JOINT STOCK COMPANY „TIGAR“

PIROT

REPORT

ON THE CONDUCTED AUDIT OF FINANCIAL STATEMENTS FOR THE YEAR 2015

Belgrade, May 20th, 2016

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PIROT

REPORT

ON THE CONDUCTED AUDIT OF FINANCIAL STATEMENTS FOR THE YEAR 2015

CONTENT

Audit and Consulting company STANIŠIĆ AUDIT, LLC
32 Danijelova St, Phone: (011) 3093211; 3093212, 3093-213; FAX: 3093-214

INDEPENDENT AUDITOR'S REPORT (follow-up)

TO THE SHAREHOLDERS OF THE JOINT STOCK COMPANY "TIGAR", PIROT

We have audited the accompanying financial statements of the joint stock company "TIGAR"Pirot (further referred to as: the Company) which comprise the balance sheet as of December 31, 2015, the income statement, cash flow statement and statement of changes in owners' equity for the year then ended, as well as the summary of the significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management of the Company is responsible for preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards, as well as for such internal control that management determines as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the International Standards on Auditing and Law of Accounting and Auditing of the Republic of Serbia. These standards require that we comply with ethical requirements and plan and perform the audit in such a way as to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluation of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Basis for Qualified Opinion

The financial statements of the Company for the financial year ended on December 31, 2014 were examined by another auditor who has issued his qualified opinion for the given financial statements, on June 12, 2015, in terms of impairment of receivables from related parties, value of equity of subsidiary entities, impairment of inventories and disclosed effects of impairment of investments. Due to significant limitations in terms of opening balance sheets for the financial year ended on December 31, 2015, we were not able to identify the potential effects on comparative financial information and the suitable effects on Income Statement, Statement of Changes in Equity, and Cash Flows Statement for the financial year ended on December 31, 2015.

Basis for Qualified Audit Opinion (continuation)

- The Company has stated intangible assets in the amount of 268,544 thousand RSD on December 31, 2015. Within intangible assets, the Company has also stated capitalized costs of development. Based on the disclosed documentation, we were not able to determine whether the criterion for capitalization of development costs was met at the moment of initial recognition, either using audit or alternative methods. We were not provided with the analysis on how and when these intangible assets would generate future economic benefits.
  Even though the Company has performed impairments in the net amount of 184.973 thousand RSD (on December 31, 2014 in the net amount of 105.250 thousand RSD, on December 31, 2015 in the net amount of 79.723 thousand RSD) there is an indication that intangible assets were stated in the amount exceeding the recoverable amount, which is contrary to the IAS 36- Impairment of Assets.
  Considering that the Company has significant current and accumulated losses, it is necessary to perform the analysis for further impairment of intangible assets.

- Total receivables arising from transactions with related parties amounted to 366.521 thousand RSD, i.e. 72, 96% of sales receivables, on December 31, 2015. Receivables from related parties that were not collected within 180 days of the due date amounted to 169.659 thousand RSD. The Company did not estimate collectability of these account receivables nor entered impairment of receivables on the balance sheet date, despite the fact that related parties have significant liquidity issues and accumulated business losses. Considering the lack of recoverability analysis, we were not able to determine whether the receivables from related parties on December 31, 2015, were disclosed fairly and objectively, as well as whether it is necessary to include impairments in the Income Statement for the year 2015.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF THE JOINT STOCK COMPANY "TIGAR", PIROT

Basis for Qualified Audit Opinion (continuation)

- The Company stated total inventories in the amount of 1.027.400 thousand RSD as of December 31, 2015. The given amount includes inventories with slow turnover - inventories without fluctuations during the period exceeding a year, in the amount of 237.210 thousand RSD, for which the Company provided no appropriate impairment analysis. Because of that, we were not able to determine potential effects on non-deductible impairments of inventories, on December 31, 2015, on income statement and accumulated losses.

Qualified Opinion

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion*, financial statements present fairly give a true and fair view of all significant material aspects of the financial position of the joint stock company "TIGAR" ,Pirot on December 31, 2015, as well as its financial performance and cash flows for the year ended on that day in accordance with the International Financial Reporting Standards of the Republic of Serbia.

We draw attention to the following matters:

As stated within Note 5 to the financial statements, as of September 11, 2015, production entities "Tigar Footwear Ltd", "Tigar Technical goods Ltd" and "Tigar Chemical Products Ltd" merged with the parent entity , joint stock company "Tigar". The data stated as of December 31st 2015 are not comparable to the data stated for the period January-December 2014 (balance sheet), i.e. are not comparable to the data stated for the period January-December 2014 (income statement).

Going Concern Principle

As stated within Note 2.2 to the financial statements, the Company has a net loss of 264.355 thousand RSD for the year which ended on December 31st 2015.
Short-term liabilities of the company are less than its current assets, stated on December 31, 2015, for 371.704 thousand RSD. The company has a problem with the solvency (net cash outflow). The ratio of total debt to equity is negative. The loss over the equity value is 2.522.769 thousand RSD.
This situation implies that there is a materially significant uncertainty which may cause a consistent doubt over the Company's potential to keep on operating.

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Going Concern Principle

On June 1, 2015, PPRP of the joint stock company "Tigar", Pirot became effective and the company initiated with the conduction of activities related to the pre-pack reorganization plan. On August 06, 2015, the Company decided to enact the Law on the acquisition of dependent equities - "TigarFootwear Ltd", "TigarTechnical goods Ltd" and "TigarChemical Products Ltd(transferees), to the parent company (acquirer) "Tigar" Pirot. September 11, 2015 is taken as the date of status change.

Pursuant to the adopted PPRP of the joint stock company "Tigar", Pirot, all the liabilities were harmonized up to June 16^{th} 2015. Short-term loans and accompanying interest rates have been converted into long-term loans in which the new principal of the loan is expressed in Euros i.e. EUR currency clause.

In 2015, The Company continuously worked on the implementation of measures envisaged by the business and financial consolidation plan., enacted in December 2013 as a measure envisaged by PPRP. The aim was to stabilize the business operation of the company, to provide continuous growth of production and sales along with the maximum reduction of costs and their rationalization.
The Company worked intensively on restructuring Tigar Group with the aim of creating a more efficient business system.

The Company has officially entered into the debt restructuring process pursuant to the plans enacted by the creditors. The consolidation of the Company's business operations is ongoing. Financial reports were composed in accordance with the going concern principle.

Mortgages and pledges

As disclosed in Note 37 to financial statements and Note 4.2 of the Annual report, mortgage in a form of loans for construction buildings and Company lien on the goods was determined as collateral.

As disclosed in Note 37 to financial statements, lien on goods was established as collateral for loans and liabilities from operations in the amount of 798.813.219,45 RSD.

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Legal disputes

As disclosed in Note 38 to financial statements, the Company is involved in several disputes regarding commercial and labour matter, as a defendant, whose value amounts to about 20.000 thousand RSD, and the outcome of those disputes is uncertain.

Besides that, the Company is involved in labour disputes, as a defendant, whose value can not be determined.

On December 31, 2015, the Company did not make provisions for litigations. The management of the Company believes that the outcome of such litigations would be favourable and that the Company will not face any materially significant consequences.

Also, the Company is involved in several disputes, as a prosecutor, and the estimated value of such disputes is 27.678 thousand RSD.

There are effective court rulings for such disputes, but the collection has not been made.

Our opinion is not qualified in respect of this matter.

Other issues

The Company is responsible for the composition of the Annual Report, pursuant to the requirement of Law on Accounting of the RS (the Official Gazette of the Republic of Serbia No 61/2013). It is our responsibility to express opinion on adjustment of the annual report on business operations with financial statements for the year 2015. With reference to that, we act in full accordance with the International Standard on Auditing (ISA) 720, "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements" , and we are limited to the assessment of financial statements compliance with the annual report on business operations.

In our opinion, the annual report is compliant with the audited financial statements.

In Belgrade,
May 20, 2016.

Certified auditor

Zorica Dimitrijević
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