

**PUBLIC ENTERPRISE
“ELECTRIC POWER INDUSTRY OF SERBIA”**

**Independent Auditors' Report and
Consolidated Financial Statements
Year Ended December 31, 2008**

**PUBLIC ENTERPRISE
“ELECTRIC POWER INDUSTRY OF SERBIA”**

CONTENTS

	Page
Independent Auditors' Report	1 - 3
Consolidated Financial Statements:	
Consolidated Income Statement	4
Consolidated Balance Sheet	5
Consolidated Statement of Changes in Equity	6
Consolidated Cash Flow Statement	7
Notes to the Consolidated Financial Statements	8 - 67

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements (pages 4 to 67) of the Public Enterprise, Electric Power Industry of Serbia (hereinafter: the "Company" or "JP EPS"), which comprise the consolidated balance sheet as at December 31, 2008, 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 and fair presentation of these consolidated financial statements in accordance with the accounting regulations of the Republic of Serbia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Basis for Qualified Opinion

As disclosed in Note 4b to the consolidated financial statements, the Company adjusted a prior year error by charging it to the accumulated losses as of December 31, 2007 in the aggregate amount of RSD 4,289,409 thousand where the major portion of RSD 3,386,063 thousand relates to the adjustment of the effects of the appraisal of property, plant and equipment. In the accompanying consolidated financial statements, the Company recalculated and adjusted only the items included in the consolidated balance sheet as of December 31, 2007 as comparative figures. The accounting treatment applied departs from International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors," that require restatement of the income statement of the prior periods, i.e., when errors occurred, in this case the comparative amounts presented for the year ended December 31, 2007, where the effects on the accompanying consolidated financial statements are reflected only on the opening balance as of January 1, 2008.

As disclosed in Notes 9 and 27 to the consolidated financial statements, the Company for the first time made a long-term provisions for retirement and other employee benefits for most of its subsidiaries, based on the assessment made by the Company's management in the total amount of RSD 4,327,212 thousand for the year ended December 31, 2008 as in accordance with IAS 19 "Employee Benefits." The aforementioned amount of provisions was fully charged to the current period expenses. Accordingly, the accounting treatment applied departs from IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors," requiring that material errors should be stated in their respective period when occurred. Based on the documentation made available by the management, we were unable to calculate the effects thereof on the accumulated losses as of January 1, 2008, as well as on the operating results for the year ended December 31, 2008.

Qualified Opinion

In our opinion, except for the effects on the consolidated financial statements of the matters referred to in the preceding paragraphs, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2008, and its consolidated financial performance, changes in equity and cash flows for the year then ended, in accordance with the accounting regulations of the Republic of Serbia.

Emphasis of Matter

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

- (a) The amount of state-owned capital as presented in the consolidated financial statements is not reconciled with the capital of the parent company inscribed in the Serbian Business Registers Agency (Note 26 to the consolidated financial statements). In addition, as further disclosed in Note 26 to the consolidated financial statements, in the consolidation process, the equity investments in subsidiaries were not reconciled with the amount of corresponding capital in subsidiaries by RSD 35,749,855 thousand.

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Emphasis of Matter (Continued)

- (b) 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), the suspended construction of incomplete power plants (Note 16 to the consolidated financial statements), the significant liabilities associated with borrowings from foreign creditors and domestic banks in bankruptcy (Notes 28 and 30 to the consolidated financial statements), the significant potential damages in connection with various litigations filed against the Company (Note 36 to the consolidated financial statements) and significant distribution losses of 14.48% or 4.679 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.
- (c) The Company does not possess adequate ownership titles for all materially significant tangible assets presented in the Company's books of accounts as of December 31, 2008.

Belgrade, June 26, 2009

 Miroslav Tončić
Certified Auditor

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2008
(Thousands of RSD)

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
OPERATING INCOME			
Sales revenue	5	137,129,597	112,484,517
Own-work capitalized		2,516,376	2,665,015
Increase in the value of inventories		1,188,415	906,675
Other operating income	6	<u>5,024,940</u>	<u>4,601,151</u>
		<u>145,859,328</u>	<u>120,657,358</u>
OPERATING EXPENSES			
Cost of commercial goods sold		(4,728)	(20,860)
Cost of materials	7	(35,924,415)	(28,877,718)
Staff costs	8	(36,395,561)	(31,621,336)
Depreciation, amortization and provisions	9	(50,785,775)	(48,846,248)
Other operating expenses	10	<u>(32,739,234)</u>	<u>(27,818,843)</u>
		<u>(155,849,713)</u>	<u>(137,185,005)</u>
NET OPERATING LOSS		<u>(9,990,385)</u>	<u>(16,527,647)</u>
Finance income	11	8,079,547	8,662,202
Finance expenses	12	(10,823,545)	(3,205,892)
Other income	13	2,543,948	4,710,768
Other expenses	14	<u>(17,355,383)</u>	<u>(102,872,038)</u>
LOSS BEFORE TAXATION		<u>(27,545,818)</u>	<u>(109,232,607)</u>
Income taxes			
Current tax expense	15	(532,520)	(592,421)
Deferred tax benefits	15	<u>2,380,201</u>	<u>10,211,050</u>
LOSS FOR THE YEAR		<u>(25,698,137)</u>	<u>(99,613,978)</u>

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

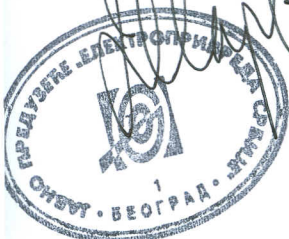
The consolidated financial statements of the Public Enterprise, Electric Power Industry of the Republic of Serbia were approved by the management and submitted to the National Bank of Serbia on April 29, 2009.

Signed on behalf of the Company by:

Dragomir Marković,
General Manager

Suzana Joksimović,
Chief Financial Officer

Dragan Jonkić,
Head of Accounting



CONSOLIDATED BALANCE SHEET
As at December 31, 2008
(Thousands of RSD)

	<u>Notes</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u> <i>Restated</i>
ASSETS			
Non-current assets			
Intangible assets	16	2,455,368	2,372,928
Property, plant and equipment	16	520,282,525	537,884,016
Investment property	16	44,408	44,357
Advances for intangible assets, property, plant and equipment		3,463,284	4,703,780
Equity investments	18	1,098,230	3,849,904
Other long-term financial placements	19	1,476,606	2,862,991
		<u>528,820,421</u>	<u>551,717,976</u>
Current assets			
Inventories	20	22,781,409	20,387,619
Advances for inventories	21	2,118,198	2,130,839
Accounts receivable	22	40,989,102	36,857,947
Receivables for prepaid income taxes		460,944	534,241
Short-term financial placements	23	2,085,598	2,068,706
Cash and cash equivalents	24	6,225,306	5,399,170
Value added tax and prepayments	25	1,358,973	1,270,557
		<u>76,019,530</u>	<u>68,649,079</u>
Total assets		<u><u>604,839,951</u></u>	<u><u>620,367,055</u></u>
EQUITY AND LIABILITIES			
Equity and reserves			
State-owned capital	26	358,656,088	358,656,088
Other capital	26	1,293,175	1,292,337
Revaluation reserves		248,188,896	248,637,171
Unrealized (losses) / gains on securities		(252,738)	2,589,245
Accumulated losses		<u>(147,470,397)</u>	<u>(121,835,695)</u>
		<u>460,415,024</u>	<u>489,339,146</u>
Long-term provisions	27	<u>7,515,191</u>	<u>3,621,828</u>
Long-term liabilities			
Long-term borrowings	28	41,550,014	35,096,676
Other long-term liabilities	29	4,010,561	5,074,091
		<u>45,560,575</u>	<u>40,170,767</u>
Current liabilities			
Short-term financial liabilities	30	9,584,354	9,386,915
Accounts payable	31	33,898,252	26,340,920
Other current liabilities and accruals	32	2,996,188	4,754,214
Value added tax and other duties payable and accruals	33	19,786,096	19,304,904
Income taxes payable		160,365	195,649
		<u>66,425,255</u>	<u>59,982,602</u>
Deferred tax liabilities	15 c)	<u>24,923,906</u>	<u>27,252,712</u>
Total equity and liabilities		<u><u>604,839,951</u></u>	<u><u>620,367,055</u></u>
Off-balance sheet items	32	<u>47,362,993</u>	<u>42,456,221</u>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2008
(Thousands of RSD)

	State-Owned Capital	Other Capital	Revaluation Reserves	Unrealized Gains / (Losses) on Securities	Accumulated Losses	Total
<i>Restated</i>						
Balance, January 1, 2007, before adjustments	358,656,306	1,291,632	24,394	-	(18,096,388)	341,875,944
Opening balance adjustments	-	-	(24,269)	-	7,035	(17,234)
Balance, January 1, 2007, restated	358,656,306	1,291,632	125	-	(18,089,353)	341,858,710
Property and equipment appraisal effects	-	-	272,494,317	-	-	272,494,317
Deferred tax liabilities	-	-	(27,232,103)	-	-	(27,232,103)
Remeasurement of securities available for sale	-	-	2,768,600	-	-	2,768,600
Disposal of fixed assets	-	-	(190,665)	-	190,665	-
Income taxes	-	-	-	-	(33,620)	(33,620)
Other	(218)	705	79	-	-	566
Loss for the year	-	-	-	-	(99,613,978)	(99,613,978)
Balance, December 31, 2007, before adjustments	358,656,088	1,292,337	247,840,353	-	(117,546,286)	490,242,492
Adjustments (Note 4b)	-	-	796,818	2,589,245	(4,289,409)	(903,346)
Balance, December 31, 2007, restated	358,656,088	1,292,337	248,637,171	2,589,245	(121,835,695)	489,339,146
Adjustments (Note 4b)	-	-	117,680	-	(499,269)	(381,589)
Balance, January 1, 2008, restated	358,656,088	1,292,337	248,754,851	2,589,245	(122,334,964)	488,957,557
Remeasurement of securities available for sale	-	-	-	(2,841,983)	-	(2,841,983)
Reversal of revaluation effects arising from fixed assets disposed of	-	-	(562,718)	-	562,718	-
Adjustment to the appraisal	-	-	(3,099)	-	-	(3,099)
Repurchase of apartments - net	-	(190)	-	-	-	(190)
Other	-	1,028	(138)	-	(14)	876
Loss for the year	-	-	-	-	(25,698,137)	(25,698,137)
Balance, December 31, 2008	358,656,088	1,293,175	248,188,896	(252,738)	(147,470,397)	460,415,024

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, 2008
(Thousands of RSD)

	<u>2008</u>	<u>2007</u>
		<i>Restated</i>
Cash flows from operating activities		
Cash receipts from customers	184,210,415	158,641,959
Interest received	4,700,552	1,871,959
Other cash received from operations	4,635,267	4,528,912
Payments to suppliers	(110,853,806)	(99,760,571)
Payments to and on behalf of employees	(37,438,110)	(33,506,772)
Interest paid	(5,296,220)	(614,762)
Income tax paid	(890,629)	(2,285,088)
Other taxed and duties paid	(19,803,727)	(18,930,563)
	<u>19,263,742</u>	<u>9,945,074</u>
<i>Net cash provided by operating activities</i>		
Cash flows from investing activities		
Sales of shares and equity investments (net inflows)	6,838	-
Sales of property, plant, equipment and intangible assets	21,541	57,187
Other financial placements (net inflows)	-	2,716,601
Interest received	62,055	1,203,787
Dividends collected	20,525	18,824
Acquisition of shares and equity investments (net outflows)	-	(2,320)
Purchases of property, plant, equipment and intangible assets	(16,668,383)	(16,091,690)
Other financial placements (net outflows)	(118,362)	(429,814)
	<u>(16,675,786)</u>	<u>(12,527,425)</u>
<i>Net cash used in investing activities</i>		
Cash flows from financing activities		
Short-term and long-term borrowings and other liabilities (net inflows)	-	2,865,650
Other short-term and long-term liabilities	-	1,229
Short-term and long-term borrowings and other liabilities (net outflows)	(1,783,400)	(3,453,073)
Finance lease	(2,293)	(1,414)
	<u>(1,785,693)</u>	<u>(587,608)</u>
<i>Net cash used in financing activities</i>		
Net increase/(decrease) in cash and cash equivalents	802,263	(3,169,959)
Cash and cash equivalents, beginning of year	5,399,170	8,538,821
Foreign exchange gains / losses on translation	<u>23,873</u>	<u>30,308</u>
Cash and cash equivalents, end of year	<u><u>6,225,306</u></u>	<u><u>5,399,170</u></u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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,” numbered 84/04), on January 27, 2005, the Government of the Republic of Serbia enacted the following legislative orders on the establishment of the following public enterprises:

- Decision number 05 023-396/2005-1 on the Foundation of a Public Company involved in Generation, Transmission and Sale of Electricity – Public Enterprise, Electric Power Industry of Serbia (“Elektroprivreda Srbije”) and,
- Decision number 05 023-397/2005-1 on the Foundation of a Public Enterprise involved in Power Transmission and the Transmission System Management, “Elektromreža Srbije.”

The Public Enterprise for production of electricity, transmission and trade in electricity “Elektroprivreda Srbije,” Beograd, number 2 Carice Milice Street (hereinafter: “JP EPS” or “Company”), commenced its business operations on July 1, 2005 based on a Decision issued by the Serbian Business Registers Agency, BD 80380/2005, and as of the same date, assumed the assets, liabilities and employees of JP EPS, an Unlimited Liability Company, established under the Law on Electric Power Industry (“Official Gazette of the Republic of Serbia,” number 45/91), 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,” and,
- a Public Company for subterranean coal exploitation “Rudnik Kovin” D.O.O., number 85 Cara Lazara Street, entered in the Business Register pursuant to July 1, 2005 Decision numbered 80374/2005.

Registered Name

The registered name of the 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 number 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. 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 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 have a license for performing energy-related activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

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

Ownership Structure

The assets handled by JP EPS and its subsidiaries, are state-owned. 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”).

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 described in the Statute; the Supervisory Board counting 5 members, two of which are the Company’s employees appointed in the manner described in the Statute; and a 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 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. It 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 legality of the Company’ actions; it also 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 were reorganized and their legal form was changed or these have undergone merger with foundation or merger and acquisition status changes, and these new entities assumed assets, liabilities and employees from January 1, 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

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

Organization Structure (Continued)

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), since, ever since June 1999, Kosovo has been under the control of the international community, which is why the parent company lost its administrative and management influence over the operations of these companies.

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

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

The founder's contributions in legal entities not performing the energy-related activities in the course of 2005 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."

The Company had 33,663 employees as of December 31, 2008 (December 31, 2007: 33,020 employees).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

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

2.1. Basis of Preparation and Presentation of the Consolidated Financial Statements

The consolidated financial statements of JP EPS as of, and for the year ended December 31, 2008 are prepared in accordance with the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46/2006) and the 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 and 119/2008).

Recognition and estimation of the line items of consolidated financial statements are performed in accordance with all items of International Accounting Standards and International Financial Reporting Standards, determined by the Republic of Serbia Ministry of Finance Decision numbered 401-00-11/2008-16 of January 18, 2008.

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.

2.2. Comparative Information

As comparative information, the Company presented the restated statement of changes in equity and restated cash flow statement for the year ended December 31, 2007, and the restated balance sheet as of December 31, 2007. In addition, to confirm the presentation of figures to the current reporting period, certain reclassifications have been made to the amounts reported in the consolidated financial statements for the year ended December 31, 2007.

The Company's management recalculated the positions in the balance sheet as of December 31, 2007 and has not submitted the restated consolidated financial statements to the Center for Creditworthiness Assessment within the National Bank of Serbia.

2.3. Standards and Interpretations Issued, but not yet in Application

The amendments to IAS, as well as the newly-enacted IFRS issued after the balance sheet date that have not yet come in effect, include the revised/new standards and interpretations:

- IAS 1 Presentation of Financial Statements (effective for financial periods starting on or after January 1, 2009);
- IAS 23 Borrowing costs (effective for financial periods starting on or after January 1, 2009);
- IFRS 8 Operating Segments (effective for financial periods starting on or after January 1, 2009);
- IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial periods starting on or after July 1, 2009);
- Amendments to IFRS 2 Share-Based Payment - Vesting Conditions and Cancellations (effective for financial periods starting on or after January 1, 2009);
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for financial periods starting on or after January 1, 2009);
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial periods starting on or after July 1, 2009);
- Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial periods starting on or after January 1, 2009);
- Improvements to International Financial Reporting Standards 2008 (most changes are effective for financial periods starting on or after January 1, 2009);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

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

2.3. Standards and Interpretations Issued, but not yet in Application (Continued)

- IFRIC 15 Agreements for the Construction of Real Estate (effective for financial periods starting on or after January 1, 2009);
- Improvements to IFRS 1 First-time Adoption of International Financial Reporting Standards (effective for financial periods starting on or after July 1, 2009);
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial periods IFRIC 13 Customer Loyalty programs (effective for financial periods starting July 1, 2008);
- IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for the accounting periods starting January 1, 2008);
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for financial periods starting October 1, 2008).

2.4. Use of Estimates

The presentation of the consolidated financial statements requires that the Company's management to make best estimates and reasonable assumptions, as stipulated in Note 3, that effect the: assets and liabilities amounts, the disclosure of contingent liabilities and receivables as of the date of preparation of the consolidated financial statements, as well as the income and expenses arising during the accounting period. These estimations and assumptions are based on information available to us, as of the date of preparation of the consolidated financial statements. However, actual results may vary from these estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Principles of Consolidation

The consolidated financial statements were prepared 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 consolidation principle where 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.

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, 2008 given that the Company's management does not have administrative and managing control over the operations of these companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Revenues and Expenses

Revenues and expenses are recognized on an accrual basis. 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 items of assets and liabilities denominated in foreign currencies are translated at the official exchange rates prevailing on the Interbank Market, at the date of each transaction. As of the consolidated financial statements' preparation date, monetary items are presented at the average rate, while adjustments are recognized in the consolidated income statement.

3.4. Cost of Borrowings

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

3.5. Employee Benefits

Employee compensations, as well as all types of benefits that the Company provides to employees pursuant to the individual 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Fair Value (Continued)

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 is recognized in the amount of the estimated risk that the carrying value of the asset will not be realized.

3.8. Transfer Pricing Between Consolidated Enterprises

During 2007, 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, i.e. the commitment to pay retirement benefits in the amount of 1.67 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%, a discount rate of 6%, 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, with the exception of the Public Enterprise "TENT" as further disclosed in Note 27.

3.10. Donations

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

The 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 as they are received.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Taxes and Contributions (Continued)

a) Current Income Taxes (Continued)

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. 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 ten ensuing years.

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.

b) Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes and various other taxes and contributions paid in accordance with republic and municipal laws.

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.

At January 1, 2007, property, plant and equipment used to perform the electricity related activities were stated at a revalued cost estimated by an independent appraiser.

Means of transport, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Property, Plant and Equipment (Continued)

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

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

3.13. Depreciation

The depreciation of property, plant, equipment and investment property is computed on a straight-line basis for every, individual item of such assets in order to fully write off the cost of the assets over their estimated useful lives.

The estimated useful lives and depreciation rates in use for the major classes of property, plant and equipment are as summarized below, as determined by an independent appraiser:

	<u>Useful Life</u>	<u>Rate</u>
Building property of hydroelectric 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 for administrative and other buildings used in office, accommodation and tourism activities	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 for distribution entities	5 - 25	4% - 20%
Means of transport, 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, not mentioned	5 - 8	12,5%-20%

The cost of land including the expenses of disassembling, 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 period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Intangible Assets (Continued)

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:

	Useful Life	Amortization Rate %
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, 2008, in accordance with the management's estimate, there have been no indications showing that the value of fixed assets has been impaired, unless otherwise is disclosed in the Notes to the consolidated financial statements which follow.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Financial Instruments

Financial assets and financial liabilities or equity instruments are recognized in the Company's balance sheet on the date upon which the Company becomes counterparty to the contractual provisions of a specific financial instrument.

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 in other legal entities are stated at cost.

Other Long-Term Placements

Following the initial recognition, other long-term placements 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 Placements

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

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 placements are measured at amortized cost.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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 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, 2009. 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 in commercial banks.

Financial Liabilities

Financial liabilities include non-current liabilities (long-term borrowings, long-term securities and other non-current liabilities), current operating liabilities, liabilities from specific operations and other liabilities.

Financial liabilities are initially recognized at the value of the consideration received. Upon initial recognition, financial liabilities are measured at the initially-recognized amount, less repayments of principal, plus accrued interest and less any write-off approved by the creditor. The 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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

4. ADJUSTMENTS

a) Effects of Adjustments to the Balance Sheet as of December 31, 2007

	<i>Previously Stated</i>		
	December 31, 2007	Adjustments + / (-)	December 31, 2007
			<i>Restated</i>
ASSETS			
Non-current assets			
Intangible assets	2,374,927	(1,999)	2,372,928
Property, plant and equipment	538,355,908	(471,892)	537,884,016
Investment property	44,357	-	44,357
Advances for intangible assets, property, plant and equipment	4,641,167	62,613	4,703,780
Equity investments	3,850,412	(508)	3,849,904
Other long-term financial placements	2,906,435	(43,444)	2,862,991
	<u>552,173,206</u>	<u>(455,230)</u>	<u>551,717,976</u>
Current assets			
Inventories	22,551,279	(32,821)	22,518,458
Accounts receivable	36,105,401	752,546	36,857,947
Receivables for prepaid income taxes	507,297	26,944	534,241
Short-term financial placements	2,135,690	(66,984)	2,068,706
Cash and cash equivalents	5,395,923	3,247	5,399,170
Value added tax and prepayments	1,621,264	(350,707)	1,270,557
	<u>68,316,854</u>	<u>332,225</u>	<u>68,649,079</u>
Total assets	<u>620,490,060</u>	<u>(123,005)</u>	<u>620,367,055</u>
EQUITY AND LIABILITIES			
Equity and reserves			
State-owned capital	358,656,088	-	358,656,088
Other capital	1,292,337	-	1,292,337
Revaluation reserves	247,840,353	796,818	248,637,171
Unrealized (losses)/gains on securities	-	2,589,245	2,589,245
Accumulated losses	(117,546,286)	(4,289,409)	(121,835,695)
	<u>490,242,492</u>	<u>(903,346)</u>	<u>489,339,146</u>
Long-term provisions	<u>3,544,475</u>	<u>77,353</u>	<u>3,621,828</u>
Long-term liabilities			
Long-term borrowings	34,935,260	161,416	35,096,676
Other long-term liabilities	5,080,376	(6,285)	5,074,091
	<u>40,015,636</u>	<u>155,131</u>	<u>40,170,767</u>
Current liabilities			
Short-term financial liabilities	8,801,336	585,579	9,386,915
Accounts payable	26,085,856	255,064	26,340,920
Other current liabilities and accruals	4,881,180	(126,966)	4,754,214
Value added tax and other duties payable and accruals	18,047,276	1,257,628	19,304,904
Income taxes payable	195,648	1	195,649
	<u>58,011,296</u>	<u>1,971,306</u>	<u>59,982,602</u>
Deferred tax liabilities	<u>28,676,161</u>	<u>(1,423,449)</u>	<u>27,252,712</u>
Total equity and liabilities	<u>620,490,060</u>	<u>(123,005)</u>	<u>620,367,055</u>
Off-balance sheet items	<u>44,299,128</u>	<u>(1,842,907)</u>	<u>42,456,221</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

4. ADJUSTMENTS

a) Effects of Adjustments to the Balance Sheet as of December 31, 2007

Compared with the line items presented in the consolidated financial statements for the year 2007, due to some post balance sheet events and some omissions, certain line items have been adjusted. The most significant line items that were subject to restatement are the consequence of the following:

- the total carrying value of property, plant, equipment and intangible assets was decreased for the amount of RSD 471,892 thousand relating to the effects of mathematical errors in recording the appraisal of property, plant and equipment, and intangible assets as of January 1, 2007 and an additional amount was credited to revaluation reserves and certain deferred tax liabilities were reversed;
- the mathematical error determined in the recognition of positive and negative appraisal effects arising from individual items of property, plant and equipment as of January 1, 2007 of RSD 953,771 thousand in the instance of the Public Company "Elektrodistribucija Beograd" (previously determined on the level of groups of similar items), is adjusted by charging the net profit brought forward and by increasing revaluation reserves;
- due to the amendments to the sublegislation acts determining the content of the accounts included in the General Ledger, unrealized gains on securities in the net amount of RSD 2,589,245 thousand have been reclassified from the account of revaluation reserves to the special line item included in the balance sheet;
- for the subsequently acquired evidence from a commercial bank regarding the profit distribution from previous reporting periods in the amount of RSD 179,462 thousand, the Company adjusted the overstated unrealized gains on the remeasurement of securities to their fair value performed in the previous reporting period;
- for the subsequently determined liabilities arising from the restoration of natural resources, payable in the future in the amount of RSD 99,852 thousand, the Company recognized long-term provisions charging them to net profit brought forward;
- once the quantities of electricity were reconciled between JP EPS and the Electric Power Industry of Montenegro, delivered between these two entities in 2007, and based on the Agreement on the Long-Term Business and Technical Cooperation (the reconciliation was performed after the issuance of the 2007 financial statements), additional accounts receivable were subsequently recognized in the amount of RSD 676,328 thousand;
- based on the settlement of debtor/creditor relations with the commercial banks in bankruptcy, as further disclosed in Note 28, additional amounts have been recognized on the following line items: long-term liabilities of RSD 161,415 thousand, short-term financial liabilities of RSD 585,579 thousand, as well as interest expenses recognized in the amount of 441,246 thousand, as recognized on a time basis, accompanied by the reversal of accrued expenses accounted for in the earlier reporting periods for the amount of RSD 167,348 thousand. The Company also disclosed adjustments in the amount of RSD 396,432 thousand made to accounts receivable and payable given that the parent company closed a binding agreement with a third party stipulating subsidiaries as end beneficiaries;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

4. ADJUSTMENTS (Continued)

a) Effects of Adjustments to the Balance Sheet as of December 31, 2007 (Continued)

- subsequently determined rights to reduced years of service allowed to employees doing particularly difficult, dangerous and unhealthy jobs in the amount of RSD 1,020,786 thousand are recognized within other short-term liabilities;
- the increase in liabilities of RSD 151,360 thousand is associated with the recognition of debt based on interest charged in transactions with JP EMS, as disclosed in Note 5;
- per separate line items, the adjustments have been performed based on the relevant documents received in the reporting period, which in its nature relate to events that occurred in the preceding periods (decisions of the competent authorities on the amounts of final liabilities arising from water utility and environment protection fees, additional liability of RSD 103,668 thousand was recognized, value added tax of RSD 170,776 thousand; also payables arising from the subsequently examined electricity counters in the amount of RSD 151,465 thousand was included in the restated financial statements, and the subsequently acquired documentation with respect to returning inventories back to warehouse in the amount of RSD 50,918 thousand was also accounted for) as charged to net profit carried forward.

b) Effects of Adjustments to the Line Items of Equity – Revaluation Reserves, Unrealized Gains/Losses and Accumulated Losses

The adjustments made in the current reporting period for amount by which the carrying value of separate items of property, plant and equipment exceeds their fair value as determined by a certified appraiser impacted the following line items:

	Revaluation Reserves	Accumulated Losses
Balance, January 1, 2008, before adjustments	248,637,171	(121,835,695)
Adjustment of the negative appraisal effects	513,961	(513,961)
Creation of deferred tax liabilities	(51,396)	-
Inventory count shortage	-	(1,262)
Disposal of fixed assets	(3,528)	-
Correction of errors in recording the appraisal effects	(341,357)	15,954
Total adjustment	117,680	(499,269)
Balance, after adjustments	248,754,851	(122,334,964)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

4. ADJUSTMENTS (Continued)

b) Effects of Adjustments to the Line Items of Equity – Revaluation Reserves, Unrealized Gains/Losses and Accumulated Losses (Continued)

In addition, for the purpose of adjusting errors and reconciling with the amendments of sublegislation acts determining the content of accounts of the General Ledger, the reclassification/adjustment of unrealized gains on securities was as follows:

	Revaluation Reserves December 31, 2007	Unrealized Gains/Losses on Securities December 31, 2007	Accumulated Losses December 31, 2007
Opening balance	247,840,353	-	(117,546,286)
Reclassification caused by the change in the chart of accounts	(2,589,245)	2,589,245	-
Adjustment to the appraisal effects	3,386,063	-	(3,386,063)
Payables based on reduced years of service - Kolubara	-	-	(1,020,786)
Reconciliation of receivables and payables with banks in bankruptcy	-	-	(1,188,240)
Final Decisions regarding fees for 2007	-	-	(103,668)
Reconciliation of receivables from Power Industry of Montenegro and other entities	-	-	939,234
Reconciliation of VAT payables	-	-	(170,776)
Write-off of deferred tax liabilities	-	-	1,371,562
Debt recognized for interest payable to EMS	-	-	(151,360)
Subsequently determined payable for the natural resource restoration	-	-	(99,852)
Subsequently received suppliers' invoices	-	-	(441,061)
Other	-	-	(38,399)
Total adjustments	<u>769,818</u>	<u>2,589,245</u>	<u>(4,289,409)</u>
	<u>248,637,171</u>	<u>2,589,245</u>	<u>(121,835,695)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

5. SALES REVENUE

	Year Ended December 31,	
	2008	2007
Sale of electricity	118,441,291	98,780,607
Sale of coal	3,520,272	2,920,311
Sale of engineering steam and gas	1,682,477	1,643,458
Sale to legal entities domiciled abroad	4,646,019	5,233,981
Sale of products and services (Public Company "Kolubara Metal")	3,553,191	3,085,489
Income from radio and television subscriptions	30,334	39,411
Income from the Public Enterprise "Elektromreža Srbije"	4,579,805	-
Other income	676,208	781,260
	137,129,597	112,484,517

In addition to electricity delivered to tariff users, the portion of electricity sales of RSD 1,017,537 thousand is recognized based on the trade with legal entities – the Republic of Serbia residents in possession of a license to perform energy related activities.

A portion of sales performed on foreign markets amounting to RSD 3,872,328 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 Public Company "Kolubara Metal" 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% was approved (starting from March 2008, the previous discount was 30%) 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 kW and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

5. SALES REVENUE (Continued)

- 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 within the time frames set forth in the Decision on the General Terms of Delivering Electricity and in accordance with the relevant Decision of the Board of Directors, a discount of 5% was granted.

6. OTHER OPERATING INCOME

	Year Ended December 31,	
	2008	2007
New customer connection fees	2,448,902	1,875,995
Donation income	1,462,212	1,348,691
Insurance claims collected	634,610	365,894
Rental income	63,174	70,778
Other operating income	416,042	939,793
	5,024,940	4,601,151

Income from new customer connections relates to fees charged for the establishment of new connections, i.e. fees charged for joining the system, calculated at the price list approved by the Energy Agency.

Based on claims collected from insurance companies incurred in the preceding reporting periods, the Public Company “RB Kolubara” recognized income of RSD 423,709 thousand most of which, approximately 90%, relates to the collection of claim for the damages on the dredge cutter 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

7. COST OF MATERIALS

	Year Ended December 31,	
	2008	2007
Purchases of electricity:		
- on domestic market	1,270,351	1,247,564
- on foreign market	<u>5,242,250</u>	<u>6,412,633</u>
	6,512,601	7,660,197
Transfer of electricity by JP EMS	8,479,299	3,072,786
Materials for maintenance and spare parts	7,961,301	6,880,120
Oil derivatives	3,987,638	3,936,753
Natural gas	4,380,232	3,283,905
External purchases of coal	564,733	342,795
Production material	2,892,289	2,483,624
Office and general administrative supplies	361,511	360,565
Other	<u>784,811</u>	<u>856,973</u>
	<u><u>35,924,415</u></u>	<u><u>28,877,718</u></u>

The acquisition of electricity used for the Company's own activities in the value of RSD 6,512,601 thousand is related with the acquisition of electricity from legal entities outside the EPS system (imported and acquired from legal entities located on the territory of the Republic of Serbia having license to trade in electricity). A portion of costs acquired on the foreign market include an amount of RSD 2,777,040 thousand that pertains to the electricity purchased from the Electric Power Industry of Montenegro.

The Company executed 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 (earlier, such expense used to be charged to the parent entity – the preparer of these consolidated financial statements). In addition to the aforementioned, based on the acquisition of energy in case of a major breakdown through barter or on a commercial basis from JP EMS, the Company recognized expense of RSD 101,736 thousand.

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

8. STAFF COSTS

	Year Ended December 31,	
	2008	2007
	<u> </u>	<u> </u>
Gross salaries	28,032,508	24,595,944
Contributions to salaries payable by the employer	5,933,843	5,070,220
Employee transport	1,276,559	1,117,756
Retirement benefits and jubilee awards	194,116	223,911
Other staff costs	<u>958,535</u>	<u>613,505</u>
	<u>36,395,561</u>	<u>31,621,336</u>

Staff costs comprise salaries, benefits, contributions and other consideration paid to employees as in accordance with the general acts of EPS.

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	Year Ended December 31,	
	2008	2007
	<u> </u>	<u> </u>
Depreciation and amortization	46,458,563	46,259,451
Provisions	<u>4,327,212</u>	<u>2,586,797</u>
	<u>50,785,775</u>	<u>48,846,248</u>

The useful life of property, plant, equipment and intangible assets as of January 1, 2007 was determined by an independent appraiser.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

10. OTHER OPERATING EXPENSES

	Year Ended December 31,	
	2008	2007
Maintenance	9,741,766	9,116,495
Rentals	4,294,917	2,495,311
Insurance premiums	2,204,629	1,864,147
Public water utility fees	1,832,600	1,528,523
Environment pollution considerations	1,439,827	1,269,221
City construction land fees	1,314,243	1,168,647
Production related services	1,180,979	624,900
Telecommunications	937,837	903,321
Research	393,911	357,587
Scientific research expenses	298,790	208,448
Other indirect taxes, contributions and fees	660,129	646,074
Property taxes	634,865	477,998
Student and youth organizations	608,958	893,424
Bank charges	599,849	501,020
Transportation services	430,425	305,941
Mineral resource fees	393,341	228,459
Public utility fees	309,485	277,773
Court fees	305,874	252,580
Entertainment	270,020	239,968
Fees for the use of general interest property	61,552	165,122
Other services	2,001,924	1,515,849
Other production services	1,491,130	1,522,325
Other non-material expenses	1,332,183	1,255,710
	32,739,234	27,818,843

In accordance with the Law on Environment Protection (Official Gazette of the Republic of Serbia number 135/2004) 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 the Republic of Serbia number 113/2005), the Company recorded the compensations for SO₂, NO₂ emissions, 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.

Other non-material expenses, apart from protection at work fees, professional services, membership fees, sponsorships and the like, include an amount of RSD 74.587 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 that have been rescheduled into 120 installments.

Rentals recognized in the amount of RSD 4,232,102 thousand were incurred based on the lease of mechanization for the purpose of addressing consequences of coal exploitation and enabling the use of existing locations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

11. FINANCE INCOME

	Year Ended December 31,	
	2008	2007
Interest income	5,784,029	6,532,071
Foreign exchange gains	2,092,287	1,959,244
Other finance income	203,231	170,887
	8,079,547	8,662,202

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,	
	2008	2007
Interest expense	2,465,345	2,566,517
Foreign exchange losses	7,894,825	456,500
Other finance expenses	463,375	182,875
	10,823,545	3,205,892

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

For all monetary items to be settled in foreign currency, 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 currency.

13. OTHER INCOME

	Year Ended December 31,	
	2008	2007
Collected bad debts and release of provisions for accounts receivable and short-term financial placements	1,477,910	1,837,943
Valuation of other assets	448,993	86,251
Write-off of liabilities	276,394	98,926
Reversal of long-term provisions	90,828	51,114
Gains on the sale of material, equity investments, intangible assets, property, plant and equipment	75,191	107,383
Surpluses	45,200	38,219
Prior year income	90	777,964
Barter exchange of electricity	-	1,589,684
Other income	129,342	123,284
	2,543,948	4,710,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

13. OTHER INCOME (Continued)

Like the previous activities towards regulating relations with banks in bankruptcy (Note 28), mutual reconciliation and set off of payables of the reporting entity against cash balances held with the aforementioned banks in the aggregate amount of RSD 123,477 thousand, which were deposited with correspondent banks abroad and were of a restricted use due to the imposed sanctions, or with the banks themselves at the date of instituting proceeding.

Based on the electricity barter between the participants on the energy market, between the respective areas of neighboring operators of transmission systems, relying on the rights to over-border transmission capacity, income and expenses are recognized in the previous reporting period. From the reporting period and based on the Rules on the Transmission System Operation, the operator of a transmission system, inter alia, provides access to the transmission system to a third party, as well as technical and other terms for a safe and secure system operation, manner of determining and providing system services and steps taken in crisis situation.

14. OTHER EXPENSES

	Year Ended December 31,	
	2008	2007
Impairment of short-term receivables and rescheduled accounts receivable	10,183,684	6,994,208
Staff costs of the employees in the public enterprises situated in Kosovo and Metohija	4,081,586	3,701,412
Losses on disposal, write-off and sale of fixed assets, intangible assets, equity investments and materials	1,266,539	1,305,007
Write-off of receivables	587,620	1,438,457
Sponsorship and donation expenses	413,666	217,689
Impairment of other assets	327,131	317,832
Impairment of inventories	229,247	227,418
Shortages	60,787	44,261
Prior year expenses	134	1,814,422
Property and equipment negative appraisal effects	-	84,705,415
Barter exchange of electricity	-	1,888,074
Other expenses	204,989	217,843
	17,355,383	102,872,038

Accounts receivable considerably past due are recognized as an impairment loss in the amount of RSD 10,183,684 thousand.

Expenses amounting to RSD 4,081,586 thousand are recognized based on the benefits 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.

In the preceding reporting period, negative appraisal effects reflecting the fair value of separate items of property, plant and equipment at January 1, 2007, as determined by the certified appraiser, were recognized as expense in the amount of RSD 84,705,415 thousand.

The expenses arising from barter exchange of electricity dating from the previous reporting period are recognized as explained in Note 13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

15. INCOME TAXES

a) Components of Income Taxes

	Year Ended December 31,	
	2008	2007
	<u> </u>	<u> </u>
Current income tax expense	(532,520)	(592,421)
Deferred income tax benefits	<u>2,380,201</u>	<u>10,211,050</u>
	<u>1,847,681</u>	<u>9,618,629</u>

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

	Year Ended December 31,	
	2008	2007
	<u> </u>	<u> </u>
Loss before taxation	<u>(27,545,818)</u>	<u>(109,232,607)</u>
Income tax at the statutory tax rate of 10%	-	-
Tax effect of non-deductible expenses not recognized for tax purposes	417,914	(878,678)
Used tax loss carryforwards	1,040,519	2,538,722
Realized tax loss available for carry forward	-	(113,820)
Realized tax credits carried forward	-	(407,072)
Capital losses available for carry forward	(754)	(341)
Expenses arising from impairment of assets	390,002	8,481,355
Tax credits for capital expenditures	-	-
Other	<u>-</u>	<u>(1,537)</u>
	<u>1,847,681</u>	<u>9,618,629</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

15. INCOME TAXES (Continued)

c) Deferred Tax Assets and Liabilities

Deferred tax liabilities of RSD 24,923,906 thousand as of December 31, 2008 (December 31, 2007: RSD 27,252,712 thousand) are associated with the taxable temporary differences arising between the tax bases at which property, plant, equipment and intangible assets are stated in the annual income tax return, and the carrying value of such assets, as recorded in the Company's financial statements.

As of December 31, 2008, the Company did not recognize deferred tax assets with respect to tax loss and tax credit carryforwards in the total amount of RSD 5,951,447 thousand (December 31, 2007: RSD 2,234,138 thousand), 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.

	<u>Expiration Year</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Tax loss carryforwards:			
- 2003	2013	104,476	137,063
- 2004	2014	338,863	407,816
- 2005	2015	12,709	38,674
- 2006	2016	89,043	96,580
- 2007	2017	526,564	526,642
- 2008	2018	716,088	-
		<u>1,787,743</u>	<u>1,206,775</u>
Tax credits and capital losses carried forward		<u>4,163,704</u>	<u>1,027,363</u>
		<u><u>5,951,447</u></u>	<u><u>2,234,138</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

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

	Land	Buildings	Plant, Equipment and Other Assets	Construction in Progress	Total	Intangible Assets	Investment Property
Cost							
Balance at January 1, 2007, before adjustments	6,634,849	471,011,541	493,948,042	35,047,836	1,006,642,268	2,831,854	111,000
Opening balance adjustments	48,238	(24,183,637)	27,640,752	1,827	3,507,180	2,797	-
Balance at January 1, 2007, after adjustments	6,683,087	446,827,904	521,588,794	35,049,663	1,010,149,448	2,834,651	111,000
Additions	350,547	1,317,693	4,168,631	16,700,999	22,537,870	343,011	5,743
Activation of construction in progress	49	2,012,247	9,325,340	(11,337,636)	-	-	-
Transfers	4,738,468	(68,583,041)	65,089,645	(918,768)	326,304	(4,947)	-
Revaluation (appraisal effects)	6,366,434	154,115,355	143,503,141	-	303,984,930	-	-
Sales and disposal	(12,847)	(2,049,930)	(6,589,660)	(25,206)	(8,677,643)	(85,785)	-
Transfer to third parties	-	(74,246)	(89,455)	(32,882)	(196,583)	(6,255)	-
Surpluses	-	100	22,522	-	22,622	-	-
Shortages	-	(7,397)	(38,814)	-	(46,211)	(7,589)	-
Derecognition of the gross value of fixed assets invested in start-ups	-	(904,320)	-	-	(904,320)	-	-
Balance at January 1, 2007, before adjustments	18,125,738	532,654,365	736,980,144	39,436,170	1,327,196,417	3,073,086	116,743
Adjustments	37,928	(384,602)	5,618,982	(49,200)	5,223,108	420	4,824
Balance at January 1, 2007, after adjustments	18,163,666	532,269,763	742,599,126	39,386,970	1,332,419,525	3,073,506	121,567
Additions	1,153,529	495,834	2,948,509	24,692,182	29,290,054	268,112	3,892
Activation of construction in progress	94,584	1,004,486	11,458,232	(12,759,832)	(202,530)	-	-
Transfers	(28,196)	(64,462,334)	64,959,809	(594,969)	(125,690)	1,817	-
Self-constructed assets	-	232,625	597,031	303,301	1,132,957	-	-
Donations	-	80,612	1,159,242	-	1,239,854	-	-
Revaluation (appraisal effects)	-	-	(7,333)	-	(7,333)	-	-
Sale and disposal	-	(1,408,151)	(4,392,424)	(176,030)	(5,976,605)	(619)	(5,936)
Transfer to third parties	-	(888)	(7,506)	(404)	(8,798)	-	-
Surpluses	-	57,285	8,868	-	66,153	-	-
Shortages	-	(1,498)	(20,652)	(497)	(22,647)	(75)	-
Transfers to subsidiaries	-	-	(3,424)	-	(3,424)	(20,211)	-
Other changes	-	(2,583,393)	1,449,585	(13,277)	(1,147,085)	(1,413)	-
Balance, December 31, 2008	19,383,583	465,684,341	820,749,063	50,837,444	1,356,654,431	3,321,117	119,523

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

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

	<u>Land</u>	<u>Buildings</u>	<u>Plant, Equipment and Other Assets</u>	<u>Construction in Progress</u>	<u>Total</u>	<u>Intangible Assets</u>	<u>Investment Property</u>
Accumulated Depreciation/Amortization							
Balance at January 1, 2007, before adjustments	3,856	284,260,214	348,263,295	-	632,527,365	589,613	69,838
Opening balance adjustments	-	(16,684,110)	18,822,667	-	2,138,557	140	-
Balance at January 1, 2007, after adjustments	3,856	267,576,104	367,085,962	-	634,665,922	589,753	69,838
Charge for the year	621,392	9,316,777	36,203,694	-	46,141,863	115,040	2,548
Transfers	1,124,420	(43,812,613)	43,017,120	24,535	353,462	5,757	-
Donations	-	3,035	512,320	-	515,355	-	-
Revaluation (valuation effects)	4,000,906	78,886,542	26,179,814	7,236,904	116,304,166	-	-
Sale and disposal	(3,223)	(1,623,452)	(6,890,214)	-	(8,516,889)	(3,103)	-
Shortages	-	(5,188)	(33,231)	-	(38,419)	(7,298)	-
Transfer to third parties	-	(39,969)	123,729	-	83,760	(1,990)	-
Derecognition of the gross value of fixed assets invested in start-ups	-	(750,155)	-	-	(750,155)	-	-
Balance at January 1, 2007, before adjustments	5,747,351	309,551,081	466,199,194	7,261,439	788,759,065	698,159	72,386
Adjustments	(8,249)	1,452,753	4,331,950	-	5,776,444	2,419	4,824
Balance at January 1, 2007, after adjustments	5,739,102	311,003,824	470,531,144	7,261,439	794,535,509	700,578	77,210
Charge for the year	789,542	7,456,114	38,044,086	558	46,290,300	165,700	2,563
Transfers to subsidiaries	-	-	(3,424)	-	(3,424)	-	-
Transfers	(1,141)	(48,343,599)	48,359,801	-	15,061	-	-
Donations	-	1,264	1,016,396	-	1,017,660	-	-
Retirements and disposals	-	(1,096,668)	(3,631,151)	(558)	(4,728,377)	(526)	(4,658)
Shortages	-	(1,498)	(18,881)	-	(20,379)	(75)	-
Transfer to third parties	-	(464)	(1,281)	-	(1,745)	-	-
Other changes	(1)	(2,148,285)	1,416,469	(882)	(732,699)	72	-
Balance, December 31, 2008	6,527,502	266,870,688	555,713,159	7,260,557	836,371,906	865,749	75,115
Net Book Value							
December 31, 2008	12,856,081	198,813,653	265,035,904	43,576,887	520,282,525	2,455,368	44,408
December 31, 2007, after adjustments	12,424,564	221,265,939	272,067,982	32,125,531	537,884,016	2,372,928	44,357

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

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 at January 1, 2007. For the purpose of assessing the values of such assets, an independent appraiser was engaged. The fair value was determined at cost method, adjusted to the assets' useful value (yield method).

Construction in Progress

Assets in progress and intangible assets in progress include amounts of RSD 4,452,000 thousand and RSD 1,752,290 thousand relating to expenses incurred in the construction of thermo-electric power plant TE-TO Kolubara B within the Public Company – Thermal Power Plant “Nikola Tesla,” Obrenovac. The Decision on the construction of thermal-electric structure Kolubara B, having the capacity 2 x 350 MW, with the corresponding brown coal open-pit of Tamanva – Zapadno polje, with the 7 million tons capacity, was enacted in 1984. After the UN imposed the economic sanctions, all the activities related to the realization of this project ceased, as did the production and acquisition of equipment, and utilization of the approved World Bank loan.

Investment activities performed in order to complete the construction of the Thermal Power Plant Kolubara B (2x350 MW), as well as other activities on the construction of new capacities are further disclosed in Note 39 dealing within post balance sheet events.

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

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Advances paid for property, plant, equipment and intangible assets	3,921,739	4,852,555
Less: Allowance for impairment of advances paid for property, plant, equipment and intangible assets	(458,455)	(148,775)
	3,463,284	4,703,780

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

18. EQUITY INVESTMENTS

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Equity investments in domestic banks:		
- AIK banka a.d., Niš	675,957	2,924,220
- Čačanska banka a.d., Čačak	46,592	150,132
- Komercijalna Banka a.d., Beograd	23,374	88,011
- other	262,955	235,418
	<u>1,008,878</u>	<u>3,397,781</u>
Equity investments in other legal entities:		
- Politika a.d., Beograd	168,109	504,318
- RMK Trepča	27,049	27,072
- Minel holding	9,716	9,716
- other	153,296	153,597
	<u>358,170</u>	<u>694,703</u>
Equity investments in insurance companies	<u>5,047</u>	<u>5,499</u>
	<u>1,372,095</u>	<u>4,097,983</u>
Allowances for impairment:		
- equity investments in domestic banks	(17,757)	(1,349)
- equity investments in other legal entities	(252,581)	(246,730)
- equity investments in insurance companies	(3,527)	-
	<u>(273,865)</u>	<u>(248,079)</u>
Total allowance for impairment	<u>(273,865)</u>	<u>(248,079)</u>
	<u>1,098,230</u>	<u>3,849,904</u>

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 their fair values as of December 31, 2008. The difference between the fair value as of December 31, 2007 and their fair value as of December 31, 2008 amounting to RSD 2,841,983 thousand is recognized as a special line item of equity, through the reversal of the earlier formed revaluation reserves based on unrealized gains amounting to RSD 2,589,245 thousand, through the recognition of revaluation reserves based on unrealized losses of RSD 252,738 thousand and by recognizing impairment losses of RSD 16,160 thousand. Namely, according to the business management, the amount of accumulated losses is 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 is no significantly different data that would mean 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), default against the contractually-agreed liabilities, experience 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 relate to stakes in certain domestic business entities available for sale, which are not listed on the capital market are presented at cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

19. LONG-TERM FINANCIAL PLACEMENTS

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Long-term receivables from the Public Enterprise		
Elektromreža Srbije	247,562	1,601,025
Rescheduled accounts receivable for electricity sold:		
- private individuals	118,548	500,554
- legal entities	119,204	218,798
Joint investment in the Rovni Water Reservoir	637,205	637,205
Placements based on apartments sold, housing loans and long-term rent of apartments	340,003	329,322
Rescheduled receivables for electricity sold – Public Enterprise “Toplifikacija,” Požarevac	53,703	53,703
Receivables from the Privatization Agency of RS	141,469	27,983
Long-term deposits with domestic banks	13,240	11,840
Other long-term financial placements	302,458	304,277
	1,973,392	3,684,707
<i>Less: Allowance for impairment</i>		
- Rescheduled accounts receivable for electricity	(212,800)	(674,459)
- Receivables from the Privatization Agency of RS	(141,469)	(27,983)
- Other long-term financial placements	(142,517)	(119,274)
	(496,786)	(821,716)
	1,476,606	2,862,991

As disclosed in Note 28, upon dividing the amount of loan obtained from the EBRD between the Company and the Public Enterprise “Elektromreža Srbije,” the long-term account receivable thereof has been reversed. At the same time, the terms of settling the forgoing liabilities have been renegotiated with the suppliers of goods and services and the reversal of commitments on behalf of the Public Enterprise “Elektromreža Srbije,” the legal successor of the Public Company “Elektroistok” operating within the Electric Power Industry of Serbia until June 30, 2005.

The 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

19. LONG-TERM FINANCIAL PLACEMENTS (Continued)

Long-term joint investments of RSD 637,205 thousand as of December 31, 2008, relate to the joint investment in the Public Company Kolubara, Valjevo, based on the construction of "Rovni" Water Accumulation Basin, intended for water supply, flood prevention in the surrounding municipalities as well as for the needs of the Public Enterprise Power Industry of Serbia. Based on the Government of the Republic of Serbia Decree on determining the program of construction, reconstruction and maintenance of water supply structures in 2006 (Official Gazette of the Republic of Serbia, No., 117 as of December 30, 2005), further plans of construction work on the dam and accumulation were made with the 100% of the Government of the Republic of Serbia interest. The subject investment was made with the intention to provide the conditions necessary for the operation of TE Kolubara B Project for which bidders were invited to submit expressions of interest and provide evidence that they are eligible to participate in the joint venture (Note 39).

Other long-term financial placements include an amount of RSD 105,014 thousand associated with investments in the construction of network for distribution of heat in the village of Drmolac and a reconstruction of the existing network for distribution of heat in the town of Kostolac.

20. INVENTORIES

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Material	9,489,712	9,127,315
Spare parts	9,434,505	8,834,378
Tools and fixtures	1,783,007	1,536,594
Work in progress and finished products	4,168,590	2,800,685
Goods for resale	294	584
	<u>24,876,108</u>	<u>22,299,556</u>
<i>Less: Allowance for impairment</i>		
<i>- inventories</i>	(2,094,699)	(1,911,937)
	<u>22,781,409</u>	<u>20,387,619</u>

For the amount of slow moving inventories which cannot be technically or technologically used, an allowance for impairment was formed. The level of material and spare part inventories is determined by intensive capital works on the existing plants and equipment, circumstances imposed by the purchase at request procedures and the need for maintaining the optimal level of inventories for the purpose of regular servicing and maintenance of possible breakdowns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

21. ADVANCES FOR INVENTORIES

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Advances paid	2,388,354	2,617,084
Allowance for impairment of advances paid	(270,156)	(486,245)
	2,118,198	2,130,839

22. ACCOUNTS RECEIVABLE

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Accounts receivable:		
- non-consolidated subsidiaries situated in Kosovo and Metohija	871,668	871,668
- other related parties	4,592	3,288
- domestic customers	73,745,599	62,433,549
- foreign customers	4,460,715	6,070,440
- the Resavica Coal Mine	1,166,907	1,166,907
	80,249,481	70,545,852
Receivables for radio and television subscriptions	13,206,531	9,310,259
Interest receivable	2,141,720	2,178,448
Receivables from employees	228,804	744,200
Accounts receivable from budget beneficiaries and prepaid taxes and contributions	560,907	320,557
Accounts receivable from specific operations	28,401	166,878
Other receivables	283,499	461,121
	96,699,343	83,727,315
<i>Less: Allowance for impairment</i>		
- accounts receivable from non-consolidated subsidiaries situated in Kosovo and Metohija	(871,668)	(871,668)
- other related parties	(370)	(370)
- domestic customers	(49,660,074)	(42,186,221)
- foreign customers	(3,719,487)	(2,482,337)
- the Resavica Coal Mine	(1,166,907)	(1,166,907)
- interest receivable	(2,868)	(2,868)
- receivables from employees	(4,474)	(4,697)
- accounts receivable from prepaid taxes and contributions	(219)	(329)
- other receivables	(283,499)	(153,971)
	(55,710,241)	(46,869,368)
	40,989,102	36,857,947

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

22. ACCOUNTS RECEIVABLE (Continued)

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

Domestic accounts receivable as of December 31, 2008 include the receivables from domestic companies in restructuring, amounting to RSD 10,317,776 thousand (December 31, 2007: RSD 10,554,970 thousand), registered with the Privatization Agency of the Republic of Serbia. These receivables have been fully provided for.

Accounts receivable from non-consolidated subsidiaries situated in Kosovo and Metohija mostly relate to uncollected receivables arising from principal and interest for electricity delivered in an earlier period to the Public Company "Elektrokosmet," Priština, fully provided for.

A portion of foreign accounts receivable of RSD 1,334,169 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 post balance sheet. The balance of foreign accounts receivable mostly relate to the amounts due from power utilities of former Yugoslav Republics dating from previous years, fully provided for.

The Act on Changes and Amendments to the Broadcast Act as of September 2005, provides that the radio-television consumer subscriptions from are collected through JP EPS 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 JP RTS settle the accounts, whereas the monetary transfer is performed daily. For the services of maintaining the records and subscription collection, the Company is entitled to 8%, i.e. 6.3% from May 2008, of subscription collected in the relevant month.

The accounts receivable from the Public Enterprise "Elektromreža Srbije" is recognized based on the Agreements aforementioned. Also, interest receivables from the Public Enterprise "Elektromreža Srbije" of RSD 404,682 thousand as of December 31, 2008 relate to the interest accrued on a loan obtained from the People's Republic of China in the amount of RSD 312,192 thousand and rescheduled loans from the International Bank for Reconstruction and Development of RSD 92,490 thousand. The principal of receivables is presented within long-term placements (Note 19).

A portion of the stated accounts receivable from budget beneficiaries amounting to RSD 430,000 thousand is associated with receivables of the Public Company "Termoelektrane Nikola Tesla" from the Fund for Environment Protection based on agreements closed with respect to the co-financing of the project of environment protection based on the authorized interim certificates submitted by subcontractors. The aforementioned agreements were closed based on the Law on Environment Protection and sublegislation acts for the purpose of reducing damaging emissions as disclosed in Note 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

23. SHORT-TERM FINANCIAL PLACEMENTS

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Current portion of long-term receivables from the Public		
Enterprise Elektromreža Srbije	881,110	996,895
Short-term deposits with domestic banks	754,800	645,014
Interest free loans to non-consolidated subsidiaries –		
Kolubara Metal d.o.o. Vreoci	-	14,507
Short-term domestic loans	820	60,926
Short-term foreign loans	31,082	31,082
Other	417,786	320,282
	2,085,598	2,068,706

The current portions of the long-term receivables from Public Enterprise Elektromreža Srbije as of December 31, 2008 of RSD 881,110 thousand relate to the matured portions of the loan approved by the PR China of RSD 842,606 thousand, and rescheduled loans obtained from the European Bank for Reconstruction and Development of RSD 38,504 thousand.

Short-term deposits with domestic banks are deposits with terms ranging from one month to one year.

24. CASH AND CASH EQUIVALENTS

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Current accounts:		
- in dinars	4,070,740	3,936,037
- in foreign currencies	1,177,178	811,049
Cash cover deposits for letters of credit	522,073	215,047
Cash on hand and other cash	113,881	83,202
Other cash	349,872	359,028
Cash funds restricted or impaired	12,851	168,880
Total cash and cash equivalents	6,246,595	5,573,243
Impairment of restricted or impaired cash funds	(21,289)	(174,073)
	6,225,306	5,399,170

The reversal of allowance for impairment of cash and cash equivalents is performed as disclosed in Notes 13 and 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

25. VALUE ADDED TAX AND PREPAYMENTS

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Deferred value added tax	959,730	905,600
Other prepayments	399,243	364,957
	1,358,973	1,270,557

Value added taxes is associated with prior period tax which the Company utilized subsequent to the preparation of the balance sheet, net of all of its liabilities airings from the VAT owed.

26. EQUITY

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 aforementioned Order, the Public Enterprise, Elektroistok was separated from the JP EPS and as of July 1, 2005, 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 recognizing equity investments in the remaining 18 companies within JP EPS, amounting to RSD 317,831,442 thousand and 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.

The aforementioned change in organizational status was duly registered with the Serbian Business Registers Agency on July 1, 2005, pursuant to the relevant Decision, numbered BD 80380/2005. The amount of monetary and non-monetary capital subscribed into the Business Register totaled EUR 4,621,609,319 as per the exchange rate in effect as of December 31, 2004, or the equivalent of RSD 364,575,651 thousand. Consequently, the amount of capital recorded in the Company's books of account was not reconciled with the amount inscribed in the Serbian Business Registers Agency as of December 31, 2007, i.e. the amount is understated by RSD 5,919,563 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 "Elektroprivreda Srbije," 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. 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 aforementioned value of equity interest in related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

26. EQUITY (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, 2008 amounts to RSD 358,656,088 thousand and exceeds the amount recognized by the parent company (RSD 322,906,233 thousand) by RSD 35,749,855 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, 2008 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.

27. LONG-TERM PROVISIONS

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Provisions for retirement benefits and jubilee awards	6,100,634	2,791,695
Provision for litigation	1,090,728	644,268
Provisions for the costs of natural resource restoration	323,829	185,865
	7,515,191	3,621,828

The movements in long-term provisions during 2008 and 2007 are presented in the following table:

	Retirement Benefits and Jubilee Awards	Litigations	Restoration of Natural Resources	Total
Balance, January 1, 2007	971,625	580,508	151,874	1,704,007
Additions	2,332,452	168,729	85,616	2,586,797
Reversal	-	(51,114)	-	(51,114)
Released provisions	(512,382)	(53,859)	(51,621)	(617,862)
Balance, December 31, 2007	2,791,695	644,264	185,869	3,621,828
Additions	3,596,382	582,763	148,067	4,327,212
Reversal	-	(90,828)	-	(90,828)
Released provisions	(287,443)	(45,471)	(10,107)	(343,021)
Balance, December 31, 2008	6,100,634	1,090,728	323,829	7,515,191

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

27. LONG-TERM PROVISIONS (Continued)

Pursuant to the Energy Law and the Decision of the Government of the Republic of Serbia on the establishment of the Public Company engaged in generation, distribution and sale of electricity, the future organization of JP EPS was determined. Further provisions for restructuring costs were not included in the consolidated financial statements as there is no official restructuring plan allowing for the reliable amount of such provisions to be estimated.

Provisions for retirement benefits and jubilee awards of RSD 5,611,764 thousand are formed in all entities within the JP EPS group, as further disclosed in Note 3.9, with the exception of the Public Company "TE Nikola Tesla" which formed these provisions based on the expected annual growth of salaries in the Company of 9%, a discount rate of 12%, annual employee turnover rate of 0.5% and with respect to the mortality risk as published by the Republic's Statistical Office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS

A. FOREIGN BORROWINGS	<u>Currency</u>	<u>Principal in Currency</u>	<u>Maturity Date</u>	<u>Interest Rate and Repayments Terms</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u> <i>Restated</i>
<i>I Refinanced loans realized from the fund of:</i>						
1. Paris Club of Creditors:						
1.1 Government of Austria	EUR	3,998,307	March 31, 2024	Austrian Market Rate, semi-annual	354,254	324,960
1.2 Government of France	EUR	47,413,610	March 22, 2024	5.9% p.a., semi-annual	4,200,893	3,869,671
1.3 Government of Germany	EUR	30,217,806	March 22, 2024	5.5% p.a., semi-annual	2,677,328	2,451,395
1.4 Government of Canada	EUR	65,033,896	March 22, 2024	EURIBOR + 0.5% p.a., semi-annual	5,762,068	5,261,964
1.5 Government of Switzerland	CHF	86,362,653	March 22, 2024	6M LIBOR CHF + 0.5% p.a., semi-annual	5,130,287	4,191,847
1.6 Government of USA	USD	7,628,240	September 22, 2024	5.375%, semi-annual	479,816	421,459
1.7 Government of the Russian Federation	USD	46,448,090	March 22, 2034	0.5517% p.a., semi-annual	2,921,585	2,527,360
1.8 Government of Japan	JPY	2,473,947,266	March 22, 2024.	2.839% p.a., semi-annual	1,723,362	1,201,534
					23,249,593	20,250,190
2. London Club of Creditors	USD	16,323,299	November 1, 2024	3.75% p.a. up to 1.11.2009. - 6.75% p.a. up to 1.11.2024., semi-annual	1,026,736	876,997
3. International Bank for Reconstruction and Development (IBRD)	EUR	8,615,111	December 15, 2031	1/3 of principal - 5.44, 1/3 of principal - 5.79 - 5.81 and 1/3 of principal - EURIBOR, semi-annual	763,308	696,699
4. European Investment Bank (EIB)	EUR	426,596	October 17, 2016	semi-annual EURIBOR	37,797	33,802
					1,827,841	1,607,498
<i>II Loans from the Governments realized after the year 1990:</i>						
1. PR China realized through domestic banks in bankruptcy	USD	46,296,184	July 21, 2008	7.69% p.a., semi-annual	2,912,030	2,487,341
2. Russian Federation realized through domestic banks in bankruptcy	USD	5,886,608	July 15, 2013 December 15, 2019	LIBOR+1.25% p.a., semi-annual	370,268	379,521
3. Republic of Poland	USD	41,458,300		0.75% p.a., semi-annual	2,607,727	2,408,476

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

	<u>Currency</u>	<u>Principal in Currency</u>	<u>Maturity Date</u>	<u>Interest Rate and Repayments Terms</u>	<u>December 31, 2008</u>	<u>December 31, 2007.</u> <i>Restated</i>
<i>III Loans from international financial organizations</i>						
1. KfW						
Loans from Kreditanstalt fuer Wiederaufbau (KfW)	EUR	25,564,594	June 30, 2013	4.32% p.a., semi-annual	2,265,049	2,475,784
Loans from Kreditanstalt fuer Wiederaufbau (KfW)	EUR	7,686,842	June 30, 2015	Variable (5.09% - 5.61%)	681,062	22,994
Loans from Kreditanstalt fuer Wiederaufbau (KfW)	EUR	9,942,328	June 30, 2020	-	880,900	784,301
2. EBRD						
Loans from European Bank for Reconstruction and Development (I)	EUR	24,978,966	March 7, 2016	3.1%-5.793 % p.a., semi-annual	2,213,161	3,217,320
Loans from European Bank for Reconstruction and Development (II)	EUR	25,184,951	September 7, 2018	3.1%-5.793 % p.a., semi-annual	2,231,412	1,531,438
3. European Investment Bank (II)	EUR	22,000,000	June 9, 2027	3.879-5.248% p.a., semi-annual	1,949,222	1,394,557
4. IDA	SDR	1,994,925	December 31, 2007	-	194,220	3,458
					10,595,489	9,432,880
<i>IV Banks in bankruptcy:</i>						
1. Beogradska banka	USD	7,407,692	December 31, 2011	LIBOR+3; domestic rate for USD and 0,5 monthly	465,944	-
Beogradska banka	EUR	12,816,375	December 31, 2011	5,50, monthly	1,135,544	-
2. Jugobanka	USD	1,811,198	April 30, 2010	Domestic rate for USD, monthly	113,924	-
3. Beobanka	EUR	4,576,030	February 28, 2012	8,00, monthly	405,441	-
Beobanka	USD	13,828,988	February 28, 2012	6,00, monthly	869,843	161,749
					2,990,696	161,749
<i>V Other</i>						
1. JR EMS IBRD	EUR	36,808	February 28, 2012	1/3-5.44,1/3-5.81 I 1/3 – Euribor	3,261	3,028
2. Erste bank a.d. Novi Sad	EUR	2,000,000	February 28, 2012	Quarterly Euribor	177,202	-
					44,553,644	36,727,655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

	<u>Currency</u>	<u>Principal in Currency</u>	<u>Maturity Date</u>	<u>Interest Rate and Repayments Terms</u>	<u>December 31, 2008</u>	<u>December 31, 2007.</u> <i>Restated</i>
<i>B. Loans in dinars</i>						
1. RS Ministry of Finance	RSD	1,031,534,754	December 31, 2010	8.5% p.a., semi-annual	1,031,535	1,031,535
2. Banks in bankruptcy:						
Beogradska banka	RSD	81,935,195	December 31, 2011	NBS discount rate, monthly	81,935	-
Jugobanka	RSD	11,572,625	April 30, 2010	Statutory penalty, monthly	11,573	-
Investbanka	RSD	185,944,928	September 1, 2009	1,00, monthly	185,945	168,199
Investbanka	RSD	134,551,690	December 15, 2012	1,00, monthly	134,552	168,180
Beobanka	RSD	6,080,000	December 15, 2012	1,00, 15.06. and 15.12.; and monthly	6,080	7,853
3. Public Enterprise "Elektromreža Srbije," Beograd (I)	RSD	2,704,051,566	December 31, 2021	8,5, NBS discount rate, monthly	2,704,052	1,591,937
4. Other	RSD	4,599	-	-	-	4,265
Current portion of long-term borrowings:						
- in foreign currencies					6,015,554	(4,159,913)
- in dinars					1,143,746	(443,037)
					<u>7,159,300</u>	<u>(4,602,950)</u>
Long-term portion:						
- in foreign currencies					38,538,090	32,567,743
- in dinars					3,011,924	2,528,932
					<u>41,550,014</u>	<u>35,096,675</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

A. Foreign Currency Loans

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

1.1. 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%, as an additional item of the liability reschedule.

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, the Company closed annexes to the original contracts approving an additional discount in the amount of 15% of the relevant principal.

1.2. 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. The effects of the aforementioned write-off were recorded within other income in 2005 as amounting to RSD 1,745,613 thousand. 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.

1.3. 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. In conformity with the foregoing agreement, a portion of liabilities of 81% loan of EUR 25,049,998 (EUR 20,528,101 principal, EUR 639,254 of current portions and EUR 3,882,643 of interest), approved to JP Elektromreža Srbije, was concurrently removed from Company records, where the remaining 19% of the loan was rescheduled for the period until December 15, 2031. the repayment is executed in semi-annual annuities where the first one was due on June 15, 2006 with a varying interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

III Loans of International Financial Organizations

1. KfW

With the German financial organization KfW financial agreements were executed in the period from 2003 through 2005 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 which EUR 9 million is not to be repaid) was obtained on December 24, 2003. The final date for the use of these funds is set to be June 30, 2008. The deadline was extended to June 30, 2009. The initially agreed principal repayment set for June 30, 2008 was moved to June 30, 2009 and the loan is to be repaid until June 30, 2013. The applicable interest rate is determined two days before the full withdrawal and will be 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 30 million was obtained on September 9, 2005. The final date for drawing the loaned funds is set to be December 31, 2011. The loan principal is expected to be repaid in the period from December 31, 2010 until June 30, 2020, free of interest.

EUR 36 million (out of which EUR 10 million is not to be repaid) was obtained on January 2, 2008. The date until which the funds are available is set to be December 31, 2010. The repayment of the principal is set in the period from December 30, 2011 through June 30, 2018. The interest rate is determined two days before the drawdown and will be 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. After the balance sheet date, the funds from the loan came in effect.

2. Loans from the European Bank for Reconstruction and Development

The loans from the European Bank for Reconstruction and Development (EBRD) are as follows:

- EUR 39,600,000 is currently being used. The initially agreed borrowing of EUR 100,000,000 was divided between JP EPS (EUR 39,600,000) 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 60,400,000 were transferred to the Public Enterprise "Elektromreža Srbije." The undrawn portion of the amount borrowed by this entity has again become effective as of July 29, 2008 and is available for use until December 31, 2009. The principal repayment commenced on September 7, 2005 and will last until March 7, 2016. The interest rate agreed is variable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

III Loans of International Financial Organizations (Continued)

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

- EUR 60,000,000 is currently being used. The final deadline for the disbursement of assets is set for February 28, 2008 and this deadline is being extended to September 30, 2009. The repayment of the principal is to be executed in the period from March 7, 2008 until September 7, 2018. The interest is compounded at a variable interest rate.

Based on the credit arrangement with the EBRD, the Company is obliged to achieve the maximum and minimum operating ratios. The Company does not comply with the financial covenants of the loan agreement. The Company's management anticipated that no restrictions may be imposed by the EBRD due to the non-compliance with the agreement provisions which could have material impact on the financial standing of the Company or which would ask for the reclassification of the aforementioned liabilities from long-term to current liabilities.

3. Loan from the European Investment Bank (II)

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 at an interest rate determined for each individual tranche and fixed until the end of repayment period.

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 Subagreement signed between the Republic of Serbia and the State Union of Serbia and Montenegro and the Loan Subagreement executed between the Republic of Serbia and this Company, the Company can use the loan funds of SDR 12,24 million. The funds approved are available for use until February 28, 2010. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

B. Loans in Dinars

1. Ministry of Finance of the Republic of Serbia

In accordance with the Law on the Settlement of the Liabilities of the Government of the Republic of Serbia towards the National Bank of Serbia, the Company's liabilities on its issued short-term securities totaling RSD 1,899,090 thousand have been transformed into long-term liabilities towards the Republic of Serbia, with maturities on December 31, 2006, December 31, 2007 and December 31, 2010, in the amounts of RSD 289,185 thousand, RSD 578,371 thousand and RSD 1,031,535 thousand, respectively, as issued at an annual interest rate of 8.5%. The portions of RSD 289,185 thousand and RSD 578,370 thousand were repaid when due.

2. 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.

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.

The terms of rescheduling the contractual liabilities vary: the grace period ranges between 6 and 12 months while the repayment deadline ranges up to 2012, in 12 to 34 equal monthly installments, i.e. 10 equal semi-annual installments with interest rates defined in the basic agreements or set by the law.

From July 24, 2008, the Company makes regular payments of matured liabilities thereof.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

B. Loans in Dinars (Continued)

3. Public Enterprise Elektromreža Srbije, Beograd

The long-term liabilities to the Public Enterprise Elektromreža Srbije, Beograd stated at December 31, 2008 in the amount of RSD 836,655 thousand represent the rescheduled current liabilities based on the distribution of joint income within the EPS until December 31, 2004. In accordance with the Split-off Balance, the aforementioned liabilities of the Company are rescheduled over a period of fifteen years, and are to be repaid in equal installments commencing on June 30, 2006, at an interest rate equaling the NBS discount rate.

The liabilities to the Public Enterprise Elektromreža Srbije, Beograd stated at December 31, 2008 in the amount of RSD 515,925 thousand represent the Company's rescheduled current liabilities arising on the Agreement entered into on November 1, 2006. In accordance with the forgoing Agreement, the aforementioned liabilities of the Company are rescheduled over a period of five years, and are to be repaid in equal monthly installments as on January 31, 2007, at an interest rate equaling the NBS discount rate.

The amount owed to the Public Enterprise Elektromreža Srbije, Beograd of RSD 1,200,111 thousand as of December 31, 2008 relate to the rescheduled short-term liabilities of the Company arising from the Agreement closed on September 24, 2008. As in accordance with the relevant Agreement, the liabilities arising from the aforementioned debt were rescheduled over the period of 2 years with monthly payments executed in equal installments starting from January 31, 2009 at an interest rate equaling the NBS discount rate.

The amounts owed to the Public Enterprise Elektromreža Srbije, Beograd totaling RSD 151,359 at December 31, 2008, are associated with the rescheduled short-term payables of the Company arising from the Agreement executed on September 24, 2008. As in accordance with the Agreement the interest compounded was rescheduled over the period of 3 years with monthly payments to be executed in equal installments starting from January 31, 2009 at an interest rate equaling the NBS discount rate.

Financing the Đerdap I Revitalization

Based on the agreement reached between the governments of the Socialist Republic of Yugoslavia and the Russian Federation regarding the provision of funds for the revitalization and increase of installed power of the hydro aggregate of the hydro-energy navigation system of Đerdap I from the funds of the clearing debt of the former Soviet Union towards the former SFRY, on March 29, 2003, an Agreement was signed regarding the revitalization with the increase of installed power of the hydro aggregate of hydro-energy and navigation system Đerdap I number 05030856/030135-0275 with the open shareholding company "Energomašeksport-Silovije mašini," Moscow, the contractor in the value of USD 100,511,390 with seven supplements.

On April 27, 2007, the Governments of the Russian Federation and Serbia closed an international agreement on the settlement of liabilities of the former SSSR based on the balances in connection with the commodity trade between the former SSSR and the former SFRY and a Protocol was executed between the Ministry of Finance and the Ministry of Mining and Energy of the Republic of Serbia and the concerned ministries of the Russian Federation with respect to the debt settlement. It has been confirmed that the Russian Federation will supply goods and services necessary for the revitalization of "HE Đerdap I," worth USD 100,511,390 in the name of debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

B. Loans in Dinars (Continued)

Financing the Đerdap I Revitalization (Continued)

Based on the aforementioned International Agreement and Protocol, after the balance sheet date on March 19, 2009, the Company closed Annex no. 8 to the aforementioned Trade Agreement dated March 29, 2003 with the subcontractor OAO "Silovije Mašini – ZTL LMZ Elektrosila, Energomašeksport" resolving the issues with respect to the scope of work and price of the equipment to be delivered by the Russian party.

Pursuant to the decisions of the competent authorities of the Republic of Serbia, the terms, deadlines and manner of repaying the resources used based on the clearing debt worth USD 100,511,390 for the realization of the respective part of Annex 8 as of March 19, 2009 Trade Agreement dated March 29, 2003 having 7 Annexes.

Analysis of Drawn Funds from Loans Approved

In order to finance the specific projects to increase production capacities in thermoelectric and hydroelectric plants, 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.

<u>Creditor</u>	<u>Currency</u>	<u>Contracted Amount</u>	<u>Drawn Down Amount</u>
EBRD	EUR	39,600,000	29,557,007
EBRD	EUR	60,000,000	27,180,251
European Investment Bank	EUR	22,000,000	22,000,000
KfW	EUR	16,000,000	7,686,842
KfW	EUR	30,000,000	9,942,328
IDA	SDR	12,240,000	1,994,925

Analysis of Long-Term Loan Maturities

	<u>December 31, 2008</u>	<u>January 1, 2008</u>
From one to five years	14,629,512	10,445,154
Over five years	26,920,502	24,651,521
	<u>41,550,014</u>	<u>35,096,675</u>

Analysis of Discharging Currencies

	<u>Amount in Currency</u>	<u>December 31, 2008</u>
EUR	266,647,953	23,625,276
USD	127,945,427	8,047,767
CHF	84,178,143	5,000,518
YPU	2,397,786,667	1,670,308
XDR	1,994,925	194,220
Total		<u>38,538,089</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

29. OTHER LONG-TERM LIABILITIES

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Rescheduled public revenue liabilities	4,497,515	5,446,376
Rescheduled payables towards the Public Company Srbijagas	36,254	471,298
Other long-term liabilities	92,770	106,112
Current portions:		
- rescheduled public revenue liabilities	(578,980)	(504,958)
- rescheduled payables towards the Public Company Srbijagas	(36,254)	(435,044)
- other long-term liabilities	(744)	(9,693)
	4,010,561	5,074,091

The liabilities with reference to trade taxes and contributions which remained 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 the repayment of the last installment of liabilities, the Company is entitled to the write-off of 30% of the total interest accrued until September 30, 2003.

The Company made a flat payment of a portion of rescheduled liabilities arising from personal income taxes, taxes levied on financial transactions, contributions for obligatory unemployment insurance in the aggregate amount of RSD 155,099 thousand and thereby it became entitled to the benefits delineated in the Law providing for the write-off of interest accrued on matured payables for certain taxes and contributions for obligatory social insurance, i.e. the write-off of interest in the amount of 100% - RSD 129,358 thousand.

The rescheduled liabilities arising from the secondary tax payments calculated for contributions for obligatory health insurance in arrears, the Company will settle in accordance with the RS Government's Decision, since it does not meet the conditions required by the Law on the Suspension of Debt Arising from Contributions for Obligatory Health Insurance (Official Gazette of RS no. 102-08) sublegislation acts.

In accordance with the September 28, 2005 Agreement with respect to the settlement of mutual receivables and liabilities entered into between the Company and the Public Enterprise Srbijagas, the legal successor of NIS, the amounts of mutual receivables and liabilities arising up to December 31, 2004 between the Company and Srbijagas were redefined as of August 15, 2005, by which the Company's total debt to JP NIS amounted to RSD 1,305,131 thousand. This amount is to be repaid by the Company in 36, equal monthly installments, commencing in February of 2006. During the debt repayment period, the monthly installments will be indexed to the movements in the retail price index in the Republic of Serbia. The balance of RSD 36,254 thousand was settled after the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

30. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2008	December 31, 2007
		<i>Restated</i>
<i>In foreign currencies</i>		
Current portion of foreign long-term loans	5,341,503	4,928,090
Long-term loans from falling due within a year:		
- domestic banks in bankruptcy	878,175	238,532
- other banks	780,431	458,745
Other short-term financial liabilities	501,678	1,372,512
<i>Liabilities in dinars:</i>		
Current portion of long-term loans	1,144,923	508,037
Current portion of other non-current liabilities	615,978	949,695
Other	321,666	931,304
	9,584,354	9,386,915

31. ACCOUNTS PAYABLE

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Advances from customers	2,262,358	1,322,513
Accounts payable:		
- domestic	10,447,822	8,484,677
- foreign	5,702,013	4,876,541
- Public Enterprise "Elektromreža Srbije"	1,456,111	1,793,376
Liabilities for radio television subscriptions	13,412,331	9,464,351
Other accounts payable	617,617	399,462
	33,898,252	26,340,920

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, JP EPS 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 Note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

32. OTHER CURRENT LIABILITIES

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Matured borrowings from the Ministry of Finance of the Republic of Serbia	906,252	906,252
Interest and financing costs accrued	438,603	1,250,392
Net salaries and benefits	911,464	828,912
Taxes and contributions payable	659,705	1,696,214
Other liabilities	80,164	72,444
	2,996,188	4,754,214

Based on an agreement entered into with the Republic of Serbia Ministry of Finance in 2001, the Company received loans from the Government used to bridge a liquidity gap in financing its maintenance and repair activities. In 2002, the Company repaid RSD 1.5 billion of the total initial amount of RSD 3.1 billion.

This loan was extended with a maturity expiring at December 31, 2001, at an interest rate based on the NBS discount rate. On October 18, 2006, the Company and the Ministry of Finance of the Republic of Serbia executed the Cession Agreement by which the Company's receivables from the entity "Odbrambena industrija Srbije" were ceded, by which the Company's portion of liabilities in the amount of RSD 667,431 thousand to the Republic of Serbia Ministry of Finance was settled.

The liabilities arising from interest and cost of financing as of December 31, 2008 include interest accrued as follows:

- Interest accrued to refinanced loans from the International Bank for Reconstruction and Development of RSD 122,562 thousand,
- Interest accrued to rescheduled liabilities towards the Public Enterprise "Elektromreža Srbije" of RSD 114,875 thousand,
- Interest accrued on the loan obtained from the Government of the Russian Federation realized through domestic banks in bankruptcy of RSD 8,466 thousand,
- Interest charged to matured liabilities towards domestic banks in bankruptcy of RSD 1,582 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

33. VALUE ADDED TAX AND OTHER DUTIES PAYABLE AND ACCRUALS

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Value added tax	457,035	697,420
Deferred value added tax	1,988,520	2,344,119
Water charges and fees for the use of construction land and other public property	272,729	246,815
Other public revenues	428,501	736,944
Accrued expenses	1,375,983	1,362,791
Deferred income from donations	14,824,105	13,706,624
Other accruals	439,223	210,191
	<u>19,786,096</u>	<u>19,304,904</u>

Liabilities arising from VAT presented relate to the future period taxes paid upon the deduction of previously owed value added tax.

In the past years, 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 during the useful economic life of the respective assets, in the period in which the corresponding expenses associated with the use of such assets were recorded.

34. OFF-BALANCE SHEET ITEMS

	December 31, 2008	December 31, 2007
		<i>Restated</i>
Estimated war damages	5,134,564	4,563,507
Liabilities for guarantees issued and other forms of securities against JP EPS liabilities	1,495,189	2,988,781
Ceded buildings of social standard	392,929	392,929
Blanc solo bills issued	25,672,882	21,713,955
Written-off equity investments	263,318	265,682
Deferred tax assets	5,690,717	3,386,094
Other off-balance sheet items	8,713,394	9,145,273
	<u>47,362,993</u>	<u>42,456,221</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

35. INCOME STATEMENT PER SEPARATE ACTIVITIES

	Electricity 2008	Coal 2008	Heating Energy and Technical Steam 2008	Power Distribution and Management 2008	Electricity Retail 2008	Electricity Wholesale 2008	Metal Industry 2008	Other 2008
OPERATING INCOME								
Sales revenue	82,748,470	42,102,155	1,683,843	29,606,890	101,550,550	94,820,365	3,807,900	115,306
Own-work capitalized	6,706	23,603	-	2,483,818	-	2,030	219	-
Increase in the value of inventories	145,345	-	2,172	-	-	-	1,219,335	-
Other operating income	1,330,256	534,882	20,723	3,110,310	4,623	169,134	34,672	120
	<u>84,230,777</u>	<u>42,660,640</u>	<u>1,706,738</u>	<u>35,201,018</u>	<u>101,555,173</u>	<u>94,991,529</u>	<u>5,062,126</u>	<u>115,426</u>
OPERATING EXPENSES								
Cost of goods sold	(13)	(2,579)	(154)	-	-	(1,983)	-	-
Cost of materials	(47,503,820)	(6,687,152)	(1,505,418)	(18,871,401)	(76,763,633)	(89,168,580)	(1,749,664)	(14,694)
Staff costs	(7,075,839)	(14,059,655)	(403,841)	(9,255,205)	(2,017,303)	(622,736)	(2,807,301)	(153,684)
Depreciation, amortization and provisions	(23,684,392)	(9,590,215)	(813,920)	(15,182,872)	(663,849)	(122,120)	(708,681)	(19,726)
Other operating expenses	(12,695,151)	(11,856,662)	(287,602)	(5,698,340)	(12,984,802)	(1,048,114)	(723,854)	(12,852)
	<u>(90,959,215)</u>	<u>(42,196,263)</u>	<u>(3,010,935)</u>	<u>(49,007,818)</u>	<u>(92,429,587)</u>	<u>(90,963,533)</u>	<u>(5,989,500)</u>	<u>(200,956)</u>
NET OPERATING PROFIT/(LOSS)	<u>(6,728,438)</u>	<u>464,377</u>	<u>(1,304,198)</u>	<u>(13,806,800)</u>	<u>9,125,586</u>	<u>4,027,996</u>	<u>(927,374)</u>	<u>(85,530)</u>
Finance income	957,526	440,727	43,758	94,342	4,638,268	5,394,135	44,308	383
Finance expenses	(5,437,841)	(2,108,631)	(91,298)	(145,763)	(734,639)	(5,760,202)	(77,155)	(1,919)
Other income	497,661	388,065	242,067	332,944	898,475	159,992	24,790	32
Other expenses	(1,270,105)	(1,059,696)	(134,177)	(876,367)	(7,778,974)	(6,217,885)	(18,142)	(116)
PROFIT/(LOSS) BEFORE TAX	<u>(11,981,197)</u>	<u>(1,875,159)</u>	<u>(1,243,848)</u>	<u>(14,401,644)</u>	<u>6,148,716</u>	<u>(2,395,964)</u>	<u>(953,573)</u>	<u>(87,150)</u>
Income taxes	1,080,806	330,259	(353)	283,082	154,718	-	(661)	(170)
Deferred tax benefits /(expenses)	1,250,789	559,108	(328)	409,090	162,373	-	(661)	(170)
Current taxes	(169,983)	(228,849)	(25)	(126,008)	(7,655)	-	-	(0)
NET PROFIT/(LOSS) FOR THE YEAR	<u>(10,900,391)</u>	<u>(1,544,900)</u>	<u>(1,244,201)</u>	<u>(15,071,318)</u>	<u>7,863,350</u>	<u>(2,395,964)</u>	<u>(954,234)</u>	<u>(87,320)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

36. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

As of December 31, 2008, the Company recognized a provision for potential losses arising from litigation in the amount of RSD 1,090,728 thousand (December 31, 2007: RSD 666,768 thousand).

The Company's management judges that the remainder of the proceedings filed against Enterprise, for which a corresponding provision has not been made, will not have a materially adverse effect on the financial position of the Company.

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	Realized until December 31, 2008	Commitments
Andritz-VA Tech Hydro GmbH	5,807,313,561	300,223,691	5,507,089,870
GOŠA FOM	97,461,100	81,477,115	15,983,985
GOŠA Montaža	150,621,700	111,372,102	39,249,598
Engineering Dobersek and Möller Materials Handling GmbH	2,082,957,854	1,472,574,041	610,383,813
ThyssenKrupp Fördertechnik GmbH	729,234,340	594,389,960	134,844,380
MAG Intertrade Holding	390,547,095	313,466,493	77,080,602
ThyssenKrupp Fördertechnik GmbH	1,977,574,320	867,348,946	1,110,225,374
MAN TAKRAF Fördertechnik GmbH	637,927,200	501,703,517	136,223,683
FAM	3,041,672,330	1,839,385,624	1,202,286,706
MAN TAKRAF Fördertedhnik GmbH	655,647,400	417,961,662	237,685,738
	<u>15,570,956,900</u>	<u>6,499,903,151</u>	<u>9,071,053,749</u>

Environmental Protection

The Company's Business Plan determines the amount of EPS' investment in environmental protection activities (e.g., the installation of de-sulphurization equipment, the disposal of ash and coal mining scrap, the stabilization of the terrain and land surrounding dams, the protection of ground waters and similar natural resources). A respective provision has not been formed in the Company's books of account, since EPS' management judges 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 of the Company.

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 their amortized value using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

37. OPERATING RISKS (Continued)

The referential interest rate, according to the data made available by the NBS, amounted to 17.5% as of the balance sheet date, and starting from April 6, 2009, this rate equals 15%. Still, the Company is exposed to market risk (currency and interest rate risks), liquidity risk and credit risk, as described in the following passages.

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 of sales revenue and expenses. In the absence of an active market, the Company does not use 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 10% compared to EUR currency. In addition, the most significant portion of the Company's borrowings is denominated in foreign currencies. The value of monetary items for the payment or collection of which is executed in other than functional currency is as follows:

	Assets		Liabilities	
	2008	2007	2008	2007
EUR	71,997,394	148,074,638	349,276,914	360,155,969
JPY	-	-	2,473,947,266	2,503,112,104
NOK	80	-	-	-
SEK	1,480	518	-	-
CHF	97,181	60,828	86,362,653	87,618,184
GBP	2,036	2,701	-	4,904
USD	23,083,687	28,250,851	226,814,015	233,467,304
XDR	-	-	1,994,925	40,777

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 use financial hedging instruments in an effort to decrease its interest rate exposure. What follows is the review of risk exposure arising, inter alia, from borrowings linked to the effective interest rate disclosed in Note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

37. OPERATING RISKS (Continued)

Interest Rate Risk (Continued)

	December 31, 2008	December 31, 2007
	<u> </u>	<u> </u>
Financial assets		
<i>Non-interest bearing</i>		
Long-term financial placements	1,865,163	4,618,702
Accounts receivable	69,147	69,533
Other receivables	2,489,191	2,975,201
Advances to suppliers	5,581,482	6,834,619
Cash and cash equivalents	643,684	314,711
	<u>10,648,667</u>	<u>14,812,766</u>
<i>Fixed interest rate</i>		
Long-term financial placements	313,139	332,098
Other receivables	754,800	645,014
Cash and cash equivalents	5,581,622	5,084,459
	<u>6,649,561</u>	<u>6,061,571</u>
<i>Variable interest rate</i>		
Long-term financial placements	396,534	1,762,095
Accounts receivable	26,335,753	25,277,019
Other receivables	14,846,483	11,399,727
	<u>41,578,770</u>	<u>38,438,841</u>
	<u>58,876,998</u>	<u>59,313,178</u>
Financial liabilities		
<i>Non-interest bearing</i>		
Accounts payable	11,977,935	8,718,859
Other liabilities and advances received	3,919,189	3,926,510
	<u>15,897,124</u>	<u>12,645,369</u>
<i>Fixed interest rate</i>		
Long-term borrowings	28,500,067	23,848,398
Other liabilities and advances received	2,020	2,020
Current portion of long-term borrowings	6,435,741	5,973,397
	<u>34,937,828</u>	<u>29,823,815</u>
<i>Variable interest rate</i>		
Long-term borrowings	16,979,965	16,241,826
Accounts payable	5,628,011	6,435,735
Other liabilities and advances received	19,274,334	18,249,663
Short-term borrowings	223,445	287,110
Current portion of long-term borrowings	2,325,269	1,109,702
	<u>44,431,024</u>	<u>42,324,036</u>
	<u>95,265,976</u>	<u>84,793,220</u>
Net interest rate risk	<u>2,852,254</u>	<u>3,885,195</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

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 collection period for accounts receivable (determined based on the net value of receivables) counted 65 days for the year 2008 (2007: 66 days).

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

2008

	<u>Gross Exposure</u>	<u>Allowance for Impairment</u>	<u>Net Exposure</u>
Accounts receivable, not matured	14,342,454	75,397	14,267,057
Accounts receivable matured and provided for	55,168,110	55,168,110	-
Accounts receivable matured, but not provided for	12,137,843	-	12,137,843
	<u>81,648,407</u>	<u>55,243,507</u>	<u>26,404,900</u>

2007

Accounts receivable, not matured	12,640,982	21,953	12,619,029
Accounts receivable matured and provided for	46,713,910	46,713,910	-
Accounts receivable matured, but not provided for	12,727,523	-	12,727,523
	<u>72,082,415</u>	<u>46,735,863</u>	<u>25,346,552</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

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 are collectible as presented in the following summary:

2008	Within a Month	1 - 3 Months	From 3 Moths to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Accounts payable	11,977,935	-	-	-	-	11,977,935
Other liabilities and advances received	2,070,787	678,707	1,169,695	-	-	3,919,189
Non-interest bearing	14,048,722	678,707	1,169,695	-	-	15,897,124
Long-term borrowings	-	-	-	13,453,420	15,046,647	28,500,067
Other liabilities and advances received	2,020	-	-	-	-	2,020
Current portion of long-term borrowings	98,181	423,250	5,914,310	-	-	6,435,741
Fixed interest rate	100,201	423,250	5,914,310	13,453,420	15,046,647	34,937,828
Long-term borrowings	-	-	-	5,106,110	11,873,855	16,979,965
Accounts payable	5,628,011	-	-	-	-	5,628,011
Other liabilities and advances received	18,516,090	160,365	597,879	-	-	19,274,334
Short-term borrowings	-	-	223,445	-	-	223,445
Current portion of long-term borrowings	78,492	454,206	1,792,571	-	-	2,325,269
Variable interest rate	24,222,593	614,571	2,613,895	5,106,110	11,873,855	44,431,024
	38,371,516	1,716,528	9,697,900	18,559,530	26,920,502	95,265,976

2007	Within a Month	1 - 3 Months	From 3 Moths to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Accounts payable	8,718,859	-	-	-	-	8,718,859
Other liabilities and advances received	2,824,559	396,754	705,197	-	-	3,926,510
Non-interest bearing	11,543,418	396,754	705,197	-	-	12,645,369
Long-term borrowings	-	-	-	10,211,454	13,636,944	23,848,398
Other liabilities and advances received	2,020	-	-	-	-	2,020
Current portion of long-term borrowings	575,438	126,364	5,271,595	-	-	5,973,397
Fixed interest rate	577,458	126,364	5,271,595	10,211,453	13,636,944	29,823,815
Long-term borrowings	-	-	-	6,502,314	9,739,512	16,241,826
Accounts payable	6,435,735	-	-	-	-	6,435,735
Other liabilities and advances received	16,039,328	195,649	2,014,686	-	-	18,249,663
Short-term borrowings	-	-	287,110	-	-	287,110
Current portion of long-term borrowings	50,641	197,163	861,898	-	-	1,109,702
Variable interest rate	22,525,704	392,812	3,163,694	6,502,314	9,739,512	42,324,036
	34,646,580	915,930	9,140,487	16,713,767	23,376,456	84,793,220

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

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, as well as upon the change from one voltage to another. Non-technical losses represent the electricity consumed by customers whom the Company is unable to identify and invoice. For the year ended December 31, 2008, the Company's management has estimated the total loss of electricity of 14.48% or 4.679 GWh (2007: 14.17% or 4,456 GWh) which represents the total difference between purchased and sold electricity and includes technical and non-technical losses. Pursuant to the management's assessment, electricity thefts participate 2-3% in the total losses in distribution.

39. POST BALANCE SHEET EVENTS

a) Change of the Legal Form

After the balance sheet date, the Owner intends to change the legal form of the Public Enterprise. Namely, pursuant to the Law providing for the rights to shares free of charge and monetary compensation payable to citizens in the privatization procedure ("Official Gazette of RS" number 123/07), citizens are entitled to the monetary compensation based on the sale of shares or equity investments recorded in the Privatization Registry maintained in accordance with the Law on Privatization ("Official Gazette of RS" numbers 38/01, 18/03 and 45/05) and transfer of shares of the company and business entities provided for in this law free of charge (hereinafter: "share transfer").

The holders of rights are entitled to the distribution of shares free of charge (hereinafter: "free shares") in the Public Company "Electric Power Industry of Serbia," Belgrade, i.e., to the distribution of shares issued by the companies working in public interest, where the capital for the acquisition of shares free of charge amounted to 15% of the core capital of each company.

In addition, following the privatization, the company employees and former employees also have the right to shares' transfer free of charge in the amount of EUR 200 for each whole year of service with the company at issue, which is not to exceed 35 years, calculated in accordance with the market value of the balance of the company capital prior to the privatization as translated to dinars at the official exchange rate published by the National Bank of Serbia as of the valuation date. The terms "employee" and "former employee" relate to employees and former employees of JP EPS, as well as employees and former employees of the Public Enterprise "Elektromreža Srbije" from Belgrade, Public Enterprise for underground coal exploitation "Resavica," Public Enterprise Open Pits "Kosovo," Public Enterprise Thermal Power Plants "Kosovo" and the Public Enterprise "Elektrokosmet," as well as their legal predecessors. The capital stated in shares and transferred free of charge to employees and former employees does not represent a portion of capital to be transferred to citizen in the form of shares and free of charge.

The transfer of shares to employees and former employees of a company is to be executed within six months from the privatization of the company at issue pursuant to the Government act. Within the deadline ending on July 30, 2008, the registration of citizens entitled to the monetary compensation and transfer of shares free of charge and employees and former employees in JP was performed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

39. POST BALANCE SHEET EVENTS (Continued)

b) Company Establishment

1. In the reporting period, the activities 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 activities or 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. After the balance sheet date, the Company invited potential strategic partners to submit their expressions 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, setting March 20, 2009 as the deadline for the submission of expressions of interest. Within the deadline, 53 legal entities submitted their expressions of interest. The realization of the joint investment will also impose the reorganization within the Group of the Electric Power Industry of Serbia.

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 Power Utility of the Republic of Srpska, Trebinje - "Hidroelektrane na Drini," a shareholding company domiciled in Višegrad, the Republic of Srpska, Višegrad.

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 CM 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 number 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

39. POST BALANCE SHEET EVENTS (Continued)

b) Company Establishment (Continued)

The preparation of the previous study and conceptual idea for the aforescribed Project, as well as 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.

4. In addition to the aforementioned, in the reporting period, the Company and the City of Novi Sad both showed great interest for the establishment of a partnership relation reflected in the establishment of a joint company, whose capital increase would provide for the funds necessary for the reconstruction of the existing plant, i.e., for the construction of a new plant for combined production of thermal and electric energy.

In the stage of capital increase, JP EPS and the City of Novi Sad will, in addition to the monetary contribution, make contribution in kind (the existing capacities, land and infrastructure), while the strategic partner would make cash contribution, and thus acquire equity interest in the newly-founded entity in the proportion to the capital invested. The information on the aforementioned activities was submitted to the RS Governments for the purpose of obtaining the necessary consent.

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, numbers 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.

With that reference, the RS Government's Action Plan envisages the following activities:

- Modernization, reconstruction and economization of energy sector;
- Creating of the legal framework and defining the incentives, through the reduction of various taxes charged for environment pollution and other taxes, obtaining loans at favorable terms and subsidies for the application of these measures, financing the energy savings by third parties, diversification of taxes levied on the product improvement and environment friendly activities;
- Full coverage of economic expenses by the price of electricity, including the entire internationalized (internal and external) externalities;
- The use of renewable resources and construction of plants for the use of waste energy, as well as the use of combined production of heat and electric power;
- The construction and improvement of infrastructure for the ash management (use of ash as a secondary raw material in civil engineering) and the like.

The Action Plan defines the sources of financing as well as the total budget for the implementation, where possible. From the resources of the EPS Group, donations or borrowings, for the purpose of financing the infrastructural ventures, in the field of energy, the following amounts necessary were estimated as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated

39. POST BALANCE SHEET EVENTS (Continued)

c) Sustainable Development Strategy

- preservation of air and soil, the estimated value of funds amounts to EUR 765,100 thousand,
- preservation of waters, the estimated value of funds amounts to EUR 6,543 thousand,
- waste management, the estimated value of funds necessary amounts to EUR 8,000 thousand.

In the reporting period, activities have been undertaken to perform some of the forgoing activities as disclosed in Notes 31 and 33 (“TENT B Ash Removal System” worth RSD 28,005 thousand is financed from resources of the Framework Agreement executed between the SRY and European Union Commission, the “Project of Ach Removal in TE-KO Kostolac” worth EUR 23,509 thousand, financed from borrowed resources).

40. EXCHANGE RATES

The official exchange rates for the major currencies used in the translation of balance sheet components denominated in foreign currencies into dinars, were as follows:

	December 31, 2008	December 31, 2007
USD	62,9000	53,7267
EUR	88,6010	79,2362
CHF	59,4040	47,8422
YPU	0,6960	0.4800
XDR	97,3572	84,8065