

“TIGAR” A.D., PIROT

**Financial Statements
Year Ended December 31, 2009
and Independent Auditors’ Report**

CONTENTS	Page
Independent Auditors’ Report	1 - 2
Financial Statements:	
Income Statement	3
Balance Sheet	4
Statement of Changes in Equity	5
Cash Flow Statement	6
Notes to the Financial Statements	7 - 50

Translation of the Independent Auditors' Report Issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of TIGAR A.D., Pirot

We have audited the accompanying financial statements (pages 3 to 50) of Tigar A.D., Pirot (the "Company"), which comprise the balance sheet as at December 31, 2009, and the related 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 system 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 Board of Directors and Shareholders of TIGAR A.D., Pirot (Continued)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Tigar A.D., Pirot as at December 31, 2009, and the its financial performance and 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 Note 2.1 to the financial statements disclosing that the accompanying financial statements include only the receivables, payables, results of operation, changes in equity and cash flows of the Company, without those of its subsidiaries. Investments in subsidiaries are included in these financial statements at cost. The consolidated financial statements, which the Company is required to prepare and submit to the Serbian Business Registers Agency by the end of April 2010 pursuant to the Law on Accounting and Auditing of the Republic of Serbia (Official Gazette of RS, number 46 as of June 2, 2006), provide a better insight into the Company's financial position.

Belgrade, April 16, 2010

Žarko Mijović
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2009
(thousands of RSD)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
OPERATING INCOME			
Sales of goods, products and services	5	242,016	182,411
Own work capitalized	6	9,361	37,833
Rentals		21,834	32,549
		<u>273,211</u>	<u>252,793</u>
OPERATING EXPENSES			
Cost of commercial goods sold		(38)	(2,479)
Cost of materials	7	(80,494)	(40,373)
Staff costs	8	(245,379)	(224,056)
Depreciation, amortization and provisions	9	(22,235)	(14,631)
Other operating expenses	10	(187,388)	(235,442)
		<u>(535,534)</u>	<u>(516,981)</u>
LOSS FROM OPERATIONS		<u>(262,323)</u>	<u>(264,188)</u>
Finance income	11	154,698	262,757
Finance expenses	12	(140,161)	(198,143)
Other income	13	688,343	1,104,379
Other expenses	14	(295,278)	(693,768)
PROFIT BEFORE TAXATION		<u>145,279</u>	<u>211,037</u>
INCOME TAXES	15		
Current tax expense		(30,148)	(41,133)
Deferred tax expense		(1,449)	(1,801)
		<u>(31,597)</u>	<u>(42,934)</u>
PROFIT FOR THE YEAR		<u>113,682</u>	<u>168,103</u>
Earnings per share	16	<u>66.44</u>	<u>97.94</u>

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

These financial statements were approved by the management of Tigar A.D., Pirot on February 28, 2010.

Signed on behalf of Tigar A.D., Pirot

Dragan Nikolić
General Manager

Dragoslava Branković
Head of Accounting

BALANCE SHEET
As at December 31, 2009
(thousands of RSD)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
ASSETS			
Non-current assets			
Intangible assets	17	20,769	19,216
Property, plant and equipment	18	612,227	613,771
Equity investments	19	2,099,576	1,850,801
Other long-term financial placements	20	47,658	51,138
		<u>2,780,230</u>	<u>2,534,926</u>
Current assets			
Inventories	21	26,005	29,011
Assets held-for-sale	22	4,367	656,192
Accounts receivable	23	142,844	315,162
Receivables for prepaid income taxes		8,520	-
Short-term financial placements	24	488,501	466,238
Cash and cash equivalents	25	530,588	52,935
Value added tax and prepayments	26	16,738	24,637
		<u>1,217,563</u>	<u>1,544,175</u>
Deferred tax assets	15	-	655
Total assets		<u><u>3,997,793</u></u>	<u><u>4,079,756</u></u>
EQUITY AND LIABILITIES			
Equity			
	28		
Share capital		2,062,152	2,062,152
Share premium		-	13,781
Reserves		206,215	574,953
Treasury shares repurchased		-	(26,019)
Retained earnings		543,040	111,926
		<u>2,811,407</u>	<u>2,736,793</u>
Long-term provisions and liabilities			
Long-term provisions	29	9,562	7,624
Long-term liabilities	30	171,009	198,503
		<u>180,571</u>	<u>206,127</u>
Current liabilities			
Short-term financial liabilities	31	862,551	893,682
Accounts payable	32	93,932	164,553
Other current liabilities and accruals	33	38,603	37,468
Income taxes payable		9,536	41,133
Value added taxes payable		400	-
Deferred tax assets		793	-
		<u>1,005,815</u>	<u>1,136,836</u>
Total Equity and Liabilities		<u><u>3,997,793</u></u>	<u><u>4,079,756</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, 2009
(thousands of RSD)

	<u>Share Capital</u>	<u>Share Premium</u>	<u>Reserves</u>	<u>Treasury Shares Repurchased</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance January 1, 2008	2,062,152	-	574,953	-	48,734	2,685,839
Dividends paid for the year 2007	-	-	-	-	(48,734)	(48,734)
Dividends paid for the year 2008	-	-	-	-	(56,177)	(56,177)
Treasury shares repurchased	-	16,084	-	(30,358)	-	(14,274)
Treasury shares sold	-	(2,303)	-	4,339	-	2,036
Profit for the year	-	-	-	-	168,103	168,103
Balance, December 31, 2008	<u>2,062,152</u>	<u>13,781</u>	<u>574,953</u>	<u>(26,019)</u>	<u>111,926</u>	<u>2,736,793</u>
Balance January 1, 2009	2,062,152	13,781	574,953	(26,019)	111,926	2,736,793
Dividends paid for the year 2008	-	-	-	-	(56,709)	(56,709)
Treasury shares sold	-	(8,378)	-	26,019	-	17,641
Transfers	-	(5,403)	(368,738)	-	374,141	-
Profit for the year	-	-	-	-	113,682	113,682
Balance, December 31, 2009	<u>2,062,152</u>	<u>-</u>	<u>206,215</u>	<u>-</u>	<u>543,040</u>	<u>2,811,407</u>

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

CASH FLOW STATEMENT
Year Ended December 31, 2009
(thousands of RSD)

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	196,715	143,747
Interest receipts	1,314	-
Other receipts from operating activities	25,914	32,549
Cash paid to suppliers for raw materials and other expenses	(331,808)	(185,422)
Gross salaries and other staff costs paid	(243,987)	(222,181)
Interest paid	(106,197)	(120,675)
Taxes and contributions paid	(72,723)	(17)
Other public duties payable	(12,520)	(40,735)
<i>Net cash used in operating activities</i>	<u>(543,292)</u>	<u>(392,734)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of shares and equity investments (net inflows)	1,216,599	82,512
Sale of intangible assets, property, plant and equipment	1,432	567,475
Interest received	-	8,043
Dividends received and distribution of profit	301,305	259,096
Other financial placements (net inflows/(outflows))	(219,797)	(199,103)
Purchases of property, plant and equipment	(140,417)	(567,130)
<i>Net cash provided by investing activities</i>	<u>1,159,122</u>	<u>150,893</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term and short-term loans (net outflows)	(101,917)	292,141
Finance lease payments	(2,629)	(1,047)
Sale/(purchase) of treasury shares	17,641	(12,238)
Dividends paid	(52,181)	(100,592)
<i>Net cash (used in)/provided by financing activities</i>	<u>(139,086)</u>	<u>178,264</u>
NET CASH INCREASE/(DECREASE)	476,744	(63,577)
Cash and cash equivalents at beginning of year	52,935	113,277
Foreign exchange gains on translation of cash and cash equivalents, net	<u>909</u>	<u>3,235</u>
Cash and cash equivalents at end of year	<u><u>530,588</u></u>	<u><u>52,935</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2009***All amounts are expressed in thousands of RSD, unless otherwise stated.***1. ESTABLISHMENT AND ACTIVITY**

Tigar A.D., Pirot (the “Company”) was founded in 1935 as a factory engaged in the production of a variety of rubber products and rubber-constructed shoes. After a temporary cessation of its business activities during World War II, the Factory resumed its operations on December 20, 1945. In 1972, the Company was the first in the former Yugoslavia to introduce, by its own technological and construction processes, the production of radial automobile tires manufactured with an inner textile belt. During 1991 the Company changed its legal form from that of a socially-owned enterprise to a shareholding company operating under mixed ownership, and on July 16, 1996, the Company changed its name to Tigar A.D., Pirot, an unlimited liability, shareholding company doing business in the manufacture of rubber products.

As of January 1, 2003 the Company underwent legal reorganization and status changes, whereby its organizational units, Fabrika Autoguma (tire production factory) and Fabrika unutrašnjih guma (inner tube production factory) separated from the Company and joined the newly-established entity, Tigar M.H., a Company for the Production of Tires, D.O.O., Pirot (“TMH”) in which the Company held an equity interest of 65%. During 2005, the minority investors of Tigar MH made additional capital contributions, whereby the Company’s equity interest changed from 65% to 50%. In accordance with the relevant partners’ agreement, the registered share of the Company in Tigar MH with the Company Register is 49.4%. Taking into account the date of registration and the date of additional capital contributions paid by minority investors, the Company’s investment in Tigar MH for 2005, calculated on a “pro-rata temporis” basis is 51.7674% and 51.9033%, respectively. During 2007, the Company’s 19.4% equity investment in “Tigar Tyres” (previously known as “Tigar MH”) was sold to the entity Michelin, Netherlands. As of December 31, 2007, based on the registration, the Company’s investments in “Tigar Tyres” (previously known as: “Tigar MH”), amounted to 30%.

In 2008, the Company sold another 10% of its equity interest to Michelin, Netherlands and in 2009, it sold another 20%. Thus, at December 31, 2009, the equity interest in Tigar Tyres no longer existed.

In addition, based on the Board of Directors’ Resolution dated December 16, 2002, subsequent to the legal separation of its former organizational units, eight newly-formed entities, all wholly-owned by the Company, were registered with the Commercial Court of Niš on December 26 and 27, 2002. These entities commenced their business activities on January 1, 2003. From April 1, 2005, subsequent to its separation from the Company, the newly-formed, wholly-owned entity, Tigar Trgovine D.O.O., Pirot (Trading entity), commenced its business operations.

In addition to the aforementioned entities, the Company has equity investments in certain entities in the country and abroad (Note 19).

The Company’s primary business activity, subsequent to the above-described organizational and status changes, involves holding operations, managing and financing subsidiaries, determining their strategic objectives and basic strategies, business operation monitoring and determining their status.

The Company’s governing administrative bodies are its Shareholders’ Assembly, Board of Directors, Director and Supervisory Board.

The Company’s registered office is located at the street address of Nikole Pašića 213, in Pirot. As of December 31, 2009, the Company had 206 employees (December 31, 2008: 193 employees). The tax identification number of the Company is 100358298. In accordance with the Decision of the Securities Commission governing the listings and quotations on the Belgrade Stock Exchange (BELEX), enacted on April 2, 2007, the Company’s shares were admitted to the A listing of BELEX with the TIGAR symbol.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

All amounts are 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 entrepreneurs 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 which were in effect as at December 31, 2002.

The amendments to IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”), in the period between December 31, 2002 and 2007, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia (“Ministry”) 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 IAS/IFRS and IFRIC in effect for annual periods beginning on or after January 1, 2009 had been translated (particularly subsequent to the aforementioned Decision of the Ministry). 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” (Official Gazette of the Republic of Serbia, no. 114 of December 22, 2006, no. 119 as of December 26, 2008 and no. 2/10 as of January 15, 2010). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, “Presentation of Financial Statements,” and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard. Standards and interpretations issued, but not yet adopted and translated in Republic of Serbia and standards and interpretations in issue not yet in effect are disclosed in Notes 2.2 and 2.3. In addition to the aforementioned, the accounting regulations of the Republic of Serbia depart from IFRS in the following respects:

- pursuant to the Opinion of the Ministry issued on January 22, 2009, transfer of rights of handling and using property from a parent company to its subsidiary, as a means of increasing capital, has the character of transfer and/or disposal. Also, according to the aforementioned Ministry’s opinion, the difference between the appraised value of property, based on which the value of additional equity stake of the parent company is determined, and its carrying value included the business books of the parent company, is credited to income of the period. The aforementioned accounting treatment is a departure from IAS 16 “Property, Plant and Equipment,” which requires that: 1) the revaluation result be attributed directly to equity, the position of revaluation reserves, i.e. that it be recognized within income presented in the income statement up to the amount of reversal of revaluation reserves accumulated for that asset and previously recognized within expenses, as well as that 2) revaluation reserves which are a component part of equity relating to property, plant and equipment may be transferred directly to retained earnings, once the asset is derecognized. In addition, income recognition applied in the accompanying financial statements that is in accordance with the aforementioned opinion is not in line with the requirements of IAS 18 “Revenues.”

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

All amounts are 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 (Continued)

- As in accordance with the Rules on Amendments and Supplements to the Rules on the Chart of Account for Companies, Cooperatives, Other Legal Entities and Entrepreneurs which came in effect as of January 26, 2010, in preparing the annual financial statements as of and for the year ended December 31, 2009, legal entities and entrepreneurs may decide not to disclose the net effects of foreign currency clause related to receivables and payables denominated in foreign currency within income and expenses of the current period. In the aforementioned case, net effect of the contractually agreed currency clauses is stated within other prepayments/accruals (Notes 3.3 and 26). The proportionate amount of deferred currency clause effects is transferred to the accounts of foreign exchange losses and gains as of the date upon which the respective payable if due for settlement and receivable is due for collection. The Company exercised this option in the preparation of 2009 financial statements. The aforementioned accounting treatment departs from the provisions IAS 21 “Effects of Changes in Foreign Exchange Rates.”

In accordance with the aforescribed, and given the potentially material effects which the departures of accounting regulations of the Republic of Serbia from IAS and IFRS may have on the fairness presentations made in the financial statements, the accompanying financial statements cannot be treated as a set of financial statements prepared in accordance with IAS and IFRS.

2.2. Standards and Interpretations in Issue, but not yet Adopted and Translated

As of the financial statements issuance date, the following standards, amendments were issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee but were not officially adopted and translated in the Republic of Serbia for the annual accounting periods commencing on or after January 1, 2009:

- IFRS 8 “Operating Segments” (effective for annual periods beginning on or after January 1, 2009),
- Amendments to IFRS 4 “Insurance contracts” and IFRS 7 “Financial Instruments: Disclosures” - Improving disclosures about financial instruments (effective for annual periods beginning on or after January 1, 2009),
- Amendments to IFRS 1 “First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements” – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after January 1, 2009),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on May 22, 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after January 1, 2009),
- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after January 1, 2009),

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

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

2.2. Standards and Interpretations in Issue, but not yet Adopted and Translated (Continued)

- IAS 1 (revised) “Presentation of Financial Statements” – A revised presentation (effective for annual periods beginning on or after January 1, 2009),
- IAS 23 (revised) “Borrowing Costs” (effective for annual periods beginning on or after January 1, 2009),
- Amendments to IFRS 2 “Share-based Payment” – Vesting conditions and cancellations (effective for annual periods beginning on or after January 1, 2009),
- Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement” -Embedded Derivatives (effective for annual periods ending on or after June 30, 2009),
- IFRIC 13 “Customer Loyalty Programmes” (effective for annual periods beginning 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 (effective for the accounting periods starting January 1, 2008);
- IFRIC 15 “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after January 1, 2009),
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after October 1, 2008).

2.3. Standards and Interpretations in Issue not yet in Effect

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2013),
- IFRS 3 (revised) “Business Combinations” (effective for annual periods beginning on or after July 1, 2009),
- IFRS 1 (revised) “First-time Adoption of IFRS” (effective for annual periods beginning on or after July 1, 2009),
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after January 1, 2010),
- Amendments to IFRS 2 “Share-based Payment” - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after January 1, 2010),

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

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

2.3. Standards and Interpretations in Issue not yet in Effect (Continued)

- Amendments to IAS 24 “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011),
- Amendments to IAS 27 “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after July 1, 2009),
- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for rights issues (effective for annual periods beginning on or after February 1, 2010)
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Embedded derivatives (effective for annual periods beginning on or after July 1, 2009),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on April 16, 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2010),
- Amendments to IFRIC 14 “IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011),
- IFRIC 17 “Distributions of Non-Cash Assets to Owners” (effective for annual periods beginning on or after July 1, 2009),
- IFRIC 18 “Transfers of Assets from Customers” (effective for transfer of assets from customers received on or after July 1, 2009),
- IFRIC 19 “Extinguishing Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010).

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 Company adhered to the accounting policies described in Note 3. These accounting policies have been consistently applied to all presented reporting periods.

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

2.4. Comparative Data

The comparative data comprised in the financial statements refers to the information provided in the financial statements as of and for the year ended December 31, 2008. 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 prepared as of and for the year ended December 31, 2008.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Revenue and Expense Recognition and Measurement

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided throughout the normal course of business, net of discounts, value added taxes and other taxes.

Income from sales is recognized when the risk and rewards associated with the right of ownership are transferred to the customer; which is considered to be the date upon which products are delivered to the customer.

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

3.2. Interest Income and Expense

Interest income and expense including penalty and other income and other expenses relating to interest bearing assets and, interest bearing liabilities, are credited or charged to the income statement on an accrual basis.

3.3. Foreign Exchange Translation

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

Assets and liabilities denominated in foreign currencies are translated into dinars by applying the official exchange rates prevailing at the balance sheet date, unless loan of finance lease agreement stipulate otherwise.

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, except for the effects of currency clause indexed to long-term receivables and payables denominated in dinars, which are presented on the line item of other accruals or other prepayments. The proportionate amount of deferred foreign currency clause effects is transferred to the accounts of foreign currency clause gains and losses at the date when the liability falls due for settlement or a receivables become due for collection.

3.4. Intangible Assets

Intangible assets are stated in the Company’s books of account at cost, as adjusted for accumulated amortization and any impairment losses.

Intangible assets comprise the capitalized cost of software, licenses and similar rights acquired through purchases, which are amortized over a period of five years.

3.5. Property, Plant and Equipment

The items of plant, property and equipment qualifying for recognition, are initially stated at cost.

Cost represents the prices billed by suppliers together with all costs incurred in bringing new fixed assets into use, net of discounts.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Property, Plant and Equipment (Continued)

Subsequent expenditures such as modification or adaptation to the assets is recognized as an increase in cost of the respective assets, when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Company, and when the cost can reliably be measured. All other subsequent expenditures are expensed as incurred.

Property, plant and equipment subsequent to initial recognition, is stated at cost as decreased by the amount of accumulated depreciation and accumulated impairment losses.

The depreciation of property, plant and equipment is computed on a straight-line basis for every, individual item of property, plant and equipment in order to fully write off the cost of assets over their estimated useful lives.

Buildings	1.5% - 10%
Equipment	3.33% - 20%
Telecommunication equipment	7% - 11%
Passenger vehicles	15.5%
Furniture	11% - 16.5%
Computers	20%

At the end of 2008, the Company’s management estimated the remaining useful life of fixed assets based on which, depreciation rates and charge that applied for the year 2008 were adjusted for all materially significant items.

3.6. Impairment of Tangible Assets

At each balance sheet date, the Company’s management reviews the carrying amounts of the Company’s fixed assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If it is not possible to estimate the recoverable amount of the individual asset, the Company shall determine the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. For the purposes of estimating value in use, future cash flows are discounted to the net book value by applying the discount rate before taxation reflecting the present market value of the time value of money and risks inherent in the asset.

If the estimated recoverable amount of assets (or cash generating unit) is below their carrying value, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period under operating expenses, except in case of land and buildings that are not used as investment property which is stated at revalued amount in which case impairment loss is presented as a loss on revaluation of assets.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) 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 for the asset (or cash generating unit) 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Impairment of Tangible Assets (Continued)

At December 31, 2009, according to the Company’s management, there were no indications of impairment in property, plant and equipment and intangible assets.

3.7. Finance Lease

Leases are classified as finance leases whenever the terms of the lease substantially transfer all risks and rewards of ownership to the Company. All other leases are classified as operating leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in the balance sheet under the heading of finance lease liabilities.

3.8. Inventories

Inventories are primarily stated at the lower of cost and net realizable value. The net realizable value is the price at which inventories can be realized throughout the normal course of business, after allowing for the costs of realization.

Goods for sale at warehouses are valued during the year at their wholesale prices. At the end of each accounting period, the carrying value is adjusted to cost by an apportionment of the related selling margin calculated on an average basis, between the cost of goods sold and the inventories held.

Provisions charged to “Other expenses” are made where appropriate in order to reduce the value of inventories to management’s best estimate of net realizable value. Inventories found to be damaged or of a substandard quality are written off.

3.9. Financial Instruments

Financial instruments are initially measured at fair value as increased by the transaction costs (except for financial assets and liabilities carried at fair value through profit and loss) which are directly attributable to the acquisition or issuance of a financial asset or financial liability.

Financial assets and financial liabilities are recognized in the Company’s balance sheet on the date upon which the Company becomes a counterparty to the contractual provisions of a specific 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 obligations, or when the contractual repayment obligation has either been cancelled or has expired.

Long-Term Financial Placements

Long-term financial placements are comprised of equity investments in domestic and foreign related parties, as well as placements with banks and other legal entities.

Equity investments in foreign related companies are initially stated at cost increased by a portion of reinvested profit and decreased for any related impairment losses.

Equity investments in domestic related parties are recorded at cost as subsequently decreased by any related impairment loss or at estimated fair value.

Equity investments in banks and other legal entities, for which an active market and reliable market values do not exist, are stated at cost less allowances for impairment.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Financial Instruments (Continued)

Other Long-term Financial Placements

Other long-term financial placements are comprised of receivables from employees for residential housing loans that have been extended with 20-year maturities, and have been stated at nominal value which represents the present value of the future cash flows discounted at a contractually-agreed interest rate. In the opinion of the management, the effects of non-application of IAS 39 “Financial Instruments: Recognition and Measurement” requiring that long-term receivables be carried at amortized value by using the effective interest rate method are immaterial for the financial statements taken as a whole.

Accounts Receivable

Accounts receivable are stated at their nominal values as reduced by appropriate allowances for estimated bad debts. An allowance for impairment is recognized and charged to the income statement against domestic and foreign accounts receivable balances that are more than 180 days past due. The uncollectible receivables are written off either on the basis of a court decision or settlement agreed between the parties involved, or otherwise, based upon a relevant resolution of the Company’s Board of Directors. Allowance for impairment of receivables from related parties is not calculated.

Cash and Cash Equivalents

In the cash flow statement, cash and cash equivalents entail cash in hand, as well as balances on bank accounts with commercial banks. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents represent demand deposits with commercial banks approved for the period of 90 days.

Accounts Payable

Accounts payable are stated at their nominal values.

Borrowings

Borrowings are stated in their nominal amount as increased by the matured outstanding interest as increased by any penalty interest.

3.10. Taxes and Contributions

Current Income Tax

Current income tax represents the amount calculated in accordance with the Income Tax Law effective in the Republic of Serbia. The annual corporate income tax is payable at the rate of 10% on the tax base reported in the annual income tax return, as reduced by any applicable tax credits. The taxable base includes the profit stated in the statutory statement of income, as adjusted for permanent differences that are specifically defined under local tax rules.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Taxes and Contributions (Continued)

Current Income Tax (Continued)

The effective tax regulations in the Republic of Serbia do not allow any tax losses of the current period to 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 a duration of no longer than ten ensuing years.

Deferred Income Taxes

Deferred income tax is determined using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities components, and their carrying values in the consolidated financial statements. The currently-enacted tax rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes and other taxes and contributions include property taxes, taxes and contributions paid by employer to or on behalf of employees, as well as other taxes and contributions paid pursuant to republic and municipal regulations, presented within Other operating expenses.

3.11. Employee Benefits

Taxes and Contributions Made to the Employee Social Security and Insurance Funds

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, by the employer, 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 applicable government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

Obligations for Retirement Benefits and Jubilee Awards

The Company is under obligation to pay to its employees retirement benefits, depending on the years of service with the Company in the amount of three salaries which the employee earned in the month preceding the payment, i.e., in the amount of an average salary in the Company in the month preceding the payment of retirement benefit, if such arrangement proves more favorable for the employee.

In addition to the aforementioned, the Company is under obligation to pay jubilee awards for 20 and 30 years of service with the Company and upon his/her retirement, which are payable in gold coins of 3, 6, i.e., 9 grams of gold.

The Company formed provisions for the liabilities based on the aforementioned and adequate disclosures are included in Note 26.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2009***All amounts are expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.12. Fair Value**

The accompanying financial statements are prepared on a historical cost basis, including adjustments and provisions made to reduce assets to their estimated recoverable amounts.

It is the policy of the Company to disclose the fair value information on those financial assets and financial liabilities for which published market information is readily and reliably available, and whose fair value is materially different from their recorded amounts. Sufficient market experience, stability and liquidity do not exist for the purchase and sale of loans and other financial assets or liabilities, given that published market information is not readily available. Hence, fair value cannot be reliably determined. As per the Company's management, amounts expressed in the financial statements reflect the fair value which is most reliable and useful for the needs of the financial reporting in accordance with the Law on Accounting and Auditing of the Republic of Serbia.

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 us, as of the date of preparation of the financial statements. Actual results may vary from these estimates.

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, as well as depreciation and amortization rates are based on the economic useful life of property, equipment and intangible assets. Once a year, the Company assesses the economic useful life based on the current estimates.

4.3. Deferred Tax Assets

Deferred tax assets are recognized for all unused tax credits as arising from capital expenditures, to the extent that it is probable that taxable profit will be available against which these tax credit carryforwards can be utilized. The Company's management needs to make prudent assessments of deferred tax assets which may be recognized, based on the period when these arise and the amount of future taxable income and tax policy planning strategy.

4.4. Allowance for Impairment of Receivables

We calculated the allowance for impairment of doubtful receivables based on the estimated losses arising from customer's default. Our assessment is based on the aging analysis of accounts receivable, historical write-offs, customer creditworthiness and changes in the terms of sale, identified upon determining the adequacy of allowance for impairment of doubtful receivables. This includes the assumptions on the future customer behavior and the resultant future collections. The management assesses that additional allowance for impairment of receivables is not necessary.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

4.5. Fair Value

The accompanying financial statements are prepared on a historical cost basis, including adjustments and provisions made to reduce assets to their estimated recoverable amounts.

It is the policy of the Company to disclose the fair value information on those financial assets and financial liabilities for which published market information is readily and reliably available, and whose fair value is materially different from their recorded amounts. Sufficient market experience, stability and liquidity do not exist for the purchase and sale of loans and other financial assets or liabilities, given that published market information is not readily available. Hence, fair value cannot be reliably determined. As per the Company’s management, amounts expressed in the financial statements reflect the fair value which is most reliable and useful for the needs of the financial reporting in accordance with the Law on Accounting and Auditing of the Republic of Serbia.

5. SALES OF GOODS, PRODUCTS AND SERVICES

	Year Ended	December 31,
	2009	2008
	<u> </u>	<u> </u>
Sales of products and services to related parties (Note 34)	240,926	143,871
Sales of products and services to other legal entities	894	33,594
Sale of goods	<u>196</u>	<u>4,946</u>
	<u>242,016</u>	<u>182,411</u>

6. OWN WORK CAPITALIZED

Income from own work capitalized for the year ended December 31, 2009 aggregated to RSD 9,361 thousand (December 31, 2008: RSD 37,833 thousand), is associated with the directly attributable costs of hiring employees, property, plant and equipment as necessary for the work on Tigar 3 Project.

7. COST OF MATERIAL

	Year Ended	December 31,
	2009	2008
	<u> </u>	<u> </u>
Office material	5,901	5,338
Cost of fuel oil	35,446	12,620
Chemicals	3,927	945
Electricity	24,147	9,635
Fuel and lubricants	7,941	9,223
Other material	<u>3,132</u>	<u>2,612</u>
	<u>80,494</u>	<u>40,373</u>

Cost of fuel oil, electricity, other fuel and lubricants, as opposed to the situation in the prior periods, mostly relate to the activation of a new power plant which took place in the last quarter of 2008. This power plant supplies energy to the Company’s related parties.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

8. STAFF COSTS

	<u>Year Ended</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Net salaries	126,708	114,339
Taxes and contributions on salaries paid by the employees	48,850	44,138
Taxes and contributions on salaries paid by the employer	30,534	27,535
Remunerations to the Management and Supervisory Boards	21,173	17,175
Retirement benefits and jubilee awards	254	1,287
Employee transport	4,358	3,590
Other staff costs	13,502	15,992
	<u>245,379</u>	<u>224,056</u>

9. DEPRECIATION, AMORTIZATION AND PROVISIONS

	<u>Year Ended</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Depreciation and amortization (Note 18)	18,391	14,631
Provisions (Note 29)	3,844	-
	<u>22,235</u>	<u>14,631</u>

10. OTHER OPERATING EXPENSES

	<u>Year Ended</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Transportating products to customer location	17	108
Communications	6,332	6,206
Maintenance and repair	4,842	4,255
Rentals	28,493	24,406
Fair exhibitions	3,492	3,510
Marketing and advertising	16,772	22,209
Public utilities	5,703	1,744
Employee professional training	2,988	3,796
Plant security	3,776	18,612
Health services	2,821	3,685
Fees paid to auditors, lawyers and consultants	9,620	31,719
Cost of project feasibility studies and market research	22,220	16,210
Cultural and sports events	7,556	6,873
Other non-production services	30,912	29,045
Other taxes and contributions	6,616	33,492
Entertainment	7,353	8,942
Insurance premiums	2,282	1,788
Bank charges	9,495	5,462
Membership fees	1,821	1,945
Scholarship and loans to students	5,882	5,393
Other	8,395	6,042
	<u>187,388</u>	<u>235,442</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

11. FINANCE INCOME

	<u>Year Ended</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Interest income	1,872	8,043
Foreign exchange gains	2,870	9,320
Share in the profit of:		
- domestic related parties	99,307	236,600
- foreign related parties	50,649	8,794
	<u>154,698</u>	<u>262,757</u>

12. FINANCE EXPENSES

	<u>Year Ended</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Interest expense	103,733	94,456
Foreign exchange losses	33,771	73,310
Other finance expenses	2,657	30,377
	<u>140,161</u>	<u>198,143</u>

13. OTHER INCOME

	<u>Year Ended</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Gains on the disposal of property, plant and equipment	777	504,203
Gains on the transfer of fixed assets (Note 18)	127,705	421,780
Gains on the sale of equity investments (Note 22)	549,530	138,684
Write-off of liabilities	-	18,744
Reversal of provisions	-	374
Collection of receivables previously written off	-	1,607
Other	10,331	18,987
	<u>688,343</u>	<u>1,104,379</u>

Gains on the disposal of property, plant and equipment earned in 2008 amount to RSD 504,203 thousand and include an amount of RSD 502,233 thousand received based on the Purchase and Sale Agreement signed on March 27, 2008, between the Company and Tigar Tyres d.o.o., Pirot, providing for the rights of use over the land property with its infrastructure and ownership over the a rail gauge in the net book value of RSD 61,339 thousand.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

14. OTHER EXPENSES

	<u>Year Ended</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Loss on the disposal of property, plant and equipment	966	83
Impairment of equity investments	47	141,787
Impairment of receivables (Note 27)	831	-
Write-off of bad debts	290,415	543,396
Other	<u>3,019</u>	<u>8,502</u>
	<u>295,278</u>	<u>693,768</u>

Write-off of bad debts for the year ended December 31, 2009 in the amount of RSD 290,415 thousand (December 31, 2008: RSD 543,396 thousand) includes an amount of RSD 289,616 thousand (December 31, 2008: RSD 542,319 thousand) relating to the write-off of receivables due from related parties.

15. INCOME TAXES

a) Components of Income Taxes

	<u>Year Ended</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Current income taxes	(30,148)	(41,133)
Deferred income taxes	<u>(1,449)</u>	<u>(1,801)</u>
	<u>(31,597)</u>	<u>(42,934)</u>

b) Numerical Reconciliation of the Tax Expense and the Product of Accounting
Results as Multiplied by the Statutory Income Tax Rate

	<u>2009</u>	<u>2008</u>
Profit before tax	<u>145,279</u>	<u>211,037</u>
Income taxes at the statutory tax rate of 10%	(14,528)	(21,104)
Tax effects of non-deductible expenses	(45,189)	(45,631)
Tax credits for capital expenditures	28,120	41,133
Unrecognized tax losses	-	(16,633)
Other	<u>-</u>	<u>(699)</u>
	<u>(31,597)</u>	<u>(42,934)</u>

c) Components of Deferred Tax Assets and Liabilities

	<u>2009</u>	<u>2008</u>
Deferred tax (liabilities)/assets arising from a difference between the value of assets recorded for book and tax purposes	<u>(793)</u>	<u>655</u>
	<u>(793)</u>	<u>655</u>

Deferred tax liabilities amounting to RSD 793 thousand at December 31, 2009 relate to the temporary differences between the basis at which building property, equipment and intangible assets are recognized in the tax balance and carrying values of these assets used in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

16. EARNINGS PER SHARE

	<u>2008</u>	<u>2008</u>
Profit for the year	113,682	168,103
Weighted average number of shares	<u>1,711,095</u>	<u>1,716,352</u>
Basic earnings per share (in RSD)	<u>66.44</u>	<u>97.94</u>

17. INTANGIBLE ASSETS

	<u>Licenses</u>	<u>Other Intangible Assets</u>	<u>Intangible Assets in Progress</u>	<u>Total Intangible Assets</u>
Cost				
Balance, January 1, 2008	7,129	1,107	20	8,256
Additions	-	-	19,060	19,060
Transfers	124	-	(124)	-
Balance, December 31, 2008	<u>7,253</u>	<u>1,107</u>	<u>18,956</u>	<u>27,316</u>
Balance, January 1, 2009	7,253	1,107	18,956	27,316
Charge for the year	-	-	1,699	1,699
Balance, December 31, 2009	<u>7,253</u>	<u>1,107</u>	<u>20,655</u>	<u>29,015</u>
Accumulated Amortization				
Balance, January 1, 2008	5,567	1,107	-	6,674
Charge for the year	1,426	-	-	1,426
Balance, December 31, 2008	<u>6,993</u>	<u>1,107</u>	<u>-</u>	<u>8,100</u>
Balance, January 1, 2009	6,993	1,107	-	8,100
Charge for the year	146	-	-	146
Balance, December 31, 2009	<u>7,139</u>	<u>1,107</u>	<u>-</u>	<u>8,246</u>
Net Book Value				
- December 31, 2009	<u>114</u>	<u>-</u>	<u>20,656</u>	<u>20,769</u>
- December 31, 2008	<u>260</u>	<u>-</u>	<u>18,956</u>	<u>19,216</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

18. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Construction in Progress	Leasehold Improvements	Total PP&E
Cost						
Balance, January 1, 2008	92,042	225,735	119,090	250,090	150	687,107
Additions	-	-	-	564,739	-	564,739
Transfers	-	103,518	150,230	(253,748)	-	-
Transfers to related parties	-	(75,520)	-	(342,614)	-	(418,134)
Sales	(56,405)	(27,846)	-	-	-	(84,251)
Disposals upon inventory take	-	(744)	(2,405)	(179)	-	(3,328)
Other	-	-	(4,920)	-	-	(4,920)
Balance, December 31, 2008	<u>35,637</u>	<u>225,143</u>	<u>261,995</u>	<u>218,288</u>	<u>150</u>	<u>741,213</u>
Balance, January 1, 2009	35,637	225,143	261,995	218,288	150	741,213
Additions	-	-	-	132,698	-	132,698
Transfers	8,713	84,688	43,434	(145,225)	8,390	-
Transfers to related parties	-	-	-	(111,529)	-	(111,529)
Sales	(37)	-	(526)	(63)	-	(626)
Disposals	-	(113)	(7,562)	(4,279)	-	(11,954)
Balance, December 31, 2009	<u>44,313</u>	<u>309,718</u>	<u>297,341</u>	<u>89,890</u>	<u>8,540</u>	<u>749,802</u>
Accumulated Depreciation						
Balance, January 1, 2008	-	67,199	86,338	-	-	153,537
Charge for the year	-	3,425	9,750	-	30	13,205
Transfers to related parties	-	(15,536)	-	-	-	(15,536)
Sales	-	(21,442)	-	-	-	(21,442)
Disposals upon inventory take	-	-	(2,322)	-	-	(2,322)
Balance, December 31, 2008	<u>-</u>	<u>33,646</u>	<u>93,766</u>	<u>-</u>	<u>30</u>	<u>127,442</u>
Balance, January 1, 2009	-	33,646	93,766	-	30	127,442
Charge for the year	-	4,925	13,290	-	30	18,245
Sales	-	-	(526)	-	-	(526)
Disposals	-	(113)	(7,473)	-	-	(7,586)
Balance, December 31, 2009	<u>-</u>	<u>38,458</u>	<u>99,057</u>	<u>-</u>	<u>60</u>	<u>137,575</u>
Net Book Value						
- December 31, 2009	<u>44,313</u>	<u>271,260</u>	<u>198,284</u>	<u>89,890</u>	<u>8,480</u>	<u>612,227</u>
- December 31, 2008	<u>35,637</u>	<u>191,497</u>	<u>168,229</u>	<u>218,288</u>	<u>120</u>	<u>613,771</u>

A first ranking mortgage lien has been placed in favor of Alpha Bank A.D., Beograd against the Company's buildings and factory courtyard, and serves to securitize the regular repayment of refinanced foreign currency loans. In accordance with the terms of the Agreement on Rescheduling and Write-off of Principal and Interest, executed on October 6, 2004 with Alpha Bank A.D., Beograd, the outstanding portion of such loans at December 31, 2009 amounted to USD 1,099,198 and EUR 1,455,910, or aggregately to RSD 212,953 thousand (Note 30).

On the cadastral land lot number 3390/3, building number 1, the real estate folio in the land register number 7950 of the Cadastral Municipality Pirot, a pledge lien has been instituted in favor of UniCredit banka a.d. Beograd in order to collateralize the repayment of a short-term borrowing indexed to a currency clause approved in the amount of EUR 1,000,000 or RSD 95,889 thousand (Note 31).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

In 2009, the Company performed the following transfers to related parties:

- Construction in progress – Production plants at Tigar III location to be used in the production of technical rubber with the net book value of RSD 111,529 thousand was transferred to the related party Tigar Tehnička guma d.o.o., Pirot. The effective price in the transfer is the value of these assets as assessed by a certified appraiser Conzit d.o.o., Beograd, the amount of RSD 239,165 thousand.

In accordance with the opinion of the Ministry, dated January 22, 2009, upon the transition of buildings and fixed assets in progress to related parties (the process of increasing capital), the Company recorded the difference between the appraised value of equity investments in related parties and net book value of assets transferred in the total amount of RSD 127,636 thousand (Note 13) for the year ended December 31, 2009, crediting the amount to the income statement as gains on the transfer of assets (2008: RSD 421,780 thousand).

19. EQUITY INVESTMENTS

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Equity investments in related parties	2,114,041	1,865,217
Less: Allowance for impairment (Note 27)	<u>(14,571)</u>	<u>(14,571)</u>
	<u>2,099,470</u>	<u>1,850,646</u>
Equity investments in banks	89	137
Equity investments in other legal entities	<u>17</u>	<u>18</u>
	<u><u>2,099,576</u></u>	<u><u>1,850,801</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

19. EQUITY INVESTMENTS (Continued)

	% Interest	December 31, 2009	December 31, 2008
Equity investments in related parties (gross)			
<i>Foreign:</i>			
- Tigar Americas, Jacksonville, Florida	100.00	35,743	35,743
- Tigar Europe, London	50.00	122,406	122,406
- Tigar Partner, Skopje	70.00	20,749	19,898
- Tigar Montenegro, Podgorica	80.00	4,868	2,882
- Tigar Trade, Banja Luka	70.00	8,995	7,322
		<u>192,761</u>	<u>188,251</u>
<i>Domestic:</i>			
- Tigar Obuća d.o.o., Pirot	100.00	820,486	820,486
- Tigar Hemijski proizvodi d.o.o, Pirot	100.00	99,740	99,740
- Tigar Tehnička guma d.o.o., Pirot	100.00	418,687	179,522
- Tigar Poslovni servis d.o.o., Pirot	100.00	102,774	102,774
- Tigar Fizičko obezbeđenje d.o.o., Pirot	100.00	13,755	13,755
- Tigar Hotel Planinarski dom d.o.o., Pirot	100.00	85,164	85,164
- Tigar Tours d.o.o., Pirot	100.00	9,103	9,103
- Tigar Incon d.o.o., Pirot	100.00	35,282	35,282
- Tigar Zaštitna radionica d.o.o., Pirot	100.00	1,348	1,348
- Tigar Inter Risk d.o.o., Pirot	100.00	1,773	1,372
- Tigar – Slobodna carinska zona, Pirot	75.06	89,406	85,050
- Tigar Trade d.o.o., Pirot	100.00	230,719	230,719
- Other		13,043	12,651
		<u>1,921,280</u>	<u>1,676,966</u>
		<u>2,114,041</u>	<u>1,865,217</u>
Less: Allowance for impairment of equity investments in related parties			
- Tigar Americas, Jacksonville, Florida		(12,273)	(12,273)
- Tigar Incon d.o.o., Pirot		(818)	(818)
Other		(1,480)	(1,480)
		<u>(14,571)</u>	<u>(14,571)</u>
		<u>2,099,470</u>	<u>1,850,646</u>

20. OTHER LONG-TERM FINANCIAL PLACEMENTS

Other long-term financial placements stated in the balance sheet as of December 31, 2009, in the amount of RSD 47,658 thousand (December 31, 2008: RSD 51,138 thousand) are associated with the receivables from employees based on the approved long-term housing loans, with up to 20-year maturities effective from the execution date of the loan agreement, and issued at annual interest rates ranging from 1.5% to 2%.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

21. INVENTORIES

	December 31, 2009	December 31, 2008
Advances to suppliers	22,870	16,638
Fuel oil	992	8,765
Other materials	2,143	3,608
	<u>26,005</u>	<u>29,011</u>

22. ASSETS HELD FOR SALE

	December 31, 2009	December 31, 2008
Equity investment in Tigar Tyres d.o.o., Pirot	-	649,517
Buildings held for sale	4,367	6,675
	<u>4,367</u>	<u>656,192</u>

In the year ended December 31, 2009, the Company executed the agreed-upon sale of 20% equity interest in the entity Tigar Tyres d.o.o, Pirot to the company Michelin, Netherlands and earned RSD 549,530 thousand. Therefore, at December 31, 2009, the Company had no equity stake in Tigar Tyres d.o.o, Pirot (Note 13).

23. ACCOUNTS RECEIVABLE

	December 31, 2009	December 31, 2008
Receivables from related parties	63,972	83,524
Domestic accounts receivable	4,440	3,159
Receivables arising from share in profit	71,803	223,152
Receivables from employees	3,833	4,176
Other receivables	1,077	2,601
	<u>145,125</u>	<u>316,612</u>
Less: Allowance for impairment of receivables	<u>(2,281)</u>	<u>(1,450)</u>
	<u>142,844</u>	<u>315,162</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

24. SHORT-TERM FINANCIAL PLACEMENTS

	December 31, 2009	December 31, 2008
Short-term loans to related parties	483,132	460,044
Short-term interest free loans to related parties	5,352	5,593
Other short-term financial placements	17	601
	<u>488,501</u>	<u>466,238</u>

Short-term loans to related parties at December 31, 2009 amounted to RSD 483,132 thousand and are associated with loans extended to related parties for the current liquidity needs with up to one year maturities. The agreed interest rates equal those charged to the Company by commercial banks.

25. CASH AND CASH EQUIVALENTS

	December 31, 2009	December 31, 2008
Current account	12,445	5,732
Foreign currency accounts	473,290	1,802
Cash in hand	172	335
Other cash	44,681	45,066
	<u>530,588</u>	<u>52,935</u>

At December 31, 2009, other cash of RSD 44,681 thousand included guarantee deposit of RSD 19,178 thousand placed with AIK banka a.d., Niš and a guarantee deposit of RSD 23,972 thousand placed with Société Générale banka Srbija a.d., Beograd.

26. VALUE ADDED TAXES AND PREPAYMENTS

	December 31, 2009	December 31, 2008
Deferred unrealized foreign exchange losses, net	13,315	-
Receivables for prepaid VAT	747	14,952
Other prepayments	2,676	9,685
	<u>16,738</u>	<u>24,637</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

27. MOVEMENTS IN PROVISIONS

	Equity Investments	Inventories	Advances	Receivables	Total
Balance, January 1, 2008	253,715	158	130	55,524	309,527
Collected receivables (Note 13)	-	-	-	(1,607)	(1,607)
Reversal of previously formed provisions	-	(158)	(130)	(52,467)	(52,755)
Write-off	(239,144)	-	-	-	(239,144)
Balance, December 31, 2008	<u>14,571</u>	<u>-</u>	<u>-</u>	<u>1,450</u>	<u>16,021</u>
Balance, January 1, 2009	14,571	-	-	1,450	16,021
Charge for the year (Note 14)	-	-	-	831	831
Balance, December 31, 2009	<u>14,571</u>	<u>-</u>	<u>-</u>	<u>2,281</u>	<u>16,852</u>

28. SHARE CAPITAL

The structure of the Company’s share capital as of December 31, 2009, as stipulated in the excerpt from the Central Securities Depository and Clearing House, was as follows:

	Number of Shares	%	
Share Fund of the Republic of Serbia	429,429	25%	515,315
Pension and Disability Fund of the Republic of Serbia	149,981	9%	179,977
ARTIO INT. EQUITZ FUND	123,132	7%	147,758
Societe Generale Banka Srbija a.d., Beograd	86,463	5%	103,756
Erste Bank Custody	83,788	5%	100,546
Raiffeisen Bank, Vienna	45,073	3%	54,088
STICHTING SHELL PENSIONENFONDS	23,970	1%	28,764
Societe Generale Banka Srbija a.d., Beograd	23,583	1%	28,300
Uni credit banka Custody	18,500	1%	22,200
Kompanija Dunav Osiguranje a.d.o., Beograd	17,120	1%	20,544
Other	717,421	42%	860,904
	<u>1,718,460</u>	<u>100%</u>	<u>2,062,152</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

28. SHARE CAPITAL (Continued)

The structure of the Company’s share capital as of December 31, 2008, as stipulated in the excerpt from the Central Securities Depository and Clearing House, was as follows:

	Number of Shares	%	
Share Fund of the Republic of Serbia	429,429	25%	515,315
Pension and Disability Fund of the Republic of Serbia	149,981	9%	179,977
ARTIO INT. EQUITZ FUND	120,801	7%	144,961
Raiffeisen Bank, Vienna	108,304	6%	129,965
Societe Generale Banka Srbija a.d., Beograd	43,560	3%	52,272
Erste Bank Custody	42,317	2%	50,780
STICHTING SHELL PENSIONENFONDS	23,970	1%	28,764
Societe Generale Banka Srbija a.d., Beograd	23,496	1%	28,195
Tigar a.d., Pirot	21,957	1%	26,348
Uni credit banka Custody	17,000	1%	20,400
Others	737,645	44%	885,175
	<u>1,718,460</u>	<u>100%</u>	<u>2,062,152</u>

At December 31, 2009 and 2008, the Company’s share capital comprised of 1,718,460 ordinary shares with the individual par value of RSD 1,200.

29. LONG-TERM PROVISIONS

Long-term provisions which amounted to RSD 9,562 thousand as of December 31, 2009 (December 31, 2008: RSD 7,624 thousand) entirely relate to long-term provisions for benefits to which the Company’s employees are entitled upon regular retirement and jubilee awards.

The assumptions used in the Actuary’s assessment were as follows:

	2009	2008
Nominal discount rate	8.5%	12%
Expected rate of nominal salary growth	5.1%	2%

The movements in long-term provisions for employee benefits were as follows:

	Retirement Benefits	Jubilee Awards	Total
Balance, January 1, 2009	6,908	716	7,624
Charge to prior year results	685	63	748
Interest expenses	645	66	711
Paid benefits	(1,816)	(90)	(1,906)
Actuarial losses	1,008	1,377	2,385
Balance, December 31, 2009	<u>7,430</u>	<u>2,132</u>	<u>9,562</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

30. LONG-TERM LIABILITIES

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Long-term borrowings	212,953	227,905
Finance lease liabilities	398	3,077
	<u>213,351</u>	<u>230,982</u>
Less: Current portion of long-term liabilities	<u>(42,342)</u>	<u>(32,479)</u>
	<u><u>171,009</u></u>	<u><u>198,503</u></u>

a) Long-Term Borrowings

<u>Creditor</u>	<u>Annual Interest Rate</u>	<u>Currency Code</u>	<u>Amount</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
<i>Refinanced loans through Alpha bank A.D., Beograd:</i>					
Berliner bank A.G., Berlin	5.5 % p.a.	EUR	327,760	31,428	33,403
Algemene bank Nederland N.V., Amsterdam	5.6 % p.a.	EUR	1,128,151	108,177	114,974
The First National Bank of Chicago	5.5 % p.a.	USD	1,099,198	<u>73,348</u>	<u>79,528</u>
				212,953	227,905
Current portion of long-term borrowings				<u>(41,944)</u>	<u>(29,770)</u>
				<u><u>171,009</u></u>	<u><u>198,135</u></u>

The long-term borrowing mature as presented in the table below:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
- within one year	41,944	29,770
- from two to five years	<u>171,009</u>	<u>198,135</u>
	<u><u>212,953</u></u>	<u><u>227,905</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

30. LONG-TERM LIABILITIES (Continued)

b) Finance Lease Liabilities

	Sum of Minimum Lease Payments		Present Value of Minimum Lease Payments	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
<i>Maturity:</i>				
Up to one year	403	2,891	398	2,709
From 1 to 5 years	-	373	-	368
	403	3,264	398	3,077
<i>Less: future cost of financing</i>	(5)	(187)	-	-
Present value of minimum lease payments	398	3,077	398	3,077
Included in the financial statements as:				
Current portion of long-term liabilities			398	2,709
Other long-term liabilities			-	368
			398	3,077

31. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2009	December 31, 2008
Domestic short-term loans	725,209	861,203
Short-term bonds	95,000	-
Current portion of long-term loans and finance leases	42,342	32,479
	862,551	893,682

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

31. SHORT-TERM FINANCIAL LIABILITIES (Continued)

Domestic Short-Term Loans

<u>Creditor</u>	<u>Interest Rate</u>	<u>Maturity Period</u>	<u>Currency Code</u>	<u>Currency Amount</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
<i>Loans in foreign currency:</i>						
Unicredit bank a.d., Beograd	1m EURIBOR + 3.9% p.a.	1 year	EUR	1,000,000	-	88,601
Export Credit and Insurance Agency	6-month EURIBOR + 2% p.a.	6 months	EUR	200,000	-	17,720
Export Credit and Insurance Agency	4% p.a.	6 months	EUR	500,000	-	44,302
Hypo-Alpe Adria Bank a.d., Beograd	6-month EURIBOR + 6.5% p.a.	1 year	EUR	1,000,000	96,176	-
Hypo-Alpe Adria Bank a.d., Beograd	3% p.a.	1 year	EUR	666,667	63,926	-
Societe Generale Banka Srbija a.d., Beograd	3-month EURIBOR + 4.5% p.a.	6 months	EUR	1,300,000	125,029	-
Societe Generale Banka Srbija a.d., Beograd	3-mesečni EURIBOR + 4.5% p.a.	5 months	EUR	750,000	72,133	-
Unicredit banka a.d., Beograd	5.5% p.a.	1 year	EUR	1,000,000	95,889	-
					453,153	150,623
<i>Loans in dinars:</i>						
AIK Banka a.d., Niš	6m EURIBOR + 3.5% p.a.	1 year			-	-
Unicredit banka a.d., Beograd	13.2% p.a.	1 year			-	-
Banca Intesa a.d., Beograd	1% p.m.	1 year			-	120,000
Banca Intesa a.d., Beograd	1% p.m.	1 year			-	282,000
AIK banka a.d., Niš	1.8% p.m.	6 months			-	80,000
AIK banka a.d., Niš	1.9% p.m.	6 months			-	40,000
AIK banka a.d., Niš	2% p.m.	6 months			-	30,000
Moskovska banka a.d., Beograd	1.65% p.m.	6 months			-	112,000
Banca Intesa a.d., Beograd	3-m BELIBOR + 2.2% p.a.	1 year			120,000	-
AIK banka a.d., Niš	1.2% p.m.	1 year			110,000	-
Moskovska banka a.d., Beograd	Rks NBS + 5% p.a.	1 year			42,056	-
					272,056	664,000
Tigar Hemijski proizvodi d.o.o., Pirot					-	36,000
Tigar Tehnička guma d.o.o., Pirot					-	5,880
Tigar Poslovni servis d.o.o., Pirot					-	4,700
					-	46,580
					725,209	861,203

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

31. SHORT-TERM FINANCIAL LIABILITIES (Continued)

Short-term bonds issued as of December 31, 2009 in the amount RSD 95,000 thousand relate to bonds issued under the Agreement on the Subscription and Payment for a Short-Term Bond Issue without Public Offering number 12/09 as of August 13, 2009, closed between the issuer – the Company, and Dunav osiguranje a.d., Beograd. The subject of the Agreement is 9,500 short-term bonds at the price of RSD 10,000 per individual bonds which aggregates to RSD 95,000 thousand. These bonds mature on August 13, 2010 and are agreed at an interest rate of 16% annually. The collateral for these bonds are 4 bills of exchange and a banking guarantee of RSD 110,200 thousand or 4 bill of exchange securities.

32. ACCOUNTS PAYABLE

	December 31, 2009	December 31, 2008
Advances, deposits and retainers received from customers	3,413	472
Accounts payable – related parties (Note 34)	26,033	74,152
Domestic accounts payable	30,830	43,329
Foreign accounts payable	1,317	7,877
Other accounts payable	776	805
Uninvoiced accounts payable	31,563	37,918
	<u>93,932</u>	<u>164,553</u>

33. OTHER CURRENT LIABILITIES AND ACCRUALS

	December 31, 2009	December 31, 2008
Gross salaries	17,388	15,988
Interest accrued	3,991	7,132
Accruals	3,868	5,352
Liabilities for dividends	13,063	8,535
Other short-term liabilities	293	461
	<u>38,603</u>	<u>37,468</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

34. RELATED PARTY TRANSACTIONS

	<u>2009</u>	<u>2008</u>
Balance sheet		
Assets		
<u>Equity investments (net)</u>		
- Tigar Obuća d.o.o., Pirot	820,486	820,486
- Tigar Hemijski proizvodi d.o.o., Pirot	99,740	99,740
- Tigar Tehnička guma d.o.o., Pirot	418,687	179,522
- Tigar Tours d.o.o., Pirot	9,103	9,103
- Tigar Poslovni servis d.o.o., Pirot	102,774	102,774
- Tigar Planinarski dom d.o.o., Pirot	85,164	85,164
- Tigar Zaštitna radionica d.o.o., Pirot	1,348	1,348
- Tigar Obezbeđenje d.o.o., Pirot	13,755	13,755
- AD za upravljanje slobodnom zonom "Pirot", Pirot	89,406	85,050
- Tigar Montenegro d.o.o., Podgorica, Crna Gora	4,868	2,882
- Tigar Inter Risk d.o.o., Pirot	1,773	1,372
- Tigar Incon d.o.o., Pirot	34,464	34,464
- Tigar Trade d.o.o., Pirot	230,719	230,719
- Tigar Americas inc. Jacksonville, USA	23,470	23,470
- Tigar Europe Ltd., London, UK	122,406	122,406
- Tigar Partner d.o.o., Skopje, Macedonia	20,749	19,898
- Tigar Trade d.o.o., Banja Luka	8,995	7,322
Other	11,562	11,128
	<u>2,099,469</u>	<u>1,850,603</u>
<u>Advances paid</u>		
- Tigar Tyres d.o.o., Pirot	-	595
- Tigar Obuća d.o.o., Pirot	79	-
- Tigar Tehnička guma d.o.o., Pirot	4,501	-
- Tigar Poslovni servis d.o.o., Pirot	770	-
- Tigar Hotel Stara d.o.o., Pirot	210	147
	<u>5,560</u>	<u>742</u>
<u>Non-current assets held for sale</u>		
- Tigar Tyres d.o.o., Pirot	-	649,517

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

34. RELATED PARTY TRANSACTIONS (Continued)

	<u>2009</u>	<u>2008</u>
Balance sheet (Continued)		
Assets (Continued)		
<u>Accounts receivable</u>		
- Tigar Obuća d.o.o., Pirot	22,089	34,315
- Tigar Tyres d.o.o., Pirot	17,645	21,063
- Tigar Trade d.o.o., Pirot	-	4,810
- Tigar Tehnička guma d.o.o., Pirot	9,327	4,203
- Tigar Hemijski proizvodi d.o.o., Pirot	1,162	3,523
- Tigar Zaštitna radionica d.o.o., Pirot	4,372	4,665
- Tigar – Slobodna carinska zona a.d., Pirot	890	3,053
- Tigar Poslovni servis d.o.o., Pirot	4,040	1,118
- Tigar Hotel Stara d.o.o., Pirot	2,014	1,418
- Tigar Incon d.o.o., Pirot	1,462	-
Other	971	5,356
	<u>63,972</u>	<u>83,524</u>
<u>Receivables from share in profit</u>		
- Tigar Hemijski proizvodi d.o.o., Pirot	46,275	181,417
- Tigar Poslovni servis d.o.o., Pirot	4,813	17,226
- Tigar Zaštitna radionica d.o.o., Pirot	8,073	12,293
- Tigar Tehnička guma d.o.o., Pirot	-	5,277
- Tigar Turs d.o.o., Pirot	-	559
- Tigar Partner d.o.o., Skoplje, Makedonija	850	2,962
- Tigar Montenegro d.o.o., Podgorica, Crna Gora	-	765
- Tigar Trade Banja Luka	1,673	-
- Tigar Inter Risk d.o.o., Pirot	211	1,111
- Tigar Incon d.o.o., Pirot	-	1,323
Other	18	18
- Tigar Obezbeđenje d.o.o., Pirot	3,692	-
- Tigar – Slobodna carinska zona a.d., Pirot	3,016	-
- Tigar Trade d.o.o. Pirot	3,182	201
	<u>71,803</u>	<u>223,152</u>
<u>Short-term financial placements – related parties</u>		
- Tigar Hemijski proizvodi d.o.o., Pirot	2,902	2,971
- Tigar Tehnička guma d.o.o., Pirot	2,269	2,269
- Tigar Trade d.o.o., Pirot	181	353
	<u>5,352</u>	<u>5,593</u>
<u>Other receivables</u>		
- Tigar Poslovni servis d.o.o., Pirot	6,311	4,010
- Tigar Zaštitna radionica d.o.o., Pirot	8,683	400
- Tigar Trade d.o.o., Pirot	454,634	446,619
- Tigar Obezbeđenje d.o.o., Pirot	13,504	3,700
Other	-	13,425
	<u>483,132</u>	<u>468,154</u>
Total, assets	<u><u>2,729,288</u></u>	<u><u>3,281,285</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

34. RELATED PARTY TRANSACTIONS (Continued)

	<u>2009</u>	<u>2008</u>
Balance sheet		
<i>Liabilities</i>		
<i>Advances paid</i>		
- Tigar Obezbeđenje d.o.o., Pirot	-	191
- Tigar Trade d.o.o. Pirot	3,413	-
	<u>3,413</u>	<u>191</u>
<i>Accounts payable</i>		
- Tigar Incon d.o.o., Pirot	15,872	60,098
- Tigar Obuća d.o.o., Pirot	-	5,238
- Tigar Tehnička guma d.o.o., Pirot	-	2,272
- Tigar Obezbeđenje d.o.o., Pirot	439	1,874
- Tigar Tours d.o.o., Pirot	608	1,263
- Tigar Trade d.o.o. Pirot	1,857	1,726
Other	1,603	764
- Tigar – Slobodna carinska zona a.d., Pirot	4	385
- Tigar Poslovni servis d.o.o., Pirot	-	274
- Hotel StarA d.o.o., Pirot	-	147
- Tigar Zaštitna radionica d.o.o., Pirot	87	90
- Tigar Americas	5,539	-
- Tigar Hemijski proizvodi d.o.o., Pirot	24	21
	<u>26,033</u>	<u>74,152</u>
<i>Other liabilities</i>		
- Tigar Hemijski proizvodi d.o.o., Pirot	-	36,000
- Tigar Tehnička guma d.o.o., Pirot	-	5,880
- Tigar Poslovni servis d.o.o., Pirot	-	4,700
	<u>-</u>	<u>46,580</u>
Total, liabilities	<u>29,446</u>	<u>120,923</u>
Net assets	<u>2,699,842</u>	<u>3,160,362</u>
Income statement		
Income		
<i>Sale of products and services</i>		
- Tigar Trade d.o.o. Pirot	46,319	-
- Tigar Tyres d.o.o., Pirot	68,677	64,423
- Tigar Obuća d.o.o., Pirot	83,473	27,034
- Tigar Trgovine d.o.o., Pirot	-	17,078
- Tigar Tehnička guma d.o.o., Pirot	22,996	12,825
- Tigar Hemijski proizvodi d.o.o., Pirot	4,038	8,726
- Tigar Poslovni servis d.o.o., Pirot	5,981	5,547
- Tigar Incon d.o.o., Pirot	6,579	4,693
- Tigar Zaštitna radionica d.o.o., Pirot	873	999
- Tigar Export-Import d.o.o., Pirot	-	674
- Tigar Obezbeđenje d.o.o., Pirot	1,407	524
Other	58	519
- Hotel Stara d.o.o., Pirot	420	415
- Tigar Tours d.o.o., Pirot	105	414
	<u>240,926</u>	<u>143,871</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

34. RELATED PARTY TRANSACTIONS (Continued)

	<u>2009</u>	<u>2008</u>
Bilans uspeha (Continued)		
<u>Rentals</u>		
- Tigar Tyres d.o.o., Pirot	17,706	26,016
- Tigar – Slobodna carinska zona a.d., Pirot		75
	<u>17,706</u>	<u>26,091</u>
<u>Finance income</u>		
- Tigar Hemijski proizvodi d.o.o., Pirot	22,718	181,417
- Tigar Zaštitna radionica d.o.o., Pirot	8,323	12,293
- Tigar Obuća d.o.o., Pirot	-	5,400
- Tigar – Slobodna carinska zona a.d., Pirot	6,013	5,389
- Tigar Tehnička guma d.o.o., Pirot	4,586	5,277
- Tigar Montenegro d.o.o., Podgorica, Crna Gora	4,201	3,693
- Tigar Partner d.o.o., Skoplje, Makedonija	2,107	2,962
- Tigar Trade d.o.o., Banja Luka	3,345	1,892
- Tigar Poslovni servis d.o.o., Pirot	4,813	1,726
- Tigar Incon d.o.o., Pirot	10,256	1,323
- Tigar Inter Risk d.o.o., Pirot	211	1,111
- Tigar Tours d.o.o., Pirot	315	559
- Tigar Trade d.o.o. Pirot	3,182	201
- Tigar Europe, London	42,703	-
- Tigar Tyres d.o.o., Pirot	35,200	27,304
Other	3,692	-
	<u>151,665</u>	<u>250,547</u>
<u>Gains on the sale of fixed assets</u>		
- Tigar Tyres d.o.o., Pirot	148	502,233
<u>Sale of equity investments</u>		
- Tigar Tyres d.o.o., Pirot	549,530	138,684
<u>Capital gains from transfer of property</u>		
- Tigar Tehnička guma d.o.o., Pirot	127,636	-
- Tigar Obuća d.o.o., Pirot	-	300,712
- Tigar Poslovni servis d.o.o., Pirot	-	65,635
- Hotel Stara d.o.o., Pirot	-	36,649
- Tigar Incon d.o.o., Pirot	-	14,831
- Tigar Tours d.o.o., Pirot	-	3,953
	<u>127,636</u>	<u>421,780</u>
Total, income	<u><u>1,135,611</u></u>	<u><u>1,483,206</u></u>
Expenses		
<u>Cost of production services</u>		
- Tigar Trade d.o.o. Pirot	1,494	4,859
- Tigar Tehnička guma d.o.o., Pirot	62	7,619
- Tigar Tours d.o.o., Pirot	391	6,760
- Tigar Incon d.o.o., Pirot	898	795
- Hotel Stara d.o.o., Pirot	-	790
- Tigar Poslovni servis d.o.o., Pirot	24	260
- Tigar Hemijski proizvodi d.o.o., Pirot	-	51
- Tigar Obuća d.o.o., Pirot	2	13
- Tigar Zaštitna radionica d.o.o., Pirot	3	-
	<u>2,874</u>	<u>21,147</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

34. RELATED PARTY TRANSACTIONS (Continued)

	<u>2009</u>	<u>2008</u>
Income statement (Continued)		
Expenses (Continued)		
<i>Cost of non-material expenses</i>		
- Tigar Trade d.o.o. Pirot	195	623
- Tigar Obezbeđenje d.o.o., Pirot	3,778	18,623
- Tigar Poslovni servis d.o.o., Pirot	6,411	7,067
- Tigar Incon d.o.o., Pirot	2,343	2,105
- Hotel Stara d.o.o., Pirot	1,729	1,845
- Tigar Tours d.o.o., Pirot	309	1,173
- Tigar Obuća d.o.o., Pirot	334	380
- Tigar Inter Risk d.o.o., Pirot	96	78
- Tigar Tehnička guma d.o.o., Pirot	43	62
- Tigar – Slobodna carinska zona a.d., Pirot	11	20
- Tigar Zaštitna radionica d.o.o., Pirot	29	15
- Tigar Hemijski proizvodi d.o.o., Pirot	34	-
	<u>15,312</u>	<u>31,991</u>
<i>Other expenses</i>		
- Tigar Trade d.o.o., Pirot	56,000	352,777
- Tigar Obuća d.o.o., Pirot	168,456	267,188
- Tigar Hemijski proizvodi d.o.o., Pirot	15,000	30,968
- Tigar Tehnička guma d.o.o., Pirot	31,254	27,887
- Hotel Stara d.o.o., Pirot	8,905	3,893
- Tigar Obezbeđenje d.o.o., Pirot	-	1,393
- Tigar Poslovni servis d.o.o., Pirot	10,000	-
	<u>289,615</u>	<u>684,106</u>
Total expenses	<u>307,801</u>	<u>737,244</u>
Net income	<u>827,810</u>	<u>745,962</u>

Cost of gross salaries paid to the members of management amounted to RSD 21,236 thousand.

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Equity Risk Management

There is no legal framework for managing equity risk in the Company. The Company considers equity risk in order to diminish it and under the assumption that the Company will be able to continue its business operations in the foreseeable future, maximizing profits to the owners by optimizing the debt to equity ratio. The structure of the Company’s capital includes debts, including long-term borrowings explained in Note 30, other long-term liabilities, cash and cash equivalents and equity attributed to owners which entails share capital, other capital, reserves, as well as retained earnings. Based on such review, the Company balances the equity structure through the payment of dividends, new long-term investments, as well as by obtaining new borrowings and repurchase of the existing ones.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Equity Risk Management (Continued)

The persons controlling finances on the Company level review the equity structure on annual basis. As a part of the review, the Company’s management considers equity price and risk relating to the type of capital.

The debt to equity ratios of the Company as of the year end were as follows:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Indebtedness a)	1,033,560	1,092,185
Cash and cash equivalents	(530,588)	(52,935)
Net indebtedness	<u>502,972</u>	<u>1,039,250</u>
Equity b)	<u>2,811,407</u>	<u>2,736,793</u>
Debt to equity ratio	<u>0.18</u>	<u>0.38</u>

a) Debt is related to long-term and short-term borrowings and other financial liabilities.

b) Equity includes share capital, share premium, reserves, as well as retained earnings and deductibles from equity relating to repurchased own shares that have not been sold.

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.

Categories of Financial Instruments

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Financial assets		
Long-term financial placements	47,811	51,294
Assets held for sale	-	649,517
Accounts receivable	66,131	85,233
Other receivables	71,803	223,152
Cash and cash equivalents	530,588	52,935
Short-term financial placements	488,501	466,238
	<u>1,204,834</u>	<u>1,528,369</u>
Financial liabilities		
Long-term borrowings	171,009	198,503
Accounts payable	89,744	163,276
Current portion of long-term borrowings	42,342	32,479
Short-term borrowings	820,209	861,203
Other financial liabilities	-	8,535
	<u>1,123,304</u>	<u>1,263,996</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Categories of Financial Instruments (Continued)

The Company’s basic financial instruments comprise cash and cash equivalents, receivables, financial placements related to the Company’s business operations, as well as long-term borrowings, accounts payable and other liabilities mainly intended to finance the Company’s current operations. In the regular course of business, the Company is exposed to the risk enumerated in the following passages.

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 time basis and are primarily mitigated by reducing the Company’s exposure to these risks. The Company 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 Company is exposed to financial risks inherent in foreign currency and interest rate changes.

There were neither significant changes in the exposure of the Company to the market risk, nor in the manner in which the Company manages or measures that risk.

Foreign Currency Risk

The Company 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 Company 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 Company 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 Company’s monetary assets and liabilities expressed in foreign currency as of the reporting date were as follows:

	Assets		Liabilities	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
EUR	516,526	23,280	595,176	310,949
USD	15	17	81,293	80,726
	<u>516,541</u>	<u>23,297</u>	<u>676,469</u>	<u>391,675</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market risk (Continued)

Foreign Currency Risk (Continued)

The Company is sensitive to the movements in the EUR and American Dollar (USD) exchange rates. The following table gives details on the Company’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, being the case when RSD value declines as opposed to the currency at issue. In case of RSD decline of 10% as compared to the foreign currency at issue, the impact on the profit for the current period would be the exact opposite of the one calculated in the previous case.

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
EUR	7,865	28,767
USD	<u>8,128</u>	<u>8,071</u>
Profit/Loss	<u>15,993</u>	<u>36,838</u>

The Company’s sensitivity to the movements in foreign currency increased in the current period, primarily as a consequence of nominal increase of liabilities stated in EUR, mostly short-term loans (Note 28).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market risk (Continued)

Interest Rate Risk

The Company is exposed to interest rate risk inherent in assets and liabilities with floating interest rate. This risk depends upon the financial market and the Company does not have any instruments that could alleviate its influence.

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

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Financial Assets		
<i>Non-interest bearing</i>		
Long-term financial placement	153	156
Assets held for sale	-	649,517
Accounts receivable	66,131	85,233
Other receivables	71,803	223,152
Cash and cash equivalents	487,438	9,689
Short-term financial placements	488,501	466,238
	<u>1,114,026</u>	<u>1,433,985</u>
<i>Fixed interest rates</i>		
Long-term financial placement	47,658	51,138
Cash and cash equivalents	43,150	43,246
	<u>90,808</u>	<u>94,384</u>
	<u>1,204,834</u>	<u>1,528,369</u>
Financial liabilities		
<i>Non-interest bearing</i>		
Accounts payable	89,744	163,276
Short-term borrowings	-	46,580
Other financial liabilities	-	8,535
	<u>89,744</u>	<u>218,391</u>
<i>Fixed interest rates</i>		
Long-term borrowings	171,009	198,503
Short-term borrowings	300,889	708,302
Current portion of long-term borrowings	42,342	32,479
	<u>514,240</u>	<u>939,284</u>
<i>Variable interest rates</i>		
Short-term borrowings	519,320	106,321
	<u>519,320</u>	<u>106,321</u>
	<u>1,123,304</u>	<u>1,263,996</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market Risk (Continued)

Interest Rate Risk (Continued)

The sensitivity analyses presented in the following text have been established based on the Company’s exposure to interest rate risk inherent in non-derivative instruments as of the balance sheet date. For the liabilities with variable interest rate, the analysis has been prepared under the assumption that the outstanding balance of assets and liabilities as of the balance sheet date remained constant throughout the year. The increase or decrease in interest rates of 1% represents the fluctuation reasonably anticipated by the management. Had the interest rates been 1 percentage point higher and other variables remained unchanged, the Company would have incurred a loss in the year ended December 31, 2009 in the amount of RSD 5,193 thousand (December 31, 2008: RSD 1,063 thousand). Such situation is attributed to the Company’s exposure arising from the variable interest rates applied to long-term borrowings.

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 Company to suffer loss. The Company’s exposure to this risk is limited to the amount of accounts receivable as of the balance sheet date. Accounts receivable are comprised of a large number of customers, where most significant portion is due from related parties.

The most significant customers are presented in the following table:

	December 31, 2009	December 31, 2008
Tigar Hemijski proizvodi d.o.o., Pirot	47,437	184,940
Tigar Obuća d.o.o., Pirot	22,089	34,315
Tigar Tyres d.o.o., Pirot	17,645	21,063
Tigar Poslovni servis d.o.o., Pirot	8,853	18,344
Tigar Obezbeđenje d.o.o., Pirot	3,692	-
Tigar Zaštitna radionica d.o.o., Pirot	12,445	16,958
Tigar Tehnička guma d.o.o., Pirot	9,327	9,480
Tigar Trade d.o.o., Pirot	3,182	4,810
Tigar Incon d.o.o., Pirot	1,462	3,649
Hotel stara d.o.o., Pirot	2,014	-
Tigar – Slobodna carinska zona, Pirot	3,906	3,053
Other	5,882	11,773
	<u>137,934</u>	<u>308,385</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Managing Accounts Receivable (Continued)

The structure of accounts receivable as of December 31, 2009 is presented in the following table:

	<u>Gross Exposure</u>	<u>Allowance for Impairment</u>	<u>Net Exposure</u>
Accounts receivable, not matured	31,676	-	31,676
Accounts receivable matured and provided for	2,281	(2,281)	-
Accounts receivable matured, but not provided for	<u>106,258</u>	<u>-</u>	<u>106,258</u>
	<u>140,215</u>	<u>(2,281)</u>	<u>137,934</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	57,757	-	57,757
Accounts receivable matured and provided for	1,450	(1,450)	-
Accounts receivable matured, but not provided for	<u>250,628</u>	<u>-</u>	<u>250,628</u>
	<u>309,835</u>	<u>(1,450)</u>	<u>308,385</u>

Accounts Receivable, not Matured

Accounts receivable, not matured as of December 31, 2009 in the amount of RSD 31,676 thousand (December 31, 2008: RSD 57,757 thousand) mostly refer the accounts receivable arising from the sale of services. Most of these receivables mature within 60 days from the invoicing date, depending on the contractually-agreed terms. The average days' sales outstanding in 2009 counted 299 days (2008: 203 days).

Accounts Receivable Matured and Provided for

In the previous periods, the Company calculated an allowance for impairment of matured receivables in the amount of RSD 2,281 thousand (December 31, 2008: RSD 1,450 thousand) due from those customers whose creditworthiness has changed and which will not be collected in full.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Managing Accounts Receivable (Continued)

Accounts Receivable Matured, but not Provided for

The Company failed to make an allowance for impairment of receivables matured as of December 31, 2009 in the amount of RSD 106,258 thousand (December 31, 2008: RSD 250,628 thousand) given that the customer creditworthiness has not changed and since the receivables mostly relate to the electricity sold, the Company 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:

	Decem ber 31, 2009	December 31, 2008
Less than 30 days	23,325	5,420
From 31 to 90 days	9,154	3,884
From 91 to 180 days	-	2,714
From 181 to 365 days	73,779	234,588
Over 365 days	-	4,022
	106,258	250,628
	8	

Managing Accounts Payable

Accounts payable as of December 31, 2009 were stated in the amount of RSD 89,744 thousand, and are associates with the acquisition of services. These suppliers do not charge penalty against matured liabilities, whereas the Company duly settles accounts payable, as in accordance with financial risk management policies. The average days outstanding for accounts payable in 2009 counted 174 days (2008: 121 days).

Liquidity Risk

The ultimate responsibility for liquidity risk management resides with the Company’s management, which is also responsible for managing the Company’s short-term, medium-term and long-term financing and liquidity management. The Company 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 give the details of outstanding contractual maturities of assets of the Company. The amounts presented are based on the undiscounted cash flows arising from financial assets based on the earliest date upon which the Company will be able to collect such receivables.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Tables of Liquidity and Credit Risk (Continued)

Maturities of Financial Assets

	December 31, 2009					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	510,763	9,154	562,279	31,829	-	1,114,025
Fixed interest rate	-	1,104	31,682	17,090	40,932	90,808
	<u>510,763</u>	<u>10,258</u>	<u>593,961</u>	<u>48,919</u>	<u>40,932</u>	<u>1,204,833</u>

	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	306,957	344,824	457,446	324,758	-	1,433,985
Fixed interest rate	43,249	-	3,785	21,496	25,854	94,384
	<u>350,206</u>	<u>344,824</u>	<u>461,231</u>	<u>346,254</u>	<u>25,854</u>	<u>1,528,369</u>

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

Maturities of Financial Liabilities

	December 31, 2009					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	-	-	89,744	-	-	89,744
Fixed interest rate	-	140,032	203,199	171,009	-	514,240
Variable interest rate	-	364,904	167,030	-	-	531,934
	<u>-</u>	<u>504,936</u>	<u>459,973</u>	<u>171,009</u>	<u>-</u>	<u>1,135,918</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Tables of Liquidity and Credit Risk (Continued)

Maturities of Financial Liabilities (Continued)

	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	124,751	48,337	45,303	-	-	218,391
Fixed interest rate	56,288	525,742	250,735	223,051	-	1,055,816
Variable interest rate	17,720	-	92,495	-	-	110,215
	<u>198,759</u>	<u>574,079</u>	<u>388,533</u>	<u>223,051</u>	<u>-</u>	<u>1,384,422</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, 2009 and 2008.

	December 31, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Long-term financial placements	47,811	32,836	51,294	40,844
Assets held for sale	-	-	649,517	900,545
Accounts receivable	66,131	66,131	85,233	85,233
Other receivables	71,803	71,803	223,152	223,152
Cash and cash equivalents	530,588	530,588	52,935	52,935
Short-term financial placements	488,500	488,500	466,238	466,238
	<u>1,204,833</u>	<u>1,189,858</u>	<u>1,528,369</u>	<u>1,768,947</u>
Financial Liabilities				
Long-term borrowings	171,009	162,297	198,503	162,995
Account payable	89,744	89,744	163,276	163,276
Current portion of long-term borrowings	42,342	49,820	32,479	42,749
Short-term borrowings	820,209	820,209	861,203	861,203
Other financial liabilities	-	-	8,535	8,535
	<u>1,123,304</u>	<u>1,122,070</u>	<u>1,263,996</u>	<u>1,238,758</u>

Assumptions for the Assessment of Financial Instruments' Fair Value

Given that the sufficient market experience, stability and liquidity do not presently exist for the purchase and sale of financial assets or liabilities, and given that the quoted prices, which could be used for the purposes of disclosing fair value of financial assets and liabilities are unavailable, the method here applied is that of discounted cash flows. In using this method of measurement, interest rates for financial instruments with similar characteristics have been used, with the aim to arrive at the relevant assessment of market values of financial instruments as of the balance sheet date. The carrying value of short-term accounts receivable and accounts payable approximates their fair value since they fall due within relatively short periods.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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

36. CONTINGENT LIABILITIES

At December 31, 2009, litigations filed against the Company sought an amount of RSD 1,385 thousand. Based on the analysis of available legal documents and information obtained from professional services and legal advisors, the management believes will be resolved in favor of the Company, and accordingly, as of December 31, 2009, the financial statements as do not include additional provisions for these risks.

37. OPERATING LEASE

Commitments of the Company based on contracts on the lease of business premises subject to cancellations were the following:

	December 31, 2009	December 31, 2008
Up to 1 year	28,676	20,047
From 1 to 5 years	114,703	80,189
Over 5 years	70,841	60,142
	<u>214,220</u>	<u>160,378</u>

According to the lease contract, the rental of business premises expires at December 31, 2016.

38. EXCHANGE RATES

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

	December 31, 2009	December 31, 2008
USD	66.7285	62.9000
EUR	95.8888	88.6010
GBP	107.2582	90.8635
CHF	64.4631	59.4040