed in 18 equal semi-annual installments by October 31, 2023. The loan accrues variable interest rate with the option to choose a fixed interest rate. Subsequent to the balance sheet date The loan principal repayment, as well as interest repayment and payment of other loan-related costs is guaranteed by the RS Government by enactment of the Law on Ratification of Guarantee Agreement (EPS Project of Small Hydro Power Plants) between the Republic of Serbia and the European Bank for Restoration and Development.

Based on the credit arrangement with the EBRD, the Company is obliged to achieve the maximum and minimum operating ratios. At December 31, 2011, the Company complied with all necessary ratios with the exception of the general liquidity ratio. The Company's management anticipated that no restrictions may be imposed by the EBRD which would call for the reclassification of the aforementioned liabilities from long-term to current liabilities.

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28. LONG-TERM BORROWINGS (Continued)

A. Foreign Currency Borrowings (Continued)

III Loans from International Financial Organizations (Continued)

3. Loan from the European Investment Bank

Loans from the European Investment Bank (EIB):

- Based on the loan on financing the project of managing the electric power system of Serbia and Montenegro entered by and between Serbia and Montenegro on one side and European Investment Bank on October 30, 2003, a loan of EUR 22,000,000 was extended to the Company. The loan was fully drawn in 10 tranches in the period until December 31, 2008 since the initially agreed final date for drawing funds, April 30, 2007, was extended to December 31, 2008. The loan is repaid in semi-annual installments, partly maturing on May 25 and November 25, and in part these installments fall due on June 9 and December 9 in the period from 2010 through 2027. The first installment is due on November 25, 2010 and the last installment is due on December 9, 2027. The applicable interest rate is set for each tranche individually and is fixed until the end of repayment period.
- Based on the Financial Agreement on financing the EPS Project – electricity meters, closed on November 29, 2010 between this Company and the European Investment Bank, the Company was approved a loan of EUR 40,000,000. The loan will be drawn in 10 tranches in the period ending December 31, 2014 with a fixed and variable interest, of which the EIB will inform the Company within 10 days after the commencement of any referent period for variable interest rate. There is a possibility to convert variable into fixed interest rate. The tranches will be repaid in equal annual, semi-annual and quarterly installments or one-off. The date of maturity for the first installment will be set at the date which immediately follows the expiry of three years from drawing the first tranche and the last date of tranche repayment will be set at the date that falls no earlier than four years and no later than twelve years from the tranche drawing date. If the tranche is repaid one-off and in full, the maturity date will be the date falling no earlier than four years and no later than seven years from the tranche drawing date. The interest rate and terms of tranche repayment is determined for each tranche separately at the tranche disbursement date.

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

Pursuant to the Agreement on a development loan (Serbia and Montenegro Component of the Program of Energy Community of South East Europe – Serbia Project - ECSEE) executed on September 8, 2005 between the State Union of Serbia and Montenegro on one side and the International Development Association on the other, for the amount of SDR 13,9 million and a Loan Sub agreement signed between the Republic of Serbia and the State Union of Serbia and Montenegro and the Loan Sub agreement executed between the Republic of Serbia and this Company, the Company can use the loan funds of SDR 12,24 million. The funds approved were agreed to be available until December 31, 2011 with the option of deadline extension. The loan is to be repaid in installments maturing on March 15 and September 15 in the period from 2015 to 2025, free of interest.

B. RSD Borrowings

1. Banks in Bankruptcy or Liquidation

The repayment of loans obtained from foreign creditors and realized through the following domestic banks in bankruptcy: Beogradska banka a.d., Beograd in bankruptcy, Beobanka a.d. Beograd in bankruptcy, Investbanka a.d. Beograd in bankruptcy and Jugobanka a.d. Beograd in bankruptcy and other borrowings from these banks, was suspended in the period after 1992 due to the sanctions imposed by the United Nations, until the beginning of 2002 when the process of bankruptcy and liquidation commenced in these banks.

Once the RS Government's Program with reference to the settlement of internal debts dating from 2001 came in effect, the set off of accounts receivable and payable between this Company and banks in bankruptcy as of January 3, 2002 and payments made according to the effective adjudications with respect to litigations filed by banks in bankruptcy with the High Commercial Court in Belgrade, on March 31, 2008 the balances of debts and receivables were reconciled between the Company and banks in bankruptcy, with the consent of the Deposit Insurance Agency on account of the basic debt and interest accrued until March 31, 2008 which compound to the newly-determined principal of debt as of March 31, 2008.

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28. LONG-TERM BORROWINGS (Continued)

B. RSD Borrowings

1. Banks in Bankruptcy or Liquidation (Continued)

The reconciliation of the debt incurred by the Company towards banks in bankruptcy and the proposed manner of its discharge, as well as the wordings of agreements on the mutual settlement of debtor/creditor balances were accepted by the Bankruptcy Commissions of the Commercial Court in Belgrade upon the enactment of the following Decisions: registry number XIII St-16-2002 as of May 29, 2008, registry number XIII St-4-2002 as of July 3, 2008, registry number I St. 22-2002 as of June 30, 2008 and registry number V St-10-2002 as of June 30, 2008.

The Agreements on the Mutual Settlement of Debtor/Creditor Balances were signed on July 24, 2008 between this Company and banks in bankruptcy and the Deposit Insurance Agency. Banks in bankruptcy withdrew claims for litigations filed before the High Commercial Court in Belgrade.

Until December 31, 2011, within the agreed deadline, the Company fully discharged its liabilities arising in connection with the debt toward Beogradska banka a.d., Beograd in bankruptcy, and in 2010, toward Jugobanka a.d., Beograd in bankruptcy.

2. Unicredit Banka Srbija a.d. Beograd

Due to the lack of liquid funds, the subsidiary Thermal Power Plants and Open Pit Mines of Kostolac signed a loan agreement with Unicredit bank Srbija a.d., Beograd for the amount of RSD 2,000,000 thousand due for repayment within two years with one-year grace period, at fixed interest rate of 14.2% annually, monthly repayment period without additional expenses, currency clause, without indexation/ revaluation of the loan principal by the end of repayment period or any alteration of the agreed terms. These funds were used one-off, i.e. in one tranche, as of December 27, 2010.

Due to the lack of liquid funds, in August 2011, the subsidiary RB Kolubara d.o.o. signed a loan agreement with Unicredit bank Srbija a.d., Beograd for the amount of RSD 500,000 thousand, where the principal is to be repaid in 12 equal monthly installments after one-year grace period at fixed interest rate of 12.8% annually. Interest is also repaid monthly, without additional costs, currency clause, without indexation/ revaluation of the loan principal by the end of repayment period or any alteration of the agreed terms. As of December 31, 2011, the loan funds were partially used.

Analysis of Approved Loan Withdrawals

In order to finance the specific projects to increase production capacities in thermoelectric and hydroelectric plants, in the period from 2001 to 2011 the Company executed various loan agreements with international financial institutions, to which the Federal Republic of Yugoslavia and the State Union of Serbia and Montenegro have served as guarantors:

Creditor	Currency	Contracted Amount	Drawn Down Amount
European Bank for Reconstruction and Development I	EUR	39,598,821.00	39,598,821.00
European Bank for Reconstruction and Development II	EUR	59,864,142.51	59,864,142.51
European Bank for Reconstruction and Development III	EUR	40,000,000.00	827,605.10
European Bank for Reconstruction and Development IV	EUR	80,000,000.00	0.00
European Bank for Reconstruction and Development V	EUR	45,000,000.00	0.00
European Investment Bank II	EUR	22,000,000.00	22,000,000.00
European Investment Bank III	EUR	40,000,000.00	0.00
KfW I	EUR	51,129,188.00	51,129,188.00
KfW II	EUR	16,000,000.00	16,000,000.00
KfW III	EUR	30,000,000.00	25,789,482.26
KfW IV	EUR	36,000,000.00	15,188,450.30
KfW V	EUR	70,000,000.00	0.00
IDA	XDR	12,240,000.00	8,311,749.31
JICA	JPY	28,252,000,000.00	0.00
EXIM Bank of China	USD	293,000,000.00	0.00

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28. LONG-TERM BORROWINGS (Continued)

Analysis of Long-Term Loan Maturities

	December 31, 2011	December 31, 2010
		<i>Restated</i>
From one to five years	16,094,712	18,250,480
Over five years	29,446,785	31,619,472
	<u>45,541,497</u>	<u>49,869,952</u>

Analysis of Borrowings per Requested Discharging Currency

Currency	Amount in Currency	December 31, 2011
EUR	247,879,558	25,938,339
USD	119,998,215	9,703,799
CHF	76,003,123	6,529,588
JPY	2,124,484,939	2,213,342
XDR	8,311,749	1,028,642
		<u>45,413,710</u>

29. OTHER LONG-TERM LIABILITIES

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Rescheduled public duties payable	2,674,875	3,295,123
Rescheduled accounts payable	635,904	1,112,645
Other long-term liabilities	84,793	157,846
	<u>3,395,572</u>	<u>4,565,614</u>
Current portion of:		
- Rescheduled public duties payable	(655,245)	(623,531)
- Rescheduled accounts payable	(67,382)	(475,195)
- Other long-term liabilities	(323)	(101)
	<u>2,672,622</u>	<u>3,466,787</u>

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

In respect to rescheduled accounts payable, RSD 634,511 thousand (January 1, 2011: RSD 1,109,706 thousand) is related to JP EMS out of which amount the current portion totals RSD 67,382 thousand (January 1, 2011: RSD 475,195 thousand).

30. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2011	December 31, 2010
		<i>Restated</i>
<i>In foreign currencies</i>		
Current portion of foreign long-term borrowings	4,065,934	3,953,773
Current portion of long-term borrowings obtained from:		
- domestic banks in bankruptcy	80,360	1,161,649
- other banks	1,628,076	2,219,424
Other short-term foreign currency financial liabilities	5,446,806	5,339,816
<i>Liabilities in dinars:</i>		
Current portion of domestic long-term borrowings	3,700,402	2,384,114
Current portion of loans falling due within a year	2,000,000	-
Current portion of other long-term liabilities	722,950	1,098,827
Long-term loans from banks in bankruptcy maturing within a year	35,158	64,076
Other	2,748	2,778
	<u>17,682,434</u>	<u>16,224,457</u>

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30. SHORT-TERM FINANCIAL LIABILITIES (Continued)

For the purpose of undertaking activities towards the revitalization of hydro-aggregates with the increased installed power (hydro-power and navigation system of "Đerdap I") the Company has undertaken commitments to "Energomašeksport-Silovije mašini," Moscow in the amount of USD 139,800 thousand. A portion of subject liabilities will be charged in the amount of USD 100,511 thousand to the debt of the former USSR towards the former SFRY, while the balance will be realized from own funds. Until the balance sheet date, a payment had been made towards a foreign associate amounting to USD 6,484 thousand as charged to the former debt of USSR towards the former SFRY.

Namely, the Government of the Russian Federation and the Republic of Serbia closed on April 27, 2007 the International Bilateral Treaty governing the liabilities of the Former Soviet Union upon the calculation associated with the commodity trade between the Former Soviet Union and the Former SFRY and a Protocol was signed between the Ministry of Finances and the Ministry of Mining and Energy of the Republic of Serbia and the respective ministries of the Russian Federation defining the manner of discharging debts, confirming that in order to discharge its debts, the Russian Federation shall deliver to the Republic of Serbia goods and services for the rehabilitation of the Hydro Power Plant Đerdap I in the aforementioned amount. In accordance with the decisions of the competent bodies of the Republic of Serbia, the issues of conditions, timelines and manner of repaying funds used based on a clearing debt will be addressed.

With reference to the issue of power and fuel supply and the functioning of the power system of the Republic of Serbia at extremely low temperatures, the RS Government has enacted several conclusions and recommendations in order to rationalize power and fuel consumption and prevent the introduction of restricted power and fuel supply measures. With regard thereto, EPS has assumed commitments to purchase electricity from entities outside of the EPS Group. For settlement of such liabilities, funds have been borrowed from Banca Intesa a.d., Beograd in the amount of RSD 3,000,000 thousand, as follows:

- o RSD 1,500,000 thousand for a period of one year including a six-month grace period at a fixed interest rate of 13.6% annually to be repaid in six equal monthly installments following the expiry of grace period.
- o RSD 1,500,000 thousand for a period of one year including a six-month grace period at a fixed interest rate of 11.6% annually to be repaid in two equal trimester installments following the expiry of grace period.

31. ACCOUNTS PAYABLE

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Advances received	1,293,358	1,474,016
Accounts payable:		
- domestic	16,600,293	12,195,614
- foreign	2,578,533	3,755,967
- Public Enterprise "Elektromreža Srbije"	2,494,559	1,574,040
Liabilities for radio-television subscriptions	28,273,640	22,651,064
Other accounts payable	849,524	397,142
	52,089,907	42,047,843

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

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

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

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32. OTHER CURRENT LIABILITIES

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Matured repayment of borrowings from the Ministry of Finance of the Republic of Serbia	398,164	1,496,327
Interest payable and costs of financing	358,338	730,823
Net salaries and benefits	1,215,219	1,888,946
Taxes and contributions on salaries and benefits	855,683	1,693,189
Other liabilities	151,500	351,653
	2,978,904	6,160,938

Based on agreements entered into with the Republic of Serbia Ministry of Finance and Economy in 2001, the Company received loans from the Government used to bridge a liquidity gap in financing its overhaul, maintenance and repair activities. This loan was extended with a maturity expiring at December 31, 2001, at an interest rate based on the National Bank Serbia discount rate. The amount used totals RSD 3,100,000 thousand, out of which RSD 2,200,000 thousand has been repaid. As disclosed in Note 13, the balance of liabilities matured based on a borrowing from the funds of the Budget of the Republic of Serbia comprised of the principal of RSD 803,125 thousand and 50% of penalty accrued at May 31, 2010 in the amount of RSD 295,037 thousand, was discharged during the reporting period.

Interest payable and costs of financing as of December 31, 2011 include interest accrued as follows:

- Interest on refinanced loans from the International Bank for Reconstruction and Development and European Investment Bank of RSD 185,929 thousand;
- Interest on the borrowing from the Government of the Russian Federation realized via domestic banks in bankruptcy totaling RSD 1,676 thousand;
- Interest on matured liabilities towards domestic banks in bankruptcy of RSD 573 thousand;
- Other liabilities of RSD thousand;
- Interest on other borrowings (realized before 1990) in the amount of RSD 162,215 thousand.

33. VALUE ADDED TAX AND OTHER DUTIES PAYABLE AND ACCRUALS

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Deferred value added tax	2,082,643	2,352,415
Accrued liabilities for VAT payable upon tax return	-	529,253
Water charges and fees for the use of construction land and other public property	585,634	674,707
Other public duties payable	914,476	1,291,662
Accrued expenses	382,030	345,439
Deferred income from donations	16,535,019	16,772,789
Other accruals	335,926	384,724
	20,835,728	22,350,989

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

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

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34. OFF-BALANCE SHEET ITEMS

	December 31, 2011	December 31, 2010
		<i>Restated</i>
Estimated war damages	6,291,821	6,189,662
Payables upon credit commitments – undrawn portion	61,227,769	20,645,394
Liabilities for guarantees issued and other forms of security instruments against JP EPS liabilities	54,590,234	48,663,612
Ceded social housing buildings	246,440	246,440
Blank solo bills of exchange issued	45,046,993	43,902,042
Written-off equity investments	260,864	260,864
Deferred tax assets	12,220,318	12,475,494
Other off-balance sheet items	6,938,062	8,116,794
	<u>186,822,501</u>	<u>140,500,302</u>

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35. INCOME STATEMENT PER ACTIVITY

	Total		Electricity		Combined Electricity and Heat Production		Coal		Heat Energy and Technical Steam		Power Distribution and Management		Electricity Production, Small Plants		Electricity Free Market Trade		Metal Industry		Other	
	January-December	2010	January-December	2010	January-December	2010	January-December	2010	January-December	2010	January-December	2010	January-December	2010	January-December	2010	January-December	2010	January-December	2010
OPERATING INCOME																				
Sales revenues	491,454,127	84,798,097	26,655,125	52,066,307	1,685,680	48,972,347	146,609,908	123,123	126,040,447	4,479,335	23,758	94,080								
Own-work capitalized increase in the value of inventories	5,811,046	1,062,441	457,076	266,265	5,344	3,335,693	6,925	445	80,194	(358,586)										
Other operating income	501,578,136	85,777,857	27,112,201	52,332,572	1,691,024	56,966,123	146,616,833	123,568	126,122,708	4,317,377	517,873									
OPERATING EXPENSES																				
Cost of goods sold	(2,184)	(116)	(1)																	
Cost of materials	(356,491,156)	(43,578,907)	(15,468,089)	(9,250,456)	(1,468,353)	(27,177,868)	(135,129,248)	(19,930)	(122,442,864)	(1,160,554)	(794,897)									
Staff costs	(46,982,407)	(7,200,469)	(1,812,460)	(17,666,871)	(460,515)	(12,066,838)	(2,812,533)	(98,855)	(891,541)	(3,646,855)	(303,430)									
Depreciation, amortization and provisions	(46,658,110)	(16,254,169)	(3,762,494)	(11,293,216)	(383,918)	(14,226,225)	(286,467)	(31,888)	(186,261)	(209,206)	(24,746)									
Other operating expenses	(40,298,150)	(12,518,283)	(2,949,363)	(9,941,932)	(191,483)	(7,881,575)	(2,964,214)	(58,749)	(2,529,329)	(400,013)	(863,199)									
PROFIT/(LOSS) FROM OPERATIONS	(496,432,007)	(79,551,964)	(23,992,427)	(48,172,475)	(2,504,279)	(61,354,506)	(141,192,462)	(209,422)	(126,062,072)	(5,416,826)	(1,985,772)									
Finance income	11,146,129	6,225,893	3,119,774	4,160,097	(813,255)	(4,386,383)	5,424,371	(65,854)	70,636	(1,099,251)	(1,467,899)									
Finance expenses	14,534,102	751,174	68,520	498,146	79,659	2,136,506	5,680,282	105	5,263,138	11,672	44,900									
Other income	(6,661,446)	(1,573,384)	(327,410)	(1,893,052)	(25,670)	(177,653)	(1,436,356)	(8,232)	(3,037,371)	(192,316)	-									
Other expenses	53,185,295	28,972,375	2,331,078	4,034,847	1,484,116	13,152,131	2,167,265	129,672	262,152	80,012	571,647									
PROFIT/(LOSS) BEFORE TAXATION	(41,440,722)	(8,287,336)	(2,104,914)	(4,248,777)	(150,394)	(8,696,686)	(10,473,214)	(23,000)	(7,394,749)	(43,222)	(18,430)									
Income taxes	28,763,358	26,088,722	3,087,048	2,561,261	574,456	2,025,915	1,362,346	12,891	(4,836,194)	(1,243,105)	(869,782)									
Deferred tax	(2,224,015)	(1,784,129)	(136,429)	333,515	(99,985)	(435,001)	(79,636)	(8,227)	(21,828)	6,539	1,366									
benefits/(expenses)	815,869	(372,360)	212,754	762,092	17,702	227,362	(10,556)	(7,202)	(21,828)	6,539	1,366									
Current income tax expense	(3,039,884)	(1,411,769)	(349,183)	(428,577)	(117,687)	(662,363)	(69,280)	(1,025)	(4,858,022)	-	-									
NET PROFIT/(LOSS)	26,539,343	24,304,593	2,950,619	2,694,776	474,471	1,590,914	1,282,510	4,464	(4,858,022)	(1,236,566)	(868,416)									

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36. CONTINGENT LIABILITIES AND COMMITMENTS

Litigation

As of December 31, 2011, the Company recognized provisions against potential losses arising from litigations in the amount of RSD 2,719,470 thousand (December 31, 2010: 2,427,632 thousand).

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

Commitments

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

Supplier	Contractually Agreed Value (RSD '000)	Realized until December 31, 2011	Advances Paid	Beneficiary
Andritz-VA Tech Hydro GmbH	7,891,957	3,725,407	907,469	Drinsko Limske HE
Clyde Bergemann DRYCON GmbH	1,174,738	-	234,948	TE KO Kostolac
Goša Montaža a.d.	708,459	-	138,578	TE KO Kostolac
Hitachi Power Europe GmbH	2,769,327	415,399	470,785	TENT
Minel kottogradnja a.d.	1,064,234	319,270	140,997	TENT
Jugotrade d.o.o., Beograd	394,212	301,162	9,658	Elektrosrbija d.o.o. Jugoistok d.o.o.

Environmental Protection

The Company's Business Plan determines the amount of EPS' investment in environmental protection activities (e.g., installation of desulphurization equipment, disposal of ash and coal mining scrap, stabilization of the terrain surrounding dams, protection of ground waters, waste-water treatment and the like). A respective provision has not been formed in the Company's books of account, since EPS' management holds that all future expenses will be directly attributable to assets purchased for the purposes of environmental protection.

37. OPERATING RISKS

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

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

According to the data made available by the NBS, the reference interest rate as of the balance sheet date equaled 9.75%.

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

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37. OPERATING RISKS (Continued)

Currency Risk

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

	Assets		In foreign currency Liabilities	
	December 31, 2011	January 1, 2011	December 31, 2011	January 1, 2011
EUR	23,255,932	33,298,862	350,980,600	373,998,642
DKK	4,100	1,600	-	-
JPY	-	105,924,000	2,241,521,286	2,408,896,107
SEK	2,432	1,310	-	-
CHF	85,070	2,735	79,219,457	83,497,569
GBP	1,453	1,873	-	-
USD	1,761,869	2,533,251	232,007,846	220,955,850
XDR	-	-	8,311,749	5,392,526
	<u>-</u>	<u>-</u>	<u>8,311,749</u>	<u>5,392,526</u>
	In thousands of RSD			
EUR	2,433,522	3,512,970	36,726,926	39,456,184
DKK	58	23	-	-
JPY	-	103,041	2,335,273	2,343,331
SEK	28	15	-	-
CHF	7,309	231	6,805,910	7,051,019
GBP	181	229	-	-
USD	142,476	200,837	18,761,593	17,517,424
XDR	-	-	1,028,642	658,395
	<u>2,583,573</u>	<u>3,817,346</u>	<u>65,658,344</u>	<u>67,026,352</u>

Interest Rate Risk

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

PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA

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37. OPERATING RISKS (Continued)

Interest Rate Risk (Continued)

	December 31, 2011	December 31, 2010
Financial assets		
<i>Non-interest bearing</i>		
Equity investments	981,401	1,481,113
Long-term investments	637,234	742,248
Accounts receivable	101,083	59,587
Other receivables	602,026	452,649
Cash and cash equivalents	204,146	643,291
	2,525,890	3,378,888
<i>Fixed interest rate</i>		
Long-term investments	229,838	397,380
Short-term loans and other short-term financial assets	2,373,572	1,035,975
Cash and cash equivalents	4,971,216	5,069,969
	7,574,626	6,503,324
<i>Variable interest rate</i>		
Long-term investments	515,931	539,447
Accounts receivable	36,584,246	36,334,722
Short-term loans and other short-term financial assets	499,088	862,310
Other receivables	28,465,968	22,744,492
Cash and cash equivalents	296,675	340,390
	66,361,908	60,821,361
	76,462,424	70,703,573
Financial liabilities		
<i>Non-interest bearing</i>		
Accounts payable	16,237,132	11,377,120
Other liabilities	1,332,232	846,841
Short-term financial liabilities	5,448,826	5,341,836
	23,018,190	17,565,797
<i>Fixed interest rate</i>		
Long-term borrowings	21,781,774	24,619,821
Other long-term liabilities	2,589,789	3,309,042
Current portion of long-term borrowings	5,339,654	4,494,071
Short-term financial liabilities	722,950	1,098,827
	30,434,167	33,521,761
<i>Variable interest rate</i>		
Long-term borrowings	23,759,723	25,250,131
Other long-term liabilities	2,290	77,202
Accounts payable	5,436,253	6,148,501
Other liabilities	28,892,044	24,746,565
Short-term borrowings	3,700,402	2,384,114
Current portion of long-term borrowings	2,469,874	2,904,851
Short-term financial liabilities	728	758
	64,261,314	61,512,122
	117,713,671	112,599,680
Net interest rate risk	2,100,594	(690,761)

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37. OPERATING RISKS (Continued)

Credit Risk

The Company is exposed to credit risk in the instances in which its customers default on their obligations. The Company's exposure to credit risk is limited to the carrying value of accounts receivable and other receivables. Accounts receivable correspond to a significant number of customers (3.3 million) and have normal credit terms, and thus, the individual concentrations of credit risk are not considered significant. Accounts and other receivables are presented in the accompanying consolidated financial statements net of allowances for bad and doubtful receivables, as estimated by the Company's management based on historical experience and present economic condition in the environment in which the Company operates. The average days' sales outstanding in 2011 (determined based on the net value of receivables) counted 70 days (2010: 69 days).

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

	Gross Exposure	Allowance for Impairment	December 31, 2011 Net Exposure
Accounts receivable, not matured	21,804,916	379,820	21,425,096
Accounts receivable, matured and provided for	97,630,912	97,630,912	-
Accounts receivable, matured but not provided for	15,260,233	-	15,260,233
	<u>134,696,061</u>	<u>98,010,732</u>	<u>36,685,329</u>
	Gross Exposure	Allowance for Impairment	December 31, 2010 Net Exposure
Accounts receivable, not matured	20,240,689	485,360	19,755,329
Accounts receivable, matured and provided for	83,885,399	83,885,399	-
Accounts receivable, matured but not provided for	16,638,980	-	16,638,980
	<u>120,765,068</u>	<u>84,370,759</u>	<u>36,394,309</u>

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37. OPERATING RISKS (Continued)

Liquidity Risk

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

2011	Within a Month	From 1 to 3 Months	From 3 Months to a Year	From 1 to 5 Years	Over 5 Years	Total
Accounts payable	-	14,802,844	1,434,288	-	-	16,237,132
Other liabilities	1,009,784	322,448	-	-	-	1,332,232
Short-term financial liabilities	-	-	5,448,826	-	-	5,448,826
Non-interest bearing	1,009,784	15,125,292	6,883,114	-	-	23,018,190
Long-term borrowings	-	-	-	6,196,085	15,585,689	21,781,774
Other long-term liabilities	-	-	-	2,589,789	-	2,589,789
Current portion of long-term borrowings	211,032	658,459	4,470,163	-	-	5,339,654
Short-term financial liabilities	-	-	722,950	-	-	722,950
Fixed interest rate	211,032	658,459	5,193,113	8,785,874	15,585,689	30,434,167
Long-term borrowings	-	-	-	9,898,624	13,861,099	23,759,723
Other long-term liabilities	-	-	-	2,288	-	2,288
Accounts payable	3,791,495	1,644,760	-	-	-	5,436,253
Other liabilities	28,892,044	-	-	-	-	28,892,044
Short-term borrowings	-	-	3,700,402	-	-	3,700,402
Current portion of long-term borrowings	179,705	949,607	1,340,562	-	-	2,469,874
Short-term financial liabilities	-	-	728	-	-	728
Variable interest rate	32,863,244	2,594,367	5,041,892	9,900,912	13,861,099	64,261,314
	34,084,060	18,378,118	17,117,919	18,686,786	29,446,788	117,713,671
2010	Within a Month	From 1 to 3 Months	From 3 Months to a Year	From 1 to 5 Years	Over 5 Years	Total
Accounts payable	-	10,022,021	1,355,099	-	-	11,377,120
Other liabilities	553,162	293,679	-	-	-	846,841
Short-term financial liabilities	-	-	5,341,836	-	-	5,341,836
Non-interest bearing	553,162	10,315,700	6,696,935	-	-	17,565,797
Long-term borrowings	-	-	-	8,584,346	16,035,475	24,619,821
Other long-term liabilities	-	-	-	3,309,042	-	3,309,042
Current portion of long-term borrowings	346,003	496,114	3,651,954	-	-	4,494,071
Short-term financial liabilities	-	-	1,098,827	-	-	1,098,827
Fixed interest rate	346,003	496,114	4,750,781	11,893,388	16,035,475	33,521,761
Long-term borrowings	-	-	-	9,660,352	15,589,779	25,250,131
Other long-term liabilities	-	-	-	77,202	-	77,202
Accounts payable	5,034,943	1,113,558	-	-	-	6,148,501
Other liabilities	24,746,565	-	-	-	-	24,746,565
Short-term borrowings	-	-	2,384,114	-	-	2,384,114
Current portion of long-term borrowings	317,069	886,065	1,701,717	-	-	2,904,851
Short-term financial liabilities	-	-	758	-	-	758
Variable interest rate	30,098,577	1,999,623	4,086,589	9,737,554	15,589,779	61,512,122
	30,997,742	12,811,437	15,534,305	21,630,942	31,625,254	112,599,680

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37. OPERATING RISKS (Continued)

Liquidity Risk (Continued)

The outstanding financial assets mature for collection as presented in the table below:

2011	Within a Month	From 1 to 3 Months	From 3 Months to a Year	From 1 to 5 Years	Over 5 Years	Total
Equity investments	-	-	-	-	981,401	981,401
Long-term investments	-	-	-	-	637,234	637,234
Accounts receivable	101,083	-	-	-	-	101,083
Other receivables	460,507	-	141,519	-	-	602,026
Cash and cash equivalents	204,146	-	-	-	-	204,146
Non-interest bearing	765,736	-	141,519	-	1,618,635	2,525,890
Long-term investments	-	-	-	-	229,838	229,838
Accounts receivable	-	-	-	-	-	-
Short-term loans and other short-term financial assets	-	2,373,572	-	-	-	2,373,572
Cash and cash equivalents	4,971,216	-	-	-	-	4,971,216
Fixed interest rate	4,971,216	2,373,572	-	-	229,838	7,574,626
Long-term investments	-	-	-	252,964	262,967	515,931
Accounts receivable	36,516,871	-	67,375	-	-	36,584,246
Short-term loans and other short-term financial assets	-	-	-	-	-	-
Other receivables	33,666	465,422	-	-	-	499,088
Cash and cash equivalents	28,465,968	-	-	-	-	28,465,968
Cash and cash equivalents	296,675	-	-	-	-	296,675
Variable interest rate	65,313,180	465,422	67,375	252,964	262,967	66,361,908
	71,050,132	2,838,994	208,894	252,964	2,111,440	76,462,424
2010	Within a Month	From 1 to 3 Months	From 3 Months to a Year	From 1 to 5 Years	Over 5 Years	Total
Equity investments	-	-	-	-	1,481,113	1,481,113
Long-term investments	-	-	-	-	742,248	742,248
Accounts receivable	59,587	-	-	-	-	59,587
Other receivables	387,870	-	64,779	-	-	452,649
Cash and cash equivalents	643,291	-	-	-	-	643,291
Non-interest bearing	1,090,748	-	64,779	-	2,223,361	3,378,888
Long-term investments	-	-	-	15,765	381,615	397,380
Short-term loans and other short-term financial assets	-	1,035,975	-	-	-	1,035,975
Cash and cash equivalents	5,069,969	-	-	-	-	5,069,969
Fixed interest rate	5,069,969	1,035,975	-	15,765	381,615	6,503,324
Long-term investments	-	-	-	268,561	270,886	539,447
Accounts receivable	35,879,446	-	455,276	-	-	36,334,722
Short-term loans and other short-term financial assets	-	-	-	-	-	-
Other receivables	157,274	705,036	-	-	-	862,310
Cash and cash equivalents	22,744,492	-	-	-	-	22,744,492
Cash and cash equivalents	340,390	-	-	-	-	340,390
Variable interest rate	59,121,602	705,036	455,276	268,561	270,886	60,821,361
	65,282,319	1,741,011	520,055	284,326	2,875,862	70,703,573

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37. OPERATING RISKS (Continued)

Taxation Risks

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

38. LOSSES OF ELECTRICAL POWER

Throughout the normal course of business, the Company incurs substantial technical and non-technical losses of electrical power. Technical losses arise upon the transmission of electricity to the end-users. Non-technical losses represent the electricity consumed by users which the Company is unable to identify and invoice. In 2011, the Company incurs total distribution losses of 14.31% or 4,748 GWh (2010: 15.1%, i.e. 4,959 GWh), which represents the total difference between purchased and sold electricity and includes technical and non-technical losses. As per management's assessment, the share of electricity thefts in the total distribution losses is 4%.

39. POST BALANCE SHEET EVENTS

a) Change in the Legal Form

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

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

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

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

In addition, subsequent to the balance sheet date, legal status of the subsidiaries has been harmonized with the Company Law with regard to management and other issues relevant to their status

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39. POST BALANCE SHEET EVENTS (Continued)

b) *Company Establishment*

1. In the previous reporting period, the activities commenced regarding the assessment of all relevant legal, economic and technical conditions for an organizational and functional separation of the Company's activity of electricity retail into a separate legal entity. Namely, for the purpose of creating conditions for EPS to operate in a more effective and profitable way as an operating system, alongside with the activities on the EPS corporatization, the justifiability of the reorganization of subsidiaries will be analyzed from the organizational, economic, financial and functional stand point, proposing the terms and manner of implementing the reorganization procedure, and need for organizational separation of certain business functions into separate legal entities will be reviewed, taking heed of particular requirements of EU legislation in the field of energy (retail in electricity), following the harmonization with the local regulations.
2. In the previous reporting period, invited potential strategic partners to submit their letters of interest and supply of evidence that they comply with the necessary criteria set for entities interested in the joint investment in:
 - the project of the Thermal Power Plant Nikola Tesla B3, associated with the construction and management of a new power plant located at the Thermal Power Plant Nikola Tesla B, with above-critical parameters of steam and power of about 700 MW.
 - the project of the Thermal Power Plant Kolubara B (an organizational section of the subsidiary PD TENT d.o.o.), pertaining to the completion of construction and running the Thermal Power Plant on brown coal with the power of 2 x 350 MW.

In fact, based on the agreement achieved with the owner, the Board of Directors enacted a Decision on the Procedure for the selection of strategic partners for the joint construction of the aforementioned production capacities. Based on the assessment made and verification of qualification documentation, the Board of Directors ascertained the list of companies qualified to participate in the ensuing procedure. The procedure of submitting tender documentation with instructions for the preparation of technical and financial offer for the realization of joint investment commenced in the reporting period.

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

In addition to the aforesaid, as of October 20, 2011, the Cooperation Protocol was signed by and between JP EPS and a Chinese Consortium comprised of the companies Shenzhen Energy Group Co. Ltd. and China Environmental Energy Holdings Co.Ltd. in order to realize Project TENT B3, involving financing, design, construction, placement into operation, management and maintenance of a thermal power plant of the power of 744 MW, and the related coal production project of open-pit coal mine Radljevo in order to provide fuel for the plant. Preparatory activities in commencement of feasibility study preparation are underway.

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

Subsequent to the balance sheet date, the Memorandum of Understanding has been closed with RWE Group on the strategic partnership in order to achieve joint objectives of establishing and developing strategic cooperation between the parties within the energy sector of Serbia and the neighboring countries.

3. On March 6, 2008, the Company's Board of Directors enacted a Decision on Joint Investment in the establishment of a company for the construction of hydro-electric plants, generation and trade in electricity "Hidroelektrane Gornja Drina", d.o.o. Foča, located in the Republic of Srpska, Bosnia and Herzegovina with the following strategic partners:
 - Mixed Holding Electric Power Utility of the Republic of Srpska – Parent Shareholding Company domiciled in the Republic of Srpska, Trebinje and
 - A Subsidiary of Mixed Holding Electric Power Utility of the Republic of Srpska, Trebinje - "Hidroelektrane na Drini", a shareholding company domiciled in Višegrad, the Republic of Srpska, Višegrad.

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39. POST BALANCE SHEET EVENTS (Continued)

b) Company Establishment (Continued)

Based on the monetary contribution to the core capital of the newly established company, JP EPS will acquire a 50% equity stake in the start-up (the total of BAM 100,000), while the remaining founders will each become owners of 25% equity stake. Prior to the issuance of the Decision, the RS Government granted its consent to the investment of the JP EPS capital into the start-up (Official Gazette of RS no. 29/08). The establishment of a new entity is expected to cover a portion of electricity lacking to JP EPS and to enable optimal management of the upper part of the Drina River, whereby the expenses that are incurred upon securing reserves of power in the exploitation of both electric power systems will decrease and electricity surplus will be sold under most favorable conditions. Assessment of the feasibility study for the use of hydro potential of the Rivers Gornja Drina and Sutjeska (Hydro power plants of Buk Bijela, Foča, Paunci and Sutjeska) is currently underway. Given the interest of foreign partners, it is possible to change the terms of investments. Given the interest expressed by foreign partners, it is possible to change investment terms.

At its 183rd session held on July 22, 2010, the Government of the Republic of Serbia enacted the decision on determining the general interest in the construction of hydro power plants on the upper flow of the Drina River, Decision on the Terms, Criteria and Manner of Choosing a Strategic Partner for the project of building a hydropower system of the Upper Drina and the Decision on the appointment of the Commission for the implementation of preliminary qualification stage of the process for choosing a strategic partner for the Upper Drina project. The invitation to bid for the strategic partner of the Electric Power Industry of Serbia in the construction of hydro power plants on the Upper Drina was responded by a Greek company "Public Power Corporation S.A."

In September 2011, Public Enterprise Electric Power Industry of Serbia, Mixed Holding Electric Power Utility of the Republic of Srpska, Trebinje and SECI energija S.p.A., Bologna closed the Preliminary Agreement on Strategic Partnership in the execution of the "Srednja Drina" Project, the subject of which is construction of several hydro power plants on the Drina River between the towns of Bajina Bašta and Zvornik through strategic partnership joint venture.

4. As disclosed in Note 1, in the reporting period, the Company and the City of Novi Sad founded the Company for Combined Production of Thermoelectric and Heat Energy "Energija Novi Sad", a.d. Novi Sad, whose increase in capital would provide for the necessary investment funds needed for the reconstruction of the existing, i.e. the construction of a new plant for combined generation of thermoelectric and heat energy. The wording of the Public Invitation to partners interested to submit letters of interest and proofs of the required qualifications was published in October 2009. Given the complexity of activities towards the reconciliation of decisions stipulated in the relevant contracts, the initially planned deadline for submitting bids was extended, so it is expected that after the expiry of bidding deadline set for the end of April 2011, in the first half of the year, a strategic partner should be selected and a joint investment agreement should be closed.
5. At its session held as of September 30, 2011, the Company's Board of Directors enacted Decision on establishment of the company involved in renewable energy sources "EPS Renewable Sources" headquartered in Užice, which the Government approved. The newly founded company is registered with the Commercial Subjects Register as of April 2, 2012. JP EPS is the sole owner of the company. The total capital inscribed amounts to RSD 72,195,205, whereof capital paid in amounts to RSD 25,546,031.

c) Sustainable Development Strategy

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

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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All amounts expressed in thousands of RSD, unless otherwise stated

39. POST BALANCE SHEET EVENTS (Continued)

c) Sustainable Development Strategy (Continued)

According to the aforementioned, and based on international protocols in effect, the Memorandum of Understanding was signed with RWE AG, Germany whereby the cooperation is to be realized in the following projects: Đerdap III, six power plants on the Great Morava River and project "Upper Drina" which would be the joint achievement of the Company and the Republic of Srpska Electric Power Utility.

With regard thereto, subsequent to the balance sheet date, the Company concluded the Memorandum of Understanding with the consortium comprised of the Canadian corporation Lavelin and the Chinese company China Nuclear Power Engineering for the purpose of project development of reversible hydro power plant "Bistrica" of the power of 680 MW.

In addition, JP EPS planned the activities in connection with the construction of small hydro power plants based on the Decree determining the Program for the implementation of Energy Development Strategy of the Republic of Serbia by 2015 covering the period from 2007 to 2012. Based on preliminary assessments, the project would encompass the rehabilitation of 15 small hydro power plants (group 1) of the total installed power of 33.2 MW and the construction of 7 small hydro power plants with water management facilities (Group 2) of the total estimated power of 22.37 MW whose preliminary estimated value totaled EUR 45 million.

d) Liabilities Arising from the Purchase of Electricity

With reference to the issue of power and fuel supply and the functioning of the power system of the Republic of Serbia at extremely low temperatures, the RS Government has enacted several conclusions and recommendations in order to rationalize power and fuel consumption and prevent the introduction of restricted power and fuel supply measures. With regard thereto, EPS has assumed commitments to purchase electricity from entities outside of the EPS Group. Subsequent to the balance sheet date, for settlement of such liabilities, funds have been borrowed from Aik banka a.d., Niš in the dinar counter value of EUR 35 million, as follows:

- A loan of EUR 12 million for a period one year including a six-month grace period, at the fixed interest rate of 5.8% annually, to be repaid in six equal monthly installments following expiry of the grace period;
- A loan of EUR 23 million for a period one year including a six-month grace period, at the fixed interest rate of 8% annually and a currency clause, to be repaid in two equal trimester installments; one-off loan origination fee is charged in the amount of 1% of the loan amount approved.

In addition to the aforesaid, and in order to overcome current liquidity issues, the subsidiaries have borrowed funds from Komercijalna banka a.d., Beograd, as follows:

- RSD 4,000,000 thousand due for repayment by the end of 2012 or a year after disbursement of the first loan tranche at the latest, at the fixed interest rate of 11.74% annually and one-off commission in the amount of 0.18% of the approved loan amount;
- RSD 1,000,000 thousand used as of March 28, 2012, due for repayment in 12 equal monthly installments and approved at the fixed interest rate of 12.37% annually and one-off commission in the amount of 1% of the approved loan amount.

40. EXCHANGE RATES

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

	December 31, 2011	December 31, 2010
EUR	104.64090	105.4982
DKK	14.07130	14.1492
JPY	1.04183	0.972782
SEK	11.70150	11.7734
CHF	85.91210	84.4458
GBP	124.60220	122.4161
USD	80.86620	79.2802
XDR	123.75760	122.0939

**PUBLIC ENTERPRISE
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Signed on behalf of the Public Enterprise Electric Power Industry of Serbia, Belgrade:



Suzana Joksimović
Suzana Joksimović,
Director of the Directorate for
Economic and Financial
Affairs

Dragan Jonkić
Dragan Jonkić,
Head of Accounting Department

