

TIGAR A.D., PIROT

Report on Factual Findings

January 22, 2008

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REPORT ON FACTUAL FINDINGS

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REPORT ON FACTUAL FINDINGS

To the Board of Directors and Shareholders of Tigar A.D., Pirot

We have performed the procedures agreed with you and enumerated below relating to the analysis of effects arising on the proposed sale of a portion of property and of equity investments in Tigar Tyres d.o.o., Pirot on the balance sheet of the Tigar a.d., Pirot (the "Company") as of December 31, 2006. Our engagement was undertaken in accordance with the International Standard on Auditing and Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you analyze the effects of the proposed sale transactions on the Company's balance sheet, and the aforementioned procedures are the following:

1. The review of effects of the proposed sale of portion of property, set forth in Appendices 2 and 3, on the Company's balance sheet as of December 31, 2006, as if sale has been consumed and provided that all the relevant payments were collected and liabilities settled by the transaction participants;
2. The review of the effects of the proposed sale of 30% equity investments of Tigar a.d., Pirot in the entity Tigar Tyres d.o.o., Pirot, based on data contained in "Report on Terms of Acquiring and Handling the Assets of Great Value between Tigar a.d., Pirot and Michelin Finance, Holland and Tigar Tyres d.o.o, Pirot" and based on those contained in the document "Key Transaction Terms" (Term Sheet), on the Company's balance sheet as of December 31, 2006, as if the sale has been consumed and provided that all the relevant payments were collected and liabilities of the transaction participants settled in accordance with the planned schedule (Appendix 4).

We report our findings below:

- a) With reference to Item 1, we have reviewed the Company's financial statements for the year 2006, which were, in accordance with the relevant law, audited as well as "Appraisal Report on the Market Value of Construction Land and Infrastructure Buildings of "Tigar 2" complex within Tigar a.d., Pirot Corporation" of the independent appraisers dated November 20, 2007 (excerpt of key data is presented within Appendix 3).

Based on the procedures performed, we inferred that the net book value of the property aimed for sale stated in the Company's books of account amounted to RSD 65,599 thousand, whereas the value of the same property aggregates to RSD 571,394 thousand pursuant to the valuation performed by a certified independent appraiser. Therefore, based on the previously stated fact upon the sale execution, the Company would disclose a decrease within the line item of property, plant and equipment in the balance sheet of RSD 65,599 thousand and record gain of RSD 505,794 thousand from the sale of property before taxes levied on transfer of absolute rights in the amount of RSD 14,285 thousand, and upon the subtraction of these taxes, it would realize the gain on the property sales of RSD 491,510 thousand (Appendix 2). The forgoing effects do not include the effects arising from income tax and deferred tax, due to an absence of projections and final income tax computation.

- b) With reference to Item 2, the proposed sale of 30% equity investments of Tigar a.d., Pirot in Tigar Tyres, d.o.o, Pirot, we have reviewed the balances of these investments as stated in the Company's financial statements for the year 2006, which were subject to an independent audit, as well as amounts stated in the books of accounts after the balance sheet date and reviewed document "Report on Terms of Acquiring and Handling the Assets of Great Value between Tigar a.d., Pirot and Michelin Finance, Holland and Tigar Tyres d.o.o, Pirot" and the document "Key Transaction Terms" (Term Sheet). The resume of the key information contained in these documents used to compute the amounts and quantify the effects thereof on the Company's balance sheet is set out in Appendix 4.

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REPORT ON FACTUAL FINDINGS

To the Board of Directors and Shareholders of Tigar A.D., Pirot (Continued)

Based on the procedures conducted, we concluded that the net book value of equity investments in Tigar Tyres, d.o.o, Pirot stated in the books of account and in the balance sheet of the Tigar a.d., Pirot as of December 31, 2006 amounted to RSD 1,604,307 thousand. For the purposes of the analysis and determining the effects on the accompanying balance sheet, we have considered the changes and effects caused by the sale of an equity investments portion, executed in 2007. The book value of the portion of equity investments sold in the course of 2007 was RSD 630,031 thousand, whereas the amount realized on the sale totaled RSD 743,752 thousand. Therefore, the gain realized by selling that portion of equity investments amounted to RSD 113,721 thousand. The book value of the Company's 30% equity investments held in Tigar Tyres (upon the execution of the aforescribed sales transaction) totals RSD 974,275 thousand. Should the proposed sale of the remaining 30% equity investments be realized in accordance with the terms and schedule set out in the document "Key Transaction Terms," in the Company's balance sheet the following changes would be shown: decrease in equity investments in 2008, 2009 and 2010 of 10% each year, or RSD 324,758 thousand annually, or by the aggregate of RSD 974,275 thousand at the period ended 2010. The Company would realized gain on the equity investments sale of RSD 156,547 thousand, RSD 171,588 thousand and RSD 187,099 thousand, respectively per aforementioned years or a total gain on sale for the period ended 2010 of RSD 515,234 thousand, and upon the subtraction of taxes levied on transfer of absolute rights, the gain realized would amount RSD 510,766 thousand (Appendix 1 and Appendix 4). The aforementioned effects do not account for the future effects of profit distribution, retained earnings and changes in retained earnings that would occur in the operations of Tigar Tyres d.o.o., Pirot, or the effect arising on the income taxes and deferred taxes due to the absence of projections and the final income tax computation.

The financial effects of the proposed transaction related to sale of a portion of property and sale of 30% equity investments in the Tigar Tyres d.o.o., Pirot, on the specific balance sheet item of Tigar a.d., Pirot is presented in Appendix 1.

As the aforementioned procedures do not constitute an audit or review performed in accordance with International Auditing Standards and/or International Standards on Review Engagements, we do not express audit opinion or assurances within the meaning of these standards.

The aforementioned facts, circumstances, assumptions and inferences can be differently interpreted by third parties. Our findings and conclusions are not binding for any such parties and we do not give any assurance that such parties would come to the same conclusions.

Our report is intended solely for the purposes set forth in the first paragraph of this Report and for your information, and therefore, is not to be used for any other purpose or made available to any other party. This Report relates only to the abovedescribed analyses of the impact and effects on the Company's balance sheet items and values stated therein as of December 31, 2006, as if proposed transaction is effected, exclusive of the effects of changes in foreign currency exchange rates for the period following the exchange rate date as specified in the document "Key Transaction Terms" (that was used in the calculation), the future effects of profit distribution, retained earnings and changes in retained earnings that would occur in the operations of Tigar Tyres d.o.o., Pirot, as well as effects of income tax and deferred taxes for any period subsequent to December 31, 2006, and does not extend to the Company's financial statements taken as a whole, which are to be prepared upon the aforementioned date.

Belgrade, January 22, 2008

Gordana Radić Đorđević
Certified Auditor

Appendix 1

The financial effects of the proposed sale of portion of property and sale of 30% equity investments in Tigar Tyres d.o.o., Pirot on the balance sheet items o Tigar aa.d., Pirot

BALANCE SHEET OF TIGAR A.D., PIROT
(Thousands of Dinars)

	December 31,	Effects of Equity Investments Sale	Effects of Proposed Sale of Property	Effects of Proposed Equity Investments Sale 2008- 2010	Balance upon Realized Transactions
	2006	Executed in 2007			
ASSETS					
Non-current assets					
Intangible assets	2,987	-	-	-	2,987
Property, plant and equipment	397,167	-	(65,599)	-	331,568
Equity investments	2,522,304	(630,031)	-	(974,275)	917,998
Other long-term financial placements	57,054	-	-	-	57,054
	<u>2,979,512</u>	<u>(630,031)</u>	<u>(65,599)</u>	<u>(974,275)</u>	<u>1,309,607</u>
Working assets					
Inventories	13,269	-	-	-	13,269
Non-current assets held for sale	9,113	-	-	-	9,113
Receivables	384,245	-	-	-	384,245
Short-term financial placements	36,265	-	-	-	36,265
Cash and cash equivalents	3,892	743,752	557,109	1,485,040	2,789,793
Value added tax and prepayments	2,974	-	-	-	2,974
	<u>449,758</u>	<u>743,752</u>	<u>557,109</u>	<u>1,485,040</u>	<u>3,235,659</u>
Deferred tax assets	<u>3,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,450</u>
Total assets	<u>3,432,720</u>	<u>113,721</u>	<u>491,510</u>	<u>510,765</u>	<u>4,548,716</u>
Equity and liabilities					
Equity					
Share and other capital	2,062,152	-	-	-	2,062,152
Reserves	547,510	-	-	-	547,510
Retained earnings	73,925	113,721	491,510	510,765	1,189,921
	<u>2,683,587</u>	<u>113,721</u>	<u>491,510</u>	<u>510,765</u>	<u>3,799,583</u>
Long-term provisions and liabilities					
Long-term provisions	4,333	-	-	-	4,333
Long-term liabilities	233,315	-	-	-	233,315
	<u>237,648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>237,648</u>
Current liabilities					
Short-term financial liabilities	392,756	-	-	-	392,756
Accounts payable	67,593	-	-	-	67,593
Other current liabilities and accruals	48,562	-	-	-	48,562
Value added tax and other duties payable	2,375	-	-	-	2,375
Income tax liabilities	199	-	-	-	199
	<u>511,485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>511,485</u>
Total equity and liabilities	<u>3,432,720</u>	<u>113,721</u>	<u>491,510</u>	<u>510,765</u>	<u>4,548,716</u>

The financial effects of the proposed sales transaction related to a portion of construction land and infrastructure buildings within “Tigar 2,”
Piroć complex.

In RSD

Manner of Use	Building Area and Length	Value Appraised in RSD	Value Appraised in EUR	Net Book Value (RSD)	Net Book Value (EUR)
Land lot 3390/1 in T2 complex - m2	158,274	123,793,692.55	1,582,740.00	60,208,475.46	769,783.67
Underground infrastructure - m	41,300	217,601,395.08	2,782,100.00	0.00	0.00
Low-building structures - m2	73,000	229,998,440.88	2,940,600.00	5,390,556.76	68,919.91
TOTAL:		571,393,528.51	7,305,440.00	65,599,032.22	838,703.57

Total property sales value		571,393,528.51
Taxes on absolute rights transfer	2.5%	14,284,838.21
		557,108,690.00
Gains on property sales - gross		505,794,496.29
Gains on property sales - net		491,509,658.08

Note:

Data on net book value of property as of December 31, 2007 are taken from the Company analytical records of fixed assets.

Data on appraised property value are taken from Independent Appraisal Report on Fair Value

APPENDIX 3

Excerpt from the Independent Appraiser's Report on the appraised market value of infrastructure buildings within “Tigar 2,” Pirot complex.

	Value Appraied in RSD	Value appraised in EUR
Construction land	123,793,692,55	1,582,740,00
Underground infrastructure	217,601,395,08	2,782,100,00
Low-building structures	229,998,440,88	2,940,600,00
Total	571,393,528,51	7,305,440,00

Calculation of effects of the proposed equity investments sale based on data contained in “Report on Terms of Acquiring and Handling the Assets of Great Value between Tigar a.d., Pirot and Michelin Finance, Holland and Tigar Tyres d.o.o, Pirot” and “Key Transaction Terms ” (Term Sheet).

Capital -Value as per books of account at the year 2007 end

Amount in RSD	4,375,506,605	<i>RSD/EUR exchange rate</i>	80.0313
Amount in EUR	54,672,442		

Calculated of an expected yield rate

<i>Euro 3y treasury benchmark</i>	3.75%	21-Nov-07
<i>Country risk premium vs treasuries</i>	2.00%	Source: the National Bank of Serbia
<i>Michelin spread</i>	0.50%	
Euro Tigar Tyres syntetic 3 year rate	<u>6.25%</u>	
Rate used for capital adjustments	<u>3.125%</u>	

Calculation of financial effects of equity interest sale per year, based on the terms proposed

	<i>Price for 100 % shares (V)</i>	<i>Amount percieved by Tigar a.d., and assuming call on 10% each year</i>	<i>In RSD</i>	<i>Balance</i>	<i>Book Value</i>	<i>Gain on Sale</i>	<i>Taxes</i>
2007				<u>974,275,340</u>			
2008	54,672,442 €	6,013,969 €	481,305,727	649,516,893	324,758,447	156,547,280	0.30% (1,443,917)
2009	56,380,956 €	6,201,905 €	496,346,531	324,758,447	324,758,447	171,588,084	0.30% (1,489,040)
2010	58,142,861 €	6,395,715 €	511,857,360	0	324,758,447	187,098,913	0.30% (1,535,572)
		<u>18,611,588 €</u>	<u>1,489,509,617</u>		<u>974,275,340</u>	<u>515,234,277</u>	<u>(4,468,529)</u>
Equity investments, balance at December 31, 2006				1,604,306,726			
Book value of a portion of equity investmenst sold in 2007				<u>630,031,386</u>			
Value of equity investmenst upon sales executed in 2007- available for sale					<u>974,275,340</u>		
Price realized in sale of a portion of equity investments in 2007					743,752,414		
Gains on sales of equity investments realized in 2007						113,721,028	