DIRECTORS' REPORT

on the operations of Pfleiderer Grajewo S.A. in the period January 1st – June 30th 2011

FINANCIAL HIGHLIGHTS

	PLN '000		EUR '000	
	PLN		EUR	
	Jan 1 - Jun 30 2011	Jan 1 - Jun 30 2010	Jan 1 - Jun 30 2011	Jan 1 - Jun 30 2010
Sales revenue	350,545	283,294	88,359	70,749
Operating profit	12,662	11,468	3,192	2,864
Profit before tax	13,804	51,167	3,479	12,778
Net profit	13,156	43,352	3,316	10,827
Net cash provided by/(used in) operating activities	(13,531)	5,148	(3,411)	1,286
Net cash provided by/(used in) investing activities	6,991	(36,100)	1,762	(9,016)
Net cash provided by/(used in) financing activities	12,142	42,197	3,061	10,538
Total net cash flow	5,602	11,245	1,412	2,808
Basic earnings per share (PLN / EUR)	0.27	0.87	(0.15)	0.22
Diluted earnings per share	0.27	0.87	(0.15)	0.22
PLN/EUR average exchange rate			3.9673	4.004

	PLN '000		EUR '000	
	PLN		EUR	
	Jun 30 2011	Jun 30 2010	Jun 30 2011	Jun 30 2010
Total assets	1,534,053	1,554,018	384,802	374,842
Liabilities	1,035,857	1,027,720	259,835	247,894
Non-current liabilities	497,334	669,402	124,751	161,465
Current liabilities	538,523	358,318	135,083	86,429
Equity	498,196	526,298	124,968	126,947
Share capital	16,376	16,376	4,108	3,950
Number of shares	49,624,000	49,624,000	49,624,000	49,624,000
Book value per share (PLN / EUR)	10.04	10.61	2.52	2.56
Exchange rate as at the reporting date PLN / EUR			3.9866	4.1458

GENERAL INFORMATION

Pfleiderer Grajewo S.A. conducts its business in Grajewo, a town situated in north-eastern Poland.

The Company, under its former name of Zakłady Płyt Wiórowych S.A. of Grajewo, was originally registered on July 1st 1994 by the District Court, Commercial Court of Łomża, in the Commercial Register in Section B under entry No. 270. Subsequently, on May 9th 2001, it was registered by the District Court of Białystok, XII Commercial Division of the National Court Register, under entry No. KRS 0000011422. On September 18th 2002, the Management Board of Pfleiderer Grajewo S.A. received the decision of the District Court of Białystok to enter the Company's new name in the National Court Register. Accordingly, on September 18th 2002, the Company's former name was changed to Pfleiderer Grajewo S.A. Pfleiderer Grajewo S.A. has its registered office at ul. Wiórowa 1, Grajewo, Poland. The Company shares are publicly traded. In accordance with the Polish Classification of Business Activities, Pfleiderer Grajewo S.A. is registered under No. 1621 Z.

Pfleiderer Grajewo S.A.'s business consists in the manufacture and veneering of wood and wood-based products, impregnation of paper, trade in Poland and abroad, provision of industrial services related to the Company's core business, as well as other services based on the Company's resources.

As at the end of reporting period, the Management Board of Pfleiderer Grajewo S.A. was composed of:

1. Wojciech Gątkiewicz - President of the Management Board
2. Rafał Karcz - Member of the Management Board
3. Dariusz Tomaszewski - Member of the Management Board
4. Radosław Wierzbicki - Member of the Management Board

With effect from February 8th 2011, Johann Bitzi, Vice-President of the Management Board, was removed from Pfleiderer Grajewo's Management Board.

As at June 30th 2011, the Supervisory Board of the Company was composed of:

1. Paweł Wyrzykowski - Chairman of the Supervisory Board
2. Hans H. Overdiek - Member of the Supervisory Board
3. Michael Wolff - Member of the Supervisory Board
4. Heiko Greave - Member of the Supervisory Board
5. Jan Woźniak - Member of the Supervisory Board

All duties of an audit committee are performed by the Supervisory Board as a whole.

Pfleiderer Grajewo S.A.'s shareholder structure:

Shareholder structure as at August,17 2011	Number of shares	% of share capital	Number of votes at GM	% of votes at GM
Pfleiderer Service GmbH	32,308,176	65.11%	32,308,176	65.11%
Aviva OFE Aviva BZ WBK	4,928,816	9.93%	4,928,816	9.93%
ING OFE	2,639,144	5.32%	2,639,144	5.32%
Other shareholders	9,747,864,	19.64%	9,747,864,	19.64%
TOTAL	**49,624,000**	**100.00%**	**49,624,000**	**100.00%**

The number of Company shares held by its main shareholder, Pfleiderer Service GmbH, did not change. Pfleiderer Grajewo S.A. is not aware of any other changes in its shareholder structure.

1 Number of Pfleiderer Grajewo shares held by the management staff of Pfleiderer Grajewo S.A.

As at the date of this report, the holdings of the Management Board members were as follows:

- Wojciech Gątkiewiecz, President of the Management Board, held 3,000 shares in Pfleiderer Grajewo S.A.;
- Rafał Karcz, Member of the Management Board, held 3,472 shares in Pfleiderer Grajewo S.A.;
- Dariusz Tomaszewski, Member of the Management Board, held 4,108 shares in Pfleiderer Grajewo S.A.;
- Radosław Wierzbicki, Member of the Management Board, held 2,000 shares in Pfleiderer Grajewo S.A.

Paweł Wyrzykowski, Chairman of the Supervisory Board, held 4,080 shares in the Company. Jan Woźniak, Member of the Supervisory Board, held 10,000 shares in the Company. The other members of the Supervisory Board held no Company shares.

2 Information which in the Company's opinion is relevant for assessing its staffing levels, assets, financial standing and net profit (loss), as well as changes in any of the foregoing, and for assessing the Company's ability to perform its obligations

Financial position of Pfleiderer Grajewo S.A.

The financing structure of the Company's assets is as follows:

	Jun 30 2011 PLN '000	Dec 31 2010 PLN '000
Equity	498,196	484,811
Non-current liabilities	497,334	567,840
Long-term capital (equity + non-current liabilities)	995,529	1,052,651
Current liabilities	538,523	427,486

In H1 2011, Pfleiderer Grajewo S.A. financed its operations chiefly with bank loans and – additionally – with issues of notes acquired by Pfleiderer Prospan S.A and Silekol Sp. z o.o.

As at June 30th 2011, the par value of the Company's debt under notes in issue totalled PLN 287m, while its debt under bank loans and borrowings was PLN 648m (the amount includes the PLN 22m loan obtained from Pfleiderer Service GmbH).

3 Bank loans

On March 16th 2010, Pfleiderer Grajewo S.A. and its subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z.o.o. (the "Subsidiaries") executed a PLN 700,000,000 credit facility agreement with a bank syndicate. The syndicate comprises: Bank PEKAO S.A. as the syndication agent (the "Agent"), Bank Zachodni WBK S.A., BRE Bank S.A., Fortis Bank Polska S.A. and Bank Gospodarki Żywnościowej S.A. (the "Banks").

The credit facility extended to the Company under the agreement is split into two tranches:
- Tranche A amounting to PLN 530,000,000, in the form of a non-revolving loan to be used to repay the outstanding debt owed by the Company and its subsidiaries to the Banks;
- Tranche B amounting to PLN 170,000,000, in the form of a working capital revolving facility to be used to repay the outstanding debt owed by the Company and its subsidiaries to the Banks and to finance the Company's day-to-day operations.

The repayment deadline for Tranche A is December 30th 2013, while Tranche B is to be repaid in full on the second anniversary of the credit facility agreement date. Furthermore, under Tranche B, bank guarantees and letters of credit may be issued.

As at June 30th 2011, the amount outstanding under the bank loans advanced to the Company was:

- PLN 505m under Tranche A
- PLN 86m under Tranche B

Repayment of the credit facility is secured by several security instruments, including:

- mortgages over real estate owned by the Company and the Subsidiaries on which production facilities are located;
- pledge over assets owned by the Company and the Subsidiaries (pledge over a business);
- financial and registered pledge over the Company's shares in the Subsidiaries; the pledge covers 100% of the shares in Pfleiderer Prospan S.A. and 50% of the shares in Silekol Sp. z o.o.;
- financial and registered pledge over the Company's and the Subsidiaries' bank accounts;
- assignment by way of security of the Company's plant and equipment intended to be used for the purpose of the MDF project in Russia.

Additionally, as a condition attached to the credit facility to be met after it is made available, an agreement creating a pledge over Pfleiderer Grajewo S.A.'s shareholding in Pfleiderer MDF OOO is to be executed, and the scope of security to be created over Pfleiderer MDF OOO's assets is to be established. September 30th 2011 is the current date for these obligations to be met.
Under the agreement, the Subsidiaries will be jointly and severally liable for the liabilities assumed by the Company as the borrower.

The credit facility agreement contains financial covenants which require that certain financial ratios should be maintained at a prescribed level.
The credit facility bears interest at a rate based on a variable bank margin whose level depends on the ratio of net financial debt to EBITDA.

In addition, Pfleiderer Grajewo S.A. has a commitment towards the European Bank for Reconstruction and Development (the "EBRD") under the put/call option agreement of December 28th 2005. In performance of the agreement with EBRD, Pfleiderer OOO issued, and the EBRD acquired, new shares worth EUR 7m. The agreement provides for the Bank's equity involvement for a period of five years. Following the lapse of the period, the shares will be sold to Pfleiderer Grajewo S.A. The transaction's annual funding costs, resulting from the difference between the purchase price and the selling price of the shares, will be equal to the interest expense on the loan advanced by the Bank to Pfleiderer OOO. Pfleiderer Grajewo S.A. has a call option to repurchase the shares held by the Bank at any time. EBRD holds a put option to sell the shares in the event of a default under the financing agreements executed by the Company and Pfleiderer OOO with EBRD and if there is a risk that the shares will not be repurchased by the agreed deadline. As at June 30th 2011, the Company's liabilities under the agreement were PLN 35,346 thousand (EUR 8,910 thousand).

For information on interest rates applicable to the loan agreements, see Section 3 of the Company's separate financial statements.

4 Material related-party transactions as at June 30th 2011

On February 8th 2011, the share capital of subsidiary Pfleiderer MDF Sp. z o.o. was increased by PLN 35,278 thousand. The shares issued as part of the increase were acquired by Pfleiderer Grajewo S.A. (PLN 17,639 thousand) and Pfleiderer Service GmbH (PLN 17,639 thousand).As agreed upon on February 25th 2011, the share capital increase was effected through debt set-off by converting debt under loans advanced by Pfleiderer Grajewo S.A. and Pfleiderer Service GmbH into equity.

As at June 30th 2011, Pfleiderer Grajewo S.A.'s debt under notes in issue towards subsidiaries stood at PLN 287m. [Pfleiderer Prospan S.A.]

As at June 30th 2011, Pfleiderer Grajewo carried receivables under loans advanced to its subsidiaries: Pfleiderer OOO, Pfleiderer MDF OOO, Silekol Sp. z o.o. and Pfleiderer MDF Sp. z o.o. As at June 30th 2011, the outstanding amount of the loan to Pfleiderer OOO was PLN 214m. As at June 30th 2011, the outstanding amount of the loans granted by Pfleiderer Grajewo S.A. to Pfleiderer MDF OOO was PLN 140m. As at June 30th 2011, the outstanding amount of the loan advanced to Pfleiderer MDF Sp. z o.o. by Pfleiderer Grajewo amounted to PLN 0.4m. As at June 30th 2011, the amount of the loan advanced to Silekol Sp. z o.o. was PLN 25m.

Additionally, Pfleiderer Service GmbH granted a loan to Pfleiderer Grajewo S.A., under which PLN 22m was outstanding as at June 30th 2011.

In the period January 1st–June 30th 2011, the Company did not conclude any related-party transactions other than on arm's length basis.

5 Financial instruments

Overview of the financial instruments

a) Forward transactions

Forward transactions involve the purchase of a foreign currency at a predetermined rate. As at June 30th 2011, Pfleiderer Grajewo S.A. held 11 open forward contracts in the amount of PLN 11m. Forward transactions hedge the currency risk related to trading activities (sales of goods, purchases of raw materials, investment expenditure incurred in foreign currencies).
As at June 30th 2011, the valuation of the forward contracts amounted to PLN 818 thousand.

The Company applies hedge accounting and therefore the effective portion of the gain or loss on measurement of the fair value of hedging instruments (currency forwards) is recognised in other comprehensive income as other capital reserves - hedging reserve, and when the transaction is effected, is recognised as gain or loss in the current period.

In H1 2011, the Company recognised a net gain on forward contracts of PLN 813 thousand.

b) Notes

Pfleiderer Grajewo S.A. issues short-term notes pursuant to a commercial paper programme agreement executed with Bank PEKAO S.A. on July 22nd 2003 and in accordance with the Polish Bonds Act of June 29th 1995 as złoty-denominated, unsecured, zero-coupon bearer securities in book-entry form.

The notes are issued with a view to optimising the management of financial liquidity within the Group, reducing external debt of the Issuer and financing its day-to-day operations. The notes were acquired by Pfleiderer Prospan S.A. and Silekol Sp. z o.o. – subsidiary undertakings of Pfleiderer Grajewo S.A. The cost incurred in connection with the notes issue is the Bank's commission fee. The notes are discount instruments (their issue price reflects the discount interest), redeemable at par value.

As at June 30th 2011, Pfleiderer Grajewo S.A.'s debt under notes in issue stood at PLN 287,335 thousand. In H1 2011, interest paid by Pfleiderer Grajewo S.A. to Pfleiderer Prospan S.A. and Silekol Sp. z o.o. amounted to PLN 5,478 thousand.

c) Loans, sureties and guarantees

Pfleiderer Grajewo S.A. carries out investment projects through subsidiary undertakings in which it holds equity interests. Such projects are financed partly with bank loans advanced directly to the special-purpose vehicles and partly with loans granted by Pfleiderer Grajewo S.A.

In 2011, Pfleiderer Grajewo granted loans to four companies in which it holds equity interests:
- Pfleiderer OOO
- Pfleiderer MDF OOO
- Pfleiderer MDF Sp. z.o.o.
- Silekol Sp. z.o.o

As at June 30th 2011, receivables under the loan advanced to Pfleiderer OOO amounted to PLN 214m. Interest accrues on a monthly basis and is posted to finance income.

As at June 30th 2011, the outstanding amount under loans granted by Pfleiderer Grajewo S.A. to Pfleiderer MDF OOO (through which Pfleiderer Grajewo S.A. is constructing an MDF/HDF board production plant in Russia) was PLN 140m.

The loans are RUB-denominated and bear interest at 3M MOSPRIME plus margin.

Moreover, as at June 30th 2011, Pfleiderer Grajewo S.A. had granted two loans to its subsidiary undertakings Pfleiderer MDF Sp. z o.o. and Silekol Sp. z o.o. As at June 30th 2011, Pfleiderer MDF Sp. z o.o.'s liability under the loan was PLN 0.4m. As at June 30th 2011, Silekol Sp. z o.o.'s liability under the loan was PLN 25m.

As at June 30th 2011, Pfleiderer Grajewo S.A. had three outstanding sureties:

- A surety of up to EUR 35,000 thousand, issued for an unspecified period of time for the benefit of the European Bank for Reconstruction and Development to secure the liabilities of Pfleiderer OOO, a subsidiary undertaking, under a bank loan intended to finance the construction of a new plant in Russia. As at June 30th 2011, Pfleiderer OOO's debt outstanding under the loan stood at PLN 38,331 thousand (EUR 9,615 thousand). The surety expires upon Pfleiderer OOO's achieving pre-defined levels of financial ratios and creating collateral in the form of its assets for the benefit of the Bank. As at December 31st 2010, Pfleiderer OOO's debt outstanding under the loan amounted to PLN 48,788 thousand (EUR 12,319 thousand).
- A blank promissory note issued by 3Spare Sp. z o.o. for the benefit of BGŻ. The surety pertains to the investment loan granted by Bank BGŻ S.A. to 3Spare Sp. z o.o. As at June 30th 2011, the outstanding debt (original principal amount) under the loan was PLN 3,028 thousand (As at December 31st 2011 PLN 6,662 thousand).
- A surety of EUR 1,115 thousand for Pfleiderer MDF Sp. z o.o., a subsidiary undertaking. The surety secures the repayment of loan advanced to Pfleiderer MDF Sp. z o.o. by PKO BP S.A. The maximum amount of the security is PLN 4,445 thousand (EUR 1,115 thousand). As at December 31st 2011 amount of the security was PLN 4,414 thousand.

On March 25th 2010, Pfleiderer Grajewo S.A. (the "Company") executed a security agreement and security documents with respect to the amounts owed under the credit facility agreement concluded on March 16th 2010 with Bank PEKAO S.A., Bank Zachodni WBK S.A., BRE Bank S.A., Fortis Bank Polska S.A. and Bank Gospodarki Żywnościowej S.A. (the "Banks").

In order to secure the Banks' claims under the credit facility agreement, on March 25th 2010 the Company executed instruments relating to:

- establishment of contractual joint ceiling mortgages over the Company's real estate, up to the maximum amount of PLN 1,400m;
- establishment of registered pledges over assets owned by the Company and its subsidiaries (pledge over a business);
- establishment of registered and financial pledges over bank accounts;
- assignment of rights by way of security;
- establishment of financial and registered pledges over the Company's shares in the Subsidiaries; the pledge covers 100% of the shares in Pfleiderer Prospan S.A. and 50% of the shares in Silekol Sp. z o.o.

As at June 30th 2011, the Company held 2,462,136 registered ordinary shares in Pfleiderer Prospan S.A. with the aggregate par value of PLN 246,213,600, representing 100% of the company's share capital and 100% of the total vote at its general shareholders meeting.

The Company holds 22,700 shares in Silekol Sp. z o.o. with the aggregate par value of PLN 22,700,000, representing 50% of the company's share capital and 50% of the total vote at its general shareholders meeting.

Furthermore, on March 25th 2010, the Company, the Subsidiaries and the Banks executed a creditors agreement with the European Bank for Reconstruction and Development (the "EBRD"), which provides financing to Pfleiderer OOO of Russia under the credit facility agreement of December 27th 2005. Under the creditors agreement, the parties agreed upon the scope of the security to be created over the Company's and the Subsidiaries' assets.

In order to secure EBRD's claims under the guarantee agreement and the put/call option agreement, on March 25th 2010 the Company and the Subsidiaries executed agreements and documents concerning in particular:

- establishment of contractual joint ceiling mortgages over the Company's and the subsidiaries' real estate, up to the amount of EUR 70.5m;
- creation of registered pledges over assets owned by the Company and the subsidiaries (pledge over a business), up to the amount of EUR 79.9m.

The table below presents the security for the syndicated loan granted to Pfleiderer Grajewo S.A., provided in the form of mortgages over real estate and pledges over assets of Pfleiderer Grajewo S.A.

security	company	bank	maximum amount of security	currency	claim
mortgage over real estate	Pfleiderer Grajewo S.A.	PEKAO S.A.	247,918,868	PLN	tranche A
mortgage over real estate	Pfleiderer Grajewo S.A.	PEKAO S.A.	79,521,178	PLN	tranche B
mortgage over real estate	Pfleiderer Grajewo S.A.	BZ WBK S.A.	260,282,382	PLN	tranche A
mortgage over real estate	Pfleiderer Grajewo S.A.	BZ WBK S.A.	83,486,802	PLN	tranche B
mortgage over real estate	Pfleiderer Grajewo S.A.	BRE Bank S.A.	206,924,494	PLN	tranche A
mortgage over real estate	Pfleiderer Grajewo S.A.	BRE Bank S.A.	66,372,008	PLN	tranche B
mortgage over real estate	Pfleiderer Grajewo S.A.	BGŻ S.A.	149,662,370	PLN	tranche A
mortgage over real estate	Pfleiderer Grajewo S.A.	BGŻ S.A.	48,004,910	PLN	tranche B
mortgage over real estate	Pfleiderer Grajewo S.A.	Fortis Bank Polska S.A.	195,221,786	PLN	tranche A
mortgage over real estate	Pfleiderer Grajewo S.A.	Fortis Bank Polska S.A.	62,615,102	PLN	tranche B
mortgage over real estate	Pfleiderer Grajewo S.A.	EBRD	52,500,000	EUR	guarantee
mortgage over real estate	Pfleiderer Grajewo S.A.	EBRD	18,000,000	EUR	put option
pledge over assets	Pfleiderer Grajewo S.A.	PEKAO S.A.	795,000,000	PLN	tranche A
pledge over assets	Pfleiderer Grajewo S.A.	PEKAO S.A.	255,000,000	PLN	tranche B
pledge over assets	Pfleiderer Grajewo S.A.	EBRD	79,500,000	EUR	guarantee and put option

Financial risks related to the Company's operations

a) Objectives and methods of financial risk management adopted by the Company

The Company manages all types of risk described above which may have a significant effect on its operations in the future. In its risk management process, the Company focuses on the following risk types:

- credit risk,
- currency risk,
- liquidity risk.

The objective behind credit risk management is to reduce the Company's losses which may follow from customers' insolvency. This risk is mitigated through insurance of receivables and non-recourse factoring.

The objective of currency risk management is to minimise losses arising out of unfavourable changes in foreign exchange rates. Pfleiderer Grajewo S.A. monitors its currency position from the point of view of cash flows rather than profit or loss. To manage the currency risk, it first relies on natural hedging and, where necessary, uses forward contracts. The time horizon adopted for position monitoring and hedging transactions is up to 12 months.
The objective of financial liquidity management is to protect the Company against insolvency. This objective is pursued through regular projection of debt levels in a five-year horizon, and arrangement of appropriate financing sources.

b) Credit risk

Credit risk occurs at the Company with respect to trade receivables. The credit risk related to trade receivables is limited, as the customer base is very wide and the risk is highly diversified. Therefore, the credit risk concentration is insignificant. Moreover, the Company has in place a strict receivables management policy whereby the risk of customer insolvency is mitigated through the use of trade credit insurance and non-recourse factoring. In H1 2011, approximately 90% of the Company's trade receivables were hedged in this way. In the event of insolvency of customers who have insurance coverage, the compensation is paid by the insurer. Each customer of the Company has a trade credit limit (which usually corresponds to the insurance limit).

c) Interest rate risk

The Company has liabilities under bank loans. The interest rate risk is related to interest payments under loans bearing interest at floating rates. The Company does not hedge the interest rate risk.

d) Currency risk

As at June 30th 2011, Pfleiderer Grajewo S.A. was not exposed to currency risk under its foreign-currency loans and borrowings other than in connection with its liabilities under the EUR 5m loan from Pfleiderer Service GmbH and liabilities towards EBRD under the Put/Call option.

Foreign currency trading relates both to purchases of raw materials and sales of products. Therefore, in the event of any exchange rate fluctuations, the resulting foreign exchange gains and losses are partly offset. The Company monitors its foreign currency positions on an ongoing basis and hedges its open positions using first of all natural hedging (i.e. appropriately choosing currencies for new contracts), and secondly - forward transactions. Pfleiderer Grajewo S.A. monitors the currency risk exposure related to its cash flows.

In 2011, Pfleiderer Grajewo S.A. entered into a number of EUR/PLN forward contracts to hedge the currency risk related to its planned business transactions. As at June 30th 2011, the Company had 11 open EUR/PLN forward contracts hedging the currency risk related to business transactions.

Furthermore, Pfleiderer Grajewo S.A. is exposed to currency risk under the RUB-denominated loans extended to Pfleiderer OOO and Pfleiderer MDF OOO. At present, the Company does not hedge this exposure.

e) Price risk associated with financial instruments

Pfleiderer Grajewo S.A. is not exposed to any material price risk associated with financial instruments.

f) Risk of material cash-flow disruptions

Pfleiderer Grajewo S.A. is protected against any material cash-flow disruptions thanks to a credit facility available to it at any time. Material cash-flow disruptions are also unlikely due to customer diversification. All extraordinary expenditure is always planned well ahead and taken into consideration in the liquidity management process.

g) Risk of liquidity loss

The Company monitors its financial liquidity on an on-going basis, both in a short-term (a few days forward) and in a long-term perspective (a few years forward). Liquidity ratios are currently as follows:

	Current ratio Current assets / Current liabilities	Quick ratio Receivables + cash / Current liabilities	Average collection period Average trade and other receivables / Net sales revenue: 180 /360	Average payment period Average trade and other payables / Net sales revenue: 180 /360	Inventory turnover ratio Average inventories / Net sales revenue: 180 /360
Jun 30 2011	0.43	0.34	77 days	47 days	29 days
Dec 31 2010	0.43	0.31	78 days	48 days	27 days

Liquidity ratios as at June 30th 2011, relative to the end of the previous financial year have not changed significantly.

On March 16th 2010, the Company executed a PLN 700,000 thousand credit facility agreement with a bank syndicate ("the Credit Facility Agreement").

The credit facility agreement contains financial covenants which require that certain financial ratios be maintained at a prescribed level, based on the Pfleiderer Grajewo Group's consolidated financial data. The ratios are:

- financial debt to EBITDA,
- total equity to total assets,
- current assets to current liabilities,
- debt-service coverage ratio.

Pursuant to the provisions of the Credit Facility Agreement, a default under the credit facility agreements of Pfleiderer AG, the indirect parent undertaking of Pfleiderer Grajewo S.A., constitutes a default under the

In connection with the default by Pfleiderer AG under its credit facility agreements in 2010, Pfleiderer Grajewo S.A. obtained relevant waivers from the financing banks whereby the banks waived their rights to terminate the credit facility agreement with Pfleiderer Grajewo S.A. due to the default under the credit facility agreements executed by Pfleiderer AG.

In 2011, a restructuring programme was developed at Pfleiderer AG and subsequently approved by the shareholders of Pfleiderer AG on July 21st 2011, which reduces the risk of Pfleiderer AG again defaulting under its credit facility agreements.

Credit Facility Agreement.

The Management Board of Pfleiderer Grajewo S.A. intends to obtain, by September 30th 2011, the banks' consent to change the terms of the Credit Facility Agreement by deleting the provision stating that a default under the credit facility agreements of Pfleiderer AG constitutes a default under the Credit Facility Agreement of Pfleiderer Grajewo S.A.

The Company monitors the level of its financial ratios on a continuous basis and, based on its short-term financial plans, assesses the risk of failure to meet the ratios set by the banks.

The levels of and exposures to currency, credit and interest rate risks have not changed significantly relative to the Company's most recent annual report (for 2010).

6 Other Company's activities

Court proceedings

There are no court, arbitration or administrative proceedings pending with respect to any liabilities or claims of the company, whose value would represent 10% or more of its equity.

Management Board's position regarding the feasibility of meeting the 2011 financial forecasts published earlier

Pfleiderer Grajewo S.A. has not published any forecasts for 2011. Given the current market conditions, the Company will not publish any forecasts for 2012 either, until the market volatility subsides and the situation on the furniture manufacturer market in Poland stabilises.

Events subsequent to the balance-sheet date

After June 30th 2011, Pfleiderer Grajewo S.A. carried out seven issues of debt securities in the form of short-term notes with a view to optimising the management of financial liquidity within the Group. The notes were issued pursuant to the commercial paper programme agreement executed with Bank PEKAO S.A. on July 22nd 2003 and in accordance with the Polish Bonds Act of June 29th 1995 as złoty-denominated, unsecured, zero-coupon bearer securities in book-entry form. The notes, redeemable at par value, were acquired by subsidiary undertaking Pfleiderer Prospan S.A.

On July 20th 2011, the Extraordinary General Shareholders Meeting of Pfleiderer Grajewo S.A. adopted a resolution to:

- amend the Company's Articles of Association as regards the Management Board's authorisation to increase the Company's share capital within the limit of authorised capital, with an option to disapply, in whole or in part, the existing shareholders' pre-emptive rights to acquire shares and subscription warrants, seek the admission and introduction of the shares and allotment certificates issued within the limit of authorised capital to trading on the regulated market and convert them into book-entry form, as well as to amend the Company's Articles of Association in connection with the Management Board's exercising its authorisation to increase the Company's share capital within the limit of authorised capital, and
- issue subscription warrants, carry out a conditional share capital increase, disapply in full the pre-emptive rights of the existing shareholders, and amend the Company's Articles of Association, as well as to seek the admission and introduction of the shares issued as part of the conditional share capital increase to trading on the regulated market, and convert them into book-entry form.

The amended Articles of Association authorise the Company's Management Board to increase the Company's share capital through an issue of up to 11,000,000 new Series E shares with a par value of PLN 0.33 per share and with a total par value of up to PLN 3,630,000 (the "**Series E Shares**"). Subject to the Supervisory Board's consent, the Management Board, acting pursuant to its authorisation to increase the Company's share capital within the limit of authorised capital, may also issue subscription warrants exercisable by December 31st 2012. (the "**Warrants**"). Furthermore, subject to the Supervisory Board's consent, the Management Board may disapply, in whole or in part, the existing shareholders' pre-emptive rights to acquire Series E Shares and Warrants. However, if this is the case, Series E Shares will be publicly offered by the Company at their issue price equal to or higher than EUR 50,000 as at the pricing date.

The Management Board's authorisation to increase the share capital within the limit of authorised capital expires on December 31st 2012.

The issue price of Series E Shares issued within the limit of authorised capital will be determined by the Management Board in reference to the prevailing price of the Company shares on the regulated market of the Warsaw Stock Exchange and based on the findings of an investor demand analysis performed by the Management Board, and will be such as to ensure that an acceptable amount of proceeds is earned by the Company. The Company may issue Warrants free of charge.

The objective behind the share capital increase within the limit of the authorised share capital is to enable the Company to raise funds for an increase of the share capital of Pfleiderer MDF OOO of Novogrod (Russia), with a view to financing Pfleiderer MDF's investment project involving the construction of a MDF/HDF board production plant.

Moreover, the amended Articles of Association provide for a conditional share capital increase by up to PLN 6,772,920, effected through an issue of up to 20,524,000 Series F ordinary bearer shares with a par value of PLN 0.33 per share (the "Series F Shares"). The purpose of the conditional share capital increase is to enable the holders of 20,524,000 subscription warrants (the "Subscription Warrants"), to be offered in a private placement to Pfleiderer Grajewo GmbH, to acquire Series F Shares.

The Company will issue the Subscription Warrants free of charge. The issue price of Series F Shares issued as part of the conditional share capital increase will be determined by the Management Board. However, the price may not be lower than the issue price of Series E Shares issued within the limit of authorised capital. If Series F Shares are acquired later than Series E Shares, the issue price of Series F Shares may not be lower than the issue price of Series E Shares plus 5% per annum.

The key purpose of the conditional share capital increase and the disapplication of the existing shareholders' pre-emptive rights to acquire Series F Shares and Subscription Warrants is to enable the Company to carry out a share capital increase at Pfleiderer MDF OOO of Novogrod, Russia and thus raise funds necessary to finance the project involving construction of a MDF/HDF board production plant by Pfleiderer MDF.

The conditional share capital increase and the issue of Subscription Warrants are also related to the Management Board's authorisation to increase the Company's share capital within the limit of authorised capital. Considering that a restructuring process is underway at the Pfleiderer Group in Germany, it is possible that Pfleiderer Service GmbH will not participate in the first share issue carried out as part of the authorised share capital, which would lead to dilution of its existing interest in the Company's share capital and the total vote at its General Shareholders Meeting. The Company is keen to ensure that Pfleiderer Service GmbH, the majority shareholder, retains its existing interest. This may be achieved by carrying out a conditional share capital increase with pre-emptive rights of the existing shareholders disapplied.

Pfleiderer Grajewo S.A.'s ability to secure financing (through a share issue) is prerequisite to providing subsidiary Pfleiderer MDF OOO of Novogrod, Russia, with funds necessary to complete the construction of the MDF/HDF board production plant.

Efforts aimed at securing the funds should not affect the Company's shareholder structure. Therefore, the issue of Series E shares offered to Investors is complemented by the issue of Series F Shares offered to Pfleiderer Service GmbH, Pfleiderer Grajewo S.A.'s parent undertaking, so as to ensure that Pfleiderer Service GmbH's interest is not diluted.

Furthermore, on July 20th 2011, the Extraordinary Shareholders Meeting of Pfleiderer Grajewo S.A. resolved to repurchase the Company's own shares for cancellation. The purpose of the repurchase is to enable the Company to effectively use the surplus cash earned from the issue of shares within the limit of authorised capital.

Pfleiderer Service GmbH, the majority shareholder, is keen to retain its existing interest in the Company's share capital and total vote. Considering that a restructuring process is underway at the Pfleiderer Group in Germany, it is possible that Pfleiderer Service GmbH will not participate in the first share issue, which would lead to dilution of its existing interest in the Company's share capital and the total vote at its General Shareholders Meeting. Acquisition by Pfleiderer Service GmbH of shares offered in subsequent shares issues will enable it to recover the previously held interest in the Company's share capital and total vote, but at the same time it may generate significant surplus of cash relative to the Company's investment capital requirements.

Economic forecast for near future

Given the current market conditions, the Company will refrain from publishing its forecast for 2011 until the market volatility subsides and the Polish market of furniture manufacturers stabilises.

Management Board of Pfleiderer Grajewo S.A. **Grajewo, August 17th 2011**

Wojciech Gątkiewicz
President of the Management Board

Rafał Karcz
Member of the Management Board, Chief Financial Officer

Dariusz Tomaszewski
Member of the Management Board, Sales Director

Radosław Wierzbicki
Member of the Management Board, Chief Operating Officer