

**PUBLIC ENTERPRISE,
ELEKTROPRIVREDA SRBIJE**

**Independent Auditors' Report
and Consolidated Financial Statements
Year Ended December 31, 2005**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Public Enterprise, Elektroprivreda Srbije

1. We have audited the accompanying consolidated financial statements of the Public Enterprise Elektroprivreda Srbije [the Electric Power Company of Serbia (hereinafter: the "Company" or "EPS")] and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.
2. We have previously audited the Company's consolidated financial statements for the year ended December 31, 2004 and in our report dated June 16, 2005 expressed a qualified opinion due to the following matters: a) the recognition of own-work capitalized; b) the adequacy of the valuation of land, property, plant and equipment; c) the valuation of inventories of materials and spare parts; d) the valuation and completeness of stated donations; e) the lack of respective land restoration provisions; f) the potential effects of the capitalization of land expropriation expenses; g) the lack of the consolidated financial statements of certain subsidiaries whose primary business activities are not directly involved in the generation and distribution of electricity; h) the valuation of net receivables from public enterprises situated in the Autonomous Province of Kosovo and Metohija; i) the lack of provisioning for employee retirement benefits and employment anniversary awards, as well as the corresponding disclosures as required under IAS 19, "Employee Benefits;" and j) the lack of associated disclosures as required under IAS 12, "Income Taxes," IAS 24 "Related Party Disclosures" and IAS 16, "Property, Plant and Equipment."
3. Except as described in paragraphs four and five, we conducted our audit in accordance with the International Standards on Auditing issued by the International Federation of Accountants and the Accounting and Audit Law of the Republic of Serbia. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
4. As disclosed in Note 30 to the consolidated financial statements, other current liabilities and accruals include deferred income from donations received in the amount of Dinar 12,865,076 thousand as of December 31, 2005. Owing to the nature of the Company's records with respect to the donations received, and based on documentation and information made available to us, we were unable to satisfy ourselves as to the valuation and completeness of the deferred income as of December 31, 2005, and of the amount of Dinar 928,837 thousand recorded as amortization of deferred income in the Statement of Income for the year ended December 31, 2005.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Public Enterprise, Elektroprivreda Srbije (Continued)

5. The accompanying consolidated financial statements do not include the financial statements of certain subsidiaries whose primary business activities are not directly involved in the generation and distribution of electricity. As disclosed in Notes 14 and 16 to the consolidated financial statements, during 2005 these equity investments were transferred to the Government of the Republic of Serbia. We were unable to quantify the effects of this matter on the accompanying consolidated financial statements. In addition, as disclosed in Note 3.1 to the consolidated financial statements, the accompanying consolidated financial statements include the results of operations of JP Elektroistok, Beograd in the period from January 1 through June 30, 2005 and its net loss incurred in the amount of Dinar 281,272 thousand. We have not audited the financial statements of this entity for the aforementioned period.
6. In accordance with the relevant regulations of the Republic of Serbia with respect to mining and environmental protection, the Company has an obligation to restore the coal quarry sites upon the completion of quarrying operations. The accompanying consolidated financial statements do not include the related land restoration provisions. We were unable to quantify the effects of this matter on the accompanying consolidated financial statements, since an assessment of the required future costs related to restoration was not available.
7. As disclosed in Notes 3.2 and 15 to the consolidated financial statements, the carrying value of land in the amount of Dinar 6,287,832 thousand as of December 31, 2005 represents the value determined in accordance with the previously-effective accounting regulations of the Republic of Serbia, and was not a subject of fair value appraisal by an independent appraiser, upon the Company's transition to the new accounting regulations of the Republic of Serbia. Based on the documentation and information made available to us, we were unable to quantify the potential effects of this matter on the carrying value of land as of December 31, 2005.
8. As disclosed in Note 10 to the consolidated financial statements, land expropriation expenses presented in the Statement of Income for the year ended December 31, 2005 amounted to Dinar 1,188,443 thousand. Since the Company will derive future economic benefits from quarries on the expropriated land, in our opinion, these expenses should have been capitalized and amortized to the Statement of Income for the year ended December 31, 2005, in line with the consumption of the estimated resources. We were unable to quantify the effects of this matter on the accompanying consolidated financial statements.
9. The accompanying consolidated financial statements do not include provisions for long-term employee benefits with respect to employee retirement and employment anniversary awards in accordance with IAS 19, "Employee Benefits." We were unable to quantify the effects of this departure from IAS 19, on the accompanying consolidated financial statements.
10. The accompanying consolidated financial statements do not include adequate disclosures as required under: IAS 12, "Income Taxes," IAS 24 "Related Party Disclosures," and IAS 16, "Property, Plant and Equipment." The Company has not made disclosures explaining: the difference between income tax and accounting profit, the amounts, and expiry dates of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognized in the Balance sheet, its related parties and transactions with related parties, and capital expenditure commitments.
11. Certain information presented in the Consolidated Statement of Cash Flows has not been reconciled with the amounts presented in the Company's Consolidated Balance sheet as of December 31, 2005 and 2004, as well as in the Consolidated Statements of Income and Consolidated Changes in Equity for the year ended December 31, 2005. Accordingly, we do not express an opinion on the Statement of Cash Flows.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Public Enterprise, Elektroprivreda Srbije (Continued):

12. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary, had we been able to satisfy ourselves as to the matters described in paragraphs four and five, and except for the matters in paragraphs six to eleven, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Public Enterprise Elektroprivreda Srbije as of December 31, 2005, and the consolidated results of its operations and changes in equity for the year then ended, in accordance with the accounting regulations applicable in the Republic of Serbia.

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

13. There are substantial uncertainties that affect the Company's accounting, financial position and operations. These uncertainties include, among other matters, 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 the incomplete power plants (Note 15 to the consolidated financial statements), the significant liabilities associated with borrowings whose repayment has been suspended or significantly amended subsequent to the introduction of United Nations' sanctions in 1992 (Notes 25 and 27 to the consolidated financial statements), the breach of covenants and compliance with loan agreements (Note 25 to the consolidated financial statements), the significant potential damages in connection with various litigation filed against the Company (Note 32 to the consolidated financial statements), in addition to other assumptions and factors influencing the Company's decision to not record liabilities in respect of the use of mineral resources and additional liabilities with respect to contributions for benefit covered employment services (Note 32 to the consolidated financial statements). The ultimate resolution of uncertainties may result in future accounting adjustments, and such adjustments could be material to the Company's financial position and results of operations.
14. The Company executed an agreement on the additional write-off of debt based on the loans originated by the Paris Club of Creditors. The effects of this write-off are not included in the accompanying consolidated financial statements (Note 35 to the consolidated financial statements).
15. The Company charged to the Statement of Income for the year ended December 31, 2005, the effects of the transfer of equity investments in the subsidiaries, whose primary business activities are not directly involved in the generation and distribution of electricity. These investments were transferred to the Government of the Republic of Serbia at no cost (Note 14 to the consolidated financial statements).
16. The amount of the state-owned capital as presented in the consolidated financial statements is not reconciled with the capital of the parent company inscribed in the Republic of Serbia Commercial Register Agency (Note 23 to the consolidated financial statements).
17. In January 2006 the EPS consolidated public enterprises were reorganized, and their legal form was changed (Note 35 to the consolidated financial statements).

The logo for Deloitte d.o.o. is written in a blue, cursive script. The word "Deloitte" is in a larger font, and "d.o.o." is smaller and positioned to the right.

Deloitte d.o.o.

Belgrade

June 16, 2006

CONSOLIDATED STATEMENT OF INCOME
Year Ended December 31, 2005
(Thousands of Dinars)

	<u>Notes</u>	<u>2005</u>	<u>2004</u>
OPERATING INCOME			
Revenue	5	84,027,305	71,713,350
Own-work capitalized		2,899,192	3,188,886
Increase in the inventories of work in progress and finished goods		468,847	68,129
Other operating income	6	<u>3,858,700</u>	<u>2,988,179</u>
		<u>91,254,044</u>	<u>77,958,544</u>
OPERATING COSTS AND EXPENSES			
Cost of goods sold		216,516	131,122
Cost of materials, energy and fuel	7	17,794,497	14,970,825
Staff costs	8	24,261,459	21,535,206
Depreciation, amortization and provisions	9	17,373,900	18,144,315
Other operating expenses	10	<u>20,168,379</u>	<u>15,392,915</u>
		<u>79,814,751</u>	<u>70,174,383</u>
NET OPERATING INCOME		11,439,293	7,784,161
Finance income	11	7,756,483	6,084,516
Finance expenses	12	(16,191,936)	(10,491,043)
Other income	13	18,713,555	2,956,084
Other expenses	14	<u>(20,695,949)</u>	<u>(13,475,717)</u>
PROFIT/(LOSS) BEFORE TAXATION		1,021,446	(7,141,999)
Income taxes		<u>627,604</u>	<u>(13)</u>
PROFIT/(LOSS) FOR THE YEAR		<u>393,842</u>	<u>(7,142,012)</u>

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

These consolidated financial statements were approved by the management and Board of Directors of the Public Enterprise, Elektroprivreda Srbije, Beograd and were duly submitted to the National Bank of Serbia, Center for Credit Worthiness.

Signed on behalf of the Public Enterprise, Elektroprivreda Srbije, Beograd:

Vladimir Đorđević, Ph.D.
General Director

Ratko Bogdanović
Director of Finance

Dragan Jonkić
Director of Accounting

CONSOLIDATED BALANCE SHEET
As of December 31, 2005
(Thousands of Dinars)

	<u>Notes</u>	<u>December 31, 2005</u>	<i>Restated</i> <u>December 31, 2004</u>
ASSETS			
Non-current assets			
Intangible assets	15	2,031,464	1,967,111
Property, plant and equipment	15	380,614,261	429,439,400
Equity investments	16	2,557,901	1,553,719
Non-current receivables and placements	17	4,610,497	992,195
		<u>389,814,123</u>	<u>433,952,425</u>
Current assets			
Inventories	18	15,045,620	14,974,288
Accounts receivable and other current receivables	19	21,285,759	16,817,728
Short-term financial placements	20	5,497,272	1,900,417
Cash and cash equivalents	21	9,272,492	6,456,417
Value added tax and prepayments	22	2,057,944	190,434
		<u>53,159,087</u>	<u>40,339,284</u>
Deferred tax assets		<u>157,231</u>	<u>1,448,642</u>
Total assets		<u>443,130,441</u>	<u>475,740,351</u>
EQUITY AND LIABILITIES			
Equity	23		
State-owned capital		358,324,022	378,066,867
Other capital funds		1,622,560	1,657,807
Revaluation reserves		24,394	-
Accumulated losses		(38,214,734)	(26,280,325)
		<u>321,756,242</u>	<u>353,444,349</u>
Long-term provisions	24	<u>665,097</u>	<u>514,499</u>
Non-current liabilities			
Non-current interest-bearing borrowings	25	45,466,732	40,924,688
Other non-current liabilities	26	7,258,934	7,191,644
		<u>52,725,666</u>	<u>48,116,332</u>
Current liabilities			
Current interest-bearing borrowings and other current financial liabilities	27	14,239,138	20,827,272
Accounts payable	28	11,068,626	8,393,244
Value added tax and other duties payable	29	2,906,968	1,437,747
Other current liabilities and accruals	30	22,202,014	23,604,975
		<u>50,416,746</u>	<u>54,263,238</u>
Deferred tax liabilities	31	<u>17,566,690</u>	<u>19,401,933</u>
Total equity and liabilities		<u>443,130,441</u>	<u>475,740,351</u>

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

PUBLIC ENTERPRISE ELEKTROPRIVREDA SRBIJE

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2005
(Thousands of Dinars)

	State-Owned Capital	Other Capital Funds	Revaluation Reserves	Accumulated Losses	Total
Balance at January 1, 2004 subsequent to the IFRS transition adjustments	378,066,867	1,657,807	-	(34,804,180)	344,920,494
Loss for the year	-	-	-	(7,142,012)	(7,142,012)
Decrease in deferred tax assets	-	-	-	(1,309,697)	(1,309,697)
Decrease in deferred tax liabilities	-	-	-	8,013,651	8,013,651
Other	-	-	-	72,898	72,898
Balance at December 31, 2004	378,066,867	1,657,807	-	(35,169,340)	344,555,334
Balance at January 1, 2005, before adjustments	378,066,867	1,657,807	-	(35,169,340)	344,555,334
Opening balance adjustments	-	-	-	8,889,015	8,889,015
Balance at January 1, 2005, adjusted	378,066,867	1,657,807	-	(26,280,325)	353,444,349
Adjustment to property, plant and equipment based on the independent appraiser's report	-	-	-	(130,655)	(130,655)
Effects of the appraisal of property, plant and equipment transferred to subsidiaries	-	-	-	143,377	143,377
Separation of JP Elektroistok, Beograd as of June 30, 2005	(21,590,587)	(33,582)	-	(10,643,958)	(32,268,127)
Segregation of property and obligations with the JP Elektromreža Srbije, Beograd	1,847,718	-	-	-	1,847,718
Profit for the year	-	-	-	393,842	393,842
Decrease in deferred tax assets	-	-	-	(1,291,411)	(1,291,411)
Increase in deferred tax liabilities	-	-	-	(330,238)	(330,238)
Other	24	(1,665)	24,394	(75,366)	(52,613)
Balance at December 31, 2005	358,324,022	1,622,560	24,394	(38,214,734)	321,756,242

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

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2005
(Thousands of Dinars)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Sales and advances from customers	78,942,734	56,512,371
Other operating inflows	6,034,828	4,309,204
Extraordinary items	987,236	989,674
Payments to suppliers	(34,501,389)	(12,997,235)
Payments to and on behalf of employees	(24,265,594)	(22,302,109)
Interest paid	(5,504,778)	(52,475)
Income tax paid	-	(119)
Other taxed and duties paid	(10,330,557)	(13,403,928)
Other operating outflows	<u>(1,640,491)</u>	<u>(2,246,494)</u>
<i>Net cash from operating activities</i>	<u>9,721,989</u>	<u>10,808,889</u>
Cash flows from investing activities		
Sales of shares and investments (net inflows)	6,580	-
Sales of property, plant, equipment and intangible assets	4,068	561
Other financial placements (net inflows)	116,000	10,008
Interest received	5,343,857	5,278,318
Acquisition of shares and investments (net outflows)	(229,593)	-
Purchases of property, plant, equipment and intangible assets	(8,139,371)	(10,833,627)
Other financial placements (net outflows)	(2,494,128)	(113,735)
Interest paid	<u>(91,319)</u>	<u>(1,363,606)</u>
<i>Net cash used in investing activities</i>	<u>(5,483,906)</u>	<u>(7,022,081)</u>
Cash flows from financing activities		
Short-term and long-term borrowings (net inflows)	703,374	621,505
Other short-term and long-term liabilities	116,049	41,070
Treasury shares and investments	(113,166)	-
Short-term and long-term borrowings and other liabilities (net inflows)	<u>(2,332,628)</u>	<u>(4,604)</u>
<i>Net cash (used in)/from financing activities</i>	<u>(1,626,371)</u>	<u>657,971</u>
Net increase in cash and cash equivalents	2,611,712	4,444,779
Cash and cash equivalents, beginning of year	6,456,417	2,011,638
Foreign exchange gains on translation	209,958	-
Foreign exchange losses on translation	<u>(5,595)</u>	<u>-</u>
Cash and cash equivalents, end of year	<u><u>9,272,492</u></u>	<u><u>6,456,417</u></u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

1. ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE

In accordance with Article 171, Paragraph 1 of the Law on Power and Energy ("Official Gazette of the Republic of Serbia," numbered 84/04), at its parliamentary session convened 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 numbered 05 023-396/2005-1 with regard to the Foundation of a Public Enterprise involved in the Generation, Transmission and Sale of Electricity, Elektroprivreda Srbije and,
- Decision numbered 05 023-397/2005-1 with regard to the Foundation of a Public Enterprise involved in Power Transmission and the Management of the Electrical Power System, Elektromreža Srbije.

The Public Enterprise involved in the generation, transmission and sale of electricity, Elektroprivreda Srbije, Beograd (hereinafter: the "Company" or "Elektroprivreda Srbije" or "EPS") is domiciled in the Republic of Serbia at the registered street address of Carice Milice 2. The Elektroprivreda Srbije commenced its business activities on July 1, 2005 pursuant to decision numbered BD 80380/2005 of the Commercial Register Agency, and on the same date, it assumed all of the assets, rights, obligations and employees of the JP EPS sa p.o., which was established in accordance with the Law regulating the Electric Power Industry ("Official Gazette of the Republic of Serbia," numbered 45/91), with the exception of the portion of assets and liabilities which are assumed by:

- An entity involved in Power Transmission and Management of the Electrical Power System, Elektromreža Srbije that was established in accordance with the Order of the Government of the Republic of Serbia, and
- An entity involved in the Subterranean Mining of coal, Rudnik Kovin d.o.o., Kovin, Cara Lazara 85, subscribed into the Commercial Register Agency by decision numbered 80374/2005 of July 1, 2005.

The Company has assumed all of the founders' rights in its subsidiaries, with the exception of the rights held in the Public Enterprise for the Distribution of Electrical Power, Elektroistok and in the entity, Elektroenergetski koordinacioni centar d.o.o. [Electric Power Coordination Center], such that the organization of work and business activities of the public subsidiary enterprises are harmonized 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 EPS' Board of Directors' resolutions, the Government of the Republic of Serbia approved the establishment of new commercial entities, for which more precisely, the legal (organizational) form has been changed. These newly-formed entities assume all of the assets, rights, obligations and employees in the Company's subsidiaries effective as of January 1, 2006 (the date of inscription into the Agency's Company Register, as further described below), with the exception of the portion of assets described in Note 8.

During the current reporting period, the Public Enterprise Elektroprivreda Srbije has control over all of its subsidiary companies, with the exception of the public enterprises situated in the autonomous region of Kosovo and Metohija (specifically involving three entities: the Public Enterprise for the Generation of Thermoelectric Power, TE Kosovo, the Public Enterprise for the Production, Processing and Transport of Coal, Kosovo, and the Public Enterprise for the Distribution of Electrical Power, Elektrokosmet, Priština). In June of 1999, the parent company lost managerial control over the aforementioned entities which, as of that date, have been under the administrative jurisdiction of the international community.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

1. ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE (Continued)

On June 30, 2005, in accordance with the provisions of the Law regulating the Electric Power Industry in the Republic of Serbia ("Official Gazette of the Republic of Serbia," numbered 45/91), the Elektroprivreda Srbije, a public enterprise involved in the generation, transmission and distribution of electrical power and coal was set up as a legal entity into which all of the electric power generation entities doing business in the Republic of Serbia, have been joined. The Public Enterprise Elektroprivreda Srbije has twenty-two subsidiary enterprises that are involved in: the generation of electrical power in both hydroelectric power and thermal power plants, the transmission and management of the transmission system, the distribution and management of the distribution system, and the sale of electricity and the mining of coal. Since January 1, 2006, these subsidiaries have operated as independent business entities.

Registered Name

The Company's legal, registered name is the Public Enterprise Elektroprivreda Srbije, with unlimited liability. The official, abbreviated name of the Company is: JP EPS, Beograd.

Legal Registration

The Company was registered pursuant to the Decision of the Commercial Register Agency of the Republic of Serbia.

Business Activities

EPS' principal business activities are involved in the sale of electricity, and in the generation of electrical power. EPS is also involved in the transmission and distribution of electricity, the management of the electrical power system, mining, processing and transport of coal, and in the production of steam and hot water in combined processes, which are performed in subsidiaries established by JP EPS for the aforementioned activities.

Form of Ownership

The Public Enterprise EPS operates as government-owned entity. The value of the state-owned ownership interest in the Company's capital is recognized in an amount equal to the value of the assets transferred to EPS, as adjusted for the amount of realized profits or incurred losses (referred to as the concept of "the maintenance of capital").

EPS' Governing Bodies

EPS' governing bodies are comprised of its Board of Directors (eleven members), a Supervisory Board (five members) and of a General Director appointed by the Government of the Republic of Serbia. Within the EPS headquarters situated in Beograd, there are five main offices (or "Directorates") and two administrative "Centers." EPS management is made up of the directors of the Directorates and Centers, the directors of the public entities, and of the individuals who perform the managerial responsibilities and activities in accordance with the EPS by-laws regulating the internal organization and systematization of its public enterprises. EPS' Board of Directors appoints and relieves from his/her duties, the president and the members of the Board of Directors as well as the general managers of other public enterprises comprising the EPS group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

1. ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE (Continued)

Board of Directors

By its resolutions, the 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 the technical, technological and economic synergies that bring about a well-integrated electrical power system.

Supervisory Board

The Supervisory Board oversees the work and operations of EPS and its subsidiaries, or the entities which it sets up. Moreover, the Supervisory Board reviews the financial statements and annual reports of such entities, providing its recommendations with regard to profit distributions.

General Director

The General Director legally represents EPS, and oversees and manages the Company's activities. The General Director enacts decisions, and is legally responsible for the Company's adherence and conformity with relevant regulations.

Organizational Structure

EPS is an electrical power company with a vertically-integrated organizational structure. In addition to its headquarters, there are twenty-two subsidiaries that comprise the Public Enterprise Elektroprivreda Srbije. Seven of these entities are involved in the generation of electrical power, three entities mine, process and transport coal, one entity transmits power, whereas eleven entities distribute the electricity that is generated. Effective as of June 1999, EPS no longer has control over its operations in the autonomous province of Kosovo and Metohija, and hence, it can no longer manage or utilize those power capacities.

- The related public enterprises that are engaged in electrical power generation are:
 1. Thermoelectric Plant, Nikola Tesla, Obrenovac
 2. Thermoelectric Plant, Kostolac, Kostolac
 3. Thermoelectric Plant, Kosovo, Obilić
 4. Thermoelectric Plant, Panonske elektrane, Novi Sad
 5. Hydroelectric Plant, Đerdap, Kladovo
 6. Hydroelectric Plant, Drinske hidroelektrane, Bajina Bašta
 7. Hydroelectric Plant, Limske hidroelektrane, Nova Varoš
- The related public enterprises that are engaged in coal mining activities are:
 8. Coal Mine Kolubara, Lazarevac
 9. Coal Mine Kostolac, Kostolac
 10. Coal Mine Kosovo, Obilić
- The related public enterprise that is engaged in the transmission of electrical power is:
 11. Elektroistok, Beograd (within EPS by June 30, 2006)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

1. ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE (Continued)

- The public enterprises that are involved in electrical power distribution are:
 12. Elektrodistribucija Beograd, Beograd
 13. Elektrošumadija Kragujevac, Kragujevac
 14. Elektrodistribucija Niš, Niš
 15. Elektrodistribucija Vranje, Vranje
 16. Elektrodistribucija Leskovac, Leskovac
 17. Elektrodistribucija Užice, Užice
 18. Elektrosrbija Kraljevo, Kraljevo
 19. Elektrotimok Zaječar, Zaječar
 20. Elektromorava Požarevac, Požarevac
 21. Elektrovojvodina Novi Sad, Novi Sad
 22. Elektrokosmet Priština, Priština

On January 1, 2006, the aforementioned public enterprises were reorganized and inscribed into the Commercial Register Agency as entities owned by the JP EPS (Note 35).

At December 31, 2005, EPS had 37,757 employees (December 31, 2004: 48,340 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

Pursuant to the Law on Accounting and Auditing (“Official Gazette of the Federal Republic of Yugoslavia,” numbered 71 of December 27, 2002), enterprises incorporated in the Republic of Serbia are required to maintain their books of account and to prepare financial statements in accordance with the principles set forth under the International Accounting Standards (IAS) that were applicable as of December 31, 2002. The aforesaid law prescribes the first-time adoption of International Financial Reporting Standards (IFRS) as of the period commencing January 1, 2004. Pursuant to the “Guidelines on the Contents of the Chart of Account for Enterprises, Cooperatives and Entrepreneurial Ventures” (“Official Gazette of the Republic of Serbia,” numbered 53 of May 14, 2004), the Company made reclassifications in its books of account to comply with the newly-enacted statutory chart of accounts for enterprises. The Company has made adjustments to its balance sheet as of December 31, 2003 that was prepared in accordance with the previously-applied Republic of Serbia accounting regulations, and has prepared an opening balance sheet as of January 1, 2004 so as to comply with the standards and interpretations approved by the International Accounting Standards Board (standards and interpretations that were effective as of January 1, 2002), which are now referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously known as International Accounting Standards (IAS).

The amendments to the IAS, as well as the newly-issued IFRS released subsequent to the adoption of the Law on Accounting and Auditing (December 27, 2002), were not published and officially enacted in the Republic of Serbia, and thus accordingly, have not been applied in the preparation of the accompanying consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

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

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

The accounting regulations applicable in the Republic of Serbia differ from the requirements of the IFRS and IAS applied in the Republic of Serbia in the following material respects:

- The accompanying consolidated financial statements are presented in the format prescribed by the “Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures” (the “Guidelines,” “Official Gazette of the Republic of Serbia,” numbered 75 of June 30, 2004), which in some respects differ from the presentation of certain amounts as required under IAS 1, “Presentation of Financial Statements.”
- In order to present the financial statements in accordance with the aforementioned Guidelines, the presentation of changes in deferred tax assets/(liabilities) is not in accordance with the requirements of IAS 12, “Income Taxes.”
- Since January 1, 2003, the IASB has made significant amendments to existing standards and issued new standards and interpretations that are applicable for reporting periods ending December 31, 2005. These amendments, new standards and interpretations include:
 - IFRIC 1 “Changes In Existing Decommissioning, Restoration And Similar Liabilities”;
 - goodwill (IFRS 3 “Business Combinations”);
 - excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost of acquisition (previously known as negative goodwill) (IFRS 3 “Business Combinations”);
 - IAS 24 “Related Party Disclosures”;
 - IAS 32 “Financial Instruments: Disclosure and Presentation” (revised 2003); and
 - IAS 39 “Financial Instruments: Recognition and Measurement” (revised 2003).
 - Amendments to IAS 1, requiring primarily the disclosure in the notes of the financial impact of standards in issue but not yet effective, critical accounting judgments and key sources of estimation uncertainty

The following standards and interpretations were also issued but not yet effective as at December 31, 2005:

- IFRS 6 “Exploration for and Evaluation of Mineral Resources”;
- IFRS 7 “Financial Instruments: Disclosures”;
- IFRIC 4 “Determining whether an Arrangement contains a Lease”;
- IFRIC 5 “Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”;
- IFRIC 6 “Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment”;
- IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies”; and
- IFRIC 8 “Scope of IFRS 2”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

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

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

The Company is currently analyzing the impact of these standards on its consolidated financial statements, if such financial statements were prepared in accordance with current applicable standards and interpretations of IFRS. In the preparation of these 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 (CSD). The dinar is the official reporting currency in the Republic of Serbia.

2.2. Comparative Figures

In accordance with IAS 8, "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies," the Company reconciled comparative figures for the effects of error adjustments, as disclosed in Note 4 to these financial statements. In addition, certain reclassifications have been made in the 2004 consolidated financial statements to conform to the current year presentation.

2.3. Use of Estimates

The presentation of the financial statements requires the Company's management to make best estimates and reasonable assumptions that effect the assets and liabilities amounts, as well as the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, and 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 financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1. Principles of Consolidation**

The consolidated financial statements represent the consolidation of the financial statements of twenty public enterprises comprising the Elektroprivreda Srbije. The intercompany balances and transactions arising amongst those enterprises have been eliminated in the process of consolidation. The financial statements of JP Elektroistok, Beograd are consolidated up to June 30, 2005, the date upon which this entity was separated from the EPS group, subsequent to the foundation of the JP Elektromreža Srbije. 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 years ended December 31, 2005 and 2004, 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 companies whose activities are not associated with the generation, transmission and distribution of electricity, have not been included into the accompanying consolidated financial statements. Investments in those companies are stated at historical cost for purposes of these financial statements.

3.2. 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. The internally-generated items of property, plant and equipment are recognized at cost, if their cost is lower than market value.

Upon the transition to IFRS effective as of January 1, 2004, an appraisal of property, plant and equipment was performed by an independent appraiser, and consequently, the value of property, plant and equipment was adjusted to fair value. 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.

The cost of land is based on the cost determined in accordance with the previously-effective accounting regulations applicable in the Republic of Serbia, and was not a subject of fair valuation by an independent appraiser upon the Company's transition to IFRS.

The borrowing costs incurred during the period of financing the acquisition of intangible assets are recognized as expenses.

The costs of the reconstruction of, and improvements to existing assets, which increase the capacity of, improve the quality of, or re-purpose such assets have been capitalized.

Gains on the disposal of property and equipment are credited directly to Other income, whereas any losses arising on the disposal of property, plant and equipment are charged to Other expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Depreciation and Amortization

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. The estimated useful lives of property, plant and equipment were determined by a certified appraiser for the assets presented as of January 1, 2004.

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

	<u>Years</u>	<u>Rates (%)</u>
Buildings at hydroelectric power plants	62 - 73	1.61% - 1.37%
Buildings at thermal power plants	35 - 45	2.86% - 2.22%
Buildings at coal mines	28 - 37	3.57% - 2.70%
Business premises, excluding the administrative and other buildings for commercial space, hotel management and tourism	70 - 85	1.43% - 1.18%
Equipment of hydroelectric power plants	35 - 45	2.86% - 2.22%
Equipment of thermal power plants	8 - 15	12.50% - 6.67%
Equipment of coal mines	15 - 20	6.67% - 5.00%
Transportation equipment, excluding the aforementioned equipment	8 - 15	12.50% - 6.67%
Equipment for the maintenance of business and other premises	5 - 10	20.00% - 10.00%
Other equipment	5 - 8	20.00% - 12.50%

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

3.4. 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>Years</u>	<u>Rates (%)</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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Impairment of Property, Plant and Equipment and Intangible Assets**

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

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

As of December 31, 2005 and 2004, according to the assessment of the Company's management, there were no indications that property, plant and equipment had become impaired.

3.6. Inventories

Inventories are stated at the lower of cost and net realizable value.

Cost is computed using the weighted-average method.

The cost of work-in-progress and finished goods inventories are stated at the lower of cost and net realizable value. Cost is derived based upon the cost of direct materials, the cost of employee compensation and production overheads, including purchasing and technical management overheads, and is stated in the amounts necessary to bring the inventories to their specific location and condition as of balance sheet date.

3.7. 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

Equity investments in non-consolidated subsidiaries and other equity investments are stated at cost.

Non-Current Receivables and Placements

Non-current receivables and placements are initially recognized at cost and subsequent to recognition are stated at their:

- fair values, if such assets are held for sale,
- 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 gain or loss in the Statement of Income for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

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 collectibility 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 collectibility may be performed on a individual basis. In its estimation of the collectibility or recoverability of accounts receivable, the Company considered all events up to January 31, 2006. The Company does not record an allowance for receivables from the legal entities that are concurrently its suppliers or creditors.

An allowance in the full amount is recognized for the receivables that are the 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 (non-current, interest-bearing borrowings, long-term securities and other non-current liabilities), current operating liabilities and other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

Financial Liabilities (Continued)

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

3.8. Provisions

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

3.9. 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 Statement of Income 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.

3.10. 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.

In the Republic of Serbia, income tax is payable at the rate of 10% (2004 – 12.33%) on the tax base reported in the annual corporate income tax return as reduced by any applicable tax credits. 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.

The Public Enterprise, Elektroprivreda Srbije and its subsidiaries have lost their right to an approved, tax consolidation scheme commencing as of the fiscal year ended December 31, 2003, due to the separation of the entity, JP Elektroistok from EPS group of enterprises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Taxes and Contributions (Continued)

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. The currently-enacted tax rates or the substantively-enacted rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized on all taxable temporary differences. 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.

3.11. 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.

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

Revenues from services rendered are recognized in the period in which such services are performed.

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.

3.12. Effects of Foreign Currency Translation

Transactions denominated in foreign currencies are translated into dinars at the official exchange rates prevailing at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated at the balance sheet date by applying the official rates of exchange prevailing on that date.

The net foreign exchange gains or losses arising upon the translation of transactions during the year, and on the re-translation of the balance sheet items denominated in foreign currencies, are credited or debited as appropriate, to the Statement of Income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Borrowings

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

3.14. Employee Benefits

Employee compensation, as well as all types of benefits that the Company provides to employees pursuant to the individual collective bargaining agreement, 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.

3.15. Correction of Fundamental Errors

Fundamental 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 Statement of Income as they are incurred.

3.16. 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.

3.17. Transfer Pricing Between Consolidated Enterprises

During 2005, 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.

During 2004 the transactions entered into between the consolidated enterprises within the EPS group were measured on the basis of the group's joint accounting of income taking into account the actual results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

4. OPENING BALANCE ADJUSTEMENTS

Adjustments as of January 1, 2005

The Company adjusted the opening balance of accumulated losses as of January 1, 2005 for the effects of the prior year errors:

	Thousands of Dinars
	2005
Increase in intangible assets	282
Adjustments of property, plant and equipment	6,763,398
Increase in equity investments in subsidiaries	152,901
Adjustments of other long-term investments	(30)
Adjustments of materials	(11,577)
Adjustments of accounts receivable and other receivables	76,541
Increase in deferred tax assets	1,448,642
Increase in long-term provisions	(54,579)
Adjustment of liabilities with respect to refinanced loans originated by the Paris Club of Creditors	(16,985)
Write-off of operating liabilities	338
Additional income taxes for the FY 2004	(22,779)
Write-off of liabilities based on other public revenues	169
Decrease in deferred income from donations	253,586
Decrease in accruals	229,745
Decrease in deferred tax liabilities	69,363
	<u>8,889,015</u>

Adjustments of property, plant and equipment primarily relate to the recording of the previously-unrecorded effects of the appraisal of property, plant and equipment as of January 1, 2004, subsequent to the first-time adoption of the new accounting regulations applicable in the Republic of Serbia.

The increase in deferred tax assets is associated with the recognition of the unrecognized portion of tax loss carryforwards as of December 31, 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

4. OPENING BALANCE ADJUSTEMENTS (Continued)

Adjustments as of January 1, 2004

The following is a reconciliation of equity components as of December 31, 2003, before transition adjustments to the new Accounting Regulations of the Republic of Serbia, and such components as of January 1, 2004 after the transition adjustments:

	State-Owned Capital	Other Capital Funds	Revaluation Reserves	Accumulated Losses	Total
Balance at December 31, 2003					
before the transition adjustments:	236,705,561	-	162,055,767	(202,200,361)	196,560,967
The transition adjustments:					
- Release of revaluation reserves	162,055,767	-	(162,055,767)	-	-
- Release of deferred revaluation income	-	-	-	12,232,909	12,232,909
- Transfer from non-operating assets	-	1,673,371	-	92,727	1,766,098
- Effects of the valuation of property, plant and equipment	168,434	-	-	189,314,947	189,483,381
- Adjustments of interest liabilities on refinanced borrowings	-	-	-	(636,349)	(636,349)
- Write-off of intangibles, property, plant and equipment	-	-	-	(31,384,643)	(31,384,643)
- Provision for current and non-current receivables from the Resavica Coal Mine	-	-	-	(1,166,527)	(1,166,527)
- Provisions for property, plant and equipment in the Autonomous Province of Kosovo and Metohija	-	-	-	(1,412,038)	(1,412,038)
- Recognition of deferred tax liabilities	-	-	-	(27,484,947)	(27,484,947)
- Adjustments to the opening balance of state-owned capital	(20,883,797)	-	-	20,883,797	-
- Recognition of deferred tax assets	-	-	-	1,309,697	1,309,697
- Inventory count surplus	-	-	-	676,424	676,424
- Recognition of property, plant and equipment	-	-	-	5,817,389	5,817,389
- Provision for inventories classified under PP&E	-	-	-	(412,289)	(412,289)
- Provision for interest receivable from customers	-	-	-	(243,260)	(243,260)
- Reversal of allowances for other receivables	-	-	-	328,630	328,630
- Provision for long-term placements in the Autonomous Province of Kosovo and Metohija	-	-	-	(320,261)	(320,261)
- Other	20,902	(15,564)	-	(200,025)	(194,687)
Balance at January 1, 2004					
after the transition adjustments:	<u>378,066,867</u>	<u>1,657,807</u>	<u>-</u>	<u>(34,804,180)</u>	<u>344,920,494</u>

As of January 1, 2004, the Company de-recognized the intangible assets that did not meet the recognition criteria under IAS 38, "Intangible Assets."

As of January 1, 2004, the Company recognized an additional hydro-electric plant, Djerdap 2 in the total amount of Dinar 5,817,389 thousand; comprised of buildings totaling Dinar 2,664,283 thousand, and plant and equipment totaling Dinar 3,153,106 thousand, based on the Minutes of the 68th National Assembly Meeting of Serbia and Montenegro, and the Romanian Commission held on the dates of November 18-20, 2003.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

5. REVENUE

	Thousands of Dinars	
	Year Ended December 31,	
	2005	2004
Sale of electricity	77,196,719	65,958,585
Sale of coal	2,603,641	2,463,705
Sale of engineering steam and gas	1,667,833	1,236,424
Rendering of services	1,625,793	1,259,119
Fees for the transmission of electricity through the Republic of Serbia	461,614	416,086
Other	471,705	379,431
	<u>84,027,305</u>	<u>71,713,350</u>

6. OTHER OPERATING INCOME

	Thousands of Dinars	
	Year Ended December 31,	
	2005	2004
Income from subsidies of retirement benefits	512,400	-
Income from donations	1,009,802	793,288
New customer connection fees	1,499,420	1,160,098
Rental income	57,704	37,585
Other operating income	779,374	997,208
	<u>3,858,700</u>	<u>2,988,179</u>

In order to accelerate the EPS restructuring process, in 2005 the Company received non-repayable funds from the Republic of Serbia Ministry of Labor, Employment and Social Policy in the amount of Dinar 512,400 thousand, for purposes of financing the Company's voluntary employment termination scheme.

7. COST OF MATERIALS, ENERGY AND FUEL

	Thousands of Dinars	
	Year Ended December 31,	
	2005	2004
External purchases of electricity	1,854,818	2,837,083
Transfer of electricity from the JP Elektromreža Srbije, Beograd	1,272,649	-
Materials for maintenance and spare parts	7,388,761	7,208,026
Oil derivatives	3,575,655	2,899,093
Natural gas	973,034	806,678
External purchases of coal	590,678	310,106
Office and general administrative supplies	226,682	226,878
Other	1,912,220	682,961
	<u>17,794,497</u>	<u>14,970,825</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

7. COST OF MATERIALS, ENERGY AND FUEL (Continued)

The costs of the transmission of electricity and the management of the transmission system from the JP Elektromreža Srbije, Beograd in the amount of Dinar 1,272,649 thousand is associated with the transfer of electricity assumed from the EPS production capacities in the period from July 1, 2005 through December 31, 2005 (as of the date of separation of the JP Elektroistok, Beograd from EPS).

8. STAFF COSTS

	Thousands of Dinars	
	Year Ended December 31,	
	2005	2004
Gross employee compensation	17,169,466	16,801,106
Contributions payable by the employer	3,490,200	3,507,993
Employee termination and retirement benefits	110,170	37,938
Termination benefit incentives (i.e., severance payments)	1,923,985	-
Employment anniversary awards	210,521	148,823
Employee transportation to work	940,057	715,164
Other staff costs	417,060	324,182
	<u>24,261,459</u>	<u>21,535,206</u>

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	Thousands of Dinars	
	Year Ended December 31,	
	2005	2004
Depreciation and amortization	17,070,124	17,872,368
Provisions	303,776	271,947
	<u>17,373,900</u>	<u>18,144,315</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

10. OTHER OPERATING EXPENSES

	Thousands of Dinars	
	Year Ended December 31,	
	2005	2004
Insurance premiums	1,642,656	1,323,788
Public water utility fees	1,198,272	1,075,246
Municipal land utility fee	777,537	549,125
Fees for the use of environmental resources	413,374	319,042
Property taxes	479,982	266,800
Other indirect taxes, contributions and fees	506,044	244,824
Land expropriation expenses	1,188,443	1,071,757
Maintenance and repairs	6,989,905	4,964,544
Telecommunications	359,495	366,623
Transportation	261,096	171,866
Rent	407,488	330,874
Research and development	147,469	185,815
Utilities	228,951	222,693
Student and youth organizations	543,738	386,180
Bank fees and charges	385,689	475,093
Other services	2,588,903	1,395,884
Discounts to customers for timely payments	479,020	599,303
Court fees	208,558	126,015
Sponsorships and donations	166,051	93,417
Other	1,195,708	1,224,026
	<u>20,168,379</u>	<u>15,392,915</u>

Indirect taxes and fees in 2005 include the accrued value added tax (VAT) in the amount of Dinar 179,955 thousand, which were accrued due to the lack of evidence with regard to tax exemptions on transactions performed with legal entities located in Kosovo and Metohija, and in the Republic of Montenegro.

11. FINANCE INCOME

	Thousands of Dinars	
	Year Ended December 31,	
	2005	2004
Interest income	6,577,321	4,619,169
Foreign exchange gains	653,217	1,229,257
Other finance income	525,945	236,090
	<u>7,756,483</u>	<u>6,084,516</u>

Interest income primarily relates to the interest charged to customers for late payments at the legally-prescribed penalty interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

12. FINANCE EXPENSES

	Thousands of Dinars	
	Year Ended December 31,	
	2005	2004
Interest expense	7,501,287	2,705,356
Foreign exchange losses	8,584,549	7,651,719
Other finance expenses	106,100	133,968
	<u>16,191,936</u>	<u>10,491,043</u>

Interest expenses of Dinar 5,113,630 for the year ended December 31, 2005 are related to the previous years' interest liabilities to creditors from the Czech Republic (Note 27).

13. OTHER INCOME

	Thousands of Dinars	
	Year Ended December 31,	
	2005	2004
Gains on the sale of property, plant, equipment and intangible assets	105,914	81,838
Collections of receivables previously provided for and written off	2,300,271	2,069,966
Gains on the adjustments of other property to fair value	133,658	-
Write-off of liabilities:		
- the Paris Club of Creditors (Note 25)	2,117,924	-
- the London Club of Creditors (Note 25)	1,745,613	-
- creditors in the Czech Republic (Note 27)	10,320,148	-
- Panonska banka A.D., Novi Sad (Note 14)	188,140	-
- NIS Gas, Novi Sad (Note 26)	310,000	-
- other	307,562	66,778
Inventory count surpluses	168,171	308,574
Prior year income	427,549	145,704
Other	588,605	283,224
	<u>18,713,555</u>	<u>2,956,084</u>

The write-off of liabilities to Panonska banka A.D., Novi Sad was performed in connection with the signed agreement on the rescheduling of debt to Kreditanstalt für Wiederaufbau, Frankfurt, Germany ("KfW") from FY 1988. In accordance with the aforementioned agreement, the Company reconciled its liabilities to the Panonska banka A.D., Novi Sad, with respect to accrued interest in the amount of Dinar 126,515 thousand, stated under Other expenses, and it performed an early repayment of total debt including principal and accrued interest. Accordingly, a write-off of liabilities was performed in the amount of Dinar 188,140 thousand.

Other write-offs of liabilities include Dinar 193,964 thousand related to the write-off of liabilities to the insurance company, Dunav osiguranje A.D.O., Beograd, in accordance with the provisions of the executed agreement on the write-off of a portion of debt, by which the creditor performed a write-off of 25 percent of the Company's principal debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

14. OTHER EXPENSES

	Thousands of Dinars	
	Year Ended December 31,	
	2005	2004
Losses on the disposal and retirement of property, plant, equipment, and intangible assets	1,667,090	542,962
Inventory count shortages	11,325	50,865
Losses on the transfer of equity investments in subsidiaries to the Government of the Republic of Serbia (Note 16)	5,565,981	-
Write-off of receivables	299,369	683,320
Losses on the impairment of:		
- accounts receivable and other current receivables	9,374,898	9,332,355
- other assets	255,397	279,620
Prior year expenses	351,423	993,310
Staff costs of the employees in the non-consolidated public enterprises situated in Kosovo and Metohija	2,789,573	1,472,213
Other	380,893	121,072
	<u>20,695,949</u>	<u>13,475,717</u>

PUBLIC ENTERPRISE ELEKTROPRIVREDA SRBIJE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

15. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

	Thousands of Dinars						Intangible Assets
	Land	Buildings	Investment Property	Plant and Equipment	Construction in Progress	Total	
Cost							
Balance at beginning of the year, before adjustments	6,304,273	514,310,650	233,830	555,247,490	37,014,731	1,113,110,974	2,452,517
Opening balance adjustments:							
- recording of the unrecorded effects of the appraisal of property, plant and equipment from FY 2004	-	4,277,880	(122,830)	2,166,019	(90,435)	6,230,634	(1,338)
- other adjustments	-	(146,451)	-	(25,178)	-	(171,629)	3
Balance at beginning of the year, after adjustments	6,304,273	518,442,079	111,000	557,388,331	36,924,296	1,119,169,979	2,451,182
Additions	128,449	(13,240)	-	2,486,967	10,927,125	13,529,301	151,951
Transfers	47,364	3,825,784	-	8,999,337	(12,873,011)	(526)	526
Transfers to subsidiaries	(81,503)	(2,583,770)	-	(3,458,936)	(747,948)	(6,872,157)	(7,324)
Disposals	(12,916)	(1,405,056)	-	(6,896,403)	(567,842)	(8,882,217)	(472)
Transfer to JP EMS as per the Settlement Balance	(103)	(1,377,171)	-	(429,914)	(470,877)	(2,278,065)	(3,493)
Surpluses	-	79,744	-	76,119	-	155,863	-
Shortages	-	-	-	(26,847)	(992)	(27,839)	-
Separation of the JP Elektroistok	(110,579)	(47,539,704)	-	(61,704,618)	(3,372,431)	(112,727,332)	(10,662)
Other	12,847	(85,889)	-	(62,454)	(144,520)	(280,016)	(30,007)
Balance at end of the year	6,287,832	469,342,777	111,000	496,371,582	29,673,800	1,001,786,991	2,551,701
Accumulated depreciation and amortization							
Balance at beginning of the year, before adjustments	8,371	306,726,117	121,393	383,053,351	525,740	690,434,972	485,688
Opening balance adjustments:							
- recording of the unrecorded effects of the appraisal of property, plant and equipment from FY 2004	-	1,724,905	(56,554)	(2,518,995)	-	(850,644)	(1,617)
- other adjustments	-	111,785	-	34,466	-	146,251	-
Balance at beginning of the year, after adjustments	8,371	308,562,807	64,839	380,568,822	525,740	689,730,579	484,071
Charge for the year	-	5,969,639	2,970	11,058,368	-	17,030,977	39,147
Transfers to subsidiaries	-	(1,505,548)	-	(2,412,682)	-	(3,918,230)	(1,559)
Disposals	-	(810,484)	-	(5,770,898)	(199)	(6,581,581)	(301)
Transfer to JP EMS as per the Settlement Balance	-	(727,226)	-	(283,787)	-	(1,011,013)	-
Surpluses	-	588	-	9,380	-	9,968	-
Shortages	-	-	-	(24,875)	-	(24,875)	-
Separation of JP Elektroistok	(8,371)	(32,316,834)	-	(41,500,117)	(412,355)	(74,237,677)	(2,920)
Other	-	3,071	-	100,457	71,054	174,582	1,799
Balance at end of the year	-	279,176,013	67,809	341,744,668	184,240	621,172,730	520,237
Net book value							
at December 31, 2005	6,287,832	190,166,764	43,191	154,626,914	29,489,560	380,614,261	2,031,464
at December 31, 2004, after adjustments	6,295,902	209,879,272	46,161	176,819,509	36,398,556	429,439,400	1,967,111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

15. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (Continued)

The Separation of JP Elektroistok, Beograd and the Transfer of Assets of the JP Elektromreža Srbije.

In accordance with the Order of the Government of the Republic of Serbia numbered 023-397/2005-1 with regard to the Transfer of Electrical Power and the Management of the Transmission System ("Official Gazette of the Republic of Serbia," numbered 12/05), the JP Elektroistok, Beograd was separated from the EPS system, pursuant to which, a new entity, the JP Elektromreža Srbije, Beograd was formed on July 1, 2005. In accordance with the aforesaid order, a Settlement Balance of the Assets, Rights and Liabilities of the previously-established enterprise, the Elektroprivreda Srbije was transferred to the newly-formed entity, the Public Enterprise for the Production, Transmission, Distribution and Sale of Electrical Power, the Elektroprivreda Srbije, and to the Public Enterprise involved in Power Transmission and the Management of the Electrical Power System, "Elektromreža Srbije," effective as of June 30, 2005, and a transfer of the portion of property and equipment in favor of the JP Elektromreža Srbije in the total net present value of Dinar 1,270,545 thousand was also performed (Note 23). At its meeting of January 6, 2006, the Company's Board of Directors enacted a resolution to adopt the aforescribed Settlement Balance.

In addition, based on the resolution of the Board of Directors of the JP Elektromreža Srbije, assets in the net present value of Dinar 1,765,326 thousand were transferred, while the JP Elektromreža Srbije transferred assets in the net present value of Dinar 31,735 thousand. These asset transfers were performed along with the transfer of obligations arising pursuant to the loan agreement under which their purchase was financed. These changes were not presented in the previously-shown table, since the effects of these transactions were eliminated upon consolidation.

Transfer of Assets to Subsidiaries

During 2005, the property, plant and equipment of the public enterprise organizational units whose primary business activities are not directly involved in the generation and distribution of electrical power, as well as the property, plant and equipment of the Kovin Coal Mine, were transferred to the previously founded and newly-established subsidiaries in the form of increases of non-monetary investments in these enterprises. The investments in the subsidiaries were subsequently transferred to the Government of the Republic of Serbia at no charge, with the exception of the equity investments in the subsidiary enterprise, Kolubara Metal d.o.o. (Note 16).

Construction in Progress

Construction in progress and intangible assets in progress include Dinar 11,745,227 thousand and Dinar 1,752,290 thousand, respectively, associated with the construction expenses of a new thermoelectric plant, the TE-TO "Kolubara B" within the Public Enterprise, Thermoelectric Plant, Nikola Tesla, Obrenovac. Also, the non-current receivables and placements include Dinar 637,205 thousand representing investments in the joint construction of the Rovni Water Accumulation Basin situated on the Jablanica River, which is planned for use by the new "Kolubara B" power plant once it is completed. The thermoelectric plant construction has ceased, and the completion of this project is reliant upon the decisions of the Government of the Republic of Serbia. In addition, construction in progress as of December 31, 2005 includes various construction projects in the total amount of Dinar 6,472,488 thousand, for which no significant progress for completion has been made in prior years. The aforementioned amounts of construction in progress are based on fair values, as determined by an independent appraiser as of January 1, 2004. The final outcome of these projects is highly dependent upon the future plans of the management of the Company and the decisions of the Government of the Republic of Serbia.

The governmental decision to approve the construction of the Kolubara B Thermoelectric P, with a capacity of 2 x 350 MW, including the related surface lignite quarry, the Tamnava - Zapadno polje, with a capacity of 7 million tons, was enacted in 1984.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

15. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (Continued)

The Kolubara B thermoelectric and heating Plant (hereinafter: "TE-TO Kolubara B") was projected to be a combined production facility for the production of electrical and heating energy, such that the heating energy, 2 x 350 MJ/sec would be delivered for the needs of the city of Belgrade, whereas the electrical power from the two blocks 2 x 350 MW would be delivered to the electrical power system to meet the consumption needs for electrical power in the Republic of Serbia. The construction of the TE-TO Kolubara B commenced in 1988, and ceased at the beginning of the 1990's. During the realization of the project, negotiations were entered into with foreign partners in an effort to secure sources of loan finance, from both commercial equipment manufacturers and from other available sources. In September of 1991, the Enterprise entered into a loan agreement with The World Bank, Washington, DC in connection with the completion of construction of the TE-TO Kolubara B and the PO Tamnava – Zapadno Polje [West Field] in the amount of USD 300 million. The Federal Assembly of the SFR Yugoslavia ratified this agreement in December 1991.

Upon the introduction of the United Nations' Sanctions, all activities involved in the realization of this project ceased, as did the production and acquisition of equipment, and utilization of the approved World Bank loan. Under such circumstances, on May 26, 1992 the Board of Directors of the JP EPS resolved to cease all activities in the realization of the TE-TO Kolubara B Project. The further development of economic and political events brought about the opportunity to reactivate the TE-TO Kolubara B Project such that, at its November 25, 1996 meeting, the Board of Directors of the JP EPS enacted a resolution to continue the realization of the aforementioned project commencing in the FY 1997. On that occasion, the dynamics of the construction activities were determined, by which the first block of the Kolubara B was to be completed by the end of FY 2000, and the second block by FY 2001. In accordance with both resolutions, during 1997 a supplemental arrangement was entered into with the Č.S.O.B. for the portion of the lacking equipment, to be delivered by the Czech entity, Škoda, which was paid for pursuant to the terms described under Note 27.

At the end of 2005, the Board of Directors adopted the Information on the Basis for the Joint Investment in the Completion of Construction of the Kolubara B Thermoelectric Plant, which was adopted by the Company's founder in February of 2006. After the balance sheet date, the process of acquiring consulting services to assess the present situation, to analyze the options for attracting foreign capital for the completion of construction of the TE Kolubara B, or from other sources, and for the preparation of strategy papers on how to attract requisite capital with a specific action plan, as well as for the preparation of tender documentation with respect to the completion of construction of the TE Kolubara B (in connection with the selection of a strategic partner).

Acceptance of Completed Works of Block A5 of the Thermoelectric Plant Nikola Tesla A

Transfers from Construction in progress to Property, plant and equipment in the amounts of Dinar 64,927 thousand and Dinar 3,960,033 thousand, respectively, are associated with the acceptance of the completed works on Block A5 of the TE Plant, Nikola Tesla A. These amounts include: the purchase and preparation of new fixed assets in the amount of Dinar 452,920 thousand, the replacement of old fixed assets with new fixed assets in the amount of Dinar 1,401,539 thousand, as well as the improvements to the existing fixed assets in the amount of Dinar 2,170,501 thousand.

Disposals of plant and equipment in 2005 include the write-off of assets that were exchanged during the acceptance of the completed works of the Block A5 of the TE Plant Nikola Tesla A. The cost and accumulated depreciation of the fixed assets that were written-off, amounted to Dinar 2,333,293 thousand and Dinar 1,982,397 thousand, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

15. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Damage of Fixed Assets in the Kolubara Coal Mine

At December 31, 2005 plant and equipment include fixed assets damaged in 2005 in the net book value of Dinar 828,332 thousand. The aforementioned fixed assets are insured with domestic insurance companies and have been reinsured with foreign reinsurers. However, the final amount of damage recoverable by the insurer has not been assessed up to date of these financial statements. The management believes that the losses incurred will be recovered by the insurers.

16. EQUITY INVESTMENTS

	Thousands of Dinars	
	December 31,	<i>Restated</i>
	2005	December 31,
	2005	2004
Equity investments in unconsolidated subsidiaries	1,986,049	1,031,471
Other equity investments	745,251	707,638
	<u>2,731,300</u>	<u>1,739,109</u>
Allowances for impairment	(173,399)	(185,390)
	<u>2,557,901</u>	<u>1,553,719</u>

The equity investments in unconsolidated subsidiaries as of December 31, 2004 are related to the subsidiaries of the consolidated public enterprises whose primary business activities are not involved in electric power generation or distribution (i.e., the hotels, restaurants and auxiliary services). During 2005, the Company separated certain organizational units of the public enterprises, founded new subsidiaries and increased its monetary and non-monetary investments in the previously-established subsidiary enterprises. Non-monetary and monetary investments in the established subsidiaries whose primary business activities are not directly involved in the generation and distribution of electrical power have been transferred to the Government of the Republic of Serbia, with the exception of the investment in the entity, Kolubara Metal d.o.o., which was inscribed into the Republic of Serbia Commercial Register Agency on October 10, 2005. The effects of these transfers were charged to the Statement of Income for the year ended December 31, 2005 (Note 14).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

17. NON-CURRENT RECEIVABLES AND PLACEMENTS

	Thousands of Dinars	
	December 31, 2005	<i>Restated</i> December 31, 2004
Non-current receivables from JP Elektromreža Srbije	2,207,132	-
Non-current receivables from the Resavica Coal Mine	403,871	403,871
Rescheduled accounts receivable	1,656,085	2,423,878
Joint investment in the Rovni Water Accumulation Basin	637,205	635,002
Subscribed, but not paid-in capital in subsidiaries	1,278,098	-
Other long-term placements and receivables	595,268	704,400
	<u>6,777,659</u>	<u>4,167,151</u>
Allowances for the impairment of:		
- Non-current receivables from the Resavica Coal Mine	(403,871)	(403,871)
- Rescheduled accounts receivable	(1,559,297)	(2,331,592)
- Other long-term placements and receivables	(203,994)	(439,493)
	<u>(2,167,162)</u>	<u>(3,174,956)</u>
	<u>4,610,497</u>	<u>992,195</u>

At December 31, 2005, the non-current receivables from JP Elektromreža Srbije in the amount of 2,207,132 thousand are associated with the receivables in connection with the refinanced loans from the following: the International Bank for Reconstruction and Development (IBRD) in the amount of Dinar 1,689,391 thousand, the receivables based on the loan approved by the PR of China in the amount of Dinar 386,976 thousand, as well as the receivables based on the loan approved by the European Bank for Reconstruction and Development (EBRD) in the amount of Dinar 130,765 thousand (Note 25). The Company received the aforementioned loans from foreign creditors via domestic banks, on behalf of its subsidiaries including the former, JP Elektroistok, under which the presented non-current receivables relate to the portion of received funds that were transferred to JP Elektroistok. The loan originated by the IBRD during the year 1980 for purposes of financing Phase III of the Power Transmission Grid was refinanced in 2001 in accordance with the provisions of the executed agreement between the Federal Republic of Yugoslavia and the IBRD (Note 25). In accordance with Settlement Balance as of July 1, 2005, the JP Elektromreža Srbije assumed 81% of the liabilities arising under the aforementioned loan (including interest), which are recorded in the Company's books of accounts, since the Company is named as the official debtor of this loan. Up to the moment of final repayment to the creditors, the assumed portion of liabilities by the JP Elektromreža Srbije will be presented as an issued, long-term loan. Receivables are stated in their net amounts after deducting the current portion maturing within one year in the amount of Dinar 633,072 thousand as at December 31, 2005 (Note 20).

Interests in the joint investment in the Rovni Water Accumulation Basin on the Jablanica River in the amount of Dinar 637,205 thousand as of December 31, 2005 (December 31, 2004: Dinar 635,002 thousand) are associated with the investments that are slated for use by the new power plant to be constructed within the Thermoelectric Plant Nikola Tesla, Obrenovac (the "Kolubara B"). During past years, there has been no significant progress in the construction of this plant and the final outcome of the project is highly dependent upon the future decisions of the Government of the Republic of Serbia.

Based on the relevant resolutions of the EPS' Board of Directors, in order to improve collections of accounts receivable, the Company reschedules its overdue accounts receivable from select customers to be repaid in monthly installments over periods of up to ten years. In view of the significant uncertainties with respect to the recoverability and collection of these receivables, as of December 31, 2005, they have been in largest part, provided for in the full amount of the outstanding receivable balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

18. INVENTORIES

	Thousands of Dinars	
	December 31, 2005	<i>Restated</i> December 31, 2004
Material	6,040,785	6,436,529
Spare parts	6,429,171	6,285,031
Tools and consumables	290,149	251,177
Work in progress and finished goods	1,029,476	979,222
Goods for resale	257	857
Advances to suppliers	1,769,228	1,402,667
	<u>15,559,066</u>	<u>15,355,483</u>
Allowance for:		
- slow-moving, surplus and obsolete inventories	(293,946)	(212,668)
- advances to suppliers	(219,500)	(168,527)
	<u>(513,446)</u>	<u>(381,195)</u>
	<u>15,045,620</u>	<u>14,974,288</u>

19. ACCOUNTS RECEIVABLE AND OTHER CURRENT RECEIVABLES

	Thousands of Dinars	
	December 31, 2005	<i>Restated</i> December 31, 2004
Accounts receivable:		
- non-consolidated subsidiaries situated in Kosovo and Metohija	727,917	806,805
- other subsidiaries	121,344	543,154
- domestic customers	47,942,791	37,739,235
- foreign customers	3,432,159	3,153,060
- the Resavica Coal Mine	746,266	808,929
Receivables for radio and television subscriptions	1,285,720	-
Interest receivable	732,489	51,938
Receivables from employees	337,576	607,966
Prepaid taxes and contributions	645,967	19,057
Other receivables	1,162,803	1,027,440
	<u>57,135,032</u>	<u>44,757,584</u>
Allowances for bad and doubtful receivables from:		
- non-consolidated subsidiaries situated in Kosovo and Metohija	(727,917)	-
- other subsidiaries	(24,460)	(5,483)
- domestic customers	(30,855,369)	(24,144,749)
- foreign customers	(3,333,461)	(2,631,932)
- the Resavica Coal Mine	(746,266)	(808,929)
- other receivables	(161,800)	(348,763)
	<u>(35,849,273)</u>	<u>(27,939,856)</u>
	<u>21,285,759</u>	<u>16,817,728</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

19. ACCOUNTS RECEIVABLE AND OTHER CURRENT RECEIVABLES
(Continued)

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.

As of December 31, 2005, domestic accounts receivable include receivables from enterprises undergoing the company restructuring process in the amount of Dinar 8,364,534 thousand, which were registered with the Privatization Agency of the Republic of Serbia. These receivables have been fully provided for.

Foreign accounts receivable are primarily comprised of the receivables from electric power enterprises situated in the former Yugoslav republics, against which provisions have been recognized in the full amounts.

Based on the Law on the Changes and Amendments with regard to Radio Broadcasting, effective as of September 2005, the Distribution Subsidiary Enterprises collect payments from consumers of the radio-television subscriptions on behalf of the JP Radio Televizija Srbije, Beograd, ("JP RTS") based on the same conditions under which collections for electricity bills are performed. At the end of the month, based on the delivered bills to electricity consumers for TV subscriptions, the Distribution Enterprises and the JP RTS perform a reconciliation, and the transfer of the related cash is made to the account of the JP RTS on a daily basis. For the aforementioned commission-related activity, the Distribution Subsidiary Enterprises earn a fee equal to 8 percent of the collected TV subscriptions.

At December 31, 2005, interest receivables include the receivables from the JP Elektromreža Srbije in the amount of Dinar 596,267 thousand based on interest on the loans assumed by this enterprise in accordance with the Settlement Balance (Note 17).

20. SHORT-TERM FINANCIAL PLACEMENTS

	Thousands of Dinars	
	<i>Restated</i>	
	December 31,	December 31,
	2005	2004
	<hr/>	<hr/>
Long-term portion of receivables from JP Elektromreža Srbije due within a period of one year	633,072	-
Short-term deposits with banks	4,005,266	1,504,996
Non-interest-bearing loans to unconsolidated subsidiaries	803,755	308,218
Other	55,179	96,837
	<hr/>	<hr/>
	5,497,272	1,910,051
Allowances for impairment	-	(9,634)
	<hr/>	<hr/>
	5,497,272	1,900,417
	<hr/>	<hr/>

The long-term portion of a loan maturing within one year in the amount of Dinar 633,072 thousand is associated with the current portion of non-current receivables from JP Elektromreža Srbije based on the loans originated from the PR of China in the amount of Dinar 580,464 thousand in connection with the refinanced loans from the IBRD in the amount of Dinar 52,608 thousand (Note 17).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

21. CASH AND CASH EQUIVALENTS

	Thousands of Dinars	
	December 31, 2005	<i>Restated</i> December 31, 2004
Current accounts:		
- in dinars	4,263,416	5,012,722
- in foreign currencies	4,812,920	1,025,705
Cash cover deposits for letters of credit	72,119	334,020
Cash on hand and other cash equivalents	124,037	83,970
Unavailable funds	208,119	176,360
	<u>9,480,611</u>	<u>6,632,777</u>
Allowance	<u>(208,119)</u>	<u>(176,360)</u>
	<u><u>9,272,492</u></u>	<u><u>6,456,417</u></u>

Unavailable funds relate to current accounts held with certain U.S. banks which were frozen upon the introduction of the U.N. sanctions against the Federal Republic of Yugoslavia in 1992, as well as the current accounts held with domestic banks that are presently undergoing bankruptcy and liquidation proceedings. These balances have been provided for in full.

22. VALUE ADDED TAX AND PREPAYMENTS

	Thousands of Dinars	
	December 31, 2005	<i>Restated</i> December 31, 2004
Receivables for power exchanges and lending with other electric power distribution systems abroad	100,795	165,681
Value added tax	1,617,210	-
Other	339,939	24,753
	<u>2,057,944</u>	<u>190,434</u>

23. EQUITY

State-Owned Capital

State-owned capital represents the aggregate total of the state-owned capital of the consolidated public enterprises which represents the initial contributions, as adjusted by revaluation using the retail price index up to December 31, 2000, and by the IFRS transition adjustments as of January 1, 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

23. EQUITY (Continued)

State-Owned Capital (Continued)

Changes in equity during 2005 are associated with 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 aforesaid Order, the Public Enterprise, Elektroistok was separated from EPS. Effective as of July 1, 2005, Elektroistok has operated as an independent entity, under the name of JP Elektromreža Srbije. As of the same date, the newly-established Public Enterprise, Elektroprivreda Srbije commenced its business activities and operations. The increase in the Company's state-owned capital in the amount of Dinar 1,847,718 thousand represents the effects of the settlement of assets and liabilities among the Company and JP Elektromreža Srbije.

The aforementioned change in organizational status was duly registered with the Republic of Serbia Commercial Register 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 Commercial Register totaled EUR 4,621,609,319 as per the exchange rate in effect as of December 31, 2004, or the equivalent of Dinar 364,575,651 thousand. The amount of capital as per the Company's books of account was not reconciled with the amount inscribed in the Republic of Serbia Commercial Register Agency.

The effects of the net increase in state-owned capital based on the settlement of property and liabilities with the JP Elektromreža Srbije are as follows:

	<u>Thousands of Dinars</u>
<i>Increases:</i>	
Assumption of 81% of the liabilities with respect to the loan from the IBRD by the JP Elektromreža Srbije	1,960,686
Write-off of 50% of the liabilities based on the distribution of joint income up to December 31, 2004	1,277,984
Write-off of 9.13% of the liabilities based on the un-identified liabilities as per the Settlement Balance as of June 30, 2005	233,441
	<u>3,472,111</u>
<i>Decreases:</i>	
Transfer of property, equipment and construction in progress	(1,270,545)
Write-off of non-current receivables	(348,917)
Transfer of long-term financial placements	(4,931)
	<u>(1,624,393)</u>
	<u>1,847,718</u>

Other Capital Funds

Other capital stated in the Company's balance sheet as of December 31, 2005 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

24. LONG-TERM PROVISIONS

	Thousands of Dinars			
	Provision for Litigation	Other Provisions	2005 Total	2004 Provision for Litigation
Balance at January 1, (before adjustments)	459,920	-	459,920	261,629
Opening balance adjustment	-	54,579	54,579	-
Balance at January 1, (restated)	459,920	54,579	514,499	261,629
Charged to the Statement of income	145,334	158,442	303,776	271,947
Used during the year	(40,070)	(21,384)	(61,454)	(33,861)
Credited to the Statement of income	(59,314)	(54,579)	(113,893)	(39,795)
Separation of JP Elektroistok as of June 30, 2005	(36,450)	-	(36,450)	-
Other	13,601	45,018	58,619	-
Balance at the end of year	483,021	182,076	665,097	459,920

The Company formed a provision for litigation to cover the estimated adverse effects of litigation initiated against the Company. These estimates were based on the professional opinion of the Company's Legal Department.

Other provisions include the amount of Dinar 137,058 thousand and relate to the assumed obligations of the JP RB Kolubara management to perform payments to the newly-established enterprises, for the paid termination benefits to employees assumed by these newly-founded enterprises.

The newly-enacted Law on the Electric Power Industry and the Order of the Government of the Republic of Serbia on the Establishment of a Public Enterprise Engaged in the Generation, Distribution and Sale of Electric Energy, sets out the new organizational structure of the Company. No further provision for the resulting company restructuring has been recognized in these financial statements due to the lack of a formal, detailed restructuring plan, based upon which, the amount of the corresponding provision could theoretically, be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

25. NON-CURRENT INTEREST-BEARING BORROWINGS

	Thousands of Dinars	
	December 31, 2005	<i>Restated</i> December 31, 2004
<i>Loans in foreign currencies:</i>		
Liabilities with respect to refinanced loans originated prior to 1990 by:		
- the Paris Club of Creditors	26,003,083	25,525,479
- the London Club of Creditors	1,117,155	1,371,059
- the IBRD	2,173,471	2,119,652
- the European Investment Bank (EIB)	36,474	195,880
- the Government of the Russian Federation via domestic banks presently undergoing bankruptcy	3,339,296	2,649,711
Loans received from foreign governments originated after 1990:		-
- PR China via domestic banks presently undergoing bankruptcy	3,343,460	2,682,193
- the Russian Federation via domestic banks presently undergoing bankruptcy	653,240	558,979
- the Republic of Poland	3,593,745	1,819,514
The European Bank for Reconstruction and Development (EBRD)	1,167,934	514,399
Kreditanstalt für Wiederaufbau (KfW)	3,642,954	3,809,251
The Republic of Serbia Development Fund	665,758	903,198
The European Investment Bank (EIB)	342,000	-
JP Elektromreža Srbije, Beograd	4,045	-
Other	31,069	30,184
	<u>46,113,684</u>	<u>42,179,499</u>
<i>Loans in dinars:</i>		
Ministry of Finance of the Republic of Serbia	1,899,090	1,899,090
Domestic banks presently undergoing bankruptcy	347,267	348,852
JP Elektromreža Srbije, Beograd	1,010,725	-
Other	6,286	8,637
	<u>3,263,368</u>	<u>2,256,579</u>
Amounts due within one year:		
- in dinars	(464,890)	(102,827)
- in foreign currencies	(3,445,430)	(3,408,563)
	<u>(3,910,320)</u>	<u>(3,511,390)</u>
	<u>45,466,732</u>	<u>40,924,688</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005**25. NON-CURRENT INTEREST-BEARING BORROWINGS (Continued)**

In December 2001, the negotiations between the Government of the Federal Republic of Yugoslavia and the Paris Club of Creditors resulted in a significant write-off of liabilities (of principal, interest and penalty interest up to March 22, 2002) in the amount of 51%, with the possibility of an additional write-off in three years of up to a maximum level of 66.67%, in addition to a pre-agreed, substantial rescheduling of past debts. The negotiations between the Government of the Republic of Serbia and the London Club of Creditors resulted in a significant write-off of liabilities (of principal, interest and penalty interest up to September 30, 2004) in the amount of 62% of the new principal. The Law on the Settlement of the Relations between the Federal Republic of Yugoslavia and the Legal Entities and Banks Situated on the Territory of the Federal Republic of Yugoslavia, Which Were Originally the Principal Debtors or Guarantors to the Paris and/or London Club Group of Creditors, was enacted on July 4, 2002 ("Official Gazette of the Federal Republic of Yugoslavia," numbered 36/2002). In accordance with the aforementioned Law, the Company is under an obligation to repay the loans from the Paris and London Club of Creditors to the domestic banks through which the borrowings were originally disbursed, under terms that are not to be less favorable than those delineated under the effective agreements entered into with the foreign creditors.

Based on a reconciliation of such amounts with the National Bank of Serbia (NBS), the Company determined the new carrying value of the loans from the Paris Club of Creditors as of March 22, 2002, reflecting a write-off in the amount of 51% of the loans originated from the members of the Paris Club of Creditors with whom individual bilateral agreements on such write-offs have been executed. In 2005 the Company performed an additional write-off of liabilities to the members of the Paris Club with whom individual bilateral agreements on such write-offs have not been executed, and credited, to Other income for the year ended December 31, 2005, the effects of such write-offs in the amount of Dinar 2,117,924 thousand.

Liabilities associated with the loans originated by the London Club of Creditors as of December 31, 2004, have primarily been included in the loan amounts maturing within one year. In 2005 based on a reconciliation of such amounts with the NBS, the Company determined the new carrying value of the loans from the London Club of Creditors as of September 30, 2004, which reflects a write-off in the amount of 62%. The effects of such write-offs are credited to Other income for the year ended December 31, 2005 and they amount to Dinar 1,745,613 thousand.

In accordance with the effective legal regulations, banks are under an obligation to execute new agreements with debtors, in accordance with Article 5 of the Law, that delineate the amounts of the liabilities and conditions of debt repayment in connection with the refinanced loans originated by the Paris and London Club of Creditors. The agreements governing the repayment of the loans originated by the Paris Club of Creditors stated in the amount of Dinar 1,010,539 thousand were executed up to the balance sheet date. The Company is in process of negotiations and execution of agreements with the Republic of Serbia Agency for the Insurance of Deposits on behalf of, and in favor of the Republic of Serbia on repayment of liabilities with respect to other loans originated by the Paris Club of Creditors, the loans originated by the London Club of Creditors and the loans originated by the Government of Russian Federation which were realized through the domestic banks that are presently undergoing bankruptcy proceedings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005**25. NON-CURRENT INTEREST-BEARING BORROWINGS (Continued)**

The liabilities associated with the loans from the Paris Club of Creditors are to be repaid in semi-annual installments in the period from September 22, 2008 through March 2, 2004, at interest rates ranging from CHF LIBOR to 5.9% (depending upon the individual members of the Paris Club of Creditors, and the currency in which the loans are denominated). 60% of the interest accrued in the first five years of the loan repayment schedule is capitalized to principal. The loans originated by the London Club of Creditors are to be repaid in semi-annual installments in the period from May 1, 2010 through November 1, 2004, at an interest rate of 3.75% in the period from November 2009, and of 6.75% from December 2009. The liabilities to the London Club of Creditors are denominated in USD.

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 denominated in euros, which is to be repaid in semi-annual installments in the period from June 15, 2005 to December 15, 2031 and carries a variable interest rate.

In 2006 the Company executed an agreement with the Republic of Serbia Agency for the Insurance of Deposits with respect to the regulation of repayment of liabilities arising on loans originated by the Government of Russian Federation which were realized through domestic banks presently undergoing bankruptcy proceedings.

The loan originated by the Government of the Republic of Poland in 2003, in the amount of USD 49,996,616.78 was fully drawn-down by December 31, 2005 through the Vojvodjanska banka A.D., Novi Sad. The loan is repayable in 28, semi-annual installments, having an applicable grace period of two years and were issued at an annual interest rate of 0.75 percent.

In 2001, the EBRD approved to the Company a loan in the amount of EUR 100 million. The loan draw-down period expired on June 30, 2005 and was extended to December 31, 2007. The outstanding principal is repayable from September 7, 2005 to March 7, 2016. Rights and obligation arising from the loan agreement are subject of negotiations with JP Elektromreža Srbije, Beograd.

In 2003, the EBRD approved to the Company a loan in the amount of EUR 60 million. The loan was partly drawn-down by December 31, 2005. The loan is repayable in the period March 7, 2008 to September 7, 2018 at a variable interest rate.

In accordance with the financial and debt covenants of the loan agreements entered into with the EBRD, the Company is under an obligation to comply with maximum and/or minimum operating ratios. The Company is not in compliance with certain debt covenants of the EBRD loan agreement. However, the management of the Company believes, based on discussions with the EBRD representatives, that non-compliance with such loan covenants will not result in any immediate action by the EBRD, which would have a materially adverse effect on the Company's financial position, or which might require that the loans be transferred from non-current to current liabilities.

The long-term loan extended by the KFW is repayable in semi-annual installments in the period from December 30, 2004 to June 30, 2013 at a fixed annual interest rate of 4.32%.

The loan granted by the Republic of Serbia Development Fund is repayable in quarterly installments in the period from March 31, 2003 to December 31, 2007, and was issued at an annual interest rate of 4%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

25. NON-CURRENT INTEREST-BEARING BORROWINGS (Continued)

In accordance with the terms of the Agreement on financing the project of the management of the electrical power system of Serbia and Montenegro entered into between the Government of Serbia and Montenegro and the European Investment Bank (EIB) on October 30, 2003, a loan was approved in the amount of EUR 22 million. The final term for the utilization of the aforescribed loan is August 30, 2007. At December 31, 2005, the drawn down amount on this loan was EUR 4 million, the equivalent of Dinar 342,000 thousand. The loan is scheduled to be repaid in semi-annual installments and matures on the dates of June 9 and December 9, in the period from 2010 through 2025. This loan was issued at a variable interest rate.

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 Dinar 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 Dinars 289,185 thousand, Dinars 578,371 thousand and Dinars 1,031,534 thousand, respectively, as issued at an annual interest rate of 8.5%.

The long-term liabilities to the JP Elektromreža Srbije, Beograd stated at December 31, 2005 in the amount of Dinar 1,010,725 thousand represent the rescheduled liabilities based on the distribution of joint income within the EPS, maturing on 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 equal to the NBS discount rate.

Loan repayments to foreign creditors, for loans disbursed via the domestic banks that are presently undergoing bankruptcy proceedings, and the 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 proceedings against these banks were initiated. The Company's management has performed accruals with respect to interest and related finance charges on the these loans. However, the final reconciliation of these liabilities may have a material effect on the Company's consolidated financial statements, which presently cannot be determined with any certainty.

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 whom 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	13,174,853.56
The EBRD	EUR	60,000,000.00	937,458.00
The European Investment Bank (EIB)	EUR	59,000,000.00	-
The European Investment Bank (EIB)	EUR	22,000,000.00	4,000,000.00
KfW	EUR	16,000,000.00	-
KfW	EUR	30,000,000.00	-
The World Bank	SDR	13,900,000.00	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

25. NON-CURRENT INTEREST-BEARING BORROWINGS (Continued)

The Agreement with respect to the Development Loan (the Program of the Power Association of Southeast Europe – Component for Serbia and Montenegro – Project for Serbia - ECSEE) was entered into on September 8, 2005 between the State Union of Serbia and Montenegro and the International Development Association (“IDA”) in the amount of SDR 13.9 million. The ultimate user of a portion of this loan is the JP Elektromreža Srbije.

During 2003, financial agreements were executed with the German financial institution, KfW totaling EUR 16 million (EUR 9 million of non-repayable funds), and also a financial agreement was signed in the amount of EUR 30 million on September 9, 2005. In accordance with the provisions of Addendum I to the original agreement executed on August 22, 2005, this loan will be available upon the provision of a payment guarantee by the Government of the Republic of Serbia, which is currently in process.

In accordance with the sovereign agreements executed by the Governments of the FR Yugoslavia and the Russian Federation with respect to financing the revitalization, involving increasing the installed power capacities of the hydrogenerator for the hydropower and water navigation system of the Djerdap I, originating from the funds of the clearing debt of the former SSSR toward the former SFR Yugoslavia, the Enterprise entered into an agreement on the revitalization involving the increased, installed power capacities of the hydrogenerator for the hydropower and water navigation system of the Djerdap I numbered 05030856/030135-0275 of March 29, 2003 with the Otvoreno Akcionarsko Društvo, Energomašeksport-Silovije Mašini, Moscow, the contractor of the works, in the value of USD 100,511,390. Under the provisions of this agreement, payments are to be performed pursuant to the terms of the sovereign agreement on the repayment of the clearing debt of the former USSR toward the former SFR Yugoslavia. Up to the date of issuance of the financial statements, the aforementioned agreement has not been executed. The obligations towards the contractors of the work are stated under Liabilities towards international suppliers in the amount of Dinar 1,364,977 thousand as of December 31, 2005.

The maturities of the Company’s long-term loans at December 31, 2005 are as summarized below:

	Thousands of Dinars	
		<i>Restated</i>
	December 31, 2005	December 31, 2004
From one to five years	9,363,273	6,468,457
Over five years	36,103,459	34,456,231
	<u>45,466,732</u>	<u>40,924,688</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

25. NON-CURRENT INTEREST-BEARING BORROWINGS (Continued)

The Company's long-term loans are denominated in the following foreign currencies, and are as follows:

	Thousands of Dinars	
	December 31, 2005	<i>Restated</i> December 31, 2004
EUR	23,950,195	21,822,602
USD	9,974,218	7,018,636
CHF	6,693,983	6,281,505
JPY	2,049,858	3,646,875
Other	-	1,318
	<u>42,668,254</u>	<u>38,770,936</u>

26. OTHER NON-CURRENT LIABILITIES

	Thousands of Dinars	
	December 31, 2005	<i>Restated</i> December 31, 2004
Rescheduled public income liabilities	6,466,532	7,049,901
Rescheduled liabilities with respect to fees for environmental use and protection of water resources	665,503	973,931
Other rescheduled liabilities	1,305,131	-
Other	166,391	163,189
	<u>8,603,557</u>	<u>8,187,021</u>
Amounts due within one year:		
- rescheduled public income liabilities	(627,147)	(679,537)
- rescheduled liabilities for fees on environmental use and the protection of water resources	(298,976)	(307,529)
- rescheduled liabilities to JP Srbijagas	(398,790)	-
- other	(19,710)	(8,311)
	<u>(1,344,623)</u>	<u>(995,377)</u>
	<u>7,258,934</u>	<u>7,191,644</u>

Rescheduled public income liabilities that were not settled up to December 31, 2002 are associated with tax and social security contributions on employee compensation, and turnover taxes, that have been rescheduled to be repaid in 120 monthly installments at an annual interest rate equal to the NBS discount rate. Upon the repayment of the last installment, the Company retains the right to receive a write-off of such liabilities in an amount equal to 30% of the interest accrued up to September 30, 2003.

Liabilities associated with fees for environmental use and protection of water resources that were not settled up to December 31, 2002, have been rescheduled in accordance with the Agreement entered into between the Company and the Government of the Republic of Serbia. These liabilities are repayable in monthly installments over a period of five years. The liabilities shall increase in the event that the annual retail price index exceeds 12 percent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

26. OTHER NON-CURRENT LIABILITIES (Continued)

In accordance with the September 28, 2005 Agreement with respect to the settlement of mutual receivables and liabilities entered into between the consolidated JP Panonske elektrane, Novi Sad and the JP NIS, the amounts of mutual receivables and liabilities arising up to December 31, 2004 between the Company and the enterprises within the JP NIS were redefined as of August 15, 2005, by which the Company's total debt to JP NIS amounted to Dinar 1,305,131 thousand. The Company credited to the FY 2005 Statement of income, the effects of the reconciliation with the newly-determined balance of liabilities in the amount of Dinar 310,000 thousand. This amount is to be repaid by JP Srbijagas 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.

27. CURRENT INTEREST-BEARING BORROWINGS AND
OTHER CURRENT FINANCIAL LIABILITIES

	Thousands of Dinars	
	December 31, 2005	Restated December 31, 2004
<i>In foreign currencies</i>		
Current portion of long-term loans	3,445,430	3,408,563
Non-current loans due within one year from:		
- creditors in the Czech Republic	-	6,518,008
- creditors from the Republic of Poland	3,819,777	3,094,321
- domestic banks	-	142,259
- domestic banks undergoing bankruptcy	2,123,045	1,845,271
- Kapital Hilfe, Germany	-	3,252,307
- other	-	184,234
	9,388,252	18,444,963
<i>Liabilities in dinars:</i>		
Current portion of non-current loans	464,890	102,827
Current portion of other non-current liabilities	1,344,623	995,377
Non-current loans from domestic banks in bankruptcy due within one year from:	65,000	65,000
Short-term loans from domestic banks in bankruptcy	35,000	35,000
Liabilities arising on subscribed, not-paid in investments	1,549,958	-
Other	1,632	52,084
	3,461,103	1,250,288
Other short-term liabilities:		
- to banks in bankruptcy	1,382,700	1,106,579
- to other banks	7,083	25,442
	1,389,783	1,132,021
	14,239,138	20,827,272

The decrease in liabilities associated with the loans from Kapital Hilfe, Germany results from the separation of the JP Elektroistok.

In coordination with the Republic of Serbia Ministry of Finance and of the Economy, a plan has been drafted for the settlement of EPS' debt to its foreign creditors in the Czech Republic and Poland. This plan has been adopted by the Government of the Republic of Serbia. In accordance with the plan, the settlement terms should not be less favorable to EPS than the terms outlined under the relevant agreement with the Paris Club of Creditors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

**27. CURRENT INTEREST-BEARING BORROWINGS AND
OTHER CURRENT FINANCIAL LIABILITIES (Continued)**

In accordance with the Platform of the Government of the Republic of Serbia with respect to the Regulation of Debtor-Creditor Relations with International Creditors from the Czech Republic and Poland, EPS' Board of Directors brought a Resolution on the Immediate Repayment of Debt in the amount of USD 48.5 million on the basis of the settlement of the total loan and commercial agreements from the Czech Republic including a write-off, which was effected on April 26, 2006. The interest liabilities on the loans originated by creditors from the Czech Republic amounted to Dinar 1,088,673 thousand as of December 31, 2004. The Company charged to the Income Statement for the year ended 2005, the interest liabilities from previous years in the amount of Dinar 5,113,630 thousand, and credited income attributable to the write-off of liabilities in the amount of Dinar 10,320,148 thousand.

The aforementioned loans that were originally disbursed via domestic banks presently undergoing bankruptcy proceedings, including the liabilities towards Jugobanka A.D., in bankruptcy, Beograd, on the basis of an international deposit opened on the account of the Company at an international bank in a prior period, in the amount of Dinar 144,438 thousand (USD 2,000,000), and which matured for payment during 2001. Since the international bank did not claim its receivables from the Bankruptcy Court, in 2005, on the basis of the Decision of the Commercial Court of Belgrade, Jugobanka A.D., in Bankruptcy, Beograd informed the Company in writing that it had performed a write-down of the foreign currency receivable from the Company, and thereby notified the Company that it no longer has receivables from the Company on the aforementioned basis.

28. ACCOUNTS PAYABLE

	Thousands of Dinars	
	December 31, 2005	December 31, 2004
Advances received	530,569	306,659
Accounts payable:		-
- non-consolidated subsidiaries	487,884	514,634
- domestic suppliers	4,791,463	5,320,191
- foreign suppliers	2,492,143	1,986,476
- JP Elektromreža Srbije	1,068,158	-
Liabilities for radio television subscriptions	1,351,907	-
Other	346,502	265,284
	<u>11,068,626</u>	<u>8,393,244</u>

A portion of EPS' liabilities to its foreign creditors and suppliers will be covered from the loans that have been extended to the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

29. VALUE ADDED TAX AND OTHER DUTIES PAYABLE

	Thousands of Dinars	
	December 31,	<i>Restated</i> December 31,
	2005	2004
Income taxes	628,921	22,850
Value added tax	1,689,962	-
Sales taxes	5,125	565,027
Fees for environmental use and protection of water resources, municipal land and other public resources	419,594	648,087
Other	163,366	201,783
	<u>2,906,968</u>	<u>1,437,747</u>

30. OTHER CURRENT LIABILITIES AND ACCRUALS

	Thousands of Dinars	
	December 31,	<i>Restated</i> December 31,
	2005	2004
Amounts originated by the Ministry of Finance the Republic of Serbia	1,572,741	1,572,741
Interest and financing costs accrued	5,823,302	7,511,989
Accrued salaries	867,623	628,752
Taxes and contributions on salaries payable	533,104	523,828
Liabilities for power exchange and borrowings from foreign electric power distribution systems	128,499	191,424
Other liabilities	41,347	90,553
Deferred income from donations	12,865,076	12,867,494
Accrued turnover taxes	-	142,668
Other accruals	370,322	75,526
	<u>22,202,014</u>	<u>23,604,975</u>

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 the financing of its maintenance and repair activities. In 2002, the Company repaid Dinar 1.5 billion of the total initial amount of Dinar 3.1 billion. This loan was extended with a maturity term of up to December 31, 2001, at an interest rate based on the NBS prime rate. For the period from December 31, 2001 to December 31, 2005, the accrued interest liabilities on these loans totaled Dinar 976,288 thousand (December 31, 2004: Dinar 787,627 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

30. OTHER CURRENT LIABILITIES AND ACCRUALS (Continued)

In the past years, the Company has received funds on the basis of financial and technical assistance from international donors in the European Union, Switzerland, Japan and from international organizations, which were initially recognized as deferred income. All of these contracts and agreements have been ratified by the Federal Parliament. 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.

Movements in the balance of deferred income from donations were as follows during the year ended December 31, 2005:

	Thousands of Dinars	
	December 31, 2005	December 31, 2004
Balance at beginning of year, before adjustments:	13,121,080	4,568,034
Adjustments	<u>(253,586)</u>	<u>1,175,876</u>
Balance at beginning of year, after adjustments:	12,867,494	5,743,910
Donations received	2,471,144	8,278,660
Transferred to the Statement of Income	(1,009,802)	(793,288)
Separation of JP Elektroistok, Beograd	(1,329,882)	-
Transfer to JP Elektromreža	(134,000)	-
Other	<u>122</u>	<u>(108,202)</u>
Balance at the end of year:	<u><u>12,865,076</u></u>	<u><u>13,121,080</u></u>

31. DEFERRED TAX LIABILITIES

Deferred tax liabilities in the amount of Dinar 17,566,690 thousand as of December 31, 2005 (December 31, 2004: Dinar 19,401,933 thousand) are associated with the temporary differences arising on property, plant, equipment and intangible assets. The decrease in deferred tax liabilities in the year ended December 31, 2005 in the amount of Dinar 2,165,481 thousand, is primarily a result of the separation of JP Elektroistok.

32. CONTINGENT LIABILITIES

Litigation

As of December 31, 2005, the estimated amount of potential damages arising from litigation filed against the Company totaled Dinar 2,092,494 thousand (December 31, 2004: Dinar 2,909,878 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, 2005, the Company recognized a provision for potential losses arising from litigation in the amount of Dinar 483,021 thousand (December 31, 2004: Dinar 459,920 thousand). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005**32. CONTINGENT LIABILITIES (Continued)****Liabilities with Respect to Fees for the Use of Mineral Resources**

The consolidated subsidiaries engaged in the mining and production of coal did not include the liabilities with respect to the fees for the use of mineral resources pursuant to the applicable regulations of the Republic of Serbia ("Official Gazette of the Republic of Serbia," numbered 28/02). The Company's management judges that the corresponding accruals should not be made since payments on the same basis are already being made for environmental protection purposes in accordance with the Law on the Payment and Appropriation of Fees for the Use of Natural Resources in the Production of Electricity and Oil and Gas ("Official Gazette of the Republic of Serbia," numbered 16/1990). By its written correspondence of February 13, 2006, the presiding Ministry informed the Company that the disharmony of these acts will be eliminated by the enactment of the Law on Mining.

Obligations Based on Contributions for Benefits-Covered Employment Service

In the consolidated JP Rudarski basen Kolubara, Lazarevac, for an extended period of time, various commissions have worked in an effort to determine the job positions upon which the length of benefit-covered service is computed at an increased length. These commissions are comprised of representatives of the aforementioned Enterprise, of the Republic PIO Fund [Pension and Disability Insurance] and of the AD Zaštita na radu i zaštita životne sredine, Beograd [a shareholding company for the Protection of Labor and the Environment]. Effective as of the moment of the delivery of the Commission meeting minutes during 2005, the Enterprise must pay contributions for the length of service subject to benefits for the above-mentioned job positions, but it is also obligated to pay contributions for the previous periods. Management believes that during the period of the preparation of these financial statements, it did not have access to reliable figures with respect to such obligations for the previous period, and accordingly, the accompanying financial statements do not include the provisions for the aforementioned obligations.

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 underground 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005**33. OPERATING RISKS***Foreign Exchange Risk*

The Company enters into international 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 comprises the possibility that the value of the Company's term debt will fluctuate due to changes in market interest rates. As of December 31, 2005 and 2004, 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 fail to perform their obligations. The Company's exposure to credit risk is limited to the carrying value of accounts receivable and other receivables. The 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's 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.

34. 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 from its conversion 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, 2005, the Company's management has estimated the total loss of electricity to amount to Dinar 11.9 billion (FY 2004: Dinar 10.8 billion), of which the technical loss is 8 billion (FY 2004: Dinar 7.3 billion) and the non-technical loss equals Dinar 3.9 billion (FY 2004: Dinar 3.5 billion).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

35. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE AND AFTER THESE FINANCIAL STATEMENTS WERE PREPARED AND SUBMITTED TO THE CENTER FOR CREDIT WORTHINES

Organizational Changes

In the process of restructuring and reorganizing the enterprises comprising the EPS group, the Board of Directors enacted a resolution on the establishment of limited liability companies, representing the legal successors to the subsidiary enterprises.

Newly-Established Enterprises

Full Name and Abbreviated Name	Public Enterprises – Legal Predecessors
Public Enterprise Elektroprivreda Srbije, Beograd – JP EPS, Beograd	JP Elektroprivreda Srbije, Beograd
Hidroelektrane Đerdap d.o.o., Kladovo – HE Đerdap, Kladovo	JP HE Đerdap, Kladovo
Drinsko-Limske Hidroelektrane d.o.o., Bajina Bašta -- Drinsko-Limske HE, d.o.o., Bajina Bašta	JP Drinske hidroelektrane, Bajina Bašta
Termoelektrane Nikola Tesla d.o.o., Obrenovac – TENT d.o.o., Obrenovac	JP TE Nikola Tesla, Obrenovac
Termoelektrane i kopovi Kostolac d.o.o., Kostolac	JP Termoelektrane Kostolac
	JP Površinski kopovi Kostolac
Panonske termoelektrane – toplane d.o.o., Novi Sad	JP Panonske elektrane, Novi Sad
Panonske TE-TO d.o.o., Novi Sad	
Company for the Production, Processing and Distribution of Coal – Rudarski basen Kolubara d.o.o., Lazarevac	JP RB Kolubara, Lazarevac
RB Kolubara d.o.o., Lazarevac	
Company for the Distribution of Electricity	JP Elektrovojvodina, Novi Sad
Elektrovojvodina d.o.o., Novi Sad	
ED Elektrovojvodina d.o.o., Novi Sad	
Company for the Distribution of Electricity	JP Elektrodistribucija Beograd
Elektrodistribucija – Beograd d.o.o., Beograd	
EDB d.o.o., Beograd	
Company for the Distribution of Electricity,	JP Elektrosrbija, Kraljevo
Elektrosrbija d.o.o., Kraljevo	
Elektrosrbija d.o.o., Kraljevo	
Company for the Distribution of Electricity,	JP Elektrodistribucija Niš
Jugoistok d.o.o., Niš	JP Elektrotimok, Zaječar
ED Jugoistok d.o.o., Niš	JP Elektrodistribucija Leskovac
	JP Elektrodistribucija Vranje
Company for the Distribution of Electricity, Centar d.o.o., Kragujevac	JP Elektrošumadija, Kragujevac
ED Centar d.o.o., Kragujevac	JP Elektromorava, Požarevac

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005****35. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE AND AFTER THESE FINANCIAL STATEMENTS WERE PREPARED AND SUBMITTED TO THE CENTER FOR CREDIT WORTHINESS (Continued)**

The aforementioned changes were inscribed in the Republic of Serbia Commercial Register Agency in January 2006.

Settlement of Liabilities with respect to the Refinanced Loans from the Paris Club of Creditors

During April 2006, the Company and the Agency for the Insurance of Deposits executed Agreements on the Settlement of Liabilities to the Republic of Serbia, stated in the amount of Dinar 16,733,233 thousand at December 31, 2005, based on the refinanced loans originated by the Paris Club of Creditors, which were disbursed via domestic banks that are presently undergoing bankruptcy proceedings. In addition, later in April 2006, the Company and the Agency for the Insurance of Deposits signed agreements under which the write-off of the second disbursement of debt was approved in the amount of 30.61%, on the previously-determined debt. The effects of this write-off, estimated by the management in the amount of Dinar 4,769,754 thousand, as per the exchange rate in effect as of December 31, 2005, were not presented in the accompanying consolidated financial statements. In addition, the EPS management expects further write-offs of debts for other loans that were originated by the Paris Club of Creditors in the amount of Dinar 2,661,611 thousand, as per the exchange rate effective as of December 31, 2005.

Settlement of Liabilities with respect to Refinanced Loans from the London Club of Creditors

During May 2006, the Company and the Agency for the Insurance of Deposits executed agreements on the settlement of liabilities to the Republic of Serbia that are based on the refinanced loans originated by the London Club of Creditors, which were disbursed through domestic banks presently undergoing bankruptcy, in the amount of Dinar 751,946 thousand as of December 31, 2005.

Settlement of Liabilities with Respect to the Loans of the Government of the Russian Federation

On April 6, 2006, the Enterprise entered into an Agreement on the Settlement of Liabilities Towards the Republic of Serbia with the Agency for the Insurance of Deposits, in connection with the loans of the Government of the Russian Federation that were disbursed via domestic banks that are presently involved in bankruptcy proceedings. These banks loans were assumed by the Republic of Serbia, pursuant to the provisions of the Law on the Settlement of Relations of the Republic of Serbia and the banks undergoing bankruptcy, with regard to the assumed international loans or debt (See: "Official Gazette of the Republic of Serbia," numbered 45/2005), pursuant to which the Enterprise was freed of the liabilities towards the banks undergoing bankruptcy, and consequently, it became a debtor to the Republic of Serbia. Pursuant to the aforesaid agreement, it was determined that the Enterprise's debt as of September 22, 2005 totaled USD 45,811,823, which represents the principal debt (USD 44,358,917) increased by USD 1,452,910 which has been repaid by the Republic of Serbia to the international creditor subsequent to the payment of the first installment of the consolidated debt on the aforementioned date, and interest in the amount of USD 1,763,991 for the period from March 22, 2002 up to September 22, 2005. The aggregate amount of the Enterprise's debt totals USD 47,575,814 as of the aforementioned date. Under the terms of the aforesaid agreement, the previously-stated amount in its dinar countervalue as per the National Bank of Serbia middle exchange rate as of the date of payment, within the maturities that correspond to the maturities of the liabilities of the Republic of Serbia to the international creditor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

35. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE AND AFTER THESE FINANCIAL STATEMENTS WERE PREPARED AND SUBMITTED TO THE CENTER FOR CREDIT WORTHINESS (Continued)

Pursuant to Annex I to the aforesaid agreement, executed on April 10, 2006, under which the Republic of Serbia has written off a portion of the determined debt in accordance with the general agreement, and has done so on the basis of a reduction in the amount of the interest rate as established under the Bilateral Agreement entered into between the Russian Federation and the Federal Republic of Yugoslavia with respect to the Consolidation of Debt. Under the provisions of this Annex, a new obligation of the Enterprise was determined effective as of March 22, 2006, which includes principal in the amount of USD 45,811,823, accrued interest for the period from March 22, 2002 up to December 31, 2005 in the amount of USD 1,905,947 and accrued interest for the period from September 22, 2005 up to March 22, 2006 which the Republic of Serbia has settled towards the international creditor in the amount of USD 268,197. The debt principal is to be paid in semi-annual installments in the period from March 22, 2006 up to March 22, 2034, at an annual interest rate of 1.8592% for the period from September 23, 2005 up to February 6, 2006, and from that date up to the end of the loan repayment period, the loan interest will be computed at the annual rate of 0.5517%. The amount of the computed interest of USD 1,905,947 is to be paid in fourteen, equal and consecutive, semi-annual installments. The remainder of the determined liability (USD 268,197) and the repaid installment of principal in the amount of USD 123,692, is to be repaid by the Enterprise within a period of five days from the date of the Annex I to the general agreement.

36. EXCHANGE RATES

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

	December 31, 2005	December 31, 2004
USD	72.2189	57.9355
EUR	85.5000	78.8850
GBP	124.5085	111.2780
CHF	54.9380	51.0913