JANUARY-JUNE 2007
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)

Registered address: Nikole Pašića 213, 18300 Pirot, Serbia

Corporate ID number: 07187769

Fiscal ID number: 100358298

Web site address: www.tigar.com

Incorporation certificate: Registry file no. 1-1087

Core activity: Holdings

Number of employees: 2,214 at 30/6/2007

Number of shareholders: 4,866 at 30/6/2007

Capital: 2,683,909,000 RSD at 30/6/2007

Assets: 3,541,081,000 RSD at 30/6/2007

Capitalization: 3,845,913,480 at 30/6/2006

2. REPORT FORMAT

The format of this Report is predetermined by the Regulations 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 REGARDING JANUARY-JUNE 2007 PERFORMANCE

- Tigar AD is the first Serbian company whose stock was officially listed on the Belgrade Stock Exchange (Listing A) in April of 2007.
- In April, MHPB exercised its call option and acquired 19.4% of Tigar AD's interest in Tigar Tyres, pursuant to the Second Amendment to the Framework Agreement between Tigar AD, MHPB (a member of the Michelin Group), and the IFC (a member of the World Bank), dated 20 January 2005. Following the exercise of the call option, the stockholdings in Tigar Tyres are as follows: Tigar AD 30%, MHPB 60.2%, and the IFC 9.8%. MHPB has no further options with regard to Tigar AD, and it is entirely up to Tigar AD to decide if and to what extent it will continue to hold interest in Tigar Tyres. MHPB has formally stated that it is prepared to purchase the remaining interest. The call option was exercised at the price defined by the Second Amendment to the Framework Agreement, i.e. 9.4 million €.
- During the first half of the year, Tigar AD conducted active negotiations with a group of international equity investors represented by GHI, concerning a joint project which would encompass scrap tire recycling and existing technical rubber goods product lines, including products made from recycled rubber. The letter of interest, term sheet, agreements and contracts concerning this transaction are expected to be signed by the end of 2007, and implementation is scheduled to begin in 2008.
- Tigar Footwear continued its intensive product mix restructuring and introduction of new groups of safety and sports footwear products, which are primarily intended for exports. Tigar Technical Rubber Goods increased its range of products and its output of recycled rubber products.
- During the first half of the year, Tigar conducted negotiations concerning sales to the former Yugoslav republics (where Tigar has not been present for several years) and to Ukraine. Resulting contracts are expected to become effective on 1 September 2007.

- Reconstruction of the new Tigar III industrial location is proceeding according to plan. During the first half of 2007, the new boiler building was outfitted and the industrial buildings renovated.
- The Domestic Sales Network Reconstruction Program proceeded according to plan. During the first half of the year, a new service center was opened in Apatin and preparations were completed for the opening of four new stationary service centers in Belgrade, Niš and Novi Sad, and for the purchase and activation of two new mobile service units by October of 2007. During the same period an agreement was signed with a foreign partner concerning the development of the Domestic Sales Network.
- The corporate purchasing policy was changed as of April 2007; all domestic and international purchasing has been integrated under Tigar Export-Import, one of Tigar's subsidiaries. The objectives of this integration include better prices, terms and conditions based on volume purchases for the various manufacturing plants and entities.
- During the first six months the Holding Company reduced its number of employees by 40, while Tigar AD and the subsidiaries it controls reduced their total number of employees by 99.

4. GLOBAL ASSESSMENT OF THE BUSINESS ENVIRONMENT

Major internal factors, which impacted Tigar's results, performance and achievements during the January-June 2007 period have not changed significantly; they include:

- A high level of investment in the Tigar III location and domestic market positioning;
- Complete restructuring of the footwear business;
- High costs of development and introduction of new groups of products; and
- Investment funding from cash flow and short-term loans, since any long-term investment requires approval by the General Assembly of Shareholders, based on the Articles of Association.

During the first six months 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.

II. SUMMARY OF JANUARY-JUNE 2007 FINANCIAL INFORMATION

1. TIGAR AD'S UNCONSOLIDATED FINANCIAL RESULT

The following table contains an extract from January-June 2007 unconsolidated financial statements, along with the same information for the January-June 2006 period.

Balance sheet in 000 RSD	Period ended 30 June 2006	Opening balance as of 1 January 2007	Period ended 30 June 2007
Assets			
Non-current assets	2,833,218	2,979,513	2,380,884
Current assets	261,177	449,757	1,156,747
Deferred tax assets	0	3,450	3,450
Total assets	**3,094,395**	**3,432,719**	**3,541,081**
Equity and liabilities			
Equity	2,633,431	2,683,587	2,683,909
Non-current liabilities	285,624	237,648	239,283
Current liabilities	175,340	511,485	617,889
Total equity and liabilities	**3,094,395**	**3,432,719**	**3,541,081**

Income statement in 000 RSD	January-June 2006	January-June 2007	January-June 2007 vs. January-June 2006
Operating income	172,576	124,058	-28%
Operating expenses	171,490	196,686	15%
Profit from operations	1,086	-72,628	-6788%
Financial result	8,793	617	-93%
Extraordinary result	15,318	115,893	657%
Profit before taxation	25,197	43,882	74%
Net profit	25,197	43,799	74%

Statement of cash flows in 000 RSD	31 Dec. 2006	30 June 2007
Cash flows from operating activities		
Cash inflow from operating activities	413,116	125,172
Cash outflow from operating activities	521,043	289,488
Net cash used in operating activities	-107,927	-164,316
Cash flows from investment activities		
Cash inflow from investment activities	168,395	758,495
Cash outflow from investment activities	330,956	433,680
Net cash used in investment activities	-162,561	324,815
Cash flows from financing activities		
Cash inflow from financing activities	303,887	82,578
Cash outflow from financing activities	44,995	1,071
Net cash provided from financing activities	258,892	81,507
Net increase in cash and cash equivalents	-11,596	242,006
Cash and cash equivalents at the beginning of the year	15,809	3,892
Foreign exchange gains		13,003
Foreign exchange loss	321	14,859
Cash and cash equivalents at the end of the period	**3,892**	**244,042**

Changes in equity

000 RSD	31.12.2006	30.6.2007
Opening balance	**2,700,207**	**2,683,587**
IFRS adjustments		
New investments made during the year		
Profit for the year	73,925	43,799
Dividends distributed to shareholders	-43,409	-43,477
Other changes	-47,136	
Balance	**2,683,587**	**2,683,909**

Equity investments

Equity investments (000 RSD):	31.12.2006	30.6.2007
Unconsolidated foreign and domestic related parties	2,621,474	1,991,612
Domestic banks	182	182
Other legal entities	24	19
Less: Allowance for impairment	99,376	99,376
Total:	**2,522,304**	**1,892,437**

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Comparison of unconsolidated results

In thousands of RSD	January-June 2006	January-June 2007	Percent change
Assets	3,094,395	3,541,081	14%
Equity	2,633,431	2,683,909	2%
Total revenues	215,227	301,633	40%
Operating income	**172,576**	**124,058**	**-28%**
Sales of services	168,641	94,525	-44%
Sales of goods and products	2,987	3,915	31%
Other operating income	949	25,618	
Total operating expenses	**171,490**	**196,686**	15%
Operating expenses	168,503	196,672	17%
Cost of commercial goods sold	2,987	14	-100%
EBIT	**37,291**	**76,427**	105%
EBITDA	**46,307**	**84,834**	83%
Net financial result	8,793	617	-93%
Extraordinary result	15,318	115,893	657%
Net income	**25,197**	**43,799**	74%
Significant ratios			
Return on equity	0.96%	1.63%	71%
Return on shareholders equity	1.22%	2.12%	74%
Operating result	1,086	-72,628	-6788%
Debt-to-assets ratio	0.15	0.24	65%
Current Ratio	1.49	1.87	26%
Quick ratio	1.39	1.81	30%
Liquidity and solvency ratios			
Current Ratio	1.49	1.87	26%
Quick ratio	1.39	1.81	30%
Debt / Equity	0.17	0.32	85%
Other ratios			
ROE	1.0%	1.6%	71%
ROA	0.8%	1.2%	52%
ROS	14.7%	44.5%	203%

Management's commentary on the unconsolidated financial result

The unconsolidated financial result reflects the result of the Holding Company, which earns revenues from the following sources:

- Provision of services;
- Rental;
- Subsidiary results;
- Finance income; and
- Extraordinary income

During the first half of the year, revenues from services declined, mainly as a result of reduced revenues from services provided to Tigar Tyres. Namely, some services previously performed by Tigar AD were transferred to Tigar Tyres. Earnings from rentals were according to plan. Since the Holding Company can only book dividends or interim dividends, subsidiary results are not included in current statements. Finance income includes interest and foreign exchange gains relating to Tigar's stockholdings in subsidiaries located abroad, and extraordinary income includes capital gain from the exercise of the call option.

Expenses reflect employee expenses, management expenses and costs associated with Holding Company activities. An increase in „other costs" results from auditors' fees relating to a public offering (which were not invoiced in 2006), retirement/redundancy benefits, various costs associated with the first half of the year (such as membership fees and the like), and leasing and outfitting of a new office building in Belgrade. Since the premises from which employees moved to the new office building are owned by Tigar AD but were not rented out during the first half of the year, there is a disparity between rental/maintenance costs and rental income in Belgrade. However, this is expected to be offset, for the most part, during the latter part of the year. Expenses also reflect a capital loss resulting from the sale of a building in Vranje, whose book value, following after-sale revaluation, was lower than the market price.

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2. TIGAR AD'S RESULT BY SEGMENT

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 2007 include the following:

	Manufacture	
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 Technical 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
	Domestic commerce	
5	Tigar Trgovine d.o.o., Pirot (Tigar Trade)	Domestic Sales Network
6	Tigar Export-Import d.o.o., Pirot	Import, export, and purchasing
	International commerce	
7	Tigar Europe, UK	Sales and purchasing in the UK
8	Tigar Americas, USA	Sales and purchasing in the US and Canada
9	Tigar Trade, Banja Luka	Sales and purchasing in Bosnia and Herzegovina
10	Tigar Partner	Sales and purchasing in Macedonia
11	Tigar Montenegro	Sales and purchasing in Montenegro
	Services	
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 consulting
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 sposrtova (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:

	January-June 2007 average	End of June 2007	End of year 2006
British pound (GBP)	119.3640	117.6498	117.8577
Euro (EUR)	80.5312	79.0254	79.0000
Swiss franc (CHF)	49.3323	47.6919	49.1569
US dollar (USD)	60.5837	58.7812	59.9757

January-June 2007 financials

Income statement in thousands of RSD	**Tigar AD**	**Tigar Footwear**	**Tigar Trade/ Domestic Network**	**Tigar Business Services**	**Other entities in Serbia**	**Entities abroad**
Operating income						
Sales of goods, products and services	98,440	463,951	257,587	164,438	553,449	1,054,465
Work performed by the company and capitalized	0	0	0	0	112,942	0
Changes in inventories of finished products and work in progress	0	157,765	0	891	-12,332	0
Other operating income	25,618	16	12,673	0	5,841	207
Total operating income	**124,058**	**621,732**	**270,260**	**165,330**	**659,899**	**1,054,671**
Operating expenses						
Cost of commercial goods sold	14	0	224,178	8,371	242,427	945,835
Other materials, fuel and energy	8,028	349,444	5,587	59,011	142,800	1,747
Staff costs	85,912	223,640	47,470	50,308	191,035	30,794
Depreciation, amortization and provisions	8,406	9,130	6,426	4,268	12,516	1,020
Other operating expenses	94,326	44,465	30,450	19,446	62,504	15,903
Total operating expenses	**196,686**	**626,679**	**314,110**	**141,405**	**651,281**	**995,300**
Profit from operations	**-72,628**	**-4,947**	**-43,850**	**23,925**	**8,618**	**59,372**
Finance income	**48,303**	**3,563**	**772**	**1,832**	**2,211**	**5,948**
Finance expenses	**47,686**	**19,347**	**4,971**	**2,386**	**2,231**	**487**
Other income	**129,272**	**904**	**1,573**	**1,189**	**3,367**	
Other expenses	**13,379**	**451**	**540**	**284**	**684**	**173**
Profit (loss) before taxation	**43,882**	**-20,278**	**-47,017**	**24,276**	**11,280**	**64,659**
Income taxes	83	0.0000	0.0000	0.0000	74	18,432
Deferred income tax expense	0	0	0	475	72	0.000
Deferred income tax benefit	0	0	0	0	0	0
Net profit for the period	**43,799**	**-20,278**	**-47,017**	**23,800**	**11,135**	**46,227**

Assets and liabilities

000 RSD	Assets		Liabilities	
	30 June	31 Dec.	30 June	31 Dec.
	2007	2006	2007	2006
Tigar Technical Rubber Goods	260,207	250,076	251,046	223,038
Tigar Chemical Products	293,539	210,865	222,222	141,676
Tigar Footwear	788,539	639,893	668,987	500,063
Tigar Trade, DSN	570,775	598,465	441,148	421,821
Tigar Export-Import	294,747	3,167	290,648	1,459
Service Subsidiaries	454,360	366,327	178,610	150,199
Holding Company	3,541,081	3,432,720	852,839	744,800
Total	**6,203,248**	**5,501,513**	**2,905,500**	**2,183,056**

Purchasing of fixed assets and depreciation

000 RSD	Fixed assets, purchasing		Depreciation	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Tigar Technical Rubber Goods	804	3,683	5,598	8,156
Tigar Chemical Products	1,274	297	3,023	2,790
Tigar Footwear	3,636	4,180	9,130	7,311
Tigar Trade, Domestic Sales Network	11,756	10,888	6,426	5,168
Tigar Export-Import	154	/	27	/
Service Subsidiaries	32,640	6,975	8,137	7,495
Holding Company	54,112	16,413	8,406	9,016

Segmented gross operating results (000 RSD)	January-June 2006	January-June 2007
Tigar Tyres	78,130	53,456
Tigar Technical Rubber Goods	-26,866	-17,877
Tigar Chemical Products	-18,965	2,129
Tigar Footwear	5,891	-20,278
Tigar Trade, Domestic Sales Network	-16,475	-47,017
Tigar Export-Import	1,551	2,464
Service Subsidiaries	16,705	48,839
Holding Company	25,197	43,882
TOTAL, ALL SEGMENTS	**65,168**	**65,598**

The January-June 2007 results include 50% of the respective share (30%) in Tigar Tyres profits.

Management's commentary on segmented financial result

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

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

- Reported results do not significantly depart from plan.
- The level of investment was significantly higher than in the previous year. During the first six months, the Holding Company and the subsidiaries it controls invested a total of 104 million RSD, or 60% more than during the same period of last year.
- Export-oriented businesses reported export growth relative to the same period of the previous year. Tigar Footwear achieved the greatest export growth. During the first six months, its total exports were 4.4 million €, or 92% more that during the same period of last year. Owing to the modified product mix, this export sales growth was achieved with a 13% increase in the number of pairs of footwear.
- 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 March results show a significant improvement over the first two months. Regardless of extremely good export performance and good sales performance in general, the level of expenses caused Tigar Footwear to report a negative financial result at the end of the first six-month period.
- The human resource optimization process continued. Starting in September, plans call for a significant reduction in the number of employees at Tigar Footwear.
- All the required summer-season preparations were completed, aimed at a significant increase in volume and an adequate response to customer demands.
- Several Tigar Technical 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.
- 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 Tigar-brand tire price cuts, which Tigar Trade could not follow and thus became less price competitive in the marketplace. Since Tigar Trade, by its very nature, is unable to forge its market position through price wars, it will continue to focus on upgrading of the service infrastructure in the tire and automotive product segments. This will allow for significant sales volume increases, but also of increases in the range and quality of services and sales of complementary products. Through appropriate investments and strengthening of sales teams, other non-tire segments are expected to perform better during the latter part of the year. All activities which are being undertaken at Tigar Trade to improve the quality of operations are expected to enable it to break even at year end, and to create conditions for Tigar Trade to assume overall sales to the domestic market (with the exception of several segments of „industrial sales" which will be conducted by the manufacturing subsidiaries).
- Sales via subsidiaries located abroad are proceeding according to plan.
- During the first six months, service activities exceeded expectations. The Construction Unit, the Transportation Unit and the Free Zone performed particularly well.
- Due to the integration of purchasing at Tigar Export-Import and the fact that this company has, in fact, become the sole supplier, as well as due to the granting of inter-company loans, accounts receivable/payable increased between the Holding Company and its subsidiaries, as well as among the subsidiaries.

III. CAPITAL MARKET POSITION

Tigar's stock has been listed for trading on the Belgrade Stock Exchange since 31 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.

a) The original stock was 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 Equity 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

(b) After Tigar met all the criteria identified in the Listing Regulations of the Belgrade Stock Exchange, its Listing and Quotation Commission approved Tigar AD's transfer to the official, A-listing of the Belgrade Stock Exchange. In effect, Tigar became the first domestic company whose stock was officially listed, as opposed to securities which are traded in the open market by the force of law. As of 30 June 2007, Tigar is the only company in this segment of the Belgrade Stock Exchange.

Tigar's shares were issued on the basis of Certificate no. 4/0–29-2979/4-06 of the Securities Commission, which approves 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 Company 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 Equity 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 period witnessed a significant increase in the total number of shareholders, an increase in the number of foreign shareholders, the departure of several equity investors who held relatively large packages of stock, and purchases of stock by new equity investors.

Capitalization grew by 6.4% relative to the end of the first quarter.

The state retained its stockholdings. Changes in the equity structure during the period had no effect on corporate management or decision making.

Stockholding structure changes since 31 March 2007

Name	30-06-2007	31-03-2007	% Change
Equity Fund	429,429	429,429	0.00%
Pension and Disability Fund	149,981	149,981	0.00%
Legal entities (in percentage points)	49.63%	51.31%	-3.27%
Individuals (in percentage points)	29.33%	29.62%	-0.98%
Custody accounts (in percentage points)	21.03%	19.07%	10.28%
Individuals, residents	4,773	4,019	18.76%
Individuals, non-residents	93	74	25.68%
Total number of shareholders	4,866	4,093	18.89%
Share price	2,238	2,104	6.37%
Capitalization	**3,845,913,480**	**3,615,639,840**	**6.37%**

Top ten shareholders as of 30 June 2007

	Name of shareholder	Number of shares	%
1.	Equity Fund of the Republic of Serbia	429,429	24.98
2.	Pension and Disability Fund	149,981	8.72
3.	IBT	130,820	7.61
4.	Raiffeisen Zentralbank	108,240	6.29
5.	Hypo Alpe Adria Bank	68,773	4.00
6.	Bank Austria Creditanstalt	42,852	2.49
7.	Global Security Master Fund	19,134	1.11
8.	SG Custody 3	17,896	1.04
9.	VIT-BEL AD, Nis	16,204	0.94
10.	Delta Generali Insurance AD	14,675	0.85

The table below sets forth the (quarterly) high and low closing prices of the shares on the Belgrade Stock Exchange since the initial listing, and shows a share price increase following A-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	13,000
Quarter ended 30 September 2005	19,278	15,500
Quarter ended 31 December 2005	24,000	19,020
Quarter ended 31 March 2006	21,500	19,702
Quarter ended 30 June 2006	20,600	14,500
Quarter ended 30 September 2006	18,700	14,200
Quarter ended 31 December 2006 **	1,863	1,647
Quarter ended 31 March 2007	2,149	1,649
Quarter ended 30 June 2007***	3,138	2,210

** A 1:10 stock-split was implemented on 18 Oct. 2006.
*** The first trading session following A-listing on the Belgrade Stock Exchange was on 10 April 2007.

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 30 June 2007.

Number of shares held by management

Name	Shares held	% of shares outstanding
Dragan Nikolić	880	0.005
Jelena Petković	275	0.0017
Slobodan Sotirov	539	0.003
Milivoje Nikolić	462	0.0024
Vladimir Nikolić	803	0.005
Ljubiša Nikolovski	396	0.0026
Jose Alexandre F. da Costa	-	-
Dr Živko Mitrović	-	-
Tihomir Nenadić	-	-

Members of the Supervisory Board hold no shares.

1. RISK FACTORS

Risks relating to Tigar's business

There were no major risks relating to Tigar's business during the first half of the year. Raw material prices stagnated and there were no significant disturbances in the finished product market.

Risks relating to shareholding and corporate structure

The total number of shareholders increased during the first half of the year. A large number of natural persons purchased shares via the Stock Exchange. During the second quarter, the number of retail shareholders rose by 754, and the number of foreign investors by 19. This increase has a favorable impact on stockholding diversification. The major risk in this regard continues to be a potential takeover of the Company and any change in strategy by a potential majority stockholder.

Risks relating to regulatory and legal matters

The major risk in this regard is a lack of scrap tire recycling legislation and regulation of the sale of stock via a public offering (i.e., the public offering process as implemented at the international level).

Enactment of the Waste Management Law is expected in the latter half of the year, as well as of an accompanying by-law which will govern the disposal of scrap tires. The new legislation is expected to require manufacturers and importers to finance waste collection, sorting, re-use and recycling, through membership in a company which will perform these services on their behalf. If the financial burden in connection with collection remains with public utilities and minor collectors, no significant progress can be expected in this area. The new approach would allow for adequate material support for both collectors and recyclers.

Current legislation does not provide for the sale of stock via a public offering. For such a transaction to be conducted in accordance with international standards, the following will have to be amended: the Law on Business Companies, the Law on Securities, and the Equity Fund Law. In addition, Public Offering Regulations and several by-laws will also have to be amended. It is not reasonable to expect all of these changes to take place in 2007. It is estimated that such a transaction, in accordance with international standards, will be made possible during the first quarter of 2008 at the earliest.

2. 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 3rd quarter.

Environmental monitoring (including solid waste, wastewater, 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 monitor trends and re-define general and specific objectives and continuous improvement programs. In the 1st 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, Regulations Governing Scrap Tire Management, the Law on Packaging and Packaging Waste, and the like).

3. STRATEGIC PARTNERSHIPS AND ALLIANCES IN 2007

Tires

In the tire line of business, the most important change was the exercise of a call option through which MHPB became the controlling stockholder of Tigar Tyres. Following the exercise of the call option, the Tigar Tyres stockholdings are as follows: MHPB 60.2 %,Tigar AD 30%, and the IFC 9.8%. The mutual relationships of the partners are defined in the 2002 Framework Agreement and its 2005, 2006 and 2007 amendments, as well as in the Incorporation Agreement. In the 1st Quarter, negotiations between Tigar AD and MHPB were initiated to address mutual relationships in various areas, including the expressed intent of MHPB to become the sole owner of Tigar Tyres.

Rubber footwear

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

Technical rubber goods

During the first half of the year, negotiations were conducted with Greenhouse Investments, an equity investment firm, concerning a joint project which would include the production of rubber granulate (recycling), the manufacture of finished products from the rubber granulate, and the existing product lines of Tigar Technical Rubber Goods. The intent is to set up an integrated industrial unit in Pirot for the above lines of products; the products would be sold locally through Tigar's sales network, and to the international market with the partner's financial and business development support.

Domestic Sales Network

During the first half of the year, 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.

4. 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.

<u>Registered trademarks as of 30 June 2007</u>

Appl. no.	Appl. date	Reg. no.	Trademark	Valid until	Holder
Ž-247/80	30.04.80	31499	Tigar	21.12.07	Tigar AD
Ž-84/385	17.01.84	29947	Tigar Tg 615	25.05.17	Tigar AD
Ž-947/07	30.04.07	-	Tigar Planinarski Dom	-	Tigar AD
Ž-918/07	27.04.07	-	Tigar Tours	-	Tigar AD
Ž-842/07	18.04.07	-	Markol	-	Tigar AD
Ž-1129/07	17.05.07	-	Tigar Incon	-	Tigar AD
Ž-890/80	11.07.03	49590	Tigar Sporting Goods	11.07.13	Tigar AD
Ž-152/07	29.01.07	-	Tigar	-	Tigar AD
Ž-247R/80	30.04.80	49044	Tigar	30.09.15	Tigar Tyres
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 Trgovine	-	Tigar Trgovine
Int'l	03.07.97	675 773	Tigar	20.05.07	Tigar AD
trademark,		675 773A	Tigar	20.05.07	Tigar Tyres
	24.10.78	1174089	Tigar Logo	15.08.12	Tigar Americas
USA					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.

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. The transfer has been registered in Serbia and the member states of the Madrid Agreement. Registration of the transfer in the U.S. will be finalized in 2007.

Tigar Technical 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: <u>www.tigar.com</u> and <u>www.tigar.co.yu</u>.

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 salary. This contract represents an annex to the individual employment contract; its contents are confidential and it is valid for one year.

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.

5. 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.

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

DEFENDANT	CLAIM		% 30-06-07/ 31-12-06	
TREPČA-Zvečan	9,637,376		0%	
UNION BANKA	9,283,000		0%	
LOLA KORPORACIJA	6,000,000		0%	
AMIGA-Kragujevac	1,848,016		0%	
AS KOMERC-Belgrade	2,366,719		-49%	
JIP-Belgrade	1,641,377		0%	
MADRIS-Belgrade, MADREC-Niš, CPORECSS-Novi Sad	3,319,240		0%	
LEKSUS GROUP-Novi Sad	1,217,996		0%	
2M-Pirot	2,247,300		0%	
MEDVET-Belgrade	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	1,248,120		0%	
MICHEL COMP-Ruma	4,567,985		-16%	
AMG OIL-Knjaževac	1,107,674		0%	
PRIMA TREJD-Kučevo	1,174,680		0%	
SIMPO-Vranje	0		-100%	
TOTAL	**RSD 50,787,179**	**€ 7,732.00**	**-8%**	**-84%**

For all of these disputes, effective court rulings exist, but payout has not been realized due to political problems (e.g. Trepca), multiple-year liquidation proceedings which for unexplainable reasons have not been completed, long-term restructuring processes (e.g. the Lola Corporation), criminal proceedings (Amiga Kragujevac and Lexus Group Novi Sad), deregistration (JIP-Belgrade, Medvet–Belgrade, Madris-Belgrade, Madrec-Niš, Cporecss-Novi Sad), or lack of assets to settle the debt (Prima Trejd –Kučevo).

Regardless of the delay in the execution of the court decisions, it is realistic to expect 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.

6. REAL ESTATE

All of Tigar's manufacturing facilities are located in Pirot. Currently, there are four manufacturing plants at two separate locations. The larger location holds tire, technical 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 space, warehouses, and retail outlets).

New business premises in Belgrade were purchased in the 1st 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. The buildings used by the 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^2, total book value RSD 89,244,043).

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 31-06-07
Tigar AD	233,377,185	245,878,437
Tigar Trade, DSN	110,559,302	103,107,561
Tigar Technical Rubber Goods	83,219,296	82,049,959
Tigar Chemical Products	49,285,149	48,600,667
Tigar Footwear	30,749,557	32,321,956
Pirot Free Zone	25,329,300	25,061,803
Total	**532,519,789**	**537,020,383**

Material encumbrances

The Company's material encumbrances at the end of the 2nd Quarter of 2007 were as follows:

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:

1. Agreement no. 3617/04 dated 6 October 2004, EUR 704,494.39 (outstanding balance EUR 539.260,23);
2. Agreement no. 3618/04 dated 6 October 2004, EUR 2,439,711.58 (outstanding balance EUR 1.863.030,77); and
3. Agreement no. 3619/04 dated 6 October 2004, USD 2,362,641.42 (outstanding balance USD 1.808.500,63).

7. 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.

The annual session of the GAS was held in June. The GAS resolved not to change the composition of the Board of Directors and the Supervisory Board.

Board of Directors

Current members of the Board of Directors are:

Name	Responsibility at Tigar/Position outside Tigar
Executive members:	
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
Non-executive members:	
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
Independent members:	
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.

During the first half of the year, members of the Board of Directors received remuneration in the gross aggregate amount of RSD 4,319,470.

During the first six months of 2007, the Board of Directors held four meetings.

Executive Board

The structure and composition of the Executive board remained unchanged in 2007.

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.

During the first six months the Executive Board held twelve 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

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 first half of the year.

During the first six months, members of the Supervisory Board received an aggregate compensation of RSD 1,349,831.

8. EMPLOYEES

Number and structure

As of 30 June 2007, Tigar's domestic subsidiaries had 2,289 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 30 June 2007, the employment structure was as follows:

30 June 2007	
Company	**Number of Employees**
Tigar AD	210 (4*)
Tigar Footwear	1,031 (22*)
Tigar Business Services	186 (3*)
Tigar Technical Rubber Goods	216 (7*)
Tigar Chemical Products	94 (13*)
Domestic Sales Network	187 (3*)
Others	365
Total	2,289

(*x**) – of which *x* are temporary employees hired via the Student Employment Association.

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 Article 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 January-June 2007 employee 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 302,053,000 RSD. The table below shows paid salaries as a percentage of sales revenues.

January-June 2007.			
	Net salaries in 000 RSD	**Gross salaries in 000 RSD**	**% of Sales**
Tigar AD	40,349	56,534	45.57%
Tigar Footwear	103,134	143,284	30.90%
Tigar Business Services	28,749	40,136	24.41%
Tigar Technical Rubber Goods	34,725	48,376	40.03%
Tigar Chemical Products	12,845	17,918	15.87%
Domestic Sales Network	27,677	38,540	14.26%
Others	54,574	75,941	17.66%
Total	302,053	420,729	24.95%

Taxes, health insurance and pension fund contributions during the January-June 2007 period amounted to RSD 118,676,000.

Optimization of human resources

During the January-June 2007 period, 99 employees left Tigar AD and its subsidiaries (excluding Tigar Tyres), on the following grounds:

	Retirement	Redundancy	Other	Total
Tigar AD	3	12	25	40
Tigar Footwear	16		1	17
Tigar Business Services		1		1
Tigar Technical Rubber Goods		19	6	25
Tigar Chemical Products			4	4
Domestic Sales Network		2	2	4
Others	2	2	4	8
Total	**21**	**36**	**42**	**99**

All of the 99 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:

	000 RSD	%
Tigar AD	4,981	8.81%
Tigar Footwear	2,878	2.01%
Tigar Business Services	213	0.53%
Tigar Technical Rubber Goods	5,600	11.58%
Tigar Chemical Products		0.00%
Domestic Sales Network	439	1.14%
Others	1,064	1.40%
Total	**15,175**	**3.61%**

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.

Professional education

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

During the January-June 2007 period, scholarships were paid for students at the following colleges/universities:

	Technical sciences	Manufacturing process engineering	Economics and business administration	Other
Total	41	25	14	20

Tuition and scholarship expenses for the period amounted to RSD 2,726,435

Employee training

The following numbers of employees were trained through internal and external training programs during the period:

	IN-HOUSE TRAINING	EXTERNAL TRAINING	TOTAL
Tigar AD	7	165	172
Tigar Footwear	572	115	687
Tigar Business Services		101	101
Tigar Technical Rubber Goods	35	112	147
Tigar Chemical Products	82	49	131
Domestic Sales Network	5		5
Others	223	97	320
Total	**924**	**639**	**1,563**

9. CORPORATE GOVERNANCE

During the first six months 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.

IV. JANUARY-JUNE 2007 PERFORMANCE OF SUBSIDIARIES AND AFFILIATES

1. TIGAR TYRES

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 tire products, while all other 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.

Following the exercise of MHPB's call option, Tigar's stake in Tigar Tyres has been reduced to 30%. Since MHPB is now the majority stockholder and Tigar AD a minority stockholder, MHPB will fully consolidate Tigar Tyres financial statements in 2007 and Tigar AD will not include Tigar Tyres in its consolidated statements.

In view of this change, Tigar AD will not release Tigar Tyres financials, except for the portion of the profit to which it is entitled based on its stockholding.

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 high temperatures and extreme conditions. These products are currently manufactured solely for export.

The following table shows comparative footwear output:

Output (000 pairs)	**January-June 2007**	**%**	**January-June 2007 vs. January-June 2006**
Low footwear	167,358	24%	61%
Fishing and hunting footwear	135,011	19%	221%
Safety footwear	94,605	14%	299%
Work footwear	296,418	43%	69%
TOTAL	**693,392**	**100%**	**87%**

The following table shows comparative total revenues

Revenues (000 EUR)	**January-June 2007**	**%**	**January-June 2007 vs. January-June 2006**
Low footwear	684	12%	97%
Fishing and hunting footwear	1,722	30%	282%
Safety footwear	1,611	28%	360%
Work footwear	1,697	30%	95%
TOTAL	**5,715**	**100%**	**161%**

Markets and competition

The following tables show comparative international/local sales levels in pairs and in thousands of Euros

Sales (pairs)	Exports January-June 2007	Exports January-June 2006	1: 2	Local market January-June 2007	Local market January-June 2006	4:5
Low footwear	17,964	29,532	61%	206,405	233,163	89%
Fishing and hunting footwear	87,719	35,846	245%	16,442	9,661	170%
Safety footwear	81,817	25,969	315%	2,181	168	1298%
Work footwear	166,758	222,309	75%	42,611	75,221	57%
TOTAL	**354,258**	**313,656**	**113%**	**267,639**	**318,213**	**84%**

Sales (000 EUR)	Exports January-June 2007	Exports January-June 2006	1: 2	Local market January-June 2007	Local market January-June 2006	4:5
Low footwear	**46**	**66**	**-30%**	**638**	**636**	**0%**
Fishing and hunting footwear	**1,431**	**466**	**207%**	**304**	**146**	**109%**
Safety footwear	**1,577**	**444**	**255%**	**34**	**4**	**764%**
Work footwear	**1,334**	**1,306**	**2%**	**364**	**484**	**-25%**
TOTAL	**4,388**	**2,281**	**92%**	**1,340**	**1,269**	**6%**

Sales and distribution

Tigar Footwear distributes its products in domestic and international markets through Tigar's domestic and international sales subsidiaries and through a number of wholesale companies**.**

Customers

Tigar Footwear's customers in its domestic market are primarily shoe wholesalers and retailers. A significant portion of Tigar's rubber footwear 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.

January-June 2007 financials

Balance sheet, in thousands of RSD		**Opening balance as of 1 Jan. 07**	**Period ended 30 June 2007**
Assets			
	Non-current assets	113,430	107,514
	Current assets	528,698	681,025
	Deferred tax assets	0	0
	Total assets	**642,128**	**788,540**
Equity and liabilities			
	Equity	147,041	177,046
	Non-current liabilities	0	0
	Current liabilities	495,086	611,494
	Total equity and liabilities	**642,128**	**788,540**

Free cash flow in 000 RSD	As of 1 Jan. 07	30 June 07
Net profit	-58,181	-20,278
+ Depreciation	14,619	9,129
+Reserved costs for benefits	0	0
+Recovery on provisions	0	0
Cash flow from operation	**-43,562**	**-11,149**
Capital expenditures	**30,181**	**0**
Inventory increase (decrease)	148,543	172,634
+Receivables increase (decrease)	1,086	4,282
-Liabilities increase (decrease)	157,647	165,104
Working capital increase (decrease)	**-8,018**	**11,812**
Free cash flow	**-65,724**	**-22,961**

Income statement in thousands of RSD	**January-June 2007**	**January-June 2007 vs. January-June 2006**
Operating income		
Sales of goods, products and services	463,951	47%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress	157,765	55%
Other operating income	16	-99%
Total operating income	**621,732**	**48%**
Operating expenses		
Cost of commercial goods sold		
Other materials, fuel and energy	349,444	51%
Staff costs	223,640	67%
Depreciation, amortization and provisions	9,130	25%
Other operating expenses	44,465	8%
Total operating expenses	**626,679**	**51%**
Profit from operations	**-4,947**	**-170%**
Finance income	**3,563**	**-35%**
Finance expenses	**19,347**	**158%**
Other income	**904**	**-5%**
Other expenses	**451**	**282%**
Profit (loss) before taxation	**-20,278**	**-444%**
Income taxes		
Deferred income tax expense		
Deferred income tax benefit		
Net profit for the period	**-20,278**	**-482%**

Management's commentary

During the first half of the year, Tigar Footwear sold 621,897 pairs of footwear (or 2% less than during the same period of the previous year). However, the sales revenue was 463,951,000 RSD (or 47% more than during the same period of the previous year). This higher revenue from fewer pairs of footwear is the result of a change in the sales mix which was introduced in 2007. Namely, 2007 sales are dominated by sophisticated products from the safety boots and hunting/fishing boots products groups, as well as several new models of work boots manufactured for export. Conversely, 2006 was dominated by agricultural footwear and simpler models of work boots.

During the first six months, Tigar Footwear exported 354,258 pairs of footwear (or 13% more than during the same period of the previous year). However, its sales revenue of 4,388,000 € is 92% higher than during the same period of the previous year. Exports account for 78% of total sales. 267,639 pairs of footwear were sold to the domestic market, or 16% less than during the same period of the previous year, but the revenue of 1,340,000 € is 6% higher than last year. These figures are the result of changes in the manufacturing program.

There are two major reasons for the lower result:

- Lower income, mostly as a result of foreign exchange fluctuations; and
- Higher costs due to the introduction of a large number of sophisticated product groups.

As a result of the national foreign exchange policy, the sales revenue of RSD 463,951,000 is 47% higher than during the same period of the previous year. However, when expressed in €, the sales revenue of 5,715,000 is 61% higher than during the previous year. These two indicators clearly show that the high proportion of exports in total sales resulted in a lower total sales revenue.

Higher production costs are the result of an increase in employee expenses, as well as research and development costs and costs of higher scrap and waste levels associated with the introduction of new products. A portion of these costs is caused by inadequate manufacturing conditions for new sophisticated products at the existing location.

The number of employees increased due to major changes in the product mix. The total number of employees on 30 June 2007 was 986, of which 526 were full-time employees and 460 were temporary employees. During the second half of the year, the number of employees in both categories will be reduced, particularly of temporary employees.

Since full season for this segment starts in mid-August, inventories were increased in June and July as follows: by 25% in terms of pairs, 45% in terms of tons, and 55% in terms of value. With regard to the latter, higher inventories were caused by the following:

- Increase in the number of pairs in preparation for the season;
- Increase in weight due to the modified product mix; and
- Increase in cost per kilogram of product, since inventories hold a large proportion of sophisticated, costly products.

The approved Tigar III project requires the construction of a new gas/fuel-oil boiler facility and replacement of production plant roofs and floors, in order to ensure energy efficiency and adapt the buildings to the manufacture of rubber products (the furniture manufacturer Polet previously occupied the site). The scope of the final version of the project is larger than originally planned. The new power supply system, reconstruction of industrial facilities, and changes to the underground and above-infrastructure, based on the project, are expected to be completed and commissioned by July 2008, at which time Tigar Footwear will relocate. The total cost of reconstruction of the Tigar III location is 4.5 million € and falls within the scope of the corporate investment plan. Tigar Footwear's investment plan includes purchasing of new equipment and reconstruction of existing equipment for the new location.

3. TIGAR TECHNICAL RUBBER GOODS

Tigar Technical Rubber Goods (TTRG) manufactures:

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

Products

Pressed rubber products. These products are very strong, durable, and flexible. TTRG 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 automotive rubber parts (e.g., mats and gasoline tanks). 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 customer 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. TTRG 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. Sporting goods are sold under the Tigar brand name, primarily to schools, sports clubs and associations.

Hoses. TTRG 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.

Combined and semi-finished rubber products. These products include rubber-coated cables, rubber compounds, 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.

TTRG has begun manufacturing pressed products from recycled rubber using existing equipment. However, it 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, floor coverings for sports arenas, bumpers, various items for roads and railroads, and general-purpose products.

The implementation of a joint project with a foreign partner will allow for a complete restructuring of this business through integration with the recycling project.

The following table shows comparative TTRG production output:

	1	2	3
Output in tons	**January-June 2007**	**%**	**January-June 2007 vs. January-June 2006**
Compounds for third parties	449	63%	N/A
Molded products	65	9%	N/A
Shaped pieces and tubing	96	13%	N/A
Sporting goods	22	3%	N/A
Rubberizing	84	12%	N/A
TOTAL	**716**	**100%**	**36%**

The following table shows comparative total revenues:

	1	2	3
Revenues in 000 EUR	**January-June 2007**	**%**	**January-June 2007 vs. January-June 2006**
Compounds for third parties	343	23%	N/A
Molded products	336	22%	N/A
Shaped pieces and tubing	419	28%	N/A
Sporting goods	185	12%	N/A
Rubberizing	210	14%	N/A
TOTAL	**1,493**	**100%**	**14%**

Markets and competition

	1	2	3	4	5	6
000 EUR	**Exports January-June 2007**	**Exports January-June 2006**	**1: 2**	**Local market January-June 2007**	**Local market January-June 2006**	**4:5**
Compounds for third parties	34	N/A		309	N/A	
Molded products	29	N/A		307	N/A	
Shaped pieces and tubing	188	N/A		231	N/A	
Sporting goods	24	N/A		161	N/A	
Rubberizing	77	N/A		133	N/A	
TOTAL	**352**	**279**	**26%**	**1,141**	**1,033**	**10%**

Sales and distribution

TTRG 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

TTRG’ 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.

January-June 2007 financials

Balance sheet in thousands of RSD		Opening balance as of 1 Jan. 07	30 June 07
Assets			
	Non-current assets	111,479	106,685
	Current assets	137,255	152,181
	Deferred tax assets	1,341	1,341
	Total assets	**250,075**	**260,207**
Equity and liabilities			
	Equity	27,037	9,161
	Non-current liabilities	1,058	1,058
	Current liabilities	221,980	249,988
	Total equity and liabilities	**250,075**	**260,207**

Free cash flow in 000 RSD	As of 1 Jan. 07	30 June 07
Net profit	-66,981	-17,877
+Depreciation	16,462	5,598
+Reserved costs for benefits		
+Recovery on provisions		
Cash flow from operation	**-50,519**	**-12,279**
Capital expenditures	**6,871**	**804**
Inventory increase (decrease)	-4,089	436
+Receivables increase (decrease)	-14,757	16,496
-Liabilities increase (decrease)	39,906	47,852
Working capital increase (decrease)	**-58,752**	**-30,920**
Free cash flow	**1,362**	**17,838**

Income statement in thousands of RSD	**January-June 2007**	**January-June 2007 vs. January-June 2006**
Operating income		
Sales of goods, products and services	120,863	7%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress	-2,639	-120%
Other operating income	802	83%
Total operating income	**119,026**	**-7%**
Operating expenses		
Cost of commercial goods sold		
Other materials, fuel and energy	52,475	-12%
Staff costs	61,607	-3%
Depreciation, amortization and provisions	5,598	-31%
Other operating expenses	16,789	-1%
Total operating expenses	**136,469**	**-8%**
Profit from operations	**-17,443**	**12%**
Finance income	**280**	**-74%**
Finance expenses	**692**	**-91%**
Other income	**415**	**150%**
Other expenses	**437**	**53%**
Profit (loss) before taxation	**-17,877**	**33%**
Income taxes		
Deferred income tax expense		
Deferred income tax benefit		
Net profit for the period	**-17,877**	**33%**

Management's commentary

Although the financial result is negative, it is better than for the same period of the previous year and is above plan. The major factor which caused this result is the product and sales mix with a high proportion of low-margin products, producing lower sales revenues. As such, even though the output in tons was 36% higher and sales were 41% higher than during the same period of last year, sales revenues were only 7% higher. Raw material costs matched projections for the level of output. Employee expenses are still high relative to the sales volume, but the number of employees has been reduced by 65. The average number of employees during the first six months was 228, as opposed to 293 during the same period last year. The result was also affected by lower inventories (41% less by weight). The average scrap level was 0.38%, or 42% better than during the same period of the previous year. Current product lines will allow TTRG to leave the red zone before the end of the year, but it will be in a position to fully stabilize only after the implementation of the new project with a strategic partner and its relocation to the new site.

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, 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, manufacturers of footwear (including Tigar Footwear), and printers (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 output:

	1	2	3
Output in tons	**January-June 2007**	**%**	**January-June 2007 vs. January-June 2006**
Products for the mining industry	32	6%	83%
Road paint	322	56%	4817%
Products for railways	15	3%	-52%
Anti-corrosion coatings	22	4%	133%
PU self-leveling flooring	6	1%	125%
Consumer market	104	18%	45%
Products for the Tigar Group	78	13%	34%
TOTAL	**580**	**100%**	**193%**

The following table shows comparative total revenues:

	1	2	3
Revenues (000 EUR)	**January-June 2007**	**%**	**January-June 2007 vs. January-June 2006**
Products for the mining industry	202	15%	97%
Road paint	598	43%	1170%
Products for railways	38	3%	-38%
Anti-corrosion coatings	65	5%	132%
PU self-leveling flooring	39	3%	342%
Consumer market	291	21%	25%
Products for the Tigar Group	153	11%	54%
TOTAL	**1,386**	**100%**	**138%**

Markets and competition

	1	2	3	4	5	6
Sales (000 EUR)	**Exports January-June 2007**	**Exports January-June 2006**	**1: 2**	**Local market January-June 2007**	**Local market January-June 2006**	**4:5**
Products for the mining industry	172	59	191%	29	43	-32%
Road paint	0	0		598	47	1170%
Products for railways	0	0		38	62	-38%
Anti-corrosion coatings	0	0		65	28	132%
PU self-leveling flooring	0	0		39	9	342%
Consumer market	15	3	391%	276	230	20%
Products for the Tigar Group	0	0		153	100	54%
TOTAL	**187**	**62**	**200%**	**1,199**	**519**	**131%**

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, metalworking, engineering, and consumer goods industries.

January-June 2007 financials

Balance sheet in thousands of RSD		Opening balance as of 1 Jan. 07	As of 30 June 07
Assets			
	Non-current assets	67,339	65,590
	Current assets	143,526	227,949
	Deferred tax assets		
	Total assets	**210,865**	**293,539**
Equity and liabilities			
	Equity	69,189	99,740
	Non-current liabilities	0	
	Current liabilities	141,677	193,799
	Total equity and liabilities	**210,865**	**293,539**

Free cash flow in 000 RSD	As of 1 Jan. 07	30 June 07
Net profit	-20,900	2,129
+Depreciation	5,718	3,023
+Reserved costs for benefits	0	
+Recovery on provisions	0	
Cash flow from operation	**-15,182**	**5,152**
Capital expenditures	**3,236**	
Inventory increase (decrease)	42,517	15,541
+Receivables increase (decrease)	-15,148	76,115
-Liabilities increase (decrease)	84,345	86,494
Working capital increase (decrease)	**-56,976**	**5,162**
Free cash flow	**38,558**	**-10**

Income statement in thousands of RSD	**January-June 2007**	**January-June 2007 vs. January-June 2006**
Operating income		
Sales of goods, products and services	112,903	122%
Work performed by the Company and Capitalized		
Changes in inventories of finished products and work in progress	-9,693	-86%
Other operating income		
Total operating income	**103,210**	**126%**
Operating expenses		
Cost of commercial goods sold		
Other materials, fuel and energy	63,246	140%
Staff costs	22,009	-4%
Depreciation, amortization and provisions	3,023	8%
Other operating expenses	14,789	45%
Total operating expenses	**103,067**	**65%**
Profit from operations	**143**	**Profit vs. loss**
Finance income	**272**	**-13%**
Finance expenses	**653**	**-80%**
Other income	**2,382**	**87%**
Other expenses	**15**	**-97%**
Profit (loss) before taxation	**2,129**	**Profit vs. loss**
Income taxes		
Deferred income tax expense		
Deferred income tax benefit		
Net profit for the period	**2,129**	**Profit vs. loss**

Management's commentary

During the first half of 2007, the production output nearly doubled relative to the same period of the previous year, while production costs increased by 65%. In one year the number of employees was reduced from 94 to 81. Sales revenues grew considerably, but total income was reduced due to a reduction in inventories by almost 10 million RSD. There was an extraordinary income from collected receivables (180 days past due), which had been booked against expenses.

5. COMMERCIAL SUBSIDIARIES

During the first six months 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 is in line with the policy of leasing, rather than purchasing of new facilities.

As of 30 June 2007, Tigar Trade/Domestic Sales Network included:

- **42 retail outlets**, which follow a multi-product multi-brand strategy and offer a wide range of tires, motor oils, batteries, filters, afterparts, and accessories, as well as rubber footwear and other rubber and adhesive products,

- **15 car and LUV service centers, plus 1 mobile service unit**, offering a range of automotive services, including tire replacement, tire repair and alignment, 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. The lack of coverage in Belgrade will be offset by the opening of one car service center and one new truck service center, and the purchase of one mobile truck service unit. 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. To avoid intermediate margins, Tigar Trade will focus on manufacturers for its future supplies. Its outlets provide a convenient retail distribution system for rubber footwear, technical rubber goods and chemical products, under the Tigar brand name.

Sales by product group:

(000 RSD)	January-June 2007	January-June 2007 vs. January-June 2006
Car tires	114,844	-30%
Other tires	79,194	-23%
Inner tubes	14,286	-2%
Rubber footwear	21,207	-43%
Technical rubber goods	10,074	-15%
Chemical products	4,582	-24%
Other products	11,869	-30%
Services	3,218	-1%
TOTAL	**259,274**	**-27%**

Proportion of total sales by product group:

	January-June 2007	January-June 2006
Car tires	44%	46%
Other tires	31%	29%
Inner tubes	6%	4%
Rubber footwear	8%	10%
Technical rubber goods	4%	3%
Chemical products	2%	2%
Other products	5%	5%
Services	1%	1%
TOTAL	**100%**	**100%**

Sales by sales channel:

	January-June 2007	January-June 2006
Wholesale	40%	60%
Sales to end users/individuals	40%	36%
Sales to end users/legal entities	20%	4%
TOTAL	**100%**	**100%**

Sales by segment:

	January-June 2007	January-June 2006
Wholesale/regional offices	40%	60%
Retail	37%	31%
Service centers	23%	9%
TOTAL	**100%**	**100%**

Tigar Trade intends to focus special efforts on attracting fleet buyers (i.e. customers operating a fleet of ten or more cars and/or trucks). Tigar Trade believes that fleet buyers will be especially attracted by an offer of on-the-spot servicing by its mobile units. The activation of stationary truck service centers and mobile units during the forthcoming period will considerably increase sales revenues and improve performance. Changes in the Tigar Tyres sales policy have not yet stabilized the market, where price wars are still present. 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 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.

January-June 2007 financials

Balance sheet in thousands of RSD		Opening balance as of 1 Jan 07	30 June 07
Assets			
	Non-current assets	173,883	176,387
	Current assets	424,582	394,387
	Deferred tax assets		
	Total assets	**598,465**	**570,775**
Equity and liabilities			
	Equity	176,644	129,627
	Non-current liabilities	1,855	1,856
	Current liabilities	419,967	439,292
	Total equity and liabilities	**598,465**	**570,775**

Free cash flow in 000 RSD	1 Jan. 07	30 June 07
Net profit	-28,075	-47,017
+ Depreciation	11,204	6,426
+Reserved costs for benefits		
+Recovery on provisions		
Cash flow from operation	**-16,871**	**-40,591**
Capital expenditures	**26,938**	**8,548**
Inventory increase (decrease)	28,888	88,705
+Receivables increase (decrease)	70,688	-113,830
-Liabilities increase (decrease)	73,490	19,024
Working capital increase (decrease)	**26,087**	**-44,149**
Free cash flow	**-69,896**	**-4,990**

Income statement in thousands of RSD	**January-June 2007**	**January-June 2007 vs. January-June 2006**
Operating income		
Sales of goods, products and services	257,587	-27%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress		
Other operating income	12,673	450%
Total operating income	**270,260**	**-24%**
Operating expenses		
Cost of commercial goods sold	224,178	-28%
Other materials, fuel and energy	5,587	-2%
Staff costs	47,470	17%
Depreciation, amortization and provisions	6,426	24%
Other operating expenses	30,450	7%
Total operating expenses	**314,110**	**-20%**
Profit from operations	**-43,850**	**-21%**
Finance income	**772**	**-91%**
Finance expenses	**4,971**	**-26%**
Other income	**1,573**	**-92%**
Other expenses	**540**	**-14%**
Profit (loss) before taxation	**-47,017**	**-185%**
Income taxes		
Deferred income tax expense		
Deferred income tax benefit		
Net profit for the period	**-47,017**	**-185%**

Management's commentary

Tigar Trade is undergoing restructuring and changes in sales methods. Direct sales to end users will become dominant, as opposed to sales to wholesale companies. Although six-months performance is extremely poor, it is noteworthy that tire sales in units were 40% lower than during the January-June 2006 period, while sales revenues were only 27% lower. This is an indicator of a higher margin, owing primarily to the focus on end users. Service center revenues were significantly higher and offset storage revenues which were dominant in 2006. Poor performance is also a result of low sales of footwear, technical rubber goods, and chemical products. Re-orientation of these sales segments toward end users should result in a significant increase in revenues. Higher employee expenses are the result of an increase in the number of employees due to newly opened facilities Other expenses were significantly impacted by costs incurred by outlets in small towns, which were much higher than their revenues, as well as network upgrading costs, where costs of renovation of buildings, purchasing of servicing tools, and the like, play a major role. These costs cannot be reported as capital expenditures and must be booked against expenses. Plans call considerably fewer retail outlets, but upgrading costs are related to the overall restructuring process and cannot be avoided.

Tigar Export -Import

Last year, TEI operated as a service entity and its January-June 2006 performance was reported under „Other service entities”. However, as of April 2007, TEI operates as a commercial subsidiary, its business has been restructured, and it is now virtually the sole supplier of Tigar’s manufacturing subsidiaries. A direct comparison of its performance to the same period of the previous year would, therefore, be irrelevant. TEI purchases raw materials and expendables directly from suppliers and re-sells them to Tigar’s subsidiaries, and acts as an intermediary in capital-intensive purchases.

January-June 2007 financials

Balance sheet in thousands of RSD	Opening balance as of 1 Jan. 07	30 June 07
Assets		
Non-current assets	394	520
Current assets	2,774	294,227
Deferred tax assets		
Total assets	**3,168**	**294,747**
Equity and liabilities		
Equity	1,709	4,099
Non-current liabilities		
Current liabilities	1,459	290,648
Total equity and liabilities	**3,168**	**294,747**

Free cash flow in 000 RSD	1 Jan. 07	30 June 07
Net profit	1,666	2,390
+Depreciation	13	27
+Reserved costs for benefits	0	0
+Recovery on provisions	0	0
Cash flow from operation	**1,679**	**2,417**
Capital expenditures	**407**	**154**
Inventory increase (decrease)	0	4,700
+Receivables increase (decrease)	2,671	283,883
-Liabilities increase (decrease)	1,459	289,190
Working capital increase (decrease)	**1,212**	**(606)**
Free cash flow	**60**	**2,869**

Income statement in thousands of RSD	**January-June 2007**
Operating income	
Sales of goods, products and services	246,931
Work performed by the company and capitalized	
Changes in inventories of finished products and work in progress	
Other operating income	3,613
Total operating income	**250,544**
Operating expenses	
Cost of commercial goods sold	240,525
Other materials, fuel and energy	143
Staff costs	6,821
Depreciation, amortization and provisions	27
Other operating expenses	1,121
Total operating expenses	**248,636**
Profit from operations	**1,908**
Finance income	**1,233**
Finance expenses	**699**
Other income	**22**
Other expenses	**0**
Profit (loss) before taxation	**2,463**
Income taxes	74
Deferred income tax expense	
Deferred income tax benefit	
Net profit for the period	**2,390**

Tigar Europe, UK

Tigar has been active in the UK market for more than 15 years via 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 intends to expand Tigar Europe's sales network in order to increase its sales of tires and other products (primarily rubber footwear and technical 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.

January-June 2007 financials

Balance sheet in thousands of GBP		**Opening balance as of 1 Jan. 07**	**30 June 07**
Assets			
	Non-current assets	2	1
	Current assets	4,224	4,921
	Deferred tax assets		0
	Total assets	**4,225**	**4,922**
Equity and liabilities			
	Equity	1,964	2,340
	Non-current liabilities		0
	Current liabilities	2,261	2,582
	Total equity and liabilities	**4,225**	**4,922**

Income statement in 000 GBP	**January-June 2006**	**January-June 2007**	**January-June 2007 vs. January-June 2006**
Turnover	**6,696**	**7,948**	**19%**
Cost of sales	2	3.068	**75%**
Gross Profit	**680**	**711**	**5%**
Administrative expenses	270	232	**-14%**
Operating Profit	**410**	**479**	**17%**
Interest receivable	24	50	**111%**
Profit on ordinary activities before taxation	**434**	**529**	**22%**
Tax on profit on ordinary activities	133	153	**15%**
Retained profit for the period	**301**	**376**	**25%**

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. During the first half 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 have an extremely negative impact on footwear sales to this market; 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 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. 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 a change in the US sales policy, are expected to deliver continuous performance improvements.

January-June 2007 financials

Income statement in thousands of US dollars	**January-June 2007**	**January-June 2007 vs. January-June 2006**
Sales and marketing income	**115**	**171%**
Cost of goods sold	66	**345%**
Gross profit	**49**	**78%**
Sales, general and administrative expenses	57	**9%**
Loss from operations	**-8**	**-67%**
Other income (expense)		
Net loss before corporate taxes	**-8**	**-67%**
Provision for income taxes		
Net profit (loss)	**-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, performance was satisfactory.

During the first half of the year, the company in Montenegro reported the best result, while the company in the FYR of Macedonia reported the largest decline in sales. Due to the demise of the co-owner of the company in Republika Srpska, this company will undergo several changes, including a new managing director. Although this company was incorporated in Republika Srpska, the intent is that it expand its activity to encompass the entire Federation of Bosnia and Herzegovina.

All of Tigar's commercial entities in the Balkans are wholesale companies which operate through distributors, except Tigar Montenegro which also operates a retail network.

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.

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

	January-June 2007	January-June 2007 vs. January-June 2006
Tire sales (000 EUR)		
Bosnia and Herzegovina	383.27	-1%
FRY of Macedonia	265.17	-24%
Montenegro	315.99	8%
Sub-total, tires	**964.43**	**-6.11%**
Footwear sales (000 EUR)		
Bosnia and Herzegovina	60.72	-40%
FRY of Macedonia	30.25	-16%
Montenegro	67.86	25%
Sub-total, footwear	**158.82**	**-16.80%**
Sales of other products (000 EUR)		
Bosnia and Herzegovina	15.21	51%
FRY of Macedonia	9.48	-74%
Montenegro	4.91	30%
Sub-total, other products	**29.60**	**-40.82%**
TOTAL	**1,152.85**	**-9.09%**

TIGAR MONTENEGRO

Balance sheet in thousands of EUR	Opening balance as of 1 Jan. 07	30 June 07
Assets		
Non-current assets	9	7
Current assets	234	190
Deferred tax assets		
Total assets	**244**	**196**
Equity and liabilities		
Equity	50	41
Non-current liabilities		
Current liabilities	194	156
Total equity and liabilities	**244**	**196**

Free cash flow in 000 EUR	1 Jan. 07	30 June 07
Net profit	35	25
+Depreciation	5	2
+Reserved costs for benefits		0
+Recovery on provisions		0
Cash flow from operation	**39**	**28**
Capital expenditures	**1**	**0**
Inventory increase (decrease)	-8	28
+Receivables increase (decrease)	-1	9
-Liabilities increase (decrease)	37	-38
Working capital increase (decrease)	**-46**	**76**
Free cash flow	**84**	**-48**

Income statement in thousands of EUR	January-June 2007	January-June 2007 vs. January-June 2006
Operating income		
Sales of goods, products and services	392	12%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress		
Other operating income	1	-34%
Total operating income	**392**	**12%**
Operating expenses		
Cost of commercial goods sold	325	8%
Other materials, fuel and energy	3	40%
Staff costs	21	5%
Depreciation, amortization and provisions	2	4%
Other operating expenses	15	-7%
Total operating expenses	**366**	**7%**
Profit from operations	**26**	**234%**
Finance income		
Finance expenses		
Other income		
Other expenses		
Profit (loss) before taxation	**26**	**234%**
Income taxes		
Deferred income tax expense		
Deferred income tax benefit		
Net profit for the period	**26**	**234%**

TIGAR TRADE (Banja Luka)

Balance sheet in thousands of KM		Opening balance as of 1 Jan. 07	30 June 07
Assets			
	Non-current assets	252	239
	Current assets	1,241	909
	Deferred tax assets	0	0
	Total assets	**1,493**	**1,148**
Equity and liabilities			
	Equity	410	408
	Non-current liabilities	62	30
	Current liabilities	1,022	710
	Total equity and liabilities	**1,493**	**1,148**

Free cash flow in 000 KM	1 Jan. 07	30 June 07
Net profit	86	1
+Depreciation	29	14
+Reserved costs for benefits		0
+Recovery on provisions		0
Cash flow from operation	**115**	**15**
Capital expenditures	**-53**	**1**
Inventory increase (decrease)	223	-83
+Receivables increase (decrease)	206	-230
-Liabilities increase (decrease)	444	-349
Working capital increase (decrease)	**-15**	**36**
Free cash flow	**183**	**-22**

Income statement in thousands of KM	January-June 2007	January-June 2007 vs. January-June 2006
Operating income		
Sales of goods, products and services	898	-6%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress		
Other operating income	5	0%
Total operating income	**903**	**-6%**
Operating expenses		
Cost of commercial goods sold	694	-6%
Other materials, fuel and energy	27	25%
Staff costs	50	10%
Depreciation, amortization and provisions	14	68%
Other operating expenses	132	19%
Total operating expenses	**916**	**-1%**
Profit from operations	**-14**	**-135%**
Finance income		
Finance expenses	**9**	**-23%**
Other income	**28**	**7711%**
Other expenses	**4**	**940%**
Profit (loss) before taxation	**1**	**-96%**
Income taxes		
Deferred income tax expense		
Deferred income tax benefit		
Net profit for the period	**1**	**-96%**

TIGAR PARTNER

Balance sheet in thousands of Denars		Opening balance as of 1 Jan. 07	30 June 07
Assets			
	Non-current assets	585	405
	Current assets	36,724	31,432
	Deferred tax assets		
	Total assets	**37,309**	**31,837**
Equity and liabilities			
	Equity	20,477	18,652
	Non-current liabilities	0	0
	Current liabilities	16,832	13,185
	Total equity and liabilities	**37,309**	**31,837**

Free cash flow in 000 Denars	1 Jan. 07	30 June 07
Net profit	2,555	730
+Depreciation	376	188
+Reserved costs for benefits		0
+Recovery on provisions		0
Cash flow from operation	**2,931**	**918**
Capital expenditures	**0**	**8**
Inventory increase (decrease)	789	-3,242
+Receivables increase (decrease)	-2,736	1,725
-Liabilities increase (decrease)	-8,340	-3,647
Working capital increase (decrease)	**6,392**	**2,131**
Free cash flow	**-3,461**	**-1,220**

Income statement in thousands of Denars	January-June 2007	January-June 2007 vs. January-June 2006
Operating income		
Sales of goods, products and services	23,368	-22%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress		
Other operating income		
Total operating income	**23,368**	**-22%**
Operating expenses		
Cost of commercial goods sold	18,006	-22%
Other materials, fuel and energy	293	-11%
Staff costs	1,761	0%
Depreciation, amortization and provisions	188	-20%
Other operating expenses	2,183	-27%
Total operating expenses	**22,431**	**-21%**
Profit from operations	**937**	**-35%**
Finance income	**10**	**-43%**
Finance expenses	**87**	**-46%**
Other income		
Other expenses		
Profit (loss) before taxation	**860**	**-28%**
Income taxes	**130**	**-42%**
Deferred income tax expense		
Deferred income tax benefit		
Net profit for the period	**730**	**-25%**

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 transportation, 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, supported by the engineering segment.

- *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)*, which offers a broad range of hotel 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 business. 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.

Tigar Business Services, Tigar Workshop and the Pirot Free Zone were the top performers in this group. The hotel reported a minor loss, but it is expected to improve its result in the latter part of the year, following the reconstruction of the road from Pirot to the Hotel, minor reconstruction of the hotel building, renewal of inventory, and completion of new facilities. In addition to engineering, Tigar Incon begun operating the construction segment in 2007. It is currently involved in major construction activities at the Tigar III location, reconstruction of the sales network, and reconstruction of office buildings in Pirot and Belgrade, but also in projects for third parties. New equipment which has been purchased, including a PU flooring machine, will be a significant contributor to a better bottom line.

Tigar Business Services financials

Balance sheet in thousands of RSD		Opening balance as of 1 Jan. 07	30 June 07
Assets			
	Non-current assets	36,409	78,306
	Current assets	79,025	84,234
	Deferred tax assets	-124	-475
	Total assets	**115,310**	**162,065**
Equity and liabilities			
	Equity	24,875	41,801
	Non-current liabilities	76,762	84,627
	Current liabilities	13,673	35,638
	Total equity and liabilities	**115,310**	**162,065**

Free cash flow in 000 RSD	1 Jan. 07	30 June 07
Net profit	5,144	23,800
+Depreciation	16,409	4,268
+Reserved costs for benefits		
+Recovery on provisions		
Cash flow from operation	**21,553**	**28,069**
Capital expenditures	**52,818**	**29,240**
Inventory increase (decrease)	-7,888	169
+Receivables increase (decrease)	-6,041	8,431
-Liabilities increase (decrease)	19,093	-16,324
Working capital increase (decrease)	**-33,022**	**24,925**
Free cash flow	**1,757**	**-26,096**

Income statement in thousands of RSD	January-June 2007	January-June 2007 vs. January-June 2006
Operating income		
Sales of goods, products and services	164,438	-8%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress	891	Profit vs. loss
Other operating income		
Total operating income	**165,330**	**-12%**
Operating expenses		
Cost of commercial goods sold	8,371	13%
Other materials, fuel and energy	59,011	-27%
Staff costs	50,308	-28%
Depreciation, amortization and provisions	4,268	18%
Other operating expenses	19,446	0%
Total operating expenses	**141,405**	**-22%**
Profit from operations	**23,925**	**232%**
Finance income	**1,832**	**15171%**
Finance expenses	**2,386**	**45%**
Other income	**1,189**	**108%**
Other expenses	**284**	**761%**
Profit (loss) before taxation	**24,276**	**297%**
Income taxes		
Deferred income tax expense	475	
Deferred income tax benefit		
Net profit for the period	**23,800**	**301%**

Other service subsidiaries: Combined financials

Income statement in thousands of RSD	January-June 2007	January-June 2007 vs. January-June 2006
Operating income		
Sales of goods, products and services	155,389	123%
Work performed by the company and capitalized	39	
Changes in inventories of finished products and work in progress	0	
Other operating income	1,426	-9%
Total operating income	**156,854**	**120%**
Operating expenses		
Cost of commercial goods sold	1,847	-28%
Other materials, fuel and energy	26,936	14432%
Staff costs	89,799	97%
Depreciation, amortization and provisions	3,121	-25%
Other operating expenses	20,894	97%
Total operating expenses	**142,596**	**126%**
Profit from operations	**14,257**	**76%**
Finance income	207	7264%
Finance expenses	123	-71%
Other income	321	-71%
Other expenses	0	-100%
Profit (loss) before taxation	**14,663**	**74%**
Income taxes	0	-100%
Deferred income tax expense	72	
Deferred income tax benefit	0	
Net profit for the period	**14,591**	**76%**

JANUARY-JUNE 2007 REPORT	Document reference
	IZ.P.07/02

Free zone financials

Balance sheet in thousands of RSD		Opening balance as of 1 Jan. 07	30 June 07
Assets			
	Non-current assets	104,828	109,052
	Current assets	30,064	34,555
	Deferred tax assets	189	
	Total assets	**135,081**	**143,607**
Equity and liabilities			
	Equity	116,846	116,846
	Non-current liabilities	13,769	12,393
	Current liabilities	4,466	14,368
	Total equity and liabilities	**135,081**	**143,607**

Free cash flow in 000 RSD	1 Jan. 07	30 June 07
Net profit	4,466	9,902
+Depreciation	1,402	747
+Reserved costs for benefits		
+Recovery on provisions		
Cash flow from operation	**5,868**	**10,649**
Capital expenditures	**21,525**	**4,394**
Inventory increase (decrease)	219	-69
+Receivables increase (decrease)	966	1,202
-Liabilities increase (decrease)	166	-1,376
Working capital increase (decrease)	**1,019**	**2,510**
Free cash flow	**-16,677**	**3,746**

Income statement in thousands of RSD	January-June 2007	January-June 2007 vs. January-June 2006
Operating income		
Sales of goods, products and services	30,266	64%
Work performed by the company and capitalized		
Changes in inventories of finished products and work in progress		
Other operating income		
Total operating income	**30,266**	**64%**
Operating expenses		
Cost of commercial goods sold	56	#DIV/0!
Other materials, fuel and energy		
Staff costs	10,799	21%
Depreciation, amortization and provisions	747	-18%
Other operating expenses	8,911	32%
Total operating expenses	**20,513**	**24%**
Profit from operations	**9,753**	**416%**
Finance income	**219**	**-44%**
Finance expenses	**64**	**-72%**
Other income	**226**	**132%**
Other expenses	**232**	
Profit (loss) before taxation	**9,902**	**359%**
Income taxes		
Deferred income tax expense		
Deferred income tax benefit		
Net profit for the period	**9,902**	**359%**

V. 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:

- *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.

- *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.

During the first half of the year, 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.

VI. 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 of the Tigar Group

In general, six-months 2007 achievements relating to Tigar’s balanced business development include the following:

- Tigar Footwear made major achievements in product line restructuring and growth of exports. Forthcoming activities aimed at cost reductions are expected to considerably improve the bottom line. However, the full effect of these development activities and changes will be felt only after Tigar Footwear moves to its new location.

- Tigar Technical Rubber Goods was experiencing the greatest problems over the past few years. However, during the first half of this year, although it reported a loss, TTRG performed much better than during the same period of the previous year. Major objectives for the latter half of the year include performance according to plan and preparation for restructuring under a joint project with an international partner.

- Tigar Chemical Products performed much better than during the first half of the previous year. It is reasonable to assume that it will meet expectations at year end. Although not directly included in the above-mentioned project, TCP will need to be upgraded to adequately support the new industrial unit.

- Even though it reported the greatest loss, Tigar Trade is upgrading and restructuring its domestic sales network according to plan. Performance of the network of service center, in particular, shows that the implemented concept is sound. Increase in tire sales (especially of truck tires) and increase in sales of other products (particularly footwear) through upgraded sales methods are expected to offset this result during the latter part of the year.

In general, following Michelin Group's acquisition of control over Tigar Tyres, the process of balancing the development of the Tigar Group is proceeding according to plan. It is reasonable to expect that the development of the footwear business, the integrated recycling/technical rubber goods project, the development of the sales network, and the activities of the international and service subsidiaries will lead to an equitable development of all of Tigar's entities.

2. Manufacturing

At Tigar Footwear, in addition to the introduction of new groups of products during the first six months, 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 Technical 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

Serbian recycling legislation is expected to be enacted by the end of this year, and will be one of the major factors of a joint project with a strategic partner.

VII. MISCELLANEOUS

Tigar AD did not modify its accounting policy during the first half of the year. Internal audit activities proceeded according to plan.

TIGAR AD

Jelena Petković
Executive Director for Corporate Management Support

TIGAR AD

Dragan Nikolić
Executive Board Chairman