

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

**Independent Auditors' Report and
Consolidated Financial Statements
Year Ended December 31, 2010**

CONTENTS

	Page
Independent Auditors' Report	1 - 2
Consolidated Financial Statements:	
Consolidated Income Statement	3
Consolidated Balance Sheet	4
Consolidated Statement of Changes in Equity	5
Consolidated Cash Flow Statement	6
Notes to the Consolidated Financial Statements	7 - 65

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 3 to 65) of the Public Enterprise, Electric Power Industry of Serbia and its subsidiaries (hereinafter: the "Company" or "JP EPS"), which comprise the consolidated balance sheet as at December 31, 2010, and the related consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

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

Basis for Qualified Opinion

As disclosed in Note 20 to the consolidated financial statements, inventories were stated as of December 31, 2010 in the amount of RSD 25,131,907 thousand and comprised inventories of material of RSD 10,953,752 thousand and inventories of spare parts of RSD 11,518,796 thousand. Based on the ageing analysis performed, an amount of RSD 1,691,190 thousand relates to slow moving inventories of material, while an amount of RSD 6,665,791 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 or recognition of strategic spare parts that are usable only in connection with a certain item of property, plant or equipment and is expected to be used longer than one accounting period. These spare parts are considered as property, plant and equipment, pursuant to International Accounting Standard (IAS) 16 "Property, Plant and Equipment." Given the nature of records made of inventories of materials and spare parts, we were unable to determine which inventories may be classified as spare parts of strategic importance, i.e. which spare parts shall be used for more than one accounting period, and accordingly, we could not determine the amount of additional allowance for impairment for obsolete and slow moving inventories or to quantify potential effects thereof on the Company's consolidated financial statements as of and for the year ended December 31, 2010.

(Continued)

Registry number BD 4290; Company number 07770413; Tax identification Number 100048772; Subscribed and paid in capital 150.750,06 EUR; Raiffeisenbank a.d., Bulevar Zorana Djindjica no. 64a; Business account no. 265-104310000266-36; Banca Intesa a.d., Belgrade, Vladimira Popovića 8; Business account no. 160-309763-47;

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see <http://www.deloitte.com/rs/about> for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member Firms.

Member of Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' REPORT

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

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements of the Public Enterprise, Electric Power Industry of Serbia and its subsidiaries for the year ended December 31, 2010 have been prepared, in all material respects, in accordance with the accounting regulations of the Republic of Serbia.

Emphasis of Matter

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 unreconciled with the amount of corresponding capital in subsidiaries by RSD 35,811,706 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), completion of construction and investment projects (Note 16 to the consolidated financial statements), significant liabilities associated with borrowings from foreign creditors and domestic banks in bankruptcy (Notes 28 and 30 to the consolidated financial statements), compliance with covenants defined in loan agreements (Note 30 to the consolidated financial statements), significant potential losses on litigations (Note 36 to the consolidated financial statements) and significant distribution losses of 15.10% or 4,959 GWh (Note 38 to the consolidated financial statements). The ultimate resolution of such uncertainties may lead to materially significant adjustments in the Company's consolidated financial statements.
- (c) The Company does not possess adequate ownership titles for all materially significant tangible assets presented in the Company's books of account as of December 31, 2010.

Our opinion is not modified in respect to these matters.

Belgrade, July 15, 2011




Miroslav Tončić
Certified Auditor

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

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2010
(Thousands of RSD)

	<u>Notes</u>	<u>2010</u>	<u>2009</u> <i>Restated</i>
OPERATING INCOME			
Sales revenue	5	158,625,531	146,190,575
Own-work capitalized	5	6,465,881	4,861,323
Increase in the value of inventories		849,699	(1,739,128)
Other operating income	6	5,166,047	4,873,203
		<u>171,107,158</u>	<u>154,185,973</u>
OPERATING EXPENSES			
Cost of commercial goods sold		(4,415)	(2,622)
Cost of materials	7	(40,905,396)	(31,467,399)
Staff costs	8	(41,323,530)	(39,147,874)
Depreciation, amortization and provisions	9	(39,097,164)	(40,140,956)
Other operating expenses	10	(36,596,916)	(32,850,678)
		<u>(157,927,421)</u>	<u>(143,609,529)</u>
NET OPERATING PROFIT		<u>13,179,737</u>	<u>10,576,444</u>
Finance income	11	13,653,883	9,701,484
Finance expenses	12	(12,590,194)	(6,740,320)
Other income	13	5,981,330	2,431,236
Other expenses	14	(23,609,097)	(25,481,484)
LOSS BEFORE TAXATION		<u>(3,384,341)</u>	<u>(9,512,640)</u>
Income taxes	15	(810,421)	(670,053)
Deferred tax benefits/(expenses)	15	992,637	1,659,266
LOSS FOR THE YEAR		<u><u>(3,202,125)</u></u>	<u><u>(8,523,427)</u></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 BALANCE SHEET
As at December 31, 2010
(Thousands of RSD)**

	Notes	December 31, 2010	December 31, 2009 <i>Restated</i>
ASSETS			
Non-current assets			
Intangible assets	16	2,480,700	2,425,997
Property, plant and equipment	16	515,469,533	512,255,327
Investment property		52,225	56,705
Advances for intangible assets, property, plant and equipment	17	6,198,152	3,342,127
Equity investments	18	1,481,113	1,268,160
Other long-term financial placements	19	1,704,569	1,478,009
		<u>527,386,292</u>	<u>520,826,325</u>
Current assets			
Inventories	20	25,131,907	22,068,054
Advances for inventories	21	2,447,588	2,140,525
Accounts receivable	22	60,497,409	49,410,551
Receivables for prepaid income taxes		-	268,887
Short-term financial placements	23	1,898,285	2,031,109
Cash and cash equivalents	24	6,053,650	8,661,722
Value added tax and prepayments	25	2,004,258	1,287,704
		<u>98,033,097</u>	<u>85,868,552</u>
Total assets		<u>625,419,389</u>	<u>606,694,877</u>
EQUITY AND LIABILITIES			
Equity			
State-owned capital	26	358,717,940	358,717,722
Other capital		1,265,707	1,232,002
Revaluation reserves		245,639,460	246,539,177
Unrealized gain on securities		399,870	196,884
Unrealized losses on securities		(475,535)	(476,523)
Accumulated losses		(153,664,261)	(150,167,586)
		<u>451,883,181</u>	<u>456,041,676</u>
Long-term provisions	27	10,848,301	9,087,952
Long-term liabilities			
Long-term borrowings	28	49,869,951	41,450,980
Other long-term liabilities	29	3,466,787	4,586,363
		<u>53,336,738</u>	<u>46,037,343</u>
Current liabilities			
Short-term financial liabilities	30	16,225,608	12,845,041
Accounts payable	31	42,031,180	33,019,599
Other current liabilities	32	5,945,007	4,133,781
Value added tax and other duties payable and accruals	33	22,348,222	21,740,055
Income taxes payable		69,619	65,261
		<u>86,619,636</u>	<u>71,803,737</u>
Deferred tax liabilities	15	22,731,533	23,724,169
Total equity and liabilities		<u>625,419,389</u>	<u>606,694,877</u>
Off-balance sheet items	34	140,004,924	76,989,568

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2010
(Thousands of RSD)**

	State-Owned Capital	Other Capital	Revaluation Reserves	Unrealized Gains on Securities	Unrealized Losses on Securities	Accumulated Losses	Total
Balance, January 1, 2009, before adjustments	358,656,088	1,293,175	248,188,896	116,981	(369,719)	(145,923,256)	461,962,165
Opening balance adjustments	-	-	(99,637)	(5,752)	5,752	1,854,178	1,754,541
Balance, January 1, 2009, restated	<u>358,656,088</u>	<u>1,293,175</u>	<u>248,089,259</u>	<u>111,229</u>	<u>(363,967)</u>	<u>(144,069,078)</u>	<u>463,716,706</u>
Remeasurement of securities available for sale	-	-	-	84,405	(112,555)	-	(28,150)
Reversal of revaluation effects upon asset disposal and sale	-	-	(1,845,802)	-	-	1,845,802	-
Appraisal of fixed assets	-	-	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	47	1,250	(1)	58,915	60,672
Loss for the year, previously stated	-	-	-	-	-	(8,056,793)	(8,056,793)
Balance, December 31, 2009, before adjustments	<u>358,717,722</u>	<u>1,232,002</u>	<u>246,014,486</u>	<u>196,884</u>	<u>(476,523)</u>	<u>(148,077,087)</u>	<u>457,607,484</u>
Loss restatement (Note 5)	-	-	-	-	-	(466,634)	(466,634)
Loss for the year, restated	-	-	-	-	-	(8,523,427)	(8,523,427)
Opening balance adjustment	-	-	524,691	-	-	(1,623,865)	(1,099,174)
Total adjustment of year-end balance of loss for the year (Note 5)	-	-	-	-	-	(2,090,499)	(1,565,808)
Balance, December 31, 2009, restated	<u>358,717,722</u>	<u>1,232,002</u>	<u>246,539,177</u>	<u>196,884</u>	<u>(476,523)</u>	<u>(150,167,586)</u>	<u>456,041,676</u>
Fair value adjustment of financial instruments	-	-	-	202,986	988	-	203,974
Reversal of revaluation effects upon asset disposal and sale	-	-	(890,262)	-	-	890,262	-
Payments to employees based on profit share	-	-	-	-	-	(1,260,493)	(1,260,493)
Loss for the year	-	-	-	-	-	(3,202,125)	(3,202,125)
Other	218	33,705	(9,455)	-	-	75,681	100,149
Balance, December 31, 2010	<u>358,717,940</u>	<u>1,265,707</u>	<u>245,639,460</u>	<u>399,870</u>	<u>(475,535)</u>	<u>(153,664,261)</u>	<u>451,883,181</u>

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

CONSOLIDATED CASH FLOW STATEMENT
Year Ended December 31, 2010
(Thousands of RSD)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Cash receipts from customers	212,132,334	202,462,186
Interest received	4,703,263	4,657,873
Other cash received from operations	2,034,858	2,578,692
Payments to suppliers	(122,636,979)	(115,043,778)
Payments to and on behalf of employees	(42,725,081)	(39,622,778)
Interest paid	(2,957,844)	(2,926,601)
Income tax paid	(684,032)	(823,490)
Other taxes and duties paid	(25,237,634)	(22,415,855)
<i>Net cash provided by operating activities</i>	<u>24,628,885</u>	<u>28,866,249</u>
Cash flows from investing activities		
Sales of shares and equity investments (net inflows)	-	72
Sales of property, plant, equipment and intangible assets	27,625	26,319
Interest received	183,516	-
Dividends collected	28,700	80
Acquisition of shares and equity investments (net outflows)	(10,464)	(560)
Purchases of property, plant, equipment and intangible assets	(27,219,123)	(21,526,998)
Other financial placements (net outflows)	(917,625)	(890,617)
<i>Net cash used in investing activities</i>	<u>(27,907,371)</u>	<u>(22,391,704)</u>
Cash flows from financing activities		
Long-term and short-term loans (net inflows)	4,782,753	-
Other short-term and long-term liabilities	159,917	600
Short-term and long-term borrowings and other liabilities (net outflows)	(4,366,023)	(4,086,872)
Finance lease	(2,763)	(2,129)
Dividends paid	(60,420)	-
<i>Net cash provided by/(used in) financing activities</i>	<u>513,464</u>	<u>(4,088,401)</u>
Net (decrease)/increase in cash and cash equivalents	(2,765,022)	2,386,144
Cash and cash equivalents, beginning of year	8,661,722	6,217,344
Foreign exchange gains on translation	197,303	100,253
Foreign exchange losses on translation	<u>(40,353)</u>	<u>(42,019)</u>
Cash and cash equivalents, end of year	<u><u>6,053,650</u></u>	<u><u>8,661,722</u></u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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 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"). The Public Enterprise, Electric Power Industry of Serbia commenced its operations as of July 1, 2005 assuming as of that date all assets, rights, liabilities and employees of the Public Enterprise, Electric Power Industry of Serbia with unlimited liability, save for the portion of assets and liabilities assumed by an entity established through a Decision of the Government of the Republic of Serbia involved in power transmission – Public Enterprise "Elektromreža Srbije".

Registered Name

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

Registered Address

The parent company is domiciled in Belgrade at 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 relative to the person authorized to represent the Company was performed pursuant to the Decision enacted by the Serbian Business Registers Agency number BD 12148/2009 dated March 9, 2009 and based on the Decision enacted by the Agency number 130545/2009 on July 31, 2009, 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.

Principal Activity

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

The Public Enterprise Electric Power Industry of Serbia and its subsidiaries have a license for performing energy-related activities.

Ownership Structure

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

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

Board of Directors

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

Supervisory Board

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

General Manager

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

Organization Structure

According to the relevant Decision issued by the Government of the Republic of Serbia, the Company, in the capacity of a Parent Company, has assumed all founder's rights in its subsidiaries, and the organization of labor and business activities has been harmonized with the laws regulating the legal position of business entities. Namely, based on the Decision enacted by the Board of Directors, approved by the RS Government as in accordance with the Law on Public Enterprises and Performance of Activities of General Interest, public enterprises – subsidiaries, 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010**

All amounts expressed in thousands of RSD, unless otherwise stated

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

Organization Structure (Continued)

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

<u>Company</u>	<u>Address</u>	<u>Tax Identification Number ("TIN")/ Registration 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, "Elektrovojvodina" d.o.o., Novi Sad	Bulevar oslobođenja no. 100, Novi Sad	TIN: 102040644 Reg.no.: 8038139
Business Entity for the Distribution of Electricity, "Elektro distribucija–Beograd" d.o.o., Beograd	Masarikova Street no. 1 – 3, Beograd	TIN: 100001378 Reg.no.: 7005466
Business Entity for the Distribution of Electricity, "Elektrosrbija" d.o.o., Kraljevo	Dimitrija Tucovića Street 5, Kraljevo	TIN: 101957610 Reg.no.: 7152566
Business Entity for the Distribution of Electricity, "Jugoistok" d.o.o., Niš	Bulevar Zorana Đinđića 46a., Niš	TIN: 104196932 Reg.no.: 20114142
Business Entity for the Distribution of Electricity, Centar d.o.o., Kragujevac	Slobode Street no. 7, Kragujevac	TIN: 104196924 Reg.no.: 20114169

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

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

Organization Structure (Continued)

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

The Company had 32,688 employees as of December 31, 2010 (December 31, 2009: 33,525 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, 2010, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

2.2. Basis of Preparation and Presentation of Consolidated Financial Statements

The Company's consolidated financial statements have been prepared pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46/2006 and 111/2009) and "Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" (Official Gazette of the Republic of Serbia, nos.114/2006, 5/2007, 119/2008 and 2/2010).

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

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

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

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

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

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

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Additional Exemptions for First-time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

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

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

- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);
- Amendments to IAS 38 "Intangible Assets" (revised in July 2009, effective for annual periods beginning on or after July 1, 2009);
- Amendments to IFRS 2 "Share-based Payment": Amendments resulting from the Annual quality improvement project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments IFRIC 9 "Reassessment of Embedded Derivatives" effective for annual periods beginning on or after July 1, 2009 and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives (effective for annual periods beginning on or after June 30, 2009);
- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on or after July 1, 2009).

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:

- "Conceptual Framework for Financial Reporting 2010" being an amendments to "Framework for the Preparation and Presentation of Financial Statements" (effective for transfer of assets from customers received on or after September 2010);
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfer of Financial Assets (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);
- Amendments to IAS 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);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

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

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

- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues (effective for annual periods beginning on or after February 1, 2010);
- Amendments to various standards and interpretations "Improvements to IFRSs" resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);
- Amendments to IFRIC 14 "IAS 19 – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after July 1, 2010).

2.4. 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, 2009, and the restated consolidated balance sheet as of December 31, 2009.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Principles of Consolidation

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

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

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, 2010 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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 and non-monetary items denominated in foreign currencies are translated at the official exchange rates published by the National Bank of Serbia, at the date of each transaction. As of the consolidated financial statements' preparation date, monetary items 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 benefits, as well as all types of remuneration that the Company provides to employees pursuant to the Collective Bargaining Agreement (CBA), are expensed in the period in which the employee worked and the respective liabilities are also recognized, upon the deduction of each amount that has already been paid, except as disclosed in Note 3.9.

3.6. Prior Period Error Correction

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

3.7. Fair Value

In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of financial assets or liabilities, for which published market information is neither readily, nor reliably available. Accordingly, fair value cannot readily be determined in the absence of an active market, as required under IFRS. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

For the purposes of determining the fair value, future cash flows are discounted to the net present value, by applying a discount rate equal to the contractual interest rate, which equalizes the net present value and nominal value. An allowance 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Donations

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

Cash donations that cover one accounting period and are intended to cover the Company's expenses, or to increase its income, are recognized as income 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 five ensuing years starting from 2010, i.e. ten years for losses incurred by 2010. Also, the unused portion of tax credit is available for carryforward and reduce or eliminate taxes to be paid in future periods, but only for the duration of no longer than ten ensuing years.

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 regulatory requirements.

3.12. Property, Plant and Equipment

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Property, Plant and Equipment (Continued)

Given the date of the previous asset revaluation, management intends to engage in the ensuing period an independent appraiser for the purpose of reexamining the stated value of property, plant and equipment.

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

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

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

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

3.13. Depreciation

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

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

	<u>Useful Life</u>	<u>Rate</u>
Building property of hydro power plants	25 - 100	1% - 4%
Building property of thermal power plants	25 - 77	1.3% - 4%
Building property of coal mines	50 - 80	1.25% - 2%
Building property of distribution entities	2 - 90	1.1% - 50%
Commercial buildings, except for administrative and other buildings used in office, accommodation and tourism activities and investment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Intangible Assets (Continued)

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

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

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

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

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

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

As of December 31, 2010, in accordance with management's estimate, there were no indications showing that the value of fixed assets had been impaired, unless otherwise is disclosed in the Notes to the consolidated financial statements which follow.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

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, 2011, unless otherwise stated. The Company does not record an allowance for receivables from legal entities that are concurrently its debtors and creditors.

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Financial Instruments (Continued)

Financial Liabilities (Continued)

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010**

All amounts expressed in thousands of RSD, unless otherwise stated

**4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND RESTATEMENT OF
COMPARATIVE DATA IN THE INCOME STATEMENT FOR THE YEAR 2009**

a) Effects of adjustments made to the balance sheet as of December 31, 2009

	Amounts reported at December 31, 2009	Reconciliation of data reported with data from business books as at December 31, 2009	From business books of the period as at December 31, 2009	Reclassificatio ns as at January 1, 2010	Adjustments as at January 1, 2010	Restated January 1, 2010
ASSETS						
Non-current assets						
Intangible assets	2,425,996	(1)	2,425,997	-	-	2,425,997
Property, plant and equipment	512,279,890	3	512,279,887	(2,166)	(22,394)	512,255,327
Investment property	37,956	-	37,956	-	18,749	56,705
Advances for intangible assets, property, plant and equipment	3,342,127	-	3,342,127	-	-	3,342,127
Equity investments	1,261,287	-	1,261,287	-	6,873	1,268,160
Other long-term financial placements	1,513,741	-	1,513,741	(35,731)	(1)	1,478,009
	<u>520,860,997</u>	<u>2</u>	<u>520,860,995</u>	<u>(37,897)</u>	<u>3,227</u>	<u>520,826,325</u>
Current assets						
Inventories	22,350,744	9,374	22,341,370	(5)	(273,311)	22,068,054
Advances for inventories	2,140,525	-	2,140,525	-	-	2,140,525
Accounts receivable	49,537,595	367	49,537,228	(125,226)	(1,451)	49,410,551
Receivables for prepaid income taxes	268,887	-	268,887	-	-	268,887
Short-term financial placements	2,925,000	-	2,925,000	(893,891)	-	2,031,109
Cash and cash equivalents	8,661,721	(1)	8,661,722	-	-	8,661,722
Value added tax and prepayments	1,220,435	(105,363)	1,325,798	(390)	(37,704)	1,287,704
	<u>87,104,907</u>	<u>(95,623)</u>	<u>87,200,530</u>	<u>(1,019,512)</u>	<u>(312,466)</u>	<u>85,868,552</u>
Total assets	<u>607,965,904</u>	<u>(95,621)</u>	<u>608,061,525</u>	<u>(1,057,409)</u>	<u>(309,239)</u>	<u>606,694,877</u>
	82,184,970	5,212,108	76,972,862	2,879	13,827	76,989,568
EQUITY AND LIABILITIES						
Equity and reserves						
State-owned capital	358,717,722	-	358,717,722	-	-	358,717,722
Other capital	1,232,002	-	1,232,002	-	-	1,232,002
Revaluation reserves	246,014,438	(48)	246,014,486	-	524,691	246,539,177
Unrealized gains on securities	196,884	-	196,884	-	-	196,884
Unrealized losses on securities	(476,523)	-	(476,523)	-	-	(476,523)
Accumulated losses	(148,107,732)	(30,645)	(148,077,087)	-	(2,090,499)	(150,167,586)
	<u>457,576,791</u>	<u>(30,693)</u>	<u>457,607,484</u>	<u>-</u>	<u>(1,565,808)</u>	<u>456,041,676</u>
Long-term provisions	9,126,952	-	9,126,952	-	(39,000)	9,087,952
Long-term liabilities						
Long-term borrowings	42,560,685	-	42,560,685	(1,109,705)	-	41,450,980
Other long-term liabilities	3,476,658	-	3,476,658	1,109,705	-	4,586,363
	<u>46,037,343</u>	<u>-</u>	<u>46,037,343</u>	<u>-</u>	<u>-</u>	<u>46,037,343</u>
Current liabilities						
Short-term financial liabilities	13,624,782	-	13,624,782	(893,891)	114,150	12,845,041
Accounts payable	32,725,736	362	32,725,374	203,412	90,813	33,019,599
Other current liabilities	3,438,511	22	3,438,489	-	695,292	4,133,781
Value added tax and other duties payable and accruals	21,769,380	(65,303)	21,834,683	(366,925)	272,297	21,740,055
Income taxes payable	62,161	-	62,161	-	3,100	65,261
	<u>71,620,570</u>	<u>(64,919)</u>	<u>71,685,489</u>	<u>(1,057,404)</u>	<u>1,175,652</u>	<u>71,803,737</u>
Deferred tax liabilities	23,604,248	(10)	23,604,258	-	119,912	23,724,170
Total equity and liabilities	<u>607,965,904</u>	<u>(95,622)</u>	<u>608,061,526</u>	<u>(1,057,404)</u>	<u>(309,244)</u>	<u>606,694,877</u>
Off-balance sheet items	82,184,970	5,212,108	76,972,861	2,879	13,827	76,989,568

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND RESTATEMENT OF COMPARATIVE DATA IN THE INCOME STATEMENT FOR THE YEAR 2009 (Continued)

b) Effects of December 31, 2009 accumulated loss adjustments

Balance of accumulated loss as of December 31, 2009	<u>(148,077,087)</u>
Increase in the value of land and investment property based on property, plant and equipment adjustment as at January 1, 2007	30,249
Decrease in land expropriation expenses	(6,593)
Adjustments of equipment appraisal	4,204
Optical cable	9,476
Adjustments of property, plant and equipment	(6,676)
Decrease in assets under construction	(34,306)
impairment of inventories	(273,316)
Write-off of accounts receivable	(78,385)
Short-term receivables from public companies within JP EPS based on interest based on court decisions (prior year foreign borrowings obtained in the name and for the account of public companies within JP EPS – system products)	45,249
Accrued income of the Public Company Railways of Serbia based on the RS Government Conclusion no. 401-52	30,617
Adjustments to value added tax	31,460
Increase in revaluation reserves based on appraisal adjustments as of January 1, 2007	(172,490)
Adjustment of revaluation reserves based on status change	(436,819)
Adjustment to revaluation reserves	84,618
Provisions for environment protection expenses	39,000
Legally binding adjudication in the dispute between EUROAXIS BANK, Moscow and JP EPS	(10,069)
Legally binding adjudication in the dispute between EUROAXIS BANK, Moscow and JP EPS	(1,888)
Increase in liabilities towards related parties (subsequently recorded invoices)	(17,039)
Subsequent recording of accounts payable	(60,389)
Write-off of accounts payable	12,566
Accrued interest based on borrowings from the Ministry of Finances upon the RS Government Conclusion no. 401-52	(487,905)
Increase in liabilities for net salaries	(12,450)
Decrease in other accruals	(33,722)
Reversal of deferred income based on donations transferred by the JP EMS split-off balance as at June 30, 2005	17,575
Increase in liabilities for VAT accrued	(3,951)
Reduced years of labor	(184,106)
Prior year public revenue liabilities	(9,763)
Forest charge	(93,653)
Recording of decisions in respect of environment pollution fee	(197,914)
Recording of decisions in respect of utilization and protection of water fee	10,097
Decrease in liabilities for pollution of environment	1,953
Increase of liabilities based on donations	(39,584)
Adjustment to profit upon the decision enacted by the Commercial Court	(16,256)
Increase in equity shares of other legal entities	6,873
Interest payable based on an executive court procedure as based on prior year foreign borrowings	(114,150)
Income taxes	(3,100)
Deferred tax liabilities	(120,857)
Decrease in deferred tax liabilities	945
	<u>(2,090,499)</u>
Restated balance of accumulated loss as at December 31, 2009	<u><u>(150,167,586)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND RESTATEMENT OF COMPARATIVE DATA IN THE INCOME STATEMENT FOR THE YEAR 2009 (Continued)

c) Effects of adjustments to the income statement for the year ended December 31, 2009

	Year Ended December 31, 2009 – before Adjustments/ Reclassifications	Adjustments/ Reclassifications	Year Ended December 31, 2009 – after Adjustments/ Reclassifications
OPERATING INCOME			
Sales revenue	146,216,294	(25,719)	146,190,575
Own-work capitalized	4,865,835	(4,512)	4,861,323
Increase in the value of inventories	(1,739,128)	-	(1,739,128)
Other operating income	4,863,554	9,649	4,873,203
	<u>154,206,555</u>	<u>(20,582)</u>	<u>154,185,973</u>
OPERATING EXPENSES			
Cost of commercial goods sold	(2,622)	-	(2,622)
Cost of materials	(31,467,425)	26	(31,467,399)
Staff costs	(39,147,874)	-	(39,147,874)
Depreciation, amortization and provisions	(40,140,956)	-	(40,140,956)
Other operating expenses	(32,601,671)	(249,007)	(32,850,678)
	<u>(143,360,548)</u>	<u>(248,981)</u>	<u>(143,609,529)</u>
OPERATING PROFIT	10,846,007	(269,563)	10,576,444
Finance income	9,253,242	448,242	9,701,484
Finance expenses	(6,523,325)	(216,995)	(6,740,320)
Other income	2,391,183	40,053	2,431,236
Other expenses	(25,025,181)	(456,303)	(25,481,484)
LOSS BEFORE TAXATION	(9,058,074)	(454,566)	(9,512,640)
Deferred tax benefits	1,670,885	(11,619)	1,659,266
Income taxes	(669,604)	(449)	(670,053)
NET LOSS	<u>(8,056,793)</u>	<u>(466,634)</u>	<u>(8,523,427)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

4. OPENING BALANCE ADJUSTMENTS AND RECLASSIFICATIONS AND RESTATEMENT OF COMPARATIVE DATA IN THE INCOME STATEMENT FOR THE YEAR 2009 (Continued)

d) Effects of adjustments to the earliest prior comparative period presented in the income statement for the year 2009

Operating profit (net loss) for the period ended December 31, 2009 before adjustments	<u>(8,056,793)</u>
Interest payable to JP EPS	(7,144)
Increase in deferred tax liabilities	(11,711)
Increase in liabilities for the compensation of damages on property, plant and equipment	(6,592)
Increase in liabilities for environment protection	(197,914)
Charges for the use and protection of waters upon decision	10,097
Write-off of receivables	(51,616)
Charges for environment pollution upon a decision	1,953
Costs of current maintenance expenses	4,204
Income from the valuation of equity investments in other legal entities	6,873
Increase in income tax liabilities	(357)
Decrease in donation income	(609)
Subsequently recorded costs of insuring property, plant and equipment	(60,389)
Increase in liabilities for VAT accrued	(2,450)
Decrease in assets under construction – self-constructed assets	(4,512)
Write-off of accounts payable	1,086
Finance expenses – accrued interest upon a borrowing from the Ministry of Finance upon the RS Government Decision no. 401-52	(192,977)
Finance income – accrued interest of the Public Company of Serbian Railways upon the RS Government Decision no. 401-52	30,360
Finance revenues collected from the public companies within EPS based on executive court decision relative to interest charged upon prior year foreign borrowings obtained for the benefit and account of public companies within EPS	7,143
Finance expenses for interest assessed upon a court decision, based on prior year foreign borrowings	(14,259)
Restatement of value added tax	31,460
Decrease in prepayments	(9,758)
Decrease in revaluation reserves	478
	<u>(466,634)</u>
Restituted operating profit (net loss) for the period ended December 31, 2009, after adjustments	<u><u>(8,523,427)</u></u>

5. SALES REVENUE

	Year Ended December 31,	
	<u>2010</u>	<u>2009</u>
		<i>Restated</i>
Sales income		
Income from the sale of electricity	140,829,618	128,548,580
Sale of coal	4,182,019	3,744,196
Sale of engineering steam and gas	1,639,935	1,377,025
Sale to legal entities domiciled abroad	4,449,332	5,503,101
Sale of products and services (Public Company "Kolubara Metal")	1,723,016	1,728,337
Income from radio and television subscriptions	315,651	364,628
Income from the Public Enterprise "Elektromreža Srbije"	4,925,591	4,770,335
Other income	560,369	154,373
	<u>158,625,531</u>	<u>146,190,575</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

5. SALES REVENUE (Continued)

In addition to the delivery to tariff customers, a portion of revenues from the sale of electricity totaling RSD 5,381,070 thousand was also recognized based on deliveries to legal entities – residents of the Republic of Serbia holding license for trading in electricity.

Pursuant to the Conclusion of the Republic of Serbia Government numbered 021-6624/2009-002 as of November 30, 2009, the Company engaged its capacities to secure electricity for the north part of the Autonomous Province of Kosovo and Metohija. Subsequent assessment of the inflow of benefits for the reporting year of RSD 557,730 thousand has been disclosed in Note 22.

A portion of sales performed on foreign markets amounting to RSD 4,132,682 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 in accordance with the relevant Decision of the Board of Directors, a discount of 5% was granted.

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

A portion of income from own work capitalized of RSD 3,873,785 thousand (Public Company "Elektrosrbija" of RSD 1,800,232 thousand, Public Company "Elektrovojvodina" of RSD 1,225,121 thousand, Public Company "Jugoistok" of RSD 400,406 thousand) relates to the recognized non-current assets that are self-constructed as disclosed in Note 3.12. the balance of RSD 2,592,096 thousand is recognized based on own work transferred from the Public Company "Kolubara Metal" into non-current/current assets of other group members.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

6. OTHER OPERATING INCOME

	Year Ended December 31,	
	2010	2009
		<i>Restated</i>
Donation income	1,831,788	1,542,934
New customer connection fees	1,904,428	2,013,565
Insurance claims collected	231,000	434,078
Rental income	96,256	63,469
Other operating income	1,102,575	819,157
	<u>5,166,047</u>	<u>4,873,203</u>

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

7. COST OF MATERIALS

	Year Ended December 31,	
	2010	2009
		<i>Restated</i>
Cost of electricity purchased:		
- on domestic market	3,834,475	437,253
- on foreign market	6,350,683	4,392,848
Transfer of electricity by the Public Enterprise “Elektromreža Srbije”, Belgrade	9,694,878	8,653,823
Materials for maintenance and spare parts	8,007,811	8,340,080
Oil derivatives	4,267,857	3,276,680
Natural gas and other energy	3,856,858	2,119,655
External purchases of coal	707,086	631,032
Production material	2,813,996	2,474,228
Office and general administrative supplies	479,518	371,636
Other	892,234	770,164
	<u>40,905,396</u>	<u>31,467,399</u>

The acquisition of electricity used for the Company's own activities in the value of RSD 10,185,158 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 6,134,270 thousand that pertains to the electricity purchased from the Electric Power Industry of Montenegro.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010**

All amounts expressed in thousands of RSD, unless otherwise stated

8. STAFF COSTS

	Year Ended December 31, 2010	2009
		<i>Restated</i>
Gross salaries	32,125,692	30,202,205
Contributions to salaries payable by the employer	6,781,990	6,464,395
Employee transport	1,229,526	1,502,708
Other staff costs	1,186,322	978,566
	41,323,530	39,147,874

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

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 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 RSD 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010**

All amounts expressed in thousands of RSD, unless otherwise stated

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	Year Ended December 31, 2010	2009
		<i>Restated</i>
Depreciation and amortization	35,983,708	37,586,807
Provisions	3,113,456	2,554,149
	39,097,164	40,140,956

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, 2010	2009
		<i>Restated</i>
Insurance premiums	1,858,853	2,065,866
Public water utility fees	2,116,665	2,077,044
Costs of using river banks for business purposes	276,745	75,730
Fees for development land use	2,519,383	1,644,305
Fees for the use of general interest property	20,544	20,753
Environment pollution charges	4,405,346	3,805,982
Property taxes	603,971	586,730
Mineral resource exploitation fees	479,532	428,218
Other indirect taxes, contributions and fees	949,780	739,505
Maintenance	9,551,402	8,798,279
Telecommunications	1,332,353	1,047,621
Transportation services	354,738	460,557
Rentals	1,023,216	1,799,980
Research	510,910	195,320
Public utility fees	368,865	339,273
Student and youth organizations	444,311	425,045
Entertainment	280,373	241,130
Bank charges	680,084	633,440
Other production services	3,704,229	2,638,102
Other services	1,623,608	1,520,641
Production costs	1,621,644	1,899,694
Scientific research	291,295	272,808
Court fees	529,475	373,576
Other non-material expenses	1,049,594	761,079
	36,596,916	32,850,678

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

10. OTHER OPERATING EXPENSES (Continued)

In accordance with the Law on Environment Protection ("Official Gazette of the Republic of Serbia", number 135/04) and Decree on pollution types, criteria for computing the environment pollution fees, as well as the amount and manner of fee accrual and payment (Official Gazette of the Republic of Serbia number 113/05), 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 72,728 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 1,023,216 thousand for the year ended December 31, 2010 (2009: RSD 1,799,980 thousand) include an amount of RSD 953,046 thousand (2009: RSD 1,708,517 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, 2010	2009
		<i>Restated</i>
Interest income	11,061,632	8,360,655
Foreign exchange gains	1,154,993	731,038
Other finance income	1,437,258	609,791
	13,653,883	9,701,484

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, 2010	2009
		<i>Restated</i>
Interest expense	3,404,180	2,448,873
Foreign exchange losses	8,793,860	4,137,131
Other finance expenses	392,154	154,316
	12,590,194	6,740,320

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

13. OTHER INCOME

	Year Ended December 31, 2010	2009
		<i>Restated</i>
Gains on the sale of material, equity investments, intangible assets, property, plant and equipment	67,802	42,229
Collected bad debts and release of provisions for accounts receivable and short-term financial placements	2,787,245	1,802,922
Valuation of other assets	582,293	118,672
Write-off of liabilities	2,066,188	121,374
Surpluses	238,962	50,079
Prior year income	763	61
Reversal of other long-term provisions	13,499	-
Reversal of long-term provisions for employee benefits	17,889	402
Reversal of long-term provisions for litigations	9,972	161,746
Other income	196,717	133,751
	5,981,330	2,431,236

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

In the Republic of Serbia Government Conclusion 05 number 401-52/2011 as of January 13, 2011 and 05 number 401/866/2011 as of February 17, 2011, the Program was adopted on the allocation and use of subsidies for the Public Company Serbian Railways in 2011, under which funds necessary to regulate the liabilities of the Public Company Serbian Railways towards the Public Enterprise Electric Power Industry of Serbia and its subsidiaries were allocated. The Program envisages that the Public Company Electric Power Industry of Serbia and its subsidiaries use the funds collected from the Serbian Railways of RSD 2,488,189 thousand, to discharge their liabilities arising from the borrowing from the Republic of Serbia (contract no. 13467/01 as of November 26, 2001) as disclosed in Note 324 and from the balance of funds, it should discharge its liabilities towards the Deposit Insurance Agency based on the debt towards the creditors of the Paris Club of Creditors and Chinese creditors. After the balance sheet date, on February 21, 2011, the Public Company of Serbian Railways transferred its assets of RSD 2,332,030 thousand onto the special account of the Public Enterprise Electric Power Industry of Serbia and its subsidiaries. At the same time, 50% accrued interest payable to Serbian Railways was written off in the amount of RSD 338,578 thousand.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010**

All amounts expressed in thousands of RSD, unless otherwise stated

14. OTHER EXPENSES

	Year Ended December 31, 2010	2009
		<i>Restated</i>
Losses on disposal, write-off and sale of fixed assets, intangible assets, equity investments and materials	955,942	2,695,032
Shortages	68,588	15,685
Write-off of receivables	214,785	406,557
Impairment of assets:		
- short-term receivables and rescheduled accounts receivable	17,055,599	16,705,053
- property, plant and equipment	2,253	130,357
- inventories	212,079	405,713
- other assets	65,153	50,160
Staff costs of the employees in the public enterprises situated in the Autonomous Province of Kosovo and Metohija	4,156,738	4,285,696
Sponsorship and donation expenses	195,179	300,838
Other expenses	682,781	486,393
	23,609,097	25,481,484

In the previous reporting period, losses on disposal of plant and equipment were recognized of RSD 1,557,535 thousand (current period RSD 191,547 thousand) based on the activities undertaken towards the revitalization of hydro-aggregate with the increase of installed power of the hydro-power and navigation system "Đerdap 1."

Accounts receivable considerably past due are recognized as an impairment loss in the amount of RSD 17,055,599 thousand.

Expenses amounting to RSD 4,156,738 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, 2010	2009
		<i>Restated</i>
Current income tax expense	(810,421)	(670,053)
Deferred income tax benefits	992,637	1,659,266
	182,216	989,213

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010**

All amounts expressed in thousands of RSD, unless otherwise stated

15. INCOME TAXES (Continued)

**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, 2010	2009
		<i>Restated</i>
Loss before taxation	(3,384,341)	(9,512,640)
Reconciliation of expenses not recognized in the tax balance sheet (permanent differences)	9,146,517	5,469,936
Reconciliation of depreciation charges calculated for accounting and tax purposes (temporary differences)	<u>10,116,631</u>	<u>14,828,795</u>
Taxable profit	<u>15,878,807</u>	<u>10,786,091</u>
Amount of loss and capital loss brought forward up to the amount of taxable profit	2,750,769	2,225,198
Amount of taxable profit for which there were no deductible tax loss carryforwards	16,199,934	13,392,595
Tax loss for the year	(3,071,896)	(4,831,702)
Capital gains	<u>8,496</u>	<u>8,447</u>
Tax base	<u>16,208,430</u>	<u>13,401,042</u>
Tax at the 10% rate	1,620,843	1,340,104
Decrease of tax accrued based on capital expenditures	<u>810,421</u>	<u>670,051</u>
Accrued tax upon deduction	<u><u>810,421</u></u>	<u><u>670,053</u></u>

c) Deferred Tax Assets and Liabilities

Deferred tax liabilities of RSD 22,731,533 thousand as of December 31, 2010 (December 31, 2009: RSD 23,724,170 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, 2010, the Company did not recognize deferred tax assets with respect to tax loss and tax credit carryforwards due to the uncertainty whether sufficient taxable profit will be available in the future against which the unused tax losses and tax credits may be utilized by the Company. Deferred tax assets upon tax losses were as follows:

	December 31, 2010	December 31, 2009
- for the year 2003	50,741	103,416
- for the year 2004	267,924	338,863
- for the year 2005	12,709	12,709
- for the year 2006	70,020	103,865
- for the year 2007	316,928	444,542
- for the year 2008	458,343	783,322
- for the year 2009	384,520	424,764
- for the year 2010	215,168	-
- Total	<u>1,776,353</u>	<u>2,211,481</u>
Deferred tax assets based on capital losses	824	1,106
Deferred tax assets based on tax credits for capital expenditures	<u>10,160,951</u>	<u>7,032,885</u>
- total	<u><u>11,938,128</u></u>	<u><u>9,245,472</u></u>

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010**

All amounts expressed in thousands of RSD, unless otherwise stated

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

	Land	Buildings	Plant, Equipment and Other Assets	Construction in Progress	Total	Intangible Assets	Investment Property
Cost							
Balance at January 1, 2009, before adjustments	19,383,577	465,684,335	820,749,063	50,837,444	1,356,654,419	3,321,114	119,523
Adjustments	-	(2,998)	82,839	86,852	166,693	(27,638)	-
Balance at January 1, 2009 after adjustments	<u>19,383,577</u>	<u>465,681,337</u>	<u>820,831,902</u>	<u>50,924,296</u>	<u>1,356,821,112</u>	<u>3,293,476</u>	<u>119,523</u>
Additions	1,437,037	235,849	3,663,379	21,700,451	27,036,716	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	-	(143,821)	(22,353)	-	(166,174)	-	(3,996)
Write-off (disposal)	-	(411,538)	(10,232,714)	(3,975)	(10,648,227)	(2,514)	-
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, after adjustments	<u>21,284,710</u>	<u>463,474,792</u>	<u>835,094,354</u>	<u>50,107,034</u>	<u>1,369,960,890</u>	<u>3,462,710</u>	<u>115,527</u>
Cost							
Balance at January 1, 2010, before adjustments	21,284,710	463,474,794	835,094,350	50,107,040	1,369,960,894	3,462,710	115,527
Adjustments	4,610	25,508	(33,198)	(36,472)	(39,552)	-	18,749
Balance at January 1, 2010 after adjustments	<u>21,289,320</u>	<u>463,500,302</u>	<u>835,061,152</u>	<u>50,070,568</u>	<u>1,369,921,342</u>	<u>3,462,710</u>	<u>134,276</u>
Additions	2,676,603	356,412	3,367,634	30,933,549	37,334,198	226,195	-
Activation of construction in progress	1,054,434	3,254,249	30,723,638	(35,049,013)	(16,692)	16,622	-
Transfers	79,869	(1,192,282)	1,194,187	(306,241)	(224,467)	270	-
Self-constructed assets	-	50,535	48,089	3,060,231	3,158,855	-	-
Donations	-	23,533	382,064	-	405,597	-	-
Sale	-	(5,778)	(101,388)	-	(107,166)	-	-
Write-off (disposal)	-	(274,575)	(8,942,788)	(4,973)	(9,222,336)	(15,078)	-
Transfer to third parties	(773)	(11,547)	(15,483)	(476,209)	(504,012)	-	(2,671)
Surpluses	-	138,455	159,857	-	298,312	-	-
Shortages	-	(1,377)	(33,180)	-	(34,557)	-	-
Transfers to subsidiaries	25,161	-	4,074	(167,618)	(138,383)	(791)	-
Other changes	-	(2,645)	(1,017,197)	(4,186)	(1,024,028)	-	-
Balance, December 31, 2010, after adjustments	<u>25,124,614</u>	<u>465,835,282</u>	<u>860,830,659</u>	<u>48,056,108</u>	<u>1,399,846,663</u>	<u>3,689,928</u>	<u>131,605</u>

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010**

All amounts expressed in thousands of RSD, unless otherwise stated

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
Cost							
Balance at January 1, 2009, before adjustments	6,527,502	266,870,691	555,713,152	7,260,556	836,371,901	865,748	75,115
Adjustments	-	(3,436,458)	479,689	-	(2,956,769)	-	-
Balance at January 1, 2009 after adjustments	6,527,502	263,434,233	556,192,841	7,260,556	833,415,132	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	5,385	-
Transfers to subsidiaries	-	176	727	(7,236,021)	(7,235,118)	-	-
Donations	-	102,413	217,077	-	319,490	-	-
Revaluation (subsequent appraisal effects)	-	133,613	207,960	-	341,573	-	-
Sale	-	(12,204)	(21,297)	-	(33,501)	-	(114)
Sale and disposal	-	(321,152)	(6,231,527)	-	(6,552,679)	(1,442)	-
Shortages	-	(17)	(10,847)	-	(10,864)	-	-
Transfer to third parties	-	(1,992)	(23,758)	-	(25,750)	(34)	-
Other changes	-	(20,368)	60,118	-	39,750	(594)	-
Balance at January 1, 2009, after adjustments	<u>7,187,538</u>	<u>265,992,812</u>	<u>584,500,659</u>	<u>-</u>	<u>857,681,009</u>	<u>1,036,713</u>	<u>77,571</u>
Accumulated Depreciation and Amortization							
Balance, December 31, 2010, before adjustments	7,187,539	265,992,811	584,500,657	-	857,681,007	1,036,713	77,571
Opening balance adjustments	-298	11,077	(25,771)	-	(14,992)	-	-
Balance, December 31, 2010, after adjustments	7,187,241	266,003,888	584,474,886	-	857,666,015	1,036,713	77,571
Charge for the year	921,049	6,745,610	28,134,575	-	35,801,234	179,982	2,492
Transfers	-	(288,626)	283,680	-	(4,946)	-	-
Transfers to subsidiaries	-	-	1,813	-	1,813	(461)	-
Donations	-	111	82,639	-	82,750	-	-
Sale	-	(2,018)	(78,001)	-	(80,019)	-	-
Sale and disposal	-	(178,003)	(8,161,721)	-	(8,339,724)	(7,255)	-
Shortages	-	(708)	(25,895)	-	(26,603)	-	-
Transfer to third parties	-	(10,928)	(10,383)	-	(21,311)	-	(683)
Other changes	(2)	65,426	(767,503)	-	(702,079)	249	-
Balance, December 31, 2010, after adjustments	<u>8,108,288</u>	<u>272,334,752</u>	<u>603,934,090</u>	<u>-</u>	<u>884,377,130</u>	<u>1,209,228</u>	<u>79,380</u>
Net Book Value							
December 31, 2009	14,097,172	197,481,980	250,593,695	50,107,034	512,279,881	2,425,997	37,956
Balance, December 31, 2009, before adjustments	12,856,075	198,813,644	265,035,911	43,576,888	520,282,518	2,455,366	44,408
Balance, December 31, 2009, after adjustments	<u>12,856,075</u>	<u>202,247,104</u>	<u>264,639,061</u>	<u>43,663,740</u>	<u>523,405,980</u>	<u>2,427,728</u>	<u>44,408</u>
Net Book Value							
December 31, 2010	17,016,326	193,500,530	256,896,569	48,056,108	515,469,533	2,480,700	52,225
Balance, December 31, 2010, before adjustments	14,097,171	197,481,983	250,593,693	50,107,040	512,279,887	2,425,997	37,956
Balance, December 31, 2010, after adjustments	<u>14,102,079</u>	<u>197,496,414</u>	<u>250,586,266</u>	<u>50,070,568</u>	<u>512,255,327</u>	<u>2,425,997</u>	<u>56,705</u>

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

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

Property, plant and equipment, as disclosed in Note 3.12, are stated at a revalued amount at January 1, 2007 for all business entities operating within JP EPS and JP EPS itself, except for the Business Entity "Kolubara Metal" which appraised its property, plant and equipment as of January 1, 2009. Given the date of previous fair value assessment of assets, management intends to engage an independent appraiser in the ensuing reporting period for the purpose of reexamining the carrying value of non-current assets.

In the prior reporting period, 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.

In the previous reporting year, a portion of non-current assets (comprised of the following: land totaling RSD 585,717 thousand, property of RSD 1,150,586 thousand, equipment and plant of RSD 257,300 thousand, assets under construction of RSD 4,219,546 thousand and intangible assets of RSD 1,752,289 thousand) was assumed by the parent company from the Public Company Thermal Power Plant "Nikola Tesla" for the purpose of building new production capacities (Note 39). In the reporting year, additional transfer of property (land) was executed in the amount of RSD 258,985 thousand. As disclosed in Note 1 and based on the Decision on amendments of the Decision on the Foundation of a Public Enterprise involved in Generation, Transmission and Sale of Electricity (Official Gazette of RS no. 54 as of August 4, 2010), the owner made additional contribution in the Public Enterprise Electric Power Industry of Serbia comprised of a portion of relevant assets. The parent company may contribute these assets, as in accordance with the owner's Decision, as a contribution in kind in business entities that will be established with strategic partners for the purpose of completing the construction of the Thermal Power Plant "Kolubara B" and the construction of the Thermal Power Plant "Nikola Tesla B3," as a part of power industry in the Republic of Serbia by 2015 and program for its realization.

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

	December 31, 2010	December 31, 2009
		<i>Restated</i>
Advances paid for property, plant, equipment and intangible assets	6,336,413	3,477,960
Less: Allowance for impairment of advances paid	(138,261)	(135,833)
	6,198,152	3,342,127

Advances of RSD 1,054,434 thousand were paid to the owners of a property registered in the Cadastral Municipality of Vreoci as in accordance with the Program Bases adopted under the Decision of the Board of Directors of JP EPS approved by the RS Government in its Decision 05 number 310-5277/2007-3 as of November 22, 2007. The RS Government delivered for realization purposes the Conclusion number 465-8001/2009-3 as of December 17, 2009 allowing that the Public Company RB Kolubara, in its capacity of expropriation beneficiary, submit with the body concerned, proposals for the expropriation of buildings registered on the orthophoto image as of January 15, 2007.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

18. EQUITY INVESTMENTS

	December 31, 2010	December 31, 2009
		<i>Restated</i>
Equity investments in jointly controlled legal entities:	528	528
- Energija Novi Sad a.d.	560	560
- Ibarske hidroelektrane d.o.o., Kraljevo	10,464	-
Equity investments in domestic banks:		
- AIK banka a.d., Niš	1,097,051	864,612
- Čačanska banka a.d., Čačak	32,314	36,646
- Komercijalna banka a.d., Beograd	23,415	25,846
- Razvojna Banka Vojvodine a.d., Novi Sad	15,413	16,508
- other	129,826	133,016
Equity investments in other legal entities:		
- HIP Petrohemija Pančevo	711,614	-
- Politika a.d., Beograd	185,793	201,679
- RMK Trepča	27,010	27,010
- Minel holding	9,716	9,716
- Panonka Sombor	33,417	33,417
- TK Raška N.Pazar	29,614	29,614
- other	159,848	161,695
Equity investments in insurance companies	1,002	1,545
Total equity investments	<u>2,467,585</u>	<u>1,542,392</u>
Allowances for impairment:		
- equity investments in domestic banks	1,184	1,758
- equity investments in other legal entities	(984,200)	(273,050)
- equity investments in insurance companies	(3,456)	(2,940)
Total allowance for impairment	<u>(986,472)</u>	<u>(274,232)</u>
	<u>1,481,113</u>	<u>1,268,160</u>

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

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

Once the arrangement had been signed, the founders paid in their contributions as follows: "SECI" paid a dinar counter value of EUR 102,000.00 and JP EPS paid the dinar countervalue of EUR 98,000.00. After the balance sheet date, the founders paid in a portion of subscribed capital – the entity "SECI" paid in the dinar countervalue of EUR 632,400.00 and JP EPS paid the dinar countervalue of EUR 372,074.00. The balance of subscribed capital will be paid by the founders within two years from the registration of the Company establishment with the founder's obligation to pay in additional equity contributions totaling 25% of the investment value, as in accordance with the investment and technical documentation for the construction of hydro power plants within the deadline set in the company's management decisions. The work of the entity from the commencement of its registered activity will be financed from the core capital and if that is not enough, the funds will be used from the borrowing that is to be approved to the Company by the entity "SECI". This does not refer to the activity of building hydro power plants.

75% of investments into the hydro power plant construction will be funded from borrowings to be obtained by the Company with a bank or another financial institution.

The goal of company establishment is the construction of the hydro power plant system on the Ibar River comprised of ten hydro power plants with the total power of about 102 MW. The inscription of the Public Company "Ibarske hidroelektrane" d.o.o. into the registry maintained by the competent body was executed on December 3, 2010.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

18. EQUITY INVESTMENTS (Continued)

As disclosed in Note 1, in accordance with Article 15 of the Agreement on Company Establishment of the Entity for Thermal and Heat Energy "Energija Novi Sad" a.d. Novi Sad closed between JP EPS and the City of Novi Sad, in 2009 the company paid in EUR 6,000 which at the payment date totaled RSD 560 thousand and was recognized as an equity investment into a newly-founded entity.

Based on the recommendation of the RS Government (Conclusion 05 number 023-6222/2009-1 as of October 9, 2009), the Public Company "Elektrovojvodina" converted matured receivables from the Shareholding Company involved in the production of petrochemical products, raw materials and chemicals "HIP-Petrohemija" from Pančevo in restructuring in the amount of RSD 711,614 thousand. The loss from providing for initial receivables, already recognized in the income statement has not been reversed.

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, 2010. The difference between the fair value as of December 31, 2009 and their fair value as of December 31, 2010 is recognized as a special line item of equity, by recognizing revaluation reserves based on unrealized gains amounting to RSD 202,986 thousand and through the recognition of revaluation reserves based on unrealized losses of RSD 988 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.

19. LONG-TERM FINANCIAL PLACEMENTS

	December 31, 2010	December 31, 2009
		<i>Restated</i>
Long-term receivables from the Public Enterprise		
Elektromreža Srbije	267,934	255,727
Rescheduled accounts receivable for electricity sold:		
- private individuals	32,586	43,662
- legal entities	249,675	78,727
	282,261	122,389
Joint investment in the Rovni Water Accumulation	637,205	637,205
Placements based on apartments sold, housing		
loans and long-term rent of apartments	439,493	440,160
Receivables from the Privatization Agency of RS	126,852	150,710
Long-term deposits with domestic banks	15,765	14,329
Other long-term financial placements	248,189	248,068
	2,017,699	1,868,588
Less: Allowance for impairment		
- Rescheduled accounts receivable for electricity	(43,742)	(96,071)
- Receivables from the Privatization Agency of RS	(126,871)	(151,991)
- Other long-term financial placements	(142,517)	(142,517)
	(313,130)	(390,579)
	1,704,569	1,478,009

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

19. LONG-TERM FINANCIAL PLACEMENTS (Continued)

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, 2010, 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 as disclosed in Note 1 and Note 41.

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.

20. INVENTORIES

	December 31, 2010	December 31, 2009
		<i>Restated</i>
Material	10,953,752	9,469,972
Spare parts	11,518,796	10,864,547
Tools and fixtures	2,369,329	2,004,785
Work in progress and finished products	3,439,036	2,513,663
Coal	154,051	159,807
Goods	429	277
	28,435,393	25,013,051
 Less: Allowance for impairment	 (3,303,486)	 (2,944,997)
	25,131,907	22,068,054

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, 2010	December 31, 2009
		<i>Restated</i>
Advances paid	2,576,906	2,246,459
Allowance for impairment of advances paid	(129,318)	(105,934)
	2,447,588	2,140,525

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

22. ACCOUNTS RECEIVABLE

	December 31, 2010	December 31, 2009
		<i>Restated</i>
Accounts receivable:		
- unconsolidated subsidiaries situated in Kosovo and Metohija	1,493,937	1,021,832
- other related parties	4,509	20,545
- domestic customers	110,114,706	91,356,200
- foreign customers	5,550,424	4,881,522
- Resavica Coal Mine	1,166,907	1,166,907
	<u>118,330,483</u>	<u>98,447,006</u>
Receivables for radio and television subscription fees	22,611,171	18,183,070
Interest receivable	2,226,030	2,303,261
Receivables from employees	1,250,128	1,424,093
Accounts receivable from budget beneficiaries and prepaid taxes and contributions	156,825	278,455
Accounts receivable from specific operations	133,321	27,965
Other receivables	526,223	621,825
Total accounts receivables	<u>145,234,181</u>	<u>121,285,675</u>
Less: Allowance for impairment		
- accounts receivable from non-consolidated subsidiaries situated in Kosovo and Metohija	(1,485,049)	(871,668)
- other related parties	(370)	(1,461)
- domestic customers	(77,902,430)	(66,222,783)
- foreign customers	(3,790,047)	(3,189,067)
- Resavica Coal Mine	(1,166,907)	(1,166,907)
- receivables from employees	(4,968)	(3,881)
- accounts receivable from prepaid taxes and contributions	(215)	(219)
- other receivables	(386,786)	(419,138)
Total allowance for impairment	<u>(84,736,772)</u>	<u>(71,875,124)</u>
	<u>60,497,409</u>	<u>49,410,551</u>

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

As disclosed in Note 13, after the balance sheet date, the Public Company of Serbian Railways transferred assets of RSD 2,332,030 thousand, and due to the elimination of uncertainty, the Company reversed the allowance for impairment of the underlying receivable in the aforementioned amount, as well as based on the 50% write-off of accrued interest of RSD 338,578 thousand.

Domestic accounts receivable as of December 31, 2010 include the receivables from domestic companies in restructuring, amounting to RSD 13,409,774 thousand (December 31, 2009: RSD 12,890,934 thousand), registered with the Privatization Agency of the Republic of Serbia. These receivables have been fully provided for.

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, 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 622,269 thousand. At the same time, the outstanding amount is recognized as an expense fully provided for.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

22. ACCOUNTS RECEIVABLE (Continued)

A portion of foreign accounts receivable of RSD 1,672,475 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 thereforom is anticipated post balance sheet. The balance of foreign accounts receivable of RSD 3,877,949 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 6.3% of TV subscription collected, i.e. from September 2010 it is entitled to 3% from TV subscription collected. The portion of matured receivables based on RTS subscription accrued in the period ended August 2010 in the total of RSD 413,950 thousand was rescheduled over a 24-month period starting from September 2010 with the interest accrued at the 6% rate annually.

23. SHORT-TERM FINANCIAL PLACEMENTS

	December 31, 2010	December 31, 2009
		<i>Restated</i>
Current portion of long-term receivables from the Public Enterprise Elektromreža Srbije	72,689	53,870
Short-term deposits with domestic banks	1,574,549	1,450,453
Non-interest bearing loans to the related party – Kolubara Metal d.o.o., Vreoci	-	14,240
Short-term domestic loans	126,192	135,587
Short-term foreign loans	31,082	31,082
Other	93,773	345,877
	1,898,285	2,031,109

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, 2010	December 31, 2009
		<i>Restated</i>
Current accounts:		
- in dinars	4,563,341	7,502,127
- in foreign currencies	477,838	495,682
Deposits covering letters of credit	539,114	148,036
Cash on hand and other cash	92,227	74,736
Other cash	381,130	441,141
Cash funds restricted or impaired	24,706	20,416
Total cash and cash equivalents	6,078,356	8,682,138
Impairment of restricted or impaired cash funds	(24,706)	(20,416)
	6,053,650	8,661,722

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

25. VALUE ADDED TAX AND PREPAYMENTS

	December 31, 2010	December 31, 2009
		<i>Restated</i>
Deferred value added tax	1,364,586	785,629
Other prepayments	639,672	502,075
	2,004,258	1,287,704

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

26. CAPITAL

State-Owned Capital

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

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

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, 2010 amounts to RSD 358,717,940 thousand and exceeds the amount recognized by the parent company (RSD 322,906,234 thousand) by RSD 35,811,706 thousand due to a difference between estimated value of equity investments in the related parties and the respective capital of the related parties.

Other Capital

Other capital stated in the Company's balance sheet as of December 31, 2010 relates to the consolidated public enterprises' sources of non-operating assets that were transferred upon the transition to the new accounting regulations applicable in the Republic of Serbia as of January 1, 2004.

Profit Distribution

With the Founder's consent (Decision 05 number 41-5256/2010 as of July 14, 2010, issued in the Official Gazette of RS no. 48/2010), based on the decision of the Board of Directors, profit was distributed to employees based on a profit sharing scheme in 2005, i.e. 2006 of the total of RSD 1,260,493 thousand.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

27. LONG-TERM PROVISIONS

	December 31, 2010	December 31, 2009
Provisions for the costs of natural resource restoration	768,979	<i>Restated</i> 561,612
Provisions for employee benefits (retirement benefits, jubilee awards and other)	7,648,348	6,759,121
Provisions for litigation	2,427,632	1,746,369
Other long-term provisions	3,342	20,850
	10,848,301	9,087,952

The movements in long-term provisions during 2010 and 2009 are presented in the following table:

	Restoration of Natural Resources	Employee Benefits (Retirement Benefits, Jubilee Awards and Other)	Litigations	Other Long- Term Provisions	Total
Balance, January 1, 2009	323,829	6,100,693	1,086,299	4,430	7,515,251
Charge for the year	248,782	1,318,380	947,987	16,420	2,531,569
Release of provisions	(10,999)	(659,550)	(126,171)	-	(796,720)
Reversal	-	(402)	(161,746)	-	(162,148)
Balance, December 31, 2009	561,612	6,759,121	1,746,369	20,850	9,087,952
Balance, January 1, 2010	561,612	6,759,121	1,746,369	20,850	9,087,952
Charge for the year	243,472	1,688,438	1,181,546	-	3,113,456
Release of provisions	(36,105)	(781,322)	(490,311)	(4,009)	(1,311,747)
Reversal	-	(17,889)	(9,972)	(13,499)	(41,360)
Balance, December 31, 2010	768,979	7,648,348	2,427,632	3,342	10,848,301

Provisions for retirement benefits and jubilee awards of RSD 7,648,348 thousand were formed as further disclosed in Note 3.9.

NAPOMENE UZ KONSOLIDOVANE FINANSIJSKE IZVEŠTAJE
31. decembar 2010. godine

28. LONG-TERM LOANS

A. FOREIGN BORROWINGS	Currency	Principal in Currency	Maturity Date	ORIGINAL CURRENCY		Interest Rate	Thousands of RSD	
				Repayments	Terms		December 31, 2010	December 31, 2009
FOREIGN CURRENCY BORROWINGS							30,236,789	26,215,819
<i>REFINANCED LOANS REALIZED FROM THE FUNDS OF PARIS CLUB OF CREDITORS:</i>								
- AUSTRIA	EUR	3,779,993.12	30/09/2008-31/03/2024	30/03	and 30/09	Austrian Market Rate /EUR	398,782	369,682
- FRANCE	EUR	44,539,907.31	22/09/2008-22/03/2024	22/03	and 22/09	5,90	4,698,880	4,365,554
- GERMANY	EUR	28,544,768.47	22/09/2008-22/03/2024	22/03	and 22/09	5,50	3,011,422	2,799,071
- CANADA	EUR	61,899,789.54	22/09/2008-22/03/2024	22/03	and 22/09	Euribor/EUR+0,5%	6,530,316	6,039,772
- SWITZERLAND	CHF	82,997,212.76	22/09/2008-22/03/2024	22/03	and 22/09	Libor/CHF+0,5%	7,008,766	5,426,384
- USA	USD	7,183,750.56	22/09/2008-22/03/2024	22/03	and 22/09	5,375	569,529	489,567
- RUSSIAN FEDERATION	USD	45,489,931.01	22/09/2005.-22/03/2034	22/03	and 22/09	0,5517	3,606,451	3,057,398
- JAPAN	JPY	2,357,255,278.18	22/09/2008-22/03/2024	22/03	and 22/09	2,8390	2,293,096	1,731,331
							28,117,242	24,278,759
LONDON CLUB OF CREDITORS	USD	15,235,079.02	01/05/2010-01/11/2024	01/05	and 01/11	3,75 to 11/09 6,75 to 11/24	1,207,840	1,089,229
IBRD	EUR	8,215,319.98	15/03/2005-15/12/2031	15/03,	15/09 , 15/06 and 15/12	1/3-5.44, 1/3 -5.81 i 1/3-euribor	866,702	806,925
EIB	EUR	426,596.43	17/10/2012-17/10/2016	17/04	and 17/10	semi-annual Euribor	45,005	40,906
LOANS FROM THE FOVERNMENTS							5,881,731	5,051,204
PR China	USD	35,938,868.58	21/07/2010-21/01/2021	21/01	and 21/07	LIBOR6M+1.3	2,849,240	2,195,384
Russian Federation	USD	3,531,964.80	15/01/2004-15/07/2013	15/01	and 15/07	LIBOR+1.25	280,015	314,244
Republic of Poland	USD	34,718,323.33	2005-2024	15/06	and 15/12	0,75	2,752,476	2,541,576

NAPOMENE UZ KONSOLIDOVANE FINANSIJSKE IZVEŠTAJE
31. decembar 2010. godine

28 .LONG-TERM LOANS (Continued)

FOREIGN BORROWINGS	Currency	Principal in Currency	Maturity Date	ORIGINAL CURRENCY		Thousands of RSD	
				Repayments Terms	Interest Rate	December 31, 2010	December 31, 2009
LOANS FROM INTERNATIONAL FINANCIAL ORGANIZATIONS						16,436,126	14,107,077
KfW I (51,1 mil. EUR)	EUR	14,202,552.06	30/12/2004 -30/06/2013	29/06 and 31/12.	4.32	1,498,344	1,906,612
KfW II (16 mil. EUR)	EUR	11,076,923.08	30/06/2009 -30/06/2015	30/06 and 30/12	Variable (4.52470, 4.85980 i 5,27780)	1,168,595	1,298,187
KfW III (30 mil. EUR)	EUR	19,088,493.83	30/12/2010-30/06/2020	30/06 and 30/12	-	2,013,802	1,452,429
KfW IV (36 mil. EUR)	EUR	10,073,113.85	30/06/2013 -30/12/2019	30/06 and 30/12	Variable (4.56)	1,062,695	-
EBRD I (39,6 mil. EUR)	EUR	24,884,886.06	07/09/2005 -07/03/2016	07/03 and 07/09	Variable, p.a., semi-annual (3.1- 5.793)	2,625,311	2,537,139
EBRD II (60 mil. EUR)	EUR	48,495,198.73	07/03/2008 -07/09/2018	07/03 and 07/09	Variable, p.a., semi-annual (3.1- 5.793)	5,116,156	4,502,590
EIB II (22 mil. EUR)	EUR	21,733,333.32	09/12/2010 -09/06/2027	09/06;09/12;25/05 and 25/11	3.879-5.248	2,292,828	2,109,554
Wb IDA (12,24 mil. SDR)	XDR	5,392,525.89	15/09/2015 -15/03/2025	15/03 and 15/09	-	658,395	300,566
Banks in bankruptcy:						1,298,592	2,229,988
Beogradska banka	USD	2,614,479.62	31/03/2009 -31/12/2011	monthly	Libor + 3; Domestic rate for USD and 0.5 monthly	207,276	348,921
Beogradska banka	EUR	4,523,426.49	31/03/2009 -31/12/2011	monthly	5.50	477,213	867,492
Jugobanka	USD	-	30/11/2008 -30/04/2010	monthly	Domestic rate for USD	-	30,215
Beobanka	EUR	1,779,566.42	31/03/2009 -29/02/2012	monthly	8.00	187,741	316,904
Beobanka	USD	5,377,907.73	31/03/2009 -29/02/2012	monthly	6.00	426,362	666,456
OTHER						91,467	179,173
JP EMS - IBRD	EUR	33,628.77	15/03/2005 -15/12/2031	15/12	1/3-5.44, 1/3-5.81i1/3-euribor	3,548	3,377
Erste Bank a.d. Novi Sad,	EUR	833,371.95	29/10/2009 -29/09/2011	monthly	Quarterly Euribor+5	87,919	175,796

NAPOMENE UZ KONSOLIDOVANE FINANSIJSKE IZVEŠTAJE
31. decembar 2010. godine

28. LONG-TERM LOANS (Continued)

FOREIGN LOANS	Currency	Principal in Currency	Maturity Date	ORIGINAL CURRENCY		Thousands of RSD	
				Repayments Terms	Interest Rate	December 31, 2010	December 31, 2009
LOAN IN DINARS							
Republic of Serbia	RSD	-	31/12/2006-31/12/2010	31/12/2006 and 2007 and 2010	8.50	-	1,031,535
Banks in bankruptcy	RSD						
Beogradska banka	RSD	28,918,303.94	31/03/2009-31/12/2011	monthly	NBS discount rate	28,918	57,834
Jugobanka	RSD	-	30/11/2008-30/04/2010	monthly	Statutory penalty	-	2,893
Investbanka	RSD	67,275,844.79	15/06/2008-15/12/2012	15/06 and 15/12; and monthly	1.00	67,276	100,914
Beobanka	RSD	3,040,000.00	15/06/2008-15/12/2012	15/06 and 15/12; and monthly	1.00	3,040	4,560
						99,234	166,201
UNICREDIT BANK	RSD	2,000,000,000.00	27/01/2012- 27/12/2012	monthly	14.20	2,000,000	-
TOTAL						2,099,234	1,197,736
TOTAL LONG-TERM BORROWINGS							
CURRENT PORTION OF LONG-TERM BORROWINGS						56,043,939	48,980,997
- in foreign currencies						6,109,912	6,431,515
- in dinars						64,076	1,098,502
TOTAL						6,173,988	7,530,017
LONG-TERM PORTION							
- in foreign currencies						47,834,793	41,351,746
- in dinars						2,035,158	99,234
TOTAL LONG-TERM PORTION						49,869,951	41,450,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

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, whose legal successor is Banca Intesa a.d. Beograd, the Company closed annexes to the original contracts approving an additional discount in the amount of 15% of the relevant principal.

As disclosed in Note 13, a portion of matured liabilities towards creditors of the Paris Club of Creditors (principal totaled RSD 455,082 thousand while interest totaled RSD 336,198 thousand) settled after the balance sheet.

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.

II Loans of Governments Realized after 1990

1. Loan from the Government of the Republic of Poland

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

A. Foreign Currency Loans (Continued)

II Loans of Governments Realized after 1990

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

JP EPS recognized the liability arising from the loan facility used by JP EPS and JP EMS pursuant to the 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 SRY.

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

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

As disclosed in Note 41, the portion of matured liabilities from a Chinese loan (principal of RSD 123,636 thousand and interest of RSD 23,120 thousand) was discharged after the balance sheet.

III Loans of International Financial Organizations

1. KfW

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

- for the amount of EUR 51,129,188 an agreement was executed on October 26, 2001. The loan was fully drawn in the period until June 30, 2004. The principal repayment commenced from December 30, 2004 and will last until June 30, 2013. Following the withdrawal date, the applicable interest rate was fixed at 4.32% annually.
- EUR 16 million (out of which EUR 9 million is not to be repaid) was obtained on December 24, 2003. Borrowed funds have been used in full. At June 30, 2009, the loan principal repayment commenced. The final maturity date was June 30, 2015. The applicable annual interest rate was fixed after the withdrawal period for Project A at 4.52470%, for Project B at 4.85980%, and for Project C at the level of 5.27780%.
- On September 9, 2005, EUR 30 million was borrowed. December 31, 2011 was set as the final date for the availability of funds borrowed with the option of deadline extension. Pursuant to the provisions contained in the Agreement, the loan principal has been repaid from December 30, 2010 in 20 equal installments of about EUR 1,500,000. The final maturity date was set at June 30, 2020. The loan was agreed interest-free.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

A. Loans in Foreign Currency (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 Company started using borrowed funds. November 30, 2012 is set as the final date for funds availability leaving the option to extend this deadline. According to the Agreement, The repayment of the principal commences on June 30, 2013, to be completed by December 30, 2019. The interest rate is determined two days before the each tranche has been drawn and used and is fixed until KfW informs JP EPS on the consolidated interest rate for the entire loan which will be determined upon the execution of the last disbursement of the subject borrowing and will remain constant throughout the entire repayment period.
- EUR 70 million was agreed on October 29, 2010. December 30, 2015 has been set as the final deadline for the use of borrowed funds with the option of deadline extension. According to the provisions of the Loan Agreement, the principal repayment commences as of December 30, 2015 in 20 equal semi-annual installments. A fixed interest rate has been agreed and is to be determined by KfW annually two days before the disbursement for each portion of the borrowing received based on the expenses incurred by KfW on the EUR capital market under terms that best correspond to the fixed interest rate period decreased by 0.5% mark-up annually, given that the rate calculated in this manner cannot be below 1% annually. After each payment, KfW consolidates these rates into a unique rate for the total borrowing. At the date of issuing this report, the Bill on the Republic of Serbia guarantee issuance was adopted.

2. Loans from the European Bank for Reconstruction and Development

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

- EUR 39.6 million is currently being used. The initially agreed borrowing of EUR 100 million was divided between JP EPS (EUR 39.6 million) and the Public Enterprise “Elektromreža Srbije” (EUR 60,400,000). The redistribution of rights and liabilities between JP EPS and the Public Enterprise “Elektromreža Srbije” with the consent of the EBRD, as the concerned creditor, and the Republic of Serbia, as the guarantor, was executed on May 27, 2008 by closing the following: the Amended Loan Agreement between the Company and the EBRD, the Amended Loan Agreement between the Public Enterprise “Elektromreža Srbije” and the EBRD and the Agreement on the Recognition, Consent and Reaffirmation signed between the Republic of Serbia, the Company, the Public Enterprise “Elektromreža Srbije” and the EBRD. The rights and liabilities for the portion of this loan amounting to EUR 60.4 million were transferred to the Public Enterprise “Elektromreža Srbije”. The funds of the amount borrowed that are used by this entity have again become effective as of July 29, 2008 and were used before the date of issuing this Report, where the portion of loan of EUR 1,179.00 was cancelled. The principal repayment commenced on September 7, 2005 and will last until March 7, 2016. The interest rate agreed is variable.
- EUR 60 million was used by April 30, 2010 but a portion of borrowing of EUR 135,857.49 was cancelled. The repayment of the principal commenced from March 7, 2008 and will last until September 7, 2018. The interest is compounded at a variable rate.
- EUR 40 million was agreed on September 2, 2010. The date until which funds are available is set at September 2, 2013 with the option of deadline extension. According to the provisions of relevant Agreement, the principal repayment commences on September 2, 2013 and is to be executed in 18 equal semi-annual installments by March 2, 2022. The loan accrues variable interest rate with the option to choose a fixed interest rate. By the date of issuing this Report, funds have become effective.

Based on the credit arrangement with the EBRD, the Company is obliged to achieve the maximum and minimum operating ratios. At December 31, 2010, the Company complied with all necessary ratios with the exception of the general liquidity ratio. The Company’s management anticipated that no restrictions may be imposed by the EBRD which would call for the reclassification of the aforementioned liabilities from long-term to current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

A. Loans in Foreign Currency (Continued)

III Loans of International Financial Organizations (Continued)

3. Loan from the European Investment Bank

Loans from the European Investment Bank (EIB):

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

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 were agreed to be available until December 31, 2011 with the option of deadline extension. The loan is to be repaid in installments maturing on March 15 and September 15 in the period from 2015 to 2025, free of interest.

B. 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 liabilities thereof have been discharged in full.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

B. Loans in Dinars (Continued)

2. Banks in Bankruptcy or Liquidation (Continued)

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

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

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

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

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

From July 24, 2008, the Company regularly discharged liabilities matured in this respect. On April 30, 2010, within the agreed deadline, the Company fully discharged its liabilities arising in connection with the debt towards Jugobanka a.d., Beograd in bankruptcy.

3. Unicredit Banka Srbija a.d. Beograd

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

Analysis of Drawn Funds from Loans Approved

In order to finance the specific projects to increase production capacities in thermoelectric and hydroelectric plants, in the period from 2001 to 2010 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM LOANS (Continued)

Analysis of Long-Term Loan Maturities

<u>Creditor</u>	<u>Currency</u>	<u>Contracted Amount</u>	<u>Drawn Down Amount</u>
European Bank for Reconstruction and Development I	EUR	39,600,000	37,168,747
European Bank for Reconstruction and Development II	EUR	60,000,000	59,864,142
European Bank for Reconstruction and Development III	EUR	40,000,000	-
European Investment Bank II	EUR	22,000,000	22,000,000
European Investment Bank III	EUR	40,000,000	-
KfW I	EUR	51,129,188	51,129,188
KfW II	EUR	16,000,000	16,000,000
KfW III	EUR	30,000,000	20,588,494
KfW IV	EUR	36,000,000	10,073,114
KfW V	EUR	70,000,000	-
		<u>404,729,188</u>	<u>216,823,685</u>
IDA	SDR	12,240,000	5,392,526

Analysis of Long-Term Loan Maturities

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
From one to five years	18,250,480	14,388,879
Over five years	31,619,471	27,062,101
	<u>49,869,951</u>	<u>41,450,980</u>

Analysis of Discharging Currencies

<u>Currency</u>	<u>Amount in Currency</u>	<u>December 31, 2010</u>
EUR	265,111,920	27,968,830
USD	130,792,264	10,369,237
CHF	79,040,605	6,674,647
YPU	2,224,222,690	2,163,684
XDR	5,392,526	658,395
Total		<u>47,834,793</u>

29. OTHER LONG-TERM LIABILITIES

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
		<i>Adjusted</i>
Rescheduled public revenue liabilities	3,295,123	3,893,036
Rescheduled liabilities to suppliers	1,112,645	2,375,261
Other long-term liabilities	157,846	176,193
Current portions:		
- Rescheduled public revenue liabilities	(623,531)	(597,389)
- Rescheduled liabilities to suppliers	(475,195)	(1,260,637)
- Other long-term liabilities	(101)	(101)
	<u>3,466,787</u>	<u>4,586,363</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

29. OTHER LONG-TERM LIABILITIES (Continued)

The liabilities with reference to taxes and contributions to salaries and trade taxes which were outstanding as of December 31, 2002 have been rescheduled into 120 monthly installments at an interest rate equaling the discount rate prescribed by the National Bank of Serbia. Upon 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.

In respect to rescheduled accounts payable, RSD 924,321 thousand (at January 1, 2010: RSD 1,814,186 thousand) related to JP EMS out of which amount, a current portion totals RSD 289,321 thousand (at January 1, 2010: RSD 889,866 thousand).

30. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2010	December 31, 2009
		<i>Adjusted</i>
<i>In foreign currencies</i>		
Current portion of foreign long-term loans	3,953,773	5,299,410
Long-term loans falling due within a year from:		
- domestic banks in bankruptcy	1,161,649	1,050,855
- other banks	2,219,424	1,112,253
Other short-term foreign currency financial liabilities	5,339,816	2,236,712
	8,720,889	4,399,820
<i>Liabilities in dinars:</i>		
Current portion of long-term loans	-	1,031,534
Current portion of other non-current liabilities	1,098,827	1,858,127
Long-term loans from banks in bankruptcy maturing within a year	64,076	66,967
Other	2,388,043	189,183
	3,550,946	3,145,811
	16,225,608	12,845,041

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 6,484 thousand as charged to the former debt of SSSR towards the former SFRY.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

30. SHORT-TERM FINANCIAL LIABILITIES (Continued)

Due to the lack of liquid resources, the subsidiary – Thermal Power Plant “Nikola Tesla” d.o.o. signed a Loan Agreement with Komercijalna banka a.d. Beograd for the amount of RSD 2,000,000 thousand due for repayment within a year, at a fixed interest rate of 14.45% annually, interest calculation and maturity falling on March 31, June 30, September 30 and on the date when the loan principal matures, with one-time application processing fee payable in the amount of 0.2% of the approved amount of loan without additional costs, without a currency clause, without indexation / revaluation of loan principal by the end of repayment period. The agreed terms are fixed and are not subject to changes by the end of repayment period. Funds were used entirely in a single tranche on December 13, 2010.

After the balance sheet date, the parent company borrowed funds of RSD 2,000,000 thousand from Banca Intesa a.d. Beograd as follows:

- Loan 1: a borrowing of RSD 950,000 thousand due for repayment within a year with a three month grace period, a fixed interest rate of 13.45%, with a quarterly repayment period in three equal quarterly installments,
- Loan 2: a borrowing of RSD 1,050,000 thousand due for a repayment within a year, with a six-month grace period, a fixed interest rate of 14.25% annually, repaid monthly in six equal monthly installments upon the expiry of a grace period, accompanied by a one-time fee equaling 0.2% of the total amount borrowed without additional expenses, without a currency clause or indexation / revaluation of loan principal by the end of repayment period. The agreed terms are fixed and are not subject to changes by the end of repayment period. Funds were used entirely in a single tranche per single loan on January 12 and 13, 2011.

31. ACCOUNTS PAYABLE

	December 31, 2010	December 31, 2009
		<i>Restated</i>
Advances from customers	1,473,604	1,498,914
Accounts payable:		
- domestic	12,178,022	8,948,029
- foreign	3,755,967	2,859,040
- Public Enterprise “Elektromreža Srbije”	1,574,040	904,212
Liabilities for radio television subscriptions	22,651,064	18,289,458
Other accounts payable	398,483	519,946
	42,031,180	33,019,599

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

32. OTHER CURRENT LIABILITIES

	December 31, 2010	December 31, 2009
		<i>Restated</i>
Matured borrowings from the Ministry of Finance of the Republic of Serbia	1,496,327	1,394,157
Interest and financing costs accrued	730,823	365,176
Net salaries and benefits	1,754,996	1,151,793
Taxes and contributions payable	1,519,659	1,053,718
Other liabilities	443,202	168,937
	5,945,007	4,133,781

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 amount used totals RSD 3.1 billion out of which RSD 2.2 billion has been repaid. As disclosed in Note 13, the balance of liabilities matured based on a borrowing from the funds of the Budget of the Republic of Serbia comprised of the principal of RSD 803,125 thousand and 50% of penalty accrued at May 31, 2010 in the amount of RSD 295,037 thousand, was discharged after the balance sheet date.

The liabilities arising from interest and cost of financing as of December 31, 2010 include interest accrued as follows:

- Interest accrued to refinanced loans from the International Bank for Reconstruction and Development of RSD 175,947 thousand,
- Interest accrued to refinanced liabilities towards the Paris Club of Creditors of RSD 81,830 thousand,
- Interest on the preagreed borrowing from the Government of the People's Republic of China via the Deposit Insurance Agency in the amount of RSD 24,219 thousand,
- Interest on the borrowing from the Government of the Russian Federation realized via domestic banks in bankruptcy totaling RSD 2,992 thousand,
- Interest to matured liabilities towards domestic banks in bankruptcy of RSD 909 thousand,
- Other liabilities of RSD 516 thousand.
- Interest to other borrowings (realized before 1990 in the amount of RSD 162,215 thousand).

33. VALUE ADDED TAX AND OTHER DUTIES PAYABLE AND ACCRUALS

	December 31, 2010	December 31, 2009
		<i>Restated</i>
Deferred value added tax	2,352,415	1,927,277
Accrued liabilities for VAT owed upon a tax return	529,253	1,187,081
Water charges and fees for the use of construction land and other public property	647,635	505,849
Other public revenues	1,290,475	993,332
Accrued expenses	345,438	1,072,117
Deferred income from donations	16,772,790	15,711,968
Other accruals	410,216	342,431
	22,348,222	21,740,055

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

33. VALUE ADDED TAX AND OTHER DUTIES PAYABLE AND ACCRUALS (Continued)

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

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

34. OFF-BALANCE SHEET ITEMS

	December 31, 2010	December 31, 2009
		<i>Restated</i>
Estimated war damages	6,189,662	5,288,714
Payables upon credit commitments – undrawn portion	20,645,394	7,063,280
Liabilities for guarantees issued and other forms of securities against JP EPS liabilities	48,715,057	5,207,393
Ceded buildings of social standard	246,440	246,440
Blanc solo bills issued	43,902,042	41,962,076
Written-off equity investments	260,864	262,556
Deferred tax assets	11,928,671	9,612,471
Other off-balance sheet items	8,116,794	7,346,638
	140,004,924	76,989,568

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010**

All amounts expressed in thousands of RSD, unless otherwise stated

35. INCOME STATEMENT PER SEPARATE ACTIVITIES

	Total January- December 2010	Electricity January- December 2010	Coal January- December 2010	Heat Energy and Technical Steam January- December 2010	Power Distribution and Management January- December 2010	Electricity Retail January- December 2010	Electricity Wholesale January- December 2010	Metal Industry January- December 2010	Other January- December 2010
OPERATING INCOME									
Sales revenue	390,494,169	96,193,324	46,657,673	1,921,533	63,722,384	128,626,949	112,595,044	4,966,203	15,531
Own-work capitalized	3,873,785	120,718	-	-	3,728,236	-	2,011	-	22,820
Increase in the value of inventories	182,410	306,948	-	4,586	-	-	-	(129,124)	-
Other operating income	5,436,144	1,732,804	271,135	9,693	3,003,432	31,369	341,246	46,337	127
	<u>399,986,508</u>	<u>98,353,794</u>	<u>46,928,808</u>	<u>1,935,812</u>	<u>70,454,052</u>	<u>128,658,318</u>	<u>112,938,301</u>	<u>4,883,416</u>	<u>38,478</u>
OPERATING EXPENSES									
Cost of goods sold	(4,415)	(38)	(2,356)	-	-	-	(2,021)	-	-
Cost of materials	(267,415,938)	(51,767,963)	(7,717,939)	(1,256,736)	(24,882,076)	(84,184,615)	(106,296,719)	(1,370,639)	(9,635)
Staff costs	(41,323,530)	(7,940,618)	(15,803,341)	(426,872)	(10,447,738)	(2,609,224)	(781,652)	(3,135,045)	(179,043)
Depreciation, amortization and provisions	(39,097,164)	(15,550,775)	(10,128,405)	(102,761)	(12,194,725)	(781,448)	(160,380)	(158,491)	(20,180)
Other operating expenses	(38,594,834)	(17,249,043)	(10,340,832)	(232,160)	(6,738,160)	(56,556,123)	(1,181,775)	(416,927)	(13,904)
	<u>(386,435,881)</u>	<u>(92,508,437)</u>	<u>(43,992,873)</u>	<u>(2,018,529)</u>	<u>(54,262,699)</u>	<u>(144,131,410)</u>	<u>(108,422,547)</u>	<u>(5,081,102)</u>	<u>(222,762)</u>
NET OPERATING PROFIT/(LOSS)	<u>13,550,627</u>	<u>5,845,357</u>	<u>2,935,935</u>	<u>(82,717)</u>	<u>16,191,353</u>	<u>(15,473,092)</u>	<u>4,515,754</u>	<u>(197,686)</u>	<u>(184,284)</u>
Finance income	20,263,662	832,762	259,547	97,889	601,207	8,652,369	9,792,683	26,837	368
Finance expenses	(19,199,973)	(5,170,757)	(3,738,978)	(115,418)	(183,204)	(1,421,977)	(8,472,759)	(94,381)	(2,500)
Other income	7,799,925	242,294	2,068,081	9,890	804,877	567,538	4,064,669	42,519	57
Other expenses	(25,661,516)	(1,148,128)	(1,077,411)	(156,222)	(2,866,148)	(12,375,811)	(7,980,181)	(57,146)	(468)
PROFIT/(LOSS) BEFORE TAX	<u>(3,247,275)</u>	<u>601,528</u>	<u>447,174</u>	<u>(246,578)</u>	<u>14,548,085</u>	<u>(20,050,973)</u>	<u>1,920,166</u>	<u>(279,857)</u>	<u>(186,827)</u>
Income taxes	182,216	114,293	(21,343)	25,625	161,833	30,114	(133,548)	5,496	(254)
Deferred tax benefits/(expenses)	992,637	394,144	(21,343)	258,254	320,794	35,546	-	5,496	(254)
Income taxes	(810,421)	(279,851)	-	(232,629)	(158,961)	(5,432)	(133,548)	-	-
NET PROFIT/(LOSS) FOR THE YEAR	<u>(3,065,059)</u>	<u>715,821</u>	<u>425,831</u>	<u>(220,953)</u>	<u>14,709,918</u>	<u>(20,020,859)</u>	<u>1,786,618</u>	<u>(274,361)</u>	<u>(187,081)</u>

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

36. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

As of December 31, 2010, the Company recognized a provision for potential losses arising from litigation in the amount of RSD 2,427,632 thousand (December 31, 2009: RSD: 1,746,369 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>User</u>	<u>Contractually Agreed Value</u>	<u>Realized until December 31, 2010</u>	<u>Advances Paid</u>
ANDRITZ HYDRO GmbH	Drinsko Limske HE	7,891,957	3,725,407	907,469
Clyde Bergemann DRYCON GmbH	TE KO Kostolac	1,174,738	-	234,948
Goša montaža ad	TE KO Kostolac	708,459	-	138,578
Hitachi Power Europe GmbH	TENT	2,769,328	415,399	470,786
Minel kotlogradnja ad	TENT	1,064,234	319,270	140,997
	Elektrosrbija doo			
Jugotrade doo Beograd	Jugoistok doo	394,212	301,162	9,659

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 11.5% as of the balance sheet date, and starting from December 9, 2010.

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

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		In foreign currency Liabilities	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
EUR	33,726,473	41,307,901	359,331,100	333,489,314
DKK	1,600	1,600	-	-
JPY	105,924,000	-	2,408,896,107	2,416,332,669
SEK	1,391	1,841	-	-
CHF	85,506	84,357	83,497,569	84,859,397
GBP	1,873	1,536	-	-
USD	1,876,046	5,096,755	231,887,184	248,867,944
XDR	-	-	5,392,526	2,883,700

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.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

37. OPERATING RISKS (Continued)

Interest Rate Risk (Continued)

	December 31, 2010	December 31, 2009
Financial assets		
<i>Non-interest bearing</i>		
Equity investments	1,481,113	1,268,160
Long-term financial placements	742,248	742,248
Accounts receivable	120,543	347,310
Other receivables	455,724	487,162
Cash and cash equivalents	643,291	233,014
	<u>3,442,919</u>	<u>3,077,894</u>
<i>Fixed interest rate</i>		
Long-term financial placements	422,872	199,463
Short-term loans and other short-term financial placements	1,035,975	1,000,742
Cash and cash equivalents	5,069,969	8,027,132
	<u>6,528,816</u>	<u>9,227,337</u>
<i>Variable interest rate</i>		
Long-term financial placements	539,449	536,298
Accounts receivable	35,925,340	28,797,151
Short-term loans and other short-term financial placements	862,310	1,030,367
Other receivables	22,744,492	18,211,035
Cash and cash equivalents	340,390	401,576
	<u>60,411,981</u>	<u>48,976,427</u>
	<u>70,383,716</u>	<u>61,281,658</u>
Financial liabilities		
<i>Non-interest bearing</i>		
Accounts payable	11,361,229	9,503,639
Other liabilities	866,665	1,481,833
Short-term financial liabilities	5,341,836	2,238,732
	<u>17,569,730</u>	<u>13,224,204</u>
<i>Fixed interest rate</i>		
Long-term borrowings	24,619,629	21,621,259
Other liabilities	3,309,042	4,410,271
Current portion of long-term borrowings	3,619,891	6,615,681
Short-term financial liabilities	1,098,827	1,858,127
	<u>32,647,389</u>	<u>34,505,338</u>
<i>Variable interest rate</i>		
Long-term borrowings	25,250,322	19,829,721
Other long-term liabilities	77,202	95,549
Accounts payable	6,146,800	3,207,642
Other liabilities	24,743,573	20,098,486
Short-term borrowings	2,384,114	183,451
Current portion of long-term borrowings	3,779,031	1,945,338
Short-term financial liabilities	1,909	3,712
	<u>62,382,951</u>	<u>45,363,899</u>
	<u>112,600,070</u>	<u>93,093,441</u>
 Net interest rate risk	 (1,970,970)	 3,612,528

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

37. OPERATING RISKS (Continued)

Credit Risk

The Company is exposed to credit risk in the instances in which its customers default on their obligations. The Company's exposure to credit risk is limited to the carrying value of accounts receivable and other receivables. Accounts receivable correspond to a significant number of customers (3.3 million) and have normal credit terms, and thus, the individual concentrations of credit risk are not considered significant. Accounts and other receivables are presented in the accompanying consolidated financial statements net of allowances for bad and doubtful receivables, as estimated by the Company' 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 70 days for the year 2010 (2009: 66 days).

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

	Gross Exposure	Allowance for Impairment	December 31, 2010 Net Exposure
Accounts receivable, not matured	20,240,689	580,355	19,660,334
Accounts receivable matured and provided for	83,885,399	83,766,333	119,066
Accounts receivable matured, but not provided for	16,266,483	-	16,266,483
	<u>120,392,571</u>	<u>84,346,688</u>	<u>36,045,883</u>
	Gross Exposure	Allowance for Impairment	December 31, 2009 Net Exposure
Accounts receivable, not matured	17,724,442	1,231,853	16,492,589
Accounts receivable matured and provided for	70,661,519	70,213,715	447,804
Accounts receivable matured, but not provided for	12,204,068	-	12,204,068
	<u>100,590,029</u>	<u>71,445,568</u>	<u>29,144,461</u>

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

37. OPERATING RISKS (Continued)

Liquidity Risk

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

2010	Within a Month	1 - 3 Months	From 3 Moths to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Accounts payable	-	10,006,713	1,354,516	-	-	11,361,229
Other liabilities	547,495	319,170	-	-	-	866,665
Short-term financial liabilities	-	-	5,341,836	-	-	5,341,836
Non-interest bearing	547,495	10,325,883	6,696,352	-	-	17,569,730
Long-term borrowings	-	-	-	8,584,346	16,035,283	24,619,629
Other long-term liabilities	-	-	-	3,309,042	-	3,309,042
Current portion of long-term borrowings	91,578	183,156	3,345,157	-	-	3,619,891
Short-term financial liabilities	-	-	1,098,827	-	-	1,098,827
Fixed interest rate	91,578	183,156	4,443,984	11,893,388	16,035,283	32,647,389
Long-term borrowings	-	-	-	9,666,135	15,584,187	25,250,322
Other long-term liabilities	-	-	-	77,202	-	77,202
Accounts payable	5,034,943	1,111,857	-	-	-	6,146,800
Other liabilities	24,743,573	-	-	-	-	24,743,573
Short-term borrowings	-	-	2,384,114	-	-	2,384,114
Current portion of long-term borrowings	277,141	594,662	2,907,228	-	-	3,779,031
Short-term financial liabilities	-	-	1,909	-	-	1,909
Variable interest rate	30,055,657	1,706,520	5,293,250	9,743,337	15,584,187	62,382,951
	<u>30,694,730</u>	<u>12,215,558</u>	<u>16,433,587</u>	<u>21,636,725</u>	<u>31,619,470</u>	<u>112,600,070</u>
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	6,498,478	1,580,118	-	-	9,503,639
Other liabilities	460,908	1,020,925	-	-	-	1,481,833
Short-term financial liabilities	-	-	2,238,732	-	-	2,238,732
Non-interest bearing	1,885,951	7,519,403	3,818,850	-	-	13,224,204
Long-term borrowings	-	-	-	2,263,330	19,357,929	21,621,259
Other long-term liabilities	-	-	-	4,410,271	-	4,410,271
Current portion of long-term borrowings	2,383,500	584,355	3,647,826	-	-	6,615,681
Short-term financial liabilities	-	-	1,858,127	-	-	1,858,127
Fixed interest rate	2,383,500	584,355	5,505,953	6,673,601	19,357,929	34,505,338
Long-term borrowings	-	-	-	6,999,040	12,830,681	19,829,721
Other long-term liabilities	2	-	-	95,545	2	95,549
Accounts payable	2,485,586	722,053	3	-	-	3,207,642
Other liabilities	20,098,486	-	-	-	-	20,098,486
Short-term borrowings	-	-	183,451	-	-	183,451
Current portion of long-term borrowings	122,112	687,329	1,135,897	-	-	1,945,338
Short-term financial liabilities	-	-	3,712	-	-	3,712
Variable interest rate	22,706,186	1,409,382	1,323,063	7,094,585	12,830,683	45,363,899
	<u>26,975,637</u>	<u>9,513,140</u>	<u>10,647,866</u>	<u>13,768,186</u>	<u>32,188,612</u>	<u>93,093,441</u>

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

37. OPERATING RISKS (Continued)

Liquidity Risk (Continued)

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

2010	<u>Within a Month</u>	<u>1 - 3 Months</u>	<u>From 3 Moths to 1 Year</u>	<u>From 1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
Equity investments	-	-	-	-	1,481,113	1,481,113
Long-term financial placements	-	-	-	-	742,248	742,248
Accounts receivable	111,655	-	8,888	-	-	120,543
Other receivables	390,945	-	64,779	-	-	455,724
Cash and cash equivalents	643,291	-	-	-	-	643,291
Non-interest bearing	1,145,891	-	73,667	-	2,223,361	3,442,919
Long-term financial placements	-	-	-	15,765	407,107	422,872
Short-term loans and other short-term financial placements	-	1,035,975	-	-	-	1,035,975
Cash and cash equivalents	5,069,969	-	-	-	-	5,069,969
Fixed interest rate	5,069,969	1,035,975	-	15,765	407,107	6,528,816
Long-term financial placements	-	-	-	268,561	270,888	539,449
Accounts receivable	35,879,241	-	46,099	-	-	35,925,340
Short-term loans and other short-term financial placements	157,274	705,036	-	-	-	862,310
Other receivables	22,744,492	-	-	-	-	22,744,492
Cash and cash equivalents	340,390	-	-	-	-	340,390
Variable interest rate	59,121,397	705,036	46,099	268,561	270,888	60,411,981
	<u>65,337,257</u>	<u>1,741,011</u>	<u>119,766</u>	<u>284,326</u>	<u>2,901,356</u>	<u>70,383,716</u>

2009	<u>Within a Month</u>	<u>1 - 3 Months</u>	<u>From 3 Moths to 1 Year</u>	<u>From 1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
Equity investments	-	-	-	-	1,268,160	1,268,160
Long-term financial placements	-	-	-	-	742,248	742,248
Accounts receivable	198,237	-	149,073	-	-	347,310
Other receivables	392,698	-	94,464	-	-	487,162
Cash and cash equivalents	233,014	-	-	-	-	233,014
Non-interest bearing	823,949	-	243,537	-	2,010,408	3,077,894
Long-term financial placements	-	-	-	14,329	185,134	199,463
Short-term loans and other short-term financial placements	-	1,000,742	-	-	-	1,000,742
Other receivables	8,027,132	-	-	-	-	8,027,132
Cash and cash equivalents	-	-	-	-	-	-
Fixed interest rate	8,027,132	1,000,742	-	14,329	185,134	9,227,337
Long-term financial placements	-	-	-	256,235	280,063	536,298
Accounts receivable	28,797,151	-	-	-	-	28,797,151
Short-term loans and other short-term financial placements	180,909	849,458	-	-	-	1,030,367
Other receivables	18,211,035	-	-	-	-	18,211,035
Cash and cash equivalents	401,576	-	-	-	-	401,576
Variable interest rate	47,590,671	849,458	-	256,235	280,063	48,976,427
	<u>56,441,752</u>	<u>1,850,200</u>	<u>243,537</u>	<u>270,564</u>	<u>2,475,605</u>	<u>61,281,658</u>

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

37. OPERATING RISKS (Continued)

Taxation Risks

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

38. LOSSES OF ELECTRICAL POWER

Throughout the normal course of business, the Company incurs substantial technical and non-technical losses of electrical power. Technical losses arise upon the transmission of electricity, 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, 2010, the Company's management has estimated the total loss of electricity of 15.10% or 4,959 GWh (2009: 15.19% or 4,865 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

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

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

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

The deadline for transferring shares to employees and ex-employees of a business entity is set 6 months following the Privatization of the business entity based on an official Government's enactment. Within the deadline set for submitting applications, July 30, 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."

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

39. POST BALANCE SHEET EVENTS (Continued)

b) Company Establishment

1. In the earlier 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 Energy Law which currently being drafted and is expected to be passed in the first half of this year.
2. In the earlier 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 2011.

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

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

December 31, 2010

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

4. As disclosed in Note 1, in the reporting period, the Company and the City of Novi Sad founded the Company for Combined Production of Thermoelectric and Heat Energy "Energija Novi Sad", a.d. Novi Sad, whose increase in capital would provide for the necessary investment funds needed for the reconstruction of the existing, i.e. the construction of a new plant for combined generation of thermoelectric and heat energy. The wording of the Public Invitation to partners interested to submit letters of interest and proofs of the required qualifications was published in October 2009. Given the complexity of activities towards the reconciliation of decisions stipulated in the relevant contracts, the initially planned deadline for submitting bids was extended, so it is expected that after the expiry of bidding deadline set for the end of April 2011, in the first half of the year, a strategic partner should be selected and a joint investment agreement should be closed.
5. At the session held on November 13, 2009, the Company's Board of Directors approved the enactment of the Memorandum of Understanding between JP EPS and RWE Ag, Germany (RWE) providing for a more elaborate Cooperation Agreement. RWE transferred all its rights and liabilities arising from the Agreement onto its subsidiary RWE Innogy GmbH. The assessment of the acceptability of the previous feasibility study accompanying the general program is in its final stages and, given that the Commission for Protection of Competition made a Decision (no. 6/0-02-57/2011-2 as of February 2, 2011) approving the concentration of JP EPS and RWE, for the purpose of establishing the business entity for the realization of the Project on the Great Morava – cascade hydro power plants, it is expected that the parties shall undertake the establishment of a business entity having the form of a limited liability company.
6. JP EPS and the Mixed Holding of the Electric Power Utility of the Republic of Srpska – Parent Company from Trebinje closed on September 16, 2010 a Cooperation Agreement for the preparation of the technical documentation for the construction of hydro power plants in the midstream of the Drina River. The aim of this agreement is the establishment of the cooperation between JP EPS and ERS on the realization of the project of building hydro power plants on the midstream section of the Drina River following the design and other documentation of the Republic of Serbia and of the Republic of Srpska by way of joint funding of studies that should help them assess energy-related, economic and legal conditions and possibility for the project realization and agree on the manner of their realization. The Ministry of Mining and Energy of the Republic of Serbia and the Ministry of Economic Development of the Republic of Italy, in a Joint Statement signed on April 26, 2010 expressed their intention to develop cooperation on the construction of hydro power capacities on the midstream of the Drina River so that, in the realization of this target, JP EPS and SECI closed a preliminary cooperation agreement for the realization of electro-power projects – system of hydro power plants on the midstream Drina River on February 11, 2011.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

39. POST BALANCE SHEET EVENTS (Continued)

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.

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

After that, EPS planned the activities in connection with the construction of small hydro power plants based on the Decree determining the Program for the implementation of Energy Development Strategy of the Republic of Serbia by 2015 covering the period from 2007 to 2012. Based on preliminary assessments, the project would encompass the rehabilitation of 17 small hydro power plants (group 1) of the total installed power of 33.2 MW and the construction of 9 small hydro power plants with water management facilities (Group 2) of the total estimated power of 22.37 MW whose preliminary estimated value totaled EUR 45 million. The EBRD confirmed its interest to loan funds for the project and the amount of EUR 45 million of state guarantee has been included in the Law on Budget of the Republic of Serbia for the year 2011.

Also, to this end, EPS commenced negotiations with the representatives of JICA – Japanese International Cooperation Agency, of the government agency involved in servicing development loans approved by the Japanese government (ODA Loans, ODA-Official Development Assistance), for obtaining the loan for the assembly of equipment for desulphurization in 4 blocks of TENT A (blocks A3-A6). The Japanese government would finance 85% of total budget, while EPS would alone finance the balance of 15%. The total value of the project totaled EUR 299,195 thousand i.e. JPY 33,584 billion out of which an amount of EUR 251,693 thousand or JPY 28,252 billion would be provided from a Japanese loan.

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

In the reporting period, international agreements have been executed regulating the following:

- 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.

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).

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated

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, 2010	December 31, 2009
EUR	105.4982	95.8888
DKK	14.1492	12.8822
JPY	0.972782	0.722054
SEK	11.7734	9.3442
CHF	84.4458	64.4631
GBP	122.4161	107.2582
USD	79.2802	66.7285
XDR	122.0939	104.2292

Signed on behalf of the Public Enterprise Electric Power Industry of Serbia:

Dragomir Marković,
General Manager



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

Dragan Jonkić,
Head of Accounts Department