“TIGAR”A.D., PIROT

Financial Statements
Year Ended December 31, 2007
and Independent Auditors’ Report

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

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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 financial statements (pages 3 to 26) of Tigar A.D., Pirot (the "Company"), which comprise the balance sheet as at December 31, 2007, and the related income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007, and the its financial performance, changes in equity and its cash flows for the year then ended, in accordance with the accounting regulations of the Republic of Serbia.

(Continued)

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

INDEPENDENT AUDITORS' REPORT

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the accompanying financial statements, disclosing that these financial statements were prepared by applying the IASs which were in effect as of December 31, 2002 and the accounting regulations of the Republic of Serbia based on them. The Company's management assesses IASs, IFRSs and interpretations the application of which was prescribed pursuant to the February 12, 2008 Decision enacted by the Minister of Finance of the Republic of Serbia and once the standards and interpretations with reference to the Company's activities have been established, the Company intends to apply them in preparing the financial statements for the period beginning January 1, 2008. With regards to the provisions contained in the newly-adopted and amended standards and interpretations which relate to the application date and the provisions with reference to the disclosure of comparative figures, upon their adoption and application by the Company, certain reclassification of data presented in the accompanying financial statements for the year 2007 might be required, as these will be used as comparative figures in the Company's financial statements for the year 2008.

Belgrade, April 10, 2008

Gordana Radić Đorđević
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2007
(thousands of RSD)

	Notes	2007	2006
OPERATING INCOME			
Sales of goods, products and services	4	185,727	365,592
Other operating income	5	50,963	2,069
		236,690	367,661
OPERATING EXPENSES			
Cost of commercial goods sold		(4,237)	(37,882)
Cost of materials		(17,133)	(17,413)
Staff costs		(180,600)	(174,574)
Depreciation, amortization and provisions	7	(17,732)	(17,527)
Other operating expenses	8	(191,451)	(192,064)
		(411,153)	(439,460)
LOSS FROM OPERATIONS		(174,463)	(71,799)
Finance income	9	321,943	154,150
Finance expenses	10	(82,467)	(33,242)
Other income	11	153,265	27,400
Other expenses	12	(168,550)	(5,835)
		224,191	142,473
PROFIT BEFORE TAXATION		49,728	70,674
INCOME TAXES	13		
Current tax expense		-	(199)
Deferred tax (expense)/benefit		(994)	3,450
		(994)	3,251
PROFIT FOR THE YEAR		48,734	73,925
Earnings per share	14	28.36	43.02

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

These financial statements were approved by the Board of Directors of Tigar A.D., Pirot on February 28, 2008.

Signed on behalf of Tigar A.D., Pirot

Director General	Head of Accounting
Dragan Nikolić	Dragoslava Branković

BALANCE SHEET
As at December 31, 2007
(thousands of RSD)

	Notes	2007	2006
ASSETS			
Non-current assets			
Intangible assets	15	1,582	2,987
Property, plant and equipment	15	533,570	397,167
Equity investments	16	1,746,094	2,522,304
Other long-term financial placements	17	55,011	57,054
		2,336,257	2,979,512
Current assets			
Inventories	18	22,738	13,269
Assets held-for-sale		7,221	9,113
Accounts receivable	19	1,098,532	384,245
Short-term financial placements	20	3,080	36,265
Cash and cash equivalents	21	113,277	3,892
Value added tax and prepayments		8,464	2,974
		1,253,312	449,758
Deferred tax assets	13v	2,456	3,450
Total assets		3,592,025	3,432,720
EQUITY AND LIABILITIES			
Equity	23		
Share capital		2,062,152	2,062,152
Reserves		574,953	547,510
Retained earnings		48,734	73,925
		2,685,839	2,683,587
Long-term liabilities and provisions			
Long-term provisions	24	7,998	4,333
Long-term liabilities	25	202,889	233,315
		210,887	237,648
Current liabilities			
Short-term financial liabilities	26	570,953	392,756
Accounts payable	27	84,610	67,593
Other current liabilities and accruals	28	39,719	48,562
Value added tax and other public duties payable		-	2,375
Income taxes payable		17	199
		695,299	511,485
Total Equity and Liabilities		3,592,025	3,432,720

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

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2007
(thousands of RSD)

	Share capital	Reserves	Retained Earnings	Total
Balance, January 1, 2006	2,062,152	513,985	124,070	2,700,207
Transfers to reserves	-	33,525	(33,525)	-
Adjustment of prior year income and expenses	-	-	(47,137)	(47,137)
Allocations for dividends	-	-	(43,408)	(43,408)
Profit for the year	-	-	73,925	73,925
Balance, December 31, 2006	2,062,152	547,510	73,925	2,683,587
Balance January 1, 2007	2,062,152	547,510	73,925	2,683,587
Transfers to reserves	-	30,448	(30,448)	-
Allocations for dividends	-	-	(43,477)	(43,477)
Adjustment for employee benefits recognized	-	-	(3,005)	(3,005)
Absorption of loss incurred from adjustment for recognized employee benefits		(3,005)	3,005	
Profit for the year	-	-	48,734	48,734
Balance, December 31, 2007	2,062,152	574,953	48,734	2,685,839

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

CASH FLOW STATEMENT
Year Ended December 31, 2007
(thousands of RSD)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	321,258	400,496
Interest receipts	8,091	-
Other receipts from operating activities	74,496	12,620
Cash paid to suppliers for raw materials and other expenses	(897,608)	(287,616)
Gross salaries and other staff costs paid	(178,470)	(175,322)
Interest paid	(70,682)	(11,598)
Taxes and contributions paid	(381)	(1,801)
Other public duties payable	(18,505)	(44,706)
Net cash used in operating activities	(761,801)	(107,927)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of shares and equity investments (net inflows)	743,324	13,293
Proceeds from the sale of intangible assets, property, plant and equipment	20,028	-
Interest received	36,268	1,142
Dividends received and distribution of profit	98,877	153,960
Other financial placements (net inflows/(outflows))	32,197	(195,374)
Purchase of shares and equity investments	-	(14,784)
Purchase of property, plant and equipment	(171,738)	(120,798)
Net cash provided by/(used in) investing activities	758,956	(162,561)
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows of long-term and short-term loans (net inflows)	155,017	303,887
Finance lease payments	(3,553)	(2,628)
Dividends paid	(39,118)	(42,367)
Net cash provided by financing activities	112,346	258,892
NET CASH INCREASE/(DECREASE)	109,501	(11,596)
Cash and cash equivalents at beginning of year	3,892	15,809
Foreign exchange gains on translation of cash and cash equivalents	16,895	-
Foreign exchange losses on translation of cash and cash equivalents	(17,011)	(321)
Cash and cash equivalents at end of year	113,277	3,892

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

1. ESTABLISHMENT AND ACTIVITY

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

As of January 1, 2003 the Company underwent legal reorganization and status changes, whereby its organizational units, Fabrika Autoguma (tire production factory) and Fabrika unutrašnjih guma (inner tube production factory) separated from the Company and joined the newly-established entity, Tigar M.H., a Company for the Production of Tires, D.O.O., Pirot ("TMH") in which the Company held an equity interest of 65%. During 2005, the minority investors of Tigar MH have made additional capital contributions, thereby the Company's equity interest has been 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, sales of Company's 19.4% equity investment in "Tigar Tyres" (previously known as "Tigar MH") was to the entity Michelin, Netherlands. As of December 31, 2007, based on performed registration, the Company's investments in "Tigar Tyres" (previously known as: "Tigar MH"), amounted to 30%. (for subsequent change in Company's investments after the balance sheet date, refer to Note 29a).

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

In addition to the aforementioned entities, the Company has equity investmetns in certain entities in the country and abroad (Note 15).

The Company's primary business activity, subsequent to the above-described organizational and status changes, is involved in the provision of services to its related parties.

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, 2007, the Company had 196 employees (December 31, 2006: 221 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.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

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

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

The amendments to the IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, upon the aforementioned date, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia with reference to the issuance of International Financial Reporting Standards (number 401-00-11/2008-16) and published in the Official Gazette of the Republic of Serbia number 16 of February 12, 2008 and, therefore could not be applied in the preparation of the accompanying financial statement of the Company for the year 2007.

The Company's management assesses that the adoption of IASs, IFRSs and the respective Interpretations, as required by the Ministry of Finance's decision referred to above, and after adoption of standards and interpretations relevant to the Company, intends to apply them in preparation of the financial statements for the period beginning from January 1, 2008.

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

In addition, the accompanying financial statements are presented in the format prescribed under the "Guidelines on the Prescribed Form and Content of the Financial Statements of Enterprises, Cooperatives and Entrepreneurial Ventures" (See Official Gazette of the Republic of Serbia, no. 114 of December 22, 2006). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, "Presentation of Financial Statements," and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard.

In the preparation of the accompanying financial statements, the Company adhered to the accounting policies described in Note 3 which are in conformity with the accounting and tax regulations prevailing in the Republic of Serbia.

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

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

2.2. Use of Estimates

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Revenue and Expense Recognition and Measurement

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

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

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

3.2. Interest Income and Expense

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

3.3. Foreign Exchange Translation

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

Assets and liabilities denominated in foreign currencies are translated into dinars by applying the official exchange rates prevailing at the balance sheet date.

Foreign exchange gains or losses arising upon the translation of transactions, and assets and liabilities in foreign currencies are credited or charged to the income statement.

3.4. 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, which are amortized over a period of five years.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Property, Plant and Equipment

The initial measurement of plant, property and equipment fulfilling the asset recognition criteria, is stated at cost.

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

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

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

As of the balance sheet date, the Company's management reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Any impairment loss is recognized in the income statement in the period in which it is incurred and is presented within other operating expenses. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

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

Buildings	1.3% - 10%
Equipment	10% - 16.6%
Telecommunication equipment	7% - 8.3%
Freighter trucks	14.3%
Passenger vehicles	15.5%
Furniture	12.5%
Computers	20%

3.6. Finance Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the Company. All other leases are classified as operating leases. Assets held under finance leases are recognized as assets of the Company at the present value of the minimum lease payments, each determined at the inception of the lease, if their value os blow the the fair value of the asset under lease. Otherwise, such asset are measured at fair value. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Inventories

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

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

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

3.8. Financial Instruments

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

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

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

Long-Term Financial Placements

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

Investments in foreign related companies are stated at their initial cost increased by portion of reinvested profit and decreased for any related impairment losses.

Investments in domestic related companies are recorded at cost as subsequently decreased by any related impairment loss.

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

Other Long-term Financial Placements

Other long-term financial placements are comprised of receivables from employees for residential housing loans that have been extended with 20-year maturities, and have been stated at nominal value which represents the present value of the future cash flows discounted at a contracted interest rate ranging from 1.5 percent to 2 percent.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

Other Long-term Financial Placements(Continued)

Based on Management estimates, effects of non-compliance with provisions of IAS 39 "Financial instruments: recognition and disclosure", requiring long-term receivables to be stated at their amortized values, is not material to the financial statements of the Company taken as whole.

Accounts Receivable

Accounts receivable are stated at their nominal values as reduced by appropriate allowances for estimated uncollectible amounts.

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.

Accounts Payable

Accounts payable are stated at their nominal values.

Borrowings

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

3.9. Taxes and Contributions

Current Income Tax

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

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

Deferred Income Taxes

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Taxes and Contribution (Continued)

Indirect Taxes and Contributions

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

3.10. Employee Benefits

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

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

Obligations for Retirement Benefits

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

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

3.11. Fair Value

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

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

4. SALES OF GOODS, PRODUCTS AND SERVICES

	Thousands of RSD Year Ended 2007	December 31, 2006
Sales of products and services	176,856	326,270
Sales of goods	8,871	39,322
	185,727	365,592

5. OTHER OPERATING INCOME

Other operating income amounting to RSD 50,963 thousand (2006: RSD 2,069 thousand) relates to income which the Company earned from rental of the storage premises.

6. STAFF COSTS

	Thousands of RSD Year Ended 2007	December 31, 2006
Net salaries	88,273	81,579
Taxes and contributions on salaries paid by the employees	34,261	36,974
Taxes and contributions on salaries paid by the employer	21,757	21,497
Other payments to employees	36,309	34,524
	180,600	174,574

7. DEPRECIATION, AMORTIZATION AND PROVISIONS

	Thousands of RSD Year Ended 2007	December 31, 2006
Depreciation and amortization	17,072	17,527
Provisions	660	-
	17,732	17,527

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

8. OTHER OPERATING EXPENSES

	Thousands of RSD	
	Year Ended December 31,	
	2007	2006
Transportation cost	107	108
Communications	5,759	4,940
Maintenance and repair	6,020	6,611
Rentals	14,047	2,254
Fair and exhibition participation	150	1,484
Marketing and advertising	13,289	16,387
Public utilities	1,329	324
Other manufacturing services	367	830
Employee professional training	4,605	10,992
Plant security	10,166	4,978
Health services	2,374	1,778
Audit fees and other professional services	14,667	31,274
Professional services in the area of management and innovation	30,136	42,516
Other non-manufacturing services	52,136	33,893
Indirect taxes and contributions	11,367	10,612
Entertainment	7,667	6,674
Insurance premiums	1,458	960
Bank charges and fees	3,517	1,615
Membership fees	1,389	1,071
Scholarships	5,438	7,350
Court fees	-	101
Other	5,463	5,312
	191,451	192,064

9. FINANCE INCOME

	Year Ended December 31,	
	2007	2006
Interest income	8,091	1,142
Foreign exchange gains	25,271	44,353
Share in profit of:		
- domestic related parties	281,424	72,059
- foreign related parties	7,157	36,596
	321,943	154,150

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

10. FINANCE EXPENSES

	Thousands of RSD Year Ended December 31, 2007	2006
Interest expense	62,360	30,142
Foreign exchange losses	20,101	441
Other finance expenses	6	2,659
	82,467	33,242

11. OTHER INCOME

	Thousands of RSD Year Ended December 31, 2007	2006
Gains on the disposal of property, plant and equipment	6,499	564
Write-off of liabilities	9,512	-
Release of provisions	-	5,121
Recovery of bad debts previously provided for	3,505	3,236
Gains on sale of equity investments	113,721	9,018
Other	20,028	9,461
	153,265	27,400

Gains on the sale of equity investments shown in the amount of RSD 113,721 thousand relate to the sale of 19.4% share in equity investment of "Tigar Tyres" (previously known as "Tigar MH") to the Michelin, Netherlands.

12. OTHER EXPENSES

	Thousands of RSD Year Ended December 31, 2007	2006
Loss on the disposal of property, plant and equipment	6,924	674
Allowance for impairment of inventories	158	332
Allowance for impairment of equity investments	154,338	-
Other	7,130	4,829
	168,550	5,835

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

13. INCOME TAXES

a) Components of Income Taxes

	Thousands of RSD Year Ended December 31, 2007	2006
Current income taxes	-	(199)
Deferred income taxes	(994)	3,450
	(994)	3,251

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

	Thousands of RSD Year Ended December 31, 2007
Profit before tax	49,728
Income taxes at the statutory tax rate of 10%	4,973
Capital gains	11,328
Tax effects of non-deductible expenses	(16,708)
Other	(587)
Income taxes	(994)

c) Components of Deferred Tax Assets and Liabilities

	Thousands of RSD Year Ended December 31, 2007	2006
Deferred tax liabilities arising from a difference between the value of assets recorded for book and tax purposes	2,456	3,450
	2,456	3,450

d) Movements in Deferred Tax Assets/ (Liabilities):

	2007
Balance, January 1, 2007	3,450
Decrease in temporary difference	(994)
Balance, December 31, 2007	2,456

13. INCOME TAXES (Continued)

e) Unrecognized deferred tax Assets

As of Decemebr 31, 2007, the Company did not recognize deferred tax assets totaling RSD 36,850 thousand, due to the uncertainty with reference to the availability of future taxable profits, against which the deferred tax assets can be utilized. The aforementioned tax credits expire in the following periods:

Inception Year	Expiry Year	Tax Credits
- 2006	2016	11,978
- 2007	2017	24,872
		36,850

14. EARNINGS PER SHARE

	Thousands of RSD 2007	2006
Profit for the year	48,734	73,925
Weighted average number of shares	1,718,460	1,718,460
Basic earnings per share (in RSD)	28.36	43.02

15. PROPERTY, PLANT, EQUIPMENT, AND INTANGIBLE ASSETS

	Land	Buildings	Equipment	Construction in Progress	Total	Intangible Assets
Cost						
Balance, January 1, 2007	89,244	245,896	114,436	94,324	543,900	8,235
Additions	-	-	-	171,496	171,496	20
Transfers	2,578	1,153	11,849	(15,580)	-	-
Sale	-	(21,314)	(1,752)	-	(23,066)	-
Disposals	-	-	(5,443)	-	(5,443)	-
Other	220	-	-	-	220	-
Balance, end of year	92,042	225,735	119,090	250,240	687,107	8,255
Accumulated Depreciation and Amortization						
Balance, January 1, 2007	-	64,135	82,598	-	146,733	5,248
Charge for the year	-	4,840	10,807	-	15,647	1,425
Sale	-	(1,776)	(1,752)	-	(3,528)	-
Disposals	-	-	(5,315)	-	(5,315)	-
Balance, January 31, 2007	-	67,199	86,338	-	153,537	6,673
Net Book Value						
- December 31, 2007	92,042	158,536	32,752	250,240	533,570	1,582
- January 1, 2007	89,244	181,761	31,838	94,324	397,167	2,987

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

15. PROPERTY, PLANT, EQUIPMENT, AND INTANGIBLE ASSETS (Continued)

A lien has been placed in favor of Alpha Bank A.D., Beograd (former Jubanka A.D., Beograd) against the Company's buildings and factory courtyard, as securitization of 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, 2007 amounted to USD 1,360,525 and EUR 1,841,416, or aggregately to RSD 220,600 thousand (Note 23).

As of December 31, 2007, equipment included cars with the net book value of RSD 5,764 thousand, were acquired under the finance lease.

16. EQUITY INVESTMENTS

	Decembre 31, 2007	December 31, 2006
Equity investments in related parties	1,999,653	2,621,519
Less: Allowance for impairment	(253,715)	(99,376)
	1,745,938	2,522,143
Equity investments in domestic banks	137	137
Equity investments in other legal entities	19	24
	1,746,094	2,522,304

	Share %	December 31, 2007	December 31, 2006
Equity investments in related parties (gross)			
Foreign:			
Tigar Americas, Jacksonville, Florida	100.00	27,533	27,533
Tigar Europe, London	50.00	122,406	122,406
Tigar Partner, Skopje	70.00	19,898	19,898
Tigar Montenegro, Podgorica	80.00	1,035	1,035
Tigar Trade, Banja Luka	70.00	6,376	6,376
		177,248	177,248
Domestic:			
Tigar Trgovine d.o.o., Pirot	100.00	230,631	230,631
Tigar Obuća d.o.o., Pirot	100.00	177,046	177,046
Tigar Hemijski proizvodi d.o.o, Pirot	100.00	99,740	99,740
Tigar Tehnička guma d.o.o., Pirot	100.00	179,522	179,522
Tigar Poslovni servis d.o.o., Pirot	100.00	24,875	41,801
Tigar Fizičko obezbeđenje d.o.o., Pirot	100.00	13,755	13,755
Tigar Hotel Planinarski dom d.o.o., Pirot	100.00	7,069	7,069
Tigar Tours d.o.o., Pirot	100.00	2,472	2,472
Tigar Zaštitna radionica d.o.o., Pirot	100.00	1,348	1,348
Tigar Inter Risk d.o.o., Pirot	100.00	1,372	1,372
Tigar Inkon d.o.o., Pirot	100.00	16,969	43
Tigar Eksport Import d.o.o., Pirot	100.00	43	43
Tigar – Slobodna carinska zona, Pirot	70.06	81,615	73,877
P kanal , Pirot	75.00	400	400
Tigar Tyres.d.o.o, Pirot	30.00	974,275	1,604,307
Dom sportova a.d., Pirot	50.00	11,106	10,678
Agencija za razvoj Stare planine, Pirot	40.00	122	122
"BAQM", Beograd	0.10	45	45
		1,822,405	2,444,271
		1,999,653	2,621,519

As of December 31, 2007, based on the registration, the Company's investments in Tigar Tyres" amounted to 30%.

17. OTHER LONG-TERM FINANCIAL PLACEMENTS

Other long-term financial placements stated in the balance sheet as of December 31, 2007, in the amount of RSD 55,011 thousand (December 31, 2006: RSD 57,054 thousand) are associated with the receivables from employees based on the approved long-term residential loans, having 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%.

18. INVENTORIES

	December 31, 2007	December 31, 2006
Commercial goods	2,282	1,003
Advances to suppliers	20,744	12,728
	23,026	13,731
Less: Provision	(288)	(462)
	22,738	13,269

19. ACCOUNTS RECEIVABLE

	December 31, 2007	December 31, 2006
Related-party receivables	837,586	285,660
Domestic accounts receivable	69,306	69,321
Receivables for investments income	236,854	88,006
Receivables from employees	5,796	10,670
Other receivables	4,514	2,789
	1,154,056	456,446
Less: Bad debt provision	(55,524)	(72,201)
	1,098,532	384,245

Out of the amount of RSD 837,586 thousand which is associated with the amounts due form the related parties, an amount of RSD 649,266 thousand directly relates to short-term borrowings approved to related parties for daily liquidity requirements(note 29).

As of December 31, 2007, there was no significant concentration of the Company's exposure to credit risk in relations with certain customers.

20. SHORT-TERM FINANCIAL PLACEMENTS

	December 31, 2007	December 31, 2006
Short-term non-interest-bearing placements to related parties	2,078	36,264
Other short-term financial placements	1,002	1
	3,080	36,265

21. CASH AND CASH EQUIVALENTS

	December 31, 2007	December 31, 2006
Current account	21,177	1,108
Foreign currency accounts	89,489	124
Cash in hand	505	576
Other cash	2,106	2,084
	113,277	3,892

22. MOVEMENTS IN PROVISIONS

In thousands of RSD

	Equity Investments	Inventories	Advances	Receivables	Total
Balance, January 1,2007	99,376	332	130	67,649	172,039
New provision charged to the Income Statement	154,338	158	-	-	154,496
Collection of receivables previously provided for	-	-	-	(3,505)	(3,505)
Release of provisions from prior Periods	-	(332)	-	(8,620)	(13,504)
Balance, December 31,2007	253,714	158	130	55,524	309,526

23. SHARE CAPITAL

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

	No of shares	%
Share Fund (Republic of Serbia)	429,429	25%
Pension fund (Republic of Serbia)	149,981	9%
Uni credit banka a.d., Beograd	139,980	8%
QVT Fund, USA	57,760	3%
Raiffeisen Bank, Wienna	46,679	3%
Global Fund, USA	21,934	1%
Hypo Alpe Adria Banka A.D., Beograd	12,226	1%
Delta Generali Osiguranje A.D., Beograd	11,675	1%
A banka Vipa DD, Ljubljana	11,322	1%
A.D. DDOR, Novi Sad	6,615	0%
Other	830,859	48%
	1,718,460	100%

At December 31, 2007, the Company's share capital comprised of 1,718,460 ordinary shares with the individual par value of RSD 1,200.

24. LONG-TERM PROVISIONS

Long-term provisions which amounted to RSD 7,998 thousand as of December 31, 2007 entirely relate to long-term provisions for benefits to which the Company's employee are entitled upon regular retirement.

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

	2007
Nominal discount rate	9%
Expected rate of nominal salary growth	2%

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

	Thousands of RSD 2007
Balance, January 1, 2007	4,333
Allocations from retained earnings	3,005
Charged to income statement	660
Balance, December 31, 2007	7,998

25. LONG-TERM LIABILITIES

	Thousands of RSD December 31, 2007	December 31, 2006
Long-term borrowings	220,600	248,401
Finance leases liabilities	4,124	1,896
	224,724	250,297
Less: Current portion of long-term borrowings	(21,835)	(16,982)
	202,889	233,315

a) Long-Term Borrowings

Creditor	Interest Rate	Currency Code	Currency Amount	Thousands of RSD December 31, 2007	December 31, 2006
Refinanced foreign currency loans via Jubanka A.D., Beograd:					
Berliner Bank A.G., Berlin	5.5 % p.a.	EUR	414,546	32,847	35,015
Algemene bank Netherlands, Amsterdam	5.6 % p.a.	EUR	1,426,870	113,060	120,520
The First National Bank, Chicago	5.5 % p.a.	USD	1,390,251	74,693	89,149
				220,600	244,684
Other loans via Jubanka A.D,Beograd:					
Centro bank, Milan	6.0 % p.a.	EUR	-	-	3,717
				220,600	248,401
Current portion of long-term borrowings				(19,976)	(15,830)
				200,624	232,571

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

25. LONG-TERM LIABILITIES (Continued)

a) Long-Term Borrowings (Continued)

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

	December 31, 2007	December 31, 2006
- within one year	19,976	15,831
- from two to five years	164,555	130,231
- over five years	36,069	102,339
	220,600	248,401

Refinanced loans via Jubanka a.d., Beograd

Long-term borrowings presented in the balance sheet as of December 31, 2007 in the amount of Dinar 220,600 thousand represent the outstanding liabilities as in accordance with the agreements dated October 6, 2004 entered into between the Company and Jubanka A.D., Beograd with respect to the Reschedle and Write-off of principal and interest on the refinanced loans originated by the Paris Club of Creditors.

b) Obligations under Finance Leases

		2007
	Minimum Lease Payments	Present Value of Minimum Lease Payments
Amounts payable under finance leases:		
Within one year	2,186	1,859
Within two to five years	2,405	2,265
	4,591	4,124
Less: Future finance charges	(467)	-
Present value of lease obligations	4,124	4,124
Less: Amount due for settlement within 12 months	(1,859)	-
Amount due for settlement after 12 months	2,265	4,124

26. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2007	December 31, 2006
omestic short-term loans	549,118	375,774
urrent portion of long-term loans and finance leases	21,835	16,982
	570,953	392,756

26. SHORT-TERM FINANCIAL LIABILITIES (Continued)

Domestic Short-Term Loans

Creditor	Interest Rate	Maturity Period	Currency Code	Currency Amount	December 31, 2007	December 31, 2006
Loans in foreign currency						
Société Générale Banka Srbija a.d., Beograd	Three-month EURIBOR + 3.75% p.a.	1 year	EUR	1,000,000	-	79,000
Banca Intesa a.d., Beograd	7.5 % p.a.	1 year	EUR	500,000	39,618	23,700
Alpha Bank a.d., Beograd	6%-8% p.a.	1 year	EUR	3,410,000	270,211	190,074
Export Credit and Insurance Agency	12-month EURIBOR + 2%. p.a.	1 year	EUR	1,000,000	79,235	-
					389,066	292,774
Loans in dinars:						
AIK Banka a.d., Niš	six-month EURIBOR + 3.5% p.a.	1 year	RSD		80,000	-
Unicredit banka a.d., Beograd	13.2% p.a.	1 year	RSD		80,052	83,000
					160,052	83,000
					549,118	375,774

27. ACCOUNTS PAYABLE

	December 31, 2007	December 31, 2006
Advances, deposits and retainers received from customers	5,171	9,356
Accounts payable – related parties	37,300	17,772
Domestic accounts payable	40,950	35,874
Foreign accounts payable	364	2,192
Other accounts payable	825	2,399
	84,610	67,593

28. OTHER CURRENT LIABILITIES AND ACCRUALS

	December 31, 2007	December 31, 2006
Gross salaries	14,113	11,983
Interest accrued	2,974	11,289
Accruals	17,977	22,081
Liabilities for dividends	4,216	2,739
Other short- term liabilities	439	470
	39,719	48,562

29. RELATED PARTY TRANSACTIONS

	December 31, 2007	December 31, 2006
Receivables		
Accounts receivable (Note 19)	187,845	145,796
Other receivables (Note 19)	649,741	139,864
Advances to suppliers	-	5,717
Short-term non-interest-bearing placements to related parties	2,078	36,264
Receivables for investment income (Note 19)	236,854	88,006
	1,076,518	415,647
Payables		
Advances from customers	-	3,425
Accounts payable (Note 27)	37,300	17,772
Other payables	-	1,859
	37,300	23,056
Receivables, net	1,039,218	392,591

	Year Ended December 31, 2007
Income	
Sale of products and services	180,754
Rentals	50,779
Finance expense	28,560
	260,093
Expenses	
Cost of manufacturing services	(12,243)
Non-manufacturing costs	(1,198)
Other payables	(102)
	(13,543)
Receivables, net	246,550

30. COMMITMENTS AND CONTINGENCIES

a) As collateral for regular repayment of liabilities of its domestic subsidiaries' based on long-term and short-term borrowings approved by domestic commercial banks, the Company issued guarantees in the total amount of RSD 291,077 thousand. In addition, the Company acts as a guarantor based on issued customs guarantees to its subsidiary, in order to secure payment of customs and other import duties in the total amount of RSD 19,500 thousand.

b) The Company is engaged within certain number of court trials for which based on analysis of legal documentation available as well as information gathered from legal department, Management believes that will be resolved in favor of the Company, accordingly no additional provisions were recorded in connection to these within the financial statements of the Company as of December 31, 2007.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

31. TAXATION RISK

The Republic of Serbia tax legislation is subject to varying interpretations and changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for five years.

32. POST BALANCE SHEET EVENTS

For 2008, Framework Agreement signed between the Company and Michelin, Netherlands envisage purchase from "Tigar" A.D., Pirot additional 10% of equity interest in "Tigar Tyres." Thereafter, "Tigar" A.D., Pirot will remain the owner of 20% equity in the Tigar Tyres D.,O.O., Pirot.

33. FOREIGN EXCHANGE RATES

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

	December 31, 2007	**December 31, 2006**
USD	53.7267	59.9757
EUR	79.2362	79.0000
GBP	107.3080	117.8577
CHF	47.8422	49.1569