



TIGAR AD PIROT

# 2007 1<sup>ST</sup> QUARTER REPORT

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## I INTRODUCTION

### 1. GENERAL

**Registered name:** Akcionarsko društvo "Tigar" Pirot (Joint-Stock Company Tigar AD Pirot, hereinafter also referred to as Tigar, Tigar AD, the Company, and the Holding Company)

**Corporate ID number:** 07187769

**Web site address:** [www.tigar.com](http://www.tigar.com)

**Core activity:** Holdings

**Number of shareholders:** 4,093 at 31/3/2007

**Assets:** 3,728,781,000 RSD at 31/3/2007

**Registered address:** Nikole Pašića 213, 18300 Pirot, Serbia

**Fiscal ID number:** 100358298

**Incorporation certificate:** Registry file no. 1-1087

**Number of employees:** 2,186 at 31/3/2007

**Capital:** 2,736,949,000 RSD at 31/3/2007

**Capitalization:** 3,615,639.84 RSD at 31/3/2006

### 2. QUARTERLY REPORT FORMAT

The format of this Report is predetermined by the Regulation on Public Company Reporting and Disclosure of Voting Shareholders. Corporate performance information has been segmented by line of business and geographical area, in accordance with IAS 14.

### 3. KEY REMARKS ON 1<sup>ST</sup> QUARTER 2007 PERFORMANCE

In the 1<sup>st</sup> Quarter of 2007, Tigar Footwear continued to restructure its product lines in the safety footwear segment and the hunting/fishing boots segment, and to further refine products manufactured under globally recognized brand names which are, for the most part, intended for export markets. Tigar Rubber Goods conducted negotiations with several international partners with regard to the manufacture of molded rubber products and pressed rubber products. Preparations were made for the resumption of manufacturing of products for military applications. Based on negotiations with partners, both Tigar Rubber Goods and Tigar Chemical Products completed preparations for the re-entry of their products into the Balkan markets, where Tigar has not been present since the early 1990's, as well as for entry into Russian and Ukrainian markets. In the domestic market, Tigar continued to expand its network of service centers and reached an agreement with a foreign partner regarding a cooperation contract and a potential joint venture. New business premises were leased at an extremely attractive location in New Belgrade to accommodate a portion of commercial services located in Belgrade, a portion of corporate management, a show room, and a modern service center. Additionally, a new location in downtown Belgrade was purchased. Following relocation, a portion of Tigar's current locations in Belgrade will be sold and the remainder leased. Tigar Trade/Domestic Sales Network participated in a traditional car show, where it presented its new approach to the domestic end-user market. Preparations for Tigar's A-listing on the Belgrade Stock Exchange were completed. As of the date of this Report, Tigar AD is the first and only company to be A-listed. During the 1<sup>st</sup> Quarter, preparatory activities relating to the exercise of Michelin's call option over Tigar AD's 19.4% interest in Tigar Tyres were completed, but the transaction itself was finalized in April for administrative reasons.

Tigar continued to actively refurbish its new Tigar III industrial location and to prepare for the re-location of the footwear plant, the rubber goods plant, and some of the service businesses. Organizational changes were implemented at Tigar Business Services and Tigar Incon; the Construction Unit of Tigar Business Services was moved to Tigar Incon, whose main activities include engineering, design, consultancy, and supervision. Tigar's independent auditors, Deloitte of Belgrade, completed the annual audit of Tigar AD and its subsidiaries.

The Tigar Export-Import subsidiary was restructured and its activities were expanded. In addition to the activities it performed through the end of 2006, Tigar Export-Import assumed overall purchasing which had been distributed within Tigar's subsidiaries since 2003. Purchasing was integrated with the objective of streamlining this activity and benefiting from better terms and conditions for volume purchases.

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The Board of Directors held two meetings in the 1<sup>st</sup> Quarter, at which decisions were taken with regard to the disclosure of 2006 financial statements pursuant to the Accounting and Auditing Law, and with regard to the convening of the regular session of the General Assembly of Shareholders. During this quarter, several activities were completed with the IFC (a member of the World Bank), aimed at further refinement of Tigar's corporate governance, while others, relating to amendments of the Articles of Association, were initiated. These amendments address the jurisdiction of the Board of Directors and do not affect shareholders' rights.

#### **4. GLOBAL ASSESSMENT OF THE BUSINESS ENVIRONMENT**

Many factors affected Tigar AD's 1<sup>st</sup> Quarter results, performance and achievements.

Major internal factors which impacted Tigar's 1<sup>st</sup> Quarter results, performance and achievements include:

- Continued intensive restructuring of non-tire product lines;
- Orientation toward new product groups and new markets, to which Tigar had no prior access;
- Changes in non-tire product mix, with the goal of achieving a higher level of product sophistication;
- Relative stabilization of raw material prices;
- Refurbishment of the new location; and
- Continued presence of unfair competition in the domestic market, particularly with respect to chemical product and tire sales.

In the 1<sup>st</sup> Quarter of 2007, Tigar continued to be exposed to a number of external risks which affected its business, results of operations, and financial position. Key factors beyond Tigar's control included political instability stemming from the Kosovo status and The Hague Tribunal issues, increase in loan capital interest rates, and currency fluctuations with no efficient risk hedging mechanisms. The raw material market underwent relative price stabilization, and the finished-product market performed better, particularly in the tire and footwear segments. Low season and weather conditions (a very mild winter without snow) had a negative impact on sales, particularly of winter tires, afterparts designed for winter driving, and a segment of rubber footwear intended for bad weather.

## **II SUMMARY OF 1<sup>ST</sup> QUARTER 2007 FINANCIAL INFORMATION**

### **1. TIGAR AD'S UNCONSOLIDATED FINANCIAL RESULT**

The following table contains an extract from 1<sup>st</sup> Quarter 2007 unconsolidated financial statements, as well as 1<sup>st</sup> Quarter 2006 financial statements and 1<sup>st</sup> Quarter 2007 Business Plan projections.

Balance sheet in 000 RSD	Quarter ended 31 March 2006	Opening balance sheet as of 1 January 2007	Quarter ended 31 March 2007
<b>Assets</b>			
Non-current assets	2,778,941	2,979,513	2,368,063
Current assets	388,491	449,757	1,360,719
Deferred tax assets	0	3,450	0
<b>Total assets</b>	<b>3,167,432</b>	<b>3,432,719</b>	<b>3,728,782</b>
<b>Equity and liabilities</b>			
Equity	2,692,199	2,683,587	2,736,949
Non-current liabilities	292,456	237,648	247,446
Current liabilities	182,778	511,485	744,387
<b>Total equity and liabilities</b>	<b>3,167,432</b>	<b>3,432,719</b>	<b>3,728,782</b>

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Income statement in 000 RSD	1 <sup>st</sup> Quarter 2006	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
Operating expenses	83,431	102,196	22%
Profit from operations	2,385	-38,036	-1695%
Financial result	-10,842	-29,814	-175%
Extraordinary result	472	121,245	25588%
Profit before taxation	-7,985	53,395	Gain vs. loss
<b>Net profit</b>	<b>-7,985</b>	<b>53,362</b>	<b>Gain vs. loss</b>

Statement of cash flows in 000 RSD	As of 31 Dec. 2006	As of 31 March 2007
<b>Cash flows from operating activities</b>		
Cash inflows from operating activities	413,116	74,961
Cash outflows from operating activities	521,043	136,474
Net cash used in operating activities	-107,927	-61,513
<b>Cash flows from investment activities</b>		
Cash inflows from investment activities	168,395	2,5
Cash outflows from investment activities	330,956	164,51
Net cash used in investment activities	-162,561	-162,01
<b>Cash flows from financing activities</b>		
Cash inflows from financing activities	303,887	247,398
Cash outflows from financing activities	44,995	1,889
Net cash provided from financing activities	258,892	245,509
<b>Net increase in cash and cash equivalents</b>	<b>-11,596</b>	<b>21,986</b>
Cash and cash equivalents at the beginning of the year	15,809	3,892
Foreign exchange gains		
Foreign exchange loss	321	66
<b>Cash and cash equivalents at the end of the year</b>	<b>3,892</b>	<b>25,812</b>

### Changes in equity

000 RSD	31/12/2006	31/3/2007
Opening balance	2,700,207	2,683,587
IFRS adjustments		
New investments made during the year		
Profit for the year	73,925	53,362
Dividends distributed to shareholders	-43,409	
Other changes	-47,136	
Balance	2,683,587	2,736,949

### Equity investments

Equity investments (000 RSD):	31/12/2006	31/3/2007
Unconsolidated foreign and domestic related parties	2,621,474	1,991,522
Domestic banks	182	182
Other legal entities	24	24
Less: Allowance for impairment	99,376	99,376
<b>Total:</b>	<b>2,522,304</b>	<b>1,892,352</b>

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### Comparison of unconsolidated results

In thousands of dinars	1 <sup>st</sup> Quarter 2006	1 <sup>st</sup> Quarter 2007	Percent change
<b>Assets</b>	3,167,432	3,728,782	18%
<b>Equity</b>	2,692,199	2,741,282	2%
<b>Total Revenues</b>	89,697	200,592	124%
Operating income	<b>85,816</b>	<b>64,160</b>	<b>-25%</b>
Sales of services	84,414	47,994	-43%
Sales of goods and products	1,402	3,383	141%
Other operating income		12,783	
<b>Total operating expenses</b>	83,431	102,196	22%
Operating expenses	82,029	100,639	23%
Cost of commercial goods sold	1,402	1,557	11%
<b>EBIT</b>	459	69,502	15058%
<b>EBITDA</b>	5,035	73,673	1363%
Net financial result	-10,842	-29,814	-175%
Extraordinary result	472	121,245	25588%
<b>Net income</b>	-7,985	53,362	Gain vs. loss
<b><u>Significant ratios</u></b>			
Return on equity	-0.30%	1.95%	Gain vs. loss
Return on shareholders equity	-0.39%	2.59%	Gain vs. loss
Operating result	<b>2,385</b>	<b>-38,036</b>	-1695%
Debt-to-assets ratio	0.15	0.27	77%
Current Ratio	2.13	1.82	-14%
Quick ratio	2.01	1.81	-10%
<b><u>Liquidity and solvency ratios</u></b>			
Current Ratio	2.13	1.82	-14%
Quick ratio	2.01	1.81	-10%
Debt / Equity	0.18	0.36	105%
<b><u>Other ratios</u></b>			
ROE	<b>-0.3%</b>	<b>1.9%</b>	Gain vs. loss
ROA	<b>-0.3%</b>	<b>1.4%</b>	Gain vs. loss
ROS	<b>-9.3%</b>	<b>103.9%</b>	Gain vs. loss

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### **Management's commentary on the unconsolidated financial result**

In the 1<sup>st</sup> Quarter of 2007, the Holding Company earned revenues from the provision of services, primarily to its subsidiaries, and from rental of some of the buildings it owns. Finance income included currency fluctuation gains from its stockholdings in international subsidiaries, interest on inter-company loans to subsidiaries, and capital gain resulting from the exercise of a call option. The Holding Company did not report earnings from subsidiary results, since they are tied with paid dividends or interim dividends with are, as a rule, reported once a year. Booked revenues did not show a significant departure from booked expenditures.

The Holding Company's expenses included all types of operating costs. Major cost items were employee expenses and benefits, other operating costs such as utilities, fuel, maintenance, domestic and international business trips, tuition and scholarships, property and other taxes and charges, consultancy fees, remuneration of the Board of Directors and Supervisory Board, long-term and short-term loan interest, negative currency fluctuation effects on translation of loans denominated in foreign currencies or containing a foreign-currency clause, capital loss resulting from the sale of a building in Vranje which has not been used for several years, as well as minor extraordinary expenses. In view of the beginning of the year, various domestic and international membership fees had to be paid. Several donations were also made, the major one being to the St. Sava Temple based on a previously concluded consortium agreement.

Aggregate investment payments made during the period amounted to 35 million dinars and were, for the most part, related to the new Tigar III industrial location. Most of these payments were booked as investments, but a minor portion had to be reported as expenses due to the nature of relevant activities and requirements of accounting standards.

In view of the characteristics of the 1<sup>st</sup> Quarter, the results are deemed to be acceptable. Significant features of the result are the following: (1) income and expenses have been reported in full actual amounts; (2) there are no risky receivables, and (3) the result is not affected by extraordinary revenues which are of a calculatory nature and not reasonably collectible in cash (an important factor from the potential risk assessment perspective).



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## **2. TIGAR AD'S SEGMENTED RESULTS**

Tigar has 18 subsidiaries which it controls, is party to three joint ventures, and has a stake in one agency. Of the 22 companies, 17 are incorporated and operate in Serbia and five are incorporated and operate abroad.

Companies within the Tigar Group operate in the following areas:

- Manufacture
- Commerce
- Services

Companies which operated within the Tigar Group in 2006 included the following:

<b>Manufacture</b>		
1	Tigar Tyres d.o.o., Pirot	Manufacture of tires and inner tubes
2	Tigar Obuca d.o.o., Pirot (Tigar Footwear)	Manufacture of rubber footwear
3	Tigar Tehnicka guma d.o.o., Pirot (Tigar Rubber Goods)	Manufacture of various rubber goods, generally for industrial applications
4	Tigar Hemijski proizvodi d.o.o., Pirot (Tigar Chemical Products)	Manufacture of paints, varnishes, and coatings
<b>Domestic commerce</b>		
5	Tigar Trgovine d.o.o., Pirot (Tigar Trade)	Domestic Sales Network
6	Tigar Export-Import d.o.o., Pirot	Import, export, and purchasing
<b>International commerce</b>		
7	Tigar Europe, UK	Sales and purchasing in the UK
8	Tigar Americas	Sales and purchasing in the US and Canada
9	Tigar Trade	Sales and purchasing in Bosnia and Herzegovina
10	Tigar Partner	Sales and purchasing in Macedonia
11	Tigar Montenegro	Sales and purchasing in Montenegro
<b>Services</b>		
12	Tigar Zastitna radionica d.o.o., Pirot (Tigar Workshop)	Manufacture of carpentry and packing materials
13	Tigar Planinarski dom d.o.o., Pirot (Tigar Mountain Lodge)	Hotel
14	Tigar Poslovni servis d.o.o., Pirot (Tigar Business Services)	Transportation, construction, food production
15	Tigar Obezbedjenje d.o.o., Pirot (Tigar Security)	Safeguarding of people and property
16	Tigar Inter Risk d.o.o., Pirot	Insurance
17	Tigar Icon d.o.o., Pirot	Engineering and consultancy
18	Tigar Tours d.o.o., Pirot	Tourist Agency
19	Slobodna Zona d.o.o., Pirot (Pirot Free Zone)	Tax and duty free zone
20	PI kanal (Pi Channel)	Local TV station
21	Dom sportova (Sports Center)	Sports center project
22	Agencija "Stara planina " (Mt. Stara Planina Agency)	Development of the Stara Planina National Park

Exchange rates applied to translate financials:

	<b>1<sup>st</sup> Quarter 2007 average</b>	<b>End of March 2007</b>	<b>End of year 2006</b>
British pound (GBP)	119.3064	120.0503	117.8577
Euro (EUR)	79.9849	81.5742	79.0000
Swiss franc (CHF)	49.4667	50.2645	49.1569
US dollar (USD)	61.0356	61.1088	59.9757

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### 1<sup>st</sup> Quarter 2007 financial results

Income statement in thousands of dinars	Tigar AD	Tigar Footwear	Tigar Trade/ Domestic Network	Tigar Business Services	Other entities in Serbia	Entities abroad
<b>Operating income</b>						
Sales of goods, products and services	51,377	204,709	121,640	75,898	193,993	531,325
Work performed by the company and capitalized				5,005	43	
Changes in inventories of finished products and work in progress		54,352		727	2,555	
Other operating income	12,783	2	8,906	15	1,439	301
<b>Total operating income</b>	<b>64,160</b>	<b>259,063</b>	<b>130,546</b>	<b>81,645</b>	<b>198,030</b>	<b>531,626</b>
<b>Operating expenses</b>						
Cost of commercial goods sold	1,557		105,390	3,925	25,175	473,864
Other materials, fuel and energy	3,796	161,183	2,740	29,701	54,270	1,107
Staff costs	44,282	99,784	22,313	22,902	88,450	15,562
Depreciation, amortization and provisions	4,171	4,548	3,218	1,799	6,342	494
Other operating expenses	48,390	22,856	14,877	7,522	27,251	9,074
<b>Total operating expenses</b>	<b>102,196</b>	<b>288,371</b>	<b>148,538</b>	<b>65,849</b>	<b>201,488</b>	<b>500,101</b>
<b>Profit from operations</b>	<b>-38,036</b>	<b>-29,308</b>	<b>-17,992</b>	<b>15,796</b>	<b>-3,458</b>	<b>31,525</b>
<b>Finance income</b>	<b>8,188</b>	<b>2,690</b>	<b>188</b>	<b>82</b>	<b>959</b>	<b>2,101</b>
<b>Finance expenses</b>	<b>38,002</b>	<b>10,297</b>	<b>4,180</b>	<b>1,692</b>	<b>815</b>	<b>242</b>
<b>Other income</b>	<b>128,244</b>	<b>59</b>	<b>311</b>	<b>48</b>	<b>1,055</b>	
<b>Other expenses</b>	<b>6,999</b>	<b>451</b>	<b>513</b>	<b>279</b>	<b>67</b>	<b>82</b>
<b>Profit (loss) before taxation</b>	<b>53,395</b>	<b>-37,307</b>	<b>-22,187</b>	<b>13,955</b>	<b>-2,326</b>	<b>33,303</b>
Income taxes	33				29	9,425
Deferred income tax expense				190	29	
Deferred income tax benefit						
<b>Net profit for the period</b>	<b>53,362</b>	<b>-37,307</b>	<b>-22,187</b>	<b>13,765</b>	<b>-2,384</b>	<b>23,877</b>

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**1<sup>st</sup> Quarter 2007 sales by geographical area, in thousands of dinars**

Country	Tigar Footwear	TG	Tigar Chemical Products	Total
France	35,900	599		36,499
UK	24,351	0		24,351
Germany	3,706	0		3,706
Italy	17,431	1,411		18,842
Spain	0	0		0
Bosnia and Herzegovina	2,222	2,117	434	4,773
Sweden	5,731	719		6,450
Bulgaria	0	30		30
Finland	63,457	0		63,457
Poland	0	14	1,227	1,241
Turkey	0	0		0
Hungary	0	0		0
Romania	0	0		0
Macedonia	0	178	263	441
Greece	0	1,758		1,758
Russia	0	0		0
Israel	0	0		0
Austria	0	0		0
Czech Republic	0	0		0
Montenegro	2,958	0		2,958
South African Republic	0	0		0
Syria	0	0		0
Denmark	0	0		0
Croatia	0	314		314
Slovenia	664	0		664
Slovakia	0	42		42
Latvia	0	0		0
Egypt	0	1,156		1,156
USA	2,186	0		2,186
Malta	0	0		0
Switzerland	0	0		0
Belgium	0	0		0
The Netherlands	0	0		0
Argentina	0	0		0
Chile	0	0		0
Cyprus	0	0		0
Portugal	0	0		0
Lebanon	0	0		0
Other countries		1,080		1,080
<b>TOTAL</b>	<b>158,605</b>	<b>9,418</b>	<b>1,924</b>	<b>169,947</b>

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Assets and liabilities

000 RSD	Assets		Liabilities	
	31 March	31 Dec.	31 March	31 Dec.
	2007	2006	2007	2006
Tigar Rubber Goods	241,478	277,513	227,095	183,495
Tigar Chemical Products	209,025	186,874	146,053	96,786
Tigar Footwear	637,821	454,871	535,297	252,014
Tigar Trade, Domestic Network	590,518	497,167	436,061	290,595
Service Subsidiaries	424,835	299,862	184,080	118,934
Holding Company	3,728,781	3,134,966	987,499	497,801
<b>Total</b>	<b>5,832,458</b>	<b>4,851,253</b>	<b>2,516,085</b>	<b>1,439,625</b>

Purchasing of fixed assets and depreciation

000 RSD	Fixed assets, purchasing		Depreciation	
	31 March 2007	31 March 2006	31 March 2007	31 March 2006
Tigar Rubber Goods	72	1,305	2,844	4,050
Tigar Chemical Products	251	45	1,512	1,394
Tigar Footwear	1,281	1,966	4,548	3,657
Tigar Trade, Domestic Network	5,968	1,439	3,218	2,491
Service Subsidiaries	3,412	2,487	3,785	3,665
Holding Company	36,512	10,445	4,171	4,576

Segmented gross operating results (000 RSD)	1 <sup>st</sup> Quarter 2006	1 <sup>st</sup> Quarter 2007
Tigar Tyres	29,129	28,977
Tigar Rubber Goods	-12,253	-12,655
Tigar Chemical Products	-6,723	-6,216
Tigar Footwear	1,116	-37,307
Tigar Trade, Domestic Network	-10,749	-22,186
Service Subsidiaries	9,015	25,879
Holding Company	-7,983	53,362
<b>TOTAL, ALL SEGMENTS</b>	<b>1,552</b>	<b>29,854</b>

1<sup>st</sup> Quarter 2007 results include 50% of the respective share in Tigar Tyres profits.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
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### **Management's commentary on segmented financial results**

A detailed performance assessment is included after the presentation of financial result for each company or group of companies.

In general terms, the overall result has been assessed as follows:

1. Reported results do not significantly depart from plan.
2. The 1<sup>st</sup> Quarter is a low-season for a major portion of the product lines due to the nature of the products.
3. Weather conditions resulted in lower sales of winter products and impacted overall sales.
4. Export-oriented businesses reported export growth relative to the same period of the previous year.
5. Restructuring of the product mix, especially in the footwear segment, resulted in higher 2006 expenses, primarily as a result of a larger number of employees and higher scrap/waste levels. However, it allowed for a re-orientation toward more sophisticated, higher-margin products which have fewer competitors in the domestic and international markets and are less vulnerable to seasonality. Further product-mix changes in this segment resulted in performance below plan, but the March results shows a significant improvement over the first two months.
6. The human resource optimization process continued.
7. All the required summer-season preparations were completed, aimed at a significant increase in volume and an adequate response to customer demands.
8. Several Tigar Rubber Goods segments, which suffered from a lack of market during the previous years (such as the mining and military industries), are entering a gradual recovery stage. Additionally, initial deliveries of finished products from recycled rubber were made.
9. The change in the sales policy of Tigar Tyres, which is the leading supplier of Tigar Trade/Domestic Sales Network, impacted sales levels. Several wholesale companies continued to better position themselves in the market through price cuts and the undermining of product value. This was not acceptable to Tigar Trade, which is the only national sales network of its type. As a result, sales declined during the 1<sup>st</sup> Quarter, but it is already becoming apparent that the impact was temporary.

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### III CAPITAL MARKET POSITION

Existing shares of stock have been listed for trading on the Belgrade Stock Exchange since 21 May 2005.

Under a General Assembly of Shareholders (GAS) resolution dated 8 June 2006, regarding the distribution of shares due to a change in their par value, **1,718,460** Class D ordinary voting shares were issued and registered with the Central Registry in Belgrade.

The original stock has subsequently been split; each share was divided into ten shares and its par value reduced accordingly.

The original 171,846 shares at a par value of RSD 12,000.00 were exchanged for 1,718,460 shares at a par value of RSD 1,200.00:

- 1) 429,429 Class D shares are held by the Share Fund;
- 2) 149,981 Class D shares are held by the Pension and Disability Fund; and
- 3) 1,141,219 Class D shares are held by shareholders.

CFI Code: ESVUFR

ISIN Number: RSTIGRE55421

The shares were issued based on the Securities Commission Decision no. 4/0–29-2979/4-06, approving the issue of shares without a public offering (stock-split).

The following rights are attached to the shares:

- 1) Each shareholder is entitled to manage the Corporation proportionally to the par value of shares held;
- 2) Each shareholder is entitled to participate in the profit at a par value of RSD 1,200 (right to dividends); and
- 3) All shares are ranked equally and *per se* with regard to pre-emptive rights of purchase or refusal.

Non-voting shares:

- 1) Shares held by the Share Fund participate in the management and in GAS resolutions only within the scope defined by law, primarily relating to changes in capital and amendments to the Company's Articles of Association.
- 2) No management rights are attached to the shares held by the Pension and Disability Fund.

The table below sets forth the (quarterly) high and low closing prices of the shares on the Belgrade Stock Exchange since the initial listing.

#### Share price movement since the initial listing

	Closing price per share in RSD	
	High	Low
Period from 31 May to 30 June 2005	16,727.00	13,000.00
Quarter ended 30 September 2005	19,278.00	15,500.00
Quarter ended 31 December 2005	24,000.00	19,020.00
Quarter ended 31 March 2006	21,500.00	19,702.00
Quarter ended 30 June 2006	20,600.00	14,500.00
Quarter ended 30 September 2006	18,700.00	14,200.00
Quarter ended 31 December 2006 ***	1,863.00	1,647.00
Quarter ended 31 March 2007	2,149.00	1,649.00

\*\*\* A 1:10 stock-split was implemented on 18 Oct. 2006.

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Ten largest shareholders as of 31 March 2007

	Name of shareholder	Number of shares	%
1.	Share Fund	429,429	24.98
2.	Pension and Disability Fund	149,981	8.72
3.	IBT	130,820	7.61
4.	Hypo Alpe Adria Bank	104,537	6.08
5.	Raiffeisen Zentralbank	99,502	5.79
6.	Bank Austria Creditanstalt	74,475	4.33
7.	Global Security Master Fund	21,934	1.27
8.	Poteza D.D.	16,241	0.94
9.	VIT-BEL AD NIS	13,065	0.76
10.	Credit KB D.O.O	12,792	0.74

Corporate management holds less than 1% of the shares. The following table shows the number of shares held by members of the Board of Directors as of 31 March 2007.

Number of shares held by management

Name	Shares held	% of shares outstanding
Dragan Nikolić	880	0.0050
Jelena Petković	275	0.0017
Slobodan Sotirov	539	0.0030
Milivoje Nikolić	462	0.0024
Vladimir Nikolić	803	0.0050
Ljubiša Nikolovski	396	0.0026
Jose Alexandre F. da Costa	-	-
Dr. Živko Mitrović	-	-
Tihomir Nenadić	-	-

Members of the Supervisory Board hold no shares.

Changes in equity relative to 31 December 2006

Name	31/3/2007	31/12/2006	% Change
Share Fund	429,429	427,260	0.5%
Pension and Disability Fund	149,981	149,981	-
Legal entities (in percentage points)	70.38%	59.60%	10.78%
Individuals (in percentage points)	29.62%	40.40%	-10.78%
Individuals, residents	4,019	4,400	-9.4%
Individuals, non-residents	74	65	13.8%
Total number of shareholders	4,093	4,465	-8.19%
Share price	2,104	1,651	27.4%
Capitalization	3,615,639,840	2,837,177,460	21%

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## **2. RISK FACTORS**

### **Risks relating to Tigar's business**

In the 1<sup>st</sup> Quarter of 2007, there were no major risks relating to Tigar's business, other than the fact that there was no true winter season. This has affected sales levels.

### **Risks relating to shareholding and corporate structure**

Even though the number of shareholders continued to be extremely large during the 1<sup>st</sup> Quarter (more than 4,000), the stockholding concentration process continued and percent stockholdings increased, primarily those of banks and insurance companies. This period was characterized by the departure of several funds that held relatively large stock packages, and the entry of new funds.

The state retained its stockholdings. Changes in equity during the period affected neither corporate management nor management decisions.

### **Risks relating to regulatory and legal matters**

Since the National Parliament was not constituted during the 1<sup>st</sup> Quarter, no new laws were passed and the Serbian Government enacted only a minimal number of by-laws. As a result, the expected scrap tire legislation, which is of vital importance to the recycling project, is still not in place.

## **3. ENVIRONMENTAL PROTECTION**

Tigar's environmental management system and quality management system are integrated. To streamline and ensure efficiency of these management systems, all parameters common to both systems have been identified and are monitored jointly, while fully focusing on specific requirements of each system. Activities relating to environmental protection primarily involve training and preparations for re-certification, as well as regular monitoring of major environmental aspects. The Quality School conducted training courses to further knowledge in the area of process approaches and models, with special reference to the re-definition of major process performance indicators and document management. Strategic documents (vision, mission, basic values, strategic objectives, organizational framework, quality policy statements, and environmental policy statements) have also been re-defined, to reflect statutory and internal organization changes.

Preparations for the upcoming regular re-certification of integrated managements systems according to ISO 9001 and ISO 14001 standards, including the establishment of an environmental management system at Tigar Chemical Products, are proceeding according to Action Plans and under full corporate control. Re-certification has been scheduled for the end of the 3<sup>rd</sup> quarter.

Environmental monitoring (including solid waste, wastewater quality, emissions, and energy/water consumption) is conducted on a regular basis and in accordance with appropriate documents and relevant legislation, in order to ensure immediate response in the event of departure from target or specified threshold values of various parameters, as well as, more importantly, to observe trends and re-define general and specific objectives and continuous improvement programs. In the 1<sup>st</sup> Quarter of 2007, wastewater discharges from all sewage outlets were analyzed at a certified laboratory and boiler room emissions were tested.

No environmental complaint was registered during the period. Tigar's representatives were active participants in all activities of governmental and non-governmental organizations relating to the drafting of laws and by-laws which will govern environmental issues based on European Union standards (e.g. the Solid Waste Management Law, the Regulation on Scrap Tire Management, the Law on Packaging and Packaging Waste, and the like).



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#### **4. STRATEGIC ALLIANCES IN 2007**

##### **Tires**

In the tire line of business, the most important change was the preparation for and the exercise of a call option, through which MHPB became the controlling stockholder. The joint venture is still co-owned by three partners: MHPB (a member of the Michelin Group), Tigar AD, and the IFC (a member of the World Bank). Their mutual relationships are defined in the 2002 Framework Agreement and its 2005, 2006 and 2007 amendments, as well as in the Incorporation Agreement. In the 1<sup>st</sup> Quarter, negotiations between Tigar AD and MHPB were initiated to address mutual relationships in various areas.

##### **Rubber footwear**

Tigar continued to follow its multi-partner policy based on off-take and business cooperation agreements.

##### **Rubber goods**

No new strategic alliance agreement was concluded during the 1<sup>st</sup> Quarter, but a letter of intent signed by a foreign partner in the automotive rubber goods segment is still in effect.

##### **Domestic Sales Network**

In the 1<sup>st</sup> Quarter of 2007, following the signing of a letter of intent, an agreement was drafted with a foreign partner concerning further development of the network of service centers and a potential minority stockholding starting in 2008. This agreement was signed upon approval by Tigar AD's Board of Directors in April.

#### **5. INTELLECTUAL PROPERTY**

Tigar's full registered name is Joint-Stock Company Tigar – Pirot in English, and Akcionarsko društvo Tigar – Pirot, in Serbian. Its short name is Tigar AD – Pirot, in both languages. The registered name and its use are regulated by the provisions of Article 14 of the Articles of Association. The above name fulfills all legal requirements. Tigar is registered under the said name with the Serbian Business Registers Agency.

##### **Registered trademarks as of 31 March 2007**

<b>Appl. no.</b>	<b>Appl. date</b>	<b>Reg. no.</b>	<b>Trademark</b>	<b>Valid until</b>	<b>Holder</b>
Ž-247/80	30/04/80	31499	TIGAR	21/12/07	TIGAR AD
Ž-247R/80	30/04/80	49044	TIGAR	30/09/15	TIGAR AD
Ž-84-385	17/01/84	29947	TIGAR TG 615	25/05/07	TIGAR AD
Ž-890/80	11/07/03	49590	TIGAR SPORTING	11/07/13	TIGAR AD
Ž-152/07	29/01/07	-	GOODS	-	
Ž-1369/05	17/10/05	49768	TIGAR TYRES	17/10/15	TIGAR TYRES
Ž-1373/05	17/10/05	49792	HITRIS logo	17/10/15	TIGAR TYRES
Ž-1371/05	17/10/05	49819	CARGO SPEED logo	17/10/15	TIGAR TYRES
Ž-1372/05	17/10/05	49912	WINTERA logo	17/10/15	TIGAR TYRES
Ž-1468/05	31/10/05	-	TIGAR TRGOVINA	-	TIGAR TRADE /Domestic network
Int'l trademark,	03/07/97	675 773	TIGAR	20/05/07	TIGAR AD
USA	24/10/78	1174089	TIGAR logo	15/08/12	TIGAR AMERICAS CORP.

The flagship trademark is «a stylization of a tiger's head with the logo 'Tigar' inscribed in the Cyrillic or Latin alphabet» (Article 17 of the Articles of Association). The appearance and contents of the flagship trademark fall within the jurisdiction of the Board of Directors. Affiliated companies, which are controlled by Tigar AD, may use the flagship trademark.

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In 2006, the flagship trademark was protected as a registered trademark within the territory of the Republic of Serbia for goods in international Classes 1, 7, 17, 20, 25 and 28, as a separate trademark only for tires in Class 12, and as an international trademark in 43 countries for the same classes previously listed and for Class 12 (vehicle tires); all are in the name of Tigar AD. A variation of the flagship trademark, «Tigar MH», is protected in Serbia for tires and processing of materials (Classes 12 and 40) in the name of Tigar Tyres. Under a Trademark Assignment Agreement, signed by Tigar AD and MHPB in 2002, Tigar AD is obligated to assign its flagship trademark for tires and inner tubes (Class 12) only to Tigar Tyres.

Tigar Rubber Goods has one pending patent application with the Serbian Intellectual Property Office, for an invention entitled "*Tigar Flex*" *Flexible Hose Production Technology*, filed on 30 January 2006 under no. P-2006/0071.

Tigar AD holds two internet domain names: [www.tigar.com](http://www.tigar.com) and [www.tigar.co.yu](http://www.tigar.co.yu).

Tigar holds no copyrights or neighboring rights. Tigar uses standard software under licenses duly acquired from software manufacturers or software distributors.

Article 12 (3) of the Particular Collective Contract stipulates that employees have a right to be remunerated for copyrights, technical innovations, and improvements in production processes. The amount of remuneration is regulated by a separate contract between the employee and Tigar AD, in the form of an increase of the employee's remuneration.

Tigar has not been notified of any complaints, objections or claims and Tigar has not filed any complaints, objections or claims with respect to any infringement of intellectual property rights.

In the 1<sup>st</sup> Quarter of 2007, the recording of the assignment of the flagship trademark (for Class 12 tires and inner tubes) to Tigar Tyres within the territory of the Republic of Serbia was completed. Proceedings were also initiated for the assignment of the Class 12 international trademark IR 675 773, as well as for the renewal of IR 675 773 for all other classes which this trademark covers, in the name of Tigar AD. Additionally, proceedings were initiated at the Serbian Intellectual Property Office for expansion of the flagship trademark registration to include Service Classes 35, 39, 40 and 42, and for registration of the following trademarks: Tigar Tours (Classes 39, 42 and 43), Tigar Planinarski Dom Hotel (Classes 35, 41 and 43), and Markol (Classes 1 and 2).

## **6. LEGAL PROCEEDINGS**

Tigar is party to a number of legal disputes that have arisen in the course of its business, including: commercial litigation; administrative proceedings; employee litigation; liquidation, bankruptcy and mandatory settlement proceedings; and participation in criminal proceedings against individuals who had victimized Tigar, usually by thefts or bad checks. These proceedings are not unusual and are not expected to have a significant impact on Tigar's financial position.

In 2006, there was no notable increase in the aggregate value of disputes either at the corporate or subsidiary level. In 2006, Tigar Trade/Domestic Sales Network reduced the aggregate value of claims by RSD 37,655,323.

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The largest disputes at the corporate level occurred prior to 2000. They include the following (amounts shown do not include interest):

DEFENDANT	CLAIM	% 31-03-07/ 31-12-06	
TREPČA-Zvečan	9,637,376		0%
UNION BANKA	9,283,000		0%
LOLA CORPORATION	6,000,000		0%
AMIGA-Kragujevac	1,848,016		0%
AS KOMERC-N. Beograd	2,366,719		-49%
JIP-Beograd	1,641,377		0%
MADRIS-Beograd. MADREC. Niš.CPORECSS-Novi Sad	3,319,240		0%
LEKSUS GROUP-Novi Sad	1,217,996		0%
2M-Pirot	2,247,300		0%
MEDVET-Beograd	1,491,696		0%
TIGAR PROM-Nova Varoš	3,636,000		0%
PROTEKT-Prijedor	€ 2,530		-94%
BADAG PROTEKT-Kuzmica, Croatia	€ 5,202		0%
BAN GUMA-Glina, Croatia	124,812		0%
MICHEL COMP-Ruma	4,567,985		-16%
AMG OIL-Knjaževac	1,107,674		0%
PRIMA TREJD-Kučevo	1,174,680		0%
SIMPO-Vranje	29,243		-98%
TOTAL	RSD 51,705,901	€ 41,882,00	-6%
			-16%

For all of these disputes, effective court rulings exist, but payout has not been realized either due to political problems (e.g. Trepca), multiple-year liquidation proceedings which for unexplainable reasons have not been completed, or long-term restructuring processes (e.g. the Lola Corporation).

Regardless of the delay in the execution of the court decisions, it is realistic to expect their partial or complete payout in the subsequent period. Since the value of the claims has already been booked against expenses, the payout of the court decisions will represent considerable extraordinary income for the Company. Major disputes are expected to be finalized during the current fiscal year.

## **7. REAL ESTATE**

All of Tigar's manufacturing facilities are located in Pirot. Currently, there are four manufacturing plants on two separate locations. The larger location holds tire, rubber goods, and chemicals products manufacturing facilities. Tigar Footwear is located on a separate site. The new Tigar III location purchased in 2006 is currently being refurbished and prepared for re-location. It has been booked as a „capital investment in progress“. Tigar owns several buildings in Belgrade, and Tigar Trade/Domestic Sales Network owns buildings across Serbia (office buildings, warehouses, and retail outlets).

New business premises in Belgrade were purchased in the 1<sup>st</sup> Quarter of 2007. A portion of the purchase price was paid using Tigar AD's receivables from previous periods, which were collected in the interim.

Tigar Tyres owns the buildings in which it operates, and holds the right to use the land on which these buildings are located. Tigar holds the right to use all the remaining land. The buildings on this land are owned by Tigar and/or the subsidiaries it controls. Buildings used by other manufacturing subsidiaries are owned by them, while Tigar owns the buildings used by service subsidiaries.

Per Serbian laws, the land is owned by the state, and Tigar has acquired the right to use the land.

### **Land**

Tigar uses 140 cadastral lots (total surface area 610,273 m<sup>2</sup>, total book value RSD 89,244,043).

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## **Buildings**

Tigar and its major subsidiaries (except Tigar Trade) own a total of 179 buildings.

As of 31 December 2006, the book value of buildings owned by Tigar and its major subsidiaries was RSD 1,232,731,680.

The following table shows the book value of buildings owned by Tigar AD, five major subsidiaries, and the Pirot Free Zone:

### Book value of buildings

Entity	Book Value in RSD 31-12-06	Book Value in RSD 31-03-07
Tigar AD	233,377,185	219,085,984
Tigar Trade, Domestic Network	110,559,302	105,417,329
Tigar Rubber Goods	83,219,296	82,634,628
Tigar Chemical Products	49,285,149	48,942,906
Tigar Footwear	30,749,557	30,535,757
Pirot Free Zone	25,329,300	26,261,265
<b>Total</b>	<b>532,519,789</b>	<b>512,877,869</b>

## **Material encumbrances**

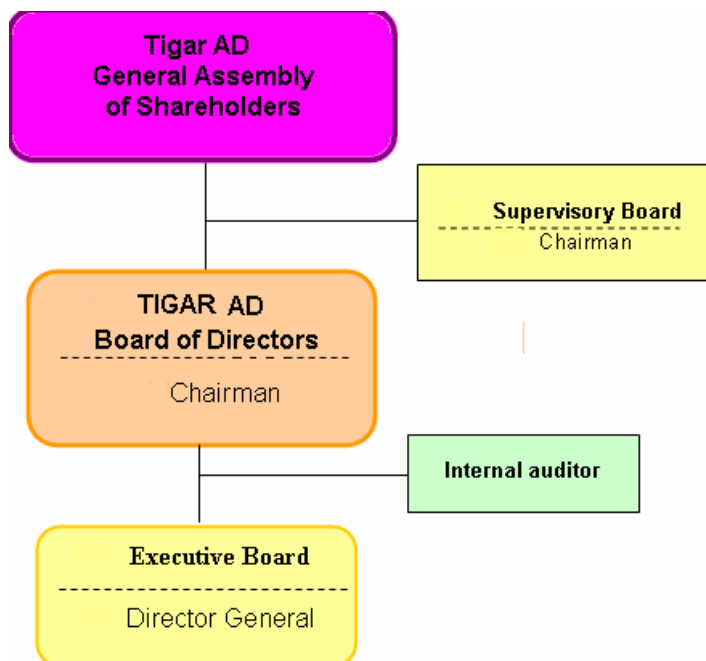
The Company's material encumbrances at the end of 2006 were as follows:

1. **Municipal Court of Pirot ruling I no. 1562/04 dated 21 December 2004**, under agreement in favor of Yu Banka Belgrade, places a lien against real property (cardboard, footwear and rubber goods plant buildings) serving as a security for the following agreements between Yu Banka and Tigar:
  - Agreement no. 3617/04 dated 6 October 2004, EUR 704,494.39 (outstanding balance EUR 539.260,23);
  - Agreement no. 3618/04 dated 6 October 2004, EUR 2,439,711.58 (outstanding balance EUR 1.863.030,77); and
  - Agreement no. 3619/04 dated 6 October 2004, USD 2,362,641.42 (outstanding balance EUR 1.808.500,63).
2. **Municipal Court of Pirot ruling I no. 1049/01 dated 11 December 2001**, under agreement in favor of Delta Banka Belgrade, places a lien against movables – goods (auto tires), serving as a security for bank guarantee no. 700761139 SD for regular payments by Tigar AD under an equipment supply contract dated 7 September 2001 with WMI EPE Holland. The outstanding amount is EUR 105,179.00.

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## **8. MANAGEMENT**

The management structure is unchanged.



The General Assembly of Shareholders (GAS) elects the Board of Directors. The Board of Directors elects the Executive Board. The Executive Board is in charge of day-to-day operations. There is also a three-member Supervisory Board, which reviews all of Tigar's documents and the status of its assets. It reports findings in these and other specific areas to the GAS.

### **Board of Directors**

Current members of the Board of Directors are:

Name	Responsibility at Tigar/Position outside Tigar
<b>Executive members:</b>	
Dragan Nikolić	Executive Board Chairman / Director General of Tigar AD
Jelena Petković	Executive Director for Corporate Management Support
Slobodan Sotirov	Executive Director for Quality Control
Milivoje Nikolić	Executive Director for Human Resources
<b>Non-executive members:</b>	
Vladimir Nikolić.	Director General of Tigar Tyres
Ljubiša Nikolovski	HR Director at Tigar Tyres
Jose Alexandre F. da Costa	Legal Counsel to Tigar AD Director General
<b>Independent members:</b>	
Dr. Živko Mitrović	Full Professor, Belgrade University School of Business Administration
Tihomir Nenadić	Director of Mayfield Management d.o.o., member of the Fordgate Group, UK

Members of the Board of Directors can be reached at Tigar's business address: Nikole Pašića 213 18300 Pirot, Republic of Serbia.

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In the 1<sup>st</sup> Quarter of 2007, members of the Board of Directors received remuneration in the gross aggregate amount of RSD 2,084,000.

In the 1<sup>st</sup> Quarter of 2007, the Board of Directors held two meetings.

The same composition of the Board of Directors has been proposed for the year 2007 to the General Assembly of Shareholders.

### **Executive Board**

The structure and composition of the Executive Board remained unchanged during the 1<sup>st</sup> Quarter.

The Executive Board consists of eight members:

Name	Responsibility at Tigar
Dragan Nikolić	Director General of Tigar AD
Jelena Petković	Executive Director for Corporate Management Support
Djordje Džunić	Executive Director for Financial Affairs
Miodrag Tančić	Executive Director for Production Processes
Slobodan Sotirov	Executive Director for Quality Control
Branislav Mitrović	Executive Director for IT and Investments
Milivoje Nikolić	Executive Director for Human Resources
Božidar Petrović	Executive Director for Development of Complementary Programs

Members of the Executive Board can be reached at Tigar's business address: Nikole Pašića 213, 18300 Pirot, Republic of Serbia.

In the 1<sup>st</sup> quarter of 2007, the Executive Board held two meetings at which monthly performance against Business Plan objectives and other issues relevant to operations were reviewed.

Members of the Executive Board receive no special compensation for their services as members of the Executive Board.

There are no service contracts between Tigar and/or its subsidiaries and Executive Board members providing for benefits upon termination of Executive Board membership.

### **Supervisory Board**

The composition of the Supervisory Board remained unchanged.

Current members of the Supervisory Board are:

Full name	SB position	Principal activities outside Tigar	Appointment expires on
Marko Steljić	Chairman	Chief Executive Officer emeritus, Jugobanka (now Alfa Banka)	27 October 2008
Dr. Milić Radović	Member	Full Professor, Belgrade University School of Business Administration	27 October 2008
Dragan Milosavljević	Member	Ministry of Finance, Treasury Administration, Belgrade	27 October 2008

Members of the Supervisory Board can be reached at Tigar's business address: Nikole Pašića 213, 18300 Pirot, Republic of Serbia.

There were no Supervisory Board activities during the 1<sup>st</sup> Quarter.

In the 1<sup>st</sup> Quarter of 2007, members of the Supervisory Board received an aggregate compensation of RSD 651,247.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
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## **9. EMPLOYEES**

### **Number and structure**

As of 31 March 2007, Tigar's domestic subsidiaries had 2.186 employees. In addition, Tigar's subsidiaries in the United States, United Kingdom, FRY of Macedonia, Montenegro, and Bosnia and Herzegovina employed a total of 24 local employees.

As of 31 March 2007, the employment structure was as follows:

<b>As of 31 March 2007</b>	
<b>Company</b>	<b>Number of Employees</b>
Tigar AD	204
Tigar Footwear	958
Tigar Business Services	177
Tigar Rubber Goods	225
Tigar Chemical Products	82
Domestic Sales Network	182
Others	358
<b>Total</b>	<b>2,186</b>

All employees sign standard employment contracts with the Company's top executives, stipulating the basic conditions of employment, from working hours to grounds for termination of contract. Full-time employment entails 40 working hours per week. Employment contracts are confidential.

Upon retirement, all employees are entitled to three monthly salaries in accordance with Art. 119 (1) (1) of the Labor Law, while those who opt to retire as soon as they fulfill one of the two criteria for retirement receive two additional monthly salaries as an incentive. Tigar's retired employees generally continue to maintain contact with Tigar. For example, Tigar pays a two-month salary equivalent to the family upon a retiree's death. Currently, 68 employees and retirees are repaying housing loans obtained from Tigar.

Apart from statutory requirements, Tigar has no special programs or funds for employees' health insurance, retirement or other social security matters.

### **Employee expenses**

Total 1<sup>st</sup> Quarter expenses incurred by Tigar AD and its subsidiaries, including net earnings, taxes, pension and health fund contributions, in-house meals and local transportation subsidies amounted to RSD 211.432.000.

The table below shows paid salaries as a percentage of sales revenues.

<b>1<sup>st</sup> Quarter of 2007</b>			
	<b>Net salaries in 000 RSD</b>	<b>Gross salaries in 000 RSD</b>	<b>% of Sales</b>
Tigar AD	20,046	28,074	43.76%
Tigar Footwear	58,426	81,168	39.65%
Tigar Business Services	13,194	18,387	24.23%
Tigar Rubber Goods	16,712	23,242	47.82%
Tigar Chemical Products	5,891	8,201	34.69%
Domestic Sales Network	13,243	18,418	14.11%
Others	24,405	33,942	29.64%
<b>Total</b>	<b>151,917</b>	<b>211,432</b>	<b>31.93%</b>

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Taxes, health insurance and pension fund contributions in the 1<sup>st</sup> Quarter of 2007 amounted to RSD 59,515,000.

### **Optimization of human resources**

In the 1<sup>st</sup> Quarter of 2007, 21 employees left Tigar AD and its subsidiaries (excluding Tigar Tyres), on the following grounds:

	Retirement	Redundancy	Other*	Total
Tigar AD	2	10		12
Tigar Business Services		1		1
Tigar Rubber Goods		5	1	6
Others	2			2
<b>Total</b>	<b>4</b>	<b>16</b>	<b>1</b>	<b>21</b>

\*All of the 21 terminated employees were full-time employees.

The numbers do not show large shifts in the number of employees. The primary reasons for termination of employment are retirement and redundancy (referral of full-time employees to the Labor Market).

Reductions in the number of employees are inherent in the restructuring process. This process will continue during 2007. Solving the problem of employee redundancy on a voluntary basis was a major component of the social stability policy.

All-inclusive expenses associated with the optimization of human resources and their percentages relative to gross salaries are shown below:

	In 000 RSD	%
Tigar AD	4,100,553	14.61%
Tigar Business Services	213,082	1.16%
Tigar Rubber Goods	1,389,849	5.98%
Others	280,097	0.83%
<b>Total</b>	<b>5,983,581</b>	<b>2.83%</b>

Changes in qualification and age structures of employees are indicative of two parallel processes: optimization of our human resource pool in terms of qualification improvements and hiring of new employees.

In the 1<sup>st</sup> Quarter of 2007, due to the seasonality of certain product lines, 550 temporary employees were hired.

### **Professional training**

Our policy of ensuring the availability of professional employees through the offering of scholarships to Pirot secondary school students was continued in 2007.

In the 1<sup>st</sup> Quarter of 2007, scholarships were paid for students at the following colleges/universities:

	Technical sciences	Manufacturing process engineering	Economics and business administration	Other
<b>Total</b>	<b>42</b>	<b>28</b>	<b>13</b>	<b>24</b>

Tuition and scholarship expenses for the period amounted to RSD 1,869,785.



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### **Employee training**

The following numbers of employees were trained through internal and external training programs during the 1<sup>st</sup> Quarter:

	IN-HOUSE TRAINING	EXTERNAL TRAINING	TOTAL
Tigar AD	60	40	100
Tigar Footwear	125	82	207
Tigar Business Services	8	32	40
Tigar Rubber Goods	22	75	97
Tigar Chemical Products	75	45	120
Domestic Sales Network	6	5	11
Others	121	63	184
<b>Total</b>	<b>417</b>	<b>342</b>	<b>759</b>

## **10. CORPORATE GOVERNANCE**

In the 1<sup>st</sup> Quarter of 2007, Tigar duly adhered to its adopted corporate governance code—the Codex. Activities continued with the IFC on a Tigar AD corporate governance refinement project. Based on a review of Tigar AD's documents and interviews with members of the Board of Directors, Supervisory Board and Executive Board, as well as with internal and independent auditors, the IFC proposed improvements which were subsequently reviewed, revised as necessary, and approved by corporate management. Activities under this project will continue through management training programs. Additionally, activities were initiated with the goal of amending Tigar AD's Articles of Association; these amendments address decision-making by the Board of Directors, and do not affect shareholders' rights. Amendments will provide for the separation of the Board of Directors/Executive Board chairman function from the Director General function, the transfer of decision-making competence from the General Assembly of Shareholders to the Board of Directors in matters concerning long-term borrowings whose levels do not fall under the category of high-value transactions (in order to allow for a portion of current short-term loans to be replaced with more favorable long-term international loans), the cessation of the Supervisory Board in view of the role and development of the internal auditing system, and several minor adjustments to reflect current regulations in this area.

## **11. PUBLIC OFFERING**

The process is expected to continue following the adoption of the 2006 Annual Report at the GAS meeting in May of 2007, provided the political situation and overall circumstances are favorable, and provided an agreement to proceed is reached with the Agency. Upon authorization by the GAS, the Board of Directors will formally launch the process. The decision of the Board of Directors will primarily depend on the price, or the proceeds which can be realized from the public offering relative to the cost of loan capital and other means of procuring required investment funding. The process could be completed in October 2007. Outstanding tasks to complete the process include: amendment of the document package to reflect any interim changes, and „limited audit“ for the January-June 2007 period. Legal and tax advisor costs have been charged to 2006 expenses. Auditors' costs have in part been charged to 2006 expenses and in part to 1<sup>st</sup> Quarter 2007 expenses. All accruals in connection with the preparation of the public offering were booked and paid before 31 March 2007.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
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## **V 1<sup>ST</sup> QUARTER PERFORMANCE OF SUBSIDIARIES AND AFFILIATES**

### **1. TIGAR TYRES**

#### **Products**

Tigar Tyres manufactures tires for cars, light utility vehicles (LUVs), scooters, and motorcycles, as well as all types of inner tubes. Two-wheel tires belong to the first line of products, while all types of tires are classified as upper third-line segment. Tigar Tyres manufactures tires for the replacement market.

The market for Tigar Tyres products is increasingly focused on high performance, reflecting the development of modern vehicles. Tigar Tyres meets customer demands with regard to both performance and safety.

#### **Markets and competition**

In the 1<sup>st</sup> Quarter, car and LUV tires were sold solely to the replacement market.

Tigar Tyres sells its car tires primarily to the Michelin Group, Tigar AD's commercial subsidiaries, and independent dealers. Of the more than 80% of Tigar Tyres car tires sold in international markets, more than 90% was sold within the European Union, with French, British, and German markets making up approximately 80% of EU sales. The proportion of sales to the Michelin Group increased in the 1<sup>st</sup> Quarter, at prices fully competitive with the other sales channels.

As of 1 January 2007, Tigar's Balkan subsidiaries no longer operate on an exclusive basis.

The sales policy in the Serbian market was changed, with the goal of uniform sales prices.

#### **Sales and distribution**

Tigar Tyres distributes its products in international markets through the Michelin Group, through Tigar's international sales subsidiaries, and through various other channels.

In the Serbian market, Tigar Tyres distributes its products primarily through direct sales to large customers, through Tigar's Domestic Sales Network, and through various other channels.

#### **Customers**

In international markets, Tigar Tyres' principal customers are Michelin's sales networks, the Tigar AD sales network (Tigar Europe and Tigar's Balkan subsidiaries), and independent wholesalers such as Dipropneu and Meyer.

Tigar Tyres' largest single customer in Serbia is Tigar AD's Domestic Sales Network, which sells the tires primarily through Tigar AD's retail outlets. Other major customers in Serbia are tire wholesale companies.

In 2006, buyers who purchased more than 10% each of total sales included the Michelin Group and Tigar Europe.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
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### **Purchasing**

There were no changes in the purchasing policy during the 1<sup>st</sup> Quarter, and Tigar Tyres continued to supply Tigar AD's manufacturing subsidiaries with certain materials which they use in their manufacturing processes.

### **1<sup>st</sup> Quarter financials**

Balance Sheet, in thousands of Dinar	Opening balance sheet as of 1 Jan. 07	Quarter ended 31 March 2007
<b>Assets</b>		
Non-current assets	3,394,163	3,480,810
Current assets	4,194,460	4,589,595
Deferred tax assets		
<b>Total assets</b>	<b>7,588,623</b>	<b>8,070,405</b>
<b>Equity and liabilities</b>		
Equity	3,597,166	3,703,659
Non-current liabilities	1,160,832	1,197,732
Current liabilities	2,830,626	3,169,014
<b>Total equity and liabilities</b>	<b>7,588,623</b>	<b>8,070,405</b>

Free cash flow in 000 RSD	As of 1. Jan-07	As of 31. March-07
Net profit	235,367	106,494
+ Depreciation	412,025	134,726
+Reserved costs for benefits	0	0
+Recovery on provisions	0	0
<b>Cash flow from operations</b>	<b>647,392</b>	<b>241,220</b>
<b>Capital expenditures</b>	<b>658,495</b>	<b>221,373</b>
Inventory increase (decrease)	420,225	-213,054
+Receivables increase (decrease)	-213,881	700,027
-Liabilities increase (decrease)	-269,103	322,131
<b>Working capital increase (decrease)</b>	<b>475,447</b>	<b>164,842</b>
<b>Free cash flow</b>	<b>-486,550</b>	<b>-144,995</b>

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
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Income statement in thousands of dinars	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Operating income</b>		
Sales of goods, products and services	2,968,407	23%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress	-110,687	-141%
Other operating income	31,923	70%
<b>Total operating income</b>	<b>2,889,643</b>	<b>7%</b>
<b>Operating expenses</b>		
Cost of commercial goods sold	197,593	176%
Other materials, fuel and energy	1,636,138	-7%
Staff costs	549,418	35%
Depreciation, amortization and provisions	139,828	19%
Other operating expenses	160,699	-38%
<b>Total operating expenses</b>	<b>2,683,676</b>	<b>3%</b>
<b>Profit from operations</b>	<b>205,967</b>	<b>135%</b>
<b>Finance income</b>	<b>64,262</b>	<b>33%</b>
<b>Finance expenses</b>	<b>152,915</b>	<b>99%</b>
<b>Other income</b>		
<b>Other expenses</b>		
<b>Profit (loss) before taxation</b>	<b>117,314</b>	<b>99%</b>
Income taxes	10,820	472%
Deferred income tax expense		
Deferred income tax benefit		
<b>Net profit for the period</b>	<b>106,494</b>	<b>87%</b>

### **Management's commentary**

The financial result is higher than in the previous year and is above plan. On the one hand, this is due to higher sales to both domestic and international markets and, on the other hand, it is a result of lower production costs and increased productivity.

In the 1<sup>st</sup> Quarter of 2007, sales to the domestic market were considerably higher, as a result of the implemented off-season sales policy.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
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## **2. TIGAR FOOTWEAR**

### **Products**

Tigar Footwear, a Tigar AD subsidiary, produces a variety of rubber footwear products addressing different segments of the market. Its main footwear lines include:

- *General-purpose footwear.* Tigar's general-purpose men's and women's footwear includes low rubber shoes, used principally by farmers; a wide range of rubber boots, used for farming and other general purposes; and children's rubber shoes.
- *Rubber boots for hunting and fishing.* Tigar's specialized rubber boots for hunting and fishing are sold primarily in export markets. These boots include high rubber wading boots for fishing, as well as a wide range of knee-high boots for hunting and fishing. Domestically and in the Balkan countries, the boots are sold under the Tigar brand name. For international markets, Tigar brands the boots with the name of its customer.
- *Rubber safety boots and work boots.* Tigar's rubber safety boots and work boots are manufactured for use by firemen, forestry workers and other workers who require specialized boots with metal protective toe inserts and special heat properties. These boots are made from specialized materials designed to withstand higher temperatures and extreme conditions. These products are currently produced solely for export.

The following table shows comparative footwear outputs:

<b>(000 pairs)</b>	<b>1<sup>st</sup> Quarter 2007</b>	<b>%</b>	<b>1<sup>st</sup> Quarter 2007 vs. 1<sup>st</sup> Quarter 2006</b>
Low footwear	82,053	26%	-19%
Fishing and hunting footwear	58,953	19%	23%
Safety footwear	48,869	15%	230%
Work footwear	12,670	40%	-50%
<b>TOTAL</b>	<b>316,870</b>	<b>100%</b>	<b>-24%</b>

The following table shows comparative total revenues:

<b>(000 EUR)</b>	<b>1<sup>st</sup> Quarter 2007</b>	<b>% Share</b>	<b>1<sup>st</sup> Quarter 2007 vs. 1<sup>st</sup> Quarter 2006</b>
Low footwear	391	15%	33%
Fishing and hunting footwear	656	26%	53%
Safety footwear	731	29%	286%
Work footwear	762	30%	-22%
<b>TOTAL</b>	<b>2,540</b>	<b>100%</b>	<b>37%</b>

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
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### Markets and competition

The following table shows comparative international/local sales levels:

(000 EUR)	Exports 1 <sup>st</sup> Q 2007	Exports 1 <sup>st</sup> Q 2006	1: 2	Local market 1 <sup>st</sup> Q 2007	Local market 1 <sup>st</sup> Q 2006	4:5
Low footwear	12,591	17,490	-28%	378,785	276,644	37%
Fishing and hunting footwear	636,566	353,259	80%	19,157	76,508	-75%
Safety footwear	729,059	186,862	290%	1,412	2,424	-42%
Work footwear	604,721	719,522	-16%	157,443	256,449	-39%
<b>TOTAL</b>	<b>1,982,937</b>	<b>1,277,133</b>	<b>55%</b>	<b>556,797</b>	<b>612,025</b>	<b>-9%</b>

### Sales and distribution

Tigar Footwear distributes its products in domestic and international markets through Tigar's domestic and international sales subsidiaries and through a variety of wholesalers.

### Customers

Tigar Footwear's customers in its domestic market are primarily shoe wholesalers and retailers. A significant portion of Tigar's rubber shoe sales in the domestic market are made through Tigar Trade's retail outlets.

International customers include: Hunter, Berner-Nokian, Battistini, Biacchi Ettore, Patrizia, and L&N .

### 1<sup>st</sup> Quarter financials

Balance Sheet, in thousands of dinars	Opening balance sheet as of 1 Jan 07	Quarter ended 31 March 2007
<b>Assets</b>		
Non-current assets	113,430	110,163
Current assets	528,698	532,518
Deferred tax assets		
<b>Total assets</b>	<b>642,128</b>	<b>642,681</b>
<b>Equity and liabilities</b>		
Equity	147,041	107,385
Non-current liabilities		
Current liabilities	495,086	535,296
<b>Total equity and liabilities</b>	<b>642,128</b>	<b>642,681</b>

Free cash flow in 000 RSD	As of 1 Jan. 07	As of 31 March 07
Net profit	-58,181	-37,307
+ Depreciation	14,619	4,547
+Reserved costs for benefits		
+Recovery on provisions		
<b>Cash flow from operation</b>	<b>-43,562</b>	<b>-32,760</b>
<b>Capital expenditures</b>	<b>30,181</b>	<b>1,280</b>
Inventory increase (decrease)	148,543	41,608
+Receivables increase (decrease)	1,086	-18,693
-Liabilities increase (decrease)	157,647	40,210
<b>Working capital increase (decrease)</b>	<b>-8,018</b>	<b>-17,295</b>
<b>Free cash flow</b>	<b>-65,724</b>	<b>-16,746</b>

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

Income statement in thousands of dinars	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Operating income</b>		
Sales of goods, products and services	204,709	20%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress	54,352	-1%
Other operating income	2	-100%
<b>Total operating income</b>	<b>259,063</b>	<b>14%</b>
<b>Operating expenses</b>		
Cost of commercial goods sold		-100%
Other materials, fuel and energy	161,183	25%
Staff costs	99,784	49%
Depreciation, amortization and provisions	4,548	24%
Other operating expenses	22,856	8%
<b>Total operating expenses</b>	<b>288,371</b>	<b>30%</b>
<b>Profit from operations</b>	<b>-29,308</b>	<b>-671%</b>
<b>Finance income</b>	<b>2,690</b>	<b>44%</b>
<b>Finance expenses</b>	<b>10,297</b>	<b>70%</b>
<b>Other income</b>	<b>59</b>	<b>-75%</b>
<b>Other expenses</b>	<b>451</b>	<b>493%</b>
<b>Profit (loss) before taxation</b>	<b>-37,307</b>	<b>-3443%</b>
Income taxes		-100%
Deferred income tax expense		
Deferred income tax benefit		
<b>Net profit for the period</b>	<b>-37,307</b>	<b>-4617%</b>

### **Management's commentary**

In the 1<sup>st</sup> Quarter of 2007, sales revenues increased, particularly in the export sales segment. The product mix sold during the 1<sup>st</sup> Quarter of 2007 was quite different from that sold during the same period of 2006. It was dominated by safety boots and sports rubber shoes. Product-mix changes reduced the impact of seasonality, especially in exports. The sales approach to the domestic market was modified to target fleet buyers, especially of safety footwear. Additionally, organized sales of this type of footwear to the domestic market were initiated. Weather conditions reduced sales of conventional rubber footwear during the first couple of months, and sales levels did not meet expectations. Costs were reduced during the 1<sup>st</sup> Quarter, but not to a level which would ensure a positive result against plan. The fact that the March result is positive and better than the January/February result suggests that performance will stabilize by the end of the 2<sup>nd</sup> quarter (the beginning of high season), and allow the company to enter the positive result zone. A significant reduction in costs and increase in productivity can reasonably be expected only after re-location to the new site.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

### **3. TIGAR RUBBER GOODS**

Tigar Rubber Goods (TRG) manufactures:

- Pressed rubber products,
- Molded rubber products,
- Sporting goods,
- Rubber hoses,
- Compound rubber/metal products, and
- Semi-finished rubber products.

#### **Products**

*Pressed rubber products.* These products are very strong, durable, and flexible. TRG produces pressed rubber goods for a variety of industrial, construction, and civil engineering applications, re-treading shops, road infrastructure (e.g. rubber speed bumps) and rubber automobile parts (mats, gasoline reservoirs). It also produces “rubberized” metal goods (rubberized pipes, valves, etc.) by applying a layer of rubber to metal parts manufactured by customers.

*Molded rubber products.* Depending on the application and the customer's requirements, these products are made with various cross-sections and from different grades of rubber. Tigar currently manufactures more than 150 different molded rubber products. Tigar's customers use these products as seals for machine tools; as seals for doors and windows, often in combination with aluminum or PVC parts; and as seals and gaskets for chemical, textile and agricultural equipment and a variety of other uses.

*Sporting goods.* TRG produces a line of rubber and leather sporting goods, including balls for both professional and recreational use, rubberized weights, and other training equipment and accessories. It also produces “promotional” balls with the name or logo of the end-user. The equipment is sold under the Tigar brand name, primarily to schools, sports clubs and associations.

*Hoses.* TRG produces a line of rubber hoses, textile-reinforced hoses, and steel-spring flexible hoses. The steel spring in the flexible hose gives a special mechanical and elastic characteristic to these hoses, allowing them to be bent in any direction while keeping the same cross-section. Hoses are used primarily in automobiles, both as original equipment and as spare parts (hoses for air and liquid cooling systems). Some of the hoses are made from special types of synthetic rubber that is resistant to heat, cold, and mineral oils.

*Compound and semi-finished rubber products.* These products include rubber-coated cables, rubber mixtures, compound rubber-metal products, shock absorbers for road vehicles, shock mounts for rail vehicles, and various products for other applications.

Each of the product segments is operated as a stand-alone business unit, whose future status will depend on market developments and performance.

TRG is planning to introduce a new product line of pressed rubber products manufactured from recycled rubber (rubber pellets). Tigar is currently developing this line of products, but will begin volume production only after the planned recycling plant becomes operational, so that it will have a ready supply of raw materials. A wide variety of products can be manufactured by combining recycled rubber with bonding and coloring agents, including rubber playground surfaces, sports floor coverings, bumpers, various items for roads and railroads, and general-purpose products.



<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
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The following table shows comparative TRG production output:

In tons	1 <sup>st</sup> Quarter	%	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
Mixtures for third parties	217	66%	N/A
Molded products	36	11%	N/A
Shaped pieces and tubing	37	11%	N/A
Sporting goods	10	3%	N/A
Rubberizing	30	9%	N/A
<b>TOTAL</b>	<b>330</b>	<b>100%</b>	<b>34%</b>

The following table shows comparative total revenues:

In 000 EUR	1 <sup>st</sup> Quarter	%	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
Mixtures for third parties	149	25%	N/A
Molded products	148	24%	N/A
Shaped pieces and tubing	148	24%	N/A
Sporting goods	74	12%	N/A
Rubberizing	86	14%	N/A
<b>TOTAL</b>	<b>604</b>	<b>100%</b>	<b>-12%</b>

### **Markets and competition**

In 000 EUR	Exports 1 <sup>st</sup> Quarter 2007	Exports 1 <sup>st</sup> Quarter 2006	%	Local market 1 <sup>st</sup> Quarter 2007
Mixtures for third parties	2	N/A		147
Molded products	16	N/A		131
Shaped pieces and tubing	67	N/A		81
Sporting goods	8	N/A		67
Rubberizing	18	N/A		69
<b>TOTAL</b>	<b>110</b>	<b>148</b>	<b>-26%</b>	<b>495</b>

### **Sales and distribution**

TRG distributes its products in domestic and international markets through Tigar's domestic and international sales subsidiaries, through distributors, and by direct sales to sports clubs and associations.

### **Customers**

TRG' customers in its domestic market are primarily tire re-treading shops, construction companies, mining companies, sports clubs, schools, and automotive parts suppliers, including Tigar's Domestic Sales Network.

International customers are primarily wholesale companies, but also tire re-treading shops, construction companies, mining companies, and automotive parts suppliers.

Tigar's Domestic Sales Network was the only buyer who purchased more than 10% of total sales.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

**1<sup>st</sup> Quarter financials**

Balance Sheet, in thousands of Dinar	Opening balance sheet as of 1 Jan. 2007	Quarter ended 31 March 2007
<b>Assets</b>		
Non-current assets	111,479	108,707
Current assets	137,255	131,431
Deferred tax assets	1,341	1,340
<b>Total assets</b>	<b>250,075</b>	<b>241,478</b>
<b>Equity and liabilities</b>		
Equity	27,037	14,383
Non-current liabilities	1,058	1,092
Current liabilities	221,980	226,003
<b>Total equity and liabilities</b>	<b>250,075</b>	<b>241,478</b>

Free cash flow in 000 RSD	As of 1. Jan. 2007	As of 31 March 2007
Net profit	-66,981	-12,655
+ Depreciation	16,462	2,844
+Reserved costs for benefits		
+Recovery on provisions		
<b>Cash flow from operation</b>	<b>-50,519</b>	<b>-9,811</b>
<b>Capital expenditures</b>	<b>6,871</b>	<b>72</b>
Inventory increase (decrease)	-4,089	3,811
+Receivables increase (decrease)	-14,757	-8,275
-Liabilities increase (decrease)	39,906	23,806
<b>Working capital increase (decrease)</b>	<b>-58,752</b>	<b>-28,270</b>
<b>Free cash flow</b>	<b>1,362</b>	<b>18,387</b>

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Income statement in thousands of dinars	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Operating income</b>		
Sales of goods, products and services	48,602	-18%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress	3,569	-72%
Other operating income	351	602%
<b>Total operating income</b>	<b>52,522</b>	<b>-27%</b>
<b>Operating expenses</b>		
Cost of commercial goods sold		
Other materials, fuel and energy	23,393	-35%
Staff costs	30,560	4%
Depreciation, amortization and provisions	2,844	-30%
Other operating expenses	8,121	6%
<b>Total operating expenses</b>	<b>64,918</b>	<b>-16%</b>
<b>Profit from operations</b>	<b>-12,396</b>	<b>-127%</b>
<b>Finance income</b>	<b>230</b>	<b>-75%</b>
<b>Finance expenses</b>	<b>496</b>	<b>-94%</b>
<b>Other income</b>	<b>47</b>	<b>-68%</b>
<b>Other expenses</b>	<b>40</b>	<b>-76%</b>
<b>Profit (loss) before taxation</b>	<b>-12,655</b>	<b>-3%</b>
Income taxes		
Deferred income tax expense		
Deferred income tax benefit		
<b>Net profit for the period</b>	<b>-12,655</b>	<b>-3%</b>

### **Management's commentary**

Although the 1<sup>st</sup> Quarter result was negative, it was above plan. Two parallel processes are currently under way at this plant: (1) restructuring of the product lines, and (2) ongoing optimization of human resources. The latter results in higher current expenses, but creates conditions for a significant productivity growth. During the 1<sup>st</sup> Quarter, the plant continued to manufacture conventional products but there were intensive negotiations with international and domestic buyers concerning new purchases, particularly of molded products, pressed products, rubber/metal products, and special-purpose products. Only a portion of negotiated sales, when realized, will ensure volume and, in turn, a positive result.

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#### **4. TIGAR CHEMICAL PRODUCTS**

Tigar Chemical Products (TCP) manufactures a variety of products including adhesives for conveyer belts, road paint, industrial adhesives, adhesives for a wide range of other applications, coatings, solvents, thinners, and other chemical products.

TCP's product lines were introduced primarily to address the internal needs of the tire and rubber footwear businesses. The range was expanded over time, to include high-quality adhesives for mine conveyer belts, road paint, appliance paint, and environmentally-friendly polyurethane flooring.

##### **Products**

TCP manufactures the following products:

*Adhesives for conveyer belts.* Tigar manufactures a strong adhesive that splices the ends of conveyor belts without the need for metal fasteners. This product was developed for coal mining companies in Serbia, but has proven successful in international markets as well, particularly in the Republic of South Africa, Bulgaria, Poland and the FRY of Macedonia. Approximately 80% of Tigar's sales of this product line go to international markets.

*Road paint.* Tigar's road paint products are used for road marking applications. Road paint is sold primarily to road construction companies and to municipalities for road maintenance purposes. The products are currently distributed primarily in the domestic market but have been certified for use in the European Union. Due to high transportation costs, in 2006 Tigar pursued international sales only in markets that are close to Serbia, such as the FRY of Macedonia and Greece.

*Industrial and other adhesives.* Tigar's industrial adhesives are used primarily by Serbian manufacturers of furniture, footwear (including Tigar Footwear) and books (for book binding). Its other adhesives (principally epoxy compounds for domestic use) are sold through dealers or through Tigar's Domestic Sales Network.

*Coatings, solvents, thinners, and chemicals.* Tigar sells a wide range of paints and coatings used for a variety of applications, including coatings for the inside and outside of cans, paints and varnishes for metal and wood, paints for appliances and floors (including specialized non-flammable and acid-resistant floor paints), as well as related thinners, solvents and chemicals. These products are sold primarily to domestic construction companies and industrial users, rather than to retail or international markets.

The following table shows comparative TCP outputs:

In tons	1 <sup>st</sup> Quarter 2007	%	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
Products for the mining industry	4	4%	-42%
Road paint	5	5%	218%
Products for railways	3	4%	-90%
Anti-corrosion coating	5	5%	88%
PU self-leveling flooring	0	0%	-48%
Consumer market	43	47%	31%
Products for the Tigar Group	32	35%	1%
<b>TOTAL</b>	<b>91</b>	<b>100%</b>	<b>-63%</b>

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The following table shows comparative total revenues:

(000 EUR)	1 <sup>st</sup> Quarter 2007	%	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
Products for the mining industry	24	8%	-63%
Road paint	29	10%	106%
Products for railways	3	1%	-95%
Anti-corrosion coating	18	6%	27%
PU self-leveling flooring	9	3%	100%
Consumer market	149	50%	26%
Products for the Tigar Group	64	22%	23%
TOTAL	295	100%	-10%

### **Markets and competition**

	1	2	3	4	5	6
	Exports 1 <sup>st</sup> Q 2007	Exports 1 <sup>st</sup> Q 2006	1 : 2	Local market 1 <sup>st</sup> Q 2007	Local market 1 <sup>st</sup> Q 2006	4 : 5
<b>(000eur)</b>						
Products for the mining industry	18	52	-65%	6	13	-55%
Road paint				29	14	106%
Products for railways				3	61	-95%
Anti-corrosion coating				18	15	27%
PU self-leveling flooring				9	4	99%
Consumer market	7	3	130%	142	115	23%
Products for the Tigar Group				64	52	23%
TOTAL	25	55	-55%	270	274	-2%

### **Sales and distribution**

TCP distributes its products in domestic and international markets primarily through direct sales or sales made through Tigar's domestic and international sales subsidiaries, as well as sales made to contractors or wholesale companies.

### **Customers**

THP's customers in the domestic market are primarily companies in the mining, road construction, metal working, engineering, and consumer goods industries.

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**1<sup>st</sup> Quarter financials**

Balance Sheet, in thousands of dinars	Opening balance sheet as of 1 Jan. 2007	Quarter ended 31 March 2007
<b>Assets</b>		
Non-current assets	67,339	66,079
Current assets	143,526	142,947
Deferred tax assets		
<b>Total assets</b>	<b>210,865</b>	<b>209,026</b>
<b>Equity and liabilities</b>		
Equity	69,189	62,973
Non-current liabilities	0	0
Current liabilities	141,677	146,054
<b>Total equity and liabilities</b>	<b>210,865</b>	<b>209,026</b>

Free cash flow in 000 RSD	As of 1 Jan. 2007	As of 31 March 2007
Net profit	-20,900	-6,216
+Depreciation	5,718	1,512
+Reserved costs for benefits	0	
+Recovery on provisions	0	
<b>Cash flow from operation</b>	<b>-15,182</b>	<b>-4,704</b>
<b>Capital expenditures</b>	<b>3,236</b>	<b>251</b>
Inventory increase (decrease)	42,517	500
+Receivables increase (decrease)	-15,148	-410
-Liabilities increase (decrease)	84,345	4,377
<b>Working capital increase (decrease)</b>	<b>-56,976</b>	<b>-4,287</b>
<b>Free cash flow</b>	<b>38,558</b>	<b>-668</b>

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Income statement in thousands of dinars	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Operating income</b>		
Sales of goods, products and services	23,644	-17%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress	-1,014	70%
Other operating income		
<b>Total operating income</b>	<b>22,630</b>	<b>-10%</b>
<b>Operating expenses</b>		
Cost of commercial goods sold		
Other materials, fuel and energy	12,423	-10%
Staff costs	10,403	-5%
Depreciation, amortization and provisions	1,512	8%
Other operating expenses	5,658	27%
<b>Total operating expenses</b>	<b>29,996</b>	<b>-2%</b>
<b>Profit from operations</b>	<b>-7,366</b>	<b>-37%</b>
<b>Finance income</b>	<b>469</b>	<b>133%</b>
<b>Finance expenses</b>	<b>226</b>	<b>-89%</b>
<b>Other income</b>	<b>922</b>	<b>5%</b>
<b>Other expenses</b>	<b>15</b>	<b>-96%</b>
<b>Profit (loss) before taxation</b>	<b>-6,216</b>	<b>8%</b>
Income taxes		
Deferred income tax expense		
Deferred income tax benefit		
<b>Net profit for the period</b>	<b>-6,216</b>	<b>8%</b>

### **Management's commentary**

For most of the product lines, the first quarter is generally a period of low sales levels. The season, especially in road paint and construction industry segments, starts in April. A low volume and high fixed costs are the major reasons for the negative result. In the 1<sup>st</sup> Quarter of 2007, negotiations were conducted with new clients from several former Yugoslav republics; these were among TCP's major markets before the 1990's, but TCP has not been present in these markets for years. An increase in output and sales levels is expected to deliver a positive result in the latter half of the year.

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## **5. COMMERCIAL SUBSIDIARIES**

In the 1<sup>st</sup> Quarter of 2007, Tigar's Domestic Sales Network sold Tigar's products to a wide variety of customers throughout Serbia, both directly to wholesalers and through Tigar's network of retail sales and service outlets.

Tigar also has an international sales network that sells tires, rubber footwear and other products in Western Europe, the Balkans, and North and Central America. Tigar currently has international sales subsidiaries in Bosnia and Herzegovina (Banja Luka), the FRY of Macedonia, Montenegro, the United Kingdom, and the United States.

### **Tigar Trade – Domestic Sales Network**

Tigar Trade operates a domestic sales network of outlets that sell all types of tires, afterparts, and a variety of Tigar-brand rubber products. Tigar Trade also operates a domestic network of service centers which provide tire-replacement and other non-mechanical services for cars, light utility vehicles (LUVs), and trucks.

Tigar Trade has its headquarters in Pirot, three regional branch offices which manage network operations, and three warehouses. All of these locations have access to a single information system which allows for the optimization of deliveries from warehouses to all retail outlets and service centers. Roughly one third of the retail outlets and service centers operate in leased facilities; this was in line with the policy of leasing, rather than purchasing of new facilities.

As of 31 March 2007, Tigar Trade/Domestic Sales Network included:

- **45 retail outlets**, which follow a multi-product multi-brand strategy and offer a wide range of tires, motor oil, batteries, filters, afterparts, and accessories, as well as rubber footwear and other rubber and adhesive products;
- **14 car and LUV service centers, plus 1 mobile service unit**, offering a range of automotive services, including tire replacement, tire repair and balancing, oil changes and, in some facilities, car and LUV washes. The service centers also include shops; and
- **1 stationary and 1 mobile truck service unit.**

The network of service centers at the end of the period was most extensive in northern and southern Serbia, and had the least coverage in Belgrade. In order to appeal to its customers, Tigar Trade follows a multi-brand strategy, offering tires and inner tubes manufactured by a range of manufacturers, including Tigar Tyres and Michelin. Retail outlets offer both domestic and internationally-recognized branded products, including Total and Optima Modrica motor oils, Frad filters, Holts cleaning products, and Bosch and Black Horse batteries. The outlets also provide a convenient retail distribution system for rubber footwear, rubber goods and chemical products, under the Tigar brand name.



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## Sales by product group:

(000 RSD)	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
Car tires	54,007	-13%
Other tires	33,223	-16%
Inner tubes	7,118	53%
Rubber footwear	11,582	-30%
Rubber goods	5,043	-5%
Chemical products	2,169	-24%
Other products	9,474	8%
Services	1,070	-19%
<b>TOTAL</b>	<b>123,686</b>	<b>-12%</b>

## Share in total sales by product group:

	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2006
Car tires	44%	44%
Other tires	27%	28%
Inner tubes	6%	3%
Rubber footwear	9%	12%
Rubber goods	4%	4%
Chemical products	2%	2%
Other products	8%	6%
Services	1%	1%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

## Sales by sales channel:

	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2006
Wholesale	46%	58%
Sales to end users/individuals	41%	42%
Sales to end users/legal entities	12%	0%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

## Sales by segment:

	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2006
Wholesale/regional offices	46%	58%
Retail	33%	42%
Service centers	21%	0%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

Tigar Trade intends to focus special efforts on attracting fleet buyers (i.e. customers operating a fleet of ten or more cars or trucks). Tigar Trade believes that fleet buyers will be especially attracted by an offer of on-the-spot servicing by its mobile units. In the 1<sup>st</sup> Quarter of 2007, sales levels were not satisfactory, in part as a result of an unfavorable season, and in part due to the change in the Tigar Tyres sales policy which resulted in increasing retail prices and margins, but made Tigar Trade less competitive during the period. Partial market stabilization began to be felt as late as the end of April. Growth in service center sales and the expressed interest of a foreign partner are evidence of a sound service center development policy. In 2007, a special project will be prepared for the development of sales via both specialized and „general-purpose“ outlets, as well as sales to fleet buyers and other direct buyers of non-tire products. Performance stabilization should

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particularly be enhanced by the setting up of sales teams composed of regional account managers, similar to the approach followed by a portion of the network of service centers.

Balance Sheet, in thousands of dinars	Opening balance sheet as of 1 Jan. 2007	Quarter ended 31 March 2007
<b>Assets</b>		
Non-current assets	173,883	175,784
Current assets	424,582	414,736
Deferred tax assets		
<b>Total assets</b>	<b>598,465</b>	<b>590,520</b>
<b>Equity and liabilities</b>		
Equity	176,644	154,457
Non-current liabilities	1,855	1,915
Current liabilities	419,967	434,148
<b>Total equity and liabilities</b>	<b>598,465</b>	<b>590,520</b>

Free cash flow in 000 RSD	As of 1 Jan. 2007	As of 31 March 2007
Net profit	-28,075	-22,187
+Depreciation	11,204	3,218
+Reserved costs for benefits		
+Recovery on provisions		
<b>Cash flow from operation</b>	<b>-16,871</b>	<b>-18,969</b>
<b>Capital expenditures</b>	<b>26,938</b>	<b>4,863</b>
Inventory increase (decrease)	28,888	71,055
+Receivables increase (decrease)	70,688	-74,040
-Liabilities increase (decrease)	73,490	11,921
<b>Working capital increase (decrease)</b>	<b>26,087</b>	<b>-14,907</b>
<b>Free cash flow</b>	<b>-69,896</b>	<b>-8,925</b>

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Income statement in thousands of dinars	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Operating income</b>		
Sales of goods, products and services	121,640	-13%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress		
Other operating income	8,906	37%
<b>Total operating income</b>	<b>130,546</b>	<b>-11%</b>
<b>Operating expenses</b>		
Cost of commercial goods sold	105,390	-13%
Other materials, fuel and energy	2,740	0%
Staff costs	22,313	13%
Depreciation, amortization and provisions	3,218	29%
Other operating expenses	14,877	15%
<b>Total operating expenses</b>	<b>148,538</b>	<b>-6%</b>
<b>Profit from operations</b>	<b>-17,992</b>	<b>-50%</b>
<b>Finance income</b>	<b>188</b>	<b>-23%</b>
<b>Finance expenses</b>	<b>4,180</b>	<b>748%</b>
<b>Other income</b>	<b>311</b>	<b>-80%</b>
<b>Other expenses</b>	<b>513</b>	<b>480%</b>
<b>Profit (loss) before taxation</b>	<b>-22,187</b>	<b>-106%</b>
Income taxes	0	
Deferred income tax expense	0	
Deferred income tax benefit	0	
<b>Net profit for the period</b>	<b>-22,187</b>	<b>-106%</b>

### **Management's commentary**

In the 1<sup>st</sup> Quarter of 2007, sales levels were lower, particularly via retail outlets. Since most of the costs belong to the fixed-cost category (salaries, rent, etc.), sales performance below plan and a lack of implementation of the planned product mix by sales channel led to a negative result, even though expenses were significantly below plan. Large purchases of tires due to favorable terms in the 1<sup>st</sup> Quarter, which for the most part remained in stock because of reduced sales levels, created cash-flow difficulties. However, lower-than-planned purchase prices, as a result of special terms and conditions, are expected to have a considerable positive impact on the result over the next several months.

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### **Tigar Europe, UK**

Tigar has been active in the UK market for more than 15 years via the co-owned company Tigar Europe Ltd., in which Tigar AD holds a 50% interest. Tigar Europe has an excellent knowledge of the UK market and a well-established client base, and it provides superior services. In 2006, Tigar began to export rubber footwear to the UK company Hunter via Tigar Europe. Product certification is currently pending for another volume buyer in the UK. Tigar Europe, a wholesale company, also has the know-how and capability to act as a supplier of equipment, materials, spare parts and other goods to other Tigar entities. Tigar plans to expand Tigar Europe's sales network in order to increase its sales of tires and other products (primarily rubber footwear and rubber goods). This company will also continue to provide purchasing services and support potential corporate projects in the UK, as well as to play a more active role in other EU markets. The financial result matched projections.

### **1<sup>st</sup> Quarter financials**

Balance Sheet, in thousands of GBP	Opening balance sheet as of 1 Jan. 2007	Quarter ended 31 March 2007
<b>Assets</b>		
Non-current assets	2	1
Current assets	4,224	4,588
Deferred tax assets		
<b>Total assets</b>	<b>4,225</b>	<b>4,589</b>
<b>Equity and liabilities</b>		
Equity	1,964	2,158
Non-current liabilities		
Current liabilities	2,261	2,431
<b>Total equity and liabilities</b>	<b>4,225</b>	<b>4,589</b>

Income statement in 000 GBP	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Turnover</b>	<b>3,348</b>	<b>-16%</b>
Cost of sales	3,007	-17%
<b>Gross Profit</b>	<b>341</b>	<b>-9%</b>
Administrative expenses	136	14%
<b>Operating Profit</b>	<b>205</b>	<b>-20%</b>
Interest receivable	12	-33%
<b>Profit on ordinary activities before taxation</b>	<b>216.92</b>	<b>-21%</b>
Tax on profit on ordinary activities	67	-16%
<b>Retained profit for the financial year</b>	<b>150</b>	<b>-22%</b>

### **Tigar Americas, USA**

Tigar Americas covers US and Canadian markets. Tigar Americas was the first commercial company which Tigar set up abroad and, prior to the trade embargo, had annual revenues of nearly \$20 million. Following the lifting of the trade embargo, the Company decided to renew and expand its operations to include procurement of supplies for Tigar's subsidiaries, sales of rubber footwear in US and Canadian markets, and re-selling of goods manufactured by other Serbian companies. In the 1<sup>st</sup> Quarter of 2007, most of the activities continued to focus on market research relating to various supplies and rubber footwear, as well as on distribution of household dishes and car parts. High footwear duties in the US had an extremely negative impact on footwear sales to this market in 2006; however, initial footwear sales were made to the Canadian market. Exports to these markets of third-party products did not meet expectations, primarily due to their

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inability to meet US market demands in terms of product offering, quality, and price. Low exports were also a result of the depreciation of the US dollar, with manufacturers focusing on European markets. During the latter half of 2006, procurement activities were initiated for Tigar Footwear supplies under terms and conditions which are more favorable than currently available. Lower sales revenues could not cover fixed costs, even though the company operated with only one employee, and it therefore reported a loss. In 2007, Tigar Americas has a new manager. A revised work program and a modified business plan, which calls for an intensified material-purchasing activity in the US-dollar market to benefit from the currently favorable exchange rate, and for purchasing of certain other types of goods for the Serbian market, as well as for a change in the US sales policy, are expected to deliver continuous performance improvements.

### 1<sup>st</sup> Quarter financials

Income statement in thousands of US dollars	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Sales and marketing income</b>	115	171%
Cost of goods sold	66	345%
<b>Gross profit</b>	49	78%
Sales, general and administrative expenses	57	9%
<b>Loss from operations</b>	-8	-67%
Other income (expense)		
<b>Net loss before corporate taxes</b>	-8	-67%
Provision for income taxes		
<b>Net profit (loss)</b>	-8	-67%

### The Balkans: Tigar Partner, Tigar Trade, and Tigar Montenegro

Tigar AD's subsidiaries in the Balkans are co-owned by Tigar AD and its local partners. Prior to the 1990's, these companies were Tigar's representative offices in the various republics of the former Yugoslavia and, consequently, Tigar's tradition in these markets is well established. The co-owners of the companies are well acquainted with the respective local markets and overall local policies. In 2007, these companies no longer have exclusive rights for tire sales but, regardless, results match projections for the period. However, as indicated in the 2006 Annual Report, the survival of these companies in the mid term requires their overall restructuring and the introduction of an adequately distributed network of service centers. Namely, the situation in these markets is such that the companies cannot continue to operate solely as wholesalers. Tigar believes that Serbian and Balkan markets are the only markets where it is currently feasible for Tigar to develop a retail sales network. Development of an upgrading program will be initiated in the latter half of 2007.

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The following table shows sales revenues by product category from Balkan markets:

	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Tire sales (000 EUR)</b>		
Bosnia and Herzegovina	164	7%
FRY of Macedonia	127	-24%
Montenegro	160	20%
Sub-total, tires	<b>452</b>	<b>-0.47%</b>
<b>Footwear sales (000 EUR)</b>		
Bosnia and Herzegovina	41	3%
FRY of Macedonia	14	-58%
Montenegro	41	49%
Sub-total, footwear	<b>96</b>	<b>-4.01%</b>
<b>Sales of other products (000 EUR)</b>		
Bosnia and Herzegovina	6	57%
FRY of Macedonia	4	8%
Montenegro	2	71%
Sub-total, other products	<b>12</b>	<b>40.57%</b>
<b>TOTAL</b>	<b>561</b>	<b>-0.45%</b>

All of Tigar AD's Balkan sales subsidiaries are wholesale entities that conduct their business via a network of dealers, except for Tigar Montenegro, which also has its own network of retail outlets.

## **TIGAR MONTENEGRO**

Balance Sheet, in thousands of EUR	Opening balance sheet as of 1 Jan. 2007	Quarter ended 31 March 2007
<b>Assets</b>		
Non-current assets	9	8
Current assets	234	199
Deferred tax assets		
<b>Total assets</b>	<b>244</b>	<b>207</b>
<b>Equity and liabilities</b>		
Equity	50	31
Non-current liabilities		
Current liabilities	194	177
<b>Total equity and liabilities</b>	<b>244</b>	<b>207</b>

Free cash flow in 000 EUR	As of 1 Jan. 2007	As of 31 March 2007
Net profit	35	15
+Depreciation	5	1
+Reserved costs for benefits		
+Recovery on provisions		
<b>Cash flow from operation</b>	<b>39</b>	<b>16</b>
<b>Capital expenditures</b>	<b>1</b>	<b>0</b>
Inventory increase (decrease)	-8	16
+Receivables increase (decrease)	-1	28
-Liabilities increase (decrease)	37	-17
<b>Working capital increase (decrease)</b>	<b>-46</b>	<b>61</b>
<b>Free cash flow</b>	<b>84</b>	<b>-44</b>

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

Income Statement in thousands of EUR	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Operating income</b>		
Sales of goods, products and services	207	27%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress		
Other operating income	0	40%
<b>Total operating income</b>	<b>207</b>	<b>27%</b>
<b>Operating expenses</b>		
Cost of commercial goods sold	173	23%
Other materials, fuel and energy		
Staff costs	11	61%
Depreciation, amortization and provisions	1	4%
Other operating expenses	7	-43%
<b>Total operating expenses</b>	<b>192</b>	<b>20%</b>
<b>Profit from operations</b>	<b>15</b>	<b>585%</b>
<b>Finance income</b>		
<b>Finance expenses</b>		
<b>Other income</b>		
<b>Other expenses</b>		
<b>Profit (loss) before taxation</b>	<b>15</b>	<b>542%</b>
Income taxes		
Deferred income tax expense		
Deferred income tax benefit		
<b>Net profit for the period</b>	<b>15</b>	<b>542%</b>

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

**TIGAR TRADE (BANJA LUKA)**

Balance Sheet, in thousands of KM	Opening balance sheet as of 1 Jan. 2007	Quarter ended 31 March 2007
<b>Assets</b>		
Non-current assets	252	246
Current assets	1,241	856
Deferred tax assets	0	0
<b>Total assets</b>	<b>1,493</b>	<b>1,101</b>
<b>Equity and liabilities</b>		
Equity	410	411
Non-current liabilities	62	46
Current liabilities	1,022	644
<b>Total equity and liabilities</b>	<b>1,493</b>	<b>1,101</b>

Free cash flow in 000 KM	As of 1 Jan. 2007	As of 31 March 2007
Net profit	86	1
+Depreciation	29	7
+Reserved costs for benefits		
+Recovery on provisions		
<b>Cash flow from operation</b>	<b>115</b>	<b>8</b>
<b>Capital expenditures</b>	<b>-53</b>	<b>0</b>
Inventory increase (decrease)	223	-82
+Receivables increase (decrease)	206	-284
-Liabilities increase (decrease)	444	-375
<b>Working capital increase (decrease)</b>	<b>-15</b>	<b>9</b>
<b>Free cash flow</b>	<b>183</b>	<b>-2</b>



<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

Income statement in thousands of KM	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Operating income</b>		
Sales of goods, products and services	414	10%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress		
Other operating income	2	0%
<b>Total operating income</b>	<b>416</b>	<b>10%</b>
<b>Operating expenses</b>		
Cost of commercial goods sold	310	8%
Other materials, fuel and energy	23	209%
Staff costs	45	110%
Depreciation, amortization and provisions	7	
Other operating expenses	25	-55%
<b>Total operating expenses</b>	<b>409</b>	<b>10%</b>
<b>Profit from operations</b>	<b>7</b>	<b>5%</b>
<b>Finance income</b>	<b>0</b>	
<b>Finance expenses</b>	<b>4</b>	<b>-39%</b>
<b>Other income</b>		<b>-100%</b>
<b>Other expenses</b>	<b>2</b>	Gain vs. loss
<b>Profit (loss) before taxation</b>	<b>1</b>	<b>-33%</b>
Income taxes		
Deferred income tax expense		
Deferred income tax benefit		
<b>Net profit for the period</b>	<b>1</b>	<b>-33%</b>

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

**TIGAR PARTNER**

Balance Sheet, in thousands of denars	Opening balance sheet as of 1 Jan. 2007	Quarter ended 31 March 2007
<b>Assets</b>		
Non-current assets	585	499
Current assets	36,724	33,278
Deferred tax assets		
<b>Total assets</b>	<b>37,309</b>	<b>33,777</b>
<b>Equity and liabilities</b>		
Equity	20,477	17,905
Non-current liabilities	0	0
Current liabilities	16,832	15,872
<b>Total equity and liabilities</b>	<b>37,309</b>	<b>33,777</b>

Free cash flow in 000 denars	As of 1 Jan. 2007	As of 31 March 2007
Net profit	2,555	-17
+Depreciation	376	94
+Reserved costs for benefits		
+Recovery on provisions		
<b>Cash flow from operation</b>	<b>2,931</b>	<b>77</b>
<b>Capital expenditures</b>	<b>0</b>	<b>0</b>
Inventory increase (decrease)	789	-889
+Receivables increase (decrease)	-2,736	-1,190
-Liabilities increase (decrease)	-8,340	-960
<b>Working capital increase (decrease)</b>	<b>6,392</b>	<b>-1,120</b>
<b>Free cash flow</b>	<b>-3,461</b>	<b>1,197</b>

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

Income statement in thousands of denars	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Operating income</b>		
Sales of goods, products and services	10,372,25	-28%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress		
Other operating income	151,23	-69%
<b>Total operating income</b>	<b>10,523,48</b>	<b>-30%</b>
<b>Operating expenses</b>		
Cost of commercial goods sold	8,220,87	-30%
Other materials, fuel and energy	138,05	-15%
Staff costs	880,48	3%
Depreciation, amortization and provisions	93,98	-21%
Other operating expenses	1,141,89	-25%
<b>Total operating expenses</b>	<b>10,475,28</b>	<b>-28%</b>
<b>Profit from operations</b>	<b>48,20</b>	<b>-91%</b>
<b>Finance income</b>	<b>5,14</b>	
<b>Finance expenses</b>	<b>70,03</b>	<b>-40%</b>
<b>Other income</b>		<b>-100%</b>
<b>Other expenses</b>		<b>-100%</b>
<b>Profit (loss) before taxation</b>	<b>-16,69</b>	<b>-104%</b>
Income taxes		<b>-100%</b>
Deferred income tax expense		
Deferred income tax benefit		
<b>Net profit for the period</b>	<b>-16,687</b>	<b>-106%</b>

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

## **6. SERVICE ENTITIES**

In addition to the four principal manufacturing entities and the Tigar Trade network of retail outlets and service centers, Tigar operates a number of service subsidiaries that it developed, for the most part, during the trade embargo against Yugoslavia because it was unable to outsource these services. Although the service subsidiaries are "complementary" businesses, Tigar AD believes that they greatly contribute to the operations of Tigar's "core" businesses and provide high-quality services to both the Company and the local community.

In general, the Company's service subsidiaries can be classified into those which currently service the needs of the Company and those which are gradually focusing on third parties. The first group includes companies which perform security and fire protection services, mediation in property insurance, and secondary raw-material management. The second group includes entities which provide transport, construction, and engineering services.

Tigar's major service businesses include:

- Construction, which offers all types of services relating to construction, and maintenance of buildings and infrastructure.
- Transportation, which provides all types of road transportation services, including domestic and international freight forwarding, contracted and sub-contracted intra-city transportation of goods, and maintenance of vehicles.
- Tourist Agency, which provides domestic and international tourist-related services, including vacation, travel, conference, and trade exhibition planning.
- Hotel Planinarski dom (Mountain Lodge, Hotel), which offers a broad range of accommodations and restaurant/catering services for tourists, business travelers, delegations, sports teams and cultural groups visiting southern Serbia.
- PI Channel, which performs radio/television, telecommunication, market research, and public opinion-poll activities, and provides services in the areas of advertising, public relations and publishing.
- Pirot Free Zone, which is a specially-designated area within Serbia where business may be carried out free from duty or VAT and certain municipal charges. The Pirot Free Zone is a joint-stock company whose majority shareholder is Tigar AD. Among the other shareholders is the Municipality of Pirot. The Free Zone is within the Industrial Zone of Pirot and covers 17 hectares of infrastructure-enabled land, with its own railroad track and 150 telephone lines. 130 companies currently operate in the Free Zone, including 55 foreign companies. In addition to tax and other advantages, companies in the Zone are eligible for subsidies for the development of land zoned for construction. Within Serbia, these favorable conditions are currently available only in the Pirot Free Zone, and they can reduce operating costs by 25%, compared to other locations in Serbia.

In 2007, an organizational change was implemented and the construction segment was merged with the engineering, design, and supervision segment. The objective of the change was integration and more effective utilization of resources, resulting in Tigar Incon now being able to offer a full service, from design to construction and supervision.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

### **Tigar Business Services financials**

Balance Sheet, in thousands of Dinars	Opening balance sheet as of 1 Jan. 2007	Quarter ended 31 March 2007
<b>Assets</b>		
Non-current assets	36,409	52,047
Current assets	79,025	69,204
Deferred tax assets	-124	-95
<b>Total assets</b>	<b>115,310</b>	<b>121,156</b>
<b>Equity and liabilities</b>		
Equity	24,875	41,801
Non-current liabilities	76,762	53,395
Current liabilities	13,673	25,961
<b>Total equity and liabilities</b>	<b>115,310</b>	<b>121,156</b>

Free cash flow in 000 RSD	As of 1 Jan. 2007	As of 31 March 2007
Net profit	5,144	13,765
+Depreciation	16,409	1,799
+Reserved costs for benefits	0	0
+Recovery on provisions	0	0
<b>Cash flow from operation</b>	<b>21,553</b>	<b>15,563</b>
<b>Capital expenditures</b>	<b>52,818</b>	<b>511</b>
Inventory increase (decrease)	-7,888	792
+Receivables increase (decrease)	-6,041	-705
-Liabilities increase (decrease)	19,093	-23,900
<b>Working capital increase (decrease)</b>	<b>-33,022</b>	<b>23,987</b>
<b>Free cash flow</b>	<b>1.757</b>	<b>-8.935</b>

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

Income statement in thousands of RSD	1 <sup>st</sup> Quarter of 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Operating income</b>		
Sales of goods, products and services	75,898	-13%
Work performed by the company and capitalized	5,005	-4%
Changes in inventories of finished products and work in progress	727	Gain vs. loss
Other operating income	15	0%
<b>Total operating income</b>	<b>81,645</b>	<b>-11%</b>
<b>Operating expenses</b>		
Cost of commercial goods sold	3,925	15%
Other materials, fuel and energy	29,701	-24%
Staff costs	22,902	-31%
Depreciation, amortization and provisions	1,799	1%
Other operating expenses	7,522	-21%
<b>Total operating expenses</b>	<b>65,849</b>	<b>-24%</b>
<b>Profit from operations</b>	<b>15,796</b>	<b>205%</b>
<b>Finance income</b>	<b>82</b>	<b>1267%</b>
<b>Finance expenses</b>	<b>1,692</b>	<b>33%</b>
<b>Other income</b>	<b>48</b>	<b>-85%</b>
<b>Other expenses</b>	<b>279</b>	<b>27800%</b>
<b>Profit (loss) before taxation</b>	<b>13,955</b>	<b>230%</b>
Income taxes		-100%
Deferred income tax expense	190	
Deferred income tax benefit		
<b>Net profit for the period</b>	<b>13,765</b>	<b>232%</b>

### **Management's commentary**

Both segments of Tigar Business Services (food production and transportation) reported positive results, compared to the same period of the previous year and to the Business Plan. Positive results are a reflection of increased sales, and costs which either matched or were below plan.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

### **Other service subsidiaries: Combined financials**

Income statement in thousands of RSD	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Operating income</b>		
Sales of goods, products and services	107,085	242%
Work performed by the company and capitalized	43	
Changes in inventories of finished products and work in progress	0	
Other operating income	1,088	98%
<b>Total operating income</b>	<b>108,216</b>	<b>239%</b>
<b>Operating expenses</b>		
Cost of commercial goods sold	25,119	1850%
Other materials, fuel and energy	18,454	2164%
Staff costs	42,564	105%
Depreciation, amortization and provisions	1,594	10%
Other operating expenses	9,545	103%
<b>Total operating expenses</b>	<b>97,277</b>	<b>235%</b>
<b>Profit from operations</b>	<b>10,939</b>	<b>281%</b>
<b>Finance income</b>	160	
<b>Finance expenses</b>	89	162%
<b>Other income</b>	70	-71%
<b>Other expenses</b>	0	-100%
<b>Profit (loss) before taxation</b>	<b>11,079</b>	<b>298%</b>
Income taxes	29	-56%
Deferred income tax expense	29	
Deferred income tax benefit		
<b>Net profit for the period</b>	<b>11,021</b>	<b>306%</b>

### **Management's commentary**

To avoid unduly voluminous reporting, the results of smaller service subsidiaries have been combined. The results of Tigar Inter Risk (internal insurance) and Tigar Security matched projections, while other entities reported results slightly below plan. Major reasons include reduced revenues and costs which, for the most part, depend on revenues. Tourist Agency's revenues will increase during the summer season which entails higher sales of vacation packages. Several organizational and human resource changes were implemented at the Hotel aimed at general improvements and a better offering to Tigar's visiting partners. Higher revenues of Pi Channel's advertising and production segments are expected to improve its result.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

### **Free Zone financials**

Balance Sheet, in thousands of Dinars	Opening balance sheet as of 1 Jan. 2007	Quarter ended 31 March 2007
<b>Assets</b>		
Non-current assets	104,828	107,043
Current assets	30,064	31,099
Deferred tax assets	189	
<b>Total assets</b>	<b>135,081</b>	<b>138,142</b>
<b>Equity and liabilities</b>		
Equity	116,846	116,846
Non-current liabilities	13,769	11,358
Current liabilities	4,466	9,938
<b>Total equity and liabilities</b>	<b>135,081</b>	<b>138,142</b>

Free cash flow in 000 RSD	As of 1 Jan. 2007	As of 31 March 2007
Net profit	4,466	5,467
+Depreciation	1,402	392
+Reserved costs for benefits	0	0
+Recovery on provisions	0	0
<b>Cash flow from operation</b>	<b>5,868</b>	<b>5,859</b>
<b>Capital expenditures</b>	<b>21,525</b>	<b>2,029</b>
Inventory increase (decrease)	219	-69
+Receivables increase (decrease)	966	1,848
-Liabilities increase (decrease)	166	-2,411
<b>Working capital increase (decrease)</b>	<b>1,019</b>	<b>4,190</b>
<b>Free cash flow</b>	<b>-16,677</b>	<b>-361</b>



<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

Income statement in thousands of RSD	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 vs. 1 <sup>st</sup> Quarter 2006
<b>Operating income</b>		
Sales of goods, products and services	14,662	60%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress		
Other operating income		
<b>Total operating income</b>	<b>14,662</b>	<b>60%</b>
<b>Operating expenses</b>		
Cost of commercial goods sold	56	
Other materials, fuel and energy		
Staff costs	4,923	16%
Depreciation, amortization and provisions	392	-13%
Other operating expenses	3,926	47%
<b>Total operating expenses</b>	<b>9,297</b>	<b>26%</b>
<b>Profit from operations</b>	<b>5,365</b>	<b>197%</b>
<b>Finance income</b>	<b>100</b>	<b>-60%</b>
<b>Finance expenses</b>	<b>3</b>	<b>-96%</b>
<b>Other income</b>	<b>16</b>	<b>-44%</b>
<b>Other expenses</b>	<b>12</b>	
<b>Profit (loss) before taxation</b>	<b>5,467</b>	<b>173%</b>
Income taxes		
Deferred income tax expense		
Deferred income tax benefit		
<b>Net profit for the period</b>	<b>5,467</b>	<b>173%</b>

### **Management's commentary**

The Zone's revenues were 20% above plan. A major portion of the growth is attributable to revenues from freight forwarding and infrastructure services provided to freight carriers. Total expenses were below plan. Consequently, the 1<sup>st</sup> Quarter result matches the 2006 result.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

## **VI JOINT PROJECTS WITH THE LOCAL COMMUNITY**

Tigar is actively participating in local projects which, although profit-driven, are primarily aimed at improving the quality of life. In addition to grants and sponsorships, Tigar is currently working on two joint projects with the local government in Pirot:

- o *Sports Center.* This is a joint-stock company owned by Tigar AD and the Municipality of Pirot. Its mission is to establish the conditions required for the construction of the sports arena "Senjak" in Pirot. The project is expected to encompass an arena, a swimming pool and office space. It is currently in the early stages of design, planning and obtaining of necessary building permits.

- o *The Mt. Stara Planina Agency.* This agency has been established to promote tourism and related development in the Mt. Stara Planina region. A Serbian Tourism Development Program calls for major investments in tourism in the Mt. Stara Planina region, which could positively impact the Company's hospitality activities.

In the 1<sup>st</sup> Quarter of 2007, there were no major activities in connection with these two projects. However, the Pirot region is becoming increasingly attractive because of forthcoming ski center and road reconstruction projects, and especially projects in the Mt. Stara Planina National Park. This interest is reflected in increasing prices of land.

## **VII ACHIEVEMENT OF KEY BUSINESS GOALS IN 2007**

This section includes an assessment of the level of achievement of key 2007 business objectives, based on reported performance.

### **1. Balanced business development**

In general, 1<sup>st</sup> Quarter achievements relating to Tigar's balanced business development include the following:

- New contracts with international footwear buyers, growth of footwear exports, introduction of new, more sophisticated groups of products, and additional product certification in London and Montreal, constitute a sound basis for further growth of Tigar AD's currently largest manufacturing subsidiary: Tigar Footwear.
- Tigar Rubber Goods and Tigar Chemical Products increased their market share. Past clients, such as mining companies, food industries, footwear manufacturers, and the military, are re-acquiring buyer status. There are a number of new buyers, and these subsidiaries are expected to return to several markets of the former Yugoslavia, in which they have not been present for some time.
- Even though it did not meet 1<sup>st</sup> Quarter expectations, Tigar Trade/Domestic Sales Network implemented full cooperation with a strategic partner. The restructuring and upgrading program is proceeding according to plan. The network of fleet buyers is growing; contracts have been negotiated with volume buyers such as DT, LukOil, the Apatin Brewery, and others.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

## **2. Manufacturing**

At Tigar Footwear, in addition to the introduction of new groups of products during the 1<sup>st</sup> Quarter, major achievements were made in scrap reductions, better organization of production, and production process improvements. Due to increased orders stemming from negotiated contracts, the safety footwear segment had to switch to seven-day-week production.

At Tigar Rubber Goods, the number of employees is being reduced and new products are being introduced. Since productivity was low during the previous years, the goal is to boost productivity through higher volumes and fewer employees.

At Tigar Chemical Products, achievement of plan during the forthcoming high-season and deliveries to new buyers will increase volume and boost productivity in view of the downward trend in the number of employees.

### **Relocation and upgrading of production facilities**

Refurbishment activities at the new Tigar III industrial location are proceeding according to plan. The next stage involves refurbishment of energy supply facilities, followed by outfitting of footwear and rubber goods production plants.

### **Development of new business opportunities: Recycling**

Activities are continuing in the regulatory area. A full document package has been prepared for the setting-up of companies which will manage tire collection and warehousing using German and Dutch models.

<b>2007 1<sup>ST</sup> QUARTER REPORT</b>	Document reference
	<b>IZ.P.07/01</b>

## **VIII MISCELLANEOUS**

Tigar AD did not modify its accounting policy in the 1<sup>st</sup> Quarter.

Internal audit activities proceeded according to plan.

TIGAR AD

Jelena Petković  
Executive Director for Corporate  
Management Support

TIGAR AD

Dragan Nikolić  
Executive Board Chairman