

**TRANSLATION**

**JP AERODROM “BEOGRAD”  
BEOGRAD**

**Financial Statements  
for the year ended 31 December 2005  
with the Independent Auditor's Report thereon**

Belgrade, 19 June 2006

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005  
WITH THE INDEPENDENT AUDITOR'S REPORT

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**TRANSLATION**

JP AERODROM "BEOGRAD", BEOGRAD

**Independent Auditor's Report**

We have audited the accompanying Balance Sheet of JP Aerodrom „Beograd“ Beograd (hereinafter: „the Company“) as at 31 December 2005 and the related Profit and Loss Account, Cash Flow Statement and Statement on Changes in Equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company for 2004 were audited by another auditor, whose report dated 16 May 2005 expressed a qualified opinion on the Company's financial statements with respect to evaluation of fixed assets, tender documentation, long-term loans to employees, and distribution of profit.

We planned and conducted our audit in accordance with the Law on Accounting and Auditing issued in the Republic of Serbia and International Standards on Auditing as issued by the International Federation of Accountants. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence, supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company disclosed the value of fixed assets and revaluation reserves on 31 December 2004 based on valuation issued in January 2005. We were unable to confirm whether the form and content of the valuation, as well as the approach and methodology applied were appropriate for the purpose of the valuation in its entirety. Accordingly, we were unable to satisfy ourselves as to the adequacy of the stated fixed assets and revaluation reserves as at 1 January 2005, i.e. current year depreciation calculated in terms of valuation performed.

During the calculation of deferred tax liability the Company considered permanent differences between the tax return and financial balances at the end of the reporting period, and therefore did not determine deferred tax liability in accordance with IAS 12.

The Company did not present the aging structure of inventories of materials, spare parts and goods as at 31 December 2005. Moreover, following consideration of the Company's procedures relating to operating records and reconciliation of inventories, it was determined that goods are only recorded in the general ledger and not supported with an adequate goods ledger and warehouse ledger. Due to the nature of the accounting records we were not able to ascertain the effects on the financial statements.

The Company issued a Cash Flow Statement that does not present in its structure for particular segments actual cash inflows and outflows of operation during 2005.

In our opinion, except for the effects of the matter mentioned above, financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2005, as well as the results of its operations and changes in equity for the year then ended, in accordance with the requirements of applicable Serbian legislation and accounting principles disclosed in Note 2.

Without further qualifying our opinion, we would like to draw your attention to the following:

The Company has not reconciled accounting records of initial capital with extracts from the Serbian Business Registers Agency.

Belgrade, 19 June 2006

KPMG d.o.o. Beograd

(M.P.)

Nina Bulatović  
*Managing Partner*

*This is the Translation of the Original Report from the Serbian Language*

Belgrade, 19 June 2006



KPMG d.o.o. Beograd

  
Nina Bulatović  
*Managing Partner*

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005**

In thousands of CSD	Notes	2005	2004
Operating income	2(c), 3	3,041,467	2,228,458
Cost of goods sold	2(d)	(511,442)	(257,949)
Cost of materials, fuel and energy		(295,127)	(239,386)
Gross salaries and wages		(941,226)	(862,927)
Depreciation, amortization and provisions		(369,178)	(517,611)
Other operating expenses	2(e), 4	(383,213)	(240,075)
Profit from operations		541,281	110,510
Financial income	2(f, g), 5	100,900	148,612
Financial expenses	2(f, g), 5	(173,861)	(143,868)
Financial income and expenses		(72,961)	4,744
Other income	6	159,575	202,032
Other expenses	7	(120,683)	(62,332)
Other income and expenses		38,892	139,700
Profit before tax		507,212	254,954
Profit tax	2(n)	(31,498)	(30,606)
<b>Net profit</b>		<b>475,714</b>	<b>224,348</b>

The notes on pages 8 to 27 form an integral part of these Financial statements.  
Independent Auditor's Report – pages 1 - 2.

**BALANCE SHEET AS AT 31 DECEMBER 2005**

In thousands of CSD	Notes	2005	2004
<b>ASSETS</b>			
Property, plant and equipment and intangible assets	2(i), 8		
Cost or valuation		12,789,067	11,644,268
Less: Accumulated depreciation		(401,011)	(33,387)
Net book value		12,388,056	11,610,881
Long term financial investments	9	271,634	149,329
Current assets			
Inventories	2(j), 10	250,916	293,451
Trade receivables	2(k), 11	276,373	146,518
Other short term investments	2 (l), 12	170,068	157,710
Cash and cash equivalents	13	762,579	390,383
VAT and deferred expenses	14	136,293	8,258
Total		1,596,229	996,320
Deferred tax asset	2(o), 21	-	98,272
<b>Total assets</b>		<b>14,225,919</b>	<b>12,854,802</b>
<b>Off-balance sheet assets</b>	22	<b>332,656</b>	<b>469,129</b>

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Independent Auditor's Report – pages 1 - 2.

**BALANCE SHEET AS AT 31 DECEMBER 2005 (continued)**

In thousands of CSD	Notes	2005	2004
<b>EQUITY AND LIABILITIES</b>			
Equity	15		
State-owned capital		7,157,362	7,198,867
Other capital		28,564	16,120
Reserves		63,359	5,168
Revaluation reserves		3,795,127	3,845,660
Undistributed profit		531,404	264,087
<b>Total</b>		<b>11,575,816</b>	<b>11,329,902</b>
Long-term provisions	2(m), 16	336,880	361,818
Long term liabilities	17	1,595,175	508,499
Current liabilities			
Short-term financial liabilities	18	167,348	214,021
Trade creditors	19	376,846	182,621
VAT and other taxes and duties payable		12,278	35,803
Other current liabilities and accruals	20	133,483	47,692
<b>Total</b>		<b>689,955</b>	<b>480,137</b>
Deferred tax liabilities	2(o), 21	58,093	174,446
<b>Total equity and liabilities</b>		<b>14,255,919</b>	<b>12,854,802</b>
<b>Off-balance sheet liabilities</b>	22	<b>332,656</b>	<b>469,129</b>

Belgrade, 19 June 2006

For and on behalf of JP Aerodrom "Beograd", Beograd:

Nebojša Nedeljković  
*General Manager*

Zorka Latinović  
*Director of Accounting Department*

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Independent Auditor's Report – pages 1 - 2.

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005**

In thousands of CSD	2005	2004
Cash flow from operating activities		
Cash receipts from customers and received advances	3,052,585	2,341,834
Other receipts from operations	145,896	48,919
Row material purchases and payments in advance	(986,585)	(681,482)
Gross salaries and wages	(931,399)	(863,422)
Interest paid	(44,075)	(2,959)
Income tax	(48,175)	(25,230)
Other taxes paid	(183,405)	(303,428)
Extraordinary cash payments	(269,475)	(116,432)
Net cash generated from operating activities	735,367	397,800
Cash flow from investing activities		
Proceeds from the disposal of intangible assets and property, plant and equipment	-	148,877
Other financial investments (net increase)	18,183	-
Interest received	2,742	2,051
Purchase of intangible assets and property, plant and equipment	(814,013)	(901,387)
Other financial investments	(129,067)	(117,344)
Interest paid	(35,626)	(18,687)
Net cash used in investing activities	(957,781)	(886,490)
Cash flow from financing activities		
Long term and short term loans	664,558	411,146
Long term loans, short term loans and other liabilities (net outflows)	(98,912)	-
Finance leases	(9,122)	(8,622)
Net cash generated from financing activities	556,524	402,524
Net increase/ (decrease) in cash and cash equivalents	334,110	(86,166)
Cash at the beginning of the period	390,383	435,422
Gains/losses on translation of foreign currencies	38,086	41,127
<b>Cash at the end of period</b>	<b>762,579</b>	<b>390,383</b>

The notes on pages 8 to 27 form an integral part of these Financial statements.  
Independent Auditor's Report – pages 1 - 2.

**TRANSLATION***JP Aerodrom "Beograd", Beograd  
Financial Statements***STATEMENT ON CHANGES IN EQUITY IN 2005**

In thousands of CSD	State-owned capital	Other capital	Legal reserves	Revaluation reserves	Undistributed profit	Total
Balance as at 31 December 2004	7,198,867	16,120	5,168	3,845,660	264,087	11,329,902
Opening balance adjustment	-	-	-	-	(11,397)	(11,397)
Balance as at 1 January 2005	7,198,867	16,120	5,168	3,845,660	252,690	11,318,505
Disposal of fixed assets	-	-	-	(915)	829	(86)
Distribution of retained earnings to legal reserves	-	-	58,191	-	(58,191)	-
Distribution of retained earnings to employees and members of Board of Directors	-	-	-	-	(45,316)	(45,316)
Distribution of retained earnings to Republic of Serbia budget	-	-	-	-	(120,230)	(120,230)
Distribution to Common Consumption Fund for Housing purposes	-	12,007	-	-	(12,007)	-
Rental fee payment	-	67	-	-	-	67
Revaluation of residential apartments	-	370	-	-	-	370
Transfer to newly established companies	(41,505)	-	-	(29,783)	-	(71,288)
Transfer from revaluation reserves on the basis of differences in depreciation	-	-	-	(19,835)	19,835	-
Profit for the year (Note 21)	-	-	-	-	493,794	493,794
<b>Balance as at 31 December 2005</b>	<b>7,157,362</b>	<b>28,564</b>	<b>63,359</b>	<b>3,795,127</b>	<b>531,404</b>	<b>11,575,816</b>

The notes on pages 8 to 27 form an integral part of these Financial statements.  
Independent Auditor's Report – pages 1 - 2.

**1 Background**

JP Aerodrom „Beograd“, Beograd (hereinafter: the Company), a company engaged in airport services, was founded in 1992 in accordance with a special decree of the Government of the Republic of Serbia. The Company initially started its operations on 25 March 1928 and was located in Bežanijska kosa. From 1962 the Company has been situated in Surčin.

Up to the end of the 1980's the Company recorded constant increase 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 break-up of the former Yugoslavia, the ensuing civil war, and subsequent economic events including the introduction of U.N. Sanctions against the Federal Republic of Yugoslavia, culminating with all of the related circumstances that accompanied these major events, resulted in substantial reduction in the business activities of domestic airline companies and of those of other international carriers. Hence, the Company's business operations were severely affected as a consequence of all of these unfortunate events. Upon the retraction of EU Sanction against the Federal Republic of Yugoslavia in February 2000, the Company recovered relations with the majority of international carriers.

The Company is registered for performing the following activities: providing conditions for landing, takeoff and taxiing of aircraft, servicing of aircraft, passengers and objects at the landing platform, providing conditions for filling airplanes with fuel, servicing of passengers and luggage in airport building, transportation of passengers and crew, cargo storage and handling, joint use of equipment and installations, freight forwarding, trade, airport cleaning, sanitation and waste removal services, land leasing, airport security services, special requests, and other related services.

As at 31 December 205 the Company had 819 employees (31 December 2004: 1,076 employees)

In accordance with the Decision on Establishing the Date of the Change of Status of the Public Company Aerodrom "Beograd", dated 5 August 2005, the 4 following independent companies were separated: Aerodrom katering d.o.o., Aerodrom parking d.o.o., Aerodrom poljoprivredna operativa d.o.o. and Aerodrom čistoća terminali d.o.o. The change of status occurred on 1 July 2005. Fixed assets with a present value of CSD 71,288 thousand were transferred to the newly founded companies, while ownership was transferred to the Republic of Serbia.

**2 Basic accounting policies****(a) Statement of compliance**

Financial statements presented on pages 4 to 7 have been prepared in accordance with the legislation introduced in Serbia in 2003 dealing with the transitional introduction of International Financial Reporting Standards (IFRS), as adopted by the International Accounting Standards Board (IASB). The legislation contains certain features measurement, recognition and presentational features of IFRS, but also includes a large number of fundamental variations from important IFRS requirements and retains certain features of the previously applied Serbian GAAP.

As such, these statements do not intend and do not give a true and fair view in accordance with IFRS.

All data are expressed in thousands of Dinars (CSD).

Basic accounting policies applied in preparing the Company's statements for 2005 are set out as follows:

**(b) Going concern**

The financial statements are prepared in accordance with the going concern concept, which assumes that the Company will continue in operation for the foreseeable future.

**(c) Sales**

In accordance with the relevant regulations, sales represent revenue from services provided and goods sold, and are stated at invoiced value.

**(d) Direct costs**

Direct costs relate to cost of goods sold as well as raw materials, spare parts, fuel and energy.

**(e) Other operating expenses**

Other operating expenses include all operating and other expenses arising from the Company's operations. The Company has deferred certain expenses based on the Management's assessment.

**(f) Interest as income/expense**

Interests incurred on receivables/payables calculated up to the balance sheet date (irrelevant whether they are payable or added to principle), are disclosed as a part of the financial income/expenses of the profit and loss account.

**(g) Gains/losses on translation of foreign currencies**

/i/ All assets and liabilities nominated in foreign currencies are converted into Dinars at the exchange rate ruling at the balance sheet date. Transactions denominated in foreign currencies are stated in Dinars at the spot exchange.

/ii/ Gains and losses arising from the translation of foreign currency receivables and liabilities into Dinar amounts at the balance sheet date have been credited or charged against financial income or expenses.

/iii/ Foreign exchange gains or losses incurred through the settlement of liabilities or receivables during the year are disclosed in the Profit and Loss Account as financial income or expense.

/iv/ The applied exchange rates at the balance sheet dates were as follows:

Currency	31 December 2005	31 December 2004
USD	72.2189	57.9355
EUR	85.5000	78.8850

**(h) Employee Benefits***/i/ Obligations for Retirement and Anniversary Benefits*

Pursuant to the Company's individually-executed Collective Bargaining Agreements („CBAs“), the Company has an obligation to disburse retirement to employees who meet conditions for retirement benefits, depending on total years of employment in the Company.

An employee is entitled to an anniversary award for each ten years of service in the Company, computed in the amount of the average general salary earned in the Company as follows: for 10 years (1 average salary), 20 years (2 average salaries), 30 years (3 average salaries) and 40 years (4 average salaries).

*/ii/ Obligation for Severance Payments Based on Voluntarily Termination of Employment*

Annex VI to the Company's CBAs dated 14 December 2004 stipulates that an employee who voluntarily terminates his/her employment contract, without having fulfilled conditions for retirement at the time, may seek to qualify for a severance payment computed based on the aggregate amount of 15 average general salaries in the Company effective in the month preceding the date upon which the employee has qualified to received such payment, and exceptionally 15 average employee salaries, if this is more advantageous to the employee.

**(i) Property, plant, equipment and intangible assets**

*/i/* Property and equipment were appraised as at 1 January 2004 as well as at 31 December 2004 by an independent external valuers. The appraisal of property and equipment was performed according to the market value method. In accordance with the results of such appraisal and with IFRS 1, „First-Time Adoption of International Financial Reporting Standards“, the Company decided that the appraised property and equipment be valued as per their market values, or appraised values as at of the date of transition to the new accounting standards. The positive effects of the appraisal on the date of transition to the new accounting standards have been credited to revaluation reserves, whereas the negative effects of such appraisal were charged to retained earnings.

The negative effects of the appraisal of property and equipment as at 31 December 2004 were charged to revaluation reserves up to the amount of the revaluation reserves determined by the previous appraisal, whereas the remaining portion of the negative effects was charged to the Income statement, under other expenses. The positive appraisal effects as at 31 December 2004 were credited to the revaluation reserves, with the exception of the 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.

*/ii/* Property, plants and equipment are initially measured at cost. A self-constructed asset is recognized at the lower of cost or market value. Cost represents the prices billed by supplier together with all costs incurred in bringing fixed assets into use.

*/iii/* Depreciation of property, plant and equipment and intangible assets is calculated for each asset individually on the basis of the valuation of assets at the beginning of year and cost of assets deployed during the year, by using the Company's proportional method and on the basis of the estimated useful life of a fixed asset. Depreciation rates are designed to write off the cost or valuation of fixed assets on a straight line basis over their estimated useful lives. Average depreciation rates in use are:

Description	2005. % p.a.
Buildings	2.50 - 10
Electric and water generation structures	10 - 20
Roads, airports, and parking lots	
Equipment	
Equipment for road transport	5 - 20
Equipment for PTT and TV traffic	5 - 6.66
Equipment for air traffic	5 - 50
Equipment for measurement and examination and special tools	5 - 20
Laboratory equipment, educational materials and medical equipment	6.66 - 20
Electronic and calculation machinery, and computers	2.5 - 50
Furniture and general purpose equipment	1.49 - 20
Agricultural equipment	5 - 12.5
Leased equipment for road transport	10 - 15.38

/iv/ The expenditures of the repairs and maintenance of fixed assets made to restore or maintain future economic benefits expected from the assets are recognized as an expense when occurred.

/v/ The gain arising as a result of disposal of properties, plants and equipment are credited to Other income. The net book value of the sold and written off fixed assets is charged to other expenses.

**(j) Inventories**

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

/ii/ The cost of raw materials is determined using the weighted-average method.

/iii/ Goods in retail 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 inventories held at the year end.

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

/v/ Impairment of inventories is made charging expenses, in order to reduce the value of inventories to management's estimate of net realizable value. Inventories found to be damaged or of a sub-standard quality are written off.

**(k) Trade receivables**

/i/ Trade receivables include all amounts owed for goods sold and services rendered. Trade receivables are stated at the invoiced value.

/ii/ Provision for trade receivables was recorded in compliance with the accounting policy of the Company prescribing provision for receivables older than 60 days.

***(l) Short term financial investments***

Short term financial investments relate to investments in securities – old foreign currency savings bonds. These investments are disclosed at market value.

***(m) Provisions***

/i/ Long-term provisions are carried out with respect to: retirement benefits, anniversary awards and severance payments for voluntarily termination of employment.

/ii/ The provisions are valued using accounting estimates that enables the best present value assessment of expected future payments

/iii/ A provision shall be used only for those business events for which the provision was originally recognised, in a way that expenditure are not recognised as expenses, but cancellation of already recognized amount have to be made. If expenditure for which provision was made is lower than provision itself, provisions are cancelled in favour of income. If there is information that outflow of resources are not expected, provision is cancelled in favour of income, as well.

***(n) Income tax***

/i/ Taxation is provided in accordance with the Law of the Republic of Serbia. Estimation of monthly advance payments is performed by the Company based on previous year income tax as determined by the tax authorities. The profit tax rate of 10% is applied on the taxable profit reported in the tax returns for 2005 (in 2004 it was 12.33%). The taxable profit reported in the tax returns includes the profit shown in the statutory Profit and Loss account and adjustments for permanent differences, as defined by the Serbian Tax Law. Such adjustments comprise mainly adding back certain disallowed expenses and deducting certain capital expenditures.

/ii/ Serbian Tax Law does not allow tax losses of the current period to be used to recover tax paid within a specific carry back period. However, current year losses may be used to decrease taxable profits for future periods, but for no longer than ten years (losses realized by 2002 can be used to decrease taxable profits for future periods for up to 5 years only).

/iii/ Income tax cannot be reduced more than 50% of calculated income tax, where the basis for the tax deduction are new job opening, and up to 20% for capital investments.

***(o) Deferred tax***

/i/ Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

/ii/ A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, i.e. deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit (taxable profit) will be realized. Taxable property is reduced when it is not certain that the taxable economic benefits from the property will be realized.

**TRANSLATION***JP Aerodrom "Beograd", Beograd  
Notes to the Financial Statements***3 Operating income**

Operating income relates to:

<u>In thousands of CSD</u>	<u>2005</u>	<u>2004</u>
Sales of goods and services	2,966,859	2,184,044
(Decrease)/Increase in inventories	(487)	102
Other operating income	75,095	44,312
<b>Total</b>	<b>3,041,467</b>	<b>2,228,458</b>

**TRANSLATION*****JP Aerodrom "Beograd", Beograd***  
*Notes to the Financial Statements*

Sales of goods and services relate to:

In thousands of CSD	2005	2004
<b>SALES OF GOODS AND SERVICES IN DOMESTIC MARKET</b>		
Goods (retail shop sales)	233,747	178,742
Services		
Passenger airport taxes	154,942	133,154
Luggage handling	198,682	185,319
Landing	125,213	103,306
Handling of goods in customs' warehouse	146,803	142,887
Air bridge services	32,348	24,922
Advertising	37,065	20,624
Catering	3,630	4,661
Use of Airport's infrastructure	100,822	81,076
Special travel services	17,472	10,462
Other services	22,718	25,056
Total	839,695	731,467
Less: accrued VAT/sales tax	(36,994)	(134,511)
<b>Total</b>	<b>1,036,448</b>	<b>775,698</b>
<b>SALES OF GOODS AND SERVICES IN FOREIGN MARKET</b>		
Aircraft fuel	343,091	120,007
Goods (retail shop sales)	211,128	113,664
Services		
Luggage handling	754,218	715,213
Landing	390,006	278,883
Air bridge services	30,869	26,952
Catering	21,742	16,785
Advertising	1,902	2,044
Special travel services	42,907	27,542
Passenger Airport taxes	8,480	6,211
Use of Airport's infrastructure	136,886	83,368
Other services	20,788	17,677
Total	1,407,798	1,174,675
Less: accrued VAT/sales tax	(31,606)	-
<b>Total</b>	<b>1,930,411</b>	<b>1,408,346</b>
<b>TOTAL</b>	<b>2,966,859</b>	<b>2,184,044</b>

**TRANSLATION***JP Aerodrom "Beograd", Beograd  
Notes to the Financial Statements*

Other operating income relates to:

In thousands of CSD	2005	2004
Rent		
Domestic legal entities	54,576	38,486
Foreign legal entities	5,612	5,826
Income from donations	10,369	-
Other	4,538	-
<b>Total</b>	<b>75,095</b>	<b>44,312</b>

**4 Other operating expenses**

Other operating expenses relate to:

In thousands of CSD	2005	2004
Transportation	74,047	23,256
Maintenance	50,202	38,893
Rent	12,997	3,023
Marketing	4,927	10,256
Membership fees	3,288	14,289
Other manufacturing costs	35,674	35,101
Health services of JAT	4,487	4,315
Education of employees	2,506	4,056
Legalization of software	-	3,709
Other non-manufacturing services	41,672	11,413
Taxes	10,779	8,241
Newly established companies costs	30,356	-
IT support costs	16,246	-
Bank commissions and other charges	10,852	12,540
Insurance premium	41,089	20,171
Entertainment costs	13,857	4,558
Indirect taxes and contributions	26,000	32,295
Other	4,234	13,959
<b>Total</b>	<b>383,213</b>	<b>240,075</b>

**5 Finance income and expenses**

Finance income and expenses relate to:

In thousands of CSD	2005	2004
Finance income		
Interest income	2,741	2,051
Foreign exchange gains	98,159	146,561
<b>Total</b>	<b>100,900</b>	<b>148,612</b>
Finance expenses		
Interest expense	(65,892)	(37,304)
Foreign exchange losses	(106,235)	(105,434)
Other financial expenses	(1,734)	(1,130)
<b>Total</b>	<b>(173,861)</b>	<b>(143,868)</b>
<b>Total</b>	<b>(72,961)</b>	<b>4,744</b>

**6 Other income**

Other income relates to:

In thousands of CSD	2005	2004
Gains on the sale of usage rights of undeveloped public municipal land	-	136,741
Income from positive hedging effects – foreign currency clause	44,750	6,053
Collected written off receivables	106,937	11,201
Payments for tender documentation	307	1,628
Revaluation of property and equipment	-	44,776
Other	7,581	1,633
<b>Total</b>	<b>159,575</b>	<b>202,032</b>

**TRANSLATION***JP Aerodrom "Beograd", Beograd  
Notes to the Financial Statements***7 Other expenses**

Other expenses relate to:

<u>In thousands of CSD</u>	<u>2005</u>	<u>2004</u>
Loss on disposal of property and equipment	268	342
Shortages	570	2,800
Impairment of receivables	63,610	47,388
Loss from negative hedging effects – foreign currency clause	17,668	7,400
Additional rebates	22,681	
Impairment of property and equipment	-	211
Impairment of cash	7,094	-
Litigation costs	7,197	529
Other	1,595	3,662
<b>Total</b>	<b>120,683</b>	<b>62,332</b>

**TRANSLATION***Aerodrom "Beograd", Beograd  
Notes to the Financial Statements***8 Fixed assets, intangible assets and advances for fixed assets**

Movements in fixed assets, intangible assets and advances for fixed assets during this period were as follows:

In thousands of CSD	Land	Buildings	Equipment and tools	Construction in progress and advances	Livestock	Total
<b>Cost</b>						
Balance as at 1 January 2005	649,806	8,943,745	593,520	1,457,061	136	11,644,268
Purchases	-	2,665	9	1,218,922	-	1,221,596
Transfer to newly established companies	-	(57,900)	(14,905)	-	-	(72,805)
Transfer from construction in progress	-	2,276	44,354	(46,630)	-	-
Disposals	-	(2,109)	(1,166)	-	-	(3,275)
Other	-	-	-	(711)	(6)	(717)
<b>Balance as at 31 December 2005</b>	<b>649,806</b>	<b>8,888,677</b>	<b>621,812</b>	<b>2,628,642</b>	<b>130</b>	<b>12,789,067</b>
<b>Accumulated depreciation</b>						
Balance as at 1 January 2005	-	26	33,361	-	-	33,387
Depreciation for 2005	-	313,648	55,530	-	-	369,178
Transfer to newly established companies	-	(627)	(890)	-	-	(1,517)
Disposals	-	-	(37)	-	-	(37)
<b>Balance as at 31 December 2005</b>	<b>-</b>	<b>313,047</b>	<b>87,964</b>	<b>-</b>	<b>-</b>	<b>401,011</b>
<b>Net book value as at 31 December 2005</b>	<b>649,806</b>	<b>8,575,630</b>	<b>533,848</b>	<b>2,628,642</b>	<b>130</b>	<b>12,388,056</b>
<b>Net book value as at 31 December 2004</b>	<b>649,806</b>	<b>8,943,719</b>	<b>560,159</b>	<b>1,457,061</b>	<b>136</b>	<b>11,610,881</b>

**9 Long term financial investments**

Long-term financial investments relate to:

In thousands of CSD	2005	2004
Investments in capital of banks		
Vojvodanska banka a.d., Novi Sad	113	113
Privredna banka a.d., Beograd	562	550
Less: provision for equity shares in banks	(12)	-
Total	663	663
Investments in capital of banks in liquidation		
Union banka a.d., Beograd	667	667
Beogradska banka a.d., Beograd	18,988	18,988
Beobanka a.d., Beograd	38	38
Total	19,693	19,693
Less: provision for equity shares in banks in liquidation	(19,693)	(19,693)
<b>Balance as at 31 December</b>	<b>663</b>	<b>663</b>

Other long-term financial investments relate to:

In thousands of CSD	2005	2004
Deposits for membership in the Societe International de Telecommunications Aeronautiques Swisse (SITA)	1,445	1,159
Long term loans to employees	272,121	149,706
Receivables for sold, socially owned residential apartments	1,873	1,734
Purchase of "Solidarity" Apartments	2,888	-
Current portion of long-term loans (Note 12)	(7,356)	(3,933)
<b>Balance as at 31 December</b>	<b>270,971</b>	<b>148,666</b>

As at 31 December 2005 long-term loans in the amount of CSD 272,121 thousand relate to long-term loans granted to employees in 2004 and 2005 in accordance with Agreement on Business Cooperation for the Construction and Purchase of Residential Apartments enter into with Gradjevinska direkcija Srbije (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 for a period ranging from 20 to 40 years at an annual interest of 0.5%. The loans are payable in equal monthly instalments 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 gross salary in effect in the Republic of Serbia in the previous year. In order to secure regular and timely payment on these residential loans, administration measure has been assigned such that that the borrower is under obligation to register his mortgage on the residential apartment in favour of the Company upon receipt of the apartment from the Company. As at 31 December 2005 the Company revalued the loans, applying a coefficient of 0.1777 in the total amount of CSD 31,219 thousand.

**10 Inventories**

Inventories relate to:

In thousands of CSD	2005	2004
Materials	36,253	31,940
Spare parts	57,754	68,281
Tools and consumables	4,515	7,016
Work in progress	335	1,752
Finished products	930	-
Goods in warehouse	103,364	144,222
Goods in duty free shops	32,162	31,721
Advances to suppliers	15,603	8,519
<b>Balance as at 31 December</b>	<b>250,916</b>	<b>293,451</b>

**11 Trade receivables**

Trade receivables relate to:

In thousands of CSD	2005	2004
Trade receivables		
Domestic	189,725	146,704
Foreign	127,075	90,505
Prepaid taxes	7,448	5,378
Receivables from employees	1,267	2,336
Other	6,259	4,043
Less: Provision for		
domestic trade receivables	(15,447)	(63,507)
foreign trade receivables	(39,777)	(38,569)
consignment sale	(177)	(372)
<b>Balance as at 31 December</b>	<b>276,373</b>	<b>146,518</b>

**12 Short-term financial investments**

Short-term financial investments relate to:

In thousands of CSD	2005	2004
Short-term loans to employees	6,160	6,110
Domestic short-term borrowings	102,000	-
Current portion of long-term loans to employees	7,356	3,933
Short-term deposits	55,598	148,713
Other short-term financial investments	205	205
<b>Total</b>	<b>171,319</b>	<b>158,961</b>
Less: Provision	(1,251)	(1,251)
<b>Balance as at 31 December</b>	<b>170,068</b>	<b>157,710</b>

Domestic short-term borrowings as at 31 December 2005 in the amount of CSD 102,000 thousand relate to short-term financial borrowings granted to the companies Institut „Mihailo Pupin“ p.o., Beograd and “Galenika broker“ a.d., Beograd. The cash loan agreement with the company “Galenika broker“ a.d., Beograd is due in 2006 at a monthly interest rate of 1.1%. The cash loan with the company Institut „Mihailo Pupin“ p.o., Beograd is granted without interest.

Short-term time deposits as at 31 December 2005 in the amount of CSD 55,598 thousand relate to bank deposits placed in Atlas banka a.d., Beograd to secure repayment of long-term loans to employees. The aforementioned deposits are made for a period of 5 years at an annual interest rate of 0.5%.

**13 Cash and cash equivalents**

Cash and cash equivalents relate to:

In thousands of CSD	2005	2004
Gyro account	162,049	45,442
Foreign currency bank accounts	618,315	368,676
Cash in hand	3,922	2,930
Foreign currency letters of credit	1,691	8,310
Set aside funds	20,690	-
Other cash	1,168	1,228
Citizens' cheques	40	513
<b>Total</b>	<b>807,875</b>	<b>427,099</b>
Less: Provision for		
Citizens' cheques	(16)	(16)
Foreign currency accounts held with banks in receivership and liquidation	(45,280)	(36,700)
<b>Balance as at 31 December</b>	<b>762,579</b>	<b>390,383</b>

**14 Other receivables and accrued income**

Other receivables and accrued income relate to:

In thousands of CSD	2005	2004
VAT	85,667	-
Accrued insurance premium	35,292	-
Other	15,334	8,258
<b>Balance as at 31 December</b>	<b>136,293</b>	<b>8,258</b>

**15 State-owned capital**

The state-owned capital represents part of the equity entirely owned by The Republic of Serbia – the founder of the Company. It encompasses state-owned capital opening balance along with proportion of retained earnings transferred to it and additional revaluations. Profit distribution is carried out in accordance with regulations with the consent of the founder.

**16 Long-term provisions**

Long-term provisions relate to:

In thousands of CSD	2005	2004
Long-term provision for voluntary termination of employment	123,669	172,184
Long-term provision for retirement benefits pay	133,179	118,322
Long-term provision for employment anniversary awards	80,032	71,312
<b>Balance as at 31 December</b>	<b>336,880</b>	<b>361,818</b>

Movements in long-term provisions for restructuring costs, severance payments and anniversary awards in 2005 are shown below:

In thousands of CSD	Cost of restructuring	Retirement benefits	Anniversary awards	Total
Balance as at 31 December 2004	172,184	118,322	71,312	361,818
Increase in provision				
Current work expenses	-	4,984	5,199	10,183
Interest	-	10,649	6,418	17,067
Paid during the year	(48,515)	(776)	(2,897)	(52,188)
<b>Balance as at 31 December</b>	<b>123,669</b>	<b>133,179</b>	<b>80,032</b>	<b>336,880</b>

Restructuring costs of long-term provisions comprise provisions for severance payments according to Annex VI of the Company's individually-executed Collective Bargaining Agreements („CBAs“). Annex VI stipulates that an employee who voluntarily terminates his/her employment contract, although not being fully vested in a pension plan at the time, may seek to qualify for a severance payment computed based on the aggregate amount of 15 average general salaries in the Company effective in the month preceding the date upon which the employee has qualified to received such severance pay, and exceptionally 15 average employee salaries, if that is more advantageous to the employee. During 2005, 80 employees voluntarily terminated employment and the compensation of CSD 48,515 thousand was disbursed accordingly.

Long-term provisions for employee benefits are stated at the present value of expected future payments to employees with respect to employment anniversary awards and retirement benefits. The present value of expected future payments for employment anniversary awards and retirement benefits is determined by applying an interest rate of 9 %.

Calculation of the provisions was performed by the „Naučno istraživački centar Ekonomskog fakulteta u Beogradu“.

## 17 Long-term financial liabilities

Long-term liabilities relate to:

In thousands of CSD	2005	2004
Long-term loans	1,560,944	490,138
Liabilities under finance leases	34,231	18,361
<b>Balance as at 31 December</b>	<b>1,595,175</b>	<b>508,499</b>

Long-term loans relate to:

In thousands of CSD	2005	2004
European Investment Bank (EIB)	1,111,500	474,010
Smiths Heimann GmbH, Wiesbaden	17,480	75,181
Deutsche Bank Sociedad Espanola	318,269	-
SITA Information Networking Computing BV, Holland	33,322	-
Piraeus Atlas banka a.d., Beograd	222,057	-
AlgoTech d.o.o., Beograd	10,039	-
Total	1,712,667	549,191
Current portion of long-term loans (Note 18)	(151,723)	(59,053)
<b>Balance as at 31 December</b>	<b>1,560,944</b>	<b>490,138</b>

The long-term loan disclosed in the balance sheet as at 31 December 2005 in the amount of CSD 1,111,500 thousand relates to liabilities with respect to the Agreement on the Urgent Transport Rehabilitation Project, entered into on 13 December 2001 between the following parties: the European Investment Bank („EIB“), the Republic of Serbia, Road Directorate and the Company. In accordance with the terms of the aforementioned agreement, the amount of EUR 13,000 thousand was approved with a repayment term of up to the year 2022, including a grace period of five years. Loan repayment is to be made in equal, semi-annual instalments commencing on 5 December 2007. The contractual interest rate ranges from 4.068% to 5.16%.

The long-term loan stated in the balance sheet as at 31 December 2005 in the amount of CSD 17,480 thousand relates to a commodity loan approved for the purpose of equipment purchase (X-ray machines used in explosives detection, baggage control equipment and a metal detection door). The Company entered into a loan agreement on 4 August 2003. As collateral for the loan the Company has provided a bank guarantee issued by Privredna banka a.d. Beograd.

The long-term loan disclosed in the balance sheet as at 31 December 2005 in the amount of CSD 318,269 thousand relates to loan agreement approved by Deutsche Bank Sociedad Espanola based on equipment and services provided by a consortium of Spanish companies TEAM and IKUSI for the reconstruction of the Company's airport facilities. The loan agreement was signed on 19 May 2004 in the amount of EUR 3,960 thousand (which represents 85% of the Commercial agreement) and includes an additional amount of EUR 419 thousand (which represents 85% of CESCE general insurance premium). For the insurance policy beneficiary is the Bank. The Company made a 15% advance payment to the equipment and services exporter (consortium) and 15% of the insurance premium, as well. The loan is to be repaid in 5 years in 10 semi-annual instalments, of which the first is due on 8 November 2005. The interest rate is 3.54% per annum.

The long-term loan stated in the balance sheet as at 31 December 2005 in the amount of CSD 33,322 thousand relates to a loan agreement for the „CUTE system“ equipment delivery and installation. The loan agreement was signed on 2 July, providing total amount of EUR 2,170 thousand. The loan repayment is to be in 60 equal monthly instalments without applying any interest rate. In addition, it is specified that SITA will retain ownership over leased equipment which will be depreciated during the 60 month period. Up to the balance sheet date equipment in the amount of EUR 389 thousand had been delivered.

The long-term loan disclosed in the balance sheet as at 31 December 2005 in the amount of CSD 222,057 thousand relates to 2 bank loans granted by Piraeus Atlas bank a.d., Beograd. The loans have been taken for financing the construction of residential apartments for the Company's employees. The loans were approved with the repayment term of 5 years. Repayments of the loans are to be in 20 equal quarterly instalments commencing on 30 March 2006, at an interest rate of 4.5% per annum. As collateral for the first loan the Company has provided a restricted deposit in the amount of EUR 389 thousand. Collateral for the other loan comprises a Dinar restricted deposit in the amount of CSD 20,000 thousand with foreign currency clause and a 5 year term of restriction and a foreign currency deposit in the amount of EUR 670 thousand.

**TRANSLATION***JP Aerodrom "Beograd", Beograd  
Notes to the Financial Statements***18 Short-term financial liabilities**

Short-term financial liabilities:

<u>In thousands of CSD</u>	<u>2005</u>	<u>2004</u>
Short-term loans	-	146,076
Current portion of long-term loans (Note 17)		
Smiths Heimann GmbH Wiesbaden	17,480	59,053
Deutsche Bank Sociedad Espanola	71,853	-
SITA Information Networking Computing BV, Holland	14,537	-
Piraeus Atlas banka a.d., Beograd	44,411	-
AlgoTech d.o.o., Beograd	3,442	-
<u>Total</u>	<u>151,723</u>	<u>59,053</u>
Current portion of other long-term liabilities based on financial leases	15,625	8,892
<b><u>Balance as at 31 December</u></b>	<b><u>167,348</u></b>	<b><u>214,021</u></b>

**19 Trade creditors**

Trade creditors relate to:

<u>In thousands of CSD</u>	<u>2005</u>	<u>2004</u>
Trade creditors		
Other domestic legal entities	292,464	73,524
Other foreign legal entities	14,615	45,387
Advances received	7,617	6,905
Liabilities for consignment goods	54,574	49,830
Other liabilities from specific operations	7,441	6,915
Other	135	60
<b><u>Balance as at 31 December</u></b>	<b><u>376,846</u></b>	<b><u>182,621</u></b>

**20 Other current liabilities and accruals**

Other current liabilities and accruals:

In thousands of CSD	2005	2004
Accrued net salaries	16,998	15,004
Accrued taxes and contributions on salaries	11,746	10,918
Donations received	11,131	20,000
Accrued expenses	54,526	757
Liabilities under participation in profit	36,230	-
Liabilities to the members of the Board of Directors	719	460
Other liabilities	2,130	98
Other accruals	3	455
<b>Balance as at 31 December</b>	<b>133,483</b>	<b>47,692</b>

**21 Deferred tax assets and liabilities**

The deferred tax liability was calculated on the basis of temporary differences between the carrying amounts of fixed assets for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability was calculated by applying tax rate of 10%.

According to IAS 12 the Company has calculated deferred tax liability on the basis temporary differences between the carrying amounts of fixed assets for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability was calculated by applying tax rate of 10%.

Deferred tax assets and liabilities have affected profit stated in equity in the following manner:

In thousands of CSD	2005
Profit stated in Income Statement	475,714
Cancellation of deferred tax liabilities	116,352
Cancellation of deferred tax assets	(98,272)
<b>Profit stated in Balance sheet</b>	<b>493,794</b>

**22 Off-balance sheet assets/liabilities**

In thousands of CSD	2005	2004
Third party inventories with the Company	9,343	13,433
Coupons of airport taxes	-	9,445
Coupons of employee meals	-	1,361
Guarantees received	217,715	217,515
Issued guarantees for liabilities of other entities	104,440	226,573
Other off-balance sheet assets	1,158	802
<b>Balance as at 31 December</b>	<b>332,656</b>	<b>469,129</b>

As at 31 December 2005 the Company had issued guarantees totalling CSD 217,715 thousand. These mainly relate to the performance guarantee in the amount of CSD 107,867 thousand in favour of „Kolubara Invest gradnja“ issued by „JUBMES banka“ a.d., Beograd with maturity on 30 April 2006 and 2 guarantees for restitution of payment in advance in the amount of CSD 80,490 thousand in favour of „Kolubara Invest gradnja“ issued by „JUBMES banka“ a.d., Beograd with maturity on 30 March 2006.

As at 31 December 2005 the Company had issued performance guarantees totalling CSD 104,440 thousand. These are primarily associated with a payment guarantee issued in favour of Smiths Heimann GmbH, Germany in the amount of EUR 557 thousand issued by Privredna banka a.d., Beograd with maturity on 10 January 2007 and a payment guarantee in favour of Vanderlande Industries B.V. Netherlands in the amount of EUR 521 thousand issued by HVB (EXIM) banka a.d., Beograd with maturity on 20 February 2007.

### **23 Contingent liabilities**

According to the report by the Company's legal department the Company is defendant in ninety labour suits for which no value has been determined, and eleven lawsuits for remuneration of damages totalling CSD 203,321 thousand as at 31 December 2005. At the balance sheet date the Company made a best estimate of contingent liabilities and did not make any provisions on this count in its financial statements.

### **24 Opening balance adjustments**

The Company has adjusted financial statements issued as at 31 December 2004 based on liabilities incurred during 2004, which had not been given in the financial statements at the date, in the amount of CSD 11,397 thousand. The liabilities have been credited to undistributed profit from previous years.