ELEKTROKRAJINA A.D.,
BANJA LUKA
A Subsidiary of the Mixed Holding Power Utility of the Republic of Srpska, Trebinje

Financial Statements
For the Year Ended December 31, 2007 and Independent Auditors' Report

CONTENTS

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Identification No.1913239; Business accounts:
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Inscribed and paid capital: BAM 5.000,00

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Supervisory Board of Elektrokrajina a.d., Banja Luka , a Subsidiary of the Mixed Holding Power Utility of the Republic of Srpska, Trebinje

We have audited the accompanying financial statements (pages 4 to 32) of Elektrokrajina a.d., Banja Luka, a Subsidiary of the Mixed Holding Power Utility of the Republic of Srpska, Trebinje (the "Company"), which comprise the balance sheet as of December 31, 2007, and the related 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 Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Shareholders and Supervisory Board of Elektrokrajina a.d., Banja Luka, a Subsidiary of the Mixed Holding Power Utility of the Republic of Srpska, Trebinje (Continued)

Basis for Qualified Opinion

As disclosed in the statement of changes in equity and reserves, the Company charged the net book value of equipment sold and disposed of amounting to CM 815,334 to revaluation reserves, instead of charging it to the current period results without transferring the revaluation reserves formed based on the equipment at issue to the prior period results. The aforementioned accounting treatment is not in line with International Accounting Standard (IAS) 16 "Property, Plant and Equipment," and it lead to the overstatement of profit for the year 2007 and understatement of prior year results by the amount of CM 815,334.

As disclosed in Note 3.7 to the financial statements, as of December 31, 2007 the Company presented property, plant and equipment at their appraised value, based on the valuation performed by an independent appraiser as of December 31, 2005. The Company's management did not analyze the value of intangible assets and property, plant and equipment as of December 31, 2007 pursuant to requirements of International Accounting Standard ("IAS") 36 "Impairment of Assets". In addition, such accounting treatment is a departure from the adopted Company's accounting policy. Accordingly, we were unable to satisfy ourselves as to the effects of this matter, if any, to the Company's financial statements as of, and for the year ended, December 31, 2007.

As disclosed in Note 9 to the financial statements, intangible assets stated as of December 31, 2007 in the amount of CM 7,199,201, include the accounting software of the business information system SB Soft in the amount of CM 3,028,468. Since the Company is neither using the software, nor has the intention to use it in the future, the stated value of this software should have been reduced to its net realizable value. Accordingly, at December 31, 2007 intangible assets, i.e., operating results, were overstated by CM 3,028,468.

As disclosed in Note 12 to the financial statements, as of December 31, 2007, the total accounts receivable arising from electricity delivered, services rendered and accrued penalties as of December 31, 2007 amounted to CM 72,078,609, after allowing for the impairment of CM 113,032,471. Given that we have not received a satisfactory number of independent confirmations of balances, and a number of conformations point to the unreconciled balances as of December 31, 2007, we could not quantify the receivables from corporate customers. In addition, based on the information made available, we were unable to confirm the age structure of the aforementioned receivables from households and corporate customers, and thus, satisfy ourselves as to the adequacy of allowance for impairment of receivables disclosed in the accompanying financial statements.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the matters referred to in the preceding paragraphs, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2007, and its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Supervisory Board of Elektrokrajina a.d., Banja Luka , a Subsidiary of the Mixed Holding Power Utility of the Republic of Srpska, Trebinje (Continued)

Emphasis of Matter

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

(a) As disclosed in Note 23 to the financial statements, at December 31, 2007 the total amount of liabilities contingent upon litigations filed against the Company amounted to CM 3,221,469, without the effects of possible penalty interest, whereas the amount of potential damages based on the lawsuits filed by the Company against other entities totaled CM 31,831,030, without the effects of potential penalty interest. The Company's financial statements for the year ended December 31, 2007 include provisions for potential losses on litigations in the total amount of CM 81,371, as estimated by the Legal Department. The Company's management does not anticipate that any material losses shall be sustained in the forthcoming period based on the litigations for which no provisions have been formed.

(b) As disclosed in Note 27 to the financial statements, losses on the distribution of electricity in 2007 amounted to 320.17 GWh representing 20.25% of the total electricity assumed from the transfer network (2006 - 351.12 GWh or 23.63% of the total).

Deloitte doo

Deloitte d.o.o.
Banja Luka
May 16, 2008

INCOME STATEMENT
Year Ended December 31, 2007
(in CM)

	Notes	2007	2006
OPERATING INCOME			
Sales of electricity		139,300,076	134,014,652
Other operating income	4	9,686,255	9,176,293
		148,986,331	143,190,945
OPERATING EXPENSES			
Direct materials consumed		(2,202,573)	(2,789,146)
Cost of other materials, fuel and energy	5	(4,896,815)	(3,527,946)
Cost of electricity – related parties	22	(99,247,014)	(98,555,332)
Staff costs	6	(27,016,141)	(23,410,347)
Depreciation and amortization		(16,951,810)	(17,377,488)
Other operating expenses	7	(9,276,911)	(25,445,485)
Indirect taxes and contributions		(1,305,645)	(2,184,094)
		(160,896,909)	(173,289,838)
LOSS FROM OPERATIONS		(11,910,578)	(30,098,893)
FINANCE INCOME/(EXPENSES)			
Interest income		14,933,622	14,035,959
Interest expense		(233,851)	(344,497)
Foreign exchange gains/losses, net		153,738	223,286
		14,853,509	13,914,748
PROFIT/(LOSS) BEFORE TAXES		2,942,931	(16,184,145)
Income taxes	8	(1,046,441)	-
PROFIT/(LOSS) FOR THE YEAR		1,896,490	(16,184,145)

The accompanying notes form an integral part of
these financial statements.

These financial statements were adopted by the Company's Supervisory Board at its meeting held on April 18, 2008 and were proposed for adoption to the Shareholding Assembly.

Signed on behalf of the Company:

Željko Kovačević	Miroslav Soldat
Director	Chief Financial Officer

BALANCE SHEET
As of December 31, 2007
(in CM)

	Notes	December 31, 2007	December 31, 2006
ASSETS			
Non-current assets			
Intangible assets	9	7,199,201	6,572,258
Property, plant and equipment	9	251,001,695	255,212,211
Advances for fixed assets		906,181	-
Long-term financial placements	10	13,124,091	706,356
		272,231,168	262,490,825
Current assets			
Inventories	11	5,545,812	5,846,122
Advances to suppliers		1,512,403	159,304
Accounts receivable	12	72,078,609	72,061,479
Current portion of long-term financial placements	10	14,753,873	8,690,279
Other receivables and prepayments	14	4,528,968	2,551,835
Cash and cash equivalents	15	2,119,626	2,508,145
		100,539,291	91,817,164
Total assets		372,770,459	354,307,989
EQUITY AND LIABILITIES			
Equity			
Share capital	16	92,276,622	92,276,622
Revaluation reserves		164,646,874	177,911,759
Legal reserves		215,800	215,800
Accumulated loss		129,987	(5,232,789)
		257,269,283	265,171,392
Long-term provisions and liabilities			
Long-term provisions	17	11,247,676	11,874,736
Long-term borrowings	18	18,329,279	16,449,187
Deferred tax liabilities	8	1,046,441	-
		30,623,396	28,323,923
Current liabilities			
Current portion of long-term borrowings	18	1,370,252	2,193,050
Short-term borrowings	19	6,270,039	6,270,039
Advances from customers		2,711,074	2,107,898
Accounts payable	20	66,139,737	43,965,832
Other current liabilities and accruals	21	8,386,678	6,275,855
		84,877,780	60,812,674
Total liabilities and equity		372,770,459	354,307,989

The accompanying notes form an integral part of
these financial statements.

STATEMENT OF CHANGES IN EQUITY AND RESERVES
Year Ended December 31, 2007
(in CM)

	Share Capital	Revaluation Reserves	Legal Reserves	Accumulated Loss	Total
Balance, January 1, 2006	92,276,622	190,202,846	-	(700,331)	281,779,137
Transfer to legal reserves	-	-	215,800	(215,800)	-
Release of revaluation reserves based on the difference in depreciation of property, plant and equipment	-	(11,867,487)	-	11,867,487	-
Decrease in revaluation reserves of fixed and intangible assets sold and disposed of	-	(423,600)	-	-	(423,600)
Loss for the year	-	-	-	(16,184,145)	(16,184,145)
Balance, December 31, 2006	92,276,622	177,911,759	215,800	(5,232,789)	265,171,392
Balance, January 1, 2007	92,276,622	177,911,759	215,800	(5,232,789)	265,171,392
Distribution of mutual income	-	-	-	(9,037,472)	(9,037,472)
Release of revaluation reserves based on the difference in depreciation of property, plant and equipment	-	(12,503,758)	-	12,503,758	-
Decrease in revaluation reserves of fixed assets sold	-	(815,334)	-	-	(815,334)
Release of revaluation reserves for shortages identified in property, plant and equipment	-	(1,782)	-	-	(1,782)
Other	-	55,989	-	-	55,989
Net profit for the year	-	-	-	1,896,490	1,896,490
Balance, December 31, 2007	92,276,622	164,646,874	215,800	129,987	257,269,283

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT
Year Ended December 31, 2007
(in CM)

	2007	**2006**
Cash flows from operating activities		
Cash receipts from customers	142,298,672	112,453,590
Other cash receipts	314,899	682,025
Cash paid to suppliers	(100,015,619)	(81,237,005)
Cash paid to and on behalf of employees	(28,327,855)	(23,531,655)
Interest paid	(238,622)	(339,726)
Other duties paid	(503,985)	(309,878)
Net cash provided by operating activities	13,527,490	7,717,351
Cash flows from investing activities		
Proceeds from long-term financial placements	152,381	734,028
Purchases of property, plant and equipment	(15,125,684)	(7,086,660)
Net cash used in investing activities	(14,973,303)	(6,352,632)
Cash flows from financing activities		
Proceeds from donations	-	365,999
Cash provided by/(used for) long-term financial liabilities	1,057,294	(1,007,886)
Net cash provided by/(used in) financing activities	1,057,294	(641,887)
Net (decrease)/increase in cash and cash equivalents	(388,519)	722,832
Cash and cash equivalents at beginning of year	2,508,145	1,785,313
Cash and cash equivalents at end of year	2,119,626	2,508,145

The accompanying notes form an integral part of
these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
All amounts expressed in CM, unless otherwise stated.

1. FOUNDATION AND ACTIVITY

The Public Subsidiary Elektrokrajina, Banja Luka is a state-owned entity that operates within the Public Parent Company – the Power Utility of the Republic of Srpska ("Elektroprivreda Republike Srpske"). The Company's principal business activity is the distribution and sale of electricity to end users within the distribution network at all voltage levels, as well as the provision of services related to the sale of electricity to third parties.

The Company is centrally organized with the Directorate ("Direkcija") as its main administrative body having the following ten organizational units: Banja Luka, Srbac, Laktaši, Prnjavor, Prijedor, Novi Grad, Kozarska Dubica, Gradiška, Mrkonjić Grad, and the organizational unit involved in electrical construction and maintenance **-** "Elektro izgradjnja i održavanje."

Pursuant to the Decision of the Basic Court of Banja Luka numbered: U/I-277/05 of September 14, 2005, the Company's legal form was changed from a public company to a shareholding company.

On December 31, 2007, the Company had 1,561 employee (December 31, 2006: 1,518 employees).

The Company's tax identification number is 4400855640000.

The Company's Head Office is situated in Banja Luka, at the address of 95 Kralja Petra I Karađorđevića Street.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTIONS

2.1. Basis of Preparation and Presentation of the Financial Statements

These financial statements have been prepared in accordance with the standards and interpretations approved by the International Accounting Standards Board, which are now referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously known as International Accounting Standards (IAS).

The accompanying financial statements are stated in Convertible marks (CM).

Standards and Interpretations in Effect for the Current Period

In the current year, the Company has adopted IFRS 7 "Financial Instruments: Disclosures," in effect for the annual reporting periods starting on or after January 1, 2007, and the respective amendments and revisions of IAS 1 "Presentation of Financial Statements."

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

2.1. Basis of Preparation and Presentation of Financial Statement (Continued)

Standards and Interpretations in Effect for the Current Period (Continued)

Due to the adoption of IFRS 7 and of the revised IAS 1, the Company disclosed additional Notes in these financial statements regarding the financial instruments and credit, market and liquidity risk management.

The aforementioned IFRS 7 "Financial Instruments: Disclosures," as well as the revised IAS 1 "Presentation of Financial Statements" will be in effect for the periods starting on or after January 1, 2007. IFRS 7 introduces the requirements for additional disclosures regarding the Company's financial instruments, and this standard does not influence the classification and measurement of the Company's financial instruments, or the disclosures relating to taxation, accounts payable and other liabilities. The Company's management did not assess the influence of IFRS 7 and the revised IAS 1, and holds that the most significant additional disclosures required by these standards relate to qualitative and quantitative disclosures regarding the Company's risk exposure arising from financial instruments, as well as the exposures to, and management of, credit, market and liquidity risk.

In addition, the application of the following standards interpretation (IFRIC), as issued by the International Accounting Standards Board, having become obligatory in the preparation of financial statements for the periods beginning on or after January 1, 2007, did not lead to significant changes in the Company's accounting policies or impacted the Bank's financial statements in the period of the first-time adoption:

- IFRIC 7 "Applying the Restatement Approach under IAS 29: Financial Approach in Hyperinflationary Economies;"
- IFRIC 8 "Scope of IFRS 2 Share Based Payments;"
- IFRIC 9 "Reassessment of Embedded Derivatives;" and
- IFRIC 10 "Interim Financial Reporting and Impairment;"
-

As of the issuance date of these financial statements, the following standards and interpretations were issued, but not yet adopted:

- IAS 23 (Amended) "Borrowing Costs" (effective as of January 1, 2009)
- IFRS 8 "Operating Segments" (effective as of January 1, 2009).
- IFRIC 13 "Customer Loyalty Programs" (effective as of July 1, 2008);
- IFRIC 11, IFRS 2 "Group and Treasury Share Transactions" (effective as of March 1, 2007);
- IFRIC 12, "Service Concession Arrangements" (effective as of January 1, 2008); and
- IFRIC 14 IAS 19 "The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction" (effective from January 1, 2008).

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

2.1. Basis of Preparation and Presentation of Financial Statement (Continued)

Standards and Interpretations in Effect for the Current Period (Continued)

The Company's management envisages that the aforementioned standards and interpretations will be adopted in the Company's financial statements for the periods starting on or after January 1, 2008, and that the adoption of these standards will not have material impact on the Company's financial statements.

2.2. Use of Estimates

The presentation of the financial statements requires that the Company's management 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Revenues

Revenues are recognized at invoiced value net of discounts and value added tax.

Interest income and interest expenses are credited or charged to the income statement in the period in which they arise.

3.2. Maintenance and Repairs

Routine maintenance and repairs are charged to expenses as incurred.

3.3. Foreign Currencies

Assets and liabilities denominated in foreign currencies have been restated into CM at the exchange rate in effect at the balance sheet date.

Transactions in foreign currencies are translated into CM by applying the exchange rate in effect on the date of each transaction. The foreign exchange gains or losses arising upon the translation of transactions, and assets and liabilities denominated in foreign currencies are included in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Property, Plant and Equipment

All additions of property, plant and equipment during the year are recorded at cost. Cost includes the prices billed by suppliers together with all costs incurred in bringing the new fixed assets into service.

So as to determine the fair value of property, plant and equipment stated in its books of account, the Company engaged an independent appraiser to value its property, plant and equipment as of December 31, 2005. The positive effects of the appraisal were credited to Revaluation reserves, whereas any negative effects were charged to Retained earnings from previous years.

Fixed assets are assets with an expected useful economic life of over one year.

Gains from the disposal of fixed assets are credited directly to Other income, whereas any losses arising on the disposal of fixed assets are charged to Other expenses.

3.5. Depreciation

The depreciation of property, plant and equipment is provided at rates based on the estimated useful life, cost and estimated value of the assets.

The estimated useful lives of particular classes of property, plant and equipment, estimated by the independent appraiser as of December 31, 2005, which represent the base for depreciation, and the principal, prescribed annual depreciation rates in use are as follows:

	Depreciation Rate %	Useful Life (Years)
Buildings	1,25 - 6,67 %	15 - 80
Overhead power lines	1,66 - 2,78 %	36 - 60
Transformer stations	1,66 - 4 %	25 - 60
Transformers	3,33 - 4 %	25 - 30
Low-voltage distributors	2,5 - 3,33 %	30 - 40
Measuring devices	5 - 20 %	5 - 20
Vehicles	10 %	10
Automobiles	10 %	10
Furniture	10 %	10
Computers	20 %	5

3.6. Intangible Assets

Intangible assets represent the permanent rights to the beneficial use of land upon which the Company’s buildings are situated. These intangible assets have the same treatment as the Company’s land, however the amortization on such assets has not been determined. Aside from this, other intangible assets include accounting software which is out of use and the Company is implementing a new software.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Impairment of Assets

The Company's management did not analyze the value of intangible and fixed assets at the balance sheet date, despite the adopted accounting policy. 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 impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its net recoverable value.

An impairment loss is recognized as an expense of the current period and is recorded under "Other operating expenses," unless the relevant asset is carried at a revalued amount, in which instance, the impairment loss is treated as a revaluation decrease up to its revalued amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognized on the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the respective asset is carried at a revalued amount, in which instance, the reversal of the impairment loss is treated as a revaluation increase.

3.8. Inventories

Materials, fuel, spare parts, tools and fixtures are stated at cost. Cost includes the invoiced value, transportation costs and all other expenses directly attributable to the acquisition of inventories. Tools and fixtures are written off in the amount of 100% once placed into use.

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

3.9. Cash and Cash Equivalents

For purposes of the cash flow statement, cash and cash equivalents include cash in hand, deposits with commercial banks, as well as the highly-liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of valuation change.

3.10. Deferred Income from Donations

Deferred income from donations represents the value of property, plant and equipment received as donations, free of charge. These assets are depreciated in the amount of annual depreciation of fixed assets received free of charge.

3.11. Provisions

Provisions are recognized and computed when the Company has a legal or contractual obligation as a result of a past event, and when it is probable that an outflow of resources will be required to settle the obligation, wherein a reliable estimate of the amount can be made. Provisions for legal proceedings represent the Company management's best estimates of the expenditures required to settle such obligations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Employment Benefits

a) Taxes and Contributions Made to the Employee Social Security and Insurance Funds

In accordance with regulatory requirements, the Company is obligated to pay contributions to tax authorities and to various state social security funds that guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to the respective government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

b) Obligations for Employee Jubilee Awards and Retirement Benefits

In accordance with the Collective Bargaining Agreements, the Company is obligated to pay retirement benefits in an amount equal to six average monthly salaries earned by the employee in the preceding three months prior to his/her retirement, plus one average salary earned in the preceding three months for each year of service with the Company. The employee average salary earned in the preceding three months prior to his/her retirement was used as a basis for calculation.

In addition, the Company is obligated to pay out a jubilee award to employees in an amount between one and four average monthly salaries. The number of monthly salaries for jubilee awards corresponds to the total number of years of service of the employee as presented in the table below:

Total Number of Service Years	**Number of Salaries**
10	1
20	2
30	4

3.13. Taxes and Contributions

Current Income Taxes

Current income tax relates to the amount payable in accordance with the Income Tax Law (Official Gazette of the Republic of Srpska number 91/06), which came into effect as of January 1, 2007. Current income tax is payable at the rate of 10% on the tax base reported in the annual corporate income tax return, as reduced by any applicable tax credits from capital expenditures as in accordance with the regulations of the Republic of Srpska. The adjustment of the tax base due to capital expenditures is recognized temporarily, until December 31, 2008.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Taxes and Contributions (Continued)

Current Income Taxes (Continued)

As of December 31, 2007, the Company failed to recognize deferred tax assets arising from tax loss carryforwards due to the uncertainty over the availability taxable income against which deferred tax assets could be utilized.

Deferred Income Taxes

Deferred income taxes are provided using the balance sheet liability method, for 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 represent the amounts paid under various republic and municipal laws in order to finance diverse municipal and republic requirements. These taxes and contributions are included under “Other operating expenses.”

Value Added Tax

Pursuant to the Value Added Tax Law (Official Gazette of Bosnia and Herzegovina no. 9/05), system for the payment of value added tax (VAT) was introduced on the territory of Bosnia and Herzegovina, commencing on January 1, 2006, by which previously-applied taxation system for payment of sales tax on products and services was changed.

3.14. Fair Value

It is the policy of the Company to disclose the fair values of those asset and liability components for which published market information is readily available, and for which their fair value is materially different from the recorded amounts. Fair value, for this purpose, is defined as the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. However, in the Republic of Srpska there is sufficient market experience, stability and liquidity for the purchase and sale of financial assets or liabilities for which quoted prices on an active market are not presently, readily available. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Financial Instruments

Financial assets and liabilities are recognized on the Company's balance sheet at the instance in which the Company has become a party to the contractual provisions of a particular financial instrument.

Financial assets cease to be recognized when the Company loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. Financial liabilities cease to be recognized when the Company fulfills the respective obligations, or when the contractual repayment obligation has either been cancelled or has expired

Other Non-Current Assets

Other non-current assets include the long-term, non-interest-bearing receivables from employees based on extended residential loans, as well as the other long-term loans granted to employees and prepaid rent. Residential loans are measured at amortized value by using the interest rate at which the Company is able to obtain long-term financing, and which is in line with the effective interest rate.

Accounts Receivable

Accounts receivable are stated at their nominal values as reduced by the appropriate allowances for estimated irrecoverable amounts. The Company calculates impairment of receivable for all accounts receivable more than 365 days past due.

Loans Received from Banks and Suppliers

Loans received from banks and suppliers are initially measured at the amount of the loan disbursements received (i.e., at their nominal value), and are subsequently stated at amortized cost that is computed based on the contractual interest rate. The effects of non-application of IAS 39 "Financial Instruments: Recognition and Measurement," which requires that long-term loans are measured at amortized value by applying the effective interest rate method, in the opinion of the Company's management, are not material to the financial statements taken as a whole.

Operating Liabilities

Obligations towards suppliers are measured based on their nominal values.

4. OTHER OPERATING INCOME

	Year Ended December 31, 2007	2006
Own work capitalized	2,339,351	1,500,149
Release of provisions	1,090,464	333,724
Rentals	-	105,892
Proceeds on disposal of fixed assets	-	832
Recovery of receivables previously provided for	5,778,398	1,254,706
Physical count surpluses	10,404	14,597
Write-off of liabilities	90,429	5,511,049
Other income	377,209	455,344
	9,686,255	9,176,293

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
All amounts expressed in CM, unless otherwise stated.

5. COST OF OTHER MATERIALS, FUEL AND ENERGY

	Year Ended December 31, 2007	2006
Other materials	2,797,293	1,124,848
Electricity consumed for own purposes	1,050,399	1,301,249
Heating	-	525
Fuel	1,049,123	1,101,324
	4,896,815	3,527,946

6. STAFF COSTS

	Year Ended December 31, 2007	2006
Net salaries and benefits	16,787,699	13,791,941
Taxes on salaries	1,678,770	1,559,345
Contributions to salaries	7,050,834	6,547,738
Other staff costs	1,498,838	1,511,323
	27,016,141	23,410,347

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
All amounts expressed in CM, unless otherwise stated.

7. OTHER OPERATING EXPENSES

	Year Ended December 31, 2007	2006
Transportation	313,122	283,554
Maintenance	1,618,813	1,804,362
Production-related services	341,388	3,555
Rentals	31,214	14,301
Marketing and advertising	115,928	110,897
Other services	403,473	410,523
Provisions for litigations	-	300,000
Fees and commissions	800,716	664,839
Non-production services	177,218	408,388
Entertainment	323,430	211,511
Insurance premiums	213,235	171,524
Bank charges	18,809	30,855
Membership fees	38,803	1,050
Other non-material expenses	314,953	174,103
Disposals and sales of property, plant and equipment	265,132	464,576
Shortages	78,681	-
Bad debt provision	936,587	15,659,032
Write-off of interest receivables based on the conclusion of the Republic of Srpska Government	2,185,627	2,756,498
Write-off of receivables	390,586	8,557
Write-off of inventories	165,080	85,905
Third party claims settled	302,185	98,745
Court fees	-	120,452
Increase in liabilities based on reconciliation with the Tax Authority	-	1,604,587
Other	241,931	57,671
	9,276,911	25,445,485

8. INCOME TAXES

a) Components of income tax

	2007
Deferred tax liabilities	(1,046,441)
	(1,046,441)

8. INCOME TAXES (Continued)

b) Numerical reconciliation between the tax expense and the product of accounting results multiplied by the applicable tax rate

	2007	2006
Profit/(loss) before taxation	2,942,931	(16,184,145)
Income tax at the statutory tax rate of 10%	(294,293)	-
Tax effects of unrecognized income and expenses	(752,148)	-
	(1,046,441)	-

c) Deferred tax assets / liabilities

	2007
Temporary difference arising on valuation of fixed assets	(1,046,441)
Deferred tax liabilities, net	(1,046,441)

Deferred tax liabilities stated as of December 31, 2007 in the amount of CM 1,046,441 relate to temporary differences between the tax base at which equipment is recognized in the corporate tax return and the amount of CM 1,110,760 at which these assets are stated in the financial statements, net of other items amounting to CM 64,319.

9. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

	Land	Buildings	Equipment	Other PP&E	Construction in Progress	Total PP&E	Intangible Assets
Balance, January 1, 2007	1,747,990	569,666,473	19,788,513	13,001	4,518,210	595,734,187	6,572,258
Additions	-	-	-	-	13,592,560	13,592,560	626,943
Donations	-	232,773	-	-	-	232,773	-
Transfer from Construction in progress	-	2,878,440	3,699,685	85,523	(6,663,648)	-	-
Transfers to other accounts	-	-	(2,048,416)	2,048,416	-	-	-
Transfers to other accounts	-	(1,094,940)	1,094,940	-	-	-	-
Shortages	-	-	(22,000)	(700)	-	(22,700)	-
Disposals	-	(1,964,610)	(530,212)	(79,700)	-	(2,574,522)	-
Balance, December 31, 2007	1,747,990	569,718,136	21,982,510	2,066,540	11,447,122	606,962,298	7,199,201
Balance, January 1, 2007	-	329,566,407	10,955,569	-	-	340,521,976	-
Charge for the year	-	15,380,584	1,429,837	141,389	-	16,951,810	-
Transfer to other accounts	-	(930,882)	(636,203)	1,567,085	-	-	-
Shortages	-	-	(18,742)	(384)	-	(19,126)	-
Disposals	-	(958,346)	(462,566)	(73,145)	-	(1,494,057)	-
Balance, December 31, 2007	-	343,057,763	11,267,895	1,634,945	-	355,960,603	-
Balance, December 31, 2007	1,747,990	226,660,373	10,714,615	431,595	11,447,122	251,001,695	7,199,201
Balance, January 1, 2007	1,747,990	240,100,066	8,832,944	13,001	4,518,210	255,212,211	6,572,258

At December 31, 2007, the Company did not have insured, with an appropriate insurer, its building properties and other equipment from general insurance risks.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
All amounts expressed in CM, unless otherwise stated.

10. LONG-TERM FINANCIAL PLACEMENTS

	December 31, 2007	December 31, 2006
Loans to employees	1,438,776	1,591,157
Rescheduled receivables for electricity provided	31,579,311	18,706,042
	33,018,087	20,297,199
Less:		
- current portion of loans to employees	(168,471)	(169,146)
- current portion of rescheduled receivables	(14,585,402)	(8,521,133)
	(14,753,873)	(8,690,279)
Less:		
- allowance for impairment of rescheduled receivables	(5,140,123)	(10,900,564)
	13,124,091	706,356

Rescheduled receivables for electricity stated as of December 31, 2007 in the amount of CM 31,579,311, relate to matured receivables from legal parties and private individuals rescheduled over the period of 1-5 years.

11. INVENTORIES

	December 31, 2007	December 31, 2006
Materials	5,191,279	5,505,931
Tools, fixtures and tires	354,533	340,191
	5,545,812	5,846,122

12. ACCOUNTS RECEIVABLE

	December 31, 2007	December 31, 2006
Domestic accounts receivable:		
- legal entities - delivered electricity	70,608,747	72,586,822
- individual customers - delivered electricity	113,874,633	111,843,793
- other receivables	627,700	1,015,532
	185,111,080	185,446,147
Less: Allowance for impairment	(113,032,471)	(113,384,668)
	72,078,609	72,061,479

The aggregate gross accounts receivable as of December 31, 2007 amounted to CM 185,111,080. Total allowance for impairment of receivables as of December 31, 2007 amounted to CM 113,032,471 and represents 61.06% of the total gross value of accounts receivable. The movements on the account of allowance for impairment are disclosed in Note 13 to these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
All amounts expressed in CM, unless otherwise stated.

12. ACCOUNTS RECEIVABLE (Continued)

The aging structure of accounts receivable as of December 31, 2007 and 2006 was as follows:

	2007	2006
0-30 days	29,252,488	31,524,641
30-60 days	6,903,291	3,374,151
60-90 days	5,320,501	77,429
90-180 days	10,912,502	5,589,871
180-270 days	9,788,244	12,574,301
270-365 days	9,901,583	18,921,086
Over 365 days	113,032,471	113,384,668
	185,111,080	185,446,147

The Company charges the legally-prescribed penalty for accounts receivable past the due date, stipulated on each account. Penalty is calculated for each day in default. It is calculated regularly, and the amount of interest is presented on each user account.

13. ALLOWANCE FOR IMPAIRMENT

	Year Ended December 31, 2007			
	Accounts Receivable	Other Receivables	Rescheduled Receivables	Total
Balance, January 1, 2007	113,384,668	2,176,705	10,900,564	126,461,937
Charge for the year	796,061	140,526	-	936,587
Write-off of adjusted receivable	(1,130,301)	(2,176,705)	-	(3,307,006)
Recovery of bad debts previously provided for	(17,957)	-	(5,760,441)	(5,778,398)
Balance, December 31, 2007	113,032,471	140,526	5,140,123	118,313,120

14. OTHER RECEIVABLES AND PREPAYMENTS

	December 31, 2007	December 31, 2006
Mixed Holding Power Utility of the Republic of Srpska a.d. Trebinje	37,344	-
Receivables from employees	44,389	46,115
Receivables for prepaid taxes	177,841	2,315,711
Deferred incoming and outgoing invoices for VAT calculation	4,159,946	2,141,706
Other receivables	249,974	225,008
	4,669,494	4,728,540
Less: Allowance for impairment	(140,526)	(2,176,705)
	4,528,968	2,551,835

15. CASH AND CASH EQUIVALENTS

	December 31, 2007	December 31, 2006
Giro account	2,116,251	2,506,504
Cash in hand	3,335	1,636
Foreign currency account	40	5
	2,119,626	2,508,145

16. SHARE CAPITAL

Up to December 31, 1999 the Company's capital was wholly-owned by the State, and was comprised of the initial capital invested, combined with a portion of the profit allocated to capital, and subsequent revaluations.

During FY 1999, in accordance with the Law on Privatization of State-Owned Capital in Enterprises and the Law on Opening Balance Sheet as of June 30, 1998 (the "Law"), the Republic of Srpska Directorate for Privatization, issued a Legal Notice on the Privatization performed on November 8, 2002. By this Legal Notice, the Government certified the structure of the Company's capital as of June 30, 1998, which had not changed up to December 31, 2005.

In accordance with the provisions of the Order of the Government of the Republic of Srpska dated February 24, 2005, the Company has amended the organizational form of its subsidiaries, comprised within the Power Utility of the Republic of Srpska, into shareholding companies. On the basis of the aforecited order, the Company's capital is comprised of: shares owned by the Government of the Republic of Srpska (65 percent), a voucher share issuance (20 percent), the Pension Fund (10 percent) and the Restitution Fund (5 percent).

Pursuant to the Decision of the Government of the Republic of Srpska numbered 02/1-020-60/06 of December 30, 2005 and the Decision of the Government of the Republic of Srpska numbered 04/1-012-1966/06 of September 7, 2006, the change of the share capital structure was registered. Based on the aforementioned Decisions, the Company's capital is comprised of: shares held by the Mixed Holding Power Utility of the Republic of Srpska ("Mješoviti Holding Elektroprivreda Republike Srpske A.D., Trebinje") (65 percent), a voucher share issuance (20 percent), the Pension Fund (10 percent) and the Restitution Fund (5 percent). The registration of the new share capital structure with the presiding court in presently in process, and had not been completed as of the date of these financial statements.

16. SHARE CAPITAL (Continued)

The Company's share capital structure as of December 31, 2007 pursuant to the Decision of the Basic Court of Banja Luka is provided below:

Description	% of Share Capital	Amount of Capital	Number of Shares
Mixed Holding ERS a.d., Trebinje	65,00000	59,979,805	59,984,963
Voucher share issuance	20,00000	18,455,324	18,450,166
Pension Fund	10,00000	9,227,662	9,227,662
Restitution Fund	5,00000	4,613,831	4,613,831
Share capital	100,00000	92,276,622	92,276,622

The Company's share capital structure as of December 31, 2007 based on Central Registry of Securities of the Republic of Srpska is provided below:

Description	% of Share Capital	Amount of Capital	Number of Shares
Mixed Holding ERS a.d., Trebinje	65,00559	59,984,963	59,984,963
Voucher share issuance	19,99441	18,450,166	18,450,166
Pension Fund	10,00000	9,227,662	9,227,662
Restitution Fund	5,00000	4,613,831	4,613,831
Share capital	100,00000	92,276,622	92,276,622

The individual par value of the Company's shares as of December 31, 2007 was CM 1,00.

In its books of accounts as of December 31, 2007, the Company stated the same total amount of its share capital (CM 92,276,622) as the amount registered by the Decision of the Basic Court of Banja Luka and the Central Registry of Securities of the Republic of Srpska. However, the state-owned capital is understated, while a voucher offer, as per the Decision of the Basic Court of Banja Luka, is overstated by CM 5,158 compared to the amount registered in the Central Register of Securities of the Republic of Srpska.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
All amounts expressed in CM, unless otherwise stated.

17. LONG-TERM PROVISIONS

Year Ended December 31, 2007

	Employee Benefits	Donations	Litigation	Retention	Total
Balance, January 1, 2007	4,308,216	7,266,520	300,000	-	11,874,736
Increase in donations	-	232,773	-	-	232,773
Retention	-	-	-	230,631	230,631
Release of provisions	(390,287)	(481,548)	(218,629)	-	(1,090,464)
Balance, December 31, 2007	3,917,929	7,017,745	81,371	230,631	11,247,676

18. LONG-TERM BORROWINGS

	December 31, 2007	December 31, 2006
Domestic long-term loans		
Ministry of Finance of the Republic of Srpska	14,757,753	15,735,416
Hypo Alpe-Adria banka a.d., Banja Luka	-	906,963
	14,757,753	16,642,379
Foreign long-term loans		
EBRD 891	367,650	449,352
IDA 3534	138,879	34,222
IDA 3028	1,235,642	1,516,284
EBRD 35806	3,199,607	-
	4,941,778	1,999,858
Less: Current portion	(1,370,252)	(2,193,050)
	18,329,279	16,449,187

The long-term liability disclosed as of Decemebr 31, 2007 in the amount of CM 14,757,753 relates to the liability to the Ministry of Finance of the Republic of Srpska. Namely, the forgoing RS Ministry extended the deadline for the settlement of tax and contribution liabilities arising on the two agreements on rescheduling the Company's liabilities joined in one pursuant to the Decision of the Republic of Srpska Ministry of Finance number 06-05-10010-06 as of December 20, 2006. According to the latter Decision, the reschedule is executed in 180 equal monthly installments in the amount of CM 629,808, started from February 5, 2007.

The long-term loan stated as of December 31, 2007 in the amount of CM 367,650 relates to the loan extended by the European Bank for Reconstruction and Development (EBRD) based on the agreement signed on November 2, 2000, providing for 15-year maturity, a grace period of 5 years and an interest rate of LIBOR + 1% annually. The loan is intended for the improvement of electric power system.

18. LONG-TERM BORROWINGS (Continued)

The long-term loan stated at December 31, 2007 in the amount of CM 138,879 relates to a loan extended by the International Development Association (IDA) pursuant to the terms of the Agreement entered into on October 19, 2001, having a 20-year maturity, a grace period of 5 years, and accruing an annual interest at the rate of LIBOR + 0.75%. The purpose of this loan is to finance the recovery of the distance power lines and for enhancement of managing software.

The long-term loan stated as of December 31, 2007 in the amount of CM 1,235,642 relates to the loan obtained from the International Development Association (IDA) pursuant to the Agreement entered into on January 20, 1998 maturing in 20 years, having a grace period of 5 years and an interest rate of 0.75 % annually. The purpose of this loan is to finance the recovery of the electric power system.

A long-term loan stated as of Decemebr 31, 2007 in the amount of CM 3,199,607 was approved by the European Bank for Reconstruction and Development based on the Agreement signed on February 1, 2006 which provides for a 12-year maturity period, a grace period of 3 years and an interest rate of EURIBOR per annum.

19. SHORT-TERM BORROWINGS

The short-term loans from related parties stated as of December 31, 2007 in the amount of CM 6,270,039 relate to the six loans extended by the Mixed Holding Power Utility of the Republic of Srpska a.d., Trebinje with the repayment due within 6 to 12 months and an interest rate of 10% annually. The loans are intended for the maintenance of current liquidity and rehabilitation of low-voltage distributive network.

20. ACCOUNTS PAYABLE

	December 31, 2007	December 31, 2006
Accounts payable – related parties	59,696,539	42,398,849
Domestic accounts payable	6,432,370	1,456,012
Foreign accounts payable	-	101,301
Other accounts payable	10,828	9,670
	66,139,737	43,965,832

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
All amounts expressed in CM, unless otherwise stated.

21. OTHER CURRENT LIABILITIES AND ACCRUALS

	December 31, 2007	December 31, 2006
Other liabilities to related parties	1,776,611	1,493,609
Net salaries and benefits	917,277	751,118
Taxes on salaries and benefits	141,169	97,751
Contributions on salaries and benefits	760,421	412,393
Sales taxes and excise duties	9,489	9,489
Value added tax	202,664	1,087,140
Other acquisition-related duties	74,467	40,577
Contributions charged to expenses	37,371	15,423
Other taxes, contributions and duties payable	10,385	9,576
Liabilities to employees	49,880	50,452
Remunerations to the Management and Supervisory Board members	3,080	6,050
Interest payable	-	4,771
Other liabilities	248,539	220,501
Deferred income	4,000,642	1,930,025
Deferred accrued expenses	44,100	-
Other accruals	110,583	146,980
	8,386,678	6,275,855

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
All amounts expressed in CM, unless otherwise stated.

22. RELATED PARTY TRANSACTIONS

The Company's transactions with its related parties are summarized below:

	Notes	December 31, 2007	December 31, 2006
BALANCE SHEET			
RECEIVABLES			
Other receivables	14		
Mixed Holding Power Utility of RS a.d., Trebinje		37,344	-
		37,344	-
Total receivables		37,344	-
PAYABLES			
Short-term borrowings from related parties			
Mixed Holding Power Utility of RS a.d., Trebinje	19	(6,270,039)	(6,270,039)
		(6,270,039)	(6,270,039)
Accounts payable			
Mixed Holding Power Utility of RS a.d., Trebinje	20	(59,696,539)	(42,398,849)
		(59,696,539)	(42,398,849)
Other payables			
Mixed Holding Power Utility of RS a.d., Trebinje	21	(1,776,611)	(1,493,609)
Total payables		(67,743,189)	(50,162,497)
PAYABLES, net		(67,705,845)	(50,162,497)

	Note	2007	2006
INCOME STATEMENT		34,518	-
EXPENSES		34,518	-
Cost of electricity		(99,247,014)	(98,555,332)
Net (expenses)/income		(99,212,496)	(98,555,332)

23. CONTINGENT LIABILITIES

As of December 31, 2007 the total amount of liabilities contingent upon litigations filed against the Company amounted to CM 3,221,469, without the effects of possible penalty interest, whereas the amount of potential damages based on the lawsuits filed by the Company against other entities totaled CM 31,831,030, without the effects of potential penalty interest. The Company's financial statements for the year ended December 31, 2007 include the provisions for potential losses on litigations in the total amount of CM 81,371, as estimated by the Legal Department. The Company's management does not anticipate that any material losses shall be sustained in the forthcoming period based on the litigations for which no provisions have been formed.

24. FINANCIAL INSTRUMENTS

The categories of financial instruments are presented in the following table:

	2007	2006
Financial assets		
Loans and receivables (including cash and cash equivalents)	109,023,751	86,677,398
	109,023,751	86,677,398
Financial liabilities	114,454,735	89,136,597

In its regular course of business, the Company is exposed to certain financial risks, which are: market risk (comprised of currency risk, interest rate risk and price risk), liquidity risk and credit risk.

The risk management in the Company is focused on minimizing the potential adverse effects on the Company's financial position and business operations, contingent on the volatility of the market. The accounting policies adopted by the Company regulate the risk management.

The Company does not enter into transactions with derivative instruments, such as interest rate swaps or forwards. In addition, in the course 2007, the Company undertook no transactions with financial instruments.

Market Risk

(a) Currency Risk

The Company's management assesses that the Company is not significantly exposed to currency risk, in transactions in the country and abroad, as it mostly performs its business operations in the local currency (Convertible Mark), as well as in EUR to which the Convertible Mark is index linked (EUR 1 = CM 1.95583). The book value of financial assets and liabilities of the Company expressed in foreign currency as of the reporting date was as follows:

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
All amounts expressed in CM, unless otherwise stated.

24. FINANCIAL INSTRUMENTS (Continued)

Market Risk (Continued)

(a) Currency Risk (Continued)

	Assets December 31, 2007	Assets December 31, 2006	Liabilities December 31, 2007	Liabilities December 31, 2006
EUR	40	5	3,567,257	449,302
USD	-	-	138,879	34,222
SDR	-	-	1,235,642	1,516,284
	40	5	4,941,778	1,999,808

(b) Interest Rate Risk

The Company is exposed to various risks which through the effects of the fluctuations in the market interest rates influence its financial position and cash flows.

Given that the Company does not possess significant interest-bearing assets, the Company's income is to a great extent independent of interest rate risks.

The Company's risk from the changes in the fair value of interest rates arises primarily on long-term borrowings from banks and suppliers. The loans obtained at fluctuating interest rates make the Company's cash flows susceptible to interest rate risk, whereas the loans received at fixed interest rates expose the Company to the risk of changes in the fair value of interest rates. In the course of 2007, considerable liabilities with reference to borrowings extended at a variable interest rate which was linked to EURIBOR and LIBOR (the liabilities with reface to the loan approved by EBRD, EIB and IDA, Note 20). Borrowings with variable interest rates are mostly denominated in foreign currency (EUR).

The Company analyzes its exposure to interest rate risk on a dynamic basis taking into consideration the alternative sources for financing and refinancing, of long-term liabilities in the first place, as these represent the most important interest-bearing position. The Company still does not swap variable for fixed interest rates, and vice versa, but takes steps to securitize loans from banks at more favorable terms.

In case an interest rate on borrowings from EBRD, EIB and IDA in foreign currency as of December 31, 2007, exceeded/was less by 0.1 percentage point annually, where other variables remain the same, the Company's net profit for the year 2007 would be less/greater by the amount of CM 108,444 (2006 – CM 102,290), as a result of a greater/less interest expense.

(c) Price Risk

The Company is not exposed to risk from changes in prices of securities to a significant extent, as the Company does not have material investments classified in the balance sheet as assets available -or-sale, or financial assets at fair value where the effects of changes in their fair value are disclosed in the income statement.

In addition, the Company is not exposed to price risk, as the prices of electricity are determined by the Regulatory Agency.

24. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

On the Company level, managing the liquidity is centralized. The Company handles its assets and liabilities in a manner which ensures that the Company is able to settle its liabilities at any moment.

The Company has a sufficient amount of highly liquid assets (cash and cash equivalents), and continuous cash flows from service rendering which enables it to discharge its liabilities when due.

The Company does not use financial derivatives.

In order to manage liquidity risk, the Company adopted financial policies which define dispersion on decision-making levels in the course of the acquisition of certain goods/services. This dispersion is ensured by limiting the authority of persons or bodies vested in authority to enact decisions with reference to certain acquisitions.

The maturities of the Company's financial assets and liabilities as of December 2007 and 2006 were as follows:

Financial assets **2007**	**Weighted Averag Interest Rate**	**Up to One Month**	**From 1 - 6 Months**	**From 6 - 12 Months**	**From 1 - 20 Years**	**Total**
Interest free		27,819,925	48,922,054	13,385,309	17,626,158	107,753,446
Instruments at fixed interest rate	4%	-	-	-	1,270,305	1,270,305
Total		27,819,925	48,922,054	13,385,309	18,896,463	109,023,751
2006						
Interest free		23,885,801	42,615,240	991,697	17,593,503	85,086,241
Instruments at fixed interest rate	4%	-	-	169,146	1,422,011	1,591,157
Total		23,885,801	42,615,240	1,160,843	19,015,514	86,677,398

Financial liabilities **2007**	**Weighted Averag Interest Rate**	**Up to One Month**	**From 1 - 6 Months**	**From 6 - 12 Months**	**From 1 - 20 Years**	**Total**
Interest free		25,728,051	49,989,893	733,587	18,303,674	94,755,205
Instruments at variable interest rate	5.82%	-	107,416	1,262,836	18,329,278	19,699,530
Total		25,728,051	50,097,309	1,996,423	36,632,952	114,454,735
2006						
Interest free		23,589,541	29,111,216	218,829	17,574,774	70,494,360
Instruments at variable interest rate	5.82%	87,565	557,926	1,547,559	16,449,187	18,642,237
Total		23,677,106	29,669,142	1,766,388	34,023,961	89,136,597

24. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

The review of maturities of financial instruments (assets and liabilities) is made based on the undiscounted cash flows of financial assets and financial liabilities, including interest charged on those assets which will be earned (except for the assets based on which the Company expects cash flow in another period), i.e., based on the earliest date on which the Company can be expected to pay the incurred liability.

Credit Risk

The credit risk is present in cash and cash equivalents, receivables from legal entities and individuals and in commitments, and it relates to the risk that counterparty will not settle its liabilities to the Company when these fall due, and the Company will sustain a financial loss.

The Company is exposed to the credit risk to a limited extent. As collateral against the credit risk, certain measures and activities have been taken of the Company level.

The Company’s receivables are particularly risk-weighted, as most of receivables relate to amounts due from the Parent Company. In addition to the direct collection, the following mechanisms of collection are applied: debt rescheduling and compensations.

The collection of loans extended to the Company employees is ensured through administrative injunctions, i.e., by decreasing salaries for the adequate amount of installments, whereas the employees leaving the Company enter agreements with reference to the repayment of the outstanding loan portion upon his/her leaving the Company.

Capital Risk Management

The Company opted for the financial concept of capital and its preservation, whereby capital is defined based on the nominal cash units. The Company is organized as an open shareholding company (Note 16).

The aim of capital management is for the Company to maintain the capacity to continue its business operations for an indefinite period in the foreseeable future, so as to preserve optimal capital structure with a view to decrease the capital-related expenses, and provide dividends to the shareholders. So as to maintain, i.e., adjust the capital structure, the Company may take into consideration the following options: adjustment of the dividends payable to shareholders, repurchase of shares form shareholders, issuance of new shares or sale of assets in the aim of reducing the debts.

25. TAXATION RISKS

The Republic of Srpska and Bosnia and Herzegovina currently have several tax laws in effect, as imposed by various governmental agencies. The applicable taxes include: value added tax, corporate tax, and payroll (social) taxes, among others. Apart from that, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent. Hence, few precedents with regard to tax issues have been established in the Republic of Srpska. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, thus creating uncertainties and areas of legal contention.

Tax declarations, together with other legal compliance matters (e.g., customs and currency control matters) are subject to the review and investigation by a number of authorities that are legally enabled to impose extremely severe fines, penalties and interest charges.

The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Company may need to pay additional taxes, penalties and interest, which can be significant. In accordance with the Law on Tax Authority of the Republic of Srpska, expiration period of the tax liability is five years. This practically means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability. The afore-described situation creates tax risks in the Republic of Srpska that are substantially more significant than those typically existing in countries with more developed tax systems.

26. POST BALANCE SHEET DATE

Pursuant to the February 11, 2008 Decision of the Basic Court in Trebinje number 015-0-Pž-07-000 65, the January 29, 2007 Decision of the Basic Court number 095-0-PS-06-000-06 was reversed and the appeal of the entity “SB Soft” from Belgrade, seeking CM 53,879,443, inclusive of penalty accrued from August 1, 2004 until the settlement date, was denied. The Company had been one of the main users of this information system within the Mixed Holding Power Utility of the Republic of Srpska a.d., Trebinje until it was banned from using it.

27. LOSSES ON POWER DISTRIBUTION

The losses on the distribution of electricity in 2007 amounted to 320.17 GWh representing 20.25% of the total electricity assumed from the transfer network (2006 - 351.12 GWh or 23.63% of the total).

28. EXCHANGE RATES

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

	December 31, 2007	December 31, 2006
USD	1.3312	1.4851
CHF	1.1779	1.2171
EUR	1.9558	1.9558