

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

**Consolidated Financial Statements
Year Ended December 31, 2012 and
Independent Auditors' Report**

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements (pages 4 to 66) of the Public Enterprise Electric Power Industry of Serbia and its subsidiaries (hereinafter: "JP EPS" or the "Company"), which comprise the consolidated balance sheet as at December 31, 2012, 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 16 to the consolidated financial statements, property, plant and equipment stated as totaling RSD 937,976,501 thousand as of December 31, 2012 includes construction in progress of RSD 11,297,243 thousand, which relates to a number of facilities the construction of which has been at a standstill for two or more years. The Company failed to determine whether there were grounds for reducing the carrying value of the aforesaid construction in progress to its net realizable value as required by IAS 36 "Impairment of Assets." There has been no available information based on which the effects of the departure from IAS 36 on the accompanying consolidated financial statements could be quantified.

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Basis for Qualified Opinion (Continued)

As disclosed in Note 20 to the consolidated financial statements, inventories were stated as of December 31, 2012 in the aggregate amount of RSD 23,067,627 thousand and comprised inventories of materials of RSD 10,991,493 thousand and inventories of spare parts of RSD 11,460,518 thousand. Based on the aging analysis performed, an amount of RSD 2,026,219 thousand relates to slow-moving inventories of materials, while an amount of RSD 5,209,371 thousand relates to the slow-moving inventories of spare parts. The Company did not perform more detailed analyses that would confirm the qualitative characteristics of inventories of materials for the purpose of determining those that are obsolete. Also, the Company performed partial analysis and recognition of strategic spare parts that are usable only in connection with a certain item of property, plant or equipment and expected to be used longer than one accounting period. Such spare parts are considered as property, plant and equipment, pursuant to IAS 16 "Property, Plant and Equipment." In accordance with the aforesaid, and given the nature of records 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, or potential effects of reducing the spare part inventories to their fair values and presentation thereof as property, plant and equipment. In addition, 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, 2012.

Qualified Opinion

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* paragraphs, the consolidated financial statements of the Company for the year ended December 31, 2012 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) 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 following: the unconsolidated subsidiaries situated in the Autonomous Province of Kosovo and Metohija (Note 1 to the consolidated financial statements); completion of construction and investment projects (Note 16 to the consolidated financial statements); significant liabilities associated with borrowings from foreign creditors and domestic banks in bankruptcy (Notes 28 and 30 to the consolidated financial statements); compliance with covenants defined in loan agreements (Note 28 to the consolidated financial statements); significant potential losses on litigations (Note 36 to the consolidated financial statements); and significant distribution losses of 14.14% or 4,586 GWh (Note 38 to the consolidated financial statements). The ultimate resolution of such uncertainties may lead to materially significant adjustments in the Company's consolidated financial statements.
- (b) The amount of state-owned capital as presented in the consolidated financial statements is not reconciled with the capital of the parent company as inscribed in the Serbian Business Registers Agency (Note 26 to the consolidated financial statements). Also, in the consolidation process, equity investments in subsidiaries were unreconciled with the amounts of corresponding capital in subsidiaries by RSD 35,811,706 thousand.
- (c) The Company does not possess adequate ownership titles for all materially significant properties presented in the Company's books of account as of December 31, 2012.

Our opinion is not modified in respect to these matters.

(Continued)

Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

Other Matter

As of April 30, 2013, the Company submitted the consolidated financial statements for the year 2012 approved by the management to the Serbian Business Registers Agency. Based on the findings and adjustments suggested by the auditor in accordance with the effective regulations, the accompanying consolidated financial statements were adjusted for the effects identified during audit. The adjusted consolidated financial statements were subsequently adopted by the management of the Company and Board of Directors and will be submitted to the Serbian Business Registers Agency together with the independent auditors' report.

Beograd, June 21, 2013

Aleksandar Đurđević
Certified Auditor

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2012
(Thousands of RSD)

	<u>Note</u>	<u>2012</u>	<u>2011</u> <i>Restated</i>
OPERATING INCOME			
Sales revenues	5	178,224,127	178,273,523
Own-work capitalized	5.1	5,910,894	7,516,240
Decrease in the value of inventories		(365,597)	(1,236,156)
Other operating income	6	<u>6,636,398</u>	<u>5,773,286</u>
		<u>190,405,822</u>	<u>190,326,893</u>
OPERATING EXPENSES			
Cost of commercial goods sold		(32,222)	(2,184)
Cost of materials	7	(51,911,582)	(46,837,573)
Staff costs	8	(53,018,346)	(46,981,042)
Depreciation, amortization and provisions	9	(48,895,245)	(46,648,838)
Other operating expenses	10	<u>(42,016,703)</u>	<u>(38,880,183)</u>
		<u>(195,874,098)</u>	<u>(179,349,820)</u>
(LOSS)/PROFIT FROM OPERATIONS		<u>(5,468,276)</u>	<u>10,977,073</u>
Finance income	11	13,534,264	9,891,008
Finance expenses	12	(10,214,894)	(4,020,996)
Other income	13	13,335,739	53,944,483
Other expenses	14	<u>(55,571,525)</u>	<u>(41,635,487)</u>
(LOSS)/PROFIT BEFORE TAXES		<u>(44,384,692)</u>	<u>29,156,081</u>
Income taxes		<u>32,045,881</u>	<u>(2,787,932)</u>
Deferred income tax benefits	15	32,705,177	571,156
Current income tax expense	15	<u>(659,296)</u>	<u>(3,359,088)</u>
NET (LOSS)/PROFIT FOR THE YEAR		<u>(12,338,811)</u>	<u>26,368,149</u>

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

On April 30, 2013, the Company submitted to the Serbian Business Registers Agency the consolidated financial statements for the year 2012 approved by the management of the company. Based on the findings and adjustments suggested by the auditor in accordance with the effective regulations, the accompanying consolidated financial statements were adjusted for the effects identified during audit. The adjusted consolidated financial statements were subsequently adopted by the management and will be submitted to the Serbian Business Registers Agency together with the independent auditors' report.

Signed on behalf of Public Enterprise Electric Power Industry of Serbia, Belgrade, by:

Aleksandar Obradović,
Acting General Manager

Branislav Vukosavljević,
Department for Economic and Financial
Affairs Director

Dragan Jonkić,
Accounts Department Director

**CONSOLIDATED BALANCE SHEET
As of December 31, 2012
(Thousands of RSD)**

	<u>Note</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u> <i>Restated</i>
ASSETS			
Non-current assets			
Intangible assets	16	2,628,341	2,561,450
Property, plant, equipment and biological assets	16	937,976,501	1,139,318,758
Investment property	16	374,790	379,070
Advances paid for intangible assets, property, plant and equipment	17	12,256,981	5,844,883
Equity investments	18	1,036,287	981,401
Other long-term investments	19	1,429,500	1,383,003
		<u>955,702,400</u>	<u>1,150,468,565</u>
Current assets			
Inventories	20	23,067,627	25,163,957
Advances for inventories	21	3,793,647	2,119,467
Accounts receivable	22	74,383,295	66,244,940
Receivables for prepaid income taxes		726,343	-
Short-term financial assets	23	1,899,191	2,422,660
Cash and cash equivalents	24	13,460,762	5,922,037
Value added tax and prepayments	25	1,190,287	774,411
		<u>118,521,152</u>	<u>102,647,472</u>
Total assets		<u>1,074,223,552</u>	<u>1,253,116,037</u>
Off-balance sheet assets		258,937,204	186,598,910
EQUITY AND LIABILITIES			
Equity			
State-owned capital	26	358,717,940	358,717,940
Other capital		1,270,098	1,264,579
Revaluation reserves		556,261,621	781,672,944
Unrealized gains on securities		12,539	21,952
Unrealized losses on securities		(686,477)	(663,833)
Accumulated losses		(134,622,569)	(127,862,818)
		<u>780,953,152</u>	<u>1,013,150,764</u>
Long-term provisions	27	13,272,433	12,340,596
Long-term liabilities			
Long-term borrowings	28	58,143,363	45,541,497
Other long-term liabilities	29	3,988,536	2,672,622
		<u>62,131,899</u>	<u>48,214,119</u>
Current liabilities			
Short-term financial liabilities	30	33,092,959	17,682,434
Accounts payable	31	63,076,448	52,104,217
Other current liabilities	32	3,864,932	3,174,403
Value added tax and other duties payable and accruals	33	25,634,307	21,098,756
Income taxes payable		-	2,628,505
		<u>125,668,646</u>	<u>96,688,315</u>
Deferred tax liabilities	15	92,197,422	82,722,243
Total equity and liabilities		<u>1,074,223,552</u>	<u>1,253,116,037</u>
Off-balance sheet liabilities	34	258,937,204	186,598,910

The accompanying notes on the following pages
form 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, 2012
(Thousands of RSD)

	State-Owned Capital	Other Capital	Revaluation Reserves	Unrealized Gains on Securities	Unrealized Losses on Securities	Retained Earnings/ (Accumulated Losses)	Total
Balance as of January 1, 2011	358,717,940	1,265,707	245,680,511	399,870	(475,535)	(152,567,389)	453,021,104
Opening balance adjustment	-	-	(30,227)	-	-	(930,175)	(960,402)
Opening balance, restated	<u>358,717,940</u>	<u>1,265,707</u>	<u>245,680,511</u>	<u>399,870</u>	<u>(475,535)</u>	<u>(153,497,564)</u>	<u>452,090,929</u>
Effects of the fair value adjustment of the financial instruments	-	-	-	(378,807)	(187,791)	-	(566,598)
Disposal of property, plant and equipment	-	-	(2,760,924)	-	-	2,760,924	-
Valuation of property, plant, equipment and intangible assets	-	-	598,746,296	-	-	-	598,746,296
Deferred taxes	-	-	(59,208,037)	-	-	-	(59,208,037)
Profit for the year, restated	-	-	-	-	-	26,368,149	26,368,149
Prior year profit distribution	-	-	-	-	-	(3,636,551)	(3,636,551)
Effects of the netted earnings in inventories of coal at the beginning of the current year	-	-	-	-	-	137,066	137,066
Other	-	(1,128)	(754,675)	889	(507)	5,158	(750,263)
Balance as of December 31, 2011	<u>358,717,940</u>	<u>1,264,579</u>	<u>781,672,944</u>	<u>21,952</u>	<u>(663,833)</u>	<u>(127,862,818)</u>	<u>1,013,150,764</u>
Effects of the fair value adjustment of the financial instruments	-	-	-	(9,413)	(22,644)	-	(32,057)
Disposal of property, plant and equipment	-	-	(5,469,515)	-	-	5,469,515	-
Loss for the year	-	-	-	-	-	(12,338,811)	(12,338,811)
Effects of the subsequent valuation of property, plant, equipment and intangible assets	-	-	905,718	-	-	-	905,718
Deferred taxes – change in the tax rate from 10% to 15%	-	-	(42,231,558)	-	-	-	(42,231,558)
Effects of impairment of property, plant and equipment according to IAS 36 - against revaluation reserves	-	-	(178,615,968)	-	-	-	(178,615,968)
Effects of the netted earnings in inventories of coal at the beginning of the current year	-	-	-	-	-	108,852	108,852
Other	-	5,519	-	-	-	693	6,212
Balance as of December 31, 2012	<u>358,717,940</u>	<u>1,270,098</u>	<u>556,261,621</u>	<u>12,539</u>	<u>(686,477)</u>	<u>(134,622,569)</u>	<u>780,953,152</u>

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

CONSOLIDATED CASH FLOW STATEMENT
Year Ended December 31, 2012
(Thousands of RSD)

	2012	2011
		<i>Restated</i>
Cash flows from operating activities		
Cash receipts from customers	245,767,960	243,962,515
Interest received	7,958,995	6,264,262
Other cash received from operations	5,225,933	3,634,027
Payments to suppliers	(148,336,626)	(138,279,216)
Payments to and on behalf of employees	(58,160,798)	(53,519,142)
Interest paid	(2,637,684)	(2,863,509)
Income taxes paid	(4,330,999)	(967,716)
Other taxes and duties paid	(24,282,949)	(26,811,252)
<i>Net cash generated by operating activities</i>	<u>21,203,832</u>	<u>31,419,969</u>
Cash flows from investing activities		
Sales of property, plant, equipment, intangible assets and biological assets	7,289,790	9,502
Dividends collected	17,780	36,483
Purchase of shares and equity investments (net outflows)	(54,298)	(147,277)
Purchase of property, plant, equipment, intangible assets and biological assets	(29,679,495)	(24,881,386)
Other investments (net outflows)	(211,399)	(280,968)
<i>Net cash used in investing activities</i>	<u>(22,637,622)</u>	<u>(25,263,646)</u>
Cash flows from financing activities		
Long-term and short-term loans (net inflows)	9,135,164	-
Other short-term and long-term liabilities	15,000	6,334
Short-term and long-term borrowings and other liabilities (net outflows)	-	(6,323,868)
Finance lease	(1,319)	(1,330)
<i>Net cash generated by/(used in) financing activities</i>	<u>9,148,845</u>	<u>(6,318,864)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>7,715,055</u>	<u>(162,541)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,922,037	6,053,650
Foreign exchange gains on translation of cash	83,559	80,019
Foreign exchange losses on translation of cash	(259,889)	(49,091)
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>13,460,762</u>	<u>5,922,037</u>

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

1. ESTABLISHMENT, ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE

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

As the founder, the government shall harmonize the Articles of Incorporation of the company with the Law on Public Enterprises (Official Gazette of the Republic of Serbia, no. 119/2012, effective as from December 25, 2012)

Registered Name

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

Registered Address

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

Incorporation (Business Register)

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

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

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

Principal Activity

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

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

Ownership Structure

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

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

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

Governing Bodies

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

Board of Directors

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

Pursuant to Article 66, paragraph 2 of the Law on Public Enterprises (Official Gazette of the Republic of Serbia, no. 119/2012 as of December 17, 2012, effective as from December 25, 2012), as from the date of this Law coming into effect, the Board of Directors shall continue to perform the Supervisory Board activities as prescribed by this Law until the appointment of the Supervisory Board Chair and members in accordance herewith.

Supervisory Board

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

Pursuant to Article 66, paragraph 2 of the Law on Public Enterprises, as from the date of this Law coming into effect, public company supervisory boards shall cease to exist and the members thereof shall cease their tenures. Hence, as of December 25, 2012, the Supervisory Board of JP EPS ceased its activities.

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 is accountable for the lawfulness of the Company's actions, makes suggestions to the Board of Directors with reference to basic business policies, business and development plans and executes the Board of Directors' Decisions.

Organization Structure

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

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

Organization Structure (Continued)

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

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

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

Company	Address	TIN/RN
Public Enterprise Electric Power Industry of Serbia, Belgrade (Parent Company)	Carice Milice 2, Beograd Kralja Petra 1 Square	TIN: 103920327 Reg.no.: 20053658 TIN: 100695213
Business Entity Hydro Power Plant Đerdap d.o.o., Kladovo	Kladovo	Reg.no.: 07715226
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 Thermal Power Plant and Open Pit Mines “Kostolac” d.o.o., Kostolac	Svetog Save Street no. 1, Lazarevac	TIN: 101138490 Reg.no.: 07788053
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: 103920327 Reg.no.: 20053658
Business Entity for Renewable Energy Sources “EPS obnovljivi izvori” d.o.o., Užice	Dimitrija Tucovića no. 40, Užice	TIN: 107504635 Reg.no.: 20816244

The Parent company founded the Business Entity for Renewable Energy Sources "EPS obnovljivi izvori" d.o.o., Užice, with a 100% equity interest of RSD 72,195,305 thousand, registered with the competent state agency as of April 2, 2012. The aim of establishment of this entity is electricity generation from the renewable energy sources.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

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

Organization Structure (Continued)

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

1. 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 session 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.
2. 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).
3. The entity "Moravske hidroelektrane" d.o.o. Beograd, established jointly with RWE Innogy GmbH, Republic of Germany (RWE AG), with 49% equity share in this entity, worth EUR 1,960,000. The company "Moravske hidroelektrane" d.o.o. was duly registered with the competent Agency as of August 23, 2011. The company "Moravske hidroelektrane" was founded with the aim to enable construction of a hydroelectric power system at the Velika Morava River the company comprised of at least 5 hydroelectric power plants of the total power rating of 150 MW.

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

As of December 31, 2012, the Company had 31,887 employees (December 31, 2011: 32,178 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, 2012, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

2.2. Basis of Preparation and Presentation of Consolidated Financial Statements

The Company's consolidated financial statements for the year 2011 have been prepared pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46/2006 and 111/2009) and "Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" (Official Gazette of the Republic of Serbia, nos.114/2006, 5/2007, 119/2008 and 2/2010).

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

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

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

Recognition and estimate of the line items included in the financial statements have been performed in accordance with the provisions International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as determined in the Decision enacted by the Ministry of Finance no. 401-00-1380/2010-16 on October 5, 2010 (Official Gazette of the Republic of Serbia no. 77/10) except for the part of requirements of IAS 19 "Employee Benefits" pertaining to the employee share in profit recognition. As disclosed in Note 26, employee benefits in the form of share in profit paid in the previous reporting period were recognized as charged to the previous period result in accordance with the regulatory body's opinion.

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

In addition, the accounting regulations of the Republic of Serbia depart from IFRS, in the following:

- Departures from IAS 12 "Income Taxes" and Interpretation SIC - 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets," whereby deferred tax liabilities or assets are recognized arising from revaluation of assets that are not depreciated in accordance with IAS 16 "Property, Plant and Equipment" but are measured based on the tax effects that would result from the recovery of the carrying amounts of such assets through sales, irrespective of the basis of the carrying value measurement thereof. Due to the inability to obtain clear interpretation of the regulations with regard to the cost of land and regulation of the disposal and ownership rights over land, as well as due to the specificity of the Company's activity, the aforesaid SIC 21 is deemed as impossible to implement in the current circumstances.
- The accounting regulations of the Republic of Serbia depart partially from IAS and IFRS in provisions of IAS 19 "Employee Benefits," given that, Pursuant to the opinion of the Republic of Serbia Ministry of Finance, employee share in profit is recorded as a decrease of retained earnings and not as charged to the current period results.

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:

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

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

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

- Amendments to IFRS 2 “Share-Based Payment”: Amendments resulting from the Annual Quality Improvement Project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments IFRIC 9 “Reassessment of Embedded Derivatives” effective for annual periods beginning on or after July 1, 2009 and IAS 39 “Financial Instruments: Recognition and Measurement” – Embedded Derivatives (effective for annual periods beginning on or after June 30, 2009);
- IFRIC 18 “Transfers of Assets from Customers” (effective for annual periods beginning on or after July 1, 2009);
- “Conceptual Framework for Financial Reporting 2010” being an amendments to “Framework for the Preparation and Presentation of Financial Statements” (effective for transfer of assets from customers received on or after September 2010);
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IAS 24 “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for Rights Issues (effective for annual periods beginning on or after February 1, 2010);
- Amendments to various standards and interpretations “Improvements to IFRSs” resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (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” – Transfers of Financial Assets (effective for annual periods beginning on or after January 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 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012).

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

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

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2015);
- Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” – Mandatory Effective Date and Transition Disclosures (effective for annual periods beginning on or after January 1, 2015);
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance” (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Government Loans with a Below-Market Rate of Interest (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 32 “Financial Instruments: Presentation” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);
- Annual improvements 2009-2011 cycle issued in May 2012 (effective for annual periods beginning on or after January 1, 2013);
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013).
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Exemption from Consolidation of Subsidiaries under IFRS 10 'Consolidated Financial Statements' (effective for annual periods beginning on or after January 1, 2014).

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

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

2.5. Comparative Data

As comparative information, the Company presented the restated consolidated income statement for the year ended December 31, 2011 and the restated consolidated balance sheet as of December 31, 2011 and restated consolidated statement of changes in equity and consolidated cash flows statement for the year then ended.

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 12 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, 2012 given that the Company's management does not have administrative and managing control over the operations of these companies.

3.2. Revenues and Expenses

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

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

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

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

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

3.3. Effects of Foreign Exchange Translation

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

3.4. Borrowing Costs

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Employee Benefits

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

3.6. Prior Period Error Correction

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

3.7. Fair Value

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

3.8. Transfer Pricing Between Consolidated Entities

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

3.9. Provisions

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

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

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

3.10. Grants

The value of donated assets is initially recorded as deferred income from grants, 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 grants that cover one accounting period and are intended to cover the Company's expenses, or to increase its income, are recognized as income upon reception.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Taxes and Contributions

a) Current Income Taxes

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

As from the following reporting period, current income tax will be calculated at the tax rate of 15% 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 33% of tax accrued in the year in which the capital expenditure has been undertaken).

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.

As at December 31, 2012, deferred tax assets and liabilities were provided at the rate of 15% (December 31, 2011: 10%).

c) Indirect Taxes and Contributions

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

3.12. Property, Plant and Equipment

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

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

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Property, Plant and Equipment (Continued)

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

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

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

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

3.13. Depreciation

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

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

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

3.14. Intangible Assets

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

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

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

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

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012**

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

If there is any indication that such assets have become impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset cannot be estimated, the recoverable amount of the cash generating unit, of the public enterprise is estimated, as disclosed in Note 16.

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 value in use of inventories.

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

3.17. Financial Instruments

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

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

Equity Investments

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

Other Long-Term Investments

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

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

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Financial Instruments (Continued)

Short-Term Receivables and Assets

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

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

Other receivables and assets are measured at amortized cost.

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

Impairment of Financial Assets

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

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

The assessment of the collectability of accounts receivable associated with the sale of electricity is based upon particular categories of debtors. For receivables from legal entities that are more than 60 days past due, an allowance for impairment is formed. Exceptionally, for these debtors, the collectability may be assessed individually. In its assessment of recoverability of accounts receivable, the Company considered all events up to January 31, 2013, 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 balances on accounts held with commercial banks.

Financial Liabilities

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

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

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 2011

a) Effects of adjustments made to the balance sheet as of December 31, 2011

	Amounts reported as at December 31, 2011	Reconciliation of data reported with data from books of account as at December 31, 2011	From books of account of the period as at December 31, 2011	Reclassificatio ns and adjustments as at January 1, 2012	Restated January 1, 2012
ASSETS					
Non-current assets					
Intangible assets	2,558,133	(1)	2,558,132	3,318	2,561,450
Property, plant, equipment and biological assets	1,139,474,611	-	1,139,474,611	(155,853)	1,139,318,758
Investment property	379,069	1	379,070	-	379,070
Advances for intangible assets, property, plant and equipment	5,847,418	(2,535)	5,844,883	-	5,844,883
Equity investments	981,401	-	981,401	-	981,401
Other long-term investments	1,383,003	-	1,383,003	-	1,383,003
	<u>1,150,623,635</u>	<u>(2,535)</u>	<u>1,150,621,100</u>	<u>(152,535)</u>	<u>1,150,468,565</u>
Current assets					
Inventories	25,163,939	6	25,163,945	12	25,163,957
Advances paid for inventories	2,133,667	2,535	2,136,202	(16,735)	2,119,467
Accounts receivable	66,533,152	-	66,533,152	(288,212)	66,244,940
Short-term financial assets	2,872,660	-	2,872,660	(450,000)	2,422,660
Cash and cash equivalents	5,472,037	-	5,472,037	450,000	5,922,037
Value added tax and prepayments	774,412	(3)	774,409	2	774,411
	<u>102,949,867</u>	<u>2,538</u>	<u>102,952,405</u>	<u>(304,933)</u>	<u>102,647,472</u>
Total assets	<u>1,253,573,502</u>	<u>3</u>	<u>1,253,573,505</u>	<u>(457,468)</u>	<u>1,253,116,037</u>
EQUITY AND LIABILITIES					
Equity					
State-owned capital	358,717,940	-	358,717,940	-	358,717,940
Other capital	1,264,579	-	1,264,579	-	1,264,579
Revaluation reserves	781,742,820	(39,649)	781,703,171	(30,227)	781,672,944
Unrealized gains on securities	21,952	-	21,952	-	21,952
Unrealized losses on securities	(663,833)	-	(663,833)	-	(663,833)
Retained earnings	-	(7,100)	(7,100)	7,100	-
Accumulated losses	(126,480,955)	7,100	(126,473,855)	(1,388,963)	(127,862,818)
	<u>1,014,602,503</u>	<u>(39,649)</u>	<u>1,014,562,854</u>	<u>(1,412,090)</u>	<u>1,013,150,764</u>
Long-term provisions	12,340,596	-	12,340,596	-	12,340,596
Long-term liabilities					
Long-term borrowings	45,541,497	-	45,541,497	-	45,541,497
Other long-term liabilities	2,672,622	-	2,672,622	-	2,672,622
	<u>48,214,119</u>	<u>-</u>	<u>48,214,119</u>	<u>-</u>	<u>48,214,119</u>
Current liabilities					
Short-term financial liabilities	17,682,434	-	17,682,434	-	17,682,434
Accounts payable	52,089,907	1	52,089,908	14,309	52,104,217
Other current liabilities	2,978,904	-	2,978,904	195,499	3,174,403
Value added tax and other duties payable and accruals	20,835,728	-	20,835,728	263,028	21,098,756
Income taxes payable	2,531,858	-	2,531,858	96,647	2,628,505
	<u>96,118,831</u>	<u>1</u>	<u>96,118,832</u>	<u>569,483</u>	<u>96,688,315</u>
Deferred tax liabilities	82,297,453	39,651	82,337,104	385,139	82,722,243
Total equity and liabilities	<u>1,253,573,502</u>	<u>3</u>	<u>1,253,573,505</u>	<u>(457,468)</u>	<u>1,253,116,037</u>
Off-balance sheet items	186,822,501	495,649	187,318,150	(719,240)	186,598,910

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012**

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 2011 (Continued)**

b) Effects of December 31, 2011 accumulated loss adjustments

Balance of accumulated loss as of January 1, 2011	(152,567,389)
<i>Adjustments in the period from January 1 through December 31, 2011:</i>	
Increase in the carrying value of property, plant and equipment as the adjustment of revaluation effects thereof as of January 1, 2011	149,992
Decrease in revaluation reserves	30,227
Increase in deferred tax liabilities	(384,428)
Recognition of liability for corporate income tax payable based on the adjustment of the income transferred	(92,276)
Recognition of accounts payable based on the invoices received after the financial statements preparation date	(20,091)
Recognition of decrease in receivables based on the calculated penalty accrued to the customers under litigation	(291,571)
Subsequently determined employee entitlement to reduced years of service for retirement due to difficult, hazardous and harmful work tasks assigned	(195,499)
Decrease in construction in progress based on the regular annual inventory count of property, plant and equipment	(74,970)
Recognized expenses incurred in elimination on harmful impact on the environment, previously recognized as investment in property, plant and equipment	(35,842)
Other	(15,717)
<i>Total adjustments in the period from January 1 through December 31, 2011</i>	<i>(930,175)</i>
Restated balance of accumulated loss	(153,497,564)

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012**

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 2011 (Continued)**

c) Effects of adjustments to the income statement for the year ended December 31, 2011

	Year Ended December 31, 2011 – prior to Adjustments/ Reclassifications	Adjustments/ Reclassifications	Year Ended December 31, 2011 – following Adjustments/ Reclassifications
OPERATING INCOME			
Sales revenues	178,273,523	-	178,273,523
Own-work capitalized	7,516,240	-	7,516,240
Increase in the value of inventories	(1,236,156)	-	(1,236,156)
Other operating income	5,771,791	1,495	5,773,286
	<u>190,325,398</u>	<u>1,495</u>	<u>190,326,893</u>
OPERATING EXPENSES			
Cost of commercial goods sold	(2,184)	-	(2,184)
Cost of materials	(46,837,573)	-	(46,837,573)
Staff costs	(46,982,402)	1,360	(46,981,042)
Depreciation, amortization and provisions	(46,652,156)	3,318	(46,648,838)
Other operating expenses	(38,623,791)	(256,392)	(38,880,183)
	<u>(179,098,106)</u>	<u>(251,714)</u>	<u>(179,349,820)</u>
PROFIT FROM OPERATIONS	<u>11,227,292</u>	<u>(250,219)</u>	<u>10,977,073</u>
Finance income	9,892,874	(1,866)	9,891,008
Finance expenses	(4,020,216)	(780)	(4,020,996)
Other income	53,941,242	3,241	53,944,483
Other expenses	(41,436,633)	(198,854)	(41,635,487)
PROFIT BEFORE TAXES	<u>29,604,559</u>	<u>(448,478)</u>	<u>29,156,081</u>
Income taxes	(2,784,722)	(3,210)	(2,787,932)
Deferred tax benefits/(expenses)	571,156	-	571,156
Current income tax expense	(3,355,878)	(3,210)	(3,359,088)
NET PROFIT	<u>26,819,837</u>	<u>(451,688)</u>	<u>26,368,149</u>

**d) Effects of adjustments to the earliest prior comparative period presented in the income
statement for the year 2011**

Operating profit (net profit) for the period ended December 31, 2011 prior to adjustments	<u>26,819,837</u>
Recognition of liabilities for public duties payable per final calculations received from competent authorities during FY 2012	(257,390)
Recognized expenses incurred in elimination on harmful impact on the environment, previously recognized as investment in property, plant and equipment	(199,360)
Other	5,062
Total adjustments	<u>(451,688)</u>
Restated operating profit (net profit) for the period ended December 31, 2011 following adjustments	<u>26,368,149</u>

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

5. SALES REVENUES

	Year Ended December 31,	
	2012	2011
Income from the sale of electricity	159,425,822	159,461,221
Sale of coal	4,858,621	4,839,080
Sale of engineering steam and gas	1,867,707	1,929,844
Sale to legal entities domiciled abroad	5,099,353	5,008,574
Sale of products and services (Public Company "Kolubara Metal")	1,687,156	1,469,068
Income from radio and television subscriptions	40,032	182,143
Income from the Public Enterprise "Elektromreža Srbije"	5,245,436	5,383,593
	178,224,127	178,273,523

In addition to the delivery to tariff customers, a portion of revenues from the sale of electricity totaling RSD 1,412,037 thousand was also recognized based on deliveries to legal entities – residents of the Republic of Serbia holding electricity trading license.

Pursuant to the Conclusion of the Republic of Serbia Government numbered 021-6624/2009-002 as of November 30, 2009, the Company engaged its capacities to secure electricity for the north part of the Autonomous Province of Kosovo and Metohija. Subsequent assessment of the inflow of benefits for the reporting year amounted to RSD 807,309 thousand.

A portion of sales performed in foreign markets amounting to RSD 5,007,123 thousand was recognized for electricity delivered based on long-term agreements closed with the Power Industry of Montenegro and the Power Utility of the Republic of Srpska and the remaining amounts relate to the delivery of products of the Public Company "RB Kolubara" and the Business Entity "Kolubara Metal" and to the Business Entity "RB Kolubara" to non-residents.

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

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

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

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

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

5. SALES REVENUES (Continued)

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

After the reporting date, the government of the Republic of Serbia enacted Decree on the Protected Energy Customer (Official gazette of RS, no. 27/13), whereby the protected energy customer becomes entitled to the reduction of the monthly liability for a certain quantity of electricity delivered as follows:

1. For one-member household and income of up to RSD 12,900.00 of 120 kWh;
2. For two-member and three-member households and income of up to RSD 18,786.00 of 160 kWh;
3. For four-member and five-member households and income of up to RSD 24,672.00 of 200 kWh; and
4. For households with six and more members and income of up to RSD 30,558.00 of 250 kWh.

Under condition that the protected customer has monthly electricity consumption below the respective double aforesaid quantity; if the monthly consumption exceeds the aforesaid respective quantities 2 to 2.5 times, the protected customer is entitled to the half of the aforesaid reduction. In addition, the Decree envisages that the protected customer loses its entitlement to the reduction of monthly liability in instances of consumption exceeding the aforesaid respective quantities more than 2.5 times. Pursuant to Article 12 of the Decree, the funds for support of the protected customers are to be provided by the Company until the Republic of Serbia obtains the capacities to assume those.

5.1. Income from Own Work Capitalized

A portion of income from own work capitalized of RSD 4,065,250 thousand (Entity "Elektrosrbija" – RSD 1,503,129 thousand, Entity "Elektrovojvodina" – RSD 1,187,430 thousand, Entity "ED Beograd" – RSD 653,752 thousand, Entity "Jugoistok" – RSD 504,632 thousand, Entity "Centar" – RSD 216,307 thousand) relates to the recognized self-constructed non-assets, as disclosed in Note 3.12. The amount of RSD 1,630,688 thousand was recognized based on the transfer from products from the Entity "Kolubara Metal" to the non-current/current assets of other Group members.

6. OTHER OPERATING INCOME

	Year Ended December 31,	
	2012	2011
Grants	2,322,672	1,938,492
New customer connection fees	2,321,137	2,283,513
Insurance claims collected	741,731	397,526
Rental income	120,131	114,970
Other operating income	1,130,727	1,038,785
	6,636,398	5,773,286

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.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

7. COST OF MATERIALS

	Year Ended December 31,	
	2012	2011
Cost of electricity purchased:		
- in domestic market	10,114,907	8,049,013
- in foreign markets	3,884,551	3,000,138
Transfer of electricity by the Public Enterprise "Elektromreža Srbije", Belgrade	11,483,452	11,201,457
Materials for maintenance and spare parts	8,002,141	9,687,555
Oil derivatives	6,656,713	3,963,251
Natural gas and other energy	5,947,210	6,179,460
External purchases of coal	1,289,332	611,353
Production materials	2,955,892	2,411,678
Office supplies and general overhead materials	500,684	604,059
Other	1,076,700	1,129,609
	<u>51,911,582</u>	<u>46,837,573</u>

The acquisition of electricity used for the Company's own activities in the amount of RSD 13,999,458 thousand is related to the acquisition of electricity from legal entities outside the EPS system (imported and acquired from legal entities located in the territory of the Republic of Serbia holding license to trade in electricity). Electricity was purchased from external legal entities in the conditions of extremely low temperatures, in accordance with conclusions and recommendations of the RS Government on the rationalization of electricity and energy-generating product consumption and prevention of introducing restricted electricity and energy-generating product delivery measures. A portion of expenses for the electricity purchased abroad includes the amount of RSD 3,872,966 thousand, accounting for the electricity procured from the Electric Power Industry of Montenegro and Mixed Holding Power Industry of the Republic of Srpska.

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

After the reporting date, the RS Government passed new regulations to introduce stimulating measures (published in the Official gazette of RS, no. 8/13), as follows:

- Decree on the incentives for privileged power producers, whereby, inter alia, new stimulating purchase prices are defined;
- Decree on the manner of calculating and distributing funds collected from the fees for stimulating privileged electricity producers; and
- Decree on the amount of the special fee for stimulation in 2013, whereby a special fee for stimulation in 2013 is defined in the amount of RSD 0.044 per kWh.

The Company concluded an Agreement with the Public Enterprise "Elektromreža Srbije" which allows access to and use of the power supply system to tariff users and entities involved in power generation and distribution established by JP EPS. The subject fees payable by entities involved in power distribution, pursuant to the enactments of the Energy Agency, starting from January 1, 2008, are considered to be justified operating costs incurred in energy supply – distribution of electricity.

8. STAFF COSTS

	Year Ended December 31,	
	2012	2011
Gross salaries	41,061,763	36,182,965
Payroll contributions charged to the employer	8,833,751	7,973,079
Employee transport	1,408,565	1,265,318
Other staff costs	1,714,267	1,559,680
	<u>53,018,346</u>	<u>46,981,042</u>

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

8. STAFF COSTS (Continued)

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

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

The Law on the Public Sector Maximum Salary (Official Gazette of RS, no. 93/2012, effective as of September 29, 2012 and applicable to the calculation and payment of salaries for October 2012) defines the cap amount of public sector salary and its elements. The Law stipulates the calculation of the cap amount salary by multiplying the highest coefficient determined by the Law on Civil Servant Salaries (Official Gazette of RS, nos. 62/2006 and 99/2010) by the base determined by the current year Budget Act. The highest coefficient equals 9 and the base for calculation and payment of salaries for October 2012 amounted to RSD 18,443.96 net, with the related taxes and contributions. Accordingly, the cap amount salary d net for October 2012 amounted to RSD 165,995.55 with the related taxes and contributions.

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	Year Ended December 31, 2012	2011
Depreciation and amortization:		
- property, plant and equipment	44,209,033	42,786,729
- intangible assets	188,748	175,495
Provisions:		
- for employee benefits	952,153	1,866,740
- for litigations	3,084,451	1,341,939
- for natural resource restoration	382,286	337,255
- other provisions	78,574	140,680
	48,895,245	46,648,838

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

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

10. OTHER OPERATING EXPENSES

	Year Ended December 31,	
	2012	2011
Insurance premiums	2,275,874	1,917,322
Public water charges	1,907,547	1,845,604
Costs of river bank usage for business purposes	277,299	335,467
Forest protection and usage charges	89,586	149,259
Development land usage fees	2,982,309	2,737,706
General interest property usage fees	37,425	34,889
Environment pollution charges	3,805,256	3,408,675
Property taxes	1,322,040	596,131
Mineral royalties	1,525,219	615,987
Other indirect taxes, contributions and fees	1,391,957	862,538
Maintenance	10,348,412	10,330,236
Telecommunications	1,218,030	1,219,465
Transportation services	387,232	343,212
Rentals	442,672	927,669
Research	116,442	62,003
Public utility fees	398,751	375,242
Services provided by student and youth employment agencies	669,450	599,910
Entertainment	278,834	301,577
Bank charges	853,510	779,509
Other production services	4,693,042	4,114,044
Other services	2,303,759	1,931,644
Production costs	1,771,625	1,994,237
Scientific research	497,622	754,805
Court fees	817,210	951,804
Other non-material expenses	1,605,600	1,691,248
	42,016,703	38,880,183

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

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

Commencing from November 15, 2010, the Company was obligated to pay fees for protection and betterment of the general interest functions of forests, computed by applying the rate of 0.025% to the base comprising the total annual income realized in the previous year. This levy was abrogated as of October 6, 2012, under the amendments and supplements to the Law on Forests (Official Gazette of RS, no. 93/12).

Other non-material expenses, apart from protection at work fees, professional services, membership fees, sponsorships and the like, include an amount of RSD 74,609 thousand relating to the assumed liabilities for taxes and contributions on salaries of the employees of JP "PEU Resavica" (the entity that operated within EPS until 2003) for 2000 and 2001 including penalties accrued until December 31, 2002, which have been rescheduled into 120 installments.

Rentals recognized in the amount of RSD 442,672 thousand for the year ended December 31, 2012 (2011: RSD 927,669 thousand) include an amount of RSD 365,834 thousand incurred based on the lease of machinery for the purpose of addressing adverse effects of coal exploitation and bringing the existing locations into use.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

11. FINANCE INCOME

	Year Ended December 31, 2012	2011
Interest income	12,424,046	8,755,098
Foreign exchange gains	1,019,450	1,023,240
Other finance income	90,768	112,670
	13,534,264	9,891,008

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, 2012	2011
Interest expenses	3,878,728	2,508,527
Foreign exchange losses	5,509,028	1,245,462
Other finance expenses	827,138	267,007
	10,214,894	4,020,996

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

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

13. OTHER INCOME

	Year Ended December 31, 2012	2011
Gains on the sale of material, equity investments, intangible assets, property, plant and equipment	78,855	65,284
Collected receivables previously written off and reversal of allowance for impairment of receivables and short-term financial assets	3,121,182	2,349,108
Value adjustments of property, plant and equipment	-	49,430,610
Value adjustments of other assets	168,948	81,792
Write-off of environment protection charges	1,133,725	1,341,314
Write-off of liabilities	1,776,120	70,162
Surpluses	654,050	207,025
Reversal of long-term provisions for employee benefits	1,663	6,180
Reversal of long-term provisions for litigations	74,619	94,642
Other income	6,326,577	298,366
	13,335,739	53,944,483

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

All amounts expressed in thousands of RSD, unless otherwise stated

13. OTHER INCOME (Continued)

Income from write-off of liabilities for environment protection, stated as totaling RSD 1,133,725 thousand in the year 2012, for the most part of RSD 1,132,504 thousand, was recognized based on the liability determined for environment protection charge determined for the year 2011 as per subsequently adopted internal administrative acts of the Environment Protection Fund (Public Company TE "Nikola Tesla").

Income from write-off of liabilities of RSD 1,776,120 thousand, in the year of 2012, mostly, in the amount of RSD 1,443,456 thousand, was recognized pursuant to decisions of the competent authorities on the cancellation of liabilities with expired general obsolescence terms.

Other income earned in 2012 in the amount of RSD 6,326,577 thousand, for the most part of RSD, 6,028,068 thousand, relates to the works and services provided to the foreign customer CMEC, China, pursuant to the relevant agreement, as disclose din Note 28.

14. OTHER EXPENSES

	Year Ended December 31, 2012	2011
Losses on disposal, write-off and sale of fixed assets, intangible assets, equity investments and materials	5,542,690	2,917,120
Shortages	36,228	100,975
Write-off of receivables	1,789,615	137,114
Impairment of assets:		
- short-term receivables and rescheduled accounts receivable	16,763,083	16,425,379
- property, plant and equipment	18,323,099	15,290,214
- inventories	1,100,765	391,447
- other assets	90,531	315,407
Staff costs of the employees in the public enterprises situated in the Autonomous Province of Kosovo and Metohija	4,919,005	4,663,927
Sponsorship and donation expenses	296,608	439,071
Other expenses	6,709,901	954,833
	<u>55,571,525</u>	<u>41,635,487</u>

Losses on disposal of plant and equipment were recognized in the amount of RSD 5,542,690 thousand (Entity "Đerdap" – 2012: RSD 434,083 thousand and 2011: RSD 1,291,730 thousand; Entity TE "Nikola Tesla" - 2012: RSD 3,241,548 thousand and 2011: RSD 762,175 thousand) based on the activities undertaken towards the revitalization of plant and equipment.

Accounts receivable considerably past-due were recognized as an impairment loss in the amount of RSD 16,763,083 thousand.

As disclosed in Note 16, decrease in the carrying amounts of property, plant and equipment up to the recoverable amount as of the reporting date was recognized as an impairment loss of RSD 18,323,099 thousand. In the previous reporting period, the expense of RSD 15,290,214 thousand was recognized as revaluation effect as of January 1, 2011.

A portion of other expenses of RSD 5,968,828 thousand refers to the expenditures incurred in respect to the works performed and services rendered to the foreign customer CMEC, China.

Expenses amounting to RSD 4,919,005 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.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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All amounts expressed in thousands of RSD, unless otherwise stated

15. INCOME TAXES

a) Components of Income Taxes

	Year Ended December 31, 2012	2011
Current income tax expense	659,296	3,359,088
Deferred income tax benefits	(32,705,177)	(571,156)
	(32,045,881)	2,787,932

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

	January through December 2012	January through December 2011
(Loss)/ Profit before taxation	(44,384,692)	29,156,081
Reconciliation of expenses not recognized in the tax balance sheet (permanent differences)	33,724,344	2,459,432
Reconciliation of depreciation charges calculated for accounting and tax purposes (temporary differences)	17,894,616	15,962,704
Taxable profit	7,234,268	47,578,217
Amount of prior year loss and capital loss brought forward up to the amount of taxable profit	-	(11,046,679)
Tax loss for the year	(40,309)	257
Decrease in calculated tax based on capital expenditures	(600,999)	(2,940,915)
Tax base	6,592,960	33,590,880
Current income tax expense	659,296	3,359,088
Deferred taxes – deferred tax benefits	(32,705,177)	(571,156)
	(32,045,881)	2,787,932

c) Deferred Tax Assets and Liabilities

	December 31, 2012	December 31, 2011
c1) Present value of property, plant and equipment, whose value is systematically written-off based on useful lives stated in the financial statements	856,481,186	1,068,826,228
c2) Present value of property, plant and equipment recognized in accordance with the tax regulations	241,831,740	241,603,798
Taxable temporary differences (c1- c2)	614,649,480	827,222,430
Deferred tax liabilities	92,197,422	82,722,243

As disclosed in Note 3.11, corporate income tax for the year 2012 was determined pursuant to the partially amended rules prescribed by the Law on Amendments and Supplements to the Corporate Income Tax Law (Official gazette no. 119/12). Accordingly, as from January 1, 2013, new rules are defined for determining taxable base, capital gains and losses, usage of tax holidays and tax rate was raised from 10% to 15%, which was applied in determining deferred tax liabilities.

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15. INCOME TAXES (Continued)

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

As of December 31, 2012, 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.

	December 31, 2012	December 31, 2011
Deferred tax assets upon tax losses were as follows:		
- for the year 2003	52,676	52,676
- for the year 2004	120,597	120,597
- for the year 2006	837	837
- for the year 2007	197,356	197,356
- for the year 2008	287,504	287,504
- for the year 2009	293,301	293,301
- for the year 2010	271,534	271,533
- for the year 2011	347,671	345,897
- for the year 2012	308,525	-
- Total	1,880,001	1,569,701
Deferred tax assets based on capital losses	5,095	798
Deferred tax assets based on tax credits for capital expenditures	13,404,036	10,455,766
Total	15,289,132	12,026,265

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

	Land, Forests and Perennial Plants	Buildings	Plant, Equipment and Other Assets	Construction in Progress	Total	Intangible Assets	Investment Property
Cost							
Balance at January 1, 2011, prior to adjustments	25,124,614	459,080,381	867,584,761	48,056,108	1,399,845,864	3,690,728	131,605
Adjustments	1,767,131	5,832	(465,081)	(14,188)	1,293,694	655	-
Balance at January 1, 2011 following adjustments	<u>26,891,745</u>	<u>459,086,213</u>	<u>867,119,680</u>	<u>48,041,920</u>	<u>1,401,139,558</u>	<u>3,691,383</u>	<u>131,605</u>
Additions	3,989,086	429,704	4,669,551	23,145,231	32,233,572	255,929	-
Activation of construction in progress	40,809	5,301,583	21,257,327	(28,813,167)	(2,213,448)	(21,269)	-
Transfers	30,404	(22,180,233)	22,085,369	1,287,507	1,223,047	-	427,126
Self-constructed assets	-	620,164	1,691,322	4,077,092	6,388,578	16,407	-
Grants	-	49,958	617,637	-	667,595	63	-
Revaluation (effects of subsequent appraisals)	4,756,542	124,334,789	245,391,489	-	374,482,820	(14,777)	-
Appraisal effects of land and construction in progress	6,935,175	2,322,272	5,770,527	-	15,027,974	-	-
Sales	(218)	(10,115)	(40,558)	-	(50,891)	-	-
Write-off (disposals)	-	(452,700)	(12,855,602)	(2,563)	(13,310,865)	(2,585)	-
Transfer to third parties	-	(447,858)	(105,435)	-	(553,293)	(38)	-
Surpluses	-	62,166	26,150	-	88,316	-	-
Shortages	-	-	(16,423)	-	(16,423)	-	-
Other changes	(2,642)	(7,601)	(1,068,589)	(553,240)	(1,632,072)	(2,150)	-
Balance, December 31, 2011, following adjustments	<u>42,640,901</u>	<u>569,108,342</u>	<u>1,154,542,445</u>	<u>47,182,780</u>	<u>1,813,474,468</u>	<u>3,922,963</u>	<u>558,731</u>
Cost							
Balance at January 1, 2012, prior to adjustments	42,640,901	569,108,342	1,154,542,445	47,182,780	1,813,474,468	3,922,963	558,731
Adjustments	6,111	235,921	6,605	(310,172)	(61,535)	-	-
Balance at January 1, 2012 following adjustments	<u>42,647,012</u>	<u>569,344,263</u>	<u>1,154,549,050</u>	<u>46,872,608</u>	<u>1,813,412,933</u>	<u>3,922,963</u>	<u>558,731</u>
Additions	3,728,555	771,741	3,325,886	34,511,845	42,338,027	257,044	3,187
Activation of construction in progress	297,344	973,688	18,807,508	(21,733,470)	(1,654,930)	9,514	-
Transfers	-	(3,607,848)	3,588,803	619,497	600,452	(6,977)	-
Self-constructed assets	26,801	343,719	1,099,459	1,252,386	2,722,365	7,722	-
Grants	-	37,040	413,487	-	450,527	237	-
Impairment effect	(3,999,190)	-	-	-	(3,999,190)	-	-
Other appraisal effects of land and construction in progress	337,629	-	-	-	337,629	-	-
Sales	-	(99,247)	(28,797)	-	(128,044)	-	(11,393)
Write-off (disposals)	(14,523)	(611,947)	(12,610,576)	(5,166)	(13,242,212)	(11,457)	-
Transfer to third parties	-	(522,196)	(459,024)	-	(981,220)	-	-
Surpluses	482,764	19,092	105,260	-	607,116	-	-
Shortages	(653)	-	(41,619)	-	(42,272)	-	-
Other changes	(39,137)	599,723	(5,252)	(566,840)	(11,506)	5	-
Balance, December 31, 2012	<u>43,466,602</u>	<u>567,248,028</u>	<u>1,168,744,185</u>	<u>60,950,860</u>	<u>1,840,409,675</u>	<u>4,179,051</u>	<u>550,525</u>

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

	Land, Forests and Perennial Plants	Buildings	Plant, Equipment and Other Assets	Construction in Progress	Total	Intangible Assets	Investment Property
Accumulated Depreciation and Amortization							
Balance at January 1, 2011, prior to adjustments	8,108,289	267,333,946	608,934,358	-	884,376,593	1,209,767	79,380
Adjustments	248,299	7,451	(309,839)	-	(54,089)	-	-
Balance at January 1, 2011 following adjustments	8,356,588	267,341,397	608,624,519	-	884,322,504	1,209,767	79,380
Charge for the year	441,010	8,383,237	33,862,201	-	42,686,448	175,495	100,281
Transfers	-	(10,936,758)	10,939,128	-	2,370	-	-
Grants	-	10,211	263,419	-	273,630	-	-
Revaluation (effects of subsequent appraisals)	(351,486)	(106,108,299)	(118,405,107)	-	(224,864,892)	(20,293)	-
Decrease in value due to appraisal effects	(304,063)	(7,256,556)	(10,970,803)	318,201	(18,213,221)	(1,046)	-
Sales	-	(6,960)	(37,208)	-	(44,168)	-	-
Retirement and disposal	-	(320,280)	(8,559,368)	-	(8,879,648)	(2,066)	-
Shortages	-	-	(12,437)	-	(12,437)	-	-
Transfer to third parties	-	(394,879)	(85,499)	-	(480,378)	-	-
Other changes	122,089	9,301	(921,743)	-	(790,353)	(346)	-
Balance, December 31, 2011, following adjustments	8,264,138	150,720,414	514,697,102	318,201	673,999,855	1,361,511	179,661
Accumulated Depreciation and Amortization							
Balance at January 1, 2012, prior to adjustments	8,264,138	150,720,414	514,697,102	318,201	673,999,855	1,361,511	179,661
Adjustments	5,581	85,939	2,800	-	94,320	2	-
Balance at January 1, 2012 following adjustments	8,269,719	150,806,353	514,699,902	318,201	674,094,175	1,361,513	179,661
Charge for the year	1,266,852	8,094,645	34,843,617	-	44,205,114	188,748	3,919
Transfers	-	(2,025,652)	1,782,981	-	(242,671)	(890)	-
Grants	-	9,360	26,042	-	35,402	1,429	-
Impairment effect	798,218	76,389,650	115,752,009	-	192,939,877	-	-
Other appraisal effects of land and construction in progress	337,629	-	-	-	337,629	-	-
Sales	-	(15,556)	(27,119)	-	(42,675)	-	(7,845)
Retirement and disposal	-	(424,539)	(7,648,760)	-	(8,073,299)	(78)	-
Shortages	(463)	-	(22,172)	-	(22,635)	-	-
Transfer to third parties	-	(309,713)	(236,169)	-	(545,882)	-	-
Other changes	(316,115)	16,118	48,136	-	(251,861)	(12)	-
Balance, December 31, 2012	10,355,840	232,540,666	659,218,467	318,201	902,433,174	1,550,710	175,735
Net Book Value							
Balance, December 31, 2011	34,376,763	418,387,928	639,845,343	46,864,579	1,139,474,613	2,561,452	379,070
Balance at January 1, 2011, prior to adjustments	17,016,325	191,746,435	258,650,403	48,056,108	515,469,271	2,480,961	52,225
Balance at January 1, 2011 following adjustments	18,535,157	191,744,816	258,495,161	48,041,920	516,817,054	2,481,616	52,225
Net Book Value							
Balance, December 31, 2012	33,110,762	334,707,362	509,525,718	60,632,659	937,976,501	2,628,341	374,790
Balance at January 1, 2012, prior to adjustments	34,376,763	418,387,928	639,845,343	46,864,579	1,139,474,613	2,561,452	379,070
Balance at January 1, 2012 following adjustments	34,377,293	418,537,910	639,849,148	46,554,407	1,139,318,758	2,561,450	379,070

Translation of the Auditors' Report issued in the Serbian language

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

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

	Land, Forests and Perennial Plants (Accounts 020, 021)	Buildings (Account 022)	Plant and Equipment (Account 023)	Total Property, Plant and Equipment
Fair value adjustment effects on the gross value	11,682,527	126,657,061	251,106,313	389,445,901
Fair value adjustment effects on the accumulated depreciation	(655,549)	(113,364,855)	(129,420,386)	(243,440,790)
Fair value adjustment effects on the net book value	12,338,076	240,021,916	380,526,700	632,886,692
- whereof credited to revaluation reserves	11,727,790	192,104,860	335,705,609	539,538,259
- whereof credited to deferred tax liabilities	76,827	39,825,757	19,305,453	59,208,037
- whereof charged to expenses as impairment loss	0(1,368,926)	1(3,263,220)	2(10,658,068)	3(15,290,214)
- whereof credited to income based on the reversal of impairment	1,902,385	11,354,519	36,173,706	49,430,610

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

- a positive revaluation effect was recognized as an equity item (revaluation reserves totaling RSD 598,746,296 thousand, whereof a portion of RSD 59,208,037 thousand was credited to deferred tax liabilities), i.e. the balance of revaluation reserves as of the reporting date amounted to RSD 539,538,259 thousand as of December 31, 2011;
- a positive revaluation effect was recognized as other income in the amount of RSD 49,430,610 thousand based on the reversal of previously recognized impairment of property, plant and equipment as of January 1, 2007 (Note 13),
- a negative revaluation effect was recognized as expense, as disclosed in Note 14.

As of the balance sheet date, the Company recognized impairment losses for all items of property, plant and equipment used in execution of the power generation and distribution activity with the following effects:

	Land, Forests and Perennial Plants (Accounts 020, 021)	Buildings (Account 022)	Plant and Equipment (Account 023)	Total Property, Plant and Equipment
Fair value adjustment effects on the accumulated depreciation	4,797,408	76,389,650	115,752,009	196,939,067
Fair value adjustment effects on the net book value	(4,797,408)	(76,389,650)	(115,752,009)	(196,939,067)
- whereof credited to revaluation reserves	3,999,190	73,215,385	101,401,393	178,615,968
- whereof charged to expenses as impairment loss	798,218	3,174,265	14,350,616	18,323,099

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

In assessing the recoverable amount, determined as the amount recoverable through continuous usage of each respective asset and disposal thereof, the Company considered the following:

- The EPS Group generates cash flows from external legal entities within its member entities involved electricity distribution in the market the conditions of which as well as the Group's output are regulated by the competent regulatory authority. The value of the products of other Group members is affected by internal transfer prices and cash flows from the assets of such Group members are largely dependent on the cash flows of other Group members; hence the value in use and therefore the recoverable amounts can only be determined for the cash generating unit, or in this particular case, the EPS Group.
- Recession tendencies in the Serbian economy have to a great extent resulted from the deceleration of the economic and international trade activities, which significantly affected liquidity of business entities, unemployment increase, foreign exchange rate fluctuations, etc.
- Unfavorable hydro-meteorological situation led to above-balance procurement of electricity during the reporting period.
- Financial risk management is limited due to the regulatory restrictions (regulated output prices) and the EPS Group's exposure to price, foreign currency, interest rate and market risks, as well as liquidity and solvency risks.
- Cash flow projections over the estimated useful life of non-current assets (28 years) are based on the approved and adopted business programs, particularly in respect of the electricity price rise.
- Reasonable and documented assumptions included in the Fiscal Strategy 2013 with projections for the years 2014 and 2015 (Official Gazette of RS, no. 116/12), inflation rate measured by the consumer price index, foreign exchange rate projections and the like were also taken into account.
- The discount rate is based, as far as possible, on the market borrowing interest rate, country risk and credit, foreign currency and price risks taken into account.

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

	December 31, 2012	December 31, 2011
Advances paid for property, plant, equipment and intangible assets	12,406,745	5,984,203
Less: Allowance for impairment of advances paid	(149,764)	(139,320)
Total	12,256,981	5,844,883

Advances of RSD 1,441,743 thousand (2011: RSD 1,566,806 thousand) were paid to the owners of property registered in the Cadastral Municipality of Vreoci as in accordance with the Program Bases adopted under the Decision of the Board of Directors of JP EPS approved by the RS Government in its Decision 05 no. 310-5277/2007-3 as of November 22, 2007. The RS Government delivered for realization purposes the Conclusion number 465-8001/2009-3 as of December 17, 2009 allowing that the Public Company RB Kolubara, in its capacity of expropriation beneficiary, submit with the body concerned, proposals for the expropriation of buildings registered on the orthoimage as of January 15, 2007.

Pursuant to the relevant agreement with CMEC, China, an advance payment of USD 51,694,500 was paid from own funds and USD 51,694,500 from borrowed funds, as disclosed in Note 28.

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18. EQUITY INVESTMENTS

	December 31, 2012	December 31, 2011
Equity investments in jointly controlled legal entities:		
- Energija Novi Sad a.d.	560	560
- Ibarske hidroelektrane d.o.o.	202,034	147,737
- Moravske hidroelektrane d.o.o.	10,004	10,004
Equity investments in domestic banks:		
- AIK banka a.d., Niš	605,788	608,766
- Čačanska banka a.d., Čačak	18,064	26,167
- Komercijalna banka a.d., Beograd	12,689	15,419
- Razvojna banka Vojvodine, Novi Sad	10,245	10,429
- Other	12,334	16,412
Equity investments in other legal entities:		
- Hip petrohemija Pančevo	711,614	711,614
- Politika a.d., Beograd	114,289	126,894
- RMK Trepča	27,010	27,010
- Minel holding	9,716	9,716
- Panonka Sombor	33,417	33,417
- Ipok d.o.o., Zrenjanin	90,249	90,249
- Industrija mesa BEK d.o.o., Zrenjanin	6,276	6,276
- Other	241,762	210,121
Equity investments in insurance companies	4,409	4,409
Total equity investments	<u>2,110,460</u>	<u>2,055,200</u>
Less: Allowance for impairment of:		
- equity investments in domestic banks	(20,260)	(19,599)
- equity investments in other legal entities	(1,049,835)	(1,050,280)
- equity investments in insurance companies	(4,078)	(3,920)
Total allowance for impairment	<u>(1,074,173)</u>	<u>(1,073,799)</u>
	<u>1,036,287</u>	<u>981,401</u>

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

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

Once the arrangement had been signed, the founders paid in their contributions as follows: "SECI" paid the RSD counter value of EUR 102,000.00 and JP EPS paid the RSD counter value of EUR 98,000.00. During the reporting period, the founders paid in the subscribed capital in the dinar counter value of EUR 3,227,432 ("SECI" paid in EUR 1,646,119.83 and JP EPS paid in EUR 1,581,312.17).

The remaining balance of subscribed capital not paid in will be paid by the founders within two years from the registration of the company establishment with the founder's obligation to pay in additional equity contributions totaling 25% of the investment value, as in accordance with the investment and technical documentation for the construction of hydro power plants within the deadline set in the Company's management decisions. The work of the entity from the commencement of its registered activity will be financed from the core capital and if that is not enough, the funds will be used from the borrowing that is to be approved to the Company by "SECI". This does not apply to the construction of hydro power plants. 75% of investments into the hydro power plant construction will be funded from borrowings to be obtained by the Company from a bank or another financial institution.

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

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18. EQUITY INVESTMENTS (Continued)

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

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

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

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

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

Equity investments in domestic banks, Politika AD and insurance companies are classified as available for sale and a part of these investments whose values are listed on the active market are recognized at fair value as of December 31, 2012. The difference between the fair value as of December 31, 2011 and December 31, 2012 was recognized as a special line item of equity, by reversal of revaluation reserves based on unrealized gains amounting to RSD 9,413 thousand and by recognition of revaluation reserves based on unrealized losses of RSD 22,644 thousand, as well as by conversion of receivables into investments in the amount of RSD 33,020 thousand. Namely, according to the business management, the amount of accumulated losses was not derecognized from equity given that, from the aspect of the acquisition and recognition date, as well as the scope of trading in equity instruments, there have been no significantly different data which would indicate that: the issuers are experiencing considerable financial difficulties (the number of days of non-liquidity is determined based on the NBS records of defaulting liabilities of debtors, subject to forced collection), defaulting against the contractually-agreed liabilities, experiencing significant and determinable decline in cash flows (by examining the independent auditors' reports, positive results achieved in the prior reporting period and the like), or that significant changes, with adverse effects, have occurred in the technological, market, economic or legal environment in which the issuers are operating.

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

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19. LONG-TERM INVESTMENTS

	December 31, 2012	December 31, 2011
Long-term receivables from the PE Elektromreža Srbije	259,878	252,445
Rescheduled accounts receivable for electricity sold to private individuals	7,654	7,654
Rescheduled accounts receivable for electricity sold to legal entities	51,293	79,460
Joint investment in the "Rovni" Water Accumulation Investments based on apartments sold, housing loans and long-term lease of apartments	637,205	637,205
Receivables from the Privatization Agency of RS	502,737	422,068
Other long-term investments	92,181	97,073
	<u>248,132</u>	<u>248,607</u>
	<u>1,799,080</u>	<u>1,744,512</u>
<i>Less: Allowance for impairment</i>		
- Rescheduled accounts receivable for electricity	(28,279)	(15,409)
- Receivables from the Privatization Agency of RS	(92,181)	(97,073)
- Other long-term investments	(249,120)	(249,027)
	<u>(369,580)</u>	<u>(361,509)</u>
	<u>1,429,500</u>	<u>1,383,003</u>

Rescheduled accounts receivables arising on electricity supply are due from households and legal entities whose accounts receivable were rescheduled as of December 31, 2002, and are repaid in equal minimum monthly installments of RSD 300 within the period of ten years with a monthly interest rate of 1% (adjusted in case the consumer 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, 2012, relate to the joint investment in the Public Company Kolubara, Valjevo, based on the construction of "Rovni" Water Accumulation Basin and Dam, intended for water supply, flood prevention in the surrounding municipalities as well as for the needs of the Public Enterprise Electric Power Industry of Serbia. Based on the Government's Decree on determining the program of construction, reconstruction and maintenance of water supply structures in 2010 (Official Gazette of RS, no. 8/2010), further plans of construction work on the dam and accumulation were made with the 100% of the RS Government interest. The subject investment was made with the intention to provide the conditions necessary for the operation of TE Kolubara B Project.

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

20. INVENTORIES

	December 31, 2012	December 31, 2011
Materials	10,991,493	10,911,679
Spare parts	11,460,518	12,214,009
Tools and fixtures	3,108,018	2,862,694
Work in progress and finished products	2,083,201	2,339,945
Coal	237,637	420,206
Goods	816	656
<i>Less: Allowance for impairment</i>	(4,814,056)	(3,585,232)
	<u>23,067,627</u>	<u>25,163,957</u>

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

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21. ADVANCES PAID FOR INVENTORIES

	December 31, 2012	December 31, 2011
Advances paid for inventories	3,975,272	2,319,256
Less: Allowance for impairment of advances paid	(181,625)	(199,789)
Total	3,793,647	2,119,467

22. ACCOUNTS RECEIVABLE

	December 31, 2012	December 31, 2011
Accounts receivable:		
- unconsolidated subsidiaries situated in Kosovo and Metohija	3,405,427	2,313,769
- other related parties	3,363	3,363
- domestic customers	135,906,649	123,993,504
- foreign customers	6,224,665	4,833,158
- Resavica Coal Mine	1,166,907	1,166,907
	146,707,011	132,310,701
Receivables for radio and television subscription fees	33,702,161	28,254,164
Interest receivable	2,071,378	2,277,645
Receivables from employees	1,032,621	399,517
Receivables for prepaid taxes and contributions	630,915	586,801
Receivables from specific operations	281,518	211,804
Other receivables	714,304	604,264
Total receivables	185,139,908	164,644,896
Less: Allowance for impairment of receivables:		
- non-consolidated subsidiaries situated in Kosovo and Metohija	(3,405,427)	(2,309,737)
- other related parties	(370)	(370)
- domestic customers	(101,489,368)	(90,670,776)
- foreign customers	(4,291,216)	(3,858,613)
- Resavica Coal Mine	(1,166,907)	(1,166,907)
- employees	(4,633)	(3,525)
- receivables for prepaid taxes and contributions	(96)	(217)
- other receivables	(398,596)	(389,811)
Total allowance for impairment of receivables	(110,756,613)	(98,399,956)
	74,383,295	66,244,940

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

Domestic accounts receivable as of December 31, 2012 include the receivables from domestic companies in restructuring, amounting to RSD 14,550,671 thousand (December 31, 2011: RSD 13,983,078 thousand). Provisions of the Law on Deadlines for Financial Liability Settlement in Commercial Transactions will be applied to these entities commencing from January 1, 2014.

In accordance with the Conclusion issued by the Republic of Serbia Government number 021-6624/2009-002 at the Government session held as of November 30, 2009, the Public Enterprise Electric Power Industry of Serbia is to supply electricity to the majority Serb area in the north of the Autonomous Province of Kosovo and Metohija. Accordingly, income from electricity delivered to the Public Enterprise "Elektrokosmet", Priština was recognized in the amount of RSD 3,405,427 thousand. At the same time, the outstanding amount is recognized as an expense fully provided for.

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22. ACCOUNTS RECEIVABLE (Continued)

A portion of foreign accounts receivable of RSD 1,639,087 thousand is stated based on the trade in electricity with the Electric Power Industry of Montenegro, as well as with the Mixed Holding Power Utility of the Republic of Srpska with which the Company executed long-term agreements on business and technical cooperation. The inflow of cash arising therefrom is anticipated subsequent to the balance sheet date. The remaining balance of foreign accounts receivable of RSD 4,585,578 thousand mostly relates to the amounts due from power utilities of former Yugoslav Republics dating from prior years (RSD 3,728,129 thousand), which are fully provided for.

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

23. SHORT-TERM FINANCIAL ASSETS

	December 31, 2012	December 31, 2011
Current portion of long-term receivables from the Public Enterprise "Elektromreža Srbije"	107,285	85,410
Short-term deposits with domestic banks	217,156	1,923,572
Short-term domestic loans	267,200	2,584
Short-term foreign loans	31,082	31,082
Other	1,276,468	380,012
	1,899,191	2,422,660

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

24. CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
Current accounts:		
- in dinars	9,438,743	4,211,155
- in foreign currencies	684,552	603,713
Deposits covering letters of credit	257,120	98,141
Cash on hand and other cash	64,958	97,106
Other cash	3,015,389	911,922
Cash funds restricted or impaired	24,345	25,048
Total cash and cash equivalents	13,485,107	5,947,085
Impairment of restricted or impaired cash funds	(24,345)	(25,048)
	13,460,762	5,922,037

A portion of other cash in the amount of RSD 2,370,802 thousand refers to foreign currency funds received in advance for the purpose of fulfillment of obligations toward foreign partner "CMEC", China, which have been placed as a short-term deposit and which can be promptly converted into the cash amounts without significant risk of change in value.

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25. VALUE ADDED TAX AND PREPAYMENTS

	December 31, 2012	December 31, 2011
Deferred value added tax	649,218	162,064
Other prepayments	541,069	612,347
	1,190,287	774,411

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

26. CAPITAL

State-Owned Capital

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

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

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, 2012 amounted to RSD 358,717,940 thousand and exceeded 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, 2012 relates to the consolidated public enterprises' sources of non-operating assets that were transferred upon the transition to the new accounting regulations applicable in the Republic of Serbia as of January 1, 2004.

Profit Distribution

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

In the capacity of Assembly of each respective subsidiary, the Parent Company's Board of Directors, enacted a decision to allocate a portion of the retained earnings, in the amount of RSD 73,336,673 thousand, to the purpose of prior year loss absorption.

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27. LONG-TERM PROVISIONS

	December 31, 2012	December 31, 2011
Provisions for retirement benefits and jubilee awards	8,543,422	8,578,250
Provisions for litigations	3,276,831	2,719,470
Provisions for the costs of natural resource restoration	1,370,016	1,038,743
Other long-term provisions	82,164	4,133
	13,272,433	12,340,596

The movements on long-term provisions during 2011 and 2012 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, 2011	768,979	7,648,348	2,427,632	3,342	10,848,301
Charge for the year 2011	337,255	1,866,740	1,341,939	140,680	3,686,614
Release of provisions	(67,491)	(930,658)	(955,459)	(139,889)	(2,093,497)
Reversal	-	(6,180)	(94,642)	-	(100,822)
Balance, December 31, 2011	1,038,743	8,578,250	2,719,470	4,133	12,340,596
Charge for the year 2012	382,286	952,153	3,084,451	78,574	4,497,464
Release of provisions	(51,013)	(985,318)	(2,452,471)	(543)	(3,489,345)
Reversal	-	(1,663)	(74,619)	-	(76,282)
Balance, December 31, 2012	1,370,016	8,543,422	3,276,831	82,164	13,272,433

Provisions for retirement benefits and jubilee awards of RSD 8,543,422 thousand were formed as disclosed in Note 3.9.

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28. LONG-TERM BORROWINGS

No.	BORROWINGS	Currency	Principal	Maturity Date	ORIGINAL CURRENCY Repayment Schedule	Interest Rate	Thousands of RSD	
							December 31, 2012	December 31, 2011
A	FOREIGN CURRENCY BORROWINGS							
I	REFINANCED LOANS REALIZED FROM THE FUNDS OF:						30,908,728	28,887,147
1	PARIS CLUB OF CREDITORS						28,846,101	26,859,764
1.1	AUSTRIA	EUR	3,536,140.64	30/09/2008-31/03/2024	30/03 and 30/09	AMARKETRATE/EUR	402,124	370,025
1.2	FRANCE	EUR	41,371,695.47	22/09/2008-22/03/2024	22/03 and 22/09	5.9%	4,704,720	4,329,171
1.3	GERMANY	EUR	26,624,280.25	22/09/2008-22/03/2024	22/03 and 22/09	5.5%	3,027,668	2,813,044
						EURIBOR/EUR		
1.4	CANADA	EUR	58,338,079.03	22/09/2008-22/03/2024	22/03 and 22/09	+0.5%	6,634,107	6,104,549
1.5	SWITZERLAND	CHF	79,040,604.59	22/09/2008-22/03/2024	22/03 and 22/09	LIBOR/CHF+0.5%	7,445,008	6,790,544
1.6	USA	USD	6,691,355.50	22/09/2008-22/03/2024	22/03 and 22/09	5.375%	576,636	541,104
1.7	RUSSIAN FEDERATION	USD	44,444,729.54	22/09/2005-22/03/2034	22/03 and 22/09	0.5517%	3,830,082	3,594,076
1.8	JAPAN	JPY	2,224,222,690.05	22/09/2008-22/03/2024	22/03 and 22/09	2.8390%	2,225,756	2,317,251
						3.75% to 11/09; 6.75% to 11/24	1,125,345	1,144,003
2	LONDON CLUB OF CREDITORS	USD	13,058,639.18	01/05/2010-01/11/2024	01/05 and 01/11	1/3-5.44%, 1/3 -5.81%		
3	IBRD	EUR	7,815,528.82	15/03/2005-15/12/2031	15/03 and 15/09	and 1/3-EURIBOR	888,770	838,741
4	EIB	EUR	426,596.43	17/10/2012-17/10/2016	17/04 and 17/10	6-month EURIBOR	48,512	44,639
II	LOANS FROM THE GOVERNMENTS						12,790,063	5,235,367
1	PR China	USD	27,770,943.88	21/07/2010-21/01/2021	21/01 and 21/07	6-month LIBOR+1.3%	2,393,197	2,509,935
2	Russian Federation	USD	1,177,321.60	15/01/2004-15/07/2013	15/01 and 15/07	LIBOR+1.25%	101,457	190,411
3	Republic of Poland	USD	27,978,347.02	2005-2024	15/06 and 15/12	0.75%	2,411,070	2,535,021
4	Export-Import Bank of China	USD	90,670,500.04	21/07/2017-21/01/2027	21/01 and 21/07	3%	7,813,648	-
5	Japan - JICA	JPY	70,642,544.00	20/11/2016-20/11/2026	20/05 and 20/11.	0.6% 0.01%	70,691	-
III	LOANS FROM INTERNATIONAL FINANCIAL ORGANIZATIONS						16,721,643	15,724,046
1	KfW I (EUR 51,1 mil.)	EUR	2,840,510.51	30/12/2004-30/06/2013	30/06 and 31/12	4.32% variable (4.5247%, 4.8598% and 5.2778%)	323,018	891,701
2	KfW II (EUR 16 mil.)	EUR	6,153,846.34	30/06/2009-30/06/2015	30/06 and 30/12		699,805	901,522
3	KfW III (EUR 30 mil.)	EUR	18,625,973.60	30/12/2010-30/06/2020	30/06 and 30/12	0%	2,118,114	2,227,751
4	KfW IV (EUR 36 mil.)	EUR	29,462,677.77	30/06/2013-30/12/2019	30/06 and 30/12	variable (4.56%)	3,350,446	1,589,333
5	KfW V (EUR 70 mil.)	EUR	199,972.06	30/12/2015-30/06/2025	30/06 and 30/12	variable	22,740	-
6	EBRD I (EUR 39,6 mil.)	EUR	17,536,888.33	07/09/2005-07/03/2016	07/03 and 07/09	variable semi-annually (3.1%-5.793%)	1,994,265	2,359,383
7	EBRD II (EUR 60 mil.)	EUR	36,371,399.05	07/03/2008-07/09/2018	07/03 and 07/09	variable semi-annually (3.1%-5.793%)	4,136,094	4,440,259
8	EBRD III (EUR 40 mil.)	EUR	1,034,536.50	02/09/2013-02/03/2022	02/03 and 02/09	variable EURIBOR +1%	117,646	86,601
9	EBRD IV (EUR 80 mil.)	EUR	800,000.00	31/01/2015-31/01/2023	31/01 and 31/07	variable EURIBOR +1%	90,975	-
10	EBRD V (EUR 45 mil.)	EUR	450,000.00	30/04/2015-31/10/2023	30/04 and 31/10	variable EURIBOR +1%	51,173	-
11	EIB II (EUR 22 mil.)	EUR	19,826,666.68	09/12/2010- 09/06/2027	09/06 and 09/12; 25/05 and 25/11	3.879% - 5.248%	2,254,655	2,198,854
13	Wb IDA (XDR 12,24 mil.)	XDR	11,798,848.80	15/09/2015-15/03/2025	15/03 and 15/09	0%	1,562,712	1,028,642
IV	Banks in bankruptcy						-	88,726
4	Beobanka	EUR	-	31/03/2009-29/02/2012	monthly	8%	-	26,602
5	Beobanka	USD	-	31/03/2009-29/02/2012	monthly	6%	-	62,124
V	OTHER						3,079,706	3,353
1	JP EMS - IBRD	EUR	30,449.85	15/03/2005-15/12/2031	15/03 and 15/09 15/06 and 15/12	1/3-5.44% and 2/3- EURIBOR	3,463	3,353
2	AIK Banka	USD	35,000,000.00	30/11/2013-31/05/2017	31/05 and 30/11.	6-month USD LIBOR +7.8%	3,016,171	-
3	Tehnoexport	USD	697,086.00				60,072	-
	TOTAL (I+II+III+IV+V)						63,500,140	49,938,639

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28. LONG-TERM BORROWINGS (Continued)

No.	BORROWINGS	Currency	Principal	Maturity Date	ORIGINAL CURRENCY		Thousands of RSD	
					Repayment Schedule	Interest Rate	December 31, 2012	December 31, 2011
B	RSD BORROWINGS							
1	Banks in bankruptcy	RSD	-	15/06/2008-15/12/2012.	15/06 and 15/12	1%	-	35,158
	Investbanka	RSD	-	15/06/2008-15/12/2012.	15/06 and 15/12	1%	-	33,638
	Beobanka	RSD	-	15/06/2008-15/12/2012.	15/06 and 15/12	1%	-	1,520
2	UNICREDIT BANK	RSD	-	27/01/2012-27/12/2012	monthly	14.2%	-	2,000,000
						6-month BELIBOR		
3	CREDI+KOM+SOSIETE	RSD	670,000,000.00	14/01/2013-14/01/2014	monthly	+3.95 % p.a.	670,000	-
4	UNICREDIT BANK	RSD	335,723,987.25	12/12/2012-12/12/2014	monthly	12.82%	335,723	127,788
5	KOMERCIJALNA BANKA	RSD	-	31/03/2013-12/12/2013	monthly	15.94% p.a.	-	-
						1-month BELIBOR		
6	UNICREDIT BANK	RSD	500,000,000.00	27/03/2013-27/02/2015	monthly	+3.75% p.a.,	500,000	-
						1-month BELIBOR		
7	UNICREDIT BANK	RSD	500,000,000.00	27/03/2013-27/02/2015	monthly	+3.75% p.a.,	500,000	-
						1-month BELIBOR		
8	UNICREDIT BANK	RSD	500,000,000.00	18/05/2013-18/04/2015	monthly	+3.55% p.a.	500,000	-
						1-month BELIBOR		
9	Sberbanka a.d., Beograd	RSD	500,000,000.00	26/05/2013-26/04/2015	monthly	+3% p.a.	500,000	-
	TOTAL						3,005,723	2,162,946
	TOTAL LONG-TERM BORROWINGS						66,505,863	52,101,585
	CURRENT PORTION OF LONG-TERM BORROWINGS							
A	- in foreign currencies						6,863,917	4,524,930
B	- in dinars						1,498,583	2,035,158
	TOTAL						8,362,500	6,560,088
	LONG-TERM PORTION							
A	- in foreign currencies						56,636,223	45,413,709
B	- in dinars						1,507,140	127,788
	TOTAL LONG-TERM PORTION						58,143,363	45,541,497

A. Foreign Currency Borrowings

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

1. Paris Club of Creditors

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

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

The Company submitted a request for rescheduling of the liabilities matured in 2012 with the Republic of Serbia Government.

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.

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28. LONG-TERM BORROWINGS (Continued)

A. Foreign Currency Borrowings (Continued)

3. International Banks for Reconstruction and Development

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

II Loans from Foreign Governments

1. Loan from the Government of the Republic of Poland

The loan from the Government of the Republic of Poland was approved in 2003 in the amount of USD 49,996,616.78 and was used in full by December 31, 2005. The agent is 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 %.

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

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

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

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

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

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

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

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

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28. LONG-TERM BORROWINGS (Continued)

A. Foreign Currency Borrowings (Continued)

II Loans from Foreign Governments (Continued)

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

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

III Loans from International Financial Organizations

1. *KfW*

With the German financial organization KfW financial agreements were executed in the period from 2001 through 2011 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, 2013 was set as the final date for the availability of funds borrowed with the option of deadline extension. Pursuant to the provisions contained in the Agreement, the loan principal has been repaid from December 30, 2010 in 20 equal installments of about EUR 1,500,000. The final maturity date was set at June 30, 2020. The loan was agreed interest-free.
- EUR 36 million (with the additional amount EUR 10 million not to be repaid) was obtained on January 2, 2008. The Company started using borrowed funds. April 4, 2014 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 increased 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.
- EUR 65 million (with additional EUR 9 million of non-repayable funds) was agreed on October 12, 2012. December 30, 2015 was set as the final date for utilization of loan 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 19 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 increased by 0.4%, i.e. 1.15% mark-up annually. After each payment, KfW consolidates these rates into a unique rate for the total borrowing.

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All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM BORROWINGS (Continued)

A. Foreign Currency Borrowings (Continued)

III Loans from International Financial Organizations (Continued)

2. Loans from the European Bank for Reconstruction and Development

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

- EUR 39.6 million was fully used until February 25, 2011, with a portion of loan totaling EUR 1,179 cancelled. The initially agreed borrowing of EUR 100 million was divided between JP EPS (EUR 39.6 million) and the Public Enterprise "Elektromreža Srbije" (EUR 60.4 million). 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 principal repayment commenced as of September 7, 2005 and shall continue up to 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 continue until September 7, 2018. The interest is compounded at a variable rate.
- EUR 40 million was agreed on September 2, 2010. The date until which funds are available is set at September 2, 2013 with the option of deadline extension. According to the provisions of the relevant Agreement, the principal repayment commences on September 2, 2013 and is to be executed in 18 equal semi-annual installments by March 2, 2022. The loan accrues variable interest rate with the option to choose a fixed interest rate.
- EUR 80 million was agreed as of July 28, 2011. The ultimate date until which funds are available is set at January 28, 2015 with the option of deadline extension. According to the provisions of the relevant Agreement, the principal repayment commences as of January 31, 2015 and is to be executed in 17 equal semi-annual installments by January 31, 2023. The loan accrues variable interest rate with the option to choose a fixed interest rate.
- EUR 45 million was agreed as of December 7, 2011. The ultimate date until which funds are available is set at December 7, 2014 with the option of deadline extension. According to the provisions of the relevant Agreement, the principal repayment commences as of April 30, 2015 and is to be executed in 18 equal semi-annual installments by October 31, 2023. The loan accrues variable interest rate with the option to choose a fixed interest rate.

Based on the credit arrangement with the EBRD, the Company is obliged to achieve the maximum and minimum operating ratios at the EPS Group level. At December 31, 2012, the Company failed to comply with all the contractually defines ratios, i.e. the current asset turnover ratio equaled 0.94 while it must not be below 1.2 pursuant to the relevant contractual provision. The Company's management anticipated that no restrictions may be imposed by the EBRD due to the aforesaid non-compliance with the contractual provisions which would significantly affect the Company's financial position or call for the reclassification of the aforementioned liabilities from long-term to current liabilities.

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.

**ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012**

All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM BORROWINGS (Continued)

A. Foreign Currency Borrowings (Continued)

III Loans from International Financial Organizations (Continued)

3. *Loan from the European Investment Bank (Continued)*

- 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 June 30, 2015 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 three and no later than seven years from the tranche drawing date. The interest rate and terms of tranche repayment is determined for each tranche separately at the tranche disbursement date.

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

Pursuant to the Agreement on a development loan (Serbia and Montenegro Component of the Program of Energy Community of South East Europe – Serbia Project - ECSEE) executed on September 8, 2005 between the State Union of Serbia and Montenegro on one side and the International Development Association on the other, for the amount of SDR 13,9 million and a Loan Sub agreement signed between the Republic of Serbia and the Sate Union of Serbia and Montenegro and the Loan Sub agreement executed between the Republic of Serbia and this Company, the Company can use the loan funds of SDR 12,24 million. The amount of SDR 441,151.20 was cancelled, whereas the remaining amount was used until June 30, 2012. 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.

5. *AIK BANKA a.d., Niš*

The Company obtained a long-term borrowing from *AIK BANKA a.d., Niš* of USD 35,000,000 to settle the liabilities assumed under the Contractual Agreement on the Stage 1 Realization of the Kostolac-B Power Plant Projects, entered into by and between JP EPS from Belgrade and Thermal Power Plants and Open Mine Pits Kostolac on one side and Consortium comprised of China Machinery Engineering Corporation (CMES) and Thermal Power Plants and Open Mine Pits Kostolac on the other, i.e. payment of the portion of advance payment from own funds, as disclosed in Note 17, in the amount of 15% of the agreed upon price of the relevant section (the total agreed upon price amounts to USD 344,630,000).

The principal repayment is due in five years, with a one-year grace period. The principal is to be repaid in 8 equal semi-annual installments, with the first installment maturing as of November 30, 2013 and the as of May 31, 2017, with variable annual interest rate determined as the sum of 6-month USD LIBOR plus 7.8% mark-up.

B. RSD Borrowings

1. *Banks in Bankruptcy or Liquidation*

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

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM BORROWINGS (Continued)

B. RSD Borrowings (Continued)

1. Banks in Bankruptcy or Liquidation (Continued)

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

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

The Agreements on the Mutual Settlement of Debtor/Creditor Balances were signed on July 24, 2008 between this Company and banks in bankruptcy and the Deposit Insurance Agency. Banks in bankruptcy withdrew claims for litigations filed before the High Commercial Court in Belgrade. Until December 31, 2012, within the agreed deadline, the Company fully discharged its liabilities arising in connection with the debt toward the banks in bankruptcy.

2. Borrowings for Liquidity Maintenance Purposes

During the reporting period, borrowings were obtained from the following commercial banks in order to settle the assumed liabilities:

- 1) UNICREDIT BANKA Srbija a.d., Beograd
 - a) Per loan agreement for the amount of RSD 2,000,000 thousand (Thermal Power Plants and Open Pit Mines of Kostolac) due for repayment within two years with one-year grace period, at fixed interest rate of 14.2% annually and monthly repayment installments. The contractually defined terms were fixed and not altered until the end of the repayment period. These funds were used one-off, i.e. in one tranche, as of December 27, 2010 and fully repaid until December 27, 2012.
 - a) Per loan agreement for the amount of RSD 500,000 thousand (RB Kolubara d.o.o.), where the principal is to be repaid in 12 equal monthly installments after one-year grace period at fixed interest rate of 12.8% annually. The contractually defined terms were fixed and not altered until the end of the repayment period. As of December 31, 2012, the loan funds were used in the amount of RSD 346,373 thousand. The remaining balance of loan funds will not be used.
 - b) Per loan agreement for the amount of RSD 1,000,000 thousand (RB Kolubara d.o.o.), where the principal is to be repaid in 24 equal monthly installments after a 6-month grace period (from March 27, 2013 to February 27, 2015). Interest is also repaid monthly at the rate of 1-month BELIBOR+3.75% p.a. These funds were used one-off, i.e. in one tranche.
 - c) Per loan agreement for the amount of RSD 500,000 thousand (RB Kolubara d.o.o.), where the principal is to be repaid in 24 equal monthly installments after a 6-month grace period (from May 18, 2013 to April 8, 2015). Interest is also repaid monthly at the rate of 1-month BELIBOR+3.55% p.a. The loan funds were used one-off, i.e. in one tranche.
- 2) SBERBANKA Srbija a.d., Beograd – per loan agreement for the amount of RSD 500,000 thousand, where the principal is to be repaid in 24 equal monthly installments after a 6-month grace period (from May 26, 2013 to April 26, 2015). Interest is also repaid monthly at the rate of 1-month BELIBOR+3.0% p.a. The loan funds were used one-off, i.e. in one tranche.

ADJUSTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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All amounts expressed in thousands of RSD, unless otherwise stated

28. LONG-TERM BORROWINGS (Continued)

B. RSD Borrowings (Continued)

2. Borrowings for Liquidity Maintenance Purposes (Continued)

- 3) Bank Consortium (Komercijalna banka a.d., Beograd Societe Generale banka a.d., Beograd, Credi banka a.d., Kragujevac) per loan agreement for the amount of RSD 670,000 thousand (Centar d.o.o., Kragujevac), where the principal is to be repaid in 24 equal monthly installments after a 6-month grace period (from January 4, 2013 to June 14, 2014). Interest is also repaid monthly at the rate of 6-month BELIBOR+3.950% p.a.

Analysis of Approved Loan Withdrawals

In order to finance the specific projects to increase production capacities in thermoelectric and hydroelectric plants, in the period from 2001 to 2012 the Company executed various loan agreements with international financial institutions, to which the Federal Republic of Yugoslavia and the State Union of Serbia and Montenegro have served as guarantors:

Creditor	Currency	Contracted Amount	Drawn Down Amount
European Bank for Reconstruction and Development I	EUR	39,598,821.00	39,598,821.00
European Bank for Reconstruction and Development II	EUR	59,864,142.51	59,864,142.51
European Bank for Reconstruction and Development III	EUR	40,000,000.00	1,034,536.50
European Bank for Reconstruction and Development IV	EUR	80,000,000.00	800,000.00
European Bank for Reconstruction and Development V	EUR	45,000,000.00	450,000.00
European Investment Bank I	EUR	22,000,000.00	22,000,000.00
European Investment Bank II	EUR	40,000,000.00	-
KfW I	EUR	51,129,188.00	51,129,188.00
KfW II	EUR	16,000,000.00	16,000,000.00
KfW III	EUR	30,000,000.00	26,125,973.60
KfW IV	EUR	36,000,000.00	29,462,677.77
KfW V	EUR	70,000,000.00	199,972.06
KfW VI	EUR	65,000,000.00	-
IDA	XDR	12,240,000.00	11,798,848.80
JICA	JPY	28,252,000,000.00	70,642,544.00
EXIM Bank of China	USD	293,000,000.00	90,670,500.04

Analysis of Long-Term Loan Maturities

	December 31, 2012	December 31, 2011
Within a year	8,362,500	6,560,088
From two to five years	22,445,847	16,094,712
Over five years	35,697,516	29,446,785
Total	66,505,863	52,101,585

Analysis of Borrowings per Requested Discharging Currency

Currency	Amount in Currency	December 31, 2012
EUR	230,618,944	26,225,595
USD	231,183,493	19,922,539
CHF	72,602,496	6,838,589
YPU	2,085,351,935	2,086,789
XDR	11,798,849	1,562,711
Total		56,636,223

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29. OTHER LONG-TERM LIABILITIES

	December 31, 2012	December 31, 2011
Rescheduled public duties payable	2,025,773	2,674,875
Rescheduled accounts payable	2,985,805	635,904
Other long-term liabilities	755,380	84,793
Current portion of:		
- Rescheduled public duties payable	(680,671)	(655,245)
- Rescheduled accounts payable	(873,568)	(67,382)
- Other long-term liabilities	(224,183)	(323)
	3,988,536	2,672,622

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

Rescheduled accounts payable pertain to the liabilities toward JP EMS arising from the electricity transmission services.

30. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2012	December 31, 2011
<i>In foreign currencies</i>		
Short-term borrowings, domestic and foreign	3,297,831	-
Current portion of long-term borrowings obtained from:	3,413,336	4,065,934
- domestic banks in bankruptcy		
- other banks	-	80,360
Other short-term foreign currency financial liabilities	3,450,581	1,628,076
Current portion of long-term borrowings obtained from:	6,830,398	5,446,806
<i>Liabilities in dinars:</i>		
Short-term domestic borrowings	12,822,029	3,700,402
Current portion of long-term borrowings	1,498,583	2,000,000
Current portion of other long-term liabilities	1,778,422	722,950
Long-term loans from banks in bankruptcy maturing within a year	-	35,158
Other	1,779	2,748
	33,092,959	17,682,434

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

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30. SHORT-TERM FINANCIAL LIABILITIES (Continued)

During the reporting year 2012, for the purpose of overcoming liquidity issues, the Company obtained borrowed funds in accordance with the Law on Public Procurement, as follows:

No.	BOROWINGS	Currency	Balance	ORIGINAL CURRENCY			Thousands of RSD	
				Annuity Maturity Date	Repayment Schedule	Interest Rate	December 31, 2012	December 31, 2011
							15,771,164	3,491,667
1	Banca Intesa a.d., Beograd	RSD	-	12/07/2011-11/01/2012	Quarterly	13.45% p.a.	-	316,667
2	Banca Intesa a.d., Beograd	RSD	-	13/08/2011-12/01/2012	Monthly	14.25% p.a.	-	175,000
3	Banca Intesa a.d., Beograd	RSD	750,000,000.00	21/06/2013-23/09/2012-	Monthly	13.6% p.a.,	750,000	1,500,000
4	Banca Intesa a.d., Beograd	RSD	750,000,000.00	23/08/2013-12/08/2012-	Semi-annually	11.6% p.a.	750,000	1,500,000
5	AIK BANKA	EUR	6,000,000.00	12/04/2013-24/01/2013-	Monthly	5.8% p.a.	682,310	-
6	AIK BANKA	EUR	23,000,000.00	25/03/2013-23/06/2013-	Quarterly	8% p.a.	2,615,521	-
7	Unicredit Bank a.d., Beograd i Sberbanka a.d., Beograd	RSD	2,500,000,000.00	23/11/2013-12/07/2013-	Monthly	1-month BELIBOR +3.85 % p.a.	2,500,000	-
8	Komercijalna banka a.d., Beograd	RSD	2,500,000,000.00	12/12/2013-	Monthly	1-month BELIBOR +4.95 % p.a.	2,500,000	-
9	Komercijalna banka a.d., Beograd	RSD	3,390,000,000.00	31/12/2013	Monthly	11.74% p.a.	3,390,000	-
10	Komercijalna banka a.d., Beograd	RSD	2,000,000,000.00	31/03/2013-12/12/2013	Monthly	15.94% p.a.	2,000,000	-
11	Komercijalna banka a.d., Beograd	RSD	250,000,000.03	28/04/2012-28/03/2013	Monthly	12.37% p.a.	250,000	-
12	Poštanska štedionica	RSD	333,333,333.36	11/05/2012-11/04/2013	Monthly	14.00% p.a.	333,333	-

31. ACCOUNTS PAYABLE

	December 31, 2012	December 31, 2011
Advances received	3,994,658	1,293,359
Accounts payable:		
- domestic	17,793,285	16,620,384
- foreign	5,006,114	2,578,533
- Public Enterprise "Elektromreža Srbije"	1,728,891	2,494,559
Liabilities for radio-television subscriptions	33,707,126	28,273,640
Other accounts payable	846,374	843,742
	63,076,448	52,104,217

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 borrowed funds as stated in Notes 28 and 30.

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

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32. OTHER CURRENT LIABILITIES

	December 31, 2012	December 31, 2011
Matured repayment of borrowings from the Ministry of Finance of the Republic of Serbia	398,164	398,164
Interest payable and costs of financing	990,263	358,338
Net salaries and benefits	1,345,997	1,255,081
Taxes and contributions on salaries and benefits	948,709	1,011,320
Other liabilities	181,799	151,500
	<u>3,864,932</u>	<u>3,174,403</u>

Interest payable and costs of financing stated as of December 31, 2012 as totaling RSD 990,263 thousand mostly, in the amount of RSD 986,754 thousand, include interest accrued as follows:

- Interest on restructured liabilities to the Paris club of Creditors in the amount of RSD 695,439 thousand;
- Interest on refinanced loans from the International Bank for Reconstruction and Development and European Investment Bank of RSD 214,248 thousand;
- Interest on other borrowings of RSD 75,545 thousand;
- Interest on the borrowing from the Government of the Russian Federation realized via domestic banks in bankruptcy totaling RSD 1,073 thousand; and
- Other liabilities of RSD 449 thousand.

33. VALUE ADDED TAX AND OTHER DUTIES PAYABLE AND ACCRUALS

	December 31, 2012	December 31, 2011
Deferred value added tax	2,779,168	2,083,284
Accrued liabilities for VAT payable upon tax return	354,099	-
Water charges and fees for the use of construction land and other public property	3,029,352	647,404
Other public duties payable	2,084,921	1,107,246
Accrued expenses	490,627	382,030
Deferred income from grants received	16,499,431	16,540,801
Other accruals	396,709	337,991
	<u>25,634,307</u>	<u>21,098,756</u>

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

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

34. OFF-BALANCE SHEET ITEMS

	December 31, 2012	December 31, 2011
Estimated war damages	6,627,539	6,291,821
Payables upon credit commitments – undrawn portion	77,810,741	61,227,769
Liabilities for guarantees issued and other forms of security instruments against JP EPS liabilities	61,246,291	54,590,234
Ceded social housing buildings	91,913	246,440
Blank solo bills of exchange issued	84,485,329	45,046,993
Written-off equity investments	260,934	260,864
Deferred tax assets	15,252,940	11,996,726
Other off-balance sheet items	13,161,517	6,938,063
	<u>258,937,204</u>	<u>186,598,910</u>

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

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35. INCOME STATEMENT PER ACTIVITY

	Total January- December 2012	Electricity January- December 2012	Combined Electricity and Heat Production January- December 2012	Coal January- December 2012	Heat Energy and Technical Steam January- December 2012	Power Distribution and Management January- December 2012	Electricity Retail January- December 2012	Electricity Production, Small Plants January- December 2012	Electricity Free Market Trade January- December 2012	Metal Industry January- December 2012	Other January- December 2012
OPERATING INCOME											
Sales revenues	487,938,713	82,230,953	24,462,613	50,130,599	1,614,255	48,956,045	149,211,978	136,945	127,432,951	3,735,777	26,597
Own-work capitalized	4,280,206	158,227	-	6,671	-	4,065,250	-	-	2,621	-	47,437
Increase in the value of inventories	74,848	123,324	-	-	-	-	-	-	-	(48,476)	-
Other operating income	6,839,208	1,806,193	598,422	450,279	2,904	3,240,740	9,850	495	280,512	47,160	402,653
	<u>499,132,975</u>	<u>84,318,697</u>	<u>25,061,035</u>	<u>50,587,549</u>	<u>1,617,159</u>	<u>56,262,035</u>	<u>149,221,828</u>	<u>137,440</u>	<u>127,716,084</u>	<u>3,734,461</u>	<u>476,687</u>
OPERATING EXPENSES											
Cost of goods sold	(32,222)	(29,309)	(292)	-	-	-	-	-	(2,621)	-	-
Cost of materials	(358,860,762)	(44,533,776)	(15,613,440)	(8,015,877)	(1,418,704)	(26,660,833)	(139,678,684)	(16,775)	(120,648,749)	(1,432,857)	(841,067)
Staff costs	(53,018,351)	(8,291,109)	(1,611,089)	(20,121,013)	(517,420)	(13,954,049)	(3,026,308)	(115,912)	(949,134)	(4,103,073)	(329,244)
Depreciation, amortization and provisions	(48,895,247)	(16,703,871)	(3,613,261)	(12,870,053)	(522,072)	(14,374,971)	(313,787)	(30,508)	(239,265)	(204,953)	(22,506)
Other operating expenses	(43,723,742)	(14,011,957)	(3,276,825)	(11,198,628)	(217,914)	(8,461,533)	(2,993,059)	(86,479)	(2,148,037)	(343,634)	(985,676)
	<u>(504,530,324)</u>	<u>(83,570,022)</u>	<u>(24,114,907)</u>	<u>(52,205,571)</u>	<u>(2,676,110)</u>	<u>(63,451,386)</u>	<u>(146,011,838)</u>	<u>(249,674)</u>	<u>(123,987,806)</u>	<u>(6,084,517)</u>	<u>(2,178,493)</u>
PROFIT/(LOSS) FROM OPERATIONS	(5,397,349)	748,675	946,128	(1,618,022)	(1,058,951)	(7,189,351)	3,209,990	(112,234)	3,728,278	(2,350,056)	(1,701,806)
Finance income	20,313,382	789,741	41,508	296,885	145,156	1,974,515	9,175,207	240	7,868,990	19,369	1,771
Finance expenses	(16,994,009)	(3,161,126)	(759,862)	(2,679,185)	(77,808)	(651,207)	(2,499,064)	(13,311)	(7,006,128)	(146,318)	-
Other income	13,335,736	6,149,601	3,194	1,657,108	42,864	1,112,823	2,409,692	2,401	661,075	62,275	1,234,703
Other expenses	(55,642,452)	(18,487,350)	(2,809,531)	(5,795,880)	(269,149)	(9,461,898)	(10,823,801)	(27,381)	(7,769,493)	(129,974)	(67,995)
PROFIT/(LOSS) BEFORE TAXATION	(44,384,692)	(13,960,459)	(2,578,563)	(8,139,094)	(1,217,888)	(14,215,118)	1,472,024	(150,285)	(2,517,278)	(2,544,704)	(533,327)
Income taxes	32,045,881	14,669,142	2,125,443	4,136,973	222,500	10,101,239	528,284	55,770	121,903	77,830	6,797
Deferred tax benefits/(expenses)	32,705,177	14,818,345	2,163,402	4,380,523	231,366	10,298,189	545,558	56,014	121,903	77,830	12,047
Current income tax expense	(659,296)	(149,203)	(37,959)	(243,550)	(8,866)	(196,950)	(17,274)	(244)	-	-	(5,250)
NET PROFIT/(LOSS)	<u>(12,338,811)</u>	<u>708,683</u>	<u>(453,120)</u>	<u>(4,002,121)</u>	<u>(995,388)</u>	<u>(4,113,879)</u>	<u>2,000,308</u>	<u>(94,515)</u>	<u>(2,395,375)</u>	<u>(2,466,874)</u>	<u>(526,530)</u>

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36. CONTINGENT LIABILITIES AND COMMITMENTS

Litigation

As of December 31, 2012, the Company recognized provisions against potential losses arising from litigations in the amount of RSD 3,276,831 thousand (December 31, 2011 RSD: 2,719,470 thousand).

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

Commitments

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

Supplier	Contractually Agreed Value (RSD '000)	Realized until December 31, 2012	Advances Paid	Beneficiary
Andritz-VA Tech Hydro GmbH	8,793,076	7,559,075	241,739	Drinsko Limske HE
Clyde Bergemann DRYCON GmbH	1,266,270	706,073	112,039	TE KO Kostolac
Goša Montaža a.d.	763,660	6,495	137,399	TE KO Kostolac
Hitachi Power Europe GmbH	2,985,105	2,686,595	59,702	TENT
Minel kotlogradnja a.d.	1,147,156	1,066,855	14,100	TENT
China National Machinery & Equipment Import & Export Corporation (CMEC)	29,698,938	5,619,556	7,223,815	TE KO Kostolac

Environmental Protection

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

37. OPERATING RISKS

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

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

According to the data made available by the NBS, the reference interest rate as of the balance sheet date equaled 11.25%.

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

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37. OPERATING RISKS (Continued)

Currency Risk

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

	Assets		In foreign currency Liabilities	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
EUR	26,386,658	22,816,057	355,218,007	342,745,373
DKK	2,500	4,100	-	-
JPY	-	-	2,375,472,953	2,241,521,285
SEK	1,408	2,432	-	-
CHF	84,742	85,070	79,620,879	79,219,457
GBP	3,275	1,453	-	-
USD	37,115,191	1,887,763	343,936,356	232,185,442
XDR	-	-	11,798,849	8,311,749
			In thousands of RSD	
EUR	3,000,646	2,387,493	40,394,788	35,865,184
DKK	38	58	-	-
JPY	-	-	2,377,110	2,335,273
SEK	19	28	-	-
CHF	7,982	7,309	7,499,666	6,805,910
GBP	456	181	-	-
USD	3,198,449	152,656	29,639,163	18,775,954
XDR	-	-	1,562,710	1,028,643
	<u>6,207,590</u>	<u>2,547,725</u>	<u>81,473,437</u>	<u>64,810,964</u>

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37. OPERATING RISKS (Continued)

Interest Rate Risk

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

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Financial assets		
<i>Non-interest bearing</i>		
Equity investments	1,036,287	981,401
Long-term investments	637,205	637,234
Accounts receivable	146,093	414,306
Other receivables	763,524	724,243
Cash and cash equivalents	<u>346,113</u>	<u>204,146</u>
	2,929,222	2,961,330
<i>Fixed interest rate</i>		
Long-term investments	192,970	229,838
Short-term loans and other short-term financial assets	217,156	1,923,572
Cash and cash equivalents	<u>10,502,845</u>	<u>5,421,216</u>
	10,912,971	7,574,626
<i>Variable interest rate</i>		
Long-term investments	599,325	515,931
Accounts receivable	38,011,611	35,983,652
Short-term loans and other short-term financial assets	1,682,035	499,088
Other receivables	33,983,679	28,342,910
Cash and cash equivalents	<u>2,611,804</u>	<u>296,675</u>
	76,888,454	65,638,256
	<u>90,730,647</u>	<u>76,174,212</u>
Financial liabilities		
<i>Non-interest bearing</i>		
Accounts payable	16,863,684	16,254,424
Other liabilities	1,253,409	1,326,450
Short-term financial liabilities	<u>620</u>	<u>2,020</u>
	18,117,713	17,582,894
<i>Fixed interest rate</i>		
Long-term borrowings	29,624,091	21,781,774
Other long-term liabilities	1,345,102	2,019,630
Current portion of long-term borrowings	2,815,820	5,339,654
Short-term financial liabilities	<u>680,772</u>	<u>655,346</u>
	34,465,785	29,796,404
<i>Variable interest rate</i>		
Long-term borrowings	28,519,272	23,759,723
Other long-term liabilities	2,562,891	572,449
Accounts payable	7,219,161	5,439,052
Other liabilities	35,142,476	28,892,044
Short-term borrowings	16,119,860	3,700,402
Current portion of long-term borrowings	5,546,680	2,469,874
Short-term financial liabilities	<u>7,929,207</u>	<u>5,515,138</u>
	103,039,547	70,348,682
	<u>155,623,045</u>	<u>117,727,980</u>
 Net interest rate risk exposure	 <u>(26,151,093)</u>	 <u>(4,710,426)</u>

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37. OPERATING RISKS (Continued)

Credit Risk

The Company is exposed to credit risk in the instances in which its customers default on their obligations. The Company's exposure to credit risk is limited to the carrying value of accounts receivable and other receivables. Accounts receivable correspond to a significant number of customers (3.3 million) and have normal credit terms, and thus, the individual concentrations of credit risk are not considered significant. Accounts and other receivables are presented in the accompanying consolidated financial statements net of allowances for bad and doubtful receivables, as estimated by the Company's management based on historical experience and present economic condition in the environment in which the Company operates. The average days' sales outstanding in 2012 (determined based on the net value of receivables) counted 71 days (2011: 70 days).

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

December 31, 2012	Gross Exposure	Allowance for Impairment	Net Exposure
Accounts receivable, not matured	21,975,374	321,678	21,653,696
Accounts receivable, matured and provided for	109,965,930	109,965,930	-
Accounts receivable, matured but not provided for	16,504,008	-	16,504,008
	<u>148,445,312</u>	<u>110,287,608</u>	<u>38,157,704</u>
December 31, 2011	Gross Exposure	Allowance for Impairment	Net Exposure
Accounts receivable, not matured	21,517,546	379,821	21,137,725
Accounts receivable, matured and provided for	97,630,912	97,630,912	-
Accounts receivable, matured but not provided for	15,260,233	-	15,260,233
	<u>134,408,691</u>	<u>98,010,733</u>	<u>36,397,958</u>

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37. OPERATING RISKS (Continued)

Liquidity Risk

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

2012	Within a Month	From 1 to 3 Months	From 3 Months to a Year	From 1 to 5 Years	Over 5 Years	Total
Equity investments	-	-	-	-	1,036,287	1,036,287
Long-term investments	-	-	-	-	637,205	637,205
Accounts receivable	146,093	-	-	-	-	146,093
Other receivables	306,101	-	457,423	-	-	763,524
Cash and cash equivalents	346,113	-	-	-	-	346,113
Non-interest bearing	798,307	-	457,423	-	1,673,492	2,929,222
Long-term investments	-	-	-	-	192,970	192,970
Short-term loans and other short-term financial assets	-	217,156	-	-	-	217,156
Cash and cash equivalents	10,502,845	-	-	-	-	10,502,845
Fixed interest rate	10,502,845	217,156	-	-	192,970	10,912,971
Long-term investments	-	-	-	260,479	338,846	599,325
Accounts receivable	38,008,618	-	2,993	-	-	38,011,611
Short-term loans and other short-term financial assets	-	977,996	704,039	-	-	1,682,035
Other receivables	33,983,679	-	-	-	-	33,983,679
Cash and cash equivalents	2,611,804	-	-	-	-	2,611,804
Variable interest rate	74,604,101	977,996	707,032	260,479	338,846	76,888,454
	<u>85,905,253</u>	<u>1,195,152</u>	<u>1,164,455</u>	<u>260,479</u>	<u>2,205,308</u>	<u>90,730,647</u>
2011	Within a Month	From 1 to 3 Months	From 3 Months to a Year	From 1 to 5 Years	Over 5 Years	Total
Equity investments	-	-	-	-	981,401	981,401
Long-term investments	-	-	-	-	637,234	637,234
Accounts receivable	414,306	-	-	-	-	414,306
Other receivables	582,724	-	141,519	-	-	724,243
Cash and cash equivalents	204,146	-	-	-	-	204,146
Non-interest bearing	1,201,176	-	141,519	-	1,618,635	2,961,330
Long-term investments	-	-	-	-	229,838	229,838
Short-term loans and other short-term financial assets	-	1,923,572	-	-	-	1,923,572
Cash and cash equivalents	5,421,216	-	-	-	-	5,421,216
Fixed interest rate	5,421,216	1,923,572	-	-	229,838	7,574,626
Long-term investments	-	-	-	252,964	262,967	515,931
Accounts receivable	35,976,626	-	7,026	-	-	35,983,652
Short-term loans and other short-term financial assets	33,666	465,422	-	-	-	499,088
Other receivables	28,342,910	-	-	-	-	28,342,910
Cash and cash equivalents	296,675	-	-	-	-	296,675
Variable interest rate	64,649,877	465,422	7,025	252,964	262,967	65,638,255
	<u>71,272,269</u>	<u>2,388,994</u>	<u>148,544</u>	<u>252,964</u>	<u>2,111,440</u>	<u>76,174,211</u>

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37. OPERATING RISKS (Continued)

Liquidity Risk (Continued)

The balances of contractually agreed financial liabilities mature for payment as presented in the following summary:

2012	Within a Month	From 1 to 3 Months	From 3 Months to a Year	From 1 to 5 Years	Over 5 Years	Total
Accounts payable	-	15,547,788	1,315,896	-	-	16,863,684
Other liabilities	822,102	431,307	-	-	-	1,253,409
Short-term financial liabilities	-	-	620	-	-	620
Non-interest bearing	822,102	15,979,095	1,316,516	-	-	18,117,713
Long-term borrowings	-	-	-	6,891,269	22,732,822	29,624,091
Other long-term liabilities	-	-	-	1,345,102	-	1,345,102
Current portion of long-term borrowings	683,078	409,166	1,723,576	-	-	2,815,820
Short-term financial liabilities	-	-	680,772	-	-	680,772
Fixed interest rate	683,078	409,166	2,404,348	8,236,371	22,732,822	34,465,785
Long-term borrowings	-	-	-	15,554,577	12,964,695	28,519,272
Other long-term liabilities	-	-	-	2,562,891	-	2,562,891
Accounts payable	5,491,629	1,727,532	-	-	-	7,219,161
Other liabilities	35,142,476	-	-	-	-	35,142,476
Short-term borrowings	-	-	16,119,860	-	-	16,119,860
Current portion of long-term borrowings	915,555	1,009,492	3,621,633	-	-	5,546,680
Short-term financial liabilities	-	-	7,929,207	-	-	7,929,207
Variable interest rate	41,549,660	2,737,024	27,670,700	18,117,468	12,964,695	103,039,547
	43,054,840	19,125,285	31,391,564	26,353,839	35,697,517	155,623,045
	43,054,840	19,125,285	31,391,564	26,353,839	35,697,517	155,623,045
2011	Within a Month	From 1 to 3 Months	From 3 Months to a Year	From 1 to 5 Years	Over 5 Years	Total
Accounts payable	-	14,828,033	1,426,391	-	-	16,254,424
Other liabilities	1,004,002	322,448	-	-	-	1,326,450
Short-term financial liabilities	-	-	2,020	-	-	2,020
Non-interest bearing	1,004,002	15,150,481	1,428,411	-	-	17,582,894
Long-term borrowings	-	-	-	6,196,085	15,585,689	21,781,774
Other long-term liabilities	-	-	-	2,019,630	-	2,019,630
Current portion of long-term borrowings	211,032	658,459	4,470,163	-	-	5,339,654
Short-term financial liabilities	-	-	655,346	-	-	655,346
Fixed interest rate	211,032	658,459	5,125,509	8,215,715	15,585,689	29,796,404
Long-term borrowings	-	-	-	9,898,624	13,861,099	23,759,723
Other long-term liabilities	-	-	-	572,449	-	572,449
Accounts payable	3,791,493	1,647,559	-	-	-	5,439,052
Other liabilities	28,892,044	-	-	-	-	28,892,044
Short-term borrowings	-	-	3,700,402	-	-	3,700,402
Current portion of long-term borrowings	179,705	949,607	1,340,562	-	-	2,469,874
Short-term financial liabilities	-	-	5,515,138	-	-	5,515,138
Variable interest rate	32,863,242	2,597,166	10,556,102	10,471,073	13,861,099	70,348,682
	34,078,276	18,406,106	17,110,022	18,686,788	29,446,788	117,727,980
	34,078,276	18,406,106	17,110,022	18,686,788	29,446,788	117,727,980

Taxation Risks

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

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38. LOSSES OF ELECTRICAL POWER

Throughout the normal course of business, the Company incurs substantial technical and non-technical losses of electrical power. Technical losses arise upon the transmission of electricity to the end-users. Non-technical losses represent the electricity consumed by users which the Company is unable to identify and invoice. In 2012, the Company incurs total distribution losses of 14.14% or 4,586 GWh (2011: 14.31% or 4,748 GWh), which represents the total difference between purchased and sold electricity and includes technical and non-technical losses.

39. EVENTS AFTER THE REPORTING PERIOD

a) Change in the Legal Form

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

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

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

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

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

Under the Memorandum on the Budget and Fiscal Policy, for the past few years the Republic of Serbia has focused on the corporatization of public enterprises, including JP EPS, in accordance with commitments assumed under the Agreement on Stabilization and Association entered into by and between the European Union and the Republic of Serbia. Given the aforesaid and taking into consideration the changes in the legislation, particularly in respect of conditions and manner of performing energy-related activities, public enterprises and business companies, at its session held on November 16, 2012, the Government of the Republic of Serbia enacted Conclusion 05 no. 023-784/202 whereby it adopted the Preliminary Basis for Reorganization in JP EPS. The aforesaid document delineates the basic concept and directions of reorganization of JP EPS and its subsidiaries. Pursuant to the RS Government's Conclusion, the highest priority activity is the change of legal form of JP EPS into a shareholding company, with the enactment of the necessary decisions that fall under the Government's remit in exercising the founder's rights.

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39. EVENTS AFTER THE REPORTING PERIOD (Continued)

a) Change in the Legal Form (Continued)

As disclosed in Note 1, the founders shall harmonize the Parent Company's Article of Incorporation with the Law on Public Enterprises (Official Gazette of the Republic of Serbia, no. 119/2012, effective as from December 25, 2012), and the Public Enterprise as well as its subsidiaries, will be obligated to harmonize their general by-laws and enactments with this Law and Articles of Incorporation within 30 days from the date of the Parent Company's founding act reconciliation with the provisions of the Law.

b) Company's Founder

1. In the previous reporting period, the activities commenced regarding the assessment of all relevant legal, economic and technical conditions for an organizational and functional separation of the Company's activity of electricity retail into a separate legal entity. Namely, for the purpose of creating conditions for EPS to operate in a more effective and profitable way as an operating system, alongside with the activities on the EPS corporatization, the justifiability of the reorganization of subsidiaries will be analyzed from the organizational, economic, financial and functional stand point, proposing the terms and manner of implementing the reorganization procedure, and need for organizational separation of certain business functions into separate legal entities will be reviewed, taking heed of particular requirements of EU legislation in the field of energy (retail in electricity), following the harmonization with the local regulations.

By enacting Conclusion 05 no. 023-784/202 dated November 16, 2012, whereby it adopted the Preliminary Basis for Reorganization in JP EPS, the Government defined the basic directions of the future legal separation of the existing electricity distribution companies in accordance with the Law, which presupposes enactment of special decisions on the manner and conditions of the legal separation of the existing electricity distribution companies in accordance with the Law.

In respect to the aforesaid, the Parent Company's Board of Directors, acting in the capacity of the Supervisory Board, enacted Decision on Establishment of "EPS snabdevanje " d.o.o., Beograd, no. 2, Carice Milice Street, a company involved in electricity supply to end-consumers. The government granted its approval thereof under Decision 05 no. 023-2068/2013-1 dated March 21, 2013 (Official gazette of RS, no. 28/2013). The newly founded company will perform its activity of public electricity supply to end-consumers in the territory of the Republic of Serbia pursuant to the RS Government's enactment in accordance with the Law. The company "EPS snabdevanje" d.o.o. was duly registered with the competent agency as of May 7, 2013.

Pursuant to the Energy Law provisions, the right to public electricity supply at the regulated prices shall have:

- 1) as from January 1, 2013, the end-consumers of electricity whose facilities are connected to the distribution system;
- 2) as from January 1, 2014, only households and small electricity consumers.

After the balance sheet date, qualified buyers of electricity will have the right to free selection of electricity supplier, i.e. the purchase of electricity quantities for an accounting period which is not determined by a sales and purchase contract, but the end-user has the right to determine the quantity based on the actual consumption measured at the takeover point. The Parent Company closed contracts on the sale of electricity with a number of qualified buyers at free-formed prices.

The end-buyers of electricity which are not entitled to public supply, until public tender for selection of the reserve supplier, shall be supplied by JP EPS, appointed as the reserve supplier under the RS Government's Decision (Official gazette of RS, no. 10/2013), at the price that cannot be below the average price at which the transmission system operator sells electricity for the purpose of system balancing, i.e. at the price of EUR 70 per MWh in the RSD equivalent translated at the middle exchange rate of the National Bank of Serbia as of the payment date, VAT excluded. The same government's Decision envisages that JP EPS shall supply end-buyers which have lost their entitlement to public supply, i.e. to supply at regulated prices and did not select a supplier from January 1 through January 31, 2013, at the average price at which the transmission system operator sells electricity for the purpose of system balancing.

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39. EVENTS AFTER THE REPORTING PERIOD (Continued)

b) Company's Founder (Continued)

2. In the previous reporting period, invited potential strategic partners to submit their letters of interest and supply of evidence that they comply with the necessary criteria set for entities interested in the joint investment in:
 - the project of the Thermal Power Plant Nikola Tesla B3, associated with the construction and management of a new power plant located at the Thermal Power Plant Nikola Tesla B, with above-critical parameters of steam and power of about 700 MW.
 - the project of the Thermal Power Plant Kolubara B (an organizational section of the subsidiary PD TENT d.o.o.), pertaining to the completion of construction and running the Thermal Power Plant on brown coal with the power of 2 x 350 MW.

In fact, based on the agreement achieved with the owner, the Board of Directors enacted a Decision on the Procedure for the selection of strategic partners for the joint construction of the aforementioned production capacities.

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

In addition to the aforesaid, as of October 20, 2011, the Cooperation Protocol was signed (came into effect as of the Government's approval date, November 10, 2011) by and between JP EPS and a Chinese Consortium comprised of the companies Shenzhen Energy Group Co. Ltd. and China Environmental Energy Holdings Co. Ltd. in order to realize Project TENT B3.

The subject of the Protocol is arrangement of the mutual relations with regard to the determining the basic directions of cooperation in energy sector project realization, particularly a more detailed regulation of relations in the preparation of the justifiability study and the detailed design for the realization of the TENT B3 project, involving financing, design, construction, placement into operation, management and maintenance of a thermal power plant or the power of 744 MW, and the related coal production project in order to provide fuel for the plant.

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.

During the reporting period, on September 12, 2012, and upon the prior consent of the Government granted on September 8, 2012, the Memorandum of Understanding has been closed with RWE Group (comprised in terms of this Memorandum of RWE AG, RWEI, RWE Innogy Serbia – subsidiary of RWEI for realization of renewable technologies in Serbia, RWE Technology – responsible for technical services to RWE AG), on the strategic partnership in order to achieve joint objectives of establishing and developing strategic cooperation between the parties within the energy sector of Serbia and the South-East European region.

3. 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, a strategic partner will be selected and a joint investment agreement closed.
4. At its session held as of September 30, 2011, the Company's Board of Directors enacted Decision on establishment of the company involved in renewable energy sources "EPS Renewable Sources" headquartered in Užice, which the Government approved. The newly founded company commenced its operations as of April 2, 2012.

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39. EVENTS AFTER THE REPORTING PERIOD (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, nos. 57/08 and 22/09).

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

According to the aforementioned, and based on international protocols in effect, the Memorandum of Understanding was signed with RWE AG, Germany whereby the cooperation is to be realized in the following projects: Đerdap III and six power plants on the Great Morava River.

d) Provision of Liquid Assets

In order to settle the contractual commitments and realize the activities planned and approved by the RS Government, the company obtained the following borrowings after the reporting date:

No.	BORROWINGS	Currency	Principal Amount in Currency	ORIGINAL CURRENCY		
				Annuity Maturity Date	Repayment Schedule	Interest Rate
TOTAL			10,000,000,000.00			
	Hypo Alpe -Adria-bank a.d., Beograd			10/08/2013-		
1	09/01/2013	RSD	1,000,000,000.00	10/07/2014	monthly	1-month BELIBOR +3.95% p.a.
	Banca Intesa a.d., Beograd 10/01/2013			10/08/2013-		
2	10/01/2013	RSD	1,000,000,000.00	10/07/2014	monthly	1-month BELIBOR +3.42% p.a.
	Banca Intesa a.d., Beograd 10/01/2013			10/08/2013-		
3	10/01/2013	RSD	500,000,000.00	10/07/2014	monthly	1-month BELIBOR +3.4% p.a.
	AIK Banka a.d., Niš			10/08/2013-		
4	09/01/2013	RSD	500,000,000.00	10/07/2014	monthly	1-month BELIBOR +395% p.a.
	AIK Banka a.d., Niš			10/08/2013-		
5	09/01/2013	RSD	500,000,000.00	10/07/2014	monthly	1-month BELIBOR +3.95% p.a.
	AIK Banka a.d., Niš			11/08/2013-		
6	09/01/2013	RSD	500,000,000.00	11/07/2014	monthly	1-month BELIBOR +3.95% p.a.
	Banca Intesa a.d., Beograd 10/01/2013			10/08/2013-		
7	10/01/2013	RSD	500,000,000.00	10/07/2014	monthly	1-month BELIBOR +3.48% p.a.
	Banca Intesa a.d., Beograd 10/01/2013			10/08/2013-		
8	10/01/2013	RSD	500,000,000.00	10/07/2014	monthly	1-month BELIBOR +3.40% p.a.
	Hypo Alpe -Adria-bank a.d., Beograd			20/03/2014 -		
9	11/02/2013	RSD	500,000,000.00	20/02/2015	monthly	1-month BELIBOR +3.59% p.a.
	Hypo Alpe -Adria-bank a.d., Beograd			20/03/2014 -		
10	11/02/2013	RSD	500,000,000.00	20/02/2015	monthly	1-month BELIBOR +3.59% p.a.
	AIK Banka a.d., Niš			14/03/2014 -		
11	13/02/2013	RSD	500,000,000.00	14/02/2015	monthly	1-month BELIBOR +3.85% p.a.
	AIK Banka a.d., Niš			18/03/2014 -		
12	13/02/2013	RSD	500,000,000.00	8/02/2015	monthly	1-month BELIBOR +3.80% p.a.
	AIK Banka a.d., Niš			18/03/2014 -		
13	13/02/2013	RSD	500,000,000.00	18/02/2015	monthly	1-month BELIBOR +3.75% p.a.
	Unicredit Bank a.d., Beograd 12/02/2013			14/03/2014 -		
14	12/02/2013	RSD	500,000,000.00	14/02/2015	monthly	1-month BELIBOR+3.80% p.a.
	Vojvođanska banka a.d., Novi Sad			22/03/2014 -		
15	19/02/2013	RSD	500,000,000.00	22/02/2015	monthly	1-month BELIBOR +3.40% p.a.
	Vojvođanska banka a.d., Novi Sad			22/03/2014 -		
16	19/02/2013	RSD	500,000,000.00	22/02/2015	monthly	1-month BELIBOR +3.40% p.a.
	Eurobank a.d., Beograd			21/03/2014 -		
17	20/02/2013	RSD	500,000,000.00	21/02/2015	monthly	1-month BELIBOR +3.80% p.a.
	Eurobank a.d., Beograd			21/03/2014 -		
18	20/02/2013	RSD	500,000,000.00	21/02/2015	monthly	1-month BELIBOR +3.80% p.a.

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39. EVENTS AFTER THE REPORTING PERIOD (Continued)

e) Stimulating Measures for Privileged Electricity Producers

In accordance with the Energy Law, Republic of Serbia Government enacted a Decree on the stimulating measures for privileged power producers, Decree on the manner of calculation and distribution of funds collected as fee for stimulating privileged power producers and Decree on the special fee for stimulation in 2013 (Official Gazette of RS, no. 8/2013). The difference between the stimulating price at which the privileged power producer may sell to the public supplier the total quantity of electricity produced over a stimulation measure period and the regulated price of public supplier will be financed from the stimulating fee. The stimulating fee amounts to RSD 0.044 per kWh.

The public supplier had not been determined until the aforesaid Decrees coming into effect. Accordingly, pursuant to the requirements thereof, the obligation of the public supplier in terms of stimulating measures shall be fulfilled by JPS EPS.

During and before the reporting period, JP EPS entered into the agreements with power producers with the privileged power producer status and arranged for the electricity delivery at the stimulating purchase price ("feed in" tariff).

40. EXCHANGE RATES

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

	December 31, 2012	December 31, 2011
EUR	113.71830	104.64090
DKK	15.23760	14.07130
JPY	1.00070	1.04183
SEK	13.22030	11.70150
CHF	94.19220	85.91210
GBP	139.19010	124.60220
USD	86.17630	80.86620
XDR	132.44610	123.75760