

TIGAR A.D., PIROT

**Consolidated Financial Statements
Year Ended December 31, 2010 and
Independent Auditors' Report**

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements (pages 2 to 40) of "Tigar" A.D., Pirot and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as at December 31, 2010, 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 of these consolidated financial statements in accordance with the accounting regulations of the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 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 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.

Opinion

In our opinion, the consolidated financial statements of "Tigar" A.D., Pirot and its subsidiaries for the year ended December 31, 2010 have been prepared, in all material respects, in accordance with the accounting regulations of the Republic of Serbia.

Belgrade, May 3, 2011

Žarko Mijović
Certified Auditor

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2010
(thousands of RSD)

	Notes	2010	2009
OPERATING INCOME			
Sales of goods, products and services	5	4,288,191	3,349,344
Own work capitalized	7	743,239	441,254
Increase in the value of inventories		89,828	57,463
Other operating income	8	<u>39,624</u>	<u>32,684</u>
		<u>5,160,882</u>	<u>3,880,745</u>
OPERATING EXPENSES			
Cost of commercial goods sold		(902,193)	(914,976)
Cost of material	9	(1,563,187)	(1,174,529)
Staff costs	10	(1,611,720)	(1,500,700)
Depreciation, amortization and provisions	11	(187,982)	(148,471)
Other operating expenses	12	<u>(624,515)</u>	<u>(424,798)</u>
		<u>(4,889,597)</u>	<u>(4,163,474)</u>
OPERATING PROFIT/(LOSS)		<u>271,285</u>	<u>(282,729)</u>
Finance income	13	72,209	74,609
Finance expenses	14	(391,035)	(262,493)
Other income	15	74,505	327,820
Other expenses	16	<u>(46,648)</u>	<u>(29,528)</u>
LOSS BEFORE TAXATION		<u>(19,684)</u>	<u>(172,320)</u>
Income taxes:			
- Current income tax expense	17	(31,088)	(41,236)
- Deferred income tax expense		<u>(6,349)</u>	<u>(6,342)</u>
NET LOSS FOR THE YEAR		<u>(57,121)</u>	<u>(219,898)</u>
Net loss attributable to:			
- Majority shareholders		(62,560)	(222,571)
- Non-controlling shareholders		<u>5,439</u>	<u>2,673</u>
Loss per share in RSD		<u>(33.24)</u>	<u>(128.51)</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, 2011 by the management of Tigar A.D.,
Pilot.

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

Dragan Nikolić
General Manager

Aleksandra Lilić
Preparer of Financial Statements

CONSOLIDATED BALANCE SHEET
As of December 31, 2010
(thousands of RSD)

	Notes	2010	2009
ASSETS			
Non-current assets			
Intangible assets	19	398,125	111,442
Property, plant and equipment	20	4,288,114	3,939,938
Equity investments	21	11,819	11,670
Other long-term financial placements	22	45,468	47,658
		<u>4,743,526</u>	<u>4,110,708</u>
Current assets			
Inventories	23	1,823,646	1,442,628
Non-current assets held-for-sale	24	20,039	19,884
Accounts receivable	25	903,162	727,066
Receivables for prepaid income taxes		7,097	14,303
Short-term financial placements		4,986	5,736
Cash and cash equivalents	26	369,524	702,009
Value added tax and prepayments	28	327,267	114,839
Deferred tax assets	17	21,305	18,036
		<u>3,477,026</u>	<u>3,044,501</u>
Total assets		<u><u>8,220,552</u></u>	<u><u>7,155,209</u></u>
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	29	2,062,152	2,062,152
Reserves		941	207,925
Revaluation reserves		1,051,401	1,074,215
(Accumulated loss)/Retained earnings		197,134	85,934
Translation reserves		26,868	34,127
Capital attributable to majority shareholders		3,338,496	3,464,353
Non-controlling interest		55,169	49,730
		<u>3,393,665</u>	<u>3,514,083</u>
Long-term provisions and liabilities			
Long-term provisions	30	83,087	79,861
Long-term liabilities	31	1,729,282	1,149,078
		<u>1,812,369</u>	<u>1,228,939</u>
Current liabilities			
Short-term financial liabilities	32	1,716,210	1,432,181
Accounts payable	33	851,145	639,111
Other current liabilities	34	183,926	151,136
Value added tax and other public duties payable and accruals	35	110,455	43,134
Income taxes payable		18,086	18,662
		<u>2,879,822</u>	<u>2,284,224</u>
Deferred tax liabilities	17	134,696	127,963
Total equity and liability		<u><u>8,220,552</u></u>	<u><u>7,155,209</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, 2010
(thousands of RSD)

	Share Capital	Reserves	Revaluation Reserves	(Accumulate d Loss)/ Retained Earnings	Repurchased Treasury Shares	Share Premium	Translation Reserves	Capital Attributable to Majority Shareholders	Non- Controlling Interest	Total
Balance January 1, 2009	2,062,152	575,488	1,086,061	(6,198)	(26,018)	13,781	(7,131)	3,698,135	47,057	3,745,192
Treasury shares sold	-	-	-	-	26,018	(11,107)	-	14,911	-	14,911
Dividends paid to shareholders	-	-	-	(56,709)	-	-	-	(56,709)	-	(56,709)
Transfer	-	(368,738)	-	371,412	-	(2,674)	-	-	-	-
Effects of foreign currency fluctuations	-	-	-	-	-	-	34,127	34,127	-	34,127
(Loss)/profit for the year	-	-	-	(222,571)	-	-	-	(222,571)	2,673	(219,898)
Other	-	1,175	(11,846)	-	-	-	7,131	(3,540)	-	(3,540)
Balance, December 31, 2009	2,062,152	207,925	1,074,215	85,934	-	-	34,127	3,464,353	49,730	3,514,083
Balance January 1, 2010	2,062,152	207,925	1,074,215	85,934	-	-	34,127	3,464,353	49,730	3,514,083
Dividends paid to shareholders	-	-	-	(37,894)	-	-	-	(37,894)	-	(37,894)
Transfer	-	(206,215)	-	206,215	-	-	-	-	-	-
Effects of foreign currency fluctuations	-	-	-	-	-	-	(7,259)	(7,259)	-	(7,259)
(Loss)/profit for the year	-	-	-	(62,560)	-	-	-	(62,560)	5,439	(57,121)
Other	-	(769)	(22,814)	5,439	-	-	-	(18,144)	-	(18,144)
Balance, December 31, 2010	2,062,152	941	1,051,401	197,134	-	-	26,868	3,338,496	55,169	3,393,665

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

CONSOLIDATED CASH FLOW STATEMENT
Year Ended December 31, 2010
(thousands of RSD)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	4,216,087	3,566,305
Interest receipts	3,877	6,508
Other receipts from operating activities	61,589	60,614
Cash paid to suppliers	(3,066,000)	(2,711,764)
Gross salaries and other staff costs paid	(1,624,709)	(1,528,723)
Interest paid	(256,169)	(202,683)
Income taxes payable	(21,235)	(120,615)
Other public duties payable	(186,118)	(152,640)
<i>Net cash used in operating activities</i>	<u>(872,678)</u>	<u>(1,082,998)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of shares and equity investments (net inflows)	-	1,212,338
Sale of property, plant and equipment	17,986	100
Interest received	8,507	4,144
Dividends received	72	35,199
Purchases of property, plant and equipment	(177,269)	(349,565)
<i>Net cash (used in)/provided by investing activities</i>	<u>(150,704)</u>	<u>902,216</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term and short-term loans (net inflows)	466,040	693,411
Other long-term and short-term liabilities	243,763	-
Repurchase of treasury shares and equity investments	-	17,641
Finance lease payments	(15,129)	(18,178)
Dividends paid	(34,083)	(52,359)
<i>Net cash provided by financing activities</i>	<u>660,591</u>	<u>640,515</u>
NET CASH INCREASE	-	459,733
NET CASH DECREASE	(362,791)	-
Cash and cash equivalents at beginning of year	702,009	242,410
Foreign exchange gains/(losses) on translation of cash and cash equivalents, net	<u>30,306</u>	<u>(134)</u>
Cash and cash equivalents at end of year	<u><u>369,524</u></u>	<u><u>702,009</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, 2010

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 through the establishment of an industrial workshop 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, 2010, the Parent Company had 213 employees (December 31, 2009: 206 employees), whereas the entire Tigar Group employed 2,026 people (December 31, 2009: 2,126 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, 2010

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:

	% Equity Interest
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 Poslovni servis d.o.o., Pirot	100.00%
6 Tigar Tours d.o.o., Pirot	100.00%
7 Tigar Obezbeđenje d.o.o., Pirot	100.00%
8 Tigar Zaštitna radionica d.o.o., Pirot	100.00%
9 Tigar Inter Risk d.o.o., Pirot	100.00%
10 Tigar Inkon d.o.o., Pirot	100.00%
11 Slobodna Zona Pirot A.D., Pirot	75.06%
12 Tigar Montenegro d.o.o., Podgorica, Montenegro	80.00%
13 Tigar Patner d.o.o., Skopje, Republic of Macedonia	70.00%
14 D.O.O. Tigar Trejd, Banja Luka, Republic of Srpska	70.00%
15 Tigar Americas Jacksonville, Florida, USA	100.00%
16 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 and no. 111 as of December 29, 2009), legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the “Framework”), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards which were in effect as at December 31, 2002.

The amendments to IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”), in the period between December 31, 2002 and January 1, 2009, 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 77 of October 25, 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

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

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

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. 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, no. 9 as of February 6, 2009 and no. 4 as of January 29, 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 in issue, but not yet officially translated and adopted and standards and interpretations in issue but not yet in effect are disclosed in Notes 2.3 and 2.4.

- pursuant to the Opinion of the Ministry issued on January 22, 2009, transfer of rights of handling and using property from a parent company to its subsidiary, as a means of increasing capital, has the character of transfer and/or disposal. Also, according to the aforementioned Ministry's opinion, the difference between the appraised value of property, based on which the value of additional equity stake of the parent company is determined, and its carrying value included the business books of the parent, is credited to income of the period. The aforementioned accounting treatment is a departure from IAS 16 “Property, Plant and Equipment,” which requires that: 1) the revaluation result be attributed directly to equity to the position of revaluation reserves, i.e. that it be recognized within income presented in the income statement up to the amount of reversal of revaluation reserves accumulated for that asset and previously recognized within expenses; also 2) revaluation reserves which are a component part of equity relating to property, plant and equipment may be transferred directly to retained earnings, once the asset is derecognized. In addition, income recognition applied in the accompanying financial statements that is in accordance with the aforementioned opinion, departs from the requirements of IAS 18 “Revenues.”
- 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 24, 2011, in preparing the annual consolidated financial statements as of and for the year ended December 31, 2010, 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 25). 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 2010 and 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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

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

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

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, 2010:

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);
- Amendments to IFRS 1 “First-time Adoption of IFRS” – Additional Exemptions for First-time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);
- Amendments to IAS 38 “Intangible Assets” (revised in July 2009, effective for annual periods beginning on or after July 1, 2009);
- Amendments to IFRS 2 “Share-based Payment”: Amendments resulting from the Annual quality improvement project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments IFRIC 9 “Reassessment of Embedded Derivatives” effective for annual periods beginning on or after July 1, 2009 and IAS 39 “Financial Instruments: Recognition and Measurement” – Embedded Derivatives (effective for annual periods ending on or after June 30, 2009);
- IFRIC 18 “Transfers of Assets from Customers” (effective for annual periods ending on or after July 1, 2009).

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:

- “Conceptual Framework for Financial Reporting 2010” being an amendments to “Framework for the Preparation and Presentation of Financial Statements” (effective for transfer of assets from customers received on or after September 2010);
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfer of Financial Assets (effective for annual periods beginning on or after July 1, 2011);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

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

- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);
- 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 32 “Financial Instruments: Presentation” – Accounting for rights issues (effective for annual periods beginning on or after February 1, 2010);
- Amendments to various standards and interpretations “Improvements to IFRSs” resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) 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, 2011);
- 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);

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 sales taxes.

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

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

3.2. Interest Income and Expense

Interest income and expense, including penalty and other income and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Employee Benefits

a) 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.

b) 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, the Company is under obligation to pay jubilee awards for 20 and 30 years of service with the Company and upon his/her retirement, payable in gold coins of 3, 6 and 9 grams of gold.

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

3.5. Taxes and Contributions

a) 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 for a duration of no longer than five ensuing years. Tax losses incurred prior to January 1, 2010 are available for carryforward and may be utilized against future profits for a period of ten years.

a) 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.

b) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

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

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

In 2010, the Parent Company appraised the value of buildings transferred to subsidiaries as contribution in kind. The effects of appraising buildings that were not subject to valued in prior years is credited to profit of the period.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Impairment of Tangible Assets

At each balance sheet date, the Company's management reviews the carrying amounts of the Company's tangible 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, 2010, according to the Company's management, there were no indications of impairment in property, plant and equipment and intangible assets.

3.9. Leases

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.

The Company as a Lessor

Lease income from operating leases (rentals) is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight line basis over the lease term.

The Company as a Lessee

Assets held under finance leases are initially recognized as the assets of the Company at the present value of the minimum lease payments, which is determined at the inception of the particular lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease liability.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs (Note 3.2).

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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 investments in banks and other legal entities.

Equity investments available 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 cost 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, 2010

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

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. 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.

4.4. Fair Value

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

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

5. SALES OF GOODS, PRODUCTS AND SERVICES

	Year Ended December 31,	
	2010	2009
Sale on domestic market		
Sales of products and services on domestic market	1,586,456	1,170,686
Sale of goods on domestic market	344,705	526,061
Sale on foreign market		
Sales of products and services on foreign markets	1,356,230	798,579
Sale of goods on foreign markets	1,000,800	854,018
	<u>4,288,191</u>	<u>3,349,344</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

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 tires.

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

Segment Sales Revenues

	External sales		Inter-segment		Total	
	2010	2009	2010	2009	2010	2009
Rubber products	35,969	22,564	430,611	144,758	466,580	167,322
Chemical products	183,856	178,700	(15,814)	84,487	168,042	263,187
Shoes	1,362	26,823	1,241,520	959,091	1,242,882	985,914
Trade	3,317,923	2,522,461	1,098,768	635,670	4,416,691	3,158,131
Services	682,161	747,525	199,498	31,625	881,659	779,150
Parent Company	66,920	69,767	510,510	172,249	577,430	242,016
Total					7,753,284	5,595,720
Eliminations					(3,465,093)	(2,246,376)
Consolidated sales revenue					<u>4,288,191</u>	<u>3,349,344</u>

Segment Result

	Year Ended December 31,	
	2010	2009
Rubber products	(30,951)	(77,117)
Chemical products	(58,036)	11,507
Shoes	6,891	40,889
Trade	34,192	46,652
Services	30,138	43,609
Holding	78,281	145,279
Total of all segments	60,515	210,819
Eliminations	(83,479)	(383,139)
Profit before tax	<u>19,684</u>	<u>172,320</u>
Income tax expense	31,088	41,236
Deferred income tax	6,349	6,342
Net (loss)for the year	<u>(57,121)</u>	<u>(219,898)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Rubber products	1,120,619	871,259	820,247	539,938
Chemical products	271,303	193,806	140,271	96,156
Shoes	2,557,679	2,044,401	1,692,949	1,186,306
Trade	2,973,506	2,110,861	2,459,189	1,517,068
Services	887,855	635,754	378,858	246,539
Holding	4,278,197	3,997,792	1,448,936	1,341,129
Total of all segments	12,089,159	9,853,873	6,940,450	4,927,136
Eliminations	(3,868,607)	(2,698,664)	(2,248,259)	(1,413,973)
Consolidated	<u>8,220,552</u>	<u>7,155,209</u>	<u>4,692,191</u>	<u>3,513,164</u>

Other Segment Information

	Acquisition of fixed assets and intangible assets		Depreciation charges	
	2010	2009	2010	2009
Rubber products	130,230	308,958	20,492	7,231
Chemical products	16,948	743	4,416	4,865
Shoes	257,624	99,408	49,537	39,287
Trade	83,848	97,425	25,778	22,079
Services	49,526	14,511	27,506	27,054
Holding	93,213	130,513	25,309	18,391
	<u>633,399</u>	<u>651,558</u>	<u>153,038</u>	<u>118,907</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Sale of Products, Goods and Services on Foreign Markets by Geographical Location

	Year Ended December 31,	December 31,
	2010	2009
Great Britain	899,727	763,137
Italy	336,889	197,715
Finland	321,982	213,941
Republic of Srpska	181,939	89,267
Montenegro	102,308	78,996
Denmark	84,957	-
France	80,651	68,288
Sweden	71,174	12,535
Macedonia	70,234	98,737
South Africa	35,414	13,829
USA	33,682	14,443
Canada	25,563	-
Slovenia	17,563	17,997
Greece	14,328	28,913
Croatia	9,417	-
Bulgaria	7,142	9,762
Germany	6,769	11,500
Egypt	6,249	1,520
Russia	6,206	1,197
Norway	5,826	-
Belgium	5,717	-
Poland	3,165	5,903
Switzerland	1,110	1,168
Seychelles	634	900
Belarus	-	5,874
Other	28,024	16,939
	<u>2,357,030</u>	<u>1,652,597</u>

7. OWN WORK CAPITALIZED

Income from own work capitalized for the year ended December 31, 2010 aggregated to RSD 743,239 thousand (2009: RSD 441,254 thousand) and mostly, in the amount of RSD 526,258 thousand, related to expenses directly attributable to hiring new employees and cost of material as required for the work performed in respect of a larger number of investment projects in the Parent Company and subsidiaries. The balance of RSD 216,981 thousand relates to the effect of appraising buildings transferred from the Parent Company to its subsidiaries as contribution in kind.

8. OTHER OPERATING INCOME

	Year Ended December 31,	December 31,
	2010	2009
Rentals	19,574	22,562
Other	20,050	10,122
	<u>39,624</u>	<u>32,684</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

9. COST OF MATERIAL

	<u>Year Ended</u> 2010	<u>December 31,</u> 2009
Cost of production material	1,299,477	948,112
Cost of overhead material	69,256	79,330
Cost of electricity	53,447	47,582
Other costs of fuel and energy	141,007	99,505
	<u>1,563,187</u>	<u>1,174,529</u>

10. STAFF COSTS

	<u>Year Ended</u> 2010	<u>December 31,</u> 2009
Net salaries and benefits	925,030	858,312
Taxes and contributions on salaries paid by employees	342,712	318,229
Taxes and contributions on salaries paid by the employer	224,721	211,334
Contracts fees	10,658	8,509
Remunerations to Supervisory Board and Board of Directors Members	10,890	21,173
Retirement benefits and jubilee awards	1,778	1,683
Travel expenses and prediems	33,124	30,555
Transport to work and from work	54,469	44,692
Other staff costs	8,338	6,213
	<u>1,611,720</u>	<u>1,500,700</u>

11. DEPRECIATION, AMORTIZATION AND PROVISIONS

	<u>Year Ended</u> 2010	<u>December 31,</u> 2009
Depreciation and amortization	153,038	118,907
Provisions	34,944	29,564
	<u>187,982</u>	<u>148,471</u>

12. OTHER OPERATING EXPENSES

	<u>Year Ended</u> 2010	<u>December 31,</u> 2009
Production costs	19,888	8,507
Telecommunications	18,933	15,151
Other transport services	166,383	12,524
Maintenance	24,666	23,327
Rentals	79,009	60,003
Fairs exhibitions	4,920	4,053
Marketing and advertising	32,572	30,914
Research costs	939	-
Other production services	17,101	24,760
Fees paid to auditors, lawyers and consultants	18,670	14,483
Other non-production services	134,396	118,763
Entertainment	8,244	7,586
Insurance premiums	20,647	16,343
Bank charges and fees	26,378	23,391
Membership fees	2,583	2,191
Taxes and contributions	20,713	27,424
Other non-material expenses	28,473	35,378
	<u>624,515</u>	<u>424,798</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

13. FINANCE INCOME

	<u>Year Ended 2010</u>	<u>December 31, 2009</u>
Dividend income	72	35,200
Interest income from placements	3,000	186
Income from penalty interest	3,877	6,508
Foreign exchange gains	59,356	28,758
Other finance income	3,894	3,957
	<u>72,209</u>	<u>74,609</u>

14. FINANCE EXPENSES

	<u>Year Ended 2010</u>	<u>December 31, 2009</u>
Interest expense	265,386	179,460
Interest expenses related to the valuation of financial instruments	-	322
Foreign exchange losses	125,112	52,139
Other finance expenses	538	30,572
	<u>391,035</u>	<u>262,493</u>

15. OTHER INCOME

	<u>Year Ended 2010</u>	<u>December 31, 2009</u>
Gains on the disposal of property, plant and equipment and intangible assets	37,353	2,130
Gains on the sale of equity investments (Note 24)	-	261,149
Gains on the sale of materials	616	740
Surpluses	84	593
Reversal of allowance for impairment (Note 27)	5,701	2,729
Write-off of liabilities		3,909
Reversal of long-term provisions (Note 30)	446	2,712
Collected receivable previously written off	8,101	-
Other income, not mentioned	22,204	53,858
	<u>74,505</u>	<u>327,820</u>

16. OTHER EXPENSES

	<u>Year Ended 2010</u>	<u>December 31, 2009</u>
Losses on the sale of property, plant and equipment and intangible assets	30,931	1,365
Loss on sale of material	71	341
Shortages	66	215
Increase in allowance for impairment based on long-term placements, receivables and inventories	3,934	8,283
Inventory take	-	1,020
Other expenses, not mentioned	11,646	18,304
	<u>46,648</u>	<u>29,528</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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

17. INCOME TAXES

a) Components of Income Taxes

	<u>2010</u>	<u>2009</u>
Current income taxes	31,088	41,236
Deferred tax expense	6,349	6,342
	<u>37,437</u>	<u>47,578</u>

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

	<u>2010</u>	<u>2009</u>
Loss before tax	(19,684)	(172,320)
Income taxes at the statutory tax rate of 10%	(1,968)	(17,232)
Tax effects of non-deductible expenses	38,724	89,236
Tax credits for capital expenditures	(3,828)	(29,797)
Other	4,509	5,371
	<u>37,437</u>	<u>47,578</u>

c) Components of Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities relate to the following positions:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Deferred tax assets		
Deferred tax assets arising from a difference between the value of assets recorded for book and tax purposes	21,305	18,036
Deferred tax liabilities		
Deferred tax liabilities arising on difference between the value of assets recorded for book and tax purposes	(134,696)	(127,963)
Deferred tax assets, net	<u>(113,391)</u>	<u>(109,927)</u>

d) Unrecognized Deferred Tax Assets

As of December 31, 2010, 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.

<u>Inception Year</u>	<u>Expiration Year</u>	<u>Tax Credit</u>
- 2003	2013	1,253
- 2004	2014	10,519
- 2005	2015	2,271
- 2006	2016	2,558
- 2007	2017	8,627
- 2008	2018	82,364
- 2009	2019	62,888
- 2010	2015	33,534
		<u>204,014</u>

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18. EARNINGS PER SHARE

	<u>2010</u>	<u>2009</u>
Net loss	(57,121)	(219,898)
Weighted average number of shares in the year	<u>1,718,460</u>	<u>1,711,095</u>
Earnings per share (in RSD)	<u>(33.24)</u>	<u>(128.51)</u>

19. INTANGIBLE ASSETS

	<u>Licenses</u>	<u>Other Intangible Assets</u>	<u>Intangible Assets in Progress</u>	<u>Total Intangible Assets</u>
Cost				
Balance, January 1, 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>
Balance, January 1, 2010	19,503	1,273	106,080	126,856
Additions	5,381	-	403,635	409,016
Transfers	7,003	(152)	(6,851)	-
Transfer to property and equipment	-	-	(120,380)	(120,380)
Balance, December 31, 2010	<u>31,887</u>	<u>1,121</u>	<u>382,484</u>	<u>415,492</u>
Accumulated Amortization				
Balance, January 1, 2009	10,810	1,876	-	12,686
Charge for the year	4,313	1,142	-	5,454
Disposal	(868)	(1,858)	-	(2,726)
Balance, December 31, 2009	<u>14,255</u>	<u>1,160</u>	<u>-</u>	<u>15,414</u>
Balance, January 1, 2010	14,255	1,160	-	15,415
Charge for the year	2,002	(50)	-	1,952
Balance, December 31, 2010	<u>16,257</u>	<u>1,110</u>	<u>-</u>	<u>17,367</u>
Net Book Value				
- December 31, 2010	<u>15,630</u>	<u>11</u>	<u>382,484</u>	<u>398,125</u>
- December 31, 2009	<u>5,248</u>	<u>114</u>	<u>106,080</u>	<u>111,442</u>

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20. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Buildings	Equipment	Construction in Progress	Leasehold Improvements	Total PP&E
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	122,411	2,711,736	1,398,120	24,318	208,020	4,464,605
Balance, January 1, 2010	122,411	2,711,736	1,398,120	24,318	208,020	4,464,605
Additions	-	-	-	-	108,039	108,039
Activation	1,111	90,159	176,896	4,077	(272,243)	-
Transfer from intangible assets	-	44,729	63,001	-	120,380	228,110
Appraisal effect	586	110,599	-	-	106,392	217,577
Other	-	(6,962)	(1,805)	-	-	(8,767)
Sale and disposal	(171)	(130)	(39,120)	-	(28,601)	(68,022)
Balance, December 31, 2010	123,937	2,950,131	1,597,092	28,395	241,987	4,941,542
Accumulated Depreciation						
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	-	85,813	435,048	3,806	-	524,667
Accumulated Depreciation						
Balance, January 1, 2010	-	85,813	435,048	3,806	-	524,667
Charge for the year	-	30,838	115,613	3,249	-	149,700
Other	-	4,647	-	-	-	4,647
Sale and disposal	-	-	(25,586)	-	-	(25,586)
Balance, December 31, 2010	-	121,298	525,075	7,055	-	653,428
Net Book Value						
- December 31, 2010	123,937	2,828,833	1,072,017	21,340	241,987	4,288,114
- December 31, 2009	122,411	2,625,923	963,072	20,512	208,020	3,939,938

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, 2010 amounted to EUR 1,169,150 and USD 882,696 or RSD 193,324 thousand as translated to dinars (Note 29).

Over the business building located upon the cadastral plot numbers 1897/2, 1897/8, 1897/9 and 1897/10 included in the title deed number 8311 of the Cadastral Municipality of Pirot, as well as over the building on the cadastral plot number 3484/1 included in the title deed number 6797 of the Cadastral Municipality of Niš a pledge lien was inscribed in favor of Société Générale Banka Srbija a.d., Beograd based on a short-term loan approved on March 25, 2010 in the amount of EUR 2,000,000 or RSD 211,630 thousand as translated to dinars as of December 31, 2010 (Note 29).

Over buildings used to perform other industries located on the cadastral plot number 3620/1 inscribed in the title deed number 8370 of the Cadastral Municipality of Pirot a pledge lien has been instituted in favor of Banca Intesa a.d., Beograd based on a long-term loan approved on March 5, 2010 in the amount of RSD 150,000 thousand (Note 29).

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20. PROPERTY, PLANT AND EQUIPMENT (Continued)

The June 21, 2010 Pledge Lien Agreement instituted a pledge lien over certain Company's equipment in favor of Banca Intesa a.d., Beograd based on a long-term loan approved on March 5, 2010 in the amount of RSD 150,000 thousand (Note 29).

Based on the December 17, 2010 Pledge Agreement, the Company encumbered certain equipment as a pledgor acting on behalf of its subsidiary Tigar Trade d.o.o., Pirot based on two loans approved by Erste Banka a.d., Novi Sad aggregating to EUR 2,084,000 which totaled RSD 219,858 thousand as translated to dinars at December 31, 2010.

21. EQUITY INVESTMENTS

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<i>Equity investments available-for-sale:</i>		
Equity investments in banks	153	153
Equity investments in other legal entities	<u>13,147</u>	<u>12,998</u>
	13,300	13,151
Less: Allowance for impairment of equity investments (Note 27)	<u>(1,481)</u>	<u>(1,481)</u>
	<u>11,819</u>	<u>11,670</u>

22. OTHER LONG-TERM FINANCIAL PLACEMENTS

Other long-term financial placements stated in the consolidated balance sheet December 31, 2010, in the amount of RSD 45,468 thousand (December 31, 2009: RSD 47,658 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%.

23. INVENTORIES

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Raw and other material	120,258	96,454
Spare parts	30,203	29,419
Work in progress	310,740	141,234
Finished products	407,796	845,292
Commercial goods	900,581	293,332
Advances paid	<u>64,564</u>	<u>40,183</u>
	1,834,142	1,445,914
Less: Allowance for impairment of inventories (Note 27)	<u>(10,496)</u>	<u>(3,286)</u>
	<u>1,823,646</u>	<u>1,442,628</u>

24. NON-CURRENT ASSETS HELD-FOR-SALE

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Assets acquired for sale	<u>20,039</u>	<u>19,884</u>
	<u>20,039</u>	<u>19,884</u>

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25. ACCOUNTS RECEIVABLE

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Accounts receivable – related parties	42,743	75,967
Accounts receivable – domestic	519,863	369,299
Accounts receivable – foreign	327,680	277,257
Prepaid taxes and contributions	216	269
Receivables from employees	29,548	32,098
Other receivables	11,997	7,535
	<u>932,047</u>	<u>762,425</u>
Less: Bad debt provision (Note 27)	<u>(28,885)</u>	<u>(35,359)</u>
	<u>903,162</u>	<u>727,066</u>

26. CASH AND CASH EQUIVALENTS

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Cash in hand in dinars	3,210	6,369
Cash in hand in foreign currency	18,718	99
Business accounts in local currency	7,430	31,808
Business accounts in foreign currency	115,099	598,690
Other cash funds	219,399	52,871
Securities as cash equivalents	5,668	12,172
	<u>369,524</u>	<u>702,009</u>

27. MOVEMENTS IN PROVISIONS

	<u>Equity Investments</u>	<u>Inventories</u>	<u>Receivables</u>	<u>Total</u>
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>
Balance, December 31, 2009	-	-	(5,701)	(5,701)
Valuations (Note 15)	-	-	-	3,934
Charge for the year (Note 16)	-	3,934	-	3,934
Other	-	3,276	(773)	2,503
	<u>1,481</u>	<u>10,496</u>	<u>28,885</u>	<u>40,862</u>

28. VALUE ADDED TAX AND PREPAYMENTS

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
VAT receivables	49,432	15,371
Accrued income	-	255
Prepaid expenses	941	806
Other prepayments	96,736	34,527
Deferred foreign exchange losses	180,158	63,880
	<u>327,267</u>	<u>114,839</u>

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28. VALUE ADDED TAX AND PREPAYMENTS (Continued)

In the Rules on Amendments and Supplements to the Rules on the Chart of Account, which came in effect as of January 24, 2011 (Official Gazette of RS, number 4/10), the Ministry of Finance made it optimal 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 116,278 thousand.

29. SHARE CAPITAL

The structure of the Company's share capital as of December 31, 2010, was as follows:

	<u>Number of Shares</u>	<u>%</u>	<u>RSD '000</u>
Share Fund of the Republic of Serbia	429,429	25.0	515,315
Pension and Disability Fund of the Republic of Serbia	149,981	9.0	179,977
Artio International Equity Fund	123,132	7.0	147,758
Erste Bank a.d., Beograd – Custody	87,728	5.0	105,274
Société Générale Bank Srbija a.d., Beograd – Custody	55,654	3.0	66,785
Raiffeisen Bank, International	42,164	2.0	50,597
Erste & Steiermärkische Bank d.d.	37,637	2.0	45,164
Komercijalna Banka a.d., Beograd - Custody	26,062	2.0	31,274
Sweden Bank a.s.	24,851	1.0	29,821
UniCredit Bank a.d., Beograd	18,500	1.0	22,200
Other	723,322	43.0	867,986
	<u>1,718,460</u>	<u>100.0</u>	<u>2,062,152</u>

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:

	<u>Number of Shares</u>	<u>%</u>	<u>RSD '000</u>
Share Fund of the Republic of Serbia	429,429	25.0	515,315
Pension and Disability Fund of the Republic of Serbia	149,981	9.0	179,977
Artio International Equity Fund	123,132	7.0	147,758
Société Générale Banka Srbija a.d., Beograd	86,463	5.0	103,756
Erste Bank a.d., Beograd – Custody	83,788	5.0	100,546
Raiffeisen Bank, Vienna	45,073	3.0	54,088
Stichting Shell Pensioenfond	23,970	1.0	28,764
Société Générale Banka Srbija a.d., Beograd	23,583	1.0	28,300
UniCredit bank a.d., Beograd Custody	18,500	1.0	22,200
Dunav Osiguranje a.d.o., Beograd	17,120	1.0	20,544
Other	717,421	42.0	860,904
	<u>1,718,460</u>	<u>100.0</u>	<u>2,062,152</u>

At December 31, 2010 and 2009, the Company's share capital comprised of 1,718,460 ordinary shares with the individual par value of RSD 1,200.

Based on the Decision of the Company's Assembly dated June 18, 2010, the Company distributed prior years' profit in the form of dividend paid to shareholders in the total of RSD 37,895 thousand.

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30. LONG-TERM PROVISIONS

Long-term provisions stated in the consolidated balance sheet as of December 31, 2010 amounting to RSD 83,087 thousand (December 31, 2009: RSD 79,861 thousand) mostly relate to provisions for employee benefits – retirement benefits and jubilee awards.

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

	<u>2010</u>	<u>2009</u>
Nominal discount rate	11.5%	8.5%
Expected rate of salary growth	8.0%	5.0%

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

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Balance, January 1	78,631	81,891
Additional provisions	34,944	29,564
Reversal of long-term provisions (Note 15)	(446)	(2,712)
Employee retirement benefits	(31,068)	(30,112)
Other changes	<u>(685)</u>	<u>-</u>
Balance, December 31	<u><u>81,376</u></u>	<u><u>78,631</u></u>

31. LONG-TERM LIABILITIES

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Long-term bonds	243,763	-
Long-term borrowings		
- in local currency and indexed to a currency clause	678,800	328,932
- in foreign currency	1,142,808	884,173
- in local currency	150,000	31,830
Finance lease liabilities	<u>34,268</u>	<u>30,128</u>
	2,249,639	1,275,063
Less: Current portions of long-term borrowings	<u>(520,357)</u>	<u>(125,985)</u>
	<u><u>1,729,282</u></u>	<u><u>1,149,078</u></u>

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31. LONG-TERM LIABILITIES (Continued)

a) Long-term bonds

<u>Investor</u>	<u>Annual Interest Rate</u>	<u>Currency</u>		<u>December 31, 2010</u>	<u>December 31, 2009</u>
		<u>Code</u>	<u>Amount</u>		
Komercijalna banka a.d., Beograd	7.75%	EUR	678,895	101,142	-
Wiener Stadtische osiguranje a.d., Beograd	7.75%	EUR	99,772	71,622	-
KBC Banka a.d., Beograd	7.75%	EUR	958,703	21,051	-
DDOR Novi Sad a.d., Novi Sad	7.75%	EUR	185,429	19,860	-
Takovo a.d., Kragujevac	7.75%	EUR	199,543	19,562	-
Wiener reosiguranje a.d., Beograd	7.75%	EUR	188,248	10,526	-
				<u>243,763</u>	-
Less: Current portion of long-term bonds				<u>(43,314)</u>	-
				<u>200,449</u>	-

The maturities of long-term bonds are as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Within a year	43,314	-
From 2 to 5 years	<u>200,449</u>	-
	<u>243,763</u>	-

In 2010, the Company executed two private bond issues to known buyers, without public offering. The total number of bonds issued is 25,050 and are aggregately worth RSD 250,500 thousand; bonds accrue interest at the 7.5% rate annually, are indexed to a currency clause and mature over a period of five years.

b) Long-term borrowings in local currency indexed to a currency clause

<u>Creditor</u>	<u>Annual Interest Rate</u>	<u>Currency</u>		<u>December 31, 2010</u>	<u>December 31, 2009</u>
		<u>Code</u>	<u>Amount</u>		
Banca Intesa a,d, Beograd	10% p.a.	EUR	1,000,000	-	71,916
Hypo Alpe Adria Bank	3M EURIBOR + 8.5% p.a.	EUR	2,000,000	211,629	-
Hypo Alpe Adria Bank	3M EURIBOR + 8.5% p.a.	EUR	500,000	52,907	-
Hypo Alpe Adria Bank	3M EURIBOR + 8.5% p.a.	EUR	500,000	52,907	-
Hypo Alpe Adria Bank	3M EURIBOR + 7% p.a.	EUR	2,500,000	264,537	224,412
Hypo Alpe Adria Bank	3M EURIBOR + 8% p.a.	EUR	915,000	96,820	32,604
				<u>678,800</u>	<u>328,932</u>
Less: Current portion				<u>(242,132)</u>	<u>(69,840)</u>
				<u>436,668</u>	<u>259,092</u>

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31. LONG-TERM LIABILITIES (Continued)

c) Long-term borrowings in foreign currency

<u>Creditor</u>	<u>Interest Rate</u>	<u>Currency</u>		<u>December 31, 2010</u>	<u>December 31, 2009</u>
		<u>Code</u>	<u>Amount</u>		
Refinanced loans via Jubanka a.d.:					
Berliner Bank A.G., Berlin	5.5 % p.a.	EUR	263,203	27,768	31,428
Algemene bank Netherlands, Amsterdam	5.6 % p.a.	EUR	905,947	95,576	108,177
The First National Bank, Chicago, USA	5.5 % p.a.	USD	882,696	69,980	73,348
				<u>193,324</u>	<u>212,953</u>
DEG Germany GM Eurobor	6 M EURIBOR + 2.875% p.a.	EUR	7,000,000	738,487	671,220
Erste banka	3 M EURIBOR + 3.10% p.a.	EUR	2,000,000	210,997	
				<u>1,142,808</u>	<u>884,173</u>
Less: Current portion				<u>(104,309)</u>	<u>(42,687)</u>
				<u>1,038,499</u>	<u>841,486</u>

d) Long-term borrowings in local currency

<u>Creditor</u>	<u>Interest Rate</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Alpha Bank a.d., Beograd		-	31,828
Banca Intesa a.d. Beograd	1.2% p.m.	150,000	-
Less: Current portion		<u>(112,500)</u>	<u>-</u>
		<u>37,500</u>	<u>31,828</u>

e) Finance lease liabilities

	<u>Sum of</u>		<u>Present Value of</u>	
	<u>Minimum Lease Payments</u>	<u>Minimum Lease Payments</u>	<u>Minimum Lease Payments</u>	<u>Minimum Lease Payments</u>
	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<i>Maturity:</i>				
Up to one year	20,651	15,340	18,104	13,458
From 1 to 5 years	16,925	17,976	16,154	16,670
	<u>37,576</u>	<u>33,316</u>	<u>34,268</u>	<u>30,128</u>
Less: future cost of financing	<u>(3,308)</u>	<u>(3,188)</u>		
Present value of minimum lease payments	<u>34,268</u>	<u>30,128</u>	<u>34,268</u>	<u>30,128</u>
Included in the financial statements as:				
Current portion of long-term liabilities			18,104	13,458
Other long-term liabilities			16,154	16,670
			<u>34,268</u>	<u>30,128</u>

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31. LONG-TERM LIABILITIES (Continued)

The maturities of long-term liabilities are presented in the following table:

	<u>2010</u>	<u>2009</u>
- within a year	520,357	125,985
- from one to five years	1,729,282	897,370
- over five years	-	251,708
	<u>2,249,639</u>	<u>1,275,063</u>

32. SHORT-TERM FINANCIAL LIABILITIES

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Short-term loans in dinars linked to EUR	762,369	797,378
Short-term borrowings in local currency	403,389	334,040
Borrowings against current accounts	30,095	79,055
Short-term bonds issued	-	95,000
Current portions of long-term financial liabilities (Note 31)	520,357	126,708
	<u>1,716,210</u>	<u>1,432,181</u>

a) Short-term loans in dinars linked to EUR

<u>Creditor</u>	<u>Interest Rate</u>	<u>Currency</u>		<u>December 31, 2010</u>	<u>December 31, 2009</u>
		<u>Code</u>	<u>Amount</u>		
	3m EURIBOR +				
Société Générale a.d.	5.3% p.a.	EUR	2,000,000	211,630	-
AIK Banka a.d., Niš	6% p.a.	EUR	2,000,000	210,996	-
Banca Intesa a.d.	10% p.a.	EUR	875,000	92,311	-
	3m EURIBOR +				
Société Générale a.d.	5.3% p.a.	EUR	800,000	84,399	-
Export Credit and Insurance Agency	5% p.a.	EUR	500,000	52,749	-
	3m EURIBOR +				
Société Générale a.d.	5% p.a.	EUR	480,000	50,639	-
	3m EURIBOR +				
Hypo Alpe Adria Bank	8.5% p.a.	EUR	286,000	30,263	-
AIK Banka a.d., Niš	6%	EUR	300,000	29,382	-
Export Credit and Insurance Agency	5% p.a.	EUR	450,000	-	43,150
	Nominal 5,5% p.a.				
Unicredit banka a.d.		EUR	2,250,000	-	215,749
	3m EURIBOR +				
Société Générale a.d.	4.5% p.a.	EUR	1,300,000	-	125,029
	3m EURIBOR +				
Société Générale a.d.	4.45% p.a.	EUR	750,000	-	72,132
	6m EURIBOR +				
Hypo Alpe Adria Bank	6.5% p.a.	EUR	1,000,000	-	96,177
Hypo Alpe Adria Bank	3% p.a.	EUR	666,666,67	-	63,926
Hypo Alpe Adria Bank	3% p.a.	EUR	583,333,34	-	55,936
	3m EURIBOR +				
Hypo Alpe Adria Bank	7% p.a.	EUR	500,000	-	48,088
Banca Intesa a.d.	10% p.a.	EUR	500,000	-	47,944
Banca Intesa a.d.	10% p.a.	EUR	305,000	-	29,247
				<u>762,369</u>	<u>797,378</u>

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

32. SHORT-TERM FINANCIAL LIABILITIES (Continued)

b) Short-term borrowings in local currency

<u>Creditor</u>	<u>Interest Rate</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Srpska banka	1.7% p.m.	80,000	-
Unicredit banka a.d., Beograd	6.5% p.a.	70,428	-
Privredna banka Beograd ad Beograd	6.5% p.a.	65,000	-
	Two-week REPO		
Société Générale a.d.	1.5% p.a.	45,000	-
Unicredit banka a.d., Beograd	6.5% p.a.	4,500	-
Privredna banka Beograd ad Beograd	7% p.a.	20,014	-
AIK Banka	2% p.a.	2,694	-
Srpska banka	1.6% p.m.	100,000	-
	3% m, BELIBOR +		
Banca Intesa a.d., Beograd	2.2% p.a.	-	120,000
AIK Banka a.d., Niš	1.2% p.m.	-	110,000
	NBS reference		
	Interest rate + 5%		
Moskovska banka ad Beograd	p.a.	-	42,056
Privredna banka Beograd ad Beograd	17% p.a.	-	36,000
Other borrowings		15,753	25,984
		<u>403,389</u>	<u>334,040</u>

33. ACCOUNTS PAYABLE

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Accounts payable – related parties	19,236	164,646
Advances, deposits and retainers	89,556	-
Accounts payable – domestic	547,353	196,105
Accounts payable – foreign	181,306	249,107
Other accounts payable	13,694	5,274
Uninvoiced accounts payable	-	23,979
	<u>851,145</u>	<u>639,111</u>

34. OTHER CURRENT LIABILITIES

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Gross salaries	139,434	120,983
Interest accrued	20,984	11,229
Liabilities for dividends and share in profit	16,696	12,885
Other current liabilities	6,812	6,039
	<u>183,926</u>	<u>151,136</u>

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35. VAT AND OTHER PUBLIC DUTIES PAYABLE AND ACCRUALS

	December 31, 2010	December 31, 2009
VAT payables	38,523	19,741
Other taxes and contributions payable	5,639	760
Accrued expenses	63,283	17,002
Future period accrued income	667	1,149
Other accruals	2,343	4,482
	<u>110,455</u>	<u>43,134</u>

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital Risk Management

There is no legal framework for managing capital risk in the Company. The Company considers capital 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 31 and 32, 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:

	December 31, 2010	December 31, 2009
Debt a)	3,445,492	2,581,259
Cash and cash equivalents	<u>(369,524)</u>	<u>(702,009)</u>
Net debt	<u>3,075,968</u>	<u>1,879,250</u>
Equity b)	<u>3,393,665</u>	<u>3,514,083</u>
Debt to equity ratio	<u>0.91</u>	<u>0.53</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 equity deductibles 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.

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

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Categories of Financial Instruments

	December 31, 2010	December 31, 2009
Financial assets		
Long-term financial placements	45,468	59,328
Accounts receivable	903,162	694,968
Cash and cash equivalents	369,524	702,009
Short-term financial placements	4,986	5,736
	<u>1,323,140</u>	<u>1,462,041</u>
Financial liabilities		
Long-term borrowings	1,729,281	1,149,078
Accounts payable	851,145	615,132
Current portion of long-term borrowings	520,358	125,985
Short-term borrowings	1,195,851	1,306,196
	<u>4,296,635</u>	<u>3,196,391</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 market risk, nor in the manner in which the Company manages or measures that risk.

Foreign Currency Risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 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, 2010	December 31, 2009	December 31, 2010	December 31, 2009
EUR	413,168	626,714	2,884,546	1,957,668
USD	2,550	469	93,627	75,437
GBP	14,890	10,533	645	7,105
CHF	-	-	324	-
	<u>430,608</u>	<u>637,716</u>	<u>2,979,142</u>	<u>2,040,210</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 10% increase and decrease in the dinar to foreign currency exchange rate. The 10% sensitivity rate was used in internal reporting on 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 10% as compared to the relevant foreign currency, the impact on the profit for the current period would be the exact opposite of the one calculated in the previous case.

	December 31, 2010	December 31, 2009
EUR	247,138	133,096
USD	9,107	7,496
CHF	32	-
GBP	(1,425)	(343)
Profit/Loss	<u>254,852</u>	<u>140,249</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 borrowings (Note 31).

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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:

	December 31, 2010	December 31, 2009
Financial Assets		
<i>Non-interest bearing</i>		
Long-term financial placement	-	11,670
Accounts receivable	903,162	694,968
Cash and cash equivalents	158,528	658,859
Short-term financial placements	4,986	5,736
	<u>1,066,676</u>	<u>1,371,233</u>
<i>Fixed interest rates</i>		
Long-term financial placement	45,468	47,658
Cash and cash equivalents	210,996	43,150
	<u>256,464</u>	<u>90,808</u>
	<u>1,323,140</u>	<u>1,462,041</u>
Financial liabilities		
<i>Non-interest bearing</i>		
Accounts payable	851,145	615,132
		<u>615,132</u>
<i>Fixed interest rates</i>		
Long-term borrowings	454,579	217,666
Short-term borrowings	763,808	674,171
Current portion of long-term borrowings	374,914	102,207
	<u>1,593,301</u>	<u>994,044</u>
<i>Variable interest rates</i>		
Long-term borrowings	1,274,702	931,412
Short-term borrowings	432,043	632,025
Current portions of long-term borrowings	145,444	23,778
	<u>1,852,189</u>	<u>1,587,215</u>
	<u>4,296,635</u>	<u>3,196,391</u>

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 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 1% increase or decrease in interest rates represents the fluctuation reasonably anticipated by management. Had the interest rates been 1% higher and other variables remained unchanged, the Company would have incurred a loss in the year ended December 31, 2010 in the amount of RSD 18,522 thousand (December 31, 2009: RSD 15,872 thousand). Such situation is attributed to the Company's exposure arising from the variable interest rates applied to long-term and short-term borrowings.

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36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk

Managing Accounts Receivable

Credit risk relates to the exposure inherent in the possibility that the contractual party fails to act upon its contractual commitments and cause the 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, 2010 is presented in the following table:

	<u>Gross Exposure</u>	<u>Allowance for Impairment</u>	<u>Net Exposure</u>
Accounts receivable, not matured	587,428	-	587,428
Accounts receivable matured and provided for	28,885	(28,885)	-
Accounts receivable matured, but not provided for	<u>315,734</u>	<u>-</u>	<u>315,734</u>
	<u>932,047</u>	<u>(28,885)</u>	<u>903,162</u>

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	<u>282,826</u>	<u>-</u>	<u>282,826</u>
	<u>730,327</u>	<u>(35,359)</u>	<u>694,968</u>

Accounts Receivable, not Matured

Accounts receivable, not matured as of December 31, 2010 in the amount of RSD 587,428 thousand (December 31, 2009: RSD 444,240 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 28,885 thousand (December 31, 2009: RSD 35,359 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, 2010 were stated in the amount of RSD 831,163 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.

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36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity Risk

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

Tables of Liquidity and Credit Risk

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

Maturities of Financial Assets

	December 31, 2010					
	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	741,365	290,472	34,686	153	-	1,066,676
Fixed interest rate	210,996	-	-	-	48,265	259,261
	<u>952,361</u>	<u>290,472</u>	<u>34,686</u>	<u>153</u>	<u>48,265</u>	<u>1,325,937</u>

	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	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>

The following tables give 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, 2010					
	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	559,435	248,127	23,601	-	-	831,163
Fixed interest rate	75,523	431,595	642,025	472,866	-	1,622,009
Variable interest rate	24,136	350,780	375,440	1,053,470	110,302	1,914,128
	<u>659,094</u>	<u>1,030,502</u>	<u>1,041,066</u>	<u>1,526,336</u>	<u>110,302</u>	<u>4,367,300</u>

	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>

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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, 2010 and 2009.

	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Long-term financial placements	45,468	14,364	59,328	44,353
Accounts receivable	903,162	903,162	694,968	694,968
Cash and cash equivalents	369,524	369,524	702,009	702,009
Short-term financial placements	4,986	4,986	5,736	5,736
	<u>1,323,140</u>	<u>1,292,036</u>	<u>1,462,041</u>	<u>1,447,066</u>
Financial Liabilities				
Long-term borrowings	1,729,281	1,729,281	1,149,078	1,149,078
Account payable	851,145	851,145	615,132	615,132
Current portion of long-term borrowings	520,358	520,358	125,985	125,985
Short-term borrowings	1,195,851	1,195,851	1,306,196	1,306,196
	<u>4,296,635</u>	<u>4,296,635</u>	<u>3,196,391</u>	<u>3,196,391</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 cancellable lease contracts for business premises were the following:

	December 31, 2010	December 31, 2009
Up to 1 year	30,991	28,676
From 1 to 5 years	123,965	114,703
Over 5 years	30,991	70,841
	<u>185,947</u>	<u>214,220</u>

According to the lease contract, the rent arrangement for business premises expires in the period ending December 31, 2016.

38. CONTINGENT LIABILITIES

At December 31, 2010, litigations filed against the Company sought an amount of RSD 2,697 thousand. Based on the analysis of available legal documents and information obtained from professional services and legal advisors, management believes that these legal matters will be resolved in favor of the Company, and accordingly, as of December 31, 2010, the financial statements do not include additional provisions for these risks.

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38. CONTINGENT LIABILITIES (Continued)

The Company acts as a pledgor for a large number of short-term and long-term loans approved to its subsidiaries by domestic banks. The total amount of such loans for which the Company may be liable at December 31, 2010 totaled RSD 1,131,384 thousand, as translated to dinars.

39. TAXATION RISKS

The Republic of Serbia tax legislation is subject to varying interpretations, and legislative changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not concur with the views of the Company's management. Consequently, the relevant tax authorities may challenge transactions and the Company could be assessed additional taxes, penalties and interest, which can be significant. The fiscal periods remain open for review by the tax and customs' authorities with regard to the tax-paying entity's tax liabilities for a period of five years.

40. EXCHANGE RATES

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

	<u>2010</u>	<u>2009</u>
USD	79.2802	66.7285
EUR	105.4982	95.8888
GBP	122.4161	107.2582
CHF	84.4458	64.4631