



JP „ELEKTROMREZA SRBIJE“ BEOGRAD

*(English translation of the Report
originally issued in Serbian language -
for management purposes only)*

**CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2008**

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INDEPENDENT AUDITOR'S REPORT**TO THE BOARD OF DIRECTORS OF
JP ELEKTROMREZA SRBIJE**

*This is an English translation of the Report
originally issued in Serbian language
(for management purposes only)*

We have audited the accompanying financial statements of JP Elektromreža Srbije, Beograd and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008, 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 significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting and Auditing Law and other applicable regulations in Republic of Serbia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 explained in the Note 17 to the accompanying financial statements, appraisal of property, plant and equipment has been carried out and the revalued amounts were determined based on the weightings of values determined using income approach on one hand and depreciated replacement cost and market approach on the other hand. However, the weightings used (60% and 40%) in arriving at such values are not substantiated by corroborating evidence. We could not estimate the effect of this matter on the value of property, plant and equipment, revaluation reserves and deferred tax liabilities as of 31 December 2008.

Qualified Opinion

In our opinion, except for the possible of effect of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of JP Elektromreža Srbije as of 31 December 2008 and of the results of its operations and its cash flows for the year then ended in accordance with Accounting and Auditing Law and basis set out in Note 2.1. to the accompanying financial statements.

Emphasis of matter

1) As explained in the Note 17 to the accompanying financial statements, the right of usage of the assets taken from Elektroistok and other State owned companies within Elektroprivreda Srbije has not been transferred to the Company, but is still on the name of these State owned enterprises. Furthermore, not all buildings included in balance sheet as of 31 December 2008 have appropriate operating licence. Our opinion is not qualified in respect of this matter.

2) As explained in the Note 28 to the accompanying financial statements included within liabilities towards JP Elektroprivreda Srbije are liabilities for loan taken from Export-Import Bank of China, which are due but repayment has not started since negotiations regarding rescheduling of this loan are currently in progress. Potential effect of this matter on the Group's financial statements cannot be estimated currently. Our opinion is not qualified in respect of this matter.

Belgrade, 18 June 2009



Photis Demetriou
Partner



Olivera Blagic
Authorized Auditor



2	0	0	5	4	1	8	2			4	0	1	0	5			1	0	3	9	2	1	6	6	1
Identification number								Business code								Tax identification number									
8	5	0													0	3	2	0	0	0	0	10			
1	2	3													19	20	21	22	23	24	25	26			
Type of business																									

Name: JP ELEKTROMREŽA SRBIJE

Location: Kneza Milosa 11, Beograd

INCOME STATEMENT

For 2008

- in RSD 000 -

Code of accounts 1	ITEM 2	EDP 3	Note no. 4	Amount	
				Current year 5	Previous year 6
	A. OPERATING INCOME AND EXPENSES				
	I. OPERATING REVENUES (202+203+204-205+206)	201		12,348,451	6,521,888
60 and 61	1. Sales	202	4	11,454,210	6,017,181
62	2. Revenue from consumption of own products	203	5	661,663	358,349
630	3. Increase in value of inventories	204			
631	4. Decrease in value of inventories	205			
64 and 65	5. Other operating revenues	206	6	232,578	146,358
	II. OPERATING EXPENSES (208 TO 212)	207		11,369,153	5,057,268
50	1. Cost of goods sold	208		3,761	4,038
51	2. Cost of materials	209	7	3,585,865	396,510
52	3. Cost of salaries, salaries compensations and other employee benefits	210	8	1,906,987	1,600,758
54	4. Depreciation and provisions	211	9	3,036,583	1,923,870
53 and 55	5. Other operating expenses	212	10	2,835,957	1,132,092
	III. OPERATING PROFIT (201-207)	213		979,298	1,464,620
	IV. OPERATING LOSS (207 - 201)	214			
66	V. FINANCIAL INCOME	215	11	832,071	532,186
56	VI. FINANCIAL EXPENSES	216	12	2,026,748	503,426
67, 68	VII. OTHER INCOME	217	13	734,492	133,030
57, 58	VIII. OTHER EXPENSES	218	14	333,434	1,111,744
	IX. PROFIT FROM REGULAR OPERATIONS BEFORE TAXATION (213-214+215-216+217-218)	219		185,679	514,666
	X. LOSS FROM REGULAR OPERATIONS BEFORE TAXATION (214-213-215+216-217+218)	220			
69-59	XI. NET INCOME FROM DISCONTINUING OPERATIONS	221			60,020
59-69	XII. NET LOSS FROM DISCONTINUING OPERATIONS	222			

- in RSD 000 -

Code of accounts	ITEM	EDP	Note no.	Amount	
				Current year	Previous year
1	2	3	4	5	6
	B. PROFIT BEFORE TAXATION (219-220+221-222)	223		185,679	574,686
	C. LOSS BEFORE TAXATION (220-219+222-221)	224			
	D. INCOME TAX				
721	1.Curent income tax	225	15	60,779	47,463
722	2.Deferred tax expenses for the period	226			
722	3.Deferred tax income for the period	227	15	90,957	15,562
723	E. SALARIES PAID TO EMPLOYER	228			
	F. NET PROFIT (223-224-225-226+227-228)	229		215,857	542,785
	G. NET LOSS (224-223+225+226-227+228)	230			
	H. NET PROFIT BELONGING TO MINORITY SHAREHOLDERS	231			
	I. NET PROFIT BELONGING TO PARENT COMPANY OWNERS	232		215,857	542,785
	J. EARNINGS PER SHARE				
	1. Basic earning per share	233			
	2. Diluted earnings per share	234			

In Belgrade
18-Jun-09

Person responsible for the
financial statements preparation

Legal representative

2	0	0	5	4	1	8	2	4	0	1	0	5	1	0	3	9	2	1	6	6	1
Identification number							Business code					Tax identification number									
8	5	0											3	2	0	0	0	10			
1	2	3											20	21	22	23	24	25	26		
Type of business																					

Name: JP ELEKTROMREŽA SRBIJE

Location: Kneza Miloša 11, Beograd

BALANCE SHEET

As of 31 December 2008

- in RSD 000 -

Code of accounts	ITEM	EDP	Note no.	Amount	
				Current year	Previous year
1	2	3	4	5	6
	ASSETS				
	A. NON CURRENT ASSETS (002+003+004+005+009)	001		56,773,560	42,419,303
00	I. SUBSCRIBED CAPITAL UNPAID	002			
012	II. GOODWILL	003			
01 without 012	III. INTANGIBLE ASSETS	004	16	40,891	43,665
	IV. PROPERTY, PLANT AND EQUIPMENT AND BIOLOGICAL ASSETS (006+007+008)	005	17	54,836,972	40,935,234
020,022,023, 026,027(part), 028 (part), 029	1. Property, plant and equipment	006		54,836,972	40,935,234
024, 027(part), 028 (part)	2. Investment properties	007			
021,025,027 (part) and 028(part)	3. Biological assets	008			
	IV. LONG-TERM FINANCIAL INVESTMENTS (010+011)	009		1,895,697	1,440,404
030 to 032, 039 (part)	I. Investment in shares	010	18	8,267	8,329
033 to 038, 039 (part) minus 037	2. Other long-term financial investments	011	19	1,887,430	1,432,075
	B. CURRENT ASSETS (013+014+015+021)	012		6,585,897	4,243,485
10 to 13, 15	I. INVENTORIES	013	20	385,406	514,816
14	II. NON CURRENT ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUING OPERATIONS	014			
	III. SHORT-TERM RECEIVABLES, INVESTMENTS AND CASH (016+017+018+019+020)	015		6,200,491	3,728,669
20,21 and 22, except 223	1. Trade and other receivables	016	21	1,960,882	1,886,082
223	2. Receivables for overpaid income tax	017			1,566
23 minus 237	2. Short-term financial investments	018	22	1,495,344	1,287,820
24	3. Cash and cash equivalents	019	23	2,052,247	371,673
27 and 28 except 288	4. Value added tax and deferred expenses and prepayments	020	24	692,018	181,528
288	IV. DEFERRED TAX ASSETS	021			
	C. OPERATING ASSETS (001+012)	022		63,359,457	46,662,788
29	D. LOSS EXCEEDING CAPITAL	023			
	E. TOTAL ASSETS (022+023)	024		63,359,457	46,662,788
88	F. OFF-BALANCE SHEET ASSETS	025		14,370,767	6,027,451

Code of accounts	ITEM	EDP	Note no.	Amount	
				Current year	Previous year
1	2	3	4	5	6
	EQUITY AND LIABILITIES				
	A. EQUITY (102+103+104+105+106-107+108-109-110)	101	25	45,182,811	31,143,859
30	I. BASIC CAPITAL	102		30,540,088	30,540,088
31	II. SUBSCRIBED CAPITAL UNPAID	103			
32	III. RESERVES	104		1,072	1,072
330 and 331	IV. REVALUATION RESERVES	105		12,207,156	
332	V. UNREALISED GAINS ON SECURITIES	106			
333	VI. UNREALISED LOSSES ON SECURITIES	107			
34	VII. RETAINED EARNINGS	108		2,434,495	602,699
35	VIII. LOSS	109			
037 and 237	IX. PURCHASED OWN SHARES	110			
	B. LONG-TERM PROVISIONS AND LIABILITIES (112+113+116)	111		16,746,317	13,507,982
40	I. LONG-TERM PROVISIONS	112	26	184,128	159,782
41	II. LONG-TERM LIABILITIES (114+115)	113		11,056,343	9,501,406
414, 415	1. Long-term loans	114	27	10,788,336	7,859,086
41 without 414 and 415	2. Other long-term liabilities	115	28	268,007	1,642,320
	III. SHORT-TERM LIABILITIES (117+118+119+120+121+122)	116		5,505,846	3,846,794
42 except 427	1. Short-term financial liabilities	117	29	1,255,637	1,143,881
427	2. Liabilities in respect of assets held for sale and assets from discontinuing operations	118			
43 and 44	3. Trade and other payables	119	30	1,827,943	629,714
45 and 46	4. Other short-term liabilities and accruals	120	31	516,682	384,056
47 and 48 except 481 and 49 except 498	5. Liabilities for VAT and other public income	121	32	1,872,796	1,689,143
481	4. Liabilities for income tax	122		32,788	
498	IV. DEFERRED TAX LIABILITIES	123		1,430,329	2,010,947
	C. TOTAL LIABILITIES (101+111+123)	124		63,359,457	46,662,788
89	D. OFF-BALANCE SHEET LIABILITIES	125	33	14,370,767	6,027,451

2	0	0	5	4	1	8	2	4	0	1	0	5	1	0	3	9	2	1	6	6	1
Identification number							Business code					Tax identification number									
8	5	0						0						3	2	0	0	0	0	10	
1	2	3						19						20	21	22	23	24	25	26	
Type of business																					

Name: JP ELEKTROMREŽA SRBIJE

Location: Kneza Miloša 11, Beograd

CASH FLOW STATEMENT

for the period from 1 January 2008 to 31 December 2008

ITEM	EDP	Amount	
		Current year	Previous year
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflow from operating activities(1 to 3)	301	12,681,991	5,593,785
1. Sales and advances received	302	12,511,478	5,319,868
2. Interests received from operating activities	303	168,564	259,100
3. Other inflow from ordinary operations	304	1,949	14,817
II. Cash outflow from operating activities (1 to 5)	305	8,928,421	3,747,001
1. Payments and prepayments to suppliers	306	6,080,787	954,163
2. Salaries, compensations and other employee benefits	307	1,792,464	1,673,895
3. Interests paid	308	52,060	208,861
4. Income tax	309	31,079	31,617
5. Payments for other public income	310	972,031	878,465
III. Net cash inflow from operating activities (I - II)	311	3,753,570	1,846,784
IV. Net cash outflow from operating activities (II - I)	312		
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash inflow from investing activities (1 to 5)	313	114,384	26,797
1. Sales of stocks and shares (net inflows)	314	483	380
2. Sales of intangible assets, property, plant and equipment and biological assets	315	939	951
3. Other financial investments (net inflows)	316	6,215	
4. Interests received from investing activities	317	106,747	25,466
5. Dividends received	318		
II. Cash outflow from investing activities (1 to 3)	319	2,175,353	2,362,503
1. Purchase of stocks and shares (net outflows)	320		
2. Purchase of intangible assets, property, plant and equipment and biological assets	321	2,175,353	1,320,835
3. Other financial investments (net outflows)	322		1,041,668
III. Net cash inflow from investing activities (I - II)	323		
IV. Net cash outflow from investing activities (II - I)	324	2,060,969	2,335,706

ITEM	EDP	Amount	
		Current year	Previous year
1	2	3	4
C. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflows from financing activities (1 to 3)	325	399,010	0
1. Registered capital increase	326		
2. Long-term and short-term loans (net inflows)	327	399,010	
3. Other long-term and short-term liabilities	328		
II. Cash outflows from financing activities (1 to 4)	329	466,584	556,553
1. Purchase of own stocks and shares	330		
2. Long-term and short-term loans and other liabilities (net outflows)	331	253,556	263,162
3. Financial lease	332	4,256	
4. Dividends paid	333	208,772	293,391
III. Net cash inflow from financing activities (I - II)	334		
IV. Net cash outflow from financing activities (II - I)	335	67,574	556,553
D. TOTAL CASH INFLOWS (301+313+325)	336	13,195,385	5,620,582
E. TOTAL CASH OUTFLOWS (305+319+329)	337	11,570,358	6,666,057
F. NET CASH INFLOW (336-337)	338	1,625,027	
G. NET CASH OUTFLOW (337-336)	339		1,045,475
H. CASH AT THE BEGINNING OF THE ACCOUNTING PERIOD	340	371,673	1,428,281
I. FOREIGN CURRENCY GAINS ON TRANSLATION OF CASH	341	56,625	406
J. FOREIGN CURRENCY LOSSES ON TRANSLATION OF CASH	342	1,078	11,539
K. CASH AT THE END OF ACCOUNTING PERIOD (338-339+340+341-342)	343	2,052,247	371,673

In Belgrade
18-Jun-09

Person responsible for the
financial statements preparation

Legal representative

2	0	0	5	4	1	8	2	4	0	1	0	5	1	0	3	9	2	1	6	6	1
Identification number							Business code					Tax identification number									
8	5	0						0	3	2	0	0	0	0	10						
1	2	3						19	20	21	22	23	24	25	26						
Type of business																					

Name: JP ELEKTROMREŽA SRBIJE

Location: Kneza Miloša 11, Beograd

STATEMENT ON CHANGES IN EQUITY
for the period from 1 January 2008 to 31 December 2008

~ in RSD 000 ~

No.	DESCRIPTION	EDP	Share capital (group 30 without 309)		Other capital (account 309)		Subscribed capital unpaid (group 31)		Share premium (account 320)		Reserves (account 321, 322)		Revaluation reserves (group 33)		Unrealised gains on securities account 332		Unrealised losses on securities account 332		Retained earnings (group 34)		Loss to amount of equity (group 35)		Purchased own shared and stakes (account 037, 237)		Total (col. 2 + 3 + 4 + 5 + 6 + 7 + 8 - 9 + 10 - 11 - 12)		Loss exceeding equity (group 29)	
			EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP	EDP
1			2	3	4	5	6	7	8	9	10	11	12	13	14													
1.	Balance at 1 January 1007	401	30,506,506	414	33,582	427	440	453	466	479	492	505	1,146,727	518	541,316	531	544	31,145,499	557									
2.	Adjustment of fundamental errors and changes in accounting policies in previous year-increase	402		415	428	441	454	467	480	493	506	519	532	545	0	558												
3.	Adjustment of fundamental errors and changes in accounting policies in previous year-decrease	403		416	429	442	455	468	481	494	507	204,857	520	533	546	204,857	559											
4.	Restated opening balance at 1 January 2007 (No. 1 + 2 - 3)	404	30,506,506	417	33,582	430	443	456	0	469	482	495	508	941,870	521	541,316	534	547	30,940,642	560								
5.	Total increase in previous year	405		418	431	444	457	1,072	470	483	496	509	259,704	522	535	548	260,776	561										
6.	Total decrease in previous year	406		419	432	445	458	471	484	497	510	881,956	523	541,316	536	549	340,640	562										
7.	Balance at 31 December 2007 (No. 4 + 5 - 6)	407	30,506,506	420	33,582	433	446	459	1,072	472	485	498	511	319,618	524	537	550	30,860,778	563									
8.	Adjustment of fundamental errors and changes in accounting policies in current year-increase	408		421	434	447	460	473	486	499	512	391,046	525	538	551	391,046	564											
9.	Adjustment of fundamental errors and changes in accounting policies in current year-decrease	409		422	435	448	461	474	487	500	513	107,965	526	539	552	107,965	565											
10.	Restated opening balance at 1 January 2008 (No. 7 + 8 - 9)	410	30,506,506	423	33,582	436	449	462	1,072	475	488	501	514	602,699	527	540	553	31,143,859	566									
11.	Total increase in current year	411		424	437	450	463	476	13,561,914	489	502	515	2,060,266	528	541	554	15,622,180	567										
12.	Total decrease in current year	412		425	438	451	464	477	1,354,758	490	503	516	228,470	529	542	555	1,583,228	568										
13.	Balance at 31 December 2008 (No. 10 + 11 - 12)	413	30,506,506	426	33,582	439	452	465	1,072	478	12,207,156	491	504	517	2,434,495	530	543	556	45,182,811	569								

In Belgrade
18-Jun-09

Person responsible for the
financial statements preparation

Legal representative

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. Corporate information

The consolidated financial statement of JP Elektromreža Srbije and its subsidiaries (hereinafter referred to „the Group“) for the year ended 31 December 2008 have been authorized by the Board of directors' decision dated 18 June 2009.

The consolidated financial statements comprise financial statements of JP Elektromreža Srbije, Beograd and its fully owned subsidiaries Elektroistok – Izgradnja d.o.o. Beograd and Elektroistok – Projektni biro d.o.o. Beograd.

JP Elektromreža Srbije, Beograd with short-term JP EMS, Beograd (hereinafter referred to as “the Company”) was founded based on the Decision of the Government of Republic of Serbia (No. 023-397/2005-1 as of 27 January 2005) on formation of State owned company for electricity transmission and transmission system management announced at Official Gazette RS No. 12/2005.

According to the Decision of the Government of the Republic of Serbia on foundation of the Company, the assets used for the Company's foundation and operations comprise movable and immovable properties, cash and cash equivalents, securities, property law and other assets Elektroprivreda Srbije invested as the founder's stake in Elektroistok as well as the assets that Elektroistok acquired during its business operations. The assets used for the Company's foundation and operations also include part of the assets used by Elektroprivreda Srbije for transmission system management and Elektroprivreda's stake in the company „Elektroenergetski koordinacioni centar“ d.o.o. Beograd. The above assets were determined by the balance of assets as of 31 December 2004.

In line with the Decision of the Government of Republic of Serbia on the Company's formation dated 1 July 2005, Serbian Business Register Agency made a Decision no. BD 80469/2005 on recording the Company's formation in Register of business entities.

The Company's main activities are transmission of electricity and operation of the electricity transmission system.

In order to perform these activities the Company has obtained licences from Energy Agency of the Republic of Serbia as follows:

1. Licence for electricity transmission (No. 312-277/2006-L-I)
2. Licence for transmission system operation (No. 312-278/2006-L-I)
3. Licence for electricity market organization (No. 312-58/2006-L-I)

The Company is the only entity in the Republic of Serbia which holds licences for stated activities.

The Company's Head Office is located in Belgrade, Kneza Miloša Street no.11.

Decision-making body of the Company consists of Board of Directors, Executive Director and Supervisory Board. The members of decision-making body of the Company are appointed by the Government of the Republic of Serbia.

Subsidiaries Elektroistok – Izgradnja d.o.o. Beograd and Elektroistok – Projektni Biro d.o.o. Beograd were departments in company JP Elektroistok, Beograd which were on 30 June 2005 separated and became separate legal entities. The main activity of company Elektroistok – Izgradnja d.o.o. Beograd is the construction of electric power systems, devices, lines and plants while the main activity of the company Elektroistok – Projektni Biro d.o.o. Beograd is design of electric power systems and devices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

2.1. Basic of preparation

The financial statements have been prepared on a historical cost basis, except for property, plant and equipment that have been measured at fair value. The financial statements are presented in Republic of Serbia Dinars (RSD), being the domicile currency of the Company, and all values are rounded to the nearest thousand (RSD'000) except when otherwise indicated.

The Group maintains its records and prepares financial statements in accordance with the Accounting and Auditing Law of the Republic of Serbia and other applicable legal regulations of the Republic of Serbia.

According to the Accounting and Auditing Law, companies and entrepreneurs in the Republic of Serbia should prepare and present financial statements in accordance with the relevant legal and professional regulations, which encompass the applicable financial reporting framework ("Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), and the interpretations of standards.

The framework and IAS's applicable as at 31 December 2002, which formed the basis for the previous and the current Accounting and Auditing Law from 2006 are based on the Republic of Serbia Ministry of Finance Decision (decision number 011-00-738-2003-01) published on 30 December 2003.

The amendments to the IAS and the newly-issued IFRS and interpretations, released after the Ministry of Finance decision by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, have been officially adopted by the Republic of Serbia Ministry of Finance Decision on publication of International Financial Reporting Standards (decision number 401-00-11/2008-16) and published in Official Gazette of the Republic of Serbia No. 16 dated 12 February 2008.

Any new issued and amended IFRS and IFRIC Interpretations after this date were neither translated nor published, and accordingly they have not been applied in the preparation of the accompanying financial statements.

Furthermore, the accompanying financial statements have been prepared in the form prescribed by the Rulebook on format and contents of financial statements for companies, cooperatives, other legal entities and entrepreneurs (Official Gazette of the Republic of Serbia No. 114/2006) as well as Rulebook on amendment of and supplements to format and contents of financial statements for companies, cooperatives, other legal entities and entrepreneurs (Official Gazette of the Republic of Serbia No. 119/2008). These Rulebooks are based on the legal definition of a complete set of financial statements which departs from IAS 1 Presentation of Financial Statements. Additionally, the Rulebooks also contain departures from IAS 1 regarding the presentation of certain financial statement items.

As a result of the above mentioned, the Group's management has not included an explicit and unreserved statement of compliance of the accompanying financial statements with requirements of all standards and interpretations issued by International Accounting Standards Board, which comprise International Financial Reporting Standards.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

2.1. Basic of preparation (continued)

Bases of consolidation

As stated in Note 1 to the accompanying financial statements, the consolidated financial statements comprise financial statements of JP Elektromreza Srbije, Beograd and its fully owned subsidiaries Elektroistok – Izgradnja d.o.o. Beograd and Elektroistok – Projektni biro d.o.o. Beograd.

The financial statement of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of foundation, or acquisition, being the date on which parent company obtains control, and continue to be consolidated until the date such control ceases.

Regulatory

The Company is regulated by the Ministry of Energy, as regulator, pursuant to the Energy Law and Law on establishment of Serbian Transmission Systems Operator “Elektromreza”.

The Regulatory Authority (Energy Agency of the Republic of Serbia) was founded in year 2005 by Decision of the Government of the Republic of Serbia. According to the Energy Law, the Energy Agency brought Methodology for setting tariff elements for calculating prices for access to and use of system for electricity transmission and Tariff system for electricity transmission system access and utilisation.

The Company accounts for certain transactions in accordance with applicable regulations (regulatory accounting) when the following criteria are met: (a) the rates for regulated services provided are established by or are subject to approval by an independent, third-party regulator; (b) the regulated rates are designed to recover the cost of providing the services; and (c) in view of the demand for the regulated services, it is reasonable to assume that rates are set at levels that will recover the cost that can be charged to and collected from end-users. Under regulatory accounting, the timing of the Company’s recognition of certain assets, liabilities, revenues and expenses may differ from that otherwise expected under generally accepted accounting principles for non-regulated businesses.

When the regulator issues decisions affecting the financial statements, the effects of the decision are recorded in the period in which the decision is received.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

2.2. Summary of significant accounting policies

Foreign currency translation

The functional and presentation currency of the Company is the Republic of Serbia Dinar (RSD). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at fair value of the consideration received, excluding discounts and value added tax. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from sales of services

Revenue from sales of services is recognised when the service is provided.

Interest income

Interest income is recognised for the period it refers to. Interest income is included in finance revenue in the income statement.

Other income and expenses

Borrowing costs are recognised as an expense when incurred.

Other operating income and expenses are recognised on accrual basis.

Current income tax

Current income tax is provided for in accordance with local fiscal regulations in the Republic of Serbia using the prescribed tax rate on tax base determined by tax returns. Current income tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered or paid to the taxation authority.

Deferred income tax

Deferred income taxes are calculated and recognised, using the liability method, on all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income liabilities are recognised on all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

2.2. Summary of significant accounting policies (continued)

Deferred income tax (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates expected to be applied in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Value added tax

Revenues, expenses and assets are recognized in net amount without applicable value added tax, except when amount of value added tax cannot be recovered from tax authorities. In that case value added tax is recognized as part of cost of purchase or expenses.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Donations

Donations ("grants") are recognised at their value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Employee Benefits

Short-term employee benefits

The Company, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax that are calculated on the basis of gross salaries and wages, as well as food allowances, travel expenses and vacation allowances according to the local legislation.

The Company makes these contributions to the Government's health and retirement funds, at the statutory rates in force during the period, based on gross salary payments. The cost of these payments is charged to the income statement in the same period as the related salary cost. There is no additional liability for these plans.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

2.2. Summary of significant accounting policies (continued)

Employee Benefits (continued)

Long-term employee benefits

In accordance with the Collective Agreement (and Labour Law) the Company is obliged to pay employees retirement indemnity. In addition, according to the Collective agreement, the Company is obliged to pay for accomplished results, and regarding continuous employment in the Company, jubilee award to each employee.

The benefits for staff leaving indemnities on retirement and jubilee awards are unfunded. The cost of providing these benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense in the period in which they occur.

The past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately. The defined benefit liability comprises the present value of the defined benefit obligation less past service cost not yet recognized.

Financial assets

Financial assets are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value plus, in case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company's financial assets include cash and short-term deposits, unquoted financial instruments and trade and other receivables.

Investment in shares of subsidiaries and associates

Investments in subsidiaries and associates are stated at cost less accumulated impairment, if any.

Available for sale financial instruments

Financial instruments available for sale comprise investment in shares of other legal entities and banks. After initial recognition, financial instruments available for sale are measured at fair value. For instruments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business at the balance sheet date. Instruments, which are not quoted at active market and where their fair value cannot be reliably determined, are measured at cost less impairment in value, if any.

Interest bearing loans and receivables

Loans and receivables originated by the Company are measured at amortised cost using the effective interest rate method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

2.2. Summary of significant accounting policies (continued)

Short-term trade receivables

Trade receivables are recognised and carried at original invoice amount, less an allowance for any uncollectible amounts. Bad debt allowance is recognised against receivables being overdue more than 60 days, with assessment of the possibility of collection being conducted on individual basis. Bad debts are written off when there is no possibility of their collection.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in hand and highly liquid securities or deposits on demand with a maturity of less than three months. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial assets is impaired. A financial asset is deemed to be impaired only if there is objective evidence of impairment as a result of one event that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. Evidence of impairment may include indications that the debtor or a group of debtors, as well as issuer of shares of other securities is experiencing significant financial difficulty, breach of a contract or lateness in settlement of liabilities or other objective evidence.

If there is objective evidence that an impairment has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. The assets are written off when there is no realistic prospect of future recovery.

Financial liabilities

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings, directly attributable transaction costs.

The Company's financial liabilities include trade and other payable, loans and borrowings.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of disbursement costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any disbursement costs, and any discount or premium on settlement. Gains and losses are recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

2.2. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where appropriate a part of a financial asset or a part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Company has transferred the rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Property, plant and equipment

Property, plant and equipment are measured at initial recognition at cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent expenditures are capitalised when they appreciably extend the life, increase the earning capacity or improve the efficiency of property, plant and equipment. Repairs and maintenance are charged to expenses as incurred. Self-developed assets are stated at cost if it does not exceed the market value. Cost does not include interest, administrative and general expenses which are not directly related to development of the asset.

After initial recognition land, buildings and equipment for transmission system management and operation, are stated at fair value less accumulated depreciation on buildings and equipment and impairment loss recognized after the date of revaluation, if any. Valuations are performed frequently enough to ensure that the fair value of revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses the revaluation decrease of the same asset previously recognized in the income statement, in which case the increase is recognized in the income statement. A revaluation deficit is recognized in the income statement, except to the extent that it offsets an existing surplus of the same asset recognized in the asset revaluation reserve.

Revaluation surplus included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognized.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

2.2. Summary of significant accounting policies (continued)**Property, plant and equipment (continued)**

Office and other equipment which is not used for transmission system management and operation is stated at cost less accumulated depreciation and accumulated impairment in value, if any.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using depreciation rates as follows:

Buildings	1.5%-2%
Equipment for transformers stations	4%-5.56%
Long-distance power transmission lines	2.86%-4%
Trucks and cars	14.3%-15.5%
Computers and computer equipment	20%-25%
Office equipment	10%-50%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Intangible assets

Intangible assets acquired separately are initially measured at cost of purchase. The cost of purchase comprises the invoice value, possible import duties and other costs directly attributable to the acquisition of intangible asset. Trade discounts and rebates deducted in determining the costs of purchase.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Amortization of the intangible assets is calculated on a straight-line basis over its estimated useful life of the intangible asset by applying the annual depreciation rate of 20%. Amortization begins when asset is available for use. The carrying value of intangible assets is reviewed annually when the asset is not yet in use.

Inventories

Inventories of material and spare parts are valued at the lower of cost of purchase and net realisable value.

The cost of purchase comprises the invoice value, import duties, transport, handling and other costs incurred in bringing inventories to its present location and condition. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. Cost of materials and spare parts is assigned by using the weighted average cost method.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

2.2. Summary of significant accounting policies (continued)

Inventories (continued)

Provision against inventories is recorded when it is estimated that value should be reduced to net realizable value and on the basis of other documented decrease in value of inventories.

Impairment of non-financial assets

As at each balance sheet date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimate future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risk specific to the asset. In determine fair value less cost to sell an appropriate valuation technique is used.

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation and when the one can reasonably estimate the amount of the liability. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date. If the effect of time value of money is material, provisions are discounted using the current pre-tax rate that reflects the risk specific to the liability.

3. Significant accounting judgements, estimates and assumptions

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Valuation of property, plant and equipment

The Company measures its land, buildings and equipment for transmission system management and operation, at revalued amounts with changes in fair value being recognized in equity. The Company engaged independent valuation specialist to determine fair vale as at 1 January 2008. The key assumptions used to determine fair value are further explained in Note 17.

Retirement benefits and jubilee awards

Present value of liability for staff leaving indemnities on retirement and jubilee awards is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and employees turnover. In determining the appropriate discount rates management considers equivalent of the interest rates of corporate bonds. The mortality rate is based on publically available mortality tables. Future salary increases are based on expected future inflation rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

4. Sales

Sales for the years ended 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Revenue from electricity transmission and transmission system management	8,371,770	3,072,485
Revenue from capacity allocation	2,351,788	2,240,337
Revenue from transit of electricity	389,402	565,101
Revenue from exchange of energy – import	105,264	-
Revenue from exchange of energy – export	95,633	-
Revenue from sales of goods	3,906	3,955
Revenue from sales of other services	136,447	135,303
	<u>11,454,210</u>	<u>6,017,181</u>

Revenue from electricity transmission and transmission system management is entirely generated with companies operating within JP Elektroprivreda Srbije. Starting from 1 January 2008 new methodology and tariff system for access to and use of transmission system was adopted and in accordance with the new methodology revenue from electricity transmission and transmission system management includes compensations for costs of purchased electricity used to cover transmission losses (Note 7) and costs of system's services (Note 10).

Revenues from electricity transmission and transmission system management for the period from 1 January to 31 July to 2008 are measured per a tariff for electricity transmission system access and utilization approved by the Energy Agency and accepted by the Government as of 13 December 2007. Starting from 1 August 2008 a new tariff, approved by the Energy Agency and accepted by the Government, is applied for measurement of revenues.

5. Revenue from usage of own products and services

Revenue from usage of own products and services for the years ended 31 December 2008 amounting to RSD 661,663 thousand relate to investments performed by the Company on its property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

6. Other operating income

Other operating income for the years ended 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Amortization of deferred income– Note 32	184,418	113,445
Income from insurance indemnities	38,086	8,703
Other operating income	10,074	24,210
	<u>232,578</u>	<u>146,358</u>

7. Cost of materials

Cost of materials for the years ended 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Cost of electricity – transmission losses – Note 4	2,986,371	-
Cost of material	350,405	232,165
Cost of fuel and energy	128,179	70,761
Cost of office and other overhead material	61,567	55,052
Cost of small tools	42,511	35,593
Cost of other material	16,832	2,939
	<u>3,585,865</u>	<u>396,510</u>

8. Salaries and other benefits to employees

Salaries and other benefits to employees for the years ended 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Gross salaries	1,458,515	1,209,389
Taxes and contributions on salaries	269,490	246,590
Business trips	84,861	72,170
Transportation of employees	31,723	27,788
Severance pay on retirement	998	1,044
Jubilee awards	11,597	8,395
Compensations to Board of Directors members	11,746	8,028
Other personal expenses	38,057	27,354
	<u>1,906,987</u>	<u>1,600,758</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

9. Depreciation, amortization and provisions

Depreciation, amortization and provisions for the years ended 31 December 2008 and 31 December 2007 relates to the following:

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Depreciation of Property, plant and equipment – Note 17	2,935,903	1,802,429
Amortization of intangibles – Note 16	6,971	5,774
Long-term provisions – Note 26	46,555	115,667
Other provisions	47,154	-
	<u>3,036,583</u>	<u>1,923,870</u>

10. Other operating expenses

Other operating expenses for the years ended 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Ancillary system's services - Note 4	1,496,273	-
Taxes and other duties	208,839	155,600
Expenses relating to construction of assets	194,360	135,153
Maintenance	176,278	240,976
Insurance premiums	153,936	147,545
Exchange of electricity - import - Note 4	108,544	-
Exchange of electricity - export - Note 4	95,526	-
Postage, telephone and transportation expenses	79,856	81,712
Security expenses	42,219	33,165
Entertainment	28,341	16,687
Professional services	19,255	51,585
Research	14,074	1,163
Utility services and maintenance of business premises	12,036	12,839
Rental expenses	10,882	7,798
Membership fees	10,188	2,728
Advertising and sponsorship	10,130	3,933
Environmental protection	9,823	14,271
Education costs	9,780	36,562
News papers and internet	8,427	6,445
Bank charges	6,698	5,391
Other expenses	140,492	178,539
	<u>2,835,957</u>	<u>1,132,092</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

11. Financial income

Financial income for the years ended 31 December 2008 and 31 December 2007 can be analyzed as follows:

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Interest income	431,175	360,230
Foreign exchange gains	380,712	37,102
Foreign currency clause gains	20,015	134,747
Other financial income	169	107
	<u>832,071</u>	<u>532,186</u>

Interest income amounting to RSD 235,805 thousand for the year ended 31 December 2008 (RSD 140,099 thousand for the year ended 31 December 2007) relate to interest on rescheduled receivables from Elektroprivreda Srbije – Note 19.

12. Financial expenses

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Foreign exchange losses	344,705	23,849
Interest expenses	490,915	378,561
Foreign currency clause losses	1,190,982	59,895
Other financial expenses	146	41,121
	<u>2,026,748</u>	<u>503,426</u>

13. Other income

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Reversal of provision against trade receivables - Note 21	577,726	11,430
Fines and penalties based on commercial contracts	64,194	2,337
Reversal of property, plant and equipment impairment - Note 17	28,759	-
Reversal of long-term provisions - Note 26	20,729	74,175
Income from write-off of liabilities	20,034	-
Gains from sales of materials	8,297	13,363
Surpluses	7,958	23,646
Other income	6,795	8,079
	<u>734,492</u>	<u>133,030</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

14. Other expenses

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Impairment of property, plant and equipment - Note 17	291,240	-
Provision against trade and other receivables - Note 21	7,401	963,344
Loss on write-off and sales of property, plant and equipment and materials	7,593	99,678
Minuses	226	10,181
Inventories write-off	-	12,554
Other expenses	26,974	25,987
	333,434	1,111,744

15. Income tax

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Current income tax	(60,779)	(47,463)
Deferred income tax	90,957	15,562
	30,178	(31,901)

A reconciliation between tax income / (expense) and the product of accounting profit multiplied by income tax rate for the years ended 31 December 2008 and 31 December 2007 is as follows:

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Profit before income tax	185,679	574,686
Tax at statutory income tax rate of 10%	18,568	57,469
Net capital (gains) / losses	-	6,840
Non-deductible expenses	5,501	13,988
Utilization of non-recognized tax credits	(54,247)	(46,396)
At the effective income tax rate of -16% (2007: 6%)	(30,178)	31,901

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

15. Income tax (continued)

Changes in deferred income tax liabilities were as follows:

	<i>Balance sheet</i>		<i>Income statement</i>	
	<i>31.12.2008.</i>	<i>31.12.2007.</i>	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>	<i>RSD'000</i>	<i>RSD'000</i>
Deferred tax liability				
Difference in net carrying value of property, plant and equipment for tax and accounting purposes	(1,919,987)	(2,010,947)	90,957	15,562
Revaluation of property, plant and equipment	(1,354,747)	-		
Adjustment of tax base of property, plant and equipment	1,844,405	-		
Deferred income tax assets/(liabilities)	<u>(1,430,329)</u>	<u>(2,010,947)</u>		
Deferred income tax income/(expense)			<u>90,957</u>	<u>15,562</u>

As of 31 December 2008 the Group has unutilized tax credits based on purchases of property, plant and equipment amounting to RSD 57,847 thousand. No deferred tax asset has been recognized based on these tax credits due to uncertainty over their future utilization.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

16. Intangibles

<i>In RSD'000</i>	Software licenses	Intangible assets under construction	Total
Cost			
At 1 January 2007	25,026	24,626	49,652
Additions	-	10,102	10,102
Transfer	10,102	(10,102)	-
At 31 December 2007	35,128	24,626	59,754
Additions	-	4,400	4,400
Disposals	(2,160)	-	(2,160)
At 31 December 2008	32,968	29,026	61,994
Accumulated amortization			
At 1 January 2007	10,315	-	10,315
Current year amortization	5,774	-	5,774
At 31 December 2007	16,089	-	16,089
Current year amortization	6,971	-	6,971
Disposals	(1,957)	-	(1,957)
At 31 December 2008	21,103	-	21,103
Net book value:			-
At 31 December 2008	11,865	29,026	40,891
At 31 December 2007	19,039	24,626	43,665
At 1 January 2007	14,711	24,626	39,337

Intangibles under construction as of 31 December 2008 amounting to RSD 21,133 thousand relates to software licence.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

17. Property, plant and equipment

<i>In RSD'000</i>	Land	Buildings	Equipment	Assets under construction and advances for PP&E	Total
Cost or valuation					
At 1 January 2007	110,682	49,069,785	62,077,167	5,890,933	117,148,567
Additions	-	-	-	3,442,639	3,442,639
Transfers from CIP	1,206	817,287	1,928,288	(2,746,781)	-
Other transfers	-	67,300	-	-	67,300
Disposals and write-offs	-	(134,971)	(178,202)	(9,940)	(323,113)
Transfer to inventories	-	-	(92,456)	(311,164)	(403,620)
At 31 December 2007	111,888	49,819,401	63,734,797	6,265,687	119,931,773
Additions	-	-	-	3,686,644	3,686,644
Transfers from CIP	-	346,611	648,064	(994,675)	-
Revaluation increases	1,121,680	10,103,501	13,400,584	-	24,625,765
Revaluation decreases	-	(32,264)	(390,823)	(35,401)	(458,488)
Transfer to inventories	-	-	-	(122,406)	(122,406)
Disposals and write-offs	-	(1,585)	(75,712)	(8,428)	(85,725)
Transfers	-	405	(405)	-	-
At 31 December 2008	1,233,568	60,236,069	77,316,505	8,791,421	147,577,563
Accumulated depreciation and impairment					
At 1 January 2007	8,371	33,969,132	43,080,108	296,325	77,353,936
Depreciation for the year - Note 9	-	629,562	1,172,867	-	1,802,429
Other transfers	-	67,300	-	-	67,300
Disposals and write-offs	-	(15,430)	(109,264)	-	(124,694)
Transfer to inventories	-	-	(71,827)	(29,365)	(101,192)
Other	-	165	-	(1,405)	(1,240)
At 31 December 2007	8,371	34,650,729	44,071,884	265,555	78,996,539
Depreciation for the year - Note 9	-	1,041,968	1,893,935	-	2,935,903
Revaluation increases	-	3,224,517	7,825,022	-	11,049,539
Revaluation decreases	-	(8,666)	(248,137)	89,555	(167,248)
Transfers	-	464	46,015	(46,479)	-
Disposals and write-offs	-	(1,314)	(65,672)	-	(66,986)
Other	-	-	-	(7,156)	(7,156)
At 31 December 2008	8,371	38,907,698	53,523,047	301,475	92,740,591
Net book value:					
At 31 December 2008	1,225,197	21,328,371	23,793,458	8,489,946	54,836,972
At 31 December 2007	103,517	15,168,672	19,662,913	6,000,132	40,935,234
At 1 January 2007	102,311	15,100,653	18,997,059	5,594,608	39,794,631

The Group has engaged Faculty of Economics of Belgrade University, an independent valuer, to determine value of land, buildings and equipment for transmission system. The date of revaluation was 1 January 2008. The valuer used three methods: replacement cost method, income approach and market approach. Final value was determined by a weighted average method using 40% of the value determined by depreciated replacement cost method and market approach and 60% by income approach.

Net revaluation increase amounting to RSD 13,576,226 thousand has been recorded within revaluation reserves in equity (Note 25) and other income in the amount of RSD 28,759 thousand (Note 13) representing reversal of impairment loss previously recorded in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

17. Property, plant and equipment (continued)

Net revaluation decrease amounting to RSD 291,240 thousand has been recorded within other expenses in the income statement (Note 14).

Property, plant and equipment located in Kosovo were not subject of appraisal and is fully impaired as of 31 December 2008, except for transformers station Valač with net book value amounting to RSD 35,896 thousand. Cost of land, buildings, equipment and construction in progress located in Kosovo amounts to RSD 8,409 thousand, RSD 1,739,861 thousand, RSD 4,624,056 thousand and RSD 300,859 thousand, respectively as of 31 December 2008.

Equipment as of 31 December 2008, excluding equipment located in Kosovo, comprise of equipment for transmission system management and operation which was subject of appraisal and other equipment which was not subject of appraisal as follows:

	Equipment for transmission system RSD'000	Other equipment RSD'000
31.12.2008.		
Cost or fair value	70,331,489	2,393,124
Accumulated depreciation and impairment	<u>(47,481,675)</u>	<u>(1,449,480)</u>
Net carrying amount	<u>22,849,814</u>	<u>824,135</u>

If property, plant and equipment were measured using the cost model, the carrying amounts as of 31 December 2008 would be as follows:

	Land RSD'000	Buildings RSD'000	Equipment RSD'000
Cost	111,888	50,472,931	64,403,815
Accumulated depreciation and impairment	<u>(8,371)</u>	<u>(35,567,425)</u>	<u>(45,640,582)</u>
Net carrying amount	<u>103,517</u>	<u>14,905,506</u>	<u>18,763,233</u>

According to the Law on State owned enterprises in the Republic of Serbia, the Group has a right to use the assets owned by the State. Based on the Decision on Company Foundation issued by the Government of the Republic of Serbia, the Company cannot purchase or sell the buildings and other properties, plants or devices used for conducting the activities of electricity transmission and transmission system management. The consent of the Government of the Republic of Serbia is required in order to purchase and sell high-value assets used for conducting the activities of electricity transmission and transmission system management and for the purpose of replacing obsolete assets, modernization or technical and technological improvements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

17. Property, plant and equipment (continued)

The right of usage of the assets taken from Elektroistok and other State owned companies within Elektroprivreda Srbije has not been transferred to the Company, but is still on the name of these State owned enterprises. Furthermore, as of 31 December 2008 the Group has buildings that are not legalized yet.

18. Investments in shares

Investments in shares as of 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Investments in shares of associate	5,246	5,246
Available for sale investments	239,489	239,552
Investment in shares, gross	244,735	244,798
Provision against investments in shares of associate	(342)	(343)
Provision against available for sale investments	(236,126)	(236,126)
Investment in shares, net	8,267	8,329

Investments in shares of associate as of 31 December 2008 and 31 December 2007 entirely relate to company Elektronergetski Koordinacioni Centar d.o.o. over which the Company has 25% ownership. Elektroenergetski Koordinacioni Centar provides consultancy and other services in energy sector.

Available for sale investments as of 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Електропривреда Србије – Косово	236,027	236,027
Recreators d.o.o. Београд	3,200	3,200
Привредна банка а.д. Београд	162	162
Станоградња	100	100
ДАОР Нови Сад	-	63
Investment in shares, gross	239,489	239,552
Impairment - Електропривреда Србије – Косово	(236,027)	(236,027)
Impairment – Станоградња	(99)	(99)
Investment in shares, net	3,363	3,426

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For the year ended 31 December 2008

19. Other long-term financial investments

Other long-term financial investments as of 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Rescheduled receivables from Elektroprivreda Srbije	2,704,051	1,591,937
Receivables for sold flats and housing loans	73,036	72,875
Long-term deposits	-	5,600
Other long-term financial investments	208	1,019
	2,777,295	1,671,431
Current portion of rescheduled receivables from Elektroprivreda Srbije - Note 22	(889,865)	(239,356)
Current portion of receivables for sold flats - Note 22	(3,442)	(3,296)
	1,887,430	1,432,075

Major portion of rescheduled receivables from JP Elektroprivreda Srbije amounting to RSD 1,351,471 as of 31 December 2008 relate to trade receivables based on electricity transmission in 2007 and interest receivable (RSD 1,200,111 thousand and RSD 151,360 thousand, respectively). Out of total receivables as of 31 December 2008 portion amounting to RSD 700,962 thousand is recorded within Other long-term financial investments. Receivables were rescheduled in accordance with the contract signed between the Company and JP Elektroprivreda Srbije as of 23 September 2008. Rescheduled receivables are to be repaid in monthly instalments over the period of two years. The interest is calculated by applying the National Bank of Serbia discount rate. First instalment is due as of 31 January 2009.

Second portion of rescheduled receivables from Elektroprivreda Srbije amounting to RSD 1,010,725 thousand as of 31 December 2008 relate to receivables in respect of allocation of joint income within EPS until 31 December 2004. The rescheduled part of receivables is to be repaid in monthly instalments over the period of 15 years. The first instalment was due on 30 June 2006. The interest is calculated by applying the National Bank of Serbia discount rate. As of 31 December 2008 portion of these receivables amounting to RSD 769,274 thousand is recorded within Other long-term financial investments.

Third portion of rescheduled receivables from Elektroprivreda Srbije amounting to RSD 859,875 thousand as of 31 December 2008 relates to receivables for electricity transmission in the period from January to June 2005, which were rescheduled in accordance with the contract signed between the Company and EPS as of 1 November 2006. The rescheduled receivables are to be repaid in monthly instalments over the period of 5 years. First instalment was due on 31 January 2007. The interest is calculated by applying the National Bank of Serbia discount rate. As of 31 December 2008 portion of receivables amounting to RSD 343,950 thousand is recorded within Other long-term receivables.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

20. Inventories

Inventories as of 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Material	300,312	327,181
Spare parts	81,813	175,435
Tools and minor equipment	23,151	23,130
Goods	1,157	753
Advances	19,384	24,308
Inventories, gross	425,817	550,807
Provision for obsolete materials	(8,382)	(6,045)
Provision for obsolete spare parts	(30,748)	(28,968)
Provision for obsolete tools	(550)	(550)
Provision against advances paid	(731)	(428)
Inventories, net	385,406	514,816

21. Trade and other receivables

Trade and other receivables as of 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Receivables from related parties - Note 35	599	508
Receivables from local trade debtors	1,525,132	2,557,492
Receivables from foreign trade debtors	3,892	411,831
Receivables for interest	128,495	189,693
Receivables from employees	27,982	23,209
Receivables for over-paid taxes and contributions	6,710	749
Other receivables	287,977	13,794
	1,980,787	3,197,276
Provision against receivables from related parties	(599)	-
Provision against trade receivables from third parties	(18,353)	(1,157,366)
Provision against other receivables	(953)	(153,828)
	(19,905)	(1,311,194)
	1,960,882	1,886,082

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

21. Trade and other receivables (continued)

As of 31 December 2008 the Group did not reconcile with customers part of trade receivables amounting to RSD 21,368 thousand.

Trade receivables are non-interest bearing and are generally on 10-15 day terms.

Movements in provision against trade receivables for the years ended 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>2008</i>	<i>2007</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Balance at 1 January	1,311,194	359,280
Provision during the period - Note 14	7,401	963,344
Reversal of provision – Note 13	(577,726)	(11,430)
Write-off	(720,964)	-
Balance at 31 December	19,905	1,311,194

Major portion of reversal of provision for the year ended 31 December 2008 amounting to RSD 574,016 thousand relates to rescheduling of receivables from Elektroprivreda Srbije (Note 19).

As of 31 December, the aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired			
			<30 days	30-60 days	60-90 days	>90 days
	RSD'000	RSD'000	RSD'000	RSD'000	RSD'000	RSD'000
2008	1,529,623	1,100,346	275,382	124,911	14,194	14,790
2007	2,969,831	1,568,740	340,170	1,060,921	-	-

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

22. Short term investments

Short-term investments as of 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Current portion of long-term receivables from EPS - Note 19	889,865	239,356
Current portion of long-term receivables for sold flats and housing loans - Note 19	3,442	3,296
Short-term bank deposits	600,000	1,045,168
Short-term loans	2,037	-
	<u>1,495,344</u>	<u>1,287,820</u>

Short-term bank deposits as of 31 December 2008 entirely relate to deposits placed for one month period, with annual interest rate from 16.50% to 17.20%.

23. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Foreign currency accounts	1,550,490	295,930
Current accounts	483,329	65,206
Cash in hand	2,963	2,795
Letters of credits and cash held for special purposes	12,463	6,051
Other cash and cash equivalents	3,002	1,691
	<u>2,052,247</u>	<u>371,673</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

24. Value added tax, deferred expenses and accrued income

Value added tax, deferred expenses and accrued income as of 31 December 2008 and 31 December 2007 relate to:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Accrued income not invoiced	466,184	107,385
Value added tax	199,696	2,208
Prepaid expenses	14,013	22,828
Other deferred expenses and accrued income	12,125	49,107
	692,018	181,528

Major portion of accrued income as of 31 December 2008 amounting to RSD 433,441 thousand relate to revenue from transit of electricity.

25. Equity

Movements in equity during the years ended 31 December 2008 and 31 December 2007 were as follows:

<i>In RSD'000</i>	<i>State capital</i>	<i>Other capital</i>	<i>Reserves</i>	<i>Revaluation reserves</i>	<i>Retained earnings</i>	<i>Accumulated loss</i>	<i>Total</i>
At 31 December 2006	30,506,506	33,582	-	-	1,146,727	(541,316)	31,145,499
Correction of error	-	-	-	-	(204,857)	-	(204,857)
At 31 December 2006, adjusted	30,506,506	33,582	-	-	941,870	(541,316)	30,940,642
Loss covering	-	-	-	-	(541,316)	541,316	-
Transfer to reserves	-	-	1,072	-	(1,072)	-	-
Distribution of retained earnings to the Government	-	-	-	-	(291,250)	-	(291,250)
Distribution of retained earnings for severance payments	-	-	-	-	(44,416)	-	(44,416)
Profit for the year	-	-	-	-	259,704	-	259,704
Other	-	-	-	-	(3,902)	-	(3,902)
At 31 December 2007	30,506,506	33,582	1,072	-	319,618	-	30,860,778
Correction of error	-	-	-	-	283,081	-	283,081
At 1 January 2008, adjusted	30,506,506	33,582	1,072	-	602,699	-	31,143,859
Revaluation of property, plant and equipment - Note 17	-	-	-	13,547,467	-	-	13,547,467
Deferred tax on revaluation of property, plant and equipment - Note 15	-	-	-	(1,354,747)	-	-	(1,354,747)
Adjustment of tax base of property, plant and equipment - Note 15	-	-	-	-	1,844,405	-	1,844,405
Distribution of retained earnings	-	-	-	-	(225,628)	-	(225,628)
Profit for the year	-	-	-	-	215,857	-	215,857
Other	-	-	-	14,436	(2,838)	-	11,598
At 31 December 2008	30,506,506	33,582	1,072	12,207,156	2,434,495	-	45,182,811

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

25. Equity (continued)

State-owned capital

State-owned capital represents the capital owned by the State, recorded at the foundation date as a difference between the carrying value of the assets and liabilities taken over from JP Elektroistok and JP Elektroprivreda Srbije. On 1 July 2005 the state-owned capital was registered at Register of business entities in the amount of EUR 516,017,205. The registration was based on the independent appraisal of "in-kind" capital contribution of the State, performed by local certified valuer as of 31 December 2004, which comprised assets of JP Elektroistok and other companies within JP Elektroprivreda Srbije.

Other capital

Other capital of the Group for the years ended 31 December 2008 and 31 December 2007 in the amount of RSD 33,582 thousand relates to the Company's own non operating sources transferred to the capital as of 1 January 2004.

Distribution of retained earnings

During the year ended 31 December 2008 the Company has distributed retained earnings in the amount of RSD 225,628 thousand out of which RSD 130,710 thousand has been distributed to the Government and RSD 94,918 thousand to employees.

Correction of error

The effect of restatement of financial statements for the years ended 31 December 2007 and 31 December 2006 is as follows:

	RSD'000
Deferred income tax expense	(168,049)
Current income tax expense	(2,988)
Provision for staff leaving indemnities on retirement and jubilee awards	(30,371)
Other	(3,449)
Total correction as of 31 December 2006	<u>(204,857)</u>
Revenues from electricity transit	391,050
Provision for staff leaving indemnities on retirement and jubilee awards	(64,710)
Current income tax expense	(18,688)
Other expenses	(24,571)
Total correction as of 31 December 2007	<u>283,081</u>

During the year ended 31 December 2007 the Group was not recorded revenues from transit of electricity relating to 2007 amounting to RSD 391,050 thousand. In financial statements for the year ended 31 December 2008 comparative information for 2007 has been adjusted for this error.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

25. Equity (continued)

In 2008 the Company has engaged independent actuary to value its liabilities in respect of staff leaving indemnities on retirement and jubilee awards as of 31 December 2008 and 31 December 2007. For the amount of determined provision the Company has adjusted comparative information for 2007 and opening balance of retained earnings as of 1 January 2007.

Deferred tax liabilities for the year ended 31 December 2006 has been adjusted as a result of adjustments of tax base of property, plant and equipment for errors identified.

26. Long-term provisions

Movements in long-term provisions for the years ended 31 December 2008 and 31 December 2007 were as follows:

	Provision for employee benefits	Provision for legal cases	Total
	<i>RSD'000</i>	<i>RSD'000</i>	<i>RSD'000</i>
Balance at 1 January 2007	30,371	89,624	119,995
Provision during the period - Note 9	64,710	50,957	115,667
Cancelation of provision - Note 13	-	(74,175)	(74,175)
Provision used	-	(1,705)	(1,705)
Balance at 31 December 2007	95,081	64,701	159,782
Provision during the period - Note 9	17,556	28,999	46,555
Cancelation of provision - Note 13	-	(20,729)	(20,729)
Provision used	-	(1,480)	(1,480)
Balance at 31 December 2008	112,637	71,491	184,128

Provision for employee benefits

Structure of provision for employee benefits as of 31 December 2008 and 31 December 2007 is as follows:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Jubilee awards	59,333	49,120
Staff leaving indemnities on retirement	53,304	45,961
	112,637	95,081

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

26. Long term provisions (continued)

Provision for employee benefits (continued)

In accordance with the Collective Agreement, the Group is obliged to pay employees retirement indemnity equal to 1.67 average salary earned in the Group in the month prior the retirement indemnity is paid, however indemnity determined in that way cannot be lower than 3 average gross monthly salaries paid in the country in the month prior to retirement.

Employees are entitled to jubilee awards upon completion of certain years of service as follows:

- 10 years of service – 0.56 the average monthly salary earned in the Group during the three months prior to jubilee award payment
- 20 years of service – 1.12 the average monthly salary earned in the Group during the three months prior to jubilee award payment
- 30 years of service – 1.67 the average monthly salary earned in the Group during the three months prior to jubilee award payment

The Group has engaged independent actuary to value its liabilities in respect of staff leaving indemnities on retirement and jubilee awards. Principal actuarial assumptions used are: salaries increase – 8%, discount rate – 15.67%.

27. Long term loans

Long-term loans as of 31 December 2008 and 31 December 2007 comprise the following:

	<i>Interest rate</i>	<i>Maturity</i>	<i>31.12.2008.</i> <i>RSD'000</i>	<i>31.12.2007.</i> <i>RSD'000</i>
· European Investment Bank	Variable	2012-2027	1,816,321	1,347,015
· European Bank for Reconstruction and Development	Variable	2005-2016	1,926,983	-
· International Development Association	0.75	2015-2025	132,153	
<i>Liabilities to the Government of the Republic of Serbia - Deposit Insurance Agency in respect of the loans:</i>				
· Kapital Hilfe - Investbanka a.d. Beograd	2.3%	2007-2014	4,302,475	3,872,714
· International Bank for Reconstruction and Development - 23385	Semiannual Euribor	2006-2031	1,264,930	1,174,992
· Kapital Hilfe - Vojvodjanska banka a.d. Novi Sad	2.3%	2007-2014	1,000,651	900,785
· International Bank for Reconstruction and Development - 23387	Semiannual Euribor	2006-2031	361,682	335,966
· Evropean Investment Bank - 16268	Semiannual Euribor	2012-2016	201,944	180,599
· International Bank for Reconstruction and Development - 14695	Semiannual Euribor	2006-2031	150,042	139,373
			11,157,181	7,951,444
Less: current portion of long-term loans - Note 29			(368,845)	(92,358)
			10,788,336	7,859,086

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

27. Long term loans (continued)

Loan from European Investment Bank has been approved in the amount of EUR 59,000 thousand and by 31 December 2008 portion amounting to EUR 20,500 thousand has been withdrawn. Loan has been initially agreed between European Investment Bank and JP Elektroprivreda Srbije and in 2007 has been transferred to the Company.

Loan from European Bank for Reconstruction and Development has been approved in the amount of EUR 60,400 thousand and by 31 December 2008 portion amounting to EUR 28,335 thousand has been withdrawn. Loan has been initially agreed between European Bank for Reconstruction and Development and JP Elektroprivreda Srbije and in 2008 has been transferred to the Company (Note 28).

On 8 September 2005 Serbia and Montenegro and International Association for Development signed the Agreement on Development Loan no. 4090 YF for the purpose of realization of the project on improving the access to electricity market for consumers and suppliers. The funds planned for the realization of the part of the project that is to be carried out by the Company and regarding the construction of inter-connected transmission lines and related activities, amounts to SDR 1,660,000 (SDR- Special Drawing Rights).

Liabilities to the Government of the Republic of Serbia – Deposit Insurance Agency relates to the loans which were originally approved to the Company during 1970-thies and are rescheduled during 2006 with contracts signed with Deposit Insurance Agency, which was authorized by the Government of Republic of Serbia to reschedule loans in accordance with the terms that the Government has obtained from foreign creditors.

28. Other long-term liabilities

Other long-term liabilities as of 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Обавезе према ЕПС-у по основу дугорочних кредита	1,133,157	2,648,786
Обавезе према Влади Републике Србије по основу репрограмираних јавних обавеза	6,820	39,856
Остале дугорочне обавезе	14,347	4,917
	1,154,324	2,693,559
Текуће доспеће обавеза према ЕПС-у по основу дугорочних кредита – Напомена 29	(885,595)	(1,047,761)
Текуће доспеће обавеза према Влади Републике Србије - Напомена 29	(722)	(3,478)
	268,007	1,642,320

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

28. Other long-term liabilities (continued)

Liabilities towards JP Elektroprivreda Srbije relate to the portion of long-term loans used by the Company. These liabilities relate to the loans granted by the following banks:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Export-Import Bank of China	842,605	719,720
International Bank for Reconstruction and Development - 23386	286,067	255,830
European Investment Bank	4,485	42,906
European Bank for Reconstruction and Development - Note 27	-	1,630,330
	<u>1,133,157</u>	<u>2,648,786</u>

Liabilities based on loan from Export-Import Bank of China are due and are not repaid since negotiations regarding rescheduling are currently in progress.

29. Short-term financial liabilities

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
• European Bank for Reconstruction and Development	256,931	-
<i>Liabilities to the Government of the Republic of Serbia - Deposit Insurance Agency in respect of the loans:</i>		
• International Bank for Reconstruction and Development - 23385	55,082	43,759
• Kapital Hilfe - Investbanka a.d. Beograd	27,950	24,996
• International Bank for Reconstruction and Development - 23387	15,750	12,512
• Kapital Hilfe - Vojvođanska banka a.d. Novi Sad	6,598	5,900
• International Bank for Reconstruction and Development - 14695	6,534	5,191
<i>Current maturity of long-term loans- Note 27</i>	<u>368,845</u>	<u>92,358</u>
• Export-Import bank of China	842,605	719,720
• International Bank for Reconstruction and Development - 23386	38,505	24,355
• European Investment Bank	4,485	42,906
• European Bank for Reconstruction and Development	-	260,780
<i>Current maturity of liabilities towards EPS - Note 28</i>	<u>885,595</u>	<u>1,047,761</u>
Current maturity of liabilities towards the Government of the Republic of Serbia - Note 28	722	3,478
Other short-term financial liabilities	475	284
	<u>1,255,637</u>	<u>1,143,881</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

30. Trade and other payable

Trade and other payables as of 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Advances received	147,074	161,065
Trade creditors – related parties (Note 35)	10,380	6,442
Domestic trade creditors	770,621	291,685
Foreign trade creditors	893,939	3,218
Other payables	5,929	167,304
	<u>1,827,943</u>	<u>629,714</u>

31. Other short-term liabilities

Other short-term liabilities as of 31 December 2008 and 31 December 2007 relate to the following:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Interest payable	406,055	331,344
Liabilities for salaries and taxes and contribution on salaries	104,261	51,079
Other liabilities	6,366	1,633
	<u>516,682</u>	<u>384,056</u>

32. Taxes payable, accrued liabilities and deferred income

Taxes payable, accrued liabilities and deferred income as of 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Deferred income from received grants	1,404,899	1,539,541
Other deferred income	79,045	-
Accrued and payable value added tax	209,291	39,222
Accrued interests	110,634	106,170
Accrued liabilities for unused vacation	47,154	
Other accrued liabilities	17,829	330
Other taxes payable	3,693	3,880
Other liabilities	251	-
	<u>1,872,796</u>	<u>1,689,143</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

32. Taxes payable, accrued liabilities and deferred income (continued)

Movements in deferred income from received donations for the years ended 31 December 2008 and 31 December 2007 were as follows:

	2008	2007
	<i>RSD'000</i>	<i>RSD'000</i>
Balance at 1 January	1,539,541	1,408,532
New donations during the year	49,776	244,454
Release to income statement - Note 6	(184,418)	(113,445)
Balance at 31 December	1,404,899	1,539,541

33. Off-balance sheet items

Off-balance sheet as of 31 December 2008 and 31 December 2007 can be further analysed as follows:

	<i>31.12.2008.</i>	<i>31.12.2007.</i>
	<i>RSD'000</i>	<i>RSD'000</i>
Issued notes	7,525,677	-
Written-off estimated war damage	6,410,137	5,732,610
Received notes and guarantees	338,469	198,492
Written-off investments in banks in bankruptcy	48,974	48,974
Rented equipment	36,952	36,952
Other off-balance sheet	10,558	10,423
	14,370,767	6,027,451

Major portion of issued notes as of 31 December 2008 amounting to RSD 7,520,477 thousand relates to solo bills issued to Deposit Insurance Agency as security for loans (Note 27).

Estimated war damage as of 31 December 2008 and 31 December 2007 entirely relates to the damage estimated in the amount of EUR 7,235 thousand caused by NATO bombing of electric-power buildings.

34. Commitments and contingencies

Legal cases

As stated in Note 26, as of 31 December 2008 the Group made provisions for legal proceedings initiated against the Group in the amount of RSD 71,491 thousand. As of 31 December 2008 the total amount of legal proceedings against the Company amounts to RSD 71,491 thousand, plus accrued interest until the date of the proceedings settlement that is by the date of payments according to the proceedings. The Group's management is of the opinion that on the basis of legal proceeding exceeding already created provision cannot cause materially negative consequences for the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

34. Commitments and contingencies (continued)

Legal cases (continued)

In addition, the Group is defendant in legal proceedings brought against jointly with JP Elektroprivreda Srbije and arose from the time the Company was part of JP Elektroprivreda Srbije. The amounts involved in these litigations are RSD 1,015,641 thousand as of 31 December 2008. The management considers that the Group cannot be found liable and therefore no provision against these cases has been made in the accompanying financial statements.

Capital commitments

The Group has concluded contracts for construction and purchases of plant and equipment amounting to RSD 2,329,080 thousand, out of which portion amounting to RSD 1,251,923 thousand has not been completed as of 31 December 2008.

35. Related parties

As explained in Note 1, the Company was founded in line with the Decision of the Government of Republic of Serbia dated 1 July 2005. The Company's related parties include associated Company Elektroenergetski koordinacioni centar, as disclosed in Note 18.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

	<i>Sales to related parties</i>	<i>Purchases from related parties</i>	<i>Amounts owed by related parties</i>	<i>Amounts owed to related parties</i>	
	RSD'000	RSD'000	RSD'000	RSD'000	
<i>Associate</i>					
Електроенергетски Координациони Центар	2008	508	10,380	599	10,380
	2007	430	6,442	508	6,442
Total	2008	508	10,380	599	10,380
	2007	430	6,442	508	6,442

36. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables. The Company's financial assets are trade and other receivables, both long-term and short-term, cash and bank deposits and available for sale financial assets.

The Group is exposed to market risk, credit risk and liquidity risk

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

36. Financial risk management objectives and polices (continued)

Market risk

Market risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, trade receivables and trade payables. The Group is exposed to interest rate risk and currency risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rate relates primarily to loans and borrowings in foreign currencies and than to the Company's operating activities, for receivables and payables which are denominated in a different currency from the Group's functional currency. The Group does not use any instruments to hedge its risks associated with foreign currency fluctuations.

The following table demonstrates the sensitivity to a reasonably possible change in the EUR and USD exchange rate, with all other variables held constant, on the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Change in EUR rate	Effect on profit before tax RSD'000	Change in USD rate	Effect on profit before tax RSD'000
2008	10%	(1,080,513)	10%	(82,359)
	-10%	1,080,513	-10%	82,359
2007	10%	(848,440)	10%	(70,422)
	-10%	848,440	-10%	70,422

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with variable interest rate. The Group does not use interest rate swaps to hedge its risks associated with interest rate fluctuations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

36. Financial risk management objectives and policies (continued)

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible changes in interest rates, with all other variables held constant, on the Group's profit before tax (through the impact on borrowings with variable interest rate).

	Increase/ decrease	Effect on profit before tax <u>RSD'000</u>
2008	15%	28,282
	-15%	(28,282)
2007	15%	24,766
	-15%	(24,766)

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or a customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables, both long-term and short-term) and from its financing activities (primarily for deposits in banks).

As of 31 December 2008 the Company had 5 customers (all controlled by the same Group) that owed to the Company more than RSD 190 millions and accounted for 92% of trade receivables. Those customers are entities within JP Elektroprivreda Srbije and are not secured. Long-term receivables almost entirely relate to JP Elektroprivreda Srbije. The maximum exposure to the credit risk at the balance sheet date is the carrying value of each class of financial assets (Note 19, 21 и 22).

Credit risk from balances with banks is managed in a way that surplus funds are made only with reliable counterparties. The maximum exposure for this credit risk at the balance sheet date is carrying value of these classes of assets (Note 23 и 24).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

36. Financial risk management objectives and polices (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2008 and 31 December 2007 based on contractual payments:

31.12.2008.	Less than 1	1 to 3	3 to 12	1 to 5 years	> 5 years	Total
	month	months	months			
	RSD'000	RSD'000	RSD'000	RSD'000	RSD'000	RSD'000
Interest bearing loans and borrowings	842,605		413,032	1,812,814	9,243,054	12,311,505
Trade payables	1,674,940	-	-	-	-	1,674,940
Other payables	725,973	-	-	-	-	725,973

31.12.2007.	Less than 1	1 to 3	3 to 12	1 to 5 years	> 5 years	Total
	month	months	months			
	RSD'000	RSD'000	RSD'000	RSD'000	RSD'000	RSD'000
Interest bearing loans and borrowings	575,811	71,976	607,850	1,275,872	8,113,494	10,645,003
Trade payables	629,714	-	-	-	-	629,714
Other payables	427,158	-	-	-	-	427,158

Fair value risk

In the Republic of Serbia sufficient market experience, stability and liquidity do not exist for the purchase and sale of financial assets and liabilities and official market information are not currently available. Accordingly, in the absence of active market, fair value, as required by IFRS, can not be reliably determined. For the purpose of determination of 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

Capital management

The Company monitors capital using debt to equity ratio.

	2008	2007
	RSD'000	RSD'000
Interest bearing loans and borrowings (Notes 27 and 28)	12,311,505	10,645,003
Less cash and short term deposit (Notes 22 and 23)	2,516,873	1,368,451
Net debt	14,828,378	12,013,454
Capital (Note 25)	44,668,382	31,130,695
Total capital	44,668,382	31,130,695
Debt to equity ratio	0.33	0.39

IV BASIC CAPITAL STRUCTURE

in RSD 000

Group of accounts, account	ITEM	EDP	Current year	Previous year
1	2	3	4	5
300	1. Share capital	623		
	pertaining to: foreign capital	624		
301	2. Stakes in limited liability company	625		
	pertaining to: foreign capital	626		
302	3. Stake of partnership and limited partnership	627		
	pertaining to: foreign capital	628		
303	4. State capital	629	30,506,506	30,506,506
304	5. Socially owned capital	630		
305	6. Collective capital	631		
309	7. Other capital	632	33,582	33,582
30	TOTAL (623 + 625 + 627 + 629 + 630 + 631 + 632 = 102)	633	30,540,088	30,540,088

V SHARE CAPITAL STRUCTURE

 number of shares
in RSD 000

Group of accounts, account	ITEM	EDP	Current year	Previous year
1	2	3	4	5
	1. Ordinary shares			
	1.1. number of ordinary shares	634		
part 300	1.2. Nominal value of ordinary shares - total	635		
	2. Priority shares			
	2.1. Number of priority shares	636		
part 300	2.2. Nominal value of priority shares - total	637		
300	3. TOTAL -nominal value of shares (635+637=623)	638	0	0

VI RECEIVABLES AND LIABILITIES

in RSD 000

Group of accounts, account	ITEM	EDP	Current year	Previous year
1	2	3	4	5
20	1. Trade receivables (balance at the end of the year 639 ≤ 016)	639	1,510,676	1,812,466
43	2. Operating liabilities (balance at the end of the year 640 ≤ 117)	640	1,827,943	629,617
part 228	3. Receivables during the year from the insurance company (credit without opening balance)	641		6,702
27	4. VAT paid for purchase of goods and services (debit without opening balance)	642	1,186,511	319,753
43	5. Operating liabilities (credit without opening balance)	643	13,346,884	6,855,350
450	6. Liabilities for net salaries and compensations (credit without opening balance)	644	1,034,641	795,274
451	7. Liabilities for tax on salaries and compensations paid by employee (credit without opening balance)	645	164,235	123,622
452	8. Liabilities for contributions on salaries and compensations paid by employee (credit without opening balance)	646	259,640	191,157
461, 462 and 723	9. Liabilities for dividends, share in profit and personal income of the employer (credit without opening balance)	647		
465	10. Liabilities to individuals in respect of contract fees (credit without opening balance)	648	55,681	105,200
47	11. VAT liabilities (annual amount per tax returns)	649	1,939,368	942,729
	12. Control sum (from 639 to 649)	650	21,325,579	11,781,870

VII OTHER COSTS AND EXPENSES

in RSD 000

Group of accounts, account	ITEM	EDP	Current year	Previous year
1	2	3	4	5
513	1. Fuel and energy	651	3,128,823	71,843
520	2. Salaries and compensations (gross)	652	1,458,515	1,209,389
521	3. Taxes and contributions on salaries and compensations paid by employer	653	269,647	246,590
522, 523, 524 and 525	4. Compensations to individuals (gross) in respect of contracts	654	10,321	13,465
526	5. Compensations to the members of Board of Directors and Supervisory Board (gross)	655	16,974	9,222
529	6. Other personal expenses and compensations	656	151,530	122,092
53	7. Production services	657	2,318,536	669,059
533, part 540 and part 525	8. Rent	658	10,882	7,888
part 533, part 544 and part 525	9. Rent of land	659		
536, 537	10. Research and development	660	14,074	1,181
540	11. Depreciation	661	2,942,874	1,808,204
552	12. Insurance premiums	662	153,936	147,545
553	13. Bank charges	663	6,698	5,391
554	14. Membership fees	664	16,658	7,158
555	15. Taxes	665	209,855	156,336
556	16. Contributions	666		
562	17. Interests	667	490,918	378,855
part 560, part 561 and part 562	18. Interests and part of financial expenses	668	490,918	378,855
part 560, part 561 and part 562	19. Interests on loans granted from banks and other financial organisations	669	435,576	376,097
part 579	20. Expenses for humanitarian, cultural, health, educational, scientific and religious activities, environmental protections and sports activities	670	5,225	550
	21. Control sum (651 to 670)	671	12,131,960	5,609,720

VIII OTHER INCOME

in RSD 000

Group of accounts, accounts	ITEMS	EDP	Current year	Previous year
1	2	3	4	5
60	1. Sale of goods	672	3,906	3,955
640	2. Premiums, subventions, grants, recourse, compensations and tax returns	673		
641	3. Donations	674	184,418	126,091
part 650	4. Income from rent of land	675		
651	5. Membership fees	676		
part 660, part 661, 662	6. Interest income	677	432,230	359,259
part 660, part 661 and part 662	7. Interest income on accounts and deposits held with banks and other financial organisations	678	381,146	221,828
part 660, part 661 and part 669	8. Income from dividends and share in profit	679		
	9. Sum (672 to 679)	680	1,001,700	711,133

IX OTHER INFORMATION

in RSD 000

ITEM	EDP	Current year	Previous year
1	2	3	4
1. Excise duties (according to annual excise calculation)	681		
2. Calculated customs and other import duties (total annual amount according to calculation)	682		
3. Capital subventions and other state grants for construction and acquisition of fixed and intangible assets	683		
4. State grants for premiums, recourse and current operating expenses	684		
5. Other state grants	685		
6. Donations and other grants in money or goods received from foreign legal entities and individuals	686	1,145	257,100
7. Entrepreneurs' personal income from net profit (to be filled only by entrepreneurs)	687		
8. Sum (681 to 687)	688	1,145	257,100