

**CENTRAL SECURITIES DEPOSITORY
AND CLEARING HOUSE A.D., BEOGRAD**

**Financial Statements
December 31, 2008
and Independent Auditors' Report**

**CENTRAL SECURITIES DEPOSITORY
AND CLEARING HOUSE A.D., BEOGRAD**

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Translation of the auditors' report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Managing Board and the Shareholder of the Central Securities Depository and Clearing House a.d., Beograd

We have audited the accompanying financial statements (pages 3 to 26) of the Central Securities Depository and Clearing House a.d., Beograd (the "CSD"), which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of the 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 the accounting regulations of the Republic of Serbia. 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.

Auditor's 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 and the Law on Accounting and Auditing of the Republic of Serbia. 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 Managing Board and the Shareholder of the Central Securities Depository and Clearing House a.d., Beograd (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Central Securities Depository and Clearing House a.d., Beograd as of December 31, 2008, and its financial performance, changes in equity and its cash flows for the year then ended, in accordance with the accounting regulations of the Republic of Serbia.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Notes 5 and 18 to the financial statements providing the following disclosures:

- Due to the global economic crisis and its adverse effect on the economic circumstances on the local market, it may be expected that the Central Securities Depository and Clearing House a.d., Beograd will operate under more difficult conditions and in an uncertain economic environment during 2009;
- According to the amendments and supplements to the Property Tax Law of the Republic of Serbia, from January 30, 2009, tax on the transfer of absolute rights relating to the transfer of securities and equity investments in a legal entity performed according to agreements and other enactments, is not assessed or charged.

In consideration of the fact that in 2008, the Central Securities Depository and Clearing House a.d., Beograd realized significant amount of income by collecting a portion of charges for the transfer of absolute rights (RSD 55,079 thousand), as well as that the impact of the crisis has so far reflected in a decrease of income in 2008 by 42%, as compared with the income for the year 2007, i.e. the drop in the net profit for the year 2008 of 87%, where the net cash outflow in 2008 amounted to RSD 116,610 thousand, as of the financial statements' issuance date, additional negative effects of the crisis and changes in the legal requirements on the CSD's financial positions and results of its operations in the ensuing reporting periods cannot be determined with any certainty.

Belgrade, April 24, 2009

Miroslav Tončić
Certified Auditor

**CENTRAL SECURITIES DEPOSITORY
AND CLEARING HOUSE A.D., BEOGRAD**

INCOME STATEMENT
Year Ended December 31, 2008
(thousands of RSD)

	<u>Note</u>	<u>2008</u>	<u>Adjusted 2007</u>
OPERATING INCOME			
Fee and commission income	3.1, 6	172,382	315,120
Income from membership fees	3.1	25,240	24,320
		<u>197,622</u>	<u>339,440</u>
OPERATING EXPENSES			
Cost of materials	3.1	(4,503)	(5,084)
Staff costs	3.1,7	(115,345)	(115,209)
Depreciation and amortization	3.5	(18,053)	(11,372)
Other operating expenses	3.1, 8	(39,011)	(38,821)
		<u>(176,912)</u>	<u>(170,486)</u>
PROFIT FROM OPERATIONS		20,710	168,954
Finance income	3.1, 3.2	4,618	3,926
Finance expenses	3.2	(1,109)	(73)
Other income	3.1	-	231
Other expenses	3.1	(681)	(523)
		<u>23,538</u>	<u>172,515</u>
PROFIT BEFORE TAX		23,538	172,515
Income tax expense	3.3, 9 a)	(544)	(8,670)
Deferred tax expense	3.3, 9 a)	(1,402)	(1,275)
		<u>(1,946)</u>	<u>(9,945)</u>
NET PROFIT FOR THE YEAR		<u>21,592</u>	<u>162,570</u>
Earnings per share (in RSD)			
Basic earnings per share		<u>1,637</u>	<u>22,993</u>

The accompanying notes on the following pages
are an integral part of these financial statements.

These financial statements were approved by the Managing Board of the Central Securities Depository and Clearing House a.d., Beograd on February 25, 2009.

Signed on behalf of the Central Securities Depository and Clearing House A.D., Beograd:

Vida Uzelac
General Manager

Ljiljana Knežević
Director of Finance and General
Department

**CENTRAL SECURITIES DEPOSITORY
AND CLEARING HOUSE A.D., BEOGRAD**

BALANCE SHEET
As of December 31, 2008
(thousands of RSD)

	<u>Note</u>	<u>December 31, 2008</u>	<i>Adjusted</i> <u>December 31, 2007</u>
ASSETS			
Non-current assets			
Intangible assets	3.4, 10	33,256	29,368
Equipment	3.4, 10	82,248	58,480
Advances for equipment and intangible assets		1,243	6,223
		<u>116,747</u>	<u>94,071</u>
Current assets			
Inventories		7	14
Accounts receivables	3.6, 11	18,993	23,215
Receivables for prepaid income taxes		15,952	3,258
Cash and cash equivalents	12	103,020	220,574
Value added tax and prepayments		892	-
		<u>138,864</u>	<u>247,061</u>
Total assets		<u><u>255,611</u></u>	<u><u>341,132</u></u>
EQUITY AND LIABILITIES			
Equity			
	13		
Share capital		165,870	92,740
Other capital		24,308	24,308
Reserves		34,930	26,804
Retained earnings		21,646	180,453
		<u>246,754</u>	<u>324,305</u>
Current liabilities			
Accounts payable	3.6, 14	5,728	14,137
Value added tax and other public duties payable and accruals		254	1,217
		<u>5,982</u>	<u>15,354</u>
Deferred tax liabilities	9 c)	<u>2,875</u>	<u>1,473</u>
Total equity and liabilities		<u><u>255,611</u></u>	<u><u>341,132</u></u>

The accompanying notes on the following pages
are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2008
(thousands of RSD)

	Share Capital	Other Capital	Reserves	Retained Earnings	Total
<i>Adjusted</i>					
Balance, January 1, 2007	47,000	24,308	21,086	132,254	224,648
Distribution of profit:					
- increase in share capital	45,740	-	-	(45,740)	-
- payment of dividend to a shareholder	-	-	-	(56,050)	(56,050)
- payment to employees	-	-	-	(6,863)	(6,863)
- transfer to reserves	-	-	5,718	(5,718)	-
Profit for the year	-	-	-	162,516	162,516
Balance, December 31, 2007	92,740	24,308	26,804	180,399	324,251
Adjustment to retained earnings	-	-	-	54	54
Balance, December 31, 2007, adjusted	<u>92,740</u>	<u>24,308</u>	<u>26,804</u>	<u>180,453</u>	<u>324,305</u>
Balance, January 1, 2008	92,740	24,308	26,804	180,453	324,305
Distribution of profit:					
- increase in share capital	73,130	-	-	(73,130)	-
- transfer to reserves	-	-	8,126	(8,126)	-
- dividend paid to a shareholder	-	-	-	(99,143)	(99,143)
Profit for the year	-	-	-	21,592	21,592
Balance, December 31, 2008	<u>165,870</u>	<u>24,308</u>	<u>34,930</u>	<u>21,646</u>	<u>246,754</u>

The accompanying notes on the following pages are an integral part of these financial statements.

CASH FLOW STATEMENT
Year Ended December 31, 2008
(thousands of RSD)

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Cash receipts from customers	200,292	323,737
Interest received from operating activities	4,500	3,843
Other cash receipts from operating activities	1,552	23,173
Cash paid to suppliers	(53,767)	(33,414)
Cash paid to, and on behalf of employees	(115,345)	(115,233)
Income taxes paid	(13,238)	(14,588)
Other public duties payable	(998)	(6,380)
<i>Net cash provided by operating activities</i>	<u>22,996</u>	<u>181,138</u>
INVESTING ACTIVITIES		
Purchases of intangible assets, property, plant and equipment	<u>(40,463)</u>	<u>(47,039)</u>
<i>Net cash used in investing activities</i>	<u>(40,463)</u>	<u>(47,039)</u>
FINANCING ACTIVITIES		
Dividends paid	<u>(99,143)</u>	<u>(61,506)</u>
<i>Net cash used in financing activities</i>	<u>(99,143)</u>	<u>(61,506)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(116,610)	72,593
CASH AND CASH EQUIVALENT, BEGINNING OF YEAR	220,574	147,971
Foreign exchange gains on translation of cash and cash equivalents	118	83
Foreign exchange losses on translation of cash and cash equivalents	<u>(1,062)</u>	<u>(73)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>103,020</u></u>	<u><u>220,574</u></u>

The accompanying notes on the following pages
are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

1. ESTABLISHMENT AND PRINCIPAL ACTIVITIES OF THE CSD

The Central Securities Depository and Clearing House a.d., Beograd (hereinafter: the "CSD") was established pursuant to the Commercial Court of Belgrade Decision numbered Fi. 13518-03 of December 10, 2003. In accordance with the provisions of the Law on Business Entities ("Official Gazette of the Republic of Serbia," No. 125-2004), the CSD was inscribed in the Register maintained by the Serbian Business Registers Agency under the number BD 152/2005, on January 24, 2005.

The CSD was founded based on the Law on Securities' Markets and Other Financial Instruments (the "Law"). In accordance with the aforementioned Law and its Statutes, the CSD performs the following activities:

- Maintains the register of securities;
- Records securities on issuers' accounts;
- Records and manages the accounts of securities of the Central Securities Depository members;
- Records third-party rights to securities;
- Safekeeps materialized securities;
- Maintains the monetary accounts of the CSD members;
- Records the materialized securities in a dematerialized form;
- Clears and settles receivables and payables in securities and cash originating in transactions executed in securities;
- Transfers and re-enters securities on the accounts of the CSD members and holders of securities;
- Creates and maintains securities' databases; and
- Performs other operations associated with securities.

Until the establishment of the CSD, the National Bank of Serbia ("NBS") conducted all operations with respect to the registration, depositing, clearance and settlement of securities. Pursuant to Article 260 of the previously-enacted Law on Securities' Markets and Other Financial Instruments (effective until the Law on Securities' Markets and Other Financial Instruments published in the Official Gazette of the Republic of Serbia no. 47/2006 came into force), from the date of its foundation, the CSD assumed all documentation pertaining to the aforementioned operations involving securities, equipment and information system of the National Bank of Serbia, as well as the employees of the NBS performing such activities until the date of the CSD establishment.

The CSD's sole owner is the Government of the Republic of Serbia. In accordance with the Law, the participation of state-owned capital may not be under 51%.

The CSD's tax identification number is 103154145.

At December 31, 2007 the CSD's Head Office is situated in Belgrade, at Trg Nikole Pašića number 5.

At December 31, 2008, the Central Register had 35 employees (2007: 33 employees).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

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

2.1. Basis of Preparation and Presentation of Financial Statements

Pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46 of June 2, 2006), legal entities and enterprises incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards.

Pursuant to its Decision numbered 011-00-738-2003-01 of December 30, 2003, the Republic of Serbia Ministry of Finance determined and issued the Framework and IAS that were applied as of December 31, 2002, and upon which both the previous and the Law on Accounting and Auditing from 2006 were based.

The amendments to the IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board (the "Board") and the International Financial Reporting Interpretations Committee (the "Committee"), upon the aforementioned date, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia (the "Ministry") with reference to the issuance of International Financial Reporting Standards (number 401-00-11/2008-16) and published in the Official Gazette of the Republic of Serbia number 16 of February 12, 2008. The Ministry also established (based on the Decision number 401-00-1456/2008-16) and published the official translation of the amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and to IFRS 7 "Financial Instruments: Disclosures" in the RS Official Gazette number 116 as of December 17, 2008.

However, until the preparation date of the accompanying financial statements, not all amendments to Standards and Interpretations had been translated (particularly subsequent to the enactment of the aforementioned Ministry's opinion). In addition, the officially prescribed forms for financial statements, "Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" ("Guidelines") and other secondary legislation acts had not yet been amended, i.e. reconciled. The Interpretations in application for the accounting periods commencing January 1, 2008, which were not officially translated and adopted by the Ministry are disclosed in Note 2.2.

In addition, the accounting regulations of the Republic of Serbia depart from IFRS and certain provisions of IAS 19 "Employee Benefits" since, in accordance with the opinion of the Ministry, the employees' share in profit is charged to retained earnings and not to the current period results.

In addition, the accompanying financial statements are presented in the format prescribed under the "Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" (See Official Gazette of the Republic of Serbia, nos. from 114/06 to 119/08).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

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

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

The financial statements were prepared at historical cost principle, unless otherwise stipulated in the accounting policies presented hereunder.

In the preparation of the accompanying financial statements, the CSD has adhered to the accounting policies described in Note 3. These accounting policies have been consistently applied to all presented reporting periods.

The CSD financial statements are stated in thousands of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia.

2.2. Standards and Interpretations Issued, but not yet in Effect

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

- IAS 1 Presentation of Financial Statements (effective for financial periods starting January 1, 2009);
- IAS 23 Borrowing costs (effective for financial periods starting January 1, 2009);
- IFRS 8 Operating Segments (effective for financial periods starting January 1, 2009);
- IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial periods starting July 1, 2009);
- Amendments to IFRS 2 Share-Based Payment - Vesting Conditions and Cancellations (effective for financial periods starting January 1, 2009);
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for financial periods starting January 1, 2009);
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial periods starting July 1, 2009);
- Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial periods starting 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 (effective for financial periods starting January 1, 2009);
- Improvements to IFRS 1 First-time Adoption of International Financial Reporting Standards (in effect from July 1, 2009);
- IFRIC 17 Distributions of Non-cash Assets to Owners (in effect from July 1, 2009).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

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

2.2. Standards and Interpretations Issued, but not yet in Effect (Continued)

Also, as of the financial statements preparation date, the following interpretations were not officially translated and adopted by the Ministry.

- IFRIC 13 Customer Loyalty programs (effective for financial periods starting July 1, 2008);
- IFRIC 14 Interpretation on IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for the accounting periods starting January 1, 2008);
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation. (effective for financial periods starting October 1, 2008);
- IFRIC 18 Transfers of Assets from Customers (effective for financial periods starting July 1, 2009).

2.3. Comparative Figures

In order to conform the presentation of figures to the current reporting period, certain reclassifications have been made to the amounts reported in the financial statements for the year ended December 31, 2007, as well as adjustments – increase in net profit, i.e. retained earnings as of December 31, 2007 for the amount of RSD 54 thousand, relating to a decrease in tax expenses for the year of RSD 238 thousand and the increase in deferred tax expenses in the amount of RSD 184 thousand.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense Recognition

Fee and commission income and other income are measured at the fair value of the consideration received or receivable, net of value added tax.

Fee and commission income and income earned for membership fees are computed in accordance with the Tariff Rate Rules of the Central Securities Depository and Clearing House, which is subject to the prior approval of the Securities Commission of the Republic of Serbia. In accordance with the Tariff Rate Rules, the annual membership fee for the members of the CSD amounts to RSD 240 thousand, while other fees are computed in fixed amounts or in a defined percentage of the value of the transaction, depending upon the type of service provided and the amount of the transaction.

Interest income and interest expense is recognized on an accrual basis.

At the time when income is recognized, the related expenditure is also recognized (as per the “matching principle”).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at official exchange rates, as determined on the Interbank Market, at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into dinars by applying the official exchange rates, as determined on the Interbank Market, which are prevailing at the balance sheet date.

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

3.3. Income Taxes

Current Income Taxes

Current income tax represents an amount that is calculated and paid in accordance with the effective Republic of Serbia Income Tax Law.

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. The taxable base stated in the income tax return includes the profit shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules.

The tax regulations in the Republic of Serbia 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 duration of no longer than ten 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.

Deferred income taxes are either charged or credited to the Income Statement, except in so far as they relate to items that are directly credited or charged to capital, and in that instance, the deferred taxes are then also recognized under equity.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Equipment and Intangible Assets

Equipment and intangible assets are stated at cost less accumulated depreciation/amortization and impairment losses, if any. Additions to equipment and intangible assets are recorded at cost. Cost represents the price billed by suppliers together with all costs incurred in bringing the new assets into use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in the income statement.

Maintenance and repair costs are recognized as expenses.

3.5. Depreciation and Amortization

The depreciation and amortization of equipment and intangible assets are computed on a straight-line basis in order to fully write off the cost of the assets over their estimated useful lives.

The principal annual depreciation and amortization rates in use are as follows:

Intangible assets	20%
Office furniture	10%
Computers and IT equipment	25% - 50%
Vehicles	20%
Other equipment	25%

3.6. Financial Instruments

Financial assets and liabilities are recognized in the CSD's balance sheet when the CSD has become a counterparty to the contractual provisions of a particular financial instrument.

Accounts Receivable

Accounts receivable are stated at their nominal value less any allowance for impairment, based on the management's estimate as to the likelihood of their collectability.

Accounts Payable

Accounts payable are stated at their nominal values.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES

The presentation of the financial statements requires the CSD 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 us, as of the date of preparation of the financial statements.

4.1. Estimates and Assumptions

What follows are the key assumptions in respect of the future events and other sources of estimations, uncertainties as of the balance sheet date which represent risk from material adjustments to the amounts of balance sheet items in the following fiscal year.

4.2. Depreciation and Amortization Charge and Rates Applied

The calculation of depreciation and amortization is based on the projected economic useful life of equipment and intangible assets.

4.3. Provisions for Litigations

In general, provisioning is highly judgmental. The CSD assesses the likelihood of unfavorable effects contingent upon past events and estimates the amount of resources that may be necessary to settle the liability. Although the CSD prudently makes the assessments and estimations, given the great uncertainty, in certain cases actual results may vary from these assessments.

4.4 Fair Value

The fair value of financial instruments for which an active market does not exist is determined by applying adequate valuation methods. The CSD applies its professional judgment in the selection of adequate methods and assumptions.

5. GLOBAL ECONOMIC CRISIS

Due to the current global crisis in the market and its weakening effects on domestic economic activities on the local market in Republic of Serbia, the Central Register will probably operate in a more difficult and uncertain economic environment in 2009, and possibly beyond. The impact of this crisis on the CSD's business operations is currently not possible to fully predict and therefore there is an element of general uncertainty.

So far, the ongoing financial crisis has had a limited impact on the financial position and performance of the CSD, which reflected in a decline in revenues earned from trading on the stock exchange, i.e. the drop in the value of the stock exchange index. The management anticipates that the liquidity will be on a satisfactory level in the forthcoming period, without the needs for additional capital injections. However, possible deterioration in the economic situation in the country will probably lead to a further decrease of trading on the stock exchange, whereby further decline in revenues may be expected.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

6. FEE AND COMMISSION INCOME

	Year Ended December 31,	
	2008	2007
Fees on:		
- purchase and sale over-the-counter operations	23,294	25,269
- purchase and sale operations on the stock exchange	40,834	136,701
- opening of accounts for depositing securities	2,190	2,140
- transfers based on effective contracts on gifts, court orders and other contracts and decisions	2,451	5,588
- transfers based on the sale of securities of the Republic of Serbia Share Fund	5,235	6,679
- transfers of bonds based on share repurchases	514	288
- tax on the transfer of absolute rights	55,079	92,958
- registration of security issuances	6,840	7,460
- corporate activities	15,311	13,554
- opening of issuance accounts	1,490	1,880
- issuance and maintenance of the Smart Card	2,331	2,340
- messages with DUPL status	229	573
- installation and maintenance of client applications	5,400	5,730
- other services	11,184	13,960
	<u>172,382</u>	<u>315,120</u>

The CSD disclosed income arising from fees and commission charged on the purchase and sale transactions on the Stock Exchange in the amount of RSD 147,622 thousand (2007: RSD 291,043 thousand). The significant decline in commissions collected is contingent upon the decrease in the scope of trading on the stock exchange.

7. STAFF COSTS

	Year Ended December 31,	
	2008	2007
Gross salaries and benefits	92,547	93,520
Taxes and contributions on salaries and benefits payable by employer	12,080	11,132
Considerations payable to private individuals based on other contracts	1,342	1,060
Remunerations to Managing Board members	3,766	2,955
Other staff costs	5,610	6,542
	<u>115,345</u>	<u>115,209</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

8. OTHER OPERATING EXPENSES

	Year Ended December 31,	
	2008	2007
Rentals	13,028	11,967
Non-production services	6,818	5,396
Entertainment	2,752	2,931
Bank charges and fees	1,105	1,059
Postal and telecommunication costs	4,256	5,098
Advertising	974	1,352
Insurance premiums	1,015	1,075
Maintenance / cleaning of business premises	1,483	1,373
Employee medical examinations	1,806	1,964
Business associations membership fees	1,398	970
Other expenses	4,376	5,636
	39,011	38,821

9. INCOME TAXES

a) Components of Income Tax

	Year Ended December 31,	
	2008	Adjusted 2007
Current tax expenses	544	8,670
Deferred tax expense	1,402	1,275
	1,946	9,945

b) Numerical reconciliation between the tax expense and the product of accounting results multiplied by the applicable tax rate

	2008	2007
Profit before tax	23,538	172,515
Income tax at the statutory tax rate of 10%	2,354	17,251
Tax effect of non-deductible expenses	46	98
Tax credits for capital expenditures	(544)	(7,350)
Other	90	(54)
Tax effects disclosed in the income statement	1,946	9,945

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

9. INCOME TAXES (Continued)

c) Components of Deferred Tax Liabilities

	December 31, 2008.	Adjusted December 31, 2007
Deferred tax liabilities		
Temporary differences on equipment and intangible assets	(2,875)	(1,473)
Deferred tax liabilities	(2,875)	(1,473)

Deferred tax assets in the amount of RSD 2,875 thousand at December 31, 2008 are associated with the temporary differences arising between the tax base at which property, plant and equipment, and intangible assets are stated in the annual income tax return, and the carrying value of such assets, as recorded in the CSD's financial statements.

10. EQUIPMENT AND INTANGIBLE ASSETS

	Computers and IT Equipment	Other Equipment and Equipment in Progress	Construction in Progress	Total Equipment	Intangible Assets
Cost					
Balance, January 1, 2007	59,027	16,001	4	75,032	7,878
Direct additions	-	-	53,794	53,794	-
Transfer from construction in progress	27,566	897	(53,794)	(25,331)	25,331
Other	-	-	(4)	(4)	-
Balance, December 31, 2007	86,593	16,898	-	103,491	33,209
Balance, January 1, 2008	86,593	16,898	-	103,491	33,209
Direct additions	-	-	45,957	45,957	-
Transfer from construction in progress	33,435	969	(45,957)	(11,553)	11,553
Disposal	(1,903)	(632)	-	(2,535)	-
Other	-	-	-	-	1
Balance, December 31, 2008	118,125	17,235	-	135,360	44,763
Accumulated Depreciation and Amortization					
Balance, January 1, 2007	30,330	4,862	-	35,192	2,289
Charge for the year	7,616	2,203	-	9,819	1,552
Balance, December 31, 2007	37,946	7,065	-	45,011	3,841
Accumulated Depreciation and Amortization					
Balance, January 1, 2008	37,946	7,065	-	45,011	3,841
Charge for the year	8,195	2,192	-	10,387	7,666
Disposal	(1,903)	(383)	-	(2,286)	-
Balance, December 31, 2008	44,238	8,874	-	53,112	11,507
Net Book Value:					
- at December 31, 2008	73,887	8,361	-	82,248	33,256
- at January 1, 2008	48,647	9,833	-	58,480	29,368

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

11. ACCOUNTS RECEIVABLE

	December 31, 2008	December 31, 2007
Fee and commission receivables	14,796	17,466
Receivables from employees	4,125	4,478
Other	72	1,271
	18,993	23,215

The CSD stated receivables from its members in the amount of RSD 14,796 thousand as of December 31, 2008, based on the fees it collects as in accordance with the Tariff Rate Rules of the Central Securities Depository and Clearing House.

At December 31, 2008, the CSD presented receivables from employees in the amount of RSD 4,125 thousand, arising from loans approved for the acquisition of firewood, winter food and books for the period of 12 months, which were approved based on the Operating Rules of the Central Securities Depository and Clearing House and Decision of the General Director 50 number 3-124 as of October 29, 2008.

12. CASH AND CASH EQUIVALENTS

	December 31, 2008	December 31, 2007
Current accounts in dinars	102,743	220,328
Foreign currency accounts	277	246
	103,020	220,574

13. EQUITY

a) Share Capital

The CSD's share capital had the following ownership structure as of December 31, 2008 and 2007:

	December 31, 2008		December 31, 2007	
	Thousands of RSD	Share Number	Thousands of RSD	Share Number
<i>Shareholder and percentage of its ownership interest</i>				
Republic of Serbia - 100%	165,870	16,587	92,740	9,274
	165,870	16,587	92,740	9,274

The par value of a single share amounts to RSD 10,000 thousand. The CSD's shares are common and voting shares, whereas the CSD is a closed shareholding company the shares of which are listed on the stock exchange.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

13. EQUITY (Continued)

a) Share Capital (Continued)

Pursuant to the CSD's Decision number 10 1/3-10 as of June 18, 2008, the share capital of the Central Securities Depository and Clearing House increased in 2008 by allocating an amount of RSD 73,130 thousand from retained earnings, which was further fragmented into 4,574 shares with the individual par value of RSD 10,000.

The CSD capital registered with the Serbian Business Registers Agency totals EUR 2,041,206.17 and the amount relates to the dinar countervalue of capital in EUR initially paid in and the Decision on the next capital increase which is to be executed through allocation of profit.

In accordance with the Law on Securities' Markets and Other Financial Instruments, the ownership interest of the state-owned capital may not decrease below 51%. The monetary portion of the CSD capital cannot be lower than EUR 50,000 in the dinar equivalent effective as of the payment date.

b) Other Capital

Other capital of the Central Register as of December 2008 and 2007 was as follows:

	December 31, 2008	December 31, 2007
Other capital	24,308	24,308
	24,308	24,308

Other capital relates to the worth of equipment transferred to the Central Register by the National Bank of Serbia at no charge, and pursuant to the Article 260 of the previously-enacted Law on Securities' Markets and Other Financial Instruments (effective until the Law on Securities' Markets and Other Financial Instruments published in the Official Gazette of the Republic of Serbia no. 47/2006 came into force), prescribing that the CSD is to assume all documentation with regards to the securities' operations, equipment and information system of the National Bank of Serbia, as well as the NBS employees performing such activities, until the date of the CSD's establishment.

The aforementioned amount of capital was neither registered with the Serbian Business Registers Agency, nor had there been a share issuance thereof prior to December 31, 2008.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

13. EQUITY (Continued)

c) Retained Earnings

Pursuant to the relevant CSD Assembly Decision on the profit distribution number 10 1/3-10 dated June 18, 2008, profit was distributed in the following way:

- share capital	73,130
- reserves	8,126
- dividends paid to a shareholder	99,143
	180,399

14. ACCOUNTS PAYABLE

	December 31, 2008	December 31, 2007
Domestic accounts payable	5,290	13,911
Advances from customers	438	226
	5,728	14,137

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Significant Accounting Policies Regarding Financial Instruments

The review of significant accounting policies, including the basis for measurement and recognition of income and expenses for each category of financial assets and financial liabilities, are set out in Note 3 to the financial statements.

Financial instruments categories

	December 31, 2008	December 31, 2007
Financial assets		
Accounts receivable	14,796	17,466
Cash and cash equivalents	103,020	220,574
	117,816	238,040
Financial liabilities		
Account payable	5,290	13,911
	5,290	13,911

The CSD's basic financial instruments comprise cash and cash equivalents, receivables, as well as accounts payable. In the regular course of business, the CSD is exposed to the risk enumerated in the following passages.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Objectives of Financial Risk Management

Financial risks include market risk (foreign currency and interest rate risk), credit risk and liquidity risk. Financial risks are considered on a time basis and are primarily mitigated by reducing the CSD's exposure to these risks. The CSD does not make use of any financial instruments as a hedge against the effects of financial risks on business operations because such instruments are neither widely used, nor is there an organized market for such instruments in the Republic of Serbia.

Market Risk

In its business operations, the CSD is exposed to financial risks inherent in foreign currency and interest rate changes.

The exposure to the market risk is measured by means of sensitivity analysis. There were neither significant changes in the exposure of the CSD to the market risk, nor in the manner in which the CSD manages or measures that risk.

Foreign Currency Risk

The CSD is mainly exposed to the foreign currency risk through the items of cash and cash equivalents, accounts receivable, long-term borrowings and accounts payable denominated in foreign currency. The CSD does not use special hedge instruments, since such instruments are uncommon in the Republic of Serbia.

The stability of the economic environment in which the CSD operates largely depends upon the economic measures introduced by the Government and the establishment of an adequate legal and regulatory framework.

The carrying value of the CSD's monetary assets and liabilities expressed in foreign currency as of the reporting date were as follows:

	Assets		Liabilities	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
EUR	277	275	-	-
USD	-	-	3,726	7,452
	<u>277</u>	<u>275</u>	<u>3,726</u>	<u>7,452</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market Risk (Continued)

Foreign Currency Risk (Continued)

The CSD is sensitive to the movements in the EUR and American Dollar (USD) exchange rates. The following table gives details on the CSD's sensitivity to the increase and decrease of 10% in the dinar to foreign currency exchange rate. The sensitivity rate of 10% was used in internal reporting on the foreign currency risk and it represents the management's best estimate of reasonably expected fluctuations in exchange rates. The sensitivity analysis includes only the outstanding foreign currency assets and liabilities and it adjusts their translation at the period end for the fluctuation of 10% in foreign exchange rates. The positive number from the table points to the increase in the results of the current period. In case the dinar exchange grew weaker compared with foreign currency at issue, the impact thereof would be the exact opposite to the result in the previous case.

	December 31, 2008	December 31, 2007
EUR	(28)	(25)
USD	373	637
Profit/Loss	345	612

Interest Rate Risk

The CSD is not exposed to interest rate risk through the items of its assets and liabilities given that it has no placements and/or liabilities indexed to variable interest rates.

The carrying values of financial assets and liabilities at the end of the period under review are presented in the following table:

	December 31, 2008	December 31, 2007
Financial assets		
<i>Non-interest bearing</i>		
Accounts receivable	14,796	17,466
<i>Fixed interest rates</i>		
Cash and cash equivalents	103,020	220,574
	117,816	238,040
Financial liabilities		
<i>Non-interest bearing</i>		
Account payable	5,290	13,911
	5,290	13,911

The CSD earns interest income based on assets held on the current account in accordance with the intervals stipulated in the relevant contract.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk

Managing Accounts Receivable

Credit risk relates to the exposure inherent in the possibility that the contractual party fails to act upon its contractual commitments and cause the CSD to suffer loss. The exposure to this risk is limited to accounts receivable as of the balance sheet date. Accounts receivable are comprised of a great number of debtors, majority of which is associated with Uni Credit banka a.d., Beograd and amounting to RSD 2,777 thousand. The CSD transacts mostly with legal entities with high credit rating, such as banks and other financial institutions.

The most significant customers are presented in the following table:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Uni Credit banka a.d., Beograd	2,777	1,381
Banca Intesa a.d., Beograd	906	1,011
Republic of Serbia Ministry of Finance	765	894
Beomonet, Beograd	671	325
Tandem Financial a.d., Novi Sad	548	54
Eurobank EFG Štedionica a.d., Beograd	445	850
Komercijalna banka a.d., Beograd	406	1,558
M&V Investments a.d., Novi Sad	393	263
S.A.B. Monet a.d., Beograd	354	4
Vojvodanska banka a.d., Novi Sad	301	645
Other	7,230	10,481
	<u>14,796</u>	<u>17,466</u>

The structure of accounts receivable as of December 31, 2008 is presented in the following table:

	<u>Gross Exposure</u>	<u>Allowance for Impairment</u>	<u>Net Exposure</u>
Accounts receivable, not matured	6,091	-	6,091
Accounts receivable matured, but not provided for	8,705	-	8,705
	<u>14,796</u>	<u>-</u>	<u>14,796</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Managing Accounts Receivable (Continued)

The structure of accounts receivable as of December 31, 2007 is presented in the following table:

	<u>Gross Exposure</u>	<u>Allowance for Impairment</u>	<u>Net Exposure</u>
Accounts receivable, not matured	12,971	-	12,971
Accounts receivable matured, but not provided for	4,495	-	4,495
	<u>17,466</u>	<u>-</u>	<u>17,466</u>

Accounts Receivable, not Matured

Accounts receivable, not matured as of December 31, 2008 in the amount of RSD 6,091 thousand (December 31, 2007: RSD 12,971 thousand) mostly refer to fee and commission receivables. These receivables mature mostly within 15 days from the invoicing date, depending on the contractual terms. The average days' sales outstanding in 2008 counted 43 days (2007: 25 days).

Accounts Receivable Matured, but not Provided for

The CSD did not make an allowance for impairment of receivables matured as of December 31, 2008 in the amount of RSD 8,705 thousand (December 31, 2007: RSD 4,495 thousand) given that the customer creditworthiness has not changed and since the receivables are mostly due from customers with high credit rating (banks and financial institutions), the CSD's management holds that the present value of these receivables will be collected in full.

The aging structure of accounts receivable matured, but not provided for is presented as follows:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Less than 30 days	2,738	838
From 31 to 90 days	3,237	2,700
From 91 to 180 days	1,969	825
From 181 to 365 days	761	132
	<u>8,705</u>	<u>4,495</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Managing Accounts Payable

Accounts payable as of December 31, 2008 stated in the amount of RSD 5,290 thousand (December 31, 2007: RSD 13,911 thousand) where the major portion of RSD 3,726 thousand relates to the liabilities towards the supplier Saga d.o.o., Beograd arising from the acquisition of a licensed software. These suppliers do not charge penalty against matured liabilities, whereas the CSD duly settles accounts payable, as in accordance with financial risk management policies.

Liquidity Risk

The ultimate responsibility for liquidity risk management resides with the CSD's management, which is also responsible for managing the CSD's short-term, medium-term and long-term financing and liquidity management. The CSD manages liquidity by maintaining the necessary level of cash reserves, based on continued monitoring over the planned and actual cash flows, as well as by matching the maturities of financial assets and liabilities.

Tables of Liquidity and Credit Risk

The following tables set out details of outstanding contractual maturities of financial assets. The presented amounts are based on undiscounted cash flows arising from financial assets based on the earliest date upon which the CSD may be expected to collect such receivables. Interest to be earned on financial assets is not included in the aforementioned tables given that the management of CSD assesses that its effects are not materially significant.

Maturities of Financial Assets

	December 31, 2008					
	Less than One Month	From 1 to 3 Months	From 3 Months to 1 year	From 1 to 5 Years	Over 5 Years	Total
Non-interest bearing	14,796	-	-	-	-	14,796
Fixed interest rate	103,020	-	-	-	-	103,020
	<u>117,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,816</u>
	December 31, 2007					
	Less than One Month	From 1 to 3 Months	From 3 Months to 1 year	From 1 to 5 Years	Over 5 Years	Total
Non-interest bearing	17,466	-	-	-	-	17,466
Fixed interest rate	220,574	-	-	-	-	220,574
	<u>238,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>238,040</u>

The following tables give the details of outstanding contractual liabilities of the CSD. The amounts presented are based on the undiscounted cash flows arising from financial liabilities based on the earliest date upon which the CSD will be due to settle such payables.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Tables of Liquidity and Credit Risk (Continued)

Maturities of Financial Liabilities

	December 31, 2008					Total
	Less than One Month	From 1 to 3 Months	From 3 Months to 1 year	From 1 to 5 Years	Over 5 Years	
Non-interest bearing	1,564	-	3,726	-	-	5,290
	<u>1,564</u>	<u>-</u>	<u>3,726</u>	<u>-</u>	<u>-</u>	<u>5,290</u>
	December 31, 2007					
	Less than One Month	From 1 to 3 Months	From 3 Months to 1 year	From 1 to 5 Years	Over 5 Years	Total
Non-interest bearing	6,343	-	3,784	3,784	-	13,911
	<u>6,343</u>	<u>-</u>	<u>3,784</u>	<u>3,784</u>	<u>-</u>	<u>13,911</u>

Fair Value of Financial Instruments

The following table represents the present value of financial assets and liabilities and their fair value as of December 31, 2008 and 2007.

	December 31, 2008		December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Accounts receivable	14,796	14,796	17,466	17,466
Cash and cash equivalents	103,020	103,020	220,574	220,574
	<u>117,816</u>	<u>117,816</u>	<u>238,040</u>	<u>238,040</u>
Financial Liabilities				
Account payable	5,290	5,290	13,911	13,911
	<u>5,290</u>	<u>5,290</u>	<u>13,911</u>	<u>13,911</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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16. TAXATION RISKS

The Republic of Serbia tax legislation is subject to varying interpretations and changes occur frequently. Limitation period for the tax liabilities is five years, which means that tax authorities may perform verification of the accuracy of calculated tax liabilities in the period of five years from the moment of tax liability origination. Since the CSD performed computation of tax liabilities in accordance with the effective tax regulations, the management is not aware of any additional tax liabilities that might arise with respect to the aforementioned matter.

17. LITIGATIONS

The Central Securities Depository and Clearing House is involved in a number of litigations which are not expected to cause significant losses to the CSD, based on the assessment of the available legal documentation and information provided by the Office of Attorney General, professional services and legal advisors.

18. POST BALANCE SHEET EVENTS

Subject to Article 21 and 24 of the Law on Amendments and Supplements of the Property Income Tax Law (RS Official Gazette number 5/2009), from January 30, 2009, tax on the transfer of absolute rights arising from the transfer of securities and equity investments in a legal entity executed pursuant to the agreements and other enactments, is not assessed and charged. Given that the Central Securities Depository and Clearing House stated significant amount of income earned by collecting a portion of fees charged upon transfer of absolute rights (Note 6), pursuant to the Law, the Central Securities Depository and Clearing House will not be entitled to present income thereof.

19. EXCHANGE RATES

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

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
USD	62.9000	53.7267
EUR	88.6010	79.2362
GBP	90.8635	107.308
CHF	59.4040	47.8422