

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

**Independent Auditors' Report and
Consolidated Financial Statements
Year Ended December 31, 2007**

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements (pages 4 to 58) of the Public Enterprise, Electric Power Industry of Serbia (hereinafter: the "Company" or "JP EPS") and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2007, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Basis for Qualified Opinion

As disclosed in Note 3.5 to the consolidated financial statements, with the exception of two subsidiaries (RB Kolubara D.O.O., Lazarevac and TENT d.o.o., Obrenovac), the Company did not perform an actuarial valuation in order to determine the present value of accumulated employee retirement benefits and jubilee awards, nor did it prepare a calculation of short-term employee benefits, as required under IAS 19, "Employee Benefits." As a result, the accompanying consolidated financial statements do not include provisions and liabilities with respect to the aforementioned employee benefits. Accordingly, we were unable to satisfy ourselves as to the potential effects of the aforementioned liabilities on the Company's consolidated financial statements for FY 2007.

As disclosed in the consolidated statement of changes in equity and Note 14 to the consolidated financial statements, based on the appraisal of property, plant and equipment performed as of January 1, 2007, the Company stated positive and negative valuation effects of RSD 272,494,317 thousand and RSD 84,813,553 thousand, respectively. Based on the information made available to us, it has been determined that certain subsidiaries calculated the appraisal effects based on the depreciation groups of the assets valued, and not in accordance with the individual items of assets as is required under International Accounting Standard 16 "Property, Plant and Equipment." The positive and negative appraisal effects per individual items of property, plant and equipment amount to RSD 273,962,049 thousand and RSD 86,281,285 thousand, respectively. Accordingly, revaluation reserves at December 31, 2007 and the loss for the current year are understated by RSD 1,467,732 thousand. In addition, the net book value of property, plant and equipment found in the subsidiary Elektrosrbija d.o.o., Kraljevo at January 1, 2007 has not been reconciled with the net book value stated in the Report prepared by the independent appraiser as of the aforementioned date, i.e., it has been understated by RSD 1,559,329 thousand. Based on the documentation made available, we were unable to satisfy ourselves that the net book value of property, plant and equipment was fairly stated as of December 31, 2007, as well as to the effects of depreciation charge for the year then ended.

Certain information presented in the consolidated cash flow statement has not been reconciled with the amounts stated in the Company's consolidated balance sheet as of December 31, 2007, as well as in the consolidated income statement for the year ended December 31, 2007. Accordingly, we do not express an opinion on the Company's consolidated cash flow statement.

Qualified Opinion

In our opinion, except for the effects on the consolidated financial statements of the matters referred to in the preceding paragraphs, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries as of December 31, 2007, and its consolidated financial performance and changes in equity for the year then ended, in accordance with the accounting regulations of the Republic of Serbia.

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Emphasis of Matter

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

- (a) The amount of state-owned capital as presented in the consolidated financial statements is not reconciled with the capital of the parent company inscribed in the Serbian Business Registers Agency (Note 24 to the consolidated financial statements). In addition, as further disclosed in Note 24 to the consolidated financial statements, in the consolidation process, the equity investments in subsidiaries were not reconciled with the amount of corresponding capital in subsidiaries by RSD 35,749,855 thousand.
- (b) There are substantial uncertainties that affect the Company's accounting, financial position and operations. These uncertainties include, inter alia, the future course of events and final resolution of issues associated with: the unconsolidated subsidiaries situated in the Autonomous Province of Kosovo and Metohija (Note 1 to the consolidated financial statements), the suspended construction of incomplete power plants (Note 16 to the consolidated financial statements), the significant liabilities associated with borrowings from foreign creditors and domestic banks in bankruptcy (Notes 26 and 28 to the consolidated financial statements), the breach of covenants and compliance with loan agreements (Note 26 to the consolidated financial statements), the significant potential damages in connection with various litigation filed against the Company (Note 33 to the consolidated financial statements), significant distribution losses (Note 35 to the consolidated financial statements), in addition to other assumptions and factors influencing the Company's decision to not record additional liabilities with respect to the contributions for benefit covered employment services. The ultimate resolution of uncertainties may result in materially significant adjustments in the Company's consolidated financial statements.
- (c) The Company does not possess adequate ownership titles for all materially significant tangible assets presented in the Company's books of accounts as of December 31, 2007.
- (d) As disclosed in Note 2 to the accompanying consolidated financial statements, these consolidated financial statements were prepared by applying the IAS which were in effect as of December 31, 2002 and the accounting regulations of the Republic of Serbia based on them. The Company's management assesses IAS, IFRS and interpretations the application of which was prescribed pursuant to the February 12, 2008 Decision enacted by the Minister of Finance of the Republic of Serbia and once the standards and interpretations with reference to the Company's activities have been established, the Company intends to apply them in preparing the consolidated financial statements for the period beginning January 1, 2008. With regards to the provisions contained in the newly-adopted and amended standards and interpretations which relate to the application date and the provisions with reference to the disclosure of comparative figures, upon their adoption and application by the Company, certain reclassification of data presented in the accompanying consolidated financial statements for the year 2007 might be required, as these will be used as comparative figures in the Company's consolidated financial statements for the year 2008.



Deloitte d.o.o.
Belgrade,
August 1, 2008

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2007
(thousands of RSD)

	<u>Notes</u>	<u>2007</u>	<i>Restated</i> <u>2006</u>
Sales revenue	5	112,462,854	98,196,001
Own-work capitalized		2,665,015	2,190,879
Increase in the value of inventories		906,675	254,999
Other operating income	6	4,528,798	4,201,895
		<u>120,563,342</u>	<u>104,843,774</u>
OPERATING EXPENSES			
Cost of goods sold		(20,860)	(72,462)
Cost of materials	7	(28,657,089)	(22,364,617)
Staff costs	8	(31,546,385)	(29,884,507)
Depreciation, amortization and provisions	9	(48,760,632)	(18,606,842)
Other operating expenses	10	(28,040,151)	(24,165,855)
		<u>(137,025,117)</u>	<u>(95,094,283)</u>
NET OPERATING (LOSS) / PROFIT		<u>(16,461,775)</u>	<u>9,749,491</u>
Finance income	11	8,577,268	11,393,209
Finance expenses	12	(3,206,574)	(5,271,716)
Other income	13	4,715,810	17,503,617
Other expenses	14	(102,857,336)	(14,975,510)
(LOSS) / PROFIT BEFORE TAXATION		<u>(109,232,607)</u>	<u>18,399,091</u>
Income taxes	15	(592,421)	(1,365,494)
Deferred tax benefits /(expenses) of the period	15	10,211,050	(249,307)
(LOSS) / PROFIT FOR THE YEAR		<u>(99,613,978)</u>	<u>16,784,290</u>

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

The consolidated financial statements of the Public Enterprise Electric Power Industry of the Republic of Serbia were approved by the management and submitted to the National Bank of Serbia, Center for Creditworthiness Assessment on April 24, 2008.

Signed on behalf of the Company by:

Vladimir Đorđević
General Manager

Ratko Bogdanović
Chief Financial Officer

Dragan Jonkić
Head of Accounting

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

CONSOLIDATED BALANCE SHEET
As at December 31, 2007
(thousands of RSD)

	Notes	December 31, 2007	<i>Restated</i> December 31, 2006
ASSETS			
Non-current assets			
Intangible assets	16	2,374,927	2,244,898
Property, plant and equipment	16	542,997,075	378,124,070
Investment property	16	44,357	41,162
Equity investments	17	3,850,412	1,796,664
Long-term financial placements	18	2,906,435	2,528,991
		<u>552,173,206</u>	<u>384,735,785</u>
Current assets			
Inventories	19	22,551,279	18,318,000
Accounts receivable	20	36,105,401	27,485,934
Receivables for prepaid income taxes		507,297	286,030
Short-term financial placements	21	2,135,690	6,332,521
Cash and cash equivalents	22	5,395,923	8,538,823
Value added tax and prepayments	23	1,621,264	1,445,100
		<u>68,316,854</u>	<u>62,406,408</u>
Total assets		<u>620,490,060</u>	<u>447,142,193</u>
Off-balance sheet items	32	<u>44,299,128</u>	<u>39,379,651</u>
EQUITY AND LIABILITIES			
Equity			
State-owned capital	24	358,656,088	358,656,306
Other capital	24	1,292,337	1,291,632
Revaluation reserves		247,840,353	125
Accumulated losses		<u>(117,546,286)</u>	<u>(18,089,353)</u>
		<u>490,242,492</u>	<u>341,858,710</u>
Long-term provisions and liabilities			
Long-term provisions	25	3,544,475	1,704,003
Long-term borrowings	26	34,935,260	34,687,618
Other long-term liabilities	27	5,080,376	5,962,013
		<u>43,560,111</u>	<u>42,353,634</u>
Current liabilities			
Short-term financial liabilities	28	8,801,336	9,468,953
Accounts payable	29	26,085,856	16,818,956
Other current liabilities and accruals	30	18,814,591	20,615,141
Value added tax and other duties payable	31	4,113,865	3,029,562
Income taxes payable		195,648	1,322,751
		<u>58,011,296</u>	<u>51,255,363</u>
Deferred tax liabilities	15 c)	<u>28,676,161</u>	<u>11,674,486</u>
Total equity and liabilities		<u>620,490,060</u>	<u>447,142,193</u>
Off-balance sheet items	32	<u>44,299,128</u>	<u>39,379,651</u>

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

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2007
(thousands of RSD)

	State-Owned Capital	Other Capital	Revaluation Reserves	Accumulated Loss	Total
Balance at January 1, 2006, prior to adjustments	358,324,022	1,622,560	24,394	(38,214,734)	321,756,242
Opening balance adjustments	-	-	-	3,308,403	3,308,403
Balance at January 1, 2006, adjusted	<u>358,324,022</u>	<u>1,622,560</u>	<u>24,394</u>	<u>(34,906,331)</u>	<u>325,064,645</u>
Transfers	332,368	(332,368)	-	-	-
Net profit for the year	-	-	-	16,784,290	16,784,290
Recognition of solidarity apartments	-	1,608	-	-	1,608
Other	(84)	(168)	-	25,653	25,401
	<u>358,656,306</u>	<u>1,291,632</u>	<u>24,394</u>	<u>(18,096,388)</u>	<u>341,875,944</u>
Balance at January 1, 2007, prior to adjustments	358,656,306	1,291,632	24,394	(18,096,388)	341,875,944
Opening balance adjustments (Note 4)	-	-	(24,269)	7,035	(17,234)
Balance at January 1, 2007, adjusted	<u>358,656,306</u>	<u>1,291,632</u>	<u>125</u>	<u>(18,089,353)</u>	<u>341,858,710</u>
Property and equipment appraisal effects	-	-	272,494,317	-	272,494,317
Deferred tax liabilities	-	-	(27,232,103)	-	(27,232,103)
Increase based on remeasurement of securities available-for-sale	-	-	2,768,600	-	2,768,600
Disposal of fixed assets	-	-	(190,665)	190,665	-
Income taxes	-	-	-	(33,620)	(33,620)
Other	(218)	705	79	-	566
Loss for the year	-	-	-	(99,613,978)	(99,613,978)
	<u>358,656,088</u>	<u>1,292,337</u>	<u>247,840,353</u>	<u>(117,546,286)</u>	<u>490,242,492</u>

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

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

CONSOLIDATED CASH FLOW STATEMENT
Year Ended December 31, 2007
(Thousands of RSD)

	<u>2007</u>	<i>Restated</i> <u>2006</u>
Cash flows from operating activities		
Sales and advances from customers	158,641,957	91,535,760
Interest received	1,871,959	4,159,809
Other cash received from operations	4,528,912	3,584,366
Payments to suppliers	(99,303,677)	(39,177,361)
Payments to and on behalf of employees	(33,506,772)	(27,783,491)
Interest paid	(614,762)	(517,475)
Income tax paid	(2,285,088)	(72,207)
Other taxed and duties paid	(18,930,563)	(15,425,284)
	<u>10,401,966</u>	<u>16,304,117</u>
<i>Net cash provided by operating activities</i>		
Cash flows from investing activities		
Sales of shares and equity investments (net inflows)	-	6,555
Sales of property, plant, equipment and intangible assets	57,187	3,473
Other financial placements (net inflows)	2,716,601	1,041,047
Interest received	1,203,787	580,604
Dividends collected	18,824	16,000
Acquisition of shares and equity investments (net outflows)	(2,320)	(480,000)
Purchases of property, plant, equipment and intangible assets	(16,061,090)	(11,310,660)
Other financial placements (net outflows)	(460,414)	(179,790)
	<u>(12,527,425)</u>	<u>(10,322,771)</u>
<i>Net cash used in investing activities</i>		
Cash flows from financing activities		
Increase in capital	-	353,322
Short-term and long-term borrowings (net outflows)	2,865,650	439,908
Other short-term and long-term liabilities	1,229	96,145
Short-term and long-term borrowings and other liabilities (net outflows)	(3,916,157)	(6,956,760)
Finance lease	(1,414)	(2,830)
	<u>(1,050,692)</u>	<u>(6,070,215)</u>
<i>Net cash used in financing activities</i>		
Net decrease in cash and cash equivalents	(3,176,151)	(88,869)
Cash and cash equivalents, beginning of year	8,538,823	9,326,797
Foreign exchange gains / losses on translation	<u>33,251</u>	<u>(699,105)</u>
Cash and cash equivalents, end of year	<u><u>5,395,923</u></u>	<u><u>8,538,823</u></u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated

1. ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE

In accordance with Article 171, Paragraph 1 of the Energy Law ("Official Gazette of the Republic of Serbia," numbered 84/04), on January 27, 2005, the Government of the Republic of Serbia enacted the following legislative orders on the establishment of the following public enterprises:

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

The Public Company for production of electricity, transmission and trade in electricity "Elektroprivreda Srbije," Beograd, Carice Milice number 2, commenced its business operations on July 1, 2005 based on a Decision issued by the Business Registers Agency, BD 80380/2005, and as of the same date, assumed the assets, liabilities and employees of JP EPS, an Unlimited Liability Company, established under the Law on Electric Power Industry ("Official Gazette", number 45/91), save for the portion of assets and liabilities assumed by:

- an entity established through a Decision of the Government of the Republic of Serbia involved in power transmission – Public Company "Elektromreža Srbije," and,
- a Public Company for subterranean coal exploitation "Rudnik Kovin" D.O.O., Cara Lazara number 85, entered in the Business Register pursuant to July 1, 2005 Decision numbered 80374/2005.

The Company assumed all founder's rights in the subsidiaries while harmonizing the organization of work and business activities of the public subsidiary enterprises with the regulations governing the legal position of commercial entities in accordance with the Order of the Government of the Republic of Serbia. Namely, based on the Decisions of the Board of Directors, further approved by the RS Government as provided under the Law on State-Owned Enterprises and Performing Activities of Public Interest, certain public enterprises have undergone a change in the legal form, while some other have undergone the status change of merger by formation, i.e., merger by acquisition and have assumed assets, rights, liabilities and employees starting January 1, 2006.

Over the reporting period, the Public Enterprise "Electric Power Industry of Serbia" exercised control over all subsidiaries, save for those domiciled on the territory of the Autonomous Province of Kosovo and Metohija (the Public Enterprise for the production of thermal and electrical energy - Thermal Power Plant "Kosovo," Public Enterprise for the production, processing and transport of coal - Open Pit Mines "Kosovo" and Public Enterprise involved in the distribution of electrical energy "Elektrokosmet," Priština), since, ever since June 1999, Kosovo has been under the control of the international community, which is why the parent company lost its administrative and management influence over the operations of these companies.

Registered Name

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

Registered Address

The parent company is domiciled in Belgrade at the street address Carice Milice number 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated

1. ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE (Continued)

Incorporation

Pursuant to a Decision of the Serbian Business Registers Agency, numbered BD80380/2005, the Public Company "Elektroprivreda Srbije," Beograd was incorporated, therefore creating the conditions for Public Company "Elektroprivreda Srbije," Beograd to start operating as of July 1, 2005 in accordance with the Decision on its foundation. Pursuant to Decisions of the Serbian Business Registers Agency, all Company's subsidiaries were incorporated as of January 1, 2006.

Principal Activity

The principal activity of JP EPS is trade in electricity, as well as electricity generation: electricity distribution; distribution system management; coal production, processing and transport; production of steam and hot water in combined processes. These activities are placed in subsidiaries established by JP EPS for this particular purpose.

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

Ownership Structure

The assets handled by JP EPS and its subsidiaries, are state owned. The worth of state capital is recognized in the amount of assets allocated to JP EPS, as adjusted for the amounts of realized net profit or loss (referred to as the concept of "the maintenance of capital").

The Governing Bodies - consist of Board of Directors of JP EPS (11 members), the Supervisory Board (5 members) and General Manager appointed by the Government of Serbia. Within the EPS headquarters situated in Beograd, there are five independent offices (or "Directorates") and two administrative "Centers." The Directors of Directorates and Centers, the Directors of Subsidiaries, as well as persons in managerial positions, pursuant to the Act on internal organization and systematization of subsidiaries, comprise the business administration of JP EPS. The Board of Directors of JP EPS appoints and relieves of duty the presidents and members of the Board of Directors and appoints and relieves of duty the general managers and internal auditors of the subsidiaries within the EPS group.

The Board of Directors – by its resolutions, the JP EPS' Board of Directors guides the implementation of business objectives for which the enterprise was established. The Board of Directors is responsible for the execution of technical, technological, economic and business synergies that help create a well-integrated electrical power system.

The Supervisory Board – exercises supervision over the performance and business operation of JP EPS, reviewing their, stand alone and consolidated financial statements, issues opinion to the Board of Directors prior to the adoption of such documents and provides opinion on the proposal for the profit distribution and loss absorption.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated

1. ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE (Continued)

Organization Structure

The Public Company “Electric Power Industry of Serbia” as a Parent Company, has assumed all founder’s rights as of the foundation date, along with the obligation to reconcile the work and operation within 21 public companies, two limited liability companies (EPSTURS and Rudnik Kovin).

Based on the Decision on the Company Establishment and with the consent of the founder, the Board of Directors of JP EPS enacted a Decision on harmonizing the organization of public enterprises with the law regulating the legal position of business entities and the business activities related to electric energy, assuming the assets, liabilities and rights of subsidiaries on or after January 1, 2006, except for the public enterprises located on the territory of Autonomous Province of Kosovo and Metohija.

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

<u>Company</u>	<u>Address</u>	<u>Tax Identification Number (“PIB”)/Registration Number (“MB”)</u>
Public Enterprise Electric Power Industry of Serbia	Carice Milice 2, Belgrade	PIB: 103920327 MB: 20053658
Hydro Power Plant Đerdap d.o.o., Kladovo	Trg Kralja Petra 1 Kladovo	PIB: 100695213 MB: 7715226
Business Entity „Drinsko-Limske hidroelektrane” d.o.o., Bajina Bašta	Trg Dušana Jerkovića 1, Bajina Bašta	PIB: 104196916 MB: 20114207
Business Entity Thermal Power Plant Nikola Tesla d.o.o., Obrenovac	Bogoljuba Uroševića – Crnog 44, Obrenovac	PIB: 101217456 MB: 7802161
Business Entity Thermal Power Plant and Open Pit Mines “Kostolac” d.o.o., Kostolac	Ulica Nikole Tesle broj 5-7, Kostolac	PIB: 104199176 MB: 20114185
Business Entity „Panonske termoelektrane–toplane” d.o.o., Novi Sad	Bulevar oslobođenja broj 100, Novi Sad	PIB: 100187552 MB: 8271259
Business Entity for coal production, processing and transport– Mine Basin „Kolubara” d.o.o., Lazarevac	Ulica Svetog Save broj 1, Lazarevac	PIB: 101138490 MB: 7788053
Business Entity for the Distribution of Electricity, „Elektrovojvodina” d.o.o., Novi Sad	Bulevar oslobođenja broj 100, Novi Sad	PIB: 102040644 MB: 8038139
Business Entity for the Distribution of Electricity, „Elektrodistribucija–Beograd” d.o.o., Beograd	Masarikova broj 1 – 3, Beograd	PIB: 100001378 MB: 7005466
Business Entity for the Distribution of Electricity, „Elektrosrbija” d.o.o., Kraljevo	Ulica Dimitrija Tucovića 5, Kraljevo	PIB: 101957610 MB: 7152566
Business Entity for the Distribution of Electricity, „Jugoistok” d.o.o., Niš	Bulevar Zorana Đinđića 46a., Niš	PIB: 104196932 MB: 20114142
Business Entity for the Distribution of Electricity, Centar d.o.o., Kragujevac	Ulica slobode broj 7, Kragujevac	PIB: 104196924 MB: 20114169

The founder’s contributions in legal entities not involved in activities related to electricity in the course of 2005 were transferred to the Republic of Serbia, except for the founder’s contribution in the Company for designing, production, mounting and maintenance of mining and energy equipment “Kolubara Metal” d.o.o., a spin-off of the subsidiary “RB Kolubara.”

The Company had 35,609 employees as of December 31, 2007 (December 31, 2006: 34,789 employees).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated

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

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

The consolidated financial statements of JP EPS as of, and for the year ended December 31, 2007 are prepared in accordance with the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 105/2006) and the “Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures” (Official Gazette of the Republic of Serbia, no. 114/2006).

Recognition and estimation of items of the consolidated financial statements are performed in accordance with all items of International Accounting Standards, determined by the Republic of Serbia Ministry of Finance Decision numbered 011-00-738-2003-01 of December 30, 2003.

From the date of issuance of IAS (Official Gazette of the Republic of Serbia no. 133/03) the International Accounting Standards Board has adopted changes in current standards and new standards and interpretations applied to the accounting period ended December 31, 2007.

The amendments to the IAS and to the newly-issued IFRS released after the adoption of the previous Law on Accounting and Auditing, have been published and officially enacted in the Republic of Serbia on February 12, 2008, and accordingly, they have not been applied in the preparation of the accompanying consolidated financial statements. These changes and standards include:

- IFRS 2 “Share Based Payments ”
- IFRS 3 “Business Combinations ”
- IFRS 4 “Insurance Contracts”
- IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations ”
- IFRS 6 “Exploration for and Evaluation of Mineral Resources”
- IFRS 7 “Financial Instruments: Disclosures”
- IFRS 8 “Operating Segments.”

In accordance with the “Guidelines on the Contents of the Chart of Account for Enterprises, Cooperatives and Entrepreneurial Ventures” published towards the end of 2006, the Company performed reconciliation with the changes in IAS 1, which in most significant part, require disclosures in the notes to the consolidated financial statements.

In the analysis of the influence on the consolidated financial statements of changes in the following standards: IAS 1, IAS 2, IAS 8, IAS 10, IAS 16, IAS 12 and IAS 17, the Company determined that the consolidated financial statements consist of information which is reliable and accurate in all material aspects relevant for the users of financial statements. In the preparation of the accompanying consolidated financial statements, the Company has adhered to the accounting policies described in Note 3 which are in conformity with the accounting and tax regulations prevailing in the Republic of Serbia.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated

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

2.2. Comparative Information

In accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors," the Company reconciled comparative figures for the effects of error adjustments, as disclosed in Note 4 to these consolidated financial statements. In addition, to conform the presentation of figures to the current reporting period, certain reclassifications have been made to the amounts reported in the consolidated financial statements for the year ended December 31, 2006.

2.3. Use of Estimates

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Principles of Consolidation

The consolidated financial statements were prepared in accordance with the generally accepted accounting principles based on the historical cost of measuring with the subsequent estimation of all relevant events influencing the balance of assets and liabilities as of the consolidated financial statements' preparation date.

The consolidated financial statements represent the consolidation of the financial statements of eleven enterprises and the parent company, comprising the Electric Power Industry of Serbia, and are prepared on the principle of full consolidation, since the parent company is the sole owner of its subsidiaries.

The financial statements of the three enterprises situated in the Autonomous Province of Kosovo and Metohija have not been included in the consolidated financial statements as of, and for the year ended December 31, 2007, due to the fact that the Company's management no longer has administrative and managerial control over the businesses of those entities.

The financial statements of the subsidiary in which JP EPS holds majority interest (PD "Kolubara Metal," a subsidiary of PD "RB Kolubara" d.o.o.), whose activity does not involve generation, transfer and distribution of electrical energy are included in these consolidated financial statements. Comparative data for the previous reporting period have been restated.

3.2. Revenues and Expenses

Revenues and expenses are recognized as per the "matching principle." The matching principle requires that all expenses incurred in the generation of revenue be recognized in the same accounting period in which the related revenues are recognized regardless of the period in which the payments are actually made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Revenues and Expenses (Continued)

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

Income from the sale of goods is recognized when the risks and rewards associated with the rights of ownership are transferred to the customer, which is considered to be upon the delivery of products to the customer.

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

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

3.3. Effects of Foreign Currency Translation

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

3.4. Borrowings

Borrowings are recognized as an expense as they are incurred, regardless of their use.

3.5. Employee Benefits

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

Pursuant to a special collective bargaining agreement effective in Public Enterprise Electric Power Utility of Serbia, the Company is obligated to pay a severance payment either in an amount equal to 1.67 minimal, monthly salaries earned in the Company in the month preceding the severance payment month, or in the amount set by the relevant law, whichever amount is more favorable for employee. Pursuant to the Labor Law (Official Gazette of the Republic of Serbia, No. 24 as of March 15, 2005 and 61/05), the Company is obligated to settle the severance payments amounting to, at least, 3 average salaries. In addition, the Company is liable to discharge jubilee awards for 10, 20 and 30 years of continued service with the Company, where the aforementioned jubilee awards are payable in the amount of 0.56, 1.12 and 1.67 monthly salaries earned in the Company paid for the three months preceding the jubilee award.

The account and disclosure of long-term liabilities arising on retirement payments and jubilee awards is prepared by applying the method of present value of payments anticipated in the future, in only two companies within JP EPS, RB Kolubara d.o.o., Lazarevac and TENT d.o.o., Obrenovac.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

December 31, 2007

All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Correction of Material Errors

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

3.7. Fair Value

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

3.8. Transfer Pricing Between Consolidated Enterprises

During 2007, the transactions entered into between the consolidated enterprises within the EPS group were based on transfer prices set by the EPS' Board of Directors as determined on a cost plus basis.

3.9. Provisions

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

3.10. Donations

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

The cash donations that cover one accounting period and are intended to cover the Company's expenses, or to increase its income, are recognized as income as they are received.

3.11. Taxes and Contributions

Current Income Taxes

Current income tax represents an amount that is computed and paid in accordance with the effective Republic of Serbia Income Tax Law, as well as with the tax law effective in the respective countries of incorporation of the consolidated subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

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All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Taxes and Contributions (Continued)

Current Income Taxes (Continued)

In the Republic of Serbia, income tax is payable at the rate of 10% (2005 – 10%) on the tax base reported in the annual corporate income tax return as reduced by any applicable tax credits (in the amount of up to 20% of capital expenditure at issue, which may not exceed the amount of 50% of the tax calculated for the year in which such investments have been made). The taxable base stated in the income tax return includes the profit shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules.

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

Deferred Income Taxes

Deferred income taxes are provided using the balance sheet liability method, for the temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

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

Indirect Taxes and Contributions

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

3.12. Property, Plant and Equipment

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

At January 1, 2004 property, plant and equipment used to perform the electricity related activities were stated at revalued cost less allowance for impairment. The appraised value of property, plant and equipment as of January 1, 2004, in accordance with IFRS 1, "First-Time Application of International Financial Reporting Standards," has been recognized at their deemed cost for the purposes of preparation of the opening balance sheet in accordance with IFRS. The effects of the valuation of property, plant and equipment were recorded to accumulated losses brought forward from previous years.

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All amounts expressed in thousands of RSD, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Property, Plant and Equipment (Continued)

Land was not subject to the valuation performed by an independent appraiser as of January 1, 2004. Instead, carrying values stated in the consolidated financial statements as of December 31, 2003 were used.

Given the date of previous appraisal of fair value of assets, the management engaged an independent appraiser to re-examine the value of fixed assets as of January 1, 2007, exclusive of those belonging to PD "Kolubara Metal" d.o.o., since this entity is not in possession of assets used for the activities involving electrical energy.

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

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

Cost of borrowing incurred during the period of financing the acquisition of intangible assets is recognized within expenses.

Subsequent expenditure such as modification or adaptation to the assets is recognized as an increase in cost of the respective assets, when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Company.

Gains or losses on disposal of property, plant and equipment are determined as a difference between the expected net proceeds from sale and the stated value of assets and are recognized as income or expenses in the income statement.

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Depreciation

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

	<u>2007</u>	<u>2006</u>
Building property of hydroelectric power plants	1% - 4%	1.61% - 1.37%
Building property of thermal power plants	1.3% - 4%	2.86% - 2.22%
Building property of coal mines	1.25% - 2%	3.57% - 2.70%
Building property of electrical distributions	1.1% - 50%	1.30% - 4.00%
Commercial buildings, except for administrative and other buildings used in office, accommodation and tourism activities	1.1% - 50%	1.43% - 1.18%
Hydro power plant equipment	4% - 20%	2.86% - 2.22%
Thermal plant equipment	4% - 20%	12.50% - 6.67%
Coal mine equipment	4% - 12.33%	6.67% - 5.00%
Equipment for electricity distribution	4% - 20%	2.00% - 4.00%
Means of transport, except for the aforementioned	0.89% - 76.19%	12.50% - 6.67%
Equipment for decorating and maintenance of office and other premises	2% - 75%	20.00% - 10.00%
Other equipment previously not mentioned	0.22% - 58.68%	20.00% - 12.50%

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

3.14. Intangible Assets

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

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

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

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

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Impairment of Property, Plant and Equipment and Intangible Assets (Continued)

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

As of December 31, 2007, in accordance with the management's estimate, there have been no indications showing that the value of fixed assets has been impaired, unless otherwise is disclosed in the Notes to the consolidated financial statements which follow.

3.16. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes purchase value, import duties and other non-refundable taxes, transport, handling and other expenses directly attributable to inventories acquisition, as decreased for trading discounts, rebates and similar items. The net realizable value is the price at which inventories may be realized throughout the normal course of business, after allowing for the costs of realization.

Cost is computed using the weighted-average method. Tools and fixtures are fully written off when issued into use.

Provisions charged to "Other expenses" are made where appropriate and when the management estimates that the value of inventories needs to be adjusted to the net realizable value, i.e., based on the documented reduction in the useful value of inventories.

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

3.17. Financial Instruments

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

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

Equity Investments

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Financial Instruments (Continued)

Other Long-Term Placements

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

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

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

Short-Term Receivables and Placements

Short-term receivables include all of the following: accounts receivable and other receivables, as well as short-term placements with non-consolidated subsidiary companies, and the short-term deposits with banks, as well as, other short-term financial investments.

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

Other receivables and placements are measured at amortized cost.

Impairment of Financial Assets

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

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

The assessment of the collectability or recoverability of accounts receivable associated with the sale of electricity is based upon the particular categories of debtors. An allowance is recorded for the outstanding receivables from legal entities which have not been collected within a period of sixty days from their original maturities. Exceptionally, for those debtors, the assessment of collectability may be performed on an individual basis. In its estimation of the collectability or recoverability of accounts receivable, the Company considered all events up to January 31, 2008. The Company does not record an allowance for receivables from the legal entities that are concurrently its suppliers and creditors.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Financial Instruments (Continued)

Impairment of Financial Assets (Continued)

An allowance in the full amount is recognized for the receivables that are subject of pending litigation. A direct write-off of receivables is taken upon the conclusion of legal proceedings or in accordance with relevant management decision.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held in commercial banks.

Financial Liabilities

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

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

4. OPENING BALANCE ADJUSTMENTS

Adjustments as of January 1, 2007

	January 1, 2007
Write-off of deferred tax liabilities	29,310
Derecognition of fixed assets	(6,565)
Release of revaluation reserves	24,394
Adjustment of 2005 income taxes	(1,354)
Adjustment of construction in progress	1,827
Other	(40,577)
	<u>7,035</u>

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

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5. SALES REVENUE

	Year Ended December 31,	
	2007	2006
Sale of electricity	103,413,381	91,190,756
Sale of coal	3,348,245	2,858,256
Sale of engineering steam and gas	1,643,458	1,177,678
Services rendered	2,222,050	894,059
Income from radio and television subscriptions	429,208	314,012
Other	1,406,512	1,761,240
	112,462,854	98,196,001

A portion of revenues realized by selling electricity in the amount of RSD 3,576,244 thousand was realized on foreign markets out of which the major portion relates to the delivery of electricity to Electric Power Company of Montenegro (“Elektroprivreda Crne Gore a.d.”).

In accordance with the Decision of the Board of Directors throughout the reporting period, a discount was granted in the amount of 30% to the following entities:

- a household which is a beneficiary of financial support based on the regulations pertaining to the social security of citizens for the monthly consumption of no more than 450 kWh and
- a household earning no more than the double amount of census for realizing rights to financial support per month, based on the regulations pertaining to the social security of citizens for the monthly consumption of no more than 300 kWh.

To the group of consumers settling their electricity bills within the time frames set forth in the Decision on the General Terms of Delivering Electricity and in accordance with the relevant Decision of the Board of Directors, a discount of 5% was granted.

6. OTHER OPERATING INCOME

	Year Ended December 31,	
	2007	2006
Donation income	1,577,103	1,314,386
New customer connection fees	1,647,583	1,612,357
Insurance claims collected	365,894	470,139
Rental income	70,656	47,079
Other operating income	867,562	757,934
	4,528,798	4,201,895

Based on the insurance claims collected from the insurers that were incurred in the prior reporting periods with reference to the aggregates of the Hydro Power Plant Djerdap 1 and 2, income of RSD 225,780 thousand was recognized.

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7. COST OF MATERIALS

	Year Ended December 31,	
	2007	2006
Purchases of electricity:		
- on domestic market	1,237,475	1,028,715
- on foreign market	6,412,633	3,494,675
Transfer of electricity by the Public Enterprise Elektromreža Srbije	3,072,786	2,666,338
Materials for maintenance and spare parts	9,138,027	9,015,231
Oil derivatives	4,052,690	2,993,250
Natural gas	2,736,214	837,394
External purchases of coal	342,795	476,527
Office and general administrative supplies	296,073	264,680
Other	1,368,396	1,587,807
	<u>28,657,089</u>	<u>22,364,617</u>

The acquisition of electricity used for the Company's own activities in the value of RSD 7,650,108 thousand is related with the acquisition of electricity from legal entities outside the EPS system (imported and acquired from legal entities located on the territory of the Republic of Serbia having license to trade in electricity). A portion of costs acquired on the foreign market include an amount of RSD 2,618,121 thousand that pertains to the electricity purchased from the Electric Power Company of Montenegro.

8. STAFF COSTS

	Year Ended December 31,	
	2007	2006
Gross salaries	24,942,247	21,624,455
Contributions payable by the employer	4,936,790	4,046,277
Retirement benefits	20,759	27,948
Severance pays	-	2,582,220
Jubilee awards	203,152	194,452
Employee transportation to work	1,042,805	1,019,801
Other staff costs	400,632	389,354
	<u>31,546,385</u>	<u>29,884,507</u>

Staff costs comprise of salaries, benefits, contributions and other employee benefits as in accordance with the general acts of EPS.

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9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	Year Ended December 31,	
	2007	2006
Depreciation and amortization	46,259,451	17,412,876
Provisions	2,501,181	1,193,966
	48,760,632	18,606,842

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

10. OTHER OPERATING EXPENSES

	Year Ended December 31,	
	2007	2006
Insurance premiums	1,864,147	1,738,291
Public water utility fees	1,460,096	1,337,481
Municipal land utility fee	1,168,647	1,018,402
Fees for the use of general interest property	165,122	482,983
Environment pollution considerations	1,244,599	1,380,196
Property taxes	477,998	459,281
Other indirect taxes, contributions and fees	689,901	427,275
Land expropriation expenses	-	46,163
Maintenance and repairs	9,185,050	8,811,273
Telecommunications	903,321	614,807
Transportation	305,941	293,988
Rent	2,495,311	1,579,994
Research and development	329,070	210,214
Utilities	277,773	292,302
Student and youth organizations	893,424	658,333
Entertainment	239,968	196,174
Bank fees and charges	501,020	436,616
Other services	4,203,338	2,316,708
Discounts to customers for timely payments	-	591,258
Court fees	252,580	202,143
Other	1,382,845	1,071,973
	28,040,151	24,165,855

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10. OTHER OPERATING EXPENSES (Continued)

In accordance with the Law on Environment Protection (Official Gazette of the Republic of Serbia number 135/2004) and Decree on pollution types, criteria for computing the environment pollution compensation and rate payers, as well as the manner of compensation accrual and payment (Official Gazette of the Republic of Serbia number 113/2005), the Company recorded the compensations for SO₂, NO₂ emissions, powdery materials and hazardous waste materials commencing from January 1, 2006, as follows:

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

Other intangible assets include an amount of RSD 103,396 thousand relating to the assumed liabilities for taxes and contributions on salaries of the employees of JP PEU Resavica (the entity that operated within EPS until 2003) for 2000 and 2001 including penalties accrued until December 31, 2002 that have been rescheduled to 120 installments.

Costs of other indirect taxes and compensations in the amount of RSD thousand include:

- calculated public revenues of RSD 213,332 thousand for the exchange of electricity with other energy supply entities abroad, due to the lack of legally required evidence
- cost of customs duties based on the import of electricity of RSD 109,049 thousand
- fees for exploiting mineral resources (RSD 179,656 thousand PD RB Kolubara d.o.o. and RSD 47,996 thousand PD TE KO Kostolac d.o.o.)

Rentals recognized in the amount of RSD 2,495,311 thousand were incurred based on the lease of mechanization for the purpose of addressing consequences of coal exploitation and enabling the use of existing locations. The assets were rented by "Kolubara gradevinar" d.o.o., a subsidiary of PD "RB Kolubara," the contribution of which was transferred free of charge in 2005 to the Republic of Serbia.

11. FINANCE INCOME

	Year Ended December 31,	
	<u>2007</u>	<u>2006</u>
Interest income	6,532,071	5,291,810
Foreign exchange gains	1,959,244	6,052,462
Other finance income	<u>85,953</u>	<u>48,937</u>
	<u><u>8,577,268</u></u>	<u><u>11,393,209</u></u>

Interest income was recognized in the amount of statutory penalty charged to consumers defaulting on their liabilities for electricity and other goods and services consumed.

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12. FINANCE EXPENSES

	Year Ended December 31,	
	2007	2006
Interest expense	2,566,316	3,929,357
Foreign exchange losses	456,500	1,182,942
Other finance expenses	183,758	159,417
	3,206,574	5,271,716

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

Interest expenses in 2006 involve an amount of RSD 1,850,148 thousand pertaining to penalties assessed to liabilities to creditors from the Republic of Poland.

13. OTHER INCOME

	Year Ended December 31,	
	2007	2006
Gains on the sale of materials, equity investments, intangible assets, property, plant and equipment	107,383	117,514
Collected bad debts and release of provisions for accounts receivable and short-term financial placements	1,875,106	2,324,992
Income from international deliveries with Electric Power Industry of Montenegro from Hydro Power Plant Piva	-	897,117
Claims collected from insurance companies	-	429,407
Reconciliation in the value of other assets	64,717	60,438
Write-off of liabilities:		
- the Paris Club of Creditors (Note 26)	-	7,528,998
- creditors from Poland (Note 26)	-	4,179,948
- Ministry of Finance of the Republic of Serbia (Note 30)	-	976,288
- other	150,040	320,636
Surpluses	38,219	133,277
Prior year income	16,226	284,551
Barter exchange of electricity	1,589,684	-
Other income	874,435	250,451
	4,715,810	17,503,617

In the previous reporting period income of RSD 4,179,948 thousand was recognized based on the Agreement on the settlement of debts towards Elektrimu S.A., Warsaw which was used to settle debt one-off where 70% of debt at issue was previously written off, as well as other income of RSD 7,528,998 thousand pursuant to the write-off of liabilities towards the Paris Club of Creditors arising from the second tranche of debt write-off and based on the agreements regulating the repayment of liabilities entered with the Deposit Insurance Agency.

In the course of 2003, EPS used a borrowing from the funds of the Republic of Serbia according to the Agreement on Borrowings number 13467 dated November 26, 2001 due to the efforts to bridge time gaps in irregular inflow of income needed for maintaining continuity in overhauls and sanations. In the previous reporting periods, due to a lack of accounts made by the other participant, interest was calculated in the amount of discount rate. Based on the reconciliation of balances as of November 30, 2006 with the competent body, these were written off in the amount of RSD 976,288 thousand.

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13. OTHER INCOME (Continued)

Income from barter exchange of electricity in the amount of RSD 1,589,684 thousand relate to electricity delivered in the surrounding countries over the period from January 1, 2005 until December 31, 2006 as a part of electricity exchange. For the said amounts, the Company calculated the VAT of RSD 286,143 thousand due to a lack of necessary evidence (Note 14).

14. OTHER EXPENSES

	Year Ended December 31,	
	2007	2006
Loss in disposal, write-off and sale of fixed assets, intangible assets, equity investments and materials	1,381,930	719,227
Inventory count shortages	44,261	60,853
Income from international deliveries with Electric Power Utility of Montenegro from Hydro Power Plant Piva	-	970,430
Write-off of receivables	1,438,756	869,877
Losses on the impairment of:		
- current receivables and rescheduled accounts receivable	7,431,320	7,274,800
- other assets	-	338,693
Negative appraisal effects	84,813,553	-
Prior year expenses	1,486,193	214,195
Staff costs of the employees in the non-consolidated public enterprises situated in Kosovo and Metohija	3,701,412	4,040,914
Sponsorships and donations	217,689	176,383
Barter exchange of electricity	1,888,074	-
VAT related expenses which the Company cannot recover	286,143	-
Other expenses	167,985	310,138
	102,857,336	14,975,510

Negative appraisal effects reflecting the fair value of separate items of property, plant and equipment at January 1, 2007, as determined by the certified appraiser was recognized as expense in the amount of RSD 84,705,352 thousand.

In the reporting period, other expenses were recognized based on the direct derecognition arising from the transfer of founding contribution in PD "Toplifikaciju" d.o.o. (established in 2006 by the subsidiary PD "RB Kolubara") to the Republic of Serbia of RSD 1,040,995 thousand.

In addition, receivables outstanding over a longer period of time were recognized as impairment loss of RSD 7,539,521 thousand.

Expenses arising from barter exchange of electricity of RSD 1,888,074 thousand relate to amounts of electricity received from the surrounding countries recognized at gross principle in the period from January 1, 2005 until December 31, 2006, as well as the amount of VAT charged for electricity delivered in the amount of RSD 286,143 thousand due to a lack of required evidence.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

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15. INCOME TAXES

a) Components of Income Taxes

	(thousands of RSD)	
	Year Ended December 31,	
	<u>2007</u>	<u>2006</u>
Current income tax expense	(592,421)	(1,365,494)
Deferred income tax benefits / (expense)	<u>10,211,050</u>	<u>(249,307)</u>
	<u><u>9,618,629</u></u>	<u><u>(1,614,801)</u></u>

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

	Year Ended December 31,	
	<u>2007</u>	<u>2006</u>
(Loss) / profit before taxation	<u>(109,232,607)</u>	<u>17,889,812</u>
Income tax at the statutory tax rate of 10%	-	(1,788,981)
Tax effect of non-deductible expenses and revenues not recognized for tax purposes	(878,678)	(334,933)
Used tax loss carryforwards	-	455,841
Used tax credit carryforwards	2,538,722	239,951
Tax loss carryforwards	(113,820)	(93,267)
Tax credit carryforwards	(407,072)	(106,747)
Capital loss carryforwards	(341)	(64)
Impairment of assets	8,481,355	-
Used capital loss carryforwards	-	206
Other	<u>(1,537)</u>	<u>13,193</u>
	<u><u>9,618,629</u></u>	<u><u>(1,614,801)</u></u>

c) Deferred Tax Assets and Liabilities

Deferred tax liabilities of RSD 28,676,161 thousand (December 31, 2006: RSD 11,674,486 thousand) are associated with the taxable temporary differences arising between the tax bases at which property, plant and equipment, and intangible assets are stated in the annual income tax return, and the carrying value of such assets, as recorded in the Company's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

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15. INCOME TAXES (Continued)

c) Deferred Tax Assets and Liabilities (Continued)

As of December 31, 2007 the Company did not recognize deferred tax assets with respect to tax loss and tax credit carryforwards in the total amount of RSD 4,640,141 thousand (December 31, 2006: RSD 2,186,810 thousand), due to the uncertainty whether sufficient taxable profit will be available in the future against which the unused tax losses and tax credits may be utilized by the Company.

		(thousands of RSD)	
	Expiration Year	December 31, 2007	December 31, 2006
Tax loss carryforwards:			
- 2002	2007	-	325,495
- 2003	2013	137,967	180,877
- 2004	2014	442,824	407,817
- 2005	2015	25,965	25,965
- 2006	2016	181,280	121,138
- 2007	2017	1,911,717	-
		2,699,753	1,061,292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

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

	Land	Buildings	Plant and Equipment	Construction In Progress and Advances	Total	Intangible assets	Investment property
Cost							
Balance at January 1, 2007, before adjustments	6,634,849	471,011,541	493,948,042	38,216,302	1,009,810,734	2,831,854	111,000
Opening balance adjustments	48,238	(24,183,637)	27,640,752	(419,079)	3,086,274	2,797	-
Balance at January 1, 2007, after adjustments	<u>6,683,087</u>	<u>446,827,904</u>	<u>521,588,794</u>	<u>37,797,223</u>	<u>1,012,897,008</u>	<u>2,834,651</u>	<u>111,000</u>
Additions	350,547	1,317,693	4,168,631	18,647,500	24,484,371	343,011	5,743
Activation of construction in progress	49	2,012,247	9,325,340	(11,337,636)	-	-	-
Transfers	4,738,468	(68,583,041)	65,089,645	(918,767)	326,305	(4,947)	-
Revaluation (effects of subsequent valuations)	6,366,434	154,115,355	143,503,141	-	303,984,930	-	-
Sales	-	-	-	-	-	(85,785)	-
Transfer to third parties	-	(74,246)	(89,455)	(32,882)	(196,583)	(6,255)	-
Surpluses	-	100	22,522	-	22,622	-	-
Shortages	-	(7,379)	(38,814)	-	(46,193)	(7,589)	-
Transfer of fixed assets to start-ups	-	(904,338)	-	-	(904,338)	-	-
Sale and disposals	(12,847)	(2,049,930)	(6,589,660)	(78,101)	(8,730,538)	-	-
	<u>18,125,738</u>	<u>532,654,365</u>	<u>736,980,144</u>	<u>44,077,337</u>	<u>1,331,837,584</u>	<u>3,073,086</u>	<u>116,743</u>
Accumulated Depreciation							
Balance at January 1, 2007, before adjustments	-	284,260,214	348,263,295	107,016	632,630,525	589,613	69,838
Opening balance adjustments	3,856	(16,684,110)	18,822,667	-	2,142,413	140	-
Balance at January 1, 2007, after adjustments	<u>3,856</u>	<u>267,576,104</u>	<u>367,085,962</u>	<u>107,016</u>	<u>634,772,938</u>	<u>589,753</u>	<u>69,838</u>
Charge for the year	621,392	9,316,777	36,203,694	-	46,141,863	115,040	2,548
Transfers	1,124,420	(43,812,613)	43,017,120	24,535	353,462	5,757	-
Donations	-	3,035	512,320	-	515,355	-	-
Appraisal effects	4,000,906	78,886,542	26,179,814	7,236,904	116,304,166	-	-
Disposals	-	-	-	-	-	(3,103)	-
Shortages	-	(5,188)	(33,231)	-	(38,419)	(7,298)	-
Disposals	(3,223)	(1,623,452)	(6,890,214)	-	(8,516,889)	-	-
Release of provision for advances	-	-	-	(25,572)	(25,572)	-	-
Transfer to third parties	-	(39,969)	123,729	-	83,760	(1,990)	-
Transfer of fixed assets to start-ups	-	(750,155)	-	-	(750,155)	-	-
	<u>5,747,351</u>	<u>309,551,081</u>	<u>466,199,194</u>	<u>7,342,883</u>	<u>788,840,509</u>	<u>698,159</u>	<u>72,386</u>
Net Book Value							
- at December 31, 2007	<u>12,378,387</u>	<u>223,103,284</u>	<u>270,780,950</u>	<u>36,734,454</u>	<u>542,997,075</u>	<u>2,374,927</u>	<u>44,357</u>
- at December 31, 2006, after adjustments	<u>6,679,231</u>	<u>179,251,800</u>	<u>154,502,832</u>	<u>37,690,207</u>	<u>378,124,070</u>	<u>2,244,898</u>	<u>41,162</u>

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

On May 4, 2007, the Company signed an Agreement number II-66/26 with the consulting company Arthur D. Little GmbH from the Czech Republic regarding the appraisal of property, plant and equipment in the Company as of January 1, 2007.

The appraisal of property, plant and equipment accounts for all assets used for electricity related activities.

The appraiser applied two valuation methods:

- Income approach based on the position which business entities of EPS have and their current and future markets, as well as on their future position within the meaning of cash flows,
- Cost approach, depending on the form of fixed assets within EPS appraised in the context of the market for such assets, i.e. the increase in prices of equipment and property on the world market.

Investments in Progress

Assets in progress and intangible assets in progress include amounts of RSD 4,452,000 thousand and RSD 1,752,290 thousand relating to expenses incurred in construction of thermo-electric power plant TE-TO Kolubara B within the Public Company - thermo-electric plant "Nikola Tesla," Obrenovac. The Decision on the construction of thermal-electric structure Kolubara B, of the capacity 2 x 350 MW, with the corresponding brown coal open-pit of Tamnava – Zapadno polje, with the 7 million tons of capacity, was enacted in 1984. The building of thermo-electric plant – Kolubara B (hereinafter: TE-TO Kolubara B) was designed as combined plant for generation of electric and thermal energy, 2 x 350 Mj/sec would be used to satisfy the Belgrade City needs, and electricity from two blocks 2 x 350 MW would be used for the electric power supply system providing electricity to the consumers throughout the Republic of Serbia. The construction of the TE-TO Kolubara B commenced in 1988, and was suspended at the beginning of the 1990's. In the project implementation, the negotiations were carried with the foreign partners in an effort to secure sources of loans, from both commercial equipment manufacturers and from other available sources. In September of 1991, the Enterprise signed a loan agreement with the World Bank, Washington, DC, with a view to complete the construction of TE-TO Kolubara B and PO Tamnava – Zapadno Polje [West Field]. The amount agreed is USD 300 million. The Federal Assembly of the SFR Yugoslavia ratified this agreement in December 1991.

After the UN imposed the economic sanctions, all the activities related to the realization of this project ceased, as did the production and acquisition of equipment, and utilization of the approved World Bank loan. Under these circumstances, the Board of Directors of JP EPS enacted a Decision as of May 26, 1992, to suspend the implementation of TE-TO Kolubara B project. The further development of economic and political situation offered an option to continue with the suspended project TE-TO Kolubara B; therefore, the Board of Directors of JP EPS enacted a Decision at the November 25, 1996 Assembly to continue the realization of the aforementioned project commencing in the FY 1997. On that occasion, the construction activities dynamics were determined, whereby the first and the second block of Kolubara B were to be completed by the end of 2000 and 2001, respectively. In accordance with both resolutions, during 1997 a supplementary arrangement was entered into with the Č.S.O.B. for the portion of lacking equipment, to be delivered by the Czech entity, Škoda, which was paid for in accordance with settlement agreement dated April 26, 2005.

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

Investments in Progress (Continued)

At the Board of Directors Assembly of December 26, 2005, a Decision to resume the construction of TE-TO Kolubara B was enacted and the Government of the Republic of Serbia gave its approval on February 2, 2006. In 2006, a Consultant was appointed to give his opinion on the current situation and analyze the opportunities for obtaining foreign capital, the preparation of a strategy and collection of tender documents for the completion of Thermoelectric plant construction or construction of additional capacity of 700 MW.

Based on the rentability analysis of investment and rentability ratios, as the optimal solution for the realization of strategic targets set in the plan documentations of the Republic of Serbia, the option from the Implementation Program for the Energy Development Strategy in the Republic of Serbia until 2015 for the period from 2007 to 2012, i.e., that the construction of the Thermal Power Plant "Kolubara B" (2x350 MW) be finished, as well as that a new block in the Thermal Power Plant Nikola Tesla B3 (hereinafter: TENT B3) with the power of 700 MW be built.

The business operation program of JP EPS envisages that the investment activities that are to satisfy the electricity consumption in the period following 2012 for the completion of construction of the thermal Power Plant Kolubara B (2x350 MW) and the construction of the new block, TENT B3, with the power of 700 MW that would be realized based on the principle of joint investment of JP EPS and strategic partners which will be chosen in special tendering procedures.

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17. EQUITY INVESTMENTS

	December 31, 2007	December 31, 2006
Equity investments in unconsolidated subsidiaries:		
- Toplifikacija d.o.o., Lazarevac	-	727,431
- Kolubara d.o.o., Srpsko Sarajevo	218	218
-	218	727,649
Equity investments in domestic banks:		
- AIK banka a.d., Niš	2,918,665	430,710
- Čačanska banka a.d., Čačak	150,132	15,350
- Panonska banka a.d., Novi Sad	-	26,412
- Vojvodanska banka a.d., Novi Sad	-	9,984
- Komercijalna banka a.d., Beograd	88,011	9,001
- other	98,570	27,581
	3,255,378	519,038
Equity investments in other legal entities:		
- Politika a.d., Beograd	504,216	550,489
- RMK Trepča	27,010	27,010
- Minel holding	9,717	41,203
- other	290,792	60,914
	831,735	679,616
Equity investments in insurance companies	10,630	5,599
	4,097,961	1,931,902
Allowances for impairment:		
- equity investments in domestic banks	(394)	(6,285)
- equity investments in other legal entities	(247,155)	(128,953)
	(247,549)	(135,238)
	3,850,412	1,796,664

Equity investment in domestic banks in the net value of RSD 3,254,984 thousand were classified as held for sale, where the portion of these that are listed on the active market is recognized at fair value as of December 31, 2007. The difference between the initially recognized amount and the fair value amounting to RSD 2,768,600 thousand at December 31, 2007 was included in the revaluation reserves.

Equity investments in other legal entities represent stakes in certain domestic business entities available for sale, which are not listed on the capital market and are presented at cost.

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18. NON-CURRENT FINANCIAL PLACEMENTS

	December 31, 2007	December 31, 2006
Non-current receivables from the Public Enterprise Elektromreža Srbije	1,601,025	1,189,053
Rescheduled accounts receivable for electricity:		
- private individuals	602,496	1,226,993
- legal entities	268,216	421,048
Joint investment in the Rovni Water Reservoir	637,205	637,205
Placements based on apartments sold, housing loans and long-term rent of apartments	329,319	269,301
Rescheduled receivables from electricity – JP Toplifikacija, Požarevac	-	53,703
Receivables from the Privatization Agency of RS	27,983	16,764
Long-term deposits placed with domestic banks	-	2,442
Guarantee deposits with domestic banks	11,840	11,805
Other long-term financial placements	250,066	333,030
	<u>3,728,150</u>	<u>4,161,344</u>
Allowance for impairment:		
- Rescheduled accounts receivable for electricity	(674,458)	(1,411,596)
- Receivables from the Privatization Agency of RS	(27,983)	(16,764)
- Long-term deposits placed with domestic banks	-	(757)
- Other long-term financial placements	(119,274)	(203,236)
	<u>(821,715)</u>	<u>(1,632,353)</u>
	<u>2,906,435</u>	<u>2,528,991</u>

At December 31, 2007, the non-current receivables from the Public Enterprise Elektromreža Srbije in the amount of RSD 1,601,025 thousand are associated with the receivables arising on the loan from the following sources: the European Bank for Reconstruction and Development (EBRD) in the amount of RSD 1,369,550 thousand, receivables from the International Bank for Reconstruction and Development (IBRD) in the amount of RSD 231,475 thousand. To obtain the aforementioned loans, the parent company assumed debts from foreign creditors via domestic banks on behalf of its subsidiaries including the former, JP Elektroistok, where the presented non-current receivables arising from the loans approved relate to the portion of assets received that was transferred to the Public Enterprise Elektroistok. Until the moment the liabilities towards the creditors are settled, the portion of liabilities assumed by the Public Enterprise Elektromreža Srbije will be carried as a long-term loan.

Long-term joint investments of RSD 637,205 thousand as of December 31, 2007, relate to the joint investment in the Public Company Kolubara, Valjevo, based on the construction of “Rovni” Water Accumulation Basin, intended for water supply, flood prevention in the surrounding municipalities as well as for the needs of Thermal Electric Power Plant Kolubara B, under construction. Based on the Government of the Republic of Serbia Decree on determining the program of construction, reconstruction and maintenance of water supply structures in 2006 (Official Gazette of the Republic of Serbia, No., 117 as of December 30, 2005), further works on the construction of the “Rovni” Water Accumulation Basin in 2006 with the 100% of the Government of the Republic of Serbia interest. The deadline planned for the completion of the structure is the year 2009, while the exploitation is to commence in 2010.

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18. NON-CURRENT FINANCIAL PLACEMENTS (Continued)

The rescheduled accounts receivables arising on electricity supply relate to the receivables from households and legal entities whose accounts receivable were rescheduled as of December 31, 2002, and is repaid in equal monthly installments of RSD 300 within the period of ten years with a monthly interest rate of 1%, which is adjusted in case the retail price index exceeds 12.68% annually, and for the purpose of the reconciliation with annual amount of the retail price index. Given that the likelihood of economic benefits is not certain, according to the management's estimates the rescheduled receivables have mostly been provided for in the amount of the rescheduled principal.

19. INVENTORIES

	(thousands of RSD)	
	December 31, 2007	December 31, 2006
Material	10,225,356	7,315,762
Spare parts	8,834,375	7,368,889
Tools and consumables	1,536,547	341,592
Finished goods	1,651,756	1,785,459
Goods for resale	591	556
Advances to suppliers	2,769,188	2,602,427
	25,017,813	19,414,685
Allowance for:		
- inventories	(1,911,940)	(564,738)
- advances to suppliers	(554,594)	(531,947)
	(2,466,534)	(1,096,685)
	22,551,279	18,318,000

For the amount of inventories with slow movement which cannot be technically or technologically used, an allowance for impairment was formed. The amount of material and spare parts inventories is under the heavy burden of intensive capital works on the existing plants and equipment, and circumstances surrounding the purchase at request and the need for maintaining the level of inventories for the purpose of regular servicing and sanation of possible major breakdowns.

**PUBLIC ENTERPRISE
ELECTRIC POWER INDUSTRY OF SERBIA**

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20. ACCOUNTS RECEIVABLE AND OTHER CURRENT RECEIVABLES

	(thousands of RSD)	
	December 31, 2007	December 31, 2006
Accounts receivable:		
- non-consolidated subsidiaries situated in		
Kosovo and Metohija	871,668	873,884
- other subsidiaries	3,288	121
- domestic customers	62,459,075	53,035,115
- foreign customers	5,360,611	4,017,106
- the Resavica Coal Mine	1,166,907	1,166,907
	<u>69,861,549</u>	<u>59,093,133</u>
Receivables for radio and television subscriptions	9,310,259	4,736,222
Interest receivable	350,149	416,244
Receivables from employees	632,506	920,295
Prepaid taxes and contributions	136,365	154,182
Receivables from specific operations	166,878	1,390,675
Other receivables	1,044,882	1,605,063
	<u>81,502,588</u>	<u>68,315,814</u>
Allowances for bad and doubtful receivables from:		
- non-consolidated subsidiaries situated in		
Kosovo and Metohija	(871,668)	(871,668)
- other subsidiaries	(370)	-
- domestic customers	(40,714,040)	(35,575,754)
- foreign customers	(2,482,337)	(2,761,523)
- the Resavica Coal Mine	(1,166,907)	(1,166,907)
- interest receivable	(2,868)	(4,756)
- receivables from employees	(4,697)	(5,366)
- receivables from specific operations	-	(32,235)
- prepaid taxes and contributions	(140)	(140)
- other receivables	(154,160)	(411,531)
	<u>(45,397,187)</u>	<u>(40,829,880)</u>
	<u>36,105,401</u>	<u>27,485,934</u>

The terms and tariffs associated with the supply of electricity to customers are regulated under the relevant resolutions of the EPS' Board of Directors, which are subsequently approved by the Government of the Republic of Serbia.

The accounts receivable in the country as of December 31, 2007 include the receivables from domestic companies undergoing the restructuring process, in the amount of RSD 8,841,215 thousand (December 31, 2006: RSD 10,948,645 thousand), registered with the Privatization Agency of the Republic of Serbia. These receivables have been fully provided for.

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20. ACCOUNTS RECEIVABLE AND OTHER CURRENT RECEIVABLES (Continued)

The portion of foreign accounts receivable totaling RSD 2,685,625 thousand relates to the receivables from the Electric Power Industry of Montenegro which was collected subsequent to the balance sheet date in accordance with the agreed-upon terms and a decision on the approval of compensation arrangement with the competent ministry. The outstanding amount of foreign accounts receivable of RSD 2,674,986 thousand mostly relate to the amounts due from the power utilities for the former Yugoslav republics dating from prior years and fully provided for.

The Act on Changes and Amendments to the Broadcast Act as of September 2005, provides that the radio-television consumer subscriptions from are collected through JP EPS under the same terms as JP EPS collects the electricity bills. At each month end, based on the bills delivered to electricity consumers for the TV subscription, the distribution companies and JP RTS settle the accounts, whereas the monetary transfer is performed daily. For the services of maintaining the records and subscription collection, the Company is entitled to 8% of collected subscription in the relevant month.

The portion of receivables arising on the interest from the Public Enterprise "Elektromreža Srbije" amounting to RSD 327,785 thousand as of December 31, 2007 relates to the interest accrued on loans obtained from the People's Republic of China in the amount of RSD 258,222 thousand and rescheduled loans from the International bank for Reconstruction and Development of RSD 69,563 thousand. The principal of receivables is presented within long-term placements (Note 18).

The receivables due from the unconsolidated subsidiaries located on the territory of Kosovo and Metohija mostly relate to uncollected receivables arising on the principal and interest for the electricity delivered in the earlier period to JP Elektrokosmet, Priština.

The receivables from specific operations as of December 31, 2006 in the amount of RSD 1,390,675 thousand, also include the amount of RSD 1,335,387 thousand relating to the advance payment to the company Jugoelektro A.D., Beograd, for the purchase of spare parts from export with long delivery terms, intended for the capital restoration of the Block A4 of the Thermoelectric Plant Nikola Tesla, Obrenovac. In 2007, these advance payments were used.

21. SHORT-TERM FINANCIAL PLACEMENTS

	December 31, 2007	December 31, 2006
Current portion of receivables from JP Elektromreža Srbije	996,895	803,347
Short-term deposits with banks	645,014	5,328,208
Short-term domestic loans	142,417	31,348
Short-term foreign loans	31,082	-
Other	320,282	169,618
	<u>2,135,690</u>	<u>6,332,521</u>

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21. SHORT-TERM FINANCIAL PLACEMENTS (Continued)

The current portions of the long-term receivables from JP Elektromreža Srbije as of December 31, 2007 of RSD 996,895 thousand relate to the matured portions of the loan approved by the PR China of RSD 719,719 thousand, the matured portion of the European Bank for Reconstruction and Development of RSD 252,820 thousand and the matured portion of the loan extended by the International Bank for Reconstruction and Development of RSD 24,356 thousand.

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

22. CASH AND CASH EQUIVALENTS

	(thousands of RSD)	
	December 31, 2007	December 31, 2006
Current accounts:		
- in dinars	3,936,036	3,756,021
- in foreign currencies	1,070,723	4,199,586
Cash cover deposits for letters of credit	215,047	265,157
Cash on hand and other cash equivalents	83,201	329,308
Restricted funds	264,989	177,939
	5,569,996	8,728,011
	(174,073)	(189,188)
	5,395,923	8,538,823

The balances held on bank accounts in the USA, which were frozen when the UN economic sanctions were imposed in 1992 and balances on accounts with domestic banks in liquidation and/or bankruptcy were provided for due to their limited use and/or impaired value.

23. VALUE ADDED TAX AND PREPAYMENTS

	December 31, 2007	December 31, 2006
Value added tax	1,251,985	1,203,814
Receivables for natural power exchanges	194,609	26,543
Other prepayments	174,670	214,743
	1,621,264	1,445,100

The amount of RSD 194,609 thousand relates to receivables for natural power exchanges and to provisions of power to other electricity supply systems abroad as of December 31, 2007.

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24. EQUITY

State-Owned Capital

The Company's capital is state-owned. It is comprised of initial contributions, as adjusted by revaluation using the retail price index as of December 31, 2000 and by the IFRS transition adjustments as of January 1, 2004, as well as due to the foundation of a public enterprise for the production, transmission, distribution and sale of electricity, the Elektroprivreda Srbije, in accordance with the Order of the Government of the Republic of Serbia effective as of July 1, 2005. In accordance with the aforementioned Order, the Public Enterprise, Elektroistok was separated from EPS and as of July 1, 2005, Elektroistok has operated as an independent entity, under the name of JP Elektromreža Srbije and a new Public Company Elektroprivreda Srbije was established. The abovementioned status change in 2005, the net state-owned capital increased for the effects of the recognition of equity investments in the remaining 18 companies within EPS, amounting to RSD 317,831,442 thousand and effects of separation of assets and liabilities between the Company and JPN Elektromreža Srbije in the net amount of RSD 1,847,718 thousand.

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

Pursuant to the Decision of the Government of the Republic of Serbia on Establishment of the Public Company engaged in generation, production and distribution of electricity "Elektroprivreda Srbije," the Company assumed all the assets of the earlier Public Company including the investments in the subsidiaries founded with the Company assets in the prior period. The EPS group is comprised of 12 related parties entirely owned by the Company. The Company engaged an independent appraiser in 2005 for the purpose of appraisal of non-monetary investment in the newly-established Public Company, where the independent appraiser also estimated the aforementioned value of equity interest. The estimated value of equity interests in the related parties is the carrying value of their capital as of December 31, 2004. The amount of state-owned balance recognized in the accompanying consolidated financial statements as of December 31, 2007 of RSD 358,656,088 thousand exceeds the amount recognized by the parent company (RSD 322,906,233 thousand) by RSD 35,749,855 thousand due to a difference between appraised value of equity investments in the related parties and the respective capital of the related parties.

Other Capital

Other capital stated in the Company's balance sheet as of December 31, 2007 relates to the consolidated public enterprises' sources of non-operating assets that were transferred upon the transition to the new accounting regulations applicable in the Republic of Serbia as of January 1, 2004.

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25. LONG-TERM PROVISIONS

	(thousands of RSD)	
	December 31, 2007	December 31, 2006
Provisions for retirement benefits and anniversary awards	2,791,694	971,625
Provision for litigation	666,768	580,508
Provisions for the costs of natural resource restoration	86,013	-
Other long-term provisions	-	151,870
	<u>3,544,475</u>	<u>1,704,003</u>

Long-term provisions for litigations were recognized based on the assessment of the legal suits filed by creditors against the companies comprised within EPS, as prepared by the Legal Departments of the consolidating entities and which are expected to cause an additional outflow of economic benefits.

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

Provisions for retirement benefits and jubilee awards of RSD 440,905 thousand were formed in the amount of discounted present value of expected future payments in Thermal Power Plants Nikola Tesla in Obrenovac. In the actuarial calculation of long-term employee benefits the discount rate of 10% was applied which corresponded to the average rate applied to Government bills of the Republic of Serbia in FY 2007.

Provisions for retirement benefits and jubilee awards of RSD 2,350,789 thousand were stated in the amount of discounted present value of expected future cash outflows. In the actuarial calculation of long-term employee benefits the discount rate of 6% was used and the expected salary growth rate of 1% was applied. The aforementioned provisions were recognized in the Mine Basins Kolubara d.o.o., Lazarevac.

For the purpose of future expenses required to restore the land under exploited open pits that will be abandoned, to its prior condition, the subsidiary RB "Kolubara" d.o.o. formed provisions in the amount of RSD 86,013 thousand.

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26. LONG-TERM LOANS

	Currency	Principal in Currency	Maturity Date	Interest Rate and Repayments Terms	(thousands of RSD)	
					December 31, 2007	December 31, 2006
<i>Refinanced loans realized before the year 1990 from the fund of:</i>						
- Paris Club of Creditors:						
- Government of Austria	EUR	4,101,163	March 31, 2024	Austrian Market Rate, semi-annual	324,960	326,743
- Government of France	EUR	48,837,162	March 22, 2024	5.9% p.a., semi-annual	3,869,671	3,899,243
- Government of Germany	EUR	30,937,815	March 22, 2024	5.5% p.a., semi-annual	2,451,395	2,462,497
- Government of Canada	EUR	66,408,590	March 22, 2024	EURIBOR + 0.5% p.a., semi-annual	5,261,964	5,278,622
- Government of Switzerland	CHF	87,618,184	March 22, 2024	6M LIBOR CHF + 0.5% p.a., semi-annual	4,191,847	4,319,006
- Government of USA	USD	7,844,496	September 22, 2024	5.375%, semi-annual	421,459	475,098
- Government of Russian Federation	USD	47,041,051	March 22, 2034	0.5517% p.a., semi-annual	2,527,360	2,846,520
- Government of Japan	JPY	2,503,112,104	March 22, 2024.	2.839% p.a., semi-annual	1,201,534	1,270,788
					20,250,190	20,878,517
- London Club of Creditors	USD	16,323,299	November 1, 2024	3.75% p.a. up to 1.11.2009. - 6.75% p.a. up to 1.11.2024., semi-annual	876,997	979,001
- International Bank for Reconstruction and Development (IBRD)	EUR	8,792,683	December 15, 2031	1/3 of principal - 5.44, 1/3 of principal - 5.79 - 5.81 and 1/3 of principal - EURIBOR, semi- annual	696,699	706,646
- European Investment Bank (EIB)	EUR	426,596	October 17, 2016	semi-annual EURIBOR	33,802	33,701
					1,607,498	1,719,348
<i>Loans from the Governments realized after the year 1990:</i>						
- PR China realized through domestic banks in bankruptcy	USD	46,296,184	July 21, 2008	7.69% p.a., semi-annual	2,487,341	2,776,646
- Russian Federation realized through domestic banks in bankruptcy	USD	7,063,930	July 15, 2013	LIBOR+1.25% p.a., semi-annual	379,521	494,275
- Republic of Poland	USD	44,828,288	December 15, 2019	0.75% p.a., semi-annual	2,408,476	2,877,122

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26. LONG-TERM LOANS (Continued)

					(thousands of RSD)	
	Currency	Principal in Currency	Maturity Date	Interest Rate and Repayments Terms	December 31, 2007	December 31, 2006
Loans from Kreditanstalt fuer Wiederaufbau (KfW)	EUR	31,245,615	June 30, 2013	4.32% p.a., semi-annual	2,475,784	2,917,204
Loans from Kreditanstalt fuer Wiederaufbau (KfW)	EUR	290,202	June 30, 2015.	Variable (5,09% - 5,61%)	22,994	-
Loans from Kreditanstalt fuer Wiederaufbau (KfW)	EUR	9,898,267	June 30, 2020.	-	784,301	-
Loans from European Bank for Reconstruction and Development (I)	EUR	40,604,175	March 7, 2016.	3.1%-5.793 % p.a., semi-annual	3,217,320	2,350,311
Loans from European Bank for Reconstruction and Development (II)	EUR	19,327,501	September 7, 2018	3.1%-5.793 % p.a., semi-annual	1,531,438	516,093
Loan from European Investment Bank (II)	EUR	17,600,000	June 9, 2027	3.879-5.248% p.a., semi-annual	1,394,557	825,816
Loan from the Development Fund of the Republic of Serbia	EUR	3,970,792	December 31, 2007	4% p.a., quarterly	-	313,693
World Bank	SDR	40,777	March 15, 2025	-	3,458	-
JP Elektromreža Srbije, Beograd	EUR	38,220	September 15, 2031	1/3-5.44, 1/3 -5.81 and 1/3- EURIBOR	3,028	3,115
Other	-	-	-	-	-	3,042
					<u>9,432,880</u>	<u>6,929,274</u>
					<u>36,565,906</u>	<u>35,675,182</u>
<i>Loans in dinars</i>						
Ministry of Finance of the Republic of Serbia	RSD	1,031,534,754	December 31, 2010	8.5% p.a., semi-annual	1,031,535	1,609,905
Banks in the processes of bankruptcy and liquidation	RSD	344,231,677	December 31, 2012-	1,00	344,232	345,701
JP Elektromreža Srbije, Beograd (I)	RSD	1,591,937,296	December 31, 2021	8,5 NBS's discount rate, monthly	1,591,937	1,836,912
Other	RSD	4,599	-	-	4,600	5,465
					<u>2,972,304</u>	<u>3,797,983</u>
Portion of long-term loans due within a period of one year:						
- in foreign currencies					(4,159,913)	(3,792,213)
- in dinars					(443,037)	(993,334)
					<u>(4,602,950)</u>	<u>(4,785,547)</u>
					<u>34,935,260</u>	<u>34,687,618</u>

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26. LONG-TERM LOANS (Continued)

A. Foreign Currency Loans

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

Repayments of the refinanced loans and the related interest originated prior to 1990, which were disbursed via various domestic banks, were frozen and discontinued in 1992, upon the introduction of the United Nations' Sanctions against the Federal Republic of Yugoslavia.

1.1. Paris Club of Creditors

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

With reference to the liabilities towards the Republic of Serbia arising loans from the Paris Club of Creditors, in 2004, the Company entered into loan rescheduling agreements with Panonska Banka and in 2006 Agreements on settlement of loans was closed with the Deposit Insurance Agency on settling the liabilities. The aforementioned Agreements determined the debt balance where the Republic of Serbia wrote off 51% of the Company's debt, and the Annexes to the Agreements dating from April and June 2006, provided for the second tranche of the debt write-off in the amount of 30.61%.

1.2. London Club of Creditors

The Company wrote off 62% of new principal of the debt to the London Club of Creditors as of September 30, 2004 and reconciled the amount of new principal based on the communication from and annuity plans provided by the National Bank of Serbia. The effects of the aforementioned write-off were recorded within other income in 2005 as amounting to RSD 1,745,613 thousand. In 2006, an agreement regulating the liabilities to the Republic of Serbia was signed with the Deposit Insurance Agency. The newly determined principal is to be repaid in semi-annual annuities where the first and the last one are due on May 1, 2010 and November 1, 2024, respectively. The interest of 3.75% has been changed to the newly determined principal as of November 1, 2005 which will continue until November 1, 2009, and as of November 1, 2009 until November 1, 2024 the interest charged to this principal will total 6.75% annually, and will be settled in semi-annual annuities.

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26. LONG-TERM LOANS (Continued)

1.3. International Banks for Reconstruction and Development

In accordance with the Agreement entered into between the Government of the Federal Republic of Yugoslavia and the IBRD dated December 17, 2001, the total amount of liabilities for principal, interest and other expenses accrued up to the end of 2001, represents the principal of a new loan which is to be repaid to the Government of the Republic of Serbia in semi-annual installments in the period from June 15, 2005 to December 15, 2031 and carries a variable interest rate. On May 17, 2006, the Company entered into an agreement on rescheduled liabilities with the Deposit Insurance Agency governing the Company's liabilities to the Republic of Serbia arising on the rescheduled loans from the aforementioned creditor. In conformity with the foregoing agreement, a portion of liabilities of 81% loan of EUR 25,049,998 (EUR 20,528,101 principal, EUR 639,254 of current portions and EUR 3,882,643 of interest), approved to JP Elektromreža Srbije, was concurrently removed from Company records, where the remaining 19% of the loan was rescheduled for the period until December 15, 2031. the repayment is executed in semi-annual annuities where the first one was due on June 15, 2006 with a varying interest rate.

2. Loans from the European Bank for Reconstruction and Development

The loans from the European Bank for Reconstruction and Development (EBRD) totaling:

- EUR 100,000,000 is currently being used. The loan draw-down period expired on June 30, 2005 and was extended to December 31, 2007 and its maturity is being extended until December 31, 2009. The portion of the principal that has been used matures semi-annually from September 7, 2005 until March 7, 2016. The interest agreed-upon is compounded at variable rates.
- EUR 60,000,000 is currently being used. The final deadline for the disbursement of assets is set for February 28, 2008 and this deadline is being extended to September 30, 2009. The repayment of the principal is to be executed in the period from March 7, 2008 until September 7, 2018. The Interest is compounded at a variable interest rate.

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

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26. LONG-TERM LOANS (Continued)

3. KfW

With the German financial organization KfW financial agreements were executed in the period from 2003 through 2005 as follows:

- The long-term loan from KfW is to be repaid in semi-annual in the period between December 30, 2004 and June 30, 2013 at a fixed interest rate of 4.32% annually.
- EUR 16 million (out which EUR 9 million is not to be repaid) was obtained on December 24, 2003. The final date for the use of these funds is set to be June 30, 2008. The principal is expected to be repaid in the period from December 30, 2008 until June 30, 2015. The interest rate is determined 2 days before disbursement and is to be fixed until the date KfW informs JP EPS of the interest that applies to the entire borrowing that will be determined once the last loan disbursement is executed and interest rate thus calculated will apply in the entire repayment period.
- EUR 30 million was obtained on September 9, 2005. The final date for the use of the loan funds is set to be December 31, 2011. The loan principal is expected to be repaid in the period from December 31, 2010 until June 30, 2020 free of interest.

4. Loan from European Investment Bank (I)

At March 31, 2007, the Company derecognized all rights and liabilities arising from the approved long-term loan obtained from the European Investment Bank pertaining to provisions of funds for a project of management of electric power system of Serbia and Montenegro amounting to EUR 59 million based on the agreement entered by and between EPS and the Public Enterprise Elektromreža Srbije on December 21, 2006. Derecognition relates to the liabilities arising from the long-term loan of RSD 367,084 thousand, advances for property, plant and equipment of RSD 337,200 thousand, long-term financial placements of RSD 8,801 thousand and cash held on the current account in foreign currency amounting to RSD 21,083 thousand.

5. Loan from the European Investment Bank (II)

Based on the loan on financing the project of managing the electric power system of Serbia and Montenegro entered by and between Serbia and Montenegro on one side and European Investment Bank on October 30, 2003, a loan of EUR 22,000,000 was extended to the Company. The loan is drawn in tranches in accordance with the Company's requirements, whereas the total amount can be drawn in 11 tranches of no less than EUR 2,000,000. The final date for employment of the general loan was extended from April 30, 2007 to December 31, 2008. At December 31, 2006, the Company used EUR 10,6 million (RSD 837,400 thousand). The loan is repaid in semi-annual installments are due on June 9, May 25, November 25 and December 9 in the period between 2010 and 2027, at a varying interest rate.

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26. LONG-TERM LOANS (Continued)

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

Pursuant to the Agreement on a development loan (Serbia and Montenegro Component of the Program of Energy Community of South East Europe – Serbia Project - ECSEE) executed on September 8, 2005 between the State Union of Serbia and Montenegro on one side and the International Development Association on the other, for the amount of SDR 13,9 million and a Loan Subagreement signed between the Republic of Serbia and the State Union of Serbia and Montenegro and the Loan Subagreement executed between the Republic of Serbia and this Company, the Company can use the loan funds of SDR 12,24 million. The funds approved are available for use until February 28, 2010. The loan is to be repaid in installments maturing on March 15 and September 15 in the period from 2015 to 2025, free of interest.

7. Loan of the Republic of Serbia Development Fund

The loan obtained from the Republic of Serbia Development Fund was repaid in quarterly installments in the period from March 31, 2003 until December 31, 2007 at an interest rate of 4% annually. This loan was fully repaid at December 31, 2007.

B. Loans in Dinars

1. Ministry of Finance of the Republic of Serbia

In accordance with the Law on the Settlement of the Liabilities of the Government of the Republic of Serbia towards the National Bank of Serbia, the Company's liabilities on its issued short-term securities totaling RSD 1,899,090 thousand have been transformed into long-term liabilities towards the Republic of Serbia, with maturities on December 31, 2006, December 31, 2007 and December 31, 2010, in the amounts of RSD 289,185 thousand, RSD 578,371 thousand and RSD 1,031,534 thousand, respectively, as issued at an annual interest rate of 8.5%. The portion of RSD 289,185 thousand has been repaid and the portion falling due on December 31, 2007 is stated within current portions of long-term loans. An amount of RSD 289,185 thousand was repaid as well as the portion of liability amounting to RSD 578,370 thousand maturing as of December 31, 2007.

2. Public Enterprise Elektromreža Srbije, Beograd

The long-term liabilities to the Public Enterprise Elektromreža Srbije, Beograd stated at December 31, 2007 in the amount of RSD 904,037 thousand represent the rescheduled current liabilities based on the distribution of joint income within the EPS until December 31, 2004. In accordance with the Settlement Balance, the aforementioned liabilities of the Company are rescheduled for a period of fifteen years, and are to be repaid in equal installments commencing on June 30, 2006, at an interest rate equaling the NBS discount rate.

The liabilities to the Public Enterprise Elektromreža Srbije, Beograd stated at December 31, 2007 in the amount of RSD 687,900 thousand represent the Company's rescheduled current liabilities arising on the agreement entered into on November 1, 2006. In accordance with the forgoing agreement, the aforementioned liabilities of the Company are rescheduled for a period of five years, and are to be repaid in equal monthly installments as on January 31, 2007, at an interest rate equaling the NBS discount rate.

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26. LONG-TERM LOANS (Continued)

B. Loans in Dinars (Continued)

3. Banks in Bankruptcy Procedure

Loan repayments to foreign creditors, for loans disbursed via domestic banks that are presently undergoing bankruptcy proceedings, and other loans from these banks, have been frozen since 1992, upon the introduction of the U.N. sanctions, and specifically, as of the beginning of 2002, when the bankruptcy and liquidation proceedings against these banks were initiated. The Company's management has accrued the related interest and finance charges thereto (Note 30). However, the final reconciliation of these liabilities may have a material effect, which presently cannot be determined with any certainty, on the Company's consolidated financial statements. A portion of these liabilities was reconciled following the balance sheet date (see Note 38.).

Ratification of Đerdap I Revitalization Agreement

Based on the agreement reached between the governments of the Socialist Republic of Yugoslavia and the Russian Federation regarding the provision of funds for the revitalization and increase of installed power of the hydro aggregate of the hydro-energy navigation system of Đerdap I from the funds of the clearing debt of the former Soviet Union towards the former SFRY, on March 29, 2003, an Agreement was signed regarding the revitalization with the increase of installed power of the hydro aggregate of hydro-energy and navigation system Đerdap I number 05030856/030135-0275 with the open shareholding company „Energomašeksport-Silovije mašini,“ Moscow, the contractor in the value of USD 100,511,390. The Agreement sets forth that the payment is to be executed based on the intergovernmental Agreement on the repayment of the clearing debt of the former SSSR towards the former SFRY. The aforementioned Agreement between the governments was ratified in 2007.

Analysis of Drawn Funds from Approved Loans

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

<u>Creditor</u>	<u>Currency</u>	<u>Contracted Amount</u>	<u>Drawn Down Amount</u>
The EBRD	EUR	100,000,000.00	46,564,231.25
The EBRD	EUR	60,000,000.00	19,327,500.56
The European Investment Bank (EIB)	EUR	22,000,000.00	17,600,000.00
KfW	EUR	16,000,000.00	290,201.93
KfW	EUR	30,000,000.00	9.898,267.22
IDA	SDR	12,240,000.00	40,777.36
The maturities of the Company's long-term loans			
		<u>December 31, 2007</u>	<u>December 31, 2006</u>
From one to five years		10,184,331	9,171,241
Over five years		24,750,929	25,883,460
		<u>34,935,260</u>	<u>35,054,701</u>

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26. LONG-TERM LOANS (Continued)

Loan analysis per foreign currencies

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
EUR	20,767,226	19,115,079
USD	6,326,025	10,137,895
JPY	1,177,506	1,263,471
CHF	4,131,779	1,733,608
SDR	3,458	-
	<u>32,405,994</u>	<u>32,250,053</u>

27. OTHER NON-CURRENT LIABILITIES

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Rescheduled public income liabilities	5,280,199	6,077,288
Rescheduled liabilities with respect to fees for environmental use and protection of water resources	-	354,162
Other rescheduled liabilities	471,298	906,342
Other	107,331	134,265
	<u>5,858,828</u>	<u>7,472,057</u>
Amounts due within one year:		
- rescheduled public income liabilities	(333,715)	(710,116)
- rescheduled liabilities for fees on environmental use and the protection of water resources	-	(354,162)
- rescheduled liabilities to JP Srbijagas	(435,044)	(435,044)
- other	(9,693)	(10,722)
	<u>(778,452)</u>	<u>(1,510,044)</u>
	<u>5,080,376</u>	<u>5,962,013</u>

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

Upon the repayment of the last installment of liabilities, the Company is entitled to the write-off of 30% and the total of interest accrued until September 30, 2003.

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

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28. SHORT-TERM FINANCIAL LIABILITIES

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
<i>In foreign currencies</i>		
Current portion of long-term loans	4,159,913	3,792,213
Long-term loans from domestic banks in bankruptcy falling due within a year	<u>1,463,669</u>	<u>1,633,909</u>
	<u>5,623,582</u>	<u>5,426,122</u>
<i>Liabilities in dinars:</i>		
Current portion of long-term loans	443,037	993,334
Current portion of other non-current liabilities	957,217	1,510,041
Long-term loans from domestic banks in bankruptcy due within one year	65,000	65,000
Short-term loans from domestic banks in bankruptcy	287,110	35,110
Liabilities arising from subscribed but unpaid investments	25,000	190,413
Other	<u>119,978</u>	<u>998</u>
	<u>1,897,342</u>	<u>2,794,896</u>
Other short-term financial liabilities:		
- to banks in bankruptcy	1,278,469	1,245,704
- to other banks	<u>1,943</u>	<u>2,231</u>
	<u>1,280,412</u>	<u>1,247,935</u>
	<u>8,801,336</u>	<u>9,468,953</u>

29. ACCOUNTS PAYABLE

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Advances from customers	1,273,844	545,220
Accounts payable:		
- non-consolidated subsidiaries	26,972	443,656
- domestic suppliers	8,286,235	5,433,840
- foreign suppliers	4,870,485	4,430,403
- Public Enterprise Elektromreža Srbije	1,785,319	683,498
Liabilities for radio television subscriptions	9,464,335	5,002,919
Other accounts payable	<u>378,666</u>	<u>279,420</u>
	<u>26,085,856</u>	<u>16,818,956</u>

The liability towards the Public Enterprise "Elektromreže Srbije" was recognized based on the fee for the access and the use of electricity transmission system.

For the purpose of the acquisition of equipment, spare parts, production material and services necessary to achieve conditions for technical and technological unity of the energy supply system in the Republic, harmonized development of electricity related activities, rational and effective exploitation of natural resources and continued supply of customers with the electricity, EPS recognized the liabilities towards creditors in the country and abroad. A portion of domestic and foreign commitments will be settled from the loan funds as stated in Note 26, and the liability towards the Electric Power Industry of Montenegro of RSD 2,578, 000 thousand was settled by compensations subsequent to the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

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30. OTHER CURRENT LIABILITIES AND ACCRUALS

	December 31, 2007	December 31, 2006
Matured borrowings from the Ministry of Finance of the Republic of Serbia	905,311	905,311
Interest and financing costs accrued	2,296,963	2,220,797
Net salaries and contributions	816,525	2,323,797
Taxes and contributions on salaries payable	689,589	1,468,732
Liabilities for power exchange	97,362	74,982
Other liabilities	75,430	151,056
Deferred income from donations	13,677,239	13,288,098
Other accruals	256,172	182,368
	18,814,591	20,615,141

Based on an agreement entered into with the Republic of Serbia Ministry of Finance in 2001, the Company received loans from the Government in order to assist in financing its maintenance and repair activities. In 2002, the Company repaid RSD 1.5 billion of the total initial amount of RSD 3.1 billion. This loan was extended with a maturity expiring at December 31, 2001, at an interest rate based on the NBS discount rate. On October 18, 2006 the Company and the Ministry of Finance of the Republic of Serbia executed the Cession Agreement by which the Company's receivables from the entity "Odbrambena industrija Srbije" were ceded, by which the Company's portion of liabilities in the amount of RSD 667,431 thousand to the Republic of Serbia Ministry of Finance was settled.

In addition, the aforementioned loans accrued interest in previous period at rate commensurate with the NBS prime rate since the Company did not receive from the Ministry of Finance such computation of interest. On November 30, 2006 the Company executed the Decision on reconciliation of mutual receivables and payables with the Ministry of Finance of the Republic of Serbia numbered I-175/28, by which it was determined that the Company has no liabilities based on the aforementioned interest accrued. Accordingly, the Company wrote off the accrued interest liabilities in the amount of RSD 976,288 thousand, as presented within the line item of other income (Note 13).

The liabilities arising from interest and cost of financing as of December 31, 2007 include the following:

- Interest accrued on the loan from the People's Republic of China realized via domestic banks in bankruptcy amounting to RSD 852,070 thousand.
- Interest accrued based on other short-term financial liabilities towards domestic banks in bankruptcy totaling RSD 167,349 thousand (Note 28),
- Interest accrued on the electricity acquired through the exchange with other energy supply systems abroad in the amount of RSD 97,361 thousand,
- Interest accrued on the loans obtained from the European Bank for Reconstruction and Development in the amount of RSD 83,103 thousand,
- Interest accrued pursuant to the ruling of the Commercial Court in Belgrade based on the legal suit of Beobanka seeking the amount of RSD 196,534 thousand.

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30. OTHER CURRENT LIABILITIES AND ACCRUALS (Continued)

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

31. VALUE ADDED TAX AND OTHER DUTIES PAYABLE

	December 31, 2007	December 31, 2006
Value added tax	3,233,774	2,359,456
Sales taxes	-	841
Fees for environmental use and protection of water resources, municipal land and other public resources	206,511	278,554
Other	673,580	390,711
	4,113,865	3,029,562

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

32. OFF-BALANCE SHEET ITEMS

	2007	2006
Estimated war damages	4,629,294	5,024,160
Liabilities for guarantees issued and other forms of securities against JP EPS liabilities of	2,988,781	2,100,925
Ceded buildings of social standard	392,929	392,929
Blanco solo bills issued	21,709,465	22,424,029
Written-off equity investments	825,265	821,009
Deferred tax assets	4,789,964	1,351,221
Other off-balance sheet items	8,963,430	7,265,378
	44,299,128	39,379,651

33. CONTINGENT LIABILITIES

Litigations

As of December 31, 2007, the estimated amount of potential damages arising from litigations filed against the Company totaled RSD 3,138,190 thousand (December 31, 2006: RSD 3,376,732 thousand). The amount of potential final losses arising on litigation may be increased by the amount of penalty interest up to the date of the conclusion of such legal proceedings, or up to the date of final settlement. As of December 31, 2007, the Company recognized a provision for potential losses arising from litigation in the amount of RSD 666,768 thousand (December 31, 2006: RSD 580,508 thousand).

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33. CONTINGENT LIABILITIES (Continued)

Litigations (Continued)

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

Environmental Protection

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

34. OPERATING RISKS

Foreign Exchange Risk

The Company enters into foreign currency transactions in connection with the purchase of equipment and the settlement of sales revenue and expenses. In addition, a significant portion of the Company's borrowings is denominated in foreign currencies. In the absence of an active market, the Company does not use financial hedging instruments in an effort to decrease its foreign exchange exposure.

Interest Rate Risk

The exposure to interest rate risk relates to the possibility that the value of the Company's debts will fluctuate due to the changes in market interest rates. As of December 31, 2007 and 2006, the Company's total interest-bearing loans represent more than half of the Company's total liabilities. In the absence of an active market, the Company does not use financial hedging instruments in an effort to decrease its interest rate exposure.

Credit Risk

The Company is exposed to credit risk in the instances in which its customers default on their obligations. The Company's exposure to credit risk is limited to the carrying value of accounts receivable and other receivables. Accounts receivable correspond to a significant number of customers and have normal credit terms, and thus, the individual concentrations of credit risk are not considered significant. Accounts and other receivables are presented in the accompanying consolidated financial statements net of allowances for bad and doubtful receivables, which are estimated by the Company' management based on historical experience and present economic conditions.

Taxation Risks

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

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35. LOSSES OF ELECTRICAL POWER

Throughout the normal course of business, the Company incurs substantial technical and non-technical losses of electrical power. Technical losses arise upon the transmission of electricity, as well as upon the change from one voltage to another. Non-technical losses represent the electricity consumed by customers which the Company is unable to identify and invoice. For the year ended December 31, 2007, the Company's management has estimated the total loss of electricity of 14.17% or 4,456 GWh (FY 2006: 4.91% or 4,430 GWh) which represents the total difference between purchased and sold electricity and includes technical and non-technical losses. Pursuant to the management's assessment, electricity thefts participate 1.5 to 2% in the total losses in distribution.

36. COMMITMENTS

As of December 31, 2007 the Company's commitments based on the agreed-upon investments were as follows:

<u>Supplier</u>	<u>Contracted Value</u>	<u>Realized up to December 31, 2006</u>	<u>Commitments</u>
MINEL Elektrogradnja DV	516,482	271,254	245,228
Simens ag	2,704,963	1,716,158	988,805
GOŠA FOM	2,424,628	981,529	1,443,099
VA Tach Hydro GmbH	5,193,502	-	5,193,502
Takraf GmbH	744,820	51,469	693,351
GOŠA FOM	87,160	-	87,160
GOŠA Montaža	134,702	24,470	110,232
Engineering Dobersek and Möller Materials Handling GmbH	1,862,797	82,189	1,780,608
ThyssenKrupp Fördertechnik GmbH	652,157	-	652,157
MAG Intertrade Holding	349,268	-	349,268
ThyssenKrupp Fördertechnik GmbH	1,768,552	166,232	1,602,320
Sagem somunication	378,199	365,770	12,429
MAN TAKRAF Fördertechnik GmbH	570,501	80,880	489,621
FAM	2,720,179	111,609	2,608,570
MAN TAKRAF Fördertechnik GmbH	586,348	219,663	366,685
Telefonija ad	158,963	73,169	85,794
ABB Automation GmbH	292,037	43,914	248,123
	<u>21,145,258</u>	<u>4,188,306</u>	<u>16,956,952</u>

In addition to the aforescribed, JP EPS executed agreements for the purpose of acquiring property, plant and equipment for the account of the Public Enterprise "Elektromreža Srbija," a legal successor of the Public Enterprise "Elektroistok" which operated within EPS until June 30, 2005, which amounted to RSD 1,084,777 thousand as of December 31, 2007. The process of amending the agreement signed with the suppliers of goods and services, as well as with the international financial organizations is underway, given that acquisitions for the benefit and account of the Public Enterprise "Elektromreža Srbija," are financed from the international loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

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37. TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES

Unconsolidated subsidiaries include the enterprise Kolubara d.o.o., Srpsko Sarajevo, which is fully-owned by the Company, and enterprises on the territory of Kosovo and Metohija (JP Termoelektrana "Kosovo", Obilić, JP Rudnik uglja "Kosovo", Obilić and JP "Elektrokosmet", Priština), over which business the Company has not had administrative and managerial control from the year 1999.

a) Unconsolidated subsidiaries under the Company's control

Balance Sheet

	December 31, 2007	December 31, 2006
<i>Equity investments</i>		
- Kolubara d.o.o., Srpsko Sarajevo	218	218
	218	218
Total receivables	-	218
<i>Accounts receivable</i>		
Total payables	-	-
Receivables, net	218	218

Within long-term financial placements and short-term financial liabilities, the Company also presented subscribed but unpaid contributions, i.e., the liabilities thereof, as presented in the following table:

	December 31, 2007	December 31, 2006
<i>Liabilities for subscribed, but unpaid capital</i> (Note 28)		
a) Investments in unconsolidated subsidiaries		
- Kolubara Metal d.o.o., Vreoci	-	834,953
- Toplifikacija d.o.o., Lazarevac	-	47,939
	-	882,892
b) Investments transferred to the Republic of Serbia		
Government		
- Kolubara Usluge d.o.o., Lazarevac	-	90,000
- EDB Javno osvetljenje d.o.o., Beograd	25,000	50,205
- Elektrodistribucija izgradnja d.o.o., Beograd	-	15,558
	25,000	155,763
	25,000	1,038,655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

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37. TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES (Continued)

Investments transferred to the Republic of Serbia Government relate to the investments transferred in 2005 at no cost and relate to equity investments in subsidiaries whose primary business activities are not directly involved in the transmission and distribution of electricity. According to the provisions of its founding acts, the Company is obliged to settle subscribed, but unpaid capital in the period of several years. The Company's management believes that remaining portion of these liabilities will be addressed in the following years.

b) Unconsolidated subsidiaries from the territory of Kosovo and Metohija

Balance Sheet

	December 31, 2007	December 31, 2006
Long-term financial placements	-	528
Receivables	871,668	873,884
	871,668	874,412
Allowance for impairment:		
- long-term financial placements	-	(528)
- accounts receivable	(871,668)	(871,668)
	(871,668)	(872,196)
Accounts payable	(26,972)	-
Receivables and payables, net	(26,972)	2,216

Income Statements

	2007	2006
Income from the sale of services	-	231
	-	231
Expenses based on other services	-	(127,178)
Staff costs and other operating expenses	(3,701,412)	(4,040,903)
	(3,701,412)	(4,168,081)
Expenses, net	(3,701,412)	(4,167,850)

38. POST BALANCE SHEET EVENTS

a) Discounts Granted

Following the balance sheet, the Board of Directors enacted a Decision on granting a discount in the amount of 35% price effective from March 2008 to the following customers:

- A tariff customer – beneficiary of financial support entitled to a decrease in price by certain tariff components for the element of “active energy” for the monthly consumption which does not exceed 450 kWh; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (ADJUSTED)

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38. POST BALANCE SHEET EVENTS (Continued)

a) Discounts Granted (Continued)

- To a tariff customer with inadequate means of support, the Company allows a decrease in the tariff based on the rational consumption ("green zone") for the tariff element of "active energy" for the monthly consumption that does not exceed 350 kWh.

b) Relations with the Public Enterprise Elektromreža Srbije

In accordance with the acts of the Energy Agency of the Republic of Serbia enacted with the consent of the Government of the Republic of Serbia (Decision on the Methodology for Determining the Tariff Elements for Calculating the Fee for Access to and Use of Electricity Transmission System, "Official Gazette of RS" numbers 68/06 and 18/07), the Public Enterprise Elektromreže Srbije from Belgrade bills the business entities involved in the distribution of electricity, given that justified operating expenses incurred in performing the aforementioned activity also include the cost of services for the use of electricity transmission system.

In addition, for all costs of system services performed that include costs of services of regulating the frequency and exchange power (primary, secondary and tertiary regulations) and regulation of voltage and reactive power, as well as for the absorption of loss incurred in the transmission system in accordance with the Decision on the Methodology for Determining the Tariff Elements for Calculating the Fee for Access to and Use of Electricity Transmission System "Official Gazette of RS" numbers 68/06 and 18/07), the Company will charge the Public Enterprise "Elektromreže Srbije," Belgrade.

c) Change of the Legal Form

After the balance sheet date, the Owner intends to change the legal form of the Public Company. Namely, pursuant to the Law providing for the rights to shares free of charge and monetary compensation payable to citizens in the privatization procedure ("Official Gazette of RS" number 123/07), citizens are entitled to the monetary compensation based on the sale of shares or equity investments recorded in the Privatization Registry maintained in accordance with the Law on Privatization ("Official Gazette of RS" numbers 38/01, 18/03 and 45/05) and transfer of shares of the company and business entities provided for in this law free of charge (hereinafter: "share transfer"). The holders of rights are entitled to the distribution of shares free of charge (hereinafter: "free shares") in the Public Company "Electric Power Industry of Serbia," Belgrade, i.e., to the distribution of shares issued by the companies working in public interest, where the capital for the acquisition of shares free of charge amounted to 15% of the core capital of each company.

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38. POST BALANCE SHEET EVENTS (Continued)

c) Change of the Legal Form (Continued)

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

The transfer of shares to employees and former employees of a company is to be executed within six months upon the privatization of the company at issue pursuant to the Government act. The final date for the registration of citizens entitled to the monetary compensation and transfer of shares free of charge and employees and former employees in JP EPS is set to be July 30, 2008.

d) Company Establishment

Following the balance sheet date, on March 6, 2008, the Company's Board of Directors enacted a Decision on Joint Investment in the establishment of a company for the construction of hydro-electric plants, generation and trade in electricity "Hidroelektrane Gornja Drina", d.o.o. Foča, located in the Republic of Srpska, Bosnia and Herzegovina with the following strategic partners:

- Mixed Holding "Electric Power Utility of the Republic of Srpska" – Parent Shareholding Company domiciled in the Republic of Srpska, Trebinje and
- A Subsidiary of Mixed Holding Power Utility of the Republic of Srpska, Trebinje - "Hidroelektrane na Drini," a shareholding company domiciled in Višegrad, the Republic of Srpska, Višegrad.

Based on the monetary contribution in the core capital of the newly established company, JP EPS will acquire a 50% equity stake in the start-up (the total of CM 100,000), while the remaining founders will become owners of 25% equity stake each. Prior to the issuance of Decision, the RS Government granted its consent to the investment of the JP EPS capital into the start-up (Official Gazette of RS number 29/08). The establishment of a new entity is expected to cover a portion of a lacking electricity of JP EPS and to enable optimal management of the upper part of the Drina River, whereby the expenses that are incurred upon securing reserves of power in the exploitation of both electric power systems will decrease and electricity surplus will be sold under most favorable conditions.

In addition to the aforementioned, in the reporting period, the Company and the City of Novi Sad both showed great interest for the establishment of a partnership relation reflected in the establishment of a joint company, whose capital increase would provide for the funds necessary for the reconstruction of the existing plant, i.e., for the construction of a new plant for combined production of thermal and electric energy. The partners-to-be harmonized the draft of the Agreement on the Establishment of a Company for Combined Production of Thermal and Electric Energy "Energija Novi Sad" a.d. Novi Sad.

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38. POST BALANCE SHEET EVENTS (Continued)

d) Company Establishment (Continued)

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

e) Agreement on the Non-Repayable Financial Assistance

Following the balance sheet date, and based on the Preliminary Agreement between SRY and the EU Commission, an Agreement was closed with the European Agency for Reconstruction regarding the non-repayable financial assistance of EUR 28 million necessary for creating the ash removal system in the Thermal Power Plant Nikola Tesla, block B.

f) Methodologies Used to Determine the Tariff Elements for Computation of Electricity Fee

In 2006, pursuant to the Energy Law, the Energy Agency of the Republic of Serbia enacted methodologies applied in determining tariff factors influencing the price of electricity produced, price of electricity charged to the tariff consumers, the prices of access to and use of electricity transmission and distribution system by applying the "expense plus" regulation methodology, in effect from April 1, 2008. The methodology is used to determine the cap of revenue realized in the regulation period, i.e., the price covering the justifiable operating costs incurred by EPS and its subsidiaries engaged in generation of electricity, electrical and heating power in the combined process, wholesale and retail of electricity, and recovery of the assets engaged in electricity and thermal power generation.

g) Liabilities towards Banks in Bankruptcy

The repayment of loans from foreign creditors, realized via domestic banks now in bankruptcy, and other loans from these banks was suspended in the period from 1992, when the United Nation sanctions were imposed, until the beginning of 2002, which is when the bankruptcy and liquidation proceedings were initiated in these banks. The Company's management reached an agreement with the relevant banks in bankruptcy, with the consent of the Deposit Insurance Agency, that the debts which JP EPS had towards the banks in bankruptcy be calculated pursuant to the "Program of the RS Government for settling internal debts" dating from 2001, and in accordance with the aforementioned Program, a significant portion of debt was written off and the balance of the amounts owed by EPS and its subsidiaries towards the banks in bankruptcy was reconciled as of March 31, 2008. Individual agreements were signed with Beogradska banka AD Beograd – in bankruptcy, Beobanka AD Beograd – in bankruptcy, Investbanka AD Beograd – in bankruptcy and Jugobanka AD Beograd – in bankruptcy on July 24, 2008 with the consent of the Deposit Insurance Agency. The total amount of debt outstanding amounted to EUR 18,995,257, USD 23,274,278 and RSD 549,661 thousand to be repaid in 12 - 36 installments, with no more than 12-month grace period and interest in the amount of 1% - 8.5%. The loans are securitized by blank solo bills issued.

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38. POST BALANCE SHEET EVENTS (Continued)

h) International Financial Reporting Standards

On February 12, 2008, the Ministry of Finance of the Republic of Serbia enacted a Decision on the issuance of International Financial Reporting Standards whereby a translation of effective International Financial Reporting Standards and International Accounting Standards issued by the International Financial Reporting Interpretations Committee Foundation whereby conditions for the mandatory application of IAS and IFRS have been achieved.

39. EXCHANGE RATES

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

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
USD	53.7267	59.9757
EUR	79.2362	79.0000
GBP	107.3080	117.8577
CHF	47.8422	49.1569

On behalf of the management:

General Manager
Vladimir Đorđević, PhD