

**JOINT STOCK COMPANY "TIGAR"
PIROT**

**REPORT
ON THE CONDUCTED AUDIT OF
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR 2016**

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PIROT**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the submitted consolidated financial statements of Joint Stock Company "Tigar" Pirot (hereinafter: the Group) which comprise the consolidated balance sheet, as of December 31, 2016, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year ended on that day, as well as the summary of the significant accounting policies and the notes to the consolidated financial statements.

Management's Responsibility

The management of the Group is responsible for preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards and regulations of the Republic of Serbia, as well as for the internal controls, which the management determines as necessary for preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We have conducted our audit in accordance with the International Standards on Auditing and the Law on Accounting and Auditing of the Republic of Serbia. Due to the significance of the issues presented in the paragraph Basis for Disclaimer of Opinion, we were not able to obtain sufficient appropriate audit evidence to provide a basis for our audit opinion.

Basis for Disclaimer of Opinion

- On December 31, 2016, the Group recorded intangible assets in the amount of RSD 199,364 thousand (AOP 0004). Within the position of intangible assets, the Parent Company recorded the capitalized development costs. From the presented documentation, we were not able, neither by auditing nor alternative methods, to make sure whether the criteria for the capitalization of development costs at the time of initial recognition was fulfilled. We were not provided with an analysis of how and in what period these intangible assets will generate probable future economic benefits.

Although at the Group level, the depreciation in the total amount of RSD 345,323 thousand (on December 31, 2014, in the net amount of RSD 242,952 thousand, on December 31, 2015, in the net amount of RSD 79,723 thousand and on December 31, 2016, in the net amount of RSD 22,648 thousand) was performed, there is an indication that the intangible assets were recorded in business books of the Parent Company at a value higher than their recoverable amount, which would be contrary to the requirements of IAS 36 - Impairment of assets.

In consideration of the above, it is necessary that the Parent Company continues to work on additional analyses of the value of intangible assets, i.e. to further depreciate the intangible assets to reduce it to recoverable value, since the group has significant current and accumulated losses.



INDEPENDENT AUDITOR'S REPORT (continued)

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

Basis for Disclaimer of Opinion (continued)

- On December 31, 2016, the total inventories of the Group amounted to RSD 1,073,381 thousand (AOP 0045, AOP 0046, AOP 0047 and AOP 0048). Inventories that had no movement for a period longer than one year, for which value adjustment was not carried out, amounted to at least RSD 277,154 thousand on that day. Due to lack of proper analysis of these inventories, we were not able to confirm the potential impact of unrecognized value adjustment of inventories, as of December 31, 2016, and the effects on the consolidated income statement and the consolidated accumulated losses.
- On December 31, 2016, the Group did not consolidate data of the subsidiary "Tigar Americas", Florida, USA, in which the Joint Stock Company "Tigar" owns 100% of the share capital, due to the lack of communication and financial information from this subsidiary.

Due to the lack of financial statements for this entity, in the current, as in the previous years, we were not able to assess the impact of these facts on the consolidated financial statements.

Disclaimer of Opinion

Due to the significance of the issues described in the paragraph Basis for Disclaimer of Opinion, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements of the Group of Joint Stock Company "Tigar" Pirot on December 31, 2016.

Emphasis of Matter

Going Concern Principle

As disclosed in the Note 2.3. of the consolidated financial statements, the Group incurred a net loss in the amount of RSD 399,316 thousand for the year ended on December 31, 2016.

On December 31, 2016, the Group's short-term liabilities exceeded its current assets for RSD 40,746 thousand.

The Group has problems with liquidity (net cash outflow).

The total debt to equity ratio is negative.

The loss above equity is incurred in the amount of RSD 1,956,631 thousand.

The aforementioned facts point to the existence of a material uncertainty, which raise doubt whether the Group will be able to continue operations in terms of the stipulations ISA 570 - Going concern and be able to realize its assets and settle the liabilities in the normal course of business.



INDEPENDENT AUDITOR'S REPORT (continued)

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

Going Concern Principle (continued)

In order to stabilize operations, the following measures were taken at the Parent Company level:

- At the Extraordinary General Meeting of Shareholders held on April 14, 2014, the Decision was reached on submitting a proposal for initiating bankruptcy reorganization proceedings, with the Pre-pack Reorganization Plan (PPRP).

- On June 1, 2015, PPRP of Joint Stock Company "Tigar" became effective and the Company initiated implementation of the Pre-pack Reorganization Plan. In relation to this, on August 6, 2015, the decisions were reached to adopt the Subsidiary Merger Agreements for "Tigar Footwear Ltd", "Tigar Technical Rubber Ltd" and "Tigar Chemical Products Ltd ", as the Transferors, to Joint Stock Company "Tigar", as the Transferee company. The date of the status change and the merger is September 11, 2015.

- Pursuant to the adopted PPRP of Joint Stock Company "Tigar", all the liabilities were harmonized up to June 16, 2015. Short-term loans and associated interest payments were converted into long-term loans, with the new principal of the loan denominated in EUR, with repayment period of 7 years (2 years grace period, when only interest is repayable + 5 years of interest and principal repayment).

- On February 25, 2016, the Agreement was concluded on the merger of the subsidiary "Tigar Tours Ltd" as the Transferor company, to Joint Stock Company "Tigar", as the Transferee company. The date of the status change and the merger is April 22, 2016.

- The Company, in the course of 2016, actively implemented the measures stipulated in the Plan of Business and Financial Consolidation, as well as the measures stipulated by PPRP. The aim of the Business and Financial Consolidation Plan is stabilization of operations, continued growth in production and sales with the maximum reduction of costs and their rationalization.

In early 2016, at the Parent Company level, the possibility of problems in the settlement of liabilities in accordance with the PPRP was identified and the Creditors' Committee, as well as other major creditors were immediately informed. The causes of the problems are explained in detail in the New Repayment Plan document, which was distributed to all the major creditors.

The opinion of the majority of creditors was that it was necessary to wait for the State decision, i.e. the state creditors' way to solve the problem.

Based on the measures defined by PPRP on September 13, 2016, the Government of the Republic of Serbia adopted the Conclusion where the recommendation is given to creditors with state participation in the capital, to convert their claims into permanent stake in the capital of the Parent Company.

The Creditors accepted the recommendation and made the Decisions through the decision-making bodies.

At the meetings of the Supervisory Board of "Tigar" Pirot, during 2016, the necessary decisions were made in order to implement the conversion process, all in accordance with the enforceable PPRP.

By the end of 2016, in accordance with the Resolution of the Government of the Republic of Serbia, as of September 13, 2016, V and VI issue of ordinary shares was released and the Parent Company capital increased. In the same period, the release of VII and VIII issue of ordinary shares also began, but the official capital increase in the Serbian Business Registers Agency was recorded in the first quarter of 2017, as follows:



INDEPENDENT AUDITOR'S REPORT (continued)

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

Going Concern Principle (continued)

- The bank Poštanska štedionica Belgrade, has converted its claims into share capital of the Parent Company. The share subscription was carried out in the Central Securities Depository on December 30, 2016, based on the Decision of the Business Registers Agency, BD 1532/2017 as of January 12, 2017, and the capital increase of the Parent Company was recorded based on the VII issue of shares.

- Deposit Insurance Agency Belgrade, the Development Fund of the Republic of Serbia, Ministry of Finance, Tax Administration and the City of Pirot converted their claims into equity of the Parent Company, according to the decision of the Business Registers Agency, BD 17227/2017, as of March 7, 2017, which caused the Company capital increase based on the VIII issue of shares.

After the adoption of the conclusion of the Government of the Republic of Serbia, as of September 13, 2016, the meetings were held with creditors that were not covered by the Conclusion, with the aim to change the conditions of the PPRP.

Until the day of the audit, the answer to the terms offered was submitted by AIK Bank and DEG, German Investment Bank.

Bearing in mind the above facts, the Group has prepared the accompanying financial statements in accordance with the going concern principle.

Mortgages and pledges

As disclosed in Note 20. to the consolidated financial statements and Note 4.1. of the Annual Report, in order to provide correct and complete settlement of all obligations to commercial banks, as a collateral, for long-term loans, in accordance with the PPRP, mortgages over buildings in several locations throughout the Republic and pledges on equipment were placed.

As disclosed in Note 23. to the consolidated financial statements, on account of proper and complete settlement of all obligations towards commercial banks and other creditors, as collateral for settlement of liabilities from long-term loans and payables, in accordance with the PPRP, the pledge on goods in the amount of RSD 624,162 was placed.

Legal disputes

As disclosed in Note 37. to the consolidated financial statements, the Group is involved in several legal disputes both as a claimant and as a defendant.

The Parent Company is involved in disputes of largest values.

The Parent Company is involved in several commercial and labour disputes where it appears as a defendant, whose value is estimated at the amount of RSD 20,000 thousand, and the outcome of these disputes is uncertain.

Besides that, the Parent Company is involved in labour disputes, whose value cannot be predicted.



PREDUZEĆE ZA REVIZIJU I KONSALTING

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INDEPENDENT AUDITOR'S REPORT (continued)

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

Legal disputes (continued)

The Parent Company did not make provisions for litigations in the books, as of December 31, 2016. The management of the Parent Company believes that the outcome of the litigations will be favourable and that it will not face materially significant consequences.

The Parent Company is involved in several disputes, as the claimant, whose value is estimated at RSD 27.678 thousand.

For all of these disputes, the effective court rulings exists, but the collection has not been carried out.

Our opinion is not qualified in respect of these matters.

Other issues

On April 13, 2017, the Government of the Republic of Serbia adopted the Conclusion 05 No: 023-3255/2017 on the initiative for privatization of the Joint Stock Company "Tigar" Pirot and its subsidiaries "Tigar Incon Ltd", "Tigar Hospitality Ltd", "Tigar Business service Ltd", "Tigar Security Ltd" and "The car trade Ltd".

Report on other legal and regulatory requirements

The Group is responsible for the preparation of the Annual Report on operations, in accordance with the Accounting Law of the Republic of Serbia ("RS Official Gazette" No. 61/2013). Our responsibility is to express an opinion on the compliance of the annual consolidated report with the consolidated financial statements for the year 2016. In this regard, our actions are conducted in accordance with the International Standards on Auditing 720 - the Auditor's Responsibilities Relating to Other Information in Documents which contain financial statements that were audited, and we are limited to the assessment of compliance of the annual report with the financial statements.

In our opinion, the annual consolidated business report is compliant with the audited consolidated financial statements of the Group.

Certified Auditor