

**PUBLIC ENTERPRISE,
ELEKTROPRIVREDA SRBIJE**

**Independent Auditors' Report
and Consolidated Financial Statements
Year Ended December 31, 2006**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements (pages 4 to 63) of the Public Enterprise Elektroprivreda Srbije, Beograd (the Electric Power Company of Serbia, hereinafter: the "Company" or "EPS") and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2006, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Basis for Qualified Opinion

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 RSD 13,288,098 thousand as of December 31, 2006. Owing to the nature of the Company's records of 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, 2006, and of the amount of RSD 979,692 thousand recorded as amortization of deferred income in the income statement for the year ended December 31, 2006.

In accordance with the relevant regulations of the Republic of Serbia with respect to mining and environmental protection, the Company is under 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 future costs related to restoration was not prepared by the Company management.

As disclosed in Notes 3.2 and 16 to the consolidated financial statements, the carrying value of land in the amount of RSD 6,634,849 thousand as of December 31, 2006 represents the value determined in accordance with the previously-effective accounting regulations of the Republic of Serbia, and was not a subjected to 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, 2006.

As disclosed in Note 17 to the consolidated financial statements, the accompanying consolidated financial statements do not include the financial statements of certain subsidiaries in which the consolidated enterprises hold majority interests and whose principal business activities are not directly involved in the generation and distribution of electricity. Based on information made available to us, we were unable to quantify the effects of this matter on the accompanying consolidated financial statements.

As disclosed in Notes 3.17 and 17 to the consolidated financial statements, the Company recorded available-for-sale equity investments in domestic banks and insurance companies in the net amount of RSD 518,352 thousand at their nominal value as of December 31, 2006 or at the revalued amounts calculated by applying the officially-published retail price index. However, such accounting treatment is not in accordance with the Company's accounting policies and with the requirements of IAS 39, "Financial Instruments: Recognition and Measurement," which prescribe the subsequent measurement of available-for-sale securities at fair value.

As disclosed in Note 3.5 to the consolidated financial statements, with the exception of the subsidiary RB Kolubara D.O.O., Lazarevac, the Company did not perform an actuarial valuation in order to determine the present value of the accumulated employee retirement benefits and employment anniversary awards, nor did it prepare a calculation of the short-term employee benefits, as required under the provisions of IAS 19, "Employee Benefits." As a result, the accompanying financial statements do not include long-term provisions and short-term liabilities with respect to employee benefits. Accordingly, we were unable to determine the potential effects of the aforementioned liabilities on the Company's consolidated financial statements for FY 2006.

Certain information presented in the consolidated cash flow statement has not been reconciled with the amounts stated in the Company's consolidated balance sheet as of December 31, 2006, as well as in the consolidated income statement for the year ended December 31, 2006. Accordingly, we do not express an opinion on the Company's consolidated cash flow statement.

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Qualified Opinion

In our opinion, except for the effects on the consolidated financial statements of the matters referred to in the preceding paragraphs, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries as of December 31, 2006, and its consolidated financial performance and changes in equity for the year then ended, in accordance with the accounting regulations of the Republic of Serbia.

Emphasis of Matter

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

- (a) 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 Serbian Business Register Agency (Note 24 to the consolidated financial statements). In addition, as further disclosed in Note 24 to the consolidated financial statements, in the consolidation process, the equity investments in subsidiaries were not reconciled with the amount of attributable capital of subsidiaries by RSD 35,750,072 thousand.
- (b) 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 16 to the consolidated financial statements), the significant liabilities associated with borrowings from foreign creditors and domestic banks in bankruptcy (Notes 26 and 28 to the consolidated financial statements), the breach of covenants and compliance with loan agreements (Note 26 to the consolidated financial statements), the significant potential damages in connection with various litigation filed against the Company (Note 32 to the consolidated financial statements), significant distribution losses (Note 34 to the consolidated financial statements), in addition to other assumptions and factors influencing the Company's decision to not record liabilities with 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 materially significant adjustments in the Company's financial statements.
- (c) The Company does not possess ownership titles for all materially significant immovables presented in the Company's books of accounts as of December 31, 2006.



Deloitte d.o.o.
Belgrade
July 15, 2007

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2006
(thousands of RSD)

	<u>Notes</u>	<u>2006</u>	<i>Restated</i> <u>2005</u>
Revenue	5	97,091,181	84,027,305
Own-work capitalized		2,187,691	2,899,192
Increase in the inventories of work in progress and finished goods		177,855	468,847
Other operating income	6	4,177,181	3,858,700
		<u>103,633,908</u>	<u>91,254,044</u>
OPERATING COSTS AND EXPENSES			
Cost of goods sold		72,462	216,516
Cost of materials, energy and fuel	7	21,703,386	17,794,497
Staff costs	8	27,722,505	24,261,459
Depreciation, amortization and provisions	9	18,506,653	17,373,900
Other operating expenses	10	25,699,811	20,002,328
		<u>93,704,817</u>	<u>79,648,700</u>
NET OPERATING INCOME		<u>9,929,091</u>	<u>11,605,344</u>
Finance income	11	11,384,815	7,756,483
Finance expenses	12	(5,210,802)	(16,191,936)
Other income	13	18,044,008	18,713,555
Other expenses	14	(16,257,300)	(20,862,000)
PROFIT BEFORE TAXATION		<u>17,889,812</u>	<u>1,021,446</u>
Income taxes	15	(1,586,566)	(2,249,253)
PROFIT/(LOSS) FOR THE YEAR		<u><u>16,303,246</u></u>	<u><u>(1,227,807)</u></u>

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

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 at December 31, 2006
(thousands of RSD)

	Notes	December 31, 2006	<i>Restated</i> December 31, 2005
ASSETS			
Non-current assets			
Intangible assets	16	2,242,241	2,031,464
Property, plant and equipment	16	377,180,209	378,202,897
Investment property	16	41,162	43,191
Equity investments	17	4,122,321	2,557,901
Other long-term financial placements	18	3,738,716	4,610,497
		<u>387,324,649</u>	<u>387,445,950</u>
Current assets			
Inventories	19	16,985,675	15,045,614
Accounts receivable	20	27,234,485	21,267,496
Receivables for prepaid income taxes		287,379	18,263
Short-term financial placements	21	6,862,151	5,497,272
Cash and cash equivalents	22	8,546,367	9,272,493
Value added tax and prepayments	23	1,586,359	2,057,947
Deferred tax assets	15 b)	-	-
		<u>61,502,416</u>	<u>53,159,085</u>
Total assets		<u><u>448,827,065</u></u>	<u><u>440,605,035</u></u>
EQUITY AND LIABILITIES			
Equity			
State-owned capital	24	358,656,306	358,324,022
Other capital funds	24	1,291,632	1,622,560
Revaluation reserves		24,394	24,394
Accumulated losses		(18,577,432)	(34,906,331)
		<u>341,394,900</u>	<u>325,064,645</u>
Long-term provisions	25	<u>1,704,003</u>	<u>756,202</u>
Non-current liabilities			
Non-current interest-bearing borrowings	26	35,054,701	45,466,732
Other non-current liabilities	27	5,961,972	7,258,934
		<u>41,016,673</u>	<u>52,725,666</u>
Current liabilities			
Current interest-bearing borrowings and other current financial liabilities	28	10,317,195	14,239,138
Accounts payable	29	17,394,239	11,068,624
Other current liabilities and accruals	30	20,907,975	22,398,872
Value added tax and other duties payable	31	3,096,126	2,278,047
Income taxes payable		1,301,281	628,475
		<u>53,016,816</u>	<u>50,613,156</u>
Deferred tax liabilities	15 b)	<u>11,694,673</u>	<u>11,445,366</u>
Total equity and liabilities		<u><u>448,827,065</u></u>	<u><u>440,605,035</u></u>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2006
(thousands of RSD)

	State-Owned Capital	Other Capital Funds	Revaluation Reserves	Accumulated Losses	Total
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	<u>378,066,867</u>	<u>1,657,807</u>	<u>-</u>	<u>(26,280,325)</u>	<u>353,444,349</u>
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
Loss for the year	-	-	-	(1,227,807)	(1,227,807)
Other	24	(1,665)	24,394	(75,366)	(52,613)
Balance at December 31, 2005	<u>358,324,022</u>	<u>1,622,560</u>	<u>24,394</u>	<u>(38,214,734)</u>	<u>321,756,242</u>
Balance at January 1, 2006, before adjustments	358,324,022	1,622,560	24,394	(38,214,734)	321,756,242
Opening balance adjustments (Note 4)	-	-	-	3,308,403	3,308,403
Balance at January 1, 2006, adjusted	<u>358,324,022</u>	<u>1,622,560</u>	<u>24,394</u>	<u>(34,906,331)</u>	<u>325,064,645</u>
Transfers	332,368	(332,368)	-	-	-
Profit for the year	-	-	-	16,303,246	16,303,246
Recognition of solidarity apartments	-	1,608	-	-	1,608
Other	(84)	(168)	-	25,653	25,401
Balance at December 31, 2006	<u>358,656,306</u>	<u>1,291,632</u>	<u>24,394</u>	<u>(18,577,432)</u>	<u>341,394,900</u>

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

CONSOLIDATED CASH FLOW STATEMENT
Year Ended December 31, 2006
(Thousands of RSD)

	<u>2006</u>	<i>Restated</i> <u>2005</u>
Cash flows from operating activities		
Sales and advances from customers	95,842,480	95,833,486
Interest received	4,594,941	5,742,434
Other operating inflows	19,062,189	3,546,751
Payments to suppliers	(66,351,949)	(53,338,525)
Payments to and on behalf of employees	(26,332,395)	(23,796,788)
Interest paid	(1,284,764)	(2,191,080)
Income tax paid	(49,228)	(604,051)
Other taxed and duties paid	<u>(12,521,652)</u>	<u>(11,587,668)</u>
<i>Net cash from operating activities</i>	<u>12,959,622</u>	<u>13,604,559</u>
Cash flows from investing activities		
Sales of shares and investments (net inflows)	4,476	-
Sales of property, plant, equipment and intangible assets	3,473	10,648
Other financial placements (net inflows)	773,272	646,350
Interest received	337,842	3,184,610
Dividends received	16,000	-
Acquisition of shares and investments (net outflows)	(480,000)	(229,593)
Purchases of property, plant, equipment and intangible assets	(9,498,302)	(8,049,613)
Other financial placements (net outflows)	<u>(179,790)</u>	<u>(3,169,800)</u>
<i>Net cash used in investing activities</i>	<u>(9,023,029)</u>	<u>(7,607,398)</u>
Cash flows from financing activities		
Increase in capital	204	171,814
Short-term and long-term borrowings (net inflows)	439,864	703,374
Other short-term and long-term liabilities	96,145	116,049
Short-term and long-term borrowings and other liabilities (net inflows)	(4,495,763)	(4,353,808)
Finance lease	<u>(2,830)</u>	<u>(4,604)</u>
<i>Net cash used in financing activities</i>	<u>(3,962,380)</u>	<u>(3,367,175)</u>
Net decrease in cash and cash equivalents	(25,787)	2,629,986
Cash and cash equivalents, beginning of year	9,272,493	6,438,374
Foreign exchange losses on translation	(700,339)	204,133
Cash and cash equivalents, end of year	<u>8,546,367</u>	<u>9,272,493</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, 2006

1. ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE

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

The Public Company for production of electricity, transmission and trade in electricity "Elektroprivreda Srbije," Beograd, Carice Milice number 2, commenced its business operations on July 1, 2005 based on a Decision issued by the Business Registers Agency, BD80380/2005, and as of the same date, assumed the assets, liabilities and employees of JP EPS, established under the Law on Electric Power Industry ("Official Gazette", number 45/91), save for the portion of assets and liabilities assumed by:

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

The Company assumed all founder's rights in the subsidiaries, save for the rights held in the Public Company for electric power transmission "Elektroistok" and in the company "Elektroenergetski koordinacioni centar" D.O.O. [Electric Power Coordination Center], harmonizing the organization of work and business activities of the public subsidiary enterprises with the regulations governing the legal position of commercial entities in accordance with the Order of the Government of the Republic of Serbia. Namely, pursuant to the Board of Directors Decisions approved by the Government of the Republic of Serbia, new business entities were founded, i.e., the legal form of the companies assuming the assets, liabilities and employees in the subsidiaries was changed as of January 1, 2006.

Until June 30, 2005, and pursuant to the Law on Electric Supply Industry ("Official Gazette", number 45/91), the Public Company for generation, transmission and distribution of electric power and coal production was established as an organizational form incorporating all electric power companies in the Republic. JP EPS set up 22 subsidiaries, whose principal activities relate to generation of electricity in hydro-electric or thermo-electric power plants, transmission and management of the transmission system, distribution system and trade in electricity and coal production, operating as business entities as of January 1, 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**1. ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE (Continued)****Registered Name**

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

Incorporation

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

Principal Activity

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

Ownership structure

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

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

The 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.

The Supervisory Board – exercises supervision over the performance and business operation of JP EPS and subsidiaries and companies, and /or facilities it has established, reviewing their annual reports, financial statements, accounts and offering profit distribution suggestions.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

1. ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE (Continued)

Organization Structure

The Public Company "Elektroprivreda Srbije," as a Parent Company, has assumed all founder's rights as of the foundation date, along with the obligation to reconcile the work and operation within 21 public company, two limited liability companies (EPSTURS and Rudnik Kovin) and Electrical Engineering Institute "Nikola Tesla."

The Public Company "Elektroprivreda Srbije" exercises control over all business entities, except for the Subsidiaries located on the territory of the Autonomous Province of Kosovo and Metohija (Public Company for production of thermal energy TE "Kosovo," Public Company dealing with coal production, processing and transport "Kosovo" and the Public Company for electricity supply "Elektrokosmet," Priština), because as of June 1999 the Kosovo province has been under the International Community control, whereby the Parent Company lost its administration and management powers over the business operations of the abovementioned companies.

In 2005, the equity interests in the legal entities dealing with activities unrelated with electric power industry transferred to the Republic of Serbia.

In the procedure of reorganization the companies operating within EPS, the Board of Directors made a Decision to establish 11 limited liability companies as legal successors of the 21 Company's subsidiary, as of January 1, 2006, is presented in the following page:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

1. ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE (Continued)

Newly-Established Enterprises	Public Enterprises – Legal Predecessors
Public Enterprise Elektroprivreda Srbije, Beograd	JP Elektroprivreda Srbije, Beograd
Hidroelektrane Đerdap d.o.o., Kladovo	JP HE Đerdap, Kladovo
Drinsko-Limske Hidroelektrane d.o.o., Bajina Bašta	JP Drinske hidroelektrane, Bajina Bašta JP Limske hidroelektrane, Nova Varoš
Termoelektrane Nikola Tesla 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
Company for the Production, Processing and Distribution of Coal – Rudarski basen Kolubara d.o.o., Lazarevac	JP RB Kolubara, Lazarevac
Company for the Distribution of Electricity Elektrovojvodina d.o.o., Novi Sad	JP Elektrovojvodina, Novi Sad
Company for the Distribution of Electricity Elektrodistribucija – Beograd d.o.o., Beograd	JP Elektrodistribucija Beograd
Company for the Distribution of Electricity, Elektrosrbija d.o.o., Kraljevo	JP Elektrosrbija, Kraljevo
Company for the Distribution of Electricity, Jugoistok d.o.o., Niš	JP Elektrodistribucija Niš JP Elektrotimok, Zaječar JP Elektrodistribucija Leskovac JP Elektrodistribucija Vranje
Company for the Distribution of Electricity, Centar d.o.o., Kragujevac	JP Elektrošumadija, Kragujevac JP Elektromorava, Požarevac

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

1. ACTIVITY, ORGANIZATION AND MANAGEMENT STRUCTURE (Continued)

- The Companies primarily engaged in electricity generation, coal processing and transport:
 1. PD “Hidroelektrane Đerdap” D.O.O., Kladovo
 2. PD “Drinsko- Limske hidroelektrane” D.O.O., Bajina Bašta
 3. PD “Termoelektrane Nikola Tesla” D.O.O., Obrenovac
 4. PD “Termoelektrane i kopovi Kostolac” D.O.O., Kostolac
 5. PD “Panonske termoelektrane-toplane” D.O.O., Novi Sad
 6. PD “Rudarski Basen” D.O.O., Lazarevac

- The companies primarily engaged in electrical power distribution are
 7. PD “Elektrovojvodina” D.O.O., Novi Sad
 8. PD “Elektrodisatribucija-Beograd” D.O.O., Beograd
 9. PD “Elektrosrbija” D.O.O., Kraljevo
 10. PD “Jugoistok” D.O.O., Niš
 11. PD “Centar” D.O.O., Kragujevac

The Company had 34,789 employees as of December 31, 2006 (December 31, 2005: 37,757 employees).

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

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

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

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

From the date of issuance of IASs (Official Gazette of the Republic of Serbia no. 133/03) the International Accounting Standards Board has adopted changes in current standards and new standards and interpretations applied to the accounting period ended December 31, 2006.

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

- IFRS 2 “Share Based Payments ”
- IFRS 3 “Business Combinations ”
- IFRS 4 “Insurance Contracts”
- IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations ”
- IFRS 6 “Exploration for and Evaluation of Mineral Resources”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2.1. Basis of Preparation and Presentation of the Consolidated Financial Statements (Continued)**

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

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

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

2.2. Comparative Figures

In order to conform the presentation of figures to the current reporting period, certain reclassifications have been made to the amounts reported in the consolidated financial statements for the year ended December 31, 2005. Also, in accordance with the "Guidelines on the Contents of the Chart of Account for Enterprises, Cooperatives and Entrepreneurial Ventures," (See Official Gazette of the Republic of Serbia, no. 114 of December 22, 2006), the Company changed the manner of presentation of the effects of deferred tax assets. In accordance with the aforementioned Guideline, the Company presented the effects of changes in deferred taxes for current and previous year on separate profit and loss account, within the consolidated income statement for the aforementioned years.

In accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors," the Company reconciled comparative figures for the effects of error adjustments, as disclosed in Note 4 to these financial statements.

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, the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, as well as the income and expenses arising during the accounting period. These estimations and assumptions are based on information available to us, as of the date of preparation of the financial statements. However, actual results may vary from these estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Principles of Consolidation

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

As of June 30, 2005, JP Elektroistok was separated from the EPS group, by establishment of JP Elektromreža Srbije. The income statement of this entity for the period from January 1 through June 30, 2006 was as follows:

INCOME STATEMENT OF JP ELEKTROISTOK
Period from January 1 through June 30, 2006
(thousands of RSD)

	Period from January 1 through June 30, 2006
OPERATING INCOME	
Revenue	1,563,653
Own-work capitalized	66,195
Other operating income	59,963
	<u>1,689,811</u>
OPERATING COSTS AND EXPENSES	
Cost of goods sold	659
Cost of materials, energy and fuel	120,273
Staff costs	468,683
Depreciation, amortization and provisions	879,904
Other operating expenses	134,700
	<u>1,604,219</u>
NET OPERATING INCOME	<u>85,592</u>
Finance income	320
Finance expenses	(411,509)
Other income	51,640
Other expenses	(7,315)
LOSS FOR THE YEAR	<u><u>(281,272)</u></u>

In the consolidation process for FY 2005, income and expenses arising amongst these enterprises were not included. For the purpose of presentation of the aforementioned effects, the Appendix "A" to this report shows restated financial statements for the year 2006 (balance sheet and income statement). In the income statement, the effects of consolidation of JP Elektroistok are excluded from comparative figures for the year 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.1. Principles of Consolidation (Continued)**

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, 2006 and 2005, 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 consolidated financial statements.

3.2. Revenues and Expenses

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

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.

3.3. Effects of Foreign Currency Translation

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

3.4. Borrowings

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

3.5. Employee Benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Employee Benefits (Continued)**

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

Account and disclosure of liabilities arising on retirement payments and anniversary awards is performed by using the method of present value of payments anticipated in the future, in only one company within EPS, RB Kolubara d.o.o., Lazarevac.

3.6. 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.

3.7. Fair Value

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

3.8. Transfer Pricing Between Consolidated Enterprises

During 2006, the transactions entered into between the consolidated enterprises within the EPS group were based on transfer prices set by the EPS' Board of Directors as determined on a cost plus basis.

3.9. Provisions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.10. Donations**

The value of donated assets is initially recorded as deferred income from donations, as presented under liabilities in the balance sheet, 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.

3.11. Taxes and Contributions*Current Income Taxes*

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

In the Republic of Serbia, income tax is payable at the rate of 10% (2005 – 10%) on the tax base reported in the annual corporate income tax return as reduced by any applicable tax credits. The taxable base stated in the income tax return includes the profit shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules.

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

Deferred Income Taxes

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.12. Property, Plant and Equipment**

Property, plant and equipment are initially recognized at cost. The components of cost include: prices billed by suppliers net of discounts, import duties and other non-refundable taxes, as well as all other directly attributable costs of bringing assets to working condition for their intended use. 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.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Depreciation and Amortization (Continued)

	<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%

3.14. Intangible Assets

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

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

	<u>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.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.15. Impairment of Property, Plant and Equipment and Intangible Assets (Continued)**

As of December 31, 2006, according to the assessment of the Company's management, there were no indications that property, plant and equipment had become impaired. Taking into consideration the date of the previous appraisal of assets' fair value, the management engaged the independent appraiser to reexamine the disclosed values of the non-current assets

3.16. Inventories

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

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

Provisions charged to "Other expenses" are made where appropriate in order to reduce the value of inventories to management's best estimate of net realizable value. Inventories found to be damaged or of a substandard quality are written off.

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.

3.17. Financial Instruments

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

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

Equity Investments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.17. Financial Instruments (Continued)***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 income statement for the period.

Short-Term Receivables and Placements

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

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

Other receivables and placements are measured at amortized cost.

Impairment of Financial Assets

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

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

The assessment of the 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 an individual basis. In its estimation of the collectibility or recoverability of accounts receivable, the Company considered all events up to January 31, 2007. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Financial Instruments (Continued)

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.

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

4. OPENING BALANCE ADJUSTMENTS

Adjustments as of January 1, 2005

The Company adjusted the opening balance of retained earnings as of January 1, 2005 based on the effects of errors from previous years:

	(thousands of RSD)
	January 1, 2005
	<hr/>
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
	<hr/>
	8,889,015
	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

4. OPENING BALANCE ADJUSTMENTS (Continued)

Adjustments to 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, upon the first-time application of the new accounting regulations effective 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.

Adjustments as of January 1, 2006

	(thousands of RSD)	
	January 1, 2006	
	<u> </u>	
Release of deferred tax liabilities		6,138,901
Adjustment to deferred tax liabilities for the effects of error correction		(17,577)
Release of deferred tax assets		(157,231)
Adjustment to income tax payable for the year 2005		446
Adjustment to property, plant and equipment (Note 16):		
- adjustment to the appraisal as of January 1, 2004		(1,916,160)
- adjustment to the effects of excavator breakdown		(469,534)
- adjustment to construction in progress		(8,701)
- reconciliation of general ledger and sub-ledger		20,152
- unrecorded donations from previous years		(3,678)
- write-off of resorts transferred to the Government of the Republic of Serbia		(4,013)
Provision for environmental costs		(91,105)
Adjustment to liabilities based on reduced years of service		(183,097)
		<u> </u>
		<u>3,308,403</u>

The Company reconciled the opening balance of retained earnings as of January 1, 2006 for the amount of RSD 6,138,901 thousand relating to reversal of deferred tax liabilities arising on the status changes within EPS as of January 1, 2006 (Note 1).

5. REVENUE

	(thousands of RSD)	
	Year Ended	
	December 31,	
	<u>2006</u>	<u>2005</u>
Sale of electricity	91,190,756	77,196,719
Sale of coal	2,858,256	2,603,641
Sale of engineering steam and gas	1,177,678	1,667,833
Rendering of services	894,059	1,625,793
Income based on for radio and television subscriptions	314,012	12,919
Fees for the transmission of electricity through the Republic of Serbia	-	461,614
Other	656,420	458,786
	<u> </u>	<u> </u>
	<u>97,091,181</u>	<u>84,027,305</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

6. OTHER OPERATING INCOME

	(thousands of RSD)	
	Year Ended	
	December 31,	
	2006	2005
Income from subsidies of retirement benefits	-	512,400
Income from donations	1,314,386	1,009,802
New customer connection fees	1,612,357	1,499,420
Recovery of claims	470,139	231,836
Rental income	47,079	57,704
Other operating income	733,220	547,538
	<u>4,177,181</u>	<u>3,858,700</u>

7. COST OF MATERIALS, ENERGY AND FUEL

	(thousands of RSD)	
	Year Ended	
	December 31,	
	2006	2005
Purchases of electricity:		
- on domestic market	1,028,715	848,832
- on foreign market	3,494,675	1,005,986
Transfer of electricity from the JP Elektromreža Srbije, Beograd	2,666,338	1,272,649
Materials for maintenance and spare parts	9,015,231	7,388,761
Oil derivatives	2,993,250	3,575,655
Natural gas	837,394	973,034
External purchases of coal	476,527	590,678
Office and general administrative supplies	264,680	226,682
Other	926,576	1,912,220
	<u>21,703,386</u>	<u>17,794,497</u>

Expenses of electric power transmission and transmission system management by JP Elektromreža Srbije, Beograd of RSD 2,666,338 thousand relate to the transmission services taken over from the production capacities of the Company.

Expenses of electric power purchased on the foreign market include the amount of RSD 1,339,350 thousand relating to the electricity purchased from JP Elektroprivreda Crne Gore, upon the secession of the Republic of Montenegro from the State Union of Serbia and Montenegro.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

8. STAFF COSTS

	(thousands of RSD)	
	Year Ended	
	December 31,	
	<u>2006</u>	<u>2005</u>
Gross employee compensation	19,462,453	17,169,466
Contributions payable by the employer	4,046,277	3,490,200
Employee termination and retirement benefits	27,948	110,170
Termination benefit incentives (i.e., severance payments)	2,582,220	1,923,985
Employment anniversary awards	194,452	210,521
Employee transportation to work	1,019,801	940,057
Other staff costs	<u>389,354</u>	<u>417,060</u>
	<u>27,722,505</u>	<u>24,261,459</u>

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	(thousands of RSD)	
	Year Ended	
	December 31,	
	<u>2006</u>	<u>2005</u>
Depreciation and amortization	17,312,687	17,070,124
Provisions	<u>1,193,966</u>	<u>303,776</u>
	<u>18,506,653</u>	<u>17,373,900</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

10. OTHER OPERATING EXPENSES

	(thousands of RSD)	
	Year Ended	
	December 31,	
	2006	2005
Insurance premiums	1,738,291	1,642,656
Public water utility fees	1,337,481	1,198,272
Municipal land utility fee	1,018,402	777,537
Fees for the use of environmental resources	482,983	413,374
Environment pollution considerations	1,380,196	-
Property taxes	459,281	479,982
Other indirect taxes, contributions and fees	427,275	506,044
Land expropriation expenses	46,163	1,188,443
Maintenance and repairs	8,811,273	6,989,905
Telecommunications	614,807	359,495
Transportation	293,988	261,096
Rent	1,579,994	407,488
Research and development	210,214	147,469
Utilities	292,302	228,951
Student and youth organizations	658,333	543,738
Entertainment	196,174	174,881
Bank fees and charges	436,616	385,689
Other services	3,850,664	2,588,903
Discounts to customers for timely payments	591,258	479,020
Court fees	202,143	208,558
Other	1,071,973	1,020,827
	<u>25,699,811</u>	<u>20,002,328</u>

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

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

Indirect taxes and compensations of RSD 427,275 thousand involve the assumed liabilities for taxes and contributions of RSD 103,397 thousand for the employees working in JP PEU Resavica for the years 2000 and 2001, including the penalties accrued until December 31, 2002 which will be repaid in 120 installments commencing from January 1, 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

11. FINANCE INCOME

	(thousands of RSD)	
	Year Ended	
	December 31,	
	<u>2006</u>	<u>2005</u>
Interest income	5,291,810	6,577,321
Foreign exchange gains	6,052,462	653,217
Other finance income	<u>40,543</u>	<u>525,945</u>
	<u><u>11,384,815</u></u>	<u><u>7,756,483</u></u>

Interest income mostly relates to the interest charged to liabilities of electricity consumers in default, recognized in the amount of legal penalty.

12. FINANCE EXPENSES

	(thousands of RSD)	
	Year Ended	
	December 31,	
	<u>2006</u>	<u>2005</u>
Interest expense	3,929,357	7,501,287
Foreign exchange losses	1,182,942	8,584,549
Other finance expenses	<u>98,503</u>	<u>106,100</u>
	<u><u>5,210,802</u></u>	<u><u>16,191,936</u></u>

Interest expenses in 2006 involve an amount of RSD 1,850,148 thousand pertaining to penalties assessed to liabilities to creditors from the Republic of Poland (Note 26).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

13. OTHER INCOME

	(thousands of RSD)	
	Year Ended	
	December 31,	
	2006	<i>Restated</i> 2005
	<u>2006</u>	<u>2005</u>
Gains on the sale of property, plant, equipment and intangible assets	117,514	105,914
Collections of receivables previously provided for and written off	3,294,790	2,300,271
Income from international deliveries with EPCG from HE Piva	897,117	-
Gains on the adjustments of other property to fair value	60,438	133,658
Write-off of liabilities:		
- the Paris Club of Creditors (Note 26)	7,528,998	2,306,064
- the London Club of Creditors	-	1,745,613
- creditors in the Czech Republic	-	10,320,148
- creditors in Poland (Note 26)	4,179,948	-
- Ministry of Finance of the Republic of Serbia (Note 30)	976,288	-
- NIS Gas, Novi Sad (Note 26)	-	310,000
- other	320,636	307,562
Inventory count surpluses	133,277	168,171
Prior year income	284,551	427,549
Other	250,451	588,605
	<u>18,044,008</u>	<u>18,713,555</u>

In 2006, the Company recorded income of RSD 897,117 thousand and expenses of RSD 970,430 thousand (Note 14) based on the final annual account of mutual supply with electricity between JP EPS and JP Elektroprivreda Crne Gore for the year 2005 and in accordance with the Contract on long-term business and technical cooperation entered into on March 18, 1991.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

14. OTHER EXPENSES

	(thousands of RSD)	
	Year Ended	
	December 31,	
	<u>2006</u>	<i>Restated</i> <u>2005</u>
Losses on the disposal and retirement of property, plant, equipment, and intangible assets	719,227	1,667,090
Inventory count shortages	60,853	11,325
Losses on the transfer of equity investments in subsidiaries to the Government of the Republic of Serbia	-	5,565,981
Expenses based on mutual deliveries with EPCG from HE Piva	970,430	-
Write-off of receivables	869,877	299,369
Losses on the impairment of:		
- accounts receivable and other current receivables	8,556,590	9,374,898
- other assets	338,693	255,397
Prior year expenses	214,195	351,423
Staff costs of the employees in the non-consolidated public enterprises situated in Kosovo and Metohija	4,040,914	2,789,573
Sponsorships and donations	176,383	166,051
Other	310,138	380,893
	<u>16,257,300</u>	<u>20,862,000</u>

15. INCOME TAXES

a) Components of Income Taxes

	(thousands of RSD)	
	Year Ended	
	December 31,	
	<u>2006</u>	<i>Restated</i> <u>2005</u>
Current income tax expense	1,337,259	627,604
Deferred income tax expense	249,307	1,621,649
	<u>1,586,566</u>	<u>2,249,253</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

15. INCOME TAXES (Continued)

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

	Year Ended December 31,
	<u>2006</u>
Profit before tax	17,889,812
Income tax at the statutory tax rate of 10%	(1,788,981)
Tax effect of non-deductible expenses and revenues not recognized for tax purposes	(334,933)
Used tax loss carryforwards	455,841
Used tax credit carryforwards	239,951
Tax loss carryforwards	(93,267)
Tax credit carryforwards	(106,747)
Capital loss carryforwards	(64)
Used capital loss carryforwards	206
Other	41,428
	<u>(1,586,566)</u>

c) Deferred Tax Assets and Liabilities

Deferred tax liabilities of RSD 11,694,673 thousand (December 31, 2005: RSD 11,445,366 thousand) are associated with the taxable temporary differences arising between the tax bases at which property, plant and equipment, and intangible assets are stated in the annual income tax return, and the carrying value of such assets, as recorded in the Company's financial statements.

As of December 31, 2006 the Company did not recognize deferred tax assets with respect to tax loss and tax credit carryforwards in the total amount of RSD 2,186,810 thousand (December 31, 2005: RSD 993,678 thousand), due to uncertainty whether sufficient taxable profit will be available in the future against which the unused tax losses and tax credits may be utilized by the Company.

The aforementioned tax losses expire as follows:

		(thousands of RSD)	
	Expiration	December 31,	December 31,
	Year	<u>2006</u>	<u>2005</u>
Tax loss carryforwards:			
- 2002	2007	325,495	157,729
- 2003	2013	180,877	274,401
- 2004	2014	407,817	460,990
- 2005	2015	25,965	25,965
- 2006	2016	121,138	-
		<u>1,061,292</u>	<u>919,085</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

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

	(thousands of RSD)						
	Land	Buildings	Plant and Equipment	Construction in Progress and Advances	Total	Intangible Assets	Investment Property
Cost							
Balance at January 1, 2006, before adjustments	6,287,832	469,342,777	496,371,582	29,673,800	1,001,675,991	2,551,701	111,000
Opening balance adjustments	-	(90,853)	(5,931,790)	350,097	(5,672,546)	-	-
Balance at January 1, 2006, after adjustments	6,287,832	469,251,924	490,439,792	30,023,897	996,003,445	2,551,701	111,000
Additions	155,775	87,007	1,583,875	15,991,183	17,817,840	291,107	-
Activation of construction in progress	191,852	3,300,370	4,395,146	(7,887,368)	-	-	-
Transfers	160	11,100	(11,260)	-	-	-	-
Disposals	(770)	(1,129,107)	(2,217,702)	(114,487)	(3,462,066)	(10,954)	-
Transfer to subsidiaries	-	(750,763)	-	-	(750,763)	-	-
Transfer from inventories	-	-	-	203,077	203,077	-	-
Surpluses	-	241,093	834	-	241,927	-	-
Shortages	-	(83)	(242,643)	-	(242,726)	-	-
Balance at December 31, 2006	6,634,849	471,011,541	493,948,042	38,216,302	1,009,810,734	2,831,854	111,000
Accumulated Depreciation							
Balance at January 1, 2006, before adjustments	-	279,176,013	341,744,668	184,240	621,104,921	520,237	67,809
Opening balance adjustments	-	(62,502)	(3,241,871)	-	(3,304,373)	-	-
Balance at January 1, 2006, after adjustments	-	279,113,511	338,502,797	184,240	617,800,548	520,237	67,809
Charge for the year	-	5,778,603	11,459,570	-	17,238,173	72,485	2,029
Transfers	-	5,935	(5,935)	-	-	-	-
Transfers to subsidiaries	-	(25,374)	-	-	(25,374)	-	-
Additions	-	-	599,341	-	599,341	-	-
Surpluses	-	181,201	177	-	181,378	-	-
Disposals	-	(793,579)	(2,088,809)	(30,695)	(2,913,083)	(3,109)	-
Shortages	-	(83)	(203,846)	-	(203,929)	-	-
Release of provision for advances	-	-	-	(46,529)	(46,529)	-	-
	-	284,260,214	348,263,295	107,016	632,630,525	589,613	69,838
Net Book Value							
- at December 31, 2006	6,634,849	186,751,327	145,684,747	38,109,286	377,180,209	2,242,241	41,162
- at December 31, 2006, after adjustments	6,287,832	190,138,413	151,936,995	29,839,657	378,202,897	2,031,464	43,191

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**16. PROPERTY, INVESTMENT PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (Continued)***Opening Balance Adjustments*

Opening balance adjustment to property, plant, equipment and assets in progress amounting RSD 2,368,173 thousand as of January 1, 2006, mostly relates to the following:

1. Adjustments of the earlier recorded effects of property plant and equipment appraisal as of January 1, 2004, the transition date to the newly-adopted IFRS/IAS, of RSD 1,916,160 thousand, net. In 2006, the Company identified an error in the excavators appraisal as of December 31, 2003 and accordingly, pursuant to the communication received from an independent appraiser made adjustment to the opening balance for the effects of error as charged to the accumulated loss.
2. At the end of 2005, a major breakdown of excavators working on coal exposure with the net book value of RSD 828,332 thousand, as of December 31, 2005. The effects of the aforementioned breakdown and estimate of the final damage which will be indemnified by the Insurance Company – Dunav osiguranje A.D., Beograd were not recorded in the Company's financial statements for the FY 2005. In 2006, a preliminary damage assessment and value analysis of equipment which can be used to restore and bring the excavations into use. Accordingly, the Company stated the recoverable value of the excavators as adjustment to the opening balance of assets in progress of RSD 358,978 thousand. The final amount of damage that is to be covered by the insurance company had not been estimated until the issuance date of these financial statements.
3. Adjustment of assets in progress of RSD 8,701 thousand which relates to the decrease in value of assets in progress pursuant to the Decision of the Authority concerned with the technical approval of the investment in progress.

Other adjustments to the opening balance of property, plant and equipment are disclosed in Note 4 to the financial statements.

Transfer of Assets to Subsidiaries

Pursuant to the Decision of the Board of Directors of JP EPS as of August 16, 2006, PD RB Kolubara D.O.O., Lazarevac established a Public Company for thermal energy distribution Toplifikacija D.O.O., Lazarevac (Note 16). With a view to the abovementioned, non-monetary investment consisting property with the net book value as of RSD 725,389 thousand as of the transfer date. The aforementioned property relate to heating pipe Vreoci – Lazarevac.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**16. PROPERTY, INVESTMENT PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (Continued)***Investments in Progress*

Assets in progress and intangible assets in progress include amounts of RSD 11,688,098 thousand and RSD 1,752,290 thousand relating to expenses incurred in construction of thermo-electric plant TE-TO Kolubara B within the Public Company - thermo-electric plant "Nikola Tesla," Obrenovac. The Decision on construction of thermoelectric structure Kolubara B, of the capacity 2 x 350 MW, with the corresponding open-pit of brown coal Tamanva – Zapadno polje, with the 7 million tons of capacity, was enacted in 1984. The building of thermo-electric plant – Kolubara B (hereinafter: TE-TO Kolubara B) was designed as combined plant for generation of electric and heating energy, 2 x 350 Mj/sec would be used to satisfy the Belgrade City needs, and electricity from two blocks 2 x 350 MW would be used for the electric power supply system providing electricity to the consumers throughout the Republic of Serbia. The construction of the TE-TO Kolubara B commenced in 1988, and was suspended at the beginning of the 1990's. In the project implementation, the negotiations were carried with the foreign partners in an effort to secure sources of loans, from both commercial equipment manufacturers and from other available sources. In September of 1991, the Enterprise signed a loan agreement with the World Bank, Washington, DC, with a view to complete the construction of TE-TO Kolubara B and PO Tamnava – Zapadno Polje [West Field]. The amount agreed is USD 300 million. The Federal Assembly of the SFR Yugoslavia ratified this agreement in December 1991.

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

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

In addition, the property, plant and equipment as of December 31, 2006, also include the projects of RSD 5,594,581 thousand (December 31, 2005: RSD 6,472,488 thousand) started in the previous years and with reference to which no significant advance was made in their realization. The abovementioned amounts of property, plant and equipment in progress are based on the amounts estimated by an independent appraiser as of January 1, 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

17. EQUITY INVESTMENTS

	(thousands of RSD)	
	December 31,	<i>Restated</i>
	2006	December 31,
	2006	2005
Equity investments in unconsolidated subsidiaries:		
- Kolubara Metal d.o.o., Vreoci	2,325,657	1,985,831
- Toplifikacija d.o.o., Lazarevac	727,431	-
- Kolubara d.o.o., Srpsko Sarajevo	218	218
	<u>3,053,306</u>	<u>1,986,049</u>
Equity investments in domestic banks:		
- AIK banka a.d., Niš	430,710	430,710
- Čačanska banka a.d., Čačak	15,350	15,350
- Panonska banka a.d., Novi Sad	26,412	26,412
- Vojvođanska banka a.d., Novi Sad	9,984	10,792
- Komercijalna banka a.d., Beograd	9,001	8,990
- other	27,581	33,258
	<u>519,038</u>	<u>525,512</u>
Equity investments in other legal entities:		
- Politika a.d., Beograd	550,489	70,489
- RMK Trepča	27,010	27,010
- Minel holding	41,203	41,221
- other	60,914	73,340
	<u>679,616</u>	<u>212,060</u>
Equity investments in insurance companies	<u>5,599</u>	<u>7,679</u>
	<u>4,257,559</u>	<u>2,731,300</u>
Allowances for impairment:		
- equity investments in domestic banks:	(6,285)	(36,436)
- equity investments in other legal entities:	(128,953)	(134,418)
- equity investments in insurance companies	-	(2,545)
	<u>(135,238)</u>	<u>(173,399)</u>
	<u>4,122,321</u>	<u>2,557,901</u>

The equity investments in unconsolidated subsidiaries as of December 31, 2006 are related to the subsidiaries established by consolidated public enterprises within EPS, whose primary business activities are not involved in electric power generation or distribution. In 2005, the Company separated certain business units which are not involved in electric power generation and founded new subsidiaries, as well as increased its monetary and non-monetary investments in the subsidiary enterprises earlier established. The non-monetary and monetary investments in the established subsidiaries, whose activities do not directly involve the generation and distribution of electricity, have been transferred to the Government of the Republic of Serbia at no cost, with the exception of investment in the entity, Kolubara Metal d.o.o., which was inscribed into the Republic of Serbia Business Register Agency on October 10, 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**17. EQUITY INVESTMENTS (Continued)**

In 2006, the Company paid in the subscribed, but unpaid capital in the related company Kolubara Metal D.O.O., Vreoci of RSD 353,116 thousand, executing monetary payments on the current account of the related entity. Likewise, the investment consisting of immovables was written down by RSD 13,290 thousand.

The Board of Directors of EPS at the Assembly as of August 16, 2006, exercising the authorization given by the assembly of the related party PB Kolubara D.O.O., Lazarevac, enacted a decision to establish a company engaged in distribution of heating power – Toplifikacija D.O.O., Lazarevac, one-member Limited Liability Company. The aggregate of subscribed monetary capital amounts to EUR 602,909, and the inscribed investment in kind is estimated at EUR 8,532,159. Until the issuance date of these financial statements, the Company paid in the amounts of EUR 500 and RSD 2,000 thousand as additional monetary investments. Likewise, an additional non-monetary investment was made by transferring the Company's property with the net book value of RSD 725,389 thousand as of the transfer date (Note 16), i.e., of the estimated value amounting to RSD 729,500 thousand (EUR 8,532,159).

At its December 11, 2006 Assembly, the EPS Board of Directors enacted a Decision on subscription and payment of shares in the shareholding company Politika A.D., Beograd. Accordingly, the Company inscribed and paid 800,000 common shares of the VII share issuance outside the public offering as of November 23, 2006 with the individual par value of RSD 600, i.e., the aggregate of RSD 480,000 thousand. Upon completing the investment, the Company interest in the total capital of the shareholding company Politika A.D., Beograd totals 14.48%.

Equity investments in banks and insurance companies in the country are classified as available-for-sale securities and recorded at their nominal value at December 31, 2006 and at their revalued cost computed in accordance with the official revaluation quotients dependant on the movements in the retail price index. The worth of these investments is recorded on the Stock Exchange at December 31, 2006 and totaled RSD 1,949,530 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

18. NON-CURRENT RECEIVABLES AND PLACEMENTS

	(thousands of RSD)	
		<i>Restated</i>
	December 31, 2006	December 31, 2005
Non-current receivables from JP Elektromreža Srbije	1,197,855	2,207,132
Non-current receivables from the Resavica Coal Mine	-	403,871
Rescheduled accounts receivable for electricity:		
- private individuals	1,226,993	1,433,380
- legal entities	421,048	222,705
Joint investment in the Rovni Water Accumulation Basin	637,205	637,205
Subscribed, but not paid-in capital in subsidiaries	986,210	1,278,098
Placements based on apartments sold, housing loans and long-term rent of apartments	269,301	247,467
Rescheduled receivables from electricity - JP Toplifikacija, Požarevac	53,703	11,845
Receivables from the Privatization Agency of RS	16,764	-
Long-term deposits placed with domestic banks	2,442	2,442
Guarantee deposits with domestic banks	11,805	-
Other long-term placements and receivables	333,030	333,514
	<u>5,156,356</u>	<u>6,777,659</u>
Allowances for the impairment of:		
- Non-current receivables from the Resavica Coal Mine	-	(403,871)
- Rescheduled accounts receivable for electricity	(1,196,883)	(1,559,297)
- Receivables from the Privatization Agency of RS	(16,764)	-
- Long-term deposits placed with domestic banks	(757)	(757)
- Other long-term placements and receivables	(203,236)	(203,237)
	<u>(1,417,640)</u>	<u>(2,167,162)</u>
	<u>3,738,716</u>	<u>4,610,497</u>

At December 31, 2006, the non-current receivables from JP Elektromreža Srbije in the amount of RSD 1,197,855 thousand are associated with the receivables arising on the loan from the following sources: the European Bank for Reconstruction and Development (EBRD) in the amount of RSD 788,933 thousand, the receivables based on the loan approved by the PR China in the amount of RSD 160,686 thousand, as well as the receivables based on the loan approved by the European Investment Bank (EIB) in the amount of RSD 8,523 thousand (Note 26). 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 80s for purposes of financing Phase III of the Power Transmission Grid project which was refinanced in 2001 in accordance with the provisions of the executed agreement between the Federal Republic of Yugoslavia and the IBRD (Note 26). In accordance with split-off 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 still considered the official debtor of this loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**18. NON-CURRENT RECEIVABLES AND PLACEMENTS (Continued)**

Until the liabilities to creditors are settled, the assumed portion of liabilities of the Public Company Elektromreža Srbije will be carried as a long-term loan. The receivables recognized in the net amount as decreased by the portion maturing within a year of RSD 803,347 thousand as of December 31, 2006 (Note 20).

The long-term receivables from JP PEU Resavica and corresponding allowance for impairment of RSD 403,871 thousand as of December 31, 2005, and fell due in 2006 and were disclosed within short-term receivables.

Long-term joint investments of RSD 637,205 thousand as of December 31, 2005, relate to the joint investment in the Public Company Kolubara, Valjevo, based on the construction of "Rovni" Water Accumulation Basin, intended for water supply, flood prevention in the surrounding municipalities as well as for the needs of Thermo electrical Plant Kolubara B, under construction. Based on the Government of the Republic of Serbia Decree on determining the program of construction, reconstruction and maintenance of water supply structures in 2006 (Official Gazette of the Republic of Serbia, No., 117 as of December 30, 2005), further works on the construction of the "Rovni" Water Accumulation Basin in 2006 with the 100% of the Government of the Republic of Serbia interest.

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

Unpaid, subscribed capital in subsidiaries is stated at RSD 986,210 thousand relates to unpaid subscribed monetary portion of Company investments in companies Kolubara Metal D.O.O., Vreoci (RSD 848,271 thousand), Kolubara Usluge D.O.O., Lazarevac (RSD 90,000 thousand) and Toplikacija D.O.O., Lazarevac (RSD 47,939 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

19. INVENTORIES

	(thousands of RSD)	
	December 31,	<i>Restated</i> December 31,
	2006	2005
Material	6,639,972	6,040,785
Spare parts	7,238,734	6,429,170
Tools and consumables	335,766	290,149
Work in progress and finished goods	1,265,882	1,029,476
Goods for resale	556	252
Advances to suppliers	2,601,450	1,769,228
	<u>18,082,360</u>	<u>15,559,060</u>
Allowance for:		
- slow-moving, surplus and obsolete inventories	(564,738)	(293,946)
- advances to suppliers	(531,947)	(219,500)
	<u>(1,096,685)</u>	<u>(513,446)</u>
	<u>16,985,675</u>	<u>15,045,614</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

20. ACCOUNTS RECEIVABLE AND OTHER CURRENT RECEIVABLES

	(thousands of RSD)	
		<i>Restated</i>
	December 31, 2006	December 31, 2005
Accounts receivable:		
- non-consolidated subsidiaries situated in Kosovo and Metohija	873,884	727,917
- other subsidiaries	121	121,344
- domestic customers	53,035,115	47,942,791
- foreign customers	4,017,106	3,432,159
- the Resavica Coal Mine	1,166,907	746,266
	<u>59,093,133</u>	<u>52,970,477</u>
Receivables for radio and television subscriptions	4,736,222	1,285,720
Interest receivable	416,244	732,489
Receivables from employees	920,295	337,576
Prepaid taxes and contributions	154,182	627,704
Receivables from specific operations	1,390,675	64,137
Other receivables	<u>1,353,614</u>	<u>1,098,666</u>
	<u>68,064,365</u>	<u>57,116,769</u>
Allowances for bad and doubtful receivables from:		
- non-consolidated subsidiaries situated in Kosovo and Metohija	(871,668)	(727,917)
- other subsidiaries	-	(24,460)
- domestic customers	(35,575,754)	(30,855,369)
- foreign customers	(2,761,523)	(3,333,461)
- the Resavica Coal Mine	(1,166,907)	(746,266)
- interest receivable	(4,756)	(7,469)
- receivables from employees	(5,366)	(6,342)
- receivables from specific operations	(32,235)	(34,887)
- prepaid taxes and contributions	(140)	(140)
- other receivables	<u>(411,531)</u>	<u>(112,962)</u>
	<u>(40,829,880)</u>	<u>(35,849,273)</u>
	<u>27,234,485</u>	<u>21,267,496</u>

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

The accounts receivable in the country as of December 31, 2006 include the receivables from domestic companies undergoing the restructuring process, in the amount of RSD 10,948,645 thousand (December 31, 2005: RSD 8,364,534 thousand), registered with the Privatization Agency of the Republic of Serbia. These receivables have been fully provided for.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**20. ACCOUNTS RECEIVABLE AND OTHER CURRENT RECEIVABLES (Continued)**

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.

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

The interest receivables as of December 31, 2006 include the accounts receivable from JP Elektromreža Srbije of RSD 322,886 thousand (December 31, 2005: RSD 596,267 thousand) based on the interest charged to a loan extended by the PR of China of RSD 266,305 thousand and rescheduled loans approved by the International Bank for Reconstruction and Development of RSD 56,581 thousand assumed by the Company in accordance with the split-off balance from 2005. The principal of the respective receivables is recognized within long-term financial placements (Note 18).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

21. SHORT-TERM FINANCIAL PLACEMENTS

	(thousands of RSD)	
	December 31,	<i>Restated</i>
	2006	December 31,
		2005
Current portion of receivables from JP Elektromreža Srbije	803,347	633,072
Short-term deposits with banks	5,328,208	4,005,266
Non-interest-bearing loans to unconsolidated subsidiaries – Kolubara Metal d.o.o., Vreoci	543,870	803,755
Loans granted to employees	154,867	19,974
Short-term domestic loans	31,348	34,694
Other	511	511
	<u>6,862,151</u>	<u>5,497,272</u>

The current portions of the long-term receivables from JP Elektromreža Srbije as of December 31, 2006 of RSD 803,347 thousand relate to the matured portions of the loan approved by the PR China of RSD 642,745 thousand, the matured portion of the European Bank for Reconstruction and Development of RSD 145,247 thousand and the matured portion of the loan extended by the International Bank for Reconstruction and Development of RSD 15,355 thousand.

The short-term deposits with domestic banks are deposits with terms ranging from one month to one year and a monthly interest rate varying between 0.5% and 1.2%.

Interest free borrowings to the subsidiary Kolubara Metal D.O.O., Vreoci of RSD 543,870 thousand as of December 31, 2006 relate to the delivery of materials and finished products supplies which have not been recognized as permanent investment in the aforementioned company. In 2006, based on February 14, 2007 Decision of the JP EPS Board of Directors, the Company wrote off the placements thereof amounting to RSD 298,382 thousand (Note 14). Pursuant to the Company's Management, it is expected that a portion of these placements will be converted in the founding capital of the foregoing company.

The short-term loans extended to employees in the amount of RSD 154,867 thousand as of December 3, 2006 relate to loans intended for material issues and the loan extended with a view to the employees striking requests. The interest is not charged to the loans extended.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

22. CASH AND CASH EQUIVALENTS

	(thousands of RSD)	
	December 31,	<i>Restated</i>
	2006	December 31,
	<u>2006</u>	<u>2005</u>
Current accounts:		
- in dinars	3,742,482	4,263,417
- in foreign currencies	4,220,669	4,812,920
Cash cover deposits for letters of credit	265,157	72,119
Cash on hand and other cash equivalents	329,308	124,037
Unavailable funds	177,939	208,119
	<u>8,735,555</u>	<u>9,480,612</u>
	<u>(189,188)</u>	<u>(208,119)</u>
	<u>8,546,367</u>	<u>9,272,493</u>

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

Short-term deposits of RSD 125,307 thousand (December 31, 2005: RSD 26,207 thousand) were recognized within cash held on dinar current account and other cash assets as of December 31, 2006. The terms of the abovementioned deposits vary between one month to one year at an interest rate between 0.7 % and 1.2% monthly.

23. VALUE ADDED TAX AND PREPAYMENTS

	(thousands of RSD)	
	December 31,	<i>Restated</i>
	2006	December 31,
	<u>2006</u>	<u>2005</u>
Value added tax	1,345,073	1,617,210
Receivables for power exchanges and lending		
with other electric power distribution systems abroad	26,543	100,795
Other prepayments	214,743	339,942
	<u>1,586,359</u>	<u>2,057,947</u>

The amount of RSD 26,543 thousand relates to receivables for power exchanges and for lending power to other electric power distribution systems in case of breakdown as of December 31, 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**24. EQUITY****State-Owned Capital**

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

The aforementioned change in organizational status was duly registered with the Serbian Business Registers Agency on July 1, 2005, pursuant to the relevant Decision, numbered BD 80380/2005. The amount of monetary and non-monetary capital subscribed into the Business Register totaled EUR 4,621,609,319 as per the exchange rate in effect as of December 31, 2004, or the equivalent of RSD 364,575,651 thousand. Consequently, the amount of capital recorded in the Company's books of account was not reconciled with the amount inscribed in the Serbian Business Registers Agency as of December 31, 2006. the amount is understated by RSD 5,919,345 thousand.

Pursuant to the Decision of the Government of the Republic of Serbia on Establishment of the Public Company engaged in generation, production and distribution of electricity "Elektroprivreda Srbije," the Company assumed all the assets of the forgoing Public Company including the investments in the subsidiaries founded with the Company assets in the earlier period. The EPS group is comprised of 11 related parties entirely owned by the Company. The Company engaged an independent appraiser in 2005 for the purpose of appraisal of non-monetary investment in the newly-established Public Company, where the independent appraiser also estimated the aforesaid value of equity interest. The estimated value of equity interests in the related parties is the carrying value of their capital as of December 31, 2004. The amount of state-owned balance recognized in the accompanying consolidated financial statements as of December 31, 2006 of RSD 358,656,306 thousand exceeds the amount recognized by the parent company (RSD 322,906,234 thousand) by RSD 35,750,072 thousand due to a difference between appraised value of equity investments in the related parties and the respective capital of the related parties.

Other Capital

Other capital stated in the Company's balance sheet as of December 31, 2006 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, 2006

25. LONG-TERM PROVISIONS

	(thousands of RSD)	
	December 31,	<i>Restated</i>
	2006	December 31,
	<u>2006</u>	<u>2005</u>
Provisions for retirement benefits and anniversary awards	971,625	-
Provision for litigation	580,508	483,021
Other long-term provisions	151,870	273,181
	<u>1,704,003</u>	<u>756,202</u>

The Company formed a provision for litigations to cover the estimated adverse effects of litigation initiated by the creditors against the companies within EPS. These estimates were based on the professional opinion of the respective Legal Departments of the aforementioned subsidiaries.

Other provisions include the amount of RSD 28,666 thousand and relate to the assumed obligations of the JP RB Kolubara D.O.O., Lazarevac management to perform payments to the newly-established enterprises, for the paid voluntary redundancy benefits to employees assumed by these newly-founded enterprises.

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

The provisions for retirement benefits and anniversary awards were formed based on the report prepared by an independent actuary and stated in the amount of discounted net book value of expected future payments. The discount rate used in the actuarial valuation of long-term employee benefits is the average rate applied to the Government bills in November and December, 2006 and amounts to 11%. The aforementioned provisions were recognized in the business entity PB Kolubara D.O.O., Lazarevac.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

26. NON-CURRENT INTEREST-BEARING BORROWINGS

					(thousands of RSD)	
	<u>Currency</u>	<u>Principal in Currency</u>	<u>Maturity Date</u>	<u>Interest Rate and Repayments Terms</u>	<u>December 31, 2006</u>	<u>December 31, 2005</u>
<i>Refinanced loans realized before the year 1990 from the fund of:</i>						
- Paris Club of Creditors:						
- Government of Austria	EUR	4,135,991	31.03.2024.	Austrian Market Rate, semi-annual	326,743	446,607
- Government of France	EUR	49,357,507	22.03.2024.	5.9% p.a., semi-annual	3,899,243	4,994,061
- Government of Germany	EUR	31,170,835	22.03.2024.	5.5% p.a., semi-annual	2,462,497	3,426,537
- Government of Canada	EUR	66,817,994	22.03.2024.	EURIBOR + 0.5% p.a., semi-annual	5,278,622	7,624,950
- Government of Switzerland	CHF	87,861,689	22.03.2024.	6M LIBOR CHF + 0.5% p.a., semi-annual	4,319,006	6,789,633
- Government of Sweden	-	-	-	-	-	31,909
- Government of USA	USD	7,921,486	22.09.2024.	5.375%, semi-annual	475,098	639,528
- Government of Russian Federation	USD	47,461,223	22.03.2034.	0.5517% p.a., semi-annual	2,846,520	3,339,296
- Government of Japan	JPY	2,503,112,104	22.03.2024.	2.839% p.a., semi-annual	1,270,788	2,049,858
					20,878,517	29,342,379
- London Club of Creditors	USD	16,323,298	1.11.2024.	3.75% p.a. up to 1.11.2009. - 6.75% p.a. up to 1.11.2024., semi-annual	979,001	1,117,155
- European Bank for Reconstruction and Development (EBRD)	EUR	8,944,889	15.12.2031.	1/3 of principal - 5.44, 1/3 of principal - 5.79 - 5.81 and 1/3 of principal - EURIBOR, semi- annual	706,646	2,173,471
- European Investment Bank (EIB)	EUR	426,596	17.10.2016.	semi-annual EURIBOR	33,701	36,474
					1,719,348	3,327,100
<i>Loans from the Governments realized after the year 1990:</i>						
- PR China realized through domestic banks in bankruptcy	USD	46,296,181	21.07.2008.	7.69% p.a., semi-annual	2,776,646	3,343,460
- Russian Federation realized through domestic banks in bankruptcy	USD	8,241,251	15.07.2013.	LIBOR+1.25% p.a., semi-annual	494,275	653,240
- Republic of Poland	USD	47,971,465	15.12.2019.	0.75% p.a., semi-annual	2,877,122	3,593,745
					6,148,043	7,590,445

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

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

	<u>Currency</u>	<u>Principal in Currency</u>	<u>Maturity Date</u>	<u>Interest Rate and Repayments Terms</u>	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Loans from Kreditanstalt fuer Wiederaufbau (KfW)	EUR	36,926,636	30.06.2013.	4.32% p.a., semi-annual	2,917,204	3,642,954
Loans from European Bank for Reconstruction and Development (I)	EUR	29,750,772	7.03.2016.	3.1%-4.7 % p.a., semi-annual	2,350,311	1,087,781
Loans from European Bank for Reconstruction and Development (II)	EUR	6,532,823	7.09.2018.	3.1%-4.7% p.a., semi-annual	516,093	80,153
Loan from European Investment Bank (I)	EUR	4,500,000	10.05.2026.	4.707% p.a., semi-annual	355,500	-
Loan from European Investment Bank (II)	EUR	10,600,000	9.06.2026.	3.879-4.649% p.a., semi-annual	837,400	342,000
Loan from the Development Fund of the Republic of Serbia	EUR	3,970,792	31.12.2007	4% p.a., quarterly	313,693	665,758
JP Elektromreža Srbije, Beograd	EUR	39,430	15.09.2031.	5.44-5.81 %, semi-annual	3,115	4,045
Other	-	-	-	-	3,042	31,069
					<u>7,296,358</u>	<u>5,853,760</u>
					<u>36,042,266</u>	<u>46,113,684</u>
<i>Loans in dinars</i>						
Ministry of Finance of the Republic of Serbia	-	-	31.12.2010.	8.5% p.a., semi-annual	1,609,905	1,899,090
Banks in the processes of bankruptcy and liquidation	-	-	-	-	345,701	347,267
JP Elektromreža Srbije, Beograd (I)	-	-	31.12.2021.	NBS's discount rate, monthly	977,034	1,010,725
JP Elektromreža Srbije, Beograd (II)	-	-	31.12.2011.	NBS's discount rate, monthly	859,878	-
Other	-	-	-	-	5,464	6,286
					<u>3,797,982</u>	<u>3,263,368</u>
Portion of long-term loans due within a period of one year:						
- in foreign currencies					(3,792,213)	(3,445,430)
- in dinars					(993,334)	(464,890)
					<u>(4,785,547)</u>	<u>(3,910,320)</u>
					<u>35,054,701</u>	<u>45,466,732</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**26. NON-CURRENT INTEREST-BEARING BORROWINGS (Continued)****A. Foreign Currency Loans*****1. The refinanced loans realized prior to 1990 from the funds of:***

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

1.1. Paris Club of Creditors

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

In 2006, the Company entered into agreements with the Deposit Insurance Agency on settling the liabilities to the Republic of Serbia arising on the loans approved by the Paris Club of Creditors. The aforementioned agreement determined the debt balance. The Republic of Serbia wrote-off 51% of the Company debt, and the Annex I as of April 10, 2006, provided for the second tranche of the debt write-off in the amount of 30.61%.

1.2. London Club of Creditors

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**26. NON-CURRENT INTEREST-BEARING BORROWINGS (Continued)*****1.3. International Banks for Reconstruction and Development***

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

2. Loans from the European Bank for Reconstruction and Development

The loan approved by the EBRD in 2001 to the Company of EUR 100 million, is currently being put to use. The loan draw-down period expired on June 30, 2005 and was extended to December 31, 2007. The used portion of the principal is repayable in six-month periods 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. At December 31, 2006, the Company failed to recognize the current liabilities arising on the current portion of principal used (RSD 58,582 thousand) which refers to the funds drawn down in the period from October to December, 2006,

3. Loans from European Bank for Reconstruction and Development

The loan approved by the EBRD of EUD 60,000,000 is currently being used. The loan draw-down period expires on February 28, 2008. The principal of the loan is to be repaid in the period from March 7, 2008 until September 7, 2018. The applicable interest rate is variable. Based on the credit arrangement with the EBRD, the Company is obliged to achieve the maximal and minimal operating ratios. The Company does not comply with the finance provisions of the loan agreement. However, based on the information obtained from the EBRD officials, the Company Management believes that no restrictions can be imposed by the EBRD due to the non-compliance with the agreement provisions which could have material impact on the financial standing of the Company or which would ask for reclassification of the aforementioned liabilities from long-term to current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**26. NON-CURRENT INTEREST-BEARING BORROWINGS (Continued)*****4. Loans from Kreditanstalt fuer Wiederaufbau (KfW)***

The long-term loan from KfW is to be repaid in semi-annual in the period between December 30, 2004 and June 30, 2013 at a fixed interest rate of 4.32% annually.

5. Loans from Development Fund of the Republic of Serbia

The loan approved by the Development Fund of the Republic of Serbia is repayable at quarterly installments in the period from March 31, 2003 to December 31, 2007, and was issued at an annual interest rate of 4%. The remaining portion of a debt amounting to RSD 313,693 thousand is recognized as a current portion of a long-loan as of December 31, 2006.

6. Loan from European Investment Bank(I)

Based on the agreement on financing the project of managing the electro-power system of Serbia and Montenegro on one side and European Investment Bank on the other, on August 31, 2002, the Company was approved a general loan of EUR 59 million. The loan is drawn in tranches in accordance with the Company's requirements, whereas the total amount can be drawn in 9 tranches of no less than EUR 3 million. The final date for employment of the general loan is June 30, 2008. At December 31, 2006, the Company used EUR 4.5 million, (RSD 355,500 thousand). The loan is repaid in semi-annual installments are due on May 10 and November 10 within the period from November 10, 2011 to May 10, 2026 at a variable interest rate. At December 21, 2006, an Agreement was signed between JP EPS and JP Elektromreža Srbije based on which all rights and liabilities arising on this loan were transferred to JP Elektromreža Srbije. The transfer of liabilities totaling RSD 355,500 thousand was not performed as of December 31, 2006.

7. Loan from the European Investment Bank (II)

Based on the loan on financing the project of managing the electric power system of Serbia and Montenegro entered by and between Serbia and Montenegro on one side and European Investment Bank on October 30, 2003, a loan of EUR 22 million was extended to the Company. The loan is drawn in tranches in accordance with the Company's requirements, whereas the total amount can be drawn in 9 tranches of no less than EUR 2 million. The final date for employment of the general loan was August 30, 2007. At December 31, 2006, the Company used EUR 10,6 million, (RSD 837,400 thousand). The loan is repaid in semi-annual installments are due on June 9 and December 9 in the period between 2010 and 2025, at a varying interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**26. NON-CURRENT INTEREST-BEARING BORROWINGS (Continued)****B. Loans in Dinars*****1. Ministry of Finance of the Republic of Serbia***

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

2. JP Elektromreža Srbije, Beograd (I)

The long-term liabilities to the JP Elektromreža Srbije, Beograd stated at December 31, 2006 in the amount of RSD 977,034 thousand represent the rescheduled current liabilities based on the distribution of joint income within the EPS until December 31, 2004. In accordance with the Settlement Balance, the aforementioned liabilities of the Company are rescheduled for a period of fifteen years, and are to be repaid in equal installments commencing on June 30, 2006, at an interest rate equaling the NBS discount rate.

3. JP Elektromreža Srbije, Beograd (II)

The liabilities to the JP Elektromreža Srbije, Beograd stated at December 31, 2006 in the amount of RSD 859,878 thousand represent the Company's rescheduled current liabilities arising on the agreement entered into on November 1, 2006. In accordance with the forgoing agreement, the aforementioned liabilities of the Company are rescheduled for a period of five years, and are to be repaid in equal monthly installments as on January 31, 2007, at an interest rate equaling the NBS discount rate.

4. Banks in Bankruptcy Procedure

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

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

Analysis of Drawn Funds from Approved Loans

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

Creditor	Currency	Contracted Amount	Drawn Down Amount
The EBRD	EUR	100,000,000.00	29,750,772.29
The EBRD	EUR	60,000,000.00	6,532,823.00
The European Investment Bank (EIB)	EUR	59,000,000.00	4,500,000.00
The European Investment Bank (EIB)	EUR	22,000,000.00	10,600,000.00
KfW	EUR	16,000,000.00	-
KfW	EUR	30,000,000.00	-
IDA	SDR	13,900,000.00	-

a) KfW

During 2003, financial agreements were executed with the German financial institution, KfW totaling EUR 16 million (EUR 9 million of grant), and also a financial agreement was signed in the amount of EUR 30 million on September 9, 2005. After the Addendum I to the original agreement was executed on August 22, 2005, the procedure for obtaining the payment guarantee by the Republic of Serbia commenced. The payment guarantee of the Republic of Serbia was obtained on September 15, 2006, fulfilling all the conditions to draw the funds.

b) IDA

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 in the amount of RSD 1.66 million is the JP Elektromreža Srbije.

Agreement on Revitalization of Djerdap I

In accordance with the sovereign agreements executed by the Governments of the SR Yugoslavia and the Russian Federation with respect to financing the revitalization by increasing the installed power capacities of the hydro generator for the hydropower and water navigation system of Djerdap I, originating from funds of the clearing debt of the former SSSR toward the former SFR Yugoslavia, the Company entered into an agreement on the revitalization involving the increased, installed power capacities of the hydro generator for the hydropower and water navigation system of the Djerdap I numbered 05030856/030135-0275 of March 29, 2003 with an entity - 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. The aforementioned Agreement was not signed until the issuance date for these statements. The liabilities to the contractor of the respective works are recognized within the foreign accounts payable as amounting to RSD 1,143,681 thousand as of December 31, 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

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

The maturities of the Company's long-term loans at December 31, 2006 are as summarized below:

	(thousands of RSD)	
	December 31, 2006	December 31, 2005
From one to five years	9,171,241	9,363,273
Over five years	25,883,460	36,103,459
	<u>35,054,701</u>	<u>45,466,732</u>

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

	(thousands of RSD)	
	December 31, 2006	December 31, 2005
EUR	19,115,079	23,950,195
USD	10,137,895	9,974,218
JPY	1,263,471	2,049,858
CHF	1,733,608	6,693,983
	<u>32,250,053</u>	<u>42,668,254</u>

27. OTHER NON-CURRENT LIABILITIES

	(thousands of RSD)	
	December 31, 2006	<i>Restated</i> December 31, 2005
Rescheduled public income liabilities	6,077,288	6,466,532
Rescheduled liabilities with respect to fees for environmental use and protection of water resources	354,162	665,503
Other rescheduled liabilities	906,342	1,305,131
Other	134,224	166,391
	<u>7,472,016</u>	<u>8,603,557</u>
Amounts due within one year:		
- rescheduled public income liabilities	(710,116)	(627,147)
- rescheduled liabilities for fees on environmental use and the protection of water resources	(354,162)	(298,976)
- rescheduled liabilities to JP Srbijagas	(435,044)	(398,790)
- other	(10,722)	(19,710)
	<u>(1,510,044)</u>	<u>(1,344,623)</u>
	<u>5,961,972</u>	<u>7,258,934</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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

27. OTHER NON-CURRENT LIABILITIES (Continued)

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.

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 RSD 1,305,131 thousand. This amount is to be repaid by the Company in 36, equal monthly installments, commencing in February of 2006. During the debt repayment period, the monthly installments will be indexed to the movements in the retail price index in the Republic of Serbia.

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

	(thousands of RSD)	
		<i>Restated</i>
	December 31, 2006	December 31, 2005
<i>In foreign currencies</i>		
Current portion of long-term loans	3,792,213	3,445,430
Non-current loans due within one year from:		
- creditors from the Republic of Poland	-	3,819,777
- domestic banks undergoing bankruptcy	1,633,909	2,123,045
	<u>5,426,122</u>	<u>9,388,252</u>
<i>Liabilities in dinars:</i>		
Current portion of non-current loans	993,334	464,890
Current portion of other non-current liabilities	1,510,041	1,344,623
Non-current loans from domestic banks in bankruptcy		
due within one year	65,000	65,000
Short-term loans from domestic banks in bankruptcy	35,110	35,000
Liabilities arising on subscribed, not-paid in investments	1,038,655	1,549,958
Other	998	1,632
	<u>3,643,138</u>	<u>3,461,103</u>
Other short-term liabilities:		
- to banks in bankruptcy	1,245,704	1,382,700
- to other banks	2,231	7,083
	<u>1,247,935</u>	<u>1,389,783</u>
	<u>10,317,195</u>	<u>14,239,138</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

29. ACCOUNTS PAYABLE

	(thousands of RSD)	
	December 31,	<i>Restated</i> December 31,
	2006	2005
Advances received	974,627	530,569
Accounts payable:		
- non-consolidated subsidiaries	589,532	470,062
- domestic suppliers	5,433,840	4,809,285
- foreign suppliers	4,430,403	2,492,143
- JP Elektromreža Srbije	683,498	1,068,158
Liabilities for radio television subscriptions	5,002,919	1,351,907
Other	279,420	346,500
	<u>17,394,239</u>	<u>11,068,624</u>

The Company performs in its name and for the account of its subsidiaries within Elektroprivreda Srbije the purchase of equipment, spare parts, raw materials, fuel and lubricant, insurance services and other products and services, which are necessary for technical and technological unity of the Republic of Serbia electricity system, the development of electric power activities, rational and efficiency usage of natural resources and continuing delivery of electricity to the final users. A portion of EPS' liabilities to its foreign creditors and suppliers will be covered from the loans that have been extended to the Company.

30. OTHER CURRENT LIABILITIES AND ACCRUALS

	(thousands of RSD)	
	December 31,	<i>Restated</i> December 31,
	2006	2005
Amounts originated by the Ministry of Finance the Republic of Serbia	905,311	1,572,741
Interest and financing costs accrued	2,220,797	5,823,302
Accrued salaries	2,323,797	867,623
Taxes and contributions on salaries payable	1,468,732	716,201
Liabilities for power exchange and borrowings from foreign electric power distribution systems	74,982	128,499
Other liabilities	151,056	41,347
Deferred income from donations	13,288,098	12,878,837
Other accruals	475,202	370,322
	<u>20,907,975</u>	<u>22,398,872</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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

30. OTHER CURRENT LIABILITIES AND ACCRUALS (Continued)

In 2002, the Company repaid RSD 1.5 billion of the total initial amount of RSD 3.1 billion. This loan was extended with a maturity term of up to December 31, 2001, at an interest rate based on the NBS prime rate.

On October 18, 2006 the Company and the Ministry of Finance of the Republic of Serbia executed the Cession Agreement by which the Company's receivables from the entity Odbrambena industrija Srbije were ceded, by which the Company's portion of liabilities to the Republic of Serbia Ministry of Finance was settled in the amount of RSD 667,431 thousand. In addition, on the aforementioned loans the Company computed in previous period the interest rate based on the NBS prime rate since the Company did not receive from the Ministry of Finance such computation of interest. On November 30, 2006 the Company executed the Decision on reconciliation of mutual receivables and payables with the Ministry of Finance of the Republic of Serbia numbered I-175/28, by which it was determined that the Company has no liabilities based on the aforementioned accrued interest liabilities. Accordingly, the Company perform write-off of accrued interest liabilities in the amount of RSD 976,288 thousand, which is presented within other income (Note 13).

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.

31. VALUE ADDED TAX AND OTHER DUTIES PAYABLE

	(thousands of RSD)	
	December 31, 2006	<i>Restated</i> December 31, 2005
Value added tax	2,426,020	1,689,962
Sales taxes	841	5,125
Fees for environmental use and protection of water resources, municipal land and other public resources	278,554	419,594
Other	390,711	163,366
	<u>3,096,126</u>	<u>2,278,047</u>

32. CONTINGENT LIABILITIES

Litigation

As of December 31, 2006, the estimated amount of potential damages arising from litigation filed against the Company totaled RSD 3,376,732 thousand (December 31, 2005: RSD 2,092,494 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, 2006, the Company recognized a provision for potential losses arising from litigation in the amount of RSD 580,508 thousand (December 31, 2005: RSD 483,021 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**32. CONTINGENT LIABILITIES (Continued)**

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

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**33. OPERATING RISKS (Continued)***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, 2006, the Company's management has estimated the total loss of electricity of 14.91% or 4.430 GWh (FY 2005: 14.42% or 4.220 GWh) which represents the total difference between purchased and sold electricity and include technical and non-technical losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

35. COMMITMENTS

As of December 31, 2006 the Company's commitments based on contracted investments are as follows:

Supplier	Contracted Value	(thousands of RSD)	
		Realized up to December 31, 2006	Commitments
FAM, Madgeburg	2,712,070	-	2,712,070
Siemens AG, Vienna	2,696,900	999,995	1,696,905
GOŠA FOM a.d., Smederevska Palanka	2,504,300	-	2,504,300
ThyssenKrupp Fördertechnik GmbH	2,413,493	-	2,413,493
Jugoelektro, Beograd	2,144,996	610,212	1,534,784
Engineering Dobersek and Möller Materials Handling GmbH	1,636,223	-	1,636,223
MAN TAKRAF Fördertechnik GmbH, Leipzig, Germany	1,153,400	-	1,153,400
Takraf GmbH, Leipzig, Germany	742,600	-	742,600
Impol Seval, Užice	719,437	509,586	209,851
Hidraulika, Šabac	558,142	509,586	48,556
MINEL Elektrogradnja DV	514,943	179,770	335,173
Energoprojekt oprema	490,749	414,629	76,120
Sagem communication, Paris, France	377,072	-	377,072
MAG Intertrade Holding	348,227	-	348,227
ABB Automation GmbH	291,166	-	291,166
Via Ocel	223,858	134,315	89,543
IMP-automatika	212,165	166,982	45,183
GOŠA Montaža a.d., Velika Plana	159,914	24,027	135,887
Termoeketro-Enel	153,321	46,086	107,235
Minel EOP, Ripanj	83,823	23,082	60,741
	<u>20,136,799</u>	<u>3,618,270</u>	<u>16,518,529</u>

In addition, JP EPS concluded agreements on purchase of property, plant and equipment in the name of JP Elektromreža Srbije, legal successor of JP Elektroistok, the entity operated within the Group Elektroprivreda Srbije up to June 30, 2005 with the following suppliers:

Supplier	Contracted Value	(thousands of RSD)	
		Realized up to December 31, 2006	Commitments
Simens d.o.o	49,917	-	49,917
Simens d.o.o	453,913	-	453,913
Končar Mjerni Transformatori	125,969	-	125,969
Electroputere S.A.	602,099	-	602,099
Areva T&D S.p.A	113,596	-	113,596
Areva T&D S.p.A	287,300	-	287,300
	<u>1,632,794</u>	<u>-</u>	<u>1,632,794</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

36. TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES

Unconsolidated subsidiaries include enterprises Kolubara Metal d.o.o., Vreoci, Toplifikacija d.o.o., Lazarevac and Kolubara d.o.o., Srpsko Sarajevo, which are fully-owned by the Company, and enterprises on the territory of Kosovo and Metohija (JP Termoelektrana “Kosovo”, Obilić, JP Rudnik uglja “Kosovo”, Obilić and JP “Elektrokosmet”, Priština), over which business the Company no longer has administrative and managerial control from the year 1999.

a) Unconsolidated subsidiaries under the Company’s control

Balance Sheet

	(thousands of RSD)	
	December 31, 2006	December 31, 2005
<i>Equity investments</i>		
- Kolubara Metal d.o.o., Vreoci	2,325,657	1,985,831
- Toplifikacija d.o.o., Lazarevac	727,431	-
- Kolubara d.o.o., Srpsko Sarajevo	218	218
	3,053,306	1,986,049
<i>Short-term financial placements</i>		
- Kolubara Metal d.o.o., Vreoci (Note 21)	543,870	803,755
<i>Accounts receivables</i>		
- Kolubara Metal d.o.o., Vreoci	141,721	113,858
<i>Advances to suppliers</i>		
- Kolubara Metal d.o.o., Vreoci	161,527	140,161
Total receivables	3,900,424	3,043,823
<i>Accounts payable</i>		
- Kolubara Metal d.o.o., Vreoci	588,726	470,062
- Toplifikacija d.o.o., Lazarevac	806	-
Total liabilities	589,532	470,062
Receivables, net	3,310,892	2,573,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

36. TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES (Continued)

The Company presented subscribed, but not paid-in capital in and related liabilities within long-term financial placements and short-term financial liabilities as presented in the table below:

	(thousands of RSD)	
	December 31, 2006	December 31, 2005
<i>Subscribed, but not paid-in capital</i> (Note 17)		
a) Investments in unconsolidated subsidiaries		
- Kolubara Metal d.o.o., Vreoci	848,271	1,188,098
- Toplifikacija d.o.o., Lazarevac	47,939	-
	<u>896,210</u>	<u>1,188,098</u>
b) Investments transferred to the Republic of Serbia Government		
- Kolubara Usluge d.o.o., Lazarevac	90,000	90,000
	<u>90,000</u>	<u>90,000</u>
	<u>986,210</u>	<u>1,278,098</u>

	(thousands of RSD)	
	December 31, 2006	December 31, 2005
<i>Liabilities for subscribed, but not paid-in capital</i> (Note 28)		
a) Investments in unconsolidated subsidiaries		
- Kolubara Metal d.o.o., Vreoci	834,953	1,188,070
- Toplifikacija d.o.o., Lazarevac	47,939	-
	<u>882,892</u>	<u>1,188,070</u>
b) Investments transferred to the Republic of Serbia Government		
- Kolubara Usluge d.o.o., Lazarevac	90,000	90,000
- Autotransport d.o.o., Kostolac	-	13,622
- Georad d.o.o., Kostolac	-	39,759
- Prim d.o.o., Kostolac	-	2,709
- EDB Javno osvetljenje d.o.o., Beograd	50,205	78,390
- Elektrodistribucija izgradnja d.o.o., Beograd	15,558	137,408
	<u>155,763</u>	<u>361,888</u>
	<u>1,038,655</u>	<u>1,549,958</u>

Investments transferred to the Republic of Serbia Government relate to the investments transferred in 2005 at no cost and relate to equity investments in subsidiaries whose primary business activities are not directly involved in the transmission and distribution of electricity. According to the provisions of its founding acts, the Company is obliged to invest subscribed, unpaid capital in the period of several years. The Company's management believes that remaining portion of these liabilities will be settled in 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

36. TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES (Continued)

Income Statement

	(thousands of RSD)
	<u>2006</u>
<i>Revenues</i>	
- Kolubara Metal d.o.o., Vreoci	436,721
	<u>436,721</u>
<i>Other expenses</i>	
- Kolubara Metal d.o.o., Vreoci	352,176
	<u>352,176</u>
Revenues, net	<u><u>84,545</u></u>

b) Unconsolidated subsidiaries from the territory of Kosovo and Metohija

Balance Sheet

	(thousands of RSD)	
	December 31, 2006	December 31, 2005
Long-term financial placements	528	528
Accounts receivable	873,884	727,917
	<u>874,412</u>	<u>728,445</u>
Allowance for impairment:		
- long-term financial placements	(528)	(528)
- accounts receivable	(871,668)	(727,917)
	<u>(872,196)</u>	<u>(728,445)</u>
Receivables and placements, net	<u><u>2,216</u></u>	<u><u>-</u></u>

Income Statements

	(thousands of RSD)
	<u>2006</u>
Income from the sale of services	231
	<u>231</u>
Expenses based on other services	127,178
Staff costs and other operating expenses	4,040,903
	<u>4,168,081</u>
Expenses, net	<u><u>(4,167,850)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006**37. POST BALANCE SHEET EVENTS*****Derecognition of Rights and Liabilities Arising on the Long-Term Loan***

As of March 31, 2007, the Company removed from the books all rights and liabilities arising on the loan extended by the European Investment bank intended for financing the project on electric power system of Serbia and Montenegro of EUR 59 million based on an Agreement signed on December 21, 2006 between JP EPS and JP Elektromreža Srbije. The derecognition refers to the long-term loan of RSD 355,500 thousand, advances paid for the purchase of property, plant and equipment (RSD 326,559 thousand), long-term placements (RSD 8,523 thousand) and cash held on the current account in foreign currency (RSD 20,418 thousand).

Ratification of the Agreement on Revitalization of Djerdap I

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 hydro generator 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 Company entered into an agreement on the revitalization involving the increased, installed power capacities of the hydro generator for the hydropower and water navigation system of the Djerdap I numbered 05030856/030135-0275 of March 29, 2003 with an entity - 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. The new agreement will be ratified in 2007.

Appraisal of Property Plant and Equipment

As of May 4, 2007, the Company entered into an Agreement with the Consulting firm from the Czech Republic Arthur D. Little GmbH, number II-66/26 on appraisal of property, plant and equipment belonging to EPS as well as to the firms EPS established, as of January 1, 2007. In accordance with the aforementioned agreement, the issuance of the final report on appraisal falls due 240 calendar days after the agreement was signed.

Settlement of Matured Receivables and Payables with Borska Banka A.D. in Liquidation

Pursuant to the Article 337 of the Law on Obligation Relations and Article 105 of the Law on Forced Settlement, Liquidation and Bankruptcy, Borska Banka A.D. in Liquidation and Business Entity engaged in electricity distribution ED Jugoistok D.O.O., Niš – the branch Elektrotimok Zaječar as of January 10, 2007 agreed to set off each others matured receivables and payables, and/or the receivables of Borska Banka A.D. in Liquidation from Elektrotimok as of February 13, 2004 of USD 50,704 arising on the foreign loan and the receivable of Elektrotimok from Borska banka due to the unrealized checks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

37. POST BALANCE SHEET EVENTS (Continued)

Methodologies Used to Determine the Tariff Elements for Computation of Electricity Price

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

Contract with customers

Starting form January 1, 2007, tariff customers, with the exception of electricity distributed from the transmission system to railway traffic, has signed contacts with registered entities for distribution of electricity, e.g., EPS subsidiaries, that regulates measurement, calculation and terms of payment of electricity, in accordance with the Law and regulations on terms and conditions for distribution of energy, regulations on transmission and distribution systems, issued licenses for connections on transmission and distribution systems and tariff system enacted by the Energy Agency of the Republic of Serbia ("Official Gazette", number 1/07).

38. 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, 2006	December 31, 2005
USD	59.9757	72.2189
EUR	79.0000	85.5000
GBP	117.8577	124.5085
CHF	49.1569	54.9380

APPENDIX A

CONSOLIDATED BALANCE SHEET

With adjusted comparative figures for the effects of consolidation of JP Elektroistok

As at December 31, 2006

(thousands of RSD)

	December 31, 2006	<i>Restated</i> December 31, 2005
ASSETS		
Non-current assets		
Intangible assets	2,242,241	2,031,464
Property, plant and equipment	377,180,209	378,202,897
Investment property	41,162	43,191
Equity investments	4,122,321	2,557,901
Other long-term financial placements	3,738,716	4,610,497
	<u>387,324,649</u>	<u>387,445,950</u>
Current assets		
Inventories	16,985,675	15,045,614
Accounts receivable	27,234,485	21,267,496
Receivables for prepaid income taxes	287,379	18,263
Short-term financial placements	6,862,151	5,497,272
Cash and cash equivalents	8,546,367	9,272,493
Value added tax and prepayments	1,586,359	2,057,947
Deferred tax assets	-	-
	<u>61,502,416</u>	<u>53,159,085</u>
Total assets	<u><u>448,827,065</u></u>	<u><u>440,605,035</u></u>
EQUITY AND LIABILITIES		
Equity		
State-owned capital	358,656,306	358,324,022
Other capital funds	1,291,632	1,622,560
Revaluation reserves	24,394	24,394
Accumulated losses	(18,577,432)	(34,906,331)
	<u>341,394,900</u>	<u>325,064,645</u>
Long-term provisions	<u>1,704,003</u>	<u>756,202</u>
Non-current liabilities		
Non-current interest-bearing borrowings	35,054,701	45,466,732
Other non-current liabilities	5,961,972	7,258,934
	<u>41,016,673</u>	<u>52,725,666</u>
Current liabilities		
Current interest-bearing borrowings and other current financial liabilities	10,317,195	14,239,138
Accounts payable	17,394,239	11,068,624
Other current liabilities and accruals	20,907,975	22,398,872
Value added tax and other duties payable	3,096,126	2,278,047
Income taxes payable	1,301,281	628,475
	<u>53,016,816</u>	<u>50,613,156</u>
Deferred tax liabilities	<u>11,694,673</u>	<u>11,445,366</u>
Total equity and liabilities	<u><u>448,827,065</u></u>	<u><u>440,605,035</u></u>

APPENDIX A

CONSOLIDATED INCOME STATEMENT

With restated comparative figures for the effects of consolidation of JP Elektroistok

Year Ended December 31, 2006

(thousands of RSD)

	2006	<i>Restated</i> 2005
Revenue	97,091,181	84,026,327
Own-work capitalized	2,187,691	2,832,997
Increase in the inventories of work in progress and finished goods	177,855	504,406
Other operating income	4,177,181	3,798,737
	<u>103,633,908</u>	<u>91,162,467</u>
OPERATING COSTS AND EXPENSES		
Cost of goods sold	72,462	215,857
Cost of materials, energy and fuel	21,703,386	19,235,737
Staff costs	27,722,505	23,792,775
Depreciation, amortization and provisions	18,506,653	16,493,996
Other operating expenses	25,699,811	20,034,843
	<u>93,704,817</u>	<u>79,773,208</u>
NET OPERATING INCOME	<u>9,929,091</u>	<u>11,389,259</u>
Finance income	11,384,815	7,756,226
Finance expenses	(5,210,802)	(15,780,490)
Other income	18,044,008	18,661,915
Other expenses	(16,257,300)	(20,688,634)
PROFIT BEFORE TAXATION	<u>17,889,812</u>	<u>1,338,276</u>
Income taxes	(1,586,566)	(2,501,736)
PROFIT/(LOSS) FOR THE YEAR	<u>16,303,246</u>	<u>(1,163,460)</u>