



**BELGRADE "NIKOLA TESLA" AIRPORT  
PUBLIC COMPANY**

**Financial Statements  
Year Ended December 31, 2008 and  
Independent Auditors' Report**

ЈАВНО ПРЕДУЗЕЋЕ  
АЕРОДРОМ „НИКОЛА ТЕСЛА“  
БЕОГРАД  
09 Бр. 5467  
15. 05. 2009. год.

**BELGRADE “NIKOLA TESLA” AIRPORT  
PUBLIC COMPANY**

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PUBLIC COMPANY

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*Translation of the auditors' report issued in the Serbian language*

## INDEPENDENT AUDITORS' REPORT

### TO THE BOARD OF DIRECTORS OF BELGRADE "NIKOLA TESLA" AIRPORT, PUBLIC COMPANY

We have audited the accompanying financial statements (pages 3 to 41) of Belgrade "Nikola Tesla" Airport, a Public Company (the "Company"), which comprise the balance sheet as of December 31, 2008, and the 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.

The financial statements of the Company as of and for the year ended December 31, 2007 were audited by another auditor whose report dated June 23, 2008 expressed a qualified opinion since it could not satisfy itself as to the compliance between the actual and carrying value of spare parts as of December 31, 2007 and 2006.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 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 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 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 BELGRADE "NIKOLA TESLA" AIRPORT, PUBLIC COMPANY (Continued)**

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008, and its financial performance, changes in equity and its cash flows for the year then ended, in accordance with the accounting regulations of the Republic of Serbia.

Belgrade, April 3, 2009



The image shows a handwritten signature in blue ink over a circular purple stamp. The stamp contains the text "Dobitke d.o.o." at the top, "BEOGRAD" in the center, and "Certified Auditor" at the bottom. A small asterisk is visible at the bottom of the stamp.

**INCOME STATEMENT**  
Year Ended December 31, 2008  
(thousands of RSD)

	Notes	2008	2007 <i>Audited by Another Auditor</i>
<b>OPERATING INCOME</b>			
Sales	6	4,107,536	3,484,889
Own work capitalized		-	1,798
Other operating income	7	328,209	305,488
		<u>4,435,745</u>	<u>3,792,175</u>
<b>OPERATING EXPENSES</b>			
Cost of commercial goods sold		(502,885)	(400,020)
Cost of materials	8	(272,379)	(276,212)
Staff costs	9	(660,087)	(909,526)
Depreciation, amortization and provisions	10	(670,786)	(807,378)
Other operating expenses	11	(827,576)	(890,767)
		<u>(2,933,713)</u>	<u>(3,283,903)</u>
<b>PROFIT FORM OPERATIONS</b>		1,502,032	508,272
Finance income	12	336,983	441,380
Finance expenses	12	(415,585)	(512,181)
Other income	13	132,618	137,638
Other expenses	14	(147,509)	(144,651)
		<u>(93,493)</u>	<u>(77,814)</u>
<b>PROFIT BEFORE TAXATION</b>		1,408,539	430,458
<b>Income taxes</b>	15	(79,521)	(38,388)
Deferred tax benefit /(expenses)		7,506	(31,089)
<b>NET PROFIT</b>		<u>1,336,524</u>	<u>360,981</u>

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

These financial statements were adopted by the Board of Directors of Belgrade Nikola Tesla Airport, a Public Company on February 26, 2009 and were submitted to the National Bank of Serbia, Center for Creditworthiness Assessment on February 27, 2009.

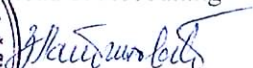
Signed on behalf of the Company by:

Velimir Radosavljević  
Deputy General Director

Ljiljana Simonović  
Chief Financial Officer

Zorka Latinović  
Head of Accounting



BELGRADE "NIKOLA TESLA" AIRPORT  
PUBLIC COMPANY

**BALANCE SHEET**  
As of December 31, 2008  
(thousands of RSD)

	Notes	December 31, 2008	<i>Adjusted</i> December 31, 2007 <i>Audited by</i> <i>Another Auditor</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	16	12,566	21,394
Property, plant and equipment	16	12,520,404	12,529,020
Investment property	16	13,409	12,473
Equity investments	17	287	2,135
Other long-term financial placements	18	146,107	200,226
		<u>12,692,773</u>	<u>12,765,248</u>
<b>Current assets</b>			
Inventories and advances paid	19	85,754	132,471
Accounts receivable	20	680,186	424,513
Receivables for prepaid income taxes		-	3,554
Short-term financial placements	21	1,766,136	587,729
Cash and cash equivalents	22	172,224	356,401
Value added tax and prepayments	23	35,176	40,872
		<u>2,739,476</u>	<u>1,545,540</u>
<b>Total assets</b>		<u><u>15,432,249</u></u>	<u><u>14,310,788</u></u>
<b>EQUITY AND LIABILITY</b>			
<b>Equity</b>			
State-owned capital	24	7,157,362	7,157,362
Other capital		95,193	99,281
Reserves		234,941	234,941
Revaluation reserves		3,256,294	3,270,741
Retained earnings		2,088,575	751,130
		<u>12,832,365</u>	<u>11,513,455</u>
<b>Long-term provisions</b>	25	121,094	142,710
<b>Long-term liabilities</b>			
Long-term borrowings	26	1,215,907	1,266,249
Other long-term liabilities	27	345,471	330,072
		<u>1,561,378</u>	<u>1,596,321</u>
<b>Short-term liabilities</b>			
Short-term financial liabilities	28	299,708	234,170
Accounts payable	29	218,213	412,102
Other short-term liabilities	30	56,371	149,122
Income taxes payable		44,331	-
VAT and other public duties payable and accruals	31	107,784	64,242
		<u>726,407</u>	<u>859,636</u>
Deferred tax liabilities		191,005	198,666
<b>Total equity and liabilities</b>		<u><u>15,432,249</u></u>	<u><u>14,310,788</u></u>
<b>Off-balance sheet items</b>	33	<u>24,435</u>	<u>51,100</u>

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

**STATEMENT OF CHANGES IN EQUITY**  
**Year Ended December 31, 2008**  
**(thousands of RSD)**

	State- Owned Capital	Other Capital	Reserves	Revaluation Reserves	Retained Earnings	Total
<i>Audited by another auditor</i>						
<i>Adjusted</i>						
Balance, January 1, 2007	7.157.362	95.284	236.216	3.230.264	389.244	11.108.370
Revaluation of equity investments	-	-	-	1.546	-	1.546
Reversal of revaluation reserves based on the disposal of fixed assets	-	-	-	(2.430)	-	(2.430)
Revaluation of apartments	-	71	-	-	-	71
Solidarity apartments	-	4.088	-	-	-	4.088
Profit for the year	-	-	-	-	360.981	360.981
Adjustment of deferred tax liabilities	-	-	-	41.516	-	41.516
Other additions	-	-	-	-	905	905
Other decreases	-	(162)	(1.275)	(155)	-	(1.592)
Balance, December 31, 2007, adjusted	<u>7.157.362</u>	<u>99.281</u>	<u>234.941</u>	<u>3.270.741</u>	<u>751.130</u>	<u>11.513.455</u>
Balance, January 1, 2008	7.157.362	99.281	234.941	3.270.741	751.130	11.513.455
Solidarity apartments	-	(4.088)	-	-	-	(4.088)
Reversal of revaluation reserves based on the disposal of fixed assets	-	-	-	(12.507)	921	(11.586)
Changes in the value of shares/equity investments	-	-	-	(1.692)	-	(1.692)
Profit for the year	-	-	-	-	1.336.524	1.336.524
Other decreases	-	-	-	(248)	-	(248)
Balance, December 31, 2008	<u>7.157.362</u>	<u>95.193</u>	<u>234.941</u>	<u>3.256.294</u>	<u>2.088.575</u>	<u>12.832.365</u>

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

**CASH FLOW STATEMENT**  
Year Ended December 31, 2008  
(thousands of RSD)

	2008	2007
		<i>Audited by Another Auditor</i>
<b>OPERATING ACTIVITIES</b>		
Cash receipts from customers	4,238,604	3,818,644
Interest receipts from operations	3,114	4,782
Other cash received from operations	279,030	298,422
Cash paid to suppliers	(1,764,509)	(1,770,823)
Cash paid to, and on behalf of employees	(716,874)	(982,749)
Interest paid	(111,021)	(93,782)
Income taxes	(31,635)	(46,143)
Other public duties paid	(264,128)	(129,091)
	<b>1,632,581</b>	<b>1,099,260</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of shares and equity investments	-	278
Sale of intangible assets, property, plant, equipment and biological assets	4,049	8,164
Interest earned in investing activities	111,405	20,412
Purchase of intangible assets, property, plant, equipment and biological assets	(639,648)	(358,840)
Other financial placements	(1,049,688)	(242,154)
	<b>(1,573,882)</b>	<b>(572,140)</b>
<b>CASH FLOWS FORM FINANCING ACTIVITIES</b>		
Long-term and short-term borrowings and other liabilities (net outflows)	(167,355)	(251,299)
Finance lease	(90,219)	(102,984)
	<b>(257,574)</b>	<b>(354,283)</b>
Total cash inflow	4,636,202	4,150,702
Total cash outflow	(4,835,077)	(3,977,865)
<b>NET CASH INCREASE</b>	-	172,837
<b>NET CASH DECREASE</b>	(198,875)	-
<b>Cash and cash equivalents, beginning of year</b>	<b>356,401</b>	<b>187,444</b>
<b>Foreign exchange gains/losses, net</b>	<b>14,698</b>	<b>(3,880)</b>
<b>Cash and cash equivalents, year end</b>	<b>172,224</b>	<b>356,401</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**I. FOUNDATION AND ACTIVITY**

Belgrade "Nikola Tesla" Airport, a Public Company (originally – Javno preduzeće Aerodrom "Nikola Tesla", Beograd, hereinafter the "Company" or "Airport") was founded in 1992 as a Company engaged in airport services based on the special Law and is entirely owned by the Republic of Serbia. Accordingly, this Public Company is wholly-owned by the Republic of Serbia.

The Company commenced its operations on March 25, 1928 and was initially located at Bežanijska kosa, and since 1962 it has been operating in Surčin.

Up to the end of the 1980's, the Company recorded constant increases in services with respect to the ground handling of aircraft, passengers, cargo and mail for domestic and international traffic. However, at the beginning of the 1990's, a series of major political and economic events, commencing with the breakup of the former Yugoslavia, the ensuing civil war, and subsequent economic events including the introduction of UN Sanctions against the Federal Republic of Yugoslavia, resulted in a substantial reduction in the business activities of domestic airline companies and of those of other international carriers. Upon the rescission of EU Sanctions against the Federal Republic of Yugoslavia in February 2000, the Company reestablished business relations with international carriers.

During 2006, pursuant to the Decision enacted by the Government of the Republic of Serbia, Belgrade Airport, a Public Company changed its official name into Belgrade "Nikola Tesla" Airport, a Public Company.

The Company is engaged in a number of business activities including the following: providing conditions for aircraft landing, take-off and rolling on the ground, ground handling of aircraft, passengers and luggage within the terminal building, transport of passengers and things within the terminal building, providing conditions for aircraft fuel refill, providing services to passengers and luggage on the ground within the terminal building, transport of passengers and crew; cargo warehouse management, storage and handling of goods; joint use of equipment and installations; forwarding, trade; transport, cleaning and removal of garbage; land renting; airport security service; special requests and other services.

Based on the Decision on Determining the Date of Status changes in Belgrade "Nikola Tesla" Airport, a Public Company dated August 5, 2005, four independent companies have spun off as follows: Aerodrom catering d.o.o., Beograd, Aerodrom parking d.o.o., Beograd, Aerodrom poljoprivredna operativa d.o.o., Beograd and Aerodrom čistoća terminali d.o.o., Beograd. The status change was consummated on July 1, 2005. Fixed assets with the net book value of RSD 71,288 thousand were transferred to the newly-founded companies, and the ownership was transferred to the Republic of Serbia.

At December 31, 2008, the Company had 409 employees (December 31, 2007: 597 employees).

The Company's tax identification number ("TIN") was 100000539.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

### 2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

#### 2.1. Basis of Preparation and Presentation of Financial Statement

Pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46 of June 2, 2006), legal entities and enterprises incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards.

Pursuant to its Decision numbered 011-00-738-2003-01 of December 30, 2003, the Republic of Serbia Ministry of Finance determined and issued the Framework and IAS that were applied as of December 31, 2002, and upon which both the previous and the Law on Accounting and Auditing enacted in 2006, were based.

The amendments to the IAS, as well as the newly-issued IFRS and related interpretations issued by the International Accounting Standards Board ("Board") and the International Financial Reporting Interpretations Committee ("Committee"), upon the aforementioned date, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia ("Ministry") with reference to the issuance of International Financial Reporting Standards (number 401-00-11/2008-16) and published in the Official Gazette of the Republic of Serbia number 16 of February 12, 2008. Based on the Decision number 401-00-1456/2008-16, the Ministry also issued the translation of the amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" in the RS Official Gazette number 116 as of December 17, 2008.

However, until the preparation date of the accompanying financial statements, not all amendments to Standards and Interpretations had been translated. In addition, the officially prescribed forms for financial statements, "Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" ("Guidelines") and other secondary legislation acts had not yet been amended, i.e. reconciled (with the officially published Standards and Interpretations). The Interpretations in application for the accounting periods commencing January 1, 2008, which were not officially translated and adopted by the Ministry are disclosed in Note 2.3.

In addition, the accompanying financial statements are presented in the format prescribed under the "Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" (See Official Gazette of the Republic of Serbia, no. 114 of December 22, 2006 and 119 as of December 26, 2008). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, "Presentation of Financial Statements," and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard.

With regards to the potentially material effects of the departures of the accounting regulations of the Republic of Serbia and IAS, in effect as of December 31, 2002 (officially published and whose application was legally prescribed in the Republic of Serbia prior to February 12, 2008), from the newly-issued IFRS and amended IAS, the accompanying financial statements cannot be described as having been prepared in accordance with IFRS and IAS.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

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

#### 2.2. Standards and Interpretations in Application, but not yet officially Translated and Adopted

Also, as of the financial statements preparation date, the following interpretations were not officially adopted by the Ministry.

- IFRIC 13 Customer Loyalty programs (effective for financial periods starting July 1, 2008);
- IFRIC 14 Interpretation on IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for the accounting periods starting January 1, 2008);
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation. (effective for financial periods starting October 1, 2008).

#### 2.3. Standards and Interpretations Issued, but not yet in Effect

As of the financial statements issuance date, the following standards, amendments and interpretations were issued by the Board and Committee, but were neither in effect nor officially adopted and translated in the Republic of Serbia for the accounting periods commencing on or after January 1, 2008:

- IAS 1 Presentation of Financial Statements (effective for financial periods starting January 1, 2009);
- IAS 23 (Amended) Borrowing costs (effective for financial periods starting January 1, 2009);
- IFRS 8 Operating Segments (effective for financial periods starting January 1, 2009);
- IFRS 3 (Amended) Business Combinations and IAS 27 (Amended) Consolidated and Separate Financial Statements (effective for financial periods starting July 1, 2009);
- Amendments to IFRS 2 Share-Based Payment - Vesting Conditions and Cancellations (effective for financial periods starting January 1, 2009);
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for financial periods starting January 1, 2009);
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial periods starting July 1, 2009);
- Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial periods starting January 1, 2009);
- Improvements to International Financial Reporting Standards 2008 (most changes are effective for financial periods starting January 1, 2009);
- IFRIC 15 Agreements for the Construction of Real Estate (effective for financial periods starting January 1, 2009);
- Improvements to IFRS 1 First-time Adoption of International Financial Reporting Standards (in effect from July 1, 2009);
- IFRIC 17 Distributions of Non-cash Assets to Owners (in effect from July 1, 2009);
- IFRIC 18 Transfers of Assets from Customers (effective for financial periods starting July 1, 2009).

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

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

#### 2.3. Standards and Interpretations Issued, but not yet in Effect (Continued)

The financial statements were prepared at historical cost principle, unless otherwise stipulated in the accounting policies presented hereunder.

In the preparation of the accompanying financial statements, the Company adhered to the accounting policies described in Note 3. These accounting policies have been consistently applied to all presented reporting periods.

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

#### 2.4. Comparative Information

The comparative data for the year 2008 include data from the Company financial statements prepared for 2007 which were subject of the audit. For the purpose of adjusting data in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors," certain adjustments and reclassifications of data presented in the balance sheet as of December 31, 2007 have been performed (Note 5). Pursuant to the aforementioned standard, materially significant errors relating to the subsequently determined income and expenses dating from prior periods were stated as an adjustment of retained earnings, where comparative information included in the financial statements or balance sheet of the prior period is restated.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1. Income and Expense Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, sales taxes and other taxes.

Income from sales of goods is recognized when the risk and rewards associated with the right of ownership are transferred to the customer.

Income from the sale of services is recorded as of the invoicing date.

At the time when income is recognized, the related expenditure is also recognized (as per the "matching principle").

Interest income and interest expense are credited or charged to the income statement in the accounting period to which they relate.

#### 3.2. Maintenance and Repairs

Routine maintenance and repairs are charged to expenses as incurred.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.3. Foreign Exchange Translation

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

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

Net foreign exchange gains or losses arising upon the translation of transactions, and assets and liabilities in foreign currencies are credited or charged to the income statement.

#### 3.4. Employee Benefits

##### *Taxes and Contributions to the Employee Social Security and Insurance Funds*

In accordance with regulatory requirements of the Republic of Serbia, the Company is obligated to pay contributions to tax authorities and to various state social security funds, which 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 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.

##### *Obligations for Retirement Benefits and Jubilee Awards*

The Company is under obligation to pay retirement benefits to its employees depending on the years of service with the Company in the amount of no less than three average salaries earned in the Republic of Serbia or in the Company, if such arrangement is more favorable for the employee.

Employees are entitled to a jubilee award of RSD 40.000 thousand for each 10 years of service with the Company (10, 20, 30 and 40 years of service). The amount of jubilee awards is determined in the decision of the General Director dated July 24, 2008.

In its financial statements, the Company stated the present value of expected employee retirement benefits and jubilee awards based on the appraisal performed by a certified appraiser. The assumptions used by the actuary are the discount rate of 12% (based on the actual return on benchmark securities of 4% annually i.e. under the circumstances of projected nominal inflation of 8% and their nominal return of 12%) and expected growth of salaries in the Company of 9%.

#### 3.5. Income Taxes

##### **Current Income Tax**

Current income tax represents an amount that is calculated by applying the legally prescribed tax rate of 10% to the taxable base stated in the income tax return being the amount of profit prior to taxation net of effects of reconciling income and expenses, pursuant to the tax regulations of the Republic of Serbia and decreased by the legally provided tax credits.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Income Taxes (Continued)

**Current Income Tax (Continued)**

The tax regulations 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 Tax**

Deferred tax assets and deferred tax liabilities are calculated 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 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 carryforwards can be utilized.

**Indirect Taxes and Contributions**

Indirect taxes and contributions include property taxes, taxes and contributions to salaries paid by employer, as well as other amounts paid under various republic, municipal, tax and general regulations. These taxes and contributions are presented within other operating expenses.

3.6. Property, Equipment and Investment Property

*a) Property and Equipment*

After recognition as an asset, an item of property, plant and equipment is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The appraisal of property and equipment was performed as of December 31, 2006 by an independent certified appraiser.

The negative effects of the appraisal of property and equipment as of December 31, 2006 were charged to revaluation reserves up to the amount of revaluation reserves determined in the previous appraisal, whereas the remaining portion of negative effects was charged to the income statement, under "other expenses." The positive appraisal effects as of December 31, 2006 were credited to revaluation reserves, with the exception of assets for which negative effects were recorded in the previous appraisal, wherein the positive effects were recorded to the income statement, and credited to "other income."

Property and equipment are initially measured at cost. Self-constructed asset is recognized at cost on condition that it does not exceed its market value. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.6. Property, Equipment and Investment Property (Continued)**

*b) Investment Property*

An investment property shall be measured initially at its cost. Subsequently, investment property is carried at fair value as in accordance with IAS 40 "Investment Property."

**3.7. Depreciation and Amortization**

Depreciation and amortization of property, plant, equipment and intangible assets are charged individually to cost of each asset at the beginning of year, i.e. to the cost of assets activated in the year by applying the straight line method. Depreciation and amortization rates are applied to fully write-off the cost of such assets over their estimated useful lives and are as follows:

	2008
	%
Buildings	
Electric and water supply structures	2.00 – 10.00
Roads, airports and parking lots	1.25 – 20.00
Equipment	
New specific equipment	6.67 – 33.33
Equipment for road transport	5.88 – 50.00
Equipment for telecommunication and TV	10 – 50.00
Equipment for air traffic	7.14 – 50.00
Measuring and control and special instruments	7.14 – 50.00
Laboratory equipment, educational materials and medical equipment	12.5 – 50.00
Electronic and calculation machinery and computers	10 – 50.00
Furniture and general purpose equipment	9.09 – 50.00
Agricultural equipment	12.5 – 33.33
Leased equipment for road transport	6.67 – 50.00

**3.8. Inventories**

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

The cost of raw material is determined using the weighted-average method.

Goods for resale are stated at their sale price. At the end of the accounting period, their value is adjusted to cost by an apportionment of the related selling margin, calculated on an average basis between the cost of goods sold and the inventories held at the year-end.

Net realizable value is the price at which inventories can be realized in the normal course of business, after allowing for the costs of realization.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.9. Finance Lease**

Leases are classified as finance leases whenever the terms of the lease substantially transfer all risks and rewards of ownership to the Company. All other leases are classified as operating leases. Assets held under finance leases are recognized as the assets of the Company at the present value of the minimum lease payments, which is determined at the inception of the particular lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

**3.10. Financial Instruments**

Financial assets and liabilities are recognized on the Company's balance sheet at the moment 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 obligations, or when the contractual repayment obligation has either been cancelled or has expired.

*Long-Term Financial Placements*

Long-term placements include equity investments in banks and long-term housing loans approved to employees.

The Company holds equity investments in banks in liquidation and pursuant to the regulations and accounting standards in application, these investments have been fully provided for.

Long-term housing loans to employees are stated at fair value determined by a certified valuer.

*Short-Term Financial Placements*

Short-term financial placements relate to short-term deposits placed with banks, as well as current portions of long-term housing loans approved to employees.

*Cash and Cash Equivalents*

Cash and cash equivalents imply cash held on the current accounts with commercial banks.

*Accounts Receivable*

Accounts receivable are stated at their nominal values, as reduced by appropriate allowances for estimated irrecoverable amounts, based on management assessment of the likelihood of debt recoverability.

The Company forms an allowance for the entire amount of outstanding receivable balances that are more than 60-days overdue as accompanied by an analysis of debt collectability performed by the Company's management.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.10. Financial Instruments (Continued)**

*Accounts Receivable (Continued)*

A write-off of uncollected receivables is performed either pursuant to a court order, or based on a settlement agreed between the parties involved, or otherwise, on the basis of a relevant resolution of the Company's Board of Directors.

*Financial Liabilities*

Financial liabilities are classified in accordance with the respective contractual provisions governing such instruments.

Financial liabilities are stated at nominal value increased by the contractual interest approximating effective interest rate.

*Accounts Payable*

Accounts payable are measured at their nominal amount.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES**

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

**4.1. Estimates and Assumptions**

Estimates and assumptions are subject to constant review. Changes to accounting estimates are recognized in the period when they are made if their impact is limited to that period or in the future periods in cases where the change impacts future periods as well.

**4.2. Depreciation and Amortization Charge and Rates Applied**

The calculation of depreciation and amortization, as well as depreciation and amortization rates are based on the economic useful life of property, equipment and intangible assets. Once a year, the Company assesses the economic useful life based on the current estimates.

**4.3. Provision for Litigations**

Generally, provisions greatly depend on assessments. The Company assesses the likelihood of adverse effects contingent on the past events and estimates the amount necessary to settle the liability. Although the Company adheres to the prudence principle in its assessments, given the great extent of uncertainties, actual results may depart from these estimates.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated*

**4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (Continued)**

**4.4. Allowance for Impairment of Receivables**

The allowance for impairment of doubtful receivables is based on the management's assessment relying upon the aging analysis of accounts receivable, historical write-offs, customer creditworthiness and changes in the terms of sale, identified upon determining the adequacy of allowance for impairment of doubtful receivables. This includes the assumptions on the future customer behavior and the resultant future collections.

**4.5. Fair Value**

The fair value of financial instruments for which an active market does not exist is determined by applying adequate valuation methods. The Company applies its professional judgment in the selection of adequate methods and assumptions.

It is a policy of the Company to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded amounts. In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result of this, fair value cannot readily or reliably be determined in the absence of an active market. The Company's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes a provision. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**5. RESTATEMENT OF COMPARATIVE DATA**

The restatement of comparative data for the year ended December 31, 2007 is associated with the adjustment of deferred tax liabilities of RSD 41,516 thousand in favor of revaluation reserves based on deferred tax liabilities inadequately calculated in the prior periods in respect of the effects of land appraisal performed by a certified appraiser.

	December 31, 2007		
	Previously Stated	Adjustments	Adjusted
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	21,394	-	21,394
Property, plant and equipment	12,533,349	-	12,533,349
Advances for property, plant and equipment	8,144	-	8,144
Equity investments	2,135	-	2,135
Other long-term financial placements	200,226	-	200,226
	<u>12,765,248</u>	-	<u>12,765,248</u>
<b>Current assets</b>			
Inventories	132,471	-	132,471
Accounts receivable	424,513	-	424,513
Receivables for prepaid income taxes	3,554	-	3,554
Short-term financial placements	587,729	-	587,729
Cash and cash equivalents	356,401	-	356,401
Value added tax and prepayments	40,872	-	40,872
	<u>1,545,540</u>	-	<u>1,545,540</u>
<b>Total assets</b>	<u>14,310,788</u>	-	<u>14,310,788</u>
<b>EQUITY AND LIABILITY</b>			
<b>Equity</b>			
State-owned capital	7,157,362	-	7,157,362
Other capital	99,281	-	99,281
Reserves	234,941	-	234,941
Revaluation reserves	3,229,225	41,516	3,270,741
Retained earnings	751,130	-	751,130
	<u>11,471,939</u>	<u>41,516</u>	<u>11,513,455</u>
<b>Long-term provisions</b>	<u>142,710</u>	-	<u>142,710</u>
<b>Long-term liabilities</b>			
Long-term borrowings	1,266,249	-	1,266,249
Other long-term liabilities	330,072	-	330,072
	<u>1,596,321</u>	-	<u>1,596,321</u>
<b>Short-term liabilities</b>			
Short-term financial liabilities	234,170	-	234,170
Accounts payable	412,102	-	412,102
Other short-term liabilities	149,122	-	149,122
VAT and other public duties payable and accruals	64,242	-	64,242
Deferred tax liabilities	240,182	(41,516)	198,666
	<u>1,099,818</u>	<u>(41,516)</u>	<u>1,058,302</u>
<b>Total equity and liabilities</b>	<u>14,310,788</u>	-	<u>14,310,788</u>
Off-balance sheet items	<u>24,435</u>	-	<u>24,435</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts are expressed in thousands of RSD, unless otherwise stated.

6. SALES

	Year Ended December 31,	
	2008	2007
Domestic market		
<i>Goods:</i>		
- retail	251	15,110
<i>Services:</i>		
- airport taxes for aircraft reception and dispatch	182,000	150,836
- ground services	825,029	751,935
- reception of aircrafts in domestic traffic	133,381	103,281
- safety fees	105,878	-
- air bridge services	27,091	23,602
- advertising	95,584	41,733
- Cute system revenues	24,107	22,560
- use of the Airports' infrastructure	100,078	83,650
- handling goods in customs' warehouse	160,939	157,139
- general services	65,302	77,287
	<u>1,719,389</u>	<u>1,412,023</u>
Total domestic market	<u>1,719,640</u>	<u>1,427,133</u>
Sale on foreign markets		
<i>Goods – jet fuel</i>	530,554	430,512
<i>Goods and services:</i>		
- land services	719,707	670,786
- airport taxes for aircraft reception and dispatch	640,558	577,041
- air bridge services	67,046	65,291
- Cute system revenues	35,308	32,615
- advertising	477	1,683
- aircraft stay on the Airport grounds	12,596	13,674
- special travelling services	28,751	41,692
- safety fees	92,683	-
- use of the Airports' infrastructure	215,289	196,074
- services of lost and found	15,053	15,799
- general services	29,874	12,589
	<u>1,857,342</u>	<u>1,627,244</u>
Total sale on foreign markets	<u>2,387,896</u>	<u>2,057,756</u>
	<u><u>4,107,536</u></u>	<u><u>3,484,889</u></u>

For the year ended December 31, 2008, the Company stated income from safety fees in the aggregate amount of RSD 198,561 thousand. The Company commenced the accrual and collection of these fees on July 14, 2008 pursuant to the Decision and Conclusion of the Board of Directors. The fee amounts to EUR 4.5 per each departing passenger (including VAT) as translated to dinars at the official exchange rate of the National Bank of Serbia.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**7. OTHER OPERATING INCOME**

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Rentals:		
- domestic legal entities	314,732	289,548
- foreign legal entities	10,477	8,588
Donation income	3,000	7,352
	<u>328,209</u>	<u>305,488</u>

**8. COST OF MATERIAL**

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Material	86,469	90,297
Other material	45,751	83,516
Fuel and energy	140,159	102,399
	<u>272,379</u>	<u>276,212</u>

**9. STAFF COSTS**

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Gross salaries:		
- employees	376,268	485,373
- management	45,870	48,296
Taxes and contributions paid by the employer	71,947	90,068
Authors' fees and service contracts	9,974	6,071
Gross salaries of temporary employees	102,750	88,308
Remunerations to the members of the Board of Directors	23,867	19,351
Retirement benefits paid to employees	-	135,635
Other staff costs	29,411	36,424
	<u>660,087</u>	<u>909,526</u>

**10. DEPRECIATION, AMORTIZATION AND PROVISIONS**

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Depreciation and amortization	651,862	615,295
Provisions for restructuring	-	108,000
Provisions for litigations	18,924	84,083
	<u>670,786</u>	<u>807,378</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**11. OTHER OPERATING EXPENSES**

	Year Ended December 31,	
	2008	2007
Transportation	240,364	259,085
Maintenance	93,952	73,333
Rent	22,051	19,346
Marketing and advertizing	7,319	3,336
Membership fees	2,837	4,652
Physical and technical security	129,285	133,742
Other production services	39,625	49,952
JAT medical services	4,557	4,383
Professional training of employees	8,898	11,275
Cleaning	53,150	65,241
Data processing services	35,148	52,117
Other non-manufacturing services	53,320	42,994
Taxes	15,642	12,297
Information support	8,773	8,703
Bank charges	5,773	9,994
Insurance premiums	52,265	56,386
Entertainment costs	8,652	11,302
Indirect taxes and contributions	37,857	37,150
Other	8,108	35,479
	<u>827,576</u>	<u>890,767</u>

**12. FINANCE INCOME AND EXPENSES**

**a) Finance Income**

	Year Ended December 31,	
	2008	2007
Interest income	123,758	30,689
Foreign exchange gains	206,027	338,831
Income from the effects of the agreed upon hedges – Currency clause	7,198	71,860
	<u>336,983</u>	<u>441,380</u>

**b) Finance Expenses**

	Year Ended December 31,	
	2008	2007
Interest expense	108,692	98,359
Foreign exchange losses	243,072	345,694
Expenses from the effects of the agreed upon hedges - Currency clause	63,821	67,975
Other financial expenses	-	153
	<u>415,585</u>	<u>512,181</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**13. OTHER INCOME**

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Revaluation of long-term housing loans	23,728	33,662
Collected written-off receivables	7,785	1,182
Reversal of long-term provisions:		
- for litigations and employee benefits	35,831	59,382
- for restructuring program	40,272	-
Valuation of receivables and short-term financial placements	81	6,192
Valuation of inventories	1,720	5,688
Other income	23,201	31,532
	132,618	137,638

**14. OTHER EXPENSES**

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Losses on disposal and sale of property and equipment	7,413	1,182
Write-off of receivables	167	4,928
Losses on impairment of receivables	70,653	37,789
Impairment of inventories of material and goods	-	30,224
Humanitarian purposes	8,022	28,914
Impairment of long-term financial placements	37,664	8,626
Cost of litigations	6,847	5,966
Other expense	16,743	27,022
	147,509	144,651

**15. INCOME TAXES**

**a) Components of Income Taxes**

	<b>2008</b>
Current tax expense	79,521
Deferred tax expense	(7,506)
	72,015

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

	<b>2008</b>
Profit before tax	1,408,539
Income tax at the statutory tax rate of 10%	140,854
Tax effects of expenses not recognized in the tax return	9,833
Long-term provisions not recognized in the tax return	1,892
Tax credits for capital expenditures and newly hired employees	(79,521)
Other	(1,043)
	72,015

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**15. INCOME TAXES (Continued)**

**c) Deferred Tax Liabilities**

	<b>2008</b>	<b>2007</b>
Deferred tax liabilities		
Temporary difference on property, plant, equipment and intangible assets	(191.005)	(198.666)
	(191.005)	(198.666)

Deferred tax liabilities relate to temporary differences arising between the values of property and equipment stated in the financial statements and their tax base.

**16. PROPERTY AND EQUIPMENT, CATTLE, INVESTMENT PROPERTY  
AND INTANGIBLE ASSETS**

	Land	Property	Equipment	Dairy Cattle	Construction in Progress and Advances	Total	Investment Property	Intangible Assets
<i>Audited by another auditor</i>								
<b>Cost</b>								
Balance January 1, 2007	1.243.070	9.890.660	1.363.308	567	103.959	12.601.564	14.521	-
Additions	-	-	-	-	580.287	580.287	-	21.587
Transfer from construction in progress	-	132.469	537.276	100	(669.845)	-	-	-
Transfers between groups	-	53.653	(53.653)	-	-	-	-	-
Appraisal effects	-	-	-	-	-	-	(2.048)	-
Sale and disposal	-	-	(12.814)	-	-	(12.814)	-	-
Balance, December 31, 2007	1.243.070	10.076.782	1.834.117	667	14.401	13.169.037	12.473	21.587
Balance, January 1, 2008	1.243.070	10.076.782	1.834.117	667	14.401	13.169.037	12.473	21.587
Additions	454.158	-	-	-	213.520	667.678	-	-
Transfer from construction in progress	-	99.535	90.897	-	(190.432)	-	-	-
Appraisal effects	-	-	-	-	-	-	936	-
Sale and disposal	(13.138)	(5.308)	(12.623)	-	(2.562)	(33.631)	-	(2.450)
Balance, December 31, 2008	1.684.090	10.171.009	1.912.391	667	34.927	13.803.084	13.409	19.137
<i>Audited by another auditor</i>								
<b>Accumulated Depreciation and Amortization</b>								
Balance, January 1, 2007	-	-	29.302	-	-	29.302	-	-
Charge for the year (Note 10)	-	394.564	220.538	-	-	615.102	-	193
Sale and disposal	-	-	(4.387)	-	-	(4.387)	-	-
Balance, December 31, 2007	-	394.564	245.453	-	-	640.017	-	193
Balance, January 1, 2008	-	394.564	245.453	-	-	640.017	-	193
Charge for the year (Note 10)	-	398.835	246.649	-	-	645.484	-	6.378
Sale and disposal	-	(101)	(2.720)	-	-	(2.821)	-	-
Balance, December 31, 2008	-	793.298	489.382	-	-	1.282.680	-	6.571
<b>Net Book Value:</b>								
- December 31, 2008	1.684.090	9.377.711	1.423.009	667	34.927	12.520.404	13.409	12.566
- December 31, 2007	1.243.070	9.682.218	1.588.664	667	14.401	12.529.020	12.473	21.394

Net book value of equipment as of December 31, 2008 includes assets under finance lease in the amount of RSD 406.338 thousand.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated*

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

The Company stated increases in land totaling RSD 454,158 thousand pertinent to the repurchase of expropriated land. The repurchase of land was performed based on the decision enacted by the Government of the Republic of Serbia ("RS Official Gazette" number 105 as of September 21, 2004) with the intention to build a cargo and logistics center within Belgrade „Nikola Tesla“ Airport. To that end, in 2008, the Company repurchased 38.33 ha, i.e. the total area of expropriated land repurchased so far occupies 51.44 ha. Pursuant to the Decision enacted by the Government, the Company is to repurchase 10.13 ha more in the forthcoming period.

**17. EQUITY INVESTMENTS**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
<b>Equity investments in banks:</b>		
Privredna banka a.d., Beograd	287	2,135
<b>Equity investments in banks in liquidation</b>		
Union banka a.d., Beograd - in liquidation	667	667
Beogradsna banka a.d., Beograd - in liquidation	18,988	18,988
Beobanka a.d., Beograd - in liquidation	38	38
	19,693	19,693
Less: Allowance for impairment of equity investments in banks in liquidation	(19,693)	(19,693)
	287	2,135

**18. OTHER LONG-TERM FINANCIAL PLACEMENTS**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Deposits for membership in the Société Internationale de Télécommunications Aéronautiques Suisse (SITA)	1,258	1,075
Long-term deposits	80,441	98,213
Long-term loans to employees	370,972	363,212
Receivables for socially owned apartments sold	1,212	1,870
Repurchase of solidarity apartments	3,719	4,317
	457,602	468,687
Current portions of long-term deposits	(35,134)	(31,420)
Current portions of loans to employees	(11,946)	(10,697)
Fair value adjustment of long-term loans to employees	(264,415)	(226,344)
	146,107	200,226

At December 31, 2008, the Company stated long-term deposits in the net amount of RSD 45,307 thousand (as decreased for the current portion of RSD 35,134 thousand) relating to the deposits placed with Piraeus banka a.d., Beograd as collateral for a long-term loan. The aforementioned deposits were placed at an interest rate of 0.5% annually.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**18. OTHER LONG-TERM FINANCIAL PLACEMENTS (Continued)**

At December 31, 2008 long-term loans to employees stated in the amount of RSD 370,972 thousand are associated with long-term loans approved to employees pursuant to the Business Cooperation Agreement for the construction and acquisition of apartments, closed with the Building Directorate of Serbia. These loans were approved for purchases of residential apartments or purchases of additional residential space, and improvement of housing conditions for employees, and were extended for periods ranging from twenty to forty years at an annual interest rate of 0.5 percent. These residential loans are payable in equal monthly installments that are revalued at the beginning of each year by applying the retail price index prevailing in the Republic of Serbia up to the growth indicator of the average gross salary in effect in the Republic of Serbia in the previous year. For the purpose of securitizing regular loan repayment, an administrative injunction has been placed, i.e. the relevant agreement envisages that a mortgage be inscribed in favor of the Company once the employee has received the apartment. At December 31, 2008, the loan was revalued by applying the revaluation ratio of 0.068 in the aggregate amount of RSD 23,728 thousand (Note 13).

At December 31, 2008 and 2007, the Company stated the fair value of long-term receivables based on the approved housing loans. According to the appraisal performed, the total effects of fair value adjustment of long-term financial placements as of December 31, 2008 amounted to RSD 265,417 thousand (December 31, 2007: RSD 233,280 thousand). The effects of adjusting the long-term portion amounted to RSD 264,415 thousand, whereas the effects of adjusting the current portion totaled RSD 1,002 thousand (Note 21). Thereto, the effects of fair value adjustment of long-term loans for the year 2008 amounted to RSD 37,664 thousand (Note 14).

**19. INVENTORIES AND ADVANCES PAID**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Material	38,691	41,125
Spare parts	27,726	32,266
Tools and fixtures	6,677	6,850
Goods in warehouse	37,145	81,341
Goods in duty free shops	11	84
Advances to suppliers	5,003	18,241
	115,253	179,907
<i>Less: Allowance for impairment</i>		
- Material and spare parts	(8,625)	(10,345)
- Goods	(20,874)	(37,091)
	85,754	132,471

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**20. ACCOUNTS RECEIVABLE**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Accounts receivable:		
- domestic	467,160	235,812
- foreign	284,349	220,875
Interest receivables from customers	25,293	5,495
Receivables from employees	844	1,590
Other receivables	9,896	4,998
	787,542	468,770
<i>Less: Allowance for impairment of receivables:</i>		
- domestic accounts receivable	(83,982)	(38,537)
- foreign accounts receivable	(20,741)	(5,720)
- interest receivables from customers	(2,633)	-
	(107,356)	(44,257)
	680,186	424,513

Receivables from customers as of December 31, 2008 were stated in the amount of RSD 467,160 thousand mostly relate to the receivables from the entity JAT Airways, Beograd amounting to RSD 296,026 thousand.

The movements in the allowance for impairment of receivables are presented in the following table:

Balance, January 1, 2008	44,257
Charge for the year	70,653
Collected receivables previously written-off	(7,785)
Other	231
	107,356
Balance, December 31, 2008	107,356

**21. SHORT-TERM FINANCIAL PLACEMENTS**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Short-term loans to employees	6,820	13,830
Short-term deposits	1,712,069	538,718
Current portion of long-term deposits	35,134	31,420
Current portion of long-term loans to employees	11,946	10,697
Deposits for operating lease	1,169	-
	1,767,138	594,665
Fair value adjustment of long-term loans to employees	(1,002)	(6,936)
	1,766,136	587,729

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**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**21. SHORT-TERM FINANCIAL PLACEMENTS (Continued)**

Short-term deposits are presented in the following table:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Hypo alpe adria banka a.d., Beograd	883,071	100,000
Piraeus banka a.d., Beograd	407,565	15,847
Banca Intesa a.d., Beograd	271,433	1,200
Privredna banka a.d., Beograd	50,000	57,924
AIK banka a.d., Niš	50,000	50,000
Komercijalna banka a.d., Beograd	50,000	238,060
Unicredit banka a.d., Beograd	-	25,687
Srpska banka a.d., Beograd	-	50,000
	<u>1,712,069</u>	<u>538,718</u>

As of December 31, 2008, short-term deposits in the amount of RSD 1,712,069 thousand mainly relate to deposits placed with domestic banks at an interest rate ranging from 5.3% to 7% for deposited foreign currency funds, i.e. from 16.8% to 18.15% annually as applied to dinar deposits. The aforementioned deposits were placed for the period of 30 days allowing for automatic extension of depositing period.

**22. CASH AND CASH EQUIVALENTS**

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Current account	124,751	21,082
Foreign currency accounts	87,782	365,691
Cash on hand	347	7,695
Other cash and cash equivalents	4,060	1,636
	<u>216,940</u>	<u>396,104</u>
Less: Allowance for impairment of foreign currency funds of the banks in liquidation	<u>(44,716)</u>	<u>(39,703)</u>
	<u>172,224</u>	<u>356,401</u>

**23. VALUE ADDED TAX AND PREPAYMENTS**

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Value added tax	8,031	4,377
Prepaid insurance premium	10,458	11,856
Interest accrued in advance	11,641	18,850
Other prepayments	5,046	5,789
	<u>35,176</u>	<u>40,872</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**24. CAPITAL**

*State-Owned Capital*

The state-owned capital, entirely owned by the Republic of Serbia -- the Company's founder, represents a part of permanent sources of financing. This capital includes the initial capital invested by the founder and subsequent revaluations thereto. In accordance with the relevant regulations, the distribution of profit is performed pursuant to the approval of the founder.

*Other Capital*

Other capital represents funds of mutual consumptions used for housing purposes, formed in accordance with the earlier applied regulations and maintained as special purpose assets. According to the new regulations, such assets are carried as other capital.

*Reserves*

Reserves stated as of December 31, 2008 in the total amount of RSD 234,941 thousand (December 31, 2007: RSD 234,941 thousand) are comprised of legal reserves amounting to RSD 55,168 thousand and statutory reserves of RSD 179,773 thousand.

**25. LONG-TERM PROVISIONS**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Provisions for retirement benefits	12,898	18,952
Provisions for jubilee awards	8,389	39,675
Provisions for litigations	99,807	84,083
	<b>121,094</b>	<b>142,710</b>

The movements on long-term provision for employee retirement benefits and jubilee awards in 2008 are shown below:

	<b>Long-term provisions</b>			
	<b>Retirement Benefits</b>	<b>Jubilee Awards</b>	<b>Litigations</b>	<b>Total</b>
Balance, January 1, 2008	18,952	39,675	84,083	142,710
Charge for the year (Note 10)	-	-	18,924	18,924
Reversal of provisions (Note 13)	(5,915)	(27,564)	(2,352)	(35,831)
Provisions released	(139)	(3,722)	(848)	(4,709)
Balance, December 31, 2008	<b>12,898</b>	<b>8,389</b>	<b>99,807</b>	<b>121,094</b>

Provisions for employee benefits were formed based on the present value of expected future payments to employees for jubilee awards and retirement benefits upon vesting in respective rights. The present value of expected future payments for jubilee awards and retirement benefits is determined by applying the annual interest rates of 12% and forecasted growth rate of 9%.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts are expressed in thousands of RSD, unless otherwise stated.

**25. LONG-TERM PROVISIONS (Continued)**

The total amount of provisions for litigations as of December 31, 2008 amounted to RSD 99,807 thousand. The greatest portion amounting to RSD 78,627 thousand is associated with a litigation filed before the Commercial Court in Belgrade against the Company by "Engel Europe Limited." The Company made provisions for this litigation in accordance with the Decision enacted by the Board of Directors due to the uncertainty regarding the final resolution of this legal suit and the amount claimed.

**26. LONG-TERM BORROWINGS**

	December 31, 2008	December 31, 2007
Long-term borrowings:		
- domestic	120,710	157,728
- foreign	1,295,195	1,274,456
	1,415,905	1,432,184
Current portions:		
- term loans (Note 28)	(199,998)	(165,935)
	1,215,907	1,266,249

	Interest Rate	Maturity Date	Outstanding Portion (EUR)	Balance, December 31, 2008	Balance, December 31, 2007
<i>a) Domestic long-term borrowings</i>					
Piraeus Banka a.d., Beograd	4.5% p.a.	December 30, 2010	727,859	64,489	86,509
Piraeus Banka a.d., Beograd	4.5% p.a.	December 30, 2010	311,012	27,556	36,964
Piraeus Banka a.d., Beograd	4.5% p.a.	May 26, 2013	323,529	28,665	31,332
Algotech d.o.o., Beograd				-	2,923
				120,710	157,728
<i>b) Foreign long-term borrowings</i>					
European Investment Bank	4.086% - 5.16% p.a.		12,709,676	1,126,090	1,022,403
Deutschebank	3.54%	May 9, 2010	1,319,714	116,928	174,282
Team Ikusi, Spain	9.40%	January 15, 2010	588,899	52,177	77,771
				1,295,195	1,274,456
Current portion of long-term borrowings					
- domestic				(52,392)	(49,778)
- foreign				(147,606)	(116,157)
				(199,998)	(165,935)
				1,215,907	1,266,249

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**26. LONG-TERM BORROWINGS (Continued)**

Domestic long-term borrowings were stated in the amount of RSD 120,710 thousand at December 31, 2008 entirely relate to a long-term liability towards Piraeus banka a.d., Beograd for the purpose of financing the housing construction for the needs of the Company employees.

Long-term loans stated in the balance sheet as of December 31, 2008 as amounting to RSD 1,126,090 thousand (EUR 12,709,676) are associated with the liabilities arising from the Agreement on the Urgent Transport Rehabilitation Project, closed on December 13, 2001 between the European Investment Bank ("EIB"), the Republic of Serbia, Road Directorate, and the Company. In accordance with the terms of the aforementioned agreement, a loan of up to EUR 13,000,000 was extended to the Company for the purposes of providing financing for investments in, and the rehabilitation of, the Airport's infrastructure (which included a study performed, research and development, roads and parking maintenance, and investments in the: terminals, the approach to the Airport, equipment, evacuation system, baggage control and spare parts). The loan matures in 2025. The applicable interest rate is to be determined in the process of approving each tranche. The annual interest rate applied to the first, second and third tranche amounts to 5.16%, 4.85% and 4.068%, respectively. The repayment of the first tranche of loans will be executed in 31 equal semi-annual installments starting from December 5, 2007; the second tranche is to be repaid in 30 equal semiannual installments starting from February 20, 2009; and the third tranche is to be repaid from June 20, 2010 in 32 equal semi-annual installments.

A foreign long-term loan amounting to RSD 116,928 thousand (EUR 1,319,714) was approved by Deutsche bank and is associated with financing the most of the Supply Agreement executed with the entity Team-Ikusi, Spain related to the reconstruction of the Airport. The long-term loan is to be repaid in 10 semi-annual installments.

The Company also presented the liability arising from the commodity loan obtained for the purchase of equipment to be used for the Airport reconstruction of RSD 52,177 thousand (EUR 588,899) as of December 31, 2008 towards the entity Team-Ikusi, Spain.

The maturities of long-term borrowings as of December 31, 2008 and 2007 are presented in the following table:

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
- within 1 year	199,998	165,935
- from 1 to 2 years	182,392	178,859
- from 2 to 3 years	80,002	163,114
- from 3 to 4 years	80,002	71,546
- from 4 to 5 years	76,817	71,546
- from 5 to 10 years	368,159	332,094
- over 10 years	428,535	449,090
	<u>1,415,905</u>	<u>1,432,184</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**27. OTHER LONG-TERM LIABILITIES**

	Sum of Minimum Lease Payments		Present Value of Minimum Lease Payments	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
<i>Maturity:</i>				
Up to one year	132,775	88,779	99,710	68,235
From 1 to 6 years	407,163	391,263	345,471	330,072
	<u>539,938</u>	<u>480,042</u>	<u>445,181</u>	<u>398,307</u>
Less: future interest cost of financing	<u>94,757</u>	<u>81,735</u>	-	-
Present value of minimum lease payments	<u><u>445,181</u></u>	<u><u>398,307</u></u>	<u><u>445,181</u></u>	<u><u>398,307</u></u>
Included in the financial statements as:				
Short-term financial liabilities (Note 28)			99,710	68,235
Other long-term liabilities			<u>345,471</u>	<u>330,072</u>
			<u><u>445,181</u></u>	<u><u>398,307</u></u>

The Company stated other long-term liabilities in the amount of RSD 445,181 thousand (net of current portion of RSD 99,710 thousand) as of December 31, 2008 which relate to finance lease liabilities. Pursuant to the Finance Lease Agreement closed with Hypo Alpe Adria Leasing, motor vehicles were acquired and the total liability thereof was presented in the amount of RSD 319,210 thousand.

The Company uses equipment for electronic processing of data at the Airport (CUTE system) obtained under finance lease from the entity Information Networking Computing, BV, Geneva, Switzerland. The finance lease liability amounts to RSD 30,128 thousand. The Agreement was closed in 2005 and the liabilities are to be discharged within 60 months.

The Company presented the finance lease liability towards Porsche leasing arising from the acquisition of a motor vehicle in the amount of RSD 48,652 thousand.

According to the Finance Lease Agreement closed in 2006, the Company acquired the instrument for sprinkling fluids for defrosting in case of freezing. The provider is Vestergaard Company, A/S, Roskilde, Denmark. The liabilities mature within 61 months. The aggregate liability arising from the Agreement amounts to RSD 47,191 thousand.

**28. SHORT-TERM FINANCIAL LIABILITIES**

	December 31, 2008	December 31, 2007
Current portion:		
- long-term borrowings (Note 26)	199,998	165,935
- other long-term liabilities (Note 27)	<u>99,710</u>	<u>68,235</u>
	<u><u>299,708</u></u>	<u><u>234,170</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**29. ACCOUNTS PAYABLE**

	December 31, 2008	December 31, 2007
Accounts payable:		
- domestic	136,087	192,877
- foreign	9,304	38,106
Advances received	71,039	179,717
Other accounts payable	1,783	1,402
	218,213	412,102

**30. OTHER CURRENT LIABILITIES**

	December 31, 2008	December 31, 2007
Salaries	41,186	23,981
Interest payable	9,708	12,037
Provisions for retirement benefits payable based on Restructuring Program	3,685	108,000
Other current liabilities	1,792	5,104
	56,371	149,122

According to the Decision enacted by the General Director regarding the program of restructuring for the year 2008, the Company formed provisions which are charged to the income statement for the year 2007 in the amount of RSD 108.000 thousand (RSD 1.000 thousand per single employee) (Note 10). In 2008, based on this Program, the Company paid RSD 64,043 thousand. Pursuant to the proposal of the business operations for the year 2009, the provisions set aside for these purposes were stated in the amount of RSD 3,685 thousand. The balance of provisions was reversed and the amount was credited to income for the period (Note 13).

**31. VALUE ADDED TAX AND OTHER DUTIES PAYABLE AND ACCRUALS**

	December 31, 2008	December 31, 2007
VAT payables	17,226	12,450
Customs and other duties	697	2,002
Prepaid expenses	51,957	48,316
Accrued future period income	8,875	-
Other accruals	28,177	82
Other payables	852	1,392
	107,784	64,242

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Equity Risk Management**

There is no legal framework for managing equity risk in the Company. The Company considers equity risk in order to diminish it and under the assumption that the Company will be able to continue its business operations in the foreseeable future, maximizing profits to the owners by optimizing the debt to equity ratio, cash and cash equivalents and equity comprised of state-owned capital, other capital, reserves as well as retained earnings.

The persons controlling finances on the Company level review the equity structure on annual basis. As a part of the review, the Company's management considers equity price and risk relating to the type of capital.

The debt to equity ratios of the Company as of the year end were as follows:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Indebtedness a)	1,861,086	1,830,491
Cash and cash equivalents	172,224	356,401
Net indebtedness	<u>2,033,310</u>	<u>2,186,892</u>
Equity b)	<u>12,832,365</u>	<u>11,513,455</u>
Debt to equity ratio	<u>0.13</u>	<u>0.13</u>

a) Debt is related to long-term and short-term borrowings.

b) Equity includes state-owned capital, other capital, reserves, as well as retained earnings.

**Significant Accounting Policies Regarding Financial Instruments**

The review of significant accounting policies, including the basis for measurement and recognition of income and expenses for each category of financial assets and financial liabilities, are set out in Note 3 to the financial statements.

**Categories of Financial Instruments**

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
<b>Financial assets</b>		
Long-term financial placements	146,107	200,226
Short-term financial placements and borrowings	1,766,136	587,728
Receivables	646,786	412,429
Other receivables	28,568	10,494
Cash and cash equivalents	172,224	356,401
	<u>2,759,821</u>	<u>1,567,278</u>
<b>Financial liabilities</b>		
Liabilities at amortized value	1,861,086	1,830,491
Accounts payable	145,391	230,983
Other liabilities	61,665	60,353
	<u>2,068,142</u>	<u>2,121,827</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Categories of Financial Instruments (Continued)**

The Company's basic financial instruments comprise cash and cash equivalents, receivables, financial placements related to the Company's business operations, as well as long-term borrowings, accounts payable and other liabilities mainly intended to finance the Company's current operations. In the regular course of business, the Company is exposed to the risk enumerated in the following passages.

**Objectives of Financial Risk Management**

Financial risks include market risk (foreign currency and interest rate risk), credit risk and liquidity risk. Financial risks are considered on time basis and are primarily mitigated by reducing the Company's exposure to these risks. The Company does not make use of any financial instruments as a hedge against the effects of financial risks on business operations because such instruments are neither widely used, nor is there an organized market for such instruments in the Republic of Serbia.

**Market Risk**

In its business operations, the Company is exposed to financial risks inherent in foreign currency and interest rate changes.

The exposure to the market risk is measured by means of the sensitivity analysis. There were neither significant changes in the exposure of the Company to the market risk, nor in the manner in which the Company manages or measures that risk.

**Foreign Currency Risk**

The Company is mainly exposed to the foreign currency risk through the items of cash and cash equivalents, accounts receivable, long-term borrowings and accounts payable denominated in foreign currency. The Company does not use special hedge instruments, since such instruments are uncommon in the Republic of Serbia.

The stability of the economic environment in which the Company operates largely depends upon the economic measures introduced by the RS Government and the establishment of an adequate legal and regulatory framework.

The carrying value of the Company's monetary assets and liabilities expressed in foreign currency as of the reporting date were as follows:

	<b>Assets</b>		<b>Liabilities</b>	
	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
EUR	1,100,220	836,529	1,866,514	2,092,260
USD	113,181	99,522	14,108	26,113
GBP	6,014	1	-	-
DKK	-	-	77	-
CHF	423	36	-	-
	<u>1,219,838</u>	<u>936,088</u>	<u>1,880,699</u>	<u>2,118,373</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Market risk (Continued)**

**Foreign Currency Risk (Continued)**

The Company is sensitive to the movements in the EUR and American Dollar (USD) exchange rates. The following table gives details on the Company's sensitivity to the increase and decrease of 10% in the dinar to foreign currency exchange rate. The sensitivity rate of 10% was used in internal reporting on the foreign currency risk and it represents the management's best estimate of reasonably expected fluctuations in exchange rates. The sensitivity analysis includes only the outstanding foreign currency assets and liabilities and it adjusts their translation at the period end for the fluctuation of 10% in foreign exchange rates. The positive number from the table points to the increase in the results of the current period, being the case when RSD value declines as opposed to the currency at issue. In case of RSD decline by 10% as compared to the foreign currency at issue, the impact on the profit for the current period would be the exact opposite of the one calculated in the previous case.

	December 31, 2008				December 31, 2007			
	EUR Impact		USD Impact		EUR Impact		USD Impact	
	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%
Profit/Loss	(76.629)	76.629	9.907	(9.907)	(112.301)	121.301	6.270	(6.270)

**Interest Rate Risk**

The Company is exposed to interest rate risk inherent in assets and liabilities with floating interest rate. This risk depends upon the financial market and the Company does not have any instruments that could alleviate its influence.

The carrying values of financial assets and liabilities at the end of the period under review are presented in the following table:

	December 31, 2008	December 31, 2007
<b>Financial Assets</b>		
<i>Non-interest bearing</i>		
Short-term financial placement	6,820	13,830
Accounts receivables	646,786	412,429
Other receivables	28,568	10,494
Cash and cash equivalents	172,224	356,401
	<u>854,398</u>	<u>793,154</u>
<i>Fixed interest rates</i>		
Long-term financial placements	146,107	200,226
Short-term financial placements	1,759,316	573,898
	<u>1,905,423</u>	<u>774,124</u>
	<u>2,759,822</u>	<u>1,567,278</u>
<b>Financial liabilities</b>		
<i>Non-interest bearing</i>		
Accounts payable	145,391	230,983
Other payables	61,665	60,353
	<u>207,056</u>	<u>291,336</u>
<i>Fixed interest rates</i>		
Long-term borrowings	1,493,224	1,530,294
<i>Variable interest rates</i>		
Long-term borrowings	367,862	300,197
	<u>2,068,142</u>	<u>2,121,827</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Market risk (Continued)**

*Interest Rate Risk (Continued)*

The sensitivity analysis presented in the following text has been established based on the Company's exposure to interest rate risk inherent in non-derivative instruments as of the balance sheet date. For the liabilities with variable interest rate, the analysis has been prepared under the assumption that the outstanding balance of assets and liabilities as of the balance sheet date remained constant throughout the year. The increase or decrease in interest rates of 1% represents the fluctuation reasonably anticipated by the management. Had the interest rates been 1 percentage point higher/lower and other variables remained unchanged, the Company would have incurred a loss/realized profit in the year ended December 31, 2008 in the amount of RSD 3,679 thousand (December 31, 2007: RSD 3,002 thousand). Such situation is attributed to the Company's exposure arising from the variable interest rates applied to long-term borrowings and other long-term liabilities.

**Credit Risk**

*Managing Accounts Receivable*

Credit risk relates to the exposure inherent in the possibility that the contractual party fails to act upon its contractual commitments and cause the Company to suffer loss. The Company's exposure to this risk is limited to the amount of accounts receivable as of the balance sheet date. Accounts receivable are comprised of a great number of customers most of which are associated with the receivables from the entity JAT Airways amounting to RSD 296,026 thousand (December 31, 2007: RSD 121,127 thousand).

The most significant customers are presented in the following table:

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
JAT Airways, Beograd	296,026	121,127
Montenegro Airlines, Podgorica	75,341	45,746
Dufry Eurasia	32,856	-
Deutsche Lufthansa	30,134	20,399
Aerofuels Russia	18,514	30,231
Telekom Srbija	17,801	4,739
Swiss International	15,702	13,406
Air France	13,764	9,057
Dufry d.o.o., Beograd	11,044	14,638
Turkish Airlines	10,184	4,330
Germanwings Gmbh	8,370	7,824
Other customers	117,050	140,932
	<b>646,786</b>	<b>412,429</b>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Credit Risk (Continued)**

*Managing Accounts Receivable (Continued)*

The structure of accounts receivable as of December 31, 2008 is presented in the following table:

	<u>Gross Exposure</u>	<u>Allowance for Impairment</u>	<u>Net Exposure</u>
Accounts receivable, not matured	460,877	-	460,877
Accounts receivable matured and provided for	104,723	(104,723)	-
Accounts receivable matured, but not provided for	185,909	-	185,909
	<u>751,510</u>	<u>(104,723)</u>	<u>646,786</u>

The structure of accounts receivable as of December 31, 2007 is presented in the following table:

	<u>Gross Exposure</u>	<u>Allowance for Impairment</u>	<u>Net Exposure</u>
Accounts receivable, not matured	240,911	-	240,911
Accounts receivable matured and provided for	44,257	(44,257)	-
Accounts receivable matured, but not provided for	171,518	-	171,518
	<u>456,686</u>	<u>(44,257)</u>	<u>412,429</u>

*Accounts Receivable, not Matured*

Accounts receivable, not matured as of December 31, 2008 in the amount of RSD 460,877 thousand (December 31, 2007: RSD 240,911 thousand) mostly refer the accounts receivables from JAT Airways, Beograd. All these receivables mature within 20 days from the invoicing date. The average days' sales outstanding in 2008 counted 50 days (2007: 44 days).

*Accounts Receivable Matured and Provided for*

In the previous periods, the Company calculated an allowance for impairment of matured receivables in the amount of RSD 104,723 thousand (December 31, 2007: RSD 44,257 thousand) due from those customers whose creditworthiness has changed and which will not be collected in full.

*Accounts Receivable Matured, but not Provided for*

The Company failed to make an allowance for impairment of receivables matured as of December 31, 2008 in the amount of RSD 185,909 thousand (December 31, 2007: RSD 171,518 thousand) given that the customer creditworthiness has not changed and since the receivables mostly relate to the electricity sold, the Company holds that the present value of these receivables will be collected in full.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Credit Risk (Continued)**

*Managing Accounts Receivable (Continued)*

The aging structure of accounts receivable matured, but not provided for is presented as follows:

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Less than 30 days	114,889	78,652
From 31 to 60 days	31,504	39,847
From 61 to 90 days	39,516	53,019
	<b>185,909</b>	<b>171,518</b>

Accounts payable as of December 31, 2008 stated in the amount of RSD 145,391 thousand (December 31, 2007: RSD 230,983 thousand) where the major portion of RSD 21,193 thousand relates to the liabilities arising from the sanitation of road construction and road below the air bridge. These suppliers do not charge penalty against matured liabilities, whereas the Company duly settles accounts payable, as in accordance with financial risk management policies. The average days' outstanding for settling accounts payable in the course of 2008 amounted to 89 days (in 2007: 133 days).

**Liquidity Risk**

The ultimate responsibility for liquidity risk management resides with the Company's management, which is also responsible for managing the Company's short-term, medium-term and long-term financing and liquidity management. The Company manages liquidity by maintaining the necessary level of cash reserves, based on continued monitoring over the planned and actual cash flows, as well as by matching the maturities of financial assets and liabilities.

*Tables of Liquidity and Credit Risk*

The following tables give the details of outstanding contractual maturities of assets of the Company. The amounts presented are based on the undiscounted cash flows arising from financial assets based on the earliest date upon which the Company will be able to collect such receivables.

*Maturities of Financial Assets*

	<b>December 31, 2008</b>					<b>Total</b>
	<b>Less than One month</b>	<b>From 1 to 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	
Non-interest bearing	850,989	3,410	-	-	-	854,399
Fixed interest rate	1,737,165	43,201	30,705	82,049	64,058	1,957,178
	<b>2,588,154</b>	<b>46,611</b>	<b>30,705</b>	<b>82,049</b>	<b>64,058</b>	<b>2,811,577</b>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts are expressed in thousands of RSD, unless otherwise stated.

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Tables of Liquidity and Credit Risk (Continued)

Maturities of Financial Assets (Continued)

	December 31, 2007					Total
	Less than One month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	
Non-interest bearing	784,724	8,430	-	-	-	793,154
Fixed interest rate	542,174	14,770	24,652	101,566	98,660	781,822
	<u>1,326,898</u>	<u>23,200</u>	<u>24,652</u>	<u>101,566</u>	<u>98,660</u>	<u>1,574,976</u>

The following tables give the details of outstanding contractual liabilities of the Company. The amounts presented are based on the undiscounted cash flows arising from financial liabilities based on the earliest date upon which the Company will be due to settle such payables.

Maturities of Financial Liabilities

	December 31, 2008					Total
	Less than One month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	
Non-interest bearing	199,570	-	7,486	-	-	207,056
Fixed interest rate	23,118	34,896	238,372	718,847	924,279	1,939,512
Variable interest rate	8,201	16,404	73,859	355,892	523	454,880
	<u>230,889</u>	<u>51,300</u>	<u>319,717</u>	<u>1,074,739</u>	<u>924,802</u>	<u>2,601,448</u>

	December 31, 2007					Total
	Less than One month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	
Non-interest bearing	170,546	-	114,393	6,397	-	291,336
Fixed interest rate	27,101	25,061	220,491	761,062	1,020,410	2,054,125
Variable interest rate	2,797	5,679	50,188	257,570	65,450	381,684
	<u>200,444</u>	<u>30,740</u>	<u>385,072</u>	<u>1,025,029</u>	<u>1,085,860</u>	<u>2,727,145</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated.*

**32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Fair Value of Financial Instruments**

The following table represents the present value of financial assets and liabilities and their fair value as of December 31, 2008 and 2007.

	December 31, 2008		December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Long-term financial placements	146,107	146,107	200,226	200,226
Short-term financial placements and borrowings	1,766,136	1,766,136	587,728	587,728
Accounts receivable	646,787	646,787	412,429	412,429
Other receivables	28,568	28,568	10,494	10,494
Cash and cash equivalents	172,224	172,224	356,401	356,401
	<u>2,759,822</u>	<u>2,759,822</u>	<u>1,567,278</u>	<u>1,567,278</u>
<b>Financial Liabilities</b>				
Long-term borrowings	1,861,086	1,861,086	1,830,491	1,830,491
Account payable	145,391	145,391	230,983	230,983
Other payables	61,665	61,665	60,353	60,353
	<u>2,068,142</u>	<u>2,068,142</u>	<u>2,121,827</u>	<u>2,121,827</u>

**33. OFF-BALANCE SHEET RECORDS**

	31. decembar 2008	31. decembar 2007
Guarantees received	5,382	35,872
Guarantees collateralizing third party liabilities	18,274	14,046
Other	779	1,182
	<u>24,435</u>	<u>51,100</u>

**34. LITIGATIONS**

At December 31, 2008, the litigations involving the Company aggregate to the amount of RSD 357,013 thousand. The amounts of losses contingent thereof may be increased for the amount of penalty interest accrued until the final resolution of these legal suits, i.e. until the payments are made based on these legal suits. At December 31, 2008, the Company formed provisions for losses contingent on these legal suits in the amount of RSD 99,807 thousand (Note 25). According to the management's assessment, there will be no additional material losses in the forthcoming period incurred in legal suits.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts are expressed in thousands of RSD, unless otherwise stated*

**35. REMUNERATIONS TO THE MANAGEMENT**

In the course of 2008, the Company paid remunerations to the key management, which includes the members of the Board of Directors, directors and other managers (2008: the total number 19, 2007:17) an amount of RSD 69,737 thousand, gross (2007: RSD 67,647 thousand).

	<b>December 31, 2008</b>
<i>Management</i>	
Salaries	41,948
Stimulations/ bonuses	3,922
Total	45,870
<i>Board of Directors</i>	
Remunerations to the members of the Board of Directors	23,867
	69,737

**36. TAXATION RISKS**

The Republic of Serbia tax legislation is subject to varying interpretations, and legislative changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not concur with the views of the Company's management. Consequently, transactions may be challenged by the relevant tax authorities and the Company could be assessed additional taxes, penalties and interest, which can be significant. The fiscal periods remain open for review by the tax and customs' authorities with regard to the tax-paying entity's tax liabilities for a period of five years.

**37. EXISTING ECONOMIC SITUATION AND ITS IMPACT ON THE COMPANY**

Due to the current global crisis in the market and its weakening effects on domestic economic activities on the local market in Republic of Serbia, the Company will probably operate in more difficult and uncertain economic environment in 2009, and possibly beyond. The impact of this crisis on the Company's business operations is currently not possible to fully predict and therefore there is an element of general uncertainty.

So far, the ongoing financial crisis has had a limited impact on the financial position and performance of the Company. The potential consequences of financial crisis on the Company's business operations may reflect in increased difficulties in obtaining additional sources of financing, particularly credit facilities. Scarcity of credit facilities would also be a long-term consequence which in the opinion of the Company's management cannot have decisive impact on the Company's business operations.

The deteriorating economic situation in the country will probably impact the position of certain industries and the abilities of some customers to meet their obligations. This may consequently influence the amount of the Company's provisions for impairment losses in 2009 and other areas that require estimates to be made by management, and thus the actual amounts thereof may differ from the estimates.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts are expressed in thousands of RSD, unless otherwise stated*

38. EXCHANGE RATES

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

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
USD	62.9000	53.7267
EUR	88.6010	79.2362
GBP	90.8635	107.3080
CHF	59.4040	47.8422

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