

**PUBLIC COMPANY
“PUTEVI REPUBLIKE SRPSKE”
BANJA LUKA**

**Independent Auditors’ Report and
Financial Statements
For the Year Ended December 31, 2008**

**PUBLIC COMPANY
PUTEVI REPUBLIKE SRPSKE, BANJA LUKA**

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INDEPENDENT AUDITORS' REPORT

To the Owner and Supervisory Board of the Public Company "Putevi Republike Srpske," Banja Luka

We have audited the accompanying financial statements (pages 4 to 49) of the Public Company "Putevi Republike Srpske," Banja Luka (the "Company"), which comprise the balance sheet as of December 31, 2008, and the income statement, statement of changes in equity, and cash flows statement for the year then ended, as well as a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Owner and Supervisory Board of the Public Company "Putevi Republike Srpske," Banja Luka (Continued)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Public Company "Putevi Republike Srpske," Banja Luka as of December 31, 2008, and its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following matters:

- a) As disclosed in Note 5 to the financial statements, in the course of 2007, the Supreme Office for the Republic of Srpska Public Sector Auditing (hereinafter: the "Supreme Audit Office") audited the Company's business operations in 2006 and its financial statements prepared as of and for the year ended December 31, 2006. In its auditors' report dated December 7, 2007, the Supreme Audit Office expressed an adverse opinion on the Company's financial statements for the year 2006. Based on the forgoing report, the Company's management submitted to the Supreme Audit Office and its Founder (the Republic of Srpska Government) the Plan of Action for the implementation of recommendations provided in the report of the Supreme Audit Office and acted upon certain recommendations provided therein. In addition, the Republic of Srpska Ministry of Finance (the "Ministry") submitted to the Company its Opinion regarding the Company's proposal for the implementation of one of the pending recommendations made by the Supreme Audit Office pertinent to the increase of the Company's core capital from revaluation reserves. In its Opinion, the Ministry did not give its consent to the Company to commence the aforementioned process of capital increase. Based on the information made available, as of the issuance date of this Report, it was not practical to assess with any certainty the potential effects of the non-compliance with the Report issued by the Supreme Audit Office, on the Company's financial statements for the year 2008.
- b) As disclosed in Note 33 to the financial statements, as of January 28, 2009, the Government of Republic of Srpska formed the Public Company "Autoputevi Republike Srpske," Banja Luka. Until the issuance of these financial statements, the founder of both companies (the Republic of Srpska Government) did not define whether the portion of investments relating to road construction in the Republic of Srpska, as recorded in the Company's financial statements as intangible assets in progress in the total amount of CM 160,086,717 (Note 14) will be transferred to the newly-founded company and whether these matters will impact the Company's financial statements. The Company's management assesses that the aforementioned uncertainty in respect of the allocation of a portion of the Company's assets and liabilities to the newly-founded entity Autoputevi RS will not have significant adverse effects on the Company and therefore, it does not anticipate that any material losses shall be incurred in the forthcoming period on these grounds.
- c) As disclosed in Note 1 to the financial statements, the Company was established and organized as a public company in accordance with the provisions of the Law on Public Enterprises, where the Government of the Republic of Srpska was the sole founder with 100% equity interest, and was not organized as any of the legal forms of business entities defined under the Law on Enterprises (a shareholding company or a limited liability company). The procedure of obtaining the consent for the aforementioned status change from the Company's founder and the process of harmonization with the newly-enacted Law on Enterprises are underway.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Owner and Supervisory Board of the Public Company "Putevi Republike Srpske," Banja Luka (Continued)

Emphasis of Matter (Continued)

- d) As disclosed in Note 30 to the financial statements, the Company signed several loan agreements with the European Bank for Reconstruction and Development (EBRD) and with the European Investment Bank (EIB) obtaining the total of CM 325,465,563. Until the preparation of the financial statements for the year 2008, out of the total amount of loans approved, the Company drew CM 46,025,106. The undrawn portion of the loan as of December 31, 2008 amounted to CM 279,440,457.



Deloitte d.o.o.
Banja Luka,
May 14, 2009

**PUBLIC COMPANY
“PUTEVI REPUBLIKE SRPSKE,” BANJA LUKA**

**INCOME STATEMENT
Year Ended December 31, 2008
(in CM)**

| | <u>Note</u> | <u>2008</u> | <u>2007</u> <i>Restated</i> |
|---|-------------|-------------------------|--------------------------------|
| Operating income | | | |
| Fee and commission income | 7 | 87,430,893 | 79,596,506 |
| Other operating income | 8 | 20,645,497 | 15,020,560 |
| | | <u>108,076,390</u> | <u>94,617,066</u> |
| Operating expenses | | | |
| Main and regional road maintenance expenses | | (61,553,453) | (35,846,249) |
| Local road maintenance expenses | | (20,662,000) | (14,457,890) |
| Other materials, fuel and energy | 9 | (150,133) | (125,523) |
| Staff costs | 10 | (3,398,416) | (2,980,308) |
| Depreciation and amortization | 14, 16 | (9,728,348) | (12,621,552) |
| Cost of provisions | 26, 27 | (517,279) | (525,333) |
| Other operating expenses | 11 | (2,419,518) | (4,550,638) |
| | | <u>(98,429,147)</u> | <u>(71,107,493)</u> |
| Profit from operations | | <u>9,647,243</u> | <u>23,509,573</u> |
| Finance income/(expenses) | | | |
| Finance income | 12 | 1,906,354 | 579,044 |
| Finance expenses | 13 | (2,419,634) | (519,443) |
| | | <u>(513,280)</u> | <u>59,601</u> |
| Profit before taxes | | 9,133,963 | 23,569,174 |
| Income tax expense | 3.11 | - | - |
| Profit for the year | | <u><u>9,133,963</u></u> | <u><u>23,569,174</u></u> |

The accompanying notes form an integral part of
these financial statements.

The Company's management adopted the financial statements of the Public Company "Putevi Republike Srpske," Banja Luka on February 28, 2009.

Signed on behalf of the Company:

Mladen Lazendić,
Director

Zdravko Soldat,
Chief Financial Officer

**PUBLIC COMPANY
“PUTEVI REPUBLIKE SRPSKE,” BANJA LUKA**

**BALANCE SHEET
As of December 31, 2008
(in CM)**

| | Notes | December 31, 2008 | December 31, 2007 <i>Restated</i> |
|---|-------|----------------------|---|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 14 | 4,871,010,966 | 4,777,623,843 |
| Advances for intangible assets | 15 | 38,233,462 | 280,725 |
| Property and equipment | 16 | 5,204,628 | 5,071,555 |
| Long-term receivables | | 7,529 | 15,058 |
| | | 4,914,456,585 | 4,782,991,181 |
| Current assets | | | |
| Inventories | | - | 119,465 |
| Advances paid | | 2,594 | 20,118 |
| Accounts receivable | 17 | 28,024 | 8,036 |
| Short-term financial placements | 18 | 38,400,000 | 23,300,000 |
| Other receivables and prepayments | 19 | 3,142,214 | 504,582 |
| Cash and cash equivalents | 21 | 21,227,065 | 19,928,795 |
| | | 62,799,897 | 43,880,996 |
| Total assets | | 4,977,256,482 | 4,826,872,177 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| State-owned capital | 22 | 159,800,540 | 159,800,540 |
| Revaluation reserves | 23 | 4,447,954,094 | 4,447,954,094 |
| Legal reserves | | 751,394 | 751,394 |
| Retained earnings | | 33,072,372 | 23,938,409 |
| | | 4,641,578,400 | 4,632,444,437 |
| Long-term liabilities and provisions | | | |
| Long-term borrowings | 24 | 64,844,191 | 43,273,754 |
| Deferred income | 25 | 229,790,864 | 119,939,314 |
| Employee benefits | 26 | 126,200 | 123,395 |
| Provisions | 27 | 12,869,093 | 11,045,902 |
| | | 307,630,348 | 174,382,365 |
| Current liabilities | | | |
| Current portion of long-term liabilities | 24 | 7,847,582 | 6,666,667 |
| Accounts payable | 28 | 16,922,029 | 12,616,389 |
| Other current liabilities and accruals | 29 | 3,278,123 | 762,319 |
| | | 28,047,734 | 20,045,375 |
| Total equity and liabilities | | 4,977,256,482 | 4,826,872,177 |

The accompanying notes form an integral part of
these financial statements.

PUBLIC COMPANY
“PUTEVI REPUBLIKE SRPSKE,” BANJA LUKA

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2008
(in CM)

| | State- Owned Capital | Revaluation Reserves | Legal Reserves | Retained Earnings | Total |
|--|-------------------------------------|---------------------------------|---------------------------|------------------------------|----------------------|
| <i>Restated</i> | | | | | |
| Balance at January 1, 2007 | 159,800,540 | 4,447,954,094 | 751,394 | 369,235 | 4,608,875,263 |
| Net profit for the year, restated | - | - | - | 23,088,917 | 23,088,917 |
| Opening balance adjustment (Note 6) | - | - | - | 480,257 | 480,257 |
| Balance at December 31, 2007 (restated) | <u>159,800,540</u> | <u>4,447,954,094</u> | <u>751,394</u> | <u>23,938,409</u> | <u>4,632,444,437</u> |
| Balance at January 1, 2008 | 159,800,540 | 4,447,954,094 | 751,394 | 23,938,409 | 4,632,444,437 |
| Net profit for the year | - | - | - | 9,133,963 | 9,133,963 |
| Balance at December 31, 2008 | <u>159,800,540</u> | <u>4,447,954,094</u> | <u>751,394</u> | <u>33,072,372</u> | <u>4,641,578,400</u> |

The accompanying notes form an integral part of
these financial statements.

CASH FLOW STATEMENT
Year Ended December 31, 2008
(in CM)

| | 2008 | 2007 |
|--|----------------------|----------------------|
| | | <i>Restated</i> |
| Cash flows from operating activities | | |
| Cash receipts and advances from customers | 87,238,618 | 82,444,368 |
| Other cash receipts | 2,251 | 13,774,517 |
| Cash and advances paid to suppliers for road maintenance and other costs | (79,683,196) | (40,900,601) |
| Cash paid to and on behalf of employees | (3,618,544) | (2,818,377) |
| Interest paid | (4,595,938) | (519,254) |
| Receipts from other duties payable | (3,300,283) | (289,463) |
| <i>Net cash (used in)/provided by operating activities</i> | <i>(3,957,092)</i> | <i>51,691,190</i> |
| Cash flows from investing activities | | |
| Interest received | 1,805,852 | 527,454 |
| Purchases of property, plant and equipment and intangible assets | (134,581,434) | (98,530,868) |
| Long-term financial placements (inflows) | 7,529 | 7,529 |
| Short-term financial placements (outflows) | (15,100,000) | (15,800,000) |
| <i>Net cash used in investing activities</i> | <i>(147,868,053)</i> | <i>(113,795,885)</i> |
| Cash flows from financing activities | | |
| Increase in grants | 130,372,063 | 40,862,831 |
| Inflows from long-term financial liabilities | 22,751,352 | 27,827,132 |
| <i>Net cash provided by financing activities</i> | <i>153,123,415</i> | <i>68,689,963</i> |
| Net increase in cash and cash equivalents | 1,298,270 | 6,585,268 |
| Cash and cash equivalents at beginning of year | 19,928,795 | 13,343,527 |
| Cash and cash equivalents at end of year | 21,227,065 | 19,928,795 |

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

1. COMPANY ORGANIZATION AND BUSINESS ACTIVITIES

The Public Company “Putevi Republike Srpske,” Banja Luka (the “Company”) was established on March 5, 2004 as the legal successor of the Republic’s Road Directorate, which was previously an integral part of the Republic of Srpska Ministry of Traffic and Communication.

The Company was established in accordance with Article 10 of the Law on Public Roads, and pursuant to the January 22, 2004 Decision of the Government of the Republic of Srpska (“GoRS”) on the Foundation of the Public Company “Putevi Republike Srpske.” The newly-founded entity was registered on March 5, 2004 with the Court of First Instance of Banja Luka under Decision numbered U/I 462/04.

The Company’s principal business activities involve the management, construction, maintenance and protection of the main and regional road network, as well as the maintenance and protection of highways throughout the Republic of Srpska. In addition, the Company is engaged in the maintenance and protection of bridges, tunnels, retaining and curtain walls, signalization and the maintenance of vegetation on the primary and regional roads throughout the Republic of Srpska, as well as in the planning, development and construction of the road network, in transportation security, environmental protection and in road cleaning and maintenance in winter conditions.

The Company is set up as a government-owned public entity in accordance with the Law on Public Enterprises (See “Official Gazette of the Republic of Srpska,” numbered 75/04). The Government of the Republic of Srpska is the Company’s sole owner.

The Company is domiciled in Banja Luka, and its headquarters’ address is: Vase Pelagića 10.

At December 31, 2008, the Company had 64 employees.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTIONS

2.1. Basis of Preparation and Presentation of the Financial Statements

These financial statements have been prepared in accordance with the standards and interpretations approved by the International Accounting Standards Board, now referred to as International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS). The accompanying financial statements have been prepared at cost principle, except for the value of intangible assets and certain financial instruments.

These financial statements have been prepared in accordance with the accounting regulations effective in the Republic of Srpska. Certain accounting policies prescribed for the needs of preparing the statutory financial statements depart from IFRS and IAS. Accordingly, certain positions have been reclassified and restated in order to conform with IFRS and IAS.

The figures in the accompanying financial statements have been stated in convertible marks (CM). The convertible mark is the official reporting currency in the Republic of Srpska.

In preparing the cash flow statement for the year 2008, the Company used the direct method in cash flow reporting.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

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

2.1. Basis of Preparation and Presentation of Financial Statement (Continued)

In the preparation of the accompanying financial statements, the Company has adhered to the accounting policies described in Note 3 to the financial statements that are based on the accounting and tax regulations of the Republic of Srpska.

Standards and Interpretations in Effect for the Current Period

The application of the following standards and standard interpretations (IFRIC) mandatorily applied in the preparation of the financial statements for the periods on or after January 1, 2008, did not result in material changes in the Company's accounting policies in the period of first-time adoption either:

- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” (in effect on or after July 1, 2008) ;
- IFRIC 12 “Service Concession Arrangements” (in effect on or after January 1, 2008);
- IFRIC 13 “Customer Loyalty Programs” (in effect on or after July 1, 2008);
- IFRIC 14 Interpretation on IAS 19 “The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction” (in effect on or after January 1, 2008);
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (in effect on or after October 1, 2008).

Standards and Interpretations Issued, but not yet in Effect

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

- IAS 1 “Presentation of Financial Statements” (in effect on or after January 1, 2009);
- IAS 23 “Borrowing costs” (in effect on or after January 1, 2009);
- IFRS 8 “Operating Segments” (in effect on or after January 1, 2009);
- IFRS 3 “Business Combinations” and IAS 27 “Consolidated and Separate Financial Statements” (in effect on or after July 1, 2009);
- Amendments to IFRS 2 “Share-Based Payment - Vesting Conditions and Cancellations” (in effect on or after January 1, 2009);
- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” (in effect on or after January 1, 2009);
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement – Eligible Hedged Items” (in effect on or after July 1, 2009);
- Amendments to IFRS 1 “First-Time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements” (in effect on or after January 1, 2009);
- Improvements to International Financial Reporting Standards 2008 (most changes are effective for financial periods starting January 1, 2009);
- IFRIC 15 “Agreements for the Construction of Real Estate” (in effect on or after January 1, 2009);

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

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

2.1. Basis of Preparation and Presentation of Financial Statement (Continued)

Standards and Interpretations in Effect for the Current Period (Continued)

- Improvements to IFRS 1 “First-Time Adoption of International Financial Reporting Standards” (in effect on or after July 1, 2009);
- IFRIC 17 “Distributions of Non-cash Assets to Owners” (in effect on or after July 1, 2009).

The Company’s management assesses that the aforementioned standards and standard interpretations will be adopted in the Company’s financial statements for the periods starting on or after January 1, 2009, and that the adoption of these standards will not have material impact on the Company’s financial statements.

2.2. Comparative Figures

As comparative information, the Company presented the income statement, statement of changes in equity and cash flow statement for the year ended December 31, 2007, as well as the balance sheet as of December 31, 2007.

With the object of adjusting prior period errors, pursuant to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors,” certain adjustments and reclassifications have been made to the information presented in the financial statements prepared as of and for the year ended December 31, 2007 (Note 6). In accordance with the aforementioned standard, material errors relating to the subsequently identified prior period income and expenses are stated as an adjustment of the opening balance of retained earnings of the current period with the restatement of the comparative information included in the prior period financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Intangible Assets

Intangible assets are comprised of the appraised value of public roads on the territory of the Republic of Srpska, intangible assets in progress and other intangible assets (software).

The investments in a public road entail investments in design, construction, supervision and other expenses related to the public road construction (expenses arising from the resolution of legal issues associated with ownership, interest accrued on loans until such road is put in operation and the like), as well as significant works performed in order to substitute the road construction elements and structures.

Pursuant to Articles 3 and 11 of the Law on Public Roads, public roads have been entrusted to the Company’s management, construction, maintenance and protection. However, the roads remain the general public-use property of the Republic of Srpska.

During 2004, the Company performed an appraisal of the Republic of Srpska public road network as of December 31, 2004. The appraisal was performed by the competent employees of the Company, in accordance with the Guidelines on the Manner and Frequency of Appraisal and the Recording of Appraisal Effects to the Individual Balance Sheet Components of Legal Entities (“Official Gazette of the Republic of Srpska,” numbered 9/03). The Company recorded the positive appraisal effects as increases in the value of intangible assets within revaluation reserves.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Intangible Assets (Continued)

During 2005, the Company performed an appraisal of its vertical signalization and railings on the public roads, which had not been included in the appraisal as of December 31, 2004. Consequently, the Company credited the resulting appraisal effects in its business books within revaluation reserves.

3.2. Property, Plant and Equipment

The items of property, plant and equipment are recorded at cost, less accumulated depreciation and impairment losses, if any. Cost is comprised of the purchase price or expenses incurred for construction, including import duties and non-refundable taxes, and any directly-attributable costs of bringing the asset to working condition for its intended use net of any trade discounts and/or rebates. Self-constructed item of property, plant and equipment are recorded at their cost as of the date of construction finalization.

Fixed assets represent assets with an expected useful economic life of over one year.

Proceeds from the disposal of fixed assets are credited directly to Other operating income, whereas any losses arising upon their disposal are charged to Other operating expenses

Any betterments, renewals and repairs that extend the useful life of an asset are capitalized. Repairs and maintenance are expensed as incurred and are presented as operating expenses.

3.3. Depreciation and Amortization

The depreciation and amortization of property, plant, equipment and intangible assets that placed in use during the year are provided for on a straight-line basis.

The basis for the amortization of intangible assets (i.e., public roads) represents solely the upper layer of the asphalted portion of roads which is amortized during the estimated useful life of such assets.

The estimated useful life of particular classes of property, plant and equipment and intangible assets which represent the base for depreciation/amortization, and the principal, prescribed annual depreciation/amortization rates in use are as follows:

| | Depreciation/ Amortization Rate (in %) | Useful Life (in Years) |
|----------------------------------|---|-----------------------------------|
| Public road (upper layer) | 4 | 25 |
| Bridges | 4.5 - 10 | 10 - 22 |
| Tunnels | 4.5 - 10 | 10 - 22 |
| Traffic markings | 20 | 5 |
| Road railings | 20 | 5 |
| Buildings | 1.3 | 77 |
| Automobiles | 14.3 - 15.5 | 6 - 7 |
| Furniture | 12.5 | 8 |
| Measuring instruments | 20 | 5 |
| Computers and computer equipment | 20 | 5 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Impairment of Property, Equipment and Intangible Assets

As of the balance sheet date the Company's management analyzes the value of property equipment and intangible assets presented in the financial statements. If there is any indication that such assets have become impaired, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its net recoverable value.

An impairment loss is recognized as an expense of the current period and is recorded under "Other operating expenses," unless the relevant asset is carried at a revalued amount, in which instance, the impairment loss is treated as a revaluation decrease up to its revalued amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognized on the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the respective asset is carried at a revalued amount, in which instance, the reversal of the impairment loss is treated as a revaluation increase.

3.5. Financial Instruments

Financial assets and liabilities are recognized on the Company's balance sheet at the instance in which the Company has become a party to the contractual provisions of a particular financial instrument.

Financial assets cease to be recognized when the Company loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. Financial liabilities cease to be recognized when the Company fulfills the respective obligations, or when the contractual repayment obligation has either been cancelled or has expired.

Accounts Receivable and Other Receivables

Accounts receivable and other receivables are stated at nominal value, less any allowances for impairment of bad debts. Provisions are formed for the amount of matured receivables that are more than 90 days past due, and receivables are written off if their collection is deemed improbable or is documented (based on a court decision or ruling).

Short-Term Financial Placements

Short-term financial placements are comprised of short-term (up to one year) deposits placed with commercial banks and are presented in the amount of funds deposited as of the balance sheet date.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits with commercial banks, as well as highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Financial Instruments (Continued)

Financial Liabilities

Financial liabilities include long-term borrowings, short-term operating liabilities and other liabilities.

Financial liabilities are initially recognized in the amount of funds received. Following the initial recognition, financial liability is measured in the amount originally recognized minus principal repayments, as increased by the amount of capitalized interest and any write-off as approved by the respective creditor. Financial liability is carried at amortized cost by applying the effective interest method. Interest accrued on the financial liabilities is charged to financial expenses in the period to which these relate and are presented within other short-term liabilities. Financial liabilities cease to be recognized when the Company fulfills the respective obligations, or when the contractual repayment obligation has either been cancelled or has expired.

3.6. Provisions

Provisions are recognized and computed when the Company has a pending, present legal or contractual obligation as a result of a past event, and when it is probable that an outflow of resources will be required to settle the obligation, and moreover, when a reliable estimate of the amount can be made.

Provisions include those for litigations filed against the Company and provisions for guarantees received from contractors for the work performed on the reconstruction and/or construction of public roads, for the purposes of eliminating potential deficiencies during the warranty period, as well as provisions for employee benefits formed in accordance with IAS 19 “Employee Benefits.”

Provisions for litigations are formed based on the management’s best estimate of the probable outcome of pending lawsuits in the following or subsequent years.

Long-term provisions for guarantees received from construction contractors are associated with the provisions made in order to eliminate potential deficiencies that might occur within the warranty period, or during the process of reconstruction or construction of public roads by the contractor engaged by the Company.

The movements in long-term provisions during 2008 are disclosed in Notes 26 and 27.

3.7. Deferred Income

Deferred income relates to the income deferred based on grants received (cash funds) from Bosnia and Herzegovina (the Republic of Srpska) for the construction of highways, regional and main roads and structures on the Territory of the Republic of Srpska, as delineated under IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance.”

The movements on deferred income from grants received over the period presented in the financial statements are disclosed in Note 25.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Maintenance, Repairs and Reconstruction

Routine maintenance, repairs and reconstruction of property, plant and equipment and intangible assets are charged to expenses as incurred, and primarily relate to the maintenance of public roads.

3.9. Fee and Commission Income

Pursuant to Articles 55 and 56 of the Law on Public Roads, the Company's income is comprised of revenues earned on the following fees and commissions from the use of public roads for:

1. Fees for main and regional roads included in the retail price of oil derivatives,
2. Fees for public roads on an annual basis included in the registration of motor and trailer vehicles,
3. Special fees charged for the use of roads, road sections or road structures,
4. Fees for special supplemental transport,
5. Fees for the installation of signage along the road safety lanes,
6. Fees for the use of land property related to road,
7. Fees for the connection of road arteries with public roads,
8. Fees for the installation of equipment on roads and surrounding road areas, and
9. Fees for the construction and use of commercial buildings in the protection road bands.

The amount of fees charged on main and regional roads that is attributable to the Company is established by the Government of the Republic of Srpska, at the Company's proposal. Revenues earned on fees and commissions are recognized when collected by the Company (fees and commissions for use of main and regional roads are included in the retail cost, and fees and commissions for public roads on an annual basis from the registration of motor and trailer vehicles), or at the moment of issuing a decision or license for use of a section of public roads (other fees and commissions).

3.10. Foreign Exchange Gains and Losses

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Taxes and Contributions

Current Income Taxes

Current income tax relates to the amount payable in accordance with the Income Tax Law. Current income tax is payable at the rate of 10% on the tax base reported in the annual corporate income tax return, as reduced by any applicable tax credits for capital expenditures as in accordance with the regulations of the Republic of Srpska. The adjustment of the tax base due to capital expenditures is recognized temporarily, until December 31, 2008.

In accordance with the Opinion of the Ministry of Finance of the Republic of Srpska (Tax Authority) the Company is exempt from paying income taxes for the fiscal period ended 2008, due to the fact that the Company is registered as an entity earning profit through collection of public revenues, i.e., from the budget, as well as the fact that the Company derives profit from grants and transactions involving property. However, if, in addition to the non-taxable income, the Company realizes profit that is taxable, such profit subject to the assessment of income taxes.

The tax regulations in the Republic of Srpska do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for the duration of no longer than five ensuing years.

Deferred Income Taxes

Deferred income taxes are provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The currently-enacted tax rates or the substantively-enacted rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of income tax losses and credits are available for carryforward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carryforwards can be utilized.

Indirect Taxes and Contributions

Indirect taxes and contributions represent the amounts paid under various republic and municipal laws in order to finance diverse municipal and republic requirements. These taxes and contributions are included under “Other operating expenses.”

Value Added Tax

Pursuant to the Value Added Tax Law, system for the payment of value added tax (VAT) was introduced on the territory of Bosnia and Herzegovina, by which previously-applied taxation system for payment of sales tax on products and services was changed.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Employee Benefits

a) Employee Taxes and Contributions for Social Security

In accordance with regulatory requirements, the Company is obligated to pay contributions to tax authorities and to various state social security funds that guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, in an amount computed by applying the specific, legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to the respective government funds. These taxes and contributions payable on behalf of the employee are charged to expenses in the period in which they arise.

b) Employee Retirement Benefits and Jubilee Awards

Pursuant to the Labor Law of the Republic of Srpska and the Company’s By-laws, the Company is obligated to pay retirement benefits upon regular retirement of its employees in an amount equal to three monthly salaries earned by the employee, which is not to be less than three times the average gross salary effective in the Company at the time of the employee’s retirement. As the basis for this computation, the Company uses the highest monthly salary earned in the twelve months prior to the employee’s retirement. Additionally, the Company provides between one and four average monthly salaries to be paid out as a jubilee award to a qualifying employee. The number of monthly salaries designated for jubilee awards is determined based on the total number of the employee’s years of service in the Company, as presented in the table below:

| Total Number of Years of Service | Number of Salaries |
|---|-------------------------------|
| 10 | 1 |
| 20 | 2 |
| 30 | 4 |

IAS 19, “Employee Benefits” prescribes the calculation of the present value of accumulated retirement benefits and jubilee awards.

The costs associated with retirement benefits and jubilee awards are determined by applying the Projected Unit Credit Method with the actuarial valuation performed as of the balance sheet date. In accordance with the aforementioned, the Company engaged an external certified actuary to calculate the present value of accumulated employee entitlements to retirement benefits and jubilee awards as of December 31, 2008. In calculating the aforementioned present value of accumulated employee entitlements to retirement benefits and jubilee awards, the certified actuary relies against the following assumptions: a discount rate of 9.5% annually (average rate of return to long-term loans from commercial banks in the Republic of Srpska), projects salary growth of 4% annually, the age of retirement – 40 for men and 35 for women, projected employee turnover based on historical movement of employees the officially published mortality rates, as well as other conditions necessary for vesting in retirement benefits and jubilee awards.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Fair Value

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES

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

The basic assumptions relating to the future events and other sources of uncertainties in making estimates as of the balance sheet date carrying risk that may give rise to materially significant adjustments to the present value of assets and liabilities in the following fiscal year are presented in the following passages:

Estimated Useful Life of Property, Equipment and Intangible Assets

The useful life of property, equipment and intangible assets is based on the historical experience with similar assets, as well as the anticipated technological advancement and changes in economic and industrial factors. The adequacy of the remaining useful life of property, equipment and intangible assets is analyzed on annual basis, or where there are indications of significant changes in the assumptions. The Company's management believes that the accounting estimates with reference to the useful life of property, equipment and intangible assets are significant, since they also include the assumptions on the technological development in a very innovative industry. In addition, as fixed assets represent a great portion of the Company's assets the impact of any change in the aforementioned assumptions may have material effect on the Company's financial position, as well as on the results of its operations.

Impairment of Assets

At each balance sheet date, the Company's management reviews the carrying amounts of the Company's property and equipment. If there is any indication that such assets have become impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its net recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Provisions

Provisions are recognized and made when the Company has legal or contractual liability arising from past events and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of obligation can be measured with sufficient reliability.

**5. REPORT OF THE SUPREME AUDIT OFFICE FOR THE REPUBLIC OF SRPSKA
PUBLIC SECTOR AUDITING FOR THE YEAR 2006**

In the course of 2007, pursuant to Article 14 of the Law on the Republic of Srpska Public Sector Auditing (Official Gazette of RS, numbers 16/99, 39/03, 115/04), the Supreme Office for the Republic of Srpska Public Sector Auditing (hereinafter: the “Supreme Audit Office”) audited the business operations of the Company performed in 2006. In its audit report dated December 7, 2007, the Supreme Audit Office expressed an adverse opinion on the Company’s financial statements for the year ended December 31, 2006 prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). In the opinion of the Supreme Audit Office, the adverse opinion is based on the materiality of weaknesses identified in the Company’s financial statements regarding the following (*quote from the Report of the Supreme Audit Office*):

- (a) “The appraised value of public roads is included by the Company under intangible assets based on the opinion rendered by the RS Ministry of Finances, while the same assets are treated as fixed assets (roads, bridges and tunnels) in the computation of depreciation, which is a departure from IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets.”
- (b) In addition to the fact that public roads represent property in general use owned by the Republic of Srpska, assigned to the Company’s care, management, construction and protection [Article 3 of the Roads Law (Official Gazette of RS number 3/04)], we are of the opinion that the first assessment of effects should be recorded as valuation (property and sources of funds), and not as revaluation (intangible assets and revaluation reserves), pursuant to IAS 16 “Property, Plant and Equipment,” paragraph 7.
- (c) The treatment of adjustments to business operations is not defined by the Company’s accounting policies and it does not comply with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors.” The simultaneous disclosure of profit and loss is not in line with International Accounting Standards. The financial statements are not accompanied by Notes which clearly explain the financial statements for the year 2006, in particular the effects of adjustments to accumulated loss and profit dating from prior years” (quote end).
- (d) In addition to the aforementioned, the Supreme Audit Office is also of the opinion that the Company did not act in accordance with the Public Procurement Law in certain cases of public procurements carried out in the period ended December 31, 2006.

Based on the forgoing report, the Company’s management submitted to the Supreme Audit Office and its Founder (the Republic of Srpska Government) the Plan of Action for the implementation of recommendations provided in the report of the Supreme Audit Office and acted upon certain recommendations provided therein. In addition, the Republic of Srpska Ministry of Finance (the “Ministry”) submitted to the Company its Opinion regarding the Company’s proposal for the implementation of one of the pending recommendations made by the Supreme Audit Office pertinent to the increase of the Company’s core capital at the expense of revaluation reserves. In its Opinion, the Ministry did not give its consent to the Company to commence the aforementioned process of capital increase.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

6. ADJUSTMENTS TO THE FINANCIAL STATEMENTS FOR THE YEAR 2007

At January 1, 2008 the Company’s management made certain adjustments to the balance sheet as of December 31, 2007, as well as to the income statement for the year ended December 31, 2007 for the purpose of correcting errors from previous years as required under IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors” (Note 2.2).

(a) Effects of Adjustments on the Net Profit for the Year Ended December 31, 2007 and Retained Earnings as of December 31, 2007

| | <u>2007</u> |
|--|-------------------|
| <i>Net profit, previously reported</i> | <u>23,088,917</u> |
| - Adjustment of deferred income for the amount of refunded interest on loans from 2007 | 519,230 |
| - Income from services related to public road maintenance from 2007 | 71,891 |
| - Other income from 2007 | 21,960 |
| - Allowance for impairment of receivables arising from prior year rental receivables | <u>(132,824)</u> |
| <i>Total adjustments effects:</i> | <u>480,257</u> |
| <i>Net profit, restated</i> | <u>23,569,174</u> |

Adjustment of deferred interest income that is refunded by the Government of the Republic of Srpska of CM 519,230 relates to the interest income which the Company capitalized and credited to intangible assets in progress (for the construction of the Gradiška - Banja Luka highway) in 2007. Given that the portion of interest accrued on loans was also used for expropriation of land for the highway which is the Company’s ownership and not the ownership of the Republic of Srpska (as is the case with the highway), the Company adjusted its financial statements for the year 2007 in accordance with the provisions of IAS 23 “Borrowing Costs” for the corresponding amount of interest relating to the expropriation of the Company’s land.

Allowance for impairment of receivables arising from prior year rental receivables of CM 132,824 is associated with the reconciled analytical records of receivables for the land under and attached to the road, dating from previous years.

The Company has not officially adjusted and submitted the restated financial statements for the year 2007, but it accounted for the aforementioned adjustments in the comparative figures used in the financial statements for the year 2008.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

**6. ADJUSTMENTS TO THE FINANCIAL STATEMENTS FOR THE YEAR 2007
 (Continued)**

(b) Effects of Adjustments in the Income Statement for the Year Ended December 31, 2007

| | <i>Preliminary</i> 2007 | Adjustments +/- | <i>Restated</i> 2007 |
|---|-----------------------------------|---------------------------|--------------------------------|
| Operating income | | | |
| Fee and commission income | 79,657,439 | (60,933) | 79,596,506 |
| Other operating income | 14,479,370 | 541,190 | 15,020,560 |
| | <u>94,136,809</u> | <u>480,257</u> | <u>94,617,066</u> |
| Operating expenses | | | |
| Main and regional road maintenance expenses | (35,846,249) | - | (35,846,249) |
| Local road maintenance expenses | (14,457,890) | - | (14,457,890) |
| Other materials, fuel and energy | (125,523) | - | (125,523) |
| Staff costs | (2,980,308) | - | (2,980,308) |
| Depreciation and amortization | (12,621,552) | - | (12,621,552) |
| Cost of provisions | (525,333) | - | (525,333) |
| Other operating expenses | (4,550,638) | - | (4,550,638) |
| | <u>(71,107,493)</u> | <u>-</u> | <u>(71,107,493)</u> |
| Profit from operations | <u>23,029,316</u> | <u>480,257</u> | <u>23,509,573</u> |
| Financial income/(expenses) | | | |
| Financial income | 579,044 | - | 579,044 |
| Financial expenses | (519,443) | - | (519,443) |
| | <u>59,601</u> | <u>-</u> | <u>59,601</u> |
| Profit before taxes | 23,088,917 | 480,257 | 23,569,174 |
| Income tax expense | - | - | - |
| Profit for the year | <u>23,088,917</u> | <u>480,257</u> | <u>23,569,174</u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

**6. ADJUSTMENTS TO THE FINANCIAL STATEMENTS FOR THE YEAR 2007
 (Continued)**

(c) Effects of Adjustments in the Balance Sheet at December 31, 2007

| | <i>Preliminary December 31, 2007</i> | Adjustment +/- | <i>Restated December 31, 2007</i> |
|---|--|---------------------------|---|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 4,777,623,843 | - | 4,777,623,843 |
| Advances for intangible assets | 280,725 | - | 280,725 |
| Property and equipment | 5,049,595 | 21,960 | 5,071,555 |
| Long-term financial placements | 15,058 | - | 15,058 |
| | <u>4,782,969,221</u> | <u>21,960</u> | <u>4,782,991,181</u> |
| Current assets | | | |
| Inventories | 139,583 | - | 139,583 |
| Accounts receivable | 68,969 | (60,933) | 8,036 |
| Short-term financial placements | 23,300,000 | - | 23,300,000 |
| Other receivables and prepayments | 504,582 | - | 504,582 |
| Cash and cash equivalents | 19,928,795 | - | 19,928,795 |
| | <u>43,941,929</u> | <u>(60,933)</u> | <u>43,880,996</u> |
| Total assets | <u>4,826,911,150</u> | <u>(38,973)</u> | <u>4,826,872,177</u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| State-owned capital | 159,800,540 | - | 159,800,540 |
| Revaluation reserves | 4,447,954,094 | - | 4,447,954,094 |
| Legal reserves | 751,394 | - | 751,394 |
| Retained earnings | 23,458,152 | 480,257 | 23,938,409 |
| | <u>4,631,964,180</u> | <u>480,257</u> | <u>4,632,444,437</u> |
| Long-term liabilities and provisions | | | |
| Long-term borrowings | 43,273,754 | - | 43,273,754 |
| Deferred income | 120,458,544 | (519,230) | 119,939,314 |
| Employees benefits | 123,395 | - | 123,395 |
| Provisions | 11,045,902 | - | 11,045,902 |
| | <u>174,901,595</u> | <u>(519,230)</u> | <u>174,382,365</u> |
| Current liabilities | | | |
| Current portion of long-term liabilities | 6,666,667 | - | 6,666,667 |
| Accounts payable | 12,616,389 | - | 12,616,389 |
| Other current liabilities and accruals | 762,319 | - | 762,319 |
| | <u>20,045,375</u> | <u>-</u> | <u>20,045,375</u> |
| Total equity and liabilities | <u>4,826,911,150</u> | <u>(38,973)</u> | <u>4,826,872,177</u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

7. FEE AND COMMISSION INCOME

| | Year Ended December 31, | |
|--|--------------------------------|-----------------|
| | 2008 | 2007 |
| | | <i>Restated</i> |
| Fee and commission income from the use of public roads: | | |
| - retail price of oil derivatives | 51,872,300 | 43,947,361 |
| - annual registration of motor and trailer vehicles | 32,089,877 | 30,639,318 |
| - rental of the land under and adjacent to the road band | 2,555,614 | 2,905,070 |
| - other fees (Note 3.9) | 798,383 | 515,115 |
| | 87,316,174 | 78,006,864 |
| Income from EUFOR based on the use of public roads | 114,719 | 1,589,642 |
| | 87,430,893 | 79,596,506 |

8. OTHER OPERATING INCOME

| | Year Ended December 31, | |
|--|--------------------------------|-----------------|
| | 2008 | 2007 |
| | | <i>Restated</i> |
| Income from the Republic of Srpska Government grants for reconstruction of local roads in RS | 16,900,000 | 11,457,890 |
| RS Government grants for financing VAT assessed for projects financed from international assistance or loans | 2,300,000 | 2,300,000 |
| Reversal of deferred income arising from grants of intangible assets | 1,320,513 | 829,133 |
| Reversal of long-term provisions: | | |
| - for litigations | 87,650 | 187,943 |
| - for guarantees received from contactors | - | 58,358 |
| Gains on the sale of equipment and intangible assets | 25,709 | - |
| Gains on the sale of fixed assets held for sale | 10,182 | - |
| Material surplus | - | 119,465 |
| Other | 1,443 | 67,771 |
| | 20,645,497 | 15,020,560 |

The income from the Republic of Srpska Government ("RS Government") grants for the reconstruction of local roads in RS dating from FY 2008 in the total amount of CM 16,900,000 entirely relates to income on the non-repayable funds granted by the RS Government, a based on the Decision on co-financing of the road infrastructure in the local communities. The funds granted for the construction and reconstruction of public roads throughout the Republic of Srpska, were paid during 2008.

The income from the RS Government grants for the financing the payment of VAT for the projects financed by the international funds or loans in the amount of CM 2,300,000 for the year ended December 31, 2008 relates to the non-repayable funds granted to the Company during 2007 by the RS Government.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

9. OTHER MATERIAL, FUEL AND ENERGY

| | Year Ended December 31, | |
|-------------------|--------------------------------|-----------------|
| | 2008 | 2007 |
| | | <i>Restated</i> |
| Material consumed | 31,495 | 22,798 |
| Fuel and energy | 118,638 | 102,725 |
| | 150,133 | 125,523 |

10. STAFF COSTS

| | Year Ended December 31, | |
|---|--------------------------------|-----------------|
| | 2008 | 2007 |
| | | <i>Restated</i> |
| Gross salaries | 2,065,856 | 1,758,715 |
| Winter food and heating allowances to employees | 579,656 | 519,108 |
| Annual leave allowance | 441,145 | 409,568 |
| Employee meals | 220,541 | 208,454 |
| Emoluments to the members of the Supervisory Board and Audit Board | 42,702 | 45,950 |
| Employee transportation | 30,930 | 26,013 |
| Other staff costs | 17,586 | 12,500 |
| | 3,398,416 | 2,980,308 |

Winter food and heating allowances to employees, as well as annual leave allowance were paid in 2008 based on the decisions enacted by the Company’s director and in accordance with the work regulations in the Company. The aforementioned decisions determine the amount of benefits payable in the form of winter food and heating allowances to employees in the amount of CM 2,950 per single employee, i.e. annual leave allowance is set at CM 4,500 per employee.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

11. OTHER OPERATING EXPENSES

| | Year Ended December 31, | |
|---|--------------------------------|------------------|
| | 2008 | 2007 |
| | | <i>Restated</i> |
| Services of project design and technical supervision | 742,993 | 924,936 |
| Maintenance of property, plant and equipment | 75,139 | 116,376 |
| Telecommunication and postage | 85,332 | 90,391 |
| Rentals | 13,008 | 11,604 |
| Marketing | 20,817 | 8,171 |
| Other services | 16,808 | 17,247 |
| Fees and commissions | 3,038 | 8,306 |
| Business trip per diems | 37,772 | 33,437 |
| Consultant services | - | - |
| Contractors' fees | 5,092 | 21,052 |
| Auditing services and professional training | 66,612 | 148,180 |
| Non-production services | 72,876 | 54,990 |
| Entertainment | 34,312 | 18,190 |
| Insurance premiums | 5,917 | 13,135 |
| Bank charges | 17,766 | 15,124 |
| Indirect taxes and contributions | 125,894 | 135,936 |
| Advertizing | 55,529 | 32,190 |
| Other non-material expenses | 20,020 | 18,410 |
| Loss on the disposal and retirement of property, plant and equipment | 73,559 | 71,256 |
| Loss on the sale of property, plant and equipment | 49,887 | - |
| Allowance for impairment of accounts receivable | 482,261 | 2,343,127 |
| Allowance for impairment of other receivables | 47,143 | 23,393 |
| Court fees | 313,526 | 80,493 |
| Payment of VAT based on the Decision of Direct Taxation Administration of BiH | - | 296,421 |
| Other expenses | 54,217 | 68,273 |
| | 2,419,518 | 4,550,638 |

12. FINANCE INCOME

| | Year Ended December 31, | |
|------------------------|--------------------------------|-----------------|
| | 2008 | 2007 |
| | | <i>Restated</i> |
| Interest income | 1,906,325 | 579,028 |
| Foreign exchange gains | 29 | 16 |
| | 1,906,354 | 579,044 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

13. FINANCE EXPENSES

| | Year Ended December 31, | |
|-------------------------|--------------------------------|-----------------|
| | 2008 | 2007 |
| | | <i>Restated</i> |
| Interest expenses | 1,832,617 | 519,255 |
| Loans initial fee | 586,749 | - |
| Penalties | 235 | - |
| Foreign exchange losses | 33 | 188 |
| | 2,419,634 | 519,443 |

14. INTANGIBLE ASSETS

| | 2007 and 2008 | | | |
|---------------------------------|--|--|--|---------------|
| | Roads and Road Infrastructure | Other Intangible Assets | Intangible Assets in Progress | Total |
| <i>Restated</i> | | | | |
| Cost | | | | |
| Balance, January 1, 2007 | 4,888,590,155 | 264,355 | 88,317,260 | 4,977,171,770 |
| Additions | 7,921,136 | 8,649 | 84,992,123 | 92,921,908 |
| Transfer | 9,790,470 | - | (9,790,470) | - |
| Disposals | (192,169) | - | - | (192,169) |
| Balance, December 31, 2007 | 4,906,109,592 | 273,004 | 163,518,913 | 5,069,901,509 |
| Additions | 7,232,852 | 2,689 | 95,600,342 | 102,835,883 |
| Transfer | 15,326,567 | - | (15,326,567) | - |
| Disposals | (623,331) | - | - | (623,331) |
| Balance, December 31, 2008 | 4,928,045,680 | 275,693 | 243,792,688 | 5,172,114,061 |
| <i>Restated</i> | | | | |
| Accumulated Amortization | | | | |
| Balance, January 1, 2007 | 280,021,199 | 133,971 | - | 280,155,170 |
| Charge for the year | 12,175,493 | 67,916 | - | 12,243,409 |
| Disposals | (120,913) | - | - | (120,913) |
| Balance, December 31, 2007 | 292,075,779 | 201,887 | - | 292,277,666 |
| Charge for the year | 9,306,334 | 68,867 | - | 9,375,201 |
| Disposals | (549,772) | - | - | (549,772) |
| Balance, December 31, 2008 | 300,832,341 | 270,754 | - | 301,103,095 |
| Net Book Value | | | | |
| Balance, December 31, 2008 | 4,627,213,339 | 4,939 | 243,792,688 | 4,871,010,966 |
| Balance, December 31, 2007 | 4,614,033,813 | 71,117 | 163,518,913 | 4,777,623,843 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

14. INTANGIBLE ASSETS (Continued)

Intangible assets in progress stated at December 31, 2008 in the amount of CM 243,792,688 primarily relate to the investments in the construction of the Banja Luka - Gradiška Highway (CM 160,086,717), as well as the road reconstruction and construction in Srebrenica Municipality of CM 37,026,360 which were not activated up to the date of these financial statements.

In 2008, in the period of road construction, as well as the construction and reconstruction of regional and main roads on the territory of the Republic of Srpska, the Company capitalized a portion of the costs of borrowings incurred in 2008 aggregating to CM 3,287,861 (Note 24), in accordance with IAS 23 “Borrowing Costs.” The capitalization rate that was used upon determining the amount of borrowing costs that may be capitalized during the road construction in 2008, amounts to 64.21%, i.e. out of the total incurred costs of borrowing an amount of CM 5,120,478, an amount of CM 3,287,861 was capitalized, whereas the remaining portion of costs of borrowing (CM 1,832,617) was charged to expenses of the current period (Note 13).

15. ADVANCES FOR INTANGIBLE ASSETS

| | December 31, 2008 | December 31, 2007 |
|---|------------------------------|------------------------------|
| | | <i>Restated</i> |
| Advances for intangible assets: | | |
| - Integral inženjering a.d., Laktaši | 15,159,415 | 23,371 |
| - Konstruktor inženjering d.d., Split (Croatia) | 8,351,876 | - |
| - Niskogradnja d.o.o., Laktaši | 8,319,605 | - |
| - Vidoni SpA, Udine (Italy) | 4,147,895 | - |
| - other | 2,254,671 | 257,354 |
| | 38,233,462 | 280,725 |

Advances for intangible assets as of December 31, 2008 amounted to CM 38,233,462, and entirely related to the advances to work contractors on the regional and main roads in the Republic of Srpska, as well as on the Gradiška - Banja Luka highway. The most significant amount refers to the advance paid to the entity Integral inženjering a.d., Laktaši in 2008, and based on the reconstruction of the main road Gacko – Foča (lasting solution for the Čemerno landslide) of CM 14,369,352.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

16. PROPERTY AND EQUIPMENT

| | 2007 and 2008 | | |
|---------------------------------|-------------------------------|------------------|--------------|
| | Land and Buildings | Equipment | Total |
| <i>Restated</i> | | | |
| Cost | | | |
| Balance, January 1, 2007 | 4,511,151 | 2,412,824 | 6,923,975 |
| Additions | 5,135 | 192,758 | 197,893 |
| Sale | - | (44,907) | (44,907) |
| | 4,516,286 | 2,560,675 | 7,076,961 |
| Balance, December 31, 2007 | 4,516,286 | 2,560,675 | 7,076,961 |
| Additions | - | 721,031 | 721,031 |
| Sale | - | (645,827) | (645,827) |
| | - | (645,827) | (645,827) |
| Balance, December 31, 2008 | 4,516,286 | 2,635,879 | 7,152,165 |
| <i>Restated</i> | | | |
| Accumulated Depreciation | | | |
| Balance, January 1, 2007 | 447,916 | 1,224,254 | 1,672,170 |
| Charge for the year | 58,588 | 319,555 | 378,143 |
| Sale | - | (44,907) | (44,907) |
| | 506,504 | 1,498,902 | 2,005,406 |
| Balance, December 31, 2007 | 506,504 | 1,498,902 | 2,005,406 |
| Charge for the year | 58,588 | 294,559 | 353,147 |
| Sale | - | (411,016) | (411,016) |
| | 565,092 | 1,382,445 | 1,947,537 |
| Balance, December 31, 2008 | 565,092 | 1,382,445 | 1,947,537 |
| Net Book Value | | | |
| Balance, December 31, 2008 | 3,951,194 | 1,253,434 | 5,204,628 |
| Balance, December 31, 2007 | 4,009,782 | 1,061,773 | 5,071,555 |

17. ACCOUNTS RECEIVABLE

| | December 31, 2008 | December 31, 2007 |
|--|------------------------------|------------------------------|
| | | <i>Restated</i> |
| Accounts receivable: | | |
| - domestic | 5,388,722 | 4,886,473 |
| <i>Less:</i> Allowance for impairment of receivables | (5,360,698) | (4,878,437) |
| | 28,024 | 8,036 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

17. ACCOUNTS RECEIVABLE (Continued)

The total gross domestic accounts receivable as of December 31, 2008 amounted to CM 5,388,722 and mostly, in the amount of CM 5,106,167, related to receivables arising from fees for the use of public roads delineated under Articles 55 and 56 of the Law on Public Roads (Notes 3.9, from item 3 to 9). The Company fully provided for all accounts receivable more than 90 days past due, as in its previous experience, all receivables more than 90 days past due proved to be uncollectible. The total allowance for impairment at December 31, 2008 amounted to CM 5,360,698 and represented 99.45% of the total gross value of accounts receivable. The movements on the accounts of allowance for impairment of receivables are disclosed in Note 20 to these financial statements.

The aging structure of accounts receivable as of December 31, 2008 and 2007 was as follows:

| Period | December 31, 2008 | December 31, 2007 |
|---------------|------------------------------|------------------------------|
| | | <i>Restated</i> |
| 0 - 90 days | 28,024 | 8,035 |
| 90 - 360 days | 1,732,732 | 2,105,566 |
| over 360 days | 3,627,966 | 2,772,872 |
| | 5,388,722 | 4,886,473 |

At December 31, 2008, accounts receivable that are up to 90 days past due, for which the allowance for impairment was not formed amounted to CM 28,024. The average days' sales outstanding over the year ended December 31, 2008 was extraordinarily long – (620) days, due to defaults in the collection of receivables arising from public road rental. The Company does not charge penalty interest to customers that purchase services from the Company for receivables that fall due on the date stipulated on each decision (invoice).

18. SHORT-TERM FINANCIAL PLACEMENTS

| | December 31, 2008 | December 31, 2007 |
|--|------------------------------|------------------------------|
| | | <i>Restated</i> |
| Short-term deposits with banks: | | |
| - NLB Razvojna banka a.d., Banja Luka | 21,000,000 | 12,900,000 |
| - Hypo Alpe-Adria-Bank a.d., Banja Luka | 10,800,000 | 3,800,000 |
| - Raiffeisen banka BiH d.d., Sarajevo (regional office Banja Luka) | 6,600,000 | 6,600,000 |
| | 38,400,000 | 23,300,000 |

Short-term deposits of the Company held with the commercial banks in the Republic of Srpska are placed for the period of a year at an interest rate ranging from 4.25% to 5% annually with an option of automatic extension of depositing period under same terms in case the depositing agreement is not terminated or the funds are otherwise withdrawn by the Company.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

19. OTHER RECEIVABLES AND ACCRUALS

| | December 31, 2008 | December 31, 2007 |
|--|------------------------------|------------------------------|
| | | <i>Restated</i> |
| Receivables for prepaid value added tax | 2,935,223 | 88,037 |
| Receivables from employees | 1,373 | 2,181 |
| Other receivables | 60,192 | 28,666 |
| Accrued but not collected interest income | 100,473 | - |
| Accrued but not collected commission and fee income from prior periods | 115,489 | 409,091 |
| | <u>3,212,750</u> | <u>527,975</u> |
| <i>Less:</i> Allowance for impairment of other receivables | (70,536) | (23,393) |
| | <u>3,142,214</u> | <u>504,582</u> |

20. ALLOWANCE FOR IMPAIRMENT OF RECEIVABLES

| | 2007 and 2008 | | |
|----------------------------|---|--|------------------|
| | Accounts Receivable (Note17) | Other Receivables (Note 19) | Total |
| <i>Restated</i> | | | |
| Balance, January 1, 2007 | 2,535,310 | - | 2,535,310 |
| Charge for the year | 2,343,127 | 23,393 | 2,366,520 |
| | <u>4,878,437</u> | <u>23,393</u> | <u>4,901,830</u> |
| Balance, December 31, 2007 | | | |
| Balance, January 1, 2008 | 4,878,437 | 23,393 | 4,901,830 |
| Charge for the year | 482,261 | 47,143 | 529,404 |
| | <u>5,360,698</u> | <u>70,536</u> | <u>5,431,234</u> |
| Balance, December 31, 2008 | | | |

21. CASH AND CASH EQUIVALENTS

| | December 31, 2008 | December 31, 2007 |
|--|------------------------------|------------------------------|
| | | <i>Restated</i> |
| Current accounts | 16,463,968 | 5,011,987 |
| Cash funds allocated for Gradiška – Banja Luka Highway | 4,735,829 | 1,481,656 |
| Foreign currency accounts | 20,839 | 13,430,814 |
| Cash in hand | 6,429 | 4,338 |
| | <u>21,227,065</u> | <u>19,928,795</u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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22. STATE-OWNED CAPITAL

The Company was established on March 5, 2004 as the legal successor of the Republic Roads Directorate, which was initially an integral part of the Republic of Srpska Ministry of Traffic and Communications, in accordance with Article 10 of the Law on Public Roads (See “Official Gazette of the Republic of Srpska,” numbered 51/04), and also based on the January 22, 2004 Decision of the Republic of Srpska Government with respect to the Foundation of the Public Company “Putevi Republike Srpske.” The Company was registered on March 5, 2004 with the Court of the First Instance of Banja Luka under Decision numbered U/I 462/04.

The Company’s legal form is that of a government-owned, public entity defined under the Law on Public Enterprises (See “Official Gazette of the Republic of Srpska,” numbered 75/04). The Government of the Republic of Srpska is the Company’s sole owner. The Company’s founding capital represents the carrying value of the property, plant and equipment as of December 31, 2003 that was contributed by the Republic Roads Directorate, stated in the amount of CM 159,800,540.

23. REVALUATION RESERVES

The Company’s revaluation reserves as of December 31, 2008 amounted to CM 4,447,954,094 and entirely relate to positive effects of intangible asset appraisal. Namely, during 2004, the Company performed an independent appraisal of its public roads effective at December 31, 2004 and recorded in its books of account, the effects of this appraisal. Consequently, intangible assets and revaluation reserves were increased by CM 4,427,161,466.

During 2005 the Company performed an appraisal of its vertical signalization and railings which were not included in the previous appraisal independently performed as of December 31, 2004. The Company recorded the positive effects of this appraisal in its books of account in the total amount of CM 20,792,628 as a credit to revaluation reserves.

24. LONG-TERM BORROWINGS

| | December 31, 2008 | December 31, 2007 |
|--|------------------------------|------------------------------|
| | | <i>Restated</i> |
| Long-term provisions | | |
| - domestic | 26,666,667 | 33,333,333 |
| - foreign | 46,025,106 | 16,607,088 |
| | 72,691,773 | 49,940,421 |
| <i>Less: Current portions of long-term borrowings:</i> | | |
| - domestic | (6,666,667) | (6,666,667) |
| - foreign | (1,180,915) | - |
| | (7,847,582) | (6,666,667) |
| | 64,844,191 | 43,273,754 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

24. LONG-TERM BORROWINGS (Continued)

The detail review of liabilities contingent on long-term borrowings as of December 31, 2008 is presented in the following table:

| | Current Portion | | Long-Term Portion | |
|---|----------------------|----------------------|----------------------|----------------------|
| | December 31, 2008 | December 31, 2007 | December 31, 2008 | December 31, 2007 |
| | | <i>Restated</i> | | <i>Restated</i> |
| <i>Domestic long-term borrowings – at amortized cost:</i> | | | | |
| - NLB Razvojna banka a.d., Banja Luka | 6,666,667 | 6,666,667 | 20,000,000 | 26,666,666 |
| | <u>6,666,667</u> | <u>6,666,667</u> | <u>20,000,000</u> | <u>26,666,666</u> |
| <i>Foreign long-term borrowings – at amortized cost:</i> | | | | |
| - European Bank for Reconstruction and Development (EBRD 31788) | 1,180,915 | - | 11,809,137 | 1,938,363 |
| - European Bank for Reconstruction and Development (EBRD 37543) | - | - | 1,741,774 | - |
| - European Investment Bank (EIB 23599) | - | - | 21,514,130 | 4,889,575 |
| - European Investment Bank (EIB 23255) | - | - | 9,779,150 | 9,779,150 |
| | <u>1,180,915</u> | <u>-</u> | <u>44,844,191</u> | <u>16,607,088</u> |
| | <u>7,847,582</u> | <u>6,666,667</u> | <u>64,844,191</u> | <u>43,273,754</u> |

NLB Razvojna banka a.d., Banja Luka

In accordance with the Long-Term Loan Agreement signed with NLB Razvojna banka a.d., Banja Luka, the Company obtained a loan for financing a section of the Gradiška - Banja Luka highway in the amount of CM 40,000,000 maturing within 6 years (12 semi-annual annuities), commencing from June 30, 2007. The interest on the borrowing is charged at the rate of three-month EURIBOR as increased by the margin of 2.40% annually.

European Bank for Reconstruction and Development (EBRD)

- 1) The long-term liabilities arising on the borrowings approved by the European Bank for Reconstruction and Development (“EBRD”) in the amount of CM 12,990,052 (equivalent of EUR 6,641,708) as of December 31, 2008 are associated with the Subsidiary Loan Agreement (project) with the EBRD dating from December 1, 2004 (Agreement no. 31788), that was signed for the total amount of EUR 31,407,900 (equivalent of CM 61,428,513). The Agreement was signed between Bosnia and Herzegovina, the Republic of Srpska, the EBRD and the Company (each party executed agreements with other parties separately). The subject of the agreement is the assistance in financing the construction of roads in Bosnia and Herzegovina (European corridor Vc and Gradiška - Banja Luka highway, as well as consultant services regarding the aforementioned projects). The loan will be repaid in 22 equal semi-annual installments (falling due on June 22 and December 22 each year) where the first and the last installments are due on June 22, 2009 and December 22, 2019, respectively.

Until the preparation date of the accompanying financial statements, the Company drew down the total of CM 12,990,052 (the equivalent of EUR 6,641,708) out of the total assets approved by EBRD pursuant to the forgoing Agreement. The agreed-upon interest rate is variable and it ranged from 5.53% to 5.79% annually. The undrawn portion of funds approved as of December 31, 2008 amounted to CM 48,438,461 (the equivalent of EUR 24,766,192).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

24. LONG-TERM BORROWINGS (Continued)

European Bank for Reconstruction and Development (EBRD) - Continued

- 2) The long-term liabilities arising from another long-term borrowing received from the EBRD as of December 31, 2008 in the amount of CM 1,741,774 (the equivalent of EUR 890,555) are associated with the liabilities arising from a subsidiary Road Rehabilitation Project Agreement number 37543 as of July 18, 2007 which was signed with the EBRD for the total amount of EUR 30,000,000 (the equivalent of CM 58,674,900). As with the previous Loan Agreement with the EBRD (number 31788), this agreement too was signed between Bosnia and Herzegovina, the Republic of Srpska, the EBRD and the Company (each party executed agreements with other parties separately). The loan is to be repaid in 24 equal semi-annual installments (on June 5 and December 5 each year), where the first and the last installments are due on December 5, 2010 and June 5, 2022, respectively. The contractually agreed interest rate is variable, and approximated 6% annually for the portion of funds drawn so far. The undrawn portion of borrowing as of December 31, 2008 amounted to CM 56,933,126 (the equivalent of EUR 29,109,445).

The aforementioned agreement with the EBRD contains provisions stipulating that the Company must comply with certain requirements, including the maintenance of a certain financial ratio (debt coverage ratio), calculated based on the financial statements prepared in accordance with International Financial Reporting Standards. In accordance with the Loan Agreement, the Company was not under obligation and did not calculate the required ratio as of December 31, 2008.

European Investment Bank (EIB)

- 1) The long-term liabilities relating to the loan obtained from the European Investment Bank (EIB) amounting to CM 9,779,150 (the equivalent of EUR 5,000,000) as of December 31, 2008 pertain to the loan approved for financing the second construction phase of Gradiška-Banja Luka Highway. On November 17, 2005, the European Investment Bank (EIB) signed a Loan Agreement number 2004-0329 with Bosnia and Herzegovina for the aggregate amount of EUR 65,000,000. The subject of the Agreement is the Project “National Roads: Banja Luka - Gradiška, section Airport Mahovljani - Laktaši - Gradiška.”

The loan is to be repaid within 25 years with a grace period of 6 years. The applicable interest rate is fixed or variable, and equals EURIBOR if the tranche is withdrawn in EUR, i.e. it equals LIBOR, if the tranche is withdrawn in USD or GBP, as increased by the margin of 0.55% annually. The tranche is to be repaid with a fixed interest rate in equal semi-annual or annual principal installments, i.e. in equal annual and semi-annual annuities, if interest is accrued in advance. The undrawn portion of loan as of December 31, 2008 amounted to CM 117,349,800 (EUR 60,000,000 equivalent).

- 2) The long-term liabilities arising from the loan obtained from the European Investment Bank (EIB) amounting to CM 21,514,130 (EUR 11,000,000 equivalent) as of December 31, 2008, relate to the liabilities for the road rehabilitation in the Republic of Srpska. On September 5, 2006, the EIB signed the Agreement number 2005-0408 with Bosnia and Herzegovina in the total value of EUR 40,000,000. The subject of the Agreement is the “Project of Republic of Srpska Road Rehabilitation.”

NOTES TO THE FINANCIAL STATEMENTS

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24. LONG-TERM BORROWINGS (Continued)

European Investment Bank (EIB) - Continued

The loan is to be repaid within 25 years including the grace period of 6 years. The interest rate is fixed or variable and equals EURIBOR, if the tranche is drawn in EUR, i.e. it equals LIBOR, if the tranche is withdrawn in USD or GBP. The repayment of the tranche with fixed interest rate is executed in equal semi-annual or annual principal installments and/or equal semi-annual or annual annuities if interest is accrued in advance. The undrawn portion of loan as of December 31, 2008 amounted to CM 56,719,070 (EUR 29,000,000 equivalent).

The maturities of total long-term borrowings are presented in the following table:

| | December 31, 2008 | December 31, 2007 |
|--------------------------------|------------------------------|------------------------------|
| | | <i>Restated</i> |
| Current portion (up to 1 year) | 7,847,582 | 6,666,667 |
| - from 1 to 2 years | 7,920,155 | 8,605,030 |
| - from 2 to 3 years | 7,992,729 | 6,666,667 |
| - from 3 to 4 years | 7,992,729 | 6,666,667 |
| - from 4 to 5 years | 1,840,755 | 6,666,667 |
| - over 5 years | 39,097,823 | 14,668,723 |
| | <u>72,691,773</u> | <u>49,940,421</u> |

25. DEFERRED INCOME

| | December 31, 2008 | December 31, 2007 |
|---|------------------------------|------------------------------|
| | | <i>Restated</i> |
| Deferred income from grants received for the construction of Banja Luka - Gradiška Highway | 138,133,821 | 71,605,592 |
| Deferred income from grants received for the construction of regional and main roads and structures | 91,657,043 | 48,333,722 |
| | <u>229,790,864</u> | <u>119,939,314</u> |

Deferred income from grants received is associated with deferral of revenues arising from grants received (cash funds) from Bosnia and Herzegovina (Republic of Srpska) for the construction of highways, i.e. construction and reconstruction of regional and main roads and structures on the territory of the Republic of Srpska, in accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance.”

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

25. DEFERRED INCOME (Continued)

The movements on deferred income in 2008 were as follows:

| | Year Ended December 31, | Year Ended December 31, |
|----------------------------------|--------------------------------|--------------------------------|
| | 2008 | 2007 |
| | | <i>Restated</i> |
| Balance, January 1 | <u>119,939,314</u> | <u>57,637,332</u> |
| Transfer to income in the period | (1,320,513) | (829,133) |
| Grants received in the year | <u>111,172,063</u> | <u>63,131,115</u> |
| Balance, December 31 | <u><u>229,790,864</u></u> | <u><u>119,939,314</u></u> |

26. EMPLOYEE BENEFITS

Provisions for employee benefits as of December 31, 2008 of CM 126,200 are associated with provisions based on the present value of accumulated employee entitlements to retirement benefits and jubilee awards, as delineated under IAS 19 “Employee Benefits.” Basic assumptions used in the calculation of the aforementioned provisions were disclosed in Note 3.12.

The movements in employee benefits in 2008 were as follows:

| | Year Ended December 31, | Year Ended December 31, |
|-----------------------------|--------------------------------|--------------------------------|
| | 2008 | 2007 |
| | | <i>Restated</i> |
| Balance, January 1 | <u>123,395</u> | <u>99,927</u> |
| Charge for the year | 29,637 | 54,586 |
| Benefits paid in the period | <u>(26,832)</u> | <u>(31,118)</u> |
| Balance, December 31 | <u><u>126,200</u></u> | <u><u>123,395</u></u> |

27. PROVISIONS

| | December 31, | December 31, |
|--|--------------------------|--------------------------|
| | 2008 | 2007 |
| | | <i>Restated</i> |
| Litigations (Note 31) | 7,060,902 | 6,930,186 |
| Provisions for guarantees received from contractors for addressing deficiencies identified within the warrantee period | <u>5,808,191</u> | <u>4,115,716</u> |
| | <u><u>12,869,093</u></u> | <u><u>11,045,902</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

27. PROVISIONS (Continued)

The movements in provisions in 2008 were as follows:

| | Year Ended December 31, | |
|---|--------------------------------|--------------------------------|
| | <u>2008</u> | <u>2007</u> <i>Restated</i> |
| Balance, January 1 | <u>11,045,902</u> | <u>15,935,536</u> |
| Charge for the period | 487,642 | 470,747 |
| Reversal of provisions for the amount of litigations paid | (269,277) | (221,861) |
| Transfer to income of the current period | (87,650) | (246,301) |
| Increase in provisions | 4,447,421 | 2,706,406 |
| Release of provisions | <u>(2,754,945)</u> | <u>(7,598,625)</u> |
| Balance, December 31 | <u><u>12,869,093</u></u> | <u><u>11,045,902</u></u> |

Long-term provisions for guarantees received from contractors pertain to provisions for guarantees for addressing deficiencies identified within the warrantee period upon the reconstruction and construction of public roads performed by contractors engaged by the Company.

28. ACCOUNTS PAYABLE

| | <u>December 31,</u> | <u>December 31,</u> |
|---------------------------|--------------------------|--------------------------------|
| | <u>2008</u> | <u>2007</u> <i>Restated</i> |
| Domestic accounts payable | 15,298,875 | 12,366,166 |
| Foreign accounts payable | <u>1,623,154</u> | <u>250,223</u> |
| | <u><u>16,922,029</u></u> | <u><u>12,616,389</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

29. OTHER CURRENT LIABILITIES AND ACCRUALS

| | December 31, 2008 | December 31, 2007 |
|---|------------------------------|------------------------------|
| | | <i>Restated</i> |
| Advances received | 46,979 | - |
| Prepayments of unidentified customers based on the prepayments collected for the use of public roads | 108,427 | 139,034 |
| Net salaries and benefits | - | 154,110 |
| Taxes and contributions on salaries | 16,106 | 82,124 |
| Forest charges | 54,679 | 58,977 |
| Other charges | 378 | 384 |
| Contributions charged to expenses | - | 5,499 |
| Value added taxes payable | - | 296,421 |
| Liabilities to employees | - | 15,519 |
| Deferred VAT comprised in advances paid to suppliers | 2,338,779 | - |
| Provisions for public road maintenance | 188,000 | - |
| Interest liabilities | 524,775 | |
| Deferred income for rentals invoiced in advance | - | 5,460 |
| Other | - | 4,791 |
| | 3,278,123 | 762,319 |

Deferred value added tax (VAT) comprised in the advances paid to suppliers as of December 31, 2008 amounted to CM 2,338,779 and are associated with the deferrals performed in accordance with Article 55 of the Law on Value Added Tax, requiring that the advance recipient issue an advance invoice to the payer (Note 15) before the relevant goods (service) is delivered. The advance invoice formed in this manner is the basis for recording output VAT of the seller, i.e. input VAT of the purchaser of goods (service).

Provisions for public road maintenance of CM 188,000 are associated with the provisions formed based on the Decision of the Republic of Srpska Government dated December 18, 2008, upon which funds are allocated for financing the construction of public roads in 2009, in the municipalities of Berkovići and Krupa on the Una River in the aggregate amount of CM 188,000. Based on the aforementioned Decision of the Republic of Srpska Government, the Company formed provisions, charging the amount to current expenses incurred in maintaining regional and main roads in 2008.

NOTES TO THE FINANCIAL STATEMENTS

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30. BORROWINGS

As disclosed in Note 24 to the financial statements, the Company entered into four loan agreements with the European Bank for Reconstruction and Development (“EBRD”) and the European Investment Bank (EIB) for the aggregate amount of CM 325,465,563 (the equivalent of EUR 166,407,900). Up to the date of these financial statements, based on the aforementioned loan agreements, the Company has drawn the total of CM 46,025,106 (the equivalent of EUR 23,532,263) based on the four loans approved. Therefore, the unused portions of loans as of December 31, 2008 amounted to CM 279,440,457 (the equivalent of EUR 142, 875,637).

| | <u>Agreed- Upon</u> | <u>Undrawn as of December 31, 2008</u> | <u>Agreed- Upon</u> | <u>Undrawn as of December 31, 2007</u> |
|--|---------------------------|--|---------------------------|--|
| Creditor: | | | | |
| - European Bank for Reconstruction and Development (31788) | 61,428,513 | 48,438,461 | 61,428,513 | 59,490,150 |
| - European Bank for Reconstruction and Development (37543) | 58,674,900 | 56,933,126 | 58,674,900 | 58,674,900 |
| - European Investment Bank (EIB loan no. 23255) | 127,128,950 | 117,349,800 | 127,128,950 | 117,349,800 |
| - European Investment Bank (EIB loan no. 23599) | <u>78,233,200</u> | <u>56,719,070</u> | <u>78,233,200</u> | <u>73,343,625</u> |
| | <u><u>325,465,563</u></u> | <u><u>279,440,457</u></u> | <u><u>325,465,563</u></u> | <u><u>308,858,475</u></u> |

In accordance with the two Loan Agreements with EBRD, the Company is bound to pay interest to the undrawn portion of funds approved at the rate of 0.5% annually. The total interest accrued thereof in 2008 amounted to CM 644,083.

31. LITIGATIONS

At December 31, 2008, various legal proceedings have been filed against the Company seeking indemnification for damages sustained on Republic of Srpska roads. In accordance with Article 31 of the Law on Public Roads, the Company is under an obligation to pay for damages caused by inadequate road maintenance. Based upon the estimation of the Company’s management, the potential claims that might arise as a result of the aforescribed litigations totaled CM 7,060,902 as of December 31, 2008, without the portion of potential penalty interest. In addition, the Company initiated various legal proceedings against its debtors in an attempt to collect its receivables in the value of CM 628,533.

The Company’s management has assessed the potential losses that may arise as a consequence of the pending litigations against the Company. The Company’s financial statements for 2008 include a provision for potential losses in litigations in the amount of CM 7,060,902 (Note 27) which does not include the amount of potential penalty interest as the Company’s management does not anticipate that any material losses shall be sustained thereof in the forthcoming period.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

32. RELATED PARTY TRANSACTIONS

In the regular course of business, the Company enters into business transactions with its related parties. These include the founder of the Company (the Government of the Republic of Srpska, Note 1), as well as the concerned ministries within the Government of the Republic of Srpska. The greatest portion of business transactions with related parties refers to grants from the Government of the Republic of Srpska based on the construction, reconstruction, rehabilitation and maintenance of local, main and regional roads, as well as highways on the territory of the Republic of Srpska.

In 2008, the amount of the aforementioned grants from the Government of the Republic of Srpska totaled CM 111,172,063, which is recorded as a portion of deferred income (Note 25), whereas the amount of the aforementioned grants in 2007 amounted to CM 63,131,115.

In addition, the amounts of income and expenses from the transactions performed with the related parties in 2008 and 2007 were as follows:

| | Year Ended December 31, | |
|--|--------------------------------|-----------------|
| | 2008 | 2007 |
| INCOME STATEMENT | | <i>Restated</i> |
| INCOME | | |
| a) Other operating income: | | |
| - Government of the Republic of Srpska (RS Ministry of Traffic and Communication) | 19,200,000 | 13,757,890 |
| <i>Total income</i> | 19,200,000 | 13,757,890 |
| EXPENSES | | |
| a) Cost of maintaining local roads: | | |
| - Government of the Republic of Srpska (Ministry of Transport and Communications) | 16,900,000 | 11,457,890 |
| b) Cost of net personal income of key management and members of Supervisory Board | | |
| | 305,967 | 225,816 |
| <i>Total expenses</i> | 17,205,967 | 11,683,706 |
| <i>Income, net</i> | 1,994,033 | 2,074,184 |

Related party transactions have been performed under terms corresponding to the conditions which prevail in the independent transactions.

NOTES TO THE FINANCIAL STATEMENTS

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All amounts expressed in CM, unless otherwise stated.

33. ESTABLISHMENT OF THE PUBLIC COMPANY “AUTOPUTEVI REPUBLIKE SRPSKE,” BANJA LUKA [“REPUBLIC OF SRPSKA'S HIGHWAYS, BANJA LUKA”]

On November 10, 2006, the Government of the Republic of Srpska enacted a Decision on the establishment of the Public Company “Autoputevi Republike Srpske,” Banja Luka (Official Gazette, number 111/06). The forgoing Decision defines that the founding capital of the start-up – the Public Company “Autoputevi Republike Srpske,” Banja Luka (hereinafter the “Autoputevi RS”), amounts to CM 10,000,000, and that its sole founder is the RS Government. Until the issuance of the accompanying financial statements, the founder of both companies (the RS Government) did not define whether the portion of investments relating to the construction of highways in the Republic of Srpska, which are recorded in the financial statements of the Company as intangible assets in progress totaling CM 160,086,717 (Note 14), will be transferred to the newly-founded company, and the impact it could have on the Company’s financial statements.

The company Autoputevi RS was founded and registered based on the Decision issued by the Basic Court of Banja Luka on January 28, 2009, but according to the management, this entity has not commenced its operations until the preparation of financial statements. In addition, the founder of both companies (the RS Government) did not define the preparation of the split-off balance between the Company and Autoputevi RS until the preparation date of the accompanying financial statements. Based on the aforesaid Decision on the inscription in the Court Register, the founding capital of Autoputevi RS amounted to CM 10,000 and was comprised of cash contributions made by the founder (the Government of RS).

The Company’s management assesses that the aforementioned uncertainty regarding the allocation of a portion of the Company’s assets and liabilities into the newly-founded company Autoputevi RS, should not have significant negative effects on the Company, i.e. the Company will incur significant losses thereof in the forthcoming accounting periods.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

34. SEGMENT INFORMATION

Operating Segments

At December 31, 2008, the Company’s business activities were organized in two main operating segments:

1. regional and main roads, and
2. highways.

a) Primary Reporting Format – Operating Segments

The results per separate segments for the year ended December 31, 2008 are presented in the following table:

| 2008 | Regional and Main Roads | Highways | Total |
|---|--|------------------|-------------------------|
| Operating income | | | |
| Fee and commission income | 87,430,893 | - | 87,430,893 |
| Other operating income | 20,112,851 | 532,646 | 20,645,497 |
| | <u>107,543,744</u> | <u>532,646</u> | <u>108,076,390</u> |
| Operating expenses | | | |
| Main and regional road maintenance expenses | (61,553,453) | - | (61,553,453) |
| Local road maintenance expenses | (20,662,000) | - | (20,662,000) |
| Other materials, fuel and energy | (150,133) | - | (150,133) |
| Staff costs | (3,398,416) | - | (3,398,416) |
| Depreciation and amortization | (9,728,348) | - | (9,728,348) |
| Cost of provisions | (517,279) | - | (517,279) |
| Other operating expenses | (2,419,518) | - | (2,419,518) |
| | <u>(98,429,147)</u> | <u>-</u> | <u>(98,429,147)</u> |
| Profit from operations | <u>9,114,597</u> | <u>532,646</u> | <u>9,647,243</u> |
| Finance income/(expenses) | | | |
| Finance income | 1,906,354 | - | 1,906,354 |
| Finance expenses | (1,886,988) | (532,646) | (2,419,634) |
| | <u>19,366</u> | <u>(532,646)</u> | <u>(513,280)</u> |
| Profit before taxes | <u>9,133,963</u> | <u>-</u> | <u>9,133,963</u> |
| Income tax expense | - | - | - |
| Profit for the year | <u><u>9,133,963</u></u> | <u><u>-</u></u> | <u><u>9,133,963</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

34. SEGMENT INFORMATION (Continued)

a) Primary Reporting Format – Operating Segments (Continued)

The results per separate segments for the year ended December 31, 2007 are presented in the following table:

| 2007 | Regional and Main Roads | Highways | Total |
|---|--|------------------|--------------------------|
| Operating income | | | |
| Fee and commission income | 79,596,506 | - | 79,596,506 |
| Other operating income | 14,501,330 | 519,230 | 15,020,560 |
| | <u>94,097,836</u> | <u>519,230</u> | <u>94,617,066</u> |
| Operating expenses | | | |
| Main and regional road maintenance expenses | (35,846,249) | - | (35,846,249) |
| Local road maintenance expenses | (14,457,890) | - | (14,457,890) |
| Other materials, fuel and energy | (125,523) | - | (125,523) |
| Staff costs | (2,980,308) | - | (2,980,308) |
| Depreciation and amortization | (12,621,552) | - | (12,621,552) |
| Cost of provisions | (525,333) | - | (525,333) |
| Other operating expenses | (4,550,638) | - | (4,550,638) |
| | <u>(71,107,493)</u> | <u>-</u> | <u>(71,107,493)</u> |
| Profit from operations | <u>22,990,343</u> | <u>519,230</u> | <u>23,509,573</u> |
| Finance income/(expenses) | | | |
| Finance income | 579,044 | - | 579,044 |
| Finance expenses | (213) | (519,230) | (519,443) |
| | <u>578,831</u> | <u>(519,230)</u> | <u>59,601</u> |
| Profit before taxes | <u>23,569,174</u> | <u>-</u> | <u>23,569,174</u> |
| Income tax expense | - | - | - |
| Profit for the year | <u><u>23,569,174</u></u> | <u><u>-</u></u> | <u><u>23,569,174</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

34. SEGMENT INFORMATION (Continued)

a) Primary Reporting Format – Operating Segments (Continued)

Assets and liabilities as of December 31, 2008 are presented in the following table:

| December 31, 2008 | Regional and Main Roads | Highways | Total |
|---|--|---------------------------|-----------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 4,708,703,790 | 162,307,176 | 4,871,010,966 |
| Advances for intangible assets | 23,602,281 | 14,631,181 | 38,233,462 |
| Property and equipment | 5,204,628 | - | 5,204,628 |
| Long-term financial placements | 7,529 | - | 7,529 |
| | <u>4,737,518,228</u> | <u>176,938,357</u> | <u>4,914,456,585</u> |
| Current assets | | | |
| Inventories and advances paid | 2,594 | - | 2,594 |
| Accounts receivable | 28,024 | - | 28,024 |
| Short-term financial placements | 26,462,909 | 11,937,091 | 38,400,000 |
| Other receivables and prepayments | 3,142,214 | - | 3,142,214 |
| Cash and cash equivalents | 16,490,176 | 4,736,889 | 21,227,065 |
| | <u>46,125,917</u> | <u>16,673,980</u> | <u>62,799,897</u> |
| Total assets | <u><u>4,783,644,145</u></u> | <u><u>193,612,337</u></u> | <u><u>4,977,256,482</u></u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| State-owned capital | 159,800,540 | - | 159,800,540 |
| Revaluation reserves | 4,447,954,094 | - | 4,447,954,094 |
| Legal reserves | 751,394 | - | 751,394 |
| Retained earnings | 33,072,372 | - | 33,072,372 |
| | <u>4,641,578,400</u> | <u>-</u> | <u>4,641,578,400</u> |
| Long-term provisions and deferred income | 101,675,119 | 141,111,038 | 242,786,157 |
| Long-term borrowings | 23,255,903 | 41,588,288 | 64,844,191 |
| | <u>124,931,022</u> | <u>182,699,326</u> | <u>307,630,348</u> |
| Current liabilities | | | |
| Current portion of long-term liabilities | - | 7,847,582 | 7,847,582 |
| Accounts payable | 15,931,963 | 990,066 | 16,922,029 |
| Other current liabilities and accruals | 1,202,760 | 2,075,363 | 3,278,123 |
| | <u>17,134,723</u> | <u>10,913,011</u> | <u>28,047,734</u> |
| Total equity and liabilities | <u><u>4,783,644,145</u></u> | <u><u>193,612,337</u></u> | <u><u>4,977,256,482</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

34. SEGMENT INFORMATION (Continued)

a) Primary Reporting Format – Operating Segments (Continued)

Assets and liabilities as of December 31, 2007 are presented in the following table:

| December 31, 2007 | Regional and Main Roads | Highways | Total |
|---|--|---------------------------|-----------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 4,660,223,942 | 117,399,901 | 4,777,623,843 |
| Advances for intangible assets | 166,796 | 113,929 | 280,725 |
| Property and equipment | 5,071,555 | - | 5,071,555 |
| Long-term financial placements | 15,058 | - | 15,058 |
| | <u>4,665,477,351</u> | <u>117,513,830</u> | <u>4,782,991,181</u> |
| Current assets | | | |
| Inventories and advances paid | 139,583 | - | 139,583 |
| Accounts receivable | 8,036 | - | 8,036 |
| Short-term financial placements | 23,300,000 | - | 23,300,000 |
| Other receivables and prepayments | 504,582 | - | 504,582 |
| Cash and cash equivalents | 11,999,843 | 7,928,952 | 19,928,795 |
| | <u>35,952,044</u> | <u>7,928,952</u> | <u>43,880,996</u> |
| Total assets | <u><u>4,701,429,395</u></u> | <u><u>125,442,782</u></u> | <u><u>4,826,872,177</u></u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| State-owned capital | 159,800,540 | - | 159,800,540 |
| Revaluation reserves | 4,447,954,094 | - | 4,447,954,094 |
| Legal reserves | 751,394 | - | 751,394 |
| Retained earnings | 23,938,409 | - | 23,938,409 |
| | <u>4,632,444,437</u> | <u>-</u> | <u>4,632,444,437</u> |
| Long-term provisions and deferred income | 57,769,831 | 73,338,780 | 131,108,611 |
| Long-term borrowings | 4,889,574 | 38,384,180 | 43,273,754 |
| | <u>62,659,405</u> | <u>111,722,960</u> | <u>174,382,365</u> |
| Current liabilities | | | |
| Current portion of long-term liabilities | - | 6,666,667 | 6,666,667 |
| Accounts payable | 5,563,234 | 7,053,155 | 12,616,389 |
| Other current liabilities and accruals | 762,319 | - | 762,319 |
| | <u>6,325,553</u> | <u>13,719,822</u> | <u>20,045,375</u> |
| Total equity and liabilities | <u><u>4,701,429,395</u></u> | <u><u>125,442,782</u></u> | <u><u>4,826,872,177</u></u> |

b) Secondary Reporting Format – Geographical Segment

The country of the Company's origin is Bosnia and Herzegovina. Its entire income, the Company earns on the territory of Bosnia and Herzegovina.

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All amounts expressed in CM, unless otherwise stated.

35. FINANCIAL INSTRUMENTS

Equity Risk Management

There is no formal frame delineating the Company's risk management. The Company's Supervisory Board considers equity risk and tries to relieve the risk effects, under the assumption that the Company will be able to continue its operations as a going concern, at the same time maximizing profits earned and optimizing debt to equity ratio. The Company's equity is comprised of borrowings (as explained in Note 24), cash and cash equivalents and capital consisting of state-owned capital, reserves and retained earnings. The Company's Supervisory Board reviews the equity structure as necessary. Based on such reviews, the Company balances the equity structure through new long-term investments, as well as by assuming new loans and by repurchasing the existing ones. The entire strategy of the Company with reference to the equity management remains unchanged.

Significant Accounting Policies

The details of significant accounting policies and convention adopted, as well as basis for measurement and recognition of income and expenses for each category of financial assets and liabilities, are set out in Note 3 to the accompanying financial statements.

Categories of Financial Instruments

The categories of financial instruments are presented as follows:

| | December 31, 2008 | December 31, 2007 |
|--|------------------------------|------------------------------|
| | | <i>Restated</i> |
| Financial assets | | |
| Placements and receivables (including cash and cash equivalents) | <u>97,889,703</u> | <u>43,560,186</u> |
| Financial liabilities – at amortized cost | <u>89,824,265</u> | <u>62,935,793</u> |

In its regular course of business, the Company is to a certain extent, exposed to the following financial risks: market risk (comprised of currency risk, interest rate risk and price risk), liquidity risk and credit risk.

The risk management in the Company is focused on minimizing the potential adverse effects on the Company's financial position and business operations, contingent on the volatility of the market. The accounting policies adopted by the Company regulate the risk management.

The Company does not enter into transactions with derivative instruments, such as interest rate swaps or forwards. In addition, in the course 2008, the Company undertook no transactions with financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

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All amounts expressed in CM, unless otherwise stated.

35. FINANCIAL INSTRUMENTS (Continued)

Market Risk

(a) Currency Risk

The Company’s management assesses that the Company is not significantly exposed to currency risk, in transactions in the country and abroad, as it mostly performs its business operations in the local currency (Convertible Mark), as well as in EUR to which the Convertible Mark is indexed linked (EUR 1 = CM 1.95583). The carrying value of the Company’s financial assets and liabilities denominated in foreign currency as of the reporting date was as follows:

| | Assets | | Liabilities | |
|-----|------------------------------|------------------------------|------------------------------|------------------------------|
| | December 31, 2008 | December 31, 2007 | December 31, 2008 | December 31, 2007 |
| EUR | 12,576,646 | 13,544,575 | 47,648,260 | 16,857,311 |
| USD | 27 | 2 | - | - |
| YPY | 141 | 8 | - | - |
| | <u>12,576,814</u> | <u>13,544,585</u> | <u>47,648,260</u> | <u>16,857,311</u> |

(b) Interest Rate Risk

The Company is exposed to various risks which through the effects of changes in the market interest rates affect its financial position and cash flows.

Given that the Company is not in possession of significant interest-bearing assets, the Company’s income are to a great extent independent of interest rate risks.

The Company’s risk from the changes in fair values arises primarily from the liabilities from long-term borrowings from banks. Borrowings received at variable interest rates render the Company susceptible to interest rate risk in cash flows, whereas borrowings received at fixed interest rates render the Company susceptible to the change in the fair value of interest rates. During 2008, the greatest portion of borrowings incurred by the Company at variable interest rates indexed to EURIBOR or LIBOR (loan approved by NLB Razvojna banka a.d., Banja Luka, EBRD and EIB, Note 24).

The Company analyzes the interest rate risk exposure on a dynamic basis and with regards to the alternative sources of financing and refinancing, in the first place, long-term liabilities, as these represent the most significant interest-bearing position. The Company does not swap fixed for variable interest or the other way around, but it assumes adequate measures for the purpose of obtaining loans from banks at more favorable terms.

In case the interest rate charged to liabilities arising from cash loans as of December 31, 2008 was annually 1% higher/lower, with other variables unchanged, net profit of the Company for the year 2008 would be CM 260,000 lower/higher (2007: CM 326,000) as a result of higher/lower interest expense.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

35. FINANCIAL INSTRUMENTS (Continued)

Market Risk (Continued)

(c) Price Risk

The Company is not significantly exposed to the risk from changes in prices of securities, as the Company does not have significant investments classified in the balance sheet as assets available for sale, or financial assets at fair value where the effects of changes in their fair values are disclosed in the income statement. The Company's equity investments in subsidiaries are not publicly traded.

In addition, the Company is exposed to price risk inherent in the movements in public road tolls (Note 3.9) due to the fact that the amount of tolls are determined based on decisions issued by the Republic of Srpska Government as in accordance with Articles 55 and 56 of the Law on Public Roads.

Liquidity risk

On the Company level, managing the liquidity is centralized. The Company handles its assets and liabilities in a manner which ensures that the Company is able to settle its liabilities at any moment.

The Company has a sufficient amount of highly liquid assets (cash and cash equivalents, as well as term deposits with commercial banks), and continuous cash inflows from tolls which enables it to discharge its liabilities when due.

The Company does not use financial derivatives.

In the order to manage liquidity risk, the Company has adopted financial policies which define dispersion on decision-making levels in the course of the acquisition of certain goods/services. This dispersion is ensured by limiting the authority of persons or bodies vested in authority to enact decisions with reference to certain acquisitions.

The maturities of the Company's financial assets and liabilities as of December 31, 2008 and 2007 were as follows:

| Financial assets | Weighted | | | | | |
|------------------------------------|----------------------|-------------------|---------------------|---------------------|---------------------|-------------------|
| December 31, 2008 | Average | Up to One | From | From | From | Total |
| | Interest Rate | Month | 1 – 6 Months | 6 –12 Months | 1 – 20 Years | |
| Interest free | | - | 38,318,950 | - | - | 38,318,950 |
| Instruments at fixed interest rate | 3% | 21,440,306 | 39,965,343 | - | - | 61,405,649 |
| Total | | <u>21,440,306</u> | <u>78,284,293</u> | <u>-</u> | <u>-</u> | <u>99,724,599</u> |
| December 31, 2007 | | | | | | |
| Interest free | | - | 13,766,515 | - | - | 13,766,515 |
| Instruments at fixed interest rate | 2% | 6,656,503 | 23,716,168 | - | - | 30,372,671 |
| Total | | <u>6,656,503</u> | <u>37,482,683</u> | <u>-</u> | <u>-</u> | <u>44,139,186</u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

35. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

| Financial liabilities | Weighted | | | | | |
|------------------------------------|----------------------|------------------|---------------------|----------------------|---------------------|-------------------|
| December 31, 2008 | Average | Up to One | From | From | From | Total |
| | Interest Rate | Month | 1 – 6 Months | 6 – 12 Months | 1 – 20 Years | |
| Interest free | | - | 17,077,435 | - | - | 17,077,435 |
| Instruments at fixed interest rate | 5% | - | 4,487,514 | 4,421,875 | 68,412,445 | 77,321,834 |
| Total | | - | <u>21,564,949</u> | <u>4,421,875</u> | <u>68,412,445</u> | <u>94,399,269</u> |
| December 31, 2007 | | | | | | |
| Interest free | | - | 12,091,035 | - | - | 12,091,035 |
| Instruments at fixed interest rate | 5% | - | 4,609,647 | 4,532,156 | 44,306,308 | 53,448,111 |
| Total | | - | <u>16,700,682</u> | <u>4,532,156</u> | <u>44,306,308</u> | <u>65,539,146</u> |

The review of maturities of financial instruments (assets and liabilities) is made based on the not discounted cash flows from financial assets and financial liabilities, including interest charged on those assets which will be earned (except from the assets from which the Company expects cash inflow in another accounting period), i.e., based on the earliest date on which the Company can be expected to pay the liability in arrears.

Credit Risk

The credit risk is present in cash and cash equivalents, deposits held with banks and financial institutions, receivables from legal entities and individuals and in commitments, and it relates to the risk that the other party will not settle its liabilities to the Company when these fall due, and the Company will sustain a financial loss.

The Company is exposed to credit risk to a limited extent. The Company is hedged against credit risk by undertaking certain measures and activities on the Company level.

In addition, the Company does not have significant credit risk concentration regarding receivables since there are a great number of mutually unrelated customers with individually small amounts of debts. In addition to making it impossible to further use services, the following means of collection are also used: debt rescheduling, compensations with legal entities, legal suits, out-of-court settlement and the like.

Fair Value

| | December 31, 2008 | | December 31, 2007 | |
|--|--------------------------|-------------------|--------------------------|-------------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| <i>Financial assets</i> | | | | |
| Placements and receivables (cash and cash equivalents) | 97,889,703 | 97,889,703 | 43,560,186 | 43,560,186 |
| <i>Financial liabilities</i> | | | | |
| Creditors and borrowings | 89,824,265 | 89,824,265 | 62,935,793 | 62,935,793 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

35. FINANCIAL INSTRUMENTS (Continued)

Fair Value (Continued)

The assumptions used for the assessment of the current market value of financial assets and liabilities were as follows:

- The carrying value of short-term placements, borrowings and liabilities approximates their fair value due to their relatively short maturity period. For the calculation of fair value of other financial assets and liabilities the method of discounting future cash flows at current market interest rate available to the Company for similar financial instruments.

36. POST BALANCE SHEET EVENTS

On April 30, 2009, the Company submitted to the concerned Ministry of Traffic and Communication of the Republic of Srpska an application requesting from the Company's founder to give its consent to the proposal to increase the Company's capital in the amount of entire revaluation reserves available (CM 4,447,954,094, Note 23), in accordance with the report issued by the Supreme Audit Office for the year 2006 [Note 5, item b)]. Until the preparation of the accompanying financial statements, the Company did not obtain the consent from the founder on the proposal of increasing the Company's core capital.

37. TAXATION RISKS

The Republic of Srpska and Bosnia and Herzegovina currently have several tax laws in effect, as imposed by various governmental agencies. The applicable taxes include: value added tax, corporate tax, and payroll (social) taxes, among others. Apart from that, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent. Hence, few precedents with regard to tax issues have been established in the Republic of Srpska. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, thus creating uncertainties and areas of legal contention. Tax declarations, together with other legal compliance matters (e.g., customs and currency control matters) are subject to the review and investigation by a number of authorities that are legally enabled to impose extremely severe fines, penalties and interest charges.

The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Company may need to pay additional taxes, penalties and interest, which can be significant. In accordance with the Law on Tax Authority of the Republic of Srpska, expiration period of the tax liability is five years. This practically means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability. The afore-described situation creates tax risks in the Republic of Srpska and Bosnia and Herzegovina that are substantially more significant than those typically existing in countries with more developed tax systems.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in CM, unless otherwise stated.

38. EXCHANGE RATES

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

| | December 31 | December 31 |
|-----|--------------------|--------------------|
| | 2008 | 2007 |
| EUR | 1.9558 | 1.9558 |
| USD | 1.3873 | 1.3312 |
| CHF | 1.3071 | 1.1779 |
| RSD | 0.0221 | 0.0245 |