

**TIGAR A.D., PIROT**

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

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated financial statements (pages 3 to 47) of “Tigar” A.D., Pirot and its subsidiaries (the “Company”), which comprise the consolidated balance sheet as at December 31, 2009, and the related consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

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

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

#### *Auditor's Responsibility*

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

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

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

(Continued)

**INDEPENDENT AUDITORS' REPORT**

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tigar A.D., Pirot and its subsidiaries as of December 31, 2009, and their consolidated financial performance and consolidated cash flows for the year then ended, in accordance with the accounting regulations of the Republic of Serbia.

Belgrade, May 3, 2010

Žarko Mijović  
Certified Auditor

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

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
<b>OPERATING INCOME</b>			
Sales of goods, products and services	5	3,349,344	3,315,792
Own work capitalized	7	441,254	392,524
Increase/(Decrease) in the value of inventories		57,463	(26,402)
Other operating income	8	32,684	69,699
		<u>3,880,745</u>	<u>3,751,613</u>
<b>OPERATING EXPENSES</b>			
Cost of commercial goods sold		(914,976)	(1,177,607)
Cost of material	9	(1,174,529)	(1,245,092)
Staff costs	10	(1,500,700)	(1,501,211)
Depreciation, amortization and provisions	11	(148,471)	(88,801)
Other operating expenses	12	(424,798)	(454,120)
		<u>(4,163,474)</u>	<u>(4,466,831)</u>
<b>OPERATING LOSS</b>		<u>(282,729)</u>	<u>(715,218)</u>
Finance income	13	74,609	202,587
Finance expenses	14	(262,493)	(353,424)
Other income	15	327,820	1,096,598
Other expenses	16	(29,528)	(35,223)
<b>(LOSS)/PROFIT BEFORE TAXATION</b>		<u>(172,320)</u>	<u>195,320</u>
Income taxes:			
- Current tax expense	17	(41,236)	(99,318)
- Deferred tax expense		(6,342)	(6,049)
<b>NET (LOSS)/PROFIT FOR THE YEAR</b>		<u>(219,898)</u>	<u>89,953</u>
<b>Net (loss)/profit attributable to:</b>			
- Majority shareholders		(222,571)	84,939
- Minority shareholders		2,673	5,014
		<u>(219,898)</u>	<u>89,953</u>
<b>Earnings per share in RSD</b>	18	<u>(128.51)</u>	<u>52.41</u>

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

These consolidated financial statements were approved on April 30, 2010 by the management of Tigar A.D., Pirot.

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

Dragan Nikolić  
General Manager

Aleksandra Lilić  
Head of Accounting

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

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	19	111,442	74,702
Property, plant and equipment	20	3,939,938	3,323,718
Equity investments	21	11,670	12,498
Other long-term financial placements	22	47,658	51,801
		<u>4,110,708</u>	<u>3,462,719</u>
<b>Current assets</b>			
Inventories	23	1,442,628	1,289,581
Assets held-for-sale	24	19,884	948,689
Accounts receivable	25	727,066	918,538
Receivables for prepaid income taxes		14,303	10,568
Short-term financial placements		5,736	737
Cash and cash equivalents	26	702,009	242,410
Value added tax and prepayments	28	114,839	75,873
Deferred tax assets	17	18,036	18,015
		<u>3,044,501</u>	<u>3,504,411</u>
<b>Total assets</b>		<u><u>7,155,209</u></u>	<u><u>6,967,130</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	29	2,062,152	2,062,152
Reserves		207,925	575,488
Revaluation reserves		1,074,215	1,086,061
(Accumulated loss)/Retained earnings		85,934	(6,198)
Repurchased treasury shares		-	(26,018)
Share premium		-	13,781
Translation reserves		34,127	(7,131)
Capital attributable to majority shareholders		<u>3,464,353</u>	<u>3,698,135</u>
Minority interest		<u>49,730</u>	<u>47,057</u>
		<u>3,514,083</u>	<u>3,745,192</u>
<b>Long-term provisions and liabilities</b>			
Long-term provisions	30	79,861	81,891
Long-term liabilities	31	1,149,078	679,018
		<u>1,228,939</u>	<u>760,909</u>
<b>Current liabilities</b>			
Short-term financial liabilities	32	1,432,181	1,184,001
Accounts payable	33	639,111	879,547
Other current liabilities	34	151,136	139,819
Value added tax and other public duties payable and accruals	35	43,134	50,178
Income taxes payable		18,662	84,912
		<u>2,284,224</u>	<u>2,338,457</u>
<b>Deferred tax liabilities</b>	17	<u>127,963</u>	<u>122,572</u>
<b>Total equity and liability</b>		<u><u>7,155,209</u></u>	<u><u>6,967,130</u></u>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**Year Ended December 31, 2009**  
**(thousands of RSD)**

	<u>Share capital</u>	<u>Reserves</u>	<u>Revaluation Reserves</u>	<u>(Accumulated Loss)/Retained Earnings</u>	<u>Repurchased Treasury Shares</u>	<u>Share Premium</u>	<u>Translation Reserves</u>	<u>Minority Interest</u>	<u>Total</u>
Balance January 1, 2008	2,062,152	575,611	11,168	13,775	-	-	-	42,816	2,705,522
Treasury shares repurchased	-	-	-	-	(30,357)	16,084	-	-	(14,273)
Treasury shares sold	-	-	-	-	4,339	(2,303)	-	-	2,036
Dividends paid for the year 2007	-	-	-	(48,734)	-	-	-	-	(48,734)
Interim dividends paid for the year 2008	-	-	-	(56,178)	-	-	-	-	(56,178)
Appraisal effects	-	-	1,194,324	-	-	-	-	-	1,194,324
Deferred tax liabilities	-	-	(119,431)	-	-	-	-	-	(119,431)
Effects of foreign currency fluctuations	-	-	-	-	-	-	(7,131)	-	(7,131)
(Loss)/profit for the year	-	-	-	84,939	-	-	-	5,014	89,953
Other	-	(123)	-	-	-	-	-	(773)	(896)
<b>Balance, December 31, 2008</b>	<b>2,062,152</b>	<b>575,488</b>	<b>1,086,061</b>	<b>(6,198)</b>	<b>(26,018)</b>	<b>13,781</b>	<b>(7,131)</b>	<b>47,057</b>	<b>3,745,192</b>
Balance January 1, 2009	2,062,152	575,488	1,086,061	(6,198)	(26,018)	13,781	(7,131)	47,057	3,745,192
Treasury shares sold	-	-	-	-	26,018	(11,107)	-	-	14,911
Dividends paid for the year 2008	-	-	-	(56,709)	-	-	-	-	(56,709)
Transfer	-	(368,738)	-	371,412	-	(2,674)	-	-	-
Effects of foreign currency fluctuations	-	-	-	-	-	-	34,127	-	34,127
(Loss)/profit for the year	-	-	-	(222,571)	-	-	-	2,673	(219,898)
Other	-	1,175	(11,846)	-	-	-	7,131	-	(3,540)
<b>Balance, December 31, 2009</b>	<b>2,062,152</b>	<b>207,925</b>	<b>1,074,215</b>	<b>85,934</b>	<b>-</b>	<b>-</b>	<b>34,127</b>	<b>49,730</b>	<b>3,514,083</b>

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

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

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	3,566,305	3,325,886
Interest receipts	6,508	4,956
Other receipts from operating activities	60,614	120,941
Cash paid to suppliers for raw and other materials and other expenses	(2,711,764)	(2,652,736)
Gross salaries and other staff costs paid	(1,528,723)	(1,488,111)
Interest paid	(202,683)	(203,910)
Taxes and contributions paid	(120,615)	(42,936)
Other public duties payable	(152,640)	(70,687)
<i>Net cash used in operating activities</i>	<u>(1,082,998)</u>	<u>(1,006,597)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of shares and equity investments (net inflows)	1,212,338	454,251
Sale of property, plant and equipment	100	742,705
Interest received	4,144	7,277
Dividends received	35,199	117,252
Purchases of property, plant and equipment	(349,565)	(1,038,647)
<i>Net cash provided by investing activities</i>	<u>902,216</u>	<u>282,838</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long-term and short-term loans (net inflows)	693,411	784,946
Repurchase of treasury shares	17,641	(11,598)
Finance lease payments	(18,178)	(6,324)
Dividends paid	(52,359)	(100,592)
<i>Net cash provided by financing activities</i>	<u>640,515</u>	<u>666,432</u>
<b>NET CASH INCREASE</b>	459,733	-
<b>NET CASH DECREASE</b>	-	(57,327)
<b>Cash and cash equivalents at beginning of year</b>	242,410	325,936
<b>Foreign exchange gains and losses on translation of cash and cash equivalents, net</b>	<u>(134)</u>	<u>(26,199)</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>702,009</u></u>	<u><u>242,410</u></u>

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



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

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

As of January 1, 2003 the Company underwent legal reorganization and status changes, whereby its organizational units, Fabrika Autoguma (tire production factory) and Fabrika unutrašnjih guma (inner tube production factory) separated from the Company and joined the newly-established entity, Tigar M.H., a Company for the Production of Tires, D.O.O., Pirot (“TMH”) in which the Company held an equity interest of 65%. During 2005, the minority investors of Tigar MH made additional capital contributions, whereby the Company’s equity interest changed from 65% to 50%. In accordance with the relevant partners’ agreement, the registered share of the Company in Tigar MH with the Company Register is 49.4%. Taking into account the date of registration and the date of additional capital contributions paid by minority investors, the Company’s investment in Tigar MH for 2005, calculated on a “pro-rata temporis” basis is 51.7674% and 51.9033%, respectively. During 2007, the Company’s 19.4% equity investment in “Tigar Tyres” (previously known as “Tigar MH”) was sold to the entity Michelin, Netherlands. As of December 31, 2007, based on the registration, the Company’s investments in “Tigar Tyres” (previously known as: “Tigar MH”), amounted to 30%. In 2008, the Company sold another 10% of its equity interest to Michelin, Netherlands. Thus, at December 31, 2008, equity interest in Tigar Tyres amounted to 20%. In 2009, the Company sold the remaining 20% of equity in this entity. Accordingly, the entity “Tigar Tyres,” Pirot was not included in the consolidated financial statements of the Company prepared at December 31, 2009 and 2008.

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

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

The Company’s registered office is located at the street address of Nikole Pašića 213, in Pirot. As of December 31, 2009, the Parent Company had 206 employees (December 31, 2008: 193 employees), whereas the entire Tigar Group employed 2,126 people (December 31, 2008: 2,218 employees). The tax identification number of the Company is 100358298. In accordance with the Decision of the Securities Commission governing the listings and quotations on the Belgrade Stock Exchange (BELEX), enacted on April 2, 2007, the Company’s shares were admitted to the A listing of BELEX with the TIGR symbol.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**2.1. Basis for Consolidation**

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

	<u>% Equity Interest</u>
1 Tigar Obuća d.o.o., Pirot	100.00%
2 Tigar Hemijski proizvodi d.o.o., Pirot	100.00%
3 Tigar Tehnička guma d.o.o., Pirot	100.00%
4 Tigar Trejd d.o.o., Pirot	100.00%
5 Tigar Trgovine d.o.o., Pirot	100.00%
6 Tigar Poslovni servis d.o.o., Pirot	100.00%
7 Tigar Tours d.o.o., Pirot	100.00%
8 Tigar Planinarski dom d.o.o., Pirot	100.00%
9 Tigar Obezbeđenje d.o.o., Pirot	100.00%
10 Tigar Zaštitna radionica d.o.o., Pirot	100.00%
11 Tigar Inter Risk d.o.o., Pirot	100.00%
12 Tigar Export-Import d.o.o., Pirot	100.00%
13 Tigar Inkon d.o.o., Pirot	100.00%
14 Slobodna Zona Pirot A.D., Pirot	75.06%
15 Tigar Montenegro d.o.o., Podgorica, Republic of Montenegro	80.00%
16 Tigar Patner d.o.o., Skopje, Republic of Macedonia	70.00%
17 D.O.O. Tigar Trejd, Banja Luka, Republic of Srpska	70.00%
18 Tigar Americas Jacksonwill, Florida, USA	100.00%
19 Tigar Europe, London, UK	50.00%

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

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

**2.2. Basis of Preparation and Presentation of Consolidated Financial Statements**

Pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46 of June 2, 2006), legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the “Framework”), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards which were in effect as at December 31, 2002.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

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

The amendments to IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”), in the period between December 31, 2002 and 2007, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia (“Ministry”) and published in the Official Gazette of the Republic of Serbia number 16 of February 12, 2008. The Ministry also established (based on the Decision number 401-00-1456/2008-16) and published the official translation of the amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and to IFRS 7 “Financial Instruments: Disclosures” in the RS Official Gazette number 116 as of December 17, 2008.

However, until the preparation date of the accompanying consolidated financial statements, not all amendments to IAS/IFRS and IFRIC in effect for annual periods beginning on or after January 1, 2009 had been translated (particularly subsequent to the aforementioned Decision of the Ministry). In addition, the accompanying consolidated financial statements are presented in the format prescribed under the “Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures” (Official Gazette of the Republic of Serbia, no. 114 of December 22, 2006, no. 119 as of December 26, 2008 and no. 2/10 as of January 15, 2010). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, “Presentation of Financial Statements,” and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard. Standards and interpretations issued, but not yet adopted and translated in Republic of Serbia and standards and interpretations in issue not yet in effect are disclosed in Notes 2.3 and 2.4. In addition to the aforementioned, the accounting regulations of the Republic of Serbia depart from IFRS in the following respects:

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

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

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

- IFRS 8 “Operating Segments” (effective for annual periods beginning on or after January 1, 2009),
- Amendments to IFRS 4 “Insurance contracts” and IFRS 7 “Financial Instruments: Disclosures” - Improving disclosures about financial instruments (effective for annual periods beginning on or after January 1, 2009),
- Amendments to IFRS 1 “First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements” – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after January 1, 2009),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on May 22, 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after January 1, 2009),
- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after January 1, 2009),
- IAS 1 (revised) “Presentation of Financial Statements” – A revised presentation (effective for annual periods beginning on or after January 1, 2009),
- IAS 23 (revised) “Borrowing Costs” (effective for annual periods beginning on or after January 1, 2009),
- Amendments to IFRS 2 “Share-based Payment” – Vesting conditions and cancellations (effective for annual periods beginning on or after January 1, 2009),
- Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement” -Embedded Derivatives (effective for annual periods ending on or after June 30, 2009),
- IFRIC 13 “Customer Loyalty Programmes” (effective for annual periods beginning on or after July 1, 2008),
- IFRIC 14 Interpretation on IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for the accounting periods starting January 1, 2008);

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

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

- IFRIC 15 “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after January 1, 2009),
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after October 1, 2008).

**2.4. Standards and Interpretations in Issue not yet in Effect**

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2013),
- IFRS 3 (revised) “Business Combinations” (effective for annual periods beginning on or after July 1, 2009),
- IFRS 1 (revised) “First-time Adoption of IFRS” (effective for annual periods beginning on or after July 1, 2009),
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after January 1, 2010),
- Amendments to IFRS 2 “Share-based Payment” - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after January 1, 2010),
- Amendments to IAS 24 “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011),
- Amendments to IAS 27 “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after July 1, 2009),
- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for rights issues (effective for annual periods beginning on or after February 1, 2010)
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Embedded derivatives (effective for annual periods beginning on or after July 1, 2009),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on April 16, 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2010),

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

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

- Amendments to IFRIC 14 “IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011),
- IFRIC 17 “Distributions of Non-Cash Assets to Owners” (effective for annual periods beginning on or after July 1, 2009),
- IFRIC 18 “Transfers of Assets from Customers” (effective for transfer of assets from customers received on or after July 1, 2009),
- IFRIC 19 “Extinguishing Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010).

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

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

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

**2.5. Comparative Data**

The comparative data comprised in the consolidated financial statements refers to the information provided in the consolidated financial statements as of and for the year ended December 31, 2008. In order to conform the presentation of figures to the current reporting period, certain reclassifications have been made to the amounts reported in the consolidated financial statements prepared as of and for the year ended December 31, 2008.

**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”).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**3.2. Interest Income and Expense**

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

**3.3. Foreign Exchange Translation**

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

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

Foreign exchange gains or losses arising upon the translation of transactions, and assets and liabilities in foreign currencies are credited or charged to the income statement, except for the effects of currency clause indexed to long-term receivables and payables denominated in dinars, which are presented on the line item of other accruals or other prepayments. The proportionate amount of deferred foreign currency clause effects is transferred to the accounts of foreign currency clause gains and losses at the date when the liability falls due for settlement or a receivable become due for collection.

**3.4. Employee Benefits**

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

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

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

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

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

The Company formed provisions for the liabilities based on the aforementioned and adequate disclosures are included in Note 30.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**3.5. Taxes and Contributions**

**Current Income Tax**

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

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

**Deferred Income Taxes**

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

**Indirect Taxes and Contributions**

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

**3.6. Intangible Assets**

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

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

**3.7. Property, Plant and Equipment**

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

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





**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**3.8. Impairment of Assets**

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

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

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

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

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

**3.9. Finance Lease**

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

**3.10. Inventories**

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**3.10. Inventories (Continued)**

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

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

**3.11. Financial Instruments**

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

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

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

*Long-Term Financial Placements*

Long-term financial placements are comprised of equity investments held for sale and available for sale including investment in banks and other legal entities.

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

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

*Other Long-term Financial Placements*

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**3.11. 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.

*Cash and Cash Equivalents*

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

*Accounts Payable*

Accounts payable are stated at their nominal values.

*Borrowings*

Borrowings are stated in their nominal amount as increased by the matured outstanding contractually agreed interest corresponding to the effective interest rate and any penalty interest.

*Impairment of Financial Assets*

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**3.11. Financial Instruments (Continued)**

*Impairment of Financial Assets (Continued)*

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

**4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES**

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

**4.1. Estimates and assumptions**

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

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

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

**4.3. Deferred Tax Assets**

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

**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 allowance for impairment of receivables, in addition to the amounts already disclosed in the accompanying consolidated financial statements, is not necessary.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (Continued)**

**4.5. Fair Value**

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

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

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

	<b>Year Ended</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
<b>Sale on domestic market</b>		
Sales of products and services on domestic market	1,170,686	1,215,643
Sale of goods on domestic market	526,061	525,604
<b>Sale on foreign market</b>		
Sales of products and services on foreign markets	798,579	685,032
Sale of goods on foreign markets	854,018	889,513
	<u>3,349,344</u>	<u>3,315,792</u>

**6. OPERATING AND GEOGRAPHICAL SEGMENTS**

*Products and Services within Operating Segments*

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**6. OPERATING AND GEOGRAPHICAL SEGMENTS (Continued)**

*Segment Revenues*

	External sales		Inter-segment		Total	
	2009	2008	2009	2008	2009	2008
Rubber products	22,564	281,690	144,758	55,459	167,322	337,149
Chemical products	178,700	159,070	84,487	40,509	263,187	199,579
Shoes	26,823	456,802	959,091	436,934	985,914	893,736
Trade	2,522,461	1,837,454	635,670	730,337	3,158,131	2,567,791
Services	747,525	513,933	31,625	401,234	779,150	915,167
Holding	69,767	66,843	172,249	115,567	242,016	182,410
Total of all segments					5,595,720	5,095,832
Eliminations					(2,246,376)	(1,780,040)
Consolidated sales revenue					<u>3,349,344</u>	<u>3,315,792</u>

*Segment result*

	Year Ended December 31,	
	2009	2008
Rubber products	(77,117)	5,087
Chemical products	11,507	228,989
Shoes	40,889	37,990
Trade	46,652	55,448
Services	43,609	28,601
Holding	145,279	211,037
Total of all segments	210,819	567,152
Eliminations	(383,139)	(371,832)
Profit before tax	<u>172,320</u>	<u>195,320</u>
Income tax expense	41,236	(99,318)
Deferred income tax	6,342	(6,049)
Net (loss)/profit for the year	<u>(219,898)</u>	<u>89,953</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

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

6. OPERATING AND GEOGRAPHICAL SEGMENTS (Continued)

*Segment assets and liabilities*

	Assets		Liabilities	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Rubber products	871,259	424,270	539,938	249,856
Chemical products	193,806	376,320	96,156	266,057
Shoes	2,044,401	2,094,229	1,186,306	1,275,170
Trade	2,110,861	1,993,888	1,517,068	1,563,354
Services	635,754	660,089	246,539	280,941
Holding	3,997,792	4,079,757	1,341,129	1,342,963
Total of all segments	9,853,873	9,628,553	4,927,136	4,978,341
Eliminations	(2,698,664)	(2,661,423)	(1,413,973)	(1,878,975)
Consolidated	<u>7,155,209</u>	<u>6,967,130</u>	<u>3,513,164</u>	<u>3,099,366</u>

*Other segment information*

	Acquisition of fixed assets and intangible assets		Depreciation charges	
	2009	2008	2009	2008
Rubber products	308,958	79,033	7,231	8,006
Chemical products	743	2,000	4,865	6,727
Shoes	99,408	427,197	39,287	15,014
Trade	97,425	75,591	22,079	17,965
Services	14,511	138,752	27,054	22,560
Holding	130,513	583,799	18,391	14,631
	<u>651,558</u>	<u>1,306,372</u>	<u>118,907</u>	<u>84,903</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)**

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

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
France	68,288	74,254
Great Britain	763,137	716,612
Germany	11,500	1,572
Italy	197,715	101,945
Bosnia and Herzegovina	12,993	13,183
Sweden	12,535	17,921
Bulgaria	9,762	11,122
Finland	213,941	192,416
Poland	5,903	3,229
Montenegro	78,996	81,140
Macedonia	98,737	80,394
Republic of Srpska	76,274	200,341
South Africa	13,829	13,482
Belarus	5,874	4,627
Greece	28,913	6,347
Slovenia	17,997	9,175
Egypt	1,520	5,065
Russia	1,197	4,174
USA	14,443	3,065
Seychelles	900	1,013
Switzerland	1,168	548
Other	16,975	32,920
	<u>1,652,597</u>	<u>1,574,545</u>

**7. OWN WORK CAPITALIZED**

Income from own work capitalized for the year ended December 31, 2009 aggregated to RSD 441,254 thousand (2008: RSD 392,524 thousand) and mostly related to expenses directly attributable to hiring new employees and cost of material required by Tigar 3 Project, which relates to the construction of a new production hall of “Tehnička guma,” the building for sports range of products and products of reciclat comprised within Tigar 3 complex.

**8. OTHER OPERATING INCOME**

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Premiums, subsidies, annual leave allowances and compensations received	-	548
Rentals	22,562	37,215
Subsequently approved rebates for goods purchased	-	30,570
Other	10,122	1,366
	<u>32,684</u>	<u>69,699</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**9. COST OF MATERIAL**

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<u>          </u>	<u>          </u>
Cost of production material	948,112	1,042,847
Cost of overhead material	79,330	46,478
Cost of electricity	47,582	33,044
Other costs of fuel and energy	99,505	122,723
	<u>1,174,529</u>	<u>1,245,092</u>

**10. STAFF COSTS**

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<u>          </u>	<u>          </u>
Net salaries and benefits	858,312	851,869
Taxes and contributions on salaries paid by the employees	318,229	317,332
Taxes and contributions on salaries paid by the employer	211,334	210,876
Contracts	8,509	10,262
Remunerations to Supervisory and Board of Directors		
Members	21,173	17,175
Retirement benefits and jubilee awards	1,683	23,917
Travel expenses and prediems	30,555	18,938
Transport to work and from work	44,692	40,156
Other staff costs	6,213	10,686
	<u>1,500,700</u>	<u>1,501,211</u>

**11. DEPRECIATION, AMORTIZATION AND PROVISIONS**

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<u>          </u>	<u>          </u>
Depreciation and amortization	118,907	84,903
Provisions	29,564	3,898
	<u>148,471</u>	<u>88,801</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**12. OTHER OPERATING EXPENSES**

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Production costs	8,507	17,507
Telecommunications	15,151	19,719
Other transport	12,524	17,255
Maintenance	23,327	20,656
Rentals	60,003	49,404
Fairs exhibitions	4,053	5,281
Marketing and advertising	30,914	29,178
Research costs	-	901
Other production services	24,760	17,531
Fees paid to auditors, lawyers and consultants	14,483	36,805
Project studies, expert opinions, research and market developments	22,220	16,210
Other non-production services	96,543	77,910
Entertainment	7,586	10,277
Insurance premiums	16,343	15,593
Bank charges and fees	23,391	12,308
Membership fees	2,191	2,378
Taxes and contributions	27,424	56,338
Other non-material expenses	35,378	48,869
	<u>424,798</u>	<u>454,120</u>

**13. FINANCE INCOME**

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Income from dividends	35,200	140,799
Interest income from placements	186	1,598
Income from penalty interest	6,508	4,956
Foreign exchange gains	28,758	49,555
Other finance income	3,957	5,679
	<u>74,609</u>	<u>202,587</u>

**14. FINANCE EXPENSES**

	<b>Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Interest expense	179,460	162,724
Interest expenses related to the valuation of financial instruments	322	309
Foreign exchange losses	52,139	149,376
Other finance expenses	30,572	41,015
	<u>262,493</u>	<u>353,424</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**15. OTHER INCOME**

	<b>Year Ended</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
Gains on the disposal of property, plant and equipment and intangible assets	2,130	809,881
Gains on the sale of equity investments (Note 24)	261,149	138,683
Gains on the sale of materials	740	2,352
Surpluses	593	543
Reversal of allowance for impairment (Note 27)	2,729	1,607
Write-off of liabilities	3,909	2,529
Reversal of long-term provisions (Note 30)	2,712	11,813
Inventory take	-	79,729
Other income, not mentioned	53,858	49,461
	<u>327,820</u>	<u>1,096,598</u>

**16. OTHER EXPENSES**

	<b>Year Ended</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
Losses on the disposal of property, plant and equipment and intangible assets	1,365	644
Loss on sale of material	341	-
Shortages	215	193
Increase in allowance for impairment based on long-term placements, receivables and inventories	8,283	1,645
Inventory take	1,020	5,610
Other expenses, not mentioned	18,304	27,131
	<u>29,528</u>	<u>35,223</u>

**17. INCOME TAXES**

**a) Components of Income Taxes**

	<b>2009</b>	<b>2008</b>
Current income taxes	41,236	99,318
Deferred tax expense	6,342	6,049
	<u>47,578</u>	<u>105,367</u>

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

	<b>2009</b>	<b>2008</b>
Loss/Profit before tax	(172,320)	195,320
Income taxes at the statutory tax rate of 10%	(17,232)	19,532
Tax effects of non-deductible expenses	89,236	132,466
Tax credits for capital expenditures	(29,797)	(47,937)
Other	5,371	1,306
	<u>47,578</u>	<u>105,367</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**17. INCOME TAXES (Continued)**

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

Deferred tax assets and liabilities relate to the following positions:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
<b>Deferred tax assets</b>		
Deferred tax assets arising from a difference between the value of assets recorded for book and tax purposes	<u>18,036</u>	<u>18,015</u>
<b>Deferred tax liabilities</b>		
Deferred tax liabilities arising on difference between the value of assets recorded for book and tax purposes	<u>(127,963)</u>	<u>(122,572)</u>
Deferred tax assets, net	<u>(109,927)</u>	<u>(104,557)</u>

Deferred tax assets of RSD 127,963 thousand include tax liabilities arising from the appraisal of fixed assets of RSD 119,431 thousand.

**d) Deferred tax assets as of December 31, 2009**

<b>Inception Year</b>	<b>Expiration Year</b>	<b>Tax Credit</b>
- 2003	2013	1,382
- 2004	2014	1,073
- 2005	2015	781
- 2006	2016	9,047
- 2007	2017	29,174
- 2008	2018	72,399
- 2009	2019	<u>52,765</u>
		<u>166,621</u>

As of December 31, 2009, the Company did not recognize deferred tax assets arising from the earned tax credits that are available for carryforward, as the management was uncertain that these credits could be utilized in the future reporting periods.

**18. EARNINGS PER SHARE**

	<u>2009</u>	<u>2008</u>
Net profit	(219,898)	89,953
Weighted average number of shares in the year	<u>1,711,095</u>	<u>1,716,352</u>
Earnings per share (in RSD)	<u>(128.51)</u>	<u>52.41</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**19. 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, 2008	12,917	1,819	31,426	46,162
Additions	-	-	95,016	95,016
Transfers	5,316	264	(5,580)	-
Transfers from/(to) property, plant and equipment	4,507	-	(58,297)	(53,790)
Balance, December 31, 2008	<u>22,740</u>	<u>2,083</u>	<u>62,565</u>	<u>87,388</u>
Balance, January 1, 2009	22,740	2,083	62,565	87,388
Additions	2,076	1,107	47,960	51,143
Transfers	(5,313)	(1,917)	-	(7,230)
Other	-	-	(4,445)	(4,445)
Balance, December 31, 2009	<u>19,503</u>	<u>1,273</u>	<u>106,080</u>	<u>126,856</u>
<b>Accumulated Amortization</b>				
Balance, January 1, 2008	8,237	1,582	-	9,819
Charge for the year	2,573	294	-	2,867
Balance, December 31, 2008	<u>10,810</u>	<u>1,876</u>	<u>-</u>	<u>12,686</u>
Balance, January 1, 2009	10,810	1,876	-	12,686
Charge for the year	4,313	1,141	-	5,454
Disposal	(868)	(1,858)	-	(2,726)
Balance, December 31, 2009	<u>14,255</u>	<u>1,159</u>	<u>-</u>	<u>15,414</u>
<b>Net Book Value</b>				
- December 31, 2009	<u>5,248</u>	<u>114</u>	<u>106,080</u>	<u>111,442</u>
- December 31, 2008	<u>11,930</u>	<u>207</u>	<u>62,565</u>	<u>74,702</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**20. PROPERTY, PLANT AND EQUIPMENT**

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Construction in Progress</u>	<u>Leasehold Improvements</u>	<u>Total PP&amp;E</u>
<b>Cost</b>						
Balance, January 1, 2008	164,751	468,373	635,139	5,067	284,894	1,558,224
Additions	-	-			1,211,356	1,211,356
Activations and transfers	-	677,356	459,673	4,276	(1,141,305)	-
Transfers from/(to) intangible assets	-	43,013	15,284	-	(4,507)	53,790
Sale and disposal	(56,405)	(187,382)	(29,137)	-	(1,323)	(274,247)
Appraisal effect	5,389	1,188,935	-	-	-	1,194,324
Other	-	-	(4,920)	-	-	(4,920)
Balance, December 31, 2008	<u>113,735</u>	<u>2,190,295</u>	<u>1,076,039</u>	<u>9,343</u>	<u>349,115</u>	<u>3,738,527</u>
Balance, January 1, 2009	113,735	2,190,295	1,076,039	9,343	349,115	3,738,527
Charge for the year	-	-	-	-	741,814	741,814
Activations	8,713	521,441	337,780	14,975	(882,909)	-
Other	-	-	4,445	-	-	4,445
Sale and disposal	(37)	-	(20,144)	-	-	(20,181)
Balance, December 31, 2009	<u>122,411</u>	<u>2,711,736</u>	<u>1,398,120</u>	<u>24,318</u>	<u>208,020</u>	<u>4,464,605</u>
<b>Accumulated Depreciation</b>						
Balance, January 1, 2008	-	88,889	311,242	2,841	-	402,972
Charge for the year	-	13,022	68,242	772	-	82,036
Sale and disposal	-	(48,185)	(22,014)	-	-	(70,199)
Balance, December 31, 2008	<u>-</u>	<u>53,726</u>	<u>357,470</u>	<u>3,613</u>	<u>-</u>	<u>414,809</u>
<b>Accumulated Depreciation</b>						
Balance, January 1, 2009	-	53,726	357,470	3,613	-	414,809
Charge for the year	-	32,087	81,173	193	-	113,453
Sale and disposal	-	-	(3,595)	-	-	(3,595)
Balance, December 31, 2009	<u>-</u>	<u>85,813</u>	<u>435,048</u>	<u>3,806</u>	<u>-</u>	<u>524,667</u>
<b>Net Book Value</b>						
- December 31, 2009	<u>122,411</u>	<u>2,625,923</u>	<u>963,072</u>	<u>20,512</u>	<u>208,020</u>	<u>3,939,938</u>
- January 1, 2009	<u>113,735</u>	<u>2,136,569</u>	<u>718,569</u>	<u>5,730</u>	<u>349,115</u>	<u>3,323,718</u>

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

On the cadastral land lot number 3620, Cadastral Municipality of Pirot pertinent to the building of the Factory "Tehnička guma and gumeni reciklati" (the factory of technical rubber and rubber recycles) and on the land lot number 3390/4, building number 1 – the health care facility, the Company has instituted mortgage lien in favor of Hypo Alpe Adria Bank a.d. Beograd as collateral for a long-term loan indexed to a currency clause that was approved in the amount of EUR 2,500,000 (RSD 240,441 thousand) and a long-term loan indexed to a currency clause approved in the amount of EUR 400,000 (RSD 38,471 thousand) (Note 31).

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

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**December 31, 2009**

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

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

On the cadastral land lot number 493, the building of the hotel “Planinarski dom” and an ancillary building located on the land lot number 494/2, a pledge lien has been instituted in favor of AIK Banka a.d., Niš, as collateral for the regular repayment of a loan obtained in the amount of RSD 110,000 thousand.

On the cadastral land lot number 3390/4, building number 1- health care facility of the Cadastral Municipality of Pirot, a pledge lien has been instituted in favor of Hypo Alpe Adria Bank a.d. Beograd as collateral for the regular repayment of a loan indexed to a currency clause obtained in the amount of EUR 1,000,000 or RSD 96,176 thousand.

On the cadastral land lot number 5627 of the Cadastral Municipality of Temerin and number 429/9 of the Cadastral Municipality of Šimanovci (buildings and land), a pledge lien was instituted in favor of Banca Intesa a.d. Beograd, as collateral for short-term loans indexed to a currency clause aggregating to EUR 805,000 or RSD 77,191 thousand.

Against a six-bedroom apartment located in Belgrade, land lot number 4948 of the Cadastral Municipality of Vračar, a mortgage has been inscribed in favor of Hypo Alpe Adria Bank a.d. Beograd to collateralize the repayment of a loan indexed to a currency clause totaling EUR 500,000 or RSD 48,088 thousand.

Against business premises located in the towns of Kruševac, Bačka Palanka and Zrenjanin, a pledge lien has been registered in favor of Privredna banka a.d., Beograd based on short-term borrowings aggregating to RSD 45,885 thousand (Note 32).

**21. EQUITY INVESTMENTS**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
<i>Equity investments available-for-sale:</i>		
Equity investments in banks	153	136
Equity investments in other legal entities	12,998	12,362
	<u>13,151</u>	<u>12,498</u>
<i>Less: Allowance for impairment of equity investments (Note 27)</i>	<u>(1,481)</u>	<u>-</u>
	<u><u>11,670</u></u>	<u><u>12,498</u></u>

**22. OTHER LONG-TERM FINANCIAL PLACEMENTS**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Long-term loans to employees (housing loans)	47,658	51,138
Other long-term financial placements	<u>-</u>	<u>663</u>
	<u><u>47,658</u></u>	<u><u>51,801</u></u>

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**23. INVENTORIES**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Raw and other material	96,454	218,999
Spare parts	29,419	21,206
Work in progress	141,234	42,060
Finished products	845,292	695,385
Commercial goods	293,332	275,700
Advances paid	40,183	36,696
	<u>1,445,914</u>	<u>1,290,046</u>
<i>Less: Allowance for impairment of inventories (Note 27)</i>	<u>(3,286)</u>	<u>(465)</u>
	<u>1,442,628</u>	<u>1,289,581</u>

The breakdown of advances paid is presented in the table below:

	<b>Balance Sheet December 31, 2009</b>	<b>Income Statement 2008</b>
Advances paid to related parties	-	595
Advances paid to domestic suppliers	28,238	25,091
Advances paid to foreign suppliers	11,945	11,010
	<u>40,183</u>	<u>36,696</u>

**24. ASSETS HELD-FOR-SALE**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Assets acquired for sale	19,884	10,791
Učešće u Tigar Tyres d.o.o., Pirot	-	937,898
	<u>19,884</u>	<u>948,689</u>

In the year ended December 31, 2009, the Company executed the agreed-upon sale of 20% equity interest in the entity Tigar Tyres d.o.o, Pirot to the company Michelin, Netherlands and earned RSD 261,149 thousand (Note 15). Therefore, at December 31, 2009, the Company had no equity stake in Tigar Tyres d.o.o, Pirot.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**25. ACCOUNTS RECEIVABLE**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Accounts receivable –related parties	75,967	221,839
Accounts receivable – domestic	369,299	497,922
Accounts receivable – foreign	277,257	195,197
Prepaid taxes and contributions	269	405
Receivables from employees	32,098	37,402
Other receivables	7,535	7,783
	<u>762,425</u>	<u>960,548</u>
<i>Less: Bad debt provision (Note 27)</i>	<u>(35,359)</u>	<u>(42,010)</u>
	<u>727,066</u>	<u>918,538</u>

**26. CASH AND CASH EQUIVALENTS**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Cash in hand in dinars	6,369	12,834
Cash in hand in foreign currency	99	446
Business accounts in local currency	31,808	31,208
Business accounts in foreign currency	598,690	131,977
Other cash funds	52,871	65,857
Securities as cash equivalents	12,172	88
	<u>702,009</u>	<u>242,410</u>

**27. MOVEMENTS IN PROVISIONS**

	<b>Equity Investments</b>	<b>Inventories</b>	<b>Receivables</b>	<b>Total</b>
Balance, January 1, 2008	1,480	80,794	93,276	175,550
Collection of receivables previously provided for	-	-	(1,607)	(1,607)
Positive valuation effects	-	(79,729)	-	(79,729)
Charge for the year	-	-	1,645	1,645
Write-offs	(1,480)	(600)	(51,304)	(53,384)
	<u>-</u>	<u>465</u>	<u>42,010</u>	<u>42,475</u>
Balance, December 31, 2008	-	465	42,010	42,475
Balance, January 1, 2009	-	465	42,010	42,475
Valuations (Note 15)	-	(70)	(2,659)	(2,729)
Charge for the year (Note 16)	1,481	2,891	3,911	8,283
Write-offs	-	-	(7,903)	(7,903)
	<u>1,481</u>	<u>3,286</u>	<u>35,359</u>	<u>40,126</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**28. VALUE ADDED TAX AND PREPAYMENTS**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
VAT receivables	15,371	46,246
Accrued income	255	180
Prepaid expenses	806	918
Other prepayments	98,407	28,529
	<u>114,839</u>	<u>75,873</u>

In the Rules on Amendments and Supplements to the Rules on the Chart of Account, which came in effect as of January 29, 2010 (Official Gazette of RS, number 4/10), the Ministry of Finance made it optional for foreign exchange gains and losses to be stated within income and expenses. Therefore, the Company stated net effects of accumulated foreign exchange gains and losses within other prepayments/accruals as amounting to RSD 63,880 thousand.

**29. SHARE CAPITAL**

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

	<b>Number of Shares</b>	<b>%</b>	<b>RSD ‘000</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	123,132	7%	147,758
Societe Generale Banka Srbija a.d., Beograd	86,463	5%	103,756
Erste Bank Custody	83,788	5%	100,546
Raiffeisen Bank, Vienna	45,073	3%	54,088
STICHTING SHELL PENSIONENFONDS	23,970	1%	28,764
Societe Generale Banka Srbija a.d., Beograd	23,583	1%	28,300
Uni credit bank Custody	18,500	1%	22,200
Kompanija Dunav Osiguranje a.d.o., Beograd	17,120	1%	20,544
Other	717,421	42%	860,904
	<u>1,718,460</u>	<u>100%</u>	<u>2,062,152</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**29. SHARE CAPITAL (Continued)**

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

	<u>Number of Shares</u>	<u>%</u>	<u>RSD ‘000</u>
Share Fund of the Republic of Serbia	429,429	25%	515,315
Pension and Disability Fund of the Republic of Serbia	149,981	9%	179,977
ARTIO INT. EQUITZ FUND	120,801	7%	144,961
Raiffeisen Bank, Vienna	108,304	6%	129,965
Societe Generale Banka Srbija a.d., Beograd	43,560	3%	52,272
Erste Bank Custody	42,317	2%	50,780
STICHTING SHELL PENSIONENFONDS	23,970	1%	28,764
Societe Generale Banka Srbija a.d., Beograd	23,496	1%	28,195
Uni credit bank Custody	17,000	1%	20,400
Other	737,645	44%	885,175
	<u>1,696,503</u>	<u>99%</u>	<u>2,035,804</u>
Treasury shares repurchased	21,957	1%	26,348
	<u><u>1,718,460</u></u>	<u><u>100%</u></u>	<u><u>2,062,152</u></u>

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

**30. LONG-TERM PROVISIONS**

Long-term provisions stated in the consolidated balance sheet as of December 31, 2009 amounting to RSD 78,632 thousand (December 31, 2008: RSD 81,891 thousand) entirely relate to provisions for employee benefits – retirement benefits and jubilee awards.

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

	<u>2009</u>	<u>2008</u>
Nominal discount rate	8.5%	12%
Expected rate of salary growth	5%	2%

The amounts included in the consolidated balance sheet with respect to a defined benefit plan are as follows:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Balance, January 1	81,891	73,251
Additional provisions	29,564	3,898
Reversal of long-term provisions	(2,712)	(11,813)
Employee retirement benefits	(30,112)	-
Other changes	-	16,555
Balance, December 31	<u><u>78,631</u></u>	<u><u>81,891</u></u>

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

**31. LONG-TERM LIABILITIES**

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Long-term borrowings in foreign currency	1,246,905	693,439
Finance lease liabilities	28,881	41,240
	<u>1,275,786</u>	<u>734,679</u>
<i>Less:</i> Current portions of long-term borrowings	<u>(126,708)</u>	<u>(55,661)</u>
	<u><u>1,149,078</u></u>	<u><u>679,018</u></u>

**a) Long-term borrowings**

<u>Creditor</u>	<u>Interest Rate</u>	<u>Currency Code</u>	<u>Amount</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
<b>Refinanced foreign currency loans via Alpha banka A.D., Beograd:</b>					
Berliner Bank A.G., Berlin	5.5 % p.a.	EUR	327,760	31,428	33,403
Algemene bank Netherlands, Amsterdam	5.6 % p.a.	EUR	1,128,151	108,177	114,974
The First National Bank, Chicago	5.5 % p.a.	USD	1,099,198	73,348	79,529
				<u>212,953</u>	<u>227,906</u>
DEG Germany GM Eurobor	6 M EURIBOR + 2.875% p.a.	EUR	7,000,000	671,222	443,005
Banca Intesa a.d. Beograd	10% p.a.	EUR	750,000	71,916	-
Hypo Alpe Adria Bank a.d. Beograd	3M EURIBOR+7% p.a.	EUR	2,500,000	240,441	-
Hypo Alpe Adria Bank a.d. Beograd	3M EURIBOR+8% p.a.	EUR	400,000	38,471	-
Other borrowings				11,902	22,528
				<u>1,246,905</u>	<u>693,439</u>
Current portion of long-term borrowings				<u>(114,497)</u>	<u>(40,632)</u>
				<u><u>1,132,408</u></u>	<u><u>652,807</u></u>

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

	<u>2009</u>	<u>2008</u>
- within one year	114,497	40,632
- from two to five years	880,700	375,929
- over five years	251,708	276,878
	<u>1,246,905</u>	<u>693,439</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**b) Finance lease liabilities**

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
<i>Maturity:</i>				
Up to one year	13,685	17,898	12,211	15,029
From 1 to 5 years	17,084	29,121	16,670	26,211
	<u>30,769</u>	<u>47,019</u>	<u>28,881</u>	<u>41,240</u>
<i>Less: future cost of financing</i>	(1,888)	(5,779)	-	-
Present value of minimum lease payments	<u>28,881</u>	<u>41,240</u>	<u>28,881</u>	<u>41,240</u>
Included in the financial statements as:				
Current portion of long-term liabilities			12,211	15,029
Other long-term liabilities			<u>16,670</u>	<u>26,211</u>
			<u>28,881</u>	<u>41,240</u>

**32. SHORT-TERM FINANCIAL LIABILITIES**

	December 31, 2009	December 31, 2008
Short-term loans in dinars linked to EUR	797,378	421,823
Short-term borrowings in local currency	334,040	706,517
Borrowings against current accounts	79,055	-
Short-term bonds issued	95,000	-
Current portions of long-term financial liabilities (Note 31)	<u>126,708</u>	<u>55,661</u>
	<u>1,432,181</u>	<u>1,184,001</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

32. SHORT-TERM FINANCIAL LIABILITIES (Continued)

Domestic Short-Term Loans

Creditor	Interest Rate	Maturity Period	Currency		December 31, 2009	December 31, 2008
			Code	Amount		
<i>Loans in foreign currency</i>						
Banca Intesa a.d. Beograd	10% p.a.	1 years	EUR	500,000	47,944	-
Banca Intesa a.d. Beograd	9.8% p.a.	6 months	EUR	-	-	49,700
Banca Intesa a.d. Beograd	10% p.a.	1 years	EUR	305,000	29,247	-
Export Credit and Insurance Agency	5% p.a.	6 months	EUR	450,000	43,150	-
Export Credit and Insurance Agency	6m EURIBOR + 2% p.a.	6 months	EUR	200,000	-	17,720
Export Credit and Insurance Agency	4% p.a.	6 months	EUR	200,000	-	44,300
Unicredit banka a.d., Beograd	5.5% p.a.	1 years	EUR	1,000,000	95,889	-
Unicredit banka a.d., Beograd	5.5% p.a.	1 years	EUR	750,000	71,916	-
Unicredit banka a.d., Beograd	5.5% p.a.	1 years	EUR	500,000	47,944	-
Unicredit banka a.d., Beograd	1m EURIBOR+3.9% p.a.	1 years	EUR	1,000,000	-	88,601
Unicredit banka a.d., Beograd	1m EURIBOR+3.9% p.a.	1 years	EUR	1,500,000	-	132,902
	3m EURIBOR +4.45% p.a.					
Societe Generale a.d. Beograd	p.a.	1 years	EUR	1,000,000	-	88,600
	3m EURIBOR+4.5% p.a.					
Societe Generale a.d. Beograd	p.a.	5 months	EUR	1,300,000	125,029	-
	3m EURIBOR+4.5% p.a.					
Societe Generale a.d. Beograd	p.a.	4 months	EUR	750,000	72,133	-
	6m EURIBOR+6.5% p.a.					
Hypo Alpe Adria Bank a.d. Beograd	p.a.	1 years	EUR	1,000,000	96,176	-
Hypo Alpe Adria Bank a.d. Beograd	3% p.a.	1 years	EUR	666,667	63,927	-
Hypo Alpe Adria Bank a.d. Beograd	3% p.a.	1 years	EUR	583,333	55,935	-
Hypo Alpe Adria Bank a.d. Beograd	3m EURIBOR+7% p.a.	1 years	EUR	500,000	48,088	-
					797,378	421,823
<i>Loans in dinars:</i>						
AIK Banka a.d., Niš	1,2% p.m.	1 years	RSD		110,000	-
AIK Banka a.d., Niš	1,8% p.m.	6 months	RSD		-	80,000
AIK Banka a.d., Niš	1,9% p.m.	6 months	RSD		-	40,000
AIK Banka a.d., Niš	2% p.m.	6 months	RSD		-	30,000
	Referent rate					
Moskovska banka ad Beograd	NBS+5% p.a.	1 years	RSD		42,056	-
Moskovska banka ad Beograd	1,65% p.m.	6 months	RSD		-	112,000
Banca Intesa a.d., Beograd	3m BELIBOR+2.2% p.a.	1 years	RSD		120,000	-
Banca Intesa a.d., Beograd	1% p.m.	1 years	RSD		-	120,000
Banca Intesa a.d., Beograd	1% p.m.	1 years	RSD		-	282,000
Banca Intesa a.d., Beograd	3m BELIBOR+1% p.a.	1 years	RSD		-	25,000
Privredna banka a.d., Beograd	17% p.a.	1 years	RSD		36,000	-
Other					25,984	17,517
					334,040	706,517
<i>Borrowings against current accounts:</i>						
	1m BELIBOR + 1.25% p.a.					
Unicredit banka a.d., Beograd	p.a.		RSD		8,682	-
Privredna banka a.d., Beograd	1.58% p.m.		RSD		9,885	-
AIK Banka a.d., Niš	2.2% p.m.		RSD		44,244	-
Banca Intesa a.d., Beograd	3m BELIBOR +3% p.a.		RSD		16,244	-
					79,055	-
<i>Short-term bonds issued</i>						
Dunav osiguranje a.d. Beograd	16% p.a.		RSD		95,000	-
					1,305,473	1,128,340

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**32. SHORT-TERM FINANCIAL LIABILITIES (Continued)**

**Domestic Short-Term Loans (Continued)**

Note 20 discloses collaterals of the Company’s short-term borrowings.

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

**33. ACCOUNTS PAYABLE**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Accounts payable – related parties	164,646	392,431
Advances, deposits and retainers	-	5,962
Accounts payable – domestic	196,105	274,205
Accounts payable – foreign	249,107	152,732
Other accounts payable	5,274	16,299
Uninvoiced accounts payable	23,979	37,918
	<u>639,111</u>	<u>879,547</u>

**34. OTHER CURRENT LIABILITIES**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Gross salaries	120,983	120,123
Interest accrued	11,229	3,880
Liabilities for dividends and share in profit	12,885	8,535
Other current liabilities	6,039	7,281
	<u>151,136</u>	<u>139,819</u>

**35. VAT AND OTHER PUBLIC DUTIES PAYABLE AND ACCRUALS**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
VAT payables	19,741	17,287
Other taxes and contributions payable	760	19,790
Accrued expenses	17,002	6,731
Future period accrued income	1,149	3,609
Other accruals	4,482	2,761
	<u>43,134</u>	<u>50,178</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**36. 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 and short-term borrowings explained in Notes 30 and 31, other long-term liabilities, cash and cash equivalents and equity attributed to owners which entails share capital, other capital, reserves, as well as retained earnings. Based on such review, the Company balances the equity structure through the payment of dividends, new long-term investments, as well as by obtaining new borrowings and repurchase of the existing ones.

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

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

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Indebtedness a)	2,581,259	1,863,019
Cash and cash equivalents	<u>(702,009)</u>	<u>(242,410)</u>
Net indebtedness	<u>1,879,250</u>	<u>1,620,609</u>
Equity b)	<u>3,514,083</u>	<u>3,745,192</u>
Debt to equity ratio	<u>0.53</u>	<u>0.43</u>

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

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

**Significant Accounting Policies Regarding Financial Instruments**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**Categories of Financial Instruments**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
<b>Financial assets</b>		
Long-term financial placements	59,328	64,299
Assets held for sale	-	937,898
Accounts receivable	694,968	872,948
Cash and cash equivalents	702,009	242,410
Short-term financial placements	5,736	737
	<u>1,462,041</u>	<u>2,118,292</u>
<b>Financial liabilities</b>		
Long-term borrowings	1,149,078	679,018
Accounts payable	615,132	857,286
Current portion of long-term borrowings	125,985	55,661
Short-term borrowings	1,306,196	1,128,340
	<u>3,196,391</u>	<u>2,720,305</u>

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

**Objectives of Financial Risk Management**

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

**Market Risk**

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

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

**Foreign Currency Risk**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**Market risk (Continued)**

**Foreign Currency Risk (Continued)**

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

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

	Assets		Liabilities	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
EUR	626,714	160,300	1,957,668	1,049,709
USD	469	40,402	75,437	91,537
GBP	10,533	206,733	7,105	95,607
CHF	-	27	-	-
	<u>637,716</u>	<u>407,462</u>	<u>2,040,210</u>	<u>1,236,853</u>

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

	December 31, 2009	December 31, 2008
EUR	133,096	88,941
USD	7,496	5,114
CHF	-	(3)
GBP	(343)	(11,113)
Profit/Loss	<u>140,249</u>	<u>82,939</u>

The Company’s sensitivity to the movements in foreign currency increased in the current period, primarily as a consequence of nominal increase of liabilities stated in EUR, mostly long-term loans (Note 31).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

**36. 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, 2009</b>	<b>December 31, 2008</b>
<b>Financial Assets</b>		
<i>Non-interest bearing</i>		
Long-term financial placement	11,670	13,161
Assets held for sale	-	937,898
Accounts receivable	694,968	872,948
Cash and cash equivalents	658,859	199,161
Short-term financial placements	5,736	737
	<u>1,371,233</u>	<u>2,023,905</u>
<i>Fixed interest rates</i>		
Long-term financial placement	47,658	51,138
Cash and cash equivalents	43,150	43,249
	<u>90,808</u>	<u>94,387</u>
	<u>1,462,041</u>	<u>2,118,292</u>
<b>Financial liabilities</b>		
<i>Non-interest bearing</i>		
Accounts payable	615,132	857,286
	<u>615,132</u>	<u>857,286</u>
<i>Fixed interest rates</i>		
Long-term borrowings	217,666	215,968
Short-term borrowings	674,171	800,516
Current portion of long-term borrowings	102,207	36,786
	<u>994,044</u>	<u>1,053,270</u>
<i>Variable interest rates</i>		
Long-term borrowings	931,412	463,050
Short-term borrowings	632,025	327,824
Current portions of long-term borrowings	23,778	18,875
	<u>1,587,215</u>	<u>809,749</u>
	<u>3,196,391</u>	<u>2,720,305</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**Market Risk (Continued)**

***Interest Rate Risk (Continued)***

The sensitivity analyses presented in the following text have been established based on the Company’s exposure to interest rate risk inherent in non-derivative instruments as of the balance sheet date. For the liabilities with variable interest rate, the analysis has been prepared under the assumption that the outstanding balance of assets and liabilities as of the balance sheet date remained constant throughout the year. The increase or decrease in interest rates of 1% represents the fluctuation reasonably anticipated by the management. Had the interest rates been 1 percentage point higher and other variables remained unchanged, the Company would have incurred a loss in the year ended December 31, 2009 in the amount of RSD 15,872 thousand (December 31, 2008: RSD 8,097 thousand). Such situation is attributed to the Company’s exposure arising from the variable interest rates applied to long-term and short-term borrowings.

**Credit Risk**

***Managing Accounts Receivable***

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

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

	<u>Gross Exposure</u>	<u>Allowance for Impairment</u>	<u>Net Exposure</u>
Accounts receivable, not matured	412,142	-	412,142
Accounts receivable matured and provided for	35,359	(35,359)	-
Accounts receivable matured, but not provided for	282,826	-	282,826
	<u>730,327</u>	<u>(35,359)</u>	<u>694,968</u>

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**Credit Risk (Continued)**

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

*Accounts Receivable, not Matured*

Accounts receivable, not matured as of December 31, 2009 in the amount of RSD 412,142 thousand (December 31, 2008: RSD 462,809 thousand) mostly refer to accounts receivable arising from the sale of products and services.

*Accounts Receivable Matured and Provided for*

In the previous periods, the Company calculated an allowance for impairment of matured receivables in the amount of RSD 35,359 thousand (December 31, 2008: RSD 42,010 thousand) due from those customers whose creditworthiness has changed and which will not be collected in full.

***Managing Accounts Payable***

Accounts payable as of December 31, 2009 were stated in the amount of RSD 615,132 thousand, and are associates with the acquisition of material and services. These suppliers do not charge penalty against matured liabilities, whereas the Company duly settles accounts payable, as in accordance with financial risk management policies.

**Liquidity Risk**

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

***Tables of Liquidity and Credit Risk***

The following tables give the details of outstanding contractual maturities of assets of the Company. The amounts presented are based on the undiscounted cash flows arising from financial assets based on the earliest date upon which the Company will be able to collect such receivables.

*Maturities of Financial Assets*

	<b>December 31, 2009</b>					
	<b>Less than One Month</b>	<b>From 1 to 3 Months</b>	<b>From 3 Months to 1 Year</b>	<b>From 1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
Non-interest bearing	1,191,077	146,351	1,976	31,829	-	1,371,233
Fixed interest rate	-	1,104	31,682	17,090	40,932	90,808
	<u>1,191,077</u>	<u>147,455</u>	<u>33,658</u>	<u>48,919</u>	<u>40,932</u>	<u>1,462,041</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2009**

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

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

**Liquidity Risk (Continued)**

*Tables of Liquidity and Credit Risk (Continued)*

*Maturities of Financial Assets (Continued)*

	December 31, 2008					
	Less than One Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Non-interest bearing	1,015,194	523,479	-	481,447	-	2,020,120
Fixed interest rate	43,249	-	3,785	21,496	29,642	98,172
	<u>1,058,443</u>	<u>523,479</u>	<u>3,785</u>	<u>502,943</u>	<u>29,642</u>	<u>2,118,292</u>

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

*Maturities of Financial Liabilities*

	December 31, 2009					
	Less than One Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Non-interest bearing	341,839	173,152	100,132	9	-	615,132
Fixed interest rate	1,629	334,889	537,081	219,849	-	1,093,448
Variable interest rate	32	430,503	297,200	707,738	251,708	1,687,181
	<u>343,500</u>	<u>938,544</u>	<u>934,413</u>	<u>927,596</u>	<u>251,708</u>	<u>3,395,761</u>

	December 31, 2008					
	Less than One Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Non-interest bearing	779,456	77,830	-	-	-	857,286
Fixed interest rate	56,288	525,742	341,837	274,700	-	1,198,567
Variable interest rate	17,720	11,577	356,962	303,101	310,560	999,920
	<u>853,464</u>	<u>615,149</u>	<u>698,799</u>	<u>577,801</u>	<u>310,560</u>	<u>3,055,773</u>

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**36. 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, 2009 and 2008.

	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b>Financial Assets</b>				
Long-term financial placements	59,328	44,353	64,299	53,849
Assets held for sale	-	-	937,898	1,199,047
Accounts receivable	694,968	694,968	872,948	872,948
Cash and cash equivalents	702,009	702,009	242,410	242,410
Short-term financial placements	5,736	5,736	737	737
	<u>1,462,041</u>	<u>1,447,066</u>	<u>2,118,292</u>	<u>2,368,991</u>
<b>Financial Liabilities</b>				
Long-term borrowings	1,149,078	1,038,621	679,018	568,561
Account payable	615,132	615,132	857,286	857,286
Current portion of long-term borrowings	125,985	166,899	55,661	96,575
Short-term borrowings	1,306,196	1,306,196	1,128,340	1,128,340
	<u>3,196,391</u>	<u>3,126,848</u>	<u>2,720,305</u>	<u>2,650,762</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.

**37. OPERATING LEASE**

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

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

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



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**38. EXCHANGE RATES**

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

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