DIRECTORS' REPORT

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

FINANCIAL HIGHLIGHTS

	PLN '000		EUR '000	
	Jan 1 - Jun 30 2011	**Jan 1 - Jun 30 2010**	**Jan 1 - Jun 30 2011**	**Jan 1 - Jun 30 2010**
Sales revenue	799,132	620,604	201,430	154,988
Operating profit/loss	45,671	(2,005)	11,512	(501)
Pre-tax loss	1,420	(18,163)	358	(4,536)
Net profit/loss attributable to owners of the parent	3,714	(10,476)	936	(2,616)
Net cash provided by/(used in) operating activities	37,533	1 793	9,461	448
Net cash provided by/(used in) investing activities	(8,715)	(16,419)	(2,197)	(4,100)
Net cash provided by/(used in) financing activities	(13,432)	42,433	(3 386)	10,597
Total net cash flow	15,386	27,807	3,878	6,944
Basic profit/loss per share (PLN / EUR)	0.07	(0.21)	0.02	(0.05)
Diluted profit/loss per share (PLN / EUR)	0.07	(0.21)	0.02	(0.05)
PLN/EUR average exchange rate			3.9673	4.004

	PLN '000		EUR '000	
	Jun 30 2011	**Dec 31 2010**	**Jun 30 2011**	**Dec 31 2010**
Total assets	1,880,681	1,852,471	471,751	467,760
Liabilities	1,359,107	1,356,297	340,919	342,473
Non-current liabilities	915,261	1,032,164	229,584	260,628
Current liabilities	443,846	324,133	111,334	81,846
Equity	521,574	496,174	130,832	125,287
Share capital	16,376	16,376	4,108	4,135
Number of shares	49,624,000	49,624,000	49,624,000	49,624,000,
Book value per share (PLN / EUR)	10.51	10.00	2.64	2.52
PLN/EUR exchange rate as at the reporting date			3.9866	3.9603

GENERAL INFORMATION

The Pfleiderer Grajewo Group is composed of single-unit enterprises. The Group's parent undertaking is Pfleiderer Grajewo S.A., which conducts its business in Grajewo, a town situated in north-eastern Poland.

The parent undertaking, 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.

Below are presented the other undertakings of the Pfleiderer Grajewo Group:

Pfleiderer Prospan S.A. - a joint-stock company entered in the Polish Commercial Register maintained by the District Court of Kalisz under No. RHB 1754, on September 23rd 1997, under the name of Zakłady Płyt Wiórowych Prospan S.A.; and subsequently, on September 17th 2001, registered with the District Court of Łódź-Śródmieście in Łódź, XX Division of the National Court Register, under No. KRS 0000042082.

Industry Identification Number (REGON):	250744416
Tax Identification Number (NIP):	619-17-42-967
Registered office:	ul. Bolesławiecka 10, 98-400 Wieruszów, Poland

Pfleiderer OOO - a limited liability company incorporated under the laws of the Russian Federation, registered on January 15th 2003 by the Interregional Inspection No. 3 of the Novgorod District of the Ministry of Duties and Taxes of the Russian Federation.

Uniform Registration Number:	1035301200164
Tax Identification Number:	5310011273
Registered office:	106 Tsentralnaya St, Novgorod Region 173502, Russia

Pfleiderer MDF OOO - a limited liability company incorporated under the laws of the Russian Federation, registered on September 11th 2007 by the Interregional Inspection No. 3 of the Novgorod District of the Ministry of Duties and Taxes of the Russian Federation.

Uniform Registration Number:	1075321005396
Tax Identification Number:	5310014147
Registered office:	106 Tsentralnaya St, Novgorod Region 173502, Russia

Silekol Sp. z o.o. - a company entered in the National Court Register by the District Court of Opole, VIII Commercial Division of the National Court Register of Opole, under entry No. KRS 0000225788, on January 6th 2005.

Industry Identification Number (REGON):	160003017
Tax Identification Number (NIP):	749-19-69-061
Registered office:	ul. Mostowa nr 30 K, 47-220 Kędzierzyn-Koźle, Poland

Pfleiderer MDF Sp. z o.o. - a company entered in the National Court Register by the District Court of Białystok, XII Commercial Division of the National Court Register in Białystok, under entry No. KRS 174810, on October 9th 2003.

Industry Identification Number (REGON):	330994545
Tax Identification Number (NIP):	719-13-99-317
Registered office:	ul. Wiórowa nr 1, 19-203 Grajewo, Poland

Jura Polska Sp. z o.o.- a company entered in the National Court Register by the District Court of Katowice, Commercial Division of the National Court Register, under entry No.
KRS 149282, on November 24th 1999.

Industry Identification Number (REGON):	276746151
Tax Identification Number (NIP):	629-215-85-14
Registered office:	ul. Wiórowa 1, 19-203 Grajewo, Poland

Unifloor Sp. z o.o. (in liquidation) - a company entered in the National Court Register by the District Court of Białystok, Commercial Division of the National Court Register, under entry No. KRS 0000237233, on June 29th 2005.

Industry Identification Number (REGON):	200021250
Tax Identification Number (NIP):	719-149-38-49
Registered office:	ul. Bolesławiecka 10, 98-400 Wieruszów, Poland

Pfleiderer Services Sp. z o.o - a company entered in the National Court Register by the District Court of Białystok, XII Commercial Division of the National Court Register in Białystok, under entry No. KRS 0000247423, on December 20th 2005.

Industry Identification Number (REGON):	200052769
Tax Identification Number (NIP):	719-15-03-973
Registered office:	ul. Wiórowa 1, 19-203 Grajewo, Poland

As at December 31st 2007, the company suspended its operations.

The business of Pfleiderer Grajewo S.A., Pfleiderer Propan S.A., Pfleiderer MDF Sp. z o.o. and Pfleiderer OOO 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 companies' core business, as well as other services based on the companies' resources. Pfleiderer MDF OOO is in the phase of construction MDF board plant. The other companies provide services and supply raw materials to the Group undertakings.

Information on the business profiles of the other undertakings and on consolidation of the undertakings is presented in the notes to the Group's interim consolidated financial statements.

As at June 30th 2011, 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.

Composition of the Supervisory Board as at June 30th 2011:

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 Graeve - 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.

Description of the Group

Structure of the Group as at June 30th 2011:

1. The main shareholder of Pfleiderer Grajewo S.A. is Pfleiderer Service GmbH, which holds 65.11% of the Company shares.
2. 50% of the shares in Pfleiderer MDF Sp. z o.o. is held by Pfleiderer Service GmbH.
3. 50% of the shares in Silekol Sp. z o.o. is held by Pfleiderer Europe GmbH.
4. 50% of the shares in Pfleiderer MDF OOO is held by Pfleiderer Schweiz AG.

Parent undertaking Pfleiderer Grajewo S.A. holds 50% of the shares and votes in subsidiary undertakings Pfleiderer MDF Sp. z o.o., Silekol Sp. z o.o., and Pfleiderer MDF OOO, but it still exercises control over these undertakings as it has the power to govern their financial and operating policies through the right to appoint and remove from office a majority of the management board members of the undertakings.

*Parent undertaking Pfleiderer Grajewo S.A. has a call option to repurchase the shares held by the non-controlling shareholder at any time prior to the agreed date. The non-controlling shareholder holds a put option to sell the shares to the parent undertaking in the event of a default under the financing agreements executed by the parent undertaking, Pfleiderer OOO and the non-controlling shareholder and if there is a risk that the shares in Pfleiderer OOO will not be repurchased by the agreed deadline. Therefore, from the parent undertaking's point of view, Pfleiderer OOO is treated as a subsidiary undertaking wholly-owned by Pfleiderer Grajewo S.A.
In the period January 1st–June 30th 2011, no changes occurred in the Group's structure.

The Company's governing bodies

The remuneration, including bonuses, paid and payable to the subordinate Company Management Board members for the reporting period totalled PLN 1,320 thousand.

The management contract executed with Mr Wojciech Gątkiewicz, President of the Management Board, provides for compensation payable in the event of early termination of the contract by the Company. Under the contract, the amount of the compensation is PLN 2,812 thousand less the sum of fixed monthly salaries received by Wojciech Gątkiewicz from the Pfleiderer Grajewo Group companies during the life of the contract. Wojciech Gątkiewicz will not be entitled to receive the compensation if the Company terminates the management contract on the grounds of material non-performance or improper performance of its provisions.

The management contract executed by the Company with Mr Rafał Karcz, member of the Management Board, contains a provision entitling Mr Karcz to a one-off severance pay equal to one month's remuneration in the event that the contract is terminated by notice.

The management contract executed by Pfleiderer Prospan S.A., the Company's related undertaking, with Mr Dariusz Tomaszewski, member of the Management Board, contains a provision entitling Mr Tomaszewski to a one-off severance pay equal to one month's remuneration in the event that the contract is terminated by notice.

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 Gątkiewicz, 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 Pfleiderer Grajewo S.A. Jan Woźniak, member of the Supervisory Board, held 10,000 shares in Pfleiderer Grajewo S.A. The other members of the Supervisory Board held no Company shares.

2. Bank loans

On March 16th 2010, Pfleiderer Grajewo S.A. (the "Company") 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 under the agreement is split into two tranches:

- Tranche A in the amount of PLN 530,000,000, in the form of a non-revolving loan to be used to repay the outstanding debt owed by the Group 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 Group to the Banks and to finance the Group's day-to-day operations.

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.

Also, Pfleiderer OOO of Russia was advanced an investment loan by the European Bank for Reconstruction and Development, repayable in instalments by October 11th 2013. The original loan amount was EUR 35m. As at June 30th 2011, Pfleiderer OOO's debt outstanding under the loan was PLN 38.6m (EUR 9,615 thousand).

In addition, Pfleiderer OOO finances its working capital with a bank loan in the form of an overdraft facility at ZAO RaiffeisenBank, which falls due in September 2011. As at June 30th 2011, Pfleiderer OOO's debt outstanding under the facility was RUB 41 thousand.

In performance of the agreement with the EBRD, in Q2 2007, Pfleiderer OOO issued, and the EBRD acquired, new shares worth EUR 7m. The agreement provides for the Bank's equity involvement until June 19th 2012. Thereafter, the shares will be sold to Pfleiderer Grajewo S.A., which has a call option to repurchase the shares held by the Bank at any time prior to the agreed date. 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. 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.

As at June 30th 2011, the debt outstanding under loans advanced to Pfleiderer MDF Sp. z o.o., the Company's subsidiary undertaking, was PLN 266m. Pfleiderer MDF Sp. z o.o. was granted an investment loan by PKO BP S.A., repayable in instalments by July 15th 2016. As at June 30th 2011, the debt outstanding under the loan was PLN 233,027 thousand. Pfleiderer MDF Sp. z o.o. also obtained a PLN 57m multi-purpose credit facility from PKO BP S.A. to be repaid by June 30th 2013, whose outstanding balance as at June 30th 2011 was PLN 32,648 thousand.

Subsidiary undertakings Pfleiderer Prospan S.A. and Silekol Sp. z o.o. had no debt outstanding under bank loans as at June 30th 2011.

For information on interest rates applicable to the loan agreements, see Section 9 of the consolidated financial statements.

As at June 30th 2011, the Group's debt outstanding under bank loans totalled PLN 926.7m.

As at June 30th 2011, the Group companies did not have any loans other than those described above.

3. Material related-party transactions in H1 2011

On February 8th 2011, the share capital of subsidiary undertaking Pfleiderer MDF Sp. z o.o. was increased by PLN 35,278 thousand. The new shares were acquired by the existing shareholders: 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.

For further details of material transactions executed with related parties in H1 2011, see Section 13 of the Supplementary notes to the interim consolidated financial statements of the Pfleiderer Grajewo Group. In 2011, the Group has not concluded any related-party transactions other than on arm's length basis.

4. Information which in the Issuer'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 Issuer's ability to perform its obligations

Financial position of the Pfleiderer Grajewo Group in H1 2011

In H1 2011, Pfleiderer Grajewo S.A. financed its operations chiefly with bank loans and, additionally, 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 parent undertaking's debt under notes in issue totalled PLN 287m, while its debt outstanding under bank loans and borrowings (including a PLN 22m loan advanced by Pfleiderer Service GmbH) was PLN 648m.

Pfleiderer MDF OOO financed the construction of a plant in Russia with loans advanced to it by Pfleiderer Grajewo S.A. and Pfleiderer AG. As at June 30th 2011, the debt outstanding under the loans advanced to Pfleiderer MDF OOO by Pfleiderer AG amounted to PLN 118m.

Pfleiderer MDF Sp. z o.o. received a PLN 23.9m loan from Pfleiderer Service GmbH. The loan is subordinated to the investment loan taken out at PKO BP S.A., and will be paid back (principal and interest) once the bank loan has been fully repaid. Currently, the debt outstanding under the loan is PLN 8m.

As at June 30th 2011, the Group's debt outstanding under loans and borrowings totalled PLN 1,075m.

For detailed information on all liabilities under loans and borrowings as well as contingent liabilities and security instruments as at June 30th 2011, see Note 9 and Note 12, respectively, of the interim condensed financial statements of the Group dated August 17th 2011.

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, the Pfleiderer Grajewo Group held 11 open forward contracts in the amount of PLN 11m. Forward transactions hedge the currency risk related to trading activities (sales of products, 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.

Since January 1st 2009, the Company has applied hedge accounting. 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 in the amount of PLN 813 thousand.

6. Guarantees, sureties and security provided by the Group

As at June 30th 2011, the Group had the following contingent liabilities and security:

1. Mortgage over real estate and registered pledge over plant and equipment

A mortgage on real estate and a registered pledge on plant and equipment serve as security for the investment loan granted to Pfleiderer MDF Sp. z o.o., a member of the Pfleiderer Grajewo Group, by PKO Bank Polski S.A. on January 15th 2007. It is a special purpose loan contracted to finance the construction of a new MDF board production plant in Grajewo. The mortgage on real estate secures a liability up to PLN 356,860 thousand. The registered pledge over plant and equipment secures liabilities up to PLN 450,000 thousand and has been created over a floating group of assets owned by Pfleiderer MDF Sp. z o.o. (floating charge). The pledge is updated on a quarterly basis to take account of any changes in the company's movable property (plant and equipment, vehicles). As at June 30th 2011, the Group's debt outstanding under the investment loan totalled PLN 233m.

2. Mortgage on real estate located at ul. Wiórowa, Grajewo and registered pledge over assets

A mortgage of up to PLN 80,000 thousand created on the real estate located at ul. Wiórowa in Grajewo, on which the MDF plant is situated, serves as security for the multi-purpose credit facility for the total amount of PLN 57,000 thousand granted to Pfleiderer MDF Sp. z o.o., a member of the Pfleiderer Grajewo Group, by PKO Bank Polski S.A. on August 29th 2007.

The pledge was created under an agreement on registered pledge over assets dated July 30th 2010, concluded between Pfleiderer MDF Sp. z o.o. and PKO Bank Polski S.A. The pledge, with the maximum security amount of PLN 83,163 thousand, was created for the benefit of PKO Bank Polski S.A. to secure its claims under the PLN 57,000 thousand multi-purpose credit facility granted to Pfleiderer MDF Sp. z o.o. under an agreement of August 29th 2007. The pledge was created in connection with the extension of the term of the working capital loan by three years, until June 30th 2013. The same assets are also encumbered with a pledge created earlier for the benefit of PKO Bank Polski S.A. in connection with the investment loan agreement of January 15th 2007.

As at June 30th 2011, the Group's debt outstanding under the multi-purpose credit facility totalled PLN 32.6 thousand.

As at June 30th 2011, parent undertaking Pfleiderer Grajewo S.A. provided a surety in respect of a blank promissory note issued by 3Spare Sp. z o.o. for the benefit of Bank BGŻ. The surety pertains to the investment loan granted by BGŻ S.A. to 3Spare Sp. z o.o. As at June 30th 2011, the debt outstanding under the loan, which is currently in repayment, amounted to PLN 3,028 thousand.

On March 25th 2010, Pfleiderer Grajewo S.A. (the "Company") and its subsidiaries Pfleiderer Prospan S.A. and Silekol Sp. z o.o. (the "Subsidiaries") executed security agreements 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 syndicated credit facility agreement, the Company executed instruments relating to:

- establishment of contractual security mortgages over the Company's and the Subsidiaries' real estate, up to the maximum amount of PLN 1,400m;
- establishment of registered pledges over assets owned by the Company and the Subsidiaries (pledge over a business), up to the amount of PLN 1,050m;
- 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.

The Company holds 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 connection with the aforementioned creditors agreement, Pfleiderer Prospan S.A. and Silekol Sp. z o.o. joined the following agreements executed on December 28th 2005 between Pfleiderer Grajewo S.A. and the EBRD: (a) the guarantee agreement securing the EBRD's claims under the credit facility extended to Pfleiderer OOO and (b) the put/call option agreement concerning Pfleiderer OOO shares.

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

- establishment of contractual joint ceiling mortgages over the Company's and the Subsidiaries' real estate on which production facilities are located, up to the amount of EUR 70.5m;
- establishment of registered pledges over assets owned by the Company and the Subsidiaries (pledge over a business), up to the amount of EUR 99.5m.

Financial risks related to the Group's operations

a) Objectives and methods of financial risk management adopted by the Pfleiderer Grajewo Group

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

- credit risk
- currency risk
- liquidity risk
- interest rate risk

The objective behind credit risk management is to reduce losses which the Group companies might sustain due to customers' insolvency. The 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. The Group monitors its currency position from the point of view of cash flows. To manage its exposure to 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 Group against insolvency. This objective is pursued through regular projection of debt levels in a five-year time horizon, and arrangement of appropriate financing sources.

b)Credit risk

Transactions which expose companies of the Pfleiderer Grajewo Group to credit risk are related to trade receivables. The credit risk exposure 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 Group 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 Group'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 Group holds funds in bank accounts and has liabilities under bank loans. The interest rate risk is related to interest payments under loans bearing interest at floating rates. The Group does not hedge the interest rate risk.

d) Currency risk

As at the date of the financial statements, exposure to currency risk under foreign-currency loans existed only at Pfleiderer OOO of Russia in connection with a euro-denominated loan and at Pfleiderer MDF OOO in connection with euro-denominated intra-group loans. Exposure to EUR/PLN foreign exchange risk affected also Pfleiderer Grajewo S.A. in connection with the EUR 5m loan received from Pfleiderer Germany. However, the position is offset by a EUR/PLN long position held by Pfleiderer Grajewo S.A., resulting from an excess of exports over imports. Therefore, the related currency risk is largely eliminated. The other Group companies are not exposed to currency risk under foreign-currency loans.

Foreign currency transactions relate 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. Furthermore, the Group makes investment expenditure in foreign currencies, and therefore it monitors its foreign currency positions on an ongoing basis and hedges open positions – first through natural hedging (that is by carefully selecting the currencies in which contracts are to be denominated) and, where necessary, through forward transactions. The Pfleiderer Grajewo Group monitors its currency risk exposure in terms of cash flows.

In H1 2011, the Group entered into a number of EUR/PLN forward contracts to hedge against currency risk connected with planned business transactions. As at June 30th 2011, there were 11 open EUR/PLN forward contracts hedging the currency risk exposure related to business transactions.

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

e) Price risk associated with financial instruments

The Pfleiderer Grajewo Group is not exposed to any material price risk associated with financial instruments.

f) Risk of material cash-flow disruptions

The Group companies are protected against any material cash-flow disruptions thanks to credit facilities available at any time. Material cash-flow disruptions are also unlikely due to customer diversification. All extraordinary expenditure is always planned well ahead and accounted for in the liquidity management process.

g) Liquidity risk

As at June 30th 2010, the Pfleiderer Grajewo Group had debt outstanding under loans in the amount of PLN 927m; concurrently, it had unused credit facilities of PLN 102m. For the most part, they were long-term facilities. The Group also holds PLN 35m in cash.

The availability of credit facilities depends on meeting certain ratios set by banks, based on consolidated financial data. The ratios include primarily:

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

On March 16th 2010, the Group executed a PLN 700,000 thousand credit facility agreement with a bank syndicate. Pursuant to the agreement, on March 31st 2010 the Group repaid its liabilities under bank loans in

the amount of PLN 582,483 thousand, disclosed as at December 31, 2011.

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 Credit Facility Agreement.

In connection with the default by Pfleiderer AG under its credit facility agreements in 2010, parent undertaking 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.
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 Group 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 Group's most recent annual report (for 2010).

7. Other activities of a Group

Court proceedings

There are no court, arbitration or administrative proceedings pending with respect to any liabilities or claims of the Group members whose value would represent 10% or more of the issuer's equity.

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

The Pfleiderer Grajewo Group has not published any forecasts for 2011. Given the current market conditions, the Group 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

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.

8. 2011 performance forecast

Given the current market conditions, the Group 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.
and Pfleiderer Prospan 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