GENERAL ASSESSMENT OF 2011 PERFORMANCE

In 2011, international demand grew and attested to a gradual economic recovery of developed countries in particular. However, adverse developments in the Serbian real sector and financial markets continued, including a decline in domestic demand. Banks focused their credit activities on short-term financing with monthly or quarterly repayments, or on a revolving basis, secured either by domestic and international accounts receivable (including letters of credit) or mortgages. Given that a long-term loan from Apex IV for the financing of permanent working capital was not disbursed in 2011, the Company resorted to financial bridging through the issuance of short-term corporate bonds. This method of financing led to high finance expenses and a larger proportion of raw material purchases from European distributors as opposed to direct purchases from overseas manufacturers, resulting in increased costs.

The Company gave the highest development priority to its footwear business, where it focused its overall resources, including financial resources. Footwear exports grew by 9%, while domestic sales recorded a 7% decline. Based on placed orders, this segment could have reported a considerably higher growth but was constrained by the permanent working capital available for financing growth. In the domestic market, sales were adjusted to the ability of customers to pay, which resulted in lower but collectable sales.

Tigar Technical Rubber Goods LLC (TTRG) reported a sales growth of 18%, but this growth was not sufficient to produce a positive bottom line.

Tigar Chemical Products LLC (TCP) did not take part in public procurement tendering for road paint and this resulted in a decline in sales revenues but did not significantly affect their bottom line.

A lack of supply of complementary goods, particularly tires, reduced sales revenues in that segment.

Overall, exports grew by 10% but the consolidated sales income, which includes the sales income earned by Tigar’s entities operating abroad, matched 2010 levels. In the footwear segment, contrary to 2010 when new customers absorbed 20% of exports, sales in 2011 focused on existing customers. Conversely, TTRG sold 20% of its products to new customers. Tigar Footwear’s 2012 sales plans are based on existing customers, leaving considerable room for growth relative to plan, depending on market conditions. TTRG’s plans call for half of its sales to be made to new customers. TCP is resuming production of road paint, owing above all to its excellent quality references. Similar to a year ago, tire distribution this year will largely depend on the supply.

The previous year was characterized by significant commodity price increases, recording the highest prices of raw materials in history during the first half of the year. A downward trend began during the last quarter, albeit with continued fluctuations. Tigar respond to these price increases twice during the year: it increased the prices of its exports by 10% on average in January and June, and increased domestic prices by smaller percentages several times during the year.

In 2011, the Company continued to invest heavily in the development of new groups of products to maintain a leadership position in the market segments in which it operates, as well as in the development of new and alternative materials primarily aimed at improving product performance, while cost optimization targeted productivity growth.

The Holding Company (Tigar AD) reported an operating income of 4,143 million RSD, an operating result of 11 million RSD, a profit before taxes of 152 million RSD and a net profit of 122 million RSD.

At the consolidated level, Tigar reported an operating income of 5.2 billion RSD, a sales income of 4.3 billion RSD, and an operating result of approximately 13 million RSD. Sales revenues roughly matched 2010 levels. The gross loss at the end of the year was some 236 million RSD. Consolidated assets amounted to 8.9 billion RSD, of which non-current assets came to 5.1 billion RSD and current assets to 3.7 billion RSD. Consolidated capital was recorded at roughly 3 billion RSD.

The difference between the net result of the Holding Company and the consolidated net result, before and after taxation, is attributed to differences between finance income and other income. First, at the consolidated level dividends are eliminated as internal income. Second, with regard to other income, assets are valued differently at the individual level than at the consolidated level. We had the same situation in 2009, when we sold our remaining 10% stake in Tigar Tyres. Other income in Tigar AD's statement were recorded at 688,343 (000) RSD, while in the consolidated statement they amounted to 327,820, which had a negative impact on that year's bottom line of 361 million RSD.

An overall assessment of the year 2011 shows that international market demand continued to grow but domestic market demand did not. Customer orders in excess of achieved sales revenues show that the Company held a stable and prospective market position, but also that the utilization of this potential required adequate permanent working capital to finance growth.

Even though the Company failed to meet expectations in 2011, its business activities are proceeding according to plan which, following a period of investment in buildings and equipment, and a period of investment in product and market development, calls for full commercialization and production and sales growth, while maintaining the same levels of fixed costs. In industry in general, two to four years need to pass between the implementation of projects for new capacities and their full commercialization. In Tigar's case, this process proceeded in the midst of a global economic crisis.

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