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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Svilosa AD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Svilosa AD ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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 International Financial Reporting Standards as adopted by the European Union, 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.

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 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 principles 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 qualified audit opinion.

Basis for Qualified Opinion

According to IAS 1 “Presentation of Financial Statements” when an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the lender obtains a right to require repayment as result of the breach of the provision included in the agreement, the liability is to be classified as current. In Note 27 (a) to the consolidated financial statements is disclosed that as at 31 December 2012 Svilocell EAD and Svilosa AD (on consolidated basis) have not met financial ratios, included as a provision in the bank agreements with European Bank for Reconstruction and Development (EBRD) and Nordik Investment Bank (NIB). On 14 March 2013 and 19 March 2013 respectively Svilocell EAD and Svilosa AD received letters from EBRD and NIB, by which the banks provided waivers in respect to the financial ratios as at 31 December 2012, included in the loan agreements with the banks. In accordance with the requirements of IAS 1 “Presentation of financial statements” the liability is classified as current even if the lender agreed after the reporting period not to demand repayment as a consequence of the breach. In spite of elimination of the risk of a request for early repayment as a result of the two letters received from the banks, the Company has not complied with the requirements of IAS 1 in preparing the consolidated financial statements as at 31 December 2012, and part of the loans from EBRD and NIB in amount of BGN 31,126 thousand has been presented as non-current in accordance with the agreed repayment schedule.

Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Margarita Goleva
Director

KPMG Bulgaria OOD
Sofia, 25 April 2013



Krassimir Hadjidinev
Registered auditor