Tigar®	**TIGAR AD PIROT**

2007 ANNUAL REPORT

Distributed to:

e: www.tigar.com
p: Board of Directors
Executive Board
File

Key words: TIGAR, ANNUAL REPORT, 2007		Document reference **IZ.P.08/01**
Date: 28 March 2008	Author: Jelena Petković	Approved by: Dragan Nikolić

TABLE OF CONTENTS

I. INTRODUCTION

1. GENERAL INFORMATION

Registered name: Akcionarsko društvo "Tigar" Pirot (Joint-Stock Company Tigar AD Pirot, hereinafter referred to as Tigar, Tigar AD, the Company, and the Holding Company)	**Registered address:** Nikole Pašića 213, 18300 Pirot
Corporate ID number: 07187769	**Fiscal ID number:** 100358298
Web site address: www.tigar.com	**Incorporation certificate:** Registration file no. 1-1087
Core activity: Holdings	**Number of employees** at 31/12/2007: 2.240
Number of shareholders at 31/12/2007: 4.927	**Capital** at 31/12/2007: (K RSD) 2.685.839
Total assets at 31/12/2007: (K RSD) 2.336.257	**Capitalization** at 31/12/2007: (K RSD) 2.967.780.420

2. FORMAT OF ANNUAL REPORT

The format of this Annual Report is predetermined by the Regulation on the Format of Public Company Annual Reports and on Disclosure of Voting Shareholders. Information about the Company's performance has been segmented (on line of business and geographical location basis) in accordance with IAS 14.

The financial information presented in this Report is unaudited. The auditors' opinion will be available in April, before decisions relating to the annual session of the General Assembly of Shareholders are taken.

The financials shown below have been extracted from Tigar AD's financial statements prepared in accordance with the applicable IFRS . These financials are unaudited since, as of the date of this Report, our independent auditors, Deloitte, are still in the process of auditing the financial statements of Tigar AD and its subsidiaries. Upon completion and presentation of the auditors' report and opinion, they will be submitted to the Board of Directors. If the auditors do not make any corrections and if they do not have any reservations concerning the unaudited financial statements, the Board of Directors, at it session convened for the purpose of taking decisions which will recommend to the General Assembly of Shareholders to approve the consolidated financial statements, the unconsolidated financial statements, the auditors' opinion and the distribution of profits, will review only the auditor's opinion and the draft decisions since all other relevant business and financial information is contained in this Report.

3. BACKGROUND

Tigar was founded in 1935 as a workshop for the manufacture of rubber footwear. It started producing automotive tires in 1959. In the early 1970's, it entered into a cooperation agreement with the US company B.F. Goodrich, to meet the product quality and price demands of the international market. This cooperation lasted almost thirty years. When B.F. Goodrich was acquired by Michelin, Tigar established a relationship with the Michelin Group. However, this relationship was suspended during much of the 1990's as a result of the international trade embargo against Yugoslavia. During the embargo, Tigar followed a survival strategy and diversified mainly in the area of services. Following the lifting of the trade embargo, Tigar established a full working relationship with the Michelin Group in the tire manufacturing segment.

In 2002, Tigar incorporated a joint venture, Tigar MH, with Michelin and the IFC, and became a holding company through incorporation of its former business units as separate legal entities, either wholly owned or controlled by the Holding Company.

In 2005, Michelin and the IFC increased the capital of Tigar MH in order to support its further growth.

In 2006, Tigar initiated business restructuring of Tigar Footwear and Tigar Technical Rubber Goods, as well as an overall reconstruction and upgrading of its domestic sales network. In July of 2006, Tigar purchased a new industrial location, Tigar 3, in order to concentrate the manufacturing capacity it controls at this location. This marked the beginning of Tigar AD's intensive investment activities which target the subsidiaries it controls.

In 2007, Michelin acquired a controlling stake in Tigar Tyres through the exercise of a call option over Tigar AD's 19.6% interest in Tigar Tyres (in 2007, Tigar MH changed its name to Tigar Tyres), and offered to acquire the remaining interest in Tigar Tyres and to purchase land and infrastructures at the Tigar 2 location (for further physical expansion of the tire manufacturing segment). During the course of 2007, Tigar AD: continued to invest in infrastructure and to restructure the businesses it controls; initiated intensive negotiations with strategic partners in the footwear and technical rubber goods segments; and made all the necessary preparations for the full integration of Tigar Tyres into the Michelin Group.

Also in 2007, Tigar became the first officially listed (A-listed) company on the Belgrade Stock Exchange.

4. KEY REMARKS ON 2007 PERFORMANCE

4.1 *BUSINESS STRUCTURE*

In 2007, Tigar was the leading rubber goods manufacturer in the region of the Balkans, in the following lines of business:

Rubber footwear, intended for a broad range of industries (including mining, forestry and agriculture), hunting, fishing, extreme conditions (fire, explosion, flood), and the consumer market (including women's fashion footwear and children's rubber footwear).

Technical rubber goods, including products for the automotive, mining, chemical and military industries, products for the traffic infrastructure, products made from recycled rubber, and sports balls and equipment.

Chemical products, including special adhesives for the mining industry and various other industries, road paint, special polyurethane flooring, anti-corrosion coatings, appliance paint, special coatings for cans and other types of containers, and consumer products.

The opening of new automotive service and sales outlets in Serbia was part of an ongoing project which will ultimately produce the largest national sales network for the sales of tires, automotive afterparts, products made by subsidiaries controlled by Tigar, and items compatible with these products.

Tigar's service subsidiaries, even through they generally provided services to Tigar and Tigar Tyres, have significantly expanded their range and increased earnings.

Tigar's commercial subsidiaries located abroad operated as wholesale companies in 2007, since a restructuring program for the Balkan subsidiaries has not yet been adopted. In addition to sales, Tigar Americas conducted considerable purchases of raw materials and goods from the US Dollar market.

Tigar Tyres, the joint venture with the Michelin Group which manufactures tires and inner tubes for cars and light utility vehicles, and in which Tigar AD held a 30% stake in 2007, performed according to manufacturing and sales plans. Tires were sold primarily to customers from the European Union.

4.2 ***RESULTS***

Tigar AD's 2007 consolidated result reflects its 2007 performance. It is not affected by the results from previous years, as in the case of the unconsolidated result, and, as such, it is the most realistic indicator of business and financial performance and of the progress achieved in 2007. This result does not include Tigar Tyres, in view of the fact that Tigar's interest was reduced to 30% in 2007, following the exercise of the Michelin Group's call option and the consequent acquisition of Tigar AD's 19.6% interest in Tigar Tyres. In 2006, based on its 49.4% interest at the time, Tigar AD consolidated the financial statements of Tigar Tyres on a proportional basis. Also in 2006, Tigar AD did not consolidate the financial statements of the companies located abroad, as stated in the auditors' opinion on the 2006 consolidated financial statements. Since the auditors in fact expressed a reservation with regard to the 2006 financial statements because the results of the companies located abroad were not consolidated in 2006, Tigar consolidated their financial statements in 2007 (Tigar Europe was consolidated at 50% proportional to Tigar's interest). In view of the above changes, the audited 2006 financial statements would not be comparable to 2007 financial statements and, for this reason, 2006 consolidated statements have been prepared along the same principles as for FY 2007, to allow for comparison. The changes in the 2006 consolidated financial statements will be confirmed in the auditors' report.

Preliminary Consolidated results: 2007

Income statement in 000 dinars	**Actual 2007 (preliminary)**
Operating income including change in inventory	3,988,207
Operating expenses	4,178,375
Profit from operations	-190,168
Financial result	150,552
Non-bussines & extraordinary result	336,372
Profit before taxation	296,756
Net profit for the period	**263,019**

Net result divide by:	
Tigar AD, Pirot	257,744
Minority interests	5,275

Tigar AD's 2007 unconsolidated result reflects earnings from services provided to subsidiaries, rentals, due dividends, and extraordinary income (mostly capital gain). Income from services is lower because Tigar Tyres is now performing its own accounting, financial, marketing and quality control services (previously provided by Tigar AD). The operating expenses reflected in the consolidated result include employee expenses and other costs incurred by Holding Company employees, who are, for reasons of optimization, providing most of the administrative services to the subsidiaries (such as accounting, controlling, financial, legal, human resource and similar services); rental expenses; and other expenses including corporate expenses incurred in connection with the activities of the General Assembly of Shareholders, the Board of Directors and the Supervisory Board, finance expenses relating to interest costs and foreign exchange losses in connection with Holding Company loans, and finance expenses resulting from losses reported by subsidiaries in 2006.

Unconsolidated result: 2007

Income statement in 000 dinars	**Actual 2007 (unaudit)**
Operating income	236,690
Operating expenses	411,153
Profit from operations	-174,463
Financial result	239,476
Non-bussines & extraordinary result	-15,285
Profit before taxation	49,728
Net profit for the period	**48,734**

In 2008, the unconsolidated result will be considerably affected by capital gain resulting from the sale of land at the Tigar 2 location to Tigar Tyres and the sale of Tigar's 10% interest in Tigar Tyres to the Michelin Group. According to a report prepared by the auditors and submitted to the General Assembly of Shareholders, the expected aggregate capital gain in 2008 is roughly 650,000 million dinars, which is almost equal to the total 2007 unconsolidated income. Keeping in mind a considerable reduction in 2007 unconsolidated income due to high infrastructure investment costs, including the cost of related borrowings and the costs associated with business restructuring of the entire group, a proposal to the General Assembly of Shareholders to distribute both regular 2007 dividends and extra dividends at the 2007 dividend level, would be well founded. This is expected to have a positive response, particularly from small shareholders whose votes are considerably affected by increased political and economic risks in Serbia.

4.3 *INVESTMENT ACTIVITIES*

In 2006, Tigar purchased a 16-hectare location in the vicinity of its main manufacturing facility. Tigar Footwear, Tigar Technical Rubber Goods, Tigar Chemical Products and several service businesses will move to the new location.

The Group invested a total of 327,5 million Dinars in 2007, as shown below.

000 RSD

	Actual 2006	Actual 2007
TIGAR ad	106,769	171,931
TIGAR RUBBER FOTWEAR	30,119	8,152
TIGAR TECHNICAL RUBBER GOODS	7,485	5,759
TIGAR CHEMICAL PRODUCTS	2,984	4,381
TOTAL PRODUCTION ENTITIES	40,588	18,291
TIGAR DOMESTIC SALES NETWORK	28,189	78,843
TIGAR EXPORT-IMPORT	411	1,685
TOTAL COMMERCIAL ENTITIES	28,600	80,528
FREE ZONE PIROT	21,901	5,983
TIGAR BUSINESS SERVICE	4,520	35,069
HOTEL TIGAR MOUNTINE HOUSE	800	235
TIGAR TOURS	72	91
TIGAR INTER RISK	37	0
TIGAR SECURITY	903	64
TIGAR PROTECTIVE WORKSHOP	1,997	2,890
TIGAR INCON	**28**	**12,382**
TOTAL SERVICE ENTITIES	30,257	56,715
TOTAL:	**206,214**	**327,465**

Most of Tigar AD's investments targeted the Tigar 3 location, particularly its energy supply, underground and above-ground infrastructures, and the footwear manufacturing facility. Tigar Trade DSN financed its investment activities from cash flow. Service subsidiaries financed their investment activities from both cash flow and loans.

4.4 *INTEGRATED QUALITY AND ENVIRONMENTAL MANAGEMENT SYSTEM*

Integrated quality and environmental management is practiced by all of Tigar's manufacturing subsidiaries, such that their products meet customer expectations and their manufacturing processes result in a minimal impact on the environment.

In 2007, certified companies were inspected and their compliance with ISO 9001:2000 and ISO 14001:2004 standards was confirmed.

In addition to quality and environmental management, Tigar has included occupational health and safety in its business policy. A risk assessment was prepared for each workplace and for the work environment in accordance with statutory requirements. In addition, an Occupational Health the Safety System is being designed in accordance with OHSAS 18001. This system will be certified after its full implementation and integration with the existing management systems.

4.5 *EVENTS IMMEDIATELY FOLLOWING THE PREPARATION OF THE 2007 BALANCE SHEET*

An extraordinary session of the General Assembly of Shareholders (GAS) was held on 27 February 2008. The GAS adopted the recommendation made by the Board of Directors concerning the disposal of major assets. It approved the sale to the Michelin Group between July 2008 and February 2010 of the following: (1) Tigar AD's 30% interest in Tigar Tyres, in three 10% installments; and (2) land at the Tigar 2 location, required for physical expansion of Tigar Tyres. According to a factual report prepared by our auditors, the 2008 proceeds from the sale of the land at the Tigar 2 location will be 571 million dinars. The proceeds from the sale of Tigar AD's 30% interest will be 18.4 million Euros. Based on the December 2007 average exchange rate, the total capital gain from these transactions, which will be direct income in Tigar AD's unconsolidated financial statements, will amount to roughly 1 billion dinars. The overall transaction with the Michelin Group also includes the sale of Tigar Technical Rubber Goods and Tigar Chemical Products buildings at the Tigar 2 location, but since they are not the property of Tigar AD the proceeds and income will be attributable to these subsidiaries.

5. ASSESSMENT OF THE 2007 BUSINESS ENVIRONMENT

Many factors affected Tigar AD's 2007 results, performance and achievements.

Key internal factors which impacted Tigar's 2007 results, performance and achievements include:

- A high level of investment in infrastructure (Tigar 3 location, domestic sales network, and automotive service outlets);
- Development of new product groups and entry into new markets;
- Changes in product mix, with the goal of achieving a higher level of product sophistication;
- Changes in sales policy and orientation toward end users (companies and individuals) in the Serbian market;
- Business processes related to the acquisition of additional needed capital; and
- Presence of unfair competition in the domestic market, particularly with respect to chemical product and tire sales.

In 2007, Tigar was also 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 and economic instabilities;
- Changes in the capital market;
- Exchange rate fluctuations during the year;
- Increase in interest rates;
- Negative capital market trends; and
- Increase in raw material prices.

2007 ANNUAL REPORT	Document reference
	IZ.P.08/01

II. SUMMARY OF 2007 FINANCIALS

1. INTRODUCTION

Since Tigar AD is a holding company, it produces two types of statements:

- Unconsolidated statements, and
- Consolidated statements.

Tigar has 18 subsidiaries which it controls, 3 joint ventures, and a stake in one Agency. Of the 22 companies, 17 are incorporated and operate in Serbia and 5 are incorporated and operate aboard.

Companies within the Tigar Group operate in the following areas:

- Manufacture
- Commerce
- Services

Companies which operated within the Tigar Group in 2007 included 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 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	Sales and purchasing in the US and Canada
9	Tigar Trade	Sales and purchasing in Bosnia and Herzegovina
10	Tigar Partner	Sales and purchasing in Macedonia
11	Tigar Montenegro	Sales and purchasing in Montenegro
	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 property
16	Tigar Inter Risk d.o.o., Pirot	Insurance
17	Tigar Icon d.o.o., Pirot	Engineering and consultancy
18	Tigar Tours d.o.o., Pirot	Tourist Agency
19	Slobodna Zona d.o.o., Pirot (Pirot Free Zone)	Tax and duty free zone
20	PI kanal (Pi Channel)	Local TV station
21	Dom sposrtova (Sports Center)	Sports center project
22	Agencija "Stara planina " (Stara Planina (Old Mountain) Agency)	Development of the Stara Planina National Park

Financial statements by segment are prepared to provide a detailed insight into operations.

The distribution of dividends is based on the profit reported in unconsolidated financial statements.

There is no special transfer price calculation methodology; prices are solely market driven.

All financials are reported in thousands of dinars.

Average annual exchange rates were used to convert foreign subsidiary financials into dinars, as shown in the following table.

Exchange rates applied to translate financials

	Average 2007	At the day 31.12.2007.	At the day 31.12.2006.
British pound (GBP)	116.9008	107.3080	117.8577
Euro (EUR)	79.9764	79.2362	79.0000
Swiss franc (CHF)	48.6794	47.8422	49.1569
US dollar (USD)	58.4492	53.7267	59.9757

Tigar's management applies accounting policies which define:

Revenue and expense recognition and measurement; foreign exchange translation; employee benefits; bad debt provision; taxes and contributions

- Current income tax
- Deferred income taxes
- Indirect taxes and contributions
- Intangible assets

Property, plants and equipment

Depreciation

- Depreciation for accounting purposes
- Depreciation for tax purposes

Long-term investments: Inventory

Unaudited 2007 financial results:

in thousand of RSD	Tigar ad	Production entitites	Comercial entities	Servise entities	Tigar Tyres
TOTAL INCOME	711,898	1,927,052	3,310,216	769,538	
TOTAL EXPENSES	662,170	1,851,548	3,273,835	717,072	
RESULT BEFORE TAXATION	49,728	75,505	36,380	52,466	234,007

2007 ANNUAL REPORT	Document reference
	IZ.P.08/01

2007 Sales by geographical area and by segment:

COUNTRY	FREE ZONE PIROT	TIGAR TECHNICAL RUBBER GOODS	TIGAR CHEMICAL PRODUCTS	TIGAR RUBBER FOTWEAR	TOTAL
France	1940	35,867		1,376,808	1,414,615
United Kingdom	3900			884,345	888,245
Germany	838			412,852	413,690
Italy		141,762		1,436,958	1,578,720
Bosnia&Hercegovina		119,940	16454.69	722,277	858,672
Sweden		22,768		315,992	338,760
Bulgaria	9,800	4,027	75,000	28,445	117,272
Finland	12850			2,693,026	2,705,876
Poland		173	31,175	-	31,348
Turkie	5750			-	5,750
Hungary		2,113		-	2,113
Rumania	3635			-	3,635
Macedonia	1175	124,147	17112.7	163,531	305,966
Greece	290			33,704	33,994
Czeck Republic	13,720			-	13,720
Montenegro		30,802		202,072	232,874
JAR			190,937	-	190,937
Croatia	37	40,935	6522.8	9,808	57,303
Slovenia		14,996		122,976	137971.54
Slovakia		3,320		-	3,320
Egypat		79,977		-	79,977
USA	40610			135,596	176,206
Malta	1500	1,194		-	2,694
Svizerland	4970			-	4,970
Netherlands	1640	184		-	1823.8
Cyprus	18420	12,158.80		-	30,579
British Virgin Islands		85,246.80		-	85246.8
Other	20.585				
TOTAL	147,498.00	719,610.25	399,466.03	8,538,390.00	9,804,964.28

2. CONSOLIDATED FINANCIAL STATEMENTS

In accordance with international accounting principles of consolidation, all financial placements of the Holding Company and the capital of the subsidiaries whose results are consolidated, have been eliminated upon consolidation. Consolidation encompasses the financial statements of the companies in which Tigar held an interest in 2007, as shown in the following table:

		% (31 Decembar 2007)
	Manufacture	
1	Tigar Rubber Footwear d.o.o Pirot	100,00%
2	Tigar Technical Rubber goods d,o,o, Pirot	100,00%
3	Tigar Chemical Products d,o,o, Pirot	100,00%
	Domestic commerce	
4	Tigar Domestic Sale network d,o,o, Pirot	100,00%
5	Tigar Export-Import d,o,o, Pirot	100,00%
	Services	
8	Tigar Protective Workshop d,o,o, Pirot	100,00%
9	Tigar Mountine House d,o,o,, Pirot	100,00%
10	Tigar Business Service d,o,o,, Pirot	100,00%
11	Tigar Security d,o,o,, Pirot	100,00%
12	Tigar Inter Risk d,o,o,, Pirot	100,00%
13	Tigar Icon d,o,o,, Pirot	100,00%
14	Tigar Tours d,o,o,, Pirot	100,00%
15	Tigar Free Zone d,o,o,, Pirot	74,31%
	International commerce	
16	Tigar Europe, United Kingdom and Ireland	50,00%
17	Tigar Americas, US America	100,00%
18	Tigar Partner , Republic of Macedonia	70,00%
19	Tigar Trade Republic of Srpska	70,00%
20	Tigar Montenegro d,o,o, Podgorcia	80,00%

To provide better insight into the 2007 consolidated result, the following tables show key financial indicators of consolidation.

The financial statements of Tigar Tyres were not consolidated in 2007, Tigar Europe was consolidated at 50% (proportional to Tigar AD's interest), and the financial statements of the Pi Channel, Sports Center and the Mt. Stara Planina Agency were not consolidated because these three entities did not report any materially significant performance.

PRELIMINARY CONSOLIDATED BALANCE SHEET
As of December 31,2007
thousands of RSD

	As of December 31,2007
ASSETS	
Non-current assets	2,465,897
Intangible assets	36,343
Property, plant and equipment	1,155,252
Equty investments	1,218,628
Other long-term financial placements	55,674
CURRENT ASSETS	3,116,224
Inventories	1,111,608
Assets held-for-sale	23,926
Accounts receivable	1,592,842
Receivables from over-paid taxes	1,868
Short-term financial placements	1,127
Cash and cash equivalents	325,936
Value added tax and prepayments	38,616
Deferred tax assets	20,301
TOTAL ASSETS	5,582,121
EQUITY AND LIABILITIES	
Equity	2,803,514
Share and other capaital	2,101,658
Reserves	575,611
Revaluation reserves	11,168
Retained earnings	115,077
Loss	-
Long-term liabilities and provisions	2,778,607
Long-term provisions	73,251
Long-term liabilities	240,433
Current liabilities	2,461,639
Short-term financial liabilities	813,511
Account payable	1,446,145
Other current liabilities and accruals	162,134
Value added tax and other taxes payable	25,585
Income taxes payable	14,264
Deferred tax assets	3,284
TOTAL EQUITY AND LIABILITIES	5,582,121

PREIMINARY CONSOLIDATED INCOME STATEMENT
January - December 2007.
in thousand of RSD

2007 ANNUAL REPORT	Document reference
	IZ.P.08/01

	2007
OPERATING INCOME	3,988,207
Sales of goods, products and services	3,714,897
Work performed by the Company and capitalized	55,545
Increase in inventories of finished products and work in progress	168,970
Decrease in inventories of finished products and work in progress	17,151
Other operating income	65,946
OPERATING EXPENSES	4,178,375
Cost of commercila goods sold	1,054,620
Material, fuel and energy consumed	1,162,140
Staff costs	1,332,030
Depreciation, amortization and provisions	90,255
Other operating expenses	539,330
Profit from operations	-
Loss from operation	190,168
FINANCE INCOME	299,056
FINANCE EXPENSES	148,504
OTHER INCOME	370,035
OTHER EXPENSES	33,663
PROFIT BEFORE TAXATION	296,756
LOSS BEBORE TAXATION	-
INCOME TAXES	
Current tax expence	32,349
Deferred Income tax expense	2,030
Deferred Income tax revenue	642
NET PROFIT	263,019
NET LOSS	-
Minority interests	5,275
Tigar A.D.,Pirot	257,744

2007 ANNUAL REPORT	Document reference
	IZ.P.08/01

PRELIMINARY CONSOLIDATED FINANCAL DATA in 000 RSD	2007
Assets	5,582,121
Equity	2,803,514
Total revenues (including change in invetnory)	4,657,298
Operating income (including change in inventory)	3,988,207
Sales of goods, products and services	3,714,897
Work performed by the Company and capitalized	55,545
Increase in inventories of finished products and work in progress	168,970
Decrease in inventories of finished products and work in progress	-17,151
Other operating income	65,946
Total operating expenses	4,178,375
Operating expenses	3,123,755
Cost of commercial goods sold	1,054,620
Net financial result	150,552
Extraordinary result	336,372
Net income	263,019
Significant ratios	
Return on equity	9.38%
Return on shareholders equity	12.51%
Operating result	-190,168
Debt-to-assets ratio	0.48
Current Ratio	1.26
Quick ratio	1.13
-	
Liquidity and solvency ratios	
Current Ratio	1.26
Quick ratio	1.13
Debt / Equity	0.96
Other ratios	
ROE	9.38%
ROA	4.71%
ROS	6.86%

3. TIGAR AD'S UNCONSOLIDATED FINANCIAL STATEMENTS

The following table contains an extract from the 2007 unconsolidated financial statements:

Balance Sheet in thousands of USD	**Opening balance sheet as of 1. Jan-07.**	**At the day 31.Dec.07. (unodit)**
Assets		
Non-current assets	2,979,512	2,336,257
Current assets	449,758	1,253,312
Deferred tax assets	3,450	2,456
Total assets	**3,432,720**	**3,592,025**
Equity and liabilities		
Equity	2,683,587	2,685,839
Non-current liabilities	237,648	210,887
Current liabilities	511,485	695,299
Total equity and liabilities	**3,432,720**	**3,592,025**

Income statement in 000 dinars	**Actual 2006**	**Actual 2007 (unaudited)**
Operating income	367,661	236,690
Operating expenses	439,460	411,153
Profit from operations	-71,799	-174,463
Financial result	120,908	239,476
Non-bussines & extraordinary result	21,565	-15,285
Profit before taxation	70,674	49,728
Net profit for the period	**73,925**	**48,734**

CASH FLOW STATEMENT,000 DIN	**31,12,2006,**	**31,12,2007 (unaudited)**
	413,116	403,845
Inflow from operating activities	521,043	1,165,646
Outflow from operating activities	**-107,927**	**-761,801**
Net cash used in operating activities		
Cash flows from investing activities	168,395	930,694
Inflow from investing activities	330,956	171,738
Outflow from investing activities	**-162,561**	**758,956**
Net cash (used in)/from investing activities		
Cash flows from financing activities	303,887	155,017
Inflow from financing activities	44,995	42,671
Outflow from financing activities	**258,892**	**112,346**
Net cash provided by/(used in) financing activities	**-11,596**	**109,501**
Net increase/decrease in cash and cash equivalents	15,809	3,892
Cash and cash equivalents at beginning of year		16,895
Foreign exchange gains on translation of cash and cash equivalents	321	17,011
Foreign exchange losses on translation of cash and cash equivalents	**3,892**	**113,277**

Statements of changes in equity for 2005, 2006, and 2007

In thousands of Dinar	31,12,2005	31,12,2006	31,12,2007 (unaudited)
	2,613,138	2,700,207	2,683,587
Balance, beginning of the year			
Adjustments			
New issuance of shares	124,070	73,925	48,734
Profit for the year	-29,682	-43,409	-43,477
Dividends paid	-7,319	-47,136	-3,005
Other	2,700,207	2,683,587	2,685,839

Equity investments in 2005, 2006, and 2007

Equity investments (000din)	2005	2006	2007 (unaudited)
	2,560,036	2,621,474	1,999,482
Related parties	4,412	182	136
Banks	24	24	190
Other legal entities	99,376	99,376	253,714
Corection	2,465,096	2,522,304	1,746,094

The income reported in unconsolidated statements is primarily based on services provided, rentals, proceeds from dividends, and extraordinary income (mainly from capital gain).

Expenses include the following key groups of costs:

- Employee expenses of all Holding Company employees, including costs associated with the implementation of the Collective Bargaining Agreement, training, and scholarships paid to future professional employees;
- Costs incurred by the Board of Directors and the Supervisory Board, including costs relating to the activities of the GAS;
- Depreciation, rental, electricity, water, heating, and telephone costs;
- Routine maintenance and repair/overhaul costs;
- Property security costs;
- Travel expenses;
- Consulting and auditing fees;
- Marketing and PR costs;
- Sponsorships, donations, and grants;
- Branch office costs;
- Costs associated with the capital increase process;
- Retrenchment costs; and
- Other expenses.

Unconsolidated financials: 2006 and 2007

Unconsolidated financials	Actual 2006	Actual 2007 (unaudited)	%
Assets	3,432,720	3,592,025	5%
Equity	2,683,587	2,685,839	0%
Total revenues	549,211	711,898	30%
Operating income	367,661	236,690	-36%
Sales of services	326,270	176,857	-46%
Sales of goods and products	39,323	8,871	-77%
Other operating income	2,069	50,963	2363%
Total operating expenses	439,460	411,153	-6%
Operating expenses	401,578	406,916	1%
Cost of commercial goods sold	37,882	4,237	-89%
EBIT	99,674	67,729	-32%
EBITDA	117,200	85,463	-27%
Net financial result	120,908	239,476	98%
Extraordinary result	21,565	-15,285	-171%
Net income	73,925	48,734	-34%
Significant ratios			
Return on equity	2.75%	1.81%	-34%
Return on shareholders equity	3.58%	2.36%	-34%
Operating result	-71,799	-174,463	-143%
Debt-to-assets ratio	0.22	0.25	15%
Current Ratio	0.88	1.80	104%
Quick ratio	0.84	1.76	109%
-			
Liquidity and solvency ratios			
Current Ratio	0.88	1.80	104%
Quick ratio	0.84	1.76	109%
Debt / Equity	0.21	0.29	42%
Other ratios			
ROE	2.75%	1.81%	-34%
ROA	2.15%	1.36%	-37%
ROS	20.11%	20.59%	2%

Overall performance was affected by an unexpected appreciation of the Dinar, resulting in higher foreign exchange income than foreign exchange expenses. Income from services was contracted on a foreign-exchange basis and, as such, did not reflect inflation. However, all the expenses were incurred in dinars and grew with inflation. This resulted in a lack of balance between income and expenses.

The reader should keep in mind that the majority of Tigar Holdings' income is comprised of finance income, dividends, and income from transactions involving assets (including long-term investments), and not of operating income. Operating income actually includes only income from services and rentals. However, all expenses incurred in connection with the Holding Company and its functioning belong to the group of operating expenses, and this creates an unrealistic picture of its performance.

III. TIGAR AD'S 2007 DIVIDEND POLICY

The subscribed capital, provisions and retained profit are shown in the following table for the past three years.

Subscribed capital structure for the past three years

In thousands Din	(unaudited) 31,december 2007,	(auditied) 31,december 2006,	(auditied) 31,december 2005,
Share capital			
Own capital	2,062,152	2,062,152	2,062,152
Provisions	574,953	547,510	513,985
Retained earnings	48,734	73,925	124,070
TOTAL	**2,685,839**	**2,683,587**	**2,700,207**

The distribution of dividends is approved by Tigar AD's General Assembly of Shareholders. Its 2008 annual session is scheduled for 4 June 2008.

According to the Law on Business Companies, Tigar AD can distribute dividends solely from distributable profits. Distributable profit is based on the "accumulated profit" reported in unconsolidated financial statements for the respective year, following the deduction of provisions (including retained profit).

Since the 2007 unconsolidated result is affected, on the one hand, by considerable infrastructure expenses, restructuring/upgrading costs and costs associated with promotions and entry into new markets, and, on the other hand, by extraordinary income under a GAS resolution, a departure from the general dividend policy would be warranted. This departure would entail the distribution of the entire 2007 unconsolidated profit plus extra dividends in the same amount.

Following the practice from previous years, the Board of Directors will set the ex-dividend day when the decision regarding the distribution of dividends is taken. All shareholders of record as of that date will be entitled to dividends proportional to the number of shares held. Dividends that are approved at the annual session of the GAS will be due and payable by Tigar AD within 60 days of the ex-dividend day, unless the GAS resolves otherwise. All the dividends will be paid in cash and at the same time.

The following table shows the net profit per share and the dividend payout per share for the past three years, based on Tigar's unconsolidated financial statements.

Net profit per share based on unconsolidated financial statements

Year	Non-consolidated profit	Number of shares	Profit per shares	Payed dividend
2005	124,070,000	171,846	721.98	227.00
2006	73,925,000	1,718,460	43.02	22.70
2007	48,734,204	1,718,460	28.36	28.36 sugestion

Net profit per share based on consolidated financial statements

Year	Non-consolidated profit	Number of shares	Profit per shares
2005	171,692,000	171,846	999.10
2006	Consolidated loss	1,718,460	-
2007 *	257,743,969	1,718,460	149.99

* Consolidated result for 2007. is forecast.

NOTE REGARDING THE NUMBER OF SHARES

Based on resolutions regarding the allocation of earnings retained in previous years, the resolution on the distribution of securities without a public offering passed at the extraordinary session of the GAS held on 27 October 2005, and the decision of the Securities Commission approving the issue of securities without a public offering (Decision no. 4/0-24-3252/7-05 dated 29 December 2005), a portion of earnings retained in previous years, in the total amount of RSD 481,508,000.00, was allocated as follows:

- RSD 294,044,000.00 to the Company's reserves;
- RSD 187,464,000.00 to the Company's share capital increase.

The total share capital was RSD 2,062,152,000.00 (171,846 shares at a par value of RSD 12,000.00).

Based on the Stock-Split Resolution passed at the annual session of the GAS held on 8 June 2006, each ordinary share was split into ten shares and the original par value divided by ten. The share capital remained unchanged, i.e. RSD 2,062,152,000.00 (1,718,460 shares at a par value of RSD 1,200.00).

IV. CAPITAL MARKET POSITION

The existing shares have been listed for trading on the Belgrade Stock Exchange since 31 May 2005.

Under a GAS Resolution dated 8 June 2006, regarding the distribution of shares due to the 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, and 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.

(b) By the force of law:

(1) 427,260 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 are held by shareholders.

CFI Code: ESVUFR

ISIN Number: RSTIGRE55421

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

The following rights are attached to the shares:

(1) Each shareholder is entitled to manage the company proportionally to the par value of shares held;
(2) Each shareholder is entitled to participate in the profit proportionally to the par value of shares held (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, which primarily includes changes in capital and in the Company's Articles of Association.
(2) No management rights are attached to the shares held by the Pension and Disability Fund.

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

Share price movement since the initial listing

	Closing price per share	
	High RSD	**Low** RSD
Period from 31 May to 30 June 2005	16,727.00	13,000.00
Three months ended 30 September 2005	19,278.00	15,500.00
Three months ended 31 December 2005	24,000.00	19,020.00
Three months ended 31 March 2006	21,500.00	19,702.00
Three months ended 30 June 2006	20,600.00	14,500.00
Three months ended 30 September 2006	18,700.00	14,200.00
Three months ended 31 December 2006 ***	1,863.00	1,647.00
Three months ended 31 March 2007	2,149.00	1,649.00
Three months ended 30 June 2007	3,138.00	2,108.00
Three months ended 30 September 2007	2,390.00	2,133.00
Three months ended 31 December 2007	2,240.00	1,703.00

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

The ten largest shareholders are shown in the following table, based on Central Registry entries.

Top ten shareholders as of 31 December 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	111.317	6.47
5.	Hypo Custody 4	45.789	2.67
6.	Societe Generale Yugoslav Bank	35.813	2.08
7.	Bank Austria Creditastalt	24.328	1.42
8.	Societe Generale Yugoslav Bank	16.300	0.95
9.	VIT-BEL DOO Nis	16.204	0.94
10.	Telekomunikacija DOO Blace	14.909	0.87

Company's management holds less than 1% of the shares. The following table shows the number of shares held by members of the Board of Directors as of 31 December 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.

Market capitalization as of 31 December 2007 was 2.97 billion RSD (37 million EUR), and was lower than the value of assets which was 3.6 billion RSD as of 31 December 2007. Market capitalization as of 31 December 2006 was 2.84 billion RSD. In 2007, share prices rose during the first half of the year and slumped in the second half, particularly in November and December. The downward trend has continued through 2008. Even through the value of assets will increase as a result of the transaction with the Michelin Group, capitalization is on the decline due to currently high political and economic risks. As such, any increase in share prices will largely depend on the overall situation in Serbia, and much less so on corporate performance.

V. GENERAL OVERVIEW OF 2007 OPERATIONS

1. MARKET ASSESSMENT

Rubber footwear

National European markets are extremely homogeneous. Major positions are held by leading brands (available in all markets), large retail chains, wholesale companies, and agents. These markets are inter-connected and leading brands are sold in many EU countries, which leaves an impression that this is a single market. The products are similar, in many cases identical, regardless of the market. For example, none of the countries has a special demand for a particular type of boot.

Rubber footwear manufacturers are striving to sell to multiple markets through distributors or wholesale companies, but to also act as subcontractors of leading brand manufacturers. The annual quantity of rubber boots sold in Europe is steady, but there is price sensitivity and a decline in European manufacture, which provides an opportunity for non-EU suppliers. Compared to the US, duties are much lower in the EU. Industrial experts estimate that more than 20 million pairs of rubber boots are sold in the EU market each year.

High competition is inherent in a stable market with a steady absorption power. Price competition is especially pronounced. Price pressure has forced leading brand manufacturers to focus on production costs and, as a result, production facilities are being moved to low-income countries, such as Central and Eastern European countries and Asian countries (primarily China). There is also high competition in manufacturing for owners of leading brand names.

The leading Eastern European manufacturers of rubber boots for the EU market are: Novesta (Czech Republic), Vulkan (Slovakia) and Fagum (Poland).

Manufacturer	Total sales (pairs/year)
Tigar Footwear	1,600,000
Novesta	850,000
Vulkan	2,600,000
Fagum Stomil	1,000,000
Finca	500,000
Moleda Zlin (PVC)	310,000
SC UCR (PVC)	1,000,000
Ducatex (PVC)	300,000

Tigar Footwear competes directly with this group of manufacturers. However, the quality of their product is lower and its performance, including the quality/price ratio, cannot compete with Tigar Footwear. Manufacturers in this group are currently undergoing major ownership and other changes, which directly affect their positioning.

Rubber footwear consumption in the domestic market is characterized by the following:

- Average annual consumption: 2 to 2.5 million pairs;
- Relatively stable consumption level, with a 4% annual downward trend;
- Low demand elasticity in the low-end segment;
- Availability of substitutes (PVC, rubber/fabric footwear):
- Consumption dispersion by product mix and dominant position of general-purpose footwear;
- Tigar Footwear has a dominant share of total consumption; and
- Competition from imports is expected to grow due to shutting down of domestic manufacturers.

Tigar's share of the domestic rubber footwear market is approximately 75%:

1. Its share of the low farmers' shoe and work boot market segment is approximately 70%, and
2. Its share of the hunting and fishing boot market segment is approximately 95%.

Liquidation of domestic manufacturers (Vulkan and Zlatar), who mostly made low farmers' shoes and work boots (25% of sales) is an opportunity for Tigar to boost its sales.

In 2007, there was a continued decline in rubber footwear production at a large number of European factories. Brand producers continued to own their brand names and conduct developmental and commercial activities, but contracted with off-take manufacturers able to meet high quality standards. The off-take manufacturers were generally European or Far East companies. Tigar Footwear is part of the group of European manufacturers able to produce a high-quality product and obtain certification of their product from renowned European, US, and Canadian institutions. Tigar Footwear has certified its off-take products at authorized institutions in London, Helsinki, Lyon, and Montreal. Off-take manufacture of globally-recognized brand names has promoted Tigar Footwear to a higher manufacturing segment, and has also allowed it to operate at full capacity and develop similar products under its own or under private label brand names for both domestic and international markets. In 2007, Tigar made a portion of its safety footwear available to the domestic market.

Rubber goods for the automotive industry

Suppliers of rubber products to the automotive industry (including belts, hoses, seals, molded items and other products) typically work closely with automotive manufacturers to develop new products needed to support new automobile models and product lines. Their products must meet the demanding quality and delivery requirements of global automotive manufacturers. In order to be profitable, manufacturers of non-tire rubber automotive products must have highly efficient manufacturing and logistics operations, with the ability to meet their customers' ever-changing delivery requirements on a global basis.

The manufacture of rubber goods for the automotive industry at Tigar Technical Rubber Goods (TTRG) requires investment in upgrading, in order for TTRG to be able to satisfy the needs of new car models. The required investment will need to be supported by high demand, which cannot be ensured domestically. The capacity and capability of this business will be upgraded as part of the overall upgrading process.

The industrial sector

The Serbian industrial sector operated at reduced capacity in 2007, resulting in a shrunken market for Tigar's performance in this sector. The segments which were particularly negatively affected included the production of mining mills, combined rubber-metal products manufactured by TTRG, and conveyor belt adhesives. The manufacture of dyes for the food and other industries was also impacted by less favorable conditions in these industrial segments. The normalization of trade relations with all former Yugoslav republics, as well as a successful resolution of the Kosovo issue, would significantly increase the market for these segments. These products, particularly conveyor belt adhesives, have proven to be especially attractive export items, but quantities are still low.

Infrastructure and construction

In 2007, the construction and infrastructure sector showed increased activity over previous years, particularly in the building and upgrading of roads, and led to increased sales of road paint. However, heavy competition, issues surrounding participation in public tenders, and export arrangements deferred until the 2008 high season led to lower-than-expected sales in this segment.

In the construction sector, aside from paints and varnishes, a significant segment is also the molded rubber products segment. In this segment, we experienced two major problems: the substitution of molded rubber products with cheap plastic items, which are of poorer quality and duration but are used often to lower construction costs, and the need to procure a new production line for molded rubber products to enable us to manufacture multi-layer and multi-color products.

Consumer market

In addition to tires and rubber footwear, sporting goods, paint, varnishes and adhesives are intended for the consumer market. In the sporting goods segment, there is intense competition from the Far East. Despite a high level of Tigar brand recognition, survival of this product line in the market requires major improvements, especially with regard to competitiveness, which were not fully realized in 2007. Sales of paint, varnishes and adhesives to the consumer segment were also affected by strong competition, with a portion of sales conducted via “grey economy” channels. In 2007, Tigar Trade DSN invested heavily in sales outlets, vehicles, equipment and human resources, all of which are expected to increase sales in this segment. Sales teams have been set up for direct sales to end users in the field. However, since these measures were implemented in the last quarter of 2007, their results are expected in 2008.

Special-purpose products

Tigar continues to maintain manufacturing capacity intended for the military industry. In 2007, only a portion of this capacity was utilized and products used in aircraft maintenance were manufactured. In the coming years, this capacity could become a source of significant revenue, through orders from the Serbian Military, inter-government agreements with some countries, and direct exports.

Tires

The global tire market is segmented based on three criteria. Depending on the use, products are classified into tires for trucks, cars, aircraft, earthmovers, agricultural equipment and other types of machinery, including tires and inner tubes for motorcycles and bicycles. The market is also segmented by distribution channel (i.e. original tires for new vehicles and replacement tires) and by product rating (i.e. premium tires, including three leading brands, followed by second, third and fourth segments).

The global tire industry is dominated by a small number of large companies. Bridgestone (based in Japan), Goodyear (based in the USA) and Michelin (based in France) together held approximately 56% of the global tire market in 2005. Four mid-sized companies – Continental, Pirelli, Sumitomo and Yokohama – had a combined share of approximately 18%. The rest of the market is made up of smaller manufacturers. After a series of mergers and acquisitions, seven companies now control three-quarters of the world market. The existing large manufacturers are continually seeking to increase their global market share across the industry.

The car tire replacement market is by far the larger segment, representing approximately 70% of total sales. Although they sell a majority of their output in the replacement market, the big three tire manufacturers dominate the OE market. Other large regional tire producers also have a share of the OE market, particularly in Europe. Worldwide, the replacement tire market for cars and light utility vehicles accounts for some 714 M tires.

The high-performance car tire market has experienced continued growth, boosted by sales of sports cars. By contrast, sales of retreaded car tires are on a long-term decline, with these tires now being sold for use predominantly on commercial vehicles.

The markets for truck and other industrial and agricultural tires are distinct from the markets for car tires, since the products are generally more specialized and far more expensive. Whereas car tires are now typically replaced after they are worn, tires for heavy trucks and machinery are typically retreaded several times.

The car, truck and industrial tire market is subject to different economic cycles, with the industrial tire segment being more directly affected by downturns in economic and industrial activity, as consumers defer purchases of new vehicles. Increased sales of tires to the replacement market during economic downturns, partially offsets the cyclical downturns in the OE market.

Among the major factors currently affecting the global tire market are legislation that prohibits the disposal of tires in landfills; the growing strength of China as a major tire-manufacturing location; and significant price increases of raw materials used for tire manufacturing.

<u>Raw material, energy and equipment markets</u>

Raw Materials: Raw materials account for the bulk of Tigar's purchases. The raw materials needed for tire manufacture are: (i) natural rubber, primarily produced in Malaysia, Thailand, and Indonesia; (ii) synthetic rubber, a petroleum derivative; (iii) carbon black, also a petroleum derivative; (iv) various chemical ingredients (such as wax, sulfur, additives, process oils); (v) fabric reinforcement (nylon, polyester, rayon and aramide); and (vi) metal reinforcement (metal wire and steel cord).

Raw materials are purchased from the following markets:

NATURAL RUBBER
Asia: Malaysia, Indonesia, Sri Lanka

SYNTHETIC RUBBER
Europe: Serbia, Poland, the Czech Republic, Bulgaria, Belgium, Russia, Italy, France, Germany
North America: USA

FILLERS
Europe: Serbia, Italy, Germany, Hungary, the Czech Republic, Bulgaria, FYR of Macedonia

CURING AGENTS
Europe: Germany, Belgium, the Czech Republic, France, Poland
Asia: Turkey

PLASTICIZERS AND RESINS
Europe: Germany, Belgium, France, Switzerland, Slovenia, Slovakia
North America: USA

ADHESIVES
Europe: The Netherlands, Norway, Germany, France, the UK, Serbia

SOLVENTS
Europe: Serbia, Germany, the UK, Hungary, Austria, Greece

DYES
Europe: Germany, Slovenia, Italy, Switzerland

FABRIC

Europe: Serbia, Bulgaria, Slovenia, Germany, Sweden, the FYR of Macedonia, the Czech Republic, Italy
Asia: China, India, Taiwan

In 2007, Tigar Export-Import was the exclusive supplier of all raw materials, except those for which special permits are required. Tigar Export-Import purchases from Tigar Tyres the raw materials which are used both by Tigar Tyres and the manufacturing subsidiaries controlled by Tigar. A parallel supply system will be prepared in the coming years to ensure the safety of supply.

Tigar's practices have demonstrated the advantage of having multiple suppliers of the same type of raw material. Tigar Footwear has at least two suppliers for each group of raw materials. This method ensures efficiency and reliability of supply, which is of fundamental importance for unhindered production.

A priority list of suppliers has been generated, primarily based on quality but also price (including related delivery costs), the ability to deliver on a regular basis, the delivery time, etc.

Tigar Footwear has primary suppliers and alternative suppliers for each type of raw material (also based on price, terms and conditions).

Tigar depends upon a large number of suppliers to provide it with the raw materials, energy and equipment needed to manufacture the products made by its manufacturing entities. In 2007, relationships with suppliers of raw materials, energy, finished products, services, and equipment were managed directly by Tigar's subsidiaries. In 2007, Tigar Tyres purchased most of its materials via the Michelin Group and also procured materials for Tigar's other manufacturing subsidiaries which they use in their respective production processes.

Raw materials were purchased in 2007 by entering into contracts, usually for one year, which establish minimum purchase volumes, but which do not require Tigar to guarantee the purchase of the maximum contractual volumes. Purchase prices and volumes were reviewed on a quarterly basis. The prices of all principal raw materials for industrial production are closely related to the price of oil, which is the benchmark commodity. Prices of natural rubber and rayon, naturally-derived raw materials, are also strongly affected by fluctuations in the price of oil. Accordingly, during 2006, the cost of natural rubber and petroleum products increased.

Energy. In order to meet the energy requirements of its manufacturing facilities, Tigar purchases electricity, coal and oil. Energy prices have increased significantly during the last three years, including 2006.

Finished products. Tigar Trade DSN purchases finished products which it re-sells through its domestic sales network. It uses a limited number of suppliers, and generally enters into one-year contracts. Domestic and international suppliers of finished products include Total, Holts, Valeo, Nikom, Vizahem, Frad, Delta MC, and Ekoprodukt

Equipment. The equipment needed to manufacture tires and other products is purchased from leading manufacturers, with models customized to meet Tigar's specifications.

2. RISK FACTORS

During 2007, Tigar faced the following key business risks:

Risks relating to Tigar's business

Although Tigar has operations in a number of countries (including subsidiaries in the United Kingdom, the United States, Bosnia and Herzegovina, the FYR of Macedonia, and Montenegro) and sells its products worldwide, all of Tigar's production takes place in Serbia and a significant amount of its sales are also made in Serbia. Tigar's Serbian segment accounted for 35% of the sales of its rubber footwear, about 70% of the sales of its technical rubber goods and chemical products, and nearly all of the sales of its retail network. As such, operations were to a large extent susceptible to the political and economic situation in the country. Tigar is especially exposed to political, macro-economic and other factors that affect the Serbian market, including currency fluctuations, an evolving legal and regulatory environment, and inflation.

Since it is unable to influence its business environment, Tigar is making every effort to adapt and to properly predict the risks. The overall political and economic situation in Serbia had an adverse effect on Tigar's business. The greatest impact of the business environment was felt in the capital market where share prices slumped despite the Company's performance and potential.

Tigar operates in highly competitive markets where it competes with large international companies and well-positioned domestic competition across all segments.

Tigar was also faced with foreign exchange fluctuation risks, both in Serbia and abroad. In 2007, an unexpectedly high appreciation of the dinar has a major impact on Tigar's business.

Tigar AD's reporting currency is the Serbian dinar. However, a significant portion of Tigar's sales are made to customers outside of Serbia, and a large portion of its raw material inputs are imported. As a result, a significant portion of Tigar's revenues and raw material expenses are denominated in currencies other than the dinar. Non-dinar income and expense items are translated into dinars on the basis of average exchange rates for the respective period. Tigar AD has no practical means of hedging against foreign currency risks other than "natural" hedging achieved by paying non-dinar expenses with non-dinar revenues.

In consolidating its balance sheet, Tigar AD translates into dinars the value of its assets and liabilities denominated in other currencies, applying the official exchange rates prevailing at the balance sheet date (except certain commitments in connection with the rescheduled debts to the Paris Club which, according to the credit arrangements, are translated and reported at the selling rate as of the date of the balance sheet). Foreign exchange gains or losses arising upon the translation of transactions, and assets and liabilities in foreign currencies, are credited or charged to Tigar AD's income statement.

In 2007, manufacturing was subject to numerous and substantial operational and business risks resulting from increases in the prices of petroleum, solvents, carbon black, energy, and other raw materials used in manufacturing. The strategy which was followed was to offset increasing costs of raw materials by passing on a portion of the costs to customers and by improving Tigar's own manufacturing processes.

Risks relating to shareholding and corporate structure

Share prices on the Belgrade Stock Exchange fluctuated considerably during 2007.

The volatility resulted particularly from the general situation on the Serbian capital market, socioeconomic conditions, and various other factors.

General volatility led to a price pressure on the shares, without there being a special reason for this in the business or earnings outlook of Tigar AD.

Intense development, restructuring of subsidiaries, relocation of existing and opening of new industrial facilities, product mix changes made to allow for operation within a higher manufacturing segment and thereby more effectively compete against price pressure from the Far East, the introduction of new products, and entry into new markets, all required heavy investment which had an impact on the net profits, and resulted in a declining trend in the net result. On the other hand, ongoing development, a stable market position and an increasing market share which resulted from the afore-mentioned activities, are the only true guarantee of long-term security and growth in value of shareholders' investments.

Risks relating to regulatory and legal matters

The legal system and procedural safeguards in Serbia are not yet as developed as in countries in which the economy is market driven.

In Serbia, shifts in regulations and government policy tend to be less predictable than in Western European countries, which have a corresponding effect on the business environment. Parliamentary elections called in the fall of 2006 brought legislative activity to a standstill. Several months of waiting for a government to be formed in 2007 increased the political risk. Once the government was formed, there was intense activity in the area of harmonization of Serbian legislation with EU legislation. However, the process was slow at the end of 2007 because of the Kosovo crisis and came to a virtual standstill at the beginning of 2008 when the parliament was dissolved.

3. ENVIRONMENTAL PROTECTION

Tigar's sound environmental practices are ensured by its Environmental Management System, which was designed and implemented in 2003 in accordance with ISO 14001. This system facilitates subsidiary response to potential environmental impacts and the implementation of preventative and control measures which improve the status of the environment.

Certification of the Environmental Management System by the Serbian certification body YUQS, a member of IQnet, confirms compliance with applicable legislation, ongoing environmental improvements through the implementation of set objectives, and prevention of environmental accidents.

The major environmental concerns addressed by Tigar are gas emissions, effluent discharges, the use of raw materials classified as hazardous substances, the generation of solid waste, and the consumption of energy and water.

Tigar's manufacturing operations are subject to stringent controls to ensure that they comply with applicable legislation, but also to achieve self-imposed goals such as energy and water saving.

The key substantive laws that drive Tigar's environmental policies are the following:

- *Environmental Protection Law*, Official Gazette 135/04 (Protection of air and natural resources, as well as protection from noise, are regulated by the surviving provisions of an earlier law with the same name (Official Gazette, 66/91, 83/92, 53/93, 67/93, 48/94 and 53/95);
- *Law on Integrated Prevention and Control of Pollution of the Environment*, Official Gazette 134/04;
- *Environmental Impact Assessment Law*, Official Gazette 135/04;
- *Waste Management Law*, Official Gazette 25/96, 26/96 and 101/05;
- *Water Law*, Official Gazette 46/91 – 101/05;
- *Fire Protection Law*, Official Gazette 53/93, 67/93, 48/94, 101/05; and
- *Law on Explosive Substances, Flammable Liquids and Gases*, Official Gazette 44/77, 45/85, 18/89, 53/93, 67/93, 48/94, and 101/05.

In addition to the above laws, environmental impacts are regulated by a large number of by-laws, regulations and decrees, which have not been listed because of their large number. A series of by-laws relevant to the Environmental Laws are also expected to be enacted.

Tigar's subsidiaries also use industrial and sanitary water from the public water supply system and discharge wastewater into public sewers in accordance with the conditions stipulated in the water permit. Wastewater quality is monitored by accredited laboratories, as required by law. The amount of wastewater discharges is estimated based on annual water consumption and estimated precipitation levels; these estimates are used to pay appropriate charges (Article 99 (5) of the Water Law, Official Gazette 101/05).

At Tigar's central location, which holds all of Tigar's subsidiaries except Tigar Footwear, Tigar Tyres operates steam boilers for the generation of steam required for the various production processes at this location. During the winter period, these boilers also provide heating. Gas emissions are controlled via the combustion process itself, but also by a system of multi-cyclones which remove particulate matter. The boilers and gas emissions are regularly inspected by certified institutions. Their findings have shown no exceedance of limit values. Pursuant to Article 85 of the Environmental Protection Law (Official Gazette no. 135/04), the annual charge for sulfur dioxide, nitrogen oxide and particulate matter emissions was paid to the Environmental Protection Fund.

Apart from other materials, all manufacturing subsidiaries store and use in their production processes certain raw materials which have properties of "hazardous" substances, including flammable liquids and gases. These substances are purchased, stored, and used in accordance with applicable regulations. Records of hazardous substances are kept and annual reports submitted to the Ministry of Environmental Protection in accordance with the Regulation on the Methodology for Chemical Accident and Environmental Protection Risk Assessments, on Preparation Measures, and Impact Elimination Measures (Official Gazette, nos. 60/94 and 63/94).

In view of the use of hazardous substances, companies operating within the Tigar Group are obligated to obtain „integrated" permits. In order to do so, they must have in place Accident Risk Assessments (Article 38 of the Environmental Protection Law) and Accident Response Plans (Article 58 (2) (1) of the Environmental Protection Law). Tigar's subsidiaries must obtain integrated (or environmental) permits from the Ministry of Environmental Protection by the year 2015. Tigar's subsidiaries have prepared Accident Risk Assessments and Accident Response Plans within the scope of implementation of the Environmental Management System. When the Ministry issues Guidelines for Risk Assessment (Article 38 (2) of the Environmental Protection Law), the four manufacturing subsidiaries will revise and harmonize the said documents with these Guidelines, as required.

Waste generated by manufacturing processes is classified in accordance with the Regulation on the Classification, Packing, and Storing of Secondary Raw Materials (Official Gazette 55/01). Solid recyclable waste is kept at Tigar's Secondary Raw Materials Warehouse only for short periods of time and then sold to waste recyclers via Tigar Workshop. Non-recyclable waste and waste which cannot be used as a secondary raw material for any process is deposited at the municipal landfill. Waste generated by all Tigar's subsidiaries (except the Pirot Free Zone) was disposed of in 2007 under contract with Pirot's solid waste utility. Since there is no hazardous waste dumpsite in Serbia, such waste was stored in special, secured containers on the Company's grounds and was regularly inspected. Waste oil is an exception; it is returned to the refinery for recycling.

Fire risk is inherent in the production processes of the four manufacturing entities. All required permits and Fire Response Plans were in place for assets exposed to fire risk.

None of Tigar's subsidiaries uses or stores radioactive substances.

There are no pending proceedings against Tigar or its subsidiaries relating to environmental issues. There are also no litigation proceedings involving Tigar arising out of environmental issues.

Many environmental permits held by the company are still in Tigar AD's name, although they concern individual subsidiaries. This is due to the fact that most permits were obtained before Tigar AD became a holding company in 2003, but their transfer to the subsidiaries is only a matter of form and will be completed in the near future.

4. STRATEGIC ALLIANCES IN 2007

Tires

In 2006, at the suggestion of the Michelin Group, the original name of the joint venture (Tigar MH) was changed. The new name is now Tigar Tyres. The name change reflects a development strategy which entails this company becoming a leading third-segment tire manufacturer. In accordance with the Second Amendment to the Framework Agreement, the Michelin Group delivered a call notice to Tigar AD on 21 December 2006, notifying its intent to exercise its call option over 19.4% of Tigar AD stock in the joint venture. In December of 2006, the Competition Protection Commission was approached regarding a decision with respect to the concentration of ownership and Michelin Group's controlling stake in Tigar Tyres. The Commission issued a Certificate of Concentration in January of 2007. The call option was exercised in April of 2007 and the Michelin Group acquired a controlling (60.2%) stake in Tigar Tyres. Following the exercise of its call option, the Michelin Group offered to purchase Tigar AD's remaining 30% stake in Tigar Tyres, as well as to purchase additional land and infrastructures at the Tigar 2 location.

At the end of 2007, a term sheet was negotiated with the Michelin Group concerning the sale of the 30% stake in three installments through the year 2010 and the sale of land and infrastructures at the Tigar 2 location. The terms sheet also defines the relationship between the parties for as long as Tigar AD retains an interest in Tigar Tyres. The implementation of this document was conditional upon GAS approval. At its meeting on 28 December 2007, the Board of

Directors took a decision to recommend to the GAS to approve the term sheet. The GAS resolved per this recommendation at its extraordinary session held on 27 February 2008.

Footwear

In 2007, negotiations were initiated with a potential strategic partner (an international financial organization) concerning a minority interest in Tigar Footwear and a long-term loan for the purchase of equipment for its new location. Following the first phase of negotiations, a letter of intent was defined at the end of 2007, which sets forth the intent of the parties to enter into a partnership which would entail an equity investment by the partner of 2 million euros and a long-term capital loan of 5 million euros. The term of the equity investment is limited to a period of five to seven years, following which Tigar AD would have a pre-emptive right of purchase at a pre-defined price. The term of the loan would be seven years, with a two-year grace period. Current plans call for binding documents to be signed in mid-2008, following a due diligence review. Key elements of this transaction will be released as soon as the binding documents are signed.

Technical rubber goods

During 2007, this business focused on implementing structural changes in manufacturing, on increasing its market reach, and on cutting costs through a variety of processes including retrenchment.

Based on the model used for Tigar Footwear, negotiations were initiated with an international financial organization concerning an equity investment and a long-term capital loan for this business, including scrap-tire recycling and the manufacture of final products from recycled rubber. Negotiations will continue in 2008 and should be finalized by mid-2008.

Domestic sales network

The development of the domestic sales network is our second-most important strategic priority. In this area, an international partner stated their intent in 2006 to participate in the ownership of this segment as a minority shareholder. Negotiations began in early 2007 with the signing of a Letter of Intent. However, this document was not implemented according to plan. Tigar did not enter into negotiations with any other potential strategic partner in 2007. Several parties have expressed an interest in participating in this business and Tigar intends to conduct strategic partnership negotiations in 2008, based on a minority interest for the partner.

5. INTELLECTUAL PROPERTY

Tigar's full business 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 company name and its use are regulated by the provisions of Article 14 of the Articles of Association. The above name fulfills all legal requirements. Tigar is registered under the said name with the Serbian Business Registers Agency.

Registered trademarks as of 31 December 2007 are shown in the following table.

	Appl. No.	Appl. Date	Reg. No.	Trademark	Valid until	Holder
	Z-247/80	30/04/80	31499	Tigar	21/12/07	Tigar AD
	Z-84-385	17/01/84	29947	Tigar TG 615	25/05/07	Tigar AD
	Z-947/07	30/04/07	-	Tigar Planinarski Dom	-	Tigar AD
	Z-918/07	27/04/07	-	Tigar Tours	-	Tigar AD
	Z-842/07	18/04/07	-	Markol	-	Tigar AD
	Z-1129/07	17/05/07	-	Tigar Incon	-	Tigar AD
	Z-890/80	11/07/03	49590	Tigar Sporting Goods	11/07/13	Tigar AD
	Z-152/07	29/01/07	-	Tigar	-	Tigar AD
	Z-1703/07	26/07/07	-	Tigar Footwear	-	Tigar AD
	Z-1704/07	26/07/07	-	Tigar Footwear	-	Tigar AD

	Z-2440/07	17/10/07	-	Tigar Chemical Products	-	Tigar AD
	Z-2441/07	17/10/07	-	Tigar Technical Rubber Goods	-	Tigar AD
	Z-247R/80	30/04/80/	49044	Tigar	30/09/15/	Tigar Tyres
	Z-1369/05	17/10/05/	49768	Tigar Tyres	17/10/15/	Tigar Tyres
	Z-1373/05	17/10/05/	49792	Hitris Logo	17/10/15/	Tigar Tyres
	Z-1371/05	17/10/05/	49819	Cargo Speed Logo	17/10/15/	Tigar Tyres
	Z-1372/05	17/10/05/	49912	Wintera Logo	17/10/15/	Tigar Tyres
	Z-1468/05	31/10/05/	53797	Tigar Trade (DSN)	31/10/15/	Tigar Trade
	Int'l trademark, USA	03/07/97 24/10/78	675 773 675 773A 1174089	Tigar Tigar Tigar logo	20/05/17 20/05/17 15/08/12	Tigar AD Tigar Tyres Tigar Americas

The flagship trademark is «a stylization of a tiger's head with the logo 'Tigar' inscribed in the Cyrillic or Latin alphabet» (Art. 17 of the Articles of Association). The appearance and contents of the flagship trademark fall within the jurisdiction of the Board of Directors. Only those 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. An application has been submitted for registration of the flagship trademark for Classes 35, 39, 40 and 42 in the name of Tigar AD. A variation of the flagship mark, «Tigar MH», is protected 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 obliged to assign its flagship trademark for tires and inner tubes (Class 12) only to Tigar Tyres. The proceedings for recording of the assignment have been completed for Serbia and the member states of the Madrid Agreement. Transfer to the US is pending.

In 2007, Tigar AD applied for registration of 9 new trademarks in Serbia and for territorial expansion of trademark 675773 to include eight additional member states of the Madrid Agreement (application EX-I/397708101/CB). Also in 2007, Tigar applied for registration of the Tigar trademark in the mane of the Tigar Americas Corporation in the USA, for Classes 7, 17, 25 and 35 (application 77320619).

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: www.tigar.com and www.tigar.co.yu.

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

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

6. LEGAL PROCEEDINGS

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

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

DEFENDANT	CLAIM		% Change relative to 31 Dec. 2006
TREPČA-Zvečan	9.637.376		
UNION BANK	8.047.333		
LOLA KORPORACIJA	6.000.000		
AS KOMERC-N. Beograd	2.366.719		
JIP-Beograd	1.641.377		
MADRIS-Beograd, MADREC-Niš, CPORECSS-Novi Sad	3.319.240		
LEKSUS GROUP-Novi Sad	1.217.996		
2M-Pirot	2.247.300		
TIGAR PROM-Nova Varoš	3.636.000		
PROTEKT-Prijedor	2.530 EUR		
BANDAG PROTEKT-Kuzmica, Hrvatska	5.202 EUR		
BAN GUMA Glina, Hrvatska	3.221 EUR		
PRIMA TREJD-Kučevo	1.174.680		
TOTAL	39.288.021	20.953 EUR	

For all of these disputes, effective court rulings exists, 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 (Lexus Group, Novi Sad), deregistration (JIP –Beograd, Madris-Beograd, Madrec-Niš, Cporecss-Novi Sad), or a lack of assets (Prima Trejd –Kučevo).

Regardless of the delay in the execution of the court decisions, it is realistic to expect their partial or complete payout in the coming years. 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.

7. REAL ESTATE

All of Tigar's manufacturing facilities are located in Pirot. Currently, there are four manufacturing plants on two separate locations. The larger location holds tire, technical rubber goods, and chemicals products production facilities. Tigar Footwear is located on a separate site. The new Tigar 3 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 DSN owns buildings across Serbia (office buildings, warehouses, and retail outlets).

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 either owned by Tigar or the subsidiaries it controls. Buildings used by other manufacturing subsidiaries are owned by them, while Tigar owns the buildings used by service subsidiaries.

Per Serbian laws, land zoned for building is owned by the state, and Tigar has acquired the right to use such land. Non-building land is owned by Tigar.

Land

Tigar uses 149 cadastral lots (total surface area 522,415 m^2 and total book value RSD 92,041,963.42).

Buildings

Tigar and its major subsidiaries (except Tigar Trade DSN) own a total of 123 buildings.

As of 31 December 2007, the book value of buildings owned by Tigar and its major subsidiaries was RSD 1,165,613,051.

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

Book value of buildings

Book value of buildings in RSD				
ENTITY:	**31,12,2006,**	**31,12,2007,**	**29,02,2008**	**After the Stakeholders decision**
Tigar AD	**233,377,185**	**190,812,494**	**180,202,216**	**179,751,054**
Tigar Tyres	**700,211,891**	**780,265,207**	**1,043,235,970**	**1,108,044,753**
Sales network	**110,559,302**	**95,142,126**	**94,839,902**	**94,839,902**
Tigar Technical Rubber Goods	**83,219,296**	**827,305**	**818,091**	**818,091**
Tigar Chemical Products	**49,285,149**	**49,261,268**	**49,027,494**	**49,027,494**
Tigar Footwear	**30,749,557**	**29,965,650**	**29,822,818**	**29,822,818**
Free Zone Pirot	**25,329,300**	**19,339,001**	**19,246,265**	**19,246,265**
Total:	***1,232,731,680***	***1,165,613,051***	***1,417,192,756***	***1,481,550,377***

Material encumbrances

The Company's material encumbrances at the end 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 AD:

- Agreement no. 3617/04 dated 6 October 2004, EUR 704,494.39 (outstanding balance EUR 507,183.03)
- Agreement no. 3618/04 dated 6 October 2004, EUR 2,439,711.58 (outstanding balance EUR 1,751,554.78)
- Agreement no. 3619/04 dated 6 October 2004, USD 2,362,641.42 (outstanding balance USD 1,700,931.00)

8. MANAGEMENT

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 major documents and its assets. It reports findings in these and other specific areas to shareholders.

Board of Directors

The Board of Directors consists of nine members, most of whom are "non-executive". "Non-executive" members are not members of the Executive Board, while "executive members" are members of both the Board of Directors and the Executive Board.

Members of the Board of Directors are elected at annual sessions of the GAS, but may also be elected at an extraordinary session of the GAS, which has been convened with the express purpose of electing members of the Board of Directors. Their mandate lasts until the next annual meeting. If the Board of Directors is not elected at the annual GAS meeting, an extraordinary meeting to elect the Board of Directors must be called within six months of the initial meeting. Pending the results of the extraordinary meeting, the existing members of the Board continue to perform their functions.

Candidates for members of the Board of Directors may be proposed by the acting Board of Directors, by shareholders who own 5% or more of voting shares outstanding, or by the Nominations Committee.

The current members of the Board of Directors are listed below, together with information on their term of office.

The Chairperson of the Board of Directors is elected by the Members of the Board of Directors from among their ranks by a simple majority vote. The Chairperson of the Board of Directors is also, *ex officio*, the President of Tigar, the Director General of Tigar, and the Chairperson of the Executive Board.

The Board of Directors decides, by a simple majority of votes, provided that a simple majority of members is present at the meeting. If the votes are divided equally, the chairperson has the casting vote. Meetings of the Board of Directors may be held by means of video links or telephone conferencing. Decisions may be passed outside the scope of official meetings, provided that all members of the Board of Directors submit their approvals of such decisions in writing.

The Board of Directors may undertake financial obligations on behalf of the Company only if the annual aggregate amount of such obligations does not exceed 30% of the value of the subscribed capital of the Company.

The 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.	Managing Director of Tigar Tyres
Ljubiša Nikolovski	HR Director at Tigar Tyres
Jose Alehandre 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 Ltd., a 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. A short summary of CVs of the members of the Board of Directors follows:

Dragan Nikolić has worked for Tigar since 1970 and became the Director General of Tigar on 4 May 1992. Mr. Nikolić was born in 1946 in Pirot. He graduated from the University of Belgrade School of Electrical Engineering. In the course of his professional career, Mr. Nikolić has held posts from Plant Engineer to Director General. He has personally managed the outfitting of Tigar's Radial Tire Factory. He has completed numerous domestic and international training programs in the areas of technology and management. Mr. Nikolić is a member of a number of prestigious national and international professional chambers and councils.

Jelena Petković is the Executive Director for Corporate Management Support since 2005, and has worked for Tigar AD since 1996. Until 2006, she was also Assistant Director General of Tigar. Ms. Petković was born in 1956 in Belgrade, where she has permanent residence. She holds a Master's Degree in International Contract Law. Before coming to Tigar, Ms. Petković was CEO at Rekord in Rakovica, Serbia. She has spearheaded the Tigar/Michelin/IFC Project and has also managed the Tigar/IFC/SEED Project relating to the development of the domestic sales network. In the capacity as Project Manager, she is in charge of public offerings for the sale of stock.

Slobodan Sotirov is the Executive Director for Quality Control at Tigar since 2005. Mr. Sotirov was born in 1949 in Senokosa near Pirot, and he resides in Pirot. He graduated from the Belgrade University School of Chemical Engineering and Metallurgy. He is currently in the process of obtaining his Master's Degree in Quality Management. Mr. Sotirov joined Tigar in 1973 and has held a number of posts in research, development and quality control. He has completed numerous training programs in the areas of automotive tire design, quality assurance, quality management, and related fields. He is a member of the Board of Directors of the GS1 Association.

Milivoje Nikolić is the Executive Director for Human Resources at Tigar since 2005. Mr. Nikolić was born in 1959 in Dobri Do near Pirot, and he resides in Pirot. He holds a degree in Civil Defense from the University of Belgrade. Mr. Nikolić joined Tigar in 1983 and has held a number posts in Human Resources, from Coordinator to Managing Director. He has attended numerous management training programs. Mr. Nikolic participated in a number of projects, including the Quality Control System Implementation Project and the Functional Organization Project.

Vladimir Nikolić is the Managing Director at Tigar Tyres since 1 January 2003. Mr. Nikolić was born in 1947 in Pirot, and he resides in Pirot. He graduated from the University of Belgrade with a degree in Chemical Engineering and Metallurgy. He joined Tigar in 1974 and has held various posts at the tire manufacturing plant, from Plant Engineer to Managing Director. He has completed many national and international technical and management training programs. He participated in numerous projects having to do with the development of the tire product line and the international joint venture.

Ljubiša Nikolovski is the HR Director at Tigar Tyres. Mr. Nikolovski was born in 1959 in Kumanovo, FYR of Macedonia, and he resides in Pirot. He graduated from the University of Belgrade with a degree in Electrical Engineering. Mr. Nikolovski joined Tigar in 1983 and held a number of capital project, managerial and HR posts. He has completed numerous national and international training programs, including specialized training courses at Michelin. Mr. Nikolovski participated is a number of projects having to do with the development of the tire product line.

Jose Alehandre F. da Costa is Tigar AD Director General's Legal Counsel for international transactions since 2005. He was born in 1943 in Lisbon, and he is a permanent resident of Lisbon. Mr. da Costa graduated from the Lisbon University Law School. His post-graduate studies were completed in the fields of international law and banking at well-known international universities. Most recently, he has held the posts of Deputy President of the Chase Manhattan Bank NA in Brazil, and Chief Advisor to the IFC in Washington and Istanbul. He is a member of a number of legal associations. Mr. da Costa is a Portuguese citizen.

Dr. Živko Mitrović is an independent member of the Board of Directors of Tigar since 1992. Dr. Mitrović was born in 1943 in Bastava near Valjevo, Serbia. He is a permanent resident of Belgrade. Dr. Mitrović completed his post-graduate studies at the Belgrade University School of Mechanical Engineering and received his Doctorate from the Belgrade University School of Business Administration in 1974. He created the Quality Management Department and Quality Control Laboratory of the University of Belgrade School of Business Administration. He is not a member of any board of directors, other than Tigar's.

Tihomir Nenadić is an independent member of the Board of Directors of Tigar since 2005. Mr. Nenadić was born in 1946 in Belgrade, and he resides in Belgrade. He graduated from the University of Belgrade with a degree in Electrical Engineering. He has held various executive posts at Energoprojekt Holdings in Belgrade, and managed a number of projects worldwide which employed more than 4500 individuals and had an annual turnover of over $350 million. From 1999 to 2002, Mr. Nenadic served as Yugoslav Ambassador to Nigeria. He is a member of numerous national and international committees and councils.

Remuneration of the Board of Directors

In 2007, members of the Board of Directors received remuneration (including non-cash compensation) in their capacity as members of the Board of Directors, in the total amount of RSD 8.880.988.

Employment contracts with members of the Board of Directors do not provide for specific benefits upon termination. All members of the Board of Directors have the same rights upon termination as the other employees.

There are no further amounts set aside or accrued by Tigar or any subsidiary for pension, retirement and similar benefits of the Board of Directors, as of 31 December 2007.

Executive Board

Members of the Executive Board are elected by the Board of Directors. Members of the Board of Directors may also be members of the Executive Board. No more than 60% of members of the Board of Directors may be members of the Executive Board. The Director General decides on the number of Executive Board members, their titles, duties and powers. The Board of Directors may assign special duties and powers to members of the Executive Board. The Director General also regulates the proceedings of the Executive Board.

Members of the Executive Board are required to inform the Board of Directors fully and regularly of all matters concerning the activities of the Company. Members of the Executive Board are deemed to be employees of the Company.

At present, the Executive Board consists of eight members, as shown below.

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 Manufacturing
Slobodan Sotirov	Executive Director for Quality Control
Branislav Mitrović	Executive Director for IT and Investments
Milivoje Nikolić	Executive Director for Human Resources

Members of the Executive Board can be reached at Tigar's business address: Nikole Pašića 213, 18300 Pirot, Republic of Serbia. A short summary of CVs of those members of the Executive Board who are not members of the Board of Directors follows.

Miodrag Tančić is the Executive Director for Manufacturing since 2005. Mr. Tančić was born in 1960 in Gostuša, and he resides in Pirot. Mr. Tančić holds a university degree in Chemical Engineering. He has previously held the posts of Process Engineer, Chief Process Engineer, and Curing Unit Manager.

Branislav Mitrović is the Executive Director for IT and Investments since 2005. Mr. Mitrović was born in 1962 in Babušnica, and he resides in Pirot. He holds a university degree in Geodetic Engineering. He previously held the post of Chief Geodetic Engineer..

Djordje Džunić is the Executive Director for Financial Affairs since 2005. Mr. Džunić was born on 13 February 1955 in Dojkinci, and he resides in Pirot. He holds a university degree in Economics. He has previously served as Analyst, Bookkeeping Manager, Accounting Department Manager, Footwear and Technical Rubber Goods Division Manager, Managing Director of the Economics and Organization Division, and Credit Control Division Manager.

Remuneration of the Executive Board

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

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

Supervisory Board

The Supervisory Board consists of a chairperson and two members, who are all elected by the GAS. The Serbian *Law on Business Companies* does not permit simultaneous membership on both the Board of Directors and the Supervisory Board of the same company.

The Nominations Committee defines the standards and criteria for membership on the Supervisory Board and nominates candidates for election. The candidates are then nominated by the Board of Directors for election by the GAS.

The current memers of the Supervisory Board are listed below:

Name	SB Position	Principal activities outside Tigar	Appointment expires on
Marko Steljić	Chairman	Chief Executive Officer emeritus, Jugobanka (now Alpha Bank)	27 October 2008
Dr. Milić Radović	Member	Full Professor, Belgrade University School of Business Administration	27 October 2008
Dragan Milosavljević	Member	Public Revenues Department, Serbian Ministry of Finance	27 October 2008

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

Remuneration of the Supervisory Board

In 2007, members of the Supervisory Board received an aggregate compensation of RSD 2.612.044.

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

Conflicts of interest

Within the five years prior to the date of this Report, no member of the Board of Directors or Supervisory Board:

- was convicted in relation to fraudulent offences;
- was associated with bankruptcy, receivership or liquidation of the company listed against his or her name in the above table;
- was officially and publicly incriminated and/or sanctioned by statutory or regulatory authorities (including designated professional bodies); and/or,
- has been disqualified by a court from acting as a member of the Company's management, executive or supervisory bodies or from acting in the management or conduct of the affairs of any other company.

No potential conflict of interest exists with respect to either Board of Directors members or Supervisory Board members, between their duties to Tigar and their private duties and/or other duties. There are no family ties between members of the Board of Directors and members of the Supervisory Board.

9. EMPLOYEES

Number and structure of employees

As of 31 December 2007, Tigar had 2240 permanent and temporary employees in Serbia. In addition, Tigar's subsidiaries in the United States, United Kingdom, FYR of Macedonia, Montenegro, and Bosnia and Herzegovina employed a total of 84 local employees.

As of 31 December, the employment structure was as follows:

Number of employees as of 31 December 2007	
Company	**Number of employees**
Tigar AD	198
Tigar Footwear	974
Tigar Business Services	185
Tigar Technical Rubber Goods	224
Tigar Chemical Products	82
Sales network	192
Other	385
Total	2240

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

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

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

Employee expenses

Total 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 RSD 1,132,912,000. The table below shows paid salaries as a percentage of sales revenues.

Employee expenses January – December 2007			
	Net salaries in 000 RSD	**Total employee expenses in 000 RSD**	**% of sales revenues**
Tigar AD	79,976	132,690	56,06%
Tigar Footwear	268,473	442,083	54,87%
Tigar Business Services	59,578	98,487	24,53%
Tigar Technical Rubber Goods	71,368	117,819	51,38%
Tigar Chemical Products	27,445	45,381	28,80%
Domestic Sales Network	58,213	96,071	3,18%
Others	121,315	200,381	122,53%
Total	686,368	1,132,912	22,58%

Taxes, health insurance, and pension fund contributions in 2007 amounted to RSD 446.544,000.

Terminated employees

In 2007, 172 employees left Tigar AD and its subsidiaries (excluding Tigar Tyres), on the following grounds:

	Retiretment	Redundancy	Other *	TOTAL
Tigar Ad	5(2,447,928)	12 (4,164,493)	33	50
Tigar Footwear	34 (4,450,683)	9 (2,783,030)	6	49 (7,233,713)
Tigar Business Services	3(425,955)	5 (1,211,989)	1	9 (1,637,944)
Tigar Technical Rubber Goods		19 (5,389,516)	7	26 (5,389,516)
Tigar Chemical Products		1(199,000)	4	5
Domestic Sales Network		11 (2,163,408)	10	21 (2,163,408)
Others	4 (626,013)	6 (2,412,966)	2	12 (3,038,979)
Total	46 (7,950,579)	63 (18,324,402)	63	172 (26,274,981

* Of the 63 other terminated employees, 15 employees left the Company of their own volition, 2 employees passed away, 5 were laid off, and 42 employees voluntarily moved to another entity within the Tigar Group.

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.

Retrenchment is 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 retrenchment (excluding Tigar Tyres) and their percentages relative to gross salaries are shown below:

Retrenchment expenses and percentage of gross salaries

	000 RSD	%
Tigar Ad	6,612	4,98%
Tigar Footwear	7,234	1,64%
Tigar Business Services	1,638	1,66%
Tigar Technical Rubber Goods	5,389	4,57%
Tigar Chemical Products	199	0,44%
Domestic Sales Network	2,163	2,25%
Others	3,039	1,52%
Total	26,274	2,32%

The numbers of terminated and new employees of Tigar AD and its subsidiaries (excluding Tigar Tyres), and the percent change, are shown below:

	TERMINATED	NEW	% CHANGE
Tigar Ad	33	9	-12,12
Tigar Footwear	49	17	- 3,28
Tigar Business Services	9	1	- 4,32
Tigar Technical Rubber Goods	26	6	- 8,9

The following changes in the HR structure by level of education were noted in 2007 (31 December 2007 / 31 December 2006):

	University, % Change	Junior college and secondary education, % Change	Other, % Change
TOTAL	+3,7	+4,7	-0,5

The following (%) changes in employee age categories were noted in 2007 (31 December 2007 / 31 December 2006):

	Up to 30 % Change	31-40 % Change	41-50 % Change	Over 50 % Change
TOTAL	+2,6	+0,2	-0,8	+11

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

In 2007, due to the seasonality of certain product lines, the Company hired a total of 566 temporary employees and 70 part-time employees via the Student Employment Association.

Education of professional human resources

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

In 2007, scholarships were paid for studies at the following colleges/universities:

Education of professional human resources				
	Technical sciences	Manufacturing process engineering	Economics and business administration	Other
TOTAL	40	23	14	20

Tuition and scholarship expenses in 2007 amounted to RSD 5,671,615 (or 0.5% of paid salaries).

Employee training

The following numbers of employees were trained through internal and external training programs during 2007.

In-house and external employee training			
	IN-HOUSE TRAINING	EXTERNAL TRAINING	TOTAL
Tigar Ad	32	187	219
Tigar Footwear	596	133	729
Tigar Business Services	3	102	105
Tigar Technical Rubber Goods	45	116	161
Tigar Chemical Products	94	51	145
Domestic Sales Network	5	1	6
Others	258	102	360
Total	1,033	692	1,725

Employee training expenses in 2007 amounted to EUR 195,383 (or 1.4% of paid salaries).

Union relations

Under Serbian labor legislation, the basic act which regulates the employer/employee relationship is the Particular Collective Contract (PCC), signed by the employer and the “representative” union or unions (“representative” unions are those which have more than 15% of a company’s employees as members). Tigar’s PCC was signed by the General Director of Tigar and the Autonomous Union of Tigar’s employees in December 2002.

According to an Annex dated 25 December 2002, the PCC also applies to Tigar Tyres, Tigar Technical Rubber Goods, Tigar Business Services, Tigar Tours, Tigar Obezbedjenje, Tigar Workshop, and Tigar Planinarski Dom, until these subsidiaries conclude their own individual collective bargaining agreements. This Annex was signed by managing directors and labor union representatives of all the listed subsidiaries.

A new Serbian Labor Law came into force in 2005 and the existing PCC has yet to be harmonized with the new law. Pending harmonization, the statutory provisions apply directly whenever the PCC is not in keeping with the law. The actual differences between the existing PCC and the Law are minor. Tigar has prepared a draft of the new PCC, fully harmonized with the law, for adoption in the near future. In the interim, Annex 3 to the PCC was signed with the representative union, which sets forth that all PCC provisions, which are not contrary to the Law, remain in force, while those that are contrary to the Law are rendered null and void and the respective provisions of the Labor Law apply instead.

Only 10.8% of Tigar’s employees are non-unionized. The remainder have joined one of two unions: the Autonomous Union of Chemical and Non-Metal Workers of Serbia and the “Independence” Union of Tigar. Only 144 (2.8%) of the unionized employees belong to the “Independence” Union, so that it is not deemed to be a “representative” union as stipulated in the Labor Law. Accordingly, the new PCC will be signed with the Autonomous Union, as was the existing one.

Disputes between employees and management are mediated by an Arbitration Committee, which consists of two representatives from each side and one independent (non Tigar) expert. Pursuant to the PCC, the employee and the employer may decide to resolve a dispute before an *ad hoc* arbitration board. Each party appoints one arbitrator and they jointly decide on the third arbitrator, who needs to be an expert in the respective area. The arbitration decision is final and binding upon both parties. Disputes concerning interpretation of the PCC are mediated by an *ad hoc* arbitration council.

Negotiations between the Union and the Director General may be initiated by the Union not more than four times each year, but only in the event that the cost of living increases by ten percent or more; the General Director may initiate negotiations regarding a decrease in salaries.

Employees have no right to be represented on the Board of Directors, except at Tigar Tyres, where the employees elect one member of the Board of Directors in accordance with Art. 11.1 of the Tigar Tyres Incorporation Agreement.

Tigar has no programs for employee participation in the Company profits. There have been no employee strikes at Tigar for the past three years. Tigar AD has no employee stock ownership programs nor management stock option plans.

10. CORPORATE GOVERNANCE

Tigar AD strives to follow international standards of corporate governance, and to ensure that these high standards are maintained at all levels. In furtherance of this goal, Tigar AD has adopted standards established by the European Union, the World Bank, and other international organizations.

Tigar AD's corporate governance principles (the "Codex") were approved by the Board of Directors and are available on Tigar AD's website in both Serbian and English. The Codex complies with corporate governance provisions set forth under the Serbian Law on Business Companies and the Corporate Governance Code approved by the Serbian Chamber of Commerce, but in some respects goes beyond the requirements contained in those documents. The aim of the Codex is to instill current best practices of corporate governance throughout Tigar AD, its subsidiaries, related companies, directors, senior management, employees and other affiliates.

Tigar AD seeks to maintain transparency in its relationship with shareholders, and to have all shareholders treated fairly and on an equal basis. The Codex provides a number of guiding principles that Tigar AD follows in dealings with its shareholders, including that:

- Tigar AD shall provide to its shareholders, on a timely basis, all material information related to Tigar AD and its business;
- all shareholders shall be treated equally;
- minority shareholders shall be protected from abusive actions by, or in the interest of, controlling shareholders, acting either directly or indirectly, and should have effective means of redress;
- insider trading is strictly forbidden;
- members of the Board of Directors, Supervisory Board and Executive Board are required to disclose to the Board of Directors whether they, directly, indirectly or on behalf of third parties, have any material interest in any transaction or matter directly affecting Tigar as well as any of its suppliers, contractors or sub-contractors.

Tigar AD's Board of Directors is required to treat all shareholders fairly, and take into account the interests of all shareholders. It is also charged with monitoring and managing potential conflicts of interest between the Executive Board, Board of Directors, and shareholders, including misuse of corporate assets and abuse in related party transactions.

One of the Board of Directors' principal tasks is to ensure the integrity of Tigar's accounting and financial reporting systems, including independent audits, and to ensure that appropriate systems of control are in place for risk management, financial and operational control, and compliance with the law and relevant standards.

The Codex contains specific provisions aimed at preventing any bribery, money laundering and other corrupt practices within Tigar. The Board of Directors or, in the case of a conflict of interests, the Supervisory Board, must immediately investigate any instances of alleged bribery or corruption and report them to the relevant public authorities.

Tigar adheres to a set of written procurement guidelines, including procedures for hiring consultants or other advisors to provide technical, administrative, managerial, financial, marketing, legal, environmental or economic assistance to Tigar. The guidelines are designed to guarantee the transparency of the selection process and to ensure that all consultants or advisors provide impartial and cost-effective services.

Tigar is fully committed to a fair and equal treatment of all employees.

VI. PERFORMANCE OF SUBSIDIARY AND AFFILIATED COMPANIES IN 2007

1. TIGAR FOOTWEAR

Products

Tigar AD's rubber footwear subsidiary produces a variety of rubber footwear products, addressing different segments of the market. In 2007, its main footwear lines included:

- *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. In 2007, Tigar Footwear sold low rubber shoes mostly in its domestic and Balkan markets. These products were sold primarily under the Tigar brand name. Boots sold to other export markets were manufactured by Tigar to order and sold in those markets under the customer's own brand name.
- *Rubber boots for hunting and fishing.* Tigar's specialized rubber boots for hunting and fishing are sold primarily in export markets. These boots include high rubber wading boots for fishing, as well as a wide range of knee-high boots for hunting and fishing. Domestically and in the Balkan countries, the boots are sold under the Tigar brand name. For international markets, Tigar brands the boots with the name of its customer.
- *Rubber safety boots and work boots.* Tigar's rubber safety boots and work boots are manufactured for use by firemen, forestry workers and other workers who require specialized boots with metal protective toe inserts and special heat properties. These boots are made from specialized materials designed to withstand higher temperatures and extreme conditions. These products are currently produced mostly for export.

The following table shows the total 2007 output by product group, as well as the respective 2006 levels and 2007 projections.

(pairs)	2006	2007	% Change
Low footwear	826,623	769,396	-7%
Fising and hunting footwear	130,565	230,863	77%
Safety footwear	92,939	161,479	74%
Working footwear	804,502	604,102	-25%
TOTAL	1,854,629	1,765,840	-5%

The following tables shows total 2007 sales revenues, as well as the respective 2006 levels and 2007 projections.

(000eur)	2006	2007	% Change
Low footwear	2,021	2,104	4%
Fising and hunting footwear	1,773	3,169	79%
Safety footwear	1,288	2,968	130%
Working footwear	4,392	4,964	13%
TOTAL	9,475	13,205	39%

A significant growth in 2007 sales revenue of almost 40% reflects the effectiveness of the implemented product mix changes.

Markets and competition

Tigar Footwear sells its products in both domestic and international markets. More than 60% of the sales is made to export market, mostly in the European Union.

Tigar Footwear held approximately 75% of the domestic market in 2007. Domestically, Tigar rubber footwear competes with the Serbian companies: Zlatar – Nova Varos and Vulkan – Nis, as well as with various Chinese manufacturers. In Tigar Footwear's international markets, major competitors include: Fagum Stomil from Poland, Novesta from the Czech Republic, various Chinese manufacturers, and Vulkan from Slovakia.

In 2007, the only supplier who delivered more than 10% of all supplies was Tigar Tyres.

Sales and distribution

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

Customers

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

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

In 2007, buyers who purchased more than 10% each of total sales included Berner, Euro PM and Tigar Trade DSN.

2007 Financials

Balance Sheet in thousands of Dinar		As of 1, Jan-07,	As of 31, Dec-07,
Assets			
	Non-current assets	113,430	116,189
	Current assets	525,952	792,060
	Deferred tax assets	511	866
	Total assets	**639,893**	**909,115**
Equity and liabilities			
	Equity	139,830	80,909
	Non-current liabilities	0	24,002
	Current liabilities	500,063	804,204
	Total equity and liabilities	**639,893**	**909,115**

Free cash flow in 000 RSD	As of 1, Jan-07,	As of 31, Dec-07,
Net profit	-36,280	-36,901
+ Depreiation	14,619	18,506
+Reserved costs for benefits	0	1,982

+Recovery on provisions	0	0
Cash flow from operation	**-21,661**	**-16,414**
Capital expenditures	**30,181**	**24,589**
Inventory increase (decrease)	148,543	160,071
+Receivables increase (decrease)	1,086	104,115
-Liabilities increase (decrease)	162,623	304,368
Working capital increase (decrease)	**-12,995**	**-40,181**
Free cash flow	**-38,847**	**-821**

in thousands of Dinar	2006,	2007, (unaudited)	% Change
Total income	**985,690**	**1,261,380**	**28%**
Total expences	**1,022,481**	**1,298,636**	**27%**
Profit from operations	**-36,791**	**-37,257**	**-1%**
Income taxes	0	0	
Deferred Income Tax expense			
Deferred Income Tax benefit	511	355	**-30%**
Net profit for the period	**-36,280**	**-36,902**	**-2%**

Ratio	2006	2007
EBIT	-22,776	-4,651
EBIT(1-T)/Total revenue	**-5%**	**-2%**
EBITDA/Total revenue	-3%	-0,02%
Total revenue/(Net F,Assets+ NWC+cash)	2,8	4,24
Return on Capital Employed	-13%	-15%
Net assets/Equity	2,06	3,13
Net income/Total revenue = NPM	**-5%**	**-3,44%**
Return on Equity (ROE)	**-26%**	**-46%**

Management's commentary

In 2007, Tigar Footwear's output in pairs was lower than in 2007, but there was a considerable increase in revenues owing the product mix changes.

During the year, major activities focused on increasing product quality, reducing the percentage of 2nd class products, and reducing the percentage of scraps. Unfortunately, due to highly unfavorable work conditions at the present location, in terms of equipment layout and the condition of the equipment, manufacturing incurred higher costs relating to both raw material consumption and workforce. The inadequate location resulted in higher costs do to a misalignment of manufacturing stages (such as delays in delivery of semi-products between the various stages of manufacturing). All the efforts which were expended to improve the manufacturing process resulted in a positive management account, which is the difference between total revenues and all manufacturing costs, including R&D, of 45 million dinars. However, following the inclusion of administrative costs and finance expenses, the bottom line is negative. This means that the achieved level of productivity is not adequate to cover all expenses.

Due to a lack of long-term sources of investment financing, investment activities had to be financed from cash flow and short-term loans. This resulted in a higher level of borrowing and interest costs. Inventories of certain groups of products had to be increased in preparation for relocation, which required additional employment of working capital.

Management’s assessment in 2007 was that the development new products had to continue, new markets needed to be created and new programs introduced to move the product line to a higher segment where competition is less intense, and earnings per manufactured product higher. Additionally, an utmost effort had to be made to cut costs as much as manufacturing conditions allowed. The assessment was that if the factory continues to manufacture only cheaper products, intense competition will erode Tigar’s market presence in a relatively short amount of time. Conversely, the move to a higher production segment guarantees a more stable market position and increased production of safety footwear reduces negative seasonal impact since demand is more even throughout the year. With the move to the new location, and the updating of equipment, conditions will be established for significant reductions in the number of employees and total costs, particularly of scrap and waste.

2. TIGAR TECHNICAL RUBBER GOODS

In 2007, Tigar Tehnička guma (Tigar Technical Rubber Goods, TTRG) manufactured:

- pressed rubber products
- molded rubber products
- sporting goods
- rubber hoses
- compound rubber/metal products
- semi-finished rubber products
- finished products made from recycled rubber.

TTRG was originally created to develop and manufacture rubber components for the automotive industry, such as floor mats, door seals, hoses, and tubing. Other product lines have since been developed for the mining, construction, military and other industries. This plant is the most profitable subsidiary on a per-kilogram-of-product-manufactured basis; however, it has been reporting losses due to low output. This business historically targeted automotive, mining, industrial and special-purpose applications within Serbia and the other former-Yugoslav republics, but business declined substantially during and after the trade embargo. Notwithstanding, this product line was not shut down since domestic mining, military and other industries are expected to pick up in the forthcoming period

Products

Pressed rubber products. These products are very strong, durable, and flexible. TTRG produces pressed rubber goods for a variety of industrial and construction applications, truck tire re-treading shops, road infrastructure (e.g. rubber speed bumps) and rubber automobile parts (mats, 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 the customer's requirements, these products are made with various cross-sections and from different grades and types of rubber. The technology applied allows for the manufacture of molded and extruded prices for virtually all applications. 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 sporting goods, including rubber balls for both professional and recreational use, rubber-coated weights and other training equipment and accessories. It also produces “promotional” balls with the name or logo of the end-user. The equipment is sold under the Tigar brand name, primarily to schools, sports clubs and sports 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.

Compounds and semi-finished rubber products. These products include rubber-coated cables, rubber compounds, combined rubber-metal products, shock absorbers for road vehicles, shock mounts for rail vehicles, and various products for other applications.

In 2007, a *new product line was introduced for pressed rubber products manufactured from recycled rubber granulate*. A wide variety of products are now manufactured by combining recycled rubber with bonding and coloring agents, including rubber playground surfaces, flooring for sports facilities, and bumpers. For the time being, these products are made from imported granulate.

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

Output in tons	2006	Ostv. 2007	% Change
Compounds for non-Tigar users	N/A	1,040	
Pressed products	N/A	122	
Shaped pieces and tubing	N/A	193	
Sporting goods	N/A	47	
Industrial rubberizing	N/A	135	
TOTAL	**1,106**	**1,537**	**39%**

Markets and competition

TTRG sells its products primarily in the domestic market. In 2007, TTRG sold a large quantity of sports balls via public tenders. Another contributor to 2007 performance is the resumption of manufacturing for military needs, although the quantities are still small. International customers are generally wholesale companies, but also tire-retreading shops, construction companies, mining companies, and automotive parts suppliers.

In 2007, Tigar Trade DSN was the only buyer who purchased more than 10% of total sales.

Sales and distribution

U 000 eur	2006	Ostv. 2007	% Change
Compounds for non-Tigar users	N/A	826	
Pressed products	N/A	784	
Shaped pieces and tubing	N/A	803	
Sporting goods	N/A	396	
Industrial rubberizing	N/A	465	
TOTAL	**2,754**	**3,275**	**19%**

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 Trade DSN.

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

Tigar Trade DSN was the only buyer who purchased more than 10% of total sales.

2007 Financials

Balance Sheet in thousands of Dinar		Opening balance sheet as of 1, Jan-07,	As of 31, Dec-07,
Assets			
	Non-current assets	111,479	26,203
	Current assets	137,255	444,543
	Deferred tax assets	1,341	764
	Total assets	**250,075**	**471,510**
Equity and liabilities			
	Equity	27,037	22,502
	Non-current liabilities	1,058	11,361
	Current liabilities	221,980	437,647
	Deferred tax liabilities		
	Total equity and liabilities	**250,075**	**471,510**

Free cash flow in 000 RSD	As of 1, Jan-07,	As of 31, Dec-07,
Net profit	-66,981	114,277
+ Depreiation	16,462	10,908
+Reserved costs for benefits	0	727
+Recovery on provisions	0	0
Cash flow from operation	**-50,519**	**125,912**
Capital expenditures	**6,871**	**-89,968**
Inventory increase (decrease)	-4,089	5,242
+Receivables increase (decrease)	-14,757	288,660
-Liabilities increase (decrease)	39,906	235,384
Working capital increase (decrease)	**-58,752**	**58,519**
Free cash flow	**1,362**	**157,361**

in thousands of Dinar	2006,	2007, (unaudited)	% Change
Total income	**235,163**	**449,342**	**91%**
Total expences	**303,485**	**321,185**	**6%**

Profit from operations	**-68,322**	**128,157**	**profit vs,loss**
Income taxes	**0**	13,303	
Deferred Income Tax expense	**0**	576	
Deferred Income Tax benefit	**1,341**		
Net profit for the period	**-66,981**	**114,278**	**profit vs,loss**

Ratio	2006	2007
EBIT	-61,175	139,128
EBIT(1-T)/Total revenue	**-23,54%**	**47,47%**
EBITDA/Total revenue	-19,11%	57,16%
Total revenue/(Net F,Assets+ NWC+cash)	4,87	7,73
Return on Capital Employed	-139,40%	335,10%
Net assets/Equity	1,78	1,52
Net income/Total revenue = NPM	**-28,63%**	**43,32%**
Return on Equity (ROE)	**-247,73%**	**507,85%**

Management's commentary

TTRG reported growth in output, growth in sales and growth in total revenues, but failed to achieve the planned product mix, dominated by highly profitable products. This was a result of the situation in the market, as well as a lack of equipment for the manufacture of products whose mix and quality are aligned with current market demands. The latter is especially true of molded pieces for the construction industry and products made from recycled rubber. Even though the workforce was considerably reduced, TTRG did not finalize its workforce optimization process with regard to the number of employees and their qualifications. This resulted in high employee expenses relative to the achieved volume.

To create conditions for relocation to Tigar 3, a contract was signed at the end of 2007 for the sale of the TTRG building to Tigar Tyres, which calls for relocation of TTRG before the end of 2008. This transaction will result in extraordinary income based on the difference between the contract price and the book value. A receivable of 266 million dinars is due at mid-2008. Regarding overall performance, TTRG made significant progress in 2007 in both manufacturing and income, but it did not manage to align manufacturing costs with volume. Relocation will create conditions for further growth and considerably higher productivity. With an increase in volume, this business will be highly profitable.

3. TIGAR CHEMICAL PRODUCTS

Tigar Hemijski proizvodi (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 line was introduced primarily to address the internal needs of the tire and rubber footwear product lines. A wider range of products was introduced over time, including high-quality adhesives for mine conveyer belts, road paint, appliance paint, and environmentally-friendly polyurethane flooring.

Products

In 2007, TCP manufactured the following groups of 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 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 the high transportation costs, in 2006 Tigar pursued international sales only in markets that are close to Serbia, such as the FYR of Macedonia and Greece.

Industrial and other adhesives. Tigar's industrial adhesives are used primarily by Serbian manufacturers of furniture, footwear (including Tigar Footwear) and books (for book binding). Its other adhesives (principally epoxy compounds for domestic use) are sold through dealers or through Tigar's domestic retail 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 flooring (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 2007 sales in tons by basic product application, as well as the respective 2006 levels and 2007 projections.

Output in tons	2006	2007	% Change
Products fro the mining industry	64	63	-2%
Road paint	704	670	-5%
Products for railways	38	51	32%
Products for the metalworking industry	30	55	83%
Products for the construction industry (flooring)	43	15	-66%
Products for the consumer market	214	191	-10%
Products for the Tigar Group	143	152	6%
TOTAL	1,237	1,197	-3%

The following table shows 2007 sales in euros by basic product application, as well as the respective 2006 levels and 2007 projections.

Revenues (000eur)	2006	2007	% Change
Products fro the mining industry	351	436	24%
Road paint	577	988	71%
Products for railways	62	213	243%
Products for the metalworking industry	86	192	124%
Products for the construction industry (flooring)	52	94	79%
Products for the consumer market	506	579	14%
Products for the Tigar Group	250	290	16%
TOTAL	1,884	2,792	48%

Markets and competition

TCP sells its products primarily in the domestic market. Most of its international sales were to markets in the Balkan region, as well as Poland, Belarus and the Republic of South Africa.

TCP held a strong share of the 2007 domestic market (more than 50% for some products).

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 wholesalers.

Customers

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

International customers include Beloruskalij (Belarus), Eltim (South African Republic), and Balkan Consult (Bulgaria).

2007 Financials

Balance Sheet in thousands of Dinar		**Opening balance sheet as of 1. Jan-07.**	**As of 31,. Dec-07,**
Assets			
	Non-current assets	67,339	66,375
	Current assets	142,922	165,729
	Deferred tax assets	604	755
	Total assets	**210,865**	**232,859**
Equity and liabilities			
	Equity	69,189	51,397
	Non-current liabilities	0	2,729
	Current liabilities	141,676	178,733
	Deferred tax liabilities		
	Total equity and liabilities	**210,865**	**232,859**

Free cash flow in 000 RSD	**As of 1, Jan-07,**	**As of 31, Dec-07,**
Net profit	-20,900	-15,248
+ Depreiation	5,718	0
+Reserved costs for benefits	0	186
+Recovery on provisions	0	6,163
Cash flow from operation	**-15,182**	**-8,899**
Capital expenditures	**3,236**	**4,876**
Inventory increase (decrease)	42,517	559
+Receivables increase (decrease)	-15,148	21,847
-Liabilities increase (decrease)	84,345	37,057
Working capital increase (decrease)	**-56,976**	**-14,650**
Free cash flow	**38,558**	**875**

in thousands of Dinar	2006.	Ostv. 2007. (unaudited)	% Change
Total income	**205,447**	**216,331**	**5%**
Total expences	**226,955**	**231,726**	**2%**
Profit from operations	**-21,508**	**-15,395**	**28%**
Income taxes	**0**	**0**	
Deferred Income Tax expense	**0**	**0**	
Deferred Income Tax benefit	**608**	**148**	**-76%**
Net profit for the period	**-20,900**	**-15,247**	**27%**

Rato	2006	2007
EBIT	-19,231	-15,661
EBIT(1-T)/Total revenue	**-12%**	**-7%**
EBITDA/Total revenue	-9%	0%
Total revenue/(Net F,Assets+ NWC+cash)	2,28	4,14
Return on Capital Employed	-30%	-28%
Net assets/Equity	1,00	1,05
Net income/Total revenue = NPM	**-0,13**	**-0,07**
Return on Equity (ROE)	**-30%**	**-28%**

Management's commentary

In 2007, TCP's output in tons was slightly lower than in 2006, but seasonal fluctuations were also lower. Sales grew during this period, which means that the increase in sales is attributable to previous stocks. It is important to note that all product lines reported higher sales levels, and that the overall revenues increased by as much as 48% compared to 2006. The negative bottom line is the result of a lower value of inventory and finance expenses, which means that TCP should have produced a higher volume to achieve a positive bottom line. In addition to higher sales to the domestic market, future growth in volume must be ensured through higher exports, particularly to the countries of the region. The overall transaction with the Michelin Group calls for the relocation of TCP to Tigar 3 before the end of 2009. Its current building will be transferred to Tigar Tyres. The realization of this transaction will result in a high capital gain for TCP, but its key task will remain the optimization of manufacturing costs, primarily through alignment of variable costs and employee expenses with volume, and through sales growth.

4. TIGAR TYRES

Tigar Tyres is a joint venture in which Tigar AD held a 30% interest in 2007. The remaining interest was held by the Michelin Group, a French tire manufacturer (62%) and the International Finance Corporation (IFC), (8%).

Products

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

Apart from exchange rate fluctuations, increasing raw material costs had a major impact on production at Tigar Tyres in 2006. Due to overall developments in the European market, sales declined particularly during the first half of the year.

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.

Management's commentary

As of 2007, Tigar AD no longer consolidates the financial statements of Tigar Tyres in view of its 30% minority interest. However, it consolidates 30% of the distributed profits. In 2007, Tigar Tyres met expectations, increased volume, and increased revenues. There was no unexpected increase in expenses. Business growth and investments using short-term sources increased the level of borrowing, due to a lack of liquid funds.

A high level of investment, measures implemented to increase productivity, Michelin Group support to development, industrialization, supply, and commercialization of the products has resulted in increasing performance since 2005. Entry into a new investment cycle, entailing new investments and organizational changes, will certainly affect the bottom line for a while, but consistent implementation will certainly result in further progress.

2007 Financials

Balance Sheet in thousands of Dinar	Opening balance sheet as of 1, Jan-07,	As of 31, Dec-07,
Assets		
Non-current assets	3,942,094	3,394,163
Current assets	5,249,242	4,418,418
Deferred tax assets	38,516	43,286
Total assets	**9,229,852**	**7,855,867**
Equity and liabilities		
Equity	4,375,507	3,597,166
Non-current liabilities	1,775,344	1,160,832
Current liabilities	3,079,001	3,097,869
Deferred tax liabilities		
Total equity and liabilities	**9,229,852**	**7,855,867**

INCOME STATEMENT in thousands of Dinar	2007	2006
Total income	12,265,949	11,048,960
Total expences	11,300,258	10,873,114
Profit from operations	**965,691**	**175,846**
Finance income	262,623	397,979
Finance expenses	376,975	335,993
Other income	56,706	98,766
Other expenses	75,793	86,046
Profit/ (Loss) before taxation	**832,252**	**250,552**
Net profit for the period	**780,025**	**235,367**

5. COMMERCIAL SUBSIDIARIES

In 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 automotive 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 FYR of Macedonia, Montenegro, the United Kingdom, and the United States.

Tigar Trade DSN (Domestic Sales Network)

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

In 2007, Tigar Trade DSN had its headquarters in Pirot, three regional branch offices which managed 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 operated in leased facilities; this was in line with the policy of leasing, and not purchasing, new facilities.

As of 31 December 2007, Tigar Trade DSN included:

- **35 retail outlets,** which follow a multi-product multi-brand strategy and offer a wide range of tires, motor oil, batteries, filters, afterparts, and accessories, as well as rubber footwear and other rubber and adhesive products manufactured by Tigar;

- **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 washes. The service centers also include retail sections; and

- **2stationary and 3 mobile truck service unit**.

The network of service centers at the end of 2006 was most extensive in northern and southern Serbia. It was least extensive in Belgrade since, during 2006, no appropriate location was found for a large service center. Corporate strategy was to first create a network of service centers across Vojvodina, as the most developed part of the country, as well as the Nis and Pirot region where Tigar has traditionally had a strong presence.

In order to appeal to its consumers, Tigar Trade DSN follows a "multi-brand" strategy, offering tires and 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 car care products, and Bosch and Black Horse batteries. The outlets also provide a convenient retail distribution system for rubber footwear, technical rubber goods and chemical products, under the Tigar brand name.

2007 ANNUAL REPORT	Document reference
	IZ.P.08/01

The following table shows total 2006 and 2007 revenues of the Domestic Sales Network by product category.

(000 euro)	2007	2006
Car tires	3,578	5,404
Other tires	1,905	2,476
Inner tires	330	459
Rubber footwear	1,102	1,135
Rubber goods	285	298
Chemical products	115	143
Other products	370	534
Services	132	85

Tigar Trade DSN focused its efforts on attracting fleet buyers (i.e. customers operating a fleet of ten or more cars or trucks). Tigar Trade DSN believes that fleet buyers will be especially attracted by an offer of mobile repair services.

2007 Financials

Balance Sheet in thousands of Dinar		Opening balance sheet as of 1, Jan-07,	As of 31, Dec-07,
Assets			
	Non-current assets	173,883	219,307
	Current assets	424,582	422,163
	Deferred tax assets		
	Total assets	**598,465**	**641,470**
Equity and liabilities			
	Equity	176,644	86,415
	Non-current liabilities	1,855	10,927
	Current liabilities	419,427	543,422
		539	706
	Total equity and liabilities	**598,465**	**641,470**

Free cash flow in 000 RSD	As of 1, Jan-07,	As of 31, Dec-07,
Net profit	-28,075	-85,275
+ Depreiation	11,204	12,799
+Reserved costs for benefits	0	446
+Recovery on provisions	0	0
Cash flow from operation	**-16,871**	**-72,030**
Capital expenditures	**26,938**	**56,683**
Inventory increase (decrease)	28,888	99,772
+Receivables increase (decrease)	70,688	-97,675
-Liabilities increase (decrease)	73,490	123,079
Working capital increase (decrease)	**26,087**	**-120,982**
Free cash flow	**-69,896**	**-7,730**

in thousands of Dinar	2006,	2007, (unaudited)	% Change
Total income	**945,510**	**677,829**	**-28%**
Total expences	**973,046**	**762,937**	**-22%**
Profit from operations	**-21,536**	**-85,108**	**-209%**
Income taxes	**0**	**0**	
Deferred Income Tax expense	**539**	**167**	**-69%**
Deferred Income Tax benefit	**608**	**148**	**-76%**
Net profit for the period	**-28,075**	**-85,275**	**-204%**

Ratio	2006	2007
EBIT	-28,571.08	-72,548.16
EBIT(1-T)/Total revenue	-2,8%	-9,75%
EBITDA/Total revenue	-1,89%	-8,86%
Total revenue/(Net F,Assets+ NWC+cash)	3,55	3,74
Return on Capital Employed	-10,84%	-47,67%
Net assets/Equity	1,47	2,07
Net income/Total revenue = NPM	-3,05%	-12,74%
Return on Equity (ROE)	-15,89%	-98,68%

Management's commentary

In 2007, Tigar Trade DSN earned a considerably lower income from tire sales. The principal reason was the change in the sales approach compared to prior years. During the previous years, Tigar Trade DSN made most of its tire sales to large wholesale companies with a margin of a few percent. In 2007, however, Tigar Trade DSN focused its tire sales on end users and small-to-medium dealers. In December of 2006, a 2007 contract was signed with Tigar Tyres for the supply of 130,000 tires, which accurately defined quarterly deliveries subject to bonuses. Since 1st quarter sales did not meet expectations, high inventory levels did not allow Tigar Trade DSN to take delivery of the entire 2nd quarter quantity and, as a result, it forfeited a portion of the bonus. This made it less competitive and reduced its revenues. Key to the understanding of the problem with which Tigar Trade DSN was faced in 2007 is the fact that large dealers, who sell Tigar-brand and Michelin-brand tires in the Serbian market, are wholesale companies that also act as authorized distributors of other recognized brands. This allows them to operate at low profit levels and to transfer a large portion of the discounts to the next level of buyers.

Controls of compliance with statutory requirements of tire repair shops and service shops are still not in place in Serbia. As such, there is a large number of such shops whose costs are very low because they operate in makeshift facilities and engage workers from the black market. Wholesale chains which operate with very low margins, and a large number of small and ill-equipped stores and service shops, create unfair competition for Tigar Trade DSN which cannot operate below a certain revenue level in view of the costs associated with the operation of a network of its type. Experience from other transition countries shows that these practices are of a temporary nature and that no more than two networks will prevail after two or not more than three years, at which time the number of tire repair shops is expected to be much smaller. The duration of this process will largely depend on the controls which have to be implemented by competent authorities.

The price wars in the market are especially felt when payments for large purchases of tires become due and when special discounts are offered.

Tigar Trade DSN also sells tires made by other manufacturers and, even though its position is less favorable than that of dealers who are direct importers, it has reported a considerable growth in this segment of tire sales.

In 2007, the number of fleet buyers who purchase large quantities based on annual contracts grew, but sales to these customers are still conducted on a wholesale basis, including the use of services provided by Tigar's automotive service outlets. However, regardless of the contracts, these customers do not purchase solely from Tigar Trade DSN, but also from others when they offer better prices; still, they generally use Tigar's automotive service outlets. It is obvious that this situation will continue and that some time will have to pass before stronger relationships can be established with these fleet buyers, which will entail all purchases from Tigar Trade DSN, including timely service of superior quality.

Sales of complementary products, particularly of motor oil, did not meet expectations because Tigar Trade DSN virtually entered this market segment in 2007. Sales of afterparts need to be boosted by a wider and more attractive offering than exists at present. Regarding other segments, sales by the manufacturing subsidiaries and sales via Tigar Trade DSN were still not accurately delineated in 2007.

In addition to the above external factors which affected 2007 performance, there was also a number of internal factors. With regard to the automotive service network, well-performing retail outlets throughout the country were first converted into service centers. As of 2007, the focus was on the building of big service centers in the largest cities. During the 4th quarter, new service centers were opened first in Belgrade and then in Niš; a convenient location could not be found in Novi Sad. Also in the 4th quarter, new and carefully selected staff was hired. Experience has shown that service centers in large cities earn much higher revenues than those in small towns, but it takes time for them to develop their business and for customers to get into the habit of servicing their cars at these centers. This is also true of the new truck service centers and mobile service units. The general conclusion is that development of the automotive service network is the only certain way of ensuring its survival in the marketplace.

Internal reasons for not meeting sales expectations in other segments include insufficiently defined relationships with the manufacturing subsidiaries and the fact that the facility and equipment upgrading process began in the latter half of the year, as did the hiring and training of carefully selected sales personnel. All the measures taken during that period could not produce results before the year end.

In summary, Tigar Trade DSN's infrastructure, business and human resources are developing in the only possible direction, which guarantees long-term survival in the marketplace and the creation of added value not only for Tigar Trade DSN but for the Tigar Group as a whole. The fact that TT DSN was not a new investment activity meant that problems from previous years were resolved ahead of or in parallel with the reconstruction and upgrading program. High costs were incurred due to the shutting down of 40 retail outlets and the resultant retrenchment.

The network of stationary and mobile service units requires time to acquire a stable market position. New equipment and new sales methods, particularly in the footwear segment, should result in added value and expansion of the complementary product range. It is a fact that TT DSN has assumed the overall costs of infrastructure, business and HR restructuring of Tigar Group's sales in the Serbian market, which will, by necessity, result in lackluster performance for some time.

Tigar Export-Import

Tigar Export-Import completely restructured its operations in 2007. During the previous years, it was a business unit of Tigar AD which performed administrative services associated with exports and imports. In 2007, this approach was re-defined and Tigar Export-Import started purchasing raw materials from suppliers and re-selling them to Tigar's subsidiaries. It acts as an intermediary in equipment purchases. Purchasing was integrated with the goal of securing better prices, terms, and conditions. Liquidity problems were overcome by inter-company loans. During the first year, Tigar Export-Import completed all scheduled activities with regard to the introduction of the new system, which resulted in better purchasing terms. In the coming period, it will have to complete the complex task of introducing new raw materials and new suppliers, with the goal of achieving the same level of costs for the manufacturing subsidiaries as those of the competition. It must also prepare to take over a portion of the export activities.

2007 Financials

Balance Sheet in thousands of Dinar	Opening balance sheet as of 1, Jan-07,	As of 31, Dec-07,
Assets		
Non-current assets	394	2,267
Current assets	2,773	483,890
Deferred tax assets		
Total assets	**3,167**	**486,157**
Equity and liabilities		
Equity	1,708	1,032
Non-current liabilities		957
Current liabilities	1,451	484,131
Deferred tax liabilities	8	37
Total equity and liabilities	**3,167**	**486,157**

in thousands of Dinar	2006	2007 (unodit)	% Change
Total income	**8,848**	**629,458**	**7014%**
Total expences	**7,016**	**629,159**	**8867%**
Profit from operations	**1,832**	**299**	**-84%**
Income taxes	**159**	**68**	**-57%**
Deferred Income Tax expense	**8**	**30**	**290%**
Deferred Income Tax benefit			
Net profit for the period	**1,665**	**201**	**-88%**

Tigar Europe, UK

Tigar has been active in this market for more than 15 years via the co-owned company Tigar Europe Ltd., in which Tigar AD holds a 50% interest. Tigar Europe has an excellent knowledge of the UK market and a well-established client base, and it provides superior services. In 2006, Tigar began to export rubber footwear to the English company Hunter via Tigar Europe, and continued to do so in 2007. Tigar Europe, a wholesale company, also has the know-how and capability to act as a supplier of equipment, materials, spare parts and other goods to other Tigar entities. Tigar plans to expand Tigar Europe's sales network in order to increase its sales of tires and other products (primarily rubber footwear and rubber goods). This company will also continue to provide purchasing services and support potential corporate projects in the UK, as well as to play a more active role in other EU markets. 2007 financial performance matches projections.

2007 Financials

Balance Sheet in thousands of GBP		Opening balance sheet as of 1, Jan-07,	As of 31, Dec-07,
Assets			
	Non-current assets	2	9
	Current assets	4,224	4,000
	Deferred tax assets		
	Total assets	**4,225**	**4,008**
Equity and liabilities			
	Equity	1,964	2,625
	Non-current liabilities		
	Current liabilities	2,261	1,383
	Deferred tax liabilities		
	Total equity and liabilities	**4,225**	**4,008**

000 GBP	2006,	2007, (unaudited)	% Change
Turnover	**14,789**	**14,199**	**-4%**
Cost of sales	13,338	12,922	**-3%**
Gross Profit	**1,450**	**1,277**	**-12%**
Administrative expenses	611	475	**-22%**
Operating Profit	**839**	**802**	**-4%**
Interest receivable	51	106	**109%**
Commission		17	
Profit on Ordinary Acitvities Before Taxation	**890**	**925**	**4%**
Tax on profit on ordinary activities	273	264	**-3%**
Retained Profit for the Financial Year	**617**	**661**	**7%**

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, it 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 other products including goods manufactured by other Serbian companies. In 2007, activities focused on seeking out new customers, but in the latter half of the year Tigar Americas actively pursued purchasing from new suppliers who sell in US dollars, in view of the much better prices and terms than currently available elsewhere. In view of the large choice of goods and the favorable exchange rate, activities were initiated to seek out sources of goods for expansion of Tigar Trade DSN's complementary product range. Tigar Americas is also in a position to take part in potential corporate activities in the North American market. Following the activities and measures undertaken in 2007, Tigar Americas is expected to expand in 2008 and will require a capital increase. Keeping in mind the costs associated with market research and positioning, with regard to both sales and purchasing, the reported performance is at the expected level.

2007 Financials

Balance Sheet in thousands of USD	Opening balance sheet as of 1, Jan-07,	As of 31, Dec-07,
Assets		
Non-current assets	10	5
Current assets	26	35
Deferred tax assets	264	261
Total assets	**299**	**300**
Equity and liabilities		
Equity	297	295
Non-current liabilities	0	0
Current liabilities	2	5
Deferred tax liabilities		
Total equity and liabilities	**299**	**300**

000 USD	2006,	2007, (unaudited)	% Change
Sales and marketing income	**232**	**444**	**91%**
Cost of goods sold	105	260	**148%**
Gross profit	**127**	**184**	**44%**
Selling, general and administrative expenses	193	203	**5%**
Loss from operations	**-66**	**-19**	**71%**
Other income (expense)	-8	24	**dobitak vs,gubitak**
Net loss before corporation taxes	**-74**	**5**	**dobitak vs,gubitak**
Provision for income taxes	132	0	**-100%**
Net profit (loss)	**58**	**5**	**-91%**

The Balkans: Tigar Partner, Tigar Trade (Banja Luka) ,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. 2007 performance matches expectations. However, 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 Serbia and the Balkan markets are the only markets where it is currently feasible for Tigar to develop a successful retail sales network

The following table shows total 2006 and 2007 revenues from the Balkan markets (excluding Serbia), by product category

	2006	2007
Tire sales (000EUR)		
Bosnia and Herzegovina	1,166	1,457
FRY of Macedonia	789	651
Montenegro	721	729
Sub-total, tires	2,676	2,837
Footwear sales (000EUR)		
Bosnia and Herzegovina	304	238
FRY of Macedonia	210	148
Montenegro	175	250
Sub-total, footwear	689	637
Sales of other products (000EUR)		
Bosnia and Herzegovina	30	56
FRY of Macedonia	55	36
Montenegro	8	11
Sub-total, other products	93	103
TOTAL	**3,458**	**3,576**

2007 Financials

TIGAR MONTENEGRO

Balance Sheet in thousands of EUR		Opening balance sheet as of 1, Jan-07,	As of 31, Dec-07,
Assets			
	Non-current assets	9	5
	Current assets	234	286
	Deferred tax assets		
	Total assets	**244**	**291**
Equity and liabilities			
	Equity	50	74
	Non-current liabilities		
	Current liabilities	194	217
	Deferred tax liabilities		
	Total equity and liabilities	**244**	**291**

Free cash flow in 000 EUR	As of 1, Jan-07,	As of 31, Dec-07,
Net profit	35	58
+ Depreiation	5	5
+Reserved costs for benefits	0	0
+Recovery on provisions	0	0
Cash flow from operation	**39**	**63**
Capital expenditures	**1**	**0**
Inventory increase (decrease)	-8	34
+Receivables increase (decrease)	-1	90
-Liabilities increase (decrease)	37	23
Working capital increase (decrease)	**-46**	**101**
Free cash flow	**84**	**-38**

in thousands of eur	2006,	2007, (unaudited)	% Change
Total income	**909**	**994**	**10%**
Total expences	**871**	**931**	**7%**
Profit from operations	**38**	**64**	**68%**
Net profit for the period	**35**	**58**	**69%**

TIGAR TRADE (BANJA LUKA)

Balance Sheet in thousands of KM	Opening balance sheet as of 1, Jan-07,	As of 31, Dec-07,
Assets		
Non-current assets	252	302
Current assets	1,241	1,299
Deferred tax assets	0	0
Total assets	**1,493**	**1,601**
Equity and liabilities		
Equity	410	414
Non-current liabilities	62	36
Current liabilities	1,022	1,151
Deferred tax liabilities		
Total equity and liabilities	**1,493**	**1,601**

Free cash flow in 000 KM	As of 1, Jan-07,	As of 31, Dec-07,
Net profit	86	67
+ Depreiation	29	24
+Reserved costs for benefits	0	0
+Recovery on provisions	0	0
Cash flow from operation	**115**	**90**
Capital expenditures	**-104**	**73**
Inventory increase (decrease)	223	-61
+Receivables increase (decrease)	206	10
-Liabilities increase (decrease)	444	262
Working capital increase (decrease)	**-15**	**-313**
Free cash flow	**234**	**330**

in thousands of KM	2006,	2007, (unadited)	% Change
Total income	**2,952**	**3,465**	**17%**
Total expences	**2,857**	**3,391**	**19%**
Profit from operations	**95**	**74**	**-22%**
Net profit for the period	**86**	**66**	**-23%**

TIGAR PARTNER

Balance Sheet in thousands of Denars		Opening balance sheet as of 1, Jan-07,	As of 31, Dec-07,
Assets			
	Non-current assets	585	221
	Current assets	36,724	35,176
	Deferred tax assets		
	Total assets	**37,309**	**35,396**
Equity and liabilities			
	Equity	20,477	21,038
	Non-current liabilities	0	0
	Current liabilities	16,832	14,358
	Deferred tax liabilities		
	Total equity and liabilities	**37,309**	**35,396**

Free cash flow in 000 DENERS	As of 1, Jan-07,	As of 31, Dec-07,
Net profit	2,555	3,117
+ Depreiation	376	372
+Reserved costs for benefits	0	0
+Recovery on provisions	0	0
Cash flow from operation	**2,931**	**3,489**
Capital expenditures	**16**	**8**
Inventory increase (decrease)	789	-2,946
+Receivables increase (decrease)	-2,736	2,642
-Liabilities increase (decrease)	-8,340	-2,474
Working capital increase (decrease)	**6,392**	**2,170**
Free cash flow	**-3,477**	**1,311**

in thousands of DENERS	2006,	2007, (unaudited)	% Change
Total income	**75,053**	**63,203**	**-16%**
Total expences	**71,903**	**59,593**	**-17%**
Profit from operations	**3,151**	**3,610**	**15%**
Net profit for the period	**2,555**	**3,117**	**22%**

6. TIGAR'S SERVICE ENTITIES

In addition to its four principal manufacturing subsidiaries and Tigar Trade DSN, in 2007 Tigar operated a number of service subsidiaries that it developed, for the most part, during the trade embargo 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 2007, the Company's major service businesses included:

- *Construction*, which offers all types of services relating to construction, and maintenance of buildings and infrastructure.
- *Transportation*, which provides all types of road transportation services, including domestic and international freight forwarding, contracted and sub-contracted intra-city transportation of goods, and maintenance of vehicles.
- *Tourist Agency*, which provides domestic and international tourist-related services, including vacation, trip, seminar, and trade exhibition planning.
- *Planinarski dom (Mountain Lodge)*, which offers a broad range of accommodations and restaurant/catering services for tourists, business travelers, delegations, sports teams and cultural groups visiting southern Serbia.
- *RTV 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.
- *The Pirot Free Zone*, which is a specially-designated area within Serbia where business may be carried out free from customs 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.
- *Food production,* within the Scope of Tigar Business Services, for both internal needs and non-Tigar clients.
- *Insurance,* primarily for internal needs.

This group of companies, particularly the construction, transportation and food production units reported a considerable growth, mainly as a result of Tigar Group's increased demand in 2007 (a year with intensive investment activities). In the coming years, especially in view o the imminent construction of a gas pipeline and highway, and a considerably improved tourist offering of the Mt. Stara Planina National Park, it is reasonable to expect that the markets for most of these businesses will grow. Their restructuring depends on changes in legislation, particularly with regard to food production. A special restructuring and upgrading program will be prepared for these businesses in 2008. A project involving incorporation of a joint venture with the Red Star Soccer Club for broadcasting sports programs via satellite, which was initiated in 2007, is expected to be completed in 2008. Plans call for restructuring of all service subsidiaries, including Tigar Workshop; regardless of its exceptionally good performance in 2007, it must modify its business approach and target the open market more extensively. Tigar will provide the funds required for restructuring and upgrading of those service entities which operate on a budget, such as Tigar Security. The Free Zone performed well but its further growth is dependent on legislation and it, therefore, requires special treatment.

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

Tigar Business Services: 2007 Financials

Balance Sheet in thousands of Dinars		Opening balance sheet as of 1, Jan-07,	As of 31, Dec-07,
Assets			
	Non-current assets	36,409	78,440
	Current assets	78,901	91,726
	Deferred tax assets		
	Total assets	**115,310**	**170,166**
Equity and liabilities			
	Equity	30,019	36,658
	Non-current liabilities	76,638	37,650
	Current liabilities	8,529	95,666
	Deferred tax liabilities	124	192
	Total equity and liabilities	**115,310**	**170,166**

Free cash flow in 000 dinars	As of 01, Jan-07,	As of 01, Jan-08,
Net profit	5,144	24,726
+ Depreiation	16,409	9,981
+Reserved costs for benefits		472
+Recovery on provisions		
Cash flow from operation	**21,553**	**35,179**
Capital expenditures	**52,818**	**34,858**
Inventory increase (decrease)	-7,888	2,881
+Receivables increase (decrease)	-6,041	16,568
-Liabilities increase (decrease)	19,093	26,508
Working capital increase (decrease)	**-33,022**	**-7,060**
Free cash flow	**1,757**	**7,380**

in thousands of Dinar	2006,	2007, (unaudited)	% Change
Total income	**427,789**	**346,280**	**-19%**
Total expences	**408,266**	**320,132**	**-22%**
Profit from operations	**19,523**	**26,148**	**34%**
Income taxes	**1,141**	**1,355**	**19%**
Deferred Income Tax expense	**124**	**67**	**-46%**
Deferred Income Tax benefit			
Net profit for the period	**18,258**	**24,726**	**35%**

Ratio	2006	2007
EBIT	22,033	27,362
EBIT(1-T)/Total revenue	**4,67%**	**7,31%**
EBITDA/Total revenue	6,94%	11,23%
Total revenue/(Net F,Assets+ NWC+cash)	5,91	5,08
Return on Capital Employed	25,42%	37,29%
Net assets/Equity	1,53	1,81
Net income/Total revenue = NPM	**4,30%**	**7,34%**
Return on Equity (ROE)	**38,89%**	**67,45%**

Other service subsidiaries: 2007 Financials

in thousands of Dinar	2006,	2007, (unaudited)	% Change
Total income	**151,959**	**360,339**	**137%**
Total expences	**141,441**	**343,308**	**143%**
Profit from operations	**10,518**	**17,031**	**62%**
Income taxes	**335**	**779**	**132%**
Deferred Income Tax expense	**78**	**187**	**141%**
Deferred Income Tax benefit	**89**	**138**	
Net profit for the period	**10,194**	**16,204**	**59%**

The above table includes the Pi Channel, Sports Center, Tigar Inter Risk, Tigar Workshop, Tigar Tours, Tigar Planinarski Dom, Tigar Security, and Tigar Incon.

Free Zone: 2007 Financials

Balance Sheet in thousands of Dinars	Opening balance sheet as of 1, Jan-07,	As of 31, Dec-07,
Assets		
Non-current assets	104,828	113,047
Current assets	30,170	37,600
Deferred tax assets	83	78
Total assets	**135,081**	**150,725**
Equity and liabilities		
Equity	121,312	130,541
Non-current liabilities	13,769	20,184
Current liabilities		
Deferred tax liabilities		
Total equity and liabilities	**135,081**	**150,725**

Free cash flow in 000 RSD	As of 1, Jan-07,	As of 31, Dec-07,
Net profit	4,466	9,225
+ Depreiation	1,402	1,885
+Reserved costs for benefits	0	0
+Recovery on provisions	0	0
Cash flow from operation	**5,868**	**11,109**
Capital expenditures	**21,525**	**6,044**
Inventory increase (decrease)	219	125
+Receivables increase (decrease)	966	4,074
-Liabilities increase (decrease)	166	6,415
Working capital increase (decrease)	**1,019**	**-2,217**
Free cash flow	**-16,677**	**7,282**

in thousands of Dinar	2006,	2007, (uaudited)	% Change
Total income			
Total expences			
Profit from operations	**34,368**	**46,297**	**35%**
Income taxes	**637**	**3,933**	**517%**
Deferred Income Tax expense	**4,282**	**9,286**	**117%**
Deferred Income Tax benefit	**4,466**	**9,224**	**107%**

Ratio	2006	2007
EBIT	4,275	11,356
EBIT(1-T)/Total revenue	**9,65%**	**16,83%**
EBITDA/Total revenue	14,23%	21,80%
Total revenue/(Net F,Assets+ NWC+cash)	32,88%	46,53%
Return on Capital Employed	3,69%	7,07%
Net assets/Equity	1,00	1,11
Net income/Total revenue = NPM	**11,21%**	**15,19%**
Return on Equity (ROE)	**3,69%**	**7,05%**

VII. JOINT PROJECTS WITH THE LOCAL COMMUNITY

Tigar has always actively participated in local projects which, although profit-driven, were 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 the Pirot region:

- Dom sportova *(Sports Center)* 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. This project is currently in the early phase of design, planning and obtaining necessary building permits.

- *Agencija “Stara Planina”(The Mt. Stara Planina Agency)* has been established to promote tourism and related development in the Mt. Stara Planina region. A Serbian Tourism Development Program calls for major investment in tourism in the Mt. Stara Planina region, which could positively impact the Company’s hospitality activities.

VIII. 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 ENTIRE GROUP

In the past, Tigar focused its business development efforts primarily on the tire production business, which currently accounts for a substantial majority of Tigar's total sales and profits. Tigar has successfully developed the tire business in cooperation with Michelin. Since the incorporation of the joint-venture company in 2002, the tire segment has considerably increased its production and sales volumes, improved its product mix and, particularly since 2005, improved its bottom line. These developments were mostly a result of investment, development, commercial and industrial support of the partners in the joint venture, particularly of the Michelin Group which is a global leader in the manufacture of tires.

This has allowed Tigar to effectively capitalize on the investment it made in 2002, with the estimated value of its share already increased by several orders of magnitude. In view of global developments in the tire industry, it was reasonable to expect the full integration of Tigar Tyres into the Michelin Group after a certain period, along with a quality exit strategy for Tigar AD. The essence of the strategy was to allow for both intensive growth of Tigar Tyres, which had for many years been Tigar's key business segment, and the use of proceeds from the sale to ensure rapid growth of Tigar's other businesses, which had for many years been subordinate to the tire business in investment, development and human resource areas. The transaction recently approved by the GAS has definitely allowed for the implementation of this strategy.

Tigar's definitive exit from the tire business in 2010 requires a clearly defined strategy for its other business. The key pillars of Tigar's future will be the manufacture of footwear, the manufacture of technical rubber goods (including recycling), the manufacture of chemical products, commercial activities in the country and abroad, and its restructured and upgraded service businesses. To disperse the risk, improve its rating, and secure additional funding, Tigar's plans call for most of these programs to be implemented in collaboration with strategic partners through minority investments wherever possible, but definitely in Tigar's principal businesses.

The activities undertaken in 2007 to ensure a quality exit strategy from the tire business, the restructuring of Tigar's principal businesses, infrastructure activities, negotiations with potential strategic partners, and development of service businesses ensure a fully balanced and equitable development and growth of the group.

2. MANUFACTURING

Relocation and upgrading of existing manufacturing facilities

The relocation of footwear and technical rubber goods businesses, which will include upgrading of the manufacturing equipment aimed at cutting costs and boosting productivity, will considerably improve production processes, product mix, and product quality, and will allow these segments to continue to respond to international market demands. Tigar Footwear is currently operating in a relatively old building, where the space is limited and the layout inadequate. The relocation will be a major contributor to capacity increase. The relocation of Tigar Technical Rubber Goods, which is now sharing a building with Tigar Tyres, will also allow Tigar Tyres to increase its tire manufacturing capacity, which is currently being all but fully utilized.

Tigar also intends to move some of its complementary business to the new location, such as the transportation unit and its fleet of trucks, and the construction unit which supports Tigar's construction projects. When they leave their current inadequate locations, these service businesses will be able to operate more efficiently and the buildings they now occupy can be put to better use.

In summary, the purchase of the new Tigar 3 location was an important business move. It should be a major contributing factor toward higher productivity and cost reduction, especially in footwear and technical rubber goods segments. In 2007, activities in connection with the development of the new location and preparation for relocation proceeded according to plan.

Continuing to seek business ties with international partners

In line with its strategy, Tigar remains open to any legal form that partnerships may require.

The experience gained by Tigar in the tire business clearly shows that strategic partnerships with international financial organizations mean that they provide financial support and consultancy, that their presence is generally temporary, and that their stake can be acquired after a certain period of time. Conversely, partnerships with leading manufacturers generally entail their wish to fully assimilate the business at some future point in time. Based on this experience, Tigar believes that it should seek strategic partnerships with international financial organizations for all businesses in which it has adequate industrial, development and HR capacity, along with different types of business cooperation with off-take and other big partners. In view of everything that was accomplished in 2007, this strategy should be fully implemented in 2008 for all manufacturing businesses. The domestic commercial strategy is the highest possible concentration within the scope of Tigar Trade DSN and Tigar Export-Import, and a strategic alliance of Tigar Trade DSN with an international chain. Service businesses will seek ties with partners in the same lines of business. The development project for these businesses will clearly define if and when a controlling stake will be offered to a potential partner.

Continuing to focus on technical innovation and best possible product mix

In 2007, Tigar Footwear continued its restructuring, manufacturing upgrades, and intensive technological development of existing brand names. In order to design and market several additional globally-recognized footwear brands and increase the visibility of the Tigar brand name, the company introduced several new product lines, including rubber/leather rubber/fabric and rubber/PVC combinations.

Tubing, molded products, pressed products, industrial rubber coating, sporting goods, compounds, and semi-finished products were key product lines on which TTRG focused. This also included the manufacture of products made from recycled rubber, which is, in effect, an expansion of the pressed product line.

TCP concentrated on maintaining and increasing the profitability of its mine conveyer-belt adhesives, road paint, appliance paint, and environmentally-friendly polyurethane flooring. TCP generally targeted local and neighboring markets and made plans for the introduction of new groups of products to bridge the seasonal gap; it also concentrated on becoming established in new major export markets.

In summary, major progress was made in 2007 in the development of new groups of products and in upgrading of existing groups of products. Activities continued in the areas of technical innovation and introduction of new product lines. The major limiting factors were inadequate space and obsolete equipment.

Developing new business opportunities: Recycling

The Serbian government is expected to definitely enact in 2008 a new law governing the environmentally-friendly disposal of scrap tires. In 2007, Tigar AD was closely involved in plans for implementing the legislation, which it views as a positive development for the Serbian market. However, these activities must be considerably intensified in 2008. The entire process is hindered by the fact that the election of a new parliament will certainly defer the enactment of the law until the 4th quarter of 2008. As such, major efforts have to be made to ensure regulation by means of by-laws in the interim.

Upgrading and restructuring of the domestic sales network

In 2007, a large number of infrastructure, restructuring and human resource activities were completed. New automotive service centers were opened in Belgrade and Niš for cars and light utility vehicles, a truck service center was opened in Šimanovci (near Belgrade), another mobile truck service unit was outfitted, preparations were completed for opening a truck and car service center in Temerin, car service centers in Novi Sad and Kragujevac, and mobile truck service units for Niš and the region of Vojvodina. A number of retail outlets were redecorated. New delivery vehicles were purchased, which will be used for direct sales to small-volume buyers (particularly of footwear). Sales teams were set up and trained to support the sales of tires, afterparts, and other groups of products.

Strengthening, development, and market presence

Tigar's commercial subsidiaries in the Balkans operated as conventional wholesalers in 2007; this is not acceptable in the long term. Given that in the mid- to long-term the existence of these companies is unsustainable, they will need to be completely restructured and upgraded in the coming years.

In 2007, Tigar was very active in the UK market. A major development was that Tigar Europe started to sell rubber footwear to this market. Activities in the US market were intensified; this is an exceptionally important market for both sales and purchasing, as well as for new business opportunities.

The achievement of these objectives in 2007 resulted in the following competitive strengths:

Sustained leading position in Serbia and the region;

Considerably upgraded manufacturing capacity as of 2008;

Higher product quality and better positioning of the Tigar brand,

Ability of the group to develop other brands and to purchase an internationally recognized brand or brands;

Synergy of low manufacturing costs and developed technologies;

New strategic alliances;

Availability of funding for the implementation of plans; and

Ensured Liquidity.

IX. ADDITIONAL INFORMATION

1. AUDITORS

Deloitte, 15 Kralja Milana Street, Belgrade are the Company's independent auditors. Deloitte audit annual financial statements of the Company and its subsidiaries, except subsidiaries located abroad and domestic subsidiaries whose performance is not materially significant to the Company's overall performance. Following each fiscal year's audit, the Auditors submit reports in both Serbian and English.

Auditors' opinion concerning fiscal year 2006 is attached to this Annual Report and constitutes its integral part. The FY 2007 opinion will follow shortly.

TIGAR AD	TIGAR AD
Dragan Nikolić	Jelena Petković
Executive Board Chairman	Executive Director for Corporate Management Support