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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 consolidated financial statements of Tigar a.d. Pirot and its subsidiaries (hereinafter: the Group), which comprise the consolidated balance sheet as at 31 December 2013, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 Group 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 Group has loans towards a bank whereas the balance of RSD 300,936 thousand (2012: RSD 497,518 thousand) was disclosed under non-current liabilities while the balance of RSD 501,559 thousand was presented under current liabilities as of 31 December 2013 (2012: RSD 298,511 thousand). However, it was not in compliance with some of the loan covenants as of 31 December 2013 as well as on 31 December 2012 which is why the bank may ask for the early repayment of loan. Accordingly, non-current liabilities are overstated and current liabilities understated by RSD 300,936 thousand as of 31 December 2013 (31 December 2012 by RSD 497,518 thousand).

c) The parent 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 parent company is liable for additional tax including penalty interest of RSD 41,364 thousand. The parent 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 consolidated financial statements for the year ended 31 December 2013.

PIB: 101824091 ▸ Matični broj: 17155270 ▸ Upisan i unet osnovni kapital: 15.075,01 EUR
Registarski broj 47839 kod Agencije za privredne registre
Poslovni račun 160-0000000399176-13 kod Banca Intesa a.d. Beograd

Basis for Disclaimer of Opinion

d) The consolidated financial statements of the Group 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 intangible assets, impairment of property, plant and equipment, appropriateness of valuation of investment property, impairment of inventories and compliance with loan covenants. 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 consolidated income statement, consolidated statement of equity and consolidated cash flow statement for the year ended 31 December 2013.

e) As of 31 December 2013, the Group presented within its intangible assets capitalized development costs of RSD 584,564 thousand (31 December 2012: RSD 633,086 thousand). Owing to the fact that we were not provided with the documentation and further analysis on how these intangible assets will generate probable future economic benefits we were unable to assure ourselves whether the criteria for capitalization of development cost was met at initial recognition. Moreover, considering that the Group has significant current and accumulated losses, there is an indication that its intangible assets are impaired as of 31 December 2013 and 31 December 2012. However, the Group did not perform an analysis of whether its intangible assets are carried at the value exceeding its recoverable amount, in line with requirements of IAS 36 – Impairment of Assets. As a result, we were unable to assure ourselves whether the carrying value of intangible assets is free of material misstatement as of 31 December 2013 and 31 December 2012.

f) As of 31 December 2013 total property, plant and equipment amounted to RSD 4,319,233 thousand (31 December 2012: RSD 4,383,580 thousand). However, the Group 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 Group 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.

g) As of 31 December 2013 total investment property amounted to RSD 755,514 thousand (31 December 2012: RSD 815,262 thousand). Based on the Group's accounting policies the investment property is carried at fair value. However, as of 31 December 2013 and 31 December 2012 the Group 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.

h) As of 31 December 2013 total inventories amounted to RSD 1,217,035 thousand (31 December 2012: RSD 1,282,573 thousand). Inventories with no movements over one year period, that were not provided for, amounted to at least RSD 110,000 thousand as of the same date (31 December 2012: at least RSD 105,000 thousand). 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.

i) The Group did not consolidate its wholly owned subsidiary Tigar Americas as of 31 December 2013, because, according to the management representation, it did not have any financial information on this entity.

   We are unable to assess the impact of this matter on the consolidated financial statements.

j) We were not provided with any supporting calculations on foreign exchange translation reserves and non-controlling interest disclosed within shareholders capital at the amount of RSD 85,914 thousand RSD 88,327 thousand, respectively as of 31 December 2013. Accordingly, we were unable to assure ourselves as to the appropriateness of these items and the corresponding effect on retained earnings.

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 2.3. to the consolidated financial statements, the Group realized net loss amounting to RSD 942,479 thousand for the year ended 31 December 2013. Moreover, current liabilities exceed current assets reported as at 31 December 2013 by RSD 3,960,932 thousand. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. However, the Group is currently in the process of restructuring its debts and consolidating its business. Accordingly, the consolidated 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 Group. 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 consolidated 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 consolidated 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 consolidated financial statements of the Group for the year ended 31 December 2013.

Belgrade, 29 May 2014