

Consolidated Financial Statements and Independent
Auditors' Report

Prishtina International Airport Holding J.S.C.

31 December 2008

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Grant Thornton

Independent Auditors' Report

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To the Management and Shareholders of
Prishtina International Airport Holding J.S.C.

We were engaged to audit the accompanying consolidated financial statements of Prishtina International Airport Holding J.S.C. ("the Company"), which comprise of the Consolidated balance sheet at 31 December 2008, and the Consolidated statement of income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 4 to 28.

The consolidated financial statements of Prishtina International Airport Holding J.S.C. as of and for the year ended 31 December 2007 were audited by another auditor whose report dated 09 February 2009 expressed a disclaimer of opinion on that consolidated financial statements. Therefore, we do not express an opinion on the comparative figures presented as of and for the year ended 31 December 2007. Furthermore, any related adjustments, which might have been determined as necessary to the consolidated financial statements as of and the year ended 31 December 2007, could have a significant impact on the Company's consolidated financial position, results of operations, changes in equity and cash flows for the year ended 31 December 2008.

Management's responsibility for the consolidated financial statements

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

Basis for disclaimer of opinion

As it is disclosed in note 5 to the accompanying consolidated financial statements, at 31 December 2008, the net carrying value of Company's property, plant and equipment amounts to Euro 36,135 thousands. According to the accepted accounting policy disclosed further in Note 2 to the consolidated financial statements, items of property, plant and equipment existing on 01 January 2005 – the date of Company's incorporation and opening balance sheet date, were recognized in the Company's accounts at their revalued amounts determined by independent external valuers. The accepted revaluation model requires revaluations to be made with sufficient regularity to ensure that the carrying amounts of revalued assets do not differ materially from that which would be determined using fair value at the end of the reporting period. Owing to the nature of the Company's records, we were not able to satisfy ourselves with the management assessments of the fair values of Company's property, plant and equipment as of 31 December 2008.

In addition, the accepted accounting policy regarding the impairment of non – financial assets requires at each balance sheet date items of property, plant and equipment to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We were not provided with any evidence that such impairment test has been performed as of the balance sheet date.

Furthermore, owing to the nature of accounting and other relating records, as well as the applied policies and procedures, we were not able to obtain reliable assurance with the completeness, accuracy and net carrying amount of the Company's property, plant and equipment as of the balance sheet date.

As it is further disclosed in note 11 and note 21 to the accompanying consolidated financial statements, the balance and transactions relating to bank account at Pro Credit bank have not been accounted for and disclosed in these consolidated financial statements. The outstanding balance of this bank account as at 31 December 2008 amounts to Euro 1,406 thousand. Under a letter from Ministry of Economy and Finance dated 20 March, 2009 the Ministry has no authority and control over Pro Credit bank account. Owing to the nature of the Company's records, we were unable to ascertain the adjustments that might have been necessary and the resulting impact of transactions taken place from this account, if any, on the balance sheet and the consolidated statement of income as at and for the year ended 31 December 2008.

Furthermore, the Company did not account for and recognize in its consolidated financial statements as of and for the year ended 31 December 2008 any deferred tax assets or liabilities based upon the timing differences between tax and accounting basis related to items of property, plant and equipment carried in the Company's accounts and the valuation. We were not able to assess the possible effects in the Company's consolidated financial statements as of and for the year ended 31 December 2008 arising from the omission to account for and recognize deferred tax assets or liabilities.

As it is further disclosed in note 22 to the accompanying consolidated financial statements, during March 2008, the Kosovo Police arrested the General Director and Procurement Manager of the Company on the allegations of misuse of powers related to certain procurements. The Company initially suspended both the employees and later through a decision of the Board of Directors dated 22 August, 2008 terminated their employment contracts. Based on management representation, we understand that the allegations against those two employees are investigated and in absence of any agreement with the Company to perform additional procedures, we were unable to satisfy ourselves with respect to the possible effects, if any, of the claimed fraudulent act as well as whether it was in isolation.

Disclaimer of opinion

Due to the significance of the matters discussed in the preceding paragraphs, we are not in the position to and we do not express an opinion on the Company's consolidated financial statements as of and for the year 31 December 2008.



Grant Thornton,

Skopje,
09 December 2009

Consolidated Financial Statements
31 December 2008

Consolidated balance sheet

	Notes	(In '000 Euro) At 31 December	
		2008	2007
Assets			
Non-current assets			
Property, plant and equipment	5	36,135	31,297
Intangible assets	6	213	243
Advances for capital expenditures	7	-	258
		36,348	31,798
Current assets			
Inventories	8	706	607
Trade and other receivables	10	4,456	2,984
Cash and cash equivalents	11	10,523	5,948
		15,685	9,539
Total assets		52,033	41,337
Equity and liabilities			
Capital and reserves			
Share capital	12	18,000	18,000
Share premium		13,706	13,706
Accumulated profit		10,528	3,851
		42,234	35,557
Non-current liabilities			
Borrowings	13	4,602	2,362
		4,602	2,362
Current liabilities			
Borrowings	13	1,196	-
Trade and other payables	14	4,001	3,418
		5,197	3,418
Total liabilities		9,799	5,780
Total equity and liabilities		52,033	41,337

These consolidated financial statements have been approved by the Board of Director on 07 December 2009 and signed on its behalf by,

Mr. Agron Mustafa,


General Director
P.I.A.J.S.C.

15.03.
2010

Mr. Bahri Nuredini


Finance Manager
P.I.A.J.S.C.

See accompanying notes to the consolidated financial statements

Consolidated statement of income

		(In '000 Euro)	
	Notes	Year ended 31 December	
		2008	2007
Operating revenue			
Passenger fees		10,218	8,944
Handling fees		6,162	5,660
Landing fees		3,518	3,230
Military traffic		753	735
Other operating income		2,746	2,880
		23,397	21,449
Operating costs	15	(14,811)	(16,912)
Operating profit		8,586	4,537
Financial income	16	228	272
Finance costs	16	(424)	(103)
Financial result, net		(196)	169
Profit before income tax		8,390	4,706
Income tax expense	17	(1,713)	(1,330)
Net profit for the year		6,677	3,376

Consolidated Financial Statements
31 December 2008

Consolidated statement of changes in equity

	Share capital	Share premium	Retained Earnings	(In '000 EUR) Total
At 01 January 2007	18,000	13,706	475	32,181
Profit for the year	-	-	3,376	3,376
At 31 December 2007	18,000	13,706	3,851	35,557
At 01 January 2008	18,000	13,706	3,851	35,557
Profit for the year	-	-	6,677	6,677
At 31 December 2008	18,000	13,706	10,528	42,234

Consolidated Financial Statements
31 December 2008

Consolidated statement of cash flows

	Notes	(In '000EUR)	
		Year ended 31 December 2008	2007
Operating activities			
Net profit before income tax		8,390	4,706
Adjustments for:			
Provision for doubtful receivables		121	26
Write off property, plant and equipment		-	137
Finance result, net		196	(169)
Depreciation and amortization		2,403	2,563
<i>Operating profit before working capital changes</i>		<i>11,110</i>	<i>7,263</i>
<i>Changes in operating assets</i>			
Changes in inventories		(99)	163
Changes in trade and other receivables		(1,593)	2,114
Changes in trade and other payables		1,090	(952)
		10,508	8,588
Financial costs paid		(196)	169
Income taxes paid		(2,220)	(765)
		8,092	7,992
Investment activities			
Purchase of property, plant and equipment		(6,936)	(6,207)
Purchase of intangible assets		(17)	-
		(6,953)	(6,207)
Financial activities			
Proceeds from loans		3,436	2,362
Loan repaid		-	(11,000)
		3,436	(8,638)
Net change in cash and cash equivalents		4,575	(6,853)
Cash and cash equivalents at beginning	11	5,948	12,801
Cash and cash equivalents at end	11	10,523	5,948

See accompanying notes to the consolidated financial statements

Notes to the consolidated financial statements

1 General

Prishtina Airport (Public Enterprise) was transformed into a Joint Stock Company (J.S.C.) under United Nations Interim Administration Mission in Kosovo (“UNMIK”) regulation No. 2001/6 and its name was changed to Prishtina International Airport Holding J.S.C. (further referred as to “the Company”) on 23 June 2005 and with effect from 01 January 2005. A wholly owned subsidiary, Prishtina International Airport J.S.C. (the “Subsidiary”) was established on the same date.

On 13 June 2008, the Assembly of the Republic of Kosovo adopted the Law on Publicly Owned Enterprises (Law No.03/L-087), and based on provision of section 3 of this Law, central publicly owned enterprises, including PIA Holdings J.S.C., are owned by the Republic of Kosovo. Government of the Republic of Kosovo, through the Ministry of Economy and Finance, has the exclusive authority to exercise the shareholder’s rights over the publicly owned enterprises.

The charter capital of the Holding Company amounts to Euro 18 million divided into 18 million ordinary shares with face value of Euro 1 which was issued to Kosovo Trust Agency (KTA), as trustee for UNMIK in accordance with UNMIK regulation No 2002/12 as amended by UNMIK regulation No 2005/18 on the establishment of KTA.

The initial charter capital of the Subsidiary amounts to Euro 25 thousand and is fully contributed in kind by the Holding Company through a resolution dated 28 June 2005. On the same date the capital was increased to Euro 18 million in exchange for the transfer of the trade, contracts, all assets and liabilities effective from 01 January 2005 through the declaration of subscription and agreement for Prishtina International Airport J.S.C. and the execution of a deed of transfer of real property dated 30 June 2005.

As at 01 January 2005 the current assets were valued at fair value and non-current assets at depreciated cost less impairment to form the opening net assets of the Group (the Holding Company and the Subsidiary).

Since November 1999 UNMIK has overall financial and strategic management of Prishtina Airport. With the establishment of the KTA in the mid of 2002, it took over responsibility for the administration of the airport. All operation on the airfield and airspace had been run by KFOR (Kosovo Force, a NATO – led international force responsible for establishing and maintaining security in Kosovo).

Notes to the consolidated financial statements (continued)
General (continued)

A handover to civil UNMIK authority occurred on 01 April 2004. In addition, at that time it was determined that KFOR should be charged for landing and handling military flights. These services were not chargeable previously.

In accordance with the agreement between UNMIK and Government of the Republic of Iceland acting through Civil Aviation Administration (ICAA), signed on 01 April 2004 the latter is responsible to ensure, in cooperation with Civil Aviation Regulatory Office for Kosovo ("CARO") established by UNMIK, that Prishtina International Airport J.S.C. is in compliance with relevant ICAO (International Civil Aviation Organization) standards and recommended practices.

The consolidated financial statements of the Company as of and for the year ended 31 December 2008 and 2007 comprise the Company and its Subsidiary ("The Group").

At the date of this report the Company has 637 employees (2007: 581 employees).

2 Accounting policies

The principal accounting policies adopted in preparation of these consolidated financial statements are set out below:

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense. The measurement basis are more fully described in the accounting policies below.

The preparation of these consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4: Critical accounting estimates and judgments.

The consolidated financial statements have been prepared as of and for the years ended 31 December 2008 and 2007. Current and comparative data stated in these consolidated financial statements are expressed in thousand Euros. Where necessary, comparative figures have been reconciled to conform with changes in presentation for the year.

2.2 Basis of consolidation

The consolidated consolidated financial statements incorporate the consolidated financial statements of the Holding Company and the entity controlled by the Company (its Subsidiary). Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Intra-group transactions, balances and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing consolidated financial statements.

Notes to the consolidated financial statements (continued)
Accounting policies (continued)

2.3 Standards and Interpretations effective in 2008

- **IFRIC 11 - IFRS 2 – Group and treasury share transactions**, provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Company's consolidated financial statements.
- **IFRIC 12 - Service concession arrangements**, applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Company's operations because the Company does not provide for public sector services.
- **IFRIC 13 - Customer loyalty programs**, clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. IFRIC 13 is not relevant to the Company's operations because the Company does not operate any loyalty programs.
- **IFRIC 14 - IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction**, provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation is not relevant to the Company's operations because the Company does not operate any defined benefit asset.

2.4 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2009 or later periods, but the Company has not early adopted them.

- **IFRS 8 - Operating segments** (effective from 1 January 2009), introduces the 'management approach' to segment reporting, under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard will have no effect on the Company's reported total profit or loss or equity. Currently the Company does not present segment information since there are no distinguishable business and geographical segments

Notes to the consolidated financial statements (continued)
Accounting policies (continued)

- **IAS 1 (Revised) - Presentation of financial statements** (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.
- **IAS 23 Borrowing Costs (Revised)** (effective from 1 January 2009). The revised standard removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the asset’s cost. In accordance with the transitional requirements, the Company will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Company’s 2009 consolidated financial statements.
- **IFRS 3 Business Combinations (Revised 2008)** (effective from 1 July 2009). The standard is applicable for business combinations occurring in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires use of the purchase method, and will have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.
- **IAS 27 Consolidated and Separate Financial Statements (Revised 2008)** (effective from 1 July 2009). The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Company’s interest in subsidiaries. Management does not expect the standard to have a material effect on the Company’s consolidated financial statements.
- **Amendments to IFRS 2 Share-based Payment** (effective from 1 January 2009). The IASB has issued an amendment to IFRS 2 regarding vesting conditions and cancellations. Management does not consider the amendments to have an impact on the Company’s accounting policies since the Company does not operate any share - based payment schemes
- **Annual Improvements 2008.** The IASB has issued Improvements for International Financial Reporting Standards 2008. Most of these amendments become effective in annual periods beginning on or after 1 January 2009. The Company does not expect these amendments to have any significant impact on the Companies consolidated financial statements.

Notes to the consolidated financial statements (continued)
Accounting policies (continued)

2.5 Foreign exchange translation

Transactions in foreign currencies are recorded in accordance with the valid exchange rate as of the date of the transaction. The differences are recorded in the income statement as gains/losses.

	31 December 2008	31 December 2007
1 USD	1.392 Euro	1.558 Euro

2.6 Property, plant and equipment

Property, plant and equipment as at 01 January 2005 are stated at deemed cost less accumulated depreciation and impairment, if any, whereas items of property, plant and equipment purchased subsequent to 01 January 2005 are stated at cost less accumulated depreciation and impairment, if any.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is carried at deemed cost and is not depreciated.

Depreciation is charged on a straight-line basis at prescribed rates in order to allocate the revalued cost of property, plant and equipment over their useful lives. In determining the depreciated replacement cost as at 01 January 2005 each asset was assigned a remaining useful life and is being depreciated over the revised estimated life.

The following are approximations of the annual depreciation rates applied to significant items of property, plant and equipment acquired after January 2005:

Land improvements	5-25%
Buildings	5%
Machinery and equipment	15-25%
Apartments	5%
Leasehold improvements	5-25%

Assets in construction were brought into the opening balance sheet at 01 January 2005 at cost less impairment and are to be depreciated from the time the assets are completed or ready to use.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Notes to the consolidated financial statements (continued)
Accounting policies (continued)

2.7 Leasehold improvements

The Company does not hold legal title to certain major assets, such as the runways, taxiways and aprons. The Company has invested significant amounts in the maintenance of these facilities and plans to invest significant amounts in the future. The expenditure to date is classified as leasehold improvements and is stated at depreciated replacement cost remaining useful life assigned at 01 January 2005. The leasehold improvements subsequent to this date are being depreciated at 5-25% on a straight line basis.

2.8 Intangible assets

Intangible assets, which comprise of software licenses, are stated at depreciated replacement cost less impairment. These costs are amortized on a straight-line basis over their estimated remaining useful lives. The annual amortization rates used for intangible acquired after 01 January 2005 are between 11% to 20%.

2.9 Impairment of non-financial assets

Property, plant and equipment, as well as intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

2.10 Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables and available for sale financial assets. Management determines the classification of its investments at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets. The Company has no assets classified in this category.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. Company's loans and receivables at the balance sheet date consist of trade and other receivables as well as cash and cash equivalents.

c) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Notes to the consolidated financial statements (continued)
Accounting policies (continued)

Financial assets (continued)

Purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other losses/gains, net. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available for sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available for sale equity instruments are recognised in the income statement as part of other income when the group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in this Note.