

TIGAR A.D., PIROT

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

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This is a translation of the original 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 consolidated financial statements (page 3 to 48) of “Tigar” A.D., Pirot and its subsidiaries (the “Company”), which comprise the consolidated balance sheet as at December 31, 2008, and the related consolidated income statement, consolidated statement of changes in equity and consolidated 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 Consolidated Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

(Continued)

This is a translation of the original report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Tigar A.D., Pirot (Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tigar A.D., Pirot and its subsidiaries as of December 31, 2008, and their consolidated financial performance, consolidated changes in equity and their consolidated cash flows for the year then ended, in accordance with the accounting regulations of the Republic of Serbia.

Belgrade, April 29, 2009

Žarko Mijović
Certified Auditor

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

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
OPERATING INCOME			
Sales of goods, products and services	5	3,315,792	3,714,897
Own work capitalized	7	392,524	55,545
(Decrease)/increase in the value of inventories		(26,402)	151,819
Other operating income	8	69,699	65,946
		<u>3,751,613</u>	<u>3,988,207</u>
OPERATING EXPENSES			
Cost of commercial goods sold		(1,177,607)	(1,054,620)
Cost of material	9	(1,245,092)	(1,162,140)
Staff costs	10	(1,501,211)	(1,332,030)
Depreciation, amortization and provisions	11	(88,801)	(90,255)
Other operating expenses	12	(454,120)	(539,330)
		<u>(4,466,831)</u>	<u>(4,178,375)</u>
		<u>(715,218)</u>	<u>(190,168)</u>
OPERATING LOSS			
Finance income	13	202,587	299,056
Finance expenses	14	(353,424)	(148,504)
Other income	15	1,096,598	370,035
Other expenses	16	(35,223)	(113,663)
		<u>195,320</u>	<u>216,756</u>
PROFIT BEFORE TAXATION			
Income taxes:			
- Current tax expense	17	(99,318)	(32,349)
- Deferred tax expense		(6,049)	(19,380)
		<u>89,953</u>	<u>165,027</u>
PROFIT FOR THE YEAR			
Net profit attributable to:			
- Tigar A.D., Pirot		84,939	161,717
- Minority shareholders		5,014	3,310
		<u>89,953</u>	<u>165,027</u>
Earnings per share in RSD	18	<u>52.41</u>	<u>96.03</u>

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

These consolidated financial statements were approved on April 28, 2009 by the management of Tigar A.D., Pirot.

Signed on behalf of Tigar A.D., Pirot:

Dragan Nikolić
Director General

Aleksandra Lilić
Head of Accounting

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

	<u>Notes</u>	<u>2008</u>	<u>2007</u> <i>Adjusted</i>
ASSETS			
Non-current assets			
Intangible assets	19	74,702	36,343
Property, plant and equipment	20	3,323,718	1,155,252
Equity investments	21	481,447	815,867
Other long-term financial placements	22	51,801	55,674
		<u>3,931,668</u>	<u>2,063,136</u>
Current assets			
Inventories	23	1,289,581	1,031,608
Assets held-for-sale	24	10,791	23,926
Accounts receivable	25	918,538	919,243
Receivables for prepaid income taxes		10,568	1,868
Short-term financial placements	26	469,686	403,888
Cash and cash equivalents	27	242,410	325,936
Value added tax and prepayments	29	75,873	38,616
Deferred tax assets	17	18,015	28,301
		<u>3,035,462</u>	<u>2,773,386</u>
Total assets		<u><u>6,967,130</u></u>	<u><u>4,836,522</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	30	2,062,152	2,062,152
Reserves		575,488	575,611
Revaluation reserves		1,086,061	11,168
(Accumulated loss)/Retained earnings		(6,198)	13,775
Minority interest		47,057	42,816
Repurchased treasury shares		(26,018)	-
Share premium		13,781	-
Translation reserves		(7,131)	-
		<u>3,745,192</u>	<u>2,705,522</u>
Long-term provisions and liabilities			
Long-term provisions	31	81,891	73,251
Long-term liabilities	32	679,018	240,433
		<u>760,909</u>	<u>313,684</u>
Current liabilities			
Short-term financial liabilities	33	1,184,001	813,511
Accounts payable	34	879,547	806,350
Other current liabilities	35	139,819	130,122
Value added tax and other public duties payable and accruals	36	50,178	49,785
Income taxes payable		84,912	14,264
		<u>2,338,457</u>	<u>1,814,032</u>
Deferred tax liabilities	17	<u>122,572</u>	<u>3,284</u>
Total equity and liability		<u><u>6,967,130</u></u>	<u><u>4,836,522</u></u>

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

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

	Share capital	Reserves	Revaluation Reserves	(Accumulated Loss)/Retained Earnings	Minority Interest	Repurchased Treasury Shares	Share Premium	Translation Reserves	Total
Balance January 1, 2007	2,062,152	567,095	7,956	(15,644)	50,561	-	-	-	2,672,120
Transfers to reserves	-	30,448	-	(30,448)	-	-	-	-	-
Allocations to dividends	-	-	-	(43,477)	-	-	-	-	(43,477)
Profit for the year	-	-	-	165,027	-	-	-	-	165,027
Profit of minority shareholders	-	-	-	(3,310)	3,310	-	-	-	-
Other	-	(21,932)	3,212	(58,373)	(11,055)	-	-	-	(88,148)
Balance, December 31, 2007	<u>2,062,152</u>	<u>575,611</u>	<u>11,168</u>	<u>13,775</u>	<u>42,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,705,522</u>
Balance January 1, 2008	2,062,152	575,611	11,168	13,775	42,816	-	-	-	2,705,522
Treasury shares repurchased	-	-	-	-	-	(30,357)	16,084	-	(14,273)
Treasury shares sold	-	-	-	-	-	4,339	(2,303)	-	2,036
Dividends paid for the year 2007	-	-	-	(48,734)	-	-	-	-	(48,734)
Interim dividends paid for the year 2008	-	-	-	(56,178)	-	-	-	-	(56,178)
Appraisal effects	-	-	1,194,324	-	-	-	-	-	1,194,324
Deferred tax assets	-	-	(119,431)	-	-	-	-	-	(119,431)
Effects of foreign currency fluctuations	-	-	-	-	-	-	-	(7,131)	(7,131)
Profit for the year	-	-	-	89,953	-	-	-	-	89,953
Profit of minority shareholders	-	-	-	(5,014)	5,014	-	-	-	-
Other	-	(123)	-	-	(773)	-	-	-	(896)
Balance, December 31, 2008	<u>2,062,152</u>	<u>575,488</u>	<u>1,086,061</u>	<u>(6,198)</u>	<u>47,057</u>	<u>(26,018)</u>	<u>13,781</u>	<u>(7,131)</u>	<u>3,745,192</u>

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

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

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	3,325,886	4,330,352
Interest receipts	4,956	11,810
Other receipts from operating activities	120,941	104,537
Cash paid to suppliers for raw and other materials and other expenses	(2,652,736)	(3,912,226)
Gross salaries and other staff costs paid	(1,488,111)	(1,312,488)
Interest paid	(203,910)	(111,760)
Taxes and contributions paid	(42,936)	(21,160)
Other public duties payable	(70,687)	(11,698)
<i>Net cash used in operating activities</i>	<u>(1,006,597)</u>	<u>(922,633)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of shares and equity investments (net inflows)	454,251	803,753
Sale of property, plant and equipment	742,705	298,412
Other financial placements	-	245
Interest received	7,277	6,578
Dividends received	117,252	91,743
Purchases of property, plant and equipment	(1,038,647)	(325,752)
<i>Net cash provided by investing activities</i>	<u>282,838</u>	<u>874,979</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term and short-term loans (net inflows)	784,946	88,035
Other long-term and short-term liabilities, net inflows/(outflows)	-	21,132
Repurchase of treasury shares	(11,598)	-
Finance lease payments	(6,324)	-
Dividends paid	(100,592)	(42,000)
<i>Net cash provided by financing activities</i>	<u>666,432</u>	<u>67,167</u>
NET CASH INCREASE	-	19,513
NET CASH DECREASE	(57,327)	-
Cash and cash equivalents at beginning of year	325,936	309,356
Foreign exchange gains and losses on translation of cash and cash equivalents, net	<u>(26,199)</u>	<u>(2,933)</u>
Cash and cash equivalents at end of year	<u><u>242,410</u></u>	<u><u>325,936</u></u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**December 31, 2008***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, the shareholding company doing business in the manufacture of rubber products (Tigar A.D., Pirot).

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. Thus, at December 31, 2008, the equity interest in Tigar Tyres amounts to 20%. Accordingly, the entity “Tigar Tyres”, Pirot was not included in the consolidated financial statements of the Company prepared at December 31, 2008 and 2007.

In addition to the production of rubber products, the Company’s principal activities also include the production of glues and utensils, transport, construction services, tourism and accommodation, foreign trade operations related to the activity for which the Company was established, special forms of foreign trade (agreements on long-term production cooperation, compensation transactions, purchase of goods abroad for the purpose of resale abroad, as well as export of purchased and imported goods), services in foreign trade and the like.

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, 2008, the Parent Company had 193 employees (December 31, 2007: 196 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 TIGR symbol.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis for Consolidation

The accompanying financial statements represent the consolidated financial statement of the company Tigar A.D., Pirot (the “Company” or “Parent Company”), and the financial statements of the following subsidiaries:

	<u>% Equity Interest</u>
1 Tigar Obuća d.o.o, Pirot	100.00%
2 Tigar Hemijski proizvodi d.o.o., Pirot	100.00%
3 Tigar Tehnička guma d.o.o., Pirot	100.00%
4 Tigar Trejd d.o.o.,Pirot	100.00%
5 Tigar Trgovine d.o.o., Pirot	100.00%
6 Tigar Poslovni servis d.o.o., Pirot	100.00%
7 Tigar Tours d.o.o., Pirot	100.00%
8 Tigar Planinarski dom d.o.o., Pirot	100.00%
9 Tigar Obezbeđenje d.o.o., Pirot	100.00%
10 Tigar Zaštitna radionica, d.o.o., Pirot	100.00%
11 Tigar Inter Risk d.o.o., Pirot	100.00%
12 Tigar Export-Import d.o.o., Pirot	100.00%
13 Tigar Inkon d.o.o., Pirot	100.00%
14 Slobodna Zona Pirot, A.D., Pirot	74.31%
15 Tigar Montenegro d.o.o., Podgorica, Republic of Montenegro	80.00%
16 Tigar Patner d.o.o., Skoplje, Republic of Macedonia	70.00%
17 D.O.O. Tigar Trejd, Banja Luka, Republic of Srpska	70.00%
18 Tigar Americas Jcksonwill, Florida, USA	100.00%
19 Tigar Europe, London, UK	50.00%

The financial statements of foreign subsidiaries stated in their functional currencies are translated into the reporting currency of the Parent Company (Dinar), by translating the assets and liabilities at the official exchange rate as of the balance sheet date, and by translating income and expenses at the average rates of exchange prevailing during the year.

All material intercompany balances and transactions relating to the abovelisted subsidiaries have been eliminated upon consolidation.

2.2. Basis of Preparation and Presentation of Consolidated Financial Statements

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

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

2.2. Basis of Preparation and Presentation of Consolidated Financial Statements (Continued)

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

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

However, until the preparation date of the accompanying consolidated financial statements, not all amendments to Standards and Interpretations had been translated (particularly subsequent to the aforementioned opinion of the Ministry). In addition, the officially prescribed forms for financial statements, “Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures” (“Guidelines”) and other secondary legislation acts had not yet been amended, i.e. reconciled (with the officially published Standards and Interpretations). The Interpretations in application for the accounting periods commencing January 1, 2008, which were not officially translated and adopted by the Ministry are disclosed in Note 2.3.

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

With regards to the potentially material effects of the departures of the accounting regulations of the Republic of Serbia and IAS, in effect as of December 31, 2002 (officially published and whose application was legally prescribed in the Republic of Serbia prior to February 12, 2008), from the newly-issued IFRS and amended IAS, the accompanying financial statements cannot be described as having been prepared in accordance with IFRS and IAS.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

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

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

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

- IAS 1 Presentation of Financial Statements (effective for financial periods starting January 1, 2009);
- IAS 23 Borrowing costs (effective for financial periods starting January 1, 2009);
- IFRS 8 Operating Segments (effective for financial periods starting January 1, 2009);
- IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial periods starting July 1, 2009);
- Amendments to IFRS 2 Share-Based Payment - Vesting Conditions and Cancellations (effective for financial periods starting January 1, 2009);
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for financial periods starting January 1, 2009);
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial periods starting July 1, 2009);
- Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial periods starting January 1, 2009);
- Improvements to International Financial Reporting Standards 2008 (most changes are effective for financial periods starting January 1, 2009);
- IFRIC 15 Agreements for the Construction of Real Estate (effective for financial periods starting January 1, 2009);
- Improvements to IFRS 1 First-time Adoption of International Financial Reporting Standards (in effect from July 1, 2009);
- IFRIC 17 Distributions of Non-cash Assets to Owners (in effect from July 1, 2009);
- IFRIC 18 Transfers of Assets from Customers (effective for financial periods starting July 1, 2009).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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.

3.4. 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 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. 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.

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.

3.6. 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.

3.7. Property, Plant and Equipment

The items of plant, property and equipment qualifying for recognition, are initially stated at cost less accumulated depreciation and impairment losses, if any.

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 CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Property, Plant and Equipment (Continued)

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. At December 31, 2008, the Company changed the earlier applied accounting policy of stating property at cost, due to the fact that the revaluation method better reflects their value.

For the purpose of fair value adjustment of the carrying values of property, plant and equipment stated in its business books, the Company engaged internal appraisers and the valuation was performed as of December 31, 2008 by applying the market principle – by comparing the carrying values with the market values of such assets, i.e. for the property to which market principle could not be applied, the depreciated value substitute. Based on the report prepared about the appraisal, the value of the Company’s property increased and the positive appraisal effects were credited to revaluation reserves.

If an asset’s carrying amount is increased as a result of a revaluation, the increase is recognized in equity under the heading of revaluation surplus. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the revaluation surplus is credited to income statement up to the amount in which the previously recognizes decrease was recorded within expenses.

If an asset’s carrying amount is decreased as a result of a revaluation, the decrease is recognized in profit or loss. However, the decrease is recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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 expenditure are expensed as incurred.

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	1.30 - 5.00%
Equipment	
Power stations	10.00%
Production equipment	12.50% - 14.30%
Molds	50.00%
Vehicles	14.30%
Cars	15.50%
Laboratory and measurement equipment	16.60%
Office furniture	12.50%
Computers	20.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Impairment of 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.

3.9. 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.

3.10. 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.

The value of work in progress and finished products include all costs directly attributable to production, as well as non-production overheads.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Inventories (Continued)

Inventories in retail outlets are carried at retail prices. At the end of each accounting period, the carrying value is adjusted to cost by an apportionment of the related retail price calculated on an average basis, between the cost of goods sold and the inventories held.

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.

3.11. 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 consolidated 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 held for sale and available for sale including investment in banks and other legal entities.

Equity investments held for sale are accounted for as financial assets and are carried at fair market value.

Equity investments available for sale, for which an active market and reliable market values do not exist, are stated at cost less allowances for impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. 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 consolidated 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.

Cash and Cash Equivalents

In the consolidated 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 contractually agreed interest corresponding to the effective interest rate and any penalty interest.

Impairment of Financial Assets

At each balance sheet date, financial assets, except for assets carried at fair value through profit and loss, are assessed for impairment. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset.

For shares not listed on the market which are classified as available-for-sale, a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Instruments (Continued)

For all other financial assets, including redeemable securities classified as available for sale and receivables arising from finance lease, objective evidence of impairment may include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization.

For certain categories of financial assets, such as accounts receivable, that have been individually assessed for impairment and found not to be individually impaired are included in a collective assessment of impairment. The objective evidence of collective impairment could include previous experience with collection, delinquency in collection, as well as changes in the national or local economic circumstances that correlate with defaults.

For financial assets stated at amortized cost, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES

The presentation of the consolidated 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 consolidated 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 consolidated balance sheet date which represent risk from material adjustments to the amounts of consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

4.4. Allowance for Impairment of Receivables

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.

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.

4.5. Fair Value

The accompanying consolidated 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 consolidated 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,
	2008	2007
	<u> </u>	<u> </u>
Sale on domestic market		
Sales of products and services on domestic market	1,215,643	1,283,361
Sale of goods on domestic market	525,604	633,775
Sale on foreign market		
Sales of products and services on foreign markets	1,403,926	1,720,031
Sale of goods on foreign markets	<u>170,619</u>	<u>77,730</u>
	<u>3,315,792</u>	<u>3,714,897</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

6. OPERATING AND GEOGRAPHICAL SEGMENTS

Products and Services within Operating Segments

For the management needs, the Company is organized in six operating segments. These segments are the basis for the Company’s segment reporting. Basic products and services of each of the segments are as follows:

Rubber products – the manufacture and sale of rubber products such as: tire treads, pipes and flaps designated for the automotive industry, rubber products for mining, sporting equipment and balls.

Chemical products – the production and sale of a range of chemical products, including colors, polishes and other related products, glues and gelatin.

Shoes – the production and sale of rubber-made shoes.

Trade - retail trade and wholesale of products from the production program of other segments, as well as marketing, distribution and sale of inner and outer car tyres.

Services – providing of services to tourist agencies, hotel accommodation, catering, protection and security and other services.

Segment Revenues

	External sales		Inter-segment		Total	
	2008	2007	2008	2007	2008	2007
Rubber products	281,690	233,267	55,459	28,496	337,149	261,763
Chemical products	159,070	188,304	40,509	35,664	199,579	223,968
Shoes	456,802	783,761	436,934	280,439	893,736	1,064,200
Trade	1,837,454	1,930,413	730,337	472,497	2,567,791	2,402,910
Services	513,933	479,081	401,234	236,734	915,167	715,815
Holding	66,843	100,071	115,567	76,656	182,410	176,727
Total of all segments					5,095,832	4,845,383
Eliminations					(1,780,040)	(1,130,486)
Consolidated sales revenue					<u>3,315,792</u>	<u>3,714,897</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment result

	Year Ended December 31,	
	2008	2007
Rubber products	5,087	128,155
Chemical products	228,989	(15,398)
Shoes	37,990	(37,256)
Trade	55,448	(17,865)
Services	28,601	52,152
Holding	211,037	49,727
Total of all segments	567,152	159,515
Eliminations	(371,832)	57,241
Profit before tax	195,320	216,756
Income tax expense	(99,318)	(32,349)
Deferred income tax	(6,049)	(19,380)
Net profit for the year	89,953	165,027

Segment assets and liabilities

	Assets		Liabilities	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Rubber products	424,270	471,509	249,856	449,007
Chemical products	376,320	232,860	266,057	181,463
Shoes	2,094,229	909,114	1,275,170	828,204
Trade	1,993,888	1,512,005	1,563,354	1,204,544
Services	660,089	468,244	280,941	263,707
Holding	4,079,757	3,592,024	1,342,963	906,185
Total of all segments	9,628,553	7,185,756	4,978,341	3,833,110
Eliminations	(2,661,423)	(2,349,234)	(1,878,975)	(1,705,394)
Consolidated	6,967,130	4,836,522	3,099,366	2,127,716

Other segment information

	Acquisition of fixed assets and intangible assets		Depreciation charges	
	2008	2007	2008	2007
Rubber products	79,033	5,759	8,006	10,908
Chemical products	2,000	5,198	6,727	6,163
Shoes	427,197	21,297	15,014	18,506
Trade	75,591	57,729	17,965	14,854
Services	138,752	54,905	22,560	17,158
Holding	583,799	136,660	14,631	17,073
	1,306,372	281,548	84,903	84,662
Adjustments	-	-	-	(3)
	1,306,372	281,548	84,903	84,659

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Sale of products, goods and services on foreign markets by geographical location

	Year Ended December 31,	
	2008	2007
France	74,254	489,934
Great Britain	716,612	487,836
Germany	1,572	33,086
Italy	101,945	126,260
Bosnia and Herzegovina	13,183	68,673
Sweden	17,921	27,093
Bulgaria	11,122	9,379
Finland	192,416	216,406
Poland	3,229	2,507
Montenegro	81,140	78,552
Macedonia	80,394	69,125
Republic of Srpska	200,341	138,724
Other	80,416	50,186
	<u>1,574,545</u>	<u>1,797,761</u>

7. OWN WORK CAPITALIZED

Own work capitalized for the year ended December 31, 2008 in the aggregate amount of RSD 392,524 thousand (2007: RSD 55,545 thousand), includes an amount of RSD 268,875 thousand which is associated with the cost of hiring new employees and cost of material directly attributable to property, plant and equipment, as required by Tigar 3 Project (construction of the power supply system, infrastructure and Obuća building), an amount of RSD 34,589 thousand relating to the expenses of hiring employees who participated on the reconstruction and modernization of the service network of retail outlets and an amount of RSD 16,669 thousand, relating to capitalization of expenses of Socius Consulting associated with the project of modernizing trading network.

8. OTHER OPERATING INCOME

	Year Ended December 31,	
	2008	2007
Premiums, subsidies recoveries and compensations received	548	2,783
Rentals	37,215	39,587
Subsequently approved rebates based on the goods acquisition	30,570	18,663
Other	1,366	4,913
	<u>69,699</u>	<u>65,946</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

9. COST OF MATERIAL

	Year Ended December 31,	
	2008	2007
	<u> </u>	<u> </u>
Cost of production material	1,042,847	998,347
Cost of overhead material	46,478	43,117
Cost of electricity	33,044	28,097
Other costs of fuel and energy	<u>122,723</u>	<u>92,579</u>
	<u>1,245,092</u>	<u>1,162,140</u>

10. STAFF COSTS

	Year Ended December 31,	
	2008	2007
	<u> </u>	<u> </u>
Net salaries and benefits	851,869	758,535
Taxes and contributions on salaries paid by the employees	317,332	277,829
Taxes and contributions on salaries paid by the employer	210,876	180,406
Contracts	10,262	6,830
Remunerations to Supervisory and Board of Directors		
Members	17,175	12,092
Retirement benefits and jubilee awards	23,917	27,506
Travel expenses and prediems	18,938	31,122
Employee meals	40,156	22,858
Transport to work and from work	<u>10,686</u>	<u>14,852</u>
	<u>1,501,211</u>	<u>1,332,030</u>

11. DEPRECIATION, AMORTIZATION AND PROVISIONS

	Year Ended December 31,	
	2008	2007
	<u> </u>	<u> </u>
Depreciation and amortization	84,903	84,659
Provisions	<u>3,898</u>	<u>5,596</u>
	<u>88,801</u>	<u>90,255</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

12. OTHER OPERATING EXPENSES

	Year Ended December 31,	
	2008	2007
Production costs	17,507	-
Telecommunications	19,719	20,851
Other transport	17,255	22,568
Maintenance	20,656	16,588
Rentals	49,404	33,986
Fairs exhibitions	5,281	1,947
Marketing and advertising	29,178	29,151
Research costs	901	-
Other production services	17,531	13,580
Fees paid to auditors, lawyers and consultants	36,805	48,406
Other non-production services	94,120	14,258
Entertainment	10,277	27,194
Insurance premiums	15,593	15,256
Bank charges and fees	12,308	9,442
Membership fees	2,378	1,830
Taxes and contributions	56,338	32,027
Other nonmaterial costs	48,869	252,246
	<u>454,120</u>	<u>539,330</u>

13. FINANCE INCOME

	Year Ended December 31,	
	2008	2007
Income from dividends and equity investments in related parties	140,799	235,218
Interest income from placements	1,598	41
Income from penalty interest	4,956	11,810
Foreign exchange gains	49,555	45,450
Other finance income	5,679	6,537
	<u>202,587</u>	<u>299,056</u>

Income from dividends and equity investment in related parties for the year ended December 31, 2008 and relates to the proportionate share in profit earned by the related party Tigar Tyres, Pirot.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

14. FINANCE EXPENSES

	Year Ended December 31,	
	<u>2008</u>	<u>2007</u>
Interest expense	162,724	102,563
Interest expenses related to the valuation of financial instruments	309	2,811
Foreign exchange losses	149,376	42,628
Other finance expenses	<u>41,015</u>	<u>502</u>
	<u>353,424</u>	<u>148,504</u>

Other finance expenses for the year ended December 31, 2008 in the aggregate amount of RSD 41,015 thousand, include an amount of RSD 30,377 thousand relating to the factoring expenses (Note 25).

15. OTHER INCOME

	Year Ended December 31,	
	<u>2008</u>	<u>2007</u>
Gains on the disposal of property, plant and equipment and intangible assets	809,881	199,604
Gains on the sale of equity investments	138,683	113,721
Gains on the sale of materials	2,352	4,739
Surpluses	543	23
Recovered written-off receivables (reversal of allowance for impairment)	1,607	150
Write-off of liabilities	2,529	17,760
Reversal of long-term provisions (Note 31)	11,813	-
Remeasurement of short-term placements	995	186
Inventory take	<u>79,729</u>	<u>-</u>
Other income not mentioned	<u>48,466</u>	<u>33,852</u>
	<u>1,096,598</u>	<u>370,035</u>

Gains on the sale of fixed assets for the year ended December 31, 2008 in the total amount of RSD 809,881 thousand mostly relate to the gains on the sale of the rights of using land with infrastructure and ownership over a rail gauge of RSD 502,233 thousand and a storage of packaging material, administrative building and production hall of RSD 278,194 thousand, based on the contracts closed with Tigar Tyres d.o.o., Pirot as of March 27 and March 31, 2008

Gains on the sale of securities for the year ended December 31, 2008 totaling RSD 138,683 thousand pertain to the sale of 10% equity stake in the entity Tigar Tyres d.o.o., Pirot to the company Michelin Finance, the Netherlands (Note 41).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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16. OTHER EXPENSES

	Year Ended December 31,	
	2008	2007
Losses on the disposal of property, plant and equipment and intangible assets	644	7,745
Loss on sale of material	-	1
Shortages	193	488
Write-off of receivables (increase in allowance for impairment)	1,645	8,713
Allowance for impairment of inventories	-	80,790
Fair value adjustment of inventories	5,610	1,839
Fair value adjustment of receivables	-	1,168
Other expenses	27,131	12,919
	<u>35,223</u>	<u>113,663</u>

17. INCOME TAXES

a) Components of Income Taxes

	2008	2007
Current income taxes	99,318	32,349
Deferred tax expense	6,049	19,380
	<u>105,367</u>	<u>51,729</u>

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

	2008	2007
Profit before tax	195,320	216,756
Income taxes at the statutory tax rate of 10%	19,532	21,676
Tax effects of non-deductible expenses	111,706	30,141
Tax credits for capital expenditures	(47,937)	(4,136)
Not recognized tax losses	20,760	4,366
Other	1,306	(318)
	<u>105,367</u>	<u>51,729</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

17. INCOME TAXES (Continued)

c) Components of Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities relate to the following positions:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Deferred tax assets		
Deferred tax assets arising from a difference between the value of assets recorded for book and tax purposes	<u>18,015</u>	<u>28,301</u>
Deferred tax liabilities		
Deferred tax liabilities arising on difference between the value of assets recorded for book and tax purposes	<u>(122,572)</u>	<u>(3,284)</u>
Deferred tax assets, net	<u>(104,557)</u>	<u>25,017</u>

Deferred tax assets of RSD 122,572 thousand include tax liabilities arising from the appraisal of fixed assets of RSD 119,431 thousand.

c) Deferred tax assets as of December 31, 2008

Inception Year	<u>Expiration Year</u>	<u>Tax Credit</u>
- 2003	2013	1,326
- 2004	2014	76,709
- 2005	2015	53,547
- 2006	2016	141,272
- 2007	2017	71,594
- 2008	2018	<u>144,351</u>
		<u>488,799</u>

As of December 31, 2008, the Company did not recognize deferred tax assets arising from the earned tax credits and tax losses available for carryforward, as the management were uncertain that these credits could be utilized in the future reporting periods.

18. EARNINGS PER SHARE

	<u>2008</u>	<u>2007</u>
Net profit	89,953	165,027
Weighted average number of shares in the year	<u>1,716,352</u>	<u>1,718,460</u>
Earnings per share (in RSD)	<u>52.41</u>	<u>96.03</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

19. INTANGIBLE ASSETS

	Licenses	Other Intangible Assets	Intangible Assets in Progress	Total Intangible Assets
Cost				
Balance, January 1, 2007	12,603	1,107	5,292	19,002
Additions	-	-	31,426	31,426
Transfers	4,064	1,228	(5,292)	-
Change in the scope of consolidation	(3,750)	-	-	(3,750)
Sale and disposal	-	(516)	-	(516)
Balance, December 31, 2007	<u>12,917</u>	<u>1,819</u>	<u>31,426</u>	<u>46,162</u>
Balance, January 1, 2008	12,917	1,819	31,426	46,162
Additions	-	-	95,016	95,016
Transfers	5,316	264	(5,580)	-
Transfers from /(to) property, plant and equipment	4,507	-	(58,297)	(53,790)
Balance, December 31, 2008	<u>22,740</u>	<u>2,083</u>	<u>62,565</u>	<u>87,388</u>
Accumulated Amortization				
Balance, January 1, 2007	9,156	1,374	-	10,530
Charge for the year	1,472	208	-	1,680
Change in the scope of consolidation	(2,391)	-	-	(2,391)
Balance, December 31, 2007	<u>8,237</u>	<u>1,582</u>	<u>-</u>	<u>9,819</u>
Balance, January 1, 2008	8,237	1,582	-	9,819
Charge for the year	2,573	294	-	2,867
Balance, December 31, 2008	<u>10,810</u>	<u>1,876</u>	<u>-</u>	<u>12,686</u>
Net Book Value				
- December 31, 2008	<u>11,930</u>	<u>209</u>	<u>62,565</u>	<u>74,702</u>
- December 31, 2007	<u>4,680</u>	<u>237</u>	<u>31,426</u>	<u>36,343</u>

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December 31, 2008

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

20. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Construction in Progress	Leasehold Improvements	Total PP&E
Cost						
Balance, January 1, 2007	161,953	976,875	2,443,121	3,548	214,164	3,799,661
Additions	-	-	-	-	294,326	294,326
Activations and transfers	2,798	-	113,271	1,519	(117,588)	-
Sale and disposal	-	(94,560)	(15,209)	-	(2,015)	(111,784)
Change in the scope of consolidation	-	(396,521)	(1,906,044)	-	(103,993)	(2,406,558)
Transfer to property held-for-sale	-	(17,421)	-	-	-	(17,421)
Balance, December 31, 2007	164,751	468,373	635,139	5,067	284,894	1,558,224
Balance, January 1, 2008	164,751	468,373	635,139	5,067	284,894	1,558,224
Additions	-	-	-	-	1,211,356	1,211,356
Activations	-	677,356	459,673	4,276	(1,141,305)	-
Transfers from /(to) intangible assets	-	43,013	15,284	-	(4,507)	53,790
Sale and disposal	(56,405)	(187,382)	(29,137)	-	(1,323)	(274,247)
Appraisal effect	5,389	1,188,935	-	-	-	1,194,324
Other	-	-	(4,920)	-	-	(4,920)
Balance, December 31, 2008	113,735	2,190,295	1,076,039	9,343	349,115	3,738,527
Accumulated Depreciation						
Balance, January 1, 2007	-	139,939	940,594	879	-	1,081,412
Charge for the year	-	29,713	51,304	1,962	-	82,979
Sale and disposal	-	(13,492)	-	-	-	(13,492)
Change in the scope of consolidation	-	(50,616)	(680,656)	-	-	(731,272)
Transfer to property held for sale	-	(16,655)	-	-	-	(16,655)
Balance, December 31, 2007	-	88,889	311,242	2,841	-	402,972
Accumulated Depreciation						
Balance, January 1, 2008	-	88,889	311,242	2,841	-	402,972
Charge for the year	-	13,022	68,242	772	-	82,036
Sale and disposal	-	(48,185)	(22,014)	-	-	(70,199)
Balance, December 31, 2008	-	53,726	357,470	3,613	-	414,809
Net Book Value						
- December 31, 2008	113,735	2,136,569	718,569	5,730	349,115	3,323,718
- January 1, 2008	164,751	379,484	323,897	2,226	284,894	1,155,252

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, 2008 amounted to USD 1,264,356 and EUR 1,674,665, or aggregately to RSD 227,905 thousand (Note 32).

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 Moskovska banka a.d., Beograd in order to collateralize the repayment of a short-term borrowing approved in the amount of RSD 112,000 thousand (Note 33).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. EQUITY INVESTMENTS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
<i>Equity investments held-for-sale:</i>		
Equity investment in Tigar Tyres d.o.o., Pirot	468,949	805,521
<i>Equity investments available-for-sale:</i>		
Equity investments in banks	136	136
Equity investments in other legal entities	12,362	11,690
	<u>481,447</u>	<u>817,347</u>
<i>Less: allowance for impairment</i>	<u>-</u>	<u>(1,480)</u>
	<u>481,447</u>	<u>815,867</u>

The Company sold 10% of its equity stake in Tigar Tyres d.o.o, Pirot to the company Michelin, Netherlands and so, at December 31, 2008, the Company’s equity stake in Tigar Tyres d.o.o, Pirot decreased to 20%. However, since the portion of capital of 10% matures for collection in 2009, the aforementioned amount of RSD 468,949 thousand is presented within short-term financial placements (Note 26)

22. OTHER LONG-TERM FINANCIAL PLACEMENTS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Long-term loans to employees (housing loans)	51,138	55,011
Other long-term financial placements	663	663
	<u>51,801</u>	<u>55,674</u>

Long-term loans to employees stated in the consolidated balance sheet as of December 31, 2008, in the amount of RSD 51,138 thousand (December 31, 2007: RSD 55,011 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 CONSOLIDATED FINANCIAL STATEMENTS

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23. INVENTORIES

	December 31, 2008	December 31, 2007
Raw and other material	218,999	178,131
Spare parts	21,206	21,057
Tools and fixtures, packaging and car tires	-	575
Work in progress	42,060	48,747
Finished products	471,772	493,205
Commercial goods	499,313	336,581
Advances paid	36,696	34,106
	<u>1,290,046</u>	<u>1,112,402</u>
<i>Less: Allowance for impairment of inventories</i>	<u>(465)</u>	<u>(80,794)</u>
	<u>1,289,581</u>	<u>1,031,608</u>

	Balance Sheet December 31, 2008	Income Statement 2007
Advances paid to related parties	595	-
Advances paid to domestic suppliers	25,091	29,846
Advances paid to foreign suppliers	11,010	4,390
	<u>36,696</u>	<u>34,236</u>
<i>Less: Allowance for impairment of advances paid</i>	<u>-</u>	<u>(130)</u>
	<u>36,696</u>	<u>34,106</u>

24. ASSETS HELD-FOR-SALE

	December 31, 2008	December 31, 2007
Assets acquired for sale	10,791	23,211
Reclassified non-current assets	-	715
	<u>10,791</u>	<u>23,926</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. ACCOUNTS RECEIVABLE

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Accounts receivable –related parties	221,839	308,405
Accounts receivable - domestic	497,922	495,004
Accounts receivable - foreign	195,197	69,809
Receivables from specific operations	-	2,310
Dividend receivables	-	89,700
Prepaid taxes and contributions	405	372
Receivables from employees	37,402	46,919
Other receivables	7,783	-
	<u>960,548</u>	<u>1,012,519</u>
<i>Less: Bad debt provision</i>	<u>(42,010)</u>	<u>(93,276)</u>
	<u>918,538</u>	<u>919,243</u>

In 2008, the Company sold a receivable from Tigar Tyres d.o.o, Pirot amounting to RSD 281,786 thousand to Banca Intesa a.d., Beograd and based on the factoring agreement, whereby it realized the negative effects of sale of RSD 30,377 thousand (Note 14).

26. SHORT-TERM FINANCIAL PLACEMENTS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Current portion of equity investment in Tigar Tyres d.o.o., Pirot (Note 21 and 41)	468,949	402,761
Other short-term financial placements	737	1,127
	<u>469,686</u>	<u>403,888</u>

27. CASH AND CASH EQUIVALENTS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Cash in hand in dinars	12,834	8,371
Cash in hand in dinars	446	277
Business accounts in foreign currency	31,208	175,035
Business accounts in foreign currency	131,977	127,012
Other cash funds	65,857	15,175
Securities as cash equivalents	88	66
	<u>242,410</u>	<u>325,936</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

27. CASH AND CASH EQUIVALENTS (Continued)

Other cash of RSD 45,066 thousand includes guarantee deposit of RSD 65,857 thousand placed with Société Générale Banka Srbija a.d., Beograd to securitize a short-term loan approved to Tigar Trgovine d.o.o., Pirot. The aforementioned amount is available upon settlement of the contractual liability of Tigar Trgovine d.o.o., Pirot, but no later than September 30, 2009 (Note 41).

28. MOVEMENTS IN PROVISIONS

	<u>Equity Investments</u>	<u>Inventories</u>	<u>Receivables</u>	<u>Total</u>
Balance, January 1, 2007, restated	13,753	41,810	106,843	162,406
Charge for the year	-	80,790	8,563	89,353
Write-offs	<u>(12,273)</u>	<u>(41,806)</u>	<u>(22,130)</u>	<u>(76,209)</u>
	<u>1,480</u>	<u>80,794</u>	<u>93,276</u>	<u>175,550</u>
Balance, December 31, 2007	1,480	80,794	93,276	175,550
Collection of receivables previously provided for	-	-	(1,607)	(1,607)
Positive valuation effects	-	(79,729)	-	(79,729)
Charge for the year (Note 16)	-	-	1,645	1,645
Write-offs	<u>(1,480)</u>	<u>(600)</u>	<u>(51,304)</u>	<u>(53,384)</u>
	<u>-</u>	<u>465</u>	<u>42,010</u>	<u>42,475</u>

29. VALUE ADDED TAX AND PREPAYMENTS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
VAT receivables	46,246	20,438
Accrued income	180	143
Prepaid expenses	918	1,352
Other prepayments	<u>28,529</u>	<u>16,683</u>
	<u>75,873</u>	<u>38,616</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

30. SHARE CAPITAL

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:

	<u>Number of Shares</u>	<u>%</u>	<u></u>
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
Uni credit banka Custody	17,000	1%	20,400
Other	737,645	44%	885,175
	<u>1,696,503</u>	<u>99%</u>	<u>2,035,804</u>
Repurchased treasury shares	<u>21,957</u>	<u>1%</u>	<u>26,348</u>
	<u><u>1,718,460</u></u>	<u><u>100%</u></u>	<u><u>2,062,152</u></u>

The structure of the Company’s share capital as of December 31, 2007, as stipulated in the excerpt from the Central Securities Depository and Clearing House, was as follows:

	<u>Number of Shares</u>	<u>%</u>	<u></u>
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
Uni credit banka a.d., Beograd	139,980	8%	167,976
QVT Fund, USA	57,760	3%	69,312
Raiffeisen Bank, Vienna	46,679	3%	56,015
Global Fund, USA	21,934	1%	26,321
Hypo Alpe Adria Banka A.D., Beograd	12,226	1%	14,671
Delta Generali Osiguranje A.D., Beograd	11,675	1%	14,010
A banka Vipra DD, Ljubljana	11,322	1%	13,586
A.D. DDOR, Novi Sad	6,615	0%	7,938
Others	830,859	48%	997,031
	<u>1,718,460</u>	<u>100%</u>	<u>2,062,152</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

31. LONG-TERM PROVISIONS

Long-term provisions stated in the consolidated balance sheet as of December 31, 2008 amounting to RSD 81,891 thousand (December 31, 2007: RSD 73,251 thousand) entirely relate to provisions for employee benefits, i.e., retirement benefits and jubilee awards.

Assumptions used in the Actuary’s assessment were as follows:

	<u>2008</u>	<u>2007</u>
Nominal discount rate	12%	9%
Expected rate of salary growth	2%	2%

The amounts included in the consolidated balance sheet depending on the defined benefit plan are as follows:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Balance, January 1	73,251	108,888
Additional provisions	3,898	33,102
Reversal of long-term provisions	(11,813)	-
Employee retirement benefits	-	(26,042)
Effects of the change in the consolidation scope	-	(42,697)
Other changes	<u>16,555</u>	<u>-</u>
Balance, December 31	<u><u>81,891</u></u>	<u><u>73,251</u></u>

32. LONG-TERM LIABILITIES

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Long-term borrowings in local currency indexed to EUR	-	7,839
Long-term loans in foreign currencies	693,439	265,653
Finance lease liabilities	<u>41,240</u>	<u>4,124</u>
	734,679	277,616
<i>Less:</i> Current portions of long-term borrowings	<u>(55,661)</u>	<u>(37,183)</u>
	<u><u>679,018</u></u>	<u><u>240,433</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

32. LONG-TERM LIABILITIES (Continued)

a) Long-term borrowings

<u>Creditor</u>	<u>Interest Rate</u>	<u>Currency Code</u>	<u>Currency Amount</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u>
<i>Refinanced foreign currency loans via Jubanka A.D., Beograd:</i>					
Berliner Bank A.G., Berlin	5.5 % p.a.	EUR	377,007	33,403	32,847
Algemene bank Netherlands, Amsterdam	5.6 % p.a.	EUR	1,297,659	114,974	113,060
The First National Bank, Chicago	5.5 % p.a.	USD	1,264,356	79,528	74,693
				<u>227,906</u>	<u>220,600</u>
DEG Germany GM Eurobor	6 M EURIBOR + 2.875% p.a.	EUR	5,000,000	443,005	-
Other borrowings				22,528	52,892
				<u>693,439</u>	<u>273,492</u>
Current portion of long-term borrowings				<u>(40,632)</u>	<u>(35,324)</u>
				<u>652,807</u>	<u>238,168</u>

The maturities of long-term borrowing are presented in the table below:

	<u>2008</u>	<u>2007</u>
- within one year	40,632	35,324
- from two to five years	375,929	202,099
- over five years	276,878	36,069
	<u>693,439</u>	<u>273,492</u>

b) Finance lease liabilities

	<u>Minimum Lease Payments</u>		<u>Present Value of Minimum Lease Payments</u>	
	<u>December 31, 2008</u>	<u>December 31, 2007</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u>
<i>Maturity:</i>				
Up to one year	17,898	2,186	15,029	1,859
From 1 to 5 years	29,121	2,405	26,211	2,265
	<u>47,019</u>	<u>4,591</u>	<u>41,240</u>	<u>4,124</u>
Less: future cost of financing	(5,779)	(467)	-	-
Present value of minimum lease payments	<u>41,240</u>	<u>4,124</u>	<u>41,240</u>	<u>4,124</u>
Included in the financial statements as:				
Current portion of long-term liabilities			15,029	1,859
Other long-term liabilities			26,211	2,265
			<u>41,240</u>	<u>4,124</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

33. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2008.	December 31, 2007.
Short-term loans in dinars linked to EUR	1,128,340	776,328
Plus: current portions of long-term financial liabilities	55,661	37,183
	<u>1,184,001</u>	<u>813,511</u>

Domestic Short-Term Loans

<u>Creditor</u>	<u>Interest Rate</u>	<u>Maturity Period</u>	<u>Currency</u>		<u>December 31, 2008</u>	<u>December 31, 2007</u>
			<u>Code</u>	<u>Amount</u>		
<i>Loans in foreign currency</i>						
Banca Intesa a.d. Beograd	7.5% p.a.	1 year	EUR	500,000	-	39,618
Banca Intesa a.d. Beograd	9.8% p.a.	6 months	EUR	560,943	49,700	-
Alpha Bank a.d. Beograd	6-8% p.a.	1 year	EUR	3,410,000	-	270,213
Export Credit and Insurance Agency	12m EURIBOR + 2% p.a.	1 year	EUR	1,000,000	-	79,235
Export Credit and Insurance Agency	6m EURIBOR + 2% p.a.	6 months	EUR	200,000	17,720	-
Export Credit and Insurance Agency	4% p.a.	6 months	EUR	200,000	44,300	-
Unicredit banka a.d., Beograd	1m EURIBOR+3.9% p.a.	1 year	EUR	1,000,000	88,601	-
Unicredit banka a.d., Beograd	1m EURIBOR+3.9% p.a.	1 year	EUR	1,500,000	132,902	-
Societe Generale	3m EURIBOR +4.45% p.a.	1 year	EUR	1,000,000	88,600	-
					421,823	389,066
<i>Kreditni u dinarima:</i>						
	6m EURIBOR + 3.5% p.a.	1 year	RSD		-	80,000
AIK Banka a.d., Niš	1,8% monthly	6 months	RSD		80,000	-
AIK Banka a.d., Niš	1,9% monthly	6 months	RSD		40,000	-
AIK Banka a.d., Niš	2% monthly	6 months	RSD		30,000	-
Moskovska banka ad Beograd	1,65% monthly	6 months	RSD		112,000	-
Unicredit banka a.d., Beograd	13.2% p.a.	1 year	RSD		-	80,052
Banca Intesa a.d., Beograd	1% monthly	1 year	RSD		120,000	-
Banca Intesa a.d., Beograd	1% monthly	1 year	RSD		282,000	-
Banca Intesa a.d., Beograd	3m BELIBOR+1% p.a.	1 year	RSD		25,000	-
Other loans					17,517	227,210
					<u>706,517</u>	<u>387,262</u>
					<u>1,128,340</u>	<u>776,328</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

34. ACCOUNTS PAYABLE

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Accounts payable – related parties	392,431	284,405
Advances, deposits and retainers	5,962	42,864
Accounts payable – domestic	274,205	294,009
Accounts payable – foreign	152,732	127,758
Accounts payable – suppliers of fixed assets	-	20,910
Liabilities from specific operations	-	76
Other accounts payable	16,299	28,516
Non-invoiced accounts payable	37,918	7,812
	<u>879,547</u>	<u>806,350</u>

35. OTHER CURRENT LIABILITIES

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Gross salaries	120,123	119,334
Interest accrued	3,880	4,051
Liabilities for dividends and share in profit	8,535	4,216
Other current liabilities	7,281	2,521
	<u>139,819</u>	<u>130,122</u>

36. VAT AND OTHER PUBLIC DUTIES PAYABLE AND ACCRUALS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
VAT payables	17,287	18,629
Other taxes and contributions payable	19,790	6,956
Accrued expenses	6,731	17,975
Future period accrued income	3,609	3,453
Other accruals	2,761	2,772
	<u>50,178</u>	<u>49,785</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

37. RELATED PARTY TRANSACTIONS

	<u>2008</u>	<u>2007</u>
Consolidated balance sheet		
Assets		
<i>Equity investments</i>		
- Tigar Tyres d.o.o., Pirot	468,949	805,521
<i>Advances to suppliers</i>		
- Tigar Tyres d.o.o., Pirot	595	-
<i>Treade receivables</i>		
- Tigar Tyres d.o.o., Pirot	221,135	306,342
- Other	704	2,063
<i>Short-term financial placements</i>		
- Tigar Tyres d.o.o., Pirot	468,949	402,761
Total, assets	<u>1,160,332</u>	<u>1,516,687</u>
Liabilities		
<i>Accounts payable</i>		
- Tigar Tyres d.o.o., Pirot	391,010	284,240
- Other	1,421	165
Total, liabilities	<u>392,431</u>	<u>284,405</u>
Net assets	<u>767,901</u>	<u>1,232,282</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

37. RELATED PARTY TRANSACTIONS (Continued)

	<u>2008</u>	<u>2007</u>
Income		
<u>Sales of products and services</u>		
- Tigar Tyres d.o.o., Pirot	208,674	117,746
- Other	130	1,298
Rentals		
- Tigar Tyres d.o.o., Pirot	26,016	49,334
<u>Finance income</u>		
- Tigar Tyres d.o.o., Pirot	27,304	90,532
<u>Sale of equity investments</u>		
- Tigar Tyres d.o.o., Pirot	138,683	113,721
<u>Sale of fixed assets</u>		
- Tigar Tyres d.o.o., Pirot	780,428	186,183
Total, income	<u>1,181,235</u>	<u>558,814</u>
Expenses		
<u>Acquisition of services</u>		
- Tigar Tyres d.o.o., Pirot	394,963	393,282
- Other	7,322	9,285
Total expenses	<u>402,285</u>	<u>402,567</u>
Net income	<u>778,950</u>	<u>156,247</u>

Cost of gross salaries paid to the members of management amounted to RSD 48,411 thousand.

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 32, other long-term liabilities, cash and cash equivalents and equity attributed to owners which entails share capital, their 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.

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

38. 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:

	December 31, 2008	December 31, 2007
Indebtedness a)	1,863,019	1,053,944
Cash and cash equivalents	(242,410)	(325,936)
Net indebtedness	<u>1,620,609</u>	<u>728,008</u>
Equity b)	<u>3,745,192</u>	<u>2,705,522</u>
Debt to equity ratio	<u>0.43</u>	<u>0.27</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 consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Categories of Financial Instruments

	December 31, 2008	December 31, 2007
Financial assets		
Long-term financial placements	533,248	871,541
Accounts receivable	872,948	779,942
Cash and cash equivalents	242,410	325,936
Short-term financial placements	469,686	403,888
	<u>2,118,292</u>	<u>2,381,307</u>
Financial liabilities		
Long-term borrowings	679,018	240,433
Accounts payable	857,286	713,984
Current portion of long-term borrowings	55,661	37,183
Short-term borrowings	1,128,340	776,328
	<u>2,720,305</u>	<u>1,767,928</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market risk (Continued)

Foreign Currency Risk (Continued)

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, 2008	December 31, 2007	December 31, 2008	December 31, 2007
EUR	160,300	218,055	1,049,709	767,461
USD	40,402	17,470	91,537	79,001
GBP	206,733	195,152	95,607	74,230
CHF	27	37	-	-
	<u>407,462</u>	<u>430,714</u>	<u>1,236,853</u>	<u>920,692</u>

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.

	December 31, 2008	December 31, 2007
EUR	88,941	54,941
USD	5,114	6,153
CHF	(3)	(4)
GBP	<u>(11,113)</u>	<u>(12,092)</u>
Profit/Loss	<u>82,939</u>	<u>48,998</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 long-term loans (Note 25).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

38. 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:

	December 31, 2008	December 31, 2007
Financial Assets		
<i>Non-interest bearing</i>		
Long-term financial placement	478,325	816,530
Accounts receivable	872,948	779,942
Cash and cash equivalents	199,161	325,936
Short-term financial placements	469,686	403,888
	<u>2,020,120</u>	<u>2,326,296</u>
<i>Fixed interest rates</i>		
Long-term financial placement	54,923	55,011
Cash and cash equivalents	43,249	-
	<u>98,172</u>	<u>55,011</u>
	<u>2,118,292</u>	<u>2,381,307</u>
Financial liabilities		
<i>Non-interest bearing</i>		
Accounts payable	857,286	713,984
	<u>857,286</u>	<u>713,984</u>
<i>Fixed interest rates</i>		
Long-term borrowings	215,968	221,890
Short-term borrowings	800,516	533,733
Current portion of long-term borrowings	36,786	32,189
	<u>1,053,270</u>	<u>787,812</u>
<i>Variable interest rates</i>		
Long-term borrowings	463,050	18,543
Short-term borrowings	327,824	242,595
Current portion of long-term borrowings	18,875	4,994
	<u>809,749</u>	<u>266,132</u>
	<u>2,720,305</u>	<u>1,767,928</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

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

38. 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 consolidated 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 consolidated 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, 2008 in the amount of RSD 8,097 thousand (December 31, 2007: RSD 2,661 thousand). Such situation is attributed to the Company’s exposure arising from the variable interest rates applied to long-term and short-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 consolidated 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, 2008
Tigar Tyres d.o.o, Pirot	221,135
Berner, Finska	29,814
Agromarket, Kragujevac	19,815
Srbijaput, Beograd	19,705
Eltim, South African Republic	17,820
Visok promet, Pirot	11,560
Semepromet, Petrovac na mlavi	10,744
Delta Moto Komerc, Kruševac	9,272
RBB, Bor	7,949
Nissal, Niš	6,683
Other	518,451
	<u>872,948</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Managing Accounts Receivable (Continued)

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	462,809	-	462,809
Accounts receivable matured and provided for	42,010	(42,010)	-
Accounts receivable matured, but not provided for	410,139	-	410,139
	<u>914,958</u>	<u>(42,010)</u>	<u>872,948</u>

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

	<u>Gross Exposure</u>	<u>Allowance for Impairment</u>	<u>Net Exposure</u>
Accounts receivable, not matured	435,777	-	435,777
Accounts receivable matured and provided for	93,276	(93,276)	-
Accounts receivable matured, but not provided for	437,441	-	437,441
	<u>966,494</u>	<u>(93,276)</u>	<u>873,218</u>

Accounts Receivable, not Matured

Accounts receivable, not matured as of December 31, 2008 in the amount of RSD 462,809 thousand (December 31, 2007: RSD 435,777 thousand) mostly refer the accounts receivable arising from the sale of products and services.

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 42,010 thousand (December 31, 2007: RSD 93,276 thousand) due from those customers whose creditworthiness has changed and which will not be collected in full.

Managing Accounts Payable

Accounts payable as of December 31, 2008 were stated in the amount of RSD 857,286 thousand, and are associates with the purchases of materials and 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.

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38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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.

Maturities of Financial Assets

	December 31, 2008					
	Less than One month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Non-interest bearing	1,015,194	523,479	-	481,447	-	2,020,120
Fixed interest rate	43,249	-	3,785	21,496	29,642	98,172
	<u>1,058,443</u>	<u>523,479</u>	<u>3,785</u>	<u>502,943</u>	<u>29,642</u>	<u>2,118,292</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, 2008					
	Less than One month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Non-interest bearing	779,456	77,830	-	-	-	857,286
Fixed interest rate	56,288	525,742	341,837	274,700	-	1,198,567
Variable interest rate	17,720	11,577	356,962	303,101	310,560	999,920
	<u>853,464</u>	<u>615,149</u>	<u>698,799</u>	<u>577,801</u>	<u>310,560</u>	<u>3,055,773</u>

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38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Fair Value of Financial Instruments

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

	December 31, 2008		December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Long-term financial placements	533,248	506,402	871,541	841,367
Accounts receivable	914,958	914,958	873,218	873,218
Cash and cash equivalents	242,410	242,410	325,936	325,936
Short-term financial placements	469,686	469,686	403,888	403,888
	<u>2,160,302</u>	<u>2,133,456</u>	<u>2,474,583</u>	<u>2,444,409</u>
Financial Liabilities				
Long-term borrowings	679,018	568,561	240,433	199,540
Account payable	857,286	857,286	713,984	713,984
Current portion of long-term borrowings	55,661	96,575	37,183	52,625
Short-term borrowings	1,128,340	1,128,340	776,328	776,328
	<u>2,720,305</u>	<u>2,650,762</u>	<u>1,767,928</u>	<u>1,742,477</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 consolidated 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.

39. COMMITMENTS AND CONTINGENT LIABILITIES

- a) The Company issued sureties aggregating to RSD 280,446 thousand to its subsidiaries in the country which serve to collateralize the settlement of liabilities incurred by these subsidiaries based on long-term and short-term loans obtained from domestic commercial banks.
- b) The Company has filed a certain number of litigations for which, 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 the accompanying consolidated financial statements do not include additional provisions for these risks.

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40. OPERATING LEASE

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

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Up to 1 year	20,047	20,047
From 1 to 5 years	80,189	80,189
Over 5 years	<u>60,142</u>	<u>80,189</u>
	<u>160,378</u>	<u>180,425</u>

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

41. POST BALANCE SHEET EVENTS

In March 2009, the Framework Agreement signed with a business associate, Michelin, Netherlands, stipulates that “Tigar” A.D., Pirot sold 10% of its equity stake in “Tigar Tyres.” In this manner, “Tigar” A.D., Pirot retains 10% of its stake in “Tigar Tyres.”

On March 13, 2009, Tigar Trgovine d.o.o. repaid the short-term loan obtained from Société Générale Banka Srbija a.d., Beograd, whereby a guarantee deposit placed by the Company with the forgoing bank as collateral, became available (Note 27).

42. 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:

	<u>2008</u>	<u>2007</u>
USD	62.9000	53.7267
EUR	88.6010	79.2362
GBP	90.8635	107.3080
CHF	59.4040	47.8422