

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.

**INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED DECEMBER 31, 2007

	Page
INDEPENDENT AUDITOR'S REPORT	
CONSOLIDATED FINANCIAL STATEMENTS:	
CONSOLIDATED BALANCE SHEET	3
CONSOLIDATED STATEMENT OF OPERATIONS	4
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	5
CONSOLIDATED CASH FLOW STATEMENT	6
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	7- 21

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management of Prishtina International Airport Holdings J.S.C.

We were engaged to audit the accompanying consolidated financial statements of Prishtina International Airport Holdings J.S.C. (the "Company") which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated statement of operations, consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the consolidated financial statement

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 the 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 - Scope limitation

1. As discussed in note 19 to the 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 August 22, 2008 terminated their working contracts. Based on management representation, we understand that the allegations against those two employees are still being investigated and no formal charges are raised against them yet. In the absence of details of the fraudulent act, if any, and in the 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.
2. The Company implemented new accounting software from November 1, 2006. Before that date accounting records were maintained in excel spread sheets. Accounting records for the period from January 1, 2006 to October 31, 2006 and balances as at that date were migrated directly from excel spread sheets to the new accounting software. In the absence of detailed general ledger, inventory ledger and related sub ledgers, the Company's accounting records did not provide sufficient and reliable evidence supporting the balances and transactions. Owing to the nature of the Company's records and in the absence of alternative audit procedures, we were unable to satisfy ourselves regarding the existence, accuracy and completeness of balances and transactions as at and for the year ended December 31, 2006. Further since opening balances enter into the determination of the results of operations for current year, we were unable to determine whether adjustments might be necessary to the statement of operations for the year ended December 31, 2007.

Deloitte.

3. The Company recorded operating revenue from sales of goods and services for the year ended December 31, 2006 amounting to EUR 18,791 thousand. Owing to the lack of adequate systems of internal control and proper general ledger and sales ledger up to October 31, 2006, we were unable to satisfy ourselves as to whether revenue from sale of goods and services have been properly accounted for the year ended December 31, 2006 and the resulting impact, if any, due to possible cut off errors, on the statement of operations for the year ended December 31, 2007.
4. As detailed in note 9 to the 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 as at December 31, 2007 was EUR 1,098 thousand (December 31, 2006: EUR 636 thousand). As detailed in note 18 to these consolidated financial statements, under a letter from Ministry of Economy and Finance dated March 20, 2009, the Ministry has no authority and control over Pro Credit bank account. Owing to the nature of the Company's records and in the absence of alternate audit procedures, 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 statement of operations as at and for the year ended December 31, 2007 and 2006.
5. The Company has not recognized a deferred tax asset or liability as required by International Accounting Standard (IAS) No. 12 "Income Taxes". Owing to the nature of the Company's records and in the absence of alternative audit procedures, we were unable to determine the extent of the adjustment, if any, as at December 31, 2007 and 2006 that would be required to record a deferred tax asset or liability in accordance with the provisions of IAS 12.
6. As detailed in note 12 to the consolidated financial statements, included in other payables is an amount of EUR 200 thousand for provision of unexpected expenses as at December 31, 2007. We have not been provided with any supporting documentation for this balance ,and in the absence of alternative audit procedures, we were unable to satisfy ourselves as to the accuracy of the provision amounting to EUR 200 thousand as at December 31, 2007 and the resulting impact on the statement of operations for the year ended December 31, 2007.

Disagreement with management

7. As at December 31, 2007, the Company has not provided the disclosures for financial instruments, which is a departure from the International Financial Reporting Standards (IFRS) 7 – Financial Instruments: Disclosures.
8. In previous periods the Company has accounted for an interest free loan as detailed in note 11, at the amount received from Ministry of Economy and Finance. IAS 39 Financial Instruments: Recognition and Measurement requires that such loan be measured at its fair value at the time of initial recognition and subsequent to initial recognition at amortized cost using the effective interest rate method. In our opinion, the practice adopted by the Company is not in accordance with IAS 39. Had the Company adopted IAS 39 for recording of loan using fair value at the time of initial recognition and subsequently the effective interest rate method of measurement, the interest expense for the year ended December 31, 2007 would have increased by EUR 455 thousand and liability for loan interest and interest expense would have increased by EUR 958 thousand as of and for the year ended December 31, 2006.

Deloitte.

9. As detailed in note 3(n) and note 13 to the consolidated financial statements, included in the consultancy costs are certain expenses charged by SWEDAVIA under Schedule VIII of the contract between UNMIK and Iceland Civil Aviation Administration, amounting to EUR 1,458 thousand and EUR 1,561 thousand for the years ended December 31, 2007 and 2006 respectively. During 2005 similar costs amounting to EUR 1,510 thousand were capitalized as assets in construction, which practice, in our opinion, was not in accordance with IFRS. Had the Company recorded 2005 costs as operating expenses, property, plant and equipment and accumulated profit would have reduced by EUR 1,510 thousand as at December 31, 2007 and 2006.

Because of the significance of the matters discussed in preceding paragraphs 1 to 6 we do not express, an opinion on the accompanying consolidated financial statements.

Deloitte Kosova sh.p.k

Deloitte Kosova sh.p.k

Prishtina, Kosovo

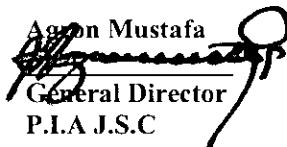
February 9, 2009


PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2007

(All amounts are expressed in thousand EUR, unless otherwise specified)

	Note	December 31, 2007	December 31, 2006
ASSETS			
Non-current assets			
Property, plant and equipment	4	31,297	26,298
Intangible assets	5	243	290
Advances for capital expenditures	6	258	1,703
		<u>31,798</u>	<u>28,291</u>
Current assets			
Inventories	7	607	770
Trade and other receivables	8	2,984	5,124
Cash and cash equivalents	9	5,948	12,801
		<u>9,539</u>	<u>18,695</u>
Total assets		<u>41,337</u>	<u>46,986</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	18,000	18,000
Share premium		13,706	13,706
Accumulated profit		3,851	475
		<u>35,557</u>	<u>32,181</u>
Non-current liabilities			
Borrowings – non current portion	11	2,362	-
		<u>2,362</u>	<u>-</u>
Current liabilities			
Borrowings – current portion	11	-	11,000
Trade and other payables	12	2,551	3,503
Current tax liabilities		867	302
		<u>3,418</u>	<u>14,805</u>
Total equity and liabilities		<u>41,337</u>	<u>46,986</u>

Authorised for issue on behalf of board of directors on February 9, 2009:

Agon Mustafa

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

Bahri Nuredini

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

The accompanying notes 1 to 19 form an integral part of these consolidated financial statements.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007
 (All amounts are expressed in thousand EUR, unless otherwise specified)

	Note	Year ended December 31, 2007	Year ended December 31, 2006 (see note 1)
Operating revenue			
Handling fees		5,660	5,247
Landing fees		3,230	2,950
Passenger fees		8,944	7,439
Military traffic		735	874
Other commercial income		2,212	2,281
		20,781	18,791
Operating costs	13	(16,912)	(16,964)
Operating profit		3,869	1,827
Other income		940	370
Finance costs		(103)	(47)
Profit before income tax		4,706	2,150
Income tax expense	14	(1,330)	(398)
Net profit for the year		3,376	1,752

The accompanying notes 1 to 19 form an integral part of these consolidated financial statements

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007
 (All amounts are expressed in thousand EUR, unless otherwise specified)

	Share capital	Share premium	Accumulated profit/(loss)	Total
Balance as at January 1, 2006	18,000	13,706	(1,277)	30,429
Net profit for the year	-	-	1,752	1,752
Balance as at January 1, 2007	<u>18,000</u>	<u>13,706</u>	<u>475</u>	<u>32,181</u>
Net profit for the year	-	-	3,376	3,376
Balance as at December 31, 2007	<u><u>18,000</u></u>	<u><u>13,706</u></u>	<u><u>3,851</u></u>	<u><u>35,557</u></u>

The accompanying notes 1 to 19 form an integral part of these consolidated financial statements.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

	Note	Year ended December 31, 2007	Year ended December 31, 2006
Cash flows from operating activities:			
Net profit before income tax		4,706	2,150
Adjustments for:			
Provision for doubtful receivables		26	327
Write off of property, plant and equipment		137	-
Finance costs		103	47
Depreciation and amortization	4, 5	2,563	2,564
Operating profit before working capital changes		7,535	5,088
Decrease/(increase) in inventories		163	(84)
Decrease in trade and other receivables		2,114	464
(Decrease) in trade and other payables		(952)	(232)
		8,860	5,236
Finance costs paid		(103)	(47)
Income taxes paid		(765)	(421)
Net cash generated from operating activities		7,992	4,768
Cash flows from investing activities:			
Purchase of property, plant and equipment	4	(6,207)	(6,227)
Change in advances for capital expenditure		-	(1,703)
Purchase of intangible assets		-	(80)
Net cash used in investing activities		(6,207)	(8,010)
Cash flows from financing activities:			
Loan obtained during the year		2,362	-
Loan repaid during the year		(11,000)	-
Net cash used in financing activities		(8,638)	-
Net (decrease) in cash and cash equivalents during the year		(6,853)	(3,242)
Cash and cash equivalents at the beginning of the year		12,801	16,043
Cash and cash equivalents at the end of the year	9	5,948	12,801

The accompanying notes 1 to 19 form an integral part of these consolidated financial statements.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

1. INTRODUCTION

Prishtina Airport (Public Enterprise) was transformed into a Joint Stock Company (J.S.C.) under United Nation Interim Administration Mission in Kosovo ("UNMIK") regulation No. 2001/6 and its name was changed to Prishtina International Airport Holdings J.S.C. (the "Company") on June 23, 2005 and with effect from January 1, 2005. A wholly owned subsidiary, Prishtina International Airport J.S.C. (the "Subsidiary") was established on the same date. The principal activities of the Company and its Subsidiary (the "Group") are described below.

The charter capital of the holding company is EUR 18 million divided into 18 million ordinary shares with face value of EUR 1 each which was issued to the 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 was EUR 25 thousand fully contributed in kind by the Holding Company through a resolution dated June 28, 2005. On the same date the capital was increased to EUR 18 million in exchange for the transfer of the trade, contracts, all assets and liabilities effective from January 1, 2005 through the declaration of subscription and agreement for Prishtina International Airport J.S.C. and the execution of a deed of transfer regarding the transfer of real property dated June 30, 2005.

As at January 1, 2005 the current assets were valued at fair value and the non-current assets at depreciated replacement 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 operations 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). A handover to the civil UNMIK authority occurred on April 1, 2004. In addition, at that time it was determined that KFOR should be charged for landing and handling of military flights. These services were not chargeable previously.

In accordance with the Agreement between UNMIK and Government of Republic of Iceland, acting through the Icelandic Civil Aviation Administration (ICAA), signed on April 1, 2004, the latter is responsible to ensure, in cooperation with Civil Aviation Regulatory Office for Kosovo ("CARO"), established by UNMIK that Prishtina International Airport Holdings J.S.C. is in compliance with relevant ICAO (International Civil Aviation Organization) standards and recommended practices.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

2. STATEMENT OF COMPLIANCE AND ADOPTION OF NEW AND REVISED STANDARDS

2.1 Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

2.2 Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities.

These consolidated financial statements are presented in thousands of Euro ("EUR"), the currency designated to be used in Kosovo for all budgets, financial records and accounts and for all payments, including compulsory payments.

The presentation of these consolidated financial statements in conformity with IFRS requires the management of the Group to make judgement about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and their reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Holding Company and the entity controlled by the company (its Subsidiary). Control is achieved where the company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2.4 Standards and Interpretations effective in the current period

In the current year, the Company has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after January 1, 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

2.5 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009),
- IFRS 3 (revised) "Business Combinations" (effective for annual periods beginning on or after 1 July 2009),
- IFRS 1 (revised) "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009),

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

2. STATEMENT OF COMPLIANCE AND ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.5 Standards and Interpretations in issue not yet adopted (continued)

- Amendments to IAS 27 “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IFRS 1 “First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements” – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009),
- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009),
- IAS 1 (revised) “Presentation of Financial Statements” – A revised presentation (effective for annual periods beginning on or after 1 January 2009),
- IAS 23 (revised) “Borrowing Costs” (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 2 “Share-based Payment” – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement” -Embedded Derivatives (effective for annual periods ending on or after 30 June 2009),
- IFRIC 13 “Customer Loyalty Programmes” (effective for annual periods beginning on or after 1 July 2008),
- IFRIC 15 “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after 1 January 2009),
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after 1 October 2008),
- IFRIC 17 “Distributions of Non-Cash Assets to Owners” (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 18 “Transfers of Assets from Customers” (effective for transfer of assets from customers received on or after 1 July 2009).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency translation

Transactions denominated in currencies other than EUR are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in currencies other than EUR are included in the statement of operations using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in currencies other than EUR are translated into EUR at the mid market exchange rate at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statement of operations as foreign exchange translation gains less losses. The principal rates of exchange used for translating balances of EUR to USD were:

	December 31, 2007	December 31, 2006
1 USD	1.558	1.320

(b) Property, plant and equipment

Items of property plant and equipment as at January 1, 2005 are stated at deemed cost less accumulated depreciation and impairment, if any, whereas items of property plant and equipment purchased subsequent to January 1, 2005 are stated at cost less accumulated depreciation and impairment if any.

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

Land is carried at deemed cost and is not depreciated.

Depreciation is provided on a straight-line basis. In determining the depreciated replacement cost as at January 1, 2005 each asset was assigned a remaining useful life and is being depreciated over the revised estimated life. The annual depreciation rates used for the major categories of assets acquired after January 1, 2005 are as follows:

	Depreciation rates used
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 January 1, 2005 at cost less impairment and are to be depreciated from the time the assets are completed or ready for use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the statement of operations.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Leasehold improvements

The Company does not hold legal title to certain major assets, such as the runways, taxiways and aprons and the lease agreements have still to be agreed and signed. The group has however 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 less impairment. In determining the depreciated replacement cost each asset is being depreciated over the remaining useful life assigned at January 1, 2005. The leasehold improvements subsequent to this date are being depreciated at 5 - 25% on a straight line basis.

(d) Intangible assets

Intangible assets, which comprise 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 assets acquired after January 1, 2005 are between 11% to 20%.

(e) Impairment of tangible and intangible assets excluding goodwill

Impairment of the Group's assets is assessed based on the provisions of IAS 36 "Impairment of Assets". IAS 36 requires an impairment loss to be recognised whenever the carrying value of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its net selling price and value in use. Value in use of an asset is the present value of estimated future cash flows expected from the continuing use of an asset and from its disposal.

(f) Advances for capital expenditures

Advances for capital expenditures are carried at the order value of the related capital items.

(g) Inventories

Materials, spare parts and consumables are stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of the business, less applicable variable selling expenses. Cost is determined using the first-in, first-out (FIFO) method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition.

(h) Trade and other receivables

Trade and other receivables are stated at their recoverable amounts. Recoverable amounts are estimated taking into account potential delays and defaults on payments.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits with banks. For cash flow purposes cash and cash equivalents represent cash on hand and unrestricted deposits at banks with a maturity period of three months or less.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Borrowings

Borrowings represent the loans obtained from financial institutions and are measured at their fair value at the time of initial recognition and subsequent to initial recognition at amortized cost using the effective interest rate method.

(k) Taxation

Taxation has been provided for in the financial statements in accordance with Kosovo tax regulations currently in force (Administrative Instruction 01/2005 on implementation of UNMIK regulation no. 2004/51 "On Corporate Income Tax", 2005/51 Amending UNMIK regulation 2004/51 ").

The income tax charge in the income statement for the year comprises current income tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates in force at the balance sheet date. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxes other than income taxes are recorded within operating expenses.

(l) Revenue recognition

Revenue represents the fair value of the sale of goods and services, net of value-added tax, rebates and discounts. Sales of services are recognised in the accounting period in which the services are rendered.

(m) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and transferred to statement of operations on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the statement of operations in the period in which they become receivable.

(n) Consultancy expenses

In accordance with the Agreement between UNMIK and Government of Republic of Iceland, acting through the Icelandic Civil Aviation Administration (ICAA), signed on April 1, 2004, the latter is responsible to ensure, in cooperation with Civil Aviation Regulatory Office for Kosovo ("CARO"), established by UNMIK that Prishtina International Airport Holdings J.S.C. is in compliance with relevant ICAO (International Civil Aviation Organization) standards and recommended practices.

Such costs as charged by ICAA are recorded as operating expenses as and when they accrue.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Employee benefits

The Group makes no provision and has no obligation for employee pensions over and above the contributions paid into the Kosovo state pension scheme.

(p) Fair value of financial instruments

Financial instruments carried in the balance sheet include cash and bank balances, receivables, and payables. The carrying amounts of these financial instruments approximate to their fair value. Fair value is the amount for which a financial instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction.

(q) Financial risk management

Exposure to credit, interest rate and currency risk arises in the normal course of the company's business.

Credit risk

Financial assets, which potentially subject the company to concentrations of credit risk, consist principally of trade receivables. The company is primarily exposed to credit risk in the event where its customers fail to perform their obligations. Trade receivables owed from non-scheduled airline traffic are partially safeguarded by bank deposits from the airlines concerned.

Interest rate risk

The Company is exposed to interest rate risk through its borrowings having variable interest rate (linked with EURIBOR).

Foreign currency risk

The Company is not exposed to foreign currency risk as majority of the transactions including borrowings, sales and purchases are in EUR.

(r) Corresponding figures

Certain corresponding figures in "Operating costs" for the year ended December 31, 2006 have been reclassified within the same line item in order to conform to the current year financial statements presentation.

(s) Critical judgments in applying the Company's accounting policies

In the process of applying the Group's accounting policies, which are described in note 3 above, management has made no judgments on application of those accounting policies that have the significant effect on the amounts recognized in the consolidated financial statements.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANNCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below:

Provision of receivables

In normal course of business, the Group makes estimation for recovery and realisation of receivables. Based on this assessment, management records an appropriate provision for impairment of receivables. Actual results may differ from estimation.

Assessment of legal cases

In normal course of business, the Group makes estimation for settlement amounts of legal cases as guided by the legal counsel of the Group. On the basis of this estimation, the Group accordingly records the provisions, if any, or disclose the contingent liability. Actual results may differ from estimation.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2007

(All amounts are expressed in thousand EUR, unless otherwise specified)

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Buildings	Machinery & equipment	Apartments	Assets in construction	Leasehold improvement	Total
Cost:								
As at January 1, 2006	2,419	1,358	3,590	11,350	1,162	2,982	1,678	24,539
Additions during the year	2,782	470	274	194	-	2,507	-	6,227
Transfers	-	-	572	886	-	(1,458)	-	-
As at January 1, 2007	5,201	1,828	4,436	12,430	1,162	4,031	1,678	30,766
Additions during the year	1,349	39	174	694	-	5,396	-	7,652
Transfers	-	-	182	-	-	(197)	15	-
Write offs	-	(26)	(65)	(46)	-	-	-	(137)
As at December 31, 2007	6,550	1,841	4,727	13,078	1,162	9,230	1,693	38,281

Accumulated Depreciation:

As at January 1, 2006	-	(90)	(177)	(1,483)	(58)	-	(121)	(1,929)
Charge for the year	-	(96)	(195)	(2,026)	(58)	-	(164)	(2,539)
As at January 1, 2007	-	(186)	(372)	(3,509)	(116)	-	(285)	(4,468)
Charge for year	-	(109)	(233)	(1,950)	(58)	-	(166)	(2,516)
As at December 31, 2007	-	(295)	(605)	(5,459)	(174)	-	(451)	(6,984)

Net Book Value:

As at December 31, 2007	6,550	1,546	4,122	7,619	988	9,230	1,242	31,297
As at December 31, 2006	5,201	1,642	4,064	8,921	1,046	4,031	1,393	26,298

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2007
 (All amounts are expressed in thousand EUR, unless otherwise specified)

5. INTANGIBLE ASSETS

	Accounting Software
Cost:	
As at January 1, 2006	192
Additions	198
As at January 1, 2007	<u>390</u>
Write offs	(58)
As at December 31, 2007	<u>332</u>
Accumulated amortization:	
As at January 1, 2006	(75)
Charge for the year	(25)
As at January 1, 2007	<u>(100)</u>
Charge for the year	(47)
Write offs	58
As at December 31, 2007	<u>(89)</u>
Net book value:	
As at December 31, 2007	<u><u>243</u></u>
As at December 31, 2006	<u>290</u>

6. ADVANCES FOR CAPITAL EXPENDITURES

	2007	2006
As at January 1	1,703	118
Additions during the year	-	1,703
Transfer to intangible assets	-	(118)
Transfer to assets in construction	(1,445)	-
As at December 31	<u>258</u>	<u>1,703</u>

7. INVENTORIES

	December 31, 2007	December 31, 2006
Fuel	81	61
De-icing liquids and solids	119	282
Restaurant stores	-	8
Helium, gas, foam and powder	109	98
MET equipment spare parts	86	136
Spare parts for equipment and IT	114	110
Other	98	75
Total inventories	<u>607</u>	<u>770</u>

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
 (All amounts are expressed in thousand EUR, unless otherwise specified)

8. TRADE AND OTHER RECEIVABLES

	December 31, 2007	December 31, 2006
Trade receivables	1,803	2,248
Less: Allowances for doubtful receivables	(353)	(327)
	<u>1,450</u>	<u>1,921</u>
VAT receivables	1,529	3,027
Other receivables	5	175
Prepayments	-	1
Total trade and other receivables	<u>2,984</u>	<u>5,124</u>

Trade receivables are pledged against borrowings from a local bank (refer to note 11).

The movement on the provision for doubtful receivables is as follows:

	2007	2006
As at January 1	(327)	-
Provision made during the year	(26)	(327)
As at December 31	<u>(353)</u>	<u>(327)</u>

9. CASH AND CASH EQUIVALENTS

	December 31, 2007	December 31, 2006
Cash and banks:		
Main accounts	5,522	12,122
Airline deposit guarantee account (note below)	422	678
Cash on hand	<u>4</u>	<u>1</u>
Total cash and cash equivalents	<u>5,948</u>	<u>12,801</u>

Airlines running non-scheduled flights to Airport Prishtina deposit EUR 100 thousand each as a payment guarantee. When the airline has entered into a contract with the airport and is running scheduled flights, the deposits are paid back. See also Note 13.

The balance and transactions relating to a bank account No. 1110-019243-0201-32 at Pro credit bank have not been accounted for and disclosed in these financial statements as the ownership of this account is disputed. The outstanding balance as at December 31, 2007 was of EUR 1,098 thousand (December 31, 2006 was EUR 636 thousand). Refer note 18 for details.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

10. SHARE CAPITAL

	December 31, 2007	December 31, 2006
Authorized, issued and paid up		
18 million ordinary shares with par value of EUR 1 each	<u>18,000</u>	<u>18,000</u>

The charter capital of the Company is EUR 18 million represented by 18,000,000 ordinary shares with face value of EUR 1 each. All shares representing the charter capital of the Company were issued to the KTA, as trustee in accordance with UNMIK regulation NO. 2002/12 as amended by UNMIK regulation NO.2005/18 on the establishment of KTA.

11. BORROWINGS

	December 31, 2007	December 31, 2006
Non-current portion:		
Borrowings from Reiffeissen Bank	2,362	-
Current portion:		
Borrowing from Ministry of Finance	-	11,000
	<u>2,362</u>	<u>11,000</u>

During August 2007, the Company signed a loan agreement with Reiffeissen Bank in Kosovo for an amount of EUR 13,500 thousand for the purpose of exclusively financing capital investment of upgrading the Airfield Electrics, Runway, Taxiway resurfacing and aircraft parking extension. As at December 31, 2007, loan obtained was in amount of EUR 2,362 thousand with interest rate of 6 month EURIBOR plus 5.75 % per annum. The Company has pledged to the lender all rights, titles and interest of its accounts receivables including, but not limited to, all due and non due cash and in-kind receivables. The loan is repayable in sixty (60) months from the date of disbursement till July 31, 2012 including a grace period of eighteen (18) months.

Previously the Company signed a loan agreement with the Ministry of Finance and Economy on June 23, 2005 and has received interest-free loan funds amounting to EUR 11 million from Kosova Consolidated Budget (KCB) on September 16, 2005. The term of the loan was 3 years starting from September 16, 2005 and was repayable in 3 instalments. As at December 31, 2007, the Company has fully repaid this loan.

12. TRADE AND OTHER PAYABLES

	December 31, 2007	December 31, 2006
Trade payables	922	670
Deposits from airlines	422	678
Payable to ICAA	210	1,570
Employees taxes and pension payable	184	78
Deferred rent revenue	35	57
Other payables	420	450
Retention money from suppliers	358	-
Total trade and other payables	<u>2,551</u>	<u>3,503</u>

Included in other payables is an amount of EUR 200 thousand, which the Company has recorded as Provision for unexpected expenses as at December 31, 2007.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

13. OPERATING COST

	Year ended December 31, 2007	Year ended December 31, 2006
Staff costs	6,618	6,513
Depreciation and amortization	2,563	2,564
Uniforms	119	72
Maintenance & equipment	267	264
Fuel	359	319
Electricity	144	111
Insurance and perimeter security	518	917
Consultancy	2,656	4,080
Telephone and communication	136	146
IT	486	405
Training	115	125
Travelling	282	215
Restaurant and bar supplies	208	185
Property tax	86	66
Provision for doubtful receivables and legal cases	465	327
De-icing liquids and solid	164	140
Other supplies and spare parts	408	259
Advertisement and marketing expenses	146	130
Others	1,172	126
Total costs	16,912	16,694

Included in 'Consultancy' is an amount of EUR 1,458 thousand (2006: EUR 1,561 thousand) for consultancy costs charged by SWEDAVIA under Schedule VIII of the Contract between UNMIK and Iceland Civil Aviation Administration. Further during 2007, included in 'others' is a penalty and custom duty of EUR 643 thousand related to purchase of radar from donated money by Kosovo Consolidated Budget.

14. INCOME TAX EXPENSE

	Year ended December 31, 2007	Year ended December 31, 2006
Net profit before income tax	4,706	2,150
Adjustments for:		
Depreciation and amortization for tax purpose	376	536
Tax penalties and customs duties not allowed	844	52
Provisions for doubtful receivables	26	291
Expenses not deductible for tax purposes	574	13
Write off of other assets	617	-
Loss brought forward	-	(774)
Revenue deducted at source	(490)	(274)
Tax base	6,653	1,994
Tax calculated at the rate of 20%	1,330	398

Business losses may be carried forward for five successive tax periods and shall be available as a deduction against any income in those years.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

15. CAPITAL AND OTHER COMMITMENTS

Capital expenditure contracted for at the balance sheet date but not recognized in the financial statements is as follows.

	December 31, 2007	December 31, 2006
Roads, communication and power supply equipment	3,900	10,000
ICAA professional services	2,100	3,611
Electrical Airfield Lighting System	5,882	-
Perimeter Road	590	-
TOTAL	<u>12,472</u>	<u>13,611</u>

As explained in Note 1, the work to achieve a proper certification for the airport is ongoing. ICAA is the responsible body in this respect, in accordance with the agreement with UNMIK. The Agreement with ICAA is renewable on annual basis.

16. RELATED PARTY TRANSACTIONS

Related parties consist of shareholders, directors and other key management of the Company, together with entities which they control or who can exert significant influence over the operations and management of the Company.

Since November 1999 UNMIK has assumed overall financial and strategic management of the enterprise. During 2000, UNMIK enacted the regulation for establishment of KTA (KTA), which took over the responsibility for administration of the airport. The administrative authority of KTA assumed direct control over PIA J.S.C., including appointing and replacing the chairman, directors and managers; and creating, confirming or recomposing the managing or supervisory body of the Company.

	Year ended December 31, 2007	Year ended December 31, 2006
Compensation of the key management personnel		
Short term benefit	42	48
Contribution to Kosovo Pension fund	2	2
	<u>44</u>	<u>50</u>

17. CONTINGENT LIABILITY

a) The tax authorities may at any time inspect the books and records to the reported tax years, and may impose additional tax assessments and penalties.

b) The project for building of perimeter fence and the new road to the Airport has given rise to pending and potential legal cases for expropriation of the land by the Company. No assessment currently has been made for these cases and no provision has been made in the accompanying financial statements related to this matter.

PRISHTINA INTERNATIONAL AIRPORT HOLDINGS J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(All amounts are expressed in thousand EUR, unless otherwise specified)

18. EVENTS AFTER THE BALANCE SHEET DATE

- a) Subsequent to balance sheet date, Kosovo has declared its independence on February 17, 2008. In accordance with Law No. 03/L-087 dated June 13, 2008 on "Law on Publicly Owned Enterprises", Prishtina International Airport J.S.C. is now owned by the Republic of Kosovo.
- b) During 2008 subsequent to the significant matter (refer note 19 below), the Board of Directors (BoD) existing at that time was dissolved and a BoD was established, which worked till mid of September 2008. Management believes that the new BoD will be appointed very soon.
- c) Under a letter from Ministry of Economy and Finance (the "Ministry") dated March 20, 2009, the Ministry has no authority and control over Procredit bank account number 1110-019243-0201-32. The Company intends to resolve this matter into the financial statements of 2008.

19. SIGNIFICANT MATTER

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, under investigation done by the Government of Kosovo. The Company initially suspended both the employees and later through a decision of the Board of Directors dated August 22, 2008 terminated their working contracts. Based on oral communication by the management, the allegations against those two employees are still being investigated and no formal charges are led against them yet.