

**“TIGAR” A.D., PIROT**

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

<b>CONTENTS</b>	<b>Page</b>
Independent Auditors' Report	1 - 2
Financial Statements:	
Income Statement	3
Balance Sheet	4
Statement of Changes in Equity	5
Cash Flow Statement	6
Notes to the Financial Statements	7 - 48

*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 financial statements (page 3 to 48) of Tigar A.D., Pirot (the "Company"), which comprise the balance sheet as at December 31, 2008, and the related income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

(Continued)

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

Belgrade, April 24, 2009

Žarko Mijović  
Certified Auditor

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

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
<b>OPERATING INCOME</b>			
Sales of goods, products and services	5	182,411	185,727
Own work capitalized	6	37,833	-
Rentals		32,549	50,963
		<u>252,793</u>	<u>236,690</u>
<b>OPERATING EXPENSES</b>			
Cost of commercial goods sold		(2,479)	(4,237)
Cost of materials	7	(40,373)	(17,133)
Staff costs	8	(224,056)	(180,600)
Depreciation, amortization and provisions	9	(14,631)	(17,732)
Other operating expenses	10	(235,442)	(191,451)
		<u>(516,981)</u>	<u>(411,153)</u>
<b>LOSS FROM OPERATIONS</b>		<u>(264,188)</u>	<u>(174,463)</u>
Finance income	11	262,757	321,943
Finance expenses	12	(198,143)	(82,467)
Other income	13	1,104,379	153,265
Other expenses	14	(693,768)	(168,550)
<b>PROFIT BEFORE TAXATION</b>		<u>211,037</u>	<u>49,728</u>
<b>INCOME TAXES</b>			
Current tax expense	15	(41,133)	-
Deferred tax (expense)/benefit		(1,801)	(994)
		<u>(42,934)</u>	<u>(994)</u>
<b>PROFIT FOR THE YEAR</b>		<u>168,103</u>	<u>48,734</u>
<b>Earnings per share</b>	16	<u>97.82</u>	<u>28.36</u>

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

These financial statements were approved by the management of Tigar A.D., Pirot on February 27, 2009.

Signed on behalf of Tigar A.D., Pirot

Dragan Nikolić  
Director General

Dragoslava Branković  
Head of Accounting

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

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	17	19,216	1,582
Property, plant and equipment	18	613,771	533,570
Equity investments	19	2,175,560	1,421,336
Other long-term financial placements	20	51,138	55,011
		<u>2,859,685</u>	<u>2,011,499</u>
<b>Current assets</b>			
Inventories	21	29,011	22,738
Assets held-for-sale		6,675	7,221
Accounts receivable	22	315,162	449,266
Short-term financial placements	23	790,996	977,104
Cash and cash equivalents	24	52,935	113,277
Value added tax and prepayments		24,637	8,464
		<u>1,219,416</u>	<u>1,578,070</u>
<b>Deferred tax assets</b>	15	655	2,456
<b>Total assets</b>		<u><u>4,079,756</u></u>	<u><u>3,592,025</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	26	2,062,152	2,062,152
Share premium		13,781	-
Reserves		574,953	574,953
Own shares repurchased		(26,019)	-
Retained earnings		111,926	48,734
		<u>2,736,793</u>	<u>2,685,839</u>
<b>Long-term liabilities and provisions</b>			
Long-term provisions	27	7,624	7,998
Long-term liabilities	28	198,503	202,889
		<u>206,127</u>	<u>210,887</u>
<b>Current liabilities</b>			
Short-term financial liabilities	29	893,682	570,953
Accounts payable	30	164,553	92,422
Other current liabilities and accruals	31	37,468	31,907
Income taxes payable		41,133	17
		<u>1,136,836</u>	<u>695,299</u>
<b>Total Equity and Liabilities</b>		<u><u>4,079,756</u></u>	<u><u>3,592,025</u></u>

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

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

	<b>Share Capital</b>	<b>Share Premium</b>	<b>Reserves</b>	<b>Treasury Shares Repurchased</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance January 1, 2007	2,062,152	-	547,510	-	73,925	2,683,587
Transfers to reserves	-	-	30,448	-	(30,448)	-
Allocations to dividends	-	-	-	-	(43,477)	(43,477)
Adjustments due to recognized employee benefits	-	-	-	-	(3,005)	(3,005)
Absorption of loss due to recognized employee benefits	-	-	(3,005)	-	3,005	-
Profit for the year	-	-	-	-	48,734	48,734
Balance, December 31, 2007	<u>2,062,152</u>	<u>-</u>	<u>574,953</u>	<u>-</u>	<u>48,734</u>	<u>2,685,839</u>
Balance January 1, 2008	2,062,152	-	574,953	-	48,734	2,685,839
Dividends paid for the year 2007	-	-	-	-	(48,734)	(48,734)
Interim dividends paid for the year 2008	-	-	-	-	(56,177)	(56,177)
Treasury shares repurchased	-	16,084	-	(30,358)	-	(14,274)
Treasury shares sold	-	(2,303)	-	4,339	-	2,036
Profit for the year	-	-	-	-	168,103	168,103
Balance, December 31, 2008	<u>2,062,152</u>	<u>13,781</u>	<u>574,953</u>	<u>(26,019)</u>	<u>111,926</u>	<u>2,736,793</u>

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

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

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	143,747	321,258
Interest receipts	-	8,091
Other receipts from operating activities	32,549	74,496
Cash paid to suppliers for raw materials and other expenses	(185,422)	(897,608)
Gross salaries and other staff costs paid	(222,181)	(178,470)
Interest paid	(120,675)	(70,682)
Taxes and contributions paid	(17)	(381)
Other public duties payable	(40,735)	(18,505)
<i>Net cash used in operating activities</i>	<u>(392,734)</u>	<u>(761,801)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of shares and equity investments (net inflows)	82,512	743,324
Sale of intangible assets, property, plant and equipment	567,475	20,028
Interest received	8,043	36,268
Dividends received and distribution of profit	259,096	98,877
Other financial placements (net inflows/(outflows))	(199,103)	32,197
Purchases of property, plant and equipment	(567,130)	(171,738)
<i>Net cash provided by investing activities</i>	<u>150,893</u>	<u>758,956</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long-term and short-term loans (net inflows)	292,141	155,017
Finance lease payments	(1,047)	(3,553)
Repurchase of treasury shares	(12,238)	-
Dividends paid	(100,592)	(39,118)
<i>Net cash (used in)/provided by financing activities</i>	<u>178,264</u>	<u>112,346</u>
<b>NET CASH (DECREASE) / INCREASE</b>	(63,577)	109,501
<b>Cash and cash equivalents at beginning of year</b>	113,277	3,892
<b>Foreign exchange gains on translation of cash and cash equivalents, net</b>	<u>3,235</u>	<u>(116)</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>52,935</u></u>	<u><u>113,277</u></u>

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



**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2008***All amounts are expressed in thousands of RSD, unless otherwise stated.***1. ESTABLISHMENT AND ACTIVITY**

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

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

In 2008, the Company sold another 10% of its equity interest to Michelin, Netherlands. Thus, at December 31, 2008, the equity interest in Tigar Tyres amounts to 20% (for changes in equity stakes that occurred subsequent to the balance sheet date, see Note 33).

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

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

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

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

The Company’s registered office is located at the street address of Nikole Pašića 213, in Pirot. As of December 31, 2008, the 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 TIGAR symbol.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

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

**2.1. Basis of Preparation and Presentation of Financial Statements**

Pursuant to the Law on Accounting and Auditing (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.

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, the accounting regulations of the Republic of Serbia depart from IFRS in the following respects:

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

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

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

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

- In addition, the accompanying financial statements are presented in the format prescribed under the “Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures” (See Official Gazette of the Republic of Serbia, no. 114 of December 22, 2006). 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.

In accordance with the aforementioned and due to the potentially material effects of the departures of the accounting regulations of the Republic of Serbia from IFRS and IAS, the accompanying financial statements cannot be treated as a set of financial statements prepared in accordance with IAS and IFRS.

**2.2. Interpretations in Application but not Officially Translated and Adopted**

Also, as of the 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).

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

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

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

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

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

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

### 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.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.4. Intangible Assets**

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

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

**3.5. Property, Plant and Equipment**

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

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

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.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.6. 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.

#### 3.7. Finance Lease

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

#### 3.8. Inventories

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.9. Financial Instruments

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

Financial assets and financial liabilities are recognized in the Company's balance sheet on the date upon which the Company becomes a counterparty to the contractual provisions of a specific financial instrument.

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

##### *Long-Term Financial Placements*

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

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

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

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

##### *Other Long-term Financial Placements*

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

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.9. Financial Instruments (Continued)**

*Accounts Receivable*

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

*Cash and Cash Equivalents*

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

*Accounts Payable*

Accounts payable are stated at their nominal values.

*Borrowings*

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

**3.10. Taxes and Contributions**

**Current Income Tax**

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

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.



**NOTES TO THE 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. Taxes and Contributions (Continued)**

**Deferred Income Taxes**

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

**Indirect Taxes and Contributions**

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

**3.11. Employee Benefits**

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

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

***Obligations for Retirement Benefits and Jubilee Awards***

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

***Obligations for Retirement Benefits and Jubilee Awards (Continued)***

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

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.12. Fair Value

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

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

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES

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

#### 4.1. Estimates and assumptions

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

#### 4.2. Depreciation and Amortization Charge and Rates Applied

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

#### 4.3. Deferred Tax Assets

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

**NOTES TO THE 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**

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

**4.5. Fair Value**

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

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

**5. SALES OF GOODS, PRODUCTS AND SERVICES**

	<b>Year Ended December 31,</b>	<b>December 31,</b>
	<b>2008</b>	<b>2007</b>
Sales of products and services to related parties (Note 32)	143,871	180,754
Sales of products and services to other legal entities	33,594	-
Sale of goods	4,946	4,973
	<u>182,411</u>	<u>185,727</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**6. OWN WORK CAPITALIZED**

Income from own work capitalized for the year ended December 31, 2008 aggregated to RSD 37,833 thousand, including the amount of RSD 14,647 thousand associated with the directly attributable costs of hiring employees responsible for property, plant and equipment as necessary for the work on Tigar 3 Project; also, such income includes the amount of RSD 16,669 thousand, relating to capitalization of expenses of Socius Consulting associated with the project of modernizing trading network.

**7. COST OF MATERIAL**

	<b>Year Ended</b>	<b>December 31,</b>
	<b>2008</b>	<b>2007</b>
	<u>          </u>	<u>          </u>
Office material	5,338	4,590
Cost of fuel oil	12,620	-
Chemicals	945	-
Electricity	9,635	2,388
Fuel and lubricants	9,223	7,767
Other material	2,612	2,388
	<u>40,373</u>	<u>17,133</u>

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

**8. STAFF COSTS**

	<b>Year Ended</b>	<b>December 31,</b>
	<b>2008</b>	<b>2007</b>
	<u>          </u>	<u>          </u>
Net salaries	114,339	88,273
Taxes and contributions on salaries paid by the employees	44,138	34,261
Taxes and contributions on salaries paid by the employer	27,535	21,757
Remunerations to the Management and Supervisory Boards	17,175	11,493
Retirement benefits and jubilee awards	1,287	6,817
Employee transport	3,590	2,077
Other staff costs	15,992	15,922
	<u>224,056</u>	<u>180,600</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**9. DEPRECIATION, AMORTIZATION AND PROVISIONS**

	<b>Year Ended 2008</b>	<b>December 31, 2007</b>
Depreciation and amortization (Note 18)	14,631	17,072
Provisions	-	660
	<u>14,631</u>	<u>17,732</u>

**10. OTHER OPERATING EXPENSES**

	<b>Year Ended 2008</b>	<b>December 31, 2007</b>
Transportation cost	108	107
Communications	6,206	5,759
Maintenance and repair	4,255	6,020
Rentals	24,406	14,047
Fair exhibitions	3,510	150
Marketing and advertising	22,209	13,289
Public utilities	1,744	1,329
Employee professional training	3,796	4,605
Plant security	18,612	10,166
Health services	3,685	2,374
Fees paid to auditors, lawyers and consultants	31,719	44,803
Cost of project feasibility studies and market research	16,210	32,010
Cultural and sports events	6,873	10,875
Other non-production services	29,045	9,251
Other taxes and contributions	33,492	11,367
Entertainment	8,942	7,667
Insurance premiums	1,788	1,458
Bank charges	5,462	3,517
Membership fees	1,945	1,389
Scholarship and loans to students	5,393	5,438
Other	6,042	5,830
	<u>235,442</u>	<u>191,451</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**11. FINANCE INCOME**

	<u>Year Ended</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Interest income	8,043	8,091
Foreign exchange gains	9,320	25,271
Share in profit of:		
- domestic related parties	236,600	281,424
- foreign related parties	8,794	7,157
	<u>262,757</u>	<u>321,943</u>

**12. FINANCE EXPENSES**

	<u>Year Ended</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Interest expense	94,456	62,360
Foreign exchange losses	73,310	20,101
Other finance expenses	30,377	6
	<u>198,143</u>	<u>82,467</u>

Other finance expenses for the year ended December 31, 2008 aggregating to RSD 30,377 thousand are associated with factoring expenses (Note 22).

**13. OTHER INCOME**

	<u>Year Ended</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Gains on the disposal of property, plant and equipment	504,203	6,499
Gains on the transfer of fixed assets (Note 18)	421,780	-
Write-off of liabilities	18,744	10,381
Reversal of provisions	374	-
Collection of receivables previously written off	1,607	3,505
Gains on the sale of securities	138,684	113,721
Other	18,987	19,159
	<u>1,104,379</u>	<u>153,265</u>

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

Gains on the sale of securities for the year ended December 31, 2008 totaling RSD 138,684 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 37).

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**14. OTHER EXPENSES**

	<b>Year Ended 2008</b>	<b>December 31, 2007</b>
	<u>          </u>	<u>          </u>
Loss on the disposal of property, plant and equipment	83	6,924
Allowance for impairment of inventories (Note 25)	-	158
Impairment of equity investments	141,787	154,338
Write-off of bad debts	543,396	-
Other	8,502	7,130
	<u>693,768</u>	<u>168,550</u>

Write-off of bad debts for the year ended December 31, 2008 in the amount of RSD 543,396 thousand include an amount of RSD 542,319 thousand relating to the write-off of receivables due from related parties.

**15. INCOME TAXES**

**a) Components of Income Taxes**

	<b>Year Ended 2008</b>	<b>December 31, 2007</b>
	<u>          </u>	<u>          </u>
Current income taxes	(41,133)	-
Deferred income taxes	(1,801)	(994)
	<u>(42,934)</u>	<u>(994)</u>

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

	<b>2008</b>	<b>2007</b>
	<u>          </u>	<u>          </u>
Profit before tax	211,037	49,728
Income taxes at the statutory tax rate of 10%	(21,104)	4,973
Capital gains	-	11,328
Tax effects of non-deductible expenses	(45,631)	(16,708)
Tax credits for capital expenditures	41,133	-
Not recognized tax losses	(16,633)	-
Other	(699)	(587)
	<u>(42,934)</u>	<u>(994)</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**15. INCOME TAXES (Continued)**

**c) Components of Deferred Tax Assets and Liabilities**

	<u>2008</u>	<u>2007</u>
Deferred tax liabilities arising from a difference between the value of assets recorded for book and tax purposes	655	2,456
	<u>655</u>	<u>2,456</u>

Deferred tax assets amounting to RSD 655 thousand at December 31, 2008 relate to the temporary differences between the basis at which building property, equipment and intangible assets are recognized in the tax balance and carrying values of these assets used in the financial statements.

**d) Not Recognized Deferred Tax Assets**

At December 31, 2008, the Company did not recognize deferred tax assets arising from capital expenditures aggregating to RSD 27,355 thousand, due to the uncertainty that the future taxable profits against which these deferred tax assets may be utilized will be available. The aforementioned tax credits expire in the forthcoming periods as follows:

<u>Inception Year</u>	<u>Expiry Year</u>	<u>Tax Credits</u>
- 2006	2016	11,978
- 2007	2017	10,307
- 2008	2018	5,070
		<u>27,355</u>

**16. EARNINGS PER SHARE**

	<u>2008</u>	<u>2007</u>
Profit for the year	168,103	48,734
Weighted average number of shares	1,716,352	1,718,460
Basic earnings per share (in RSD)	<u>97.94</u>	<u>28.36</u>



NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

17. INTANGIBLE ASSETS

	<b>Licenses</b>	<b>Other Intangible Assets</b>	<b>Intangible Assets in Progress</b>	<b>Total Intangible Assets</b>
<b>Cost</b>				
Balance, January 1, 2007	7,129	1,107	-	8,236
Additions	-	-	20	20
Balance, December 31, 2007	<u>7,129</u>	<u>1,107</u>	<u>20</u>	<u>8,256</u>
Balance, January 1, 2008	7,129	1,107	20	8,256
Additions	-	-	19,060	19,060
Transfers	124	-	(124)	-
Balance, December 31, 2008	<u>7,253</u>	<u>1,107</u>	<u>18,956</u>	<u>27,316</u>
<b>Accumulated Amortization</b>				
Balance, January 1, 2007	4,142	1,107	-	5,249
Charge for the year	1,425	-	-	1,425
Balance, December 31, 2007	<u>5,567</u>	<u>1,107</u>	<u>-</u>	<u>6,674</u>
Balance, January 1, 2008	5,567	1,107	-	6,674
Charge for the year	1,426	-	-	1,426
Balance, December 31, 2008	<u>6,993</u>	<u>1,107</u>	<u>-</u>	<u>8,100</u>
<b>Net Book Value</b>				
- December 31, 2008	<u>260</u>	<u>-</u>	<u>18,956</u>	<u>19,216</u>
- December 31, 2007	<u>1,562</u>	<u>-</u>	<u>20</u>	<u>1,582</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**18. PROPERTY, PLANT AND EQUIPMENT**

	<b>Land</b>	<b>Buildings</b>	<b>Equipment</b>	<b>Construction in Progress</b>	<b>Leasehold Improvements</b>	<b>Total PP&amp;E</b>
<b>Cost</b>						
Balance, January 1, 2007	89,244	245,896	114,436	94,324	-	543,900
Additions	-	-	-	171,346	150	171,496
Transfers from construction in progress	2,578	1,153	11,849	(15,580)	-	-
Sale	-	(21,314)	(1,752)	-	-	(23,066)
Disposals upon inventory take	-	-	(5,443)	-	-	(5,443)
Other	220	-	-	-	-	220
Balance, December 31, 2007	<u>92,042</u>	<u>225,735</u>	<u>119,090</u>	<u>250,090</u>	<u>150</u>	<u>687,107</u>
Balance, January 1, 2008	92,042	225,735	119,090	250,090	150	687,107
Additions	-	-	-	564,739	-	564,739
Transfers from construction in progress	-	103,518	150,230	(253,748)	-	-
Transfers to related parties	-	(75,520)	-	(342,614)	-	(418,134)
Sale	(56,405)	(27,846)	-	-	-	(84,251)
Disposals upon inventory take	-	(744)	(2,405)	(179)	-	(3,328)
Other	-	-	(4,920)	-	-	(4,920)
Balance, December 31, 2008	<u>35,637</u>	<u>225,143</u>	<u>261,995</u>	<u>218,288</u>	<u>150</u>	<u>741,213</u>
<b>Accumulated Depreciation</b>						
Balance, January 1, 2007	-	64,135	82,598	-	-	146,733
Charge for the year	-	4,840	10,807	-	-	15,647
Sale	-	(1,776)	(1,752)	-	-	(3,528)
Disposals upon inventory take	-	-	(5,315)	-	-	(5,315)
Balance, December 31, 2007	<u>-</u>	<u>67,199</u>	<u>86,338</u>	<u>-</u>	<u>-</u>	<u>153,537</u>
Balance, January 1, 2008	-	67,199	86,338	-	-	153,537
Charge for the year	-	3,425	9,750	-	30	13,205
Transfers to related parties	-	(15,536)	-	-	-	(15,536)
Sale	-	(21,442)	-	-	-	(21,442)
Disposals upon inventory take	-	-	(2,322)	-	-	(2,322)
Balance, December 31, 2008	<u>-</u>	<u>33,646</u>	<u>93,766</u>	<u>-</u>	<u>30</u>	<u>127,442</u>
<b>Net Book Value</b>						
- December 31, 2008	<u>35,637</u>	<u>191,497</u>	<u>168,229</u>	<u>218,288</u>	<u>120</u>	<u>613,771</u>
- December 31, 2007	<u>92,042</u>	<u>158,536</u>	<u>32,752</u>	<u>250,090</u>	<u>150</u>	<u>533,570</u>

A first ranking mortgage lien has been placed in favor of Alpha Bank A.D., Beograd against the Company’s buildings and factory courtyard, and serves to securitize the regular repayment of refinanced foreign currency loans. In accordance with the terms of the Agreement on Rescheduling and Write-off of Principal and Interest, executed on October 6, 2004 with Alpha Bank A.D., Beograd, the outstanding portion of such loans at December 31, 2008 amounted to USD 1,264,356 and EUR 1,674,665, or aggregately to RSD 227,905 thousand (Note 28).

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 29).

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**18. PROPERTY, PLANT AND EQUIPMENT (Continued)**

In 2008, the Company performed the following transfers to related parties:

- The buildings located in the Company’s factory yard and hotel “Planinarski dom” with the total net book value of RSD 59,984 thousand were transferred to related parties Tigar Poslovní servis d.o.o., Pirot, Tigar Planinarski dom d.o.o., Pirot, Tigar Incon d.o.o., Pirot and Tigar Tours d.o.o., Pirot. The buildings were transferred at the value appraised by the expert panel established in the Company as amounting to RSD 180,939 thousand.
- Construction in progress – The main production hall with the ancillary premises used in production of footwear, with the net book value of RSD 342,614 thousand was transferred to the related party Tigar Obuča d.o.o., Pirot. The effective price in the transfer is the value of these assets as assessed by a certified appraiser Conzit d.o.o., Beograd, the amount of RSD 643,439 thousand.

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

**19. EQUITY INVESTMENTS**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Equity investments in related parties	1,865,216	1,025,378
Less: Allowance for impairment (Note 25)	(14,571)	(253,715)
	<u>1,850,645</u>	<u>771,663</u>
Equity investments in Tigar Tyres d.o.o., Pirot available for sale	324,759	649,517
Equity investments in banks	137	137
Equity investments in other legal entities	19	19
	<u>2,175,560</u>	<u>1,421,336</u>

The Company sold 10% of its equity stake in Tigar Tyres.d.o.o, Pirot to the company Michelin, Netherlands. In this way at December 31, 2008, the Company’s equity stake in Tigar Tyres d.o.o, Pirot decreased to 20%.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

19. EQUITY INVESTMENTS (Continued)

	% Interest	December 31, 2008	December 31, 2007
<b>Equity investments in related parties (gross)</b>			
<i>Foreign:</i>			
- Tigar Americas, Jacksonville, Florida	100.00	35,743	27,533
- Tigar Europe, London	50.00	122,406	122,406
- Tigar Partner, Skopje	70.00	19,898	19,898
- Tigar Montenegro, Podgorica	80.00	2,882	1,035
- Tigar Trade, Banja Luka	70.00	7,322	6,376
		<u>188,251</u>	<u>177,248</u>
<i>Domestic:</i>			
- Tigar Trgovine d.o.o., Pirot	100.00	230,631	230,631
- Tigar Obuća d.o.o., Pirot	100.00	820,486	177,046
- Tigar Hemijski proizvodi d.o.o, Pirot	100.00	99,740	99,740
- Tigar Tehnička guma d.o.o., Pirot	100.00	179,522	179,522
- Tigar Poslovni servis d.o.o., Pirot	100.00	102,774	24,875
- Tigar Fizičko obezbeđenje d.o.o., Pirot	100.00	13,755	13,755
- Tigar Hotel Planinarski dom d.o.o., Pirot	100.00	85,164	7,069
- Tigar Tours d.o.o., Pirot	100.00	9,103	2,472
- Tigar Incon d.o.o., Pirot	100.00	35,282	16,969
- Tigar Zaštitna radionica d.o.o., Pirot	100.00	1,348	1,348
- Tigar Inter Risk d.o.o., Pirot	100.00	1,372	1,372
- Tigar Ekspert Import d.o.o., Pirot	100.00	43	43
- Tigar – Slobodna carinska zona, Pirot	74.31	85,050	81,615
- P kanal , Pirot	75.00	400	400
- Dom sportova a.d., Pirot	50.00	11,871	11,106
- Agencija za razvoj Stare planine, Pirot	40.00	122	122
- "BAQM", Beograd	0.10	45	45
- Tigar Trade	100.00	45	-
- Pirot Energo		212	-
		<u>1,676,965</u>	<u>848,130</u>
		<u>1,865,216</u>	<u>1,025,378</u>

During 2008, the Company made available to its relates parties Tigar obuća d.o.o., Pirot, Tigar Hemijski proizvodi d.o.o, Pirot, Tigar Tehnička guma d.o.o., Pirot, Tigar Hotel Planinarski dom d.o.o., Pirot, Tigar Trgovine d.o.o., Pirot and Tigar Ekspert Import d.o.o., Pirot an amount of RSD 380,930 thousand to be used for the absorption of accumulated losses in these entities in the year 2007, as well as prior periods.

20. OTHER LONG-TERM FINANCIAL PLACEMENTS

Other long-term financial placements stated in the 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 FINANCIAL STATEMENTS**

**December 31, 2008**

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

**21. INVENTORIES**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Commercial goods	-	2,282
Advances to suppliers	16,638	20,744
Fuel oil	8,765	-
Other materials	3,608	-
	<u>29,011</u>	<u>23,026</u>
Less: Provision against inventories and advances paid	-	(288)
	<u>29,011</u>	<u>22,738</u>

**22. ACCOUNTS RECEIVABLE**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Receivables from related parties	83,524	188,320
Domestic accounts receivable	3,159	69,306
Receivables arising from share in profit	223,152	236,854
Receivables from employees	4,176	5,796
Other receivables	2,601	4,514
	<u>316,612</u>	<u>504,790</u>
Less: Allowance for impairment of receivables	(1,450)	(55,524)
	<u>315,162</u>	<u>449,266</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 12).

**23. SHORT-TERM FINANCIAL PLACEMENTS**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Short-term loans to related parties	460,044	649,266
Short-term interest free loans to related parties	5,593	2,078
Current portion of equity investment in Tigar Tyres d.o.o., Pirot	324,758	324,758
Other short-term financial placements	601	1,002
	<u>790,996</u>	<u>977,104</u>

Short-term loans to related parties at December 31, 2008 amounted to RSD 460,044 thousand and are associated with loans extended to related parties for the current liquidity needs with up to one year maturities. The agreed interest rates equal those charged to the Company by commercial banks.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**24. CASH AND CASH EQUIVALENTS**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Current account	5,732	21,177
Foreign currency accounts	1,802	89,489
Cash in hand	335	505
Other cash	45,066	2,106
	<u>52,935</u>	<u>113,277</u>

Other cash of RSD 45,066 thousand includes guarantee deposit of RSD 43,249 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 36).

**25. MOVEMENTS IN PROVISIONS**

	<b>Equity Investments</b>	<b>Inventories</b>	<b>Advances</b>	<b>Receivables</b>	<b>Total</b>
Balance at beginning of year	253,715	158	130	55,524	309,527
Collected receivables (Note 13)	-	-	-	(1,607)	(1,607)
Reversal of previously formed provisions	-	(158)	(130)	(52,467)	(52,755)
Loss absorption from equity investments	(239,144)	-	-	-	(239,144)
Balance at the end of year	<u>14,571</u>	<u>-</u>	<u>-</u>	<u>1,450</u>	<u>16,021</u>

**26. 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:

	<b>Number of Shares</b>	<b>%</b>	
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
Société Générale Banka Srbija a.d., Beograd	23,496	1%	28,195
Tigar a.d., Pirot	21,957	1%	26,348
Uni credit banka Custody	17,000	1%	20,400
Other	737,645	44%	885,175
	<u>1,718,460</u>	<u>100%</u>	<u>2,062,152</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**26. SHARE CAPITAL (Continued)**

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 Vipac 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.

**27. LONG-TERM PROVISIONS**

Long-term provisions which amounted to RSD 7,624 thousand as of December 31, 2008 entirely relate to long-term provisions for benefits to which the Company’s employee are entitled upon regular retirement.

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

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

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

	<u>2008</u>	<u>2007</u>
Balance, January 1	7,998	4,333
Charge to prior year results	-	3,005
Charge for the year	-	660
Reversal of provisions (Note 13)	(374)	-
Balance, December 31	<u>7,624</u>	<u>7,998</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

28. LONG-TERM LIABILITIES

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Long-term borrowings	227,905	220,600
Finance lease liabilities	3,077	4,124
	<u>230,982</u>	<u>224,724</u>
Less: Current portion of long-term liabilities	<u>(32,479)</u>	<u>(21,835)</u>
	<u>198,503</u>	<u>202,889</u>

a) Long-Term Borrowings

<u>Creditor</u>	<u>Interest Rate</u>	<u>Currency Code</u>	<u>Amount</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u>
<i>Refinanced loans through</i>					
<i>Alpha bank A.D., Beograd:</i>					
Berliner bank A.G., Berlin	5.5 % p.a.	EUR	377,007	33,403	32,847
Algemene bank Nederland N.V., Amsterdam	5.6 % p.a.	EUR	1,297,659	114,974	113,060
The First National Bank of Chicago	5.5 % p.a.	USD	1,264,356	<u>79,528</u>	<u>74,693</u>
				227,905	220,600
Current portion of long-term borrowings				<u>(29,770)</u>	<u>(19,976)</u>
				<u>198,135</u>	<u>200,624</u>

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

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
- within one year	29,770	19,976
- from two to five years	198,135	164,555
- over five years	-	36,069
	<u>227,905</u>	<u>220,600</u>



**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**28. LONG-TERM LIABILITIES (Continued)**

**b) Finance Lease Liabilities**

	Sum of Minimum Lease Payments		Present Value of Minimum Lease Payments	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
<i>Maturity:</i>				
Up to one year	2,891	2,186	2,709	1,859
From 1 to 5 years	373	2,405	368	2,265
	<u>3,264</u>	<u>4,591</u>	<u>3,077</u>	<u>4,124</u>
<i>Less: future cost of financing</i>	<u>(187)</u>	<u>(467)</u>	<u>-</u>	<u>-</u>
Present value of minimum lease payments	<u>3,077</u>	<u>4,124</u>	<u>3,077</u>	<u>4,124</u>
Included in the financial statements as:				
Current portion of long-term liabilities			2,709	1,859
Other long-term liabilities			<u>368</u>	<u>2,265</u>
			<u>3,077</u>	<u>4,124</u>

**29. SHORT-TERM FINANCIAL LIABILITIES**

	December 31, 2008	December 31, 2007
Domestic short-term loans	861,203	549,118
Current portion of long-term loans and finance leases	<u>32,479</u>	<u>21,835</u>
	<u>893,682</u>	<u>570,953</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

29. SHORT-TERM FINANCIAL LIABILITIES (Continued)

Domestic Short-Term Loans

Creditor	Interest Rate	Maturity Period	Currency Code	Currency Amount	December 31, 2008	December 31, 2007
<i>Loans in foreign currency</i>						
Banca Intesa a.d., Beograd	7.5 % p.a.	1 year	EUR	500,000	-	39,618
Alpha Bank a.d., Beograd	6%-8% p.a.	1 year	EUR	3,410,000	-	270,213
Export Credit and Insurance Agency	12-m EURIBOR + 2% p.a.	1 year	EUR	1,000,000	-	79,235
Unicredit bank a.d. Beograd	1m EURIBOR + 3,9% p.a.	1 year	EUR	1,000,000	88,601	-
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	500,000	44,301	-
					150,622	389,066
<i>Loans in dinars:</i>						
AIK Banka a.d., Niš	6m EURIBOR + 3.5% p.a.	1 year	RSD		-	80,000
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	-
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 a.d., Beograd	1.65% monthly	6 months	RSD		112,000	-
					664,000	160,052
Tigar Hemijski proizvodi d.o.o, Pirot					36,000	-
Tigar Tehnička guma d.o.o., Pirot					5,880	-
Tigar Poslovni servis d.o.o., Pirot					4,700	-
					46,580	-
					893,682	549,118

Other short-term financial liabilities of RSD 46,580 thousand are associated with short-term borrowings from related parties obtained for the purpose of settling current liquidity with a single year maturity. The contractually-agreed interest equals the least interest rate charged to the Company by commercial banks.

30. ACCOUNTS PAYABLE

	December 31, 2008	December 31, 2007
Advances, deposits and retainers received from customers	472	5,171
Accounts payable – related parties (Note 32)	74,152	37,300
Domestic accounts payable	43,329	40,950
Foreign accounts payable	7,877	364
Other accounts payable	805	825
Non-invoiced accounts payable	37,918	7,812
	164,553	92,422

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

31. OTHER CURRENT LIABILITIES AND ACCRUALS

	December 31, 2008	December 31, 2007
Gross salaries	15,988	14,113
Interest accrued	7,132	2,974
Accruals	5,352	10,165
Liabilities for dividends	8,535	4,216
Other short- term liabilities	461	439
	<u>37,468</u>	<u>31,907</u>

32. RELATED PARTY TRANSACTIONS

	2008	2007
<b>Balance sheet</b>		
<b>Assets</b>		
<i>Equity investments (net)</i>		
- Tigar Tyres d.o.o., Pirot	649,517	974,275
- Tigar Obuća d.o.o., Pirot	820,486	140,766
- Tigar Hemijski proizvodi d.o.o., Pirot	99,740	78,840
- Tigar Tehnička guma d.o.o., Pirot	179,522	26,918
- Tigar Tours d.o.o., Pirot	9,104	2,472
- Tigar Poslovni servis d.o.o., Pirot	102,774	24,875
- Tigar Planinarski dom d.o.o., Pirot	85,164	5,785
- Tigar Zaštitna radionica d.o.o., Pirot	1,348	1,348
- Tigar Obezbeđenje d.o.o., Pirot	13,755	13,755
- Tigar Trgovine d.o.o., Pirot	230,631	202,556
- AD za upravljanje slobodnom zonom "Pirot", Pirot	85,050	81,615
- Tigar Montenegro d.o.o., Podgorica, Crna Gora	2,882	1,035
- Tigar Inter Risk d.o.o., Pirot	1,372	1,372
- Tigar Incon d.o.o., Pirot	34,464	16,150
- Tigar Export-Import d.o.o., Pirot	43	43
- Tigar Trade d.o.o., Pirot	44	-
- Tigar Americas inc. Jacksonville, USA	23,470	15,260
- Tigar Europe Ltd., London, UK	122,406	122,406
- Tigar Partner d.o.o., Skoplje, Makedonija	19,898	19,898
- Tigar Trade d.o.o., Banja Luka	7,322	6,377
Other	11,128	10,147
	<u>2,500,118</u>	<u>1,745,893</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

32. RELATED PARTY TRANSACTIONS (Continued)

	<u>2008</u>	<u>2007</u>
<b>Balance sheet</b>		
<b>Assets</b>		
<i>Advances paid</i>		
- Tigar Tyres d.o.o., Pirot	595	-
- Tigar Planinarski dom d.o.o., Pirot	147	-
	<u>742</u>	<u>-</u>
<i>Accounts receivable</i>		
- Tigar Obuća d.o.o., Pirot	34,315	57,142
- Tigar Tyres d.o.o., Pirot	21,063	1,473
- Tigar Trgovine d.o.o., Pirot	4,810	32,926
- Tigar Tehnička guma d.o.o., Pirot	4,203	51,171
- Tigar Hemijski proizvodi d.o.o., Pirot	3,523	27,081
- Tigar Zaštitna radionica d.o.o., Pirot	4,665	4,755
- AD za upravljanje slobodnom zonom "Pirot", Pirot	3,053	2,350
- Tigar Incon d.o.o., Pirot	2,326	-
Other	5,566	10,947
	<u>83,524</u>	<u>187,845</u>
<i>Receivables from share in profit</i>		
- Tigar Hemijski proizvodi d.o.o., Pirot	181,417	-
- Tigar Poslovni servis d.o.o., Pirot	17,226	30,544
- Tigar Zaštitna radionica d.o.o., Pirot	12,293	-
- Tigar Tehnička guma d.o.o., Pirot	5,277	109,000
- Tigar Tours d.o.o., Pirot	559	725
- Tigar Partner d.o.o., Skoplje, Makedonija	2,962	-
- Tigar Montenegro d.o.o., Podgorica, Crna Gora	765	-
- Tigar Inter Risk d.o.o., Pirot	1,111	-
- Tigar Export-Import d.o.o., Pirot	201	1,666
- Tigar Incon d.o.o., Pirot	1,323	5,000
Other	18	18
- Tigar Tyres d.o.o., Pirot	-	89,700
- Tigar Obezbedenje d.o.o., Pirot	-	201
	<u>223,152</u>	<u>236,854</u>
<i>Short-term loans to related parties</i>		
- Tigar Hemijski proizvodi d.o.o., Pirot	2,971	2,078
- Tigar Tehnička guma d.o.o., Pirot	2,269	-
- Tigar Trgovine d.o.o., Pirot	353	-
	<u>5,593</u>	<u>2,078</u>
<i>Other receivables</i>		
- Tigar Trgovine d.o.o., Pirot	109,709	241,512
- Tigar Export-Import d.o.o., Pirot	336,910	199,003
- Tigar Obuća d.o.o., Pirot	-	97,815
- Tigar Hemijski proizvodi d.o.o., Pirot	-	100,886
Other	13,425	10,525
	<u>460,044</u>	<u>649,741</u>
<b>Total, assets</b>	<u><u>3,273,173</u></u>	<u><u>2,822,411</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

32. RELATED PARTY TRANSACTIONS (Continued)

	<u>2008</u>	<u>2007</u>
<b>Balance sheet</b>		
<i>Liabilities</i>		
<i>Advances paid</i>		
- Tigar Obezbeđenje d.o.o., Pirot	191	-
<i>Accounts payable</i>		
- Tigar Incon d.o.o., Pirot	60,098	32,950
- Tigar Obuća d.o.o., Pirot	5,238	-
- Tigar Tehnička guma d.o.o., Pirot	2,272	-
- Tigar Obezbeđenje d.o.o., Pirot	1,874	754
- Tigar Tours d.o.o., Pirot	1,263	2,394
- Tigar Export-Import d.o.o., Pirot	944	261
- Tigar Trgovine d.o.o., Pirot	782	302
Other	764	340
- AD za upravljanje slobodnom zonom "Pirot", Pirot	385	-
- Tigar Poslovni servis d.o.o., Pirot	274	226
- Tigar Planinarski dom d.o.o., Pirot	147	-
- Tigar Zaštitna radionica d.o.o., Pirot	90	73
- Tigar Hemijski proizvodi d.o.o., Pirot	21	-
	<u>74,152</u>	<u>37,300</u>
<i>Other liabilities</i>		
- Chemical products	36,000	-
- Technical rubber	5,880	-
- Business service	4,700	-
	<u>46,580</u>	<u>-</u>
<b>Total, liabilities</b>	<u>120,923</u>	<u>37,300</u>
<b>Net assets</b>	<u><u>3,152,250</u></u>	<u><u>2,785,111</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

32. RELATED PARTY TRANSACTIONS (Continued)

Income statement	2008	2007
<b>Income</b>		
<u>Sale of products and services</u>		
- Tigar Tyres d.o.o., Pirot	64,423	106,616
- Tigar Obuća d.o.o., Pirot	27,034	27,187
- Tigar Trgovine d.o.o., Pirot	17,078	17,153
- Tigar Tehnička guma d.o.o., Pirot	12,825	10,900
- Tigar Hemijski proizvodi d.o.o., Pirot	8,726	7,672
- Tigar Poslovni servis d.o.o., Pirot	5,547	4,954
- Tigar Incon d.o.o., Pirot	4,693	3,127
- Tigar Zaštitna radionica d.o.o., Pirot	999	889
- Tigar Export-Import d.o.o., Pirot	674	603
- Tigar Obezbeđenje d.o.o., Pirot	524	459
Other	519	459
- Tigar Planinarski dom d.o.o., Pirot	415	367
- Tigar Tours d.o.o., Pirot	414	368
	143,871	180,754
<u>Rentals</u>		
- Tigar Tyres d.o.o., Pirot	26,016	49,334
- AD za upravljanje slobodnom zonom "Pirot", Pirot	75	135
- Tigar Trgovine d.o.o., Pirot	-	235
- Tigar Planinarski dom d.o.o., Pirot	-	230
Other	-	845
	26,091	50,779
<u>Finance income</u>		
- Tigar Hemijski proizvodi d.o.o., Pirot	181,417	5,700
- Tigar Tyres d.o.o., Pirot	27,304	90,532
- Tigar Zaštitna radionica d.o.o., Pirot	12,293	749
- Tigar Obuća d.o.o., Pirot	5,400	5,261
- AD za upravljanje slobodnom zonom "Pirot", Pirot	5,389	3,067
- Tigar Tehnička guma d.o.o., Pirot	5,277	116,971
- Tigar Montenegro d.o.o., Podgorica, Crna Gora	3,693	1,886
- Tigar Partner d.o.o., Skoplje, Makedonija	2,962	2,362
- Tigar Trade d.o.o., Banja Luka	1,892	2,388
- Tigar Poslovni servis d.o.o., Pirot	1,726	26,504
- Tigar Incon d.o.o., Pirot	1,323	5,236
- Tigar Inter Risk d.o.o., Pirot	1,111	851
- Tigar Tours d.o.o., Pirot	559	6,725
- Tigar Export-Import d.o.o., Pirot	201	4,138
- Tigar Trgovine d.o.o., Pirot	-	6,266
- Tigar Planinarski dom d.o.o., Pirot	-	37
- Tigar Obezbeđenje d.o.o., Pirot	-	589
Other	-	1,690
	250,547	280,952

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

32. RELATED PARTY TRANSACTIONS (Continued)

Income statement	2008	2007
<b>Income</b>		
<i>Sale of equity investments</i>		
- Tigar Tyres d.o.o., Pirot	138,683	113,721
<i>Proceeds from the sale of fixed assets</i>		
- Tigar Tyres d.o.o., Pirot	502,233	-
<i>Capital gains from transfer of property</i>		
- Tigar Obuća d.o.o., Pirot	300,712	-
- Tigar Poslovni servis d.o.o., Pirot	65,635	-
- Tigar Planinarski dom d.o.o., Pirot	36,649	-
- Tigar Incon d.o.o., Pirot	14,831	-
- Tigar Tours d.o.o., Pirot	3,953	-
	421,780	-
<b>Total, income</b>	1,483,205	626,206
<b>Expenses</b>		
<i>Cost of production services</i>		
- Tigar Tehnička guma d.o.o., Pirot	7,619	460
- Tigar Tours d.o.o., Pirot	6,760	7,524
- Tigar Export-Import d.o.o., Pirot	3,721	2,153
- Tigar Trgovine d.o.o., Pirot	1,138	1,278
- Tigar Incon d.o.o., Pirot	795	889
- Tigar Planinarski dom d.o.o., Pirot	790	585
- Tigar Poslovni servis d.o.o., Pirot	260	106
- Tigar Hemijski proizvodi d.o.o., Pirot	51	14
- Tigar Obuća d.o.o., Pirot	13	15
- Tigar Tyres d.o.o., Pirot	-	2,764
Other	-	411
	21,147	16,199
<i>Cost of non-material services</i>		
- Tigar Obezbeđenje d.o.o., Pirot	18,623	10,166
- Tigar Poslovni servis d.o.o., Pirot	7,067	6,038
- Tigar Incon d.o.o., Pirot	2,105	1,928
- Tigar Planinarski dom d.o.o., Pirot	1,845	2,158
- Tigar Tours d.o.o., Pirot	1,173	1,747
- Tigar Trgovine d.o.o., Pirot	498	12
- Tigar Obuća d.o.o., Pirot	380	410
- Tigar Export-Import d.o.o., Pirot	125	1,470
- Tigar Inter Risk d.o.o., Pirot	78	48
- Tigar Tehnička guma d.o.o., Pirot	62	109
- AD za upravljanje slobodnom zonom "Pirot", Pirot	20	-
- Tigar Zaštitna radionica d.o.o., Pirot	15	6
- Tigar Tyres d.o.o., Pirot	-	142
- Tigar Hemijski proizvodi d.o.o., Pirot	-	4
Other	-	5,918
	31,991	30,156

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

32. RELATED PARTY TRANSACTIONS (Continued)

	<u>2008</u>	<u>2007</u>
<b>Income statement</b>		
<b>Expenses</b>		
<i>Other expenses</i>		
Tigar Obuća d.o.o., Pirot	267,188	36,280
Tigar Export-Import d.o.o., Pirot	199,003	3
Tigar Trgovine d.o.o., Pirot	153,774	28,075
Tigar Hemijski proizvodi d.o.o., Pirot	30,968	20,900
Tigar Tehnička guma d.o.o., Pirot	27,887	66,981
Tigar Planinarski dom d.o.o., Pirot	3,893	1,284
Tigar Obezbeđenje d.o.o., Pirot	1,393	-
Tigar Poslovni servis d.o.o., Pirot	-	130
Tigar Incon d.o.o., Pirot	-	818
Other	-	559
	<u>684,106</u>	<u>155,030</u>
<b>Total expenses</b>	<u>737,244</u>	<u>201,385</u>
Net income	<u>745,961</u>	<u>424,821</u>

Cost of gross salaries paid to the members of management amounted to RSD 26,332 thousand.

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

**Equity Risk Management**

There is no legal framework for managing equity risk in the Company. The Company considers equity risk in order to diminish it and under the assumption that the Company will be able to continue its business operations in the foreseeable future, maximizing profits to the owners by optimizing the debt to equity ratio. The structure of the Company’s capital includes debts, including long-term borrowings explained in Note 27, 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.

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.



**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Equity Risk Management (Continued)**

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

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Indebtedness a)	1,092,185	773,842
Cash and cash equivalents	(52,935)	(113,277)
Net indebtedness	1,039,250	660,565
Equity b)	2,736,793	2,685,839
Debt to equity ratio	0.38	0.25

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

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

**Significant Accounting Policies Regarding Financial Instruments**

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

**Categories of Financial Instruments**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
<b>Financial assets</b>		
Long-term financial placements	376,053	704,684
Accounts receivable	85,233	202,102
Other receivables	223,152	236,854
Cash and cash equivalents	52,935	113,277
Short-term financial placements	466,238	1,301,862
	<u>1,528,369</u>	<u>2,558,779</u>
<b>Financial liabilities</b>		
Long-term borrowings	198,503	202,889
Accounts payable	163,276	86,426
Current portion of long-term borrowings	32,480	21,835
Short-term borrowings	814,622	549,118
Other financial liabilities	46,580	-
	<u>1,255,461</u>	<u>860,268</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Categories of Financial Instruments (Continued)**

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

**Objectives of Financial Risk Management**

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

**Market Risk**

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

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

**Foreign Currency Risk**

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

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

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

	Assets		Liabilities	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
EUR	23,280	84,682	310,949	544,910
USD	17	26	80,726	77,456
	<u>23,297</u>	<u>84,708</u>	<u>391,676</u>	<u>622,366</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Market risk (Continued)**

***Foreign Currency Risk (Continued)***

The Company is sensitive to the movements in the EUR and American Dollar (USD) exchange rates. The following table gives details on the Company’s sensitivity to the increase and decrease of 10% in the dinar to foreign currency exchange rate. The sensitivity rate of 10% was used in internal reporting on the foreign currency risk and it represents the management’s best estimate of reasonably expected fluctuations in exchange rates. The sensitivity analysis includes only the outstanding foreign currency assets and liabilities and it adjusts their translation at the period end for the fluctuation of 10% in foreign exchange rates. The positive number from the table points to the increase in the results of the current period, being the case when RSD value declines as opposed to the currency at issue. In case of RSD decline of 10% as compared to the foreign currency at issue, the impact on the profit for the current period would be the exact opposite of the one calculated in the previous case.

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
EUR	28,767	46,023
USD	8,071	7,743
Profit/Loss	<u>36,838</u>	<u>53,766</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**33. 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:

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
<b>Financial Assets</b>		
<i>Non-interest bearing</i>		
Long-term financial placement	324,915	649,673
Accounts receivable	85,233	202,102
Cash and cash equivalents	9,689	113,277
Other receivables	223,152	236,854
Short-term financial placements	790,996	1,301,862
	<u>1,433,985</u>	<u>2,503,768</u>
<i>Fixed interest rates</i>		
Long-term financial placement	51,138	55,011
Cash and cash equivalents	43,246	-
	<u>94,384</u>	<u>55,011</u>
	<u>1,528,369</u>	<u>2,558,779</u>
<b>Financial liabilities</b>		
<i>Non-interest bearing</i>		
Accounts payable	163,276	86,426
Other financial liabilities	46,580	-
	<u>209,856</u>	<u>86,426</u>
<i>Fixed interest rates</i>		
Long-term borrowings	198,503	202,889
Short-term borrowings	708,301	389,883
Current portion of long-term borrowings	32,480	21,835
	<u>939,284</u>	<u>614,607</u>
<i>Variable interest rates</i>		
Short-term borrowings	106,321	159,235
	<u>106,321</u>	<u>159,235</u>
	<u>1,255,461</u>	<u>860,268</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Market Risk (Continued)**

*Interest Rate Risk (Continued)*

The sensitivity analyses presented in the following text have been established based on the Company’s exposure to interest rate risk inherent in non-derivative instruments as of the balance sheet date. For the liabilities with variable interest rate, the analysis has been prepared under the assumption that the outstanding balance of assets and liabilities as of the balance sheet date remained constant throughout the year. The increase or decrease in interest rates of 1% represents the fluctuation reasonably anticipated by the management. Had the interest rates been 1 percentage point higher and other variables remained unchanged, the Company would have incurred a loss in the year ended December 31, 2008 in the amount of RSD 1,063 thousand (December 31, 2007: RSD 1,592 thousand). Such situation is attributed to the Company’s exposure arising from the variable interest rates applied to long-term borrowings.

**Credit Risk**

*Managing Accounts Receivable*

Credit risk relates to the exposure inherent in the possibility that the contractual party fails to act upon its contractual commitments and cause the Company to suffer loss. The Company’s exposure to this risk is limited to the amount of accounts receivable as of the balance sheet date. Accounts receivable are comprised of a large number of customers, where most significant portion is due from related parties.

The most significant customers are presented in the following table:

	<b>December 31, 2008</b>
Tigar Hemijski proizvodi d.o.o, Pirot	184,940
Tigar Obuća d.o.o., Pirot	34,315
Tigar Tyres d.o.o, Pirot	21,063
Tigar Poslovni servis d.o.o., Pirot	18,344
Tigar Zaštitna radionica d.o.o., Pirot	16,958
Tigar Tehnička guma d.o.o., Pirot	9,480
Tigar Trgovine d.o.o., Pirot	4,810
Tigar Inkon d.o.o., Pirot	3,649
Tigar – Slobodna carinska zona, Pirot	3,053
Pharmanova – apoteka	3,006
Other	8,767
	<hr/> <b>308,385</b> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**33. 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	57,757	-	57,757
Accounts receivable matured and provided for	1,450	(1,450)	-
Accounts receivable matured, but not provided for	<u>250,628</u>	<u>-</u>	<u>250,628</u>
	<u><u>309,835</u></u>	<u><u>(1,450)</u></u>	<u><u>308,385</u></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	41,890	-	41,890
Accounts receivable matured and provided for	55,524	(55,524)	-
Accounts receivable matured, but not provided for	<u>397,066</u>	<u>-</u>	<u>397,066</u>
	<u><u>494,480</u></u>	<u><u>(55,524)</u></u>	<u><u>438,956</u></u>

*Accounts Receivable, not Matured*

Accounts receivable, not matured as of December 31, 2008 in the amount of RSD 57,757 thousand (December 31, 2007: RSD 41,890 thousand) mostly refer the accounts receivable arising from the sale of services. Most of these receivables mature within 60 days from the invoicing date, depending on the contractually-agreed terms. The average days' sales outstanding in 2008 counted 203 days (2007: 258 days).

*Accounts Receivable Matured and Provided for*

In the previous periods, the Company calculated an allowance for impairment of matured receivables in the amount of RSD 1,450 thousand (December 31, 2007: RSD 55,524 thousand) due from those customers whose creditworthiness has changed and which will not be collected in full.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Credit Risk (Continued)**

***Managing Accounts Receivable (Continued)***

*Accounts Receivable Matured, but not Provided for*

The Company failed to make an allowance for impairment of receivables matured as of December 31, 2008 in the amount of RSD 250,628 thousand (December 31, 2007: RSD 397,066 thousand) given that the customer creditworthiness has not changed and since the receivables mostly relate to the electricity sold, the Company holds that the present value of these receivables will be collected in full.

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

	<b>December 31, 2008</b>
	<u>                    </u>
Less than 30 days	5,420
From 31 to 90 days	3,884
From 91 to 180 days	2,714
From 181 to 365 days	234,588
Over 365 days	<u>4,022</u>
	<u><u>250,628</u></u>

***Managing Accounts Payable***

Accounts payable as of December 31, 2008 were stated in the amount of RSD 163,276 thousand, and are associates with the acquisition of services. These suppliers do not charge penalty against matured liabilities, whereas the Company duly settles accounts payable, as in accordance with financial risk management policies. The average days outstanding for accounts payable in 2008 counted 121 days (2007: 89 days).

**Liquidity Risk**

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

*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					Total
	Less than One month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	
Non-interest bearing	306,957	344,824	457,446	324,758	-	1,433,985
Fixed interest rate	43,249	-	3,785	21,496	25,854	94,384
	<u>350,206</u>	<u>344,824</u>	<u>461,231</u>	<u>346,254</u>	<u>25,854</u>	<u>1,528,369</u>

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

*Maturities of Financial Liabilities*

	December 31, 2008					Total
	Less than One month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	
Non-interest bearing	116,216	48,337	45,303	-	-	209,856
Fixed interest rate	56,288	525,742	250,735	223,051	-	1,055,816
Variable interest rate	17,720	-	92,495	-	-	110,215
	<u>190,224</u>	<u>574,079</u>	<u>388,533</u>	<u>223,051</u>	<u>-</u>	<u>1,375,887</u>



**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**33. 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.

	September 31, 2008		December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Long-term financial placements	376,053	488,397	704,684	952,384
Accounts receivable	85,233	85,233	201,627	201,627
Other receivables	685,797	685,797	891,109	891,109
Cash and cash equivalents	52,935	52,935	113,277	113,277
Short-term financial placements	790,996	929,680	1,301,862	1,440,546
	<u>1,528,369</u>	<u>1,779,397</u>	<u>2,558,779</u>	<u>2,945,163</u>
<b>Financial Liabilities</b>				
Long-term borrowings	198,503	162,995	202,889	161,996
Account payable	163,276	163,276	86,426	86,426
Current portion of long-term borrowings	32,480	42,749	21,835	37,277
Short-term borrowings	814,622	814,622	549,118	549,118
Other financial liabilities	46,580	46,580	-	-
	<u>1,255,461</u>	<u>1,230,222</u>	<u>860,268</u>	<u>834,817</u>

*Assumptions for the Assessment of Financial Instruments' Fair Value*

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

**34. 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 financial statements do not include additional provisions for these risks.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

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

**35. OPERATING LEASE**

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

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

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

**36. POST BALANCE SHEET EVENTS**

In 2009, the Framework Agreement signed with a business associate, Michelin, Netherlands, stipulates that “Tigar” A.D., Pirot is to sell another 10% of its equity stake in “Tigar Tyres.” In this manner, “Tigar” A.D., Pirot will retain 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 24).

As disclosed in Note 33, the Company presented the exposure to credit risk in the amount of RSD 308,385 thousand, out of which and until the issuance date of these financial statements, the Company collected RSD 180,040 thousand.

**37. 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:

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
USD	62.9000	53.7267
EUR	88.6010	79.2362
GBP	90.8635	107.3080
CHF	59.4040	47.8422