

**JAVNO PREDUZEĆE  
AERODROM “NIKOLA TESLA”  
BEOGRAD**

**Financial Statements  
for the year ended 31 December 2007  
with the Auditor's Report thereon**

Belgrade, 23 June 2008

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007  
WITH THE AUDITOR'S REPORT

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**TRANSLATION**

JP AERODROM "NIKOLA TESLA", BEOGRAD

**Independent Auditor's Report**

We have audited the accompanying financial statements of Javno preduzeće Aerodrom "Nikola Tesla", Beograd (hereinafter: the Company), which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006). This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 have conducted our audit in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006) and International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider 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 principles used and the reasonableness of accounting estimates made by management.

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

*Basis for Qualified Opinion*

We were unable to perform a reconciliation of the actual balance and carrying amount of spare parts as at 31 December 2007 and 31 December 2006.

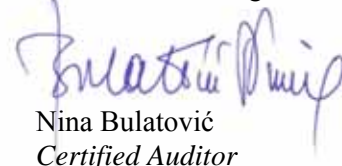
*Qualified Opinion*

In our opinion, except for the effects of the matter referred to in the preceding paragraph, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2007, and the results of its operations and cash flows for the year then ended, in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006).

Belgrade, 23 June 2008



KPMG d.o.o. Beograd



Nina Bulatović  
Certified Auditor

*This is a Translation of the Original Report on the Financial Statements issued in Serbian Language. We are responsible for the translation of the Report on the Financial Statements and not for any other documents.*

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2007

In thousands of RSD	Notes	2007	2006
Operating income	2(c), 3	3,792,175	3,575,226
Cost of goods sold	2(d)	(400,020)	(486,721)
Materials cost		(276,212)	(291,047)
Gross salaries and wages and other personnel expenses		(909,526)	(757,806)
Depreciation, amortization and provisions		(807,378)	(536,063)
Other operating expenses	2(e), 4	(890,767)	(996,186)
Profit from operations		508,272	507,403
Financial income	2(f, g), 5	441,380	276,069
Financial expenses	2(f, g), 5	(512,181)	(222,034)
Financial income and expenses (net)		(70,801)	54,035
Other income	6	137,638	367,623
Other expenses	7	(144,651)	(344,122)
Other income and expenses (net)		(7,013)	23,501
Profit before tax		430,458	584,939
Profit tax	2(o)	(38,388)	(45,755)
Deferred tax expense of the period		(31,089)	-
Deferred tax income of the period		-	13,652
<b>Net profit</b>		<b>360,981</b>	<b>552,836</b>

The notes on pages 8 to 30 form an integral part of these Financial statements.  
Report on the Financial Statements – pages 1 - 2.

## BALANCE SHEET AS AT 31 DECEMBER 2007

In thousands of RSD	Notes	2007	2006
<b>ASSETS</b>			
Non-current assets			
Intangible assets	2(i), 8	21,394	-
Property, plant and equipment	2(i), 8	12,541,493	12,586,782
Long-term financial investments	2(j), 9	202,361	205,582
<b>Total</b>		<b>12,765,248</b>	<b>12,792,364</b>
Current assets			
Inventories	2(k), 10	132,471	178,074
Trade receivables	2(l), 11	424,513	449,195
Receivables for overpaid taxes		3,554	-
Other short term investments	2 (m), 12	587,729	309,202
Cash and cash equivalents	13	356,401	187,444
VAT and deferred expenses	14	40,872	109,072
<b>Total</b>		<b>1,545,540</b>	<b>1,232,987</b>
Deferred tax assets	2(p), 21	-	-
<b>Total assets</b>		<b>14,310,788</b>	<b>14,025,351</b>
Off-balance sheet assets	22	51,100	105,512

The notes on pages 8 to 30 form an integral part of these Financial statements.  
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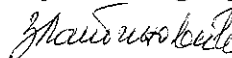
## BALANCE SHEET AS AT 31 DECEMBER 2007 (continued)

In thousands of RSD	Notes	2007	2006
<b>EQUITY AND LIABILITIES</b>			
Equity	15		
Capital		7,256,643	7,252,646
Reserves		234,941	236,216
Revaluation reserves		3,229,225	3,230,264
Undistributed profit		751,130	389,244
<b>Total</b>		<b>11,471,939</b>	<b>11,108,370</b>
Long-term provisions	2(n), 16	142,710	170,011
Long-term liabilities	17	1,596,321	1,505,401
Current liabilities			
Short-term financial liabilities	18	234,170	301,398
Trade creditors	19	412,102	510,502
Other current liabilities and accruals	20	197,520	210,706
VAT and other taxes and duties payable		15,844	5,823
Corporate income tax liabilities		-	4,201
<b>Total current liabilities</b>		<b>859,636</b>	<b>1,032,630</b>
Deferred tax liabilities	2(p), 21	240,182	208,939
<b>Total equity and liabilities</b>		<b>14,310,788</b>	<b>14,025,351</b>
Off-balance sheet liabilities	22	51,100	105,512

Belgrade, 23 June 2008

For and on behalf of Javno preduzeće Aerodrom "Nikola Tesla", Beograd:

Bojan Krišto  
General Manager

Zorka Latinović  
Head of Accounting Department


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## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

In thousands of RSD	2007	2006
Cash flow from operating activities		
Cash receipts from customers and received advances	3,818,644	3,897,246
Interest receipts from operations	4,782	411
Other receipts from operations	298,422	213,266
Raw material purchases and advance payments	(1,770,823)	(2,114,156)
Gross salaries and wages	(982,749)	(842,257)
Interest paid	(93,782)	(79,812)
Income tax	(46,143)	(52,089)
Other taxes paid	(129,091)	(213,394)
Net cash generated from operating activities	1,099,260	809,215
Cash flow from investing activities		
Sale of shares and stakes (net inflow)	278	-
Proceeds from the disposal of intangible assets and property, plant and equipment	8,164	3,046
Interest received from investing activities	20,412	23,187
Purchase of intangible assets and property, plant and equipment	(358,840)	(1,080,951)
Other financial investments	(242,154)	(280,058)
Net cash used in investing activities	(572,140)	(1,334,776)
Cash flow from financing activities		
Long term and short term loans	-	5,600
Long term loans, short term loans and other liabilities (net outflows)	(251,299)	-
Finance leases	(102,984)	(42,865)
Net cash used from financing activities	(354,283)	(37,265)
Net increase/ (decrease) in cash and cash equivalents	172,837	(562,826)
Cash at the beginning of the period	187,444	762,579
Gains on translation of foreign currencies	37,545	37,023
Losses on translation of foreign currencies	(41,425)	(49,332)
<b>Cash at the end of period</b>	<b>356,401</b>	<b>187,444</b>

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## STATEMENT ON CHANGES IN EQUITY IN 2007

In thousands of RSD	Capital		Reserves	Revaluation reserves	Undistributed profit	Total
	State-owned capital	Other capital				
Balance as at 31 December 2006	7,157,362	95,284	236,216	3,360,853	613,739	11,463,454
Opening balance adjustment (Note 2(q))	-	-	-	(130,589)	(224,495)	(355,084)
Adjusted balance as at 31 December 2006	7,157,362	95,284	236,216	3,230,264	389,244	11,108,370
Disposal of fixed assets	-	-	-	(2,430)	-	(2,430)
Revaluation of equity stakes in Privredna banka	-	-	-	1,546	-	1,546
Distribution of effects of valuation of equity investments from revaluation reserves to deferred tax liabilities	-	-	-	(155)	-	(155)
Revaluation of residential apartments	-	71	-	-	-	71
Solidarity apartments	-	4,088	-	-	-	4,088
Other increase (decreases)	-	(162)	(1,275)	-	905	(532)
Profit for the year (Note 21)	-	-	-	-	360,981	360,981
<b>Balance as at 31 December 2007</b>	<b>7,157,362</b>	<b>99,281</b>	<b>234,941</b>	<b>3,229,225</b>	<b>751,130</b>	<b>11,471,939</b>

The notes on pages 8 to 30 form an integral part of these Financial statements.  
Report on the Financial Statements – pages 1 - 2.

**1 Background**

JP Aerodrom „Nikola Tesla“, 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.

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.

In accordance with the Decision on Establishing the Date of the Change of Status of the Public Company Aerodrom “Nikola Tesla”, 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 RSD 71,288 thousand were transferred to the newly founded companies, while ownership was transferred to the Republic of Serbia.

As at 31 December 2007 the Company had 597 employees (31 December 2006: 633 employees).

**2 Basic accounting policies**

Basic accounting policies applied in preparing the Company’s financial statements for 2007 are set out as follows:

***(a) Statement of compliance***

The Management of the Company prepared these financial statements in compliance with the Law on Accounting and Auditing of the Republic of Serbia (Official Gazette of the Republic of Serbia 46/2006) using generally accepted accounting principles and practice in the Republic of Serbia.

In February 2008 the Decision on Publication of International Financial Reporting Standards was published in the Official Gazette of the Republic of Serbia no. 16/08, which is effective as of 20 February 2008.

The Company’s financial statements are expressed in thousands of dinars (RSD). The dinar is the functional currency in the Republic of Serbia used for statutory reporting purposes.

***(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 2007	31 December 2006
USD	53.7267	59.9757
EUR	79.2362	79.0000

**(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, plant and equipment are disclosed at revaluation amounts which reflect their fair value as at revaluation day, decreased for total accumulated depreciation and impairment losses. Valuation of property and equipment was performed on 31 December 2006 by an independent certified appraiser.

The negative effects of the appraisal of property and equipment as at 31 December 2006 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 2006 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	2007 % p.a.	2006 % p.a.
<b>Buildings</b>		
Electric and water generation structures	2.00-10	2.50 - 10
Roads, airports, and parking lots	1.25-20	1 - 20
<b>Equipment</b>		
New specific equipment	6.67 – 33.33	-
Equipment for road transport	5.88 – 50	5 – 33.33
Equipment for PTT and TV	10 – 50	5 - 50
Equipment for air traffic	7.14 – 50	5 - 50
Equipment for measurement and examination and special tools	7.14 – 50	5 - 50
Laboratory equipment, educational materials and medical equipment	12.5 – 50	10 - 20
Electronic and calculation machines, and computers	10 – 50	10 - 50
Furniture and general purpose equipment	9.09 – 50	10 - 50
Agricultural equipment	12.5 – 33.33	6.67 – 10
Leased equipment for road transport	6.67 - 50	6.67 - 33.33

/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) Long-term financial investments**

Long-term financial investments include equity investments in banks and long-term housing loans granted to employees. The Company changed its accounting policy in 2007 and measured the value of long-term housing loans granted to employees at fair market value in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". Up to 2007 the Company applied accounting policy whereby long-term housing loans granted to employees were valued at the amount of loan principal outstanding increased for revaluation by using the consumer price index, and at most for the amount of increase in average gross salary in the Republic of Serbia in the previous year.

As at 31 December 2006 and 31 December 2007 the Company estimated the fair value of receivables related to approved housing loans. (Note 9)

**(k) 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.

**(l) 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, with additional analysis of collectibility by Company management.

**(m) Short-term financial investments**

Short-term financial investments relate to short-term term deposits with banks, as well as to current portions due of long-term housing loans granted to employees.

**(n) Provisions**

/i/ Long-term provisions are carried out with respect to: retirement benefits, provisions for court cases and 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.

**(o) 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 2007 (in 2006 it was 10%). 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 mostly include adjustments for expenses which do not decrease tax base and addition for capital income.

/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.

**(p) 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.

**(q) Opening balance adjustment**

Opening balance adjustment as at 1 January 2007 relates to:

/i/ Change in accounting policy according to which long-term receivables for housing loans granted to employees are valued at fair value. (Notes 9 and 12)

/ii/ Correction of fundamental error in respect of incorrect application of IAS 12 – Income Tax (Note 21).

**3 Operating income**

Operating income relates to:

In thousands of RSD	2007	2006
Sales of goods and services	3,484,889	3,380,680
(Decrease)/Increase in inventories	-	(1,265)
Income from undertaking of outputs and goods for own purposes	1,798	1,347
Other operating income	305,488	194,464
<b>Total</b>	<b>3,792,175</b>	<b>3,575,226</b>

**TRANSLATION***Javno preduzeće Aerodrom “Nikola Tesla”, Beograd  
Notes to the Financial Statements*

Sales of goods and services relate to:

In thousands of RSD	2007	2006
Sales of goods and services on domestic market		
Goods (retail shop sales)	15,111	59,391
Services		
Passenger airport taxes	150,835	162,420
Luggage handling	752,094	143,582
Landing	103,282	120,482
Handling of goods in customs' warehouse	157,139	152,424
Air bridge services	23,602	27,245
Advertising	41,733	39,598
CUTE system revenues	55,175	27,418
Use of airport infrastructure	83,650	98,986
Other services	93,087	68,909
<b>Total</b>	<b>1,460,597</b>	<b>841,064</b>
<b>Total</b>	<b>1,475,708</b>	<b>900,455</b>
Sales of goods and services on foreign market		
Aircraft fuel	430,511	447,493
Goods (retail shop sales)	-	57,345
Services		
Luggage handling	670,626	1,055,527
Airport landing and lift off taxes	577,041	526,083
Air bridge services	65,291	58,319
CUTE system services	-	25,432
Advertising	1,683	559
Special travel services	41,692	74,828
Airport taxes for airplane stay	13,674	13,993
Use of airport infrastructure	196,074	187,802
Other services	12,589	32,844
<b>Total</b>	<b>1,578,670</b>	<b>1,975,387</b>
<b>Total sales of goods and services on foreign market</b>	<b>2,009,181</b>	<b>2,480,225</b>
<b>Total</b>	<b>3,484,889</b>	<b>3,380,680</b>

Other operating income relates to:

In thousands of RSD	2007	2006
Rent		
Domestic legal entities	289,548	184,884
Foreign legal entities	8,588	7,580
Income from donations	7,352	2,000
<b>Total</b>	<b>305,488</b>	<b>194,464</b>

#### 4 Other operating expenses

Other operating expenses relate to:

In thousands of RSD	2007	2006
Transportation	259,085	268,574
Maintenance	73,333	51,835
Rent	19,345	19,470
Marketing	3,336	8,506
Membership fees	4,652	5,171
Physical and technical security services	133,742	112,514
Other production services	49,952	54,818
Costs of JAT medical services	4,383	4,024
Costs of professional training of employees	11,275	5,440
Costs of advisory group	-	135,867
Cleaning costs	30,923	44,463
Data processing expenses	52,117	57,763
Other non-production services	42,994	13,842
Taxes	12,297	12,523
Costs of newly established companies	52,984	86,157
Costs of IT support	8,703	8,071
Payment operations expenses	9,994	11,980
Insurance premium expenses	56,386	48,470
Entertainment costs	11,301	10,652
Indirect taxes and contributions	37,150	27,395
Other operating expenses	16,815	8,651
<b>Total</b>	<b>890,767</b>	<b>996,186</b>

On 30 September 2005 the Company concluded the Agreement on Business Cooperation no. 917/2005 with OZB Komerc d.o.o. for engagement of staff for performing landing and lift off of aircraft, physical security, data processing and other services. During 2007 the number of engaged employees by OZB Komerc d.o.o. was approximately 520.

**5 Finance income and expenses**

Finance income and expenses relate to:

In thousands of RSD	2007	2006
Finance income		
Interest income	30,689	23,598
Foreign exchange gains	338,831	224,377
Positive hedging effects– foreign currency clause	71,860	28,094
<b>Total</b>	<b>441,380</b>	<b>276,069</b>
Finance expenses		
Interest expense	(98,359)	(82,332)
Foreign exchange losses	(345,694)	(136,246)
Negative hedging effects– foreign currency clause	(67,975)	(3,456)
Other financial expenses	(153)	-
<b>Total</b>	<b>(512,181)</b>	<b>(222,034)</b>
<b>Total</b>	<b>(70,801)</b>	<b>54,035</b>

**6 Other income**

Other income relates to:

In thousands of RSD	2007	2006
Revaluation of long-term housing loans (Note 9)	33,662	22,346
Collected written off receivables	1,182	9,270
Income from reduction in liabilities	-	50,732
Income from cancellation of long-term provisions	59,382	89,092
Income from valuation adjustment of property and equipment	-	148,813
Revaluation of receivables and short-term financial investments	6,192	36,677
Income from valuation adjustment of inventories	5,688	-
Other	31,532	10,693
<b>Total</b>	<b>137,638</b>	<b>367,623</b>

**7 Other expenses**

Other expenses relate to:

<u>In thousands of RSD</u>	<u>2007</u>	<u>2006</u>
Loss on disposal of property and equipment	1,182	17,871
Loss on disposal of materials	-	9,470
Shortages	-	24,004
Direct write-offs of receivables	4,928	28,383
Impairment of receivables	37,631	7,560
Impairment of receivables for advance payments	1,264	12,691
Loss from negative hedging effects	366	10,514
Additional discounts	7,533	4,183
Impairment of property, plant and equipment	2,048	168,871
Impairment of long-term financial investments	8,784	-
Impairment of inventories of materials and goods	30,224	31,192
Humanitarian expenses	28,914	15,461
Litigation costs	5,966	2,272
Other expenses	15,811	11,650
<b>Total</b>	<b>144,651</b>	<b>344,122</b>

**TRANSLATION**

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**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 RSD	Intangible assets	Land	Buildings	Investment property	Equipment and tools	Investments in progress and advances	Livestock	Total
Cost or valuation								
Balance as at 31 December 2006	-	1,243,070	9,890,660	14,521	1,363,308	103,958	567	12,616,084
Direct purchases	21,587	-	-	-	-	580,293	-	601,880
Transfer from investments in progress	-	-	132,469	-	537,276	(669,845)	100	-
Reclassification after valuation	-	-	53,652	-	(53,652)	-	-	-
Sale and disposal	-	-	-	-	(12,821)	-	-	(12,821)
Valuation effects	-	-	-	(2,048)	-	-	-	(2,048)
<b>Balance as at 31 December 2007</b>	<b>21,587</b>	<b>1,243,070</b>	<b>10,076,781</b>	<b>12,473</b>	<b>1,834,111</b>	<b>14,406</b>	<b>667</b>	<b>13,203,095</b>
Accumulated depreciation								
Balance as at 31 December 2006	-	-	-	-	29,302	-	-	29,302
Depreciation for 2007	193	-	394,565	-	220,538	-	-	615,296
Sale and disposal	-	-	-	-	(4,390)	-	-	(4,390)
<b>Balance as at 31 December 2007</b>	<b>193</b>	<b>-</b>	<b>394,565</b>	<b>-</b>	<b>245,450</b>	<b>-</b>	<b>-</b>	<b>640,208</b>
<b>Net present value as at 31 December 2007</b>	<b>21,394</b>	<b>1,243,070</b>	<b>9,682,216</b>	<b>12,473</b>	<b>1,588,661</b>	<b>14,406</b>	<b>667</b>	<b>12,562,887</b>
<b>Net present value as at 31 December 2006</b>	<b>-</b>	<b>1,243,070</b>	<b>9,890,660</b>	<b>14,521</b>	<b>1,334,006</b>	<b>103,958</b>	<b>567</b>	<b>12,586,782</b>

**9 Long term financial investments**

Long-term financial investments relate to equity investments and other long-term investments.

i) Equity investments relate to:

In thousands of RSD	2007	2006
Investments in capital of banks		
Vojvodanska banka a.d., Novi Sad	-	113
Privredna banka a.d., Beograd	2,135	578
Less: provision for equity shares in banks	-	(18)
<b>Total</b>	<b>2,135</b>	<b>673</b>
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
<b>Total</b>	<b>19,693</b>	<b>19,693</b>
Less: provision for equity shares in banks in liquidation	(19,693)	(19,693)
<b>Balance as at 31 December</b>	<b>2,135</b>	<b>673</b>

ii) Other long-term financial investments relate to:

In thousands of RSD	2007	2006
Deposits for membership in the Societe International de Telecommunications Aeronautiques Swisse (SITA)	1,075	1,200
Long-term term deposits	66,793	80,033
Long term loans to employees	362,816	339,223
Receivables for sold, socially owned residential apartments	1,870	1,820
Purchase of "Solidarity" Apartments	4,713	10,988
Current portions due of long-term loans (Note 12)	(10,697)	(10,546)
Reduction to fair value of long-term loans granted to employees	(226,344)	(217,809)
<b>Balance as at 31 December</b>	<b>200,226</b>	<b>204,909</b>

As at 31 December 2007 long-term loans in the amount of RSD 362,816 thousand relate to long-term loans granted to employees in 2004, 2005 and 2006 in accordance with Agreement on Business Cooperation for the Construction and Purchase of Residential Apartments entered 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 average gross salary in effect in the Republic of Serbia in the previous year. In order to secure regular and timely payment on these housing loans, administration measure has been assigned such 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 2007 the Company revalued the loans, applying a coefficient of 0,101 in the total amount of RSD 33,662 thousand.

As at 31 December 2006 and 31 December 2007 the Company appraised the fair value of receivables related to approved long-term housing loans. Based on the performed appraisal the total effect of reduction of long-term financial investments amount to RSD 233,279 thousand (RSD 226,344 thousand relate to long-term financial investments while the effect in the amount of RSD 6,935 thousand relates to current portion due of long-term financial investments (Note 12)). The effect of reduction in the value of long-term housing loans for 2006 and previous years amounts to RSD 224,495 thousand and is posted as an opening balance adjustment under retained earnings of previous years, while the amount of RSD 8,784 thousand is charged to period expenses.

As at 31 December 2007 long-term term deposits in the amount of RSD 66,793 thousand relate to deposits made with Piraeus Atlas banke a.d., Beograd, as collateral on received long-term loans approved to employees. The listed deposits are invested for periods of 5 to 7 years at annual interest of 0.5%.

## **10 Inventories**

Inventories relate to:

In thousands of RSD	2007	2006
Materials	41,125	25,579
Spare parts	32,266	40,895
Tools and fixtures	6,850	10,391
Merchandise in warehouse	81,341	102,716
Merchandise in duty free shop	84	126
Impairment of inventories of materials and spare parts	(10,345)	(15,291)
Impairment of merchandise	(37,091)	(9,574)
Advances paid	18,241	23,232
<b>Balance as at 31 December</b>	<b>132,471</b>	<b>178,074</b>

**11 Trade receivables**

Trade receivables relate to:

In thousands of RSD	2007	2006
Trade receivables		
Domestic	235,812	259,587
Foreign	220,875	196,524
Interest receivables from customers	5,495	-
Receivables for overpaid taxes	-	1,648
Receivables from employees	1,590	638
Other	4,998	4,234
Less: Provision for		
domestic trade receivables	(38,537)	(8,855)
foreign trade receivables	(5,720)	(4,506)
Other	-	(75)
<b>Balance as at 31 December</b>	<b>424,513</b>	<b>449,195</b>

**12 Short-term financial investments**

Short-term financial investments relate to:

In thousands of RSD	2007	2006
Short-term loans to employees	13,830	11,596
Domestic short-term borrowings	-	20,900
Current portion of long-term loans to employees	10,697	10,546
Short-term deposits	570,137	272,745
Other short-term financial investments	-	1,358
Total	594,664	317,145
Impairment	-	(1,258)
Reduction to fair value of loans granted to employees	(6,935)	(6,685)
<b>Balance as at 31 December</b>	<b>587,729</b>	<b>309,202</b>

Short-term term deposits relate to:

In thousands of RSD	2007	2006
Komercijalna banka a.d. Beograd	238,060	158,000
Piraeus Bank a.d. Beograd	47,267	105,316
Unicredit Bank Srbija a.d. Beograd	25,686	8,229
Banca Intesa a.d. Beograd	1,200	1,200
Privredna banka a.d. Beograd	57,924	-
Srpska banka a.d. Beograd	50,000	-
Hypo-Alpe-Adria-Bank a.d. Beograd	100,000	-
Aik banka a.d. Niš	50,000	-
<b>Balance as at 31 December</b>	<b>570,137</b>	<b>272,745</b>

Short-term financial investments reported as at 31 December 2007 in the amount of RSD 238,060 thousand relate to five short-term term deposits with Komercijalna banka a.d. Beograd that mature in 2008, with the option of automatic extension of deposit term and at annual interest of 2.8%-3.15% for foreign currency term deposits and 8.5% for dinar term deposits.

Short-term financial investments reported as at 31 December 2007 in the amount of RSD 47,267 thousand (EUR 597 thousand) relate to short-term deposits with Piraeus Bank a.d. Beograd. A portion of the deposited funds in the amount of RSD 31,420 thousand (EUR 396,542) serve as collateral on received issued long-term loans to employees that mature in 2008 at annual interest ranging from 0.5%, while the remaining amount of RSD 15,847 thousand (EUR 200,000) relates to deposits made that mature in 2008 at annual interest of 4.5%.

Short-term financial investments reported as at 31 December 2007 in the amount of RSD 25,686 thousand (EUR 324,175) relate to short-term term deposits made with Unicredit Bank Srbija a.d. Beograd that mature in 2008, with an option of automatic extension of deposit term and annual interest rate of 4.15%-4.55%.

Short-term financial investments reported as at 31 December 2007 in the amount of RSD 57,924 thousand relate to short-term term deposits with Privredna banka a.d. Beograd for different amounts in 2008, with the option of automatic extension of deposit term and at annual interest of 3.5% for foreign currency term deposits and 8% for dinar term deposits.

On 5 October 2007 the Company concluded a Cash Deposit Contract with Srpska banka a.d. Beograd in the amount of RSD 50,000 thousand. Cash is deposited on site with annual interest of 8.5%.

Short-term financial investments as at 31 December 2007 in the amount of RSD 100,000 thousand relate to short-term terms deposits with Hypo-Alpe-Adria-Bank a.d. Beograd that mature in 2008 and annual interest rate of 8.25%-9%.

On 4 September 2007 the Company concluded a term deposit contract with AIK banka a.d. Niš – Belgrade branch for the amount of RSD 50,000 thousand that matures in 2008 and annual interest rate of 9.5%.

**13 Cash and cash equivalents**

Cash and cash equivalents relate to:

In thousands of RSD	2007	2006
Gyro account	21,082	2,626
Foreign currency bank accounts	365,691	219,847
Cash in hand	7,695	4,138
Other cash	1,636	1,838
<b>Total</b>	<b>396,104</b>	<b>228,449</b>
Impairment of assets		
Foreign currency funds with banks under bankruptcy and receivership	(39,703)	(41,005)
<b>Balance as at 31 December</b>	<b>356,401</b>	<b>187,444</b>

**14 Value added tax and accrued income**

Other receivables and accrued income relate to:

In thousands of RSD	2007	2006
VAT	4,377	63,719
Accrued insurance premium	27,488	29,826
Other	9,007	15,527
<b>Balance as at 31 December</b>	<b>40,872</b>	<b>109,072</b>

**15 Equity****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.

**Other capital**

Other capital represents joint employee housing funds that based on previous regulations were recorded as off-balance sheet assets. In 2006 the Company distributed the amount of RSD 65,000 thousand from retained earning to the joint employee housing fund.

**16 Long-term provisions**

Long-term provisions relate to:

In thousands of RSD	2007	2006
Long-term provision for voluntary termination of employment	-	39,291
Long-term provision for retirement benefits pay	18,952	44,996
Long-term provision for employment anniversary awards	39,675	85,724
Provisions for court cases	84,083	-
<b>Balance as at 31 December</b>	<b>142,710</b>	<b>170,011</b>

Movements in long-term provisions for restructuring costs, retirement benefits and anniversary awards in 2007 are shown below:

In thousands of RSD	Restructuring costs	Retirement benefits	Anniversary awards	Litigations	Total
Balance as at 31 December 2006	39,291	44,996	85,724	-	170,011
Increase in provisions	-	-	-	84,083	84,083
Decrease in provisions	-	(25,767)	(33,615)	-	(59,382)
Payments	(39,291)	(277)	(12,434)	-	(52,002)
<b>Balance as at 31 December</b>	<b>-</b>	<b>18,952</b>	<b>39,675</b>	<b>84,083</b>	<b>142,710</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 receive such severance pay, and exceptionally 15 average employee salaries, if that is more advantageous to the employee. During 2007, 35 workers voluntarily terminated their employment where the total amount of RSD 39,291 thousand was paid out as compensation.

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 a discount rate of 10%.

Of the total amount of provisioned liabilities for litigations in the amount of RSD 84,083 thousand for 2007, based on the Board of Director's Decision number 3130/3 dated 28 February 2008 the Company provisions the amount of RSD 78,627 thousand for a claim filed with the Commercial Court in Belgrade by Engel Europe Limited. The Company made provisions for this litigation due to uncertainty of the outcome and the value of the claim (EUR 1,984,613). (Note 23)

**17 Long-term financial liabilities**

Long-term liabilities relate to:

<u>In thousands of RSD</u>	<u>2007</u>	<u>2006</u>
Long-term loans	1,432,184	1,488,426
Liabilities under finance leases	330,072	155,024
Current portion of long-term loans due for payment	(165,935)	(138,049)
<b>Balance as at 31 December</b>	<b>1,596,321</b>	<b>1,505,401</b>

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Long-term loan liabilities relate to:

<u>Loans</u>	<u>Maturity</u>	<u>Amount approved</u>	<u>Interest rate</u>	<u>Balance as at 31/12/2007 – EUR</u>	<u>Balance as at 31/12/2007 – RSD</u>
Unsecured loan	20.12.2025.	13,000,000 EUR	4.068 – 5.16% p.a.	12,903,226	1,022,402
Secured loan	10.05.2010.	4,379,345 EUR	3.54% p.a	2,199,527	174,282
Deposit secured loan	26.05.2013.	3,100,436 EUR	4.5% p.a	1,953,727	154,806
Loan secured with foreign currency bonds	15.01.2010.	981,500 EUR	3.9% p.a.	981,500	77,770
Unsecured loan	07.11.2008.	134,180 EUR	interest free loan	36,900	2,924
<b><u>Long-term loans</u></b>					<b><u>1,432,184</u></b>

Leasing liabilities relate to:

In thousands of RSD	2007	2006
Porsche lizing	42,950	48,264
Hypo lizing	217,976	8,997
Sita lizing	26,943	41,414
Vestergaard Company	42,203	56,349
Total	330,072	155,024
Current portions of other long-term leasing liabilities due for payment (Note 18)	68,235	46,349
<b>Balance as at 31 December</b>	<b>398,307</b>	<b>201,373</b>

In 2007 the Company purchased 16 vehicles in the total amount of RSD 217,976 thousand (EUR 2,751 thousand). Based on lease contract terms, lease payments commence in 2008. The portion of liabilities due for payment within one year amounts to RSD 23,375 thousand (EUR 295 thousand).

Leasing liabilities in the amount of RSD 26,943 thousand (EUR 340 thousand) relate to liabilities for delivery and installation of the CUTE system. The contract was signed on 2 July 2005 for the full amount of EUR 2,170 thousand (EUR 1,320 thousand relate to maintenance of the CUTE system, while the amount of EUR 850 thousand relates to delivery and installation of the CUTE system). Repayment is made in 60 equal monthly instalments with no contractual interest. The contract also specifies that equipment purchased under the leasing option remains the property of SITA and will be depreciated over the period of 60 months. Up to balance sheet date equipment was delivered in the amount of EUR 850 thousand. The portion of the liability due for payment within one year amounts to EUR 198 thousand.

Leasing liabilities in the amount of RSD 42,203 thousand (EUR 533 thousand) relate to liabilities toward Vestergaard Company A/S, Denmark. In December 2006 the Company bought equipment for defrosting the runway in the amount of EUR 1,257 thousand from Vestergaard Company A/S, Denmark. According to the repayment schedule the Company has a monthly payments liability in the amount of EUR 17 thousand up to 1 December 2011. The portion of the liability due for payment within one year amounts to EUR 167 thousand.

## **18 Short-term financial liabilities**

Short-term financial liabilities:

In thousands of RSD	2007	2006
Short-term loans – domestic	-	117,000
Current portion of long-term loans due for payment	165,935	138,049
Current portion of other long-term liabilities based on financial leases	68,235	46,349
<b>Balance as at 31 December</b>	<b>234,170</b>	<b>301,398</b>

**19 Trade creditors**

Trade creditors relate to:

In thousands of RSD	2007	2006
Trade creditors		
Other domestic legal entities	192,877	215,464
Other foreign legal entities	38,106	44,994
Advances received	179,717	249,056
Other	1,402	988
<b>Balance as at 31 December</b>	<b>412,102</b>	<b>510,502</b>

Of the total amount of advance payments received RSD 129,331 thousand relates to advances received from Dufry International AG based on a Rental Agreement signed on 1 February 2006, while the amount of RSD 28,028 thousand relates to advances received for the Company's merchandise housed in the Customs Public Warehouse and that will be sold to Dufry International AG. The value of the merchandise as at 10 December 2007 is estimated at EUR 386,384, which as at 31 December 2007 amounts to RSD 30,616 thousand. (Note 10)

**20 Other current liabilities and accruals**

Other current liabilities and accruals:

In thousands of RSD	2007	2006
Salaries and wages	14,448	20,612
Taxes and contributions on salaries and wages	9,533	12,730
Accrued expenses	48,315	78,231
Liabilities for share in profits	-	82,196
Liabilities toward members of the Board of Directors	1,270	917
Provisions for termination benefits based on the restructuring program	108,000	-
Other liabilities	3,835	9,020
Other accruals	82	2
Interest and financing expense liabilities	12,037	6,998
<b>Balance as at 31 December</b>	<b>197,520</b>	<b>210,706</b>

On 17 December 2007 the Board of Directors of the Company adopted Decision number 18310/2 related to adoption of the program for resolving the issue of surplus employees. Based on this Decision, in January 2008 the Company terminated 141 employees, while termination benefits in the total amount of RSD 135,635 thousand were paid on 27 December 2007.

Also, based on the new Manual on Organization and Job Establishment and the new Employee Manual, the Company decided to reduce the number of full-time employees by 108 within the restructuring program for 2008. Provisions were made for termination benefits to be paid to employees in 2008 in the amount of RSD 108,000 thousand (RSD 1,000 thousand per employee).

**21 Deferred tax assets and liabilities**

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%.

Movements in deferred tax liabilities during the year were as follows:

In thousands of RSD	2007
Balance as at 31 December 2006	78,349
Opening balance adjustment	130,590
Balance as at 1 January 2007	208,939
Increase in deferred tax liabilities during the year	31,243
<b>Balance as at 31 December</b>	<b>240,182</b>

Deferred tax assets and liabilities affected the result reported within equity as follows:

In thousands of RSD	2007
Profit reported in the Income Statement	392,070
Deferred tax expenses of the period	(31,089)
Deferred tax assets recognized	-
<b>Profit reported in the Income Statement</b>	<b>360,981</b>

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

In thousands of RSD	2007	2006
Guarantees received	35,872	66,446
Guarantees provided for other party's liabilities	14,046	35,874
Other off-balance sheet assets	1,182	3,192
<b>Balance as at 31 December</b>	<b>51,100</b>	<b>105,512</b>

As at 31 December 2007 guarantees received amount to RSD 35,872 thousand and primarily relate to three guarantees received in the event of failure to settle liabilities (RSD 27,733 thousand) issued by a Montenegrin commercial bank, at the order of Montenegro Airlines d.o.o. Podgorica, which can be converted at the latest by 30 September 2008.

As at 31 December 2007 performance bonds issued amount to RSD 14,046 thousand. Guarantees issued relate to guarantees that can be converted into cash on behalf of the Ministry of Finance of the Republic of Serbia in the amount of RSD 7,047 thousand, issued by Banca Intesa a.d. Beograd and Piraeus banka a.d. Beograd, that mature between 30 January 2008 and 19 April 2008, as well as to guarantees that can be converted into cash on behalf of the Customs Authorities in the amount of RSD 7,000 thousand issued by Piraeus banka a.d. Beograd up to 31 December 2007.

**23 Contingent liabilities**

Based on the report issued by the Legal Department, the Company is involved in 57 labour claims filed against it for which no value has been determined, and 19 claims whose total value as at 31 December 2007 amounts to RSD 12,682 thousand. Also, the Company has 22 claims filed against it for compensation of damages in the total amount of RSD 169,326 thousand as at 31 December 2007. As at balance sheet date the Company made the best estimate of contingent liabilities and made provisions in its financial statements in the amount of RSD 84,083 thousand. (Note 16)