

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

**Independent Auditors' Report and
Consolidated Financial Statements
Year Ended December 31, 2009**

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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 69) 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, 2009, 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 20 to the consolidated financial statements, inventories were stated as of December 31, 2009 in the amount of RSD 22,350,744 thousand and were comprised inventories of material of RSD 9,470,614 thousand and inventories of spare parts of RSD 10,863,902 thousand. Based on the ageing analysis performed, an amount of RSD 1,223,411 thousand relates to slow moving inventories of material while an amount of RSD 5,071,919 thousand relates to the slow moving inventories of spare parts. The Company did not perform more detailed analyses that would confirm the qualitative characteristics of inventories of material for the purpose of determining those that are obsolete. Also, the Company did not perform the analysis and recognition of strategic spare parts that are usable only in connection with a certain item of property, plant or equipment and is expected to be used longer than one accounting period. These spare parts are considered as property, plant and equipment, pursuant to International Accounting Standard (IAS) 16 "Property, Plant and Equipment." Given the nature of records made of inventories of materials and spare parts, we were unable to determine potential effects thereof on the Company's consolidated financial statements as of and for the year ended December 31, 2009.

Qualified Opinion

In our opinion, except for the effects on the consolidated financial statements of the matter referred to in the preceding paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2009, and its consolidated financial performance 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 as inscribed in the Serbian Business Registers Agency (Note 26 to the consolidated financial statements). Also, in the consolidation process, equity investments in subsidiaries were not reconciled with the amount of corresponding capital in subsidiaries by RSD 35,811,488 thousand.
- (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), suspended construction of incomplete power plants (Note 16 to the consolidated financial statements), significant liabilities associated with borrowings from foreign creditors and domestic banks in bankruptcy (Notes 28 and 29 to the consolidated financial statements), significant potential losses on litigations (Note 36 to the consolidated financial statements) and significant distribution losses of 15.19% or 4,865 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.

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Emphasis of Matter (Continued)

- (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, 2009.

Belgrade, July 2, 2010


Miroslav Tončić
Certified Auditor



**PUBLIC ENTERPRISE
"ELECTRIC POWER INDUSTRY OF SERBIA"**

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2009
(Thousands of RSD)

	<u>Notes</u>	<u>2009</u>	<u>2008</u> <i>Restated</i>
OPERATING INCOME			
Sales revenue	5	146,216,294	135,342,897
Own-work capitalized	5	4,865,835	4,309,354
Increase in the value of inventories		(1,739,128)	1,900,997
Other operating income	6	4,863,554	5,024,621
		<u>154,206,555</u>	<u>146,577,869</u>
OPERATING EXPENSES			
Cost of commercial goods sold		(2,622)	(4,728)
Cost of materials	7	(31,467,425)	(35,924,415)
Staff costs	8	(39,147,874)	(36,401,796)
Depreciation, amortization and provisions	9	(40,140,956)	(50,785,775)
Other operating expenses	10	(32,601,671)	(32,710,794)
		<u>(143,360,548)</u>	<u>(155,827,508)</u>
NET OPERATING PROFIT/(LOSS)		<u>10,846,007</u>	<u>(9,249,639)</u>
Finance income	11	9,253,242	8,350,115
Finance expenses	12	(6,523,325)	(10,829,561)
Other income	13	2,391,183	2,735,546
Other expenses	14	(25,025,181)	(17,711,519)
LOSS BEFORE TAXATION		<u>(9,058,074)</u>	<u>(26,705,058)</u>
Income taxes			
Current tax expense	15	(669,604)	(539,471)
Deferred tax benefits	15	1,670,932	3,093,533
LOSS FOR THE YEAR		<u><u>(8,056,746)</u></u>	<u><u>(24,150,996)</u></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, 2010.

Signed on behalf of the Company by:

Dragomir Marković
General Manager

Suzana Joksimović,
Chief Financial Officer

Dragan Jonkić,
Head of Accounting



Suzana Joksimović

Dragan Jonkić

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

**CONSOLIDATED BALANCE SHEET
As at December 31, 2009
(Thousands of RSD)**

	<u>Notes</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u> <i>Restated</i>
ASSETS			
Non-current assets			
Intangible assets	16	2,425,996	2,427,728
Property, plant and equipment	16	512,279,890	523,405,983
Investment property		37,956	44,408
Advances for intangible assets, property, plant and equipment	17	3,342,127	3,786,061
Equity investments	18	1,261,287	1,098,230
Other long-term financial placements	19	<u>1,513,741</u>	<u>1,479,267</u>
		<u>520,860,997</u>	<u>532,241,677</u>
Current assets			
Inventories	20	22,350,744	23,020,424
Advances for inventories	21	2,140,525	2,118,198
Accounts receivable	22	49,537,595	41,506,201
Receivables for prepaid income taxes		268,887	460,944
Short-term financial placements	23	2,925,000	2,073,120
Cash and cash equivalents	24	8,661,721	6,217,344
Value added tax and prepayments	25	<u>1,220,435</u>	<u>1,362,769</u>
		<u>87,104,907</u>	<u>76,759,000</u>
Total assets		<u><u>607,965,904</u></u>	<u><u>609,000,677</u></u>
EQUITY AND LIABILITIES			
Equity and reserves			
State-owned capital	26	358,717,722	358,656,088
Other capital		1,232,002	1,293,175
Revaluation reserves		246,014,438	248,089,259
Unrealized (losses) on securities		(279,639)	(252,738)
Accumulated losses		<u>(148,107,732)</u>	<u>(144,069,078)</u>
		<u>457,576,791</u>	<u>463,716,706</u>
Long-term provisions	27	<u>9,126,952</u>	<u>7,515,251</u>
Long-term liabilities			
Long-term borrowings	28	42,560,685	41,550,014
Other long-term liabilities	29	<u>3,476,658</u>	<u>4,001,984</u>
		<u>46,037,343</u>	<u>45,551,998</u>
Current liabilities			
Short-term financial liabilities	30	13,624,782	9,582,349
Accounts payable	31	32,725,736	33,964,620
Other current liabilities	32	3,438,511	3,243,178
Value added tax and other duties payable and accruals	33	21,769,380	20,144,385
Income taxes payable		62,161	171,809
		<u>71,620,570</u>	<u>67,106,341</u>
Deferred tax liabilities	15 c)	<u>23,604,248</u>	<u>25,110,381</u>
Total equity and liabilities		<u><u>607,965,904</u></u>	<u><u>609,000,677</u></u>
Off-balance sheet items	34	<u>82,184,970</u>	<u>77,974,332</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, 2009
(Thousands of RSD)

	State-Owned Capital	Other Capital	Revaluation Reserves	Unrealized Gains / (Losses) on Securities	Accumulated Losses	Total
<i>Restated</i>						
Balance, January 1, 2008, before adjustments	358,656,088	1,292,337	248,637,171	2,589,245	(121,835,695)	489,339,146
Opening balance adjustments	-	-	117,680	-	(499,269)	(381,589)
Balance, January 1, 2008, restated	<u>358,656,088</u>	<u>1,292,337</u>	<u>248,754,851</u>	<u>2,589,245</u>	<u>(122,334,964)</u>	<u>488,957,557</u>
Remeasurement of securities available for sale	-	-	-	(2,841,983)	-	(2,841,983)
Reversal of revaluation effects upon asset disposal	-	-	(562,718)	-	562,718	-
Adjustment of the appraisal	-	-	(3,099)	-	-	(3,099)
Repurchase of apartments - net	-	(190)	-	-	-	(190)
Other	-	1,028	(138)	-	(14)	876
Loss for the year	-	-	-	-	(24,150,996)	(24,150,996)
Balance, December 31, 2008	<u>358,656,088</u>	<u>1,293,175</u>	<u>248,188,896</u>	<u>(252,738)</u>	<u>(145,923,256)</u>	<u>461,962,165</u>
Opening balance adjustments (Note 4)	-	-	(99,637)	-	1,854,178	1,754,541
Balance, January 1, 2009, after adjustments	<u>358,656,088</u>	<u>1,293,175</u>	<u>248,089,259</u>	<u>(252,738)</u>	<u>(144,069,078)</u>	<u>463,716,706</u>
Remeasurement of securities available for sale	-	-	-	(28,150)	-	(28,150)
Reversal of revaluation effects upon asset disposal	-	-	(1,845,802)	-	1,845,802	-
Appraisal of property, plant and equipment	-	-	2,079,151	-	-	2,079,151
Deferred taxes	-	-	(164,102)	-	-	(164,102)
Status change	61,634	(61,634)	(2,144,067)	-	2,144,067	-
Other	-	461	(1)	1,249	28,223	29,932
Loss for the year	-	-	-	-	(8,056,746)	(8,056,746)
Balance, December 31, 2009	<u>358,717,722</u>	<u>1,232,002</u>	<u>246,014,438</u>	<u>(279,639)</u>	<u>(148,107,732)</u>	<u>457,576,791</u>

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, 2009
(Thousands of RSD)

	<u>2009</u>	<u>2008</u> <i>Restated</i>
Cash flows from operating activities		
Cash receipts from customers	202,462,185	184,210,415
Interest received	4,657,873	4,700,552
Other cash received from operations	2,578,692	4,635,267
Payments to suppliers	(115,043,778)	(110,861,768)
Payments to and on behalf of employees	(39,622,778)	(37,438,110)
Interest paid	(2,926,601)	(5,296,220)
Income tax paid	(823,490)	(890,629)
Other taxes and duties paid	(22,415,855)	(19,803,727)
	<u>28,866,248</u>	<u>19,255,780</u>
<i>Net cash provided by operating activities</i>		
Cash flows from investing activities		
Sales of shares and equity investments (net inflows)	72	6,838
Sales of property, plant, equipment and intangible assets	26,319	21,541
Interest received	-	62,055
Dividends collected	80	20,525
Acquisition of shares and equity investments (net outflows)	(560)	-
Purchases of property, plant, equipment and intangible assets	(21,526,998)	(16,668,383)
Other financial placements (net outflows)	(890,617)	(118,362)
	<u>(22,391,704)</u>	<u>(16,675,786)</u>
<i>Net cash used in investing activities</i>		
Cash flows from financing activities		
Other short-term and long-term liabilities	600	-
Short-term and long-term borrowings and other liabilities (net outflows)	(4,086,872)	(1,783,400)
Finance lease	(2,129)	(2,293)
	<u>(4,088,401)</u>	<u>(1,785,693)</u>
<i>Net cash used in financing activities</i>		
Net increase in cash and cash equivalents	2,386,143	794,301
Cash and cash equivalents, beginning of year	6,217,344	5,399,170
Foreign exchange gains on translation	58,234	23,873
	<u>8,661,721</u>	<u>6,217,344</u>
Cash and cash equivalents, end of year		

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

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 Enterprise 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, Public Enterprise “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, 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”.

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.

The change of data pertinent to the business entity and its person authorized to represent the Company was performed pursuant to the Decision enacted by the Serbian Business Registers Agency number BD 12148/2009 dated March 9, 2009. In the reporting year, based on the Decision enacted by the Agency number 130545/2009 on July 31, 2009, a note was entered regarding the status change of separation and merger performed according to the Board of Directors’ Decision, whereof a portion of assets and corresponding liabilities of the subsidiary “Termoelektrane Nikola Tesla” (Thermal Power Plant “Nikola Tesla”) separated and merged with the parent.

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

All amounts expressed in thousands of RSD, unless otherwise stated

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

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.

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.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

All amounts expressed in thousands of RSD, unless otherwise stated

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

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.

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

All amounts expressed in thousands of RSD, unless otherwise stated

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

Organization Structure (Continued)

In the reporting period, the parent company and the City of Novi Sad closed an Agreement on the establishment of a company for the generation of combined thermoelectric and heat energy “Energija Novi Sad,” a shareholding company, each participating 50% in the founding capital. Once the consent of the RS Government had been obtained, the start-up was registered based on the Agency’s Decision number BD 136309 dated September 15, 2009. The activities that followed the registration are described in Note 39.

The Board of Directors of the Electric Power Industry of Serbia enacted in July 17, 2009 a Decision to separate a portion of assets and corresponding liabilities of its subsidiary – the Business Entity Thermal Power Plant “Nikola Tesla” and merge these with the parent company – the Public Enterprise “Electric Power Industry of Serbia”, as of May 31, 2009, to which the RS Government consented on July 24, 2009. Each class of assets and corresponding liabilities of the subsidiary Thermal Power Plant “Nikola Tesla” that had been assumed, was recognized as carried in the books of the subsidiary and as determined in Note 3. The subject assets are intended for the joint construction of production capacities with chosen strategic partners of the project – Thermal Power Plant “Nikola Tesla” B3 and project Thermal Power Plant Kolubara B.

The founder’s contributions in the legal entities that do not perform 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 33,525 employees as of December 31, 2009 (December 31, 2008: 33,664 employees).

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

2.1. Consolidated Financial Statements

The Company’s consolidated financial statements include its consolidated balance sheet as of December 31, 2009, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

2.2. Basis of Preparation and Presentation of Consolidated Financial Statements

Pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia, 46 of June 2, 2006), legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose consolidated financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the “Framework”), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards which were in effect as at December 31, 2002.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

All amounts expressed in thousands of RSD, unless otherwise stated

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

2.2. Basis of Preparation and Presentation of Consolidated Financial Statements (Continued)

The amendments to IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”), in the period between December 31, 2002 and 2007, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia (“Ministry”) and published in the Official Gazette of the Republic of Serbia number 16 of February 12, 2008. The Ministry also established (based on the Decision number 401-00-1456/2008-16) and published the official translation of the amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and to IFRS 7 “Financial Instruments: Disclosures” in the RS Official Gazette number 116 as of December 17, 2008.

However, until the preparation date of the accompanying consolidated financial statements, not all amendments to IAS/IFRS and IFRIC in effect for annual periods beginning on or after January 1, 2009 had been translated (particularly subsequent to the aforementioned Decision of the Ministry).

In addition, the accompanying consolidated financial statements are presented in the format prescribed under the “Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures” (see *Official Gazette of the Republic of Serbia*, no. 114 of December 22, 2006, no. 119 as of December 26, 2008, and 2/10 as of January 15, 2010). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, “Presentation of Financial Statements,” and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard. Standards and interpretations issued, but not yet adopted and translated and standards and interpretations in issue, but not yet in effect are disclosed in Notes 2.3 and 2.4.

In accordance with the aforementioned and due to the potentially material effects of the departures of the accounting regulations of the Republic of Serbia from IFRS and IAS, the accompanying consolidated financial statements cannot be treated as a set of consolidated financial statements prepared in accordance with IAS and IFRS.

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

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

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

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

As of the consolidated financial statements issuance date, the following standards, amendments were issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee but were not officially adopted and translated in the Republic of Serbia for the annual accounting periods commencing on or after January 1, 2009:

- IFRS 8 “Operating Segments” (effective for annual periods beginning on or after January 1, 2009),

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 in Issue, but not yet Adopted and Translated (Continued)

- Amendments to IFRS 4 “Insurance contracts” and IFRS 7 “Financial Instruments: Disclosures” – Improving disclosures about financial instruments (effective for annual periods beginning on or after January 1, 2009),
- Amendments to IFRS 1 “First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements” – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after January 1, 2009),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on May 22, 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after January 1, 2009),
- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after January 1, 2009),
- IAS 1 (revised) “Presentation of Financial Statements” – A revised presentation (effective for annual periods beginning on or after January 1, 2009),
- IAS 23 (revised) “Borrowing Costs” (effective for annual periods beginning on or after January 1, 2009),
- Amendments to IFRS 2 “Share-based Payment” – Vesting conditions and cancellations (effective for annual periods beginning on or after January 1, 2009),
- IFRS 3 (revised) “Business Combinations” (effective for annual periods beginning on or after July 1, 2009),
- Amendments to IAS 27 “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after July 1, 2009),
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Embedded derivatives (effective for annual periods beginning on or after July 1, 2009),
- IFRIC 17 “Distributions of Non-Cash Assets to Owners” (effective for annual periods beginning on or after July 1, 2009),
- IFRIC 18 “Transfers of Assets from Customers” (effective for transfer of assets from customers received on or after July 1, 2009),
- Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement” -Embedded Derivatives (effective for annual periods ending on or after June 30, 2009),

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- IFRIC 13 “Customer Loyalty Programmes” (effective for annual periods beginning on or after July 1, 2008),
- IFRIC 14 Interpretation on 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 15 “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after January 1, 2009),
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after October 1, 2008).

2.4. Standards and Interpretations in Issue not yet in Effect

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2013),
- IFRS 3 (revised) “Business Combinations” (effective for annual periods beginning on or after July 1, 2009),
- Amendments to IFRS 1 “First-time Adoption of IFRS” – Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after January 1, 2010),
- Amendments to IFRS 2 “Share-based Payment” – Group cash-settled share-based payment transactions (effective for annual periods beginning on or after January 1, 2010),
- Amendments to IAS 24 “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011),
- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for rights issues (effective for annual periods beginning on or after February 1, 2010)
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on April 16, 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2010),
- Amendments to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011),
- IFRIC 19 “Extinguishing Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010).

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

2.5. Comparative Information

As comparative information, the Company presented the restated consolidated statement of changes in equity, restated consolidated cash flow statement and restated consolidated income statement for the year ended December 31, 2008, and the restated consolidated balance sheet as of December 31, 2008.

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, 2009 given that the Company's management does not have administrative and managing control over the operations of these companies.

3.2. Revenues and Expenses

Revenues and expenses are recognized on an accrual basis. 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.

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009**

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Provisions

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

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

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

3.10. Donations

The value of donated assets is initially recorded as deferred income from donations, as presented under liabilities in the balance sheet, 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.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Taxes and Contributions (Continued)

b) Deferred Income Taxes

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

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

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 for all business entities comprised within EPS and JP EPS, except for the Public Company "Kolubara Metal" which appraised its property, plant and equipment as of January 1, 2009.

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.

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.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Depreciation

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

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 of electric 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.

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

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

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

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2009, 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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Financial Instruments (Continued)

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.

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, 2010. The Company does not record an allowance for receivables from legal entities that are concurrently its debtors and creditors.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Financial Instruments (Continued)

Impairment of Financial Assets (Continued)

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), 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.

4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND RESTATEMENT OF COMPARATIVE DATA COMPRISED IN THE INCOME STATEMENT FOR THE YEAR 2008

a) Effects of Opening Balance Adjustments to the Line Items of Equity – Revaluation Reserves, Unrealized Gains/Losses and Accumulated Losses (January 1, 2008)

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:

	<u>Revaluation Reserves</u>	<u>Accumulated Losses</u>
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	<u>117,680</u>	<u>(499,269)</u>
Balance, January 1, 2008, after adjustments	<u>248,754,851</u>	<u>(122,334,964)</u>

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

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**4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND
RESTATEMENT OF COMPARATIVE DATA COMPRISED IN THE INCOME
STATEMENT FOR THE YEAR 2008 (Continued)**

b) Effects of December 31, 2008 consolidated balance sheet adjustments

	Previously Stated December 31, 2008	Adjustments/ Reclassification + / (-)	December 31, 2008
ASSETS			
Non-current assets			
Intangible assets	2,455,368	(27,640)	2,427,728
Property, plant and equipment	520,282,525	3,123,458	523,405,983
Investment property	44,408	-	44,408
Advances for intangible assets, property, plant and equipment	3,463,284	322,777	3,786,061
Equity investments	1,098,230	-	1,098,230
Other long-term financial placements	1,476,606	2,661	1,479,267
	<u>528,820,421</u>	<u>3,421,256</u>	<u>532,241,677</u>
Current assets			
Inventories	22,781,409	239,015	23,020,424
Advances for inventories	2,118,198	-	2,118,198
Accounts receivable	40,989,102	517,099	41,506,201
Receivables for prepaid income taxes	460,944	-	460,944
Short-term financial placements	2,085,598	(12,478)	2,073,120
Cash and cash equivalents	6,225,306	(7,962)	6,217,344
Value added tax and prepayments	1,358,973	3,796	1,362,769
	<u>76,019,530</u>	<u>739,470</u>	<u>76,759,000</u>
Total assets	<u>604,839,951</u>	<u>4,160,726</u>	<u>609,000,677</u>
EQUITY AND LIABILITIES			
Equity and reserves			
State-owned capital	358,656,088	-	358,656,088
Other capital	1,293,175	-	1,293,175
Revaluation reserves	248,188,896	(99,637)	248,089,259
Unrealized (losses) on securities	(252,738)	-	(252,738)
Accumulated losses	(147,470,397)	3,401,319	(144,069,078)
	<u>460,415,024</u>	<u>3,301,682</u>	<u>463,716,706</u>
Long-term provisions	<u>7,515,191</u>	<u>60</u>	<u>7,515,251</u>
Long-term liabilities			
Long-term borrowings	41,550,014	-	41,550,014
Other long-term liabilities	4,010,561	(8,577)	4,001,984
	<u>45,560,575</u>	<u>(8,577)</u>	<u>45,551,998</u>
Current liabilities			
Short-term financial liabilities	9,584,354	(2,005)	9,582,349
Accounts payable	33,898,252	66,368	33,964,620
Other current liabilities	2,996,188	246,990	3,243,178
Value added tax and other duties payable and accruals	19,786,096	358,289	20,144,385
Income taxes payable	160,365	11,444	171,809
	<u>66,425,255</u>	<u>681,086</u>	<u>67,106,341</u>
Deferred tax liabilities	<u>24,923,906</u>	<u>186,475</u>	<u>25,110,381</u>
Total equity and liabilities	<u>604,839,951</u>	<u>4,160,726</u>	<u>609,000,677</u>
Off-balance sheet items	<u>47,362,993</u>	<u>30,611,338</u>	<u>77,974,331</u>

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**4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND
RESTATEMENT OF COMPARATIVE DATA COMPRISED IN THE INCOME
STATEMENT FOR THE YEAR 2008 (Continued)**

c) Effects of January 1, 2009 accumulated loss adjustment

	<u>Accumulated Loss</u>
Balance, January 1, 2008	<u>(145,923,256)</u>
Property, plant and equipment – correction of mathematical appraisal errors as of January 1, 2007	3,123,465
Deferred tax liabilities – adjustment upon auditor findings	483,427
Remeasurement of inventories of work in progress to cost	(473,567)
Reversal of the impairment of advances paid for property, plant and equipment	322,777
Receivables from the Electric Power Industry of Montenegro upon subsequently issued – adjusted invoices	453,767
Subsequently determined employee entitlement to insurance with increased duration – contribution into the Pension and Disability Insurance Fund	(236,970)
VAT charged to electricity distribution losses for 2008 and 2007	(258,182)
Recognition of other public duties payable upon subsequently received decision	(133,009)
Revaluation reserves – adjustment guided by auditor findings and their reversal upon disposal and sale of fixed assets subject to appraisal	102,074
Accounts payable recognized upon subsequently received invoices	(52,192)
Other accounts payable	26,853
Recognition of receivables upon subsequently issued invoices and/or notes	36,620
Income taxes	(11,444)
Intangible assets	(27,638)
Other long-term financial placements – sale of apartments	2,661
Other adjustments	<u>(1,504,464)</u>
Total adjustments	<u>1,854,178</u>
Balance of accumulated losses as of December 31, 2008, adjusted	<u><u>(144,069,078)</u></u>

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**4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND
RESTATEMENT OF COMPARATIVE DATA COMPRISED IN THE INCOME
STATEMENT FOR THE YEAR 2008 (Continued)**

d) Effects of January 1, 2009 consolidated income statement adjustments

	<i>Previously Stated</i> December 31, 2008	Adjustments /Reclassifications + / (-)	January 1, 2009
OPERATING INCOME			
Sales revenue	137,129,597	(1,786,700)	135,342,897
Own-work capitalized	2,516,376	1,792,978	4,309,354
Increase in the value of inventories	1,188,415	712,582	1,900,997
Other operating income	5,024,940	(319)	5,024,621
	<u>145,859,328</u>	<u>718,541</u>	<u>146,577,869</u>
OPERATING EXPENSES			
Cost of commercial goods sold	(4,728)	-	(4,728)
Cost of materials	(35,924,415)	-	(35,924,415)
Staff costs	(36,395,561)	(6,235)	(36,401,796)
Depreciation, amortization and provisions	(50,785,775)	-	(50,785,775)
Other operating expenses	(32,739,234)	28,440	(32,710,794)
	<u>(155,849,713)</u>	<u>22,205</u>	<u>(155,827,508)</u>
OPERATING LOSS	<u>(9,990,385)</u>	<u>740,746</u>	<u>(9,249,639)</u>
Finance income	8,079,547	270,568	8,350,115
Finance expenses	(10,823,545)	(6,016)	(10,829,561)
Other income	2,543,948	191,598	2,735,546
Other expenses	(17,355,383)	(356,136)	(17,711,519)
LOSS BEFORE TAXATION	<u>(27,545,818)</u>	<u>840,760</u>	<u>(26,705,058)</u>
Current tax expense	(532,520)	(6,951)	(539,471)
Deferred tax benefits	2,380,201	713,332	3,093,533
NET LOSSES	<u>(25,698,137)</u>	<u>1,547,141</u>	<u>(24,150,996)</u>

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**4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND
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INCOME STATEMENT FOR THE YEAR 2008 (Continued)**

**e) Effects of adjustments on the earliest comparative period presented in the income
statement of the reporting year 2008**

Operating result (net loss) for the period ended December 31, 2008, before adjustments	(25,698,137)
Increase in the value of work in progress	712,582
Reversal of deferred tax liabilities – adjustment upon auditor findings	713,332
VAT charged to electricity distribution losses for 2008 and 2007	(122,333)
Receivables from the Electric Power Industry of Montenegro – interest and exchange rate fluctuation effect as of the reporting date	58,397
Recognition of other public duties payable upon subsequently received decisions	(110,856)
Other operating expenses – recognition of accounts payable based on subsequently received invoices	(28,870)
Other expenses	(582)
Receivables for interest charged to the Public Company “Railroads of Serbia” based on defaults in settling liabilities for electricity delivered	9,921
Income from the sale of thermal energy upon subsequently issued invoices	6,278
Subsequently determined employee entitlement to insurance with increased duration – contribution into the Pension and Disability Insurance Fund	(6,235)
Decrease of current income tax liabilities	2,629
Other operating income	(319)
Other adjustments	313,197
Total adjustments	<u>1,547,141</u>
Restated operating result (net loss) for the period ended December 31, 2008, after adjustments	<u>(24,150,996)</u>

5. SALES REVENUE

	Year Ended December 31,	
	<u>2009</u>	<u>2008</u>
Sale of electricity	128,548,580	118,471,625
Sale of coal	3,754,454	3,520,272
Sale of engineering steam and gas	1,392,486	1,688,755
Sale to legal entities domiciled abroad	5,503,101	4,646,019
Sale of products and services (Public Company “Kolubara Metal“)	1,679,884	2,149,857
Income from radio and television subscriptions	364,628	242,421
Income from the Public Enterprise “Elektromreža Srbije”	4,770,335	4,597,483
Other income	202,826	26,465
	<u>146,216,294</u>	<u>135,342,897</u>

In addition to electricity delivered to tariff users, the portion of electricity sales of RSD 5,561,142 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.

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5. SALES REVENUE (Continued)

In accordance with the Conclusion issued by the Republic of Serbia Government number 021-6624/2009-002 at the Government session held on November 30, 2009, for the purpose of preventing humanitarian catastrophe, by engaging all its resources available and on temporary basis, the Public Enterprise “Electric Power Industry of Serbia” is to supply electricity to majority Serb area on the north of the Autonomous Province of Kosovo and Metohija. Accordingly, income from electricity delivered to the Public Enterprise “Elektrokosmet”, Priština was recognized in the amount of RSD 152,898 thousand.

A portion of sales performed on foreign markets amounting to RSD 3,834,602 thousand was recognized for electricity delivered based on long-term agreements closed with the Power Industry of Montenegro and the Power Utility of the Republic of Srpska and the remaining amounts relate to the delivery of products of the Public Company “RB Kolubara” and the Business Entity “Kolubara Metal” and to the Business Entity “RB Kolubara” to non-residents.

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

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

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

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

Also, to the group of consumers – households, settling their electricity bills 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.

Income realized from the work capitalized in the amount of RSD 2,731,408 thousand (the Business Entity “Elektrosrbija” – RSD 1,207,046 thousand, Business Entity “Elektrovojvodina” – RSD 942,176 thousand, Business Entity “Jugoistok” – RSD 373,051 thousand) relates to self-constructed assets recognized, as disclosed in Note 3.12.

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5. SALES REVENUE (Continued)

The balance of income from own work capitalized (RSD 2,134,427 thousand) is the recognized reclassification of income from sales of products and services of the Business Entity “Kolubara Metal” operating within the EPS group which for the users (business entities operating within the EPS Group) represent capitalized expenses.

6. OTHER OPERATING INCOME

	Year Ended December 31,	
	2009	2008
Donation income	1,543,543	1,462,212
New customer connection fees	2,013,565	2,448,902
Insurance claims collected	434,078	634,610
Rental income	63,469	62,855
Other operating income	808,899	416,042
	4,863,554	5,024,621

Income from new customer connection fees comprise inflows of benefits through the establishment of new connections calculated by applying the price list approved by the Energy Agency, as fee and commission income from accessing the system at the price list approved by the Energy Agency.

Based on the collection of claims settled by the insurer, the Business Entity “RB Kolubara” recognized income for the year ended December 31, 2009 in the amount of RSD 133,755 thousand, out of which the major portion relates to the income derived from the damage claimed for the fire on the coal drying facility. In the previous reporting year, the Business Entity “RB Kolubara” recognized income of RSD 423,709 thousand, most of which pertains to the collection of the damage for the major breakdown suffered by one of the dredger “Glodar 9”).

7. COST OF MATERIALS

	Year Ended December 31,	
	2009	2008
Purchases of electricity purchased:		
- on domestic market	437,253	1,270,351
- on foreign market	4,392,848	5,242,250
Transfer of electricity by the Public Enterprise “Elektromreža Srbije”, Belgrade	8,653,823	8,479,299
Materials for maintenance and spare parts	8,340,106	7,961,301
Oil derivatives	3,276,680	3,987,638
Natural gas and other energy	2,119,655	4,380,232
External purchases of coal	631,032	564,733
Production material	2,474,228	2,892,289
Office and general administrative supplies	371,636	361,511
Other	770,164	784,811
	31,467,425	35,924,415

The acquisition of electricity used for the Company’s own activities in the value of RSD 4,830,101 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 4,248,427 thousand that pertains to the electricity purchased from the Electric Power Industry of Montenegro.

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7. COST OF MATERIALS (Continued)

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).

8. STAFF COSTS

	Year Ended December 31,	
	2009	2008
Gross salaries	30,202,205	28,032,508
Contributions to salaries payable by the employer	6,464,395	5,939,910
Retirement benefits and jubilee awards	-	194,116
Employee transport	1,502,708	1,276,559
Other staff costs	978,566	958,703
	<u>39,147,874</u>	<u>36,401,796</u>

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

Pursuant to the Law on the Temporary Decrease of Wages, or Salaries, Net Fees and Other Benefits in the State Administration and Public Sector (“Official Gazette of RS”, number 31/09), a decision was issued on the temporary decrease of wages, or salaries, net fees and other benefits in the state administration and public sector having the Republic of Serbia as their sole founder, as well as net fees payable to presidents and management and supervisory board members Government appointed and net fees to the persons engaged based on service contracts for temporary or seasonal works, entered into by public companies and legal entities solely founded by the Republic of Serbia.

The temporary wage decrease, i.e. the decrease of salaries, net benefits and other fees received under the Law is performed by applying a certain percentages to the difference of salary or wage net of taxes and contributions, i.e. net benefits and other amounts payable to employees.

TO WAGES , I.E. SALARY NET OF TAXES AND CONTRIBUTIONS, NET FEES AND OTHER BENEFITS	DECREASED WAGES, I.E. SALARIES, NET FEES AND OTHER BENEFITS
1) from RSD 40,000 – RSD 100,000	10%
2) from 100,000 up to the amount of six-time the average salary in the Republic of Serbia net of taxes and contributions	The decrease referred to under 1) + 15% to the amount exceeding RSD 100,000
3) amount exceeding six-times the average salary in the Republic of Serbia net of taxes and contributions	The decrease referred to under 2) + the total amount exceeding six-times the average salary in the Republic of Serbia net of taxes and contributions

The Law was in effect starting from salaries paid out for the month of May 2009 until the payment of salaries for the month of December 2009.

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9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	Year Ended December 31,	
	2009	2008
Depreciation and amortization	37,586,807	46,458,563
Provisions	2,554,149	4,327,212
	<u>40,140,956</u>	<u>50,785,775</u>

The useful life of property, plant, equipment and intangible assets as of January 1, 2007 was determined by an independent appraiser, for all Business Entities operating within EPS and JP EPS, except for the Business Entity “Kolubara Metal” which appraised its property, plant and equipment as of January 1, 2009.

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

10. OTHER OPERATING EXPENSES

	Year Ended December 31,	
	2009	2008
Insurance premiums	2,005,477	2,204,629
Public water utility fees	2,162,871	1,828,030
Fees for construction land use	1,644,305	1,321,438
Fees for the use of general interest property	20,753	61,552
Environment pollution charges	3,610,021	1,590,095
Property taxes	586,730	634,865
Mineral resource exploitation fees	428,218	393,341
Other indirect taxes, contributions and fees	737,785	661,537
Maintenance	8,771,578	9,771,089
Telecommunications	1,048,883	938,912
Transportation services	460,557	445,837
Rentals	1,799,980	4,300,411
Research	203,134	397,320
Public utility fees	350,786	309,485
Student and youth organizations	580,904	608,958
Entertainment	241,130	274,280
Bank charges	633,440	599,849
Other production services	1,334,818	1,254,572
Other services	2,660,700	2,408,058
Production costs	1,900,124	1,215,340
Scientific research	272,808	298,790
Court fees	373,576	305,884
Other non-material expenses	773,093	886,522
	<u>32,601,671</u>	<u>32,710,794</u>

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10. OTHER OPERATING EXPENSES (Continued)

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 73,107 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 1,799,980 thousand for the year ended December 31, 2009 (2008: RSD 4,300,411 thousand) include an amount of RSD 1,708,517 thousand (2008: RSD 4,232,102 thousand) incurred based on the lease of mechanization for the purpose of addressing consequences of coal exploitation and bringing the existing locations into use.

11. FINANCE INCOME

	Year Ended December 31,	
	2009	2008
Interest income	7,912,413	6,007,869
Foreign exchange gains	731,038	2,139,015
Other finance income	609,791	203,231
	9,253,242	8,350,115

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,	
	2009	2008
Interest expense	2,241,636	2,471,359
Foreign exchange losses	4,127,373	7,894,827
Other finance expenses	154,316	463,375
	6,523,325	10,829,561

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12. FINANCE EXPENSES (Continued)

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,	
	2009	2008
Gains on the sale of material, equity investments, intangible assets, property, plant and equipment	42,229	75,191
Collected bad debts and release of provisions for accounts receivable and short-term financial placements	1,802,922	1,669,508
Valuation of other assets	118,672	448,993
Write-off of liabilities	88,194	276,394
Surpluses	50,079	45,200
Reversal of other long-term provisions	-	29,291
Reversal of long-term provisions for employee benefits	402	-
Reversal of long-term provisions for litigations	161,746	61,537
Other income	126,939	129,432
	<u>2,391,183</u>	<u>2,735,546</u>

14. OTHER EXPENSES

	Year Ended December 31,	
	2009	2008
Losses on disposal, write-off and sale of fixed assets, intangible assets, equity investments and materials	2,692,582	1,272,707
Write-off of receivables	406,557	587,620
Shortages	15,685	60,787
Impairment of assets:		
- short-term receivables and rescheduled accounts receivable	16,251,016	10,385,934
- property, plant and equipment	130,835	-
- inventories	405,713	229,247
- other assets	50,160	195,952
Staff costs of the employees in the public enterprises situated in the Autonomous Province of Kosovo and Metohija	4,285,696	4,081,586
Sponsorship and donation expenses	300,838	413,666
Other expenses	486,099	484,020
	<u>25,025,181</u>	<u>17,711,519</u>

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14. OTHER EXPENSES (Continued)

In the reporting period, losses on disposal of plant and equipment were recognized of RSD 1,557,535 thousand based on the activities undertaken towards the revitalization of hydro-aggregate with the increase of installed power of the hydro-power and navigation system “Đerdap 1.”

Accounts receivable considerably past due are recognized as an impairment loss in the amount of RSD 16,251,016 thousand.

Expenses amounting to RSD 4,285,696 thousand are recognized based on the benefits accrued and paid to employees in the public companies on the territory of the Autonomous Province of Kosovo and Metohija, as well as in connection with the investments intended to provide for an uninterrupted energy supply to private individuals on the territory of the North part of Autonomous Province of Kosovo and Metohija.

15. INCOME TAXES

a) Components of Income Taxes

	Year Ended December 31,	
	2009	2008
Current income tax expense	(669,604)	(539,471)
Deferred income tax benefits	1,670,932	3,093,533
	1,001,328	2,554,062

**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,	
	2009	2008
Loss before taxation	(9,058,074)	(26,705,058)
Income tax at the statutory tax rate of 10%	-	-
Tax effect of non-deductible expenses not recognized for tax purposes	(206,482)	417,914
Used tax credits carryforwards	124,477	1,040,519
Realized tax loss available for carryforward	131,041	-
Capital losses available for carryforward	373	(754)
Expenses arising from impairment of assets	-	390,002
Tax credits for capital expenditures	613,946	-
Other	337,973	706,381
	1,001,328	2,554,062

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15. INCOME TAXES (Continued)

c) Deferred Tax Assets and Liabilities

Deferred tax liabilities of RSD 23,604,248 thousand as of December 31, 2009 (December 31, 2008: RSD 25,110,381 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 consolidated financial statements.

As of December 31, 2009, the Company did not recognize deferred tax assets with respect to tax loss and tax credit carryforwards in the total amount of RSD 9,256,057 thousand (December 31, 2008: RSD 5,846,971 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.

	Expiration Year	December 31, 2009	December 31, 2008
Tax loss carryforwards:			
- 2004	2014	338,863	338,863
- 2005	2015	12,709	12,709
- 2006	2016	89,043	89,043
- 2007	2017	444,542	526,564
- 2008	2018	716,088	716,088
- 2009	2019	457,423	
		<u>2,058,668</u>	<u>1,683,267</u>
Tax credits and capital losses carried forward		<u>7,197,389</u>	<u>4,163,704</u>
		<u><u>9,256,057</u></u>	<u><u>5,846,971</u></u>

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

Cost	Land	Buildings	Plant, Equipment and Other Assets	Construction in Progress	Total	Intangible Assets	Investment Property
Balance at January 1, 2008, 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, 2008, 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)	-
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)	(5,936)
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
Opening balance adjustment	(6)	(3,004)	82,839	86,852	166,681	(27,641)	-
Balance at January 1, 2009, after adjustments	19,383,577	465,681,337	820,831,902	50,924,296	1,356,821,112	3,293,476	119,523
Additions	1,437,037	235,849	3,662,271	21,700,451	27,035,608	180,040	-
Activation of construction in progress	28,053	2,237,905	13,424,089	(15,690,047)	-	-	-
Transfers	-	(5,391,778)	6,061,829	(1,454,362)	(784,311)	8,885	-
Self-constructed assets	-	14,082	138	2,082,325	2,096,545	-	-
Donations	-	222,873	358,577	-	581,450	-	-
Revaluation (appraisal effects)	429,299	947,457	934,580	-	2,311,336	-	-
Sale and disposal	-	(555,359)	(10,255,067)	(3,975)	(10,814,401)	(2,514)	(3,996)
Transfer to third parties	-	(6,741)	(2,886)	-	(9,627)	-	-
Surpluses	-	2,249	22,738	-	24,987	-	-
Shortages	-	(55)	(16,065)	-	(16,120)	-	-
Derecognition of the gross amount of fixed assets used as founding contributions	-	-	-	(60)	(60)	-	-
Transfers to subsidiaries	1	251	1,030	(7,236,022)	(7,234,740)	1	-
Other changes	6,743	86,722	70,110	(215,572)	(51,997)	(17,178)	-
Balance, December 31, 2009	21,284,710	463,474,792	835,093,246	50,107,034	1,369,959,782	3,462,710	115,527

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

	Land	Buildings	Plant, Equipment and Other Assets	Construction in Progress	Total	Intangible Assets	Investment Property
Accumulated Depreciation and Amortization							
Balance at January 1, 2008, 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	-	5,776,454	2,419	4,824
Balance at January 1, 2008, after adjustments	5,739,102	311,003,834	470,531,144	7,261,439	794,535,519	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	(1,141)	(48,343,599)	48,359,801	-	15,061	-	-
Transfers to subsidiaries	-	-	(3,424)	-	(3,424)	-	-
Donations	-	1,264	1,016,396	-	1,017,660	-	-
Sale and disposal	-	(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)	1,416,459	(882)	(732,709)	72	-
Balance at January 1, 2008	<u>6,527,502</u>	<u>266,870,698</u>	<u>555,713,149</u>	<u>7,260,557</u>	<u>836,371,906</u>	<u>865,749</u>	<u>75,115</u>
Accumulated Depreciation and Amortization							
Balance at January 1, 2008, before adjustments	6,527,502	266,870,698	555,713,149	7,260,557	836,371,906	865,749	75,115
Adjustments	-	(3,436,455)	479,679	(1)	(2,956,777)	(1)	-
Balance at January 1, 2008, after adjustments	6,527,502	263,434,243	556,192,828	7,260,556	833,415,129	865,748	75,115
Charge for the year	660,036	6,987,853	29,768,698	-	37,416,587	167,650	2,570
Transfers	-	(4,309,743)	4,340,667	(24,535)	6,389	5,386	-
Transfers to subsidiaries	-	176	722	(7,236,021)	(7,235,123)	-	-
Donations	-	102,413	217,077	-	319,490	-	-
Revaluation (effects of subsequent valuations)	-	133,613	207,960	-	341,573	-	-
Retirements and disposals	-	(333,356)	(6,252,824)	-	(6,586,180)	(1,442)	(114)
Shortages	-	(17)	(10,847)	-	(10,864)	-	-
Transfer to third parties	-	(1,992)	(24,867)	-	(26,859)	(34)	-
Other changes	-	(20,368)	60,118	-	39,750	(594)	-
Balance, December 31, 2009	<u>7,187,538</u>	<u>265,992,822</u>	<u>584,499,532</u>	<u>-</u>	<u>857,679,892</u>	<u>1,036,714</u>	<u>77,571</u>
Net Book Value							
December 31, 2009	14,097,172	197,481,970	250,593,714	50,107,034	512,279,890	2,425,996	37,956
December 31, 2008, after adjustments	<u>12,856,075</u>	<u>202,247,094</u>	<u>264,639,074</u>	<u>43,663,740</u>	<u>523,405,983</u>	<u>2,427,728</u>	<u>44,408</u>

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

Property, plant and equipment, as disclosed in Note 3.12, are stated at a revalued amount at January 1, 2007 for all business entities operating within EPS and JP EPS, except for the Business Entity “Kolubara Metal” which appraised its property, plant and equipment as of January 1, 2009.

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 (interest method).

A portion of non-current assets of RSD 47,871 thousand was assumed pursuant to the Law on the termination of the Law on Associating into the Community of Yugoslav Electric Power Industry (“Official Gazette of RS” number 104/2009). As of the date of coming into effect of this Law (December 27, 2009), the rights, liabilities, assets, documentation, cases and employees of the Community of Yugoslav Electric Power Industry have been assumed by the Public Enterprise “Electric Power Industry of Serbia” and the Public Enterprise “Elektromreža Srbije”, Belgrade as in accordance with the Agreement on the Manner of Assuming Rights, Liabilities, Assets, Documentation and Employees of the Community of Yugoslav Electric Power Industry closed between the Public Enterprise “Electric Power Industry of Serbia” and the Public Enterprise “Elektromreža Srbije,” in 2007. Income thereof has been recognized.

Construction in Progress

Assets in progress and intangible assets in progress include amounts of RSD 4,219,546 thousand and RSD 1,752,290 thousand relating to expenses incurred in the construction of new thermo-electric power plants: TE-TO Kolubara B and B3. These investment activities are realized in the parent company of the EPS group, based on the Decision enacted by the Board of Directors regarding the separation of a portion of assets and corresponding liabilities of the subsidiary – the Business Entity Thermal Power Plant “Nikola Tesla” and their merger with the parent company – the Public Enterprise “Electric Power Industry of Serbia” as of May 31, 2009, to which the RS Government issued its consent as delineated in Note 1.

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, 2009	December 31, 2008
Advances paid for property, plant, equipment and intangible assets	3,477,960	3,921,739
Less: Allowance for impairment of advances paid for property, plant, equipment and intangible assets	(135,833)	(135,678)
	3,342,127	3,786,061

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18. EQUITY INVESTMENTS

	December 31, 2009	December 31, 2008
Equity investments in domestic banks:		
- AIK banka a.d., Niš	864,763	675,957
- Čačanska banka a.d., Čačak	36,646	46,592
- Komercijalna banka a.d., Beograd	25,846	23,288
- Metals Banka a.d., Novi Sad	12,099	11,609
- other	132,804	132,870
Equity investments in other legal entities:		
- Politika a.d., Beograd	201,679	252,949
- RMK Trepča	27,010	27,010
- Minel holding	9,716	9,716
- Panonka Sombor	33,417	33,417
- TK Raška N. Pazar	29,614	-
- other	155,971	153,640
Equity investments in insurance companies	5,954	5,047
Total equity investments	1,535,519	1,372,095
Allowances for impairment:		
- equity investments in domestic banks	(18,478)	(17,757)
- equity investments in other legal entities	(252,814)	(252,581)
- equity investments in insurance companies	(2,940)	(3,527)
Total allowance for impairment	(274,232)	(273,865)
	1,261,287	1,098,230

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, 2009. The difference between the fair value as of December 31, 2008 and their fair value as of December 31, 2009 amounting to RSD 163,057 thousand is recognized as a special line item of equity, by recognizing revaluation reserves based on unrealized gains amounting to RSD 84,405 thousand, through the recognition of revaluation reserves based on unrealized losses of RSD 112,555 thousand, as well as based on the increase of nominal value of shares of RSD 103,431 thousand according to the Decision on the profit distribution and recognition of new investments of RSD 87,777 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 represent equity investments in certain domestic legal entities available for sale that are not listed on a capital market and are presented at cost.

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19. LONG-TERM FINANCIAL PLACEMENTS

	December 31, 2009	December 31, 2008
Long-term receivables from the Public Enterprise		
Elektromreža Srbije	255,727	247,562
Rescheduled accounts receivable for electricity sold:		
- private individuals	67,645	118,548
- legal entities	90,476	172,907
Joint investment in the Rovni Water Reservoir	637,205	637,205
Placements based on apartments sold, housing loans and long-term rent of apartments	440,160	342,664
Rescheduled receivables for electricity sold – Public Enterprise “Toplifikacija,” Požarevac		
Receivables from the Privatization Agency of RS	150,710	141,469
Long-term deposits with domestic banks	14,329	13,240
Other long-term financial placements	248,068	302,458
	1,904,320	1,976,052
<i>Less: Allowance for impairment</i>		
- Rescheduled accounts receivable for electricity	(96,071)	(212,799)
- Receivables from the Privatization Agency of RS	(151,991)	(141,469)
- Other long-term financial placements	(142,517)	(142,517)
	(390,579)	(496,785)
	1,513,741	1,479,267

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.

Long-term joint investments of RSD 637,205 thousand as of December 31, 2009, 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 Electric “Power Industry of Serbia”. Based on the Government’s Decree on determining the program of construction, reconstruction and maintenance of water supply structures in 2010 (“Official Gazette of the Republic of Serbia”, 8/2010), 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 1 and 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 Drmno and a reconstruction of the existing network for distribution of heat in the town of Kostolac.

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20. INVENTORIES

	December 31, 2009	December 31, 2008
Material	9,470,614	9,493,971
Spare parts	10,863,902	9,434,497
Tools and fixtures	2,004,786	1,783,006
Work in progress and finished products	2,673,469	4,403,352
Goods for resale	285	296
<i>Less: Allowance for impairment</i>	<i>(2,662,312)</i>	<i>(2,094,698)</i>
	22,350,744	23,020,424

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.

21. ADVANCES FOR INVENTORIES

	December 31, 2009	December 31, 2008
Advances paid	2,246,459	2,388,354
Allowance for impairment of advances paid	(105,934)	(270,156)
	2,140,525	2,118,198

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22. ACCOUNTS RECEIVABLE

	December 31, 2009	December 31, 2008
Accounts receivable:		
- non-consolidated subsidiaries situated in Kosovo and Metohija	1,021,831	871,668
- other related parties	20,546	4,592
- domestic customers	88,808,909	73,736,390
- foreign customers	4,881,522	4,155,752
- the Resavica Coal Mine	1,166,907	1,166,907
	<u>95,899,715</u>	<u>79,935,309</u>
Receivables for radio and television subscriptions	17,931,853	13,206,532
Interest receivable	2,634,455	2,141,720
Receivables from employees	1,424,093	228,801
Accounts receivable from budget beneficiaries and prepaid taxes and contributions	278,455	560,957
Accounts receivable from specific operations	27,965	28,401
Other receivables	621,847	625,506
	<u>118,818,383</u>	<u>96,727,226</u>
<i>Less: Allowance for impairment</i>		
- accounts receivable from non-consolidated subsidiaries situated in Kosovo and Metohija	(871,668)	(871,668)
- other related parties	(1,461)	(370)
- domestic customers	(63,628,447)	(49,761,149)
- foreign customers	(3,189,067)	(2,960,757)
- the Resavica Coal Mine	(1,166,907)	(1,166,907)
- interest receivable	-	(2,868)
- receivables from employees	(3,881)	(4,474)
- accounts receivable from prepaid taxes and contributions	(219)	(219)
- other receivables	(419,138)	(452,613)
	<u>(69,280,788)</u>	<u>(55,221,025)</u>
	<u>49,537,595</u>	<u>41,506,201</u>

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, 2009 include the receivables from domestic companies in restructuring, amounting to RSD 10,387,446 thousand (December 31, 2008: RSD 10,359,763 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 Enterprise “Elektrokosmet”, Priština, fully provided for.

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22. ACCOUNTS RECEIVABLE (Continued)

In accordance with the Conclusion issued by the Republic of Serbia Government number 021-6624/2009-002 at the Government session held on November 30, 2009, for the purpose of preventing humanitarian catastrophe, by engaging all its resources available and on temporary basis, the Public Enterprise “Electric Power Industry of Serbia” is to supply electricity to majority Serb area on the north of the Autonomous Province of Kosovo and Metohija. Accordingly, income from electricity delivered to the Public Enterprise “Elektrokosmet”, Priština was recognized in the amount of RSD 150,163 thousand.

A portion of foreign accounts receivable of RSD 1,279,155 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 of RSD 3,602,367 thousand mostly relates 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% of TV subscription collected.

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 444,072 thousand as of December 31, 2009 relate to the interest accrued on a loan obtained from the People’s Republic of China in the amount of RSD 331,194 thousand and rescheduled loans from the International Bank for Reconstruction and Development of RSD 112,878 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 218,220 thousand (January 1, 2009: 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.

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23. SHORT-TERM FINANCIAL PLACEMENTS

	December 31, 2009	December 31, 2008
Current portion of long-term receivables from the Public Enterprise Elektromreža Srbije	947,761	881,110
Short-term deposits with domestic banks	1,014,982	769,040
Short-term domestic loans	135,587	820
Short-term foreign loans	31,082	31,082
Other	795,588	391,068
	<u>2,925,000</u>	<u>2,073,120</u>

The current portions of the long-term receivables in the amount of RSD 947,761 thousand (RSD 811,110 thousand as of December 31, 2009) relate to current portions of long-term receivables from the Public Enterprise Elektromreža Srbije as arising from the loan obtained from the People’s Republic of China of RSD 893,891 thousand and to rescheduled loans obtained from the European Bank for Reconstruction and Development of RSD 53,870 thousand.

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

24. CASH AND CASH EQUIVALENTS

	December 31, 2009	December 31, 2008
Current accounts:		
- in dinars	7,502,126	4,070,742
- in foreign currencies	495,682	1,169,217
Cash cover deposits for letters of credit	148,036	522,073
Cash on hand and other cash	74,736	113,881
Other cash	448,343	349,869
Cash funds restricted or impaired	13,214	12,851
Total cash and cash equivalents	<u>8,682,137</u>	<u>6,238,633</u>
Impairment of restricted or impaired cash funds	<u>(20,416)</u>	<u>(21,289)</u>
	<u>8,661,721</u>	<u>6,217,344</u>

25. VALUE ADDED TAX AND PREPAYMENTS

	December 31, 2009	December 31, 2008
Deferred value added tax	790,001	959,729
Other prepayments	430,434	403,040
	<u>1,220,435</u>	<u>1,362,769</u>

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.

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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, Public Enterprise Elektroistok has operated as an independent entity, under the name of the Public Enterprise Elektromreža Srbije and a new Public Enterprise Electric Power Industry of Serbia was established. As a result of the above mentioned status change in 2005, the net state-owned capital increased for the effects of 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 Public Enterprise "Electric Power Industry of Serbia", the Company assumed all the assets of the earlier Public Enterprise including the investments in the subsidiaries founded with the Company's assets in the prior period. 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.

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, 2009 amounts to RSD 358,717,722 thousand and exceeds the amount recognized by the parent company (RSD 322,906,234 thousand) by RSD 35,811,488 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.

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27. LONG-TERM PROVISIONS

	December 31, 2009	December 31, 2008
Provisions for retirement benefits and jubilee awards	6,759,121	6,100,693
Provision for litigation	1,767,219	1,086,299
Provisions for the costs of natural resource restoration	561,612	323,829
Provisions for environment protection costs	39,000	4,430
	9,126,952	7,515,251

The movements in long-term provisions during 2009 and 2008 are presented in the following table:

	Employee Benefits (Retirement Benefits and Jubilee Awards and Other)	Litigations	Restoration of Natural Resources	Environment Protection	Total
Balance, January 1, 2008	2,791,695	644,268	185,865	4,430	3,626,258
Charge for the year	3,596,382	582,763	148,067	-	4,327,212
Release of provisions	(287,384)	(45,475)	(10,103)	-	(342,962)
Reversal	-	(95,257)	-	-	(95,257)
Balance, December 31, 2008	6,100,693	1,086,299	323,829	4,430	7,515,251
Charge for the year	1,318,380	947,987	248,782	39,000	2,554,149
Release of provisions	(659,550)	(105,321)	(10,999)	(4,430)	(780,300)
Reversal	402	(161,746)	-	-	162,148
Balance, December 31, 2009	6,759,121	1,767,219	561,612	39,000	9,126,952

Provisions for retirement benefits and jubilee awards of RSD 6,759,121 thousand were formed as further disclosed in Note 3.9.

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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, 2009</u>	<u>December 31, 2008</u>
<i>I Refinanced loans realized from the fund of:</i>						
1. Paris Club of Creditors:						
1.1 Government of Austria	EUR	3,855,318	March 31, 2024	Austrian Market Rate, semi-annual	369,682	354,254
1.2 Government of France	EUR	45,527,259	March 22, 2024	5.9% p.a., semi-annual	4,365,554	4,200,893
1.3 Government of Germany	EUR	29,190,804	March 22, 2024	5.5% p.a., semi-annual	2,799,071	2,677,328
1.4 Government of Canada	EUR	62,987,252	March 22, 2024	EURIBOR + 0.5% p.a., semi-annual	6,039,772	5,762,068
1.5 Government of Switzerland	CHF	84,178,143	March 22, 2024	6M LIBOR CHF + 0.5% p.a., semi-annual	5,426,384	5,130,287
1.6 Government of USA	USD	7,336,704		5.375%, semi-annual	489,567	479,816
1.7 Government of the Russian Federation	USD	45,818,480	March 22, 2034	0.5517% p.a., semi-annual	3,057,398	2,921,585
1.8 Government of Japan	JPY	2,397,786,667	March 22, 2024	2.839% p.a., semi-annual	1,731,331	1,723,362
					<u>24,278,759</u>	<u>23,249,593</u>
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	1,089,229	1,026,736
3. International Bank for Reconstruction and Development (IBRD)	EUR	8,415,216	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	806,925	763,308
4. European Investment Bank (EIB)	EUR	426,596	October 17, 2016	semi-annual EURIBOR	40,906	37,797
					<u>1,937,060</u>	<u>1,827,841</u>
<i>II Loans from the Governments realized after the year 1990 from the funds of:</i>						
1. PR China realized through domestic banks in bankruptcy	USD	46,296,184	July 21, 2008	7.69% p.a., semi-annual	3,089,275	2,912,030
2. Russian Federation realized through domestic banks in bankruptcy	USD	4,709,286	July 15, 2013	LIBOR+1.25% p.a., semi-annual	314,244	370,268
3. Republic of Poland	USD	38,088,312	June 15, 2024	0.75% p.a., semi-annual	2,541,576	2,607,727
					<u>5,945,095</u>	<u>5,890,025</u>

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

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, 2009</u>	<u>December 31, 2008.</u>
<i>III Loans from international financial organizations</i>						
1. KfW						
Loans from Kreditanstalt fuer Wiederaufbau (KfW)	EUR	19,883,573	June 30, 2013	4.32% p.a., semi-annual	1,906,612	2,265,049
Loans from Kreditanstalt fuer Wiederaufbau (KfW)	EUR	13,538,462	June 30, 2015	Variable (5.09% - 5.61%)	1,298,187	681,062
Loans from Kreditanstalt fuer Wiederaufbau (KfW)	EUR	15,147,011	June 30, 2020	-	1,452,429	880,900
2. EBRD						
Loans from European Bank for Reconstruction and Development (I)	EUR	26,459,182	March 7, 2016	Variable, p.a., semi-annual	2,537,139	2,213,161
Loans from European Bank for Reconstruction and Development (II)	EUR	46,956,375	September 7, 2018	Variable, p.a., semi-annual	4,502,590	2,231,412
3. European Investment Bank (II)	EUR	22,000,000	December 9, 2027	3.879-5.248% p.a., semi-annual	2,109,554	1,949,222
4. IDA	SDR	2,883,700	March 15, 2025	-	300,566	194,220
					14,107,077	10,415,026
<i>IV Banks in bankruptcy:</i>						
1. Beogradska banka						
	USD	5,228,959	December 31, 2011	LIBOR+3; domestic rate for USD and 0.5 monthly	348,921	465,944
Beogradska banka	EUR	9,046,853	December 31, 2011	5.50, monthly	867,492	1,135,544
2. Jugobanka	USD	452,800	April 30, 2010	Domestic rate for USD, monthly	30,215	113,924
3. Beobanka	EUR	3,304,910	February 28, 2012	8.00, monthly	316,904	405,441
Beobanka	USD	9,987,588	February 28, 2012	6.00, monthly	666,456	869,843
					2,229,988	2,990,696
<i>V Other</i>						
1. JR EMS IBRD						
	EUR	35,218	September 15, 2031	1/3-5.44, 1/3-5.81 I 1/3 – Euribor	3,377	3,261
2. Erste bank a.d. Novi Sad						
	EUR	1,833,333	September 29, 2011	Quarterly Euribor	175,796	177,202
					48,677,152	44,553,644

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28. LONG-TERM LOANS (Continued)

Currency	Maturity Date	Interest Rate and Repayments Terms	December 31, 2009	December 31, 2008
<i>B. Loans in dinars</i>				
1. RS Ministry of Finance	December 31, 2010	8.5% p.a., semi-annual	1,031,535	1,031,535
2. Banks in bankruptcy:				
Beogradska banka a.d., Belgrade	December 31, 2011	NBS discount rate, monthly	57,834	81,935
Jugobanka a.d., Belgrade	April 30, 2010	Statutory penalty, monthly	2,893	11,573
Investbanka a.d., Belgrade	September 1, 2009	1.00, monthly	-	185,945
Investbanka a.d., Belgrade	December 15, 2012	1.00, monthly	109,114	134,552
Beobanka a.d., Belgrade	December 15, 2012	1.00, June 15 and December 15; and monthly	4,560	6,080
3. Public Enterprise “Elektromreža Srbije”, Beograd (I)	May 31, 2021	8.5, NBS discount rate, monthly	2,370,342	2,704,052
Current portion of long-term borrowings:				
- in foreign currencies			7,325,407	6,015,554
- in dinars			2,359,138	1,143,746
			<u>9,684,545</u>	<u>7,159,300</u>
Long-term portion:				
- in foreign currencies			41,351,745	38,538,090
- in dinars			1,208,940	3,011,924
			<u>42,560,685</u>	<u>41,550,014</u>

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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28. LONG-TERM LOANS (Continued)

A. Foreign Currency Loans

I 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%.

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. 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.

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All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

II Loans of Governments Realized after 1990

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

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

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

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

III Loans of International Financial Organizations

1. KfW

With the German financial organization KfW financial agreements were executed in the period from 2001 through 2008 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 funds have been used in full. At June 30, 2009, the principal repayment commenced. The final maturity date was June 30, 2015. The applicable interest rate was 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 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 with the option of deadline extension. Pursuant to the provisions contained in the Agreement, the loan principal is expected to be repaid in the period from December 30, 2010 until June 30, 2020, free of interest.

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28. LONG-TERM LOANS (Continued)

III Loans of International Financial Organizations (Continued)

1. KfW (Continued)

- EUR 36 million (with the additional amount EUR 10 million 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, with possible further deadline extensions. The repayment of the principal commences on June 30, 2013, to be completed by December 30, 2019. The interest rate is determined two days before the each tranche has been drawn and used and is fixed until KfW informs JP EPS on the consolidated interest rate for the entire loan which will be determined upon the execution of the last disbursement of the subject borrowing and will remain constant throughout the entire repayment period. The funds from the loan have come in effect.

2. Loans from the European Bank for Reconstruction and Development

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

- EUR 39,600,000 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 February 28, 2011. The principal repayment commenced on September 7, 2005 and will last until March 7, 2016. The interest rate agreed is variable.
- EUR 60,000,000 is currently being used. The final deadline for the disbursement of assets was initially set for February 28, 2008, but was subsequently extended until April 30, 2010. 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. At December 31, 2009, the Company complied with all necessary ratios. 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.

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All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

III Loans of International Financial Organizations (Continued)

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 was agreed to be available for use until February 28, 2010, which was subsequently extended until December 31, 2011. The loan is to be repaid in installments maturing on March 15 and September 15 in the period from 2015 to 2025, free of interest.

B. 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 578,370 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.

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28. LONG-TERM LOANS (Continued)

B. Loans in Dinars (Continued)

2. Banks in Bankruptcy or Liquidation (Continued)

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.

3. Public Enterprise Elektromreža Srbije, Belgrade

The long-term liabilities to the Public Enterprise Elektromreža Srbije, Belgrade stated at December 31, 2009 in the amount of RSD 769,274 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 National Bank Serbia discount rate.

The liabilities to the Public Enterprise Elektromreža Srbije, Beograd stated at December 31, 2009 in the amount of RSD 343,950 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.

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28. LONG-TERM LOANS (Continued)

B. Loans in Dinars (Continued)

3. Public Enterprise Elektromreža Srbije, Belgrade (Continued)

The amounts owed to the Public Enterprise “Elektromreža Srbije”, Belgrade of RSD 600,056 thousand as of December 31, 2009 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 National Bank Serbia discount rate.

The amounts owed to the Public Enterprise “Elektromreža Srbije”, Belgrade totaling RSD 100,906 thousand at December 31, 2009, 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 equaling the National Bank Serbia discount rate.

The amounts owed towards the Public Enterprise “Elektromreža Srbije”, Belgrade in the amount of RSD 556,156 thousand at December 31, 2009 relate to rescheduled short-term liabilities towards the Business Entity “Jugoistok Niš” based on the agreement closed on November 25, 2009. As in accordance with the relevant agreement, the liabilities have been rescheduled over the period of 1.5 years, to be settled in equal monthly installments starting from January 15, 2010 at an interest rate of the National Bank of Serbia discount rate.

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>
European Bank for Reconstruction and Development	EUR	39,600,000	34,453,984
European Bank for Reconstruction and Development	EUR	60,000,000	52,507,960
European Investment Bank	EUR	22,000,000	22,000,000
KfW II	EUR	16,000,000	16,000,000
KfW III	EUR	30,000,000	15,147,011
KfW IV	EUR	36,000,000	-
IDA	SDR	12,240,000	2,883,700

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

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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28. LONG-TERM LOANS (Continued)

Analysis of Long-Term Loan Maturities

	December 31, 2009	As of January 1, 2009
From one to five years	14,388,879	14,629,512
Over five years	28,171,806	26,920,502
	<u>42,560,685</u>	<u>41,550,014</u>

Analysis of Discharging Currencies

	Amount in Currency	December 31, 2009
EUR	276,631,944	26,525,905
USD	113,655,296	7,584,046
CHF	81,748,721	5,269,776
YPU	2,314,856,392	1,671,451
XDR	2,883,700	300,566
Total	<u>-</u>	<u>41,351,744</u>

29. OTHER LONG-TERM LIABILITIES

	December 31, 2009	December 31, 2008
Rescheduled public revenue liabilities	3,893,036	4,486,933
Other long-term liabilities	181,112	129,024
Current portions:		
- rescheduled public revenue liabilities	(597,389)	(576,975)
- other long-term liabilities	(101)	(36,998)
	<u>3,476,658</u>	<u>4,001,984</u>

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.

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

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2009	December 31, 2008
<i>In foreign currencies</i>		
Current portion of foreign long-term loans	6,234,727	5,341,503
Long-term loans from falling due within a year:		
- domestic banks in bankruptcy	1,050,855	669,091
- other banks	1,070,827	989,515
Other short-term financial liabilities	2,122,562	514,967
<i>Liabilities in dinars:</i>		
Current portion of long-term loans	2,292,171	891,042
Current portion of other non-current liabilities	597,490	613,973
Long-term loans from banks in bankruptcy maturing within a year	66,967	253,881
Other	189,183	308,377
	13,624,782	9,582,349

For the purpose of undertaking activities towards the revitalization of hydro-aggregates with the increased installed power (hidro-power and navigation system of “Đerdap I”) the Company has undertaken commitments to “Energomašeksport-Silovije mašini,” Moscow in the amount of USD 139,800 thousand. A portion of subject liabilities will be charged in the amount of USD 100,511 thousand to the debt of the former SSSR towards the former SFRY, while the balance will be realized from own funds. Until the balance sheet date, a payment had been made towards a foreign associate amounting to USD 29,752 thousand as charged to the former debt of SSSR towards the former SFRY. Liabilities recognized in the amount of USD 19,520 thousand will be settled as contractually agreed.

31. ACCOUNTS PAYABLE

	December 31, 2009	December 31, 2008
Advances from customers	1,499,277	2,262,359
Accounts payable:		
- domestic	8,905,020	10,591,992
- foreign	2,859,040	5,670,542
- Public Enterprise “Elektromreža Srbije”	904,212	1,451,845
Liabilities for radio television subscriptions	18,038,241	13,412,332
Other accounts payable	519,946	575,550
	32,725,736	33,964,620

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.

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

31. ACCOUNTS PAYABLE (Continued)

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.

32. OTHER CURRENT LIABILITIES

	December 31, 2009	December 31, 2008
Matured borrowings from the Ministry of Finance of the Republic of Serbia	906,252	906,252
Interest and financing costs accrued	355,414	433,891
Net salaries and benefits	1,143,002	917,643
Taxes and contributions payable	864,907	899,827
Other liabilities	168,936	85,565
	3,438,511	3,243,178

Based on agreements entered into with the Republic of Serbia Ministry of Finance and Economy in 2001, the Company received loans from the Government used to bridge a liquidity gap in financing its maintenance and repair activities. The Company repaid RSD 2.2 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 National Bank Serbia discount rate.

The liabilities arising from interest and cost of financing as of December 31, 2009 include interest accrued as follows:

- Interest accrued to refinanced loans from the International Bank for Reconstruction and Development of RSD 149,839 thousand,
- Interest accrued on the loan obtained from the Russian Government of RSD 3,853 thousand,
- Interest charged to matured liabilities towards domestic banks in bankruptcy of RSD 1,246 thousand.
- Interest on other loans (Takraf, Rade Končar, and other loans realized prior to 1990) in the amount of RSD 140,381 thousand.

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33. VALUE ADDED TAX AND OTHER DUTIES PAYABLE AND ACCRUALS

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Value added tax	1,121,778	643,370
Deferred value added tax	1,956,503	2,069,653
Water charges and fees for the use of construction land and other public property	422,294	289,744
Other public revenues	797,373	521,710
Accrued expenses	1,403,311	1,472,639
Deferred income from donations	15,689,958	14,824,105
Other accruals	378,163	323,164
	<u>21,769,380</u>	<u>20,144,385</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

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Estimated war damages	5,288,714	5,134,564
Payables upon credit commitments – undrawn portion	7,063,280	10,498,433
Liabilities for guarantees issued and other forms of securities against JP EPS liabilities	5,207,393	3,167,800
Ceded buildings of social standard	246,440	392,929
Blanc solo bills issued	41,962,076	38,116,577
Written-off equity investments	262,556	263,318
Deferred tax assets	14,807,873	11,675,720
Other off-balance sheet items	7,346,638	8,724,991
	<u>82,184,970</u>	<u>77,974,332</u>

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35. INCOME STATEMENT PER SEPARATE ACTIVITIES

	Electricity 2009	Coal 2009	Heat Energy and Technical Steam 2009	Power Distribution and Management 2009	Electricity Retail 2009	Electricity Wholesale 2009	Metal Industry 2009	Other 2009
OPERATING INCOME								
Sales revenue	88,760,092	43,776,602	2,333,622	36,123,351	112,971,753	100,175,782	5,468,392	14,004
Own-work capitalized	29,947	-	11	2,668,382	-	1,987	-	31,081
Increase in the value of inventories	(203,725)	-	(3,044)	-	-	-	(1,018,938)	-
Other operating income	1,519,679	253,205	15,090	2,797,253	21,838	267,113	28,438	131
	<u>90,105,993</u>	<u>44,029,807</u>	<u>2,345,679</u>	<u>41,588,986</u>	<u>112,993,591</u>	<u>100,444,882</u>	<u>4,477,892</u>	<u>45,216</u>
OPERATING EXPENSES								
Cost of goods sold	(20)	(643)	-	-	-	(1,959)	-	-
Cost of materials	(48,164,974)	(7,350,120)	(1,054,356)	(21,074,216)	(74,456,071)	(93,528,414)	(1,604,437)	(7,693)
Staff costs	(7,445,547)	(15,316,761)	(399,190)	(9,589,709)	(2,447,178)	(682,600)	(3,104,841)	(162,047)
Depreciation, amortization and provisions	(16,746,331)	(8,866,170)	(766,399)	(12,756,508)	(426,453)	(363,690)	(195,591)	(19,814)
Other operating expenses	(15,210,602)	(9,934,979)	(232,965)	(5,543,790)	(25,571,690)	(993,409)	(1,035,362)	(15,762)
	<u>(87,567,474)</u>	<u>(41,468,673)</u>	<u>(2,452,910)</u>	<u>(48,964,223)</u>	<u>(102,901,392)</u>	<u>(95,570,072)</u>	<u>(5,940,231)</u>	<u>(205,316)</u>
NET OPERATING PROFIT/(LOSS)	<u>2,538,519</u>	<u>2,561,134</u>	<u>(107,231)</u>	<u>(7,375,237)</u>	<u>10,092,199</u>	<u>4,874,810</u>	<u>(1,462,339)</u>	<u>(160,100)</u>
Finance income	614,682	230,223	357,176	168,094	5,985,542	4,867,601	23,197	357
Finance expenses	(2,827,984)	(1,534,026)	(88,528)	(152,019)	(918,126)	(3,889,709)	(106,056)	(507)
Other income	369,260	132,668	30,560	297,330	1,232,559	299,901	28,851	70
Other expenses	(2,781,527)	(1,063,720)	(305,038)	(1,061,745)	(13,497,775)	(6,166,482)	(157,567)	(711)
PROFIT/(LOSS) BEFORE TAX	<u>(2,087,050)</u>	<u>326,279</u>	<u>(113,061)</u>	<u>(8,123,577)</u>	<u>2,894,399</u>	<u>(13,879)</u>	<u>(1,673,914)</u>	<u>(160,891)</u>
Income taxes	566,267	163,418	-	197,898	24,510	-	(151,432)	(128)
NET PROFIT/(LOSS) FOR THE YEAR	<u>(1,520,783)</u>	<u>489,697</u>	<u>(113,061)</u>	<u>(7,925,679)</u>	<u>2,918,909</u>	<u>(13,879)</u>	<u>(1,825,346)</u>	<u>(161,019)</u>

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36. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

As of December 31, 2009, the Company recognized a provision for potential losses arising from litigation in the amount of RSD 1,767,219 thousand (December 31, 2008: RSD 1,086,299 thousand).

The Company’s management judges that the remainder of the proceedings filed against Company, 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:

<u>Supplier</u>	<u>Contractually Agreed Value (in RSD 000)</u>	<u>Realized until December 31, 2009</u>	<u>Advances Paid</u>	<u>For the needs of:</u>
ANDRITZ HYDRO GmbH ThyssenKrupp	6,433,617	1,745,729	984,066	Drinsko Limske HE
Fördertechnik GmbH ThyssenKrupp	694,194	683,107	5,922	TE KO Kostolac
Fördertechnik GmbH	2,140,238	1,838,668	60,314	RB Kolubara Elektrosrbija d.o.o.,
Jugotrade d.o.o., Belgrade	371,827	-	36,610	Jugoistok d.o.o.,

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.

The referential interest rate, according to the data made available by the NBS, amounted to 9.5% as of the balance sheet date, and starting from March 23, 2010, this rate equals 9%. Still, the Company is exposed to market risk (currency and interest rate risks), liquidity risk and credit risk, as described in the following passages.

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37. OPERATING RISKS (Continued)

Currency Risk

The Company is exposed to currency risk as it enters into foreign currency transactions in connection with the purchase of equipment and the settlement 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	
	2009	2008	2009	2008
EUR	33,846,557	47,253,280	332,111,713	349,232,427
JPY	-	-	2,397,786,667	2,473,947,266
NOK	-	80	-	-
SEK	1,561	1,480	-	-
CHF	83,918	83,039	84,178,143	86,362,653
GBP	992	2,036	-	-
USD	20,654,566	22,290,727	248,122,248	226,814,037
XDR	-	-	2,883,700	1,994,925

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.

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37. OPERATING RISKS (Continued)

Interest Rate Risk (Continued)

	December 31, 2009	December 31, 2008
	<u> </u>	<u> </u>
Financial assets		
<i>Non-interest bearing</i>		
Long-term financial placements	2,003,535	1,841,119
Accounts receivable	299,443	27,877
Other receivables	2,140,646	2,808,822
Cash and cash equivalents	233,014	644,190
	<u>4,676,638</u>	<u>5,322,008</u>
<i>Fixed interest rate</i>		
Long-term financial placements	235,195	152,983
Other receivables	1,000,742	754,800
Cash and cash equivalents	8,027,131	5,292,682
	<u>9,263,068</u>	<u>6,200,465</u>
<i>Variable interest rate</i>		
Long-term financial placements	536,298	583,395
Accounts receivable	28,892,063	26,859,038
Other receivables	19,884,076	14,553,253
Cash and cash equivalents	401,576	280,472
	<u>49,714,013</u>	<u>42,276,158</u>
	<u>63,653,719</u>	<u>53,798,631</u>
Financial liabilities		
<i>Non-interest bearing</i>		
Accounts payable	9,464,933	10,974,379
Other liabilities	2,152,594	5,324,338
	<u>11,617,527</u>	<u>16,298,717</u>
<i>Fixed interest rate</i>		
Long-term borrowings	26,031,530	28,642,785
Other liabilities	-	-
Current portion of long-term borrowings	9,406,232	7,482,506
	<u>35,437,762</u>	<u>36,125,291</u>
<i>Variable interest rate</i>		
Long-term borrowings	19,925,270	16,828,670
Accounts payable	3,203,339	6,740,000
Other liabilities and advances received	21,739,030	16,197,409
Short-term borrowings	183,451	223,445
Current portion of long-term borrowings	1,906,805	1,276,499
	<u>46,957,895</u>	<u>41,266,023</u>
	<u>94,013,184</u>	<u>93,690,031</u>
Net interest rate risk	<u>2,756,118</u>	<u>1,010,135</u>

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37. OPERATING RISKS (Continued)

Credit Risk

The Company is exposed to credit risk in the instances in which its customers default on their obligations. The Company’s exposure to credit risk is limited to the carrying value of accounts receivable and other receivables. Accounts receivable correspond to a significant number of customers (3.3 million) and have normal credit terms, and thus, the individual concentrations of credit risk are not considered significant. Accounts and other receivables are presented in the accompanying consolidated financial statements net of allowances for bad and doubtful receivables, as estimated by the Company’ 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 66 days for the year 2009 (2008: 64 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:

	Gross Exposure	Allowance for Impairment	Net Exposure
2009			
Accounts receivable, not matured	15,787,388	1,232,956	14,554,432
Accounts receivable matured and provided for	67,618,033	67,618,033	-
Accounts receivable matured, but not provided for	14,637,074	-	14,637,074
	<u>98,042,495</u>	<u>68,850,989</u>	<u>29,191,506</u>
2008			
Accounts receivable, not matured	14,977,277	228,205	14,749,072
Accounts receivable matured and provided for	54,526,085	54,526,085	-
Accounts receivable matured, but not provided for	12,137,843	-	12,137,843
	<u>81,641,205</u>	<u>54,754,290</u>	<u>26,886,915</u>

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37. OPERATING RISKS (Continued)

Liquidity Risk

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

2009	Within a Month	1 - 3 Months	From 3 Moths to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Accounts payable	1,425,043	6,459,776	1,580,114	-	-	9,464,933
Other liabilities and advances received	2,152,594	-	-	-	-	2,152,594
Non-interest bearing	3,577,637	6,459,776	1,580,114	-	-	11,617,527
Long-term borrowings	-	-	-	9,646,906	16,384,624	26,031,530
Current portion of long-term borrowings	3,277,391	584,355	5,544,486	-	-	9,406,232
Fixed interest rate	3,277,391	584,355	5,544,486	9,646,906	16,384,624	35,437,762
Long-term borrowings	-	-	-	7,094,585	12,830,683	19,925,268
Accounts payable	2,485,588	717,753	-	-	-	3,203,341
Other liabilities	21,673,157	62,161	3,712	-	-	21,739,030
Short-term borrowings	-	-	183,451	-	-	183,451
Current portion of long-term borrowings	122,835	688,776	1,095,194	-	-	1,906,805
Variable interest rate	24,281,580	1,468,690	1,282,357	7,094,585	12,830,683	46,957,895
	31,136,608	8,512,821	8,406,957	16,741,491	29,215,307	94,013,184
	2008	1 - 3 Months	From 3 Moths to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Accounts payable	1,844,234	7,523,639	1,606,506	-	-	10,974,379
Other liabilities and advances received	2,737,698	2,069,653	516,987	-	-	5,324,338
Non-interest bearing	4,581,932	9,593,292	2,123,493	-	-	16,298,717
Long-term borrowings	-	-	-	13,596,138	15,046,647	28,642,785
Other liabilities and advances received	-	-	-	-	-	-
Current portion of long-term borrowings	98,576	429,554	6,954,376	-	-	7,482,506
Fixed interest rate	98,576	429,554	6,954,376	13,596,138	15,046,647	36,125,291
Long-term borrowings	-	-	-	4,954,815	11,873,855	16,828,670
Accounts payable	5,904,040	835,960	-	-	-	6,740,000
Other liabilities and advances received	15,942,688	171,809	82,912	-	-	16,197,409
Short-term borrowings	-	-	223,445	-	-	223,445
Current portion of long-term borrowings	44,870	489,170	742,459	-	-	1,276,499
Variable interest rate	21,891,598	1,496,939	1,048,816	4,954,815	11,873,855	41,266,023
	26,572,106	11,519,785	10,126,685	18,550,953	26,920,502	93,690,031

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37. OPERATING RISKS (Continued)

Liquidity Risk (Continued)

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

2009	Within a Month	1 - 3 Months	From 3 Moths to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Long-term financial placements	-	-	-	-	2,003,535	2,003,535
Accounts receivable	150,370	-	149,073	-	-	299,443
Other receivables	1,296,131	844,515	-	-	-	2,140,646
Cash and cash equivalents	233,014	-	-	-	-	233,014
Non-interest bearing	1,679,515	844,515	149,073	-	2,003,535	4,676,638
Long-term financial placements	-	-	-	14,329	220,866	235,195
Other receivables	-	1,000,742	-	-	-	1,000,742
Cash and cash equivalents	8,027,131	-	-	-	-	8,027,131
Fixed interest rate	8,027,131	1,000,742	-	14,329	220,866	9,263,068
Long-term financial placements	-	-	-	256,235	280,063	536,298
Accounts receivable	28,892,063	-	-	-	-	28,892,063
Other receivables	18,140,727	1,743,349	-	-	-	19,884,076
Cash and cash equivalents	401,576	-	-	-	-	401,576
Variable interest rate	47,434,366	1,743,349	-	256,235	280,063	49,714,013
	57,141,012	3,588,606	149,073	270,564	2,504,464	63,653,719
	57,141,012	3,588,606	149,073	270,564	2,504,464	63,653,719
2008	Within a Month	1 - 3 Months	From 3 Moths to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Long-term financial placements	-	-	-	-	1,841,119	1,841,119
Accounts receivable	27,877	-	-	-	-	27,877
Other receivables	1,702,632	1,048,929	57,261	-	-	2,808,822
Cash and cash equivalents	644,190	-	-	-	-	644,190
Non-interest bearing	2,374,699	1,048,929	57,261	-	1,841,119	5,322,008
Long-term financial placements	-	-	-	13,240	139,743	152,983
Other receivables	-	754,800	-	-	-	754,800
Cash and cash equivalents	5,292,682	-	-	-	-	5,292,682
Fixed interest rate	5,292,682	754,800	-	13,240	139,743	6,200,465
Long-term financial placements	-	-	-	301,818	281,577	583,395
Accounts receivable	26,794,113	-	64,925	-	-	26,859,038
Other receivables	13,281,075	1,272,178	-	-	-	14,553,253
Cash and cash equivalents	280,472	-	-	-	-	280,472
Variable interest rate	40,355,660	1,272,178	64,925	301,818	281,577	42,276,158
	48,023,041	3,075,907	122,186	315,058	2,262,439	53,798,631
	48,023,041	3,075,907	122,186	315,058	2,262,439	53,798,631

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.

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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, 2009, the Company's management has estimated the total loss of electricity of 15.19% or 4,865 GWh (2008: 14.48% or 4.679 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 3-4% in the total losses in distribution.

39. POST BALANCE SHEET EVENTS

a) Change in the Legal Form

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

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

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

The deadline for transferring shares to employees and ex-employees of a business entity is set 6 months following the Privatization of the business entity based on an official Government's enactment. Within the deadline set for submitting applications, July 30, 2009, the citizens entitled to a cash consideration and transfer of shares free of charge were determined, as were the employees and ex-employees of the Public Enterprise “Electric Power Industry of Serbia.”

Following the balance sheet date, the Law on Supplements and Amendments to the Law on the Right to Free of Charge Shares and Money Consideration Exercised by Citizens within the Process of Privatization (Official Gazette of RS number 30/10 as of May 7, 2010) was adopted, whereby the founder of the Public Enterprise “Electric Power Industry of Serbia” is bound to ensure that the Company changes its legal form and states its core capital in shares with a certain par value based on the restatement of the book value of capital as of December 31, 2010.

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39. POST BALANCE SHEET EVENTS (Continued)

b) Company Establishment

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

In fact, based on the agreement achieved with the owner, the Board of Directors enacted a Decision on the Procedure for the selection of strategic partners for the joint construction of the aforementioned production capacities. Based on the assessment made and verification of qualification documentation, the Board of Directors ascertained the list of companies qualified to participate in the ensuing procedure. The procedure of submitting tender documentation with instructions for the preparation of technical and financial offer for the realization of joint investment commenced in the reporting period. It is expected that the most successful tender participant will be chosen in 2010.

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

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

39. POST BALANCE SHEET EVENTS (Continued)

b) Company Establishment (Continued)

Based on the monetary contribution to the core capital of the newly established company, JP EPS will acquire a 50% equity stake in the start-up (the total of 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.

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. Given the interest of foreign partners, it is possible to change the terms of investments.

4. As disclosed in Note 1, in the reporting period, the Company and the City of Novi Sad founded the Company for Combined Production of Thermoelectric and Heat Energy “Energija Novi Sad”, a.d. Novi Sad, whose increase in capital would provide for the necessary investment funds needed for the reconstruction of the existing, i.e. the construction of a new plant for combined generation of thermoelectric and heat energy. The wording of the Public Invitation to partners interested to submit letters of interest and proofs of the required qualifications was published in October 2009.

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. As in accordance with the above and based on the conclusions made between interstate protocols the following has been enacted:

- The preliminary cooperation agreement in the electric energy sector was closed with the entity ENERGIA S.p.A., Italy for the purpose of using hydropotential of the Ibar and Sava River basins at Kupinovo location.
- The Memorandum of Understanding was signed with RWE AG, Germany whereby the cooperation is to be realized in the following projects: Đerdap III, six power plants on the Great Morava River and project “Upper Drina“ which would be the joint achievement of the Company and the Republic of Srpska Electric Power Utility.

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

39. POST BALANCE SHEET EVENTS (Continued)

d) International Agreements between the Republic of Serbia and the Republic of China

In the reporting period, international agreements have been executed regulating the manner of restructuring debts towards EXIM Bank of the People’s Republic of China and, as disclosed in Note 28, investments in the field of construction and reconstruction of production capacities of EPS worth USD 1.2 billion out of which 85% will be financed from borrowings obtained from EXIM Bank of the People’s Republic of China under terms of a Preferential Buyer Credit, while the balance needs to be financed from the Company’s own sources. On February 3, 2010, a preagreement was signed between the Public Company “Electric Power Industry of Serbia” as an investor, the Business Entity TE TO Kostolac as the end beneficiary and commercial contractor “China National Machinery Import and Export Corporation” (CMEC).

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, 2009	December 31, 2008
EUR	95.8888	88.6010
JPY	0.7221	0.6966
NOK	11.5433	8.9716
SEK	9.3442	8.0817
CHF	64.4631	59.4040
GBP	107.2582	90.8635
USD	66.7285	62.9000
XDR	104.2292	97.3572