

Pfleiderer Grajewo S.A. Group

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2012**

The opinion contains 3 pages
The supplementary report contains 11 pages
Opinion of the independent auditor
and supplementary report on the audit
of the consolidated financial statements
for the financial year ended
31 December 2012



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OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Pfeiderer Grajewo S.A.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is Pfeiderer Grajewo S.A. with its registered office in Grajewo, ul. Wiórowa 1 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility for the Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities. Management of the Parent Entity is also responsible 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.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act, National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements of Pfeiderer Grajewo S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2012 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Specific Comments on Other Legal and Regulatory Requirements*Report on the Group's Activities*

As required under the Accounting Act, we report that the report on the Pfeleiderer Grajewo S.A. Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259 with amendments) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Chłodna 51, 00-867 Warsaw

Signed on the Polish original

.....
Miroslaw Matusik
Key Certified Auditor
Registration No. 90048
Limited Liability Partner with power of attorney

30 April 2013

REPORT OF THE INDEPENDENT AUDITOR



TRANSLATION

Pfleiderer Grajewo S.A. Group

**Supplementary report
on the audit of the
consolidated financial
statements**

**Financial Year ended
31 December 2012**

The supplementary report contains 11 pages

The supplementary report on the audit
of the consolidated financial statements
for the financial year ended
31 December 2012

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1. General

1.1 Identification of the Group

1.1.1 Name of the Group

Pfleiderer Grajewo S.A. Group

1.1.2 Registered office of the Parent Company of the Group

ul. Wiórowa 1
19-203 Grajewo

1.1.3 Registration of the Parent Company in the National Court Register

Registration court:	District Court in Białystok, XII Commercial Department of the National Court Register
Date:	9 May 2001
Registration number:	KRS 0000011422
Share capital as at balance sheet date:	PLN 16,375,920.00

1.1.4. Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

As at 31 December 2012, the Management Board of the Parent Company was comprised of the following members:

- | | |
|-----------------------|--------------------------------------|
| • Wojciech Gątkiewicz | – President of the Management Board, |
| • Rafał Karcz | – Member of the Management Board, |
| • Dariusz Tomaszewski | – Member of the Management Board, |
| • Radosław Wierzbicki | – Member of the Management Board. |

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2012, the following companies were consolidated by the Group:

Parent Company:

- Pfleiderer Grajewo S.A.

Subsidiaries consolidated on the full consolidation basis:

- Pfleiderer Prospan S.A.,
- Silekol Sp. z o.o.,
- Pfleiderer MDF Sp. z o.o.,
- Jura Polska Sp. z o.o.,

- Unifloor Sp. z o.o. (w likwidacji),
- Pfleiderer MDF OOO,
- Pfleiderer OOO.

Jointly controlled entities (equity accounted investees):

- Blitz 11-446 GmbH.

1.2.2 Entities excluded from consolidation

As at 31 December 2012, the following subsidiaries of the Group were not consolidated:

- Pfleiderer Services Sp. z o.o.

The entity was excluded from consolidation due to the fact that the result of its operation and financial position were insignificant in relation to that of the Group.

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname: Mirosław Matusik
Registration number: 90048

1.3.2 Audit Firm information

Name: KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office: ul. Chłodna 51, 00-867 Warsaw
Registration number: KRS 0000339379
Registration court: District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number: 527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered into the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.4 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2011 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 29 June 2012.

The consolidated financial statements were submitted to the Registry Court on 18 July 2012 and were published in Monitor Polski B No. 2540 on 17 October 2012.

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting of Pfleiderer Grajewo S.A. with its registered office in Grajewo, ul. Wiórowa 1 and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

The consolidated financial statements have been audited in accordance with the contract dated 3 October 2012, concluded on the basis of the resolution of the General Meeting dated 23 June 2010 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330) ("the Accounting Act"), National Standards on Auditing issued by the National Council of Certified Auditors, and International Standards on Auditing.

We audited the consolidated financial statements at the Group entities during the period from 26 to 30 November 2012 and from 21 January to 1 February 2013 and additional procedures has been performed outside the Parent Company's head office in the later period.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the financial statements.

The Management Board of the Parent Company submitted a statement, dated as at the same date as this report, as to the true and fair presentation of the accompanying consolidated financial statements, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and Their Self-Government, Audit Firms and Public Oversight dated 7 May 2009 (Official Journal from 2009, No. 77, item 649 with amendments).

1.6 Information on audits of the financial statements of the consolidated companies

1.6.1 Parent Company

The separate financial statements of the Parent Company for the year ended 31 December 2012 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k., certified auditor number 3546, and received an unqualified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Pfleiderer Prospan S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k, Warsaw	31 December 2012	unqualified audit opinion
Pfleiderer OOO	ZAO KPMG, St. Petersburg, Russia	31 December 2012	unqualified audit opinion
Silekol Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k, Warsaw	31 December 2012	unqualified audit opinion
Pfleiderer MDF Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k, Warsaw	31 December 2012	unqualified audit opinion
Jura Polska Sp. z o.o.	Firma Audytorsko-Konsultingowa B.O. Biegły Rewident Stanisława Perkowska	31 December 2012	unqualified audit opinion
Unifloor Sp. z o.o. (w likwidacji)	not audited	31 December 2012	not audited
Pfleiderer MDF OOO	not audited	31 December 2012	not audited
Blitz 11-446 GmbH	not audited	31 December 2012	not audited

2 Financial analysis of the Group

2.1 Summary analysis of the consolidated financial statements

2.1.1 Consolidated statement of financial position

ASSETS	31.12.2012 PLN '000	% of total	31.12.2011 PLN '000	% of total
Non-current assets				
Property, plant and equipment	583,660	32.3	1,153,850	59.6
Intangible assets	2,218	0.1	2,539	0.2
Goodwill	107,829	6.0	107,829	5.6
Investments in subsidiaries	117	-	117	-
Other long-term investments	10	-	10	-
Investment property	4,300	0.2	4,300	0.2
Deferred tax assets	12,184	0.7	13,447	0.7
Advances paid on fixed assets	5,426	0.3	207,697	10.7
Government grant receivables	14,443	0.8	27,165	1.4
Total non-current assets	730,187	40.4	1,516,954	78.4
Current assets				
Inventories	174,803	9.7	241,830	12.5
Income tax receivable	261	-	111	-
Trade receivables and other	70,356	3.9	157,489	8.1
Cash and cash equivalents	17,518	1.0	19,586	1.0
Group of asset held for sale or disposal	813,907	45.0	-	-
Total current assets	1,076,845	59.6	419,016	21.6
TOTAL ASSETS	1,807,032	100.0	1,935,970	100.0
EQUITY AND LIABILITIES				
	31.12.2012 PLN '000	% of total	31.12.2011 PLN '000	% of total
Equity				
Share capital	16,376	0.9	16,376	0.8
Share premium	289,806	16.0	289,806	15.0
Reserve capital	195,806	10.9	155,005	8.0
Revaluation reserve	619	-	619	-
Foreign currency differences on translating foreign operation	(14,292)	0.8	(4,839)	0.2
Foreign currency differences on net investments	(3,829)	0.2	4,182	0.2
Retained earnings	42,906	2.4	33,892	1.8
Total equity attributable to equity holders of the parent	527,392	29.2	495,041	25.6
Non-controlling interest	57,773	3.2	71,440	3.7
Total equity	585,165	32.4	566,481	29.3
Liabilities				
Loans and borrowings	182,650	10.1	880,934	45.5
Long-term part of the financial leasing liabilities	-	-	46	-
Employee related payables	7,111	0.4	6,584	0.3
Provisions	739	-	634	-
Deferred tax liabilities	8,245	0.5	12,827	0.7
Deferred income due from government grants	27,233	1.5	40,484	2.1
Total non-current liabilities	225,978	12.5	941,509	48.6
Loans and borrowings	528,448	29.3	137,760	7.1
Short-term part of the financial leasing liabilities	-	-	116	-
Income tax payable	1,136	-	188	-
Trade and other payables	197,112	10.9	266,922	13.8
Provisions	18,736	1.0	21,118	1.1
Liabilities associated with the group of assets held for sale/disposal	249,309	13.8	-	-
Deferred income due from government grants	1,148	0.1	1,876	0.1
Total current liabilities	995,889	55.1	427,980	22.1
Total liabilities	1,221,867	67.6	1,369,489	70.7
TOTAL EQUITY AND LIABILITIES	1,807,032	100.0	1,935,970	100.0

Pfleiderer Grójewo S.A. Group
The supplementary report on the audit of the consolidated financial statements
for the financial year ended 31 December 2012
TRANSLATION

2.1.2 Consolidated statement of comprehensive income

	01.01.2012 - 31.12.2012		01.01.2012 - 31.12.2012		01.01.2011 - 31.12.2011		01.01.2011 - 31.12.2011	
	PLN '000	% of total sales	PLN '000	% of total sales	PLN '000	% of total sales	PLN '000	PLN '000
	Group total		Contributing operations		Group total		Contributing operations	
			Discontinued operations				Discontinued operations	
Revenue	1,789,943	100.0	1,432,282	357,661	1,725,231	100.0	1,405,537	319,694
Cost of sales	(1,431,847)	80.0	(1,204,875)	(226,972)	(1,382,705)	80.1	(1,146,434)	(236,211)
Gross profit on sales	358,096	20.0	227,407	130,689	342,526	19.9	259,043	83,483
Other operating income	19,999	1.1	18,665	1,334	5,511	0.3	3,850	1,661
Distribution expenses	(111,356)	6.2	(96,123)	(15,233)	(106,086)	6.2	(88,684)	(17,402)
General and administrative expenses	(94,139)	5.2	(65,596)	(28,543)	(84,509)	4.9	(56,774)	(27,735)
Other operating expenses	(19,363)	1.1	(7,764)	(11,599)	(21,237)	1.2	(6,165)	(15,072)
Results from operating activities	153,237	8.6	76,589	76,648	136,205	7.9	111,270	24,935
Financial income	5,187	1.8	32,104	-	39,799	2.3	39,799	-
Financial expenses	(102,645)	7.0	90372	(34,382)	(137,257)	7.9	(92,223)	(45,034)
Net financing costs	(97,458)	(5.2)	(58,268)	(34,382)	(97,458)	(5.6)	(52,424)	(45,034)
Profit before tax	55,779	3.1	18,321	42,266	38,747	2.3	58,846	(20,099)
Income tax expense	(24,302)	1.4	1242	(23,660)	(17,012)	1.0	(11,199)	(5,813)
Profit for the period	31,477	2.0	17,079	19,206	21,735	1.3	47,647	(25,912)
OTHER COMPREHENSIVE INCOME								
Foreign currency differences on translating foreign operation	(9,590)	0.5	-	-	11,991	0.7	-	-
Foreign exchange translation differences from net investment	(8,011)	0.5	-	-	19,531	1.1	-	-
Effective portion of changes in fair value of hedging instruments, net of income tax	-	-	-	-	(589)	-	-	-
Other comprehensive income for the period	(17,601)	1.0	30,933	1.8	30,933	1.8	47,647	(25,912)
Total comprehensive income for the period	13,876	1.0	47,012	19,206	52,668	3.1	95,294	(51,824)
Profit attributable to:								
Shareholders of the Company	49,815	2.8	11,779	38,036	33,209	1.9	38,904	(5,695)
Non controlling interests	(13,530)	0.8	5,300	(18,830)	(11,474)	0.7	8,743	(20,217)
Profit	36,285	2.0	17,079	19,206	21,735	1.2	47,647	(25,912)
Total comprehensive income attributable to:								
Shareholders of the Company	32,351	1.8	-	-	62,140	3.6	-	-
Non controlling interests	(13,667)	0.8	-	-	(9,472)	0.5	-	-
Total comprehensive income for the period	18,684	1.0	17,079	19,206	52,668	3.1	47,647	(25,912)
Earnings per share								
Basic earnings per share (PLN)	1.00	-	0.24	0.76	0.67	-	0.78	(0.11)
Diluted earnings per share (PLN)	1.00	-	0.24	0.76	0.67	-	0.78	(0.11)

2.2 Selected financial ratios

	2012	2011	2010
1. Return on sales			
$\frac{\text{net profit} \times 100\%}{\text{net revenues}}$	2.0%	negative value	negative value
2. Return on equity			
$\frac{\text{net profit} \times 100\%}{\text{equity} - \text{net profit}}$	6.6%	negative value	negative value
3. Debtors turnover			
$\frac{\text{average trade receivables (gross)} \times 365 \text{ days}}{\text{net revenues}}$	18 days	32 days	32 days
4. Debt ratio			
$\frac{\text{liabilities} \times 100\%}{\text{equity and liabilities}}$	67.6%	73.2%	73.2%
5. Current ratio			
$\frac{\text{current assets}}{\text{current liabilities}}$	1.1	1.1	1.1

- Revenue includes revenue from sales of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, with no deduction made for allowances.

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Pfleiderer Grajewo S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a capital group by companies other than banks and insurance companies (Official Journal from 2009 r., No 169, item 1327).

3.3 Method of consolidation

The method of consolidation is described in note 6 a) of the notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 6 e) of the notes to the consolidated financial statements.

3.5 Consolidation of equity and calculation of non-controlling interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Pfleiderer Grajewo S.A. and agreed with information received from the subsidiaries.

3.7 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the consolidated financial statements.

3.8 Report of the Management Board of the Parent Company on the Group's activities

The report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259 with amendments) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Chłodna 51, 00-867 Warsaw

Signed on the Polish original

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Miroslaw Matusik
Key Certified Auditor
Registration No. 90048
Limited Liability Partner with power of attorney

30 April 2013