

*This is English translation of the Report  
originally issued in Serbian language  
(For management purposes only)*

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE SHAREHOLDERS' OF TIGAR A.D. PIROT**

We were engaged to audit the accompanying financial statements of Tigar a.d. Pirot (hereinafter: the Company), which comprise the balance sheet as at 31 December 2013, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and other accounting regulations in Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

#### **Departure from generally accepted accounting framework**

- a) Inventories as of 31 December 2013 and 31 December 2012 include the amount of RSD 67,895 thousand recognized under the work in progress. This inventory was already consumed in the prior years, but the Company still disclosed them under assets as of 31 December 2013 and 31 December 2012. Based on the above, as of 31 December 2013 the inventories and the retained earnings from the prior years are overstated by RSD 67,895 thousand.
- b) The Company was subject of the tax control covering tax periods from 1 January 2008 to 31 December 2012. Based on this control the tax authorities determined that the Company is liable for additional tax including penalty interest of RSD 41,364 thousand. The Company is preparing to file a complaint against this additional tax and did not create any provision for the additional tax and penalty. We believe that with respect generally accepted accounting principles and concept of prudence, some provision should be created in the financial statements for the year ended 31 December 2013.

#### **Basis for Disclaimer of Opinion**

- c) The financial statements of the Company for the year ended 31 December 2012 were audited by another auditor who issued qualified opinion on those financial statements on 6 September 2013 with respect to impairment of property, plant and equipment, appropriateness of valuation of investment property, impairment of inventories and impairment of intercompany receivables. Due to significance of limitations in respect of opening balances that enter into determination of the results for the year ended 31 December 2013 we were unable to assure ourselves as to the potential impact on the comparative financial information and the corresponding effect on the income statement, statement of changes in equity and cash flow statement for the year ended 31 December 2013.

- d) As of 31 December 2013 total property, plant and equipment amounted to RSD 1,113,858 thousand (31 December 2012: RSD 1,152,377 thousand). However, the Company did not perform analysis of whether the carrying value of its property, plant and equipment exceeds its recoverable amount as of these dates, although considering that the Company has significant current and accumulated losses, there is an indication that these assets are impaired.

Moreover, as of 31 December 2013 the property, plant and equipment include the amount of RSD 109,000 thousand of construction in progress relating to the capitalized salary costs. We were not provided with the sufficient audit evidence that the capitalized amount meet the requirements of IAS 16 - Property, plant and equipment.

Due to the matters described above, we were unable to assure ourselves that the carrying value of the property, plant and equipment as of 31 December 2013 and 31 December 2012 is free of the material misstatement.

- e) As of 31 December 2013 total investment property amounted to RSD 395,695 thousand (31 December 2012: RSD 455,444 thousand). Based on the Company's accounting policies the investment property is carried at fair value. However, as of 31 December 2013 and 31 December 2012 the Company did not perform reassessment of fair value of its investment property. Moreover, we were unable to assure ourselves that the methodology used in the most recent valuations performed in June 2012 and May 2013 was in accordance with requirements of IAS 40 - Investment Property. As a result, we were unable to assure ourselves whether the investment property as of 31 December 2013 and 31 December 2012 is fairly stated.
- f) As of 31 December 2013 total inventories amounted to RSD 621,303 thousand (31 December 2012: RSD 644,714 thousand). This amount includes balance of RSD 55,711 thousand relating to the slow-moving inventories. Owing to the lack of proper analysis of these inventories, we were unable to assure ourselves as to the possible impact of unrecognized inventory provision as of 31 December 2013 and 31 December 2012.
- g) As of 31 December 2013 investments in subsidiaries amount to RSD 868,220 thousand (31 December 2012: RSD 1,315,364 thousand). Although most of the subsidiaries have significant liquidity issues and accumulated operational losses, the Company did not provide us with the analysis of recoverable amount of its investments as of 31 December 2013 and 31 December 2012.
- h) As of 31 December 2013 total receivables from related parties amounted to RSD 2,010,996 thousand (31 December 2012: RSD 1,850,870 thousand). The Company did not assess recoverability of these receivables and made no provision against them, as of these dates, although the related parties have significant liquidity issues and accumulated operational losses. Considering the absence of the recoverability analysis we were unable to assure ourselves that the receivables from related parties are stated fairly as of 31 December 2013 and 31 December 2012.

### **Disclaimer of Opinion**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

### **Emphasis of matter**

Without issuing an opinion, we draw attention to the note 2.2. to the financial statements. The Company realized net loss amounting to RSD 824,810 thousand for the year ended 31 December 2013. Moreover, current liabilities exceed current assets reported as at 31 December 2013 by RSD 1,577,227 thousand. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. However, the Company is currently in the process of restructuring its debts and consolidating its business. Accordingly, the financial statements are prepared in accordance with going concern principle.

### **Report on Other Legal and Regulatory Requirements**

We have reviewed the annual business report of the Company. Management is responsible for the preparation of the annual business report in accordance with the legal requirements of the Republic of Serbia. Our responsibility is to assess whether the annual business report is consistent with the annual financial statements for the same financial year. Our work regarding the annual business report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual financial statements and did not include reviewing other information contained in the annual business report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual business report is consistent, in all material respects, with the financial statements of the Company for the year ended 31 December 2013.

Belgrade, 29 May 2014